2014 ANNUAL REPORT

THIS IS Vacon Plc's 2014 Annual Report. Vacon designs and manufactures AC drives and inverters which can comprehensively increase efficient use of energy, considerably improve process control in the industry and utilize renewable sources of energy.

VACON®
DRIVEN BY DRIVES

IN 2014, VACON PRODUCTS
HELPED SAVE ENERGY BY

62 TWh

About 62 TWh (55 TWh in 2013) of electrical energy was saved last year with the help of Vacon AC drives. This corresponds to the amount of energy produced by approximately eleven 700-MW nuclear power reactors in a year, or the annual electricity consumption of approximately 13.8 million households in Europe. This also corresponds to approximately 24 hours of the world's annual electrical energy production*.

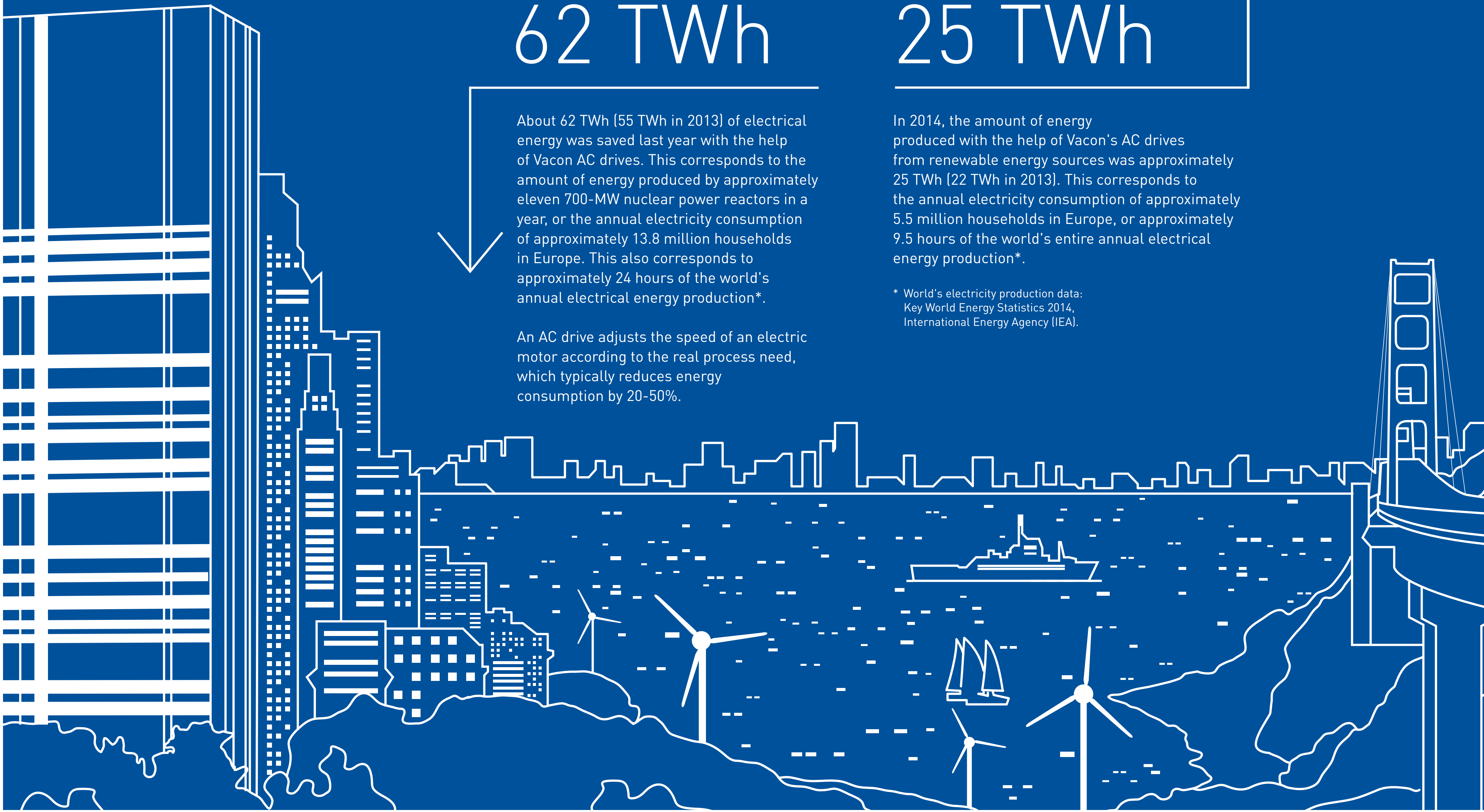
An AC drive adjusts the speed of an electric motor according to the real process need, which typically reduces energy consumption by 20-50%.

THE AMOUNT OF ENERGY
PRODUCED LAST YEAR FROM
RENEWABLE ENERGY SOURCES WITH
VACON'S AC DRIVES WAS APPROXIMATELY

25 TWh

In 2014, the amount of energy produced with the help of Vacon's AC drives from renewable energy sources was approximately 25 TWh (22 TWh in 2013). This corresponds to the annual electricity consumption of approximately 5.5 million households in Europe, or approximately 9.5 hours of the world's entire annual electrical energy production*.

* World's electricity production data: Key World Energy Statistics 2014, International Energy Agency (IEA).



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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 enable optimal process control and energy-efficient electric motors. Vacon's inverters play a key role when energy is produced from renewable sources. In 2014, Vacon's revenues amounted to EUR 409.4 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 in 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 the 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 2014 was the company's 21st year of operations.

CUSTOMERS AND INDUSTRIES

Vacon's production units are located in China, Finland, India, Italy and the USA. In addition to Finland, Vacon has R&D units in China, Italy and the USA. Vacon has sales offices in 31 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 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 five percent.

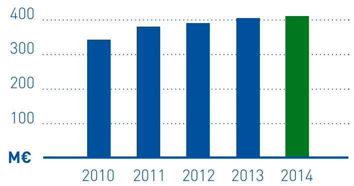
SHAREHOLDERS

Vacon Plc's shares are listed on the NASDAQ OMX Helsinki. At the end of 2014, Vacon had 554 shareholders, of whom 0.6 percent were institutions or private investors operating in Finland and 0.8 percent were nominee-registered and foreign owners. The closing price of Vacon's share on the last day of 2014 was EUR 34.00, and the company's market capitalization was EUR 1,038.2 million (891.7 million in 2013).

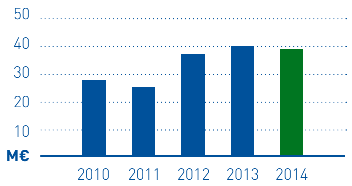
Vacon has been part of the Danfoss Group since 1 December 2014. Danfoss announced in September 2014 a public tender offer to acquire all of Vacon's shares. By the end of November, Danfoss had obtained approvals from all the relevant authorities and purchased more than 90 percent of the shares and voting rights in Vacon. The merging of Vacon and Danfoss creates one of the world's leading players in the drives market, leveraging the best of both companies.

VACON'S KEY FIGURES 2010-2014

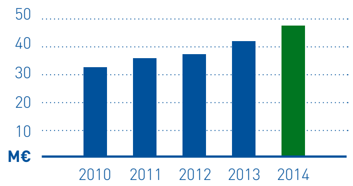
REVENUES



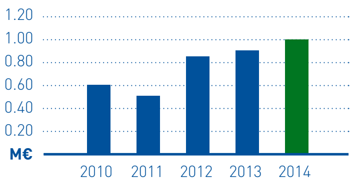
OPERATING PROFIT



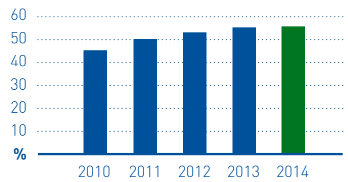
OPERATING PROFIT EXCLUDING ONE-TIME ITEMS



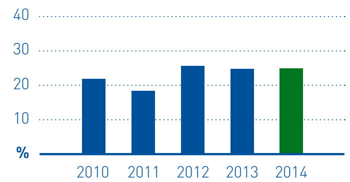
EARNINGS PER SHARE



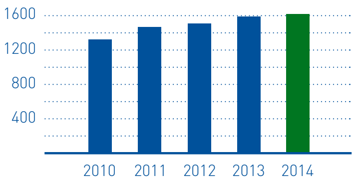
EQUITY RATIO



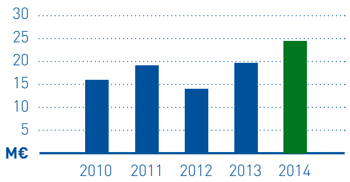
RETURN ON EQUITY



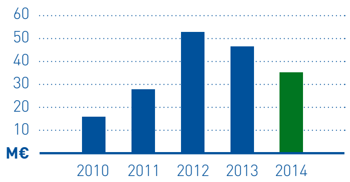
PERSONNEL AT THE END OF THE PERIOD



GROSS CAPITAL EXPENDITURE



NET CASH FLOW FROM OPERATING ACTIVITIES



WE HAVE A BRIGHT FUTURE AHEAD OF US

2014 was a successful year for Vacon. We were able to increase our orders and revenue, and improve our profitability. This was an impressive performance, considering the tough market conditions.

I am proud of each and every Vacon employee, and of what we have achieved together in 2014 and over the course of the company's 21-year history. Vacon is an unmatched success story. During its short history, Vacon has grown its revenue to over EUR 400 million, built one of the largest product portfolios in the market, and expanded its operations to 31 countries. In these 21 years, the number of Vacon employees has risen to 1,600 and the company's market capitalization to more than EUR 1 billion. Vacon has great customers in many industries – customers that represent the cutting edge in their respective sectors.

Over the years, I have repeatedly been asked about the secret of our competitiveness. First, I believe that having a 100% focus has given us an excellent competitive position strategically. Second, our attitude, ability to innovate, expertise, and courage have often made us the top choice among

I am proud of each and every Vacon employee, and of what we have achieved together in 2014 and over the course of the company's 21-year history. Vacon is an unmatched success story.

customers. I also feel that we have always had a unique corporate spirit and culture based on shared values.

Our growth has naturally also been supported by global megatrends, such as urbanization, growth in industrial automation, energy efficiency, emerging markets, and renewable energy. I believe that the AC drives market will continue to grow faster than average industrial production in the future.

2014 was also a year of major changes for Vacon. The changes began in September, when Danfoss announced a public tender offer to acquire all of Vacon's shares, which was endorsed by Vacon's Board of Directors. This naturally came as a surprise not only to personnel but also to customers, shareholders, and partners. I am particularly proud of how well our employees have taken the news and the changes ahead. I admire their capability to focus on serving our customers and taking the company forward, despite the prevailing uncertainty. At the beginning of December 2014, all the terms of the public tender offer had been met and Vacon became part of the Danfoss Group – turning former competitors into colleagues.

We have now set in motion the merging of these two successful businesses. We intend to proceed gradually, so as not to endanger the quality of the service we provide to our customers. Customers are our priority, and internal development projects always come second.

Danfoss' AC drive business and Vacon complement each other perfectly. I believe that this merger will benefit our customers, personnel, and partners. By joining forces, we can step up our investments in R&D and sales, as well as provide a larger and more competitive and innovative product and service portfolio for our customers. We can offer our employees an international workplace with a culture of high performance and excellent career opportunities.

Together, Danfoss and Vacon are already the world's second largest AC drives manufacturer and we employ around 5,000 people specialized in AC drives. We have sales offices and service centers in more than 50 countries. Our production and R&D units are located in China, Denmark, Finland, Germany, India, Italy, and the USA. Together we want to grow faster than the market in the future as well. That is what the merger of Vacon and Danfoss is all about.

Lastly, I would like to extend my thanks to Vacon's founders, customers, shareholders, and partners for their support and confidence. My special thanks naturally go to all the people who are currently working or have worked at Vacon. Their attitude, competence, and courage are the drivers of Vacon's success. Vacon and Vacon's spirit will live on as part of Danfoss. I believe that we have a bright future ahead of us.

Best wishes,
Vesa Laisi

I believe that this merger will benefit our customers, personnel, and partners.

HIGHLIGHTS IN 2014

JAN THE PRESIDENT OF THE UNITED STATES VISITED VACON IN NORTH CAROLINA

Vacon was privileged and honored to welcome **President Barack Obama** to the Vacon Research and Development Center in Research Triangle Park, NC in January 2014. The tour was part of the president's visit to North Carolina. At Vacon, the president was accompanied by **Ernest Moniz**, United States Secretary of Energy**.**

JAN NEW VACON® NXP SYSTEM DRIVE PRODUCT RANGE

In January 2014, Vacon launched a new product range: **VACON® NXP System Drive**. The new product range of standardized AC drives offers customers cost-efficiency, reliability, and high quality. Using the wide variety of standardized drive modules, system integrators focusing on heavy industry customers can simplify complex solutions. The new product range simplifies installation and commissioning, and provides end users with significant life-time benefits, such as decreased maintenance costs and minimized needs for spare parts and training.

MAR VACON® 100 X PRODUCTS SELECTED AS "BEST IN CLASS"

In March 2014, **VACON® 100 X** products were selected as "Best in class" at the MCE (Global Comfort Technology) exhibition held in Italy. MCE is an important exhibition in Southern Europe that typically showcases the most advanced innovations in building automation, energy efficiency, and HVAC systems.

JUN VACON JOINS BACNET INTERNATIONAL AS A GOLD MEMBER

In June 2014, Vacon joined, as a gold member, the association of over 90 of the world's leading building automation vendors and integrators in promoting the use of BACnet as a communication protocol. BACnet is one of the major communication protocols, which Vacon fully supports as a standard in its portfolio of AC drive products designed for building automation.

Vacon offers **VACON® 100 HVAC** and **VACON® 100 X** product families for building automation HVAC applications. These AC drives improve comfort control and enable substantial energy savings to be achieved by intelligent speed control of pumps and fans.

SEP VACON STRENGTHENS ITS FOOTHOLD AND SERVICES IN POLAND

Vacon strengthened its foothold in Poland by opening a sales office in Warsaw in September 2014.

NOV VACON OPENS A SALES OFFICE IN TURKEY

Vacon strengthened its market position in Turkey by opening a sales office in Istanbul in November 2014. Turkey is the 31st country where Vacon has established an office of its own.

NOV VACON HELPS CUSTOMERS BOOST ENERGY EFFICIENCY IN MOTOR-DRIVEN SYSTEMS

Vacon's products meet the requirements of the new European energy efficiency standard EN 50598-2, which entered into force at the end of 2014. The standard defines a specific classification scheme for AC drives. All of Vacon's AC drives comfortably exceed the requirements for the IE2 class, the lowest loss category currently defined.

Europe's growth strategy, Europe 2020, aims to reduce greenhouse gas emissions by 20 percent by 2020, and there is another reduction plan for 2030. Standard induction motors alone consume approximately 30 percent of all the electricity generated in the world. This explains why motors and the systems they drive are so crucial when discussing energy savings.

DEC PRODUCT DEVELOPMENT OF VACON'S MEDIUM-VOLTAGE AC DRIVES MOVES INTO THE PILOT PHASE

In November 2013, Vacon decided to expand its product portfolio to the medium-voltage AC drive market. Vacon's current AC drives operate in the low voltage range, whereas medium-voltage AC drives typically operate in the several kilovolt range and with a power of several megawatts. The product development of Vacon's medium-voltage AC drives has progressed according to plan. The first product version has proved to be very effective in practice, and its design moved into the pilot phase in December 2014.

DEC VACON JOINED THE DANFOSS GROUP

Vacon has been part of the Danfoss Group since 1 December 2014. Danfoss announced in September 2014 a public tender offer to acquire all of Vacon's shares. By the end of November in 2014, Danfoss had obtained approvals from all the relevant authorities and purchased more than 90 percent of the shares and voting rights in Vacon.

The merging of Vacon and Danfoss creates one of the world's leading players in the drives market, leveraging the best of both companies. **Vesa Laisi** is the President of the new Danfoss Drives business segment, and he also continues as the President and CEO of Vacon Plc.

GOVERNANCE AND MANAGEMENT

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

CORPORATE GOVERNANCE STATEMENT 2014

COMPLIANCE WITH THE CORPORATE 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. Oy Danfoss Ab, who owns more than 98% of the shares in Vacon, has initiated compulsory redemption proceedings for the remaining Vacon shares under the Finnish Companies Act and intends to cause the shares of Vacon to be delisted from NASDAQ OMX Helsinki.

The Board of Directors' report for 2014 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 Vacon Executive Management Team meets monthly, and regularly monitors 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 approved the annual internal audit plan and received regular reports on the internal audits completed. At least once a year the internal audit presents its report 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. Vacon seeks to carry out an internal audit in its major subsidiaries once a year and in others at 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, created action 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 Vacon 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.

In 2014, a Business Impact Analysis (BIA) regarding Vacon's production sites in Vaasa and China as well as a thorough Group-level risk survey were completed in collaboration with a third-party expert.

In 2014, the Board of Directors confirmed the risk management policy of Vacon 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.

Vacon Plc has in 2014 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 Vacon 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 closed period is 21 days. The closed period ends upon the publication of an interim report or financial statements release including the date of publication. During the closed 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 closed 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 2014 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 27 March, 2014 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 from 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 195,000 (EUR 178,000 in 2013). Other fees paid to PwC by the Group were approximately EUR 536,000 (EUR 288,000 in 2013).

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 other than those published in connection with or relating to the Tender Offer by Oy Danfoss Ab.

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 2014, Vacon Plc's Annual General Meeting was held on 27 March 2014 in Vaasa. 176 shareholders were represented at the meeting, holding a total of approximately 66% 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 Vacon Executive Management Team, other persons from the company's management and the representatives of the company's auditing firm.

In addition to matters regularly handled by the Annual General Meeting, the Annual General Meeting 2014 approved the Board of Directors' proposal to establish for an indefinite period a Shareholders' Nomination Board to prepare proposals to the Annual General Meeting for the election and remuneration of the members of the Board of Directors and the remuneration of the members of the Nomination Board. The Extraordinary General Meeting held on 12 January 2015 ("EGM 2015") in Vaasa resolved to cancel the decision by the Annual General Meeting 2014 prior to the establishment of the Shareholders Nomination Board and thus, the Shareholders' Nomination Board did not convene before said cancellation of the decision.

The Annual General Meeting 2014 also approved the Board of Directors' proposal to increase the number of shares in Vacon by issuing new shares to the shareholders without payment in proportion to their holdings so that one share was given for each existing share. Consequently, a total of 15,295,000 new shares were issued, and thus after the share issue there were a total of 30,590,000 shares.

Documents from the Annual General Meeting 2014 and EGM 2015 are available on the company's website at www.vacon.com > Investors > Corporate Governance > Annual General Meetings.

COMPOSITION AND OPERATIONS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Composition and term of office of the Board of Directors

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

Vacon Plc's Annual General Meeting held on 27 March 2014 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 and Riitta Viitala were re-elected as Board members. Mika Vehviläinen, the former Vice Chairman of the Board of Directors, had informed that he is no longer available for re-election at the Annual General Meeting 2014. As proposed by the Board of Directors, Jari Koskinen was elected as a new member of the Board of Directors for the term of office ending at the close of the Annual General Meeting 2015. Panu Routila was re-elected as Chairman and Jari Eklund was elected as Vice Chairman of the Board of Directors at the organization meeting of the Board.

The biographical details of the Board members in 2014 and their shareholdings in the company are set forth at the end of this statement.

The EGM 2015 resolved that the number of the members of the Board of Directors be five. Niels Bjørn Christiansen, Kim Fausing, Jesper V. Christensen, Kim Christensen and Anders Stahlschmidt were elected as members of the Board of Directors for the term of office ending at the close of the Annual General Meeting 2015.

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 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 Vacon 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.

Evaluation of independence

At the beginning of 2014, Vacon Plc's Board of Directors evaluated the independence of the then current Board members as well as of Jari Koskinen, a candidate for a Board member, in accordance with Recommendation 15 of the Corporate Governance Code.

Based on this evaluation, the Board declared that with the exception of Jari Koskinen, all above mentioned persons were considered independent of the Company and, with the exception of Panu Routila, also of the significant shareholders of the Company. Jari Koskinen was not considered as independent of the Company as he is employed by the Company. Upon his request, Jari Koskinen will be on a research leave and released by the Company from his duty to work at the Company as from 27 March 2014. Panu Routila is the CEO of Ahlström Capital Oy, whose subsidiary AC Invest Three B.V. was a significant shareholder of Vacon Plc until 11 September, 2014.

The Board members elected in the EGM 2015 declared in their evaluation of independence in February 2015 that they are not considered independent of the company or its significant shareholders as all of them are representatives of Danfoss A/S, a parent company of the Danfoss Group including (among others) Oy Danfoss Ab, Vacon Plc's largest shareholder.

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 has generally convened approximately 10 times per year but convened more often in 2014 mainly due to the voluntary public tender offer by Oy Danfoss Ab.

In addition to the Board members, the company's CEO and CFO, as a rule, attend

Board meetings. Other members of the Vacon Executive Management Team attend the meetings upon invitation by the Board. The General Counsel of Vacon Plc acts normally 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 also supervises the implementation of the Board's decisions and reports to the Board on any deficiencies or problems in implementation.

The Board evaluates its work and procedures annually.

Statement of the Board of Directors regarding Danfoss' voluntary public tender offer for the shares in Vacon Plc

On 18 September 2014, the Board of Directors decided to issue a statement concerning the voluntary public tender offer ("Tender Offer") made by Danfoss A/S ("Danfoss") through its subsidiary Oy Danfoss Ab. In said statement the Board of Directors unanimously recommended that the shareholders of Vacon accept the Tender Offer. All members of the Board of Directors participated in the decision making concerning the statement. The Chairman of the Board of Directors, Mr. Panu Routila, had not participated in the decision making of Ahlström Capital Oy or AC Invest concerning their shares in Vacon.

The statement in its entirety is available on the company's website at www.vacon.com.

Attendance of the members of the Board of Directors in meetings and per capsulam decisions:

Member of the Board of Directors	Number of meetings attended	%
Panu Routila, Chairman	25	100
Jari Eklund, Vice Chairman	25	100
Pekka Ahlqvist	25	100
Jan Inborr	25	100
Jari Koskinen (as from 27 March, 2014)	18	100
Juha Kytölä	25	100
Riitta Viitala	24	96
Mika Vehviläinen (until 27 March, 2014)	5	71

In 2014, the Board held 23 meetings and made decisions twice without a meeting (per capsulam). The average attendance percentage of the Board members was 98%.

The total fees of each board member:

Fees (EUR 1,000)	2014	2013	2012
Board member			
Panu Routila, Chairman	88	43	25
Jari Eklund, Vice Chairman	46	30	25
Pekka Ahlqvist	44	26	21
Jan Inborr	46	42	44
Jari Koskinen	31	0	0
Juha Kytölä	46	30	25
Riitta Viitala	46	29	23
Mika Vehviläinen	13	29	23

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 2014 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 360,000 in 2014 (EUR 229,000 in 2013). A bonus accumulated on the basis of the 2013 revenues and operating profit was paid to the members of the Board in 2014. The total fees of each member are displayed in the table above.

As one member of the Board of Directors earlier belonged to the Group Executive Management, he has a pension insurance similar to the pension insurance of the other members of the Vacon Executive Management Team (as described below) with the exception of the retirement age. As regards said Board member, his retirement age is 58 years. 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.

COMMITTEES

Nomination and Remuneration Committee

The combined Nomination and Remuneration Committee of the Board of Directors operated until 27 March 2014 when The Board of Directors decided to replace it by the Human Resources Committee described below. The Nomination and Remuneration Committee comprised three members of the Board. The committee prepared matters and made recommendations for the General Meeting and the Board to decide on.

The Board of Directors had 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 included, 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 handled 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.

Jan Inborr acted as the Chairman of the committee and Mika Vehviläinen and Riitta Viitala as members of the committee. All of them were independent of the company and its significant shareholders.

The Nomination and Remuneration Committee had three meetings in 2014. The committee members attended the meetings as follows:

Member	Number of meetings attended	%
Jan Inborr, Chairman	3	100
Mika Vehviläinen	2	67
Riitta Viitala	3	100

In 2014, the average attendance percentage of the Committee members was thus 89%.

Human Resources Committee

At its organization meeting on 27 March 2014, the Board of Directors resolved to establish a Human Resources Committee. The Human Resources Committee replaced the former Nomination and Remuneration Committee after the Annual General Meeting had resolved to establish the Shareholders' Nomination Board.

The Board of Directors confirmed the main duties and working procedures of the Human Resources Committee in a written charter. The Human Resources Committee assisted the Board e.g. in the preparation of matters pertaining to remuneration and incentive plans, in the planning of key personnel succession and in the monitoring of job satisfaction. The purpose of the Committee was to ensure that the Group's human resources strategy supports the long-term strategic goals of the business operations.

After the EGM 2015, the Board of Directors resolved not to establish the Human Resources Committee or the Audit Committee and thus, the Board of Directors will handle the matters that were previously handled by the Board committees. The Board of Directors' resolution not to establish any Board committees relates to the fact that the compulsory redemption process in accordance with Chapter 18 of the Finnish Companies' Act for the remaining shares in Vacon Plc has been initiated by Oy Danfoss Ab, a holder of approximately 98 percent of all shares in the Company. In connection with said process, the delisting of the shares of Vacon Plc from the NASDAQ OMX Helsinki shall be applied for.

In the Annual General Meeting 2014, Jan Inborr (Chairman), Pekka Ahlqvist and Riitta Viitala were elected as the members of the Human Resources Committee. All of them were independent of the company and its significant shareholders.

The Human Resources Committee had four meetings in 2014. The committee members attended the meetings as follows:

Member	Number of meetings attended	%
Jan Inborr, Chairman	4	100
Pekka Ahlqvist	4	100
Riitta Viitala	4	100

In 2014, the average attendance percentage of the Committee members was thus 100%.

Audit Committee

At its organization meeting on 27 March 2014, Vacon Plc's Board of Directors established an Audit Committee comprising three Board members.

The Board of Directors confirmed the main duties and working procedures of the Audit Committee in a written charter. The objective of the committee was to assist the Board in its supervisory responsibilities and ensure that the Board was aware of matters which may significantly impact Vacon's financial condition or businesses. Accordingly, the Committee prepared 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 made decisions in certain matters as specified in its charter, for example, approved the annual plan of the internal audit. After the EGM 2015, the Board of Directors resolved not to establish the Audit Committee due to reasons described above.

On 27 March 2014, 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 were 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 was a significant shareholder of Vacon Plc until 11 September 2014. All members had expertise in accounting, bookkeeping or auditing.

The Audit Committee had six meetings in 2014 and its members attended the committee meetings as follows:

Member	Number of meetings attended	%
Panu Routila, Chairman	6	100
Jari Eklund	6	100
Juha Kytölä	6	100

In 2014, 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 Vacon 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 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. The pension insurance includes also expanded coverage for permanent disability. In accordance with the service contract of the CEO, the company has taken a life insurance for the CEO.

Vacon 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 Vacon 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 Vacon Executive Management Team consists of the parent company's CEO and senior management in charge of the functions at the Group level. The Vacon 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 2014, the Vacon Executive Management Team consisted of:

- Vesa Laisi, President and CEO
- Heikki Hiltunen, Deputy to the CEO, Executive Vice President, Market Operations
- Tuula Hautamäki, Senior Vice President, Human Resources
- Jukka Kasi, Executive Vice President, Product Operations
- Pia Aaltonen-Forsell, Senior Vice President, CFO (on maternity leave as from February to September 2014)
- Ann-Louise Brännback, CFO during the maternity leave of Pia Aaltonen-Forsell

The Executive Management Team convened 10 times in 2014. Sebastian Linko, Director, Corporate Communications and Investor Relations, acted as the Secretary to the Vacon 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 Vacon Executive Management Team in 2013 is not a participant in the additional pension insurance but otherwise the members of the Vacon Executive Management Team have an equivalent retirement age, additional pension insurance as well as life insurance as the CEO.

SALARIES AND OTHER BENEFITS PAID TO THE CEO AND SENIOR MANAGEMENT

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

The share bonuses paid in 2014 were based on the fulfillment of the criteria of the 2013 share bonus scheme.

In accordance with the Combination Agreement executed between Vacon and Danfoss A/S on 11 September 2014, and pursuant to an authorization by the Board of Directors of Vacon Plc, the Human Resources Committee approved Vacon Plc's new incentive plan. The target group of the new incentive plan consists of the participants in Vacon Group's Performance Share Plan 2014-2016 totalling to 81 persons and said plan is alternative to the Performance Share Plan 2014-2016.

The new incentive plan was established to form part of the incentive and commitment program within Vacon Plc and its subsidiaries. The aim was to combine the objectives of the shareholders and the persons participating in the plan in order to increase the value of the company, to

In 2013 and 2014, the total remuneration of the CEO and the other members of the Executive Management Team was as follows:

2013, 1 000 EUR	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned
President and CEO	400	103	0.5	361	864	3,378
Deputy to the CEO	274	71	0.5	271	616	2,354
Other members of Management	535	144	1.1	421	1,101	3,249
Total	**1,209**	**318**	**2.1**	**1,053**	**2,581**	**9,161**

2014, 1 000 EUR	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned
President and CEO	491	60	0.5	270	822	2,782
Deputy to the CEO	290	41	0.5	212	544	1,793
Other members of Management	640	89	6.5	531	1,267	4,483
Total	**1,420**	**190**	**7.4**	**1,014**	**2,632**	**9,058**

commit such persons to the Company, and to offer them a competitive reward plan.

Under the new incentive plan, those participants who accepted the terms and conditions of the new incentive plan will be entitled to receive a defined cash payout for 2014 and they simultaneously forfeited their rewards under Vacon Group's Performance Share Plan 2014-2016. The payment of the cash reward under the new incentive plan will be made on 31 August 2015. The payment of the cash reward is also conditional on certain terms and conditions relating to the employment or service relationship of the participant remaining in force.

The rewards to be paid on the basis of the new incentive plan correspond to the value of a maximum total of 123,280 Vacon Plc shares. The value of the shares and the corresponding reward to be paid on 31 August 2015 shall be determined on the basis of the share price offered in the Tender Offer.

Bonus scheme for personnel

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

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

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)

Pekka Ahlqvist

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

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

Board member at: Pemamek Oy

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

Jari Koskinen

member
born 1960,
M.Sc. (Econ.), MBA,
Doctor of Economic
Sciences
Eye Solutions,
Chairman of the
Board of Directors
Board member
since 2014

Previous positions: Vacon Group, Vice President, Global Production Operations and member of the Vacon Executive Management Team 2007-2011, Vacon Suzhou Drives Co. Ltd. Managing Director 2005–2007, Vice President, Production at Vacon 1994-2007, Business Controller at ABB Corporate Research Finland Oy 1993–1994, Business Controller at ABB's Small AC Drives profit center 1989–1993, and various positions at Tietobotnia Oy 1981–1989 (e.g. Project Manager, ADP Programmer and System Planner).

Board member at: iCon Holding Oy (Chair), iCon Kiinteistörahastot Oy (Chair)

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.

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

Mika Vehviläinen

Vice Chairman
(until 27.3.2014)
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

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.

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, VNT Management Oy

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)

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

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.

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.

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.

Ann-Louise Brännback

CFO
(Maternity leave substitute during 1 Feb-22 Sep 2014)
s. 1964, M.Sc. (Econ.)
Employed by the company since 2001

Previous positions: Various positions in finance and control in the Vacon Group including Group Controller, Director, Business Control Product Operations and CFO (replacement during maternity leave); various finance and control positions in Leinolat Oy 1998-2000, in KPMG 1990-98 and in Wärtsilä 1986-90.

DID YOU KNOW? Apart from saving energy, Vacon's AC drives produce clean energy. In wind and solar power production, Vacon's AC drives are used to direct electricity produced by a wind turbine or solar power plant to the distribution grid. In 2014, the amount of renewable energy produced with Vacon's products was approximately 25 TWh. This equals the average consumption of domestic electricity by approximately 5.5 million households in Europe.

SUSTAINABLE GROWTH IS CREATED TOGETHER

RESPONSIBILITY FORMS THE FOUNDATION
FOR VACON'S BUSINESS OPERATIONS

VACON DEVELOPS SUSTAINABLE ENERGY SOLUTIONS

VACON is a corporate responsibility success story from the perspective of reducing energy consumption.

– Customer

VACON employees take our problems seriously and are meticulous about quality.

– Customer

VACON has been rather successful in managing its obligations. Its products are environmentally friendly.

– Investor

VACON has managed corporate responsibility issues successfully. There is room for improvement in material declarations.

– Supplier

THE NAME VACON has been mentioned in positive light.

– NGO representative

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 electricity produced in the world. Therefore, improving the efficiency of the use of motors is of major importance 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 SOLUTIONS 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 forms the foundation for Vacon's business operations and is manifested in the company's operations, philosophy, and management. As a responsible company, Vacon develops its global operations from the perspectives of environmental 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 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, suppliers 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.

MATERIALITY ASSESSMENT

Vacon's sustainability reporting is based on the description of key functions for stakeholders and their effects. We aim to provide a comprehensive and transparent account of our operations from the standpoint of all of our major stakeholders.

In 2014, Vacon performed an extensive stakeholder analysis in order to investigate corporate responsibility expectations and their business impact. The survey was carried out by a third-party consulting firm by means of interviews and online surveys. Personal interviews were conducted with representatives of five stakeholders: customer, supplier, employee, investor, and NGO representative. In addition, 102 representatives of personnel, customers, administration, and other external stakeholders participated in an online survey. Most of the respondents were Vacon employees or suppliers.

KEY THEMES IN 2014

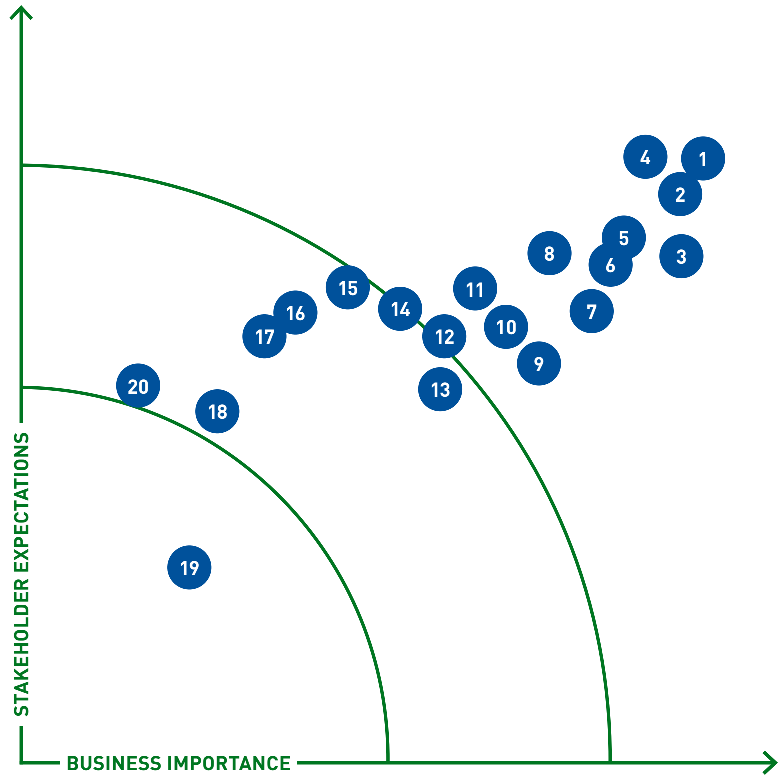
The survey showed that stakeholders consider Vacon to be a responsible company that has successfully fulfilled its obligations. The greatest economic, social, and environmental impacts arising from the company's operations were seen to be linked with economic benefits to customers, energy savings, and employment. Stakeholder responses indicated that the most important aspects related to Vacon's responsibility concerned energy savings generated by products, resource savings of components used in product manufacturing, the supplier chain, the fair treatment of people, and innovations.

According to respondents, Vacon should in the future primarily focus on the operation and ethics of the supplier chain. Supervisory work and the development of products and services were also felt to be important. The key area for improvement identified by respondents was the development of internal processes and business operations.

The greatest risks associated with corporate responsibility were considered to be the management of employees and the supplier chain, competitors, and product quality and safety. Ethical issues, such as corruption or tax evasion, were also seen as risks.

According to respondents, the greatest opportunities lie in innovation and new products. Vacon is expected to lead the way in technology and business ethics.

MATERIALITY MATRIX



1. Economic performance
2. Product safety
3. Anti-corruption
4. Research and development cooperation
5. Responsible sourcing
6. Occupational health and safety
7. Ethical principles and compliance with them
8. Human rights
9. Equality and diverse work place
10. Ethics and governance
11. Reduction of energy use in customers' operations
12. Stakeholder engagement
13. Use of renewable energy
14. Training and development of employees
15. Sensible use of resources
16. Sharing added value in the value chain
17. Reduction of energy use in Vacon's own operations
18. Role as tax payer and employer
19. Sponsoring and donations
20. Minimizing waste to landfill

YEAR 2014 – PROFITABLE AND SUSTAINABLE BUSINESS

WELL-BEING THROUGH PROFITABLE GROWTH

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, suppliers, 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.

2014 was a year of moderate growth for Vacon. Geographically, the greatest growth was seen in the North and South America region and Asia Pacific (APAC), whereas in Europe, the Middle East, and Africa (EMEA), Vacon's sales declined in 2014.

In 2014, Vacon improved its profitability by concentrating procurement in countries providing the best cost-efficiency.

VACON'S FINANCIAL TARGETS

In 2014–2020, Vacon aims to achieve an average annual revenue growth of more than 10%. The long-term profitability objective is to achieve a sustainable operating profit level of 14%.

Vacon Group's revenues increased to EUR 409.4 million (EUR 403.4 million in 2013). Operating profit excluding non-recurring items was 11.5% of revenues (10.1%).

BUSINESS OPERATIONS HAVE A FAR-REACHING IMPACT

In its Drives Family vision, Vacon views its business operations as part of a longer 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 researchers and students. Business development is built on this foundation of communality.

The impact of Vacon's business operations is far-reaching. For example, cooperation with suppliers creates business opportunities and jobs in various countries of operation. Cooperation with educational institutions creates new competence and innovations for the industry. Salaries affect consumption and, thereby, 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 2014, Vacon paid a total of EUR 72.3 million of salaries and other remunerations. Vacon spent EUR 24.1 million on investments. During the financial period, the company paid EUR 9.4 million in taxes.

In 2014, Vacon paid dividends of EUR 20.4 million to its shareholders. In 2014, Vacon's market capitalization rose from EUR 891.7 million to EUR 1,038.2 million. The Danfoss Group made a public tender offer to acquire Vacon's shares, and the company became part of the Danfoss Group on 1 December 2014. Over the course of the period during which the company has been listed on the stock exchange, its market capitalization rose from EUR 125.7 million (on 31 December 2000) to EUR 1.04 billion (on 31 December 2014).

HIGH-QUALITY INVESTOR RELATIONS

Vacon's investor relations were ranked second in the category of Mid Cap companies in Finland, with a score of 8.51 (average 7.66). The study was conducted by Swedish research firm Regi and commissioned by IR Nordic Markets.

DIRECT ECONOMIC IMPACT

Sales income from customers:
EUR 409.4 million
Government grants:
EUR 0.1 million
Net financial income from creditors:
EUR 0.1 million
Other items:
EUR 0.1 million
New loans:
EUR 22.8 million

VACON

Purchases:
EUR 266.4 million
Salaries and other personnel remuneration:
EUR 72.3 million
Taxes and social expenses:
EUR 25.8 million
Dividends to shareholders:
EUR 20.4 million
Business acquisitions and expansion investments:
EUR 24.1 million
Loan repayments to financiers:
EUR 30.0 million

VACON'S ENVIRONMENTAL RESPONSIBILITY IS BASED ON ECO-FRIENDLY PRODUCTS

Vacon's environmental responsibility is based on products, solutions, and applications that help save energy and reduce greenhouse emissions, particularly carbon dioxide emissions. AC drives are used extensively in various industries to improve energy efficiency, utilize renewable sources of energy, and reduce greenhouse gas emissions. In addition, Vacon continuously seeks more environmentally conscious 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 2014, Vacon focused on harmonizing and expanding the certifications of its plants. A further area of focus was the development of the Supplier Excellence program targeted at suppliers. The filing of complaints was also taken in a more eco-friendly direction in 2014 by improving the analysis process, which enabled the reduction of the need for transportation and scrapping.

LIFE CYCLE PHILOSOPHY GUIDES PRODUCT DESIGN

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. The company works to improve the quality and reliability of its products. This will help save on, for example, maintenance and transportation costs and reduce the 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 2014, Vacon continued to implement measures related 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 the company's customers and tightening regulations. In 2014, Vacon's quality and product development organization collected information on materials in order to meet the following requirements:

- **The IEC 62474 standard:** specifies prohibited and restricted substances
- **The REACH Regulation:** concerns the registration and evaluation of chemicals used in production
- **The ROHS 2 Directive:** restricts the use of harmful substances in electronic devices. The Directive will be part of the requirements for the CE marking and will become effective for Vacon's products in 2019.

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 right from the beginning of product development.

MATERIALS ARE RECYCLED AS EFFECTIVELY AS POSSIBLE

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. In 2014, Vacon developed new internal models for more effective recycling of equipment and for the monitoring of recycling. Vacon extracts certain plastics from serviced and

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 an estimated 62 TWh of energy was saved with Vacon products in 2014. This equals the annual energy production of approximately eleven 700 MW nuclear reactors, or the domestic electricity consumption of approximately 13.8 million households in Europe. Alternatively, it equals approximately 24 hours in the annual electricity production of the world*.

In addition, Vacon's products were used to produce approximately 25 TWh of energy from renewable sources of energy. This equals the average consumption of domestic electricity in 5.5 million households in Europe, or approximately 9.5 hours in the total annual energy consumption of the world.

* Data on global electricity production: Key World Energy Statistics 2014, International Energy Agency (IEA).

scrapped devices and reuses them. In 2014, the reuse of usable components in the manufacture of equipment was tested with a customer. Electronic waste and plastics that can no longer be used in production are 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.

Vacon is committed to meeting the requirements of the WEEE Directive for the recycling of its products. The purpose of the Directive 2012/19/EU is to prevent the generation of waste electrical and electronic equipment and to promote the reuse, recycling, and other utilization methods of scrap in order to reduce the amount of waste requiring disposal. In 2014, Vacon improved the safety and transparency of recycling, and made more effective use of measurement tools provided by partners. During the year, the company also made preparations for initiating so-called container trade with a partner. Products that are no longer used are put into a container, and the partner collects the container and recycles the contents as agreed.

IN 2014, the VACON® 100 HVAC product was granted the Singapore Green Building product certification. The evaluation criteria used by the Singapore Green Building Council included energy efficiency, water efficiency, and resource efficiency, as well as other requirements, such as environmental management system, technical performance, and innovation.

HIGH-QUALITY PRODUCTS THROUGH ENERGY-EFFICIENT PRODUCTION

Uniform environmental systems and programs across the Group

With its certified environmental systems, Vacon works to ensure the effectiveness of environmental performance, uniform quality, and the principle of continuous improvement. Vacon's objective for the coming years is to harmonize the standards, environmental guidelines, and practices of its production plants, and to develop the environmental information system to collect and analyze key data. The building of environmental management systems in various locations is also progressing. In 2014, Vacon's plants in Italy and India were awarded certification according to ISO 14001. The operations of the plant in the USA were developed toward the ISO 14001 standard.

Environmental management is part of Vacon's operations and quality management systems. Vacon has invested in the development and harmonization of the management systems in the various countries of operation, and strengthened the position of its quality organization. Quality functions are part of strategic management, and environmental matters are part of the company's annual evaluation. Environmental and quality issues are discussed and approved by the company's Corporate Capability and Responsibility Committee (CCR). All Vacon's business areas have individual environmental and quality objectives. The persons responsible for processes are in charge of meeting the objectives and implementing operating methods that are aligned with them.

IMPROVING ENVIRONMENTAL AND QUALITY COMPETENCE

The personnel's environmental and quality competence is developed by means of regular training. In 2014, certified environmental safety training was initiated for key persons in the Finnish organization. Lean coaching was also continued, including Lean Six Sigma and visual management modules. 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.

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 suppliers. 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/m^2 or under.

In China, a plan was implemented in 2014 to increase the efficiency of energy use by, for example, investing in more energy-

DID YOU KNOW? Vacon's plant in Vaasa houses a solar power plant on the roof, controlled by a VACON® 8000 SOLAR inverter. The unit'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.

efficient product testing equipment. New types of recyclable product packaging were introduced during the year.

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 2014 as well.

Vacon's plant in the USA introduced a program in 2014 for recycling components and other materials. Preparations were made during the year for the requirements of the OHSAS 18001 and ISO 14001 standards by developing measurement systems. Water consumption was reduced by 70 percent per employee. In addition, the Supplier Excellence program was continued and an investment was made in a more energy-efficient testing system.

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 percent energy savings in its Vaasa plant's operations by 2016.

The measures improving energy-efficiency are reported in the agreement monitoring system annually. In 2014, the Vaasa plant developed even more energy-efficient testing methods. As a result, some of the plant's floor area was freed for other purposes when large testing systems were removed.

ENVIRONMENTAL RESPONSIBILITY COVERS SUPPLIERS

Vacon procures its components from carefully selected suppliers 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 suppliers 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 2014. The Supplier Excellence program assesses suppliers' capability to produce products that meet Vacon's environmental requirements. Particularly with suppliers, the focus is on identifying the use of prohibited and restricted substances and improving the transfer of information concerning materials.

In 2014, new quality tools and a more systematic monitoring model were included in the program. A process was defined for collecting information on materials related to environmental responsibility. The Supplier Excellence program also covers the monitoring of conflict minerals. Vacon's products do not contain conflict minerals.

The principles of the Supplier Excellence program guide the selection of suppliers. The operating model is holistic and includes frequent Supplier Operational Development meetings to assess and monitor suppliers' operational prerequisites in terms of production, quality and the environment. All Vacon's countries of operation apply the Supplier Excellence model in their operations. A Supplier Excellence Modus Operandi (SUMO) project was launched in 2014. Its objectives include creating guidelines for internal processes and clarifying the roles of Vacon employees internally and externally, as well as clarifying operating methods for

IMPROVED RESULTS FOR VACON IN THE CLIMATE DISCLOSURE LEADERSHIP INDEX

The Climate Disclosure Leadership (CDP) index assesses the climate reporting of companies globally. The companies are scored based on how well they report on their actions to prevent climate change and on the results they have achieved. In 2014, Vacon was ranked higher in the CDP index than Nordic companies on average. Vacon improved its score of 73C last year to 85C. Vacon has participated in the CDP index since 2012. The results of the assessment were published in the CDP Nordic 260 Climate Change Report 2014.

procurement and quality. The updating of the Vacon Supplier's Excellence manual was initiated in 2014, and performance indicators were developed to support management by objectives among suppliers. The filing of complaints was also taken in a more eco-friendly direction in 2014 by improving the analysis process and by reducing the need for transportation and scrapping.

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 intra-plant 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. In 2014, Vacon began to manufacture VACON® 100 products in its plants in China and the USA.

Carbon footprint calculations are an increasingly common method for measuring the eco-friendliness of production. In 2014, Vacon completed the carbon footprint calculation for almost the entire VACON® 100 family of products.

KEY FIGURES FOR VACON GROUP'S PRODUCTION PROCESS 2010-2014

	2014	2013	2012	2011	2010
Consumption of electrical power, MWh	15,971	15,534	15,443	14,064	16,368
Electricity fed back into the test grid, MWh*	18,020	17,800	16,677	17,637	19,676
Recycling of electronic waste, tons	73.8	54.3	43.4	44.7	45.0
Other recyclable material, tons	368.6	731.3	328.5	327.6	249.7
Hazardous waste, tons	5.4	9.7	6.3	5.8	6.5

KEY FIGURES FOR VACON GROUP'S PRODUCTION PROCESS BY COUNTRY OF OPERATION IN 2014

	Vacon Group	Finland	China	India	Italy	USA
Consumption of electrical power, MWh	15,971	11,644	2,530	98	484	1,215
Electricity fed back into the test grid, MWh*	18,020	14,220	3,800	0	0	0
Recycling of electronic waste, tons	73.8	62.0	3.0	0.0	0.6	8.2
Other recyclable material, tons	368.6	289.0	5.5	0.0	16.3	57.8
Hazardous waste, tons	5.4	5.0	0.3	0.0	0.1	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 IS BASED ON VACON'S VALUES

Vacon aims to be the 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. A unique corporate culture, the company's values, and skilled personnel set Vacon apart from the competition.

In 2014, Vacon's HR strategy highlighted competence and management development, compensation development, personnel retention, and the recruitment of top talent in the industry.

COMPETENCE AND COMPENSATION DEVELOPMENT AMONG THE KEY THEMES IN 2014

A new model for competence management

In 2014, Vacon revised the Group-wide competence development model. The goal was to create a model that would be effective in all countries of operation and throughout the Group. Differentiation and gaining a competitive advantage place demands for certain strategic competence areas. These areas include competence in AC drive products, applications and automation, management, innovation, high-quality supply chain management, product portfolio management, product life-cycle management, and multi-channel sales. The specification of these key areas creates the foundation for personnel development in the future.

Vacon applies the 70:20:10 principle in competence development: 70 percent of development takes place through learning on the job and doing, 20 percent is learned from others, and 10 percent is gained from courses and training programs. Personnel competence development is supported, for example, by offering diverse career paths and opportunities for job rotation in different countries of operation.

Training programs and targeted training

Vacon continuously organizes training programs of varying scope. Training programs are planned based on the company's values and strategic goals.

Management training sessions held in 2014 dealt with Vacon's management principles, change management, matrix management and people management. During the year, Vacon organized training in matrix management for Product Operations. Matrix management was also the theme of training sessions organized in Vacon's other countries of operation. Five people from Vacon participated in the LEAP program held by Hanken Executive Education. Visual management training was held for country managers and supervisors in cooperation with Management Institute of Finland. In addition, Group-wide training was organized on mentoring and coaching, as well as training on presentation and negotiation skills. The purpose of the Expert Day, held every year, is to share technical expertise between countries. The development of personnel per department, team, and supervisor was carried out with several external partners.

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 India, Vacon organized training for suppliers network management, Employee State Insurance (ESI) training, Lean coaching, and project management training.

In China, Vacon continued to implement the Multiskill program in 2014, with the aim of training personnel to work on as many assembly lines as possible. Mastering several different assembly lines supports personnel competence development and enables job rotation between assembly lines. In addition, increased competence brings flexibility to production at the plant.

In the USA, the focus in 2014 was on Lean coaching, visual management training, and occupational safety and environmental training related to the ISO 14001 and OHSAS 18001 standards.

In Finland, the Vacon Way to Lead program was held for executives, in which the main focus was on leadership principles and matrix management. A few people also participated in the Growing as a Leader training program, organized by the Lévon Institute operating under the University of Vaasa.

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 2014, Vacon introduced an updated development discussion practice.

COOPERATION WITH EDUCATIONAL INSTITUTIONS BRINGS IN NEW TALENT

For Vacon, it is important to maintain, develop, and increase world-class competence. Therefore, the company seeks new talent by establishing contacts with students at student events and 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 cooperation with a local institute offering 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 an educational institution located in Suzhou. Vacon in China also works together with Suzhou Industrial Park Institute of Vocational Technology in order to train technical professionals.

Vacon's R&D unit for medium-voltage AC drives was completed in North Carolina, USA in 2013. Collaboration with local educational institutions was initiated at the same time.

In Finland, Vacon promotes the attractiveness of 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 children and young people. In addition, Vacon maintains active relationships with Finnish institutes of higher education and other educational institutions.

NEW COMPENSATION MODEL INTRODUCED

In 2014, Vacon concentrated on openly communicating its revised compensation strategy. The personnel compensation model defined and harmonized cash and non-cash compensation methods used by the company, and their management and development. The compensation model specifies the key principles of compensation and supports Vacon's efforts to be an attractive and motivating workplace where people enjoy working and implement Vacon's business strategy in line with the company's values.

Vacon wants to reward people for excellent performance, using both cash and non-cash compensation. The foundation of the compensation strategy, drawn up in 2013, 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, in which the key indicators are the company's revenues and profit earned. In addition, the company has a share-based incentive scheme that offers the employees covered the opportunity of long-term ownership of the company's shares.

Compensation and employment contracts are based on general agreements, known global assessment and compensation models, as well as employee

PERSONNEL INVOLVED IN REDEFINING VACON'S VISION

In 2014, the focus was on communicating the new vision launched in November 2013. The vision created together with the personnel conveys a powerful sense of communality. Vacon's 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, researchers, and students–that is, all those who share Vacon's very own Driven by Drives attitude. The Drives Family is a community where the best people work together to develop the best products, applications and services for customers.

Growing faster than the market and showing solid profitability enable Vacon to invest in future growth and share added value within the Drives Family. True value is created together.

performance. The compensation system is harmonized and fair.

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

SYSTEMATIC WORK TO INCREASE WELL-BEING AT WORK

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. 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.

In Finland, Vacon's plant in Vaasa focused on mental and physical coping at work in 2014. During the year, efforts were concentrated on creating an effective model for supporting work capacity. Vacon invited bids for occupational health services and selected a new service provider. The aim was to improve preventive health care and the level of monitoring. Vacon uses a model called TYÖkuntoon, and in 2014, the company introduced the SIRIUS system for monitoring work capacity.

Vacon in China invested in the physical well-being and work-life balance of its employees in 2014. Overtime equalization was carried out during the year. Vacon also organized one-day events supporting work capacity, a women's day and sports days, and participated in the Suzhou mini marathon. Leisure-time sports activities of personnel have also been supported in several ways, for example, by organizing badminton matches, a soccer tournament, and table tennis matches. In 2014, a mobile library visited the plant twice a month to promote learning and an atmosphere supportive of reading as a hobby among the employees.

In the USA, the Affordable Care Act (ObamaCare) took effect at the beginning of 2014. The health insurance offered by Vacon to its employees before and after this date exceeds by a wide margin the minimum requirements of ObamaCare. Vacon works actively with insurance companies in the USA and is able to offer better-than-average occupational health services to its employees.

VACON'S MANAGEMENT PRINCIPLES GUIDE SUPERVISORY WORK

LEAD BY GOOD EXAMPLE:
Promote excellence and consistently build leadership on our values and strategy. Be open and honest. Encourage self-leadership.

INSPIRE AND EMPOWER:
Bring out the best in people by coaching and supporting. Earn trust by listening, being open and considering new suggestions and solutions. Give sufficient power. Recognize and celebrate success.

BUILD THE WINNING TEAM:
Build the team spirit, foster a passionate attitude and improve collaboration continuously. Develop the necessary competences and use a diverse mix of people to ensure high performance.

SET CHALLENGING GOALS:
Set clear and challenging targets and commit to following-up on them. Be clear and objective about responsibilities and performance standards.

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, Finland; Merano, Italy; Bangalore, India; and Suzhou, China apply the OHSAS 18001 standard in managing occupational health and safety matters. In 2014, Vacon's plants in India and Italy were awarded certification according to ISO 18001.

In 2014, Vacon's plant in the USA began to implement an occupational safety system that enables the ongoing identification of possible hazards occurring in industrial facilities and their preventive elimination as required by the OHSAS 18001 standard.

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, external specialists are used in risk assessments.

In 2014, implementation of the visual management operating model continued in all Vacon's plants. The 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.

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.

THE COMPANY'S VALUES AND INTERNAL COMMUNICATION AFFECT JOB SATISFACTION

The level of job satisfaction is monitored regularly by means of a Group-wide job satisfaction survey. The survey conducted in March 2014 was responded to by 91.7 percent of Vacon employees.

The most recent job satisfaction survey showed that the employees' commitment to the company is higher than average. The best scores were given to supervisory work. In particular, induction into new duties and recognition given by supervisors were felt to be excellent. According to the survey, areas for improvement include working conditions and the competitiveness of pay. The clarity of Vacon's decision-making was also considered to be an area for improvement.

In 2014, 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. Internal communication received a special focus in the USA in order to help all employees become familiar with the business operations and Vacon's objectives. In addition, a concept was developed that aims to promote employees' career paths and commitment.

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 get the opportunity to discuss with their supervisor. Sporting events and team building activities were also in focus. In India, monthly communication days and sporting events were held to strengthen the team spirit.

ETHICAL GUIDELINES AND HUMAN RIGHTS

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

The company complies with universally recognized 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 labor 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 EMPLOYEES GROWING

The number of Vacon Group's employees increased by 13 people in 2014. The majority of new employees was recruited in Europe. At the end of 2014, Vacon had 1,609 employees.

CUSTOMER SATISFACTION IS DEVELOPED BY UNDERSTANDING CUSTOMER NEEDS AND EXPECTATIONS

For several years, Vacon has systematically monitored customer satisfaction using the web-based Customer Relationship Online (CROL®) process. The objective of the CROL® process is to improve customer satisfaction through collecting customer feedback and using the feedback to develop the company's business operations.

In 2014, the customer satisfaction process was developed to better meet the needs of various sales channels (system integrators, retailers, end customers, distributors, original equipment manufacturers). Based on the output of internal work groups, self-evaluation, and customer feedback, the primary development targets for each sales channel were identified and new questionnaires were created to measure these development targets. The new questionnaires are shorter and more specific for each sales channel. For example, for system integrators the support from Vacon plays the key role, whereas for retailers the most strategic part is logistics management. For end users the most important aspect is product reliability, for distributors it's training, and for original equipment manufacturers it's delivery-related matters. Vacon utilizes these findings to develop the maintenance services it provides its customers.

The plan is that customers would soon get the chance to answer sales channel-specific questionnaires online or over the phone. The questionnaires are used to measure the importance of specific areas and Vacon's performance in these areas. The feedback, which points out development needs in various areas, is handled directly at Vacon. This is to make sure that negative feedback is processed quickly. The results are available to Vacon's personnel and used as a foundation for the company's business plans.

RESPONSIBILITY FOR PRODUCT SAFETY THROUGHOUT THE 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 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.

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 the best 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 was further strengthened in 2014, and Vacon also participates in charity work in the city of Suzhou by, among other activities, helping the poorest families of the city.

In the United States, Vacon's employees participated in 2014 in United Way and Habitat For Humanity charity programs to promote local well-being.

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.

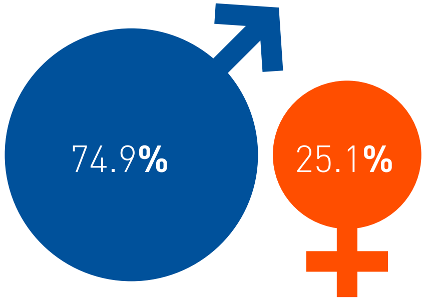
Vacon selects the sponsorship recipients in accordance with its brand and sponsorship strategy. Vacon supports aspiring and emerging collaboration partners who share similarities with Vacon's brand, culture and values. In 2014, Vacon cooperated with rally driver Mikko Hirvonen, sailor Mikaela Wulff and tennis pro Jarkko Nieminen. Vacon also sponsors Alpine Ski Team Finland and its athletes Andreas Romar and Santeri Paloniemi. Locally, the company also partners with Hockey-Team Vaasan Sport Oy.

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

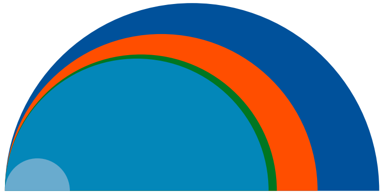
PERSONNEL BY FUNCTIONS

PRODUCTION	44.3%
SALES AND MARKETING	29.8%
R&D	17.9%
SUPPORT FUNCTIONS	8.0%

GENDER DISTRIBUTION

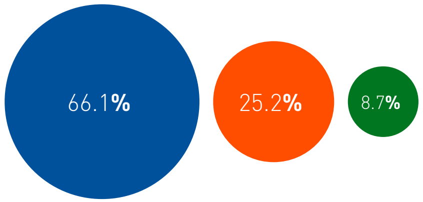


PERSONNEL LEVEL OF EDUCATION



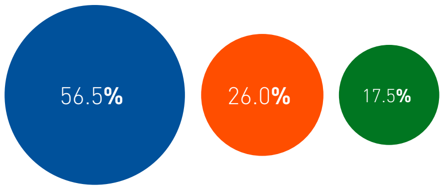
BACHELOR'S OR ENGINEERING DEGREE	36.4%
VOCATIONAL EDUCATION	25.3%
MASTER'S DEGREE	19.2%
SECONDARY SCHOOL	18.0%
LICENTIATE OR DOCTORAL DEGRE	1.1%

PERSONNEL BY AREA



EUROPE, THE MIDDLE EAST AND AFRICA	66.1%
ASIA PACIFIC	25.2%
NORTH AND SOUTH AMERICA	8.7%

NEW RECRUITMENT BY AREA



EUROPE, THE MIDDLE EAST AND AFRICA	56.5%
ASIA PACIFIC	26.0%
NORTH AND SOUTH AMERICA	17.5%

ACCIDENTS AND CLOSE CALLS, FINLAND

108 | 16

CLOSE CALLS	108
ACCIDENTS	16

SOCIAL RESPONSIBILITY KEY FIGURES 2010-2014

Personnel	2014	2013	2012	2011	2010
Number of personnel at the end of the period	1,609	1,596	1,513	1,468	1,339
Europe, the Middle East, and Africa, %	66.1	64.1	64.3	67.4	69.1
North and South America, %	8.7	7.8	7.4	7.1	6.4
Asia Pacific, %	25.2	28.1	28.3	25.5	24.5
Women, %	25.1	25.2	25.6	26.2	27.2
Men, %	74.9	74.8	74.4	73.8	72.8
R&D personnel, %	17.9	17.8	17.8	15.7	15.0

Personnel key figures	2014	2013	2012	2011	2010
Number of Group employees, average	1,597	1,553	1,468	1,470	1,301
Average age of personnel, year	38.1	37.1	36.7	36.3	36.2
Average years of service, years	7.2	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 2014

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 4 March 2014.

The 2014 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
Organisaatio				
2.1	Name of the organization	X		4
2.2	Primary brands, products, and/or services	X		4, 45
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		4, 42-46
2.10	Awards received in the reporting period	X		4, 8, 26, 28

		GRI-compliant content	Application of GRI	Comments	Pages
Report profile, scope and boundary					
	3.1 – 3.3	Report profile, scope and boundary	X		38
	3.4–3.5	Contact point for questions regarding the report or its contents, process for defining report content	X		38
	3.6 – 3.8	Boundary of the report	X		38
	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.	38
GRI content index					
	3.12	GRI content index	X		38-41
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		12-20
Stakeholder engagement					
	4.14-4.15	Definition of stakeholder groups and stakeholder engagement practices	X		4, 24-25, 29, 34-35
ECONOMIC RESPONSIBILITY					
Economic performance					
C	EC1	Direct economic value generated	X		26
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.	2, 4, 9, 24, 27
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.	16-19
C	EC4	Significant financial assistance received from government	O		26
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'.	34
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.	26, 30
C	EC7	Procedures of local hiring	X		32, 34, 36
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		27-30
C	EN2	Percentage of materials used that are recycled input materials	O		30

		GRI-compliant content	Application of GRI	Comments	Pages
Energy					
C	EN3-4	Direct and indirect energy consumption by primary energy source	O		30
A	EN5	Energy saved due to conservation and efficiency improvements	X		27-29, 30
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		27-30
Water					
C	EN8	Total water withdrawal by source	O	Overall, the significance is low since water is not used in Vacon's production processes.	29
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.	24-25, 27-30
C	EN22	Total weight of waste by type and disposal method	X		30
A	EN24	Volume of hazardous waste treated	X		30
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 2014.	
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.	30
Overall					
A	EN30	Total environmental protection expenditures and investments by type	O	Development of production and logistics is underway.	27-30
SOCIAL RESPONSIBILITY					
Product responsibility					
C	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	X		24-25, 27-29, 34-35
A	PR2	Compliance with product safety legislation and regulations	X		27-29, 35
C	PR3	Type of product and service information required by procedures	X		27, 35
A	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	X	None in 2014.	
A	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	X		34-35

		GRI-compliant content	Application of GRI	Comments	Pages
Employment					
C	LA1	Total workforce by employment type (full-time/part-time), employment contract (permanent/temporary), and region	-		
C	LA2	Total number and rate of employee turnover by age group, gender, and region	-		
A	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	X		32
C	LA4	Percentage of employees covered by collective bargaining agreements	O		34
C	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	O		34
A	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	X		33-34
C	LA7	Rates of injury, occupational diseases, lost days and absenteeism by region	O		36
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		32-34
C	LA10	Average hours of training per year per employee by employee category	O		31-32
A	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	O		31-34
A	LA12	Percentage of employees receiving regular performance and career development reviews	X		31-32
C	LA13	Breakdown of governance bodies and employees according to gender, age group and minority group membership	X		21, 34, 36-37
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.	29, 34
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.	34
C	HR4	Total number of incidents of discrimination and actions taken	X	None in 2014. See the Ethical Guidelines.	34
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 2014. See the Ethical Guidelines.	34
Society					
C	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	O	See the Ethical Guidelines.	34
C	SO5	Public policy position and participation in public policy development and lobbying	X		35
A	SO6	Total value of financial and in-kind contributions to political parties	X		35

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 2014

BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2014

GENERAL REVIEW OF 2014

For Vacon, 2014 was a successful year. Vacon's revenues increased in January-December 2014 from the previous year. The North and South America region recorded the best performance. Sales in the APAC region also increased in the review period. Revenues in the EMEA region declined in January-December 2014 from the previous year.

Vacon's profitability excluding one-time items improved distinctly in January-December 2014 from the previous year. Efficient material sourcing and the cost benefits from transferring material sourcing to lower cost countries have been key factors in the improvement in the company's profitability.

According to the IHS market research institute, the global market value of low-voltage AC drives in 2013 was approximately USD 11.3 billion, and annual market growth in the upcoming years is estimated to be 6%. The global market value of medium-voltage AC drives in 2013 was approximately USD 2.6 billion, and annual market growth in the upcoming years is estimated to be 8%. Overall, the estimated growth in the AC drives market in the long-term is greater than the growth in gross domestic product (GDP).

During the past few years Vacon has expanded and renewed its product offering, which places the company in a strong position to grow faster than the AC drive market. One example of this is the the new VACON® NXP System Drive product range launched by Vacon in January 2014. The new product range of standardized AC drives offers customers' cost-efficiency, reliability and uniform quality. System integrators serving heavy industry are able to simplify complex solutions using our extensive range of standard AC drive modules. Development of Vacon's medium voltage drives has also progressed on schedule. The first product version has proved in practice to be very effective and design work on the product moved into the piloting stage in December 2014.

During 2014 Vacon strengthened its foothold and services in Europe by setting up sales companies in Turkey and Poland.

The Annual General Meeting on 27 March 2014 approved the Board of Directors' proposal to increase the number of shares in the Company by issuing new shares without payment to the shareholders in proportion to their holdings so that one (1) new share is given for each existing share. Based on the number of shares on the date of the notice of the AGM, a total of 15,295,000 new shares were then issued, so that after the share issue without payment there are a total of 30,590,000 shares.

For Vacon 2014 was not only a successful year but also one of great change. Vacon has been part of the Danfoss Group since 1 December 2014. Danfoss announced in September 2014 that it was making a voluntary public tender offer to purchase all Vacon shares. By the end of November 2014 Danfoss had obtained all necessary approvals from the authorities and had acquired more than 90% of the shares and voting rights in Vacon. Combining Vacon and Danfoss creates one of the leading players in the global drives market that can take advantage of the best features of both companies.

RESULT

Orders and revenues

Orders received in January-December totalled EUR 424.7 (399.8) million. The order intake increased in all regions in 2014 compared to the previous year. Growth in North and South America was 15.2%, in the APAC region 10.9% and in the EMEA region 1.7%. The company's order book increased 32.7% from the beginning of the year, and at the end of the year stood at EUR 62.2 (46.8) million.

Vacon's revenues increased 1.6% in January-December 2014 to EUR 409.4 (403.0) million. The North and South America region recorded the biggest improvement, with a 15.9% increase in revenues from 2013. The growth in revenues in this region was spread over several different industrial sectors. Sales in the APAC region increased 6.8% in January-December. The customer sectors that recorded the biggest growth in the APAC region were the marine and construction industries. In the EMEA region, revenues declined 4.5% in January-December from the previous year. Lower sales of products for renewable energy generation and for the marine industry were particular factors in this decline.

Vacon's sales increased 18.3% to end customers, 13.7% to brand label customers, 3.3% to distributors and 1.8% to OEM customers in January-December 2014 compared to the previous year. Sales to systems integrators fell 11.6% in 2014 from the previous year. A considerable proportion of the products for renewable energy generation and for the marine industry are sold via systems integrators, which mainly explains the fall in sales via this channel.

Operating profit and result

The operating profit excluding one-time items in the January-December period was EUR 47.2 million, or 11.5% of revenues (operating profit EUR 40.6 million and 10.1% in January-December 2013). The one-time items are mainly related to the voluntary public offer tender to purchase Vacon's shares and they had a net impact on costs of EUR 7.6 million in 2014. The operating profit declined to EUR 39.7 million in January-December, or 9.7% of revenues (operating profit EUR 40.6 million and 10.1% in January-December 2013).

The earnings per share in January-December were EUR 1.00 (EUR 0.92*).

Balance sheet and cash flow

The balance sheet remained strong. The net cash flow from operating activities in the January-December period totalled EUR 35.4 (46.7) million. The increase in net working capital was a particular factor in developments in the net cash flow compared to the previous year. Revenues increased during the past few months and raised the amount of trade receivables. A few fairly large orders that were still in progress raised the volume of inventories. During the first half of the year Vacon paid the final instalment of EUR 3 million of the compensation imposed concerning the customs procedures applied by its Chinese subsidiary, which had been previously recognized in the income statement, and this increased working capital.

The Group sold its holding in The Switch Engineering Oy. The sale of these shares had no impact on the Group's result.

The company still has no net debt. Gearing was -8.3% (-14.7%). Net debt at the end of December was EUR -10.4

* Figure adjusted to correspond to the increase in the number of shares after the share split.

(-17.2) million. The balance sheet total stood at EUR 227.9 (216.4) million. Equity ratio was 55.5% (55.0%). The Group's equity structure and liquidity remained strong. Interest-bearing debt totalled EUR 12.0 (18.7) million and cash funds EUR 22.4 (35.9) million at the end of the year.

In December the company paid off a loan of EUR 14.3 million that was part of a EUR 50 million syndicated credit facility, which was terminated at the same time. The syndicated credit facility originally comprised a loan of EUR 20 million that matured in 2016, and a EUR 30 million committed credit facility. In addition, the Group obtained a EUR 10 million short-term loan from Danfoss A/S.

INVESTMENTS

Gross investments by the Group in January–December 2014 totalled EUR 24.1 (19.7) million. In line with the Company's strategic priorities, investments focused in particular on product development and production, and on developing information systems.

RESEARCH AND DEVELOPMENT

R&D expenditure in the January-December period totalled EUR 30.8 (27.3) million, and EUR 11.5 (5.9) million of this was capitalized as development costs. R&D costs accounted for 7.5% (6.8%) of Group revenues.

Vacon's strategic priorities in product development in 2014 were expanding the VACON® 100 product range and developing high power products in the low and medium voltage ranges.

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

Vacon's CFO Pia Aaltonen-Forsell went on maternity leave in February 2014 and returned to work in September 2014. Ann-Louise Brännback, M.Sc. (Econ.), was appointed acting CFO and member of Vacon Group's Executive Management Team for the duration of Aaltonen-Forsell's maternity leave. Ann-Louise Brännback has previously worked in several financial management positions in Vacon Group, including that of Group Controller. After her term as acting CFO, Ann-Louise Brännback returned to the job she was doing previously, as Director, Business Control, Product Operations.

RESPONSIBILITY

Personnel

Vacon aims to be a leading company in its industry, and this 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, and nurturing a passionate attitude. In the global and growing Vacon, creating a common culture is one of the key success factors. The unique corporate culture, the company's values and the expert work force distinguish Vacon from its competitors.

The priorities in Vacon's human resources strategy in 2014 were developing knowhow and management, remuneration, personnel commitment, and recruiting the best experts in the field.

The number of Vacon personnel increased by 13 during 2014. At the end of December 2014 the Group employed 1,609 (1,596) people, and 768 (744) of these were in Finland and 841 (852) in other countries. Personnel had an average age of 38.1 (37.1) years. The average length of employment was 7.2 (6.6) years. 25.1% (25.2%) of the employees were women and 74.9% (74.8%) men.

The average number of Vacon employees:

	2014	2013
Office personnel	1,091	1,016
Factory personnel	505	537
Total	**1,597**	**1,553**

As it says in 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 those who share the Driven by Drives passion that is an integral factor at Vacon.

In 2014, Vacon updated the Group-wide competence development model. The goal was to create a model that is effective in all countries of operation and in the entire Group. To stand out and obtain a competitive edge sets demands for certain strategic areas of competence.

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 regularly by means of a Group-wide job satisfaction survey.

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 2014 Vacon focused on open communication of its new reward strategy. The personnel reward model defined and harmonized the monetary and non-monetary forms of compensation to be used in the company and administration of the model. The reward model defines the main principles for compensation and supports Vacon in its attempts to be an attractive, motivating work place, where people are content and implement Vacon's business strategy in accordance with its values. The company wishes to reward outstanding performance with monetary and non-monetary means.

The new reward strategy 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.

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 62 TWh (55 TWh in 2013) of electrical energy in 2014. This equals the annual energy production of approximately eleven 700 MW nuclear reactors, or the domestic electricity consumption of some 13.8 million households in Europe. In addition, it equals about 24 hours of the total annual electricity production in the world*.

Furthermore, Vacon's products were used to produce approximately 25 TWh (22 TWh) of energy from renewable sources in 2014. This equals the average annual consumption of domestic electricity in approximately 5.5 million households in Europe, or approximately 9.5 hours in the total annual energy consumption in 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%. Studies have shown that the payback time for AC drives has continuously shortened. For example, in pump and fan applications the payback time can even be less than one year.

Vacon develops increasingly sustainable energy solutions for its customers and improves the life-cycle quality and eco-friendliness of its products. In 2014, Vacon concentrated on harmonizing and expanding certification of its factories. It also focused on developing the Supplier Excellence program for subcontractors, and it updated its environmental policy during 2014.

Vacon's product design and development are guided by the life cycle philosophy, starting from the selection of materials and all the way to production and recycling. The product development stage includes assessing the environmental impact and defining objectives that will be assessed throughout the product life-cycle. In 2014, Vacon continued its measures in connection with the choice of materials in products and collecting information on the materials used in products. The company's customers and tightening regulations require the reporting of harmful substances used in 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.

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 to ensure that products can be recycled and are harmless to the environment.

Vacon's Supplier Excellence program progressed to further development projects and model evaluation in 2014. The Supplier Excellence program assesses the capability of subcontractors 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 2014, new quality tools and a more systematic monitoring model were included in the program. The process was revised for collecting information on materials relating to environmental responsibility. The Supplier Excellence program also covers the monitoring of conflict minerals. Vacon's products do not contain conflict minerals.

Vacon's own production processes have extremely low emissions, since only the final assembly of a product and testing take place on Vacon's premises. Components are obtained from subcontractors. Energy is consumed in assembly and in the testing of completed products. Testing also generates energy, which is fed back into the electricity network using Vacon's own AC drive technology. In this way Vacon has been able to reduce the amount of energy it buys.

With its certified environmental systems, Vacon aims to ensure the effectiveness of environmental performance, uniform quality, and the principle of continuous improvement. Vacon's plants in China and in Vaasa, Finland, have ISO 14001 certification. Progress is also being made in building environmental management systems in different locations. In 2014, ISO 14001 certification was awarded to Vacon's plants in Italy and India. The operations of the US plant were developed towards the 14001 standard.

Vacon is continuously studying ways to reduce the volume of air cargo in particular, and thus reduce the harmful environmental impact from transport. Vacon's extensive product portfolio is manufactured not only at the Vaasa plant but also at the other Vacon plants, which reduces the need for transport between Vacon's different plants. This means that production takes place closer to the customer, which provides savings in transportation costs and reduces transport emissions. In 2014 Vacon got up speed in manufacturing the VACON® 100 range of products at its plants in China and the USA.

COMPANY OWNERSHIP AND CORPORATE GOVERNANCE

Shares and shareholders

(The figures have been adjusted in line with the situation after the share split.)

Vacon had a market capitalization at the end of December of EUR 1,038.2 (891.7) million. The closing share price on 31 December 2014 was EUR 34.00. The lowest share price during the January-December period was EUR 25.00 and the highest EUR 37.50.

* Figures for global electricity production: Key World Energy Statistics 2014, International Energy Agency (IEA).

A total of 38,339,383 Vacon shares (125.6% of the share stock) were traded on the stock exchange during 2014, in monetary terms EUR 1,300.9 million. According to the shareholder register updated on 31 December 2014, Vacon had 554 registered shareholders. Shares that were nominee registered and in foreign ownership amounted to 0.8% (48.0%) of the share stock.

A total of 666 own shares were returned to the company in year 2014 in accordance with the rules of the share bonus scheme. On 31 December 2014 Vacon Plc held a total of 56 164 of its own shares, which it had acquired at an average price of EUR 19.02 a share. This is 0.2% of the share capital and voting rights, so it has no significant impact on the distribution of ownership or voting rights in the company.

On 31 December 2014 members of Vacon's Board of Directors, the President and CEO, and the Deputy to the CEO held directly no Vacon Plc shares.

Vacon has been part of the Danfoss Group since 1 December 2014. In September 2014 Danfoss announced that it was making a voluntary public offer tender to purchase all Vacon shares. By the end of November Danfoss had obtained all necessary approvals from the authorities and had acquired more than 90% of the shares and voting rights in Vacon. Danfoss has initiated the compulsory redemption process for the remaining shares in Vacon Plc and intends to apply for the delisting of Vacon shares from NASDAQ OMX Helsinki.

Board of Directors and President and CEO

Until the Annual General Meeting held on 27 March 2014, the Board of Directors comprised Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala. The Annual General Meeting confirmed that the Board of Directors would have seven members. Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila and Riitta Viitala were re-elected as Board members. Jari Koskinen was elected as a new member to the Board. At its organizational meeting after the AGM, the Board of Directors elected Panu Routila as Chairman and Jari Eklund as Vice Chairman of the Board.

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 corporate governance in the company's Annual Report. The information is also available on the company's website at www.vacon.com.

Vacon Plc held an extraordinary general meeting (EGM) in Vaasa on 12 January 2015. The meeting confirmed that the Board of Directors would have five (5) members. Those elected to the Board were: Niels Bjørn Christiansen, President & Chief Executive Officer of Danfoss A/S; Kim Fausing, Executive Vice President and Chief Operations Officer of Danfoss Group; Jesper V. Christensen, Executive Vice President and Chief Financial Officer of Danfoss Group; Kim Christensen, President of Global Services of Danfoss Group, and Anders Stahlschmidt, Senior Vice President and General Counsel of Danfoss Group.

Auditor

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 for 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 financial targets until 2020

Vacon published new long-term financial targets and a revised strategy for the period 2014-2020 in November 2013.

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 also provides good growth potential for the company in the future.

Vacon will further expand its broad range of products, applications and services. 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, in-depth application know-how, extensive services and unique corporate culture.
Vacon has production units in five countries, R&D units in four countries, and sales offices in a total of 31 countries. An extensive presence on different continents forms an excellent basis for customer service, enabling quick delivery times, for example. 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 identified 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 in the Group's corporate governance statement.

COMMON RISKS AND UNCERTAINTIES AFFECTING THE COMPANY'S OPERATIONS

Risk management at Vacon Group is part of management of the Company's business operations. The aim of risk management is to ensure that the risks to which business operations are exposed have been identified and are under effective control. The goal is to minimize any damage that may be caused by risks and identify the risks relating to the management of business operations. Through its risk management the Company aims to safeguard the Company's profitable growth.

Vacon is exposed to risks that may result from the company's business operations or from changes taking place 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 2014. 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 programme 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 tests for impairment annually the long-term assets in the balance sheet. 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, the Russian rouble 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.

PROSPECTS FOR 2015

Global megatrends, such as urbanisation, increasing industrial automation, energy efficiency, developing markets and renewable energy, all support growth in the AC drive market in the long term.

In the assessment of market research institutions, the AC drive market has hardly grown at all during the past three years. A major factor in this has been the overall economic uncertainty, which has caused industrial investment to slow down.

During 2015 Vacon and Danfoss will merge their AC drive business operations. Combining Vacon and Danfoss creates one of the leading players in the global AC drive sector, which can take advantage of the best features of both companies.

MARKET GUIDANCE FOR 2015

Vacon estimates that its revenues will increase and its operating profit percentage excluding one-time items will improve from 2014.

Vacon's revenues in 2014 totalled EUR 409.4 million and the operating profit percentage excluding one-time items was 11.5%.

BOARD PROPOSAL FOR DISTRIBUTION OF PROFIT

Danfoss has initiated the procedure for the compulsory redemption of the remaining Vacon shares and intends to apply for the delisting of Vacon's shares from NASDAQ OMX Helsinki. The Board of Directors will propose to the General Meeting of Shareholders to be held on 26 June 2015 that no dividend be paid for the 2014 fiscal year.

CONSOLIDATED FINANCIAL STATEMENTS

	2014	2013	2012	2011	2010
Per share data*)**					
Earnings per share, EUR	1.00	0.92	0.86	0.55	0.61
Equity per share, EUR	4.05	3.79	3.49	3.14	2.95
Dividend per share, EUR *)	0.00	0.65	0.55	0.45	0.50
Dividend payout ratio, % *)	0.0	70.7	64.1	81.5	82.1
Effective dividend yield, % *)	0.0	2.2	2.7	2.9	2.6
Price/earnings ratio	33.9	31.8	23.4	28.0	32.0
Share price development *)**					
Lowest during the year, EUR	25.00	20.00	15.56	13.61	12.45
Highest during the year, EUR	37.50	29.95	21.27	24.37	19.88
Closing price at end of year, EUR	34.00	29.25	20.10	15.45	19.50
Average price for the year, EUR	32.20	25.86	19.18	19.25	16.25
Market capitalization, MEUR	1,038.2	891.7	611.5	471.5	593.4
Trading volume, share	38,339,383	4,711,238	6,301,832	5,950,934	5,340,292
Trading volume, %	125.6	15.5	20.7	19.5	17.6
Adjusted average number of shares during the financial year **)	30,523,020	30,471,881	30,508,512	30,492,775	30,426,166
Number of shares at end of year **)	30,533,836	30,486,326	30,423,546	30,519,984	30,428,870
Own shares	56,164	103,674	166,454	70,016	161,130

*) The Board of Directors will propose to the General Meeting of Shareholders to be held on 26 June 2015 that no dividend be paid for the 2014 fiscal year
**) The average number of shares in the financial period was 30,523,020. The number of shares outstanding is 30,533,836
***) The figures have been adjusted in line with the situation after the share split.

	2014	2013	2012	2011	2010
Group's financial ratios					
Revenues, MEUR	409.4	403.0	388.4	380.9	338.0
Change in revenues, %	1.6	3.8	2.0	12.7	24.3
Operating profit excluding non-recurring items, EUR million	47.2	40.6	36.5	34.8	32.4
Change in the operating profit excluding non-recurring items, %	16.2	11.3	4.9	7.5	43.6
Operating profit excluding non-recurring items, % of revenues	11.5	10.1	9.4	9.1	9.6
Operating profit, MEUR	39.7	40.6	38.0	24.7	28.6
Change in operating profit, %	-2.4	6.9	53.6	-13.4	26.8
Operating profit as % of revenues	9.7	10.1	9.8	6.5	8.5
Profit before taxes	39.8	39.7	37.1	27.0	27.5
Profit before tax, % of revenues	9.7	9.8	9.6	7.1	8.1
Return on equity, %	25.6	25.4	26.1	18.7	22.1
Return on investments, %	32.2	33.0	33.5	26.9	27.0
Interest-bearing net liabilities, MEUR	-10.4	-17.2	-10.3	12.4	9.8
Gearing, %	-8.3	-14.7	-9.5	12.7	10.7
Working capital, MEUR	40.8	31.4	33.0	45.1	45.9
Equity ratio, %	55.5	55.0	53.0	50.0	46.0
Gross capital expenditure, MEUR	24.1	19.7	14.0	18.7	15.9
Gross capital expenditure as % of revenues	5.9	4.9	3.6	4.9	4.7
R&D costs, MEUR	30.8	27.3	25.1	25.1	20.8
R&D costs as % of revenues	7.5	6.8	6.5	6.6	6.2
Personnel at the end of the period	1,609	1,596	1,513	1,468	1,339
Order book, MEUR	62.2	46.8	50.0	36.6	52.1

Earnings per share =	$\frac{\text{Profit for the financial year attributable to equity holders of the parent company}}{\text{Adjusted average number of shares}}$
Equity per share=	$\frac{\text{Total equity - share of non-controlling interests}}{\text{Adjusted number of shares at the end of the year}}$
Dividend per share =	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the year}}$
Dividend payout ratio, % =	$\frac{\text{Dividend for the financial year x 100}}{\text{Profit for the financial year attributable to equity holders of the parent company}}$
Effective dividend yield, % =	$\frac{\text{Dividend per share x 100}}{\text{Adjusted closing share price at end of year}}$
Price/earnings ratio =	$\frac{\text{Adjusted closing share price at end of year}}{\text{Earnings per share}}$
Return on equity, % =	$\frac{\text{Profit for the period x 100}}{\text{Total equity, average at the beginning and end of the year}}$
Return on investments, % =	$\frac{\text{(Profit before taxes + interest and other financial expenses) x 100}}{\text{Total equity and liabilities – non-interest-bearing liabilities, average at the beginning and end of the year}}$
Equity ratio, % =	$\frac{\text{Total equity x 100}}{\text{Total equity and liabilities – advances received}}$
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
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, 2014	%	Jan 1–Dec 31, 2013	%
Revenues	4	409,385	100.0	402,983	100.0
Other operating income	5	228		285	
Change in inventories of finished goods and work in progress		2,675		1,511	
Materials and services	6	-199,241		-204,218	
Employee benefit related expenses	8	-89,409		-82,097	
Depreciation/amortization	9	-14,120		-13,669	
Other operating expenses	7	-69,854		-64,148	
Operating profit		**39,662**	**9.7**	**40,647**	**10.1**
Financial income	12	4,348		3,095	
Financial expenses	12	-4,204		-4,085	
Profit before taxes		**39,807**	**9.7**	**39,658**	**9.8**
Income taxes	13	-8,745		-10,958	
Profit for the period		**31,062**	**7.6**	**28,699**	**7.1**
Attributable to:					
Equity holders of the parent company	14	30,601		28,025	
Non-controlling interests		461		675	
Earnings per share calculated on profit belonging to the equity holders of the parent company:	14				
Basic earnings per share, EUR		1.00		0.92*)	
Diluted earnings per share, EUR		1.00		0.92*)	

Consolidated statement of comprehensive income (IFRS)

EUR thousand		
Profit for the period	31,062	28,699
Other items in the statement of comprehensive income:		
Remeasurements	-1,093	-877
Items not reclassified to profit or loss	-1,093	-877
Available-for-sale financial assets	-2,492	0
Translation difference	1,180	-365
Items that may be subsequently reclassified to profit or loss	-1,313	-365
Comprehensive result for the financial period, total	**28,656**	**27,458**
Attributable to:		
Equity holders of the parent company	28,260	26,874
Non-controlling interests	396	584

*) The figures have been adjusted in line with the situation after the share split.

Assets, EUR thousand	Note	Dec 31, 2014	%	Dec 31, 2013	%
Non-current assets					
Goodwill	15	9,427		8,891	
Development costs	15	27,176		20,277	
Other intangible assets	15	15,362		8,241	
Property, plant and equipment	16	24,009		26,617	
Available-for-sale financial assets	19	0		3,692	
Deferred tax assets	13	8,507		7,295	
Other financial assets	19	1,941		3,244	
		86,423	**37.9**	**78,258**	**36.2**
Current assets					
Inventories	20	30,608		27,090	
Trade and other receivables	21	88,515		75,062	
Cash and cash equivalents	22	22,356		35,945	
		141,479	**62.1**	**138,097**	**63.8**
Total assets		**227,902**	**100.0**	**216,355**	**100.0**

Total equity and liabilities, EUR thousand	Note	Dec 31, 2014	%	Dec 31, 2013	%
Equity attributable to equity holders of the parent company					
Share capital	23	3,059		3,059	
Share premium		4,966		4,966	
Other reserves		2,710		2,443	
Own shares		-1,068		-1,993	
Fair value reserve		0		2,492	
Retained earnings		114,077		104,584	
		123,744	54.3	115,552	53.4
Non-controlling interests		1,384	0.6	1,866	0.9
Total equity		**125,128**	**54.9**	**117,418**	**54.3**
Non-current liabilities					
Deferred tax liabilities	13	7,400		6,007	
Employee benefits	25	5,042		3,458	
Interest-bearing liabilities	26	555		14,924	
		12,997	5.7	24,389	11.3
Current liabilities					
Trade and other payables	27	66,094		57,660	
Income tax liabilities		2,089		1,737	
Provisions	28	10,187		11,364	
Interest-bearing liabilities	26	11,407		3,788	
		89,777	39.4	74,549	34.5
Total liabilities		**102,774**	**45.1**	**98,937**	**45.7**
Total equity and liabilities		**227,902**	**100.0**	**216,355**	**100.0**

EUR thousand	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Cash flow from operating activities		
Profit for the period	31,062	28,699
Adjustments:		
Depreciation/amortization	14,120	13,669
Financial income and expenses	-145	990
Taxes	8,745	10,958
Other adjustments	-2,281	1,912
Changes in working capital:		
Change in inventories	-1,853	-2,380
Change in non-interest-bearing receivables	-8,497	-1,459
Change in non-interest-bearing liabilities	5,777	6,111
Interest received	422	392
Interest paid	-405	-340
Other financial items	-2,139	693
Taxes paid	-9,382	-12,555
Net cash flow from operating activities	**35,424**	**46,689**
Cash flow from investing activities		
Acquisition of subsidiary	-2,492	-1,484
Investments in property, plant and equipment	-5,312	-8,908
Investments in intangible assets	-17,845	-11,174
Other investments	300	324
Sale of available-for-sale financial assets	2,494	0
Net cash flow from investing activities	**-22,856**	**-21,242**
Cash flows from financing activities		
Repayments of long-term loans	-14,369	-5,745
Proceeds from short-term borrowings	22,845	4,230
Repayments of short-term loans	-15,658	-736
Dividens paid	-20,449	-17,278
Net cash flow from financing activities	**-27,631**	**-19,529**
Change in cash and cash equivalents	**-15,063**	**5,918**
Cash and cash equivalent at start of year	35,945	31,074
Translation differences in cash and cash equivalents	1,474	-1,047
Cash and cash equivalent at end of year	**22,356**	**35,945**

EUR thousand	Equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Own shares	Revaluation fund	Retained earnings	Total		
Equity on 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

Equity on Jan 1, 2014	3,059	4,966	2,443	-1,993	2,492	104,584	115,552	1,866	117,418
Profit for the period						30,601	30,601	461	31,062
Other items in the statement of comprehensive income:									
Remeasurements						-1,093	-1,093		-1,093
Available-for-sale financial assets					-2,492		-2,492		-2,492
Translation difference			255			990	1,245	-65	1,180
Comprehensive result for the financial period, total			255		-2,492	30,498	28,260	396	28,656
Share bonuses				925		-207	717		717
Dividends paid						-19,847	-19,847	-602	-20,449
Acquisition of non-controlling interests			12			-949	-937	-277	-1,214
Equity on Dec 31, 2014	**3,059**	**4,966**	**2,710**	**-1,068**	**0**	**114,077**	**123,744**	**1,384**	**125,128**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 31 (30) 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 11 February 2015. 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 31 December 2014, 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 from 1 January 2014 concerning the following standards: IAS 32 Financial Instruments: Presentation; and IAS 36 Impairment of Assets. The accounting principles have been updated in accordance with the amended standards.

The amendments to IAS 32 pertain to the netting of assets and liabilities. The amendments concern the application guideline of IAS 32. They clarify specific requirements for the offsetting of financial assets and liabilities on the balance sheet. The amendment will not have material impact on the consolidated financial statements.

The amendment to IAS 36 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.

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, non-realized margins, and intra-group profit distribution are eliminated in the consolidated financial statements. The subsidiaries' accounting principles have been adjusted to match the accounting principles applied by the Group, if needed. The allocation of profit or loss from the financial period to the shareholders of the parent company and the non-controlling interests is presented in the income statement. The allocation of the comprehensive income to the shareholders of the parent company and the non-controlling interests is presented in the statement of comprehensive income. The share of the non-controlling interests is presented as an individual item under equity.

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 1 January 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 15.

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

The depreciation periods for intangible assets are:

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

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

R&D costs
R&D costs are recognized as expenses on an accrual basis as they are incurred. 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 had two share bonus schemes. Share bonus scheme A offered 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. Share bonus scheme B offered the company management team an opportunity to receive the company's shares as a bonus. The scheme had one earnings period, which covered the calendar years 2011–2014. The earnings criteria for share bonus scheme B were not met, which is why accruals recorded in previous years have been restored in 2014.

More detailed terms and conditions about the share bonus scheme are presented in greater detail in Note 24. Share-based payments.

Provisions

Items related to contracts and other effective obligations that are likely to require financial resources are recognized 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 from June 17, 2014:** Amendment to IAS 19 Employee Benefits concerning contributions from employees or third parties. The amendment clarifies the accounting for employee or third-party contributions to defined-benefit plans. It distinguishes between contributions linked solely to the employee's service in that period and contributions linked to service in more than one periods. The aim is to simplify the accounting for contributions that are independent of the number of the years of service, such as employee contributions that are a fixed percentage of the employee's salary. If the entity has plans requiring contributions that vary depending on the length of service, the benefit of those contributions must be recognized over the employees' working lives. The amendment will have no material impact on the consolidated financial statements.

- **Effective from June 17, 2014:** IFRIC 21 Levies. The interpretation concerns IAS 37 Provisions, Contingent Liabilities, and Contingent Assets. IAS 37 presents the recognition criteria for liabilities. Among these is the requirement that the entity has an obligation resulting from past events (an obligating event). The interpretation clarifies that for a levy, such an obligating event is the activity that triggers the payment of the levy in accordance with the relevant legislation. The amendment will have no material impact on the consolidated financial statements.

- **Effective from January 1, 2017:** IFRS 15 Revenue from Contracts with Customers. This is a new, converged standard on revenue recognition. It will supersede IAS 11 Construction Contracts, IAS 18 Revenue, and the related interpretations. Revenue will be recognized when control of goods or services is passed to a customer. The customer has the control when it is able to direct the use of the goods or services and obtain the benefits from them. The core principle of IFRS 15 is that revenue is recognized to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized following the steps outlined below:

  - **Step 1:** Identify the contract(s) with a customer
  - **Step 2:** Identify the performance obligations in the contract
  - **Step 3:** Determine the transaction price
  - **Step 4:** Allocate the transaction price to the performance obligations in the contract
  - **Step 5:** Recognize revenue when (or as) the entity satisfies a performance obligation
  - IFRS 15 also includes consistent disclosure requirements that enable users of financial statements to obtain comprehensive information on the nature, amount, timing, and uncertainty of cash flows arising from contracts with customers. The standard will become effective in 2017. The Group has not yet looked into its impact on the consolidated financial statements.

3. ACQUIRED BUSINESS OPERATIONS

In July 2014 Vacon agreed on the purchase of the AC drive business of Telko-Poland, a Polish subsidiary of Finnish company Kaukomarkkinat Oy. The transaction was completed as agreed in September 2014. The aggregate purchase price was EUR 1.3 million.

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

Acquisition cost, EUR thousand	
Cash price	1,261
Fair value of net assets acquired	1,261
Goodwill	0

Details of net assets acquired , EUR thousand	Recognized values
Tangible assets	868
Inventories	397
Assets, total	1,265
Liabilities, total	4
Net assets acquired	**1,261**

Impact on cash flow, EUR thousand	
Cash price	-1,261
Cash funds received	1,261
Net payment for acquisition from cash funds	**0**

4. SEGMENT INFORMATION

Vacon focuses on one product, the AC drive, which is also Vacon's only business segment. Figures for the segment are equal to the figures for the entire Group.

Vacon's operations 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	2014	2013
EMEA	231,070	242,056
Americas	81,979	70,739
APAC	96,335	90,188
Total	**409,385**	**402,983**

Revenues from external customers, EUR thousand	2014	2013
Finland	43,001	47,450
Other countries	366,383	355,532
Total	**409,385**	**402,983**

Non-current assets, EUR thousand	2014	2013
Finland	47,523	38,575
Other countries	30,392	32,387
Total	**77,915**	**70,963**

By the end of the year, revenues recognized from long-term projects in progress totaled EUR 0.3 million (3.4 million) and the operating profit was EUR 0.1 million in total (1.5 million). Prepayments received from long-term projects in progress were EUR 6.6 million (6.6 million) at the end of 2014. The invoice portion of long-term projects that exceeds the amount of expenses and profit was EUR 0.1 million (0.3 million) in 2014.

5. OTHER OPERATING INCOME

EUR thousand	2014	2013
Rental income	50	28
Insurance compensations	47	12
Government grants	95	106
Other	35	139
Total	**228**	**285**

6. MATERIALS AND SERVICES

EUR thousand	2014	2013
Materials and consumables		
Purchases during the financial year	190,773	197,335
Change in inventories	590	-311
External services	7,879	7,194
Total	**199,241**	**204,218**

7. OTHER OPERATING EXPENSES

EUR thousand	2014	2013
Delivery costs and commissions	7,903	7,350
Sales and marketing expenses	14,310	13,018
Rents	10,973	10,646
Administrative expenses	26,079	21,021
Other costs	10,590	12,114
Total	**69,854**	**64,148**

8. EMPLOYEE BENEFIT RELATED EXPENSES

EUR thousand	2014	2013
Salaries	70,709	64,010
Share bonuses granted paid in shares	902	903
Share bonuses granted paid in cash	717	1,432
Pensions		
Defined benefit plans	807	513
Defined contribution plans	10,123	9,744
Other personnel costs	6,151	5,494
Total	**89,409**	**82,097**
Office personnel	1,091	1,016
Factory personnel	505	537
Average number of personnel	**1,597**	**1,553**

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

9. DEPRECIATION AND AMORTIZATION

EUR thousand	2014	2013
Depreciation by asset group		
Intangible assets		
Development costs	4,642	4,303
Intangible rights	1,810	1,908
Other intangible assets	1,083	1,030
Total	**7,536**	**7,241**
Property, plant and equipment		
Buildings	19	25
Machinery and equipment	6,566	6,403
Total	**6,584**	**6,428**
Depreciation and amortization, total	**14,120**	**13,669**

10. AUDITOR'S FEES

EUR thousand	2014	2013
Audit fees	299	225
Tax consulting	304	244
Other services	471	270
Total	**1,074**	**739**

11. R&D COSTS

The income statement includes research and development costs recognized as expenses of EUR 19.3 million in 2014 (EUR 21.3 million in 2013).

12. FINANCIAL INCOME AND EXPENSES

EUR thousand	2014	2013
Interest income from loans and other receivables	416	392
Exchange rate gains on loans and other receivables	3,630	2,641
Other financial income	303	62
Total	**4,348**	**3,095**
Interest expenses on financial loans valued at amortized acquisition cost	-404	-444
Exchange rate losses on loans and other receivables	-2,967	-3,448
Other financial expenses	-833	-193
Total	**-4,204**	**-4,085**
Financial income and expenses, total	**145**	**-990**

Items above the operating profit include exchange rate differences of EUR 0.7 million from hedge accounting derivative contracts and of EUR 0.8 million from trade receivables (in 2013, EUR 0.1 million from derivative contracts and EUR -1.5 million from trade receivables).

13. INCOME TAXES

EUR thousand	2014	2013
Taxes based on the taxable income for the financial year	-8,918	-10,958
Taxes on the previous year	765	251
Deferred taxes:		
Generated and dissolved temporary differences	-592	-829
Impact of changes to the Finnish tax rate	0	578
Total	**-8,745**	**-10,958**

Taxes related to other items in the statement of comprehensive income

EUR thousand	2014			2013		
	Before taxes	**Tax impact**	**After taxes**	**Before taxes**	**Tax impact**	**After taxes**
Items caused by the re-measurement of defined benefit pension plans	-1,399	306	-1,093	-1,029	152	-877
Available for sale financial assets	-2,492		-2,492	0		0
Translation difference	1,180		1,180	-365	0	-365
Total	**-2,712**	**306**	**-2,406**	**-1,394**	**152**	**-1,242**

Calculation of taxes

EUR thousand	2014	2013
Profit before taxes	39,807	39,658
Taxes calculated in accordance with domestic tax rate	7,961	9,716
Deferred tax income related to the change in the tax rate	0	-578
Impact of foreign subsidiaries' differing tax rates	277	774
Tax-free income	-506	-383
Non-deductible expenses	640	1,125
Use of tax losses carried forward	-130	-211
Deferred tax assets carried forward from tax losses	1,142	302
Taxes on the previous year	-765	-251
Others	126	463
Taxes in the income statement	**8,745**	**10,958**

Change in deferred tax assets and liabilities during financial year:

2014, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
Deferred tax assets:					
Employee benefits	389	-38	306		657
Provisions	1,276	678			1,954
Tax losses carried forward	3,102	297			3,398
Internal margin from inventories	1,539	44			1,583
Other temporary differences	990	-166		91	916
Total	**7,295**	**814**	**306**	**91**	**8,507**
Deferred tax liabilities:					
Capitalized intangible assets	4,386	1,284			5,669
Accumulated depreciation difference	837	93		-14	916
Other temporary differences	784	30			814
Total	**6,007**	**1,407**	**0**	**-14**	**7,400**

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**

The Finnish tax rate used in the calculation of deferred taxes changed from 24.5% in year 2012 to 20.0% in the financial statements for the 2013 financial period. On 31 December 2014, the Group had EUR 3.4 million (EUR 1.9 million on 31 December 2013) 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 2017–2029.

14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the financial period attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the year. At the end of financial years 2013 and 2014, the Group had no diluting instruments. The share issue without payment (split) was carried out during 2014. The figures have been adjusted to take into account the increase in the number of shares after the share split.

EUR thousand	2014	2013
Profit for the financial year attributable to equity holders of the parent company	30,601	28,025
Number of shares		
Weighted average number of shares during the year	30,523,020	30,471,881
Basic earnings per share, EUR	1.00	0.92
Diluted earnings per share, EUR	1.00	0.92

15. INTANGIBLE ASSETS

EUR thousand	Goodwill	Development costs	Other intangible rights	Other intangible assets	Advance payments and construction in progress	Total 2014	Total 2013
Acquisition cost, Jan 1	8,891	38,362	26,742	8,834	0	82,829	73,187
Increases		11,516	2,525	822	3,415	18,278	10,386
Decreases			-1			-1	-129
Transfers between items			1,648	-1,471	2,669	2,846	37
Translation differences	536	56	623	704		1,920	-652
Acquisition cost, Dec 31	9,427	49,934	31,537	8,890	6,084	105,872	82,829
Accumulated amortization, Jan 1	0	-18,085	-23,769	-3,566	0	-45,420	-38,542
Accumulated amortization on decreases and transfers			-73	75		1	113
Amortization for the financial year		-4,642	-1,810	-1,083		-7,536	-7,241
Translation differences		-31	-597	-324		-952	250
Accumulated amortization, Dec 31	0	-22,758	-26,250	-4,898	0	-53,906	-45,420
Carrying amount, Dec 31, 2014	**9,427**	**27,176**	**5,287**	**3,991**	**6,084**	**51,965**	
Carrying amount, Dec 31, 2013	**8,891**	**20,277**	**2,973**	**5,269**	**0**		**37,409**

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 2014–2025. 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 (1.095). In addition, a risk premium (1%) has been added to the interest for Italy and Spain. For India and the USA the country's risk-free rate has been used. The rate in India is 8.21% and in the USA 3.35%. 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 -8% and -85%.

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 0.7–48.5 percentage points in the discount rate before taxes, before their recoverable amount corresponds to the carrying amount of net assets.

Goodwill is included in the following cash-generating units:

EUR thousand	2014	2013
Subsidiaries	9,427	8,891

Main assumptions used in impairment testing:

	2014	2013
Growth in revenues on average (p.a., five-year forecasts)	5-32 %	6-69 %
Pretax discount rate	8.6-15.2 %	8.8-15.7 %
Long-term growth	2-3 %	2-3 %
Goodwill allocated, EUR thousand	9,427	8,891
Carrying value, EUR thousand	49,594	45,654
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.

16. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and water areas	Buildings	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2014	Total 2013
Acquisition cost, Jan 1	132	139	70 786	4 125	68	75 250	67 111
Increases			4 447	1 266	45	5 759	9 210
Decreases			-60			-60	-391
Transfers between items			954	-3 800		-2 846	-40
Translation differences			2 507	1	2	2 510	-640
Acquisition cost, Dec 31	132	139	78 635	1 592	116	80 613	75 250
Accumulated depreciation, Jan 1	0	-65	-48 568	0	0	-48 633	-42 713
Accumulated depreciation on decreases and transfers			58			58	144
Depreciation for the financial year		-19	-6 559		-7	-6 584	-6 428
Translation differences			-1 444		0	-1 444	363
Accumulated depreciation, Dec 31	0	-83	-56 514	0	-7	-56 604	-48 633
Carrying amount, Dec 31, 2014	**132**	**56**	**22 121**	**1 592**	**108**	**24 009**	
Carrying amount, Dec 31, 2013	**132**	**74**	**22 218**	**4 125**	**68**		**26 617**

17. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

2014, EUR thousand	Loans and other receivables	Other 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	1,538	403		1,941	1,941	19
Current financial assets						
Trade and other receivables	88,515			88,515	88,515	21
Cash and cash equivalents	22,356			22,356	22,356	22
Carrying amount by measurement category	**112,410**	**403**	**0**	**112,813**	**112,813**	
Non-current financial liabilities						
Interest-bearing liabilities			555	555	555	26
Current financial liabilities						
Interest-bearing liabilities			11,407	11,407	11,407	26
Trade and other payables			63,671	63,671	63,671	27
Carrying amount by measurement category	**0**	**0**	**75,633**	**75,633**	**75,633**	

2013, EUR thousand	Loans and other receivables	Other 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	19
Current financial assets						
Trade and other receivables	75,062			75,062	75,062	21
Cash and cash equivalents	35,945			35,945	35,945	22
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	26
Current financial liabilities						
Interest-bearing liabilities			3,788	3,788	3,788	26
Trade and other payables			54,879	54,879	54,879	27
Carrying amount by measurement category	**0**	**0**	**73,591**	**73,591**	**73,591**	

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

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

	Fair values at the end of the financial period			
EUR thousand	Dec 31, 2014	Level 1	Level 2	Level 3
Financial assets recognized at fair value through profit and loss				
Foreign exchange forwards and options	956		956	
Other financial assets				
Share investments	403			403
Total	**1,359**	**0**	**956**	**403**
Liabilities valued at fair value				
Foreign exchange forwards and options	321		321	
Total	**321**	**0**	**321**	**0**

	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 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 210.6 thousand (fair value) and derivative liabilities amount to EUR 116.7 thousand (fair value). Vacon Plc's derivative assets with Counterparty B total EUR 745.3 thousand (fair value) and derivative liabilities amount to EUR 204.4 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.

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

EUR thousand	2014	2013
Other financial assets		
Investment funds:		
At the beginning of period, Jan 1	1,406	1,394
Increases	0	12
Decreases	-1,327	0
At the end of period, Dec 31	**79**	**1,406**
Other unquoted holdings:		
At the beginning of period, Jan 1	4,084	4,084
Increases	0	0
Decreases	-3,760	0
At the end of period, Dec 31	**324**	**4,084**
Share investments total	**403**	**5,490**
Loan		
Convertible bond:		
At the beginning of period, Jan 1	994	994
Increases	0	0
Decreases	-994	0
At the end of period, Dec 31	**0**	**994**

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

Other financial assets are investments in unquoted shares that are measured at fair value.

The shares of The Switch Engineering Oy were sold in 2014. The convertible bond granted to The Switch Engineering Oy on the terms of subordinated debt was paid back at the same time.

EUR thousand	2014	2013
Other receivables		
At the beginning of period, Jan 1	453	323
Increases / decreases	1,085	131
At the end of period, Dec 31	**1,538**	**453**

20. INVENTORIES

EUR thousand	2014	2013
Materials and consumables	12,596	12,576
Finished goods	18,012	14,514
Total	**30,608**	**27,090**

Inventories have been written down by EUR 3.8 million to accommodate for non-marketable assets in 2014 (EUR 2.8 million in 2013). Non-marketability deductions primarily cover spare parts and replacement units.

21. TRADE AND OTHER RECEIVABLES

EUR thousand	2014	2013
Loans and other receivables		
Trade receivables	76,297	66,346
Other receivables	6,848	4,776
Total	**83,144**	**71,122**
Accrued income and prepayments	5,371	3,940
Total	**5,371**	**3,940**

22. CASH AND CASH EQUIVALENTS

EUR thousand	2014	2013
Cash and cash equivalents	22,356	35,945
Total	**22,356**	**35,945**

23. 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, 2013	15,295,000	-83,227	3,059	-2,891	4,966	75	5,210
Shares issued as share bonuses		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**
Shares issued as share bonuses		24,088		933			933
Share issue without payment (split)	15,295,000	-27,749					0
Refunds during the year		-666		-9			-9
Translation difference and acquisition of non-controlling interests						267	267
Dec 31,2014	**30,590,000**	**-56,164**	**3,059**	**-1,068**	**4,966**	**2,710**	**9,667**

Annual General Meeting on 27 March 2014 decided that the number of Company shares will be increased through a share issue without payment (split) by issuing new shares to the shareholders without payment in proportion to their holdings so that one (1) share will be given for each existing share. The decision was entered in the Trade Register on 1 April 2014.

Vacon's share capital is EUR 3,059,000, divided into 30,590,000 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 25 March 2004, the company repurchased 95,260 of its own shares, and under the authorization given at the Annual General Meeting on 26 March 2008, it repurchased a total of 60,000 of its own shares, and under the authorization given at the Annual General Meeting on 25 March 2012, it repurchased a total of 60,000 of its own shares. 132,033 shares were issued as a share bonus in 2006–2012; 32,728 shares on 27 March 2013, and 24,088 shares on 28 March 2014. The numbers of shares stated are before the share issue without payment.

A total of 666 shares were returned to the company in 2014 in accordance with the rules of the share bonus system, after which the company holds 56,164 shares.

Other reserves include statutory reserve funds in subsidiaries, EUR 2.7 million.

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

24. SHARE-BASED PAYMENTS

In March 2011, Vacon Plc's Board of Directors decided on a share-based incentive scheme that targets certain individuals in the Group. The new share-based incentive scheme (Scheme A) had three earnings periods: the calendar years 2011, 2012, and 2013. The company's Board of Directors decided 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 was 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.

The share-based bonus scheme also contained a fourth earnings period for the members of the Management Team (Scheme B). This four-year earnings period was based on the Group's long-term strategy and covered the calendar years 2011—2014. The possible bonus for the earnings period 2011—2014 was based on Vacon Group's long-term strategic revenues and operating profit targets The earnings criteria were not met, which is why accruals recorded in the previous years were restored in 2014.

The shares issued in the earnings periods 2011, 2012, and 2013 had 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.

In March 2014, The Board of Directors of Vacon Plc resolved on a new share-based incentive plan for the years 2014, 2015 and 2016. In October 2014, the Board of Directors resolved on a new plan for 2014, which is an alternative to the plan ended in March. The new plan is based on the same numbers of shares, but the bonus will be paid fully in cash on 31 August 2015. Since all people in the target group have approved the new plan, there is no longer a share-based bonus scheme associated with 2014.

Following Danfoss's public tender offer, the restriction on the right of disposal of the shares assigned on the basis of 2013 was withdrawn in November 2014. For this reason, the forthcoming costs of the plan have been recorded for 2014.

Nature of arrangement: Share bonus scheme	2011-2014/B 2014	2013-2015/A 2014	2012-2014/A 2014
Date of issue	March 22, 2011	March 22, 2011	March 22, 2011
Implementation	Shares and cash	Shares and cash	Shares and cash
Maximum number of shares offered as share bonus during the earning period, share	83,000*)	147,750*)	116,250*)
Share price at time of issue, EUR	21.57*)	21.57*)	21.57*)
Agreed work obligation period (no. of years)	4	3	3
Value of shares being issued on valuation date, EUR thousand	-	29.39*)	26.50*)
Portion to be paid in cash (for taxes) calculated with the value on closing date, EUR thousand	-	1,472	1,803
Total cost of shares issued based on value at the time of issue, EUR thousand	-	1,039	1,412
Total cost of the share bonus scheme, EUR thousand	0	2,511	3,215
Share value adjusted with anticipated participation, EUR thousand	0	1,039	1,412
Consolidated income statement includes 1/3 of the sum in employee benefits and increase in equity, EUR thousand	-489	735	471
Portion to be recognized that is carried forward after the anticipated participation has been taken into account, EUR thousand	0	0	0
Amount to be paid in cash adjusted with anticipated participation, EUR thousand	0	1,472	1,803
Consolidated income statement includes 1/3 of the sumas employee benefits and liabilities, EUR thousand	-692	997	597
Estimated portion to be carried forward when the anticipated participation has been taken into account, EUR thousand	0	0	0
Total costs of the share bonus system recognized as employee benefits in the Group during the financial period, EUR thousand	-1,180	1,732	1,067

*) After the share split.

A total of 666 own shares were returned to the company in 2014 in accordance with the rules of the share bonus scheme.

25. EMPLOYEE BENEFITS

The Group applies the revised IAS 19 standard as of 1 January 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.

Defined benefit liabilities in the statement of financial position are determined as follows:

EUR thousand	2014	2013
Present value of funded obligations	6,909	5,049
Fair value of plan assets	-3,784	-3,302
Deficit on funded plans	3,126	1,746
Present value of unfunded obligations	1,916	1,712
Deficit of defined benefits plans	5,042	3,458
Liability in the statement of financial position	5,042	3,458

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, 2013	3,379	-1,230	2,149
Expenses based on period performance	513		513
Interest expense or income	169	-87	82
	682	-87	595
Items due to re-measurement			
- 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**
Jan 1, 2014	6,761	-3,302	3,458
Expenses based on period performance	807		807
Interest expense or income	197	-101	96
	1,004	-101	903
Items due to re-measurement			
- Return on plan assets excluding the items included in the interest expense or income		-116	-116
- Actuarial gains (-) or losses (+) due to changes in financial assumptions	25	94	119
- Experience-based gains (-) or losses (+)	1,069		1,069
	1,094	-21	1,072
Exchange rate differences	22		22
Payments made from the plans			
Benefits paid (-)	-54	-359	-413
Dec 31, 2014	**8,826**	**-3,784**	**5,042**

Material actuarial assumptions

%	Dec 31, 2014	Dec 31, 2013
Discount rate, %	2.0	3.0
Inflation, %	1.7	1.9
Expected return on assets, %	3.3	3.4
Assumed future pay raise, %	3.3	4.1
Assumed increase in pensions, %	2.1	2.4

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 -5.0%. If the discount rate changes by -0.5%, its impact on the defined benefit obligation is +5.2%.

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 19 years. The plan assets have been invested as follows: 53% (52%) in quoted instruments and 47% (48%) in unquoted instruments. The Group forecasts that it will pay EUR 0.7 million to defined benefit pension plans in 2015.

26. INTEREST-BEARING LIABILITIES

Interest-bearing liabilities:

EUR thousand	2014	2013
Bank loans	555	14,924
Total	**555**	**14,924**

Current financial liabilities measured at amortized acquisition cost:

EUR thousand	2014	2013
Repayment of bank loans in following year	147	2,861
Loan from Group	10,000	0
Other loans	1,260	927
Total	**11,407**	**3,788**

Interest-bearing current liabilities by currency:

EUR thousand	2014	2013
Euro-denominated	11,407	3,788
Total	**11,407**	**3,788**

27. TRADE AND OTHER PAYABLES

EUR thousand	2014	2013
Financial liabilities valued at amortized acquisition cost:		
Trade payables	33,726	31,266
Other current liabilities	6,510	4,590
Total	**40,236**	**35,856**
Advance payments received	2,323	2,405
Advance payments received from long-term projects	101	376
Salary and personnel expenses	17,916	14,345
Other accrued expenses	5,519	4,678
Total	**25,858**	**21,804**

28. PROVISIONS

EUR thousand	Warranty provision	Other provisions	Total
Jan 1, 2014	**6,879**	**4,486**	**11,364**
Translation differences	695	329	1,024
Increase in provisions	9,371	120	9,491
Used provisions	-7,574	-4,119	-11,693
Dec 31, 2014	**9,371**	**815**	**10,187**

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 were finalized in the fall of 2013 and the payment was made during 2014.

The court proceedings in the subsidiary in China were finalized in the fall of 2013, and the payment was made in 2014.

The provisions for the court proceedings are no longer recorded in the statement of financial position at the end of 2014 (EUR 3.4 million in 2013).

29. MANAGEMENT OF FINANCIAL RISKS

The objective of financial risk management in the Group is to minimize the harmful impact of changes on the Group's financial results and to ensure sufficient liquidity 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 of 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

Vacon has production and R&D operations in Europe, Asia, and North America, and sales offices in 31 countries. Vacon also has sales and maintenance representation in almost 90 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 greatest currency risks 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 18.7% (16.2%) of the Group's invoicing, and the Chinese renminbi, which directly accounts for approximately 14.5% (14.7%) of the Group's invoicing. Asian currencies account for a total of approximately 23.5% (22.4%) of the Group's invoicing and the European non-euro currencies for 8.8% (7.9%) of invoicing. Invoicing directly related to the euro thus accounted for 48.9% (53.5%) in 2014. Currency-linked purchases in the Group account for approximately 19.0% (16.4%) 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 CNY, INR, and BRL positions are hedged according to separate decisions made by the Group's finance function.

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

2014, EUR thousand	USD	GBP	SEK	NOK	AUD	RUB	CAD	CNY*	INR	BRL	PLN
Forecast items	-4,707	1,214	2,102	3,024	356	1,329	792	-1,735	3,372	-5	714
Assets	26,680	1,447	1,281	684	3,890	226	1,431	4,566	2,616	2,547	1,631
Liabilities	-2,231	-335	-2,062	-1,782	-6	0	0	-10,248	1,888	1,475	-5
Hedging	-19,150	-2,054	-426	-1,161	-3,510	-829	-1,768	-996	-261	-373	-1,701
Net position	**591**	**273**	**895**	**764**	**729**	**725**	**455**	**-8,413**	**7,616**	**3,645**	**639**

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**

* The CNY position consists of foreign currency-denominated transactions in Vacon's subsidiary in China, which the subsidiary hedges according to separate decisions made by the Group's finance function.

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, Brazilian real, and Polish zloty 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, EUR thousand	Strengthening of euro, 10%	Weakening of euro, 10%
Dec 31, 2014	**Profit for the period**	**Profit for the period**
USD	-482	589
GBP	86	-105
SEK	110	-134
NOK	205	-251
AUD	-34	41
RUB	55	-67
CAD	31	-37
CNY	607	-742
INR	-386	472
BRL	-332	530
PLN	7	-8
Dec 31, 2013	**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

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 associated with 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 position.

Translation position, EUR thousand	Dec 31, 2014	Dec 31, 2013
USD	5,766	5,076
CNY	10,696	9,654
CZK	4,023	4,068
Total	**20,484**	**18,798**

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 decisions are implemented by the Group's finance function.

The total amount of credit on the balance sheet date was EUR 12.0 million, 100% of which were variable interest rate loans (EUR 18.7 million on 31 December 2013 , 100% variable interest rate loans). The Group did not have open interest rate swaps (0) on the balance sheet date in 2014 or 2013. Liquid funds on 31 December 2014, totaled EUR 22.4 (35.9) million.

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

Interest rate sensitivity, EUR thousand	Dec 31, 2014	Dec 31, 2013
Interest rate rises, 1 percentage point		
Variable interest loans	-120	-187
Interest-bearing assets	224	359
Net impact on result	**104**	**172**
Interest rate decreases, 1 percentage point		
Variable interest loans	120	187
Interest-bearing assets	-224	-359
Net impact on result	**-104**	**-172**

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 78% (76%) 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 0.5 million (EUR 0.4 million in 2013). 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	2014	2013
Not yet due	60,478	52,927
1–90 days after due date	13,522	11,951
91–180 days after due date	1,719	981
181–270 days after due date	468	320
271–365 days after due date	135	183
Over 365 days after due date	-24	-16
Total	**76,297**	**66,346**

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 treasury 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.

In December, the Group repaid a loan of EUR 14,3 million, which was included in a syndicated loan arrangement of EUR 50 million that was terminated at the same time. The syndicated loan arrangement originally consisted of a EUR 20 million loan maturing in 2016 and a EUR 30 million committed credit facility. In addition, Danfoss A/S granted Vacon a short-term intra-group loan of EUR 10 million.

The amount of unused credit facilities on 31 December 2014 was EUR 23.8 (33.6) million, all of which were committed credit facilities. Surplus liquid funds are invested in partner banks. Liquid funds on 31 December 2014, totaled EUR 22.4 (35.9) million.

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 2014 amounted to EUR -10.4 million (EUR -17.2 million on December 31, 2013) and gearing was -8.3% (-14.7%).

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 Dec 31, 2014	Carrying amount	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans and intra-group loans	11,962	-12,002	-11,432	-94	-283
Trade payables and other current debts	40,236	-40,236	-40,236		
Total	**52,198**	**-52,238**	**-51,668**	**-94**	**-283**
Foreign exchange forwards and currency options					
- Payable cash flows	-321	-67,795	-67,795		
- Receivable cash flows	956	67,035	67,035		
Total	**635**	**-761**	**-761**		

EUR thousand Dec 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 currency options					
- Payable cash flows	-113	-45,344	-45,344		
- Receivable cash flows	198	45,449	45,449		
Total	**85**	**105**	**105**		

Gearing was as follows:

EUR thousand	2014	2013
Interest-bearing liabilities	11,962	18,711
Cash and cash equivalents	-22,356	-35,945
Net liabilities	**-10,394**	**-17,234**
Total equity	125,128	117,418
Gearing, %	-8.3	-14.7

30. OPERATING LEASES

EUR thousand	2014	2013
Minimum rents for irrevocable operating leases:		
In one year	9,113	9,079
In more than one and less than five years	21,726	24,795
In more than five years	6,947	6,536
Total	**37,786**	**40,410**

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

31. CONTINGENT LIABILITIES AND ASSETS

EUR thousand	2014	2013
Collateral and contingencies given on one's own behalf		
Contract guarantees	716	868
Guarantees	11,046	10,552
Financial commitment in capital investment funds	0	28
Total	**11,761**	**11,448**
Collateral and contingencies given on behalf of others		
Contract guarantees	1,087	1,361
Guarantees	2,300	2,214
Total	**3,387**	**3,576**

An agreement has been reached on EUR 25.1 million (24.4 million in 2013) credit facilities for which the Group companies have jointly provided a contingency.

32. RELATED PARTY TRANSACTIONS

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

Vacon Group has been part of Danfoss Group since December 1, 2014. On the balance sheet date, Ab Danfoss Oy (Espoo, Finland) owns 98.3% of Vacon, and Danfoss A/S (Nordborg, Denmark) is the parent company of Danfoss Group. Danfoss A/S granted an intra-group loan to Vacon Plc in December 2014. The loan and the related interest are the only transaction between Vacon and Danfoss. The loan is presented in Note 26. Interest-bearing liabilities.

Danfoss Group's related parties include Bitten & Mads Clausen Foundation, Clausen Controls A/S, Henrik Mads Clausen, Karin Clausen, subsidiaries, associated companies, joint ventures, the members of the Board of Directors, Management Team, and senior management. The related parties also include companies in which the above-mentioned persons have 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	100	100
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	97	97
Vacon Pte Ltd, Singapore	100	100
Vacon sp. z o.o., Warsaw, Poland	100	100
Vacon Motor Kontrol Sis. Ltd. Sti., Istanbul, Turkey	100	100

Management cash-based employment benefits:

EUR thousand	2014	2013
Salaries and other short-term benefits	1,618	1,528
Benefits to be paid on dismissal	1,559	1,450
Post-employment benefits	0	460
Share-based benefits	1,014	1,053
Total	**4,191**	**4,491**

Management salaries and fees:

EUR thousand	2014	2013
Laisi Vesa, President and CEO	822	864
Hiltunen Heikki, Deputy to the CEO	544	616
Board members:		
Routila Panu, Chairman of the Board of Director	88	43
Ahlqvist Pekka	44	26
Eklund Jari, Vice Chairman	46	30
Inborr Jan	46	42
Koskinen Jari	31	0
Kytölä Juha	46	30
Vehviläinen Mika	13	29
Viitala Riitta	46	29
Total	**1,725**	**1,709**

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. This also applies to one member of the Board of Directors due to their background in the company's management. The pension pledge to this member of the Board of Directors concerns the age 58–65.
The President and CEO's pension insurance also includes permanent disability insurance.

PARENT COMPANY'S FINANCIAL STATEMENTS

EUR thousand	Note	Jan 1–Dec 31, 2014	%	Jan 1–Dec 31, 2013	%
Revenues	2	261,829	100.0	260,481	100.0
Change in inventories of finished goods and work in progress		850		119	
Other operating income	3	123		77	
Materials and services					
Materials and consumables					
Purchases during the financial year		-129,369		-135,693	
Change in inventories		-572		724	
External services		-5,629		-5,556	
		-135,570	**-51.8**	**-140,525**	**-53.9**
Personnel expenses	4	-48,664		-43,934	
Depreciation/amortization	7	-4,529		-4,460	
Other operating expenses		-55,507		-51,594	
Operating profit		**18,533**	**7.1**	**20,163**	**7.7**
Financial income and expenses	9	12,550		8,859	
Profit before appropriations and taxes		**31,083**	**11.9**	**29,022**	**11.1**
Appropriations	10	-511		80	
Income taxes	11	-3,429		-5,424	
Profit for the period		**27,143**	**10.4**	**23,677**	**9.1**

BALANCE SHEET FOR THE PARENT COMPANY (FAS)

Assets, EUR thousand	Note	Dec 31, 2014	%	Dec 31, 2013	%
Non-current assets					
Intangible assets	12				
Intangible rights		2,025		2,428	
Other long-term expenditure		2,645		2,208	
Construction in progress		6,084		0	
		10,754	6.5	4,636	2.9
Tangible assets	13				
Land and water areas		132		132	
Machinery and equipment		9,133		9,268	
Other tangible assets		42		42	
Construction in progress		1,592		4,081	
		10,899	6.6	13,522	8.6
Investments	14				
Investments in Group companies		23,868		22,027	
Receivables from Group companies		32,032		28,397	
Other shares and investments		311		2,905	
Other receivables		1,167		1,112	
		57,378	34.7	54,441	34.5
Total non-current assets		**79,030**	**47.9**	**72,599**	**46.0**
Current assets					
Inventories					
Materials and consumables		6,073		6,645	
Finished goods		3,639		2,882	
		9,712	5.9	9,527	6.0
Current receivables	16				
Trade receivables		67,253		56,633	
Loan receivables		1,634		3,268	
Other receivables		3,664		2,953	
Prepaid expenses and accrued income	17	3,029		2,472	
		75,579	45.8	65,325	41.4
Cash and cash equivalents		833		10,232	
Total current assets		**86,125**	**52.1**	**85,085**	**54.0**
Total assets		**165,156**	**100.0**	**157,684**	**100.0**

Equity and liabilities, EUR thousand	Note	Dec 31, 2014	%	Dec 31, 2013	%
Total equity	18,19				
Share capital		3,059		3,059	
Share premium		4,966		4,966	
Retained earnings		56,758		52,928	
Profit for the period		27,143		23,677	
Total equity		**91,927**	**55.7**	**84,631**	**53.7**
Accumulated appropriations					
Depreciation difference	20	3,478	2.1	2,967	1.9
Liabilities	21				
Non-current liabilities					
Loans from financial institutions		0	0.0	14,280	9.1
Current liabilities					
Loans from financial institutions		1,248		3,730	
Advance payments received		381		155	
Trade payables		23,873		23,467	
Other current liabilities		26,125		13,557	
Provisions		5,287		4,165	
Accrued expenses and deferred income	22	12,837		10,732	
		69,752	42.2	55,806	35.4
Total liabilities		**69,752**	**42.2**	**70,086**	**44.4**
Total equity and liabilities		**165,156**	**100.0**	**157,684**	**100.0**

EUR thousand	Jan 1–Dec 31, 2014	Jan 1–Dec 31, 2013
Cash flow from operating activities		
Profit for the period	27,143	23,677
Adjustments:		
Depreciation/amortization	4,529	4,460
Financial income and expenses	-12,550	-8,859
Appropriations	511	-80
Taxes	3,429	5,424
Other adjustments	-1,443	831
	21,619	25,453
Changes in working capital:		
Change in current receivables	-9,548	-4,313
Change in inventories	-185	-935
Change in non-interest-bearing liabilities	4,009	3,171
	-5,724	-2,076
Interest received	444	423
Interest paid	-408	-318
Dividends received	11,541	9,671
Other financial items	-1,222	497
Taxes paid	-4,322	-5,643
Cash flow from operating activities	**21,927**	**28,006**
Cash flow from investing activities		
Investments in tangible assets	-2,995	-3,124
Investments in intangible assets	-5,029	-5,069
Loans granted	-3,776	-1,643
Other investments	-1,000	-80
Repayments on loan receivables	2,769	1,211
Purchased shares in subsidiaries	-1,842	-1,484
Proceeds from the divestiture of other investments	2,494	0
Cash flow from investing activities	**-9,378**	**-10,189**
Cash flow from financing activities		
Repayments on long-term loans	-12,033	-4,286
Proceeds from short-term borrowings	19,303	8,556
Repayments on short-term loans	-9,370	-736
Dividends paid	-19,847	-16,768
Cash flow from financing activities	**-21,948**	**-13,234**
Change in cash and cash equivalents	**-9,399**	**4,584**
Cash and cash equivalents at beginning of period	10,232	5,649
Cash and cash equivalents at end of period	**833**	**10,232**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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 2014 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 ass ociated 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	2014	2013
Revenues by market area		
EMEA	175,089	183,362
Americas	57,196	51,146
APAC	29,544	25,972
Total	**261,829**	**260,481**

3. OTHER OPERATING INCOME

EUR thousand	2014	2013
Rental income	50	28
Subsidies	26	39
Other	47	10
Total	**123**	**77**

4. PERSONNEL EXPENSES

EUR thousand	2014	2013
Wages, salaries, and bonuses	39,467	35,714
Pension costs	6,973	6,167
Other personnel costs	2,224	2,053
Total	**48,664**	**43,934**
Management salaries and fees		
President and CEO and his deputy	1,365	1,481
Members of the Board of Directors	360	229
Total	**1,725**	**1,709**

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

5. AVERAGE NUMBER OF PERSONNEL

	2014	2013
Office personnel	440	399
Factory personnel	336	338
Total	**776**	**737**

6. MANAGEMENT PENSION COSTS AND COMMITMENTS

EUR thousand	2014	2013
Management's statutory employment pension (TyEL) payments		
President and CEO	90	84
Deputy to the CEO	59	62
Total	**148**	**146**
Management's group pension insurance payments paid		
President and CEO	144	101
Deputy to the CEO	54	47
Total	**198**	**148**

Group pension insurance costs are recognized as expenses in accordance with the pension insurance company's annual calculation. In the 2014 financial statements, the amount of the pension obligation for the President and CEO is EUR 174 thousand and for his Deputy CEO EUR 107 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	2014	2013
Intangible assets	1,580	1,464
Tangible assets	2,949	2,996
Total planned depreciation	**4,529**	**4,460**

8. AUDITOR'S FEES

EUR thousand	2014	2013
Audit fees	51	41
Tax consulting	214	111
Other services	236	152
Total	**501**	**304**

9. FINANCIAL INCOME AND EXPENSES

EUR thousand	2014	2013
Income from non-current asset investments	226	0
Dividend income from Group companies	11,541	9,671
Interest income from Group companies	417	398
Other interest income and financial income from others	3,336	2,370
Total	**15,519**	**12,438**
Impairment on investments	-277	0
Interest expense to Group companies	-100	0
Interest and financial expenses to others	-2,591	-3,579
Total	**-2,968**	**-3,579**
Financial income and expenses, total	**12,550**	**8,859**
The item 'Other interest and financial income from others' includes unrealized exchange rate gains	2,819	1,332

10. APPROPRIATIONS

EUR thousand	2014	2013
The difference between planned depreciation and depreciation presented for taxation	-511	80

11. INCOME TAXES

EUR thousand	2014	2013
Direct taxes for current year	-4,143	-5,207
Direct taxes for previous years	731	-22
Other taxes and similar payments	-16	-195
Total	**-3,429**	**-5,424**

12. INTANGIBLE ASSETS

EUR thousand	Intangible rights	Other long-term expenditure	Construction in progress	Total 2014	Total 2013
Acquisition cost, Jan 1	16,304	3,560	0	19,864	17,198
Increases	371	1,243	4,658	6,272	2,666
Decreases			-1,243	-1,243	0
Transfers between items			2,669	2,669	0
Acquisition cost, Dec 31	16,675	4,803	6,084	27,562	19,864
Accumulated depreciation, Jan 1	-13,876	-1,352	0	-15,228	-13,764
Depreciation for the financial year	-774	-807		-1,580	-1,464
Accumulated depreciation, Dec 31.	-14,650	-2,159	0	-16,809	-15,228
Carrying amount, Dec 31, 2014	**2,025**	**2,645**	**6,084**	**10,754**	
Carrying amount, Dec 31, 2013	**2,428**	**2,208**			**4,636**

13. TANGIBLE ASSETS

EUR thousand	Land and water areas	Machinery and equipment	Construction in progress	Other tangible assets	Total 2014	Total 2013
Acquisition cost, Jan 1	132	40,713	4,081	42	44,967	39,440
Increases	0	2,814	2,768	0	5,582	6,300
Decreases			-2,587		-2,587	-774
Transfers between items			-2,669		-2,669	0
Acquisition cost, Dec 31	132	43,526	1,592	42	45,292	44,967
Accumulated depreciation, Jan 1	0	-31,445	0	0	-31,445	-28,449
Depreciation for the financial year		-2,949			-2,949	-2,996
Accumulated depreciation, Dec 31	0	-34,394	0	0	-34,394	-31,445
Carrying amount, Dec 31, 2014	**132**	**9,133**	**1,592**	**42**	**10,899**	
Carrying amount, Dec 31, 2013	**132**	**9,268**	**4,081**	**42**		**13,522**
Carrying amount of production machinery and equipment December 31, 2014		**8,348**				
Carrying amount of production machinery and equipment December 31, 2013		**8,384**				

14. INVESTMENTS

EUR thousand	Investments in Group companies	Other shares and investments	Total 2014	Total 2013
Shares, Jan 1	22,027	2,905	24,932	23,436
Increases	1,842	6	1,848	1,496
Decreases	0	-2,600	-2,600	0
Carrying amount, Dec 31	**23,868**	**311**	**24,179**	**24,932**

EUR thousand	Receivables from Group companies	Other receivables	Total 2014	Total 2013
Receivables, Jan 1	28,397	1,112	29,509	30,571
Increases	3,747	1,049	4,796	158
Decreases and transfers between items	-113	-994	-1,107	-1,219
Carrying amount, Dec 31	**32,032**	**1,167**	**33,199**	**29,509**
Total investments, Dec 31			**57,378**	**54,441**

15. SHAREHOLDINGS

Shares in subsidiaries:	Parent company votes %	Parent company holding %
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	100	100
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	97	97
Vacon Pte Ltd., Singapore	100	100
Vacon sp. z o.o., Warsaw, Poland	100	100
Vacon Motor Kontrol Sis. Ltd. Sti., Istanbul, Turkey	100	100

16. CURRENT RECEIVABLES

EUR thousand	2014	2013
Receivables from Group companies		
Trade receivables	44,497	37,925
Loan receivables	1,634	3,268
Interest receivables	58	47
Prepaid expenses and accrued income	22	0
Total	**46,211**	**41,240**
Receivables from others		
Trade receivables	22,755	18,708
Other receivables	3,664	2,953
Prepaid expenses and accrued income	2,950	2,425
Total	**29,369**	**24,085**
Current receivables, total	**75,579**	**65,325**

17. KEY ITEMS INCLUDED IN PREPAID EXPENSES AND ACCRUED INCOME

EUR thousand	2014	2013
Foreign currency hedging	932	198
Tax receivables	812	0
Subsidies	167	279
Share bonus receivables	0	597
Advances paid	891	1,164
Other	148	187
Total	**2,950**	**2,425**

18. TOTAL EQUITY

EUR thousand	2014	2013
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	76,605	69,696
Dividends paid	-19,847	-16,768
Retained earnings, Dec 31	**56,758**	**52,928**
Profit for the period	27,143	23,677
Total non-restricted equity	**83,901**	**76,605**
Total equity	**91,927**	**84,631**

19. CALCULATION OF DISTRIBUTABLE FUNDS

EUR thousand	2014	2013
Retained earnings	56,758	52,928
Profit for the period	27,143	23,677
Total	**83,901**	**76,605**

20. ACCUMULATED APPROPRIATIONS

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

21. LIABILITIES

EUR thousand	2014	2013
Non-current liabilities		
Interest-bearing loans from financial institutions	0	14,280
Total	**0**	**14,280**
Current liabilities		
Interest-bearing		
Loans from financial institutions	1,248	3,730
Loans to Group companies	25,191	12,776
Total	**26,439**	**16,506**

The unused facility of checking accounts in the parent company amounts to EUR 23.8 million and EUR 23.5 million in 2013.

EUR thousand	2014	2013
Current liabilities, total		
Non-interest-bearing		
Advance payments received	381	155
Trade payables to others	20,823	20,158
Trade payables to Group companies	3,050	3,309
Other current liabilities	935	781
Warranty provisions	4,921	3,366
Other provisions	365	800
Accrued expenses and deferred income	12,473	9,948
Accrued debts to Group companies	364	784
Total	**43,313**	**39,300**
Current liabilities, total	**69,752**	**55,806**
Interest-bearing liabilities	26,439	30,786
Non-interest-bearing liabilities	43,313	39,300
Total liabilities	**69,752**	**70,086**

22. KEY ITEMS INCLUDED IN ACCRUED EXPENSES AND DEFERRED INCOME

EUR thousand	2014	2013
Salaries including social security costs	11,198	8,934
Taxes	0	80
Interest	100	1
Materials and consumables allocated to period	1,276	1,609
Foreign currency hedging	264	108
Total	**12,837**	**10,732**

23. CURRENCY DERIVATIVES

EUR thousand	2014	2013
Forward contracts and option agreements		
Changes in value entered in income statement	668	85
Nominal amount	62,822	45,449

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 1 January 2015.

24. COLLATERAL AND CONTINGENT LIABILITIES

EUR thousand	2014	2013
Contract guarantees		
On behalf of Group companies	10,050	11,420
On behalf of others	276	188
Total	**10,326**	**11,608**
Other commitments		
Commitment on a subsidiary's debts	1,893	1,701
Financial commitments	0	28
Total	**1,893**	**1,729**

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.

EUR thousand	2014	2013
Amounts payable under leasing agreements		
Payable in the following financial year	900	922
Payable later	887	811
Total	**1,788**	**1,733**

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

EUR thousand	2014	2013
Payable amounts on rental agreements		
Payable in the following financial year	3,135	3,367
Payable later	11,035	10,339
Total	**14,170**	**13,706**

SIGNATURE FOR THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Vaasa, 11 February 2015

Niels Bjørn Christiansen
Chairman

Jesper V. Christensen

Kim Christensen

Kim Fausing

Anders Stahlschmidt

Vesa Laisi
President and CEO

AUDITOR'S REPORT

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, 2014. 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 the Managing Director
The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility
OOur 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.

Helsinki 12 February 2015

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 2014, Vacon Plc's market value was EUR 1,038.2 (EUR 891.7) million excluding own shares owned by the company.

During 2014, a total of 38,339,383 company shares with a value of EUR 1,300.9 million were traded on the stock exchange. The highest share price during the year was EUR 37.50 and the lowest EUR 25.00. The closing price on 31 December 2014 was EUR 34.00.

Vacon's share capital is EUR 3,059,000. The number of Vacon's shares is 30,590,000. 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 27 March 2014, authorized the Board of Directors to decide on the repurchase of maximum 1,400,000 own shares, which corresponds to appr. 9.2 percent of all of the shares in the Company. After the share issue without payment (split), the maximum number of own shares which can be repurchased on the basis of this authorization shall be increased and the authorization shall apply to a maximum of 2,800,000 own shares. The authorization is effective until 30 June 2015. The authorization cancels the authorization given by the AGM on 26 March 2013 to decide on the repurchase of the Company's own shares.

The Board of Directors was authorized to decide on the issuance of shares so that the number of shares to be issued shall not exceed 1,529,500 shares, which corresponds to 10 percent of all the shares in the Company. After the share issue without payment (split), the maximum number of shares which can be issued shall increase and the authorization shall apply to a maximum of 3,059,000 shares. The authorization is effective until 27 March 2019, and cancels the authorization given by the AGM on 26 March 2013, to decide on the issuance of shares.

SHARE SPLIT, I.E. INCREASING THE NUMBER OF SHARES THROUGH A SHARE ISSUE WITHOUT PAYMENT

The Annual General Meeting on 27 March 2014 approved the Board of Directors' proposal to increase the number of shares in the Company by issuing new shares to the shareholders without payment in proportion to their holdings so that one (1) share will be given for each existing share. Based on the number of the shares on the date of this notice, a total of 15,295,000 new shares will be issued, so that after the share issue, there will be a total of 30,590,000 shares.

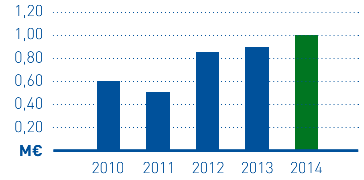
The share issue was implemented in the book-entry system and did not require measures by the shareholders. The shareholders, who were registered in the Company's shareholder register on the record date for the share issue, 1 April 2014, were entitled to shares. The new shares were registered on 1 April 2014, and generated shareholder rights as of said registration. The new shares were admitted to public trading and entered into the book-entry system on 2 April 2014. Said new shares were not entitled their holders to the dividend to be decided in the Annual General Meeting for the fiscal year 2013.

SHAREHOLDERS

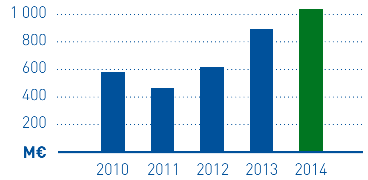
On 31 December 2014, Vacon had a total of 554 registered shareholders. At the end of 2014, shares that were nominee registered and in foreign ownership amounted to 0.8% (48.0%) of the share stock.

In September 2014 Danfoss announced that it was making a voluntary public offer tender to purchase all Vacon shares. By the end of November Danfoss had obtained all necessary approvals from the authorities and had acquired more than 90% of the shares and voting rights in Vacon. Danfoss has initiated the procedure for the compulsory redemption of the remaining shares and intends to apply for the delisting of Vacon's shares from NASDAQ OMX Helsinki.

EARNINGS PER SHARE



MARKET CAPITALIZATION



SPECIAL REPRESENTATIVE APPOINTED FOR ARBITRATION PROCEEDINGS CONCERNING REDEMPTION OF VACON'S MINORITY SHARES

On 30 December 2014 Danfoss informed Vacon that a special representative had been appointed for arbitration proceedings concerning redemption of Vacon's minority shares. Based on an application filed by Danfoss for the redemption of minority shares, the Redemption Committee of the Finland Chamber of Commerce has petitioned the Pohjanmaa District Court for the appointment of a special representative to look after the rights of Vacon's minority shareholders in the arbitration proceedings pertaining to the squeeze-out procedure. In its decision the Pohjanmaa District Court has appointed Attorney Vesa Niinikangas to act as the special representative pursuant to Chapter 18 Section 5 of the Finnish Limited Companies Act.

TREASURY SHARES

A total of 666 own shares were returned to the company in October-December 2014 in accordance with the rules of the share bonus scheme. On 31 December 2014 Vacon Plc held a total of 56,164 of its own shares, which it had acquired at an average price of EUR 19.02 a share. This is 0.2% of the share capital and voting rights, so it has no significant impact on the distribution of ownership or voting rights in the company.

NOTIFICATION OF CHANGES IN HOLDINGS

On 2 December 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that Columbia Wanger Asset Management, LLC and Threadneedle Asset Management Ltd each manage client accounts that hold, or held prior to 1 December 2014, Vacon shares. On 1 December 2014, the combined direct and indirect shareholding of Ameriprise Financial, Inc. and entities controlled by it has fallen below the threshold of 5 per cent of Vacon's shares and voting rights.

On 27 November 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that upon settlement of the completion trades of the Tender Offer the holding of Montanaro Asset Management Limited will fall below the threshold of 5 per cent of Vacon's shares and voting rights.

On 27 November 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that upon settlement of the completion trades of the Tender Offer, the indirect shareholdings of Danfoss A/S and Danfoss International A/S and the direct shareholding of Oy Danfoss Ab exceed 90 per cent of all the shares and voting rights in Vacon, being 29,957,357 shares and voting rights in Vacon, which corresponds to 97.93 per cent of all the shares and voting rights in Vacon. This holding includes the shares that the Offeror has purchased from AC Invest Three B.V., as well as a total of 26,227,031 shares purchased through carrying out the Tender Offer, which represents 85.74 per cent of the shares and voting rights in Vacon, and a total of 500,638 shares purchased outside of the Tender Offer after the expiry of the offer period under the Tender Offer, representing 1.64 per cent of the shares and voting rights in Vacon. The price for the shares purchased outside of the Tender Offer has not exceeded the offer price under the Tender Offer.

On 25 November 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that, as announced in the flagging notification given by Ilmarinen Mutual Pension Insurance Company on 16 September 2014, Ilmarinen Mutual Pension Insurance Company had given an undertaking to accept the Tender Offer. As a result, the shareholding of Ilmarinen Mutual Pension Insurance Company will upon settlement of the completion trades of the Tender Offer fall below the threshold of 5 per cent of Vacon's shares.

On 24 November 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that, based on the current shareholding of Danfoss A/S and Oy Danfoss Ab and the number of acceptances by shareholders of the tender offer received by 21 November 2014, the indirect holding of Danfoss A/S and the direct holding of Oy Danfoss Ab would exceed 90 per cent of all the shares and voting rights in Vacon provided that the tender offer is completed. The acceptances of the offer are valid until the expiry of the acceptance period under the tender offer, unless withdrawn, and the holdings they refer to will be transferred to Danfoss upon completion of the tender offer. The total indirect ownership of Danfoss A/S and direct ownership of Oy Danfoss Ab may on the basis of the above amount to a maximum of 29,456,625 shares, which corresponds to 96.29 per cent of all the shares and voting rights in Vacon.

On 31 October 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that the indirect holding of Danfoss A/S and the direct holding of Oy Danfoss Ab have exceeded 10 per cent of all the shares and voting rights in Vacon, standing at 3,229,688 shares, which corresponds to 10.56 per cent of all the shares and voting rights in Vacon.

On 29 October 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that, based on the current shareholdings of Danfoss A/S and Oy Danfoss Ab and on shareholder acceptances of the tender offer received by 28 October 2014 (including the shares represented by the above undertakings to accept the tender offer), the indirect holding of Danfoss A/S and the direct holding of Oy Danfoss Ab would exceed two-thirds (2/3) of all the shares and voting rights in Vacon, provided the tender offer is completed. The acceptances of the offer are valid until the expiry of the acceptance period under the tender offer, unless withdrawn, and the holdings they refer to will be transferred to Danfoss upon completion of the tender offer. The combined indirect holding of Danfoss A/S and direct ownership of Oy Danfoss Ab may on the basis of the above amount to a maximum of

22,253,997 shares, which corresponds to 72.75 per cent of all the shares and voting rights in Vacon.

On 27 October 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that, based on the current shareholdings of Danfoss A/S and Oy Danfoss Ab and shareholder acceptances of the tender offer received by 24 October 2014 (including the shares represented by the above undertakings to accept the tender offer), the indirect holding of Danfoss A/S and the direct holding of Oy Danfoss Ab would exceed 50 per cent of all the shares and voting rights in Vacon, provided the tender offer is completed. The acceptances of the offer are valid until the expiry of the acceptance period under the tender offer, unless withdrawn, and the holdings they refer to will be transferred to Danfoss upon completion of the tender offer. The combined indirect holding of Danfoss A/S and direct holding of Oy Danfoss Ab may on the basis of the above amount to a maximum of 18,937,685 shares, which corresponds to 61.91 per cent of all the shares and voting rights in Vacon.

On 14 October 2014 Vacon received a flagging notification pursuant to Chapter 9, Section 10 of the Finnish Securities Markets Act stating that, based on the current shareholdings of Danfoss A/S and Oy Danfoss Ab and shareholder acceptances of the tender offer received by 13 October 2014 (including the shares represented by the above undertakings to accept the tender offer), the indirect holding of Danfoss A/S and the direct holding of Oy Danfoss Ab would exceed 30 per cent of all the shares and voting rights in Vacon, provided the tender offer is completed. The acceptances of the offer are valid until the expiry of the acceptance period under the tender offer, unless withdrawn, and the holdings they refer to will be transferred to Danfoss upon completion of the tender offer. The combined indirect holding of Danfoss A/S and direct holding of Oy Danfoss Ab may on the basis of the above amount to a maximum of 9,349,277 shares, which corresponds to 30.56 per cent of all the shares and voting rights in Vacon.

On 2 October 2014 Vacon received notification of major shareholdings pursuant to Chapter 9, Section 5 of the Finnish Securities Market Act. According to this notification, based on Danfoss A/S' and Oy Danfoss Ab's current holdings and shareholders' acceptances of the tender offer received by 30 September 2014 (including the shares represented by the above undertakings to accept the tender offer), Danfoss A/S' indirect and Oy Danfoss Ab's direct holding would exceed 25 per cent of all the shares and voting rights in Vacon should the tender offer be completed. The acceptances of the offer are valid until the expiry of the acceptance period under the tender offer, unless withdrawn, and the holdings thereunder will be transferred to Danfoss in connection with the completion of the tender offer. The total indirect holding of Danfoss A/S and direct holding of Oy Danfoss Ab may on the basis of the above amount to a maximum of 7,783,077 shares which corresponds to 25.44 per cent of all the shares and voting rights in Vacon.

On 12 September 2014 Vacon received notification of major shareholdings pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act. According to this notification, Ilmarinen Mutual Pension Insurance Company is party to an agreement which, if realized, would result in the disposal of shares and to the holding in Vacon of Ilmarinen Mutual Pension Insurance Company falling below 5 % of all the shares and voting rights in Vacon.

On 12 September 2014 Vacon received notification of major shareholdings pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act. According to this notification, AC Invest Three B.V. has under a share purchase agreement dated 11 September 2014 undertaken to sell a total of 3,229,688 shares in Vacon corresponding to approximately 10.56 per cent of all the shares in Vacon. The share purchase agreement includes two share tranches. The sale of the first share tranche took place on 12 September 2014 and comprised 3,053,400 shares. The sale of the second share tranche comprises 176,288 shares which corresponds to approximately 0.58 per cent of all the shares in Vacon and is conditional upon the receipt of approval from the Finnish Ministry of Employment and Economy as required under the Finnish Act on Monitoring Acquisitions (172/2012). Said sale will be settled within five (5) business days from the date of receipt of said approval. As the result of the above, the holding of AC Invest Three B.V. has fallen below the threshold of 5 per cent of Vacon's shares.

On 12 September 2014 Vacon received notification of major shareholdings pursuant to Chapter 9, Section 5 of the Finnish Securities Markets Act. According to this notification, Danfoss A/S' indirect and Oy Danfoss Ab's direct holding has exceeded 5 per cent of all the shares and voting rights in Vacon, the holding being 3,053,400 shares which corresponds to 9.98 per cent of all the shares and voting rights in Vacon. Pursuant to a contract dated 11 September 2014 Oy Danfoss Ab will, conditional upon the receipt of the approval of the Finnish Ministry of Employment and Economy required under the Finnish Act on Monitoring Acquisitions (172/2012), receive 176,288 shares in Vacon, which corresponds to 0.58 per cent of Vacon's all shares and voting rights. The undertakings are valid until the closing or withdrawal of the tender offer, and the holding thereunder will be transferred at completion of the tender offer. The direct holding of Oy Danfoss Ab and the indirect holding of Danfoss A/S may on the basis of the above together amount to a maximum of 7,609,820 shares, which corresponds to approximately 24.88 per cent of all the shares and voting rights in Vacon.

INCENTIVE SCHEMES

Pursuant to an authorization by the Board of Directors of Vacon Plc, the Human Resources Committee of the Board of Vacon Plc has approved Vacon Plc's new incentive plan. The target group of the new incentive plan consists of the participants in Vacon Group's Performance Share Plan 2014-2016 and it is alternative to the Performance Share Plan 2014-2016.

The rewards to be paid on the basis of the new incentive plan correspond to the value of a maximum total of 123,280 Vacon Plc shares. The value of the shares and the corresponding reward to be paid on 31 August 2015 shall be determined on the basis of the share price offered in the Tender Offer.

SHAREHOLDINGS OF THE BOARD OF THE DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

On 31 December 2014, Vacon Plc's Board members or President and CEO and other members of the Executive Management Team held directly no Vacon Plc shares.

CURRENT INFORMATION

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

SHARE INFORMATION

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

VACON PLC'S EXTRAORDINARY GENERAL MEETING

Vacon Plc's Extraordinary General Meeting (EGM) was held in Vaasa on 12 January 2015. The number of members of the Board of Directors was confirmed to be five (5). Niels Bjørn Christiansen, the President & Chief Executive Officer of the Danfoss Group; Kim Fausing, the Executive Vice President and Chief Operations Officer of the Danfoss Group; Jesper V. Christensen, the Executive Vice President and Chief Financial Officer of the Danfoss Group; Kim Christensen, the President of Global Services of the Danfoss Group and Anders Stahlschmidt, Senior Vice President and General Counsel of the Danfoss Group, were elected as members of the Board.

The EGM resolved that no remuneration be paid to the newly elected Board members for the remaining term. In accordance with the Board of Directors' proposal, the EGM revoked the resolution to establish a Shareholders' Nomination Board made by the Annual General Meeting on 27 March 2014.

The minutes of the EGM will be available on the Company's website on http://www.vacon.com/investors/Corporate-Governance/Annual-general-meetings/Vacon-EGM-2015/.

After the EGM, the Board of Directors at its organization meeting elected Niels Bjørn Christiansen as Chairman and Kim Fausing as Vice Chairman of the Board. At its organization meeting, the Board of Directors also resolved not to establish any Board committees and thus, the Board of Directors will handle the matters that were previously handled by the Board committees. The Board of Directors' resolution not to establish any Board committees relates to the fact that the compulsory redemption process in accordance with Chapter 18 of the Finnish Companies' Act for the remaining shares in Vacon Plc has been initiated by Oy Danfoss Ab, a holder of approximately 98 percent of all shares in the Company. In connection with said process, the delisting of the shares of Vacon Plc from the NASDAQ OMX Helsinki shall be applied for.

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 General Meeting of Shareholders to be held on 26 June 2015 that no dividend will be paid for the 2014 fiscal year.

FINANCIAL OVERVIEWS AND REPORTS IN 2015

- Financial Statements Bulletin .... 12 February 2015
- Annual Report 2014 .... week 12/2015
- Interim Report January–March .... 28 April 2015
- Interim Report January–June............................... 29 July 2015
- Interim Report January–September................ 21 October 2015

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. 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.

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:

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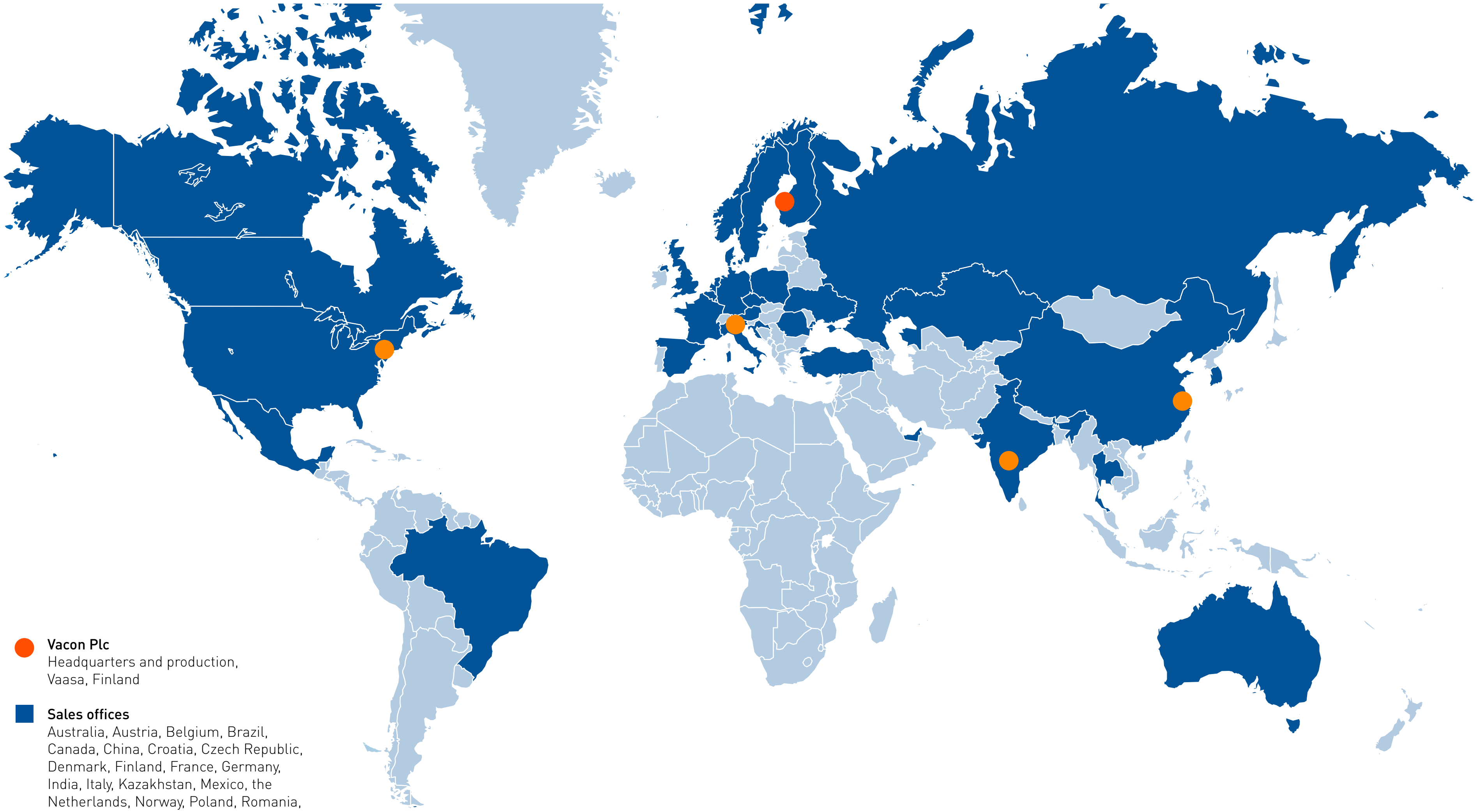

Vacon Plc
Headquarters and production,
Vaasa, Finland

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

Production facilities
China, Finland, India, Italy, USA