



ANNUAL REPORT 2003

**vagon**  
DRIVEN BY DRIVES



- 1 What is a frequency converter?
- 3 Driven by drives – this is Vacon
- 4 Looking back at 2003
- 6 President's review
- 8 Management review of result
- 10 Vision and strategic choices
- 12 Vacon continues to grow strongly
- 13 Business approach driven by profitability
- 14 Sales and marketing
- 16 Customer-driven r&d
- 18 Human resources
- 19 Values
- 20 Environment
- 22 Corporate governance
- 24 Board of directors
- 25 President and management team
- 26 Information for investors

## WHAT IS A FREQUENCY CONVERTER?

A frequency converter is a power control unit used to steplessly control the speed of a squirrel cage induction motor. A squirrel cage motor is a typical prime mover used in industry and in the public engineering sector. Frequency converters also enable electric motor drives to be connected to an automation system.

### **What benefits are given by frequency converters?**

Frequency converters are used to control the rotation speed of a motor to match the needs of the process.

This gives considerable savings in energy. It also reduces the load on the electricity network and the mechanical stress on machinery when starting a motor.

### **Where are frequency converters used?**

Pumps and fans are typical applications for frequency converters. Other places where frequency converters are used are hoists and cranes, elevators, paper machines, air conditioning equipment, winders, compressors and winches.



Applications engineer Mika Kuronen sending off a Vacon NX that Heidi Puurunen and Martti Alatalo (behind) have just demonstrated to a customer.



## DRIVEN BY DRIVES – THIS IS VACON

During its ten-year history, Vacon Plc has grown into a global, full-service supplier of frequency converters. Unlike almost all its competitors, Vacon focuses entirely on frequency converters. The frequency converter market in 2003 was worth EUR 5.8 billion. Vacon has 2% of the market.

Vacon's growth continued during the past year. In 2003 Vacon had total revenues of EUR 112.3 million and an operating profit of EUR 11.8 million. At the end of the financial year the company employed 436 people. Vacon operates on its own or through partners in 100 countries. Vacon's business areas are divided into component customers, solution customers, and OEM<sup>1)</sup> and brand label<sup>2)</sup> customers.

As an independent supplier, Vacon provides its products under its own brand label and also under the brands of its OEM and brand label customers. Vacon's products are often tailored for individual customers. The customer-driven approach is a real factor in its success.

Another success factor is its heavy investment in research and development. The product leadership achieved through this in manufacturing frequency converters for individual applications ensures that growth will continue in the future.

Vacon has a modern business model. Vacon's production and distribution processes are based upon networking and mass customization. Vacon itself only carries out the parts of the work that belong to its core competence. Thanks to its advanced production and logistics models and the software-based adaptability of the products, Vacon's operations are among the most cost-effective in its field.

The company's values are genuinely applied in all of Vacon's operations. Working methods are based on openness and trust, both within the company and with its customers.

Vacon's shares are quoted on the Helsinki Exchanges.

<sup>1)</sup> original equipment manufacturer <sup>2)</sup> customers who sell Vacon frequency converters under their own brand

### Vacon celebrated 10th anniversary in November

The history of Vacon Plc goes back to 1993, when 13 key personnel and Vaasa Engineering Oy established Vaasa Control Oy. In 2000 Vaasa Control became Vacon Plc, and later in the same year the company was listed on the Helsinki Exchanges. Vacon's first generation of frequency converters, the Vacon CX, was launched in 1995. The launch of the second generation, Vacon NX, got underway in October 2000.

## LOOKING BACK AT 2003

### Deliveries of NX products increased towards end of year

During 2003 Vacon's NX product family was taken into full-scale production. Towards the end of the year its share of production rose to 80 per cent. This year saw the completion of the changes to the production lines and the NX product selection expanded into new power ranges, and these factors contributed to this growth. During the year Vacon received major orders from the power, shipbuilding and marine industries.

### Vacon to establish new subsidiary in China

Vacon has decided, in partnership with Scanfil Plc, to start manufacturing low-power Vacon NX Light frequency converters in Suzhou, China, during the first half of 2004. Vacon also established its own subsidiary in China. The company has sales functions and a production and competence centre focusing on the Chinese market.

### Development of production operations model continued

The work continued on optimizing production and logistics for each product group. Material supplies and sub-contractor processes have been enhanced through continuous monitoring of the functions with our partners. During the year the company also made investments in information systems that in future will permit more effective control of operations on a considerably wider scale.

### Vacon signed partnership agreement with DHL Solutions

Vacon has outsourced some of its logistics operations to DHL Solutions to enhance its performance in this area. The arrangement covers the sending and receiving of goods and the packing of products and boosts Vacon's global logistics network. DHL Solutions opened its own facilities in Vaasa Airport Park, in the immediate vicinity of the Vacon factory.

### Other selected news items from 2003

- Vacon supplies frequency converters in China
- Vacon Plc and Foster Wheeler Energia Oy signed a cooperation agreement
- Vacon will supply 14 MW main propulsion AC drives to Imtech Marine & Offshore
- Vacon obtains major frequency converter orders from sawmills
- Vacon's liquid-cooled frequency converters for the main propulsion drives for M/S Seili, a fairway maintenance vessel
- The top power range for air-cooled Vacon NX frequency converters rises to 800 kW

**"DHL transports many of Vacon's frequency converters. This one will already be in use tomorrow," says Pasi Pihlajamäki.**

4

	2003	2002
revenues, MEUR	112.3	97.5
operating profit, MEUR	11.8	9.9
profit for period, MEUR	7.6	6.5
earnings per share, EUR	0.50	0.43
cash flow from operations, MEUR	12.3	10.5
equity per share, EUR	2.11	1.78
return on investment, %	31.7	30.4
equity ratio, %	55.8	51.7
net gearing, %	-19.1	-3.0
order book, MEUR	12.3	15.5
average number of personnel	437	426



STEX®

**DHL**

Name: [Name]  
 Last Name: [Name]  
 Department: [Name]  
 Region: [Name]

20242536 R



**FREQUENCY CONVERTER**  
**NXL00125C2H15S500**

Serial number: 10007258  
 B.I.D. 84052

Rated current: 12.0A (40°C ambient)  
 220-240 V 30 Cares  
 380-500 V 41

IP20  
 IP23/Nema 1  
 IP24/Nema 12  
 SMC/Level II  
 Reypad  
 Varnished boards  
 Brake Chopper  
 Din rail mounting

Software: @10123W  
 Cust. order no.:  
 MAs:

CHINA NORTH OPTO-ELECTRO INDUSTRIES CO.  
 LTD., China

**CE**  
**vacon**



QUART



This past year was the tenth in the history of Vacon. During these years our business operations have grown so that today Vacon is recognized as a major frequency converter manufacturer with one of the widest product series.

Vacon's goal is to help users of frequency converters to improve their processes, boost productivity and raise their quality by offering unbeatable frequency converter solutions. We are expanding our business, changing from a supplier of frequency converters into a full-scope drive house that offers a wide selection of products and services and solid expertise to meet customer needs.

For Vacon, 2003 was a successful year of profitable growth within a changing business environment. Changes in the business cycle, ever tougher competition and developments in product technology are continuously breaking up the business models we are used to. Our own business performed better than the sector in general.

#### **Competitiveness rises to new level**

Our areas of core expertise are product knowhow in frequency converters and the management of key customers and logistics. This combination makes Vacon unique, and gives us a competitive edge. Global networking with partners improves flexibility and cost-efficiency and equips us to serve customers even better.

The skills and well-being of personnel play a key role as we respond to market challenges and develop Vacon into one of the leading players in its field.

#### **Working systematically towards our goals**

In the midst of the daily pressures in the market, we have worked systematically to achieve the company's long-term plans and goals. We revised our business strategy during 2003, especially our business model. Our business now consists of three customer business areas: Component Customers, Solution Customers, and OEM and Brand Label Customers. A separate business process, area of special expertise and competitive strategy are being defined for each business area.

#### **Opportunities for profitable growth**

During 2004, our goal is to continue to grow profitably. We move into this new year with confidence, even though the direction in which the global economy is moving is uncertain. We have many opportunities for growth in North America, Europe and Asia. We have invested in developing our sales network.

We established our own company in China, which will enable us to reinforce our position in the fastest growing market in the world. We obtained major new customers during the past year. We believe that we have made the right choices and will continue to strengthen our market position.

### **PRESIDENT'S REVIEW**

#### **Thank you**

I would like to thank our partners, shareholders and Vacon employees, and the organizations with which we work, for our excellent work together. I especially thank our personnel for the support I have received. All of us at Vacon want to be winners. We are committed to working hard, using methods that are fair and respectable, to win new customers for our excellent products and provide even better service for our existing customers.

Vesa Laisi  
President and CEO

**President and CEO Vesa Laisi knows that to get results it is also important at times to take things easy.**

## 2003 – a year of growth

Vacon performed very successfully in difficult market conditions and increased its revenues by 15 per cent from the previous year. Since the market grew in the corresponding period by 3 per cent, Vacon boosted its market share. The uncertainty in the market continued throughout the year and in many cases customers took longer over their investment decisions than in the past. The low volume of new project deliveries was a clear sign of this.

Growth was particularly strong in Europe, where sales increased 19 per cent, thanks to Vacon's sales network. Growth was more moderate in North America and Asia, where the decline of the dollar reduced growth figures. Growth in China was also restricted to a certain degree by the SARS epidemic.

## MANAGEMENT REVIEW OF RESULT

The profit before extraordinary items and taxes was EUR 11.7 million, an increase of 19 per cent on 2002. The measures started in 2002 to improve profitability contributed to this positive development achieved in difficult market conditions. The earnings per share rose 16 per cent to 0.50 euros.

Efficient use of working capital continued in 2003. The cash flow from operations increased to EUR 12.3 million, compared to EUR 10.5 million a year before. Thanks to its strong cash flow, Vacon was able to finance its rapid growth itself.

### The following were major steps in developing the business in 2003:

- ⦿ Expanding the NX product series into new market areas and launching new low-power and high-power product series. The new liquid-cooled high-power product range aroused considerable interest among customers.
- ⦿ Partial outsourcing of logistics operations to DHL Solutions. The purpose of this partnership is to improve logistics and reinforce Vacon's competitive edge in logistics.
- ⦿ Establishing a new subsidiary in China which will place Vacon in a better position to strengthen its market position in the fastest growing frequency converter market in the world.



- ⦿ During 2003 Vacon signed the following major agreements:

- partnership agreement with Foster Wheeler Energia Oy, which resulted in a major order from Ireland.
- major order from China through the German motor manufacturer Schorch
- order from the Dutch system supplier Imtech Marine & Offshore

Strengthening and expanding its distribution channels have been and will continue to be important areas for development for Vacon. The company's



success is closely tied to the success of its sales channels, so investments in product support, information technology and marketing will continue. These investments will speed up improvements in the effectiveness and capabilities of sales channels. Vacon's goal is to operate as a single, integrated international company without any internal barriers. The company's processes, business principles and tools will then be more uniform than in the past.

One pillar on which Vacon's future success rests is a cost-effective network of partners. The company

**"Looks just like its dad," declare Jukka Virtanen and Hannu Koivula in the background, as Seppo Sauhke shows the 'son' to Sirpa Tynjälä.**

has built up the current network with a long-term approach over a period of several years. If the company is to remain competitive in different market areas, the intensifying competition in the international market requires ongoing development of the partner network.



选件:

无线电噪声, du/dt 抑制  
正弦滤波器

Vacon 250 RF15 A 0 AA

Vagasa  
控制公司

滤波器  
的类型

防护等级

### **Vacon's Mission**

We help the users of industrial AC drives to improve their processes, output and quality by providing superior AC drives solutions for their needs.

### **Vacon's Vision**

We strengthen our position as technology leader in manufacturing customer and application specific low voltage AC drives.

### **Vacon's goal is profitable growth**

Two major factors exist for growth. Firstly, usage of frequency converters is still low. It is estimated that only five per cent of industrial squirrel cage motors are fitted with frequency converters. This ensures excellent growth prospects for the entire sector. Secondly, thanks to Vacon's excellent product technology, the company is able to grow faster than the market. Even though Vacon is already a major player in its field, its market share is still relatively small. An estimated market of EUR 5.8 billion gives room for growth in the future.

### **Vacon aims to reach the following goals by 2006:**

- average annual growth of 20 per cent in revenues
- operating profit (EBIT) of 14 per cent by 2006
- the dividend policy of the Board of Directors has been to propose to the AGM a dividend that is in line with the company's financial performance. The goal is to pay a dividend equivalent to at least a third of the net profit.

## **STRATEGIC CHOICES**

### **Focusing on frequency converters**

Vacon has focused on designing, manufacturing and marketing frequency converters. A strictly limited business area makes it possible to target all resources and make optimal use of them in the chosen

business. One of Vacon's greatest strengths is its innovative product development; the Vacon NX product family is one of the most advanced on the market.

### **Multi-channel sales**

Vacon supplies frequency converters under its own label and those of its customers. Standardized interfaces enable Vacon frequency converters to be used in all operating environments. The cooperation between Vacon and the leading frequency converters

## **VISION AND STRATEGIC CHOICES**

in the world is a good example of the standard of the company's technology. Vacon's independent position as a supplier that concentrates on frequency converters creates potential for growing both with its own brand and in the brand label market.

### **Efficient, flexible operating methods**

During its history Vacon has always applied the latest business models. It is not burdened by old technology and operating methods. Because of the cyclical nature of the market for investor goods, Vacon has paid particular attention to flexibility in its manufacturing and supply chain and to cost-efficiency. Partners handle a major part of the manufacturing of products and of the logistics. Vacon itself only carries out only the critical stages of the work that require core expertise. So choosing the right partners and developing together is of primary importance.

**Erkki Talvitie unravels the secrets of marketing to Hannu Manninen, Leena Pommelin-Andrejeff, Josephine Lee Yoke-Chin and Heidi Hannus.**

Throughout its ten-year history Vacon has increased its revenues considerably year by year. On average revenues have risen by 63.6 per cent a year. Vacon's still relatively small market share and the increasing adoption of frequency converters give potential for continuing growth. Vacon has grown organically.

#### **Environmental values support the use of frequency converters**

The average annual rate of growth in the frequency converter market is estimated to be over 5 per cent during the next five years. Frequency converters become more attractive as an investment as environmental values grow in importance. Rising energy costs also make investments in frequency converters

The company's growth and the fact that industrial investments are increasingly taking place in Asia have laid the grounds for Vacon's decision to establish an assembly plant and competence centre in China. The plant will start to assemble frequency converters during 2004. The unit in China will be responsible mainly for sales in the nearby markets. Setting up the unit in China is the first investment in production outside the Vaasa factory. Vacon is also starting production of low-power frequency converters in China in partnership with Scanfil Plc.

#### **Controlled growth with carefully selected partners**

Managing growth is a critical issue for the company. In line with Vacon's goals, profitability must also continuously improve. At Vacon this means in partic-

## **VACON CONTINUES TO GROW STRONGLY**

more appealing. Various governments and the EU, for example, encourage more efficient energy usage in production processes by granting support for investments and tax relief. Developments in different markets vary considerably. Investments in developed countries are mainly in modernization and replacements, whereas in Asia orders for frequency converters are mainly for new investments.

#### **New assembly plant and skills centre in China**

Vacon's roots are in Vaasa, where the company has its production plant and R&D unit. An effective, cost-efficient network of sub-contractors has grown up in the area around Vaasa for the products and services needed by Vacon.

ular continuing to build up the subcontracting network and managing logistics. Each production unit can only operate flexibly, at high quality and cost-effectively if it has high quality partners.

Another area that needs continuous development and enables Vacon to grow is the expanding distribution network. To safeguard its global operations, Vacon signed an agreement with the global logistics operator DHL. As it has grown, Vacon has also invested in uniform operating methods and processes that are shared by its different locations. In practice this has meant major information systems in the areas of operations control, customer management and internal communications.

### **Business approach driven by profitability**

Vacon aims to continuously improve its profitability. As product prices have fallen slightly year by year, boosting profitability demands ever more efficient business methods. Vacon is a pioneer in using a flexible subcontracting network. Developing internal teamwork and multiple skills have also given major savings.

Using the demand-driven control model and subcontractor partnership, it has been possible to significantly reduce the amount of working capital without, however, endangering the smooth material flow. As business grows, economies of size also give financial benefits in product development, purchasing, logistics, marketing and administration.

### **Cost-effective even during R&D**

The new Vacon NX product family is an example of integrating cost-effectiveness as early as the design stage of products (Design to Cost). Vacon benefits from the product's modular structure in mass customizing. Vacon's concept, of using software to customize several different product variations from the same mechanical make-up, gives major savings in costs.

However, most of the changeover to the Vacon NX product family only took place during the past year. So most of the financial benefits have not been obtained yet; a considerable part of the improvement in cost-effectiveness remains for the years ahead.

## **BUSINESS APPROACH DRIVEN BY PROFITABILITY**

### **Efficient sub-contracting network**

Only high quality partners ensure flexible, high quality and cost-efficient operations. Vacon's Concept for Supplier Partnership aims to boost the potential for both parties to succeed. Vacon plans even closer partnership with competitive suppliers. This cooperation demands efficient logistics and operations management, and these are based on transparency in the production and supply chain for all parties.

As economic growth and investment projects have increasingly moved to Asia, this also prepared the ground for Vacon's decision to start using more than one production plant. Vacon's decision to establish a subsidiary in China is not just a boost in production capacity but also a step towards a global sourcing network.



Chandrashekhar Kubal entranced by his product. Maija Suutarinen (left), Josephine Lee Yoke-Chin and Arto Aho know that this man means business.



### It is easy to contact Vacon anywhere in the world

The success of its sales channels is a critical factor in Vacon's success. Systematic analysis of customer segments and market-driven product development form the foundations on which Vacon has built its success. It is continuously building up all sales channels, aiming at creating a global Vacon sales concept, in which key customers are served by their own sales teams.

To make its sales channels more effective, Vacon is continuously developing its procedures. Through the use of effective internal communications channels and, for example, application databases, the best working practices and processes are introduced throughout the organization and through this throughout the customer base, worldwide.

### Multi-channel sales

From its very earliest days, Vacon has put much effort into building a global, multi-channel sales network. Today Vacon's products are sold in 100 countries around the world through five main sales channels.

The most important of Vacon's sales channels is the company's own global sales organization, which consists of 11 sales companies in Europe and Russia. The sales companies are each responsible for sales, marketing and customer service for Vacon's products and services in their market area. Some 40 per cent of Vacon's sales during the past year came through its own sales organization.

The second biggest sales channel is formed by international original equipment manufacturers (OEM), who use Vacon frequency converters as part of their own products. Vacon's wide product range, high quality technology and expert personnel have attracted several well-known equipment manufacturers, such as Schindler, Rolls-Royce and KCI Konecranes, to become Vacon's customers.

The third channel consists of international brand label customers. Because R&D is complex and involves high investment costs, many well-known manufacturers fill out their product range with frequency converters made by their competitors and sell them under their own brand label. This enables them to focus on their core operations and still offer a wide range of products to

	2003	2002
Europe	69.7%	67.6%
North America	15.4%	17.8%
Asia and Australia	11.4%	12.2%
Other	3.5%	2.4%

### Sales by market area:

**During the past year, the low level of investments was a distinct feature of the markets in Europe and North America; there were almost no major investment projects.**

their customers. Eaton Cutler-Hammer is an example of frequency converter suppliers that use Vacon frequency converters as part of their own selection. Often in these cases there is a need for product modification or even shared development activities, as is the case with Rockwell Automation.

The fourth major sales channel is formed by system suppliers in various industrial fields, who offer Vacon frequency converters as part of their own total packages. Vacon's independent position and product leadership offer a unique opportunity for various forms of cooperation, especially with independent system suppliers. Imtech Marine, Honeywell and Rolls-Royce are some of the major suppliers to which Vacon supplies frequency converters.

## SALES AND MARKETING

The fifth channel is the extensive global network of distributors. This is supported by Vacon's own regional sales organization, which has the task of developing the network to give extensive coverage and maximum efficiency.

### Working with Vacon is straightforward

In addition to offering the high quality and competitive price that are generally expected, Vacon aims to be the most customer friendly and technologically advanced frequency converter supplier. During 2003, Vacon restructured its marketing organization by customer segment, so as to obtain a deeper understanding of the market requirements in different industrial sectors. In future Vacon will offer products and services that are increasingly designed to customer requirements. At the same time the company is strengthening the Vacon product brand and corporate image in marketing communications.

### Service operations on the increase

Vacon is focusing greater efforts on developing its service operations. The strong growth in the number of frequency converters installed and increased outsourcing of maintenance activities by customers create a basis for rising demand for service products. New service packages are being offered alongside conventional service and spare part services.

For the customer, the most critical issue is continuous, uninterrupted operations, and this fits in exactly with Vacon's customer-driven way of working. The original manufacturer is able to optimize the customer's processes and is best able to provide service and supply precisely the right spare parts for each need. Vacon is continuously developing its network for service operations, so that it can provide fast, expert service all round the clock, every day of the year, anywhere in the world.

### **Customer-driven R&D**

Customer-driven R&D has always been one of Vacon's main strengths. Through its indepth understanding of customer needs, Vacon has established a position as the technology leader in its field. R&D is also to a large extent customer service. Smooth cooperation between production and the sales channels is absolutely essential for developing technology and products.

## **CUSTOMER-DRIVEN R&D**

### **Total quality**

Vacon has always held to strict quality requirements by purchasing only high quality components and testing all its products before supplying them to the customer. In addition to real time monitoring of production processes, Vacon also employs joint quality teams with its partners to develop total quality.

### **Product palette grew significantly in 2003**

The Vacon NX product selection grew considerably during 2003. Vacon is at the moment one of the few manufacturers of frequency converters that can

offer new products in such a wide power range. The main idea behind the NX product family is its structure based on software and modularity. In addition to the patented basic design, the product series also includes liquid-cooled NX models, which require considerably less space than competing products. The compact size is especially important in ships and heavy industrial processes, for example.

### **Modularity is cost-effective**

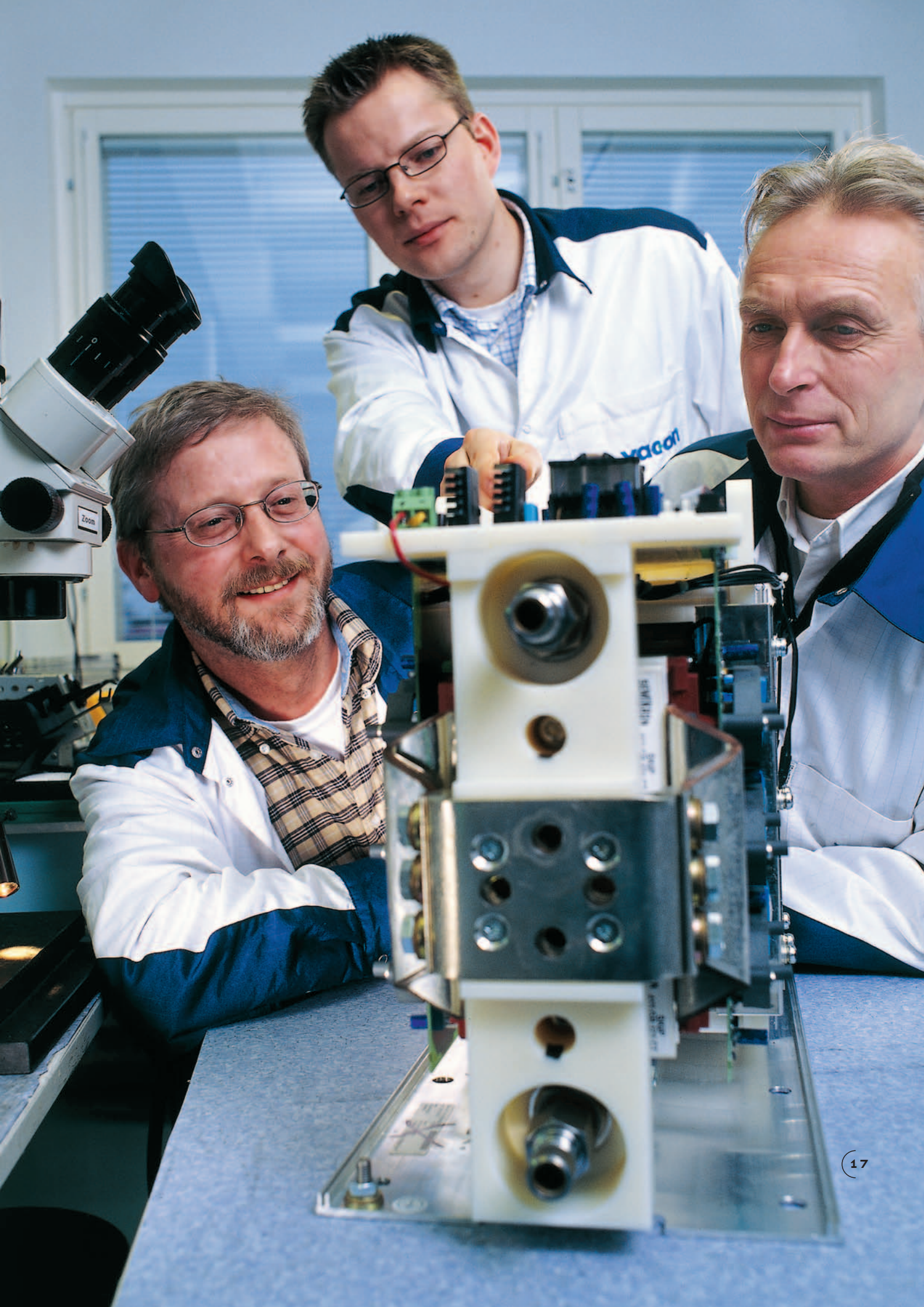
Products are almost without exception tailored for each customer's needs. The specifications for products also vary from area to area because of different legal requirements and environmental conditions. Using the 'All in One' application package installed in the product, the functioning of the frequency converter is set in the software, without having to change the mechanical structure of the frequency converter. Modularity reduces the number of product variations in production and in this way cuts costs.

### **Innovative R&D continues**

Vacon's innovative R&D is ongoing, both for products and production technology. Vacon aims to be the pioneer in its sector in creating the solutions of the future. As an independent supplier, Vacon supports open automation and international standards.

In Vacon's extensive product selection, the Vacon CX product family is on its way out and NX products are reaching their full scope. R&D for the technology of the next generation is underway. In future new functions will be integrated into the frequency converter.

**Wilfried Verhaar from customer Imtech Marine & Offshore is surprised at the expertise of Vacon personnel. Richard Meier and Jonas Forsberg from Vacon are not.**





Vacon personnel having coffee. Päivi Mustonen, Sami Mäkinen and Sakari Seppelin each have their own mug in Vacon's coffee room. This is not the first time Ari Syrjämäki has sat on a forklift.

## HUMAN RESOURCES

### **Vacon's personnel strategy is based on the company's values and strategy**

The goal of Vacon's personnel strategy is an efficient, flexible organization that promotes the wellbeing of employees and encourages an open work atmosphere. Performance and skills management, internal communications, and looking after the wellbeing of personnel are the practical means for implementing the strategy.

### **Performance review interviews link the company's goals to the work of the team and individual**

At Vacon giving feedback and recognition for work is part of daily management activities. Apart from

this, the performance review interviews are the most important means for guiding individual performance. These interviews are for assessing the past year and for setting targets for the coming year. A personal development plan is built up for each employee.

### **Skills development is guided by a competence analysis**

Competence analyses are carried out as part of the business strategy to identify existing knowledge and skills. Vacon's management and individual supervisors use these analyses to assess the development needs for the organization and plan the necessary action.

Skills development needs are taken into account in recruitment and training plans. Employees are encouraged to participate in job rotation to improve their all round skills. In addition to learning at work and conventional courses, employees are encouraged and assisted in independent study.

### **Effective internal communications create openness**

As well as communicating the strategy, internal communications also aim to motivate personnel and maintain an open work atmosphere. Vacon's most effective and most frequently used channels for internal communications are email, intranet, the personnel magazine and department, process and team meetings. Vacon's personnel participate in decision making and planning action, for example in the business development projects and the working environment improvement programme.

Meetings are held four times a year for all personnel when the company's results are announced. This is to inform all employees about the financial state of the company and its future prospects.

### **Particular attention is paid to job content and the work of supervisory staff**

The annual job satisfaction survey examines the opinions of employees on the state of the work community and ways of working and brings up ways to increase personnel well-being. The survey results are used to improve operations at corporate level and in individual departments.

### **Occupational health and safety part of Vacon's operational system**

During the past year Vacon focused on systemizing and continuous improvement of operating methods relating to occupational health and safety. The goal was to maintain and develop work fitness and reduce accidents and absence through sickness. As a result of this work, occupational health and safety became the third pillar of the operational system along with quality and the environment. SGS-FIMKO awarded Vacon OHSAS 18001 certification in December 2003.

### **Operations are based on values – customers and personnel play a key role**

Vacon creates smoothly functioning networks between customers, business partners, subcontractors and personnel based on common values:

#### **Customer-driven and service-minded**

Priority is always given to the customer. Customers are kept informed and are involved in key decisions that affect them. We treat internal customers with the same respect as other customers.

#### **Respect for the individual**

Our personnel is our most valuable resource. The success and growth of our company depend on the efforts of the people working in the company. Respect for employees and looking after their well-being are essential for the success of the company.



### **Entrepreneurs and goal-oriented**

The work of employees is based on internal entrepreneurship, and all members of the organization are committed to achieving results. Employees are free to meet their goals as they see best and management does not use its authority to control personnel.

## **VALUES**

#### **Courage and fair play**

Employees are trusted. They take decisions about their own work and take responsibility for them. Work is honest and fair.

#### **Latest technology and unbeatable quality**

The company always chooses a new, innovative solution in preference to old, established models. There is no compromise on the quality of technology, and customers are always offered the best possible expertise.

#### **Light, flexible ways of working**

Titles are not important in the organization and status is not significant. Respect is not won by titles but through knowhow and experience and the respect of management and colleagues. No walls are built between departments and jobs, responsibility for serving customers is shared by everyone. The work is done flexibly and aims to meet the needs of customers in all circumstances.

#### **Continuous development and renewal**

The company's personnel are committed to finding new and ever better solutions.

## ENVIRONMENT

### **Environmental management system is important part of Vacon's operational system**

Through its combined operational system Vacon wishes to stress that quality and environmental issues and occupational health and safety matters are not separate activities but part of the company's business operations. The system creates conditions for achieving targets and meeting requirements in environmental issues. Vacon has an environmental management system certified by SGS-FIMKO that meets the requirements of the ISO 14001 standard. The company is committed to recognizing and complying with environmental legislation and regulations that apply to its operations and to continuously develop its operations.

The objective of Vacon's environmental activities is to improve the environmental properties of products throughout their life cycle. Vacon aims in all its operations to choose raw materials, operating methods and processes that cause least damage to the

environment. For example by continuously planning and improving waste management, Vacon has succeeded in significantly increasing the re-use and recycling of waste.

Personnel are given regular training in environmental matters. Vacon's environmental guide "Vihreä taajuus" (the Green Frequency) is used by the entire personnel. Each Vacon employee recognizes the environmental impact of their work and plays their part in preventing pollution of the environment.

### **Frequency converter stands for green values**

The air we breathe indoors, the food we eat, and the objects and buildings we use are largely produced with processes maintained by electric motors. A frequency converter is a device for steplessly adjusting the rotation speed of a very typical electric motor,

the squirrel cage motor. This gives considerable energy savings. So the frequency converter in itself stands for green values.

#### **Environmental factors taken into account even in product design**

The objective of Vacon's environmentally friendly product design is to discover design solutions that reduce environmental load and comply with all safety, technical and economic requirements. Vacon uses the Design for Environment (DFE) inspection list in the concept phase of product design. The list is a help in making more efficient use of materials and resources, but also in minimizing the use of substances harmful to the environment. The list also complies with the European Union's ROHS directive

#### **Other environmental impact**

In normal circumstances the company's operations do not emit pollutants to water or soil. Small amounts of volatile organic and chemical compounds, from the use of soldering tin and lacquers, are discharged into the atmosphere. These emissions are studied and the company is making continuous efforts to prevent and restrict them. During the review year, no mishaps or accidents occurred in the company's operations that had a major environmental or health impact. The company is also not aware of any infringements of environmental regulations.

[on the restriction of use of certain hazardous substances in electrical and electronic equipment].

#### **Vacon's partners have major role in environmental conservation**

Vacon has included environmental issues in its criteria for selecting and assessing suppliers. It requires a high level of environmental conservation of its carefully chosen sub-contractors and insists that they continuously monitor and improve the environmental impact of their production. Vacon continues to work with its suppliers to reduce waste volumes and minimize the use of hazardous substances.

In accordance with the Finnish Companies Act and the Company's Articles of Association, control and administration of the Company lies with the shareholders represented at the Annual General Meeting, the Board of Directors and the President. The Company's corporate governance conforms to current legislation, to the recommendations on the administration of public listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, and to the insider guidelines issued by the Helsinki Exchanges.

### **Annual General Meeting of Shareholders**

The shareholders exercise the highest authority at the Annual General Meeting of Shareholders. The AGM decides on adopting the financial statements, any distribution of profits, and discharging from liability the members of the Board of Directors and the President. In addition, the AGM decides on the number of Board members and auditors and their remuneration,

- financial plan, and monitors how these are implemented
- decides on individual major and strategically important investments and approves the investment programmes of Group companies
- monitors the Group's financial performance and how its goals are being met
- appoints the President, Executive Vice President and members of the Management Team, and decides on the composition of the boards of directors of Group companies
- decides on the principles for bonus and incentive schemes

### **Selection of Board of Directors and members**

According to the Articles of Association, Vacon's Board of Directors has at least three and at most seven members chosen by the General Meeting of Shareholders. The members of Vacon's Board are chosen by the Annual General Meeting of Shareholders for a term of one year at a time. The Articles of Association do not stipulate an upper age limit for Board members nor is the number of terms of office limited.

The Annual General Meeting held on 20 March 2003 decided that the Board of Directors should have six

selects them, and decides on any changes in the Company's Articles of Association. The AGM is held annually on a date determined by the Board of Directors but no later than the end of June.

### **Duties of the Board of Directors**

The tasks and duties of the Board of Directors are defined in the Finnish Companies Act, the Company's Articles of Association and the work procedures for the Board. The Board revises its work procedures each year so that they conform to good principles of corporate governance at all times. The Company's President participates in the meetings of the Board of Directors and prepares and presents to the Board matters to be considered at the meetings.

### **In addition to the matters mentioned specifically in legislation and the Articles of Association, Vacon's Board:**

- confirms the Company's long-term goals and strategy
- approves the Group's operations plan, budget and

members. The AGM re-elected the Board members Jari Eklund, Mauri Holma, Jan Inborr, Veijo Karppinen, Harri Niemelä and Harry Ollila for a term of office that ends at the 2004 Annual General Meeting of Shareholders.

The Board elects from among its members a chairman and deputy chairman for one term of office. In 2003 the chairman was Jan Inborr and Harri Niemelä was deputy chairman. The Board held 10 meetings during 2003.

### **Remuneration Committee**

The Remuneration Committee is made up of three members of the Board of Directors. The committee is subordinate to the Board of Directors and makes proposals for the Board to decide on. The committee members were Jan Inborr (chair), Veijo Karppinen and Harri Niemelä. The task of the committee is to create forms of remuneration that are felt to give incentive and that take into account Vacon's special features. The committee met once during 2003.



### **The President and Management Team**

The Board of Directors appoints the President and defines the terms of employment of the President in writing. The President prepares the matters to be decided at the meetings of the Board of Directors and is responsible for seeing that the Board's decisions are carried out. The President is responsible for the Group's administration and is chairman of the Management Team. The retirement age for the President is 60 years. Subsidiary companies report to the Group's Vice President for Sales, Marketing and Customer Service.

The Management Team prepares and guides the development of the Group's processes and business areas and the Group's joint functions. The Management Team consists of the President and representatives chosen from among the Group's senior management. The Management Team is not an administrative body stipulated by the Finnish Companies Act.

### **Salaries and remuneration of senior management**

The salaries and other benefits of the President and other senior management are approved by the Board of Directors. The remuneration of the Board of Directors is decided by the Annual General Meeting of Shareholders. In 2003 the Chairman of the Board was paid EUR 2000 a month and the other members of the Board

EUR 1000 a month. The Board confirms annually any bonus for the Company's management and any bonus for the entire personnel. In 2003 personnel were paid a productivity bonus. The company's Management Team holds share options that entitle the holders to a total of 92,500 Vacon Corporation shares. The President holds share options for 50,000 of these.

### **Insider dealing**

Vacon observes the guidelines for insiders for listed companies approved by the Helsinki Exchanges. Vacon's insiders include the Board of Directors and the auditor, the Management Team, personnel in the treasury and communications departments and the secretaries to senior management. The holdings of the company's permanent insiders can be viewed in the SIRE system maintained by the Finnish Central Securities Depository Ltd. The company also maintains registers of insiders for individual projects.

Vacon's silent period lasts three weeks. The Company does not comment on market prospects and does not meet financial market or media representatives for three weeks before the publication of interim reports or the annual financial statements.

The silent period also applies to Vacon's permanent insiders, who may not trade in the company's securities for three weeks before the publication of the results for a reporting period. Vacon Plc may also not purchase its own shares during this period.

### **Audit**

The auditors elected by the Annual General Meeting are the authorized public accountants KPMG Wideri Oy Ab and the principal auditor appointed by them is Pekka Pajamo, APA. In addition to the duties in accordance with current regulations, he also reports on his observations to Group management.

The definition of the scope and contents of the audit takes into account the fact that the company does not yet have its own internal audit organization.

### **Risk management**

Risk management at Vacon Plc is part of the management process for the Company's business operations. Risk management aims to identify the risks to which the company's operations, assets and personnel are exposed and to minimize any damage from them.

## **CORPORATE GOVERNANCE**

General liability insurance for the Company's operations is managed centrally by the Group's parent company. Other insurances are managed by the different companies.

### **Financial risk**

Vacon Plc's internal and external financing and financial risk management is managed centrally by the parent company's finance management function. The goal of centralized financial risk management is to ensure a planned financial performance. The Group's parent company's financial management function is responsible for the Group's liquidity, for ensuring sufficient financing, and for managing interest rate, currency and third party risks.

### **Incentive schemes**

The company has an incentive scheme for the entire personnel and an options scheme approved by the Annual General Meeting in 2002.



## BOARD OF DIRECTORS

### Jan Inbarr, chairman

- born 1948, M.Sc. (Econ.), President and CEO, Ahlström Capital Oy.
- board member at: Ahltronix Oy (chair), Å&R Carton AB (vice chair), Ahlström Corporation, Nordkalk Corporation, Stiftelsen för Åbo Akademi.
- No Vacon Plc shares

### Harri Niemelä, vice chairman

- born 1944, B.Sc. (El. Eng.), President, Vaasa Industrial Invest Ltd
- board member at: Finnet Ltd (member of supervisory board), VG Power Ab (chair), SESCA Technologies Oy (chair), Vacon Traction Ltd (chair), Vaasan Läänin Puhelin Oy (vice chair), Ostrobothnia Chamber of Commerce/ Vaasa Office (vice chair), Kokkolan Puhelin Oy, VNT Management Ltd.
- 309,840 Vacon Plc shares

### Jari Eklund, board member

- born 1963, M.Sc. (Econ.), Investment Director, Tapiola Insurance Group
- board member at: Ilkka-Yhtymä Oyj (member of supervisory board), Tapiola Asset Management Ltd (chair), Tapiola Fund Management Ltd (chair), Tapiola Bank Ltd, Mortgage Society of Finland
- No Vacon Plc shares

### Mauri Holma, board member

- born 1950, B.Sc. (El. Eng.), President, Vaasa Engineering Oy and Vaasa Service Oy
- board member at: Vaasa Engineering Oy, Vaasa Switchgears Ltd, Vaasa Service Oy, Ostrobothnia Chamber of Commerce/ Vaasa Office (member of the Industry Committee)
- 367,171 Vacon Plc shares

### Veijo Karppinen, board member

- born 1950, M.Sc. (Engineering), President, VNT Management Ltd
- board member at: Vaasa Engineering Oy (chair), Inion Ltd, VG Power Ab.
- 408,249 Vacon Plc shares

### Harry Ollila, board member

- born 1950, M.Sc. (Engineering), Vice President, KCI Konecranes Plc
- board member at: Sarlin Oy.
- 37,740 Vacon Plc shares

### Stefan Wikman, secretary to the Board

- born 1956, Attorney, Partner, Roschier Holmberg, Attorneys Ltd
- board member at: Oy C.J. Hartman Ab, Oy Hartman Invest Ab, Fastighets Ab Academill, Harry Schaumans Stiftelse.
- No Vacon Plc shares

## PRESIDENT AND MANAGEMENT TEAM

### Vesa Laisi

- President and CEO
- Born 1957, M.Sc. (Eng.), M.Sc. (Econ.). The President is in charge of the Group's business operations and attends to the administration of the company in accordance with the instructions and directions given by the Board of Directors.
- Board member at: Finnfacts (chair)
- No Vacon Plc shares



### Tuula Hautamäki

- Vice President, Information Technology and Process Development; Vice President, Human Resources as from 1 January 2004
- Born 1964, M.Sc. (Eng.), M.Sc. (Econ.). Responsible for developing Vacon's operative capabilities and for developing the quality and environmental management systems.
- 4,608 Vacon Plc shares



### Dan Isaksson

- Vice President, Solution Customers business area
- Born 1965, M.Sc. (El. Eng.). Responsible for Solution Customers business area and the Engineered Drives unit.
- 16,608 Vacon Plc shares



### Heikki Hiltunen

- Vice President, Sales, Marketing and Service
- Born 1962, B.Sc. (Eng.), M.Sc. (Econ.). Responsible for Vacon Group sales, marketing and customer service operations and for operations of subsidiaries.
- No Vacon Plc shares



### Timo Kasi

- Vice President, R&D
- Born 1966, M.Sc. (Eng.). Responsible for research and development of Vacon's frequency converter products and for the Company's technological competence.
- 1,965 Vacon Plc shares



### Jukka Kasi

- Vice President, Component Customers business area
- Born 1966, M.Sc. (Eng.). Responsible for Component Customers business area and Group Product Management.
- 55,308 Vacon Plc shares



### Mika Leppänen

- Vice President, Finance and Control
- Born 1959, M.Sc. (Econ.). Responsible for monitoring and developing Vacon's financial position and for managing the Company's treasury functions.
- No Vacon Plc shares



### Jari Koskinen

- Vice President, Production
- Born 1960, M.Sc. (Econ.), MBA. Responsible for the manufacturing processes and logistics chain for Vacon's products, from Vacon's suppliers via Vacon to its customers.
- 354,494 Vacon Plc shares



### Leena Taka

- Vice President, Human Resources
- Born 1954, Graduate of Vaasa Commercial Institute (Marketing). Responsible for Vacon's personnel administration and its development. Vice President, Human Resources until 31 December 2003.
- 40,351 Vacon Plc shares



### Jukka-Pekka Mäkinen

- Vice President, OEM and Brand Label Customers business area
- Born 1959, B.Sc. (Eng.). Responsible for brand label and OEM customers business area and for the support unit for global customers.
- 14,608 Vacon Plc shares



Erkki Raunio was a member of the Company's Management Team and Executive Vice President until 31 August 2003.

### Annual General Meeting

The Annual General Meeting of Vacon Plc will be held at 3.00 pm on Thursday, 25 March 2004 in the Northern Lights conference room at the head office of Vacon Plc at Runsorintie 7, Vaasa, Finland.

To be entitled to attend the Annual General Meeting, shareholders must be registered on 15 March 2004 in the company's list of shareholders maintained by the Finnish Central Securities Depository.

## INFORMATION FOR INVESTORS

### Notification

Shareholders wishing to attend the Annual General Meeting are requested to notify the company not later than 4.00 pm (Finnish time) on 18 March 2004.

This can be done by telephone to Johanna Koskinen on +358 201 212 528, by fax +358 201 212 208, by e-mail to johanna.koskinen@vacon.com or by mail to Vacon Plc, Johanna Koskinen, Runsorintie 7, 65380 Vaasa, Finland. Any letters of authorization should be sent with the notification of attendance.

Shareholders are requested to give their name, address, telephone number and date of birth when informing the company of their attendance.

**The managing directors of Vacon sales companies: (from left) Daniël de Coster (Belgium), Per Rønningen (Norway), Vladimir Kozak (Germany), Sergei Zhizhin (Russia), Dirk Verschoor (Netherlands), Jaume Font (Spain), Michel Marais (France), Sven-Olof Göransson (Sweden), Johann Goldfuss (Austria) and Stephen Takhar (Great Britain). Andrea Perin (Italy) is missing from the picture.**

### Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.55 per share be paid for the 2003 financial year. The dividend approved by the AGM will be paid to shareholders who are registered on the record date in the company's list of shareholders maintained by the Finnish Central Securities Depository. The record date for the dividend payment will be 30 March 2004 and the proposed payment date for the dividend is 6 April 2004.

### Financial reports in 2004

Vacon is publishing three interim reports in 2004 as follows:

- January-March Thursday, 29 April 2004, at 10.00 am
- January-June Thursday, 5 August 2004, at 10.00 am
- January-September Thursday, 28 October 2004, at 10.00 am

### Briefing for analysts

Vacon will hold a briefing for analysts on the days when the results are published at 11.30 am in Helsinki (at World Trade Center, 6&9 cabinet, Aleksanterinkatu 17, 00100 Helsinki).

An international telephone conference will be held on the date of publication at 3.00 pm.

### Investor relations

The objective of Vacon's investor communications is to provide the financial markets with information about Vacon's strategies, operations and business environment so as to form as accurate a picture as possible of Vacon as an object for investment. Vacon Plc's investor relations are managed by Johanna Koskinen, tel. +358 201 212 528, johanna.koskinen@vacon.com. Information about Vacon as an investment target can be found on the company's website at: [www.investors.vacon.com](http://www.investors.vacon.com)



## Analysts

Below are listed some of the banks and brokers that monitor Vacon as an object for investment. The analysts operate on their account.

- **ABG Sundal Collier**

Marion Björkstén  
+44 (0)207 905 5611

- **Alfred Berg Finland Oyj Abp**

Jan Brännback  
+358 (0)9 228 732

- **D. Carnegie Ab, Finland**

Miikka Kinnunen  
+358 (0)9 6187 1241

- **Cazenove & Co. Ltd**

Ilan Chaitowitz  
+44 (0)20 7214 7626

- **FIM Securities Ltd**

Hannu Rauhala  
+358 (0)9 6134 6310

- **Handelsbanken Securities**

Anssi Suttelin  
+358 (0)10 444 2406

- **Impivaara Securities Limited**

Jeff Roberts  
+44 (0)20 7284 3937

- **Kaupthing Sofi**

Mika Metsälä  
+358 (0)9 4784 0241

- **Nordea Securities**

Jari Koskela  
+358 (0)9 3694 9312

- **Opstock Investment Banking**

Jarkko Nikkanen  
+358 (0)9 404 4392

- **Mandatum Stockbrokers Ltd**

Ari Laakso  
+358 (0)10 236 4708

## **FINLAND**

### **Vaasa**

Vacon Plc (Head office and production)  
Runsorintie 7  
65380 Vaasa  
www.vacon.com  
firstname.surname@vacon.com  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 205

### **Helsinki**

Vacon Plc  
Äyritie 12  
01510 Vantaa  
telephone: +358 (0)201 212 600  
fax: +358 (0)201 212 699

### **Tampere**

Vacon Plc  
Alasniityntie 30  
33700 Tampere  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 750

### **Rotatek Finland Oy**

Laserkatu 6  
53850 Lappeenranta  
telephone: +358 (0)5 6243 870  
fax: +358 (0)5 6243 871

### **Vacon Traction Oy**

Alasniityntie 30  
33700 Tampere  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 710

## **SALES COMPANIES**

### **Austria**

Vacon AT Antriebssysteme GmbH  
Aumühlweg 21  
2544 Leobersdorf  
www.vacon.at  
telephone: +43 2256 651 66  
fax: +43 2256 651 66 66

### **Belgium**

Vacon Benelux NV/SA  
Interleuvenlaan 62  
3001 Heverlee (Leuven)  
info@vacon.be  
telephone: +32 (0)16 394 825  
fax: +32 (0)16 394 827

## **France**

Vacon France s.a.s.  
Batiment le Sextant  
462 rue Benjamin Delessert  
ZI de Moissy Cramayel  
BP 83  
77 554 Moissy Cramayel  
www.vacon-france.fr  
telephone: +33 (0)1 64 13 54 11  
fax: +33 (0)1 64 13 54 21

## **Germany**

Vacon GmbH  
Gladbecker Str. 425  
45329 Essen  
www.vacon.de  
telephone: +49 (0)201 806 700  
fax: +49 (0)201 806 7093

## **Great Britain**

Vacon Drives (UK) Ltd.  
Unit 11, Sunnyside Park  
Wheatfield Way, Hinckley  
LE10 1PJ, Leicestershire  
www.vacon.co.uk  
telephone: +44 (0)1455 611 515  
fax: +44 (0)1455 611 517

## **Italy**

Vacon S.p.A.  
Via F.lli Guerra, 35  
42100 Reggio Emilia  
www.vacon.it  
telephone: +39 0522 276811  
fax: +39 0522 276890

## **Netherlands**

Vacon Benelux BV  
Weide 40  
4206 CJ Gorinchem  
www.vacon.nl  
telephone: +31 (0)183 642 970  
fax: +31 (0)183 642 971

## **Norway**

Vacon AS  
Langgata 2  
3080 Holmestrand  
www.vacon.no  
telephone: +47 330 96120  
fax: +47 330 96130

## **Spain**

Vacon Drives Ibérica S.A.  
Miquel Servet, 2. P.I. Bufalvent  
08240 Manresa  
www.vacon.es  
telephone: +34 93 877 45 06  
fax: +34 93 877 00 09

## **Sweden**

Vacon AB  
Torget 1  
172 67 Sundbyberg  
www.vacon.se  
telephone: +46 (0)8 293 055  
fax: +46 (0)8 290 755

## **Russia**

ZAO Vacon Drives  
Bolshaja Jakimanka, 31  
stroenie 18  
109180 Moscow  
www.ru.vacon.com  
telephone: +7 (095) 974 1541  
fax: +7 (095) 974 15 54

ZAO Vacon Drives  
2ya Sovetskaya 7, office 210A  
191036 St. Petersburg  
www.ru.vacon.com  
telephone: +7 (812) 332 1114  
fax: +7 (812) 279 9053

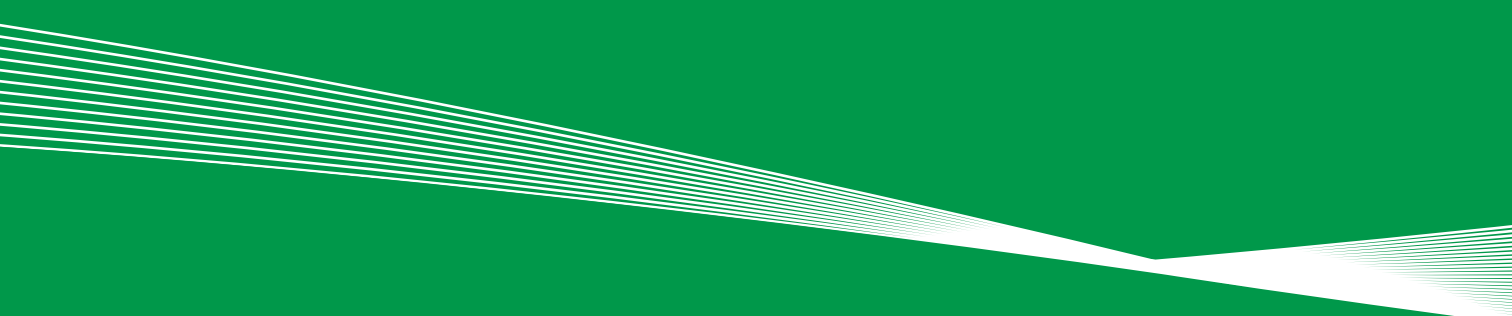
## **REPRESENTATIVE OFFICES**

### **People's Republic of China**

Vacon Plc  
Beijing Representative Office  
A205, Grand Pacific Garden  
Mansion  
8A Guanhua Road  
Beijing 100026  
www.vacon.com.cn  
telephone: +86 10 6581 3734  
fax: +86 10 6581 3754

### **Singapore**

Vacon Plc  
Singapore Representative Office  
102F Pasir Panjang Road  
#02-06 Citilink Warehouse Complex  
Singapore 118530  
vacon.singapore@vacon.com  
telephone: +65 6278 8533  
fax: +65 6278 1066



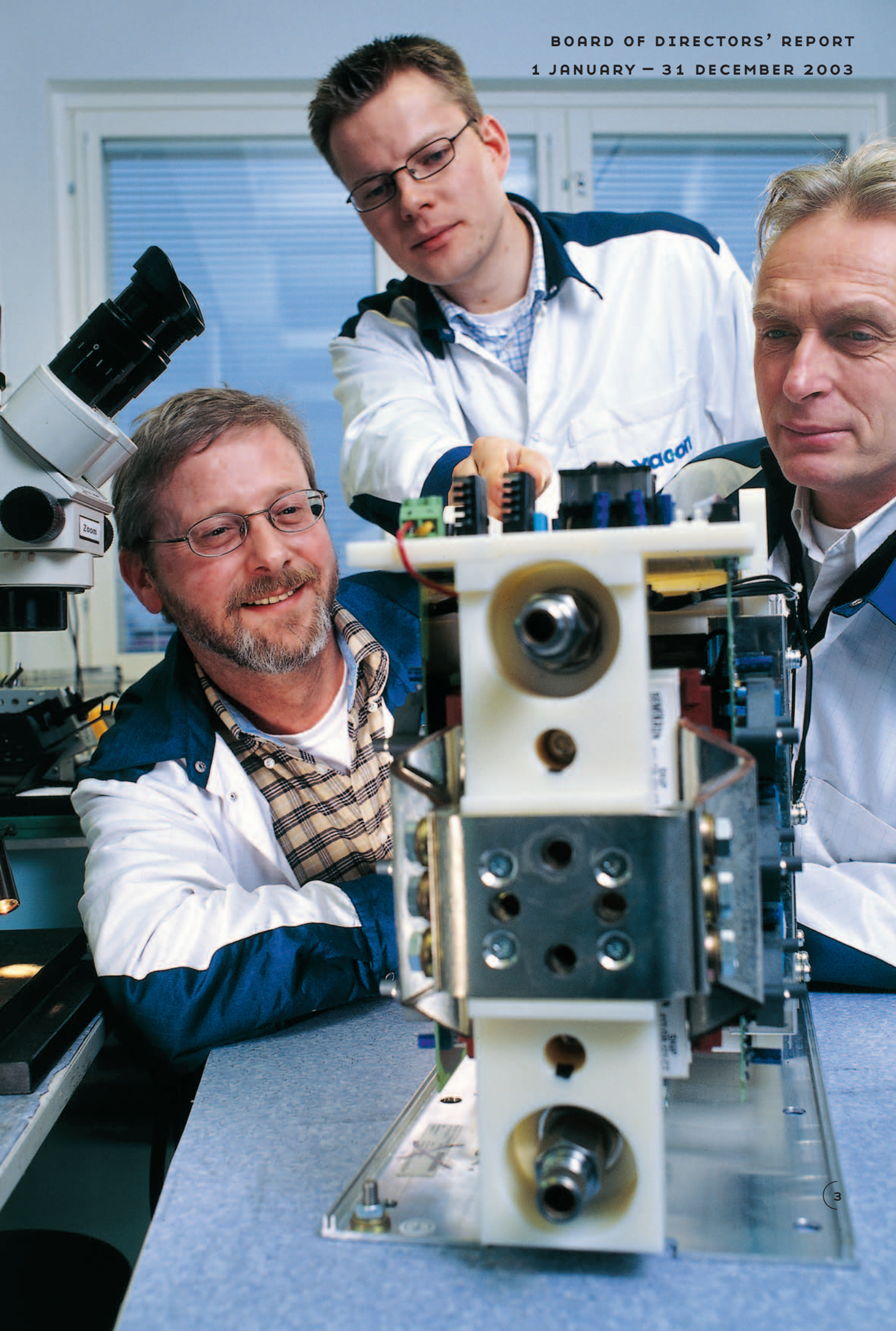
FINANCIAL STATEMENTS 2003

**vagon**  
DRIVEN BY DRIVES



3	Board of Directors' Report
8	Income Statement
9	Cash Flow Statement
10	Balance Sheet
12	Accounting Principles
14	Adoption of IFRS reporting
15	Notes to the Financial Statements
23	Signing of the Financial Statements & Auditor's Report
24	Shares and Shareholders
26	Key Figures
27	Calculation of Financial Ratios
28	Corporate Governance
29	President and Management Team
30	Information for Investors





Despite the challenging business environment, Vacon achieved its goals for 2003. The company strengthened its market position, increased its revenues and improved its profit. The earnings per share and cash flow from operations for the financial year were the best ever in the company's history.

The frequency converter market grew by three per cent in 2003<sup>1)</sup>. Vacon grew considerably faster than the market and its market share rose. Demand remained stable, but in project orders customers took longer in their decision making, which weakened the growth figures for revenues in the final quarter of the year.

Sales continued to grow strongly in Europe throughout the year. Growth in Asia, and especially in China, was limited to a certain extent by the SARS epidemic and the weakening of the dollar. Vacon kept its office in China closed for one month and the travel restrictions in force for 1 – 1.5 months in the country applied to the company's sales representatives. The growth in sales achieved in North America early in the year came to a halt in the final quarter because of the decline of the dollar and weaker demand. However, Vacon expects demand for its products in North America to pick up at the start of 2004.

#### **Global position**

In 2003, 69.7 per cent (67.6 per cent in 2002) of Vacon's revenues came from Europe, 15.4 (17.8) per cent from North America, 11.4 (12.2) per cent from Asia and Australia, and 3.5 (2.4) per cent from elsewhere. Vacon's revenues by distribution channel in 2003 were as follows: own direct sales 40 (39) per cent, distributors 23 (21) per cent, machine and equipment manufacturers 22 (22) per cent, and brand label customers 15 (18) per cent.

Orders received by the Group in 2003 totalled EUR 109 million. The Group's order book at the end of the year stood at EUR 12.3 (15.5) million. In the previous year the order book included several major project orders.

#### **Distinctly improved profit and growth**

Consolidated revenues in 2003 rose 15 per cent to EUR 112.3 million (EUR 97.5 million in 2002). The parent company Vacon Plc had revenues of EUR 94.1 million. The consolidated profit after financial items was EUR 11.7 (9.9) million and the profit for the financial period was EUR 7.6 (6.5) million. The earnings per share (EPS) increased to EUR 0.50 (0.43). Key factors in the strong growth in revenues and profit were Vacon's extensive, competitive product offering and the strengthening of production and the operations of the Group's own sales network.

The Group's cash flow from operations grew to EUR 12.3 (10.5) million, thanks to effective management of working capital and the excellent profit. The Group was able to finance its growth from income.

The balance sheet total was EUR 58.2 million. Vacon's equity ratio rose to 55.8 (51.7) per cent and net gearing was -19.1 (-3.0) per cent. The return on investment increased to 31.7 (30.4) per cent and the return on equity was 26.1 (26.2) per cent.

#### **Strategic priorities**

Vacon stands out clearly from its competitors by focusing entirely on frequency converters. Focusing on one product places the company in a good position to grow profitably and become one of the leading manufacturers in its sector.

During 2003 Vacon carried out further essential groundwork for profitable growth in the coming years. Particular attention was paid to revising the company's strategy. The company's Board of Directors accepted the proposals arising from the work on the strategy during the year. The main conclusion was to continue to build the company's competitive edge on product leadership. In addition, the company ensures that cost-efficiency improves in order to compensate the future market price erosion.

The company's business now consists of three separate customer-based business areas: component customers, solution customers and OEM and brand label customer. A separate business process, area of special expertise and competitive strategy are being defined for each business area.

## Investments

Gross investments by the Group during the year equalled 4.3 per cent of revenues, or EUR 4.8 (4.7) million. The largest investments were in testing facilities for high power frequency converters, which are expected to provide considerable growth potential for the Group. Other investments were allocated to tools for NX products, the product development laboratory and information technology.

In October Vacon announced that it was establishing a new subsidiary company in China. The company will carry out sales activities and will have an assembly and competence centre focusing on the market in China. The company should start operations during the first quarter of 2004.

## Personnel

The number of Vacon personnel increased by ten persons during 2003. At the end of December the company employed 436 (426) people, of whom 336 (328) were in Finland and 100 (98) in other countries. The average number of employees during 2003 was 437 (426).

## Changes in corporate structure

Following a share transaction VNT Management Oy became an affiliated company in December 2003.

## Research and development

R&D costs during the financial year were EUR 8.9 (7.1) million, or 7.9 (7.3) per cent of the Group's revenues. Vacon is working closely on several projects with universities and other academic institutions.

## Other events during the review period

Vacon signed a memorandum of understanding with Scanfil Plc to start the manufacture of under 3 kW Vacon NX Light frequency converters in Suzhou, China during the first half of 2004. This agreement aims at a long-term manufacturing partnership.

Vacon outsourced some of its logistics operations to DHL Solutions (Danzas ASG Eurocargo Oy). The arrangement covers the sending and receiving of goods and the packing of products and boosts Vacon's international logistics network.

## Shares and shareholders

In April 2003 the company paid a dividend of EUR 2.6 million or EUR 0.17 per share (40 per cent of the earnings per share for the financial year).

During 2003 a total of 4,231,544 company shares, with a value of EUR 37.9 million, were traded on the Helsinki Exchanges. The highest quoted price was EUR 10.65 and the lowest was EUR 6.70. The share price on the closing date was EUR 9.80 and the company's share capital had a market value of EUR 148.5 million.

Vacon had 3,324 registered shareholders according to the register of shareholders updated on 31 December 2003. The number of nominee registered shares and shares registered outside Finland totalled 4,372,671 or 28.9 per cent of the total share stock.



TEX®

**DHL**

Name: [Photo] ID: [Photo]

Address: [Photo] Phone: [Photo]

Company: [Photo] Email: [Photo]

Department: [Photo] Job Title: [Photo]



20242516 R

**FREQUENCY CONVERTER**

**NXL00125C2H15S500**

Serial number: 10007258

B.I.D 04052 (40°C ambient)

Rated current: 12.0A

220-240 V 50 Hz

380-500 V 47 Hz

IP20  
 IP54/Nema 1  
 IP65/Nema 12  
 EMC level II  
 Keyboard  
 Fanless boards  
 Brake Chopper  
 Din rail mounting

Software: 08101258

Cont. enter No.:

Marks:

**CE**

**vagon**

CHINA NORTH OPTO-ELECTRO INDUSTRIES CO. LTD., China

### **Annual General Meeting**

Vacon's Annual General Meeting of Shareholders was held on 20 March 2003. The AGM authorized the Board of Directors to decide on purchasing and surrendering the company's own shares. This authorization has not been used.

### **Board of Directors and President**

The Annual General Meeting elected six members to the Board of Directors, namely Jari Eklund, Mauri Holma, Jan Inborr, Veijo Karppinen, Harri Niemelä and Harry Ollila. The term of office for Board members continues until the end of the following Annual General Meeting of Shareholders.

At its preliminary meeting after the AGM the Board elected Jan Inborr as chairman and Harri Niemelä as vice chairman. Stefan Wikman is secretary to the Board.

Vacon's President and CEO throughout the financial year was Vesa Laisi.

Executive Vice President Erkki Raunio resigned from Vacon Plc as from 1 September 2003 to become president of Vamp Ltd, a manufacturer of protection relays.

### **Auditors**

In accordance with the decision of the Annual General Meeting, the company's auditors are the authorized public accountants KPMG Wideri Oy Ab and the principal auditor appointed by them is Pekka Pajamo, APA.

### **Future prospects**

The long-term frequency converter market growth is forecasted to be above five per cent. At the start of 2004 it looks as if the general economic uncertainty is continuing and the market growth is expected to be 3-4 per cent from 2003. A rise has been forecast in the price of electricity and customers need to boost the efficiency of their processes, and these factors create demand for frequency converters and for their continuous development. Close partnership with customers and strong investment in R&D improve Vacon's position as a major supplier of frequency converters.

Vacon's key goals for 2004 are to increase revenues and profit, efficient use of working capital, increasing awareness of Vacon, and expanding the customer base. Growth will be achieved through organic growth.

Revenues in 2004 are forecast to rise by 10 – 20 per cent and profitability should improve from 2003.

### **Board dividend proposal**

Distributable consolidated equity is at the end of year 2003 EUR 24.3 million and the parent company's distributable equity is EUR 27.7 million.

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 25 March 2004 that a dividend of EUR 0.55 be paid for 2003. According to this proposal, a total of EUR 8.3 million would be paid.

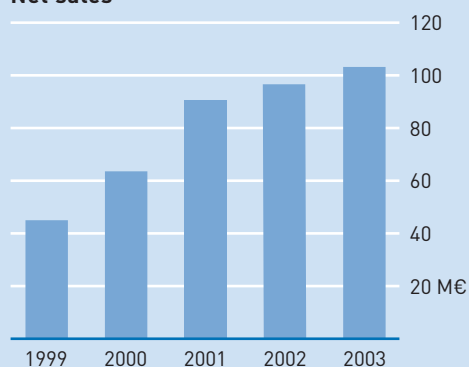
Vaasa, 11 February 2004

Board of Directors

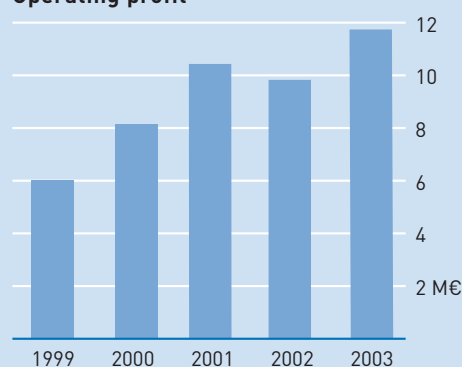
## INCOME STATEMENT

1000 €	Note	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>Net sales</b>	1	<b>112,299</b>	<b>97,489</b>	<b>94,097</b>	<b>85,714</b>
Change in inventories of finished goods and work in progress, increase (+)/ decrease(-)		113	1,196	-153	560
Other operating income		298	117	129	103
Materials and services					
Materials and consumables					
Purchases during the financial year		-53,033	-47,414	-47,978	-44,648
Change in inventories		-444	-1,211	-480	-1,237
External services		-1,819	-1,305	-1,425	-1,128
		-55,296	-49,930	-49,883	-47,013
Personnel expenses	2	-21,678	-18,989	-14,441	-12,520
Depreciation and write-downs	5	-3,547	-2,946	-2,873	-2,376
Other operating expenses		-20,368	-17,008	-16,312	-13,979
<b>Operating profit</b>		<b>11,821</b>	<b>9,929</b>	<b>10,564</b>	<b>10,489</b>
Share of results in affiliated companies		-26			
Financial income and expenses	6	-122	-94	-33	-390
<b>Profit before appropriations and taxes</b>		<b>11,673</b>	<b>9,835</b>	<b>10,531</b>	<b>10,099</b>
Appropriations	7			-237	-520
Income taxes	8	-3,933	-3,288	-3,015	-2,807
Minority interest		-118	-37		
<b>Profit for the financial year</b>		<b>7,622</b>	<b>6,510</b>	<b>7,279</b>	<b>6,772</b>

Net sales



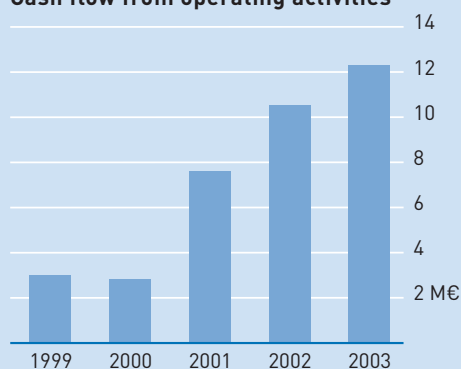
Operating profit



## CASH FLOW STATEMENT

1000 €	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>Cash flow from operating activities:</b>				
Operating profit	11,821	9,929	10,565	10,490
Adjustments:				
Depreciation	3,547	2,946	2,873	2,376
Unrealized exchange rate differences	11			
Other adjustments		-11		
Cash flow before changes in working capital	15,379	12,864	13,438	12,866
Changes in working capital:				
Current assets, non-interest bearing, increase (-)/decrease (+)	-205	982	765	1,205
Inventories, increase (-)/decrease (+)	265	9	632	677
Current liabilities, increase (+)/decrease (-)	444	822	-644	
	504	1,813	753	1,882
Cash flow from operating activities before financial items and taxes	15,883	14,677	14,191	14,748
Interest received	192	311	287	277
Interest paid	-200	-366	-155	-328
Other financial items	-6	-62	-28	-11
Taxes paid	-3,551	-4,017	-2,936	-3,948
<b>Cash flow from operating activities</b>	<b>12,318</b>	<b>10,543</b>	<b>11,359</b>	<b>10,738</b>
<b>Cash flow from investing activities:</b>				
Investments in tangible and intangible assets	-4,038	-4,746	-3,226	-3,888
Proceeds from sale of fixed assets	397	958	383	917
Loans granted	-177		-1,302	-1,138
Other investments	-621	45	-896	-236
Repayments on loan receivables	98		398	58
Proceeds from sale of other investments	33		48	
<b>Cash flow from investing activities</b>	<b>-4,308</b>	<b>-3,743</b>	<b>-4,595</b>	<b>-4,287</b>
<b>Cash flow from financing activities:</b>				
Long-term loans, increase (+)/decrease (-)	-1,233	756	-1,142	806
Short-term loans receivable, increase (-)/decrease (+)	1,455	-742	1,540	-633
Preferred capital loans, increase (+)/decrease (-)	-837	-461	-774	-628
Dividends paid	-2,576	-2,424	-2,576	-2,424
Other changes	5	-17		
<b>Cash flow from financing activities</b>	<b>-3,186</b>	<b>-2,888</b>	<b>-2,952</b>	<b>-2,879</b>
<b>Change in liquid funds</b>	<b>4,824</b>	<b>3,912</b>	<b>3,812</b>	<b>3,572</b>
Liquid funds at the beginning of the period	9,216	5,304	5,765	2,192
Liquid funds, exchange rate differences	-141			
Liquid funds at the end of period	13,899	9,216	9,577	5,765

### Cash flow from operating activities



## BALANCE SHEET

1000 €	Note	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>Assets</b>					
<b>Fixed assets</b>	9				
Intangible assets					
Development expenses		2,922	3,725	2,479	3,211
Intangible rights		1,351	1,230	1,138	1,027
Goodwill on consolidation		2,410	2,336		
Other long-term expenditure		93	118	76	92
		6,776	7,409	3,693	4,330
Tangible assets					
Machinery and equipment		7,933	7,569	7,270	6,986
Other tangible assets		58	69	28	28
Construction in progress		2,030	1,668	1,991	1,668
		10,021	9,306	9,289	8,682
Financial assets					
Shares in group companies	10			5,110	4,881
Receivables from group companies				5,164	4,349
Shares in affiliated companies	10			55	
Receivables from affiliated companies		177		177	
Other shares		681	117	681	117
Other receivables		300	398	119	208
		1,158	515	11,306	9,555
<b>Total fixed assets</b>		<b>17,955</b>	<b>17,230</b>	<b>24,288</b>	<b>22,567</b>
<b>Current assets</b>					
Inventories					
Materials and consumables		1,896	2,340	1,739	2,218
Finished products/goods		4,675	4,563	1,843	1,996
Advance payments		14	5		
		6,585	6,908	3,582	4,214
Short-term receivables	11				
Trade receivables		18,371	17,660	17,057	17,312
Other receivables		672	1,011	574	864
Prepaid expenses and accrued income	12	740	1,069	544	949
		19,783	19,740	18,175	19,125
Cash and bank balances		13,899	9,216	9,577	5,765
<b>Total current assets</b>		<b>40,267</b>	<b>35,864</b>	<b>31,334</b>	<b>29,104</b>
<b>Assets</b>		<b>58,222</b>	<b>53,094</b>	<b>55,622</b>	<b>51,671</b>



1000 €	Note	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>					
	13, 14				
Share capital		3,030	3,030	3,030	3,030
Share premium reserve		3,499	3,499	3,499	3,499
Other reserves		23	21		
Retained earnings		17,830	13,961	20,414	16,217
Profit for the financial year		7,622	6,510	7,279	6,772
		32,004	27,021	34,222	29,518
Preferred capital notes	15	718	1,555	406	1,180
<b>Total shareholders' equity</b>		<b>32,722</b>	<b>28,576</b>	<b>34,628</b>	<b>30,698</b>
<b>Minority interest</b>					
		162	47		
<b>Group reserves</b>					
		65	71		
<b>Accumulated appropriations</b>					
	16				
Depreciation difference				1,332	1,095
<b>Liabilities</b>					
	17				
Long-term					
Loans from credit institutions		4,501	5,779	4,486	5,628
Deferred tax liability	18	464	396		
		4,965	6,175	4,486	5,628
Current					
Loans from credit institutions		2,525	1,070	1,824	284
Advances received		596	768	326	503
Trade payables		10,059	11,045	9,468	10,751
Other current liabilities		1,388	1,511	299	336
Accrued expenses and deferred income	19	5,740	3,831	3,259	2,376
		20,308	18,225	15,176	14,250
<b>Total liabilities</b>		<b>25,273</b>	<b>24,400</b>	<b>19,662</b>	<b>19,878</b>
<b>Shareholders' equity and liabilities</b>		<b>58,222</b>	<b>53,094</b>	<b>55,622</b>	<b>51,671</b>

### General accounting principles

The financial statements of Vacon Plc and the consolidated financial statements are prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements.

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 financial statement items. Although the assessments are based on the latest available information, the final figures may differ from these assessments.

Key figures and other information for the 2000 financial year are pro forma figures and are based on the financial information for Vacon Plc, Vaasa Control Oy and Vaasa Engineering Invest Oy. The Vacon Plc Group was formed on 31 August 2000 when Vaasa Control Oy and Vaasa Engineering Invest Oy merged with Vacon Plc. The operations of the current group consist of the business that Vaasa Control Group was engaged in. The key figures and other information for the 1999 financial year are based on the financial information of Vacon Oy and Vaasa Control Group.

### Principles of consolidation

The consolidated financial statements include the accounts of the parent company and the accounts of companies in which the parent company owns or holds more than half of the voting rights. Subsidiaries acquired or established during the financial year are consolidated from the date of acquisition or establishment. The consolidated financial statements are prepared using the acquisition cost method. The acquisition cost of subsidiary company shares has been eliminated against the equity of the subsidiaries as at the date of acquisition. The resulting group goodwill is depreciated over fifteen years and the resulting Group reserve is entered as income over fifteen years. The depreciation period is based on the expected results of the subsidiary companies. Intra-Group business transactions, receivables as well as liabilities and unrealized margins on intra-group transactions are eliminated in the consolidation. Minority interests are presented as a separate item in the consolidated income statement and the share of minority interests in shareholders' equity is also shown separately in the consolidated balance sheet. Unless stated otherwise in the Articles of Association, company regulations or shareholder agreement or for some other cause, minority interest liability for the losses of subsidiary companies is limited to the amount of their investment. Changes in the depreciation difference of group companies are divided into changes in tax liability and the result for the year in the consolidated

financial statements. Accumulated appropriations are divided into tax liability and non-restricted shareholders' equity in the consolidated balance sheet.

The financial statements of affiliated companies are consolidated using the equity method. In accordance with this method, the group's share of the result of the affiliated company is included in the consolidated income statement. The group's share of the accumulated results since the acquisition of the company is presented in the consolidated balance sheet as part of the investment made in the affiliated company. If a subsidiary company becomes an affiliated company during the financial year, the company is consolidated using the acquisition cost method up until the date of change of status, and from then onwards using the equity method.

The Group's share of the figures for the joint venture company Vacon Americas LLC has been incorporated in the consolidated financial statements. At the close of the financial year, the joint venture had no personnel. Investments in other companies (Group ownership and voting rights less than 20 per cent) are presented in the balance sheet at acquisition cost.

### Foreign subsidiaries

Items in the income statements of foreign subsidiaries are translated into euros at the average of the monthly average exchange rates, and items in their balance sheets at the average exchange rate on the balance sheet date. Translation differences resulting from the different exchange rates used in the income statement and balance sheet are entered under consolidated shareholders' equity. Translation differences arising from the application of the acquisition cost method, resulting from changes in exchange rates, are also entered under consolidated shareholders' equity.

The cash flows of foreign subsidiaries are translated into euros at the average of the monthly average exchange rates. This method has been applied for the first time in the group's cash flow statement for the 2003 financial year. The 2002 figures for comparison have not been adjusted accordingly.

### Revenues

Revenues are calculated by deducting indirect sales taxes, discounts and exchange rate profit and losses on sales from gross sales revenues. Revenue is recognized at the date of delivery, except for large, long-term projects, which are recognized using the percentage-of-completion method. The percentage of completion is determined by the proportion of the total value accounted for by the accumulated costs.

### Foreign currency transactions

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the average exchange rate on that date. Exchange rate differences relating to sales and purchases are recorded as adjustments to these items. Exchange gains and losses related to financing operations are recorded under financial income and expenses.

During the financial period Vacon started to hedge foreign currency items with forward contracts and currency options. These contracts are used only to hedge against foreign exchange risks. Non-interest bearing receivables and liabilities hedged with forward contracts and options are valued at the exchange rates given in the contracts.

### Pension arrangements

Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance companies and recorded as determined by periodical actuarial calculations prepared by those institutions. In Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local legislation and practice.

### Leasing

Leasing payments are treated as rentals. Unpaid leasing fees are recorded under leasing liabilities in the notes to the financial statements.

### Research and development

The costs of research activities are recorded under expenses. Development costs are also recorded under expenses, except for significant projects that create new business operations and will generate revenue in the future. These are capitalised and amortised during their effective life span, but no later than in five years. Grants received are entered as deductions in the relevant items.

### Income taxes

In the consolidated income statement, taxes are calculated in accordance with the local tax regulations for each company. Taxes include taxes paid and accrued during the period and adjustments to the taxes for previous periods. Taxes also include the change in the deferred tax liability.

### Fixed assets and depreciation

Fixed assets are valued in the balance sheet at their original acquisition cost less accumulated planned depreciation. Planned depreciation is calculated on a straight-line basis on the original acquisition cost, based on the estimated useful economic life, as follows:

Intangible assets	5 – 8 years
Corporate goodwill	15 years
Buildings and structures	15 - 40 years
Machinery and equipment	4 - 15 years
Other tangible assets	5 - 10 years

### Inventories

Inventories are valued at the cost of acquisition and manufacturing, or the net realizable value if this is lower. The average price method has been used to determine the acquisition price. The acquisition cost of finished and semi-finished products includes an appropriate proportion of indirect production costs.

### Dividends

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

## ADOPTION OF IFRS REPORTING

The European Union requires all companies listed in the EU to adopt International Financial Reporting Standards (IFRS) in their financial reporting no later than 2005. The purpose behind introducing international standards is to improve the operation of the EU's capital markets by increasing the reliability, transparency and comparability of the financial statements of companies operating in the EU area.

### **IFRS adoption project and transition schedule**

Vacon Plc will start reporting in accordance with IAS/IFRS standards in its interim reports and financial statements for 2005. The preparations for adopting IFRS started in 2003, when an IFRS project team was set up. The team has reported directly to the company's Board of Directors.

During 2003, work has started in different areas of the business to identify the differences that exist between IFRS and Finnish financial reporting practice in the accounting principles for Vacon Plc's financial statements.

During 2004, decisions will be taken on optional accounting principles and the figures for the opening IFRS balance sheet will be calculated as well as the 2004 comparable figures for the 2005 interim reports. The necessary system changes will also be made, to be able to start IFRS reporting at the beginning of 2005. The project has progressed on schedule.

### **Changes to the financial statements caused by the adoption of IFRS**

According to a preliminary analysis, the accounting principles of Vacon Plc may change especially in the following areas:

#### **Leasing agreements**

According to IFRS, goods leased under a finance leasing agreement are recorded in the balance sheet as assets and liabilities.

#### **Employee benefits**

Liabilities or assets arising from benefits-related pension schemes and other benefits are recorded in the financial statements using the actuarial valuation method, if the items are significant with respect to the company's commitments.

#### **Goodwill**

It is proposed to change the accounting principles concerning goodwill so that planned depreciation will cease to be used and an annual test for impairment is made for goodwill.

### **Testing for impairment**

Testing goodwill for impairment is compulsory at the transition; cash-generating units and test methods are being defined for this testing.

### **Provisions**

According to IFRS, provisions must be recognized in accordance with not only the legal but also the actual obligation. However, IFRS criteria for the date of recognizing provisions and for the costs to be included are stricter than those in Finnish accounting practice.

### **Recognizing intangible rights**

According to IFRS, capitalization of development costs is compulsory if certain criteria are met.

### **Financial instruments**

The company plans to start using hedge accounting during 2004.

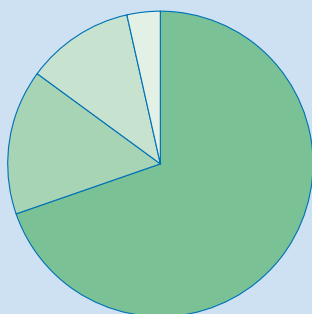
### **Deferred tax liabilities and credits**

Deferred taxes shall as a rule be recorded for all temporary differences between the consolidated balance sheet and the taxable balance sheet values.

### **Future changes to IFRS standards**

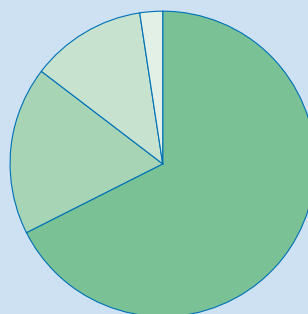
The first IFRS financial statement for 2005, including its comparable figures, must be prepared in accordance with the standards in force at the closing date. The final versions for certain standards are not expected until the end of the first quarter of 2004, and the impact these standards may have is still partly unclear. In addition, the existing standards contain optional accounting principles, and Vacon Plc has not yet decided which of these to adopt. Nor has the company yet decided about the exemptions allowed by IFRS 1 when adopting the standards for the first time. It is possible that not all the changes relating to these have been identified with complete certainty. It is also possible that as the project proceeds, other changes and impacts than those mentioned here will come to light.

1. Net sales 1000€



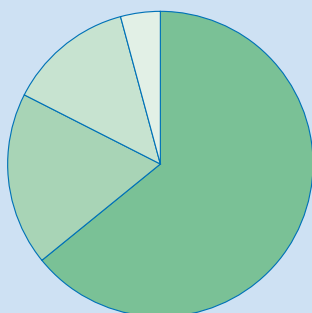
Group (by market area) 2003

Europe	78,256	69,7 %
North America	17,260	15,4 %
Australia and Asia	12,829	11,4 %
Other countries	3,954	3,5 %
Total	112,299	100,0 %



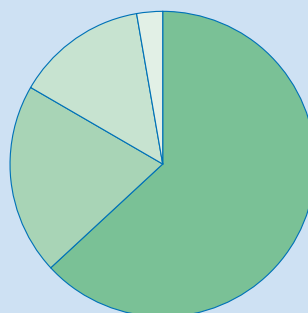
Group (by market area) 2002

Europe	65,867	67,6 %
North America	17,359	17,8 %
Australia and Asia	11,915	12,2 %
Other countries	2,348	2,4 %
Total	97,489	100,0 %



Parent (by market area) 2003

Europe	60,354	64,2 %
North America	17,260	18,3 %
Australia and Asia	12,529	13,3 %
Other countries	3,954	4,2 %
Total	94,097	100,0 %



Parent (by market area) 2002

Europe	54,092	63,1 %
North America	17,359	20,3 %
Australia and Asia	11,915	13,9 %
Other countries	2,348	2,7 %
Total	85,714	100,0 %

**Projects for which percentage-of-completion method is applied**

Recognized accumulated income  
 Recognized accumulated income for uncompleted projects  
 Unrecognized part of income for uncompleted projects

Group 2003	Group 2002	Parent 2003	Parent 2002
1,131	1,923	1,131	1,923
902		902	
180		180	

	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>2. Personnel expenses 1000 €</b>				
Wages and salaries				
Presidents and members of the Boards of Directors	2,178	1,886	367	311
Other wages and salaries	15,167	13,520	11,218	9,840
	17,345	15,406	11,585	10,151
Other personnel expenses				
Pension costs	2,622	1,922	1,921	1,648
Other compulsory personnel costs	1,711	1,661	935	721
	4,333	3,583	2,856	2,369
<b>3. Average number of personnel</b>				
Office personnel	290	279	180	175
Factory personnel	147	147	144	144
Total	437	426	324	319
<b>4. Pension commitments to the president</b>				
The retirement age agreed for the President of the parent company is 60 years.				
<b>5. Depreciation and write-downs 1 000 €</b>				
Intangible assets	1,219	845	992	685
Tangible assets	2,135	1,912	1,881	1,691
Total	3,354	2,757	2,873	2,376
Goodwill on consolidation	199	195		
Decrease of group reserves	-6	-6		
Total	193	189		
Depreciation according to plan, total	3,547	2,946	2,873	2,376
<b>6. Financial income and expenses 1 000 €</b>				
Dividend income				
From others	12	9	12	9
	12	9	12	9
Interest income from financial assets				
From group companies			164	224
From others	40	15	40	15
	40	15	204	239
Other interest and financial income				
From group companies			1	3
From others	135	287	66	26
	135	287	67	29
Write-downs on financial assets				
From group companies			-103	-325
			-103	-325
Interest and other financial expenses				
From others	-309	-405	-213	-342
	-309	-405	-213	-342
Financial income and expenses, total	-122	-94	-33	-390

	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>7. Appropriations 1 000 €</b>				
Change in depreciation difference			-237	-520
<b>8. Income taxes 1 000 €</b>				
Income taxes on operations	-3,865	-3,091	-3,015	-2,807
Change in deferred tax liability	-68	-197		
	-3,933	-3,288	-3,015	-2,807

9. Assets, 1000 €	Development expenses	Intangible rights	Goodwill on consolidation	Other long-term expenditure	Total
<b>Group</b>					
<b>Intangible assets</b>					
Acquisition cost on 1 January	5,760	1,856	2,902	201	10,719
Increases	77	422	273	10	782
Decreases					
Transfers between items					
Acquisition cost on 31 December	5,837	2,278	3,175	211	11,501
Accumulated amortization on 1 January	-2,035	-626	-566	-83	-3,310
Accumulated amortization of decreases and transfers		2			2
Amortization for the financial year	-880	-303	-199	-35	-1,417
Accumulated amortization on 31 December	-2,915	-927	-765	-118	-4,725
Net book value on 31 December	2,922	1,351	2,410	93	6,776
<b>Group</b>		Machinery and equipment	Other tangible assets	Construction in progress	Total
<b>Tangible assets</b>					
Acquisition cost on 1 January		13,237	207	1,668	15,112
Increases		2,529		745	3,274
Decreases		-107		-383	-490
Transfers between items		-33			-33
Acquisition cost on 31 December		15,626	207	2,030	17,863
Accumulated depreciation on 1 January		-5,668	-138		-5,806
Accumulated depreciation of decreases and transfers		98			98
Depreciation for the financial year		-2,123	-11		-2,134
Accumulated depreciation on 31 December		-7,693	-149		-7,842
Net book value on 31 December		7,933	58	2,030	10,021
<b>Group</b>		Receivables from affiliated companies	Other shares	Other receivables	Total
<b>Financial assets</b>					
Acquisition cost on 1 January			117	398	515
Increases		177	597	27	801
Decreases			-33	-125	-158
Net book value on 31 December		177	681	300	1,158

9. Assets 1000 €	Development expenses	Intangible rights	Other long-term expenditure	Total
<b>Parent company</b>				
<b>Intangible assets</b>				
Acquisition cost on 1 January	4,966	1,534	119	6,619
Increases		345	10	355
Decreases				
Transfers between items				
Acquisition cost on 31 December	4,966	1,879	129	6,974
Accumulated amortization on 1 January	-1,755	-507	-27	-2,289
Accumulated amortization of decreases and transfers				
Amortization for the financial year	-732	-234	-26	-992
Accumulated amortization on 31 December	-2,487	-741	-53	-3,281
Net book value on 31 December	2,479	1,138	76	3,693
<b>Parent company</b>				
<b>Tangible assets</b>				
Acquisition cost on 1 January	12,031	28	1,668	13,727
Increases	2,164		706	2,870
Decreases			-383	-383
Transfers between items				
Acquisition cost on 31 December	14,195	28	1,991	16,214
Accumulated amortization on 1 January	-5,045			-5,045
Accumulated amortization of decreases and transfers				
Amortization for the financial year	-1,880			-1,880
Accumulated amortization on 31 December	-6,925			-6,925
Net book value on 31 December	7,270	28	1,991	9,289
<b>Parent company</b>				
<b>Financial assets</b>				
Acquisition cost on 1 January	4,881	4,349		
Increases	273	1,275	55	177
Decreases	-44	-460		
Net book value on 31 December	5,110	5,164	55	177
<b>Parent company</b>				
<b>Financial assets</b>				
Acquisition cost on 1 January		117	208	9,555
Increases		597	26	2,403
Decreases		-33	-115	-652
Net book value on 31 December		681	119	11,306



**10. Shares**

	Group holding, %	Group votes, %	Parent company holding, %
<b>Group companies</b>			
Vacon GmbH, Essen, Germany	100	100	100
Vacon Traction Oy, Tampere, Finland	90	90	90
Vacon Benelux B.V., Gorinchem, The Netherlands	100	100	100
Vacon SpA, Montecchio Emilia, Italy	100	100	100
Vacon Drives Ibérica S.A., Manresa, Spain	100	100	100
Vacon Drives (UK) Ltd, Leicestershire, Great Britain	70	70	70
Vacon AB, Sundbyberg, Sweden	100	100	100
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70	70	70
Vacon Americas LLC, Milwaukee, USA	50	50	50
ZAO Vacon Russia, Moscow, Russia	100	100	100
Vacon France SAS, Moissy Cramayel, France	70	70	70
Rotatek Finland Oy, Lappeenranta, Finland	76	76	76
Vacon AS, Holmestrand, Norway	80	80	80
Vacon Benelux NV/SA, Heverlee, Belgium	100	100	99
<b>Affiliated companies</b>			
VNT Management Oy, Vaasa, Finland	49	49	49
Verteco Oy, Vaasa, Finland	36	36	31

**Group reserves 1 000 €**

	Group 2003	Group 2002	Parent 2003	Parent 2002
Acquisition value on 1 January	71	77		
Increases				
Acquisition value on 31 December	71	77		
Accumulated value entered as income	-6	-6		
Net book value on 31 December	65	71		

**11. Short-term receivables 1000 €**

From group companies				
Trade receivables			8,395	8,049
Prepaid expenses and accrued income				64
			8,395	8,113
From others				
Trade receivables	18,371	17,660	8,662	9,263
Other receivables	672	1,011	574	864
Prepaid expenses and accrued income	740	1,069	544	885
	19,783	19,740	9,780	11,012
Short-term receivables, total	19,783	19,740	18,175	19,125

**12. Main items in prepaid expenses and accrued income 1000 €**

Recognized accumulated income according to percentage-of-completion method	103	185	103	185
Subsidies	175	302	159	254
Other	462	582	282	510
	740	1,069	544	949

	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>13. Shareholders' equity</b>				
Share capital on 1 January	3,030	3,030	3,030	3,030
Share capital on 31 December	3,030	3,030	3,030	3,030
Share premium reserve on 1 January	3,499	3,499	3,499	3,499
Share premium reserve on 31 December	3,499	3,499	3,499	3,499
Other reserves on 1 January	21	19		
Change	2	2		
Other reserves on 31 December	23	21		
Retained earnings on 1 January	20,471	16,435	22,990	18,641
Dividend distribution	-2,576	-2,424	-2,576	-2,424
Other changes	7	11		
Translation difference	-72	-61		
Retained earnings on 31 December	17,830	13,961	20,414	16,217
Profit for the financial year	7,622	6,510	7,279	6,772
Preferred capital notes on 31 December	718	1,555	406	1,180
Shareholders' equity, total	32,722	28,576	34,628	30,698
<b>14. Distributable equity</b>				
Retained earnings on 31 December	17,830	13,961	20,414	16,217
Profit for the financial year	7,622	6,510	7,279	6,772
Depreciation difference and other untaxed reserves	-1,136	-967		
Distributable equity, total	24,316	19,504	27,693	22,989

### 15. Preferred capital notes

The parent company has received a capital note of EUR 116,049 from TEKES and EUR 289,746 from some of the shareholders of the company. The terms and conditions of the capital notes are in accordance with the provisions of Chapter 5 Section 1 of the Finnish Companies Act.

Principal terms of the capital note received from TEKES:

1. The note period is six years, of which the first three years are free from repayment.  
The note will be repaid in equal annual instalments. The first instalment was due in year 2002.
2. The interest rate is set one percent below the current base rate listed by the Bank of Finland, but to a minimum of 3.0 %.
3. No security was required for the note.
4. If the development work performed does not lead to a financially profitable business, TEKES can, pursuant to an application from the recipient, be exempted from repayment of the note either in full or in part, if terms stipulated in the decision of the Council of State are met. No exemption, however, can be made for payment of the interest.

Principal terms of the capital note received from shareholders:

1. The note will be repaid, the provisions of Chapter 5 Section 1 in the Finnish Companies Act taken into account, on June 30th 2006 earliest.
2. Interest will be paid on the last day of June every year, the provisions of Chapter 5 Section 1 in the Finnish Companies Act taken into account. The interest for the note corresponds to a prevailing market-rate. The interest rate for the note was 5.75 % p.a. at issuance of the note.
3. No security was required for the note.
4. The note can be repaid in full before June 30th 2006 under certain conditions specified in the capital note agreement section 2.6. This is applicable only if provisions of Chapter 5 Section 1 in the Finnish Companies Act allows it.

Interest expenses relating to these capital notes totalling EUR 11,720 were allocated at the end of year 2003.

## 16. Appropriations

The appropriations in the parent company comprises of accumulated depreciation difference.

	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>17. Liabilities</b> 1000 €				
<b>Long-term</b>				
Interest-bearing *)				
Loans from credit institutions	4,501	5,779	4,486	5,628
	4,501	5,779	4,486	5,628
Non interest-bearing				
Deferred tax liability	464	396		
	464	396		
<b>Long-term liabilities, total</b>	<b>4,965</b>	<b>6,175</b>	<b>4,486</b>	<b>5,628</b>
<b>Current</b>				
Interest-bearing				
Loans from credit institutions	2,525	1,070	1,824	284
	2,525	1,070	1,824	284
Non interest-bearing				
Advances received	596	768	326	503
Trade payables	10,059	11,045	9,271	10,521
Trade payables to group companies			197	230
Other current liabilities	1,388	1,511	299	336
Accrued expenses and deferred income	5,740	3,831	3,259	2,376
	17,783	17,155	13,352	13,966
<b>Current liabilities, total</b>	<b>20,308</b>	<b>18,225</b>	<b>15,176</b>	<b>14,250</b>
Interest-bearing liabilities *)	7,026	6,849	6,310	5,912
Non interest-bearing liabilities	18,247	17,551	13,352	13,966
Liabilities, total	25,273	24,400	19,662	19,878

\*) The preferred capital notes are not included in long-term interest-bearing liabilities.

## 18. Specification of deferred tax liability

Appropriations	464	396		
----------------	-----	-----	--	--

## 19. Main items in accrued expenses and deferred income 1000 €

Wages, salaries and wage-related liabilities	3,085	2,366	2,120	1,610
Other	2,655	1,465	1,139	766
	5,740	3,831	3,259	2,376

	Group 2003	Group 2002	Parent 2003	Parent 2002
<b>20. Currency derivative contracts</b> 1000 €				
Forward contracts				
Nominal value	61		61	
Fair value	62		62	
Underlying value	61		61	
Options, purchased				
Nominal value	640		640	
Fair value	649		649	
Underlying value	660		660	
Options, written				
Nominal value	455		455	
Fair value	450		450	
Underlying value	462		462	
<p>We use hedging instruments to manage exposures to changes in currency exchange rates associated with commercial purchase and sales transactions. All aforementioned hedging contracts were open at the time of the annual closing.</p>				
<b>21. Collateral and contingent liabilities</b> 1000 €				
For own loans/commitments				
Mortgages	455	5,298		5,129
For group companies				
Contingent liabilities	1,320	780	766	780
For other				
Contingent liabilities	19	87	19	87
<b>22. Amount payable according to leasing contracts</b> 1000 €				
Maturity within one year	1,123	820	877	522
Maturity after one year	1,817	1,506	1,591	1,231
	2,940	2,326	2,468	1,753
<b>23. Other commitments</b> 1000 €				
Capital commitments	1,903		1,903	

## SIGNING OF THE FINANCIAL STATEMENTS

Vaasa, February 11, 2004

Jan Inborr  
Chairman

Jari Eklund

Mauri Holma

Veijo Karppinen

Harri Niemelä

Harry Ollila

Vesa Laisi  
President and CEO

## AUDITOR'S REPORT

### To the shareholders of Vacon Plc

We have audited the accounting records, the financial statements and the administration of Vacon Plc for the period 1.1. – 31.12.2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position.

The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us.

The proposal by the Board of Directors regarding the distribution of the distributable funds of the company is in compliance with the Companies Act.

Vaasa, February 11, 2004

KPMG WIDERI OY AB

Pekka Pajamo  
Authorised Public Accountant

## SHARES AND SHAREHOLDERS

The shares of Vacon Plc were listed on the Helsinki Exchanges on 14 December 2000. Vacon's company code on the Helsinki Exchanges is VAC and the trading code is VAC1V.

The lot size for trading of the shares is 100 shares. Each share carries one vote. The company has 15,150,000 shares with a nominal value of EUR 0.20 each. During 2003 a total of 4,231,544 shares were traded with a value of EUR 37.9 million. The highest quoted price during the review period was EUR 10.65 and the lowest was EUR 6.70. On the last day of 2003 the quoted price was EUR 9.80, which gave the company a market value of EUR 148.5 million.

### **Ownership of the members of the Board of Directors**

At the end of the year a total of 1,123,000 or 7.4 per cent of Vacon's share stock, were in the direct ownership of members of the Board of Directors

Vacon Plc does not own any of its own shares.

### **Options**

#### **Option programme II**

The Annual General Meeting, held on March 25, 2002, adopted the Board's proposal of option terms for Vacon Group's key personnel. The main conditions are as follows:

Option rights can be subscribed from May 1 to June 30, 2003. Each option right will entitle its holder to subscribe for one (1) share in the Company each with a par value of 0.2 Euros. Pursuant to the share subscriptions, the share capital of the Company can increase by a maximum of 300,000 shares corresponding to 60,000 Euros.

The share subscription price will be the average price of the closing prices on the Helsinki Stock Exchange during the period January 2 through February 28, 2002, in other words 10.32 Euros.

The option rights are divided into series CI, CII, DI and DII. Each series includes 75,000 option rights. The option rights entitle subscription for the Company's shares as follows:

1. Series CI and CII from August 16 to September 15, 2003.
2. Series DI and DII from August 16 to September 15, 2004.

The holders of series CI and CII option rights are entitled to subscription for the shares only if the profit of the Vacon Group in the financial year from 1 January to June 30, 2003 is a minimum of 3,000,000 and the operational cash flow is a minimum of 3,200,000.

The holders of series DI and DII option rights are entitled to subscription for the shares only if the profit

of the Vacon Group in the financial year from 1 January to December 31, 2003 is a minimum of 9,000,000 and the operational cash flow is a minimum of 10,500,000.

The Option programme also include the Managing Director of the company, who belongs as of 1 July 2002 to the inner circle of the company as defined in Chapter 1, Section 4 of the Companies Act. The Managing Director has subscribed 25,000 option rights in each series based on this option programme. The Managing Director did not subscribe any shares based on the series CI and CII option rights and therefore the remaining option rights entitle him to subscribe a maximum of 50,000 shares.

New shares will qualify first for a dividend payment for the financial year during which the subscription has taken place. Other rights will commence on the date when the increase in the share capital is entered into the Trade Register.

No shares were subscribed based on the series CI and CII option rights during August 18 and September 15, 2003.

#### **Proposal by the Board of Directors to authorise the Board of Directors to resolve to repurchase shares in the company**

The Annual General Meeting adopted on March 20, 2003 the Board's proposals to authorise the Board to resolve to repurchase shares in the company and to dispose of shares in the company. The authorisation is valid including March 19, 2004.

The authorisation entitles the company to repurchase a maximum of 757,500 shares which amounts five (5) per cent of the total number of the share capital of the company and the total voting power of all shares issued by the company and existing at the time.

Shares can be repurchased for the purpose of developing the capital structure of the company, to be used in the financing of corporate acquisitions and other transactions or for the purpose of being sold or otherwise transferred or cancelled. The cancellation of shares requires separate resolution by a Shareholders' Meeting to reduce the share capital of the company.

The Board of Directors shall be authorised to decide on the sales price or other consideration for the shares as well as on the basis for the determination of such consideration and the shares can be disposed of for other consideration than cash or otherwise on specific terms and conditions or by using right of set-off.

#### **Issues of shares, convertible bonds and bonds with equity warrants**

No authorisation has been given.

## Breakdown of Ownership

### Division of Shares

Number of shares	Number of shareholders	%	Number of shares	%
1-500	2,586	77.8	596,770	3.9
501-1 000	332	10.0	270,848	1.8
1 001-5 000	254	7.6	600,819	4.0
5 001-10 000	54	1.6	421,959	2.8
10 001-50 000	63	1.9	1,386,184	9.1
50 001-100 000	18	0.6	1,332,200	8.8
Over 100 000	17	0.5	10,541,220	69.6
<b>Total</b>	<b>3,324</b>	<b>100.0</b>	<b>15,150,000</b>	<b>100.0</b>
including Nominee registered	7		4,372,671	28.9

### Ownership structure

Corporations	190	5.7	3,118,025	20.6
Banks and insurance companies	25	0.8	5,339,360	35.2
Public sector entities	4	0.1	675,400	4.5
Non-profit organisations	25	0.8	127,900	0.8
Households	3,080	92.6	5,889,315	38.9
<b>Total</b>	<b>3,324</b>	<b>100.0</b>	<b>15,150,000</b>	<b>100.0</b>

### Major shareholders 31.12.2003

	Number of shares	% of shares
Nordea Bank Nominee registered *)	4,189,008	27.7
Ahlström Capital Oy	2,287,996	15.1
Tapiola Group	975,400	6.4
Vaasa Engineering Oy	506,433	3.3
Karppinen Veijo	408,249	2.7
Holma Mauri	367,171	2.4
Koskinen Jari	354,494	2.3
Ehrnrooth Martti	312,770	2.1
Niemelä Harri	309,840	2.0
Others	5,438,639	35.9
<b>Total</b>	<b>15,150,000</b>	<b>100.0</b>

### \*) Nordea Bank Nominee registered 31.12.2003

Fidelity Funds	2,268,800	15.0
Other Nordea Bank Nominee registered	1,920,208	12.7
<b>Total</b>	<b>4,189,008</b>	<b>27.7</b>

Ownership outside Finland on 31 December 2003 (including Nominee registered) 29 %.

## KEY FIGURES

	2003	2002	2001	2000 (pro forma)	1999 (pro forma)
<b>Per share data</b>					
Earnings per share, EUR	0.50	0.43	0.45	0.41	0.33
Equity per share, EUR	2.11	1.78	1.52	1.32	0.56
Dividend per share, EUR *)	0.55	0.17	0.16	0.14	0.07
Dividend payout ratio, % *)	109.32	39.60	35.50	35.30	22.20
Effective dividend yield, % *)	5.6	2.3	1.7	1.7	
Price/earnings ratio	19.5	17.2	20.7	20.2	
<b>Share price information</b>					
Lowest during the period, EUR	6.70	5.60	7.85	7.50	
Highest during the period, EUR	10.65	11.60	12.60	8.50	
Closing price at the end of the period, EUR	9.80	7.40	9.33	8.30	
Average price for the period, EUR	8.95	9.68	10.02	7.76	
Market value of the shares, MEUR	148.50	112.11	141.35	125.75	
Number of shares exchanged	4,231,544	4,599,195	6,240,984	211,041	
Number of shares exchanged, %	27.9	30.4	41.2	1.5	
Adjusted average number of shares during the financial period	15,150,000	15,150,000	15,150,000	13,722,242	11,721,500
Number of shares at the end of the period	15,150,000	15,150,000	15,150,000	15,150,000	11,721,500
<b>Financial Ratios</b>					
Revenues, MEUR	112.3	97.5	90.5	64.9	44.3
Revenues, increase, %	15.2	7.7	39.5	46.6	71.9
Operating profit, MEUR	11.8	9.9	10.4	8.1	6.0
Operating profit, increase, %	19.2	-4.8	28.4	34.7	91.4
Operating profit, % of revenues	10.5	10.2	11.5	12.5	13.6
Profit before appropriations and taxes, MEUR	11.7	9.8	10.1	8.2	5.7
Profit before appropriations and taxes, % of revenues	10.4	10.1	11.2	12.7	12.9
Return on equity, %	26.1	26.2	32.9	44.3	71.3
Return on investments, %	31.7	30.4	38.1	46.8	47.4
Interest bearing net debt, MEUR	-6.2	-0.8	3.5	2.3	4.3
Net gearing (%)	-19.1	-3.0	15.4	12.7	62.8
Equity ratio (%) (preferred capital notes excluded)	55.8	51.7	47.7	49.1	33.1
Gross investments in fixed assets, MEUR	4.8	4.7	7.5	8.8	1.4
Gross investments in fixed assets, % of revenues	4.3	4.8	8.3	13.6	3.3
Research and development expenditure, MEUR	8.9	7.1	6.9	5.8	3.6
Research and development expenditure, % of revenues	7.9	7.3	7.6	8.9	8.1
Personnel at the end of the period	436	426	409	308	220
Orderbook at the end of the period, MEUR **)	12.3	15.5	6.5	5.8	2.5

\*) The 2003 dividend is the Board of Directors' proposal to the Annual General Meeting.

\*\*) 1999-2001 parent company's orderbook



## CALCULATION OF FINANCIAL RATIOS

<b>Earnings per share =</b>	$\frac{\text{Profit before extraordinary items - income taxes -/+ minority interests}}{\text{Adjusted number of shares over the financial year}}$
<b>Equity per share =</b>	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial year}}$
<b>Dividend per share =</b>	$\frac{\text{Dividends paid for the financial year}}{\text{Adjusted number of shares at the end of the financial year}}$
<b>Dividend payout ratio =</b>	$\frac{\text{Dividends paid for the financial year} \times 100}{\text{Profit before taxes - income taxes - minority interest}}$
<b>Effective dividend yield =</b>	$\frac{\text{Dividend per share} \times 100}{\text{Adjusted share price at the end of the financial year}}$
<b>Price/earnings =</b>	$\frac{\text{Adjusted share price at the end of the financial year}}{\text{Earnings per share}}$
<b>Return on equity =</b>	$\frac{(\text{Profit before extraordinary items - income taxes}) \times 100}{\text{Shareholders' equity} + \text{minority interests, average over the year}}$
<b>Return on investments =</b>	$\frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses}) \times 100}{\text{Balance sheet total} - \text{non interest-bearing liabilities, average over the year}}$
<b>Equity ratio =</b>	$\frac{(\text{Shareholders' equity} + \text{minority interests}) \times 100}{\text{Balance sheet total} - \text{advances received}}$
<b>Net gearing =</b>	$\frac{(\text{Interest bearing liabilities} - \text{cash and bank balances}) \times 100}{\text{Shareholders' equity} + \text{minority interests}}$

In the calculations the preferred capital notes are included in interest-bearing liabilities, not in shareholders' equity.

In accordance with the Finnish Companies Act and the Company's Articles of Association, control and administration of the Company lies with the shareholders represented at the Annual General Meeting, the Board of Directors and the President. The Company's corporate governance conforms to current legislation, to the recommendations on the administration of public listed companies issued by the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, and to the insider guidelines issued by the Helsinki Exchanges.

### Annual General Meeting of Shareholders

The shareholders exercise the highest authority at the Annual General Meeting of Shareholders. The AGM decides on adopting the financial statements, any distribution of profits, and discharging from liability the members of the Board of Directors and the President. In addition, the AGM decides on the number of Board members and auditors and their remuneration, selects them, and decides on any changes in the Company's Articles of Association. The AGM is held annually on a date determined by the Board of Directors but no later than the end of June.

### The President and Management Team

The Board of Directors appoints the President and defines the terms of employment of the President in writing. The President prepares the matters to be decided at the meetings of the Board of Directors and is responsible for seeing that the Board's decisions are carried out. The President is responsible for the Group's administration and is chairman of the Management Team. The retirement age for the President is 60 years. Subsidiary companies report to the Group's Vice President for Sales, Marketing and Customer Service.

The Management Team prepares and guides the development of the Group's processes and business areas and the Group's joint functions. The Management Team consists of the President and representatives chosen from among the Group's senior management. The Management Team is not an administrative body stipulated by the Finnish Companies Act.

### Insider dealing

Vacon observes the guidelines for insiders for listed companies approved by the Helsinki Exchanges. Vacon's insiders include the Board of Directors and the auditor, the Management Team, personnel in the treasury and communications departments and the secretaries to senior management. The holdings of the company's permanent insiders can be viewed in the SIRE system maintained by the Finnish Central Securities Depository Ltd. The company also maintains registers of insiders for individual projects.

Vacon's silent period lasts three weeks. The Company does not comment on market prospects and does not meet financial market or media representatives for three weeks before the publication of interim reports or the annual financial statements.

The silent period also applies to Vacon's permanent insiders, who may not trade in the company's securities for three weeks before the publication of the results for a reporting period. Vacon Plc may also not purchase its own shares during this period.

### Incentive schemes

The company has an incentive scheme for the entire personnel and an options scheme approved by the Annual General Meeting in 2002.

### Board of directors

#### Jan Inborr, chairman

- born 1948, M.Sc. (Econ.), President and CEO, Ahlström Capital Oy.
- board member at: Ahltronix Oy (chair), Å&R Carton AB (vice chair), Ahlström Corporation, Nordkalk Corporation, Stiftelsen för Åbo Akademi.
- No Vacon Plc shares

#### Harri Niemelä, vice chairman

- born 1944, B.Sc. (El. Eng.), President, Vaasa Industrial Invest Ltd
- board member at: Finnet Ltd (member of supervisory board), VG Power Ab (chair), SESCA Technologies Oy (chair), Vacon Traction Ltd (chair), Vaasan Läänin Puhelin Oy (vice chair), Ostrobothnia Chamber of Commerce/ Vaasa Office (vice chair), Kokkolan Puhelin Oy, VNT Management Ltd.
- 309,840 Vacon Plc shares

#### Jari Eklund, board member

- born 1963, M.Sc. (Econ.), Investment Director, Tapiola Insurance Group
- board member at: Ilkka-Yhtymä Oyj (member of supervisory board), Tapiola Asset Management Ltd (chair), Tapiola Fund Management Ltd (chair), Tapiola Bank Ltd, Mortgage Society of Finland
- No Vacon Plc shares

#### Mauri Holma, board member

- born 1950, B.Sc. (El. Eng.), President, Vaasa Engineering Oy and Vaasa Service Oy
- board member at: Vaasa Engineering Oy, Vaasa Switchgears Ltd, Vaasa Service Oy, Ostrobothnia Chamber of Commerce/ Vaasa Office (member of the Industry Committee)
- 367,171 Vacon Plc shares

#### Veijo Karppinen, board member

- born 1950, M.Sc. (Engineering), President, VNT Management Ltd
- board member at: Vaasa Engineering Oy (chair), Inion Ltd, VG Power Ab.
- 408,249 Vacon Plc shares

#### Harry Ollila, board member

- born 1950, M.Sc. (Engineering), Vice President, KCI Konecranes Plc
- board member at: Sarlin Oy.
- 37,740 Vacon Plc shares

#### Stefan Wikman, secretary to the Board

- born 1956, Attorney, Partner, Roschier Holmberg, Attorneys Ltd
- board member at: Oy C.J. Hartman Ab, Oy Hartman Invest Ab, Fastighets Ab Academill, Harry Schaumans Stiftelse.
- No Vacon Plc shares

**Vesa Laisi**

- ⦿ President and CEO
- ⦿ Born 1957, M.Sc. (Eng.), M.Sc. (Econ.) The President is in charge of the Group's business operations and attends to the administration of the company in accordance with the instructions and directions given by the Board of Directors.
- ⦿ Board member at: Finnfacts (chair)
- ⦿ No Vacon Plc shares

**Tuula Hautamäki**

- ⦿ Vice President, Information Technology and Process Development, Vice President, Human Resources as from 1 January 2004
- ⦿ Born 1964, M.Sc. (Eng.), M.Sc. (Econ.). Responsible for developing Vacon's operative capabilities and for developing the quality and environmental management systems.
- ⦿ 4,608 Vacon Plc shares

**Heikki Hiltunen**

- ⦿ Vice President, Sales, Marketing and Service
- ⦿ Born 1962, B.Sc. (Eng.). Responsible for Vacon Group sales, marketing and customer service operations and for operations of subsidiaries.
- ⦿ No Vacon Plc shares

**Dan Isaksson**

- ⦿ Vice President, Solution Customers business area
- ⦿ Born 1965, M.Sc. (El. Eng.). Responsible for Solution Customers business area and the Engineered Drives unit.
- ⦿ 16,608 Vacon Plc shares

**Jukka Kasi**

- ⦿ Vice President, Component Customers business area
- ⦿ Born 1966, M.Sc. (Eng). Responsible for Component Customers business area and Group Product Management.
- ⦿ 55,308 Vacon Plc shares

**Timo Kasi**

- ⦿ Vice President, R&D
- ⦿ Born 1966, M.Sc. (Eng.). Responsible for research and development of Vacon's frequency converter products and for the Company's technological competence.
- ⦿ 1,965 Vacon Plc shares

**Jari Koskinen**

- ⦿ Vice President, Production
- ⦿ Born 1960, M.Sc. (Econ.), MBA. Responsible for the manufacturing processes and logistics chain for Vacon's products, from Vacon's suppliers via Vacon to its customers.
- ⦿ 354,494 Vacon Plc shares

**Mika Leppänen**

- ⦿ Vice President, Finance and Control
- ⦿ Born 1959, M.Sc. (Econ.). Responsible for monitoring and developing Vacon's financial position and for managing the Company's treasury functions.
- ⦿ No Vacon Plc shares

**Jukka-Pekka Mäkinen**

- ⦿ Vice President, OEM and Brand Label Customers business area
- ⦿ Born 1959, B.Sc. (Eng.). Responsible for brand label and OEM customers business area and for the support unit for global customers.
- ⦿ 14,608 Vacon Plc shares

**Leena Taka**

- ⦿ Vice President, Human Resources
- ⦿ Born 1954, Graduate of Vaasa Commercial Institute (Marketing). Responsible for Vacon's personnel administration and its development. Vice President, Human Resources until 31 December 2003.
- ⦿ 40,351 Vacon Plc shares

Erkki Raunio was a member of the Company's Management Team and Executive Vice President until 31 August 2003.

### Annual General Meeting

The Annual General Meeting of Vacon Plc will be held at 3.00 pm on Thursday, 25 March 2004 in the Northern Lights conference room at the head office of Vacon Plc at Runsorintie 7, Vaasa, Finland.

To be entitled to attend the Annual General Meeting, shareholders must be registered on 15 March 2004 in the company's list of shareholders maintained by the Finnish Central Securities Depository.

### Notification

Shareholders wishing to attend the Annual General Meeting are requested to notify the company not later than 4.00 pm (Finnish time) on 18 March 2004.

This can be done by telephone to Johanna Koskinen on +358 201 212 528, by fax +358 201 212 208, by e-mail to johanna.koskinen@vacon.com or by mail to Vacon Plc, Johanna Koskinen, Runsorintie 7, 65380 Vaasa, Finland. Any letters of authorization should be sent with the notification of attendance.

Shareholders are requested to give their name, address, telephone number and date of birth when informing the company of their attendance.

### Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.55 per share be paid for the 2003 financial year. The dividend approved by the AGM will be paid to shareholders who are registered on the record date in the company's list of shareholders maintained by the Finnish Central Securities Depository. The record date for the dividend payment will be 30 March 2004 and the proposed payment date for the dividend is 6 April 2004.

### Financial reports in 2004

Vacon is publishing three interim reports in 2004 as follows:

- January-March Thursday, 29 April 2004, at 10.00 am
- January-June Thursday, 5 August 2004, at 10.00 am
- January-September Thursday, 28 October 2004, at 10.00 am

### Briefing for analysts

Vacon will hold a briefing for analysts on the days when the results are published at 11.30 am in Helsinki (at World Trade Center, 6&9 cabinet, Aleksanterinkatu 17, 00100 Helsinki).

An international telephone conference will be held on the date of publication at 3.00 pm.

### Investor relations

The objective of Vacon's investor communications is to provide the financial markets with information about Vacon's strategies, operations and business environment so as to form as accurate a picture as possible of Vacon as an object for investment. Vacon Plc's investor relations are managed by Johanna Koskinen, tel. +358 201 212 528, johanna.koskinen@vacon.com. Information about Vacon as an investment target can be found on the company's website at: [www.investors.vacon.com](http://www.investors.vacon.com)

### Analysts

Below are listed some of the banks and brokers that monitor Vacon as an object for investment. The analysts operate on their account.

- **ABG Sundal Collier**  
Marion Björkstén  
+44 (0)207 905 5611
- **Alfred Berg Finland Oyj Abp**  
Jan Brännback  
+358 (0)9 228 732
- **D. Carnegie Ab, Finland**  
Miikka Kinnunen  
+358 (0)9 6187 1241
- **Cazenove & Co. Ltd**  
Ilan Chaitowitz  
+44 (0)20 7214 7626
- **FIM Securities Ltd**  
Hannu Rauhala  
+358 (0)9 6134 6310
- **Handelsbanken Securities**  
Anssi Suttelin  
+358 (0)10 444 2406
- **Impivaara Securities Limited**  
Jeff Roberts  
+44 (0)20 7284 3937
- **Kaupthing Sofi**  
Mika Metsälä  
+358 (0)9 4784 0241
- **Nordea Securities**  
Jari Koskela  
+358 (0)9 3694 9312
- **Opstock Investment Banking**  
Jarkko Nikkanen  
+358 (0)9 404 4392
- **Mandatum Stockbrokers Ltd**  
Ari Laakso  
+358 (0)10 236 4708



## FINLAND

### Vaasa

Vacon Plc (Head office and production)  
Runsorintie 7  
65380 Vaasa  
www.vacon.com  
firstname.surname@vacon.com  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 205

### Helsinki

Vacon Plc  
Äyritie 12  
01510 Vantaa  
telephone: +358 (0)201 212 600  
fax: +358 (0)201 212 699

### Tampere

Vacon Plc  
Alasniityntie 30  
33700 Tampere  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 750

### Rotatek Finland Oy

Laserkatu 6  
53850 Lappeenranta  
telephone: +358 (0)5 6243 870  
fax: +358 (0)5 6243 871

### Vacon Traction Oy

Alasniityntie 30  
33700 Tampere  
telephone: +358 (0)201 2121  
fax: +358 (0)201 212 710

## SALES COMPANIES

### Austria

Vacon AT Antriebssysteme GmbH  
Aumühlweg 21  
2544 Leobersdorf  
www.vacon.at  
telephone: +43 2256 651 66  
fax: +43 2256 651 66 66

### Belgium

Vacon Benelux NV/SA  
Interleuvenlaan 62  
3001 Heverlee (Leuven)  
info@vacon.be  
telephone: +32 (0)16 394 825  
fax: +32 (0)16 394 827

## France

Vacon France s.a.s.  
Batiment le Sextant  
462 rue Benjamin Delessert  
ZI de Moissy Cramayel  
BP 83  
77 554 Moissy Cramayel  
www.vacon-france.fr  
telephone: +33 (0)1 64 13 54 11  
fax: +33 (0)1 64 13 54 21

## Germany

Vacon GmbH  
Gladbecker Str. 425  
45329 Essen  
www.vacon.de  
telephone: +49 (0)201 806 700  
fax: +49 (0)201 806 7093

## Great Britain

Vacon Drives (UK) Ltd.  
Unit 11, Sunnyside Park  
Wheatfield Way, Hinckley  
LE10 1PJ, Leicestershire  
www.vacon.co.uk  
telephone: +44 (0)1455 611 515  
fax: +44 (0)1455 611 517

## Italy

Vacon S.p.A.  
Via F.lli Guerra, 35  
42100 Reggio Emilia  
www.vacon.it  
telephone: +39 0522 276811  
fax: +39 0522 276890

## Netherlands

Vacon Benelux BV  
Weide 40  
4206 CJ Gorinchem  
www.vacon.nl  
telephone: +31 (0)183 642 970  
fax: +31 (0)183 642 971

## Norway

Vacon AS  
Langgata 2  
3080 Holmestrand  
www.vacon.no  
telephone: +47 330 96120  
fax: +47 330 96130

## Spain

Vacon Drives Ibérica S.A.  
Miquel Servet, 2. P.I. Bufalvent  
08240 Manresa  
www.vacon.es  
telephone: +34 93 877 45 06  
fax: +34 93 877 00 09

## Sweden

Vacon AB  
Torget 1  
172 67 Sundbyberg  
www.vacon.se  
telephone: +46 (0)8 293 055  
fax: +46 (0)8 290 755

## Russia

ZAO Vacon Drives  
Bolshaja Jakimanka, 31  
stroenie 18  
109180 Moscow  
www.ru.vacon.com  
telephone: +7 (095) 974 1541  
fax: +7 (095) 974 15 54

ZAO Vacon Drives  
2ya Sovetskaya 7, office 210A  
191036 St. Petersburg  
www.ru.vacon.com  
telephone: +7 (812) 332 1114  
fax: +7 (812) 279 9053

## REPRESENTATIVE OFFICES

### People's Republic of China

Vacon Plc  
Beijing Representative Office  
A205, Grand Pacific Garden  
Mansion  
8A Guanhua Road  
Beijing 100026  
www.vacon.com.cn  
telephone: +86 10 6581 3734  
fax: +86 10 6581 3754

### Singapore

Vacon Plc  
Singapore Representative Office  
102F Pasir Panjang Road  
#02-06 Citilink Warehouse Complex  
Singapore 118530  
vacon.singapore@vacon.com  
telephone: +65 6278 8533  
fax: +65 6278 1066