

DRIVEN BY DRIVES



ANNUAL REPORT 2004



Vacon is a global, customer driven and dynamic AC drives supplier with a passionate attitude towards product leadership and customer services.

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## FREQUENCY CONVERTER SAVES ENERGY

A frequency converter is a power control unit for regulating electric motors widely used in industry and the public engineering sector.

Frequency converters are used to steplessly control the rotation speed of a motor to match the needs of the process. This gives considerable energy savings. It also reduces the load on the electricity network and the mechanical stress on machinery when starting a motor. Frequency converters also make it possible to connect electric motor drives to automation systems.

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.





## FULL SERVICE SUPPLIER OF FREQUENCY CONVERTERS

Vacon is a global, full service supplier of frequency converters. Unlike almost all its competitors, Vacon focuses entirely on frequency converters. Vacon has a 2 % share of the EUR 6.1 billion global frequency converter market.

Vacon has grown rapidly throughout its history, and this continued in 2004. During the past year Vacon had total revenues of EUR 128.6 million and an operating profit of EUR 14.7 million. At the end of the financial year the company employed 469 people. Vacon operates on its own or through partners in 100 countries.

Vacon's business areas are divided into component customers, solutions customers, and OEM and brand label 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.

A customer-driven approach is one of the pillars of Vacon's operations. Vacon's products are often tailored for a specific application and operating environment. Another success factor is the company's 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 production and logistics business model. The 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 (OMX).



## VACON IN 2004

### **Major contracts in European construction sector**

The construction industry is the largest single customer sector that uses frequency converters. During the year Vacon signed contracts for major project deliveries in the field of building services technology. Vacon is supplying frequency converters for example in Great Britain to the BBC's Broadcasting House in London and for the new terminal at Heathrow Airport. The latter is one of the largest construction projects in Europe. Vacon's frequency converters are to be installed in both sites and will ensure the comfort of those who use the buildings by controlling the pumps and fans in the heating and air conditioning systems.

### **Contract with Johnson Controls reinforces Vacon's position in the building services market**

Vacon's largest customer Eaton Corporation (NYSE:ETN) signed a distributor agreement with Johnson Controls (NYSE:JCI) concerning AC drive systems and services for pump and HVAC applications in building automation and industry. The combination of Johnson Controls' expertise in building automation and Eaton electrical technologies provides customers with controls solutions that give significant energy savings. Johnson Controls is a leading global supplier of building automation. The partnership opens up a new sales channel to Vacon in the growing global market for building automation.

### **Major cooperation agreement with Rockwell Automation**

During the past year Vacon signed a cooperation agreement for the design, development and supply of variable speed drives with Rockwell Automation, a leading industrial automation and electrical drive supplier. The agreement expands Vacon's existing customer network and enhances its market position, in particular in North America but also globally.



## VACON IN FIGURES

### Skills centre in China serves customers in Far East

Vacon continued to develop its business unit in Suzhou, China. The subsidiary in China boosts Vacon's credibility as a local supplier. The unit contains sales functions and also a skills centre that targets the Far East market.

### Maintenance and service partnership network expands

Local service centres authorized by Vacon are responsible for maintaining and servicing drives in their area, enabling Vacon to concentrate on its core expertise. Vacon's service network has now expanded to altogether 64 service outlets, operating in 41 countries. During 2004 Vacon signed an agreement with the Finnish building and service company YIT, under which YIT is now responsible for servicing Vacon drives throughout Finland.

### More international corporate image

In response to its growth and international expansion, during the past year Vacon decided to update its corporate image. The new corporate image now corresponds to what Vacon is today, a service-oriented, easy-to-approach, international and modern company. The concept of "Driven by Drives" was adopted to express more clearly the company's focus on frequency converters and, through this, the uncompromising attitude of the entire personnel.

	Year 2004	Year 2003
revenues, MEUR	128.6	112.3
operating profit, MEUR	14.7	11.8
profit for period	9.8	7.6
earnings per share, EUR	0.65	0.50
cash flow from operations, MEUR	15.2	12.3
equity per share, EUR	2.29	2.11
return on investment, %	37.8	31.7
equity ratio, %	55.7	55.8
net gearing, %	-32.9	-19.1
order book, MEUR	12.0	12.3
average number of personnel	458	437





## YEAR 2004 IN CEO'S OWN WORDS

The past year went according to plan for Vacon, as we grew strongly, reinforced our standing in the market and boosted our order book. Our revenues also increased in line with targets and our profitability improved. In our strong market area in Europe we grew faster than the market. In our other established area, North America, we made strong advances with our partners. Towards the end of the year, growth in revenues in Asia and Australia matched expectations. Thanks to our factory in China we are well placed to expand our operations quickly. A big thank you is due for this to personnel and our partners. If we have the right attitude, we will continue to be successful.

### **Our strategy showed its strength**

The biggest single challenge we faced last year was the weakening of the US dollar, which created price pressures for us in dollar-denominated market areas. However, new more cost-effective products enabled us to strengthen our market position. Although a third of our revenues are dollar-denominated, the growth in revenues shows that we managed to adapt well to the change in the state of the market.

So last year our chosen strategy demonstrated its effectiveness once again, so we have no need to make major changes. As a single sector, global company we succeeded in strengthening our position and forming stronger, more effective partnerships during the year.

Our substantial investments in product development are bearing fruit. During the year we launched new high power products. These helped us to sign new delivery contracts, for example for paper machine projects.

Strong evidence of our strong market position and that we have chosen the right strategy are the numerous successful building automation projects. This is the largest sector, and the most toughly contested, that uses frequency converters. Success in this segment demands the best products, service and cost-effectiveness in the field. Building the right sales and partnership channels is of primary importance. Our achievements in these areas have been outstanding.

### **We signed major partnership agreements**

Large, global customers are important for us. Through them we obtain a closer grasp of customer needs and we ourselves also keep learning something new all the time. The supplier agreement signed by our customer Eaton Corporation with Johnson Controls opens up new markets in the North American building technology market. Our partnership with Rockwell Automation will also be of great importance for us.

### **Vacon's new visual image reflects our uncompromising approach**

As we have expanded internationally, we have touched up our corporate image to make it more modern. Naturally, Vacon's baseline of being a technical expert remains unchanged. But we also wish to stress our international, customer-driven and uncompromising approach. Vacon has always had a good work atmosphere and the desire to produce outstanding products for customers. We will communicate this single-minded, passionate attitude with the slogan 'Driven by Drives'.

### **2005 is dedicated to our customers**

This year we will continue to make heavy investments in product development, and in fact this will slightly increase. We want to put together solutions with even more customer input. Another gradual change relates to our sales channel. To enable us to get to know our customers better, we are bringing our sales network closer to our customers in all market areas. We are establishing new sales units in growing market areas.

### **The market is developing and so are we, in advance**

The main factors affecting demand are in healthy shape in all the major markets. In the developed world, demand is based largely on goals for energy saving and quality, whereas in the developing countries the frequency converter market consists mainly of new investments. These factors are not likely to change, at least in the short term. We believe that our market position in Europe and North America will become even stronger and in Asia we are actively involved in taking our share of the growing market.

Visibility has improved in the market, so we move into 2005 with a clearer view of our position and prospects than a year ago. The challenges certainly remain, but we have excellent opportunities for growth and have the right approach. I am convinced that thanks to the dedication and knowhow of our personnel and partners, Vacon will continue to demonstrate that it is one of the leading companies in its sector.



Vesa Laisi, President & CEO



## FINANCIAL PERFORMANCE MEETS TARGETS

Vacon's 2004 revenues and result increased in line with expectations.

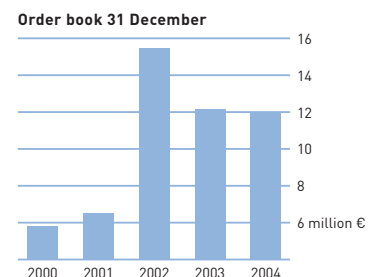
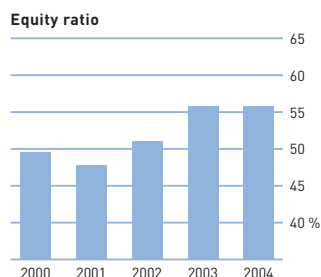
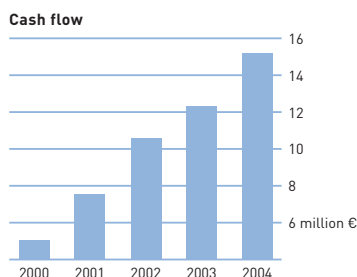
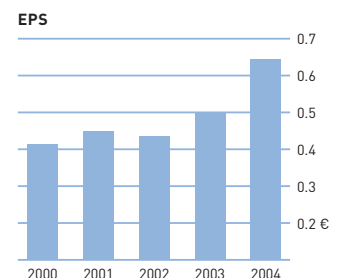
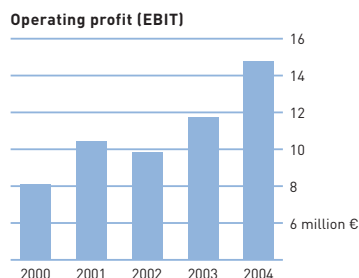
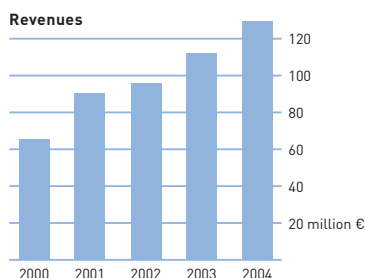
Thanks to the company's new customers and products, the number of orders received and revenues grew at a faster rate than the market as a whole. Although the frequency converter market suffered from uncertainty at the start of the year, the total market is estimated to have expanded in 2004. Orders received by Vacon increased 17.6 % from the previous year. Vacon's order book at the end of the year stood at EUR 12.0 million.

Vacon's revenues totalled EUR 128.6 million (EUR 112.3 million in 2003), an increase of 14.5 % on the previous year. Growth was particularly strong in Europe, where Vacon's own sales network increased its revenues by 19.3 %. Despite the weakening of the US dollar, growth was also strong in North America (18.5 %). In the first half of the year growth in sales in Asia and Australia was slower than in the previous year, but picked up considerably towards the end of the year. Revenues in Asia and Australia declined 2.3 % compared to the previous year.

Although it was affected by the weaker US dollar, Vacon's result still improved thanks to the growth in volumes and to savings in material costs. The operating profit (EBIT) was EUR 14.7 (11.8) million. The operating profit as a percentage of revenues was 11.4 %, an increase of 0.9 percentage points from the previous year. The earnings per share were EUR 0.65 (EUR 0.50).

Use of working capital remained efficient in 2004. The cash flow from operations was EUR 15.2 (12.3) million. Despite the growth in the volume of operations, Vacon managed to keep good control over the need for working capital. The average working capital ratio continued to fall. The Group's capital structure and liquidity remained strong. Net interest-bearing debt totalled EUR -11.5 (-6.2) million and net gearing was -32.9 % (-19.1 %).

The Group's net investments of EUR 3.4 million were slightly down on the previous year. The most important investment in 2004 was starting up operations at the Suzhou factory in China. Vacon has also maintained its strong commitment to product development. R&D costs equalled 7.6 % of revenues.



# STRATEGY IS A DELIBERATE CHOICE OF DIRECTION IN A CHANGING ENVIRONMENT

Vacon has the desire and know-how to grow globally. We are continuously developing our products, services and organization to maintain profitable growth.

## ◎ 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

Vacon is a global, customer driven and dynamic AC drives supplier with a passionate attitude towards product leadership and customer services.

### The growth in demand for frequency converters helps Vacon reach its goals

The general growth in the market and the measures taken by Vacon both support profitable growth for the company. Usage of frequency converters is still low and the sector is expected to grow by some five per cent a year. Investments in Europe are mainly in modernization and replacements, whereas in Asia most orders for frequency converters are for new investments.

Frequency converters are becoming a more competitive option as environmental values gain in importance. Various governments and the EU, for example, encourage more efficient energy usage in production processes by granting investment subsidies and tax relief. The need to meet the requirements of stricter legislation and rising energy costs also encourage companies to invest in frequency converters.

Frequency converter technology has been developed over a period of 30 years. As the equipment has become more reliable, customers have started to use frequency converters even in the critical parts of their systems. The scope for using frequency converters in different processes has improved with the development of new technology, and they can be easily fitted to the automation systems for different processes, machines and equipment.

The rapid advances made in frequency converter technology and in the manufacturing of electronic components make it possible to provide competitive solutions at lower prices. Using software solutions, a frequency converter that performs its task in the customer's application can be fitted without having to make costly structural changes to equipment.

### Vacon's strategy is based on its core strengths

Throughout its history, Vacon has considerably increased its revenues. After the extremely fast relative growth during its first years, Vacon has continued to grow at a pace that is slightly more moderate but significantly faster than the market, thanks to its product leadership and dynamic customer service. The company's multi-channel sales network and partners support the growth that is taking place in all the main market areas. Vacon's profitability is among the very best in its sector thanks to its efficient operating methods, such as networking and mass customization.

Vacon is the only supplier that has concentrated solely on frequency converters, unlike its main competitors. Vacon has been able to focus all its resources on developing frequency converters. The product leadership gained through this as a manufacturer of application-based frequency converters guarantees growth in the future as well. As an independent supplier, Vacon manufactures products under its own product label and under the product labels of OEM and brand label customers.

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

- ◎ Vacon's goal is to grow profitably and considerably faster than the frequency converter market on average. The company's goal is to achieve average annual growth in revenues of 20 % and an operating profit (EBIT) of 14 % of revenues by 2006.
- ◎ The company's Board of Directors proposes to the AGM a dividend that is in accordance with the company's financial performance. The goal is to pay a dividend equivalent to at least a third of the net profit.

Target	Profitable growth			
Strategic choices	100 % focus on AC drives	Product leadership	Multi-channel sales	Efficient and flexible operating methods
Core competencies	• Drives know-how – product leadership	• Customer relationship management – strategic customers	• Logistics – lean production & networking	

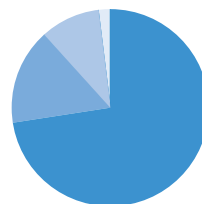




## GLOBAL, LOCAL SERVICE

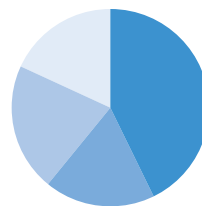
Vacon supplies frequency converters under its own label and those of its customers in about 100 countries in all main market areas. The multi-channel sales network includes the company's own sales companies, distributors, system suppliers, and OEM (original equipment manufacturer) and brand label customers.

By segmenting the markets and designing customized products and services, Vacon is able to offer unbeatable solutions to different customer groups. Vacon will increasingly invest in cooperation with strategically important customers. With these customers that are the leading users of frequency converters worldwide, Vacon can meet challenging growth targets. To enhance its service and achieve the required growth, Vacon is expanding its own sales network and bringing its sales personnel closer to customers. Where necessary, the company will build complete local skills centres, as it has in China.



**Revenues  
by market area 2004**

■ Europe	72.6 %
■ North America	15.9 %
■ Asia and Australia	9.7 %
■ Other countries	1.8 %



**Revenues  
by channel 2004**

■ Own direct sales	43 %
■ Distributors	18 %
■ OEM	21 %
■ Brand label customers	18 %



## UPM'S CHANGSHU PAPER MILL IN CHINA

### Close cooperation with paper industry continues in growing market in China

Vacon has systematically developed its products for different customer target groups. As a result, Vacon's frequency converters are excellent drives for the paper and pulp industries. One proof of this is the equipment supplied around the world to the mills of UPM, one of the leading paper companies in the world. The most recent of these was the contract for deliveries to the extension to the Changshu paper mill. The cooperation with UPM is also a good example of a business model based on long-term partnership and of the benefits this gives both parties.

"One factor that helped us obtain the contract, apart from our technical expertise and partnership, was the establishment of the skills centre in China. Through this we can provide even better service for local customers," says Heikki Hiltunen, Vice President, Sales, Marketing and Service at Vacon Plc.

"UPM's decision to use Vacon's products in the Changshu project in China was based on experience of the high quality and technical performance of Vacon's products. In accordance with its plans, Vacon started up its own business location in Suzhou at the



same time as the paper mill project. Arranging local maintenance and expert services close to the end customer is vitally important for us," says Kari Aho, UPM's Technical Group Director, Automation, Electrification and IT, Changshu Project.



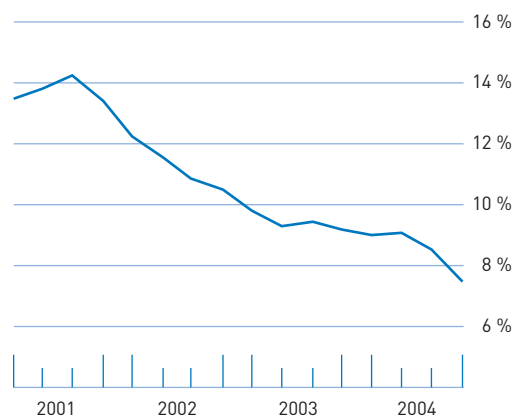
## COST-EFFECTIVE OPERATIONS ENABLE SHORT DELIVERY TIMES

Throughout its history Vacon has always applied the latest business models. 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. Through its demand-driven control model and subcontracting partnerships, Vacon has succeeded in significantly reducing the amount of working capital, without endangering the smooth flow of materials.

Partners handle a considerable part of the manufacturing of products and of the logistics. Vacon itself only carries out the critical stages of the work that require core expertise. This cooperation demands efficient logistics and operations management, which is based on transparency in the production and supply chain for all parties.

As economic growth and investment projects have increasingly moved to Asia, this has 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 is also a step towards a global sourcing network.

Average working capital per revenues







## HEATHROW TERMINAL 5 AND BBC BROADCASTING HOUSE

### Vacon supplies major construction projects in Great Britain

Construction is the largest single industrial sector that uses frequency converters. As the result of joint R&D with customers, Vacon's frequency converters can be easily fitted to building automation systems. Improved control of the process not only gives greater comfort but also reduces property maintenance costs by saving energy.

Vacon is supplying frequency converters to the new terminal at London's Heathrow Airport, which is one of the largest construction projects in Europe. In addition to the actual terminal, the building also contains an underground station and a shopping centre.

Another major success in the building automation segment in 2004 was winning the contract for the BBC Broadcasting House and Egton Project, where the NX range of drives is being installed. The NX drives will control all the pumps and fans on site, giving extra control and energy savings. A major factor in the selection of the Vacon NX range was its compliance with the latest electromagnetic compatibility (EMC) requirements.



"These two contracts, the largest construction project in Europe at Heathrow Airport and the BBC's new Broadcasting House with its extremely high technical requirements, demonstrate that customers in the construction industry think highly of our solutions and our ability to meet their needs," says Timo Kasi, Vice President, R&D, at Vacon Plc.



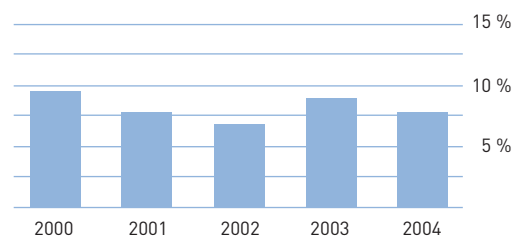
## FOCUSING ON FREQUENCY CONVERTERS CREATES PRODUCT LEADERSHIP

By concentrating on the design and manufacture of frequency converters, Vacon can target all resources and make optimal use of them in the chosen business sector. Throughout its history the company has invested heavily in product development. The cooperation between Vacon and the leading frequency converter manufacturers in the world is a good example of the competitive standing of the company's technology. Vacon's independent standing as a supplier focusing on frequency converters creates opportunities to grow both with its own product labels and in the brand label market.

Most of the frequency converters supplied during the past year belonged to the Vacon NX product family, for which the basic concept is a structure that is programmable and modular. Using the software, several product variations can be tailored from the same mechanical structure. The Vacon NX product family is based on the Design to Cost principle.

In 2004 the Vacon NX product range expanded in the high-power frequency converter range. Vacon is at present one of the few frequency converter suppliers with products offering such a broad power range. Vacon will continue to invest in R&D to maintain its position as product leader in the sector.

R & D costs/revenues





## SCHINDLER GROUP

### Joint development efforts with Schindler

Vacon works closely and on a long term basis with its major customers. At its best this means partnership based on joint R&D, as is the case with Schindler, one of the leading elevator manufacturers in the world.

A frequency converter is an important component in the integrated control system for an elevator, helping to give outstanding ride comfort. Vacon currently manufactures frequency converters for commodity elevators supplied by Schindler in Europe. Some three years ago Vacon and Schindler started together to develop frequency converters for the new generation of elevators.

"We have been working with Schindler for a long time. It was a natural continuation of this effective partnership for us to be involved right from the start in developing a frequency converter for the new generation elevator system. This is a highly motivating and instructive partnership for both parties. We are able right from the start to present our own ideas and on the other hand we hear about the needs of the customer directly from them. The result of this is certainly the best possible answer to the customer's needs," states Jukka-Pekka Mäkinen, Vice President, OEM and Brand Label Customers business area at Vacon Plc.



"Strong cooperation and close collaboration with our suppliers are key elements of our sourcing strategy, and will enable us to succeed in today's challenging environment. Top performance regarding quality, on-time delivery and services, coupled with cost leadership and innovation initiatives, are clear musts," says Oswald Schmid, Head of Corporate Purchasing & Strategic Sourcing, Schindler Management Ltd. "We have been working successfully with Vacon in all these areas over the past years. Good communication between the parties and a high level of professionalism will ensure continuing progress."



## PEOPLE ENJOY WORKING AT VACON

Vacon works systematically to create an efficient, flexible organization in which the well-being of employees and an open work atmosphere have high priority. Key elements in this work are performance management, skills development, internal communications, total well-being, and working methods and tools that support operations.

### **Giving feedback is part of daily management**

At Vacon giving feedback is part of daily management activities. Performance review interviews are another 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 with individual goals is drawn up for each employee.

### **Developing skills by encouraging job rotation**

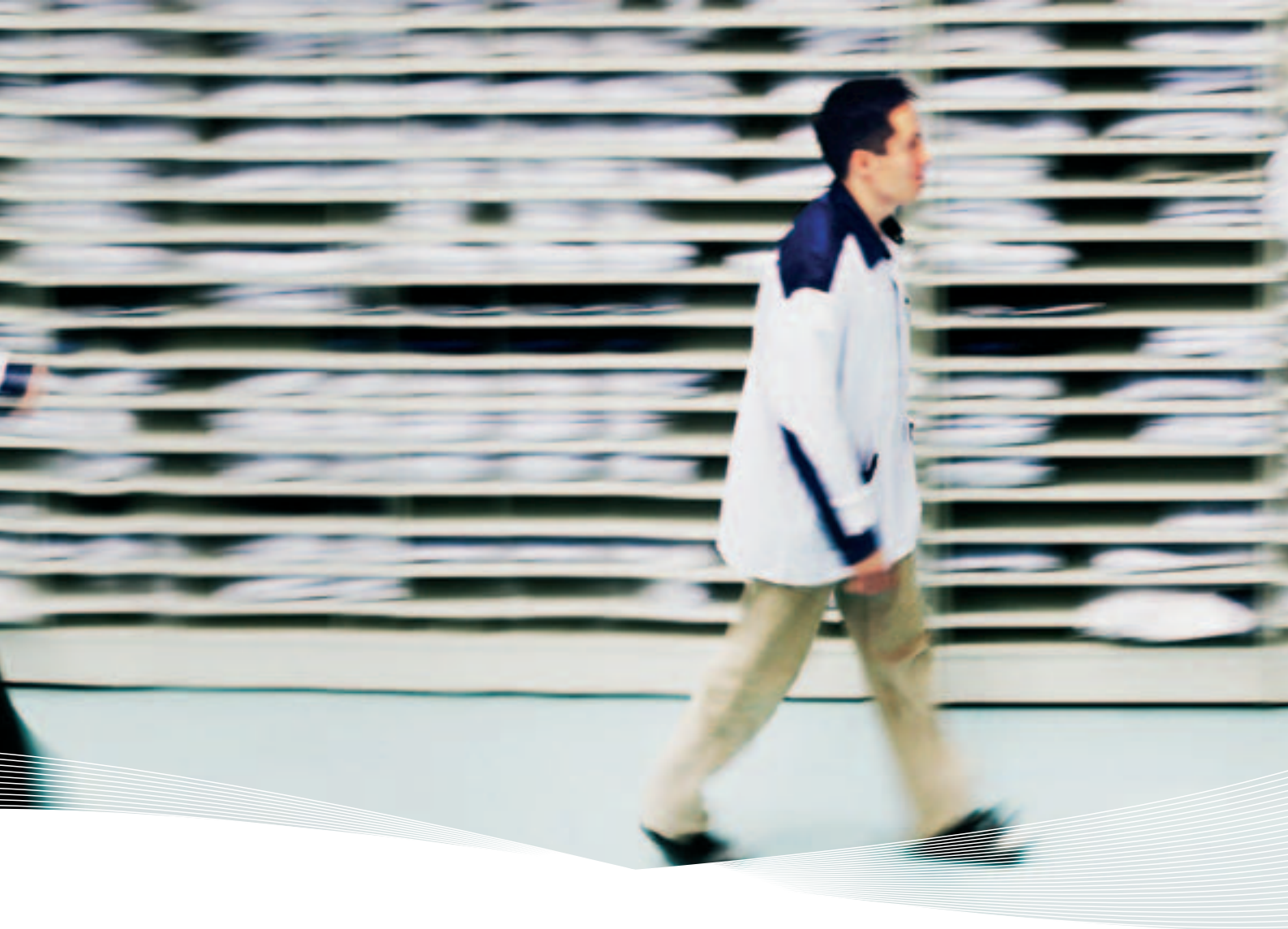
During 2004 Vacon has focused on job rotation, which is a key element in developing personnel skills. One method for encouraging employees to participate in job rotation has been to choose personnel for new positions or positions that become vacant primarily from within the company. Personnel skills are also developed through Vacon's internal Vacatemia training scheme. A wide range of skills needed within the organization, everything from safety training to management, are taught at Vacatemia.

### **Effective internal communications improve work atmosphere**

Vacon's internal communications aim to maintain a productive, open work atmosphere. Vacon's most effective and most frequently used channels for internal communications, apart from regular communications with superiors, are email, intranet and the personnel magazine. In the 2004 job satisfaction survey, team meetings were also considered an important channel for internal communications.

### **Aiming at mental, physical and social wellbeing**

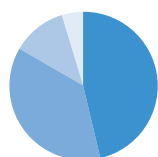
Vacon invests in the total wellbeing of its personnel for example by supporting personnel sports and cultural leisure activities. In addition the company has held various campaigns to promote overall fitness.



The annual job satisfaction survey examines the opinions of employees on the state of the work community and ways of working. The results are used to help think up and develop ways to increase well-being at an individual, department and corporate level. According to the latest survey, communications and team spirit were felt to be Vacon's strengths.

#### Global tools harmonize working methods

The working methods and tools used in human resources management are meant to support the operations of the whole group. The VaconHR human resources information system being introduced will bring a systematic approach to human resources management functions. The performance of the presidents of subsidiary companies was also evaluated using "360 degrees" assessment.



#### Personnel by function

Administration	4.7 %
R & D	11.7 %
Production	37.1 %
Sales and marketing	46.5 %

#### Bonus for good results

The basic salaries paid by the company are based on the responsibility carried, the performance potential, and the professional skill required for the job. In addition, the entire personnel can receive a separate bonus if certain performance targets are met. During the year 2004 personnel earned productivity bonus of approximately EUR 816,000.

#### Social responsibility part of Vacon's human resources policy

During 2004 the principles of social responsibility were integrated into Vacon's human resources policy. Vacon is committed to observe globally accepted human rights and the rights of children and employees. In practice this means for example focusing on a healthy and safe work environment.

#### Personnel statistics on 31 December 2004

- In 2004 Vacon employed on average 458 persons.
- Average age of personnel was 34.1 years.
- Average length of service was 3.6 years.
- Women accounted for 25.1 % of personnel and men for 74.9 %.


## ENVIRONMENTAL THINKING DIRECTS OUR OPERATIONS

The frequency converter gives considerable energy savings and plays its part in meeting the goals of sustainable development. Vacon's goal is to improve the environmental properties of products throughout their life cycle.

### **Systematic monitoring and management of environmental issues**

Vacon aims in all its operations to choose raw materials, operating methods and processes that cause least damage to the environment. Regular training maintains the environmental expertise of personnel.

Quality and environmental issues and occupational health and safety matters are not separate activities at Vacon but are part of its operational system and therefore of all 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. The company continuously develops its operations in these matters.



### **Frequency converter gives considerable energy savings**

The air we breathe indoors, the food we eat, and the objects and buildings we use are mainly 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, and also in minimizing the use of substances harmful to the environment. The list also complies with the European Union's ROHS directive (on the restriction of use of certain hazardous substances in electrical and electronic equipment).

### **Vacon's partners must practise responsibility**

Vacon has included environmental issues in its criteria for selecting and assessing suppliers. The company 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 works continuously with its suppliers to reduce waste volumes and minimize the use of hazardous substances.

### **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.

## CORPORATE GOVERNANCE

Vacon Plc is a Finnish public limited company which, in its decision-making and administration, complies with the Finnish Companies Act, other regulations concerning public companies and the Articles of Association of Vacon Plc.

In addition, Vacon Plc complies with the Guidelines for Insiders and the Corporate Governance Recommendation for Listed Companies that came into force on 1 July 2004, approved by the Helsinki Exchanges, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. The Articles of Association of Vacon Plc can be seen on the company's Internet website at [www.investors.vacon.com](http://www.investors.vacon.com) under Company Information.

### General Meeting of Shareholders

The highest authority in Vacon Plc is exercised by the company's shareholders at General Meetings, which are convened by the company's Board of Directors. The Annual General Meeting is held annually on a date determined by the Board of Directors but no later than the end of June. Extraordinary General Meetings are convened when necessary.

The main matters under the authority of General Meetings are:

- approving the financial statements
- distribution of profits
- discharging from liability the members of the Board of Directors and the President
- deciding on the number of Board members and auditors and their remuneration, and selecting them
- making any changes in the Company's Articles of Association
- increasing and decreasing the share capital

### Advance information for shareholders

Notice of a General Meeting of Shareholders, stating the matters to be considered at the meeting, is either sent to shareholders by registered mail or is announced in at least one nationwide newspaper determined by the Board of Directors. The invitation and the proposals made by the Board of Directors to the General Meeting are also published in a stock exchange release and on the company's Internet website.

The names of persons nominated for the Board of Directors are published in the invitation to the General Meeting or, if the invitation has already been published, in some other way before the General Meeting, provided they have given their written consent to be nominated and are supported by shareholders holding at least 10 % of the votes carried by all the shares of the company. The proposal prepared by the Board of Directors concerning the company's auditor is published in a similar way before the meeting.

### Attendance

Those wishing to attend the General Meeting must inform the company by the deadline stated in the notice of meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may also have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two weeks after the meeting. The decisions taken by the General Meeting are also published in a stock exchange release immediately after the meeting.

### Attendance at General Meetings of Board members and President

It is the company's aim that all Board members attend the Annual General Meeting. Persons nominated for the first time as Board Members shall attend the General Meeting that elects the Board members, unless they have very pressing grounds for being absent.

### Decision-making

Vacon Plc has one class of shares and each share is entitled to one vote. When votes are taken at a General Meeting, proposals supported by more than half of the votes cast are the decisions of the General Meeting or, in the case of a tie, the chairman has the casting vote. Exceptions to this are certain matters mentioned in the Finnish Companies Act, such as an amendment to the Articles of Association or a decision on a rights offering, for which any decision requires a larger majority specified in the Act in relation to the number of shares and the votes to which they give entitlement.

According to the Articles of Association of Vacon Plc, a shareholder whose holding of all company shares or of the voting rights conferred by the shares - either individually or jointly with other shareholders as defined hereinafter - reaches or exceeds 33 1/3 per cent or 50 per cent (shareholder subject to redemption obligation), is obliged on demand by other shareholders (shareholders with rights of redemption) to redeem the shares of such shareholders and securities entitling them to shares as defined in the Finnish Companies Act in the manner prescribed in the relevant Article.

The company is not aware of any shareholder agreements concerning the use of voting rights in the company, or of any agreements limiting the surrender of company shares.



## BOARD OF DIRECTORS

### Composition and term of office

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 do they limit the number of terms of office. The Board elects from among its members a chairman and deputy chairman for one term of office.

The Annual General Meeting held on 25 March 2004 decided that the Board of Directors should have six members. Jan Inborr, Jari Eklund, Mauri Holma and Veijo Karppinen were re-elected as Board members. Pekka Ahlqvist, M.Sc. (Eng.), MBA, a member

of the Wärtsilä Group Board of Management, and Kalle Heikkinen, MBA, Managing Partner at the strategic advisory firm Nordic Adviser Group, were elected as new Board members. Jan Inborr was re-elected Chairman and Veijo Karppinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board of Directors.

### 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 in the Board of Directors' rules of procedure. On 23 October 2003 the Vacon Plc Board of Directors approved written rules of procedure for the duties of the Board, matters to be considered, and meeting and decision-making procedures.



**Jan Inborr**, chairman

- Born 1948, M.Sc. (Econ.), President and CEO, Ahlström Capital Oy.
- Member of the board since 2002.
- Board member at: Enics AG (chair), Å&R Carton AB (vice chair), Ahlstrom Corporation, Nordkalk Corporation, Stiftelsen för Åbo Akademi.
- No Vacon Plc shares.



**Kalle Heikkinen**, board member

- Born 1956, M.Sc. (Social Science), M.A. (Communications), MBA, Managing Partner of Nordic Adviser Group.
- Member of the board since 2004.
- Board member at: Longhorn Capital Oy (chair), Harvard Club ry. (chair).
- No Vacon Plc shares.



**Veijo Karppinen**, vice chairman

- Born 1950, M.Sc. (Eng.), President, VNT Management Ltd.
- Member of the board since 1993.
- Board member at: Vaasa Engineering Oy (chair), Verteco Ltd (chair), EpiCrystals Inc. (chair), Youtility Inc., Wapice Ltd (chair), Oy Comsel System Ab.
- 294,849 Vacon Plc shares.



**Mauri Holma**, board member

- Born 1950, B.Sc. (El. Eng.), President, Vaasa Engineering Oy and Vaasa Service Oy.
- Member of the board since 1993.
- Board member at: Wapice Ltd.
- 347,171 Vacon Plc shares.



**Pekka Ahlqvist**, board member

- Born 1946, M.Sc. (Eng.), MBA, Group Vice President, Head of the Power Plants business, Wärtsilä Corporation.
- Member of the board since 2004.
- Board member at:-
- No 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.
- No Vacon Plc shares.



**Jari Eklund**, board member

- Born 1963, M.Sc. (Econ.), Investment Director, Tapiola Insurance Group.
- Member of the board since 2001.
- Board member at: Itikka-Yhtymä Oyj (member of supervisory board), Mortgage Society of Finland.
- No Vacon Plc shares.

Ownership on December 31, 2004.

The Board revises its rules of procedure 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.

According to the rules of procedure, Vacon's Board:

- confirms the Company's long-term goals and strategy
- approves the Group's operations plan, budget and 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
- considers and approves interim reports, consolidated financial statements and the annual report

#### **Evaluation of independence**

Vacon's Board of Directors has evaluated the independence of Board members in relation to the company in accordance with recommendation 18 of the Corporate Governance Recommendation. The majority of Board members - Jan Inborr, Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen and Mauri Holma - are independent of the company. Veijo Karppinen was CEO of Vacon Plc until July 2002 and so is not wholly independent of the company. Veijo Karppinen, Pekka Ahlqvist, Kalle Heikkinen, Mauri Holma and Jari Eklund are independent of major shareholders. Jan Inborr is not independent of major shareholders since he is CEO of Ahlström Capital Ltd.

#### **Decision-making**

The Board of Directors shall always act in the interest of the company and in such a way that its operations are not liable to result in an unjustified advantage for any shareholder or other party at the expense of the company or another shareholder. A Board member is disqualified from being present when the Board considers matters involving the Board member and the company. The chairman of the Board of Directors is responsible for convening the Board meetings and for meeting procedures. When votes are taken, the majority opinion is the Board's decision and, in the case of a tie, the chairman has the casting vote. In an election, a tie is decided by drawing lots.

#### **Meeting practice and self-assessment**

The Board of Directors meets about 10 times a year. The Board of Directors has not allocated special areas of focus for its members to monitor business operations. Matters are presented at meetings by the President of Vacon Plc or, at his request, by

another member of the Management Team. According to the Board of Directors' rules of procedure, the President ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. The President also supervises the implementation of Board decisions and reports to the Board on any deficiencies or problems in implementation. The secretary to the Board of Directors is Stefan Wikman, attorney from Roschier Holmberg, Attorneys Ltd. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year. The Board has had 10 full meetings during 2004. The average attendance percentage, a figure that illustrates the participation of the Board members in the work of the Board, was about 95 percent in 2004.

#### **Board of Directors' fees and other benefits**

The Annual General Meeting decides each year on the fees and principles for reimbursing expenses to the members of the Board of Directors. Fees to the Board members are paid in cash.

The 2004 Annual General Meeting decided that the fees paid to the Board members were as follows:

- monthly fee for the Chairman EUR 2,000
- monthly fee for each Board member EUR 1,000
- bonuses depending on the company's result

In addition, Board members are entitled to per diem allowances and travel expenses in accordance with the general travel rules of Vacon Plc.

#### **Committees**

On 27 April 2004 Vacon Plc's Board of Directors set up a combined Remuneration and Nomination committee, made up of three members of the Board. The committee is subordinate to the Board of Directors and makes recommendations for the Board to decide on.

The task of the committee is to create forms of remuneration that are felt to boost motivation and also take into account the special features of Vacon. The committee also prepares for the election of members to the Board of Directors so that the Board can make proposals to the General Meeting, prepares matters concerning compensation for the Board of Directors, and identifies successor candidates for the members of the Board.

The committee members in 2004 were Jan Inborr, Veijo Karppinen and Pekka Ahlqvist.

## THE PRESIDENT AND MANAGEMENT TEAM

The Board of Directors appoints the company's President and defines the terms of employment of the President in writing. The President prepares 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. Under the terms of the President's contract of employment, the company will pay the President compensation equivalent to 18 months' salary if the contract is terminated.

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 the Group's senior management. The Management Team is not an administrative body as stipulated by the Finnish Companies Act. Subsidiary companies report to the Group's Vice President for Sales, Marketing and Customer Service.

### The salaries and other benefits of the President and other senior management

The salaries and other benefits of the President and other senior management are approved by the Board of Directors. The Board of Directors confirms each year any management bonus and any bonus for all personnel.

During the year 2004 personnel earned productivity bonus of approximately EUR 816,000. The total number of shares subscribed under the Vacon Plc Stock Option Plan 2002 DI and DII by 15 September 2004 amounted to 145,000 of the company's shares. The Option programme also included 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 50,000 option rights and the Management Team 47,500 option rights based on this option programme. 21 of Vacon Group's key personnel were entitled to option rights based on this option programme. The President & CEO's annual salary, which includes the monthly salary and bonuses, was EUR 210,256 in 2004.

### 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 21 days before the publication of the results for a reporting period. Vacon Plc shall also not purchase its own shares during this period.

### Vesa Laisi

- President and CEO
- Born 1957, M.Sc. (Eng.), M.Sc. (Econ.).
- Employed by the company since 2002.
- Board member at: Finnfacts (chair).
- No Vacon Plc shares.

### Tuula Hautamäki

- Vice President, Human Resources  
Vice President, Information Technology and Process Development
- Born 1964, M.Sc. (Eng.), M.Sc. (Econ.).
- Employed by the company since 2000.
- 4,608 Vacon Plc shares.

### Heikki Hiltunen

- Vice President, Sales, Marketing and Service
- Born 1962, B.Sc. (Eng.).
- Employed by the company since 2002.
- No Vacon Plc shares.

### Dan Isaksson

- Vice President, Solutions Customers business area
- Born 1965, M.Sc. (El. Eng.).
- Employed by the company since 1999.
- 16,608 Vacon Plc shares.

### Jukka Kasi

- Vice President, Component Customers business area and Product Management
- Born 1966, M.Sc. (Eng.).
- Employed by the company since 1997.
- 51,335 Vacon Plc shares.

### Timo Kasi

- Vice President, R&D
- Born 1966, M.Sc. (Eng.).
- Employed by the company since 1999.
- 1,965 Vacon Plc shares.

### Jari Koskinen

- Vice President, Production
- Born 1960, M.Sc. (Econ.), MBA.
- Employed by the company since 1994.
- 354,494 Vacon Plc shares.

### Mika Leppänen

- Vice President, Finance and Control and CFO
- Born 1959, M.Sc. (Econ.).
- Employed by the company since 2003.
- No Vacon Plc shares.

### Jukka-Pekka Mäkinen

- Vice President, OEM and Brand Label Customers business area
- Born 1959, B.Sc. (Eng.).
- Employed by the company since 1999.
- 14,608 Vacon Plc shares.

Ownership on December 31, 2004.



## **Shares, share capital, major shareholders, and flagging notifications during the past 12 months**

The company gives basic information about its shares, share capital and major shareholders in the section Shares and Shareholders in the financial pages of this annual report. The company has not made any flagging notifications during the past 12 months.

## **Audit**

The auditors elected by the Annual General Meeting are the authorized public accountants KPMG 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 during auditing to Group management.

The scope and contents of the audit are defined so that they take into account the fact that the company does not yet have its own internal audit organization.

Vacon Plc paid the auditors fees of EUR 93,500 for the 2004 audit. In addition, the authorized public accountants were paid fees of EUR 35,000 for services not related to audit.

## **Risk management**

Risk management at Vacon Plc is part of the management process for the company's business operations. Risk management aims to systematically and comprehensively identify and create awareness of the risks to which the company's operations, assets and personnel are exposed and minimize any damage. It also aims to ensure that these risks are managed properly when taking decisions relating to the company's business. There is no separate organisation for risk management; responsibility for this is distributed in the same way as other responsibilities within the business operations and organisation.

## **Assets and liability risks**

Vacon aims to avoid damages and losses through preventive risk management action. The company takes no risks that might endanger the safety of customers, personnel or other persons or that could damage the company's brand.

Vacon has implemented worldwide insurance schemes to cover risks relating to property damage, business interruptions, transport and liability (ordinary risks, product liability, management liability). The global insurance schemes for the company's operations are managed centrally by the Group's parent company. Other insurance is 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 treasury function. The treasury function of the Group's parent company is responsible for the Group's liquidity, for ensuring sufficient financing, and for managing interest rate, foreign exchange and third party risks.

## **Foreign exchange risk**

The company has its own operations in 14 countries and supplies its products and services through partners in a total of one hundred countries. This exposes the company to foreign exchange risks arising from exports and imports, intra-group transactions, financing for foreign subsidiaries, and shareholders' equity denominated in foreign currency.

The company's largest transaction risk positions arise from exports and imports. The company's largest non-euro invoicing currency is the US dollar, which accounts for some 20 % of the Group's invoicing. The other invoicing currencies are the Swedish crown, the Norwegian crown and the UK pound. Together these account for 9 % of the Group's invoicing. Foreign currency denominated purchases account for 13 % of purchases, in the currencies mentioned above.

In accordance with the Group's treasury policy, binding purchasing and supply contracts are hedged in full. In addition, forecast foreign currency denominated cash flows are hedged for 3-6 months. The hedging instruments used are forward exchange contracts and currency options.

The most significant translation risks arise from the capital of subsidiaries in Sweden, Norway, Great Britain and China and of the joint venture company in the USA.

When the income statements and balance sheets of the companies mentioned above are translated into euros to be incorporated in the consolidated financial statements, changes in exchange rates may cause the company's result to increase or decrease. The company hedges selectively against translation risks with foreign currency loans and derivative instruments. The company's Board of Directors decides on hedging activities.

## **Interest rate risk**

Changes in market interest rates and margins may have an impact on the company's financing costs, the returns on financial investments and the valuation of derivative contracts. The objective of interest rate risk management is to reduce volatility in interest rate costs to allow a more stable net financial performance. The company hedges against interest rate risks through its choice of interest rate periods and with interest rate swaps. The company's Board of Directors decides on hedging activities.

## **Liquidity**

The company maintains essential liquidity by using cash management tools such as Group accounts and credit facilities. Surplus liquid funds are invested with banking partners.

## **Credit risks and other counterparty risks**

When the company invests cash funds and makes derivative contracts, only banking partners that meet the conditions for creditworthiness specified in the treasury policy and that are approved by the Board of Directors are accepted as counterparties.

Credit risks associated with ordinary commercial activities are primarily the responsibility of the operational units. The sales organisation has specific credit policies which govern the terms for delivery and payment granted to customers, how these are monitored, and collection of payment. The parent company's treasury function provides centralised services relating to customer financing, and oversees these to ensure that payment terms and required collateral comply with the principles of the treasury policy.

## **FINLAND**

### **Vaasa**

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Vacon Traction Oy  
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## **SALES COMPANIES**

### **Austria**

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3080 Holmestrand  
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Vacon Suzhou Drives Co. Ltd.  
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## **REPRESENTATIVE OFFICE**

### **Singapore**

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FINANCIAL  
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# BOARD OF DIRECTORS' REPORT

## 1 JANUARY – 31 DECEMBER 2004

2004 was a successful year for Vacon. The company strengthened its market position, increased its revenues and improved its profit. The earnings per share for the financial year was the best so far in the company's history.

The AC drives market grew by approximately four per cent in 2004. Vacon grew considerably faster than the market. In North America and Asia the AC drives market developed encouragingly, although the weakening of the dollar increased competition. In Asia Vacon's growth fell short of the company's target, but in North America the company significantly increased its sales. In Europe market growth was relatively modest, but Vacon continued to grow strongly in Europe through its own efficient sales network.

During the past year the company expanded its product offering and towards the end of the year the new products increased revenues and improved profitability.

### Global position

In 2004, 72.6 % (69.7 % in 2003) of Vacon's revenues came from Europe, 15.9 % (15.4 %) from North America, 9.7 % (11.4%) from Asia and Australia, and 1.8 % (3.5 %) from elsewhere.

Vacon's revenues by distribution channel in 2004 were as follows: own direct sales 43 % (40 %), distributors 18 % (23 %), machine and equipment manufacturers 21 % (22 %), and brand label customers 18 % (15 %).

Orders received by the Group in 2004 totalled EUR 128.3 million. The Group's order book at the end of the year stood at EUR 12.0 (12.3) million. The order book does not include any exceptionally large projects. A change in the corporate structure reduced the order book by EUR 0.7 million.

### Record profit and strong balance sheet

Consolidated revenues in 2004 rose 14.5% to EUR 128.6 million (EUR 112.3 million in 2003). The parent company Vacon Plc had revenues of EUR 107.6 million. The consolidated profit before appropriations and taxes was EUR 14.7 (11.7) million and the profit for the financial period was EUR 9.8 (7.6) million. The earnings per share (EPS) increased to EUR 0.65

(0.50). The result for the final quarter includes one-time proceeds of EUR 0.5 million relating to a change in the corporate structure. Key factors in the growth in revenues and profit were Vacon's extensive, competitive product offering and the strengthening of the operations of production and the Group's own sales network.

The Group's cash flow from operations was EUR 15.2 (12.3) million positive. The Group was able to finance its growth from income.

The consolidated balance sheet total was EUR 63.2 million. Vacon's equity ratio remained almost unchanged at 55.7 % (55.8 %) and gearing was -32.9 % (-19.1 %). The return on investment increased to 37.8 % (31.7%) and the return on equity was 29.7 % (26.1 %).

### Strategy

Vacon's goal is profitable growth. The company's strategic priorities are focusing on AC drives, reinforcing its competitive edge through product leadership, a multi-channel sales network, and flexible, efficient operating methods. With these priorities the company is aiming at cost-efficiency both in its products and in its operations. Key areas of expertise are product technology, customer relationship management, and logistics.

Vacon stands out from its main competitors by focusing entirely on AC drives. Through this the company aims to provide better service for customers than its competitors with its expert personnel. Vacon is well placed to grow profitably and become one of the leading manufacturers in its sector.

It is important for Vacon to have a presence in China. By increasing its expertise, manufacturing and component sourcing in China, the company aims to reinforce its standing in the rapidly growing market in Asia. Having full-scale operations also in China reduces the Group's exposure to exchange rate fluctuations and their impact on the result.

### Investments

Gross investments by the Group during the year equalled 3.3 per cent of revenues, or EUR 4.2 (4.8) million. The most important investment in 2004 was starting up operations at the Suzhou factory in China.

## Personnel

The number of Vacon personnel increased by 33 during 2004. At the end of December the Group employed 469 people (436), of whom 347 (336) were in Finland and 122 (100) in other countries. The average number of personnel during 2004 was 458 (437).

## Changes in corporate structure

At the beginning of the year Vacon's newest fully-owned subsidiary, Vacon Suzhou Drives Co. Ltd, was established in China. During 2004 personnel recruitment and investments started for the production plant in China.

At the end of 2004 electrical machine specialist Rotatek Finland Oy, which manufactures high-speed induction machines and low-speed permanent magnet machines, changed from being a subsidiary to an associated company. Vacon Group's holding in the company fell from 76.0 % to 31.9 % from the corresponding period in the previous year through share issues to two equity investment funds.

## Research and development

R&D costs during the year were EUR 9.8 (8.9) million, or 7.6 % of the Group's revenues (7.9 %). During 2004 Vacon expanded the NX product range by launching new high-power NX products.

Towards the end of 2004 the company took the decision to increase the number of R&D personnel by 20 and start work on developing two new product platforms. The company aims to bring new innovative products on to the market in the next few years.

## Other events during the review period

Vacon signed a major contract to supply AC drives to the new Terminal 5 at London's Heathrow Airport. This is currently one of the largest construction projects in Europe.

Vacon's biggest customer Eaton Corporation (NYSE:ETN) has announced a supplier agreement with Johnson Controls (NYSE: JCI). Vacon drive technology coupled with Eaton's engineered hardware and software solutions make up the VS series of variable speed drives that will be sold through Johnson Controls.

Vacon strengthened its service cooperation with YIT by outsourcing its AC drives service in Vaasa and Tampere to YIT Service. Local service centres authorized by Vacon carry out maintenance and service for equipment in their area. This brought the operating method in Finland into line with the service network around the world.

Vacon and Rockwell Automation, a leading American industrial automation and drives supplier, signed a cooperative agreement for the design, development and supply of variable speed drives. The parties will develop AC drives that combine Vacon's expertise in high-power electronics and software-controlled AC drives with Rockwell Automation's expertise in high performance system drives and automation.

## Shares and shareholders

In April 2004 the company paid a dividend of EUR 8.3 million or EUR 0.55 per share (110% of the earnings per share for the financial year).

During 2004 a total of 3,427,027 company shares, with a value of EUR 37.7 million, were traded on the stock exchange, or 22.4 % of the shares. The highest share price during the year was EUR 11.99 and the lowest EUR 9.95. The closing price on the last day of 2004 was EUR 11.78, which gave the company's share capital a market value of EUR 180.0 million.

Vacon had 3,721 registered shareholders according to the register of shareholders updated on 31 December 2004. The number of nominee registered shares and shares registered outside Finland totalled 4,558,487 or 29.8 per cent of the total share stock.

## Increase in share capital

The DI and DII stock options relating to the 2002 Stock Option Plan (Stock Option Plan II) were listed for public trading on the Main List of the Helsinki Exchanges as from 16 August 2004. A total of 145,000 company shares were subscribed using the options under Option Plan 2002 DI and DII on 15 September 2004. As a result of the conversion of the options, the share capital increased by a total of EUR 29,000, which is 1.0 % of the share capital after the increase. The increase in the share capital was recorded in the Finnish Trade Register on 30 September 2004. The new shares have been traded on the Main List of the Helsinki Exchanges since 1 October 2004 together with existing shares.

### **Own shares**

Vacon's Annual General Meeting of Shareholders on 25 March 2004 authorized the Board of Directors to decide to purchase and dispose of the company's own shares. The Board decided on 20 December 2004 to purchase a maximum of 200,000 company shares in public trading. Purchasing of the company's own shares started on 27 December 2004. On 31 December 2004, Vacon Plc held a total of 12,800 of its own shares at an average price of EUR 11.70. Purchasing of the company's own shares had no major impact on the distribution of ownership or voting rights in the company. Vacon's share capital amounts to EUR 3,059,000, which is divided into 15,295,000 fully paid shares. In consequence of the purchasing of the company's own shares, the number of shares with ownership and voting rights was 15,282,200 at the end of 2004.

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

The members of the Board of Directors until the Annual General Meeting were Jan Inborr, Harri Niemelä, Jari Eklund, Mauri Holma, Veijo Karppinen and Harry Ollila. The AGM on 25 March 2004 elected six members to the Board of Directors, namely Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen, Mauri Holma, Jan Inborr and Veijo Karppinen. The term of office for Board members continues until the end of the following Annual General Meeting of Shareholders.

At its organization meeting after the AGM the Board elected Jan Inborr as its chairman and Veijo Karppinen as vice chairman. Stefan Wikman is secretary to the Board.

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

### **Auditors**

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

### **Events after the close of the period**

In January 2005 Vacon's Board of Directors decided to initiate a share bonus scheme to provide long-term motivation and commitment for the Group's management and key personnel. The share bonus scheme will last three years. The Board will decide each year on targets for revenues, result and turnover of working capital for each year, and these will determine the size of the bonus in accordance with the terms of the scheme.

On 9 February 2005 Vacon Plc held a total of 91,260 of its own shares at an average price of EUR 12.283.

### **2005 Outlook**

Long-term growth in the AC drives market is forecast at more than five per cent a year. Prospects for the AC drives market at the beginning of 2005 are positive and market growth is estimated at five per cent. The forecast rise in electricity prices and the need of customers to raise the efficiency of their processes create demand for AC drives and for their continuous development. Close cooperation with customers and strong investment in R&D improve Vacon's competitive standing and the company is now better placed to face the challenges of the future.

Vacon's key goals in 2005 are to increase revenues and the result, efficient use of working capital, increasing awareness of Vacon, expanding the customer base, and the ramp up of the factory in China.

Revenues in 2005 are forecast to rise by 10-20 per cent and profitability should improve from 2004.

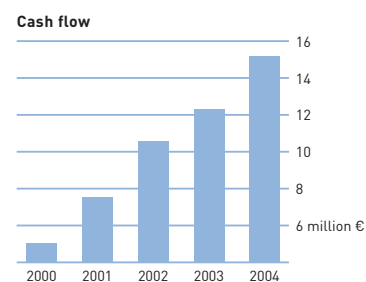
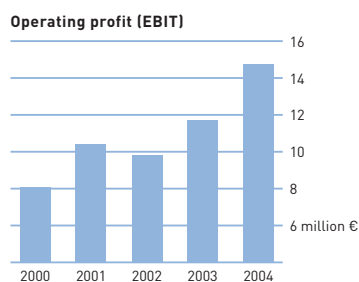
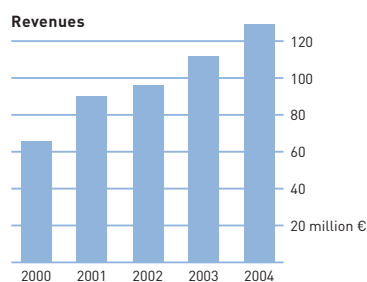
### **Board proposal for distribution of profit**

At the end of the financial year distributable consolidated equity stood at EUR 25.2 million and the parent company's distributable equity at EUR 27.3 million.

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 30 March 2005 that a dividend of EUR 0.35 be paid for 2004. According to this proposal, a total of EUR 5.3 million would be paid.

## INCOME STATEMENT

1000 €	Note	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>Revenues</b>	1	<b>128,585</b>	<b>112,299</b>	<b>107,566</b>	<b>94,097</b>
Change in inventories of finished goods and work in progress, increase (+)/ decrease (-)		136	113	-192	-153
Other operating income		662	298	105	129
Materials and services					
Materials and consumables					
Purchases during the financial year		-61,054	-53,033	-55,472	-47,978
Change in inventories		-52	-444	-18	-480
External services		-3,253	-1,819	-2,679	-1,425
		-64,359	-55,296	-58,169	-49,883
Personnel expenses	2	-23,594	-21,678	-15,544	-14,441
Depreciation and write-downs	5	-3,507	-3,547	-2,805	-2,873
Other operating expenses		-23,205	-20,368	-19,079	-16,312
<b>Operating profit</b>		<b>14,718</b>	<b>11,821</b>	<b>11,882</b>	<b>10,564</b>
Share of results in affiliated companies		92	-26		
Financial income and expenses	6	-84	-122	97	-33
<b>Profit before appropriations and taxes</b>		<b>14,726</b>	<b>11,673</b>	<b>11,979</b>	<b>10,531</b>
Appropriations	7			-491	-237
Income taxes	8	-4,742	-3,933	-3,378	-3,015
Minority interest		-142	-118		
<b>Profit for the financial year</b>		<b>9,842</b>	<b>7,622</b>	<b>8,110</b>	<b>7,279</b>



## CASH FLOW STATEMENT

1000 €	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>Cash flow from operating activities:</b>				
Operating profit	14,718	11,821	11,882	10,565
Adjustments:				
Depreciation	3,507	3,547	2,805	2,873
Unrealized exchange rate differences	11	11		
Other adjustments	49			
Cash flow before changes in working capital	18,285	15,379	14,687	13,438
Changes in working capital:				
Current assets, non-interest bearing, increase (-)/ decrease (+)	-4,137	-205	-2,560	765
Inventories, increase (-)/ decrease (+)	-74	265	210	632
Current liabilities, increase (-)/ decrease (+)	5,002	444	4,613	-644
	791	504	2,263	753
Cash flow from operating activities before financial items and taxes	19,076	15,883	16,950	14,191
Interest received	135	192	229	287
Interest paid	-174	-200	-138	-155
Other financial items	-9	-6		-28
Taxes paid	-3,791	-3,551	-2,689	-2,936
<b>Cash flow from operating activities</b>	<b>15,237</b>	<b>12,318</b>	<b>14,352</b>	<b>11,359</b>
<b>Cash flow from investing activities:</b>				
Investments in tangible and intangible assets	-2,584	-4,038	-2,049	-3,226
Proceeds from sale of fixed assets	204	397	76	383
Loans granted	-645	-177	-645	-1,302
Other investments	-411	-621	-1,876	-896
Repayments on loan receivables		98	1,194	398
Proceeds from sale of other investments		33		48
<b>Cash flow from investing activities</b>	<b>-3,436</b>	<b>-4,308</b>	<b>-3,300</b>	<b>-4,595</b>
<b>Cash flow from financing activities:</b>				
Share issue			1,496	
Share repurchases			-150	
Long-term loans, increase (-)/ decrease (+)	-3,248	-1,233	-3,225	-1,142
Short-term loans receivable, increase (-)/ decrease (+)	-125	1,455	881	1,540
Preferred capital loans, increase (-)/ decrease (+)	-387	-837	-116	-774
Dividends paid	-8,333	-2,576	-8,333	-2,576
Other changes	1,975	5		
<b>Cash flow from investing activities</b>	<b>-10,118</b>	<b>-3,186</b>	<b>-9,447</b>	<b>-2,952</b>
<b>Change in liquid funds</b>	<b>1,683</b>	<b>4,824</b>	<b>1,605</b>	<b>3,812</b>
Liquid funds at the beginning of the period	13,899	9,216	9,577	5,765
Liquid funds, exchange rate differences	-58	-141		
Liquid funds at the end of period	15,524	13,899	11,182	9,577

## BALANCE SHEET

1000 €	Note	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>Assets</b>					
<b>Fixed assets</b>	9				
Intangible assets					
Development expenses		1,898	2,922	1,747	2,479
Intangible rights		1,251	1,351	1,192	1,138
Goodwill on consolidation		1,569	2,410		
Other long-term expenditure		206	93	50	76
		4,924	6,776	2,989	3,693
Tangible assets					
Machinery and equipment		9,176	7,933	8,305	7,270
Other tangible assets		59	58	31	28
Construction in progress		825	2,030	825	1,991
		10,060	10,021	9,161	9,289
Financial assets					
Shares in group companies	10			6,032	5,110
Receivables from group companies				3,970	5,164
Shares in affiliated companies	10	93		788	55
Receivables from affiliated companies		822	177	822	177
Other shares		917	681	902	681
Other receivables		389	300	119	119
		2,221	1,158	12,633	11,306
<b>Total fixed assets</b>		<b>17,206</b>	<b>17,955</b>	<b>24,783</b>	<b>24,288</b>
<b>Current assets</b>					
Inventories					
Materials and consumables		1,844	1,896	1,721	1,739
Finished products/goods		4,811	4,675	1,651	1,843
Advance payments			14		
		6,655	6,585	3,372	3,582
Short-term receivables	11				
Trade receivables		21,407	18,371	18,838	17,057
Other receivables		1,075	672	972	574
Prepaid expenses and accrued income	12	1,323	740	798	544
		23,805	19,783	20,608	18,175
Cash and bank balances		15,524	13,899	11,182	9,577
<b>Total current assets</b>		<b>45,984</b>	<b>40,267</b>	<b>35,162</b>	<b>31,334</b>
<b>Assets</b>		<b>63,190</b>	<b>58,222</b>	<b>59,945</b>	<b>55,622</b>

1000 €	Note	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>Shareholders' equity and liabilities</b>					
<b>Shareholders' equity</b>					
	13, 14				
Share capital		3,059	3,030	3,059	3,030
Issue premium reserve		4,966	3,499	4,966	3,499
Other reserves		27	23		
Retained earnings		16,893	17,830	19,211	20,414
Profit for the financial year		9,842	7,622	8,110	7,279
		<b>34,787</b>	<b>32,004</b>	<b>35,346</b>	<b>34,222</b>
Preferred capital notes	15	332	718	290	406
<b>Total shareholders' equity</b>		<b>35,119</b>	<b>32,722</b>	<b>35,636</b>	<b>34,628</b>
<b>Minority interest</b>		<b>304</b>	<b>162</b>		
<b>Group reserves</b>		<b>59</b>	<b>65</b>		
<b>Accumulated appropriations</b>					
	16				
Depreciation difference				1,823	1,332
<b>Liabilities</b>					
	17				
Long term					
Loans from credit institutions		1,260	4,501	1,260	4,486
Deferred tax liability	18	528	464		
		<b>1,788</b>	<b>4,965</b>	<b>1,260</b>	<b>4,486</b>
Current					
Loans from credit institutions		2,400	2,525	1,824	1,824
Advances received		218	596	140	326
Trade payables		13,324	10,059	12,836	9,468
Other current liabilities		1,714	1,388	1,214	299
Accrued expenses and deferred income	19	8,264	5,740	5,212	3,259
		<b>25,920</b>	<b>20,308</b>	<b>21,226</b>	<b>15,176</b>
<b>Total liabilities</b>		<b>27,708</b>	<b>25,273</b>	<b>22,486</b>	<b>19,662</b>
<b>Shareholders' equity and liabilities</b>		<b>63,190</b>	<b>58,222</b>	<b>59,945</b>	<b>55,622</b>

# ACCOUNTING PRINCIPLES

## General accounting principles

The financial statements of Vacon Plc and the consolidated financial statements are prepared and presented in accordance with the laws and regulations in force in Finland and in compliance with the Group-wide accounting principles.

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.

## 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 and liabilities, and the margins on intra-group transactions are eliminated in the consolidation. Minority interests in Group companies are presented in the consolidated income statement and the share of minority interests in shareholders' equity is 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 depreci-

ation difference of group companies are divided into changes in deferred tax liability and the result for the year in the consolidated financial statements. Accumulated appropriations are divided into deferred tax liability and non-restricted shareholders' equity in the consolidated balance sheet.

The financial statements of associated companies are consolidated using the equity method. In accordance with this method, the Group's share of the results of the associated companies 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 associated company. If a subsidiary company becomes an associated 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.

## 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 rate gains and losses related to financing operations are recorded under financial income and expenses.

Foreign currency items are hedged with forward contracts and currency options. Open foreign currency hedging instruments are valued at fair value on the closing date and recorded as appropriate for the hedged item.

#### **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 major projects that meet the requirements of the 50/1998 decision of the Finnish Ministry of Trade and Industry. 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 in accordance with the principles applied in previous years.

#### **Dividends and own shares**

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting. When purchasing the company's own shares, the amount paid for them, including direct costs for the purchase, is recorded as a reduction of equity.

## **TRANSITION TO IFRS REPORTING**

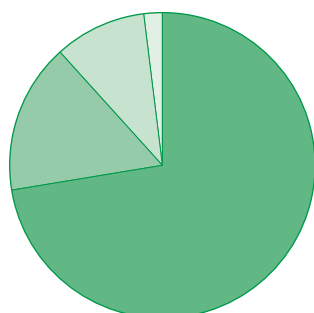
Vacon is adopting international financial reporting standards (IFRS) in its financial reporting as from 1 January 2005. Changing over to IFRS standards improves Vacon's result for 2004 when compared to Finnish accounting practice for financial statements (FAS) since it eliminates annual goodwill amortization, capitalizes R&D costs and recognizes liability for the disability element of the Finnish statutory pension scheme as income. Impairment tests have been carried out on consolidated goodwill and these have not resulted in any impairment losses. The main increases in balance sheet funds, in addition to R&D

costs, are financial leasing agreements and deferred tax receivables. The increases in interest-bearing debt arise from financial leasing agreements and the increases in interest-free debt from deferred tax liabilities.

Vacon Plc has published a separate release in March 2005 containing comparable 2004 financial statement information prepared in accordance with IFRS standards. The release explains the main impacts on Vacon's financial statements of the transition to the new accounting practice.

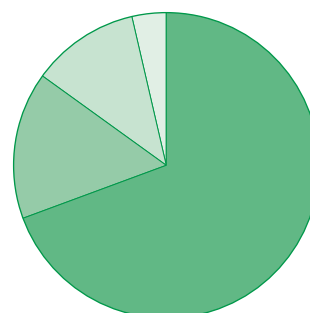
# NOTES TO THE FINANCIAL STATEMENTS

## 1. Revenues 1000 €



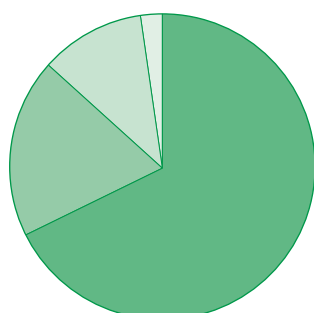
Group (by market area) 2004

Europe	93,338	72.6 %
North America	20,495	15.9 %
Australia and Asia	12,456	9.7 %
Other countries	2,296	1.8 %
Total	128,585	100.0 %



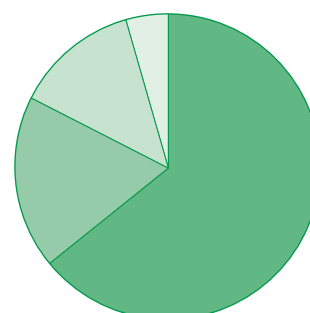
Group (by market area) 2003

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 %



Parent (by market area) 2004

Europe	73,093	68.0 %
North America	20,347	18.9 %
Australia and Asia	11,830	11.0 %
Other countries	2,296	2.1 %
Total	107,566	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 %

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

	Group 2004	Group 2003	Parent 2004	Parent 2003
Recognized accumulated income	3,055	1,131	1,035	1,131
Recognized accumulated income for uncompleted projects	1,665	902	631	902
Unrecognized part of income for uncompleted projects	264	180	100	180

	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>2. Personnel expenses 1000 €</b>				
Wages and salaries				
Presidents and members of the Board of directors	2,181	2,178	316	367
Other wages and salaries	16,645	15,167	12,120	11,218
	18,826	17,345	12,436	11,585
Other personnel expenses				
Pension costs	2,810	2,622	2,070	1,921
Other compulsory personnel costs	1,958	1,711	1,038	935
	4,768	4,333	3,108	2,856
<b>3. Average number of personnel</b>				
Office personnel	319	290	197	180
Factory personnel	139	147	134	144
Total	458	437	331	324
<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	1,187	1,219	1,029	992
Tangible assets	2,129	2,135	1,776	1,881
Total	3,316	3,354	2,805	2,873
Goodwill on consolidation	197	199		
Decrease of group reserves	-6	-6		
Total	191	193		
Depreciation according to plan, total	3,507	3,547	2,805	2,873
<b>6. Financial income and expenses 1 000 €</b>				
Dividend income				
From others	17	12	17	12
	17	12	17	12
Interest income from financial assets				
From group companies			155	164
From others	87	40	56	40
	87	40	211	204
Other interest and financial income				
From group companies				1
From others	31	135		66
	31	135		67
Write-downs on financial assets				
From group companies				-103
				-103
Interest and other financial expenses				
From others	-219	-309	-131	-213
	-219	-309	-131	-213
Financial income and expenses, total	-84	-122	97	-33

	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>7. Appropriations 1 000 €</b>				
Change in depreciation difference			-491	-237
<b>8. Income taxes 1 000 €</b>				
Income taxes on operations	-4,631	-3,865	-3,378	-3,015
Change in deferred tax liability	-111	-68		
	-4,742	-3,933	-3,378	-3,015

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	5,837	2,278	3,175	211	11,501
Increases	279	382		147	808
Decreases	-482	-170	-650		-1,302
Acquisition cost on 31 December	5,634	2,490	2,525	358	11,007
Accumulated amortization on 1 January	-2,915	-927	-765	-118	-4,725
Accumulated amortization of decreases and transfers		20			20
Amortization for the financial year	-821	-332	-191	-34	-1,378
Accumulated amortization on 31 December	-3,736	-1,239	-956	-152	-6,083
Net book value on 31 December	1,898	1,251	1,569	206	4,924
<b>Group</b>		Machinery and equipment	Other tangible assets	Construction in progress	Total
<b>Tangible assets</b>					
Acquisition cost on 1 January		15,620	207	2,029	17,856
Increases		3,555	48	25	3,628
Decreases		-204		-1,229	-1,433
Transfers between items		-41	-35		-76
Acquisition cost on 31 December		18,930	220	825	19,975
Accumulated depreciation on 1 January		-7,687	-150		-7,837
Accumulated depreciation of decreases and transfers		51			51
Depreciation for the financial year		-2,118	-11		-2,129
Accumulated depreciation on 31 December		-9,754	-161		-9,915
Net book value on 31 December		9,176	59	825	10,060
<b>Group</b>	Shares in affiliated companies	Receivables from affiliated companies	Other shares	Other receivables	Total
<b>Financial assets</b>					
Acquisition cost on 1 January		177	681	300	1,158
Increases	93	645	236	99	1,073
Decreases				-10	-10
Net book value on 31 December	93	822	917	389	2,221

9. Assets 1000 €	Development expenses	Intangible rights	Other long-term expenditure	Total
<b>Parent</b>				
<b>Intangible assets</b>				
Acquisition cost on 1 January	4,966	1,879	129	6,974
Increases		325		325
Acquisition cost on 31 December	4,966	2,204	129	7,299
Accumulated amortization on 1 January	-2,487	-741	-53	-3,281
Amortization for the financial year	-732	-271	-26	-1,029
Accumulated amortization on 31 December	-3,219	-1,012	-79	-4,310
Net book value on 31 December	1,747	1,192	50	2,989
<b>Parent</b>				
<b>Tangible assets</b>				
Acquisition cost on 1 January	14,195	28	1,991	16,214
Increases	2,886	3		2,889
Decreases	-76		-1,166	-1,242
Acquisition cost on 31 December	17,005	31	825	17,861
Accumulated depreciation on 1 January	-6,925			-6,925
Depreciation for the financial year	-1,775			-1,775
Accumulated amortization on 31 December	-8,700			-8,700
Net book value on 31 December	8,305	31	825	9,161
<b>Parent</b>				
<b>Financial assets</b>				
Acquisition cost on 1 January	5,110	5,164	55	177
Increases	1,655		733	645
Decreases	-733	-1,194		
Net book value on 31 December	6,032	3,970	788	822
<b>Parent</b>				
<b>Financial assets</b>				
Acquisition cost on 1 January		681	119	11,306
Increases		221		3,254
Decreases				-1,927
Net book value on 31 December		902	119	12,633

## 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, Reggio 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 Drives, Moscow, Russia	100	100	100
Vacon France SAS, Moissy Cramayel, France	70	70	70
Vacon AS, Holmestrand, Norway	80	80	80
Vacon Benelux NV/Sa, Heverlee, Belgium	100	100	99
Vacon Suzhou Drives Co. Ltd, Suzhou, China	100	100	100
<b>Affiliated companies</b>			
VNT Management Oy, Vaasa, Finland	49	49	49
Verteco Oy, Vaasa, Finland	34	34	31
Rotatek Finland Oy, Lappeenranta, Finland	32	32	25

### Group reserves 1 000 €

	Group 2004	Group 2003	Parent 2004	Parent 2003
Acquisition value on 1 January	65	71		
Acquisition value on 31 December	65	71		
Accumulated value entered as income	-6	-6		
Net book value on 31 December	59	65		

## 11. Short-term receivables 1000 €

From group companies				
Trade receivables			8,330	8,395
			8,330	8,395
From others				
Trade receivables	21,407	18,371	10,508	8,662
Other receivables	1,075	672	972	574
Prepaid expenses and accrued income	1,323	740	798	544
	23,805	19,783	12,278	9,780
Short-term receivables, total	23,805	19,783	20,608	18,175

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

Recognized accumulated income according to percentage-of-completion method	270	103		103
Subsidies	319	175	319	159
Other	734	462	479	282
	1,323	740	798	544

	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>13. Shareholders' equity</b>				
Share capital on 1 January	3,030	3,030	3,030	3,030
Share issue 30.9.2004	29		29	
Share capital on 31 December	3,059	3,030	3,059	3,030
Issue premium reserve on 1 January	3,499	3,499	3,499	3,499
Issue premium	1,467		1,467	
Issue premium reserve on 31 December	4,966	3,499	4,966	3,499
Other reserves on 1 January	23	21		
Change	4	2		
Other reserves on 31 January	27	23		
Retained earnings on 1 January	25,452	20,471	27,694	22,990
Dividend distribution	-8,333	-2,576	-8,333	-2,576
Share repurchases	-150		-150	
Other changes	44	7		
Translation difference	-120	-72		
Retained earnings on 31 December	16,893	17,830	19,211	20,414
Profit for the financial year	9,842	7,622	8,110	7,279
Preferred capital notes on 31 December	332	718	290	406
Shareholders' equity, total	35,119	32,722	35,636	34,628
<b>14. Distributable equity</b>				
Retained earnings on 31 December	16,893	17,830	19,211	20,414
Profit for the financial year	9,842	7,622	8,110	7,279
Depreciation difference and other untaxed reserves	-1,503	-1,136		
Distributable equity, total	25,232	24,316	27,321	27,693

### 15. Preferred capital notes

The parent company has received a capital note of 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 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 this capital note totalling EUR 8,330 were allocated at the end of year 2004.

## 16. Appropriations

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

	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>17. Liabilities</b> 1000 €				
<b>Long-term</b>				
Interest-bearing *)				
Loans from credit institutions	1,260	4,501	1,260	4,486
	1,260	4,501	1,260	4,486
Non-interest-bearing				
Deferred tax liability	528	464		
	528	464		
<b>Long-term liabilities, total</b>	<b>1,788</b>	<b>4,965</b>	<b>1,260</b>	<b>4,486</b>
<b>Current</b>				
Interest-bearing				
Loans from credit institutions	2,400	2,525	1,824	1,824
	2,400	2,525	1,824	1,824
Non-interest-bearing				
Advances received	218	596	140	326
Trade payables	13,324	10,059	12,543	9,271
Trade payables to group companies			293	197
Other current liabilities	1,714	1,388	1,214	299
Accrued expenses and deferred income	8,264	5,740	5,212	3,259
	23,520	17,783	19,402	13,352
<b>Current liabilities, total</b>	<b>25,920</b>	<b>20,308</b>	<b>21,226</b>	<b>15,176</b>
Interest-bearing liabilities *)	3,660	7,026	3,084	6,310
Non-interest-bearing liabilities	24,048	18,247	19,402	13,352
<b>Liabilities, total</b>	<b>27,708</b>	<b>25,273</b>	<b>22,486</b>	<b>19,662</b>
*) The preferred capital notes are not included in long-term interest-bearing liabilities.				
<b>18. Specification of deferred tax liability</b>				
Appropriations	528	464		
<b>19. Main items in accrued expenses and deferred income</b> 1000 €				
Wages, salaries and wage-related liabilities	4,038	3,085	2,778	2,120
Other	4,226	2,655	2,434	1,139
	8,264	5,740	5,212	3,259



	Group 2004	Group 2003	Parent 2004	Parent 2003
<b>20. Currency derivative</b> 1000 €				
Forward contracts				
Fair value	246	1	246	1
Nominal value	4,624	61	4,624	61
Options, purchased				
Fair value	24	9	24	9
Nominal value	1,784	640	1,784	640
Options, written				
Fair value	-15	-5	-15	-5
Nominal value	1,385	455	1,385	455
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.				
<b>21. Collateral and contingent liabilities</b> 1000 €				
For own loans/commitments				
Mortgages	126	455		
For group companies				
Contingent liabilities	1,318	1,320	714	766
For other				
Contingent liabilities	933	19	933	19
<b>22. Amount payable according to leasing contracts</b> 1000 €				
Maturity within one year	1,275	1,123	1,052	877
Maturity after one year	1,773	1,817	1,494	1,591
	3,048	2,940	2,546	2,468
<b>23. Other commitments</b> 1000 €				
Capital commitments	1,834	1,903	1,834	1,903

## SIGNING THE FINANCIAL STATEMENTS

Vaasa, February 10, 2005



**Jan Inbarr**  
Chairman



**Pekka Ahlqvist**



**Jari Eklund**



**Kalle Heikkinen**



**Mauri Holma**



**Veijo Karppinen**



**Vesa Laisi**  
President and CEO

## AUDITOR'S REPORT

### To the shareholders of Vacon Plc

We have audited the accounting, the financial statements, as well as the administration by the Board of Directors and the Managing Director of Vacon Plc for the period 1.1.–31.12.2004. 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 the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. 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 the administration is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. 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 made by the Board of Directors regarding the distribution of the retained earnings is in compliance with the Finnish Companies Act.

Vaasa, February 10, 2005  
KPMG OY AB

(signed)

**Pekka Pajamo**  
Authorized Public Accountant

## SHARES AND SHAREHOLDERS

### Share capital and shares

Vacon has a share capital of EUR 3,059,000 which is divided into 15,295,000 fully paid shares. According to the company's Articles of Association, the minimum share capital of the company is EUR 1 million and the maximum is EUR 4 million. Vacon has one share series. Each share has a nominal value of EUR 0.20, and each share entitles the holder to one vote in the general meeting of shareholders. The trading lot for Vacon's shares is 100 shares.

### Redemption of Shares

A shareholder whose holding of all company shares or of the voting rights conferred by the shares reaches or exceeds 33 1/3 per cent or 50 per cent is obliged on demand by other shareholders to redeem the shares of such shareholders in the manner prescribed in the Article of Association.

### Authorizations held by Board of Directors

Vacon's Annual General Meeting of Shareholders on 25 March 2004 authorized the Board of Directors to decide to purchase and dispose of the company's own shares. The authorization is in force until 24 March 2005. The number of shares that may be purchased and disposed of shall be at most 757,500 shares, which corresponds to five (5) per cent of the current registered share capital and the combined voting rights of the shares.

Under the authorization, shares can be purchased 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 company's own shares may also be repurchased to be used to implement incentive programs for the company's key personnel or to be used as payment of salaries or fees. Repurchase of shares the company's distributable retained earnings. Cancellation of the shares requires a separate resolution by a General Meeting of Shareholders to reduce the company's share capital. The Board of Directors shall decide on the disposal price of the shares and on the principles used to determine the price, and the shares may be disposed of for other consideration than cash or otherwise on specific terms and conditions or by using the right of set-off.

The Board holds no authorization to issue new shares, convertible bonds or bonds with warrants.

### Own shares

Under the authorization given by the AGM on 25 March 2004, the Board of Directors of Vacon Plc decided to purchase a maximum of 200,000 company shares in public trading. On 31 December 2004, Vacon Plc held a total of 12,800 of its own shares.

### Shareholdings of Board of Directors and Management Team

On 31 December 2004, members of the Board of Directors held a total of 642,020 shares, or 4.2 % of Vacon's share stock, and members of the company's Management Team held a total of 443,618 shares, or 2.9 % of the company's shares and the votes they carry.

### Taxable value of share in Finland

The shares of Vacon Plc have a taxable value of EUR 8.21 per share in 2004 taxation.

### Market value and trading

The shares of Vacon Plc have been quoted on the Helsinki Exchanges (HEX: VAC1V) since 14 December 2000. The DI and DII stock options relating to the 2002 Stock Option Plan (Stock Option Plan II) were listed for public trading on the Main List of the Helsinki Exchanges as from 16 August 2004. A total of 145,000 shares were subscribed with DI and DII stock options under this stock option plan on 15 September 2004. As a result of the conversion of the options the company's share capital increased by a total of EUR 29,000. The increase in the share capital was entered in the Finnish Trade Register on 30 September 2004.

The new shares convey the same shareholder rights as existing shares. Each share conveys one vote. The new shares entitle the holder to a dividend for the year during which the shares were subscribed. All other shareholder rights are applicable from the date of registration in the Trade Register. The shares have been entered in the book-entry securities system. The new shares, carrying the same rights as existing shares, were admitted for trading on the Main List of the Helsinki Exchanges on 1 October 2004.

During 2004 a total of 3,427,027 company shares, with a value of EUR 37.7 million, were traded on the stock exchange. The highest share price during the year was EUR 11.99 and the lowest EUR 9.95. The closing price on the last day of 2004 was EUR 11.78, which gave the company's share capital a market value of EUR 180.0 million.

### Incentive schemes

The company has an incentive scheme for the entire personnel.

The total number of shares subscribed under the Vacon Plc Stock Option Plan 2002 DI and DII between August 16 and 15 September 2004 amounted to 145,000 of the company's shares. The option programme also included the company's president, who has belonged since 1 July 2002 to the inner circle of the company as defined in Chapter 1, Section 4 of the Finnish Companies Act. The president subscribed 50,000 option rights under this option scheme and the Management Team altogether 47,500 option rights. Option rights were offered to 21 persons of Vacon Group's key personnel.

### Dividend policy

Vacon's goal is to pay a dividend in line with the company's financial performance. The goal is to pay a dividend equal to at least one third of the net profit.

Vacon's Board of Directors has decided to propose to the AGM on 30 March 2005 that a dividend of EUR 0.35, i.e. 54 % of the earnings per share, be paid for 2004.

### Shareholders

At the end of 2004 Vacon had 3,721 registered shareholders. The largest shareholder was Ahlström Capital Oy, which held 15.0% of the shares. The number of nominee registered shares and those registered by non-Finns totalled 4,558,487, or 29.8 % of the shares. Private individuals owned 36.2 % of the shares. Up-to-date information about Vacon's share price and ownership structure is available on Vacon's website at [www.investors.vacon.com](http://www.investors.vacon.com).

### Breakdown of ownership

#### Division of shares

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1-500	2,806	75.4	665,464	4.4
501-1,000	451	12.1	361,462	2.4
1,001-5,000	316	8.5	718,653	4.7
5,001-10,000	53	1.4	404,635	2.5
10,001-50,000	60	1.6	1,248,872	8.2
50,001-100,000	16	0.5	1,132,162	7.4
Over 100,000	19	0.5	10,763,752	70.4
Total	3,721	100.0	15,295,000	100.0
including nominee registered	7		4,430,161	29.0

#### Ownership structure

Corporations	238	6.4	3,313,090	21.7
Banks and insurance companies	21	0.5	5,640,657	36.9
Public sector entities	2	0.1	652,800	4.3
Non-profit organisations	33	0.9	145,987	0.9
Households	3,427	92.1	5,542,466	36.2
Total	3,721	100.0	15,295,000	100.0

#### Major shareholders 31.12.2004

	Number of shares	% of shares
Ahlström Capital Oy	2,297,996	15.0
Tapiola Group	975,400	6.4
Vaasa Engineering Oy	471,433	3.1
Koskinen Jari	354,494	2.3
Holma Mauri	347,171	2.3
Ehrnrooth Martti	315,870	2.1
Niemelä Harri	309,840	2.0
OP-Suomi Kasvu Mutual Fund	304,600	2.0
Karppinen Veijo	294,849	1.9
Nominee registered	4,430,161	29.0
Others	5,193,186	33.9
Total	15,295,000	100.0
Vacon Plc's own shares	-12,800	
Number of shares outstanding	15,282,200	

Ownership outside Finland on 31 December 2004 (including Nominee registered) 29.8 %.

## KEY FIGURES

	2004	2003	2002	2001	2000 (pro forma)
<b>Per share data</b>					
Earnings per share, EUR	0.65	0.50	0.43	0.45	0.41
Equity per share, EUR	2.29	2.11	1.78	1.52	1.32
Dividend per share, EUR *)	0.35	0.55	0.17	0.16	0.14
Dividend payout ratio, % *)	54.01	109.32	39.60	35.50	35.30
Effective dividend yield, % *)	3.0	5.6	2.3	1.7	1.7
Price/earnings-ratio	18.2	19.5	17.2	20.7	20.2
<b>Share price information</b>					
Lowest during the period, EUR	9.95	6.70	5.60	7.85	7.50
Highest during the period, EUR	11.99	10.65	11.60	12.60	8.50
Closing price at the end of the period, EUR	11.78	9.80	7.40	9.33	8.30
Average price for the period, EUR	11.00	8.95	9.68	10.02	7.76
Market value of the shares, MEUR	180.00	148.50	112.11	141.35	125.75
Number of shares exchanged	3,427,027	4,231,544	4,599,195	6,240,984	211,041
Number of shares exchanged, %	22.4	27.9	30.4	41.2	1.5
Adjusted average number of shares during the financial period **)	15,186,805	15,150,000	15,150,000	15,150,000	13,722,242
Number of shares at the end of the period **)	15,282,200	15,150,000	15,150,000	15,150,000	15,150,000
<b>Financial ratios</b>					
Revenues, MEUR	128.6	112.3	97.5	90.5	64.9
Revenues, increase, %	14.5	15.2	7.7	39.5	46.6
Operating profit, MEUR	14.7	11.8	9.9	10.4	8.1
Operating profit, increase, %	24.6	19.2	-4.8	28.4	34.7
Operating profit, % of revenues	11.4	10.5	10.2	11.5	12.5
Profit before appropriations and taxes, MEUR	14.7	11.7	9.8	10.1	8.2
Profit before appropriations and taxes, % of revenues	11.4	10.4	10.1	11.2	12.7
Return on equity, %	29.7	26.1	26.2	32.9	44.3
Return on investments, %	37.8	31.7	30.4	38.1	46.8
Interest bearing net debt, MEUR	-11.5	-6.2	-0.8	3.5	2.3
Net gearing (%)	-32.9	-19.1	-3.0	15.4	12.7
Equity ratio [%] (preferred capital notes excluded)	55.7	55.8	51.7	47.7	49.1
Gross investments in fixed assets, MEUR	4.2	4.8	4.7	7.5	8.8
Gross investments in fixed assets, % of revenues	3.3	4.3	4.8	8.3	13.6
Research and development expenditure, MEUR	9.8	8.9	7.1	6.9	5.8
Research and development expenditure, % of revenues	7.6	7.9	7.3	7.6	8.9
Personnel at the end of the period	469	436	426	409	308
Orderbook at the end of the period, MEUR ***)	12.0	12.3	15.5	6.5	5.8

\*) The 2004 dividend is the Board of directors' proposal to the Annual General Meeting.

\*\*) The average number of shares in the financial period was 15,186,805. The total number of shares outstanding was 15,282,200.

\*\*\*) 2000-2001 parent company's orderbook.

## CALCULATION OF FINANCIAL RATIOS

$$\text{Earnings per share} = \frac{\text{Profit before extraordinary items - income taxes +/- minority interests}}{\text{Adjusted number of shares over the financial year}}$$

$$\text{Equity per share} = \frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial year}}$$

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

$$\text{Dividend payout ratio} = \frac{\text{Dividends paid for the financial year} \times 100}{\text{Profit before taxes - income taxes +/- minority interest}}$$

$$\text{Effective dividend yield} = \frac{\text{Dividends per share} \times 100}{\text{Adjusted share price at the end of the financial year}}$$

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

$$\text{Return on equity} = \frac{(\text{Profit before extraordinary items - income taxes}) \times 100}{\text{Shareholders' equity} + \text{minority interests, average over the years}}$$

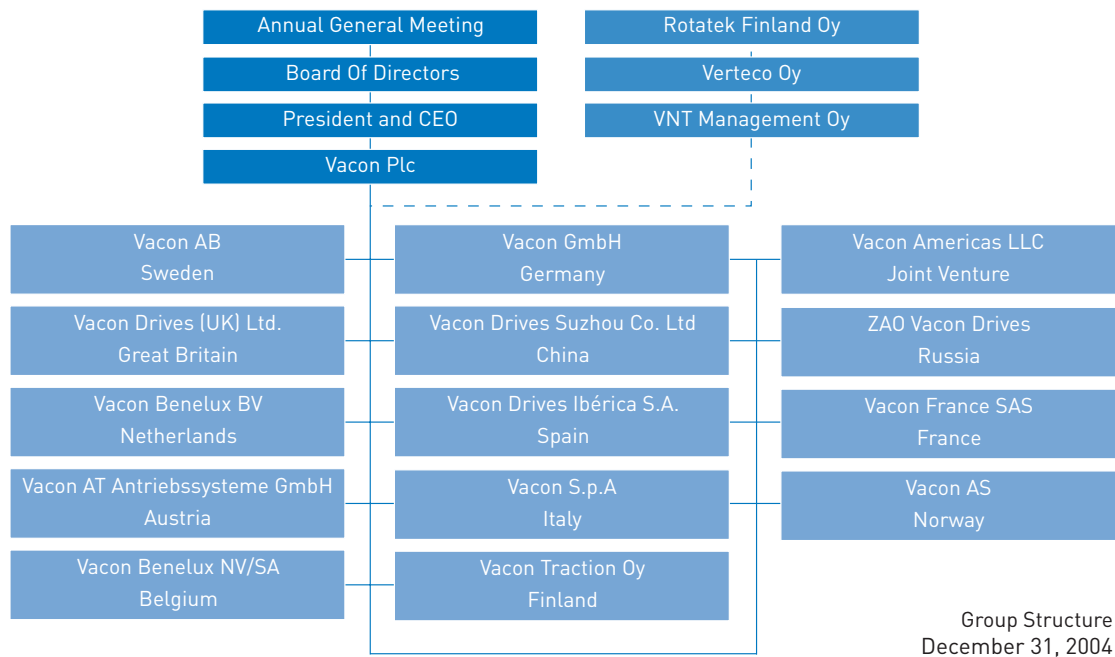
$$\text{Return on investments} = \frac{(\text{Profit before extraordinary items} + \text{interest and other financial expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing liabilities, average over the years}}$$

$$\text{Equity ratio} = \frac{(\text{Shareholders' equity} + \text{minority interests}) \times 100}{\text{Balance sheet total} - \text{advances received}}$$

$$\text{Net gearing} = \frac{(\text{Interest bearing liabilities} - \text{cash and bank balances}) \times 100}{\text{Shareholders' equity} + \text{minority interests}}$$

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

## CORPORATE GOVERNANCE



Vacon Plc is a Finnish limited liability company which, in its decision-making and administration, complies with the Finnish Companies Act, other regulations concerning public companies and the Articles of Association of Vacon Plc.

In addition, Vacon Plc complies with the Guidelines for Insiders and the Corporate Governance Recommendation for Listed Companies that came into force on 1 July 2004, approved by the Helsinki Exchanges, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. The Articles of Association of Vacon Plc can be seen on the company's Internet website at [www.investors.vacon.com](http://www.investors.vacon.com) under Company Information.

### General Meeting of Shareholders

The highest authority in Vacon Plc is exercised by the company's shareholders at General Meetings, which are convened by the company's Board of Directors. The Annual General Meeting is held annually on a date determined by the Board of Directors but no later than the end of June. Extraordinary General Meetings are convened when necessary.

The main matters under the authority of General Meetings are:

- approving the financial statements
- distribution of profits
- discharging from liability the members of the Board of Directors and the President

- deciding on the number of Board members and auditors and their remuneration, and selecting them
- making any changes in the Company's Articles of Association
- increasing and decreasing the share capital

### Advance information for shareholders

Notice of a General Meeting of Shareholders, stating the matters to be considered at the meeting, is either sent to shareholders by registered mail or is announced in at least one nationwide newspaper determined by the Board of Directors. The invitation and the proposals made by the Board of Directors to the General Meeting are also published in a stock exchange release and on the company's Internet website.

The names of persons nominated for the Board of Directors are published in the invitation to the General Meeting or, if the invitation has already been published, in some other way before the General Meeting, provided they have given their written consent to be nominated and are supported by shareholders holding at least 10% of the votes carried by all the shares of the company. The proposal prepared by the Board of Directors concerning the company's auditor is published in a similar way before the meeting.

### **Attendance**

Those wishing to attend the General Meeting must inform the company by the deadline stated in the notice of meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may also have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two weeks after the meeting. The decisions taken by the General Meeting are also published in a stock exchange release immediately after the meeting.

### **Attendance at General Meetings of Board members and President**

It is the company's aim that all Board members attend the Annual General Meeting. Persons nominated for the first time as Board Members shall attend the General Meeting that elects the Board members, unless they have very pressing grounds for being absent.

### **Decision-making**

Vacon Plc has one class of shares and each share is entitled to one vote. When votes are taken at a General Meeting, proposals supported by more than half of the votes cast are the decisions of the General Meeting or, in the case of a tie, the chairman has the casting vote. Exceptions to this are certain matters mentioned in the Finnish Companies Act, such as an amendment to the Articles of Association or a decision on a rights offering, for which any decision requires a larger majority specified in the Act in relation to the number of shares and the votes to which they give entitlement.

According to the Articles of Association of Vacon Plc, a shareholder whose holding of all company shares or of the voting rights conferred by the shares - either individually or jointly with other shareholders as defined hereinafter - reaches or exceeds 33 1/3 per cent or 50 per cent (shareholder subject to redemption obligation), is obliged on demand by other shareholders (shareholders with rights of redemption) to redeem the shares of such shareholders and securities entitling them to shares as defined in the Finnish Companies Act in the manner prescribed in the relevant Article.

The company is not aware of any shareholder agreements concerning the use of voting rights in the company, or of any agreements limiting the surrender of company shares.

## **BOARD OF DIRECTORS**

### **Composition and term of office**

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 do they limit the number of terms of office. The Board elects from among its members a chairman and deputy chairman for one term of office.

The Annual General Meeting held on 25 March 2004 decided that the Board of Directors should have six members. Jan Inborr, Jari Eklund, Mauri Holma and Veijo Karppinen were re-elected as Board members. Pekka Ahlqvist, M.Sc. (Eng.), MBA, a member of the Wärtsilä Group Board of Management, and Kalle Heikkinen, MBA, Managing Partner at the strategic advisory firm Nordic Adviser Group, were elected as new Board members. Jan Inborr was re-elected Chairman and Veijo Karppinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board of Directors.

### **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 in the Board of Directors' rules of procedure. On 23 October 2003 the Vacon Plc Board of Directors approved written rules of procedure for the duties of the Board, matters to be considered, and meeting and decision-making procedures.

The Board revises its rules of procedure 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.

According to the rules of procedure, Vacon's Board:

- confirms the Company's long-term goals and strategy
- approves the Group's operations plan, budget and 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
- considers and approves interim reports, consolidated financial statements and the annual report

#### **Evaluation of independence**

Vacon's Board of Directors has evaluated the independence of Board members in relation to the company in accordance with recommendation 18 of the Corporate Governance Recommendation. The majority of Board members - Jan Inborr, Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen and Mauri Holma - are independent of the company. Veijo Karppinen was CEO of Vacon Plc until July 2002 and so is not wholly independent of the company. Veijo Karppinen, Pekka Ahlqvist, Kalle Heikkinen, Mauri Holma and Jari Eklund are independent of major shareholders. Jan Inborr is not independent of major shareholders since he is CEO of Ahlström Capital Ltd.

#### **Decision-making**

The Board of Directors shall always act in the interest of the company and in such a way that its operations are not liable to result in an unjustified advantage for any shareholder or other party at the expense of the company or another shareholder. A Board member is disqualified from being present when the Board considers matters involving the Board member and the company. The chairman of the Board of Directors is responsible for convening the Board meetings and for meeting procedures. When votes are taken, the majority opinion is the Board's decision and, in the case of a tie, the chairman has the casting vote. In an election, a tie is decided by drawing lots.

#### **Meeting practice and self-assessment**

The Board of Directors meets about 10 times a year. The Board of Directors has not allocated special areas of focus for its members to monitor business operations. Matters are presented at meetings by the President of Vacon Plc or, at his request, by another member of the Management Team. According to the Board of Directors' rules of procedure, the President ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. The President also supervises the implementation of Board decisions and reports to the Board on any deficiencies or problems in implementation. The secretary to the Board of Directors is Stefan Wikman, attorney from Roschier Holmberg, Attorneys Ltd. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year. The Board has had 10 full meetings during 2004. The average attendance percentage, a figure that illustrates the participation of the Board members in the work of the Board, was about 95 percent in 2004.

#### **Board of Directors' fees and other benefits**

The Annual General Meeting decides each year on the fees and principles for reimbursing expenses to the members of the Board of Directors. Fees to the Board members are paid in cash.

The 2004 Annual General Meeting decided that the fees paid to the Board members were as follows:

- monthly fee for the Chairman EUR 2,000
- monthly fee for each Board member EUR 1,000
- bonuses depending on the company's result

In addition, Board members are entitled to per diem allowances and travel expenses in accordance with the general travel rules of Vacon Plc.

#### **Committees**

On 27 April 2004 Vacon Plc's Board of Directors set up a combined Remuneration and Nomination committee, made up of three members of the Board. The committee is subordinate to the Board of Directors and makes recommendations for the Board to decide on.

The task of the committee is to create forms of remuneration that are felt to boost motivation and also take into account the special features of Vacon. The committee also prepares for the election of members to the Board of Directors so that the Board can make proposals to the General Meeting, prepares matters concerning compensation for the Board of Directors, and identifies successor candidates for the members of the Board.

The committee members in 2004 were Jan Inborr, Veijo Karppinen and Pekka Ahlqvist.

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

The Board of Directors appoints the company's President and defines the terms of employment of the President in writing. The President prepares 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. Under the terms of the President's contract of employment, the company will pay the President compensation equivalent to 18 months' salary if the contract is terminated.

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 the Group's senior management. The Management Team is not an administrative body as stipulated by the Finnish Companies Act. Subsidiary companies report to the Group's Vice President for Sales, Marketing and Customer Service.

#### **The salaries and other benefits of the President and other senior management**

The salaries and other benefits of the President and other senior management are approved by the Board of Directors. The Board of Directors confirms each year any management bonus and any bonus for all personnel.

During the year 2004 personnel earned productivity bonus of approximately EUR 816,000. The total number of shares subscribed under the Vacon Plc Stock Option Plan 2002 DI and DII by 15 September 2004 amounted to 145,000 of the company's shares. The Option programme also included 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 50,000 option rights and the Management Team 47,500 option rights based on this option programme. 21 of Vacon Group's key personnel were entitled to option rights based on this option programme. The President & CEO's annual salary, which includes the monthly salary and bonuses, was EUR 210,256 in 2004.

#### **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 21 days before the publication of the results for a reporting period. Vacon Plc shall also not purchase its own shares during this period.

#### **Shares, share capital, major shareholders, and flagging notifications during the past 12 months**

The company gives basic information about its shares, share capital and major shareholders in the section Shares and Shareholders in the financial pages of this annual report. The company has not made any flagging notifications during the past 12 months.

#### **Audit**

The auditors elected by the Annual General Meeting are the authorized public accountants KPMG 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 during auditing to Group management. The scope and contents of the audit are defined so that they take into account the fact that the company does not yet have its own internal audit organization. Vacon Plc paid the auditors fees of EUR 93,500 for the 2004 audit. In addition, the authorized public accountants were paid fees of EUR 35,000 for services not related to audit.

#### **Risk management**

Risk management at Vacon Plc is part of the management process for the company's business operations. Risk management aims to systematically and comprehensively identify and create awareness of the risks to which the company's operations, assets and personnel are exposed and minimize any damage. It also aims to ensure that these risks are managed properly when taking decisions relating to the company's business. There is no separate organisation for risk management; responsibility for this is distributed in the same way as other responsibilities within the business operations and organisation.

#### **Assets and liability risks**

Vacon aims to avoid damages and losses through preventive risk management action. The company takes no risks that might endanger the safety of customers, personnel or other persons or that could damage the company's brand.

Vacon has implemented worldwide insurance schemes to cover risks relating to property damage, business interruptions, transport and liability (ordinary risks, product liability, management liability). The global insurance schemes for the company's operations are managed centrally by the Group's parent company. Other insurance is 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 treasury function. The treasury function of the Group's parent company is responsible for the Group's liquidity, for ensuring sufficient financing, and for managing interest rate, foreign exchange and third party risks.

#### **Foreign exchange risk**

The company has its own operations in 14 countries and supplies its products and services through partners in a total of one hundred countries. This exposes the company to foreign exchange risks arising from exports and imports, intra-group transactions, financing for foreign subsidiaries, and shareholders' equity denominated in foreign currency.

The company's largest transaction risk positions arise from exports and imports. The company's largest non-euro invoicing currency is the US dollar, which accounts for some 20 % of the Group's invoicing. The other invoicing currencies are the Swedish crown, the Norwegian crown and the UK pound. Together these account for 9 % of the Group's invoicing. Foreign currency denominated purchases account for 13 % of purchases, in the currencies mentioned above.

In accordance with the Group's treasury policy, binding purchasing and supply contracts are hedged in full. In addition, forecast foreign currency denominated cash flows are hedged for 3-6 months. The hedging instruments used are forward exchange contracts and currency options.

The most significant translation risks arise from the capital of subsidiaries in Sweden, Norway, Great Britain and China and of the joint venture company in the USA.

When the income statements and balance sheets of the companies mentioned above are translated into euros to be incorporated in the consolidated financial statements, changes in exchange rates may cause the company's result to increase or decrease. The company hedges selectively against translation risks with foreign currency loans and derivative instruments. The company's Board of Directors decides on hedging activities.

#### **Interest rate risk**

Changes in market interest rates and margins may have an impact on the company's financing costs, the returns on financial investments and the valuation of derivative contracts. The objective of interest rate risk management is to reduce volatility in interest rate costs to allow a more stable net financial performance. The company hedges against interest rate risks through its choice of interest rate periods and with interest rate swaps. The company's Board of Directors decides on hedging activities.

#### **Liquidity**

The company maintains essential liquidity by using cash management tools such as Group accounts and credit facilities. Surplus liquid funds are invested with banking partners.

#### **Credit risks and other counterparty risks**

When the company invests cash funds and makes derivative contracts, only banking partners that meet the conditions for creditworthiness specified in the treasury policy and that are approved by the Board of Directors are accepted as counterparties.

Credit risks associated with ordinary commercial activities are primarily the responsibility of the operational units. The sales organisation has specific credit policies which govern the terms for delivery and payment granted to customers, how these are monitored, and collection of payment. The parent company's treasury function provides centralised services relating to customer financing, and oversees these to ensure that payment terms and required collateral comply with the principles of the treasury policy.

## BOARD OF DIRECTORS

### Jan Inbarr

- Chairman
- Born 1948, M.Sc. (Econ.),  
President and CEO, Ahlström Capital Oy.
- Member of the board since 2002.
- Board member at: Enics AG (chair), Å&R Carton AB (vice chair), Ahlstrom Corporation, Nordkalk Corporation, Stiftelsen för Åbo Akademi.
- No Vacon Plc shares.

### Veijo Karppinen

- Vice chairman
- Born 1950, M.Sc. (Eng.),  
President, VNT Management Ltd.
- Member of the board since 1993.
- Board member at: Vaasa Engineering Oy (chair), Verteco Ltd (chair), EpiCrystals Inc. (chair), Youtility Inc., Wapice Ltd (chair), Oy Comsel System Ab.
- 294,849 Vacon Plc shares.

### Pekka Ahlqvist

- Board member
- Born 1946, M.Sc. (Eng.), MBA, Group Vice President,  
Head of the Power Plants business, Wärtsilä Corporation.
- Member of the board since 2004.
- Board member at:-
- No Vacon Plc shares.

### Jari Eklund

- Board member
- Born 1963, M.Sc. (Econ.),  
Investment Director, Tapiola Insurance Group.
- Member of the board since 2001.
- Board member at: Ilkka-Yhtymä Oyj  
(member of supervisory board),  
Mortgage Society of Finland.
- No Vacon Plc shares.

### Kalle Heikkinen

- Board member
- Born 1956, M.Sc. (Social Science), M.A. (Communications),  
MBA, Managing Partner of Nordic Adviser Group.
- Member of the board since 2004.
- Board member at: Longhorn Capital Oy (chair),  
Harvard Club ry. (chair).
- No Vacon Plc shares.

### Mauri Holma

- Board member
- Born 1950, B.Sc. (El. Eng.),  
President, Vaasa Engineering Oy and Vaasa Service Oy.
- Member of the board since 1993.
- Board member at: Wapice Ltd.
- 347,171 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.
- No Vacon Plc shares.

Ownership on December 31, 2004.

## PRESIDENT AND MANAGEMENT TEAM

### Vesa Laisi

- President and CEO
- Born 1957, M.Sc. (Eng.), M.Sc. (Econ.).
- Employed by the company since 2002.
- Board member at: Finnfacts (chair).
- No Vacon Plc shares.

### Tuula Hautamäki

- Vice President, Human Resources,  
Vice President, Information Technology  
and Process Development
- Born 1964, M.Sc. (Eng.), M.Sc. (Econ.).
- Employed by the company since 2000.
- 4,608 Vacon Plc shares.

### Heikki Hiltunen

- Vice President, Sales, Marketing and Service
- Born 1962, B.Sc. (Eng.).
- Employed by the company since 2002.
- No Vacon Plc shares.

### Dan Isaksson

- Vice President,  
Solutions Customers business area
- Born 1965, M.Sc. (El. Eng.).
- Employed by the company since 1999.
- 16,608 Vacon Plc shares.

### Jukka Kasi

- Vice President, Component Customers business  
area and Product Management
- Born 1966, M.Sc. (Eng.).
- Employed by the company since 1997.
- 51,335 Vacon Plc shares.

### Timo Kasi

- Vice President, R&D
- Born 1966, M.Sc. (Eng.).
- Employed by the company since 1999.
- 1,965 Vacon Plc shares.

### Jari Koskinen

- Vice President, Production
- Born 1960, M.Sc. (Econ.), MBA.
- Employed by the company since 1994.
- 354,494 Vacon Plc shares.

### Mika Leppänen

- Vice President, Finance and Control and CFO
- Born 1959, M.Sc. (Econ.).
- Employed by the company since 2003.
- No Vacon Plc shares.

### Jukka-Pekka Mäkinen

- Vice President, OEM  
and Brand Label Customers business area
- Born 1959, B.Sc. (Eng.).
- Employed by the company since 1999.
- 14,608 Vacon Plc shares.

Ownership on December 31, 2004.

# INFORMATION FOR INVESTORS

## Annual General Meeting

The Annual General Meeting of Vacon Plc will be held at 3.00 pm on Wednesday, 30 March 2005 at the company's head office at Runsorintie 7, Vaasa, Finland.

Shareholders wishing to attend the Annual General Meeting must be registered on 20 March 2005 in the company's list of shareholders maintained by the Finnish Central Securities Depository and shall notify the company not later than 4.00 pm (Finnish time) on 23 March 2005. Shareholders are requested to give their name, address, telephone number and date of birth when informing the company of their attendance. This can be done by telephone to Johanna Koskinen on +358 (0)201 212 528, by fax +358 (0)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 to the above address by the date for notification.

## Share register

Shareholders are requested to inform the book-entry securities register where they have their book-entry securities account of any changes in address, name or holdings.

## Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.35 per share be paid for the 2004 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 is 4 April 2005 and the proposed payment date for the dividend is 11 April 2005.

## Financial reports in 2005

Vacon is publishing three interim reports in 2005 as follows:

January-March Thursday, 28 April 2005, at 10.00 am

January-June Thursday, 4 August 2005, at 10.00 am

January-September Thursday, 27 October 2005, at 10.00 am

The reports can be seen immediately after publication on Vacon's Internet website at [www.investors.vacon.com](http://www.investors.vacon.com). The website also contains other material for investors.

## Conference for analysts and media

Vacon will hold a conference for analysts and the media on the days when the results are published at 11.30 am in Helsinki (at World Trade Center, 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.

### Vesa Laisi, President and CEO

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[vesa.laisi@vacon.com](mailto:vesa.laisi@vacon.com)

### Mika Leppänen, Vice President, Finance and Control

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[mika.leppanen@vacon.com](mailto:mika.leppanen@vacon.com)

### Johanna Koskinen, Investor Relations

Tel. +358 (0)201 212 528, Fax +358 (0)201 212 208  
[johanna.koskinen@vacon.com](mailto:johanna.koskinen@vacon.com)

Vacon 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.

## 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**
- **Alfred Berg Finland Oyj Abp**  
Jan Brännback, +358 (0)9 2283 2709
- **Crédit Agricole Indosuez Cheuvreux**
- **D. Carnegie Ab, Finland**  
Jussi Karhunen, +358 (0)9 61 871 233
- **Cazenove & Co. Ltd**  
Ilan Chaitowitz, +44 (0)207 155 8207
- **Evli Bank Plc**  
Svante Krokfors, +358 (0)400 436 665
- **eQ Bank Ltd**  
Tomi Tiilola, +358 (0)9 2312 3311
- **FIM Pankkiiriliike Ltd**  
Paavo Ahonen, +358 (0)9 6134 6376
- **Handelsbanken Securities**  
Tom Skogman, +358 (0)10 444 2752
- **Impivaara Securities Ltd**  
Jeff Roberts, +44 20 7284 3937
- **Kaupthing Bank Plc**  
Ari Järvinen, +358 (0)9 4784 0282
- **Mandatium Stockbrokers Ltd**  
Ari Laakso, +358 (0)10 236 4708
- **Opstock Investment Banking**  
Hannu Rauhala, +358 (0)10 252 4392

## **FINLAND**

### **Vaasa**

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### **Helsinki**

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01510 Vantaa  
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### **Tampere**

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Alasniitynkatu 30  
33700 Tampere  
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fax: +358 (0)201 212 750

Vacon Traction Oy  
Alasniitynkatu 30  
33700 Tampere  
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fax: +358 (0)201 212 710

## **SALES COMPANIES**

### **Austria**

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fax: +43 2256 651 66 66

### **Belgium**

Vacon Benelux NV/SA  
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fax: +32 (0)16 394 827

### **France**

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77 554 Moissy Cramayel  
telephone: +33 (0)1 64 13 54 11  
fax: +33 (0)1 64 13 54 21

## **Germany**

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Gladbecker Strasse 425  
45329 Essen  
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fax: +49 (0)201 806 7093

### **Great Britain**

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Hinckley Fields Industrial Estate  
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telephone: +44 (0)1455 611 515  
fax: +44 (0)1455 611 517

### **Italy**

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fax: +39 0522 276890

### **Netherlands**

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### **Norway**

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fax: +47 330 96130

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

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fax: +86 512 6283 6618

Vacon Suzhou Drives Co. Ltd.  
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fax: +86 10 6581 3754

## **Spain**

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### **Sweden**

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### **Russia**

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ZAO Vacon Drives  
2ya Sovetskaya7, office 210A  
191036 St. Petersburg  
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fax: +7 (812) 279 9053

## **REPRESENTATIVE OFFICE**

### **Singapore**

Vacon Plc  
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