

The image shows a large industrial machine, likely a turbine or compressor, with a worker kneeling next to it in a factory setting. The machine is blue and has a large cylindrical component. The worker is wearing a dark uniform and is looking at the machine. The background is a large, curved, metallic structure, possibly the interior of a turbine casing. The overall scene is industrial and technical.

Interim Report

1.9.2003 - 29.2.2004

VAAHTO GROUP
1874

VAAHTO GROUP INTERIM REPORT FOR THE PERIOD SEPTEMBER 1, 2003 – FEBRUARY 29, 2004

Vaahto Group's turnover for the period under review was 26.2 million euros (35.4 million euros), with an operating loss of 1.4 million euros (–0.6 million euros). The Group did not reach its turnover and profitability targets, and turnover and profitability were lower than for the reference period. The main reason behind the decreased profits was the low turnover. Turnover for the latter part of the fiscal period is expected to increase as a result of the healthy order backlog and the result for the whole fiscal period is anticipated to be positive.

Due to the increased size and duration of deliveries, the Group decided to start recognizing long-term projects under the percentage-of-completion method from the beginning of the current fiscal period. The long-term projects to be recognized thusly are delivery projects that last a minimum of six months or are otherwise significant for the Group. Through use of the percentage-of-completion method, the development of the Group's business can be reported more accurately and reliably.

Use of the percentage-of-completion method increased the Group's turnover for the period under review by 6.6 million euros and the profits by 1.0 million euros. Also, the Group adopted the full-cost method for inventory valuation, which increased the result by 0.3 million euros.

The reorganization of Canzler GmbH's business, which went into insolvency at the beginning of the period, was completed as planned. The total loss for the Group made by the company decreased to 0,9 million euros due to 0,5 million euros positive effect that was entered as income for the period under review.

The total number of the Group's personnel has been decreased and layoffs have been continued in order to increase profitability. In addition to this, the Group companies have sharpened their business focuses and rationalized their business operations as a result of the weak market condition.

Market situation and order backlog

In spite of the challenging market situation, the Group managed to increase its sales, with the volume of new orders coming to 37.1 million euros (34.9 million euros). Paper and board machine sales in particular increased in all of the main markets. After subtractions under the percentage-of-completion method, the Group's order backlog at the end of the period under review was 35.3 million euros (29.8 million euros), which is a record result. A significant order from Asia has been included in the order backlog. Final confirmation of this deal should be received in the next few weeks. Investment activity in the basic industries remained relatively low, and the overall market situation was difficult throughout the period. Along with the emerging growth, the prices of raw materials started to rise. For the Pulp and Paper Machinery, in the period under review, the market situation improved to some extent and was satisfactory. Sales for Asia increased markedly. The market for process machinery weakened a little, demand was low, and margins decreased due to greater competition.

Group structure and business developments

The most notable change in the Group's structure was the insolvency and removal from the Group of Ger-

man heat transfer technology company Canzler GmbH, which occurred at the beginning of the period under review. Canzler GmbH's turnover was 10.7 million euros and operating loss 1.4 million for the last fiscal period, and the company employed 77 persons. From the Group's point of view the redistribution of the company's business was completed as planned. In support of the spiral heat exchanger production that was previously transferred to Vaahto Oy, a sales office was established in November in Germany to continue the global sales and marketing of heat exchangers.

Pulp & Paper Machinery

The market situation for the paper and board machines and components produced by the Group's Pulp & Paper Machinery division improved to some extent during the period and was satisfactory. The number of offer requests saw a considerable increase, and more offers were made than in the reference period. As for roll servicing activities, markets contracted somewhat, evidenced by the small number of larger-scale servicing projects. In spite of the market situation, sales of paper and board machines and their key components were good, and new orders were received from, e.g., China, South-Africa, Finland, Sweden, Italy, France and the United Kingdom. A majority of the new orders received were for advanced headboxes, formers, shoe presses as well as for other important rebuilds and key components.

The division's deliveries and income of the projects for the period under review were mainly for China and Scandinavia. However, they were significantly below the targets and lower than in the reference period, which had a definite

effect on the results of the division and the Group. As a result of the healthy order backlog, the profitability of the paper and board machine sales is expected to increase in the latter half of the fiscal period. The profitability of the division's roll servicing activities is also expected to improve due to increased demand and the completion of the extension project.

The Pulp & Paper Machinery division's primary goal is to further strengthen its position as one of the leading suppliers of technology and services in its field. The reaching of this goal will be facilitated by the determined development work that has been going on for a long time.

Process Machinery

The Process Machinery division's target markets contracted during the period under review, and demand was modest. The number of new orders received was below the targets and lower than in the reference period. Agitator sales, however, were clearly better than those of other process equipment. Sales of spiral heat exchangers suffered from the uncertainties caused by the transfer of business, but they are increasing again now that the situation has stabilized.

Process Machinery's deliveries of the projects were mainly for the division's established markets, areas such as Scandinavia and Central Europe. In agitator sales, the importance of China increased, and the country will continue to be a significant market area. The division did not reach its turnover and profitability targets, mainly due to the low delivery volumes. In addition, the division's results were hampered by the increasing competition, narrowed mar-

gins, and cost overruns encountered in some projects.

In order to improve profitability layoffs and business development projects have been continued, as well as the number of personnel has been cut. The division's profitability could be increased most by internal rationalization and a clear improvement in the market. So far there are no signs of growth in demand yet.

Research and development

There were no substantial changes in the emphasis of the Group's research and development activities; they still concentrated for the most part on improving the competitiveness of the key components of the Pulp & Paper Machinery division's paper and board machines, as well as that of roll services. The Process Machinery division aimed at increasing the value of its products and improving profitability. The scope of the research and development activities remained at the same level.

Investments

The Group's gross investment for the review period came to 0.6 million euros (2.2 million euros). Investments were considerably lower than in the reference period and mainly consisted of the completion of AK-Tehdas Oy's roll servicing extension investment, some smaller machinery and equipment acquisitions, and information systems.

Financing

The Group's cash flow became positive, mainly due to decreased working capital, totalling 0.5 million euros (-0.5 million euros). The decrease in interest-bearing debt was 0.4 million euros (1.0 million euros). The Group's net financial

expenses were 0.3 million euros (0.3 million euros) - i.e., at the same level as in the reference period. Liquidity decreased a little but remained at a satisfactory level.

The equity ratio was 25.5% (28.7%). This was down slightly from the reference period but remained at the same level as at the end of the previous fiscal period.

Personnel

The number of Group personnel averaged 474 (575) over the period under review. The main reason for the decrease in personnel was Canzler GmbH's removal from the Group.

Share issue authorizations

The Board currently has no valid share issue authorizations.

Forecast of future developments

It is still very hard to forecast world economic developments, even though the US, Chinese, and a few other important economies have kept growing and prospects have improved. In Europe, the strength of the euro against the US dollar is slowing down the growth that has started. In spite of the weak market situation and the challenging business environment, sales of the Group have developed positively for the most part. Thanks to the healthy order backlog it is possible for Vaahto Group to improve its profitability in the latter half of the fiscal period and attain positive results for the entire fiscal period.

Lahti, April 14, 2004

The Board of Directors

Consolidated Income Statement

1 000 €	Interim Report 1.9.2003-29.2.2004		Interim Report 1.9.2002-28.2.2003		Annual Report 1.9.2002-31.8.2003	
	6 months		6 months		12 months	
TURNOVER	26 232		35 429		71 271	
OPERATING PROFIT / LOSS	-1 358	-5,2 %	-645	-1,8 %	-1 261	-1,8 %
Financial income and expenses	-312		-300		-642	
PROFIT BEFORE EXTRAORDINARY ITEMS	-1 670	-6,4 %	-944	-2,7 %	-1 903	-2,7 %
Extraordinary items	0		0		0	
PROFIT BEFORE TAXES	-1 670	-6,4 %	-944	-2,7 %	-1 903	-2,7 %
Income taxes from operations	0		-31		-28	
Change in deferred tax liabilities	601		198		280	
Minority interest	108		78		7	
PROFIT FOR THE PERIOD	-962	-3,7 %	-700	-2,0 %	-1 644	-2,3 %

Consolidated Balance Sheet

	29.2.2004	28.2.2003	31.8.2003
ASSETS			
Intangible assets	2 192	2 604	2 410
Group goodwill	133	161	147
Tangible assets	14 940	16 071	15 862
Investments	49	74	49
NON-CURRENT ASSETS TOTAL	17 314	18 910	18 468
Inventories	6 469	9 593	7 886
Long-term receivables	3	314	3
Short-term receivables	9 949	8 923	13 126
Deferred tax assets	883	304	230
Financial assets	2 513	3 494	2 966
CURRENT ASSETS TOTAL	19 816	22 629	24 212
TOTAL ASSETS	37 131	41 539	42 679
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	8 039	9 945	9 001
Minority interest	770	806	878
Obligatory provisions	291	1 767	2 004
Long-term liabilities	7 424	9 501	8 097
Short-term liabilities	20 294	19 103	22 439
Deferred tax liability	313	417	261
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	37 131	41 539	42 679

The percentage-of-completion method in recognizing the long-term projects and the full-cost method for inventory valuation have not been used during the reference periods, so the reference figures cannot be compared with the figures of the current period in this respect.

Flow of Funds Statements

1 000 €	Interim Report		Interim Report	Annual Report
	1.9.2003-29.2.2004		1.9.2002-28.2.2003	1.9.2002-31.8.2003
	6 months		6 months	12 months
Flow of funds from operations:				
Profit / loss before extraordinary items	-1 670		-944	-1 903
Adjustment items	285		345	2 060
Change in working capital	2 190		410	-1 146
Financial income and expenses and taxes	-312		-331	-672
FLOW OF FUNDS FROM OPERATIONS	492		-520	-1 659
Flow of funds from investments:				
Investments in tangible and intangible assets	-558		-2 159	-2 884
Income from sales of tangible and intangible assets	11		3	34
Withdrawals of loan receivables	0		182	752
FLOW OF FUNDS FROM INVESTMENTS	-547		-1 975	-2 097
Flow of funds from financial items:				
Increase of the liabilities	960		1 778	4 848
Decrease of the liabilities	-1 358		-787	-3 124
FLOW OF FUNDS FROM FINANCIAL ITEMS	-397		991	1 724
Change of liquid funds	-453		-1 504	-2 033

Key Figures

1 000 €	Interim Report		Interim Report	Annual Report
	1.9.2003-29.2.2004		1.9.2002-28.2.2003	1.9.2002-31.8.2003
	6 months		6 months	12 months
Earnings per share, euros	-0.33		-0.24	-0.57
Shareholders' equity per share, euros	2.80		3.46	3.13
Equity ratio, %	25.5		28.7	25.0
Derivative agreements:				
Currency forward agreements				
Nominal value	478		0	110
Market value	-17		0	4
Nominal values state for the use of the currency forward agreements and they don't measure the risks. Market value of the currency exchange agreements states for the income or expenses the Group would book if the agreements were closed at the end of the period.				
Interest rate cap agreements:				
Nominal value	3 000		3 000	3 000
Market value	12		16	14
The interest rate cap agreement has been made to protect the financial institute loan from the interest rate risk. The agreement will end in 2007 and the strike price of the agreement is 4.75%. Market value is the cost of the agreement for the Group.				
Lease commitments	1 750		2 270	1 635
Order backlog	35 256		29 881	25 600
Gross investments in fixed assets	558		2 159	2 884
Total number of personnel (average)	474		575	570

The percentage-of-completion method in recognizing the long-term projects and the full-cost method for inventory valuation have not been used during the reference periods, so the reference figures cannot be compared with the figures of the current period in this respect.

Figures are in thousand euros unless stated otherwise.

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