

# INTERIM REPORT

1.9.2010 - 28.2.2011



**VAAHTO GROUP**  
1874

## 2 Vaahto Group Interim Report

### For the period September 1, 2010 – February 28, 2011

Vaahto Group's turnover for September 1, 2010, to February 28, 2011, was 24.9 million euros (compared with 18.2 million euros for the corresponding period in the previous fiscal year), with an operating loss of 1.3 million euros (comparative: operating loss of 3.7 million euros). Turnover grew by 37% from the reference period, and the operating result was better than in the comparative period. The Group's order book increased by 82% in the review period and stood at 27.6 million euros on February 28, 2011. Vaahto Group's result is expected to improve from the previous fiscal year's figure, and the full-year result is expected to be positive.



#### Pulp & Paper Machinery

The Pulp & Paper Machinery division's turnover for the period under review was 17.4 million euros (comparative: 12.1 million euros), with an operating loss of 0.6 million euros (operating loss of 3.5 million euros). Turnover grew by 44% from the reference period's level, and the operating result was clearly better.

The division's order book grew considerably during the review period. In the project business, the most significant orders for the period were the orders for four headboxes placed by Dongguan Jianhui Paper Co. Ltd. and Dongguan Jinzhou Paper Co. Ltd., both from China; an order for five headboxes from Vantage Dragon Ltd. for two new exterior package board production lines; and an order for modernization of Fajar Paper's board machine in Indonesia. Furthermore, in March-April, after the end of the period under review, Vaahto Pulp & Paper Machinery received orders from Finland for modernization of a pulp drying machine at Stora Enso's Imatra mill and for the rebuild of a board machine at the same company's Inkeroinen mill.

The Pulp & Paper Machinery division's service business fell short of its targets set for the review period. Contributing factors were December-January sales and a result that was weaker than forecast. Toward the end of the period, the market situation improved and the order book of the Service branch began to grow considerably.

#### Process Machinery

The Process Machinery division's turnover for the period under review was 7.5 million euros (comparative: 6.2 million euros), with an operating loss of 0.7 million euros (operating loss of 0.3 million euros). The turnover increased by 21% from that of the reference period, but the result was still lower than the comparative figure. The result was affected by poor profitability of the vessel business.

The market situation for the division's vessel business has remained weak. The number of projects in the offer phase has been on the increase, but few projects have entered the decision stage and the price level has been weak.

The market situation for the Process Machinery division's agitator business has remained strong, and the order book grew during the review period. The profitability of agitator business was in line with the objectives during the period under review, and the prospects for the latter half of the fiscal year are good.

In order to improve the profitability of the Process Machinery division, the company has launched an action program that includes re-

arrangements of operations and the option of mergers or acquisitions.

#### Research and development

The Group's research and development activities during the period under review concentrated for the most part on improving the competitiveness of the Pulp & Paper Machinery division's key components for paper and board machines, and on expansion of the roll servicing product selection. The scope of the Group's R&D activities remained the same as in the previous fiscal period.

#### Investments

The Group's capital expenditure for the period came to 1.1 million euros (comparative: 0.3 million euros). The investments consisted mainly of machinery and equipment acquisitions in the Pulp & Paper Machinery division's service business and of investments in information systems.

#### Financing

The Group's cash flow for the period under review was -1.3 million euros (comparative: 14.2 million euros to the negative), with an investment cash flow of 7.7 million euros (0.2 million euros). The decrease in debt, including interest, during the period was 5.4 million euros and they were 12.7 million euros at the end of the period. The total on the consolidated balance sheet was 35.8 million euros (36.9 million euros), and the Group's equity ratio was 22.8% (22.3%).

There were some significant changes in the Group's financial arrangements during the period under review. The Group's buildings in Tampere and Pietarsaari had been sold in the previous fiscal year, but the sale price was paid during the period under review, in September 2010, and the amount paid, roughly eight million euros, was used primarily for payment of loans from credit institutions and pension loans.

#### Personnel

The number of Group personnel averaged 342 (comparative: 376) over the period.

#### Combination of the share classes through amendment to the Articles of Association and a related free share issue

On December 14, 2010, the Annual General Meeting of Vaahto Group Plc Oyj decided on a combination of the company's share classes through amendment of the Articles of Association and a directed share issue to the holders of class-K shares. The new shares issued, totaling 113,564 shares, were registered in the Trade Register on

December 17, 2010, along with the combination of the share classes and the amendments to the Articles of Association. As a result of the share issue and the combination of the share classes, the total number of Vaahto Group Plc Oyj's shares is 2,985,866 shares. Each share confers on its holder one vote, with all shares conferring equal rights in all other respects, too. Neither the share issue nor the combination of share classes had an effect on the company's share capital.

#### Share issue authorizations

The Annual General Meeting held on December 14, 2010, decided to authorize the Board of Directors to decide on an issue of new shares in one or several lots. The number of new shares issued would be no more than 300,000 shares. The maximum number in the authorization concerning the shares corresponds roughly to 10 percent of all of the company's shares after the combination of the class-A and class-K shares. The authorization entitles the Board to decide on all the terms of the share issue, including the right to deviate from the shareholders' subscription privilege.

#### International Financial Reporting Standards

The interim report was drawn up in accordance with the International Financial Reporting Standards (IFRS) standard IAS 34 ("Interim Financial Reporting").

#### Forecast of developments

The international market situation for the main sectors of Vaahto Group's operation has improved. Demand is moderate, particularly in Chinese and other Asian markets, and there are also signs of improvement in Europe.

In the period under review, Vaahto Group's order book has grown significantly, enabling profitable business operations. Recognition of projects in the order backlog will be weighted toward the latter half of the fiscal year. Vaahto Group's result is forecast to improve from the previous period's figure, and the full-year result is expected to be positive.

#### Interim management statement

In the second half of the September 1, 2010, to August 31, 2011, financial year, Vaahto Group Plc Oyj will publish an interim management statement instead of an interim report on operations during a nine-month period. The interim management statement will be published on July 1, 2011.

In Lahti on April 8, 2011  
Board of Directors

| CONSOLIDATED STATEMENT OF COMPREHENSIVE<br>INCOME, IFRS<br>1000 EUR                          | Interim Report<br>1.9.2010-28.2.2011<br>6 months | Interim Report<br>1.9.2009-28.2.2010<br>6 months | Annual Report<br>1.9.2009-31.8.2010<br>12 months |
|--|--|--|--|
| <b>Net sales</b>   | <b>24 914</b>                                    | <b>18 234</b>                                    | <b>35 160</b>                                    |
| Change in finished goods and work in progress  | 182  | 927  | 1 264  |
| Production for own use   | 751  | 244  | 500  |
| Other operating income   | 168  | 524  | 4 901  |
| Share of profits of affiliated companies   | 2  | 9  | 17   |
| Material and services  | -12 052  | -9 417   | -17 548  |
| Employee benefit expenses  | -8 910   | -8 570   | -16 374  |
| Depreciations  | -1 056   | -1 246   | -2 547   |
| Other operating expenses   | -5 323   | -4 423   | -8 230   |
| <b>Operating profit or loss</b>  | <b>-1 325</b>                                    | <b>-3 717</b>                                    | <b>-2 857</b>                                    |
| Financing income   | 287  | 32   | 91   |
| Financing expenses   | -402   | -379   | -1 075   |
| <b>Profit or loss before taxes</b>   | <b>-1 440</b>                                    | <b>-4 064</b>                                    | <b>-3 840</b>                                    |
| Tax on income from operations  | 500  | 893  | 812  |
| <b>Profit or loss for the period</b>   | <b>-940</b>                                      | <b>-3 171</b>                                    | <b>-3 028</b>                                    |
| <b>Other comprehensive income:</b>   |  |  |  |
| Translation differences  | -6   | -5   | 14   |
| <b>Other comprehensive income, net of tax</b>  | <b>-6</b>  | <b>-5</b>  | <b>14</b>  |
| <b>Total comprehensive income</b>  | <b>-946</b>                                      | <b>-3 176</b>                                    | <b>-3 014</b>                                    |
| <b>Net profit or loss attributable:</b>  |  |  |  |
| Equity holders of the parent   | -998   | -2 999   | -2 910   |
| Non-controlling interests  | 59   | -171   | -118   |
| <b>Total</b>   | <b>-940</b>                                      | <b>-3 171</b>                                    | <b>-3 028</b>                                    |
| <b>Total comprehensive income attributable:</b>  |  |  |  |
| Equity holders of the parent   | -1 005   | -3 004   | -2 896   |
| Non-controlling interests  | 59   | -171   | -118   |
| <b>Total</b>   | <b>-946</b>                                      | <b>-3 176</b>                                    | <b>-3 014</b>                                    |
| <b>Earnings per share calculated on profit attributable to equity holders of the parent:</b> |  |  |  |
| EPS undiluted, euros/share   | -0,34  | -1,04  | -1,01  |
| EPS diluted, euros/share   | -0,34  | -1,04  | -1,01  |
| Average number of shares (1000 shares)   | 2 919  | 2 872  | 2 872  |

## 4 Consolidated Balance Sheet, IFRS

| CONSOLIDATED BALANCE SHEET, IFRS<br>1000 EUR               | Interim Report<br>28.2.2011 | Interim Report<br>28.2.2010 | Annual Report<br>31.8.2010 |
|--|-----------------------------|-----------------------------|----------------------------|
| <b>Assets</b>  |                             |                             |                            |
| Intangible assets  | 1 309                       | 2 086                       | 1 642                      |
| Goodwill   | 1 702                       | 1 702                       | 1 702                      |
| Tangible assets  | 10 919                      | 15 431                      | 10 923                     |
| Shares in affiliated companies                             | 57                          | 54                          | 62                         |
| Available for sale investments                             | 44                          | 44                          | 44                         |
| Non-current trade and other receivables                    | 11                          | 12                          | 11                         |
| Deferred tax asset   | 2 752                       | 2 233                       | 2 172                      |
| <b>Non-current assets</b>                                  | <b>16 795</b>               | <b>21 562</b>               | <b>16 557</b>              |
| Inventories  | 5 303                       | 4 850                       | 5 241                      |
| Trade receivables and other receivables                    | 12 067                      | 10 224                      | 16 685                     |
| Tax receivable, income tax                                 | 0                           | 0                           | 2                          |
| Cash and bank  | 1 601                       | 217                         | 560                        |
| <b>Current assets</b>                                      | <b>18 971</b>               | <b>15 291</b>               | <b>22 488</b>              |
| <b>Total assets</b>  | <b>35 765</b>               | <b>36 853</b>               | <b>39 045</b>              |
| <b>Equity and liabilities</b>                              |                             |                             |                            |
| Share capital  | 2 872                       | 2 872                       | 2 872                      |
| Share premium account                                      | 6                           | 6                           | 6                          |
| Other reserves   | 1 995                       | 1 995                       | 1 995                      |
| Translation differences                                    | 41                          | 20                          | 41                         |
| Retained earnings  | 859                         | 1 777                       | 1 864                      |
| <b>Equity attributable to equity holders of the parent</b> | <b>5 773</b>                | <b>6 669</b>                | <b>6 778</b>               |
| Non-controlling interests                                  | 1 169                       | 1 057                       | 1 110                      |
| <b>Shareholders' equity</b>                                | <b>6 942</b>                | <b>7 726</b>                | <b>7 888</b>               |
| Deferred tax liability                                     | 597                         | 580                         | 549                        |
| Long-term liabilities, interest-bearing                    | 8 057                       | 5 760                       | 3 042                      |
| Non-current provisions                                     | 245                         | 268                         | 245                        |
| <b>Non-current liabilities</b>                             | <b>8 899</b>                | <b>6 607</b>                | <b>3 836</b>               |
| Short-term liabilities, interest-bearing                   | 4 690                       | 9 716                       | 15 068                     |
| Trade payables and other liabilities                       | 15 151                      | 12 672                      | 12 072                     |
| Tax liability  | 84                          | 132                         | 182                        |
| <b>Current liabilities</b>                                 | <b>19 925</b>               | <b>22 520</b>               | <b>27 322</b>              |
| <b>Liabilities</b>   | <b>28 823</b>               | <b>29 127</b>               | <b>31 157</b>              |
| <b>Total equity and liabilities</b>                        | <b>35 765</b>               | <b>36 853</b>               | <b>39 045</b>              |

| KEY FIGURES, IFRS   | Interim Report<br>1.9.2010-28.2.2011<br>6 months | Interim Report<br>1.9.2009-28.2.2010<br>6 months | Annual Report<br>1.9.2009-31.8.2010<br>12 months |
|---|--|--|--|
| Operating profit or loss 1000 EUR   | -1 325   | -3 717   | -2 857   |
| Operating profit or loss % of turnover  | -5.3   | -20.4  | -8.1   |
| Return on equity %, 12 months 1)  | -25.4  | -68.4  | -32.2  |
| Return on investment %, 12 months 1)  | -9.4   | -31.1  | -11.0  |
| Earnings per share EUR  | -0.34  | -1.04  | -1.01  |
| Shareholders' equity per share EUR  | 1.93   | 2.32   | 2.36   |
| Solidity %  | 22.8   | 22.3   | 21.8   |
| Gearing   | 160.6  | 197.5  | 222.5  |
| Order backlog 1000 EUR  | 27 560   | 12 015   | 15 175   |
| Gross investments 1000 EUR  | 1 148  | 258  | 776  |
| Total average number of personnel   | 342  | 376  | 371  |
| <p>1) Return on equity % and return on investment % has been calculated by converting the profit or loss for the reporting period September 1, 2010 - February 28, 2011 to correspond the profit or loss for the fiscal period. The key figures for the comparison period September 1, 2009 - February 28, 2010 has been amended accordingly.</p> |  |  |  |
| CONSOLIDATED FLOW OF FUNDS STATEMENT, IFRS<br>1000 EUR  | Interim Report<br>1.9.2010-28.2.2011<br>6 months | Interim Report<br>1.9.2009-28.2.2010<br>6 months | Annual Report<br>1.9.2009-31.8.2010<br>12 months |
| Profit or loss before taxes   | -1 440   | -4 064   | -3 840   |
| Adjustments   | 962  | 1 065  | -1 336   |
| Change in working capital   | -670   | -10 794  | -9 815   |
| Financial income and expenses and taxes   | -147   | -456   | -1 056   |
| <b>Flow of funds from operations</b>  | <b>-1 294</b>                                    | <b>-14 249</b>                                   | <b>-16 047</b>                                   |
| Investments in tangible and intangible assets   | -1 148   | -258   | -776   |
| Income from sales of tangible and intangible assets   | 8 846  | 457  | 479  |
| Repayments of loans   | 0  | 0  | 1  |
| <b>Flow of funds from investments</b>   | <b>7 698</b>                                     | <b>198</b>                                       | <b>-295</b>                                      |
| Increase of the interest-bearing liabilities  | 2 902  | 3 199  | 6 410  |
| Decrease of the interest-bearing liabilities  | -8 265   | -1 331   | -1 908   |
| <b>Flow of funds from financial items</b>   | <b>-5 363</b>                                    | <b>1 868</b>                                     | <b>4 502</b>                                     |
| <b>Change of liquid funds</b>   | <b>1 041</b>                                     | <b>-12 183</b>                                   | <b>-11 840</b>                                   |

## 6 Statement of Changes in Shareholders' Equity, IFRS

### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, IFRS 1000 EUR

| Changes in shareholders' equity<br>1.9.2010 - 28.2.2011               | Share<br>capital | Share<br>premium<br>account | Emergency<br>reserve | Translation<br>differences | Retained<br>earnings | Total        | Minority<br>shares | Total        |
|---|------------------|-----------------------------|----------------------|----------------------------|----------------------|--------------|--------------------|--------------|
| <b>Shareholders' equity in the beginning<br/>of the fiscal period</b> | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>41</b>                  | <b>1 864</b>         | <b>6 778</b> | <b>1 110</b>       | <b>7 888</b> |
| Total comprehensive income  | 0                | 0                           | 0                    | -0                         | -1 005               | -1 005       | 59                 | -946         |
| <b>Shareholders' equity at the end of the period</b>                  | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>41</b>                  | <b>859</b>           | <b>5 773</b> | <b>1 169</b>       | <b>6 942</b> |

  

| Changes in shareholders' equity<br>1.9.2009 - 28.2.2010               | Share<br>capital | Share<br>premium<br>account | Emergency<br>reserve | Translation<br>differences | Retained<br>earnings | Total        | Minority<br>shares | Total         |
|---|------------------|-----------------------------|----------------------|----------------------------|----------------------|--------------|--------------------|---------------|
| <b>Shareholders' equity in the beginning<br/>of the fiscal period</b> | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>20</b>                  | <b>4 781</b>         | <b>9 673</b> | <b>1 229</b>       | <b>10 902</b> |
| Total comprehensive income  | 0                | 0                           | 0                    | -0                         | -3 004               | -3 004       | -171               | -3 176        |
| <b>Shareholders' equity at the end of the period</b>                  | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>20</b>                  | <b>1 777</b>         | <b>6 669</b> | <b>1 057</b>       | <b>7 726</b>  |

  

| Changes in shareholders' equity<br>1.9.2009 - 31.8.2010               | Share<br>capital | Share<br>premium<br>account | Emergency<br>reserve | Translation<br>differences | Retained<br>earnings | Total        | Minority<br>shares | Total         |
|---|------------------|-----------------------------|----------------------|----------------------------|----------------------|--------------|--------------------|---------------|
| <b>Shareholders' equity in the beginning<br/>of the fiscal period</b> | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>20</b>                  | <b>4 781</b>         | <b>9 673</b> | <b>1 229</b>       | <b>10 902</b> |
| Total comprehensive income  | 0                | 0                           | 0                    | 22                         | -2 917               | -2 896       | -118               | -3 014        |
| <b>Shareholders' equity at the end of the period</b>                  | <b>2 872</b>     | <b>6</b>                    | <b>1 995</b>         | <b>41</b>                  | <b>1 864</b>         | <b>6 778</b> | <b>1 110</b>       | <b>7 888</b>  |

**NET SALES BY OPERATING SEGMENTS, IFRS  
1000 EUR**

|                            | <b>Interim Report<br/>1.9.2010-28.2.2011<br/>6 months</b> | <b>Interim Report<br/>1.9.2009-28.2.2010<br/>6 months</b> | <b>Annual Report<br/>1.9.2009-31.8.2011<br/>12 months</b> |
|----------------------------|---|---|---|
| Pulp & Paper Machinery     | 17 438  | 12 148  | 21 501  |
| Process Machinery          | 7 512   | 6 183   | 13 806  |
| Net sales between segments | -36   | -96   | -146  |
| <b>Group total</b>         | <b>24 914</b>   | <b>18 234</b>   | <b>35 160</b>   |

**NET SALES BY MARKET AREAS, IFRS  
1000 EUR**

|                    | <b>Interim Report<br/>1.9.2010-28.2.2011<br/>6 months</b> | <b>Interim Report<br/>1.9.2009-28.2.2010<br/>6 months</b> | <b>Annual Report<br/>1.9.2009-31.8.2011<br/>12 months</b> |
|--------------------|---|---|---|
| Finland            | 6 679   | 9 051   | 15 600  |
| Other Europe       | 8 481   | 7 628   | 15 468  |
| North America      | 300   | 92  | 130   |
| Asia               | 9 358   | 982   | 2 813   |
| Africa             | 63  | 128   | 468   |
| Other              | 33  | 353   | 681   |
| <b>Group total</b> | <b>24 914</b>   | <b>18 234</b>   | <b>35 160</b>   |

**OPERATING PROFIT OR LOSS BY OPERATING  
SEGMENTS, IFRS  
1000 EUR**

|  | <b>Interim Report<br/>1.9.2010-28.2.2011<br/>6 months</b> | <b>Interim Report<br/>1.9.2009-28.2.2010<br/>6 months</b> | <b>Annual Report<br/>1.9.2009-31.8.2011<br/>12 months</b> |
|--|---|---|---|
| Pulp & Paper Machinery                       | -578  | -3 464  | -4 795  |
| Process Machinery                            | -740  | -255  | 1 922   |
| Operating profit or<br>loss between segments | -7  | 2   | 16  |
| <b>Group total</b>                           | <b>-1 325</b>   | <b>-3 717</b>   | <b>-2 857</b>   |

**TOTAL AVERAGE NUMBER OF PERSONNEL BY  
OPERATING SEGMENTS**

|                        | <b>Interim Report<br/>1.9.2010-28.2.2011<br/>6 months</b> | <b>Interim Report<br/>1.9.2009-28.2.2010<br/>6 months</b> | <b>Annual Report<br/>1.9.2009-31.8.2011<br/>12 months</b> |
|------------------------|---|---|---|
| Pulp & Paper Machinery | 226   | 241   | 242   |
| Process Machinery      | 116   | 135   | 129   |
| <b>Group total</b>     | <b>342</b>  | <b>376</b>  | <b>371</b>  |

Figures are in thousand euros unless stated otherwise. Figures are unaudited.

**RETROACTIVE ADJUSTMENTS**

The Group has retroactively adjusted the application of hedge accounting in the previous Interim report, because the documentation of hedge accounting did not meet the criteria of IAS 39. The adjustment increased the financing income and improved the profit for the reporting period September 1, 2009 – February 28, 2010 approximately 17 thousand euros. The adjustment changed the key figure "earning per share" as per 28.2.2010 from -1.05 euros/share to -1.04 euros/share.

**NOTES REQUIRED BY IAS 34****Accounting principles**

The Interim Report was drawn up according to the same accounting principles and calculation methods as the previous financial statement, for the fiscal period that ended on August 31, 2010.

**Dividends paid**

During the period under review, Vaahto Group Plc Oyj paid no dividends.

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1874

**VAAHTO GROUP PLC OYJ**

Laiturikatu 2, P. O. B. 5  
FI-15141 LAHTI

Tel. +358 20 1880 511  
Fax +358 20 1880 301

[www.vaahtogroup.fi](http://www.vaahtogroup.fi)