Annual Report

2004 – 2005

VAAHTO GROUP
1874

Annual Report 2004-2005

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Fiscal Period in Brief

- **The operating environment was challenging. The industrial action in the paper industry made the Pulp & Paper division's market situation in Finland more difficult.**
- **The turnover was 58.1 million euros, which is 5.9% lower than the figure for the previous fiscal period (61.7 million euros).**
- **The operating profit was 0.2 million euros (2.8 million euros). The Pulp & Paper Machinery division's profitability was satisfactory. The Process Machinery division's market situation was difficult, and the result was negative.**
- **The profit per share was -0.29 euros (0.61 euros/share). The Board proposes that a dividend of 0.12 euros per share be paid.**
- **New products achieved success in the market. The order backlog increased considerably and was 34.2 million euros (19.7 million euros) at the end of the fiscal period.**
- **The product development work and rationalization projects continued and improved competitiveness.**

Key Figures M€	**2004/2005 12 months**	**2003/2004 12 months**	**Change %**
Turnover	58.1	61.7	-6
Operating profit	0.2	2.8	-93
Return on investment %	1.2	10.8	-89
Equity ratio %	35.9	33.2	8
Investments	1.1	1.2	-8
Total number of personnel (average)	420	464	-9

Information for Shareholders

Annual General Meeting

The Annual General Meeting of Vaahto Group Plc Oyj will be held on December 15, 2005, at 1:00 p.m. in the Sibelius Hall, Ankkurikatu 7, Lahti.

The meeting is open to all shareholders entered by December 5, 2005, in the register of the company's shareholders maintained by Finnish Central Securities Depository Ltd. Shareholders whose shares have not been transferred to the book-entry security system may also attend but only if they were registered in the company's share register before March 31, 1995. In such a case, the shareholder must present a share certificate or other proof that his holding of the company's shares has not been transferred to a book-entry account.

Shareholders who wish to attend the meeting must register by 4:00 p.m. on December 9, 2005, either in writing to Vaahto Group Plc Oyj, Shareholders' Meeting, P.O. Box 5, FIN-15141 Lahti or by telephone to Taina Kajander at +358 20 1880 355. Proxies should be enclosed when registering.

Dividends

The Board will propose to the Annual General Meeting a dividend payment of 0.12 euros per share for the fiscal period September 1, 2004 - August 31, 2005. If the meeting approves the Board's proposal, the dividend will be payable to those shareholders entered in the register of the company's shareholders maintained by Finnish Central Securities Depository Ltd on the record date of December 20, 2005. The Board proposes that the dividend be paid on December 28, 2005.

Financial information

During the fiscal period 2005–2006, Vaahto Group Plc Oyj will publish an interim report for the period September 1, 2005 – February 28, 2006. The interim report will be published on April 21, 2006, in both Finnish and English.

Our annual and interim reports can be ordered from Vaahto Group Plc Oyj,
P.O. Box 5, FIN-15141 Lahti,
tel. +358 20 1880 511,
fax +358 20 1880 301,
e-mail: taina.kajander@vaahtogroup.fi

Annual reports, interim reports, stock exchange releases, and other information on Vaahto Group Plc Oyj can be found at **www.vaahtogroup.fi**.

Vaahto Group

VAAHTO GROUP

PULP & PAPER MACHINERY
- VAAHTO OY
- AK-TEHDAS OY
- AP-TELA OY

PROCESS MACHINERY
- JAPROTEK OY AB
- STELZER RÜHRTECHNIK INTERNATIONAL GMBH

GROUP ADMINISTRATION

Vaahto Group, established in 1874, is a supplier of high-quality implementations of technology and consulting services, serving the process industry globally in the fields of paper-making technology and process machinery.

The Group boosts its customers' competitiveness and increases the efficiency of their production by developing their core processes through the provision of innovative, value-generating systems solutions; machinery; and services. Over the past few years, investments in product development have expanded the selection of products offered by the Group and resulted in several new product innovations and patents.

The quality of our design and output is guaranteed by the ISO-9001-certified quality system, the certified quality systems of our subsidiaries, and our familiarity with the official pressure vessel permits and standards demanded in the world's main markets.

Vaahto Group has two main business divisions: Pulp & Paper Machinery and Process Machinery. Other operations include the design and production of HVAC products, custom engineering services, and contract manufacturing.

Vaahto Group Plc Oyj's shares have been quoted on the I List of the Helsinki Exchanges since 1988.

Pulp & Paper Machinery

In paper technology, the Group's core competences are paper and board machine rebuilds, provision of roll covers and roll servicing, and other maintenance and servicing, as well as spare parts services for paper machines.

Process Machinery

In the area of process machinery, the Group's core competence lies in the provision of high-quality agitator technology, pressure vessels for demanding applications, and spiral heat exchangers.

Mission

- Vaahto Group enhances the production processes used in the paper, board, pulp, and process industries by developing and supplying equipment and services that help client companies increase the efficiency of their production and the quality of their products.

Vision

- Vaahto Group’s objective is to be a globally operating, respected supplier of high-quality implementations of technology and consulting services in the areas of paper-making technology and process machinery.

Strategy

- Vaahto Group's strategic goal is to generate added value for its customers by developing high-quality, comprehensive technology solutions and process services that improve the customers' core processes, product quality, and competitiveness.

CEO's Review

Vaahto Group's turnover for the fiscal period was 58.1 million euros, compared to 61.7 million euros for the previous fiscal period. The turnover target set was not attained: turnover was decreased by the labor dispute in the paper industry and the postponement of some significant projects. Low turnover and some significant one-time personnel costs related to the reorganization decreased the slightly positive operating profit, which came to 0.2 million euros. Despite the weak result, the Group's equity ratio increased a little, from 33.2% to 35.9%.

At the end of the fiscal period, the Group's order backlog stood at 34.2 million euros, which is an all-time high figure. The demand in the current fiscal period for the forest industry seems satisfactory.

The growth in demand for machinery and equipment used in the pulp and paper industry is clearly fastest in Asia and China, where the company already has an established market position as a supplier of high-technology paper machines and components. Thanks to the product development work, the company's product range has achieved a strong position in the growing market areas.

The Group continued refining its strategy during the fiscal period by concentrating on developing pulp and paper industry operations. Active market expansion and product development guarantee the competitiveness of the company's products.

The foundation of the company's market position lies in satisfying the customers' needs as well as conducting systematic and controlled development. Already, over half of the volume of the Pulp & Paper Machinery division's sales comes from products that have been developed in the last four to five years. Following attainment of the products' competitiveness and an established market position, the turnover can now be further increased rapidly and cost-effectively by copying the products and increasing the number of delivery projects.

Product development for the service operations was continued mainly for paper industry roll services. Products and deliveries for paper and board machine pulp handling, especially for short circulation systems, were introduced at Stockholm's SPCI fair, and they are being added to the machinery and equipment product range this year. The short circulation system products join seamlessly with the paper machine wire section and headbox deliveries and simultaneously support the development of the Process Machinery division. In the Process Machinery division, most of the development work was targeted at developing the spiral heat exchanger operations and product capacity.

Reorganization procedures

The costs associated with reorganization and the reductions in personnel for the agitator operations at Stelzer Rührtechnik International GmbH, Germany, have hampered results for the period under review, but the effects of the reorganization will mainly be manifested in the results only for the current fiscal period. The results of the procedures to improve profitability have so far been quite positive, and the company's economic development in the fourth quarter of the period under review showed fairly encouraging signs.

The Process Machinery division's rationalization actions have been continued further also in Finland through reorganization of the division's operations. The objective is to achieve permanent change in working methods and a satisfactory overall result.

Once the reorganization procedures, which are dictated by the structural changes and some of which are already taking place, have been completed, the results of all companies in the Group are expected to turn positive and the development of the whole Group's results improve clearly.

Pulp & Paper Machinery

The Pulp & Paper Machinery division fell far short of its turnover targets. A significant proportion of the turnover decrease was due to the postponed delivery times of already approved projects. In Finland, the labor dispute in the forest industry decreased the demand associated with servicing and modernization projects. During the lockout and strike in the forest industry, almost all servicing and investment operations were halted. The labor dispute also had a definitive effect on the industry's investment decisions, and Finnish modernization projects were postponed.

The growth in paper and board demand in the Far East is now clearly steering Finnish companies' investments also toward the growing markets. The procedures begun earlier to slow down economic growth in China are still having some effect on demand, but this is mainly over. In Europe and America, most demand is for paper and board machine modernization projects.

The division's order backlog at the end of the fiscal period was at an all-time high. The order backlog consists of key components for new machines in China and machine modernizations in Europe and the U.S. The order backlog includes several wire section modernizations, headboxes, and shoe presses.

The Pulp & Paper Machinery division's product position has become quite comprehensive thanks to the product development. The market position, competitiveness, and technical level of the products requiring a higher degree of processing are internationally recognized. The Group's turnover can now be increased rapidly and cost-effectively by copying the products and increasing the number of delivery projects. At the same time, delivery entities can be combined and hence turnover increased through larger delivery entity and project sizes. This lays a foundation for significant growth.

Process Machinery

The Process Machinery division's result for the period was negative. The division's result was impeded by the costs associated with the reorganization, whose effects will show up mainly in the results only for the current fiscal period.

Where heat transfer technology is concerned, the spiral heat exchanger operations have developed almost in line with objectives. The transfer of business from Germany has succeeded quite well. The company's objective is to attain the position of second largest spiral heat exchanger supplier.

In Finland, Japrotek Oy Ab's deliveries for the Olkiluoto nuclear power plant are only just starting. The company is one of only a few equipment suppliers representing the Finnish metal industry in the nuclear power plant project.

Prospects

The development pros pects of the world economy for the current fiscal period are quite interesting. In the industrialized countries, high oil prices are restricting consumer demand. At the same time, countries that are at a stage of strong development are showing huge current account surplus figures. These countries include, for example, China, Russia, and several oil-producing nations.

This is a completely new situation for the world economy; world trade is free, and technology is more mobile than before. Similarly, for the first time in economic history, developing countries possess the resources for rapid growth. Thus, globalization is about to take on totally new dimensions.

New product capacity is being built to match the growing markets of the developing areas. Demand for investment products is increasing in countries with cheap labor and a high current account surplus. The economies of the industrialized countries and especially of Europe are at the threshold of unprecedented challenges regarding production rationalization.

The consumption of paper and board in the world increases by approximately eight million tons per year. The growth is fastest in China, and in the future two of every three new paper machine will probably be located in China. The Vaahto Group already has an established market position in China as a supplier of high-tech paper machines and components.

Also, the most significant process industry capacity increase will be found in Asian markets. Already, a considerable share of spiral heat exchanger production is delivered to Asia.

The Group's order backlog is at an all-time high; this consists of deliveries to Finland, the rest of Europe, North America, and China. Simultaneously, the company's volume of offers and products' market position have developed well. The conditions necessary for reasonable economic development exist, provided that the development of exchange rates and interest rates is moderate and oil prices remain at a reasonable level.

Antti Vaahto

Pulp & Paper Machinery

The Pulp & Paper Machinery division develops its customers' production processes by designing and manufacturing machinery, equipment and components for the paper, board, and pulp industries. The division specializes in rebuilds of paper, board, and pulp drying machines, as well as roll cover services and other servicing. The aim of the services provided by the division is to increase the productivity of the customers' paper and board machinery, to improve the quality of the products, to ensure trouble-free production, and to improve customers' competitiveness. The Pulp & Paper Machinery division offers its customers comprehensive service, which includes design and development; manufacturing, installation, and start-up; and maintenance and spare parts services.

Business developments

The market situation for the Pulp & Paper Machinery division was weak but improved toward the end of the period under review. The labor dispute in the paper industry in Finland at the end of the fiscal period created a temporary decrease in demand and caused some projects to be postponed to the next fiscal period. Overall, sales for paper and board machines and for key components were good over the period. The orders were mainly for Finland, China, the U.S., and Turkey.

New orders were received from China, and the significance of this market area grew further. The deliveries to China were well on schedule, and the financial objectives were reached as well. As a new significant market area came Turkey, which is currently integrating into Europe. A significant order for a board machine rebuild was received from the U.S., but, apart from that, the market situation in North America remains quite lackluster.

The majority of the new orders received were for advanced headboxes, formers, and shoe presses. Significant shares for new machines were delivered to China, and in other markets the focus was on paper machine rebuild projects. The labor dispute in the paper industry undermined demand for servicing in particular. Maintenance and replacement investments decreased, and the proportion of roll servicing operations remained at the previous year's level.

The division's market share grew in Asia, accounting for almost one third of sales. In Finland, the market share remained unchanged. In Finland and Scandinavia, the division has gained a position among the three most significant equipment suppliers for paper and board machine rebuild projects.

The division's profitability improved, and the division saw satisfactory results. The order backlog increased considerably during the fiscal period and was at an all-time high at the end of the period.

The Finnish paper and board mills have traditionally been important customers for the division. In the customer satisfaction survey carried out in June 2005, the division had very positive feedback from its Finnish customers. The feedback has been carefully analyzed and taken into consideration in the sales and project operations.

Main products achieved market success

The Pulp & Paper Machinery division's deliveries were technically demanding, and their scope covered services ranging from the process design of an entire paper machine to the delivery of key machine components and the provision of roll services. The proportion of deliveries related to new machines experienced the greatest growth.

The period's largest orders for China were for the wet end equipment for a new board machine, including delivery of four headboxes, a top wire unit, and a shoe press to Ningxia Meili Paper Co. Ltd., and a new headbox to be delivered to Fujian Qinshan. The largest order for the U.S. was that of a new headbox and wire section rebuild for a board machine by Interstate Resources Ltd. A significant opening in Turkey came when Halkali Kagit S.A. ordered an extensive board machine rebuild, including the headbox, shoe press, and wire section.

In Finland, small-scale modernization and rebuild projects were carried out for UPM's Jämsänkoski, Kaipola, Kaukaa, and Voikkaa mills, as well as for Stora Enso's Inkeroinen and Imatra mills. Other domestic sites include M-Real's Simpele and Äänekoski mills, Trierenberg Group's Tervakoski mill, and former UPM member Loparex in Lohja.

Technology investments yield results

The success of the Pulp & Paper Machinery division is based on innovative product development, a light cost structure, and motivated and skillful personnel. The research and development activities concentrated on improving the competitiveness of paper and board machine key components and roll services. The advanced technology and know-how resulting from intensive product development is reflected in the division's strong technological position.

The fiscal period saw a large number of new patents received and several patent applications made. Vaahto Oy, one of the companies in the division, is among the Finnish companies with the most patenting activity, where the number of patent applications made is related to company turnover.

The division is especially strong in board machine wet end applications. The most familiar product in the markets is the Vaahto HQC headbox, which is based on dilution control technology. This headbox has achieved the best cross-direction profiles on the market and excellent web stability in measurements made by several customers. By the end of the fiscal period, the division had delivered almost 40 headboxes, including the rebuilds. During the fiscal period, the division concentrated especially on rebuilds of faster and wider paper machines and sizing units.

The product development work and roll servicing investments made have greatly influenced the development of sales. The division's strategic competitive position has improved further, thanks to determined product development work. The headboxes, formers, shoe presses, and other key components utilize advanced technology and have achieved commercial success both in Finland and abroad. The product development investments in the shoe press turned into two significant orders for China and Turkey during the period. The product development work in roll servicing and investments in roll production have enabled competition for larger-scale and more demanding projects. As the number of reference projects increase, the significance of spare part and other after-sales services grows further.

At the Swedish SPCI fair, the new Vaahto Oy pressure screen was launched, with its screen baskets delivered by Advanced Fiber Technologies (AFT). Particular emphasis is placed on pressure screen sales. For example, a new surface sizing unit is to be introduced in 2006.

Significance of roll services and after-sales activities increases

The demand for roll services did not change from that of the previous fiscal period. The Finnish paper mills did not really carry out any large-scale projects. The division's turnover decreased slightly due to the labor dispute in the paper industry. However, the business result was satisfactory and market shares remained the same.

Deliveries during the fiscal period were mostly small-scale. There were no major roll projects, but the number of roll repair and service deliveries, including covers, was satisfactory. The number of orders received increased from the previous fiscal period. The order backlog at the end of the period was notably higher than in the previous year.

The Finnish markets for paper industry roll services are not expected to grow in the coming years. Hence, the volume increase must be achieved by higher technology and export increase by redistribution of market shares, especially in Sweden and Russia. A sales company was established in Sweden to strengthen roll service sales in Scandinavia.

The strategy is to develop technology further. The main focus is on high-quality roll services: roll coating, servicing, and manufacturing – all of which the customer can obtain from one supplier.

Good market prospects

Market prospects are good for the Pulp & Paper Machinery division's customer industries. Utilization rates in the pulp and paper industry, the demand for products, and the price level have all increased. Paper manufacturing capacities and investments are still on the rise in Asia, and in China in particular, where the demand for paper is growing more quickly than in the rest of the world. Paper industry investments are expected to start also in Russia. In North America, investments in the industry are still low and the demand is mainly for small rebuilds.

It is expected that demand for roll services and other servicing, which is less dependent on the cyclic nature of modernization projects and the paper industry in general, will remain satisfactory and grow in the export markets. For paper machine rebuilds, the division offers high-quality, competitive technology for small and medium-sized machines in particular, as well as components, roll services, and other servicing for larger and faster machines.

The Pulp & Paper Machinery division continues to invest in new products and product development. Also, more attention is paid to developing pulp equipment. In the rapidly growing Chinese and other Asian markets, more human resources are being invested in sales and project management, and resources are being allocated to servicing as well.

The main markets in the future are expected to remain Finland, the Baltic region, China, and the U.S. The growing markets include Turkey, India, and Russia.

Cooperation and networking with other players in the industry is very important where the flexibility of operations and cost management are concerned. In relative terms, more resources are allocated to the servicing and spare parts services.

The largest challenge for the next fiscal period is to succeed in the major deliveries to the U.S., China, and Turkey. Through good references, the division has gained more credibility, and it can now compete for larger-scale and more demanding projects.

Products and services

- paper and board machines
- paper, board, and pulp drying machinery rebuilds from the headbox to the reel (e.g., dilution controlled headboxes, formers, shoe presses, film sizers, components, pulpers, coating kitchens, chemical and additive dosing systems)
- rolls and roll covering and servicing
- consulting and start-up services

The new pressure screen was introduced at the SPCI fair in Sweden.

Wet end equipment was delivered for Shandong Chenming in China.

Process Machinery

The Process Machinery division enhances its customers' production processes by designing and manufacturing agitators, pressure vessels - such as columns and reactors - and heat exchangers for process industry applications all over the world. Its customers are companies operating globally in basic industries such as wood processing, metallurgy, the chemical industry, food processing, and the pharmaceutical industry. The companies in the division, which operate in Finland and Germany, represent a strong concentration of expertise in reactors, pressure vessels, and agitator and heat transfer technologies including spiral heat exchangers. The division provides its customers with comprehensive service, including product design and development; manufacture; installation and start-up; and maintenance and spare parts services.

Business developments

The Process Machinery division's market situation was for the most part difficult. At the beginning of the fiscal period, demand saw a considerable decrease from that of the previous period. The situation improved after the start of the year, thanks to the started chemical, pulp and paper, and mining industry investments that were started. The division's turnover decreased from the previous fiscal period's figure. Profitability was not yet sufficiently affected by the reorganization procedures carried out in Finland and Germany. The result was still negative due to, for example, one-time costs related to the reorganization, cost overruns in some projects, and the increase in raw and other material prices.

Sales of spiral heat exchangers were good, and the order backlog increased significantly. The division's heat exchanger operations, including production, have continued almost in line with the goals set, and prospects are still promising.

The vessel operations concentrated on increasingly demanding equipment. During the fiscal period, three fairly large prefab projects and several smaller – but nonetheless demanding – domestic pressure vessel projects were carried out. The demanding projects set challenges for the manufacturing operations.

To improve profitability and shorten turnaround time, the ERP project that began in the division's companies in Finland and Germany in the previous fiscal period was continued, and it will continue in the current fiscal period. The success of the project was already visible by the end of the period. It is estimated that turnaround times are still going to become shorter overall as a result of the project.

Sales related to agitator operations decreased somewhat. The sales were primarily focused on those agitator projects that were most significant for the business. At the end of the fiscal period, the agitator operations' order backlog was almost at the same level as it was the year before. Thanks to the reorganization and other procedures carried out in the previous fiscal period, the agitator operations' result in Finland was positive. To increase the profitability of the agitator operations, actions aimed at improving sales efficiency and attaining cost savings were started in the German company. Activities were reorganized, and the number of personnel was reduced. The operating result of the agitator operations in Germany became positive in the fourth quarter.

Strong position for demanding applications

The Process Machinery division's order backlog remained relatively high throughout the fiscal period due to the design and delivery contract received early in the period for demanding pressure vessels for the Olkiluoto nuclear power plant. The order backlog was higher at the end of the fiscal period than it was at the end of the previous period. Factory investments started after the change of year have mostly consisted of foreign chemical and metallurgy industry investments and an oil refinery extension project in Finland. The design work for the Olkiluoto nuclear power plant project is almost completed. However, the commencement of manufacturing for the project has been pushed back to the current fiscal period. The delivery is to be completed over the course of the current fiscal period. Other new Finnish orders were medium-sized demanding projects.

Reactor delivered for BASF to Germany.

Process Machinery's deliveries were mainly for investment projects in the pulp and paper, chemical, metallurgy, and pharmaceutical industries in the division's established markets: Scandinavia and Central Europe. From the spiral heat exchanger operations, the number of deliveries to Asia has increased considerably, and at the end of the fiscal period the order backlog was at a healthy level.

The division's most significant new orders for the fiscal period were, in addition to the delivery contract for the Olkiluoto plant, orders of tanks and agitator assemblies, delivery of a peroxide column and Nutsch reactor to Sweden, and deliveries of pulp towers and agitators to Spain for the wood processing industry.

Satisfactory market prospects

The Process Machinery division's customer industry's investments concentrate on the Far East and South America. The Scandinavian chemical and pulp manufacturers and their plant constructors keep the demand for the division's products at a satisfactory level in Scandinavia. Also, the most important domestic customers are launching modernization and replacement investments, which require equipment that is suitable for production by the division. Apart from the ongoing major projects, such as the Olkiluoto nuclear power plant, Fortum diesel projects, and Metsä Botnia BCTMP mill, no other significant major investments are in sight. International market prospects for spiral heat exchangers are good.

The division's key strengths include its in-house design operations, proven product solutions, good references, and rationalization of production. Despite difficult market conditions, the division has retained its strong market position where agitators, pressure vessels for demanding applications, and reactors for Europe are concerned.

The division's pressure equipment is approved for use in nearly all market areas, including the U.S., China, Russia, and several European countries. The division also has a strong foothold in the spiral heat exchanger market, where it has a significant market share. The main markets for spiral heat exchangers are Asia, Central Europe, and the United States.

As a turnkey supplier of pressure vessel / agitator assemblies made of clear and other special materials for the most demanding applications, the division stands a fair chance of increasing its sales and market share all over the world.

Products and services

- pressure vessels (including those with agitators)
- agitators and mixing processes
- reactors and accessories
- columns with internal components
- tube, shell, and spiral heat exchangers
- consulting and start-up services

The order backlog for spiral heat exchangers increased significantly.

Welding a heat exchanger to be delivered to Sweden for Perstorp.

Pulp storage tank delivered to Spain for Papelera.

Review by the Board

Fiscal Period of September 1, 2004 – August 31, 2005

Business developments

Vaahto Group's turnover for the fiscal period ending in August 2005 was 58.1 million euros (61.7 million euros), with an operating profit of 0.2 million euros (2.8 million euros). Turnover decreased by 5.9% from that of the previous fiscal period. Reasons for the decrease include a temporary decrease in demand and deliveries due to the industrial action in the paper industry and the transference of some significant customer projects included in the order backlog to the next fiscal period. The Group's order backlog increased considerably during the period under review and was 34.2 million euros (19.7 million euros) at the end of the fiscal period.

In spite of the challenging market situation, the Group achieved fair sales figures. For paper and board machines, the market situation was weak at the beginning but improved toward the end of the period. The troubled domestic market situation was exacerbated by the long-term industrial action in the paper industry. Overall, sales for the Group's paper and board machines and key components were good over the period. By contrast, the market for process machinery was for the most part weak. However, early in the fiscal period the Group received a significant order for the Olkiluoto nuclear power plant currently under construction.

Due to the increased size and duration of deliveries, the Group started recognizing long-term projects under the percentage-of-completion accounting method in the previous fiscal period. The long-term projects to be recognized thusly are delivery projects that last a minimum of six months or are significant in some other way. Through use of the percentage-of-completion method, the Group's business can be portrayed more accurately and reliably. In comparing the figures from the period under review with those for the previous fiscal period, it must be noted that in the transition period the introduction of the percentage-of-completion method increased the Group's turnover and operating profit figures for the previous fiscal period by 8.2 and 2.2 million euros, respectively. In addition, the Group started applying the full cost principle - i.e., the capitalization of fixed expenses - to inventory evaluation, which in the transition period increased the operating profit for the previous fiscal period by 0.4 million euros.

Group structure

During the fiscal period, a subsidiary company was established in Sweden to strengthen the sales of roll services and other servicing in Scandinavia. Apart from this, no changes to the Group's structure occurred during the period.

Pulp & Paper Machinery

The market situation for the Group's Pulp & Paper Machinery division was weak at the beginning of the period under review but improved considerably toward the end. In Finland, market weakness was exacerbated by the protracted industrial action in the paper industry.

Sales of the division's paper and board machines and key components were good in spite of the challenging market situation. New orders were received from China, and the significance of this market area for the division grew further. In addition to Scandinavia, significant new orders were received from, for example, the U.S. and Turkey. Most of the new orders were, in line with the division's objectives, for advanced headboxes, formers, shoe presses, and other key components of paper and board machines. The division's roll sales showed a clear increase from the previous period and exceeded objectives. The labor dispute in the paper industry temporarily undermined domestic roll servicing deliveries, at the end of the fiscal period.

The division's turnover decreased slightly from the previous fiscal period's figure. However, profitability remained at a satisfactory level and the division saw positive results. The division's order backlog increased considerably during the period under review and was at an all-time high at the end of the fiscal period.

Determined product development work has improved the Pulp & Paper Machinery division's strategic competitive position, and the division aims to further strengthen its position as one of the leading suppliers of technology and services in the demanding paper and board machine market environments.

Process Machinery

The Process Machinery division's market situation was difficult for most of the period under review, and demand was modest. At the beginning of the fiscal period, Japrotek Oy Ab, one of the companies in the division, received a significant order for the design and delivery of pressure vessels for the new Olkiluoto nuclear power plant. During the period under review, the schedule of the project changed, hence transferring the manufacturing and deliveries for the order to the current fiscal period. Apart from this, pressure vessel, reactor, and column activities suffered due to weak market conditions and did not meet the targets set.

Sales of spiral heat exchangers were good in the fiscal period under review, and business remained in line with objectives. The order backlog and prospects for the spiral heat exchanger business area are promising.

In the agitator area, the market situation was difficult for the period under review, with Stelzer Rührtechnik International GmbH, one of the companies in the division, particularly far behind the goals set. The company tried to improve its profitability during the period by carrying out actions aimed at improving sales efficiency and attaining cost savings, including business redistribution and reductions in personnel.

The Process Machinery division's turnover decreased from that of the previous fiscal period, profitability was weak, and the result for the fiscal period was still negative. The actions to make operations more effective and to attain cost savings will be continued in the division to improve its profitability.

Results

Vaahto Group's operating profit for the fiscal period was 0.2 million euros, as compared to 2.8 million euros in the previous fiscal period. The operating profit for the period was 0.3% (4.6%) of the Group's turnover. Losses before extraordinary items and tax totaled 0.5 million euros (profit of 2.2 million euros), and the return on investment was 1.2% (10.8%). The Group's turnover and operating profit figures for the previous fiscal period showed an increase of 8.2 and 2.2 million euros, respectively, due to the recognition of long-term projects under the percentage-of-completion method. Moreover, the operating profit for the previous fiscal period includes an increase of 0.4 million euros caused by application of different inventory valuation principles.

The Group's Pulp & Paper Machinery division managed to retain a satisfactory level of profitability in a demanding market climate. The Process Machinery division's results did not meet the targets set and were negative.

Financing

The Group's cash flow was 5.6 million euros (4.3 million euros). The cash flow showed a further increase from the previous fiscal period, mostly due to reduced working capital. The Group's net financial expenses were 0.6 million euros (0.6 million euros) - i.e., 1.1% (1.0%) of the turnover. The investment cash flow was slightly less for the period than in the previous period, coming to -1.0 million euros (-1.2 million euros). The decrease in net debt, including interest, was 4.2 million euros.

Total assets and liabilities on the consolidated balance sheet stood at 37.5 million euros (41.4 million euros), and the parent company's balance sheet showed 10.7 million euros (10.7 million euros). The Group's equity ratio increased further, to 35.9% (33.2%).

Investments

The Group's investments in capital assets for the fiscal period totaled 1.1 million euros (1.2 million euros). The most significant investments were for Vaahto Oy's heat exchanger production and AK-Tehdas Oy's roll cover production. Apart from this, investments consisted mainly of smaller machinery and equipment acquisitions, and investments in information systems.

Research and development

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

Information systems

The Group's information systems and information management systems were further developed in accordance with the centralized operations model. Attention is still being paid to more efficient utilization of the Group's enterprise resource planning system, thus decreasing the amount of overlapping work and improving the manageability of business. These development efforts will be continued in the current fiscal period.

Personnel

Group personnel averaged 420 (464) over the fiscal period and numbered 401 (432) at the end of the period. The main reasons for the decrease in personnel were the rationalization and associated reductions in personnel in the Process Machinery division.

Introduction of international financial reporting standards

International financial reporting standards (IFRS) are to be applied in the Group in the fiscal period starting on September 1, 2005. The opening IFRS balance will be prepared as of September 1, 2004, and the first IFRS financial statement will be published for the September 1, 2005 - August 31, 2006, fiscal period.

Shareholders' equity

The Board of Directors has no authority to issue new shares, convertible bonds, or bonds with warrants, nor the authorization to obtain or surrender shares.

Administration

The Annual General Meeting on December 14, 2004, elected the following members to the Board of Vaahto Group Plc Oyj:

Seppo Jaatinen, chairman
Ilkka Vaahto, vice-chairman
Martti Unkuri, member
Antti Vaahto, member
Mikko Vaahto, member

Antti Vaahto served as CEO throughout the fiscal period.

The Group companies have been audited by the certified public auditing firm Ernst & Young Oy, with Pauli Hirviniemi, CPA, as chief auditor.

Forecast of future developments

The Group's operating environment is still challenging due to the hard-to-predict and rather weak market situation for the Group's main products. However, successful product development work and completed rationalization projects have improved the Group's competitiveness and thus laid a foundation for profitable business. Thanks to a high order backlog and advanced product selection, Vaahto Group stands a fair chance of increasing its turnover in the current fiscal period.

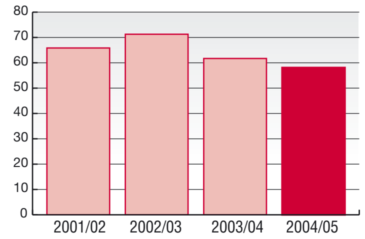
Proposal for distribution of profits

Group funds available for distribution of profits total 3,428,282.25 euros. Parent company funds available for distribution of profits total 4,927,067.71 euros, of which 1,184.99 euros represents losses for the fiscal period.

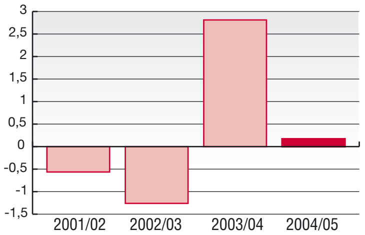
The Board will propose to the Annual General Meeting that a dividend of 0.12 euros per share be paid- i.e., total 344,676.24 euros. The remaining operating profit is to be transferred to the earnings account.

Board of Directors

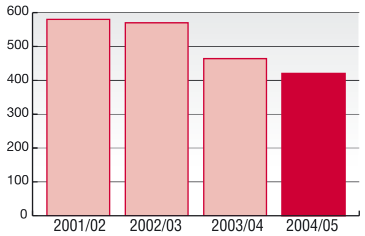
Turnover M€



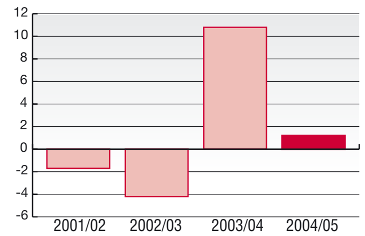
Operating profit M€



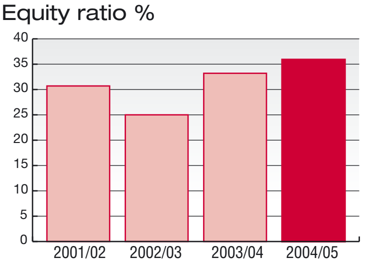
Personnel average



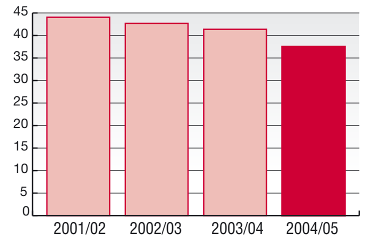
Return on investment %



Equity ratio %



Consolidated balance sheet total M€



Income Statement

1 000 €	Group 1.9.2004-31.8.2005 12 months	Group 1.9.2003-31.8.2004 12 months	Parent 1.9.2004-31.8.2005 12 months	Parent 1.9.2003-31.8.2004 12 months	Note
TURNOVER	**58 084**	**61 700**	**1 501**	**1 422**	1,2
Change in products and work in progress	2 234	-1 319	0	0	
Production for own use	339	331	0	0	
Other operating income	210	915	113	0	3
Raw materials and services	-30 736	-28 606	0	0	4
Personnel expenses	-17 832	-18 940	-513	-423	6
Depreciation	-1 884	-1 999	-90	-91	7
Other operating expenses	-10 245	-9 271	-831	-842	
OPERATING PROFIT/LOSS	**170**	**2 812**	**181**	**66**	5
Financial income and expenses	-624	-645	10	43	8
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	**-455**	**2 167**	**191**	**109**	
Extraordinary expenses	0	0	-190	160	9
PROFIT/LOSS BEFORE INCOME TAXES	**-455**	**2 167**	**1**	**269**	
Increase (-) or decrease (+) in accelerated depreciations	0	0	0	2	
Income taxes	-139	-491	-2	-25	10
MINORITY INTEREST	**-248**	**62**	**0**	**0**	
PROFIT/LOSS FOR THE FISCAL YEAR	**-842**	**1 738**	**-1**	**246**	

Balance Sheet

1 000 €	Group 31.8.2005	Group 31.8.2004	Parent 31.8.2005	Parent 31.8.2004	Note
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	1 934	2 089	104	119	
Group goodwill	91	119	0	0	
Tangible assets	13 864	14 459	60	97	
Investments	236	239	9 167	8 774	
NON-CURRENT ASSETS TOTAL	**16 125**	**16 907**	**9 331**	**8 989**	12
CURRENT ASSETS					
Inventories	7 708	5 415	0	0	
Long-term receivables	3	3	0	0	
Deferred tax assets	39	79	0	0	16
Short-term receivables	8 810	14 347	712	828	
Other securities	2 999	2 450	0	0	
Cash and bank deposits	1 811	2 175	675	854	
CURRENT ASSETS TOTAL	**21 370**	**24 469**	**1 387**	**1 682**	13
TOTAL ASSETS	**37 495**	**41 375**	**10 718**	**10 671**	
LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital	2 872	2 872	2 872	2 872	
Share premium account	6	6	0	0	
Revaluation reserve	229	229	0	0	
Reserve fund	1 995	1 995	2 228	2 228	
Retained earnings	5 291	3 899	4 928	5 027	
Profit/loss for the fiscal year	-842	1 738	-1	246	
SHAREHOLDERS' EQUITY TOTAL	**9 551**	**10 739**	**10 028**	**10 374**	14
MINORITY INTEREST	**1 065**	**816**	**0**	**0**	
OBLIGATORY PROVISIONS TOTAL	**267**	**292**	**0**	**0**	15
LIABILITIES					
Deferred tax liability	297	381	0	0	16
Long-term interest-bearing liabilities	5 401	5 448	0	0	17
Short-term interest-bearing liabilities	4 836	8 773	540	0	18
Short-term non-interest-bearing liabilities	16 078	14 926	150	297	18
LIABILITIES TOTAL	**26 612**	**29 528**	**690**	**297**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**37 495**	**41 375**	**10 718**	**10 671**	

Flow of Funds Statements

1 000 €	Group 1.9.2004-31.8.2005 12 months	Group 1.9.2003-31.8.2004 12 months	Parent 1.9.2004-31.8.2005 12 months	Parent 1.9.2003-31.8.2004 12 months
FLOW OF FUNDS FROM OPERATIONS				
Profit/loss before extraordinary items	-455	2 167	191	109
Adjustment items:				
Depreciations according to plan	1 884	1 999	90	91
Other income and expenses, no payment related	-25	-483	0	0
Financial income and expenses	624	645	-10	-43
Other adjustments	-54	-424	0	0
Flow of funds before the change in working capital	**1 975**	**3 905**	**271**	**157**
Change in working capital:				
Change in short-term receivables	5 537	-1 221	-114	-60
Change in inventories	-2 293	2 471	0	0
Change in short-term non-interest bearing creditors	1 152	59	-27	50
Flow of funds before financial items and taxes	**6 371**	**5 214**	**130**	**146**
Interest and other financial expenses from operations paid	-734	-716	-6	-3
Dividends received	8	4	0	1
Interests received	102	67	15	46
Income taxes paid	-183	-220	-2	-25
FLOW OF FUNDS FROM OPERATIONS	**5 563**	**4 349**	**137**	**164**
FLOW OF FUNDS FROM INVESTMENTS				
Investments in tangible and intangible assets	-1 139	-998	-39	-85
Other investments	0	-190	-396	-698
Income from sales of tangible and intangible assets	90	406	3	0
Income from sales of other investments	0	55	0	0
Decrease caused by the change in Group structure	0	-516	0	0
Granted loans	0	0	0	-250
Repayments of loans receivable	0	0	230	0
FLOW OF FUNDS FROM INVESTMENTS	**-1 049**	**-1 243**	**-202**	**-1 033**
FLOW OF FUNDS FROM FINANCIAL ITEMS				
Withdrawals of short-term loans	383	1 567	420	0
Repayments of short-term loans	-4 321	-251	0	-79
Withdrawals of long-term loans	3 000	200	0	0
Repayments of long-term loans	-3 047	-2 963	0	0
Dividends	-345	0	-345	0
Group transfers	0	0	-190	160
FLOW OF FUNDS FROM FINANCIAL ITEMS	**-4 329**	**-1 447**	**-115**	**81**
Change of liquid funds	**185**	**1 659**	**-179**	**-788**
Liquid assets at the beginning of the fiscal year	4 625	2 966	854	1 642
Liquid assets at the end of the fiscal year	4 810	4 625	675	854
Change in liquid assets according to the balance sheet	185	1 659	-179	-788

Notes on Financial Statements

GROUP CONSOLIDATION

Parent company Vaahto Group Plc Oyj, Vaahto Oy, Japrotek Oy Ab, AK-Tehdas Oy, AK-Tehdas AB, Akpija Oy, AP-Tela Oy, Stelzer Rührtechnik International GmbH, and Profitus Oy form the group for which the consolidated financial statements have been drawn up. During the fiscal period, AK-Tehdas Oy has established a sales company, AK-Tehdas AB, in Sweden. Profitus Oy had no business activity during the fiscal period.

ACCOUNTING PRINCIPLES FOR CONSOLIDATED FINANCIAL STATEMENTS

Internal shareholding

The consolidated balance sheet was drawn up using the acquisition cost method. The difference between the purchase price and the equity of the subsidiaries at the time of acquisition is presented as goodwill to be amortized in line with earnings expectations using straight-line amortization over a period of ten years.

Internal transactions and profits

Internal Group transactions, unrealized profits from internal deliveries, Group receivables and debts, and internal dividend distribution have all been eliminated.

Valuation of fixed assets

Fixed assets are valued at their direct acquisition cost. The planned depreciation periods are presented below under depreciation. The depreciation recorded in Stelzer Rü'5fhrtechnik International GmbH's official financial statements comes to 93 thousand euros (previous fiscal period: 134 thousand euros) less than the depreciation entered on the consolidated financial statements in line with the consolidated accounting policy.

Revaluations

All revaluations were carried out in 1988 or earlier via external assessments.

Appropriations

The difference between planned and book depreciation is divided in the consolidated financial statements between deferred taxes and shareholders' equity. The deferred taxes are calculated at a rate of 26%.

Inventory valuation

The values of inventories have been determined using the first-in, first-out method or entered at acquisition cost or at the expected sale value, if lower. Starting from the previous fiscal period, in-house production included in the inventory is valued according to the full cost principle – i.e., the capitalization of fixed expenses. This means that the acquisition cost includes the direct costs and their proportion of the fixed acquisition and manufacturing costs. The introduction of this practice increased the operating profit for the previous fiscal period by 0.4 million euros.

Entering ongoing project results in the accounts

During the previous fiscal period, the Group started to recognize long-term projects under the percentage-of-completion method. This means that income from projects that take a long time to complete is entered in the accounts on the basis of the percentage of completion. In this category are projects that are expected to take at least six months to complete or that are otherwise considered significant. The percentage of completion of long-term projects is determined by comparing the project's current costs to the estimated total costs.

The percentage-of-completion method increased the Group's turnover figure for the previous fiscal period by 8.2 million euros and increased the operating profit by 2.2 million euros. The percentage-of-completion items are presented in detail in item 2 of the Notes.

Assets and liabilities in foreign currencies

In accordance with the principles of currency risk management, currency forward agreements are as a rule used to hedge against significant exchange rate risks. The currency forward agreements have been used to protect receivables and future assets.

Assets and debts denominated in foreign currencies have been converted to euros at the European Central Bank's exchange rate on the day of the closing of the accounts.

Expenditure on research and development

The Pulp & Paper Machinery division's activated expenditure on development during the fiscal period is 129 thousand euros. For the rest, the research and development expenditures have been entered under costs.

Pension liabilities

Pension liabilities for Group personnel have been covered through an insurance company. Pension security at foreign subsidiaries has been provided according to local practices.

Taxes

The consolidated financial statements include direct taxes based on the taxable income of the Group companies for the fiscal period, and they have been calculated according to local tax laws.

In addition to this, the consolidated financial statements also take into account the imputed tax claim and deferred taxes arising from appropriations, periodization differences, temporary differences, and Group consolidation measures. More detailed information is presented in item 15 of the Notes.

Introduction of international financial reporting standards

International financial reporting standards (IFRS) are to be applied in the Group in the fiscal period starting on September 1, 2005. The opening IFRS balance will be prepared as of September 1, 2004, and the first IFRS financial statement will be published for the September 1, 2005 – August 31, 2006, fiscal period.

Notes on Financial Statements

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
1. TURNOVER BY BUSINESSES AND MARKET AREAS				
By businesses				
Manufactoring	58 084	61 700	0	0
Administration	0	0	1 501	1 422
Total	**58 084**	**61 700**	**1 501**	**1 422**
By market areas				
Finland	18 069	17 001	1 501	1 422
Other Europe	25 120	30 835	0	0
North America	2 823	9	0	0
Asia	11 296	12 199	0	0
Africa	453	1 478	0	0
Other	322	178	0	0
Total	**58 084**	**61 700**	**1 501**	**1 422**
2. LONG-TERM PROJECTS				
Turnover				
Turnover of long-term projects recognized under the percentage-of-completion method	18 276	24 705		
Other turnover	39 808	36 995		
Total	**58 084**	**61 700**		
The amount that has been recognized as revenue from the long-term projects recognized under the percentage-of-completion method (however, not yet delivered to the customer), during the fiscal period and during the earlier periods.	5 388	8 171		
Order backlog				
Long-term projects recognized under the percentage-of-completion method	22 084	8 948		
Projects entered on completion of the project	12 156	10 796		
Order backlog total	**34 240**	**19 744**		
The amount of contract revenue of the long-term projects recognized as revenue has been deducted from the order backlog.				
Specification of combined items of assets and liabilities concerning the long-term projects				
Accrued income from the long-term projects recognized under the percentage-of-completion method	5 388			
Advances received from the customers	5 774			
Difference	**-386**			
Accrued income from the long-term projects in the Balance Sheet	1 580			
Advance payments from the long-term projects in the Balance Sheet	1 966			
Receivables from the long-term projects in the Balance Sheet	**-386**			
3. OTHER OPERATING INCOME				
Profit from sales of fixed assets	54	407	8	0
Rent income	57	27	0	0
Reverse of losses from Canzler GmbH in the fiscal period 2002-2003	0	484	0	0
Other	99	-3	106	0
Total	**210**	**915**	**113**	**0**
4. RAW MATERIALS AND SERVICES				
Purchases	23 461	20 210		
Change in inventories	-17	377		
External services	7 292	8 018		
Total	**30 736**	**28 606**		

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
5. OPERATING PROFIT/LOSS BY BUSINESSES				
Manufactoring	170	2 812	0	0
Administration	0	0	181	66
Total	**170**	**2 812**	**181**	**66**
6. PERSONNEL				
Average number of personnel				
Office staff	169	181	9	9
Workers	251	283	0	0
Total	**420**	**464**	**9**	**9**
Personnel expenses				
Wages and salaries	14 357	15 237	399	319
Pension costs	2 020	2 113	64	55
Other personnel expenses	1 456	1 590	49	49
Total	**17 832**	**18 940**	**513**	**423**
Management's salaries and benefits				
Managing directors	363	370	10	10
Board members and substitute members	51	40	48	39
Total	**414**	**410**	**58**	**48**
7. DEPRECIATIONS AND DECREASED VALUES				
Fixed assets have been depreciated according to plan. Depreciation according to plan is calculated based on straight line depreciation, the economic life and the original purchase value of assets.				
The estimated economic lives (years)				
Development expenditure	5			
Other long-term assets	5-10		5-10	
Buildings	35-40		35-40	
Machinery and equipment	5-25		5-25	
Group goodwill	10			
Goodwill	15			
Depreciations				
Depreciations from tangible and intangible assets	1 856	1 971	90	91
Depreciation of Group goodwill	28	28	0	0
Total	**1 884**	**1 999**	**90**	**91**
8. FINANCIAL INCOME AND EXPENSES				
Income from other investments held as non-current assets				
Other	8	34	0	34
Total	**8**	**34**	**0**	**34**
Interest income from long-term investments				
Other	1	0	1	0
Total	**1**	**0**	**1**	**0**
Other interest and financial income				
Group companies	0	0	7	0
Other	101	37	8	12
Total	**101**	**37**	**15**	**13**
Financial income total	**109**	**71**	**16**	**46**
Reduction in value of securities under current assets				
Reduction in value of securities	4	0		
Total	**4**	**0**		

Notes on Financial Statements

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
Interest and other financial expenses				
Group companies	0	0	5	3
Other	729	716	0	0
Total	**729**	**716**	**6**	**3**
Financial expenses total	**734**	**716**	**6**	**3**
Financial income and expenses total	**-624**	**-645**	**10**	**43**
Currency gains included in financial income and expenses	**-55**	**23**	**0**	**0**
9. EXTRAORDINARY ITEMS				
Exraordinary income/Group transfers	0	0	0	160
Exraordinary expences/Group transfers	0	0	-190	0
Total	**0**	**0**	**-190**	**160**
10. INCOME TAXES				
Income taxes from extraordinary items	0	0	-49	46
Income taxes from operations	183	220	52	-21
Change in deferred tax assets	45	130	0	0
Change in deferred tax liabilities	-89	140	0	0
Total	**139**	**491**	**2**	**25**

11. SHAREHOLDINGS

Group companies

Company	Registered Office	Number of Shares	Group Ownership, %
AK-Tehdas Oy	Tampere	2 900	100.00 %
Akpija Oy	Joutseno	190	100.00 %
AP-Tela Oy	Kokkola	250	52.08 %
Japrotek Oy Ab	Pietarsaari	100 000	100.00 %
Profitus Oy	Hollola	1 600	100.00 %
Stelzer Rührtechnik International GmbH	Warburg, Germany		100.00 %
Vaahto Oy	Hollola	2 700	100.00 %

Subsidiaries of subconcern

Company	Registered Office	Group Ownership, %
AK-Tehdas AB	Lindesberg, Sweden	100.00 %

All Group companies have been consolidated to financial statements.

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
12. NON-CURRENT ASSETS				
Intangible assets				
Development expenditure				
Acquisition cost at the beginning of the fiscal year	0	0		
Increase	129	0		
Depreciation of the fiscal year	-3	0		
Book value at the end of the fiscal year	**126**	**0**		
Intangible rights				
Acquisition cost at the beginning of the fiscal year	90	94		
Increase	0	5		
Decrease caused by the change in Group structure	0	-9		
Transfers between items	-2	0		
Accumulated depreciations at the beginning of the fiscal year	-65	-56		
Depreciations of transfers' and decrease items	2	0		
Depreciation of the fiscal year	-7	-10		
Book value at the end of the fiscal year	**17**	**24**		
Goodwill				
Acquisition cost at the beginning of the fiscal year	2 664	2 664		
Accumulated depreciations at the beginning of the fiscal year	-1 081	-903		
Depreciation of the fiscal year	-178	-178		
Book value at the end of the fiscal year	**1 406**	**1 583**		
Other long-term assets				
Acquisition cost at the beginning of the fiscal year	1 742	1 718	349	272
Increase	126	196	38	77
Decrease caused by the change in Group structure	0	-172	0	0
Decrease	-13	0	0	0
Transfers between items	-54	0	0	0
Accumulated depreciations at the beginning of the fiscal year	-1 261	-1 107	-230	-181
Depreciations of transfers' and decrease items	31	60	0	0
Depreciation of the fiscal year	-189	-213	-53	-49
Book value at the end of the fiscal year	**382**	**481**	**104**	**119**
Advance payments and unfinished investments				
Acquisition cost at the beginning of the fiscal year	0	0		
Transfers between items	4	0		
Book value at the end of the fiscal year	**4**	**0**		
Intangible assets total	**1 934**	**2 089**	**104**	**119**
Group goodwill				
Acquisition cost at the beginning of the fiscal year	280	280		
Accumulated depreciations at the beginning of the fiscal year	-161	-133		
Depreciation of the fiscal year	-28	-28		
Book value at the end of the fiscal year	**91**	**119**		
Tangible assets				
Land				
Acquisition cost at the beginning of the fiscal year	725	725		
Revaluations	30	30		
Book value at the end of the fiscal year	**755**	**755**		
Buildings				
Acquisition cost at the beginning of the fiscal year	9 912	9 809		
Increase	6	46		
Transfers between items	0	57		
Accumulated depreciations at the beginning of the fiscal year	-2 764	-2 462		
Depreciation of the fiscal year	-306	-302		
Revaluations	335	335		
Book value at the end of the fiscal year	**7 183**	**7 483**		

Notes on Financial Statements

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
Machinery and equipments				
Acquisition cost at the beginning of the fiscal year	15 217	15 483	529	521
Increase	546	349	1	8
Decrease caused by the change in Group structure	0	-773	0	0
Decrease	-262	-80	-40	0
Transfers between items	6	238	0	0
Accumulated depreciations at the beginning of the fiscal year	-9 589	-8 687	-433	-392
Depreciations of transfers' and decrease items	253	265	40	0
Depreciation of the fiscal year	-1 103	-1 167	-37	-41
Book value at the end of the fiscal year	**5 068**	**5 628**	**60**	**97**
Other tangible assets				
Acquisition cost at the beginning of the fiscal year	1 143	1 174		
Increase	5	11		
Decrease caused by the change in Group structure	0	-42		
Transfers between items	52	0		
Accumulated depreciations at the beginning of the fiscal year	-894	-792		
Depreciations of transfers' and decrease items	-21	0		
Depreciation of the fiscal year	-70	-101		
Book value at the end of the fiscal year	**215**	**249**		
Advance payments and unfinished investments				
Acquisition cost at the beginning of the fiscal year	344	247		
Increase	328	392		
Decrease	-22	0		
Transfers between items	-6	-295		
Book value at the end of the fiscal year	**643**	**344**		
Tangible assets total	**13 864**	**14 459**	**60**	**97**
Revaluations				
Land				
Value at the beginning of the fiscal year	30	30		
Value at the end of the fiscal year	**30**	**30**		
Buildings				
Value at the beginning of the fiscal year	335	335		
Value at the end of the fiscal year	**335**	**335**		
Investments				
Shares in Group companies				
Acquisition cost at the beginning of the fiscal year			9 279	8 581
Increase			396	698
Accumulated depreciations at the beginning of the fiscal year			-528	-528
Book value at the end of the fiscal year			**9 147**	**8 751**
Other shares				
Acquisition cost at the beginning of the fiscal year	239	49	23	23
Increase	0	190	0	0
Decrease	-3	0	-3	0
Book value at the end of the fiscal year	**236**	**239**	**19**	**23**
Investments total	**236**	**239**	**9 167**	**8 774**

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
13. CURRENT ASSETS				
Long-term receivables				
External long-term receivables				
Loan receivables	3	3		
Total	**3**	**3**		
Long-term receivables total	**3**	**3**		
Short-term receivables				
External short-term receivables				
Trade receivables	5 958	6 230	0	0
Other receivables	358	483	1	1
Prepaid expenses and accrued income	2 494	7 634	63	34
Total	**8 810**	**14 347**	**64**	**35**
Prepaid expenses and accrued income consist of:				
Accrued income from the long-term projects recognized under the percentage-of-completion method	1 580	6 660	0	0
Prepaid social security costs	446	313	24	12
Prepaid taxes	113	22	30	0
Interest receivables	13	11	0	0
Other prepaid expenses and accrued income	341	628	10	21
Other prepaid expenses and accrued income from Group companies	0	0	4	0
Prepaid expenses and accrued income total	**2 494**	**7 634**	**67**	**34**
Short-term receivables from Group companies				
Trade receivables			624	543
Loan receivables			20	90
Other receivables			0	160
Prepaid expenses and accrued income			4	0
Total			**648**	**793**
Short-term receivables total	**8 810**	**14 347**	**712**	**828**
Deferred tax assets (see no. 16)	**39**	**79**	**0**	**0**
Receivables total	**8 852**	**14 429**	**712**	**828**
14. SHAREHOLDERS' EQUITY				
Share capital at the beginning of the fiscal year	2 872	2 872	2 872	2 872
Share capital at the end of the fiscal year	**2 872**	**2 872**	**2 872**	**2 872**
Share premium account at the beginning of the fiscal year	6	6		
Share premium account at the end of the fiscal year	**6**	**6**		
Revaluation fund at the beginning of the fiscal year	229	229		
Revaluation fund at the end of the fiscal year	**229**	**229**		
Reserve fund at the beginning of the fiscal year	1 995	1 995	2 228	2 228
Reserve fund at the end of the fiscal year	**1 995**	**1 995**	**2 228**	**2 228**
Retained earnings at the beginning of the fiscal year	5 637	3 899	5 273	5 027
Dividends	-345	0	-345	0
Difference caused by the change in income tax rate	-2	0	0	0
Retained earnings in the end of the fiscal year	**5 291**	**3 899**	**4 928**	**5 027**
Profit/loss for the fiscal year	**-842**	**1 738**	**-1**	**246**
Shareholders' equity total	**9 551**	**10 739**	**10 028**	**10 374**

Notes on Financial Statements

1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
Calculation on distributable assets				
Retained earnings	5 291	3 899	4 928	5 027
Profit/loss for the fiscal year	-842	1 738	-1	246
Capitalized R&D expenses, not meant in Accounting Act 5:8	-126	0	0	0
Share from accumulated accelerated depreciation and voluntary provisions booked to equity	-895	-844	0	0
Distributable assets total	**3 428**	**4 793**	**4 927**	**5 273**
The distribution of shareholders' equity by series	**no.**	**euros**	**no.**	**euros**
A-share (1 vote/share)	1 452 751	1 452 751	1 452 751	1 452 751
K-shares (20 votes/share)	1 419 551	1 419 551	1 419 551	1 419 551
Total	**2 872 302**	**2 872 302**	**2 872 302**	**2 872 302**
15. OBLIGATORY PROVISIONS				
Warranty provisions (Stelzer Rührtehnik International GmbH)	267	292		
Total	**267**	**292**		
16. DEFERRED TAX LIABILITIES AND ASSETS				
Deferred tax assets				
Consolidation differences	7	58		
Allocation differences	32	21		
Total	**39**	**79**		
Deferred tax liabilities				
Appropriations	210	284		
Provisional differences	87	97		
Total	**297**	**381**		
17. LONG-TERM LIABILITIES				
External long-term loans				
Loans from financial institutions	4 530	4 316		
Pension loans	871	1 133		
Total	**5 401**	**5 448**		
Long-term liabilities total	**5 401**	**5 448**		
18. SHORT-TERM LIABILITIES TOTAL				
External short-term liabilities				
Loans from financial institutions	4 574	8 510	0	0
Pension loans	262	263	0	0
Advance payments received	7 886	6 603	0	0
Accounts payable	4 151	3 749	19	21
Other liabilities	662	842	83	51
Accrued liabilities and deferred income	3 379	3 731	48	105
Total	**20 914**	**23 700**	**150**	**177**
Accrued liabilities and deferred income consist of:				
Deferred social security costs	1 829	1 769	44	32
Expenses from contracts	668	910	0	0
Income taxes	163	235	3	73
Interest expenses	18	5	0	0
Other accrued liabilities and deferred income total	701	812	0	0
Accrued liabilities and deferred income total	**3 379**	**3 731**	**48**	**105**
Short-term liabilities to Group companies				
Other liabilities			540	120
Total			**540**	**120**
Short-term liabilities total	**20 914**	**23 700**	**690**	**297**

OTHER INFORMATION 1 000 €	Group 2004/2005 12 months	Group 2003/2004 12 months	Parent 2004/2005 12 months	Parent 2003/2004 12 months
19. GRANTED SECURITIES				
Debts that have been granted mortgages as security				
Pension loans	2 486	1 000		
Loans from financial institutions	3 670	7 903		
Total	**6 155**	**8 903**		
Granted mortgages				
Granted real estate mortgages	7 643	7 643		
Granted mortgages on companys assets	16 243	8 007		
Total	**23 886**	**15 650**		
Other granted securities				
Pledged deposits	548	541		
Total	**548**	**541**		
Granted securities by Group companies				
Pledged deposits			548	541
Total			**548**	**541**
20. CONTINGENT LIABILITIES AND OTHER LIABILITIES				
Leasing commitments to be paid				
To be paid during fiscal year 2005-2006	469	665	105	169
Later	514	1 043	107	170
Total	**982**	**1 708**	**212**	**339**
Other granted guarantees				
Granted guarantees	703	565		
Total	**703**	**565**		
Granted guarantees by Group companies				
Granted guarantees			703	565
Total			**703**	**565**
For the contracts delivered by August 31, 2005 the Group companies have warranty liabilities.				
21. DERIVATIVE CONTRACTS				
Currency forward contracts				
Nominal value	2 777	84		
Market value	-176	-1		
Currency options				
Nominal value	453			
Market value	-47			
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 fiscal period.				
Interest rate cap agreements				
Nominal value	3 000	3 000		
Market value	7	11		
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.				
22. ACCOUNTING MATERIAL AND VOUCHERS				
List of accounting books, list of the sorts of vouchers and information of retaining the vouchers are included in the balance book.				

Shares and Share Ownership

Shares and Share Ownership

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2005, was 2,872,302 euros, representing a total of 2,872,302 shares. According to the company's Articles of Association, the company's minimum share capital is 2,800,000 euros and the maximum share capital 11,200,000 euros, within which limits the company's share capital can be raised or lowered without amending the Articles of Association. The company has two share series, A and K, the nominal value of each being one (1) euro. Each Series K share confers twenty (20) votes, and each Series A share one (1) vote at shareholders' meetings.

Quotation of shares

Vaahto Group Plc Oyj's shares are quoted on the I list of the Helsinki Stock Exchange.

Share price and trading

During the fiscal period, 495,445 (34.1%) of Vaahto Group Plc Oyj's Series A shares and 140,000 (9.9%) Series K trades were traded. The lowest price of a Series A share was 2.91 euros, the highest 5.98 euros, the mean price 4.30 euros, and the last trading price in the fiscal period 5.04 euros. The lowest price for a Series K share was 2.90 euros, the highest 5.92 euros, the mean price 4.33 euros, and the last trading price in the fiscal period 5.09 euros. The total market capitalization on August 31, 2005, was 14.5 million euros. Vaahto Group Plc Oyj and Nordea Bank Finland Plc have a market making agreement that meets the requirements of Liquidity Providing (LP) on the Helsinki Stock Exchange.

Board authorizations

The Board of Directors has no authority to issue new shares, convertible bonds, or bonds with warrants, nor the authorization to obtain or surrender shares.

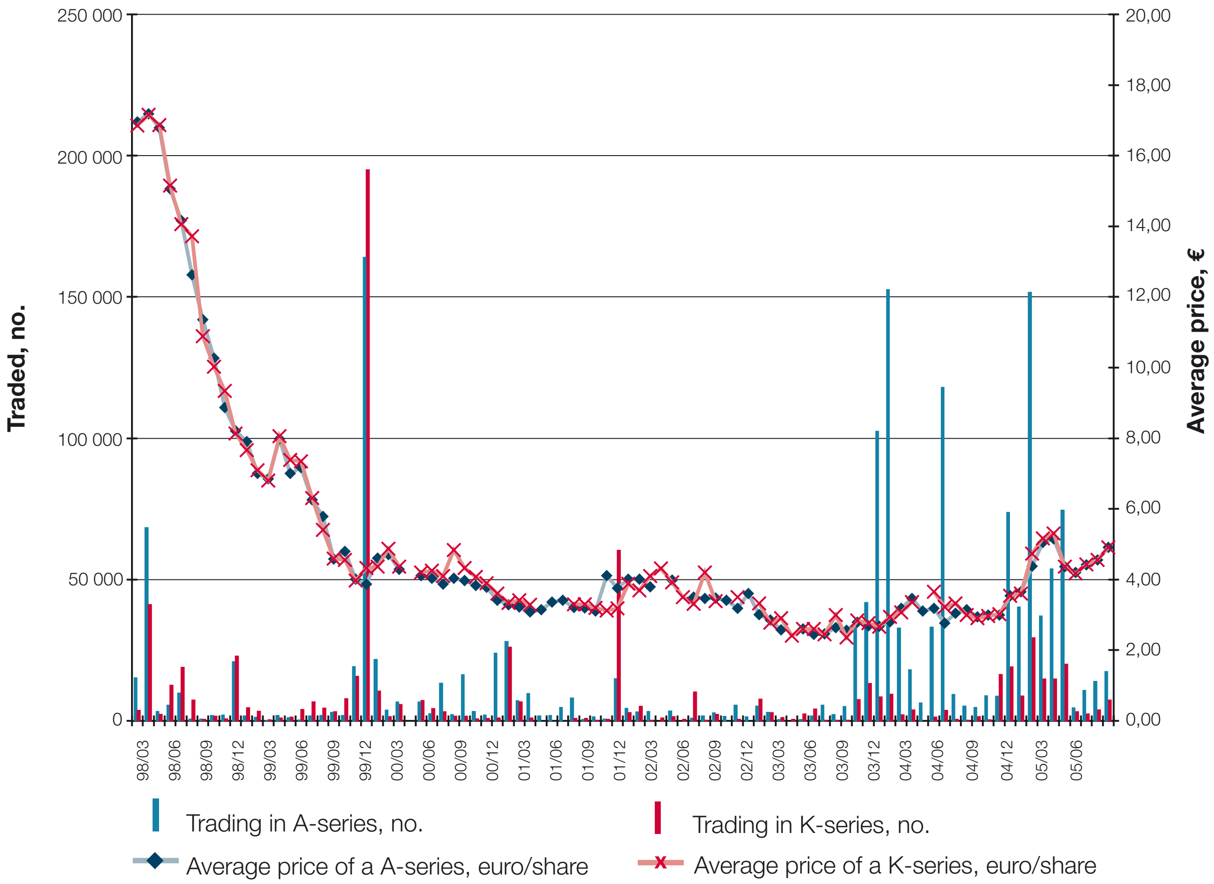
Dividends

At the shareholders' meeting on December 15, 2005, the Board of Directors will propose that the funds at the disposal of the meeting be used to pay a dividend of 0.12 euros per share, or a total of 344,676.24 euros, which is -41.0% of the Group's annual earnings per share. The Board proposes a record date of December 20, 2005, and payment of the dividend on December 28, 2005.

Shareholders' and Board members' share ownership

At the end of the fiscal period on August 31, 2005, Vaahto Group Plc Oyj had 435 registered shareholders. There were in total 29,700 nominee-registered shares. On August 31, 2005, members of the Board of Directors and the CEO owned a total of 752,633 Series A shares and 752,800 Series K shares, representing 53.0% of the votes.

Share prices and number of shares traded



Major shareholders on August 31, 2005

	A shares no.	A shares %	K shares no.	K shares %	Total no.	Total %	Votes %
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Vaahto Mikko	250 600	17.3	250 600	17.7	501 200	17.4	17.6
Vaahto Ilkka	247 000	17.0	247 000	17.4	494 000	17.2	17.4
Vaahto Heikki	0	0.0	384 700	27.1	384 700	13.4	25.8
FIM Fenno Investment Fund	116 500	8.0	0	0.0	116 500	4.1	0.4
Mutual Insurance Company Pension-Fennia	40 920	2.8	49 520	3.5	90 440	3.1	3.5
Mutual Insurance Company Fennia	35 000	2.4	35 000	2.5	70 000	2.4	2.5
Suutari Pekka	19 700	1.4	24 400	1.7	44 100	1.5	1.7
Lutosa Oy	16 067	1.1	16 400	1.2	32 467	1.1	1.2
Hymy Lahtinen Oy	13 700	0.9	17 300	1.2	31 000	1.1	1.2
Total for 10 largest	994 520	77.7	1 280 120	85.9	2 274 640	81.6	89.1

Breakdown of share ownership by amount of holdings on August 31, 2005

	Shareholders no.	Shareholders %	Shares no.	Shares %	Votes no.	Votes %
1 - 100	116	26.7	6 902	0.2	60 444	0.2
101 - 1 000	203	46.7	98 240	3.4	639 892	2.1
1 001 - 10 000	98	22.5	335 552	11.7	2 002 251	6.7
10 001 - 100 000	13	3.0	421 507	14.7	3 486 587	11.7
100 001 - 1 000 000	5	1.1	2 006 633	69.9	23 619 133	79.1
	435	100.0	2 868 834	99.9	29 808 307	99.9
Outside the book-entry securities system			3 468	0.1	35 464	0.1
			2 872 302	100.0	29 843 771	100.0

Breakdown of share ownership by category of owner on August 31, 2005

	Shareholders no.	Shareholders %	Shares no.	Shares %	Votes no.	Votes %
Companies	42	9.7	169 554	5.9	1 509 263	5.1
Financial and insurance institutions	4	0.9	106 777	3.7	782 626	2.6
Public corporations	1	0.2	90 440	3.1	1 031 320	3.5
Households	383	88.0	2 374 263	82.7	26 347 798	88.3
Non-profit organizations	4	0.9	118 200	4.1	127 700	0.4
Foreign countries	1	0.2	9 600	0.3	9 600	0.0
	435	100.0	2 868 834	99.9	29 808 307	99.9
Outside the book-entry securities system			3 468	0.1	35 464	0.1
			2 872 302	100.0	29 843 771	100.0

Key Figures

1 000 €	2004/2005 12 months	2003/2004 12 months	2002/2003 12 months	2001/2002 12 months	2000/2001 18 months
Turnover	58 084	61 700	71 271	65 846	80 503
Change, %	-5.9	-13.4	8.2	-18.2	80.6
Operating profit/loss	170	2 812	-1 261	-564	2 097
% of turnover	0.3	4.6	-1.8	-0.9	2.6
Profit/loss before extraordinary items	-455	2 167	-1 903	-1 093	1 245
% of turnover	-0.8	3.5	-2.7	-1.7	1.5
Profit/loss before taxes	-455	2 167	-1 903	-1 093	1 245
% of turnover	-0.8	3.5	-2.7	-1.7	1.5
Profit/loss before extraordinary items ./. taxes	-594	1 676	-1 651	-785	862
% of turnover	-1.0	2.7	-2.3	-1.2	1.1
Return on equity (ROE) %	-5.4	15.6	-15.4	-6.3	7.0
Return on investment (ROI) %	1.2	10.8	-4.2	-1.7	9.7
Equity ratio, %	35.9	33.2	25.0	30.7	37.6
Current ratio	1.0	1.0	1.1	1.3	1.2
Gearing	51.1	83.1	128.6	77.6	58.5
Gross investments in fixed assets	1 139	1 188	2 884	3 197	3 991
% of turnover	2.0	1.9	4.0	4.9	5.0
Order backlog	34 240	19 744	25 600	22 262	30 042
Consolidated balance sheet total	37 495	41 375	42 679	44 048	46 304
Total number of personnel (average)	420	464	570	580	453

The percentage-of-completion method in recognizing the long-term projects and the full-cost method for inventory valuation have been adopted in the Group during the reference period, so the figures of the earlier periods cannot be comparized with the figures of the periods 2003-2004 and 2004-2005 in this respect. The amount of contract revenue recognized as revenue has been deducted from the order backlog in the periods 2003-2004 and 2004-2005.

Per Share Items

	2004/2005 12 months	2003/2004 12 months	2002/2003 12 months	2001/2002 12 months	2000/2001 18 months
Earning/share (EPS), €	-0.29	0.61	-0.57	-0.27	0.18
Shareholders' equity/share, €	3.33	3.74	3.13	3.71	4.28
Dividend/share, € 1)	0.12	0.12	0.00	0.00	0.30
Dividend payout, %	-41.0	19.8	0.0	0.0	168.1
Effective dividend return, %	2.4	3.7	0.0	0.0	9.3
Price earnings ratio (P/E)	-17.3	5.3	-4.5	-12.6	18.2
Number of shares outstanding at the end of period (1 000)	2 872	2 872	2 872	2 872	2 872
Number of shares outstanding, average (1 000)	2 872	2 872	2 872	2 872	2 872

1) Proposal by the Board

The length of the reference period 2000/2001 was 18 months, for which reason the figures per share for that period have been scaled down to correspond to a 12 month-period.

Share Prices

€	2004/2005 12 months	2003/2004 12 months	2002/2003 12 months	2001/2002 12 months	2000/2001 18 months
A share					
- high	5.98	3.55	3.70	4.45	4.70
- low	2.91	2.50	2.45	3.01	2.97
- average	4.30	2.84	2.84	3.29	3.56
- share price at the end of the fiscal year	5.04	3.18	2.60	3.40	3.20
K share					
- high	5.92	3.90	3.70	4.80	5.30
- low	2.90	2.55	2.36	3.00	3.30
- average	4.33	2.91	2.94	3.77	3.73
- share price at the end of the fiscal year	5.09	3.25	2.36	3.40	3.30
Total market value, million euros					
A share	7.3	4.6	3.8	4.9	4.6
K share	7.2	4.6	3.4	4.8	4.7
Total	14.5	9.2	7.1	9.8	9.3
Number of shares traded during the fiscal year					
A share	495 445	558 800	32 466	84 330	139 105
K share	140 000	51 430	19 426	37 100	61 145
Number of shares traded, %					
A share	34.1	38.5	2.2	5.8	9.6
K share	9.9	3.6	1.4	2.6	4.3
Number of shareholders	435	411	381	377	376

Formulas for the Key Figures and Financial Ratios

Return on equity, % (ROE)	Profit or loss before extraordinary items - income taxes / Shareholders' equity + minority interest (average)	x 100
Return on investments, % (ROI)	Profit or loss before extraordinary items + interest expenses and other financial expenses / Total assets - non-interest bearing debts (average)	x 100
Equity ratio, %	Shareholders' equity + minority interest / Total assets - advances received	x 100
Current ratio	Current assets / Short-term liabilities	
Gearing, %	Interest bearing debts - cash and bank deposits and other securities / Shareholders' equity + minority interest	x 100

Formulas for per share items

Earnings per share, euros	Profit or loss before extraordinary items - income taxes -/+ minority interest / Number of shares outstanding issue adjusted (average)	
Shareholders' equity/share, euros	Shareholders' equity / Number of shares outstanding issue adjusted, at the end of the fiscal year	
Dividend/share, euros	Dividend for the fiscal year/share / Adjustment factor of share issue made after closing the books	
Dividend/share, %	Dividend for the fiscal year/share / Earnings/share	x 100
Effective dividend return, %	Dividend for the fiscal year/share / Adjusted price of the share at the end of the fiscal year	x 100
Price per earnings (P/E)	Adjusted price of the share at the end of the fiscal year / Earnings/share	
Average share price	Total value of shares traded during the fiscal year / Total number of shares traded during the fiscal year	
Total market value	Total number of shares at the end of the fiscal year x share price at the end of the fiscal year	
Development of shares traded	Total number of shares traded during the fiscal year and its percentual share of the total number of series' shares	

Figures and ratios are calculated according to the instructions by The Finnish Accounting Standards Board.

Board of Directors' Proposal

Group funds available for distribution of profit total 3,428,282.25 euros. Parent company funds available for distribution of profit total 4,927,067.71 euros, of which 1,184.99 euros represents loss for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.12 euros per share be paid and the remaining operating profit is to be transferred to the earnings account.

Lahti, November 16, 2005

Seppo Jaatinen
Chairman of the Board

Martti Unkuri

Ilkka Vaahto

Mikko Vaahto

Antti Vaahto
CEO

Auditors' Report

To the Shareholders of Vaahto Group Plc Oyj

We have audited the accounting, the financial statements and the corporate governance of Vaahto Group Plc Oyj for the period September 1, 2004 – August 31, 2005. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

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

In our opinion the financial statements, which for the parent company indicate a loss of EUR 1,184.99, have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give 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 Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies' Act.

Lahti, November 17, 2005

Ernst & Young Oy
CPA Corporation
Pauli Hirviniemi
CPA

Administration


Board of Directors, from the left Seppo Jaatinen, Ilkka Vaahto, Martti Unkuri, Antti Vaahto ja Mikko Vaahto.

Board of Directors

Chairman
Seppo Jaatinen, b. 1948
M.Sc. (Econ.)
Senior Partner, Foxhill Oy

Member and Chairman of Vaahto Group Plc Oyj's Board of Directors since 2000

Previous work experience:
Interpolator Oy: CEO and Executive Vice President
Amer Group Plc: Development Director

Most notable positions of trust:
Enermet Group Oy: Member of the Board
Tieto-X Plc: Member of the Board

No holdings in the company
No possessions or rights in the company's share-based incentive schemes
Fees for 2004-2005: 19,000 euros

Vice-Chairman
Ilkka Vaahto, b. 1953
Director, Vaahto Group Plc Oyj

Member of Vaahto Group Plc Oyj's Board of Directors since 1984 and Vice-Chairman since 1999,
Chairman of the Board in 1984-1999

247,000 A shares and 247,000 K shares of Vaahto Group Plc Oyj
No possessions or rights in the company's share-based incentive schemes
Fees for 2004-2005: 5,600 euros

Martti Unkuri, b. 1936
M.Sc. (Tech.)
Member of Vaahto Group Plc Oyj's Board of Directors since 2000

Previous work experience:
Rauma Oy: CEO

No holdings in the company
No possessions or rights in the company's share-based incentive schemes
Fees for 2004-2005: 15,000 euros

Mikko Vaahto, b. 1963
Business College Graduate
Sales Manager, Vaahto Group Plc Oyj

Member of Vaahto Group Plc Oyj's Board of Directors since 1994

250,600 A shares and 250,600 K shares of Vaahto Group Plc Oyj
No possessions or rights in the company's share-based incentive schemes
Fees for 2004-2005: 5,600 euros

Antti Vaahto, b. 1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA
CEO of Vaahto Group Plc Oyj, Vaahto Oy and Stelzer Rührtechnik International GmbH

Member of Vaahto Group Plc Oyj's Board of Directors since 1984

Most notable positions of trust:
Mutual Insurance Company Fennia: Member of the Board
Insurance Company Fennia Life: Member of the Board

255,033 A shares and 255,200 K shares of Vaahto Group Plc Oyj
No possessions or rights in the company's share-based incentive schemes
Fees for 2004-2005: 5,250 euros

Auditors

Ernst & Young Oy
Chief Auditor
Pauli Hirviniemi, CPA

Auditors' fees from the Group in the fiscal period 2004-2005 totaled 90,015 euros, of which audit fees accounted for 80,487 euros, with consulting and other fees accounting for the remaining 9,528 euros.

Group Management

Chief Executive Officer
Antti Vaahto, b. 1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA
CEO of Vaahto Group Plc Oyj since 1984
Other information provided earlier.

Chief Financial Officer
Anssi Klinga, b. 1965
M.Sc. (Econ.)
Secretary to the Board of Directors since 2004
No holdings in the company
No possessions or rights in the company's share-based incentive schemes

Subsidiaries

AK-Tehdas Oy
Managing Director
Antti Kontiainen, b. 1964
M.Sc. (Eng.)
No holdings in the company
No possessions or rights in the company's share-based incentive schemes

AP-Tela Oy
Managing Director
Pekka Viitasalo, b. 1955
Technician
No holdings in the company
No possessions or rights in the company's share-based incentive schemes

Japrotek Oy Ab
Managing Director
Torsten Lassfolk, b. 1946
Basic Business Degree
20 A shares and 20 K shares of Vaahto Group Plc Oyj
No possessions or rights in the company's share-based incentive schemes

Stelzer Rührtechnik International GmbH
Managing Director
Antti Vaahto, b. 1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA
CEO of Vaahto Group Plc Oyj since 1984
Other information provided earlier.

Vaahto Oy
Managing Director
Antti Vaahto, b. 1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA
Other information provided earlier.

Corporate Governance

Applicable regulations
Vaahto Group's administration is based on the Finnish Companies Act and the Articles of Association of the Group's parent company Vaahto Group Plc Oyj.

The company follows the Helsinki Exchanges recommendations on corporate government for listed companies.

Annual General Meeting of Shareholders
The company's highest decision-making body is the Annual General Meeting of Shareholders, which normally is held once a year. The Annual General Meeting is called by the Board of Directors. An invitation to the meeting is published in Finnish national newspaper choosen by the Annual General Meeting. The invitation includes sufficient information to the shareholder on the matters to be handled.

The Annual General Meeting must be held no more than six months after the end of the Group's fiscal period. The Annual General Meeting decides on the issues falling under its mandate as determined by the Companies Act, including the verification the financial statements, the payment of dividents, the discharge from liability of th Board members and the CEO, and the selection and fees of the Board members and the auditors.

The CEO and the majority of the Board members shall participate in the meeting. The person who is for the first time a Board member candidate shall also participate in the Annual General Meeting of Shareholders.

Supervisory Board
Company has no Supervisory Board.

Board of Directors
Matters and meeting practice of the Board
The parent company's Board of Directors, which also acts as the Group's Board of Directors, is responsible for the Group's administration and appropriate operation, and it decides on issues that are highly significant in light of the scope of the Group's operations. For the meetings of the Board, an agenda is prepared and the issues are handled according to it. The Chief Financial Officer of the Group acts as the secretary of the Board.

The minutes of meetings are commented and accepted in the next meeting.

Board members
According to the Articles of Association, the Board of Directors has a minimum of three and a maximum of six members, whose term of office ends at the end of the first full Annual General meeting following the election. The Chairman of the Board is selected by the Board from among its members.

The names of the Board candidates are published in the invitation to the Annual General Meeting of Shareholders or, after the invitation, by other means before the Shareholders' Meeting, if the shareholders who own at least 10% of the votes of company shares are in favour of his/her election and if the candidate has given his/her written consent. A Board member shall have required qualifications and possibility to devote sufficiently time to the duty.

Board members' right to receive information and obligation to give information
Company's CEO or someone from the Group personnel, with the CEO's authorization, presents the matters to the Board of Directors. CEO is responsible for giving the Board sufficient information on Group's operation and financial situation for evaluation. The CEO also controls the implementation of the Boards decisions and reports to the Board.

The Board members are obliged to give the Board sufficient information on their qualifications and independency.

Board committees
There are no committees on the Board.

CEO
The Board appoints the parent company's CEO, who acts as the Group's president. The CEO is responsible for the day-to-day management of the Grop in accordance with the Finnish Companies Act, the Articles of Association, and the instructions from the Board of Directors. The CEO is not Chairman of the Board or Vice Chairman of the Board.

Business organization
The Group's operations have been separated into two divisions. The activities and results of these are the responsibility of the Group subsidiaries, whose CEOs report to the parent company's CEO. The Group has no particular management team.

Compensation
Compensation to the Board members
The Annual General Meeting of Shareholders decides on the compensations to the Board members. The Board members have not received company's shares as a form of compensation. The Group currently has no stock option scheme.

Compensation to the CEO and other company management
The CEO's salary and other financial benefits are decided by the Board. The employment contract of the CEO has no spesific terms concerning the retirement or the pension benefits of the CEO. It also has no terms concerning the notice of the CEO.

The compensation to the other management is decided by the CEO and the Chairman of the Board.

The Group has an incentive system to the top management and key persons of the Group. The program includes the incentive systems for management, sales, production and support functions. For each year the Board of Directors of parent company decides on the application of the system and the general principles of it.

The CEO and the other management have not received company's shares as a form of compensation. The Group currently has no stock option scheme.

Internal control, risk management and internal audit
The Group's business and administration is primarily monitored and controlled by means of the Group's management system. The Group has a financial reporting system whose purpose is to provide the Group and profit management with sufficient information to monitoring, control, and planning of operations.

Insurances cover risks linked to property and other matters resulting from business operations.

The Group has no separate unit for internal audit.

Insider administration
Vaahto Group Plc Oyj follows the Helsinki Exchanges Insider Guidelines. The Group's permanent insiders comprise the statutory insiders and the insiders by definition. According to the Companies' Act the permanent insiders include the Board members, the CEO and the auditors. Furthermore, the company has defined to the insiders those persons who in their duties receive regularly insider information.

Vaahto Group Plc Oyj's insider register is updated in the company.

The company insiders are not allowed to trade with the company shares 21 days before the publication of the year end result and of the interim report.

Audit
According to the Articles of Association, the statutory audit is performed by one or two qualified auditors. They have to be auditors or auditing firms certified by the Central Chamber of Commerce. The auditors' term ends at the end of the first full Annual General Meeting after the election.

The invitation to the Annual General Meeting of Shareholders includes information of the auditor candidates or, after the invitation, the information is published by other means before the Shareholders' Meeting.

Information
The company publishes annually an Annual Report and an Interim Report in Finnish and in English. The Annual Report is sent by post to the shareholders of the company and to the certain communities and persons according to the mailing list updated in the company. The Interim Report is sent according to the separate mailing list. The Annual Report and the Interim Report are published also in the Vaahto Group home pages.

The financial statements and the interim report are published as stock exchange releases and they are also published in the home pages of the company. Accordingly, also the other stock exchange releases are available in the company's home pages.

Information from the fiscal period 2004 - 2005
The Annual General Meeting of Shareholders on December 14, 2004 elected five (5) members to the Board: Seppo Jaatinen, Martti Unkuri, Antti Vaahto, Ilkka Vaahto and Mikko Vaahto. The Board has December 14, 2004 elected Seppo Jaatinen as the Chairman of the Board and Ilkka Vaahto as Vice Chairman of the Board.

Of the Board members Antti Vaahto, Ilkka Vaahto and Mikko Vaahto are employed by the company and they are also company's main shareholders. Seppo Jaatinen and Martti Unkuri do not own company shares and they have no interdepency with the company in any other way.

During the fiscal period 2004 - 2005, the Board met 17 times. There was 96% attendance by the members.

The Annual General Meeting of Shareholders on December 14, 2004 decided on the following annual and meeting fees for the Board members for the fiscal period 2004 - 2005: Board member employed by the company 450 euros/meeting, Board members not employed by the company Chairman 19 000 euros/year, Board member 15 000 euros/year.

In addition, the Board members are entitled to daily allowances and compensation of travel costs based on Group travel policy. Persons employed by Group are not paid meeting fees for their work as a Board members in the Vaahto Group subsidiaries.

The Annual General Meeting of Shareholders on December 14, 2004 elected one auditor: CPA Corporation Ernst & Young Oy with Pauli Hirviniemi, CPA with the main responsibility for the company's audit.

Information of the Board members, CEO, other group management and auditors are on page 30.

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VAAHTO GROUP 1874

Carpe Diem • Markprint Oy, Lahti, 2005