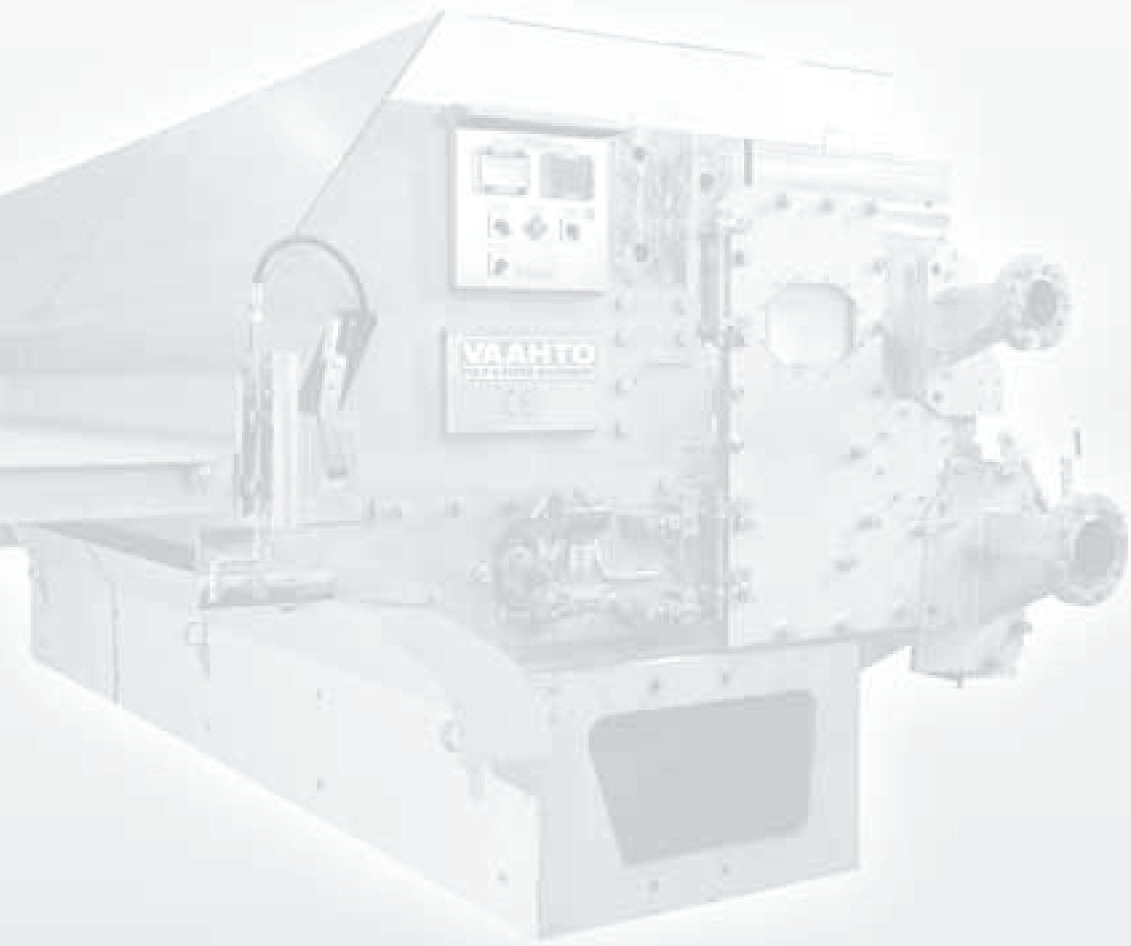
ANNUAL REPORT



2005 - 2006

VAAHTO GROUP
1874

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VAAHTO GROUP

Vaahto Group is a supplier of high technology equipment and services. The company serves 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-adding solutions; machinery; and services.

VAAHTO GROUP

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 technology equipment and services in the areas of papermaking 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.

VAAHTO GROUP

PULP & PAPER MACHINERY	PROCESS MACHINERY
VAAHTO OY	JAPROTEK OY AB
AK-TEHDAS OY	STELZER RÜHRTECHNIK INTERNATIONAL GMBH
AP-TELA OY	

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 production workshops, and our familiarity with the 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 Helsinki Exchanges since 1988.

Pulp & Paper Machinery

In paper technology, the Group's core competencies are paper and board machine rebuilds as well as roll services, roll covering, maintenance and spare parts for paper industry.

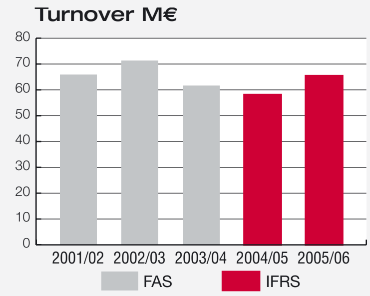
Process Machinery

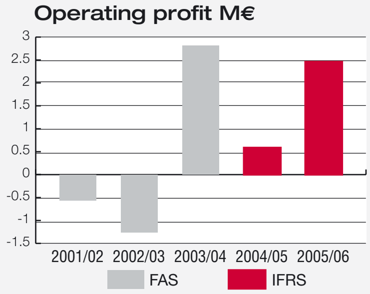
In the area of process machinery, the Group's core competence lies in the provision of high-quality agitator technology, pressure vessels for demanding applications, and spiral heat exchangers.

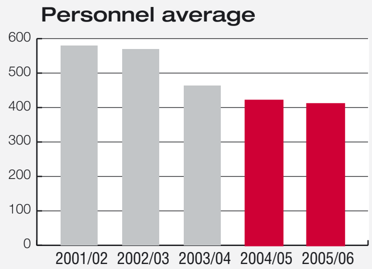
FISCAL YEAR IN BRIEF

- The Group's result improved considerably over the course of the period.
- The turnover was 65.4 million euros, an increase of 13% from that of the previous fiscal year. The growth was generated by the Pulp & Paper Machinery division.
- The operating profit increased to 2.5 million euros (comparable figure: 0.6 million euros). The Pulp & Paper Machinery division's profitability was satisfactory. The Process Machinery division's profitability increased clearly.
- Earnings per share (EPS) was 0.32 euros (-0.18 euros/share). The Board proposes that a dividend of 0.20 euros per share will be paid.
- The Group's products achieved market success. The order backlog increased considerably and was 49.7 million euros (34.2 million euros) at the end of the period.
- Rationalization activities continued, improving Process Machinery's profitability in particular.

Key Figures, IFRS M €	**2005/2006 12 months**	**2004/2005 12 months**	**Change%**
Turnover	65.4	58.1	13
Operating profit	2.5	0.6	319
Return on investment ROI%	12.5	2.8	346
Equity ratio %	39.1	35.2	11
Investments	1.9	1.1	63
Total number of personnel (average)	410	420	-2







CEO'S REVIEW

Vaahto Group's turnover for the fiscal year that ended in August 2006 was 65.4 million euros. The turnover saw an increase of 12.4% from that of the previous fiscal year (58.1 million euros). The Group's operating profit increased significantly: operating profit for the fiscal year was 2.5 million euros (0.6 million euros) – i.e., 3.8% (0.3%) of the turnover.

The Group's positive economic development has been influenced by efficient reorganization procedures and the determined product development work that has been continuing for some time. The turnover, result, and equity ratio all improved during the period under review. However, the result did not meet the development targets set.

The Group continues to focus on developing the competitiveness of its operations. The organization and the management of resources are being centralized to better meet the requirements of internationalization. To facilitate the management of resources, we have decided to change the Group's ERP system and select SAP as the new system. The new ERP system will be implemented in phases in the Group companies over the next two fiscal years.

By developing our purchasing and sales resources, we strive in particular to ensure the utilization of product development results in the form of increased sales. The company's expertise and product range make us ever better equipped to expand the company's operations and incorporate subassemblies previously purchased directly by customers into our deliveries.

New products introduced in the period under review include complete tissue machines and the center reel, which has been implemented successfully. Other new products are pressure screens for the stock preparation, additions to the short-circulation product range, and a film size press designed for a speed up to 1,800 m/min. In roll covering and service, highly successful product development has continued, and the results have clearly increased the competitiveness of the operations.

Product development and high-technology deliveries have improved, establishing the Group's position in the market and among high-tech suppliers. On the basis of recent competitive bidding processes, our technology and expertise have been demonstrated to be highly competitive where the requirements for delivering complete tissue, board, and paper machines are concerned.

The majority of the Group's turnover comes from new products developed within the last five years. Following attainment of our products' competitiveness and an established market position, the turnover now can be further increased – rapidly and cost-effectively – through multiplying the products and increasing the number of delivery projects. At the same time, larger deliveries are becoming part of our operations. The company's goal is to significantly and profitably increase the volume of our operations in the next three years. Prerequisites for profitable growth include an increased number of projects, design automation, and modular product solutions. Our strategy is to boost sales and purchasing and to establish the company in the growing Asian paper industry market as a cost-effective supplier of machines. Operations have been started in China already. The objective of the Chinese operations is to improve the Group's purchases, profitability, and growth prospects.

Pulp & Paper Machinery

The Pulp & Paper Machinery's sales increased considerably, and the order backlog was higher than ever at the end of the fiscal year. The division's turnover increased significantly from the previous fiscal year's as well, but its profitability decreased. Profitability was undermined by the postponement of some important projects and the weak market development early in the fiscal year. The market situation of capital projects and service improved toward the end of the period.

For the most part, the Pulp & Paper Machinery division's business consists of deliveries of capital products and service operations. Business that comprises the delivery of products, such as new machines, paper machine rebuilds, and components, is global by nature. Service operations (roll service, roll covers, maintenance and spare parts), on the other hand, are mostly regional.

Both types of operations are linked not only by customer relations management but also technically, and they support each other as well as the customers in their operations. Vaahto Group covers both business areas efficiently with its own technologies.

Worldwide demand for paper and board continues to increase by approximately eight million tons per year. Rationalization procedures in the paper industry have resulted in reduced capacity mainly in the U.S. and Europe. At the same time, the capacity and number of new machines have increased in Asia, and China in particular. Accordingly, demand for paper machines in the Far East is mostly for new machines, and the most developed countries require service and machine rebuilds. Demand for tissue, and thus also tissue machines, is growing at almost the same pace in all markets.

At the end of the fiscal year, the division's order backlog was at a record high. The order backlog includes a number of significant deliveries, such as several headboxes to China and Europe, formers, and complete wire sections, the most significant of which is Iggesund Paperboard's upcoming delivery to Sweden.

The development of service operations has focused mainly on product development related to roll service and roll covers in particular. The goal is to increase the durability of the coatings and improve other critical properties required by customers. Product development efforts related to roll service and roll covers have been very successful. The results of product development have been commercialized successfully. The delivery capability and competitiveness of the operations have increased, and the degree of processing of products and services has risen as well.

Process Machinery

The Process Machinery division's result was positive, even though the spiral heat exchanger business experienced a negative result and deliveries for the Olkiluoto nuclear power plant project were postponed to the current fiscal year. Agitator production developed in a positive direction in Germany and Finland. Process Machinery's operations within the Group have been clarified further. Most of the production of tanks and similar products has been moved from Hollola workshop to Pietarsaari. The Hollola workshop concentrates on the manufacture of spiral heat exchangers and the Pulp & Paper Machinery division's products.

The Process Machinery division's operating environment developed positively in the fiscal year under review. Steel prices have risen, and investments made by the energy industry have increased the demand for investment products. As a result of the weak market situation early in the year, the division's turnover decreased slightly. However, the reorganization procedures carried out in the division's companies have yielded a favorable outcome, and the division experienced a positive result. The division's sales and order backlog increased during the period under review.

Prospects

In the current fiscal year, prospects for the world economy are still fairly optimistic. Energy prices, however, are very high. The rate of growth of the U.S. economy probably has peaked already, but the Chinese economy continues to grow strongly. More lasting solutions to the political crises in the Middle East are being sought, so the scene is set for reasonable economic development.

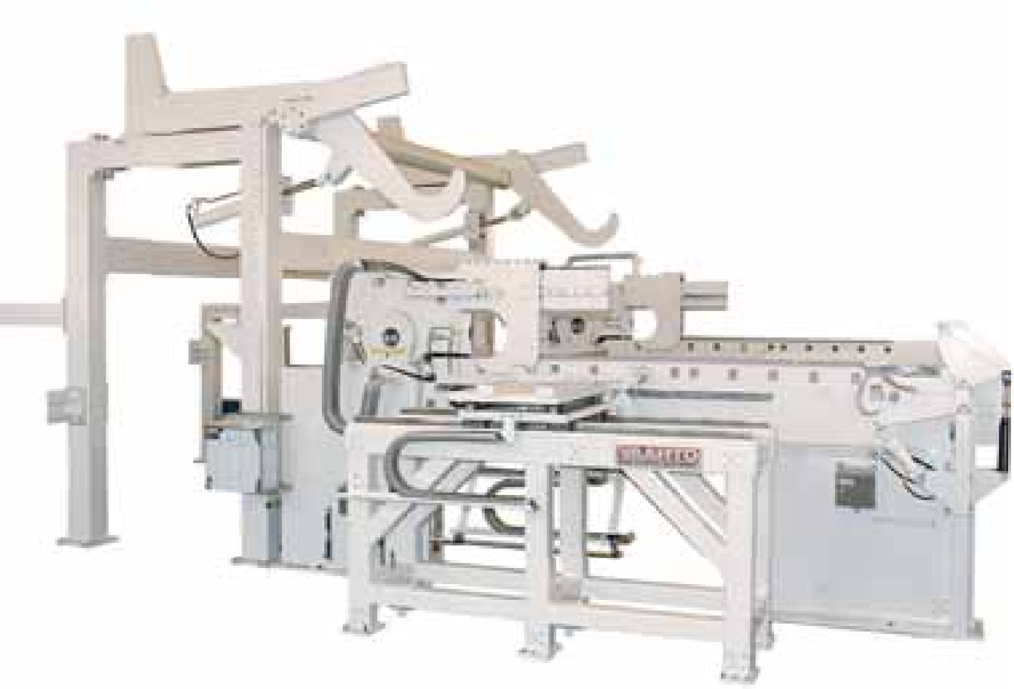
High energy prices increase the demand for investment products. Consumer product demand is likely to remain on fairly good level due to moderate interest rate developments. In the paper industry, prices have developed positively as a result of capacity cuts. Reorganization of production capacity and introduction of new capacity favor the Chinese and other Asian markets.

Vaahto Group's order backlog at the end of the fiscal year was 49.7 million euros, which puts it at an all-time high. The order backlog is good for both the Process Machinery division and the Pulp & Paper Machinery division's companies. In addition, the new orders received and sales agreed after the end of the fiscal year total over 16 million euros. Organizational rationalization has made the cost structures of the Group companies more efficient, so the conditions necessary for better economic development exist.

With an eye to future challenges, we are centralizing our operations; further developing our personnel resources; and investing in the management of sales, product management, purchasing, and production resources where international operations are concerned. The savings achieved by starting operations in China are expected to clearly exceed the associated start-up costs. With the new products and the associated positive experiences and good references, conditions for the favourable development of sales are clearly better than before.

Antti Vaahto
CEO

PULP & PAPER MACHINERY



Vaahto's customer-oriented product development efforts continue to produce new results, like the Vaahto Center Reel (VCR) product pictured here.

Vaahto Pulp & Paper Machinery 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, maintenance and spare parts. The aim of the services 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. Vaahto Pulp & Paper Machinery offers its customers comprehensive services, which include engineering, development, manufacturing, installation, training, start-up, maintenance and spare parts services.

Key Figures M €	2005/2006	2004/2005	Change %
Turnover	38.4	29.6	30.0
Operating profit	1.9	2.1	-11.0
Number of personnel (average)	226	214	5.6

Business development

Despite the tough competition, the Pulp & Paper Machinery division's sales were excellent, and the order backlog was larger than ever at the end of the fiscal year. The turnover increased significantly from the previous fiscal year's level, and the division saw positive results. Nonetheless, a tough market situation, declined prices, increased raw material costs, and postponement of the installation of a few large projects pushed profitability lower than in the previous period. Roll sales have been fairly good, and the order backlog grew during the fiscal year.

Vaahto Oy, one of the companies in the division, designs and manufactures paper and board machine rebuilds, key components, and process machinery. Pro rata, the company is growing more quickly than its large competitors. The average size of projects is increasing; thus, the turnover is increasing rapidly. Vaahto delivers products to more than 30 countries. Over 70 percent of the turnover comes from Sweden, China, and Finland. In particular, the significance of the Swedish market has increased in the last three years.

Demand for paper machines grew rapidly in the 2005–2006 fiscal year. The European rebuild market perked up significantly. Investments in new production lines continued in Asia. The division's order backlog has continued to develop in accordance with the targets toward ever more technologically advanced key components of paper and board machines, such as headboxes, formers, shoe presses, sizers, and pressure screens.

Large and demanding projects

In the period under review, the most significant new orders were received from Iggesund Paperboard, Korsnäs, Stora Enso, and UPM. The Ningxia Meili board machine project in China, which had been on hold for more than a year, was started again. Other Chinese orders included Shandong Bohui and Anhui Maashan's orders for three separate headboxes. Halkali Kagit's machines have been delivered to Turkey, and installation work will begin early in 2007.

The most significant orders from Central Europe were from Dunafin, a member of Trierenberg Group, whose mill in Hungary saw the start-up of the first Vaahto Center Reel last June, and from Stora Enso's Ostroleka mill in Poland for a paper machine modernization project. Several orders from Russian paper and board mills were received via Slalom, a sales company established in St. Petersburg.

In Finland, investments were slightly smaller than usual. The largest order was from UPM's Jämsänkoski mill, where Vaahto will deliver new stock bale pulping units and under-machine pulpers for the PK4 rebuild project. Significant orders were received also from UPM's Rauma, Kaukas, and Kajaani mills and from Stora Enso's board mill in Inkeroinen. In addition, Savon Sellu, which operates under the name Powerflute, ordered the modernization of the wet end of a fluting machine from Vaahto.

In the 2005–2006 fiscal year, Vaahto was particularly successful with rebuilds of board machine wet ends. Product development investments have focused on paper and board surface sizing equipment, reels, and stock preparation equipment.

The division's product portfolio covers all main equipment needed for paper and board manufacturing. Currently Vaahto is conducting a substantial development project to develop its own tissue machine concept.

A significant investment was the new pickling facility at Vaahto's Hollola site, which was also an important environmental investment.

Sales and order backlog for roll service increased

Roll service company AK-Tehdas Oy, manufactures, services, and covers rolls for the paper, board, and pulp industries as well as the printing, textile, and metal industries. The majority of the company's customers are from Finland, the other Nordic countries, and Russia. About 80 percent of the company's turnover comes from the paper, board, and pulp industries and the further converting of paper.

The sales and order backlog of the roll business increased clearly from the previous fiscal year's. Investments in the development of roll covers yielded results as well. The market situation in Finland, the company's main area of operation, improved slightly from the previous year. Cost-saving and outsourcing projects at paper mills increased the demand for roll servicing. Exports to Russia developed in a positive direction as well.

The Finnish markets for paper-industry roll services are not expected to grow in the coming years. The volume increase must be achieved via more advanced technology and increased exports, especially to Sweden and Russia. A sales company, AK-Tehdas AB, was established in Sweden during the fiscal year under review.

Thanks to new roll covers, the competitiveness of the roll business will increase in the coming fiscal year. The paper industry's outsourcing projects open up new growth opportunities for roll service.

Challenging market prospects

The market situation is going to continue to impose tough challenges for Pulp & Paper Machinery's operations. The weakness of the dollar against the euro makes USD-based operations more difficult. In addition to healthy demand, the strong growth of the Chinese economy is reflected in the prices of raw materials, such as stainless steel, which are increasing rapidly.

While high energy prices slow down new investments in the European and U.S. paper industries, modernization investments are being made to improve energy-efficiency. In China, small local suppliers are making competition tougher by continuously strengthening their foothold and enhancing their technology level.

In North America, there are hundreds of paper and board machines built in the 1960s through the 1980s whose productivity is being tested as international competition increases. Demand for servicing and modernization should increase clearly in the U.S. and Canada.

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

Vaahto Pulp & Paper Machinery has sold 50 headboxes to the global paper industry.

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, center winding reels, pulpers, coating kitchens, chemical and additive dosing systems, and various components)
- rolls and roll covering and service
- installation, training and start-up services

PROCESS MACHINERY

Vaahto has delivered some of the world's largest spiral heat exchangers.

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.

Key Figures **M €**	2005/2006	2004/2005	Change %
Turnover	27.0	28.6	-5.5
Operating profit	0.6	- 1.5	137.5
Number of personnel (average)	184	206	-10.7

Business development

Early in the fiscal period, the Process Machinery division's market situation was weak overall and turnover saw a slight downturn from that of the previous period. Thanks to the rationalization activities, the division's profitability improved considerably and its result for the fiscal year was positive. The market situation and demand perked up toward the end of the fiscal year. The strong demand in the Chinese market was reflected in other markets as well. The division's order backlog increased significantly during the fiscal year.

One of the companies in the division, Japrotek Oy Ab, is among the largest manufacturers of process machinery in the Nordic region. It manufactures customized products according to customer drawings, including pressure vessels, reactors, heat exchangers, columns, agitators, tanks, and agitator/tank assemblies. Most of the products are made of corrosion resistant materials such as stainless and acid-proof steel, titanium, and other metal alloys. The company has production permits in accordance with various standards, such as EN, ASME, and Chinese pressure vessel permit standards.

Increased competitiveness through special expertise

Competition has been tough in all of the division's market segments. The company is highly competitive, particularly in terms of products made of special materials, such as titanium. In the previous fiscal year, Japrotek received a significant order for the design and delivery of pressure vessels for the Olkiluoto nuclear power plant construction project. The delivery schedules have changed several times in the course of the project, and the manufacture and deliveries will take place mainly in the next fiscal period. This slowed down the growth of turnover and undermined profitability early in the fiscal year.

Apart from Olkiluoto, the company's pressure vessel, reactor, and column business has been good, and the targets set have been reached. Several significant orders were received during the fiscal year – from, for example, Uruguay, where Kemira is building a chemical production plant for a new pulp mill. Many of the deliveries and new orders were for the chemical and pharmaceutical industries in the Nordic region, Central Europe, the Far East, and South America. The reorganization of activities has improved profitability remarkably.

Spiral heat exchanger turnover and profitability fell short of both the previous fiscal year's result and the targets. In the latter half of the fiscal period, sales of spiral heat exchangers picked up, indicating fair prospects for the next period.

Stelzer Rührtechnik International GmbH, a German company belonging to the division, specializes in agitator technologies and is one of the world's leading suppliers of agitator systems. The company provides its customers with agitator systems and full service. Its customers are companies operating globally in industries such as wood processing, the pharmaceutical industry, food processing, the chemical industry, and metallurgy. The company has a strong market position in Europe in particular.

The market situation and order backlog for agitators saw improvement in the fiscal year under review. Most of the sales involved large agitators made of special materials for demanding applications in the chemical and metallurgy industries and in water treatment plants. The rationalization activities of the previous fiscal year at Stelzer Rührtechnik International GmbH have increased the profitability of the agitator business considerably from the previous fiscal year's level.

Prospects are still satisfactory

The division's prospects are satisfactory thanks to the clearly increased order backlog, advanced product selection, and improved market outlook. The increased price of raw metal materials should increase demand for the division's products in the mining and metallurgy industries. On the other hand, the price increase for raw materials causes insecurity in other customer groups. It is expected that demand in the chemical and pulp industries in the Nordic region will remain satisfactory. Global investments concentrate on the Far East and South America.

A pressure vessel for the Olkiluoto 3 nuclear power plant.

Products and services

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

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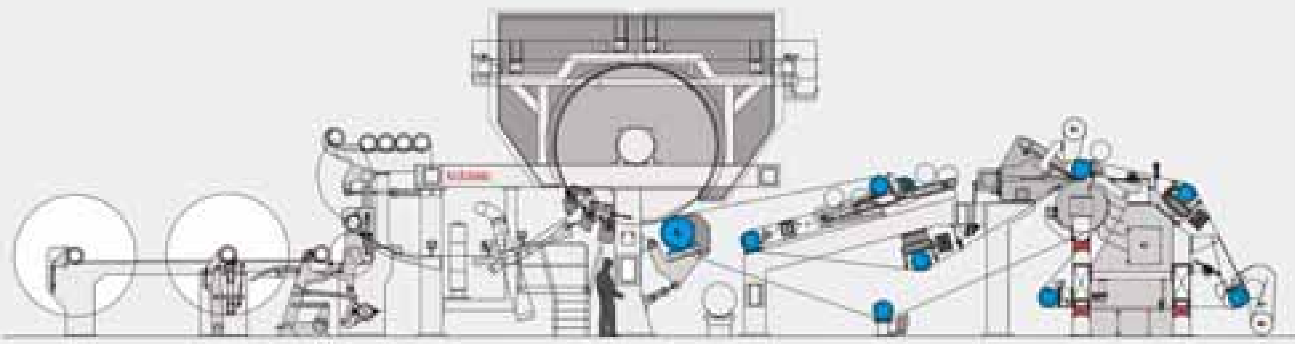


REVIEW BY THE BOARD

Business developments

Vaahto Group's turnover for the fiscal period ending in August 2006 was 65.4 million euros (58.1 million euros), with an operating profit of 2.5 million euros (0.6 million euros). The turnover increased by 12.6% from that of the previous fiscal period. The group's profitability improved thanks to increased turnover and the reorganization procedures implemented. The order backlog increased considerably during the period under review and came to 49.7 million euros (34.2 million euros) at the end of the fiscal year.

Pulp & Paper Machinery

Despite the tough competition, the Pulp & Paper Machinery division's sales were excellent in the period under review. The most significant order received during the period was the board machine renewal for Iggesund Paperboard AB, with delivery scheduled for the end of summer 2007. Other significant orders were placed by, for example, Dunafin for Hungary, Stora Enso for Poland, Korsnäs for Sweden, Ninxia Meili and Shandong Bohui for China, and UPM-Kymmene for Finland.

The division's order backlog has continued to develop in accordance with the targets toward technologically advanced key components of paper and board machines, such as headboxes, formers, and shoe presses. The division's roll sales have been moderate, and the fiscal year saw growth in the order backlog.

The Pulp & Paper Machinery division's turnover increased considerably over the previous fiscal period's result, and the division saw positive results. Because of a tough market situation and a decline in prices, profitability was nonetheless lower than during the previous period. The market situation is going to continue to impose tough challenges for the division's operations.

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 international paper and board machine market.

Process Machinery

Early in the fiscal period, the Process Machinery division's market situation was weak overall, and turnover saw a slight downturn from that of the previous period. Thanks to the rationalization activities, the division's profitability improved considerably and its result for the fiscal period was positive. The market situation and demand recovered towards the end of the period under review, and thus this division of the group increased its order backlog during the fiscal period.

In the previous fiscal period, Japrotek Oy Ab, one of the companies in the group, received a significant order for the design and delivery of pressure vessels for the Olkiluoto nuclear power plant construction project. The delivery schedules have changed several times in the course of the project, and the manufacture and deliveries will take place mainly in the next fiscal period. Apart from this, pressure vessel, reactor, and column business has been good, and the targets set have been reached. The reorganization of activities has improved profitability remarkably.

Spiral heat exchanger turnover and profitability fell short of both the previous fiscal year's result and the targets. In the latter half of the fiscal period, sales of spiral heat exchangers picked up, indicating fair prospects for the next period.

The market situation and order backlog for agitators improved during the fiscal period. The rationalization activities of the previous fiscal year at Stelzer Rührtechnik International GmbH, a German member of the group, have increased the profitability of the agitator business considerably from the previous fiscal period's level.

Results

Vaahto Group's operating profit for the fiscal period was 2.5 million euros, as compared to 0.6 million euros in the previous fiscal year. The operating profit for the period was 3.8% (1.0%) of the group's turnover. Profits before extraordinary items and taxes totalled 1.5 million euros (-0.1 million euros), and the return on investment was 12.5% (2.8%).

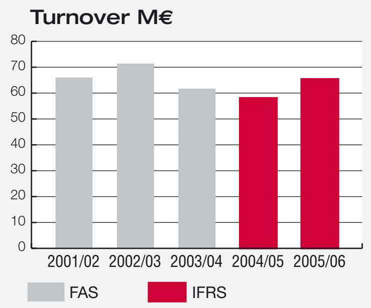
Financing

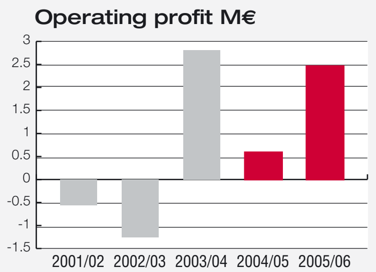
The group's cash flow was 6.5 million euros (5.9 million euros). The cash flow showed a further increase from the previous fiscal period, mostly due to improved profitability. The group's net financial expenses were 0.9 million euros (0.7 million euros) – i.e., 1.4% (1.2%) of the turnover. The investment cash flow for the period was higher than that for the previous period, at -1.8 million euros (-1.0 million euros). The decrease in net debt, including interest, was 3.1 million euros.

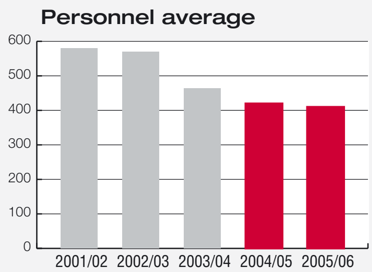
Total assets and liabilities on the consolidated balance sheet stood at 42.9 million euros (39.2 million euros), and the parent company's balance sheet showed 11.2 million euros (10.7 million euros). The group's equity ratio increased further, to 39.1% (35.2%).

Investments

The group's investments in capital assets for the fiscal period totalled 1.9 million euros (1.1 million euros). The most significant investment was Vaahto Oy's new pickling facility. 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 continued to concentrate 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 developed further, in accordance with the centralized operations model. During the fiscal period, a decision was made to acquire a group-wide enterprise resource planning system. The system's deployment is to take place in the next two fiscal periods.

Personnel
Group personnel averaged 410 (420) over the fiscal year and numbered 404 (401) at the end of the period. Due to the rationalization activities, the number of personnel in the Process Machinery division decreased during the fiscal period. By contrast, the number of personnel increased slightly in the Pulp & Paper Machinery division.

Risks and business uncertainties
Demand for Vaahto Group's products depends largely on economic cycles and developments in the world economy and customer industries. Risk caused by fluctuations in demand is being compensated for through adjustment of the group's sales operations according to the economic cycles of various markets and customer industries.

Large-scale projects involve risk of the final result of the project falling short of expectations, if the project's future costs and other risks that might affect the delivery cannot be assessed explicitly enough at the tender stage. Risks associated with large projects are managed by using various quality systems, profitability analyses, directives, and acceptance procedures.

The group's financial risk management objectives are to minimize harmful effects on the group's result caused by fluctuations in financial markets and ensure that the group can obtain equity and liability financing on competitive terms.

Business-related risks of material, consequential, and liability losses are covered with appropriate insurance policies.

Introduction of international financial reporting standards
On September 1, 2005, Vaahto Group moved its financial reporting over to calculation and final accounting principles that are in accordance with the International Financial Reporting Standards (IFRS) system. Previously, the group followed the Finnish Accounting Standards (FAS). The exchange report of January 30th, 2006, presents an accounting of Vaahto Group's switch to IFRS accounting practice and adjustments to the opening balance on the transition date of September 1, 2004, in accordance with the IFRS standards, compared to the closing balance for the 2003–2004 fiscal period. The reference data for the 2004–2005 fiscal period are as presented in the stock exchange release of January 30, 2006.

The interim report for the situation on February 28, 2006, has been prepared in accordance with IFRS registration and valuation principles.

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 of December 15, 2005, elected the following members to the Board of Vaahto Group Plc Oyj:

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

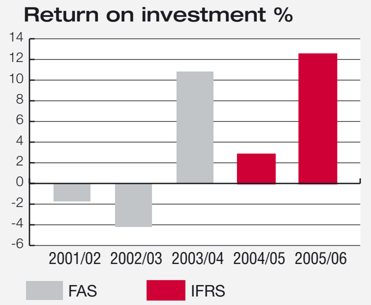
Antti Vaahto served as CEO throughout the fiscal period.

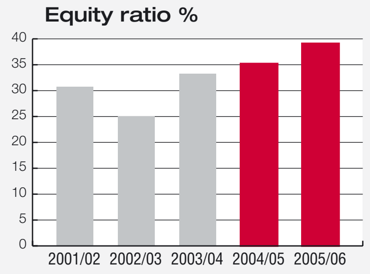
The group companies have been audited by certified public auditing firm Ernst & Young Oy, with Pauli Hirviniemi, CPA, as chief auditor.

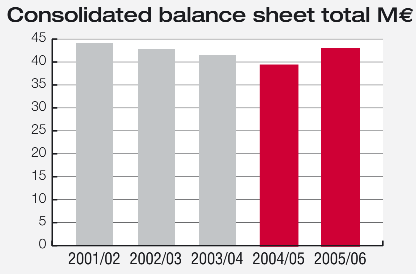
Forecast of developments
Determined product development and rationalization activities have improved the competitiveness of Vaahto Group. A good order backlog and an advanced product range enable profitable business in the current fiscal period.

Proposal for distribution of profits
Group funds available for distribution of profits total 5,136,961.53 euros. Parent company funds available for distribution of profits total 4,668,619.79 euros, of which 86,228.32 euros represents profits for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.20 euros per share, amounting to a total of 574,460.40 euros, be paid. The remaining operating profit is to be transferred to the earnings account.







CONSOLIDATED INCOME STATEMENT, IFRS

1 000 €	1.9.2005-31.8.2006	1.9.2004-31.8.2005	Note
NET TURNOVER	65 414	58 084	3, 4
Change in finished goods and work in progress	-835	2 234	
Production for own use	359	339	
Other operating income	602	210	5
Material and services	-33 254	-30 736	
Employee benefit expenses	-18 641	-17 832	8
Depreciations	-1 804	-1 828	7
Other operating expenses	-9 381	-9 883	6
OPERATING PROFIT	**2 461**	**588**	
Financing income and expenses	-948	-673	10, 11
PROFIT OR LOSS BEFORE TAXES	**1 513**	**-85**	
Tax on income from operations	-451	-164	12
PROFIT OR LOSS FOR THE FISCAL YEAR	**1 062**	**-249**	
NET PROFIT OR LOSS ATTRIBUTABLE:			
To equity holders of the parent	920	-509	
To minority interest	143	260	
	1 062	**-249**	
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS undiluted, euros/share, continuing operations	0.32	-0.18	13
EPS diluted, euros/share, continuing operations	0.32	-0.18	
Average number of shares			
-undiluted	2 872 302	2 872 302	
-diluted	2 872 302	2 872 302	

CONSOLIDATED BALANCE SHEET, IFRS

1 000 €	31.8.2006	31.8.2005	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	599	528	15
Goodwill	1 702	1 702	16
Investment properties	308	325	17
Tangible assets	15 031	15 073	14
Non-current trade and other receivables	3	3	18
Other long-term investments	46	236	18
Deferred tax asset	1	51	19
NON-CURRENT ASSETS	**17 690**	**17 918**	
CURRENT ASSETS			
Inventories	7 501	7 708	20
Trade receivables and other receivables	11 695	8 697	21
Tax receivable, income tax	16	113	
Cash equivalents	3 600	2 999	22
Cash and bank	2 391	1 811	22
CURRENT ASSETS	**25 202**	**21 327**	
ASSETS	**42 892**	**39 246**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Share premium account	6	6	
Other reserves	2 118	2 119	
Retained earnings	5 479	4 897	
Equity attributable to equity holders of the parent	**10 475**	**9 893**	
Minority share	1 215	1 146	
SHAREHOLDERS' EQUITY	**11 689**	**11 039**	23
NON-CURRENT LIABILITIES			
Deferred tax liability	803	657	19
Long-term liabilities, interest-bearing	4 313	6 043	26
Non-current provisions	250	267	25
NON-CURRENT LIABILITIES	**5 367**	**6 967**	
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	3 826	5 162	26
Trade payables and other liabilities	21 973	15 916	27
Tax liability, income tax	36	163	
CURRENT LIABILITIES	**25 836**	**21 240**	
EQUITY AND LIABILITIES	**42 892**	**39 246**	

CONSOLIDATED FLOW OF FUNDS STATEMENT, IFRS

1 000 €	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Flow of funds from operations		
Profit or loss before taxes	1 513	-85
Adjustments:		
Depreciations	1 804	1 828
Impairment losses	190	0
Unrealized foreign exchange gains and losses	6	0
Other income and expenses, no payment related	-17	-25
Financing income and expenses	758	673
Other adjustments	-10	-54
Flow of funds from operations before the change in working capital	**4 244**	**2 337**
Change in working capital:		
Change in short-term receivables	-1 088	5 537
Change in inventories	207	-2 293
Change in short-term non-interest-bearing creditors	4 119	1 152
Flow of funds from operations before the change in working capital	**7 482**	**6 733**
Interest and other financial expenses from operations paid	-959	-782
Dividends received	1	8
Interests received	200	102
Income taxes paid	-254	-183
FLOW OF FUNDS FROM OPERATIONS	**6 470**	**5 877**
Flow of funds from investments		
Investments in tangible and intangible assets	-1 859	-1 139
Income from sales of tangible and intangible assets	54	87
Income from sales of other investments	0	3
FLOW OF FUNDS FROM INVESTMENTS	**-1 805**	**-1 049**
Flow of funds from financial items		
Withdrawals of short-term loans	30	395
Repayments of short-term loans	-1 365	-4 321
Withdrawals of long-term loans	620	3 000
Repayments of long-term loans	-2 350	-3 373
Dividends	-418	-345
FLOW OF FUNDS FROM FINANCIAL ITEMS	**-3 483**	**-4 643**
Change of liquid funds	**1 181**	**185**
Liquid assets at the beginning of the fiscal year	4 810	4 625
Liquid assets at the end of the fiscal year	5 991	4 810
Change in liquid assets according to the balance sheet	1 181	185

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, IFRS

Change in shareholders' equity 1.9.2005 - 31.8.2006	Share capital	Share premium account	Hedging reserve	Other reserve	Retained earnings	Total	Minority shares	Total
Shareholders' equity at the beginning of the fiscal period	2 872	6		2 119	4 897	9 893	1 146	11 039
Cash flow hedging: increase (hedging reserve)			6			6		6
Change in translation difference					1	1		1
Reclassifications between items				-6	6			
Net profits or losses recognized directly to shareholders' equity			**6**	**-6**	**7**	**6**		**6**
Profit or loss for the period					920	920	143	1 062
Total profits and losses			**6**	**-6**	**927**	**926**	**143**	**1 069**
Dividend distribution					-345	-345	-74	-418
Shareholders' equity at the ens of the fiscal period	**2 872**	**6**	**6**	**2 112**	**5 479**	**10 475**	**1 215**	**11 689**

Change in shareholders' equity 1.9.2004 - 31.8.2005	Share capital	Share premium account	Hedging reserve	Other reserve	Retained earnings	Total	Minority shares	Total
Shareholders' equity at the beginning of the fiscal period	2 872	6		2 123	5 747	10 748	884	11 633
Change in income tax rate					-2	-2	2	
Reclassifications between items				-5	5			
Net profits or losses recognized directly to shareholders' equity				**-5**	**3**	**-2**	**2**	
Profit or loss for the period					-509	-509	260	-249
Total profits and losses				**-5**	**-506**	**-510**	**262**	**-249**
Dividend distribution					-345	-345		-345
Shareholders' equity at the ens of the fiscal period	**2 872**	**6**		**2 119**	**4 897**	**9 893**	**1 146**	**11 039**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIC INFORMATION

Vaahto Group's parent company, Vaahto Group Plc Oyj, is a public Finnish company. The company's domicile is Hollola, and its registered address is Laiturikatu 2, FI-15140 Lahti, Finland. The company's shares have been quoted on the Helsinki Exchanges since 1988.

Vaahto Group is a supplier of implementations of technology and consulting services, serving the process industry globally in the fields of papermaking technology and process machinery. The Group has two main business divisions: Pulp & Paper Machinery and Process Machinery.

2. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

Accounting principles for the financial statement

This is Vaahto Group's first financial statement prepared in accordance with the International Financial Reporting Standards, or IFRS system. It follows the IAS and IFRS standards and SIC and IFRIC interpretations as of August 31, 2006.

On September 1, 2005, the Group moved its financial reporting over to calculation and final accounting principles that are in accordance with the IFRS standards. Previously, the Group followed the Finnish Accounting Standards (FAS). The IFRS 1 standard, "First-time Adoption of International Financial Reporting Standards," was applied to the transition. The IFRS transition date was September 1, 2004, except for the financial instrument standards IAS 32 ("Financial Instruments: Disclosure and Presentation") and IAS 39 ("Financial Instruments: Recognition and Measurement"), which have been applied since September 1, 2005. Comparative figures from the 2004–2005 fiscal year for the handling of financial instruments have not been adjusted for the IFRS standards, and adjustments due to the implementation of the financial instrument standards were not included in the opening balance sheet for the 2005–2006 fiscal year, since the figures do not differ significantly from those calculated according to the Finnish Accounting Standards. The sections "Financial assets and liabilities" and "Derivative financial instruments and hedge accounting" under "Accounting principles for financial statements" describe the Group's application of the financial instrument standards IAS 32 and IAS 39 in more detail.

The consolidated financial statements have been prepared on the basis of original acquisition costs, except for derivative financial instruments. The goodwill of business activities that occurred before the IFRS transition date corresponds to the carrying amount of the previous financial statement standards, which has been used as the assumed acquisition cost under IFRS. In accordance with the exemption allowed by the IFRS 1 transition standard, the handling of these acquisitions in the financial statements has not been adjusted in preparation of the Group's opening IFRS balance sheet. The acquisition costs used for tangible assets are the revaluated amounts of the assets, taking into account retroactive depreciation.

Principles of consolidation

The consolidated financial statements include parent company Vaahto Group Plc Oyj and all subsidiaries in its control. Control of subsidiaries is based on the parent company's ownership of all shares, except for AP-Tela Oy, in which the Group owns 52.08% of the shares and votes.

Subsidiaries that have been acquired are consolidated from the date on which the Group acquired control. Intra-group shareholdings have been eliminated using the acquisition cost method. The acquisition cost is allocated to the specified assets and liabilities on the item acquisition date at their fair value. The difference between the acquisition cost of a subsidiary and the net fair value of the subsidiary's specifiable assets and liabilities is entered on the balance sheet as goodwill. In accordance with the exemption allowed by the IFRS 1 transition standard, acquisitions that were made before the IFRS transition date have not been adjusted in accordance with IFRS principles; they have been left at the values that are in accordance with the Finnish Accounting Standards.

The fiscal year saw the Group involved in establishing an affiliated company named Slalom in Russia. The Group owns 50% of the company's shares. This company has not been included in the consolidated financial statements, since it had no significant operations during the 2005–2006 fiscal year, and the Group's share of its result thus does not have a significant effect on the consolidated financial statements.

All of the Group's internal transactions, receivables, liabilities, and unrealized gains, as well as internal distribution of profit, are eliminated in the consolidated financial statements. The distribution of profit for the financial year to the parent company's shareholders and minority interest is presented in the income statement, and minority interest is presented on the balance sheet as a separate item as part of shareholders' equity. Minority interest for accrued losses is recognized in the consolidated financial statements up to the amount of the investment at most.

Assets and liabilities in foreign currencies

The consolidated financial statements are presented in euros, the functional and presentation currency of the Group.

Transactions denominated in foreign currencies are converted into euros at the exchange rate applicable on the date of the transaction. Assets and debts denominated in foreign currencies are converted into euros at the exchange rate in effect on the balance sheet date. Foreign exchange gains and losses are included in the corresponding items above operating profit. Currency translation differences related to financial items are included in financing gains or losses. Hedge accounting is applied to currency forward contracts used to hedge sales in foreign currencies, and these are handled in accordance with the cash flow hedge accounting model, which means that the earnings impact of currency forward contracts is entered in the income statement at the same time as the earnings impact of hedged sales. The earnings impact of the effective portion of currency forward contracts is recorded to adjust sales, and the ineffective portion of the hedging relationship is entered in financial items.

In the consolidated financial statements, the income statements of foreign Group companies are converted to euros at the average exchange rate for the period, and balance sheets are converted at the exchange rate in effect on the balance sheet date. Currency translation differences caused by the use of different exchange rates and by the elimination of the cost of acquisition of foreign subsidiaries are entered under the Group's shareholders' equity as a separate item.

Recognition principles

Product sales are recognized when the significant risks and benefits related to ownership of the products have been transferred to the buyer.

The income and expenses from long-term projects are recognized as income and expenses on the basis of the percentage of completion when the result of the project can be assessed reliably. The percentage of completion of a project is determined by the ratio of the expenses of accrued work hours to the estimated overall cost of the project. When it is likely that the total costs necessary for completing a project exceed the total income from the project, the expected loss is immediately entered as an expense.

When the outcome of a long-term project cannot be estimated reliably, project costs are recognized as expenses in the fiscal year in which they arise, and project income is recognized only to the extent of project costs incurred where it is probable that those costs will be recoverable. Losses caused by the project are recognized as an expense immediately.

Subsidies received
Public subsidies are entered as income in the income statement at the same time as the expenses are entered. Subsidies related to the acquisition of tangible assets are recognized as a deduction in the carrying amount of tangible assets.

Employee benefits
Pension liabilities for the Group's Finnish personnel have been covered through a pension insurance company. Pension liabilities at foreign subsidiaries have been addressed in accordance with local laws and regulations. All of the Group's pension arrangements are defined contribution arrangements, and the related costs are entered in the income statement for the fiscal year in which they were incurred.

Operating profit
The Group has defined "operating profit" as follows: operating profit is the net sum obtained after adding other operating income to the turnover and then deducting purchasing costs, adjusted by the change in stocks of finished products and work in progress and the expenses of products manufactured for the Group's own use; costs of employee benefits; depreciation; any impairment losses; and other operating expenses. All other income statement items are presented below the operating profit. Currency translation differences are included in the operating profit if they arise from items connected with business operations; otherwise, they are entered among financial items.

Borrowing costs
Borrowing costs are recorded as an expense in the financial year in which they are incurred. Transaction costs that are directly related to the taking out of loans and are clearly linked to a specific loan are included in the amortized cost and are amortized as interest costs using the effective interest rate method if they are significant.

Income tax
The tax expense in the income statement consists of current tax, based on the taxable profit for the period, and deferred tax. Current tax is calculated on the taxable profit in accordance with the local tax laws applied to each Group company. The tax is adjusted by any relevant tax amounts for previous years.

Deferred tax is calculated for temporary differences between accounting and taxation at the tax rate applicable on the date of the financial statement. Temporary differences are caused by, e.g., depreciation of property, plants, and equipment; non-tax-deductible impairment items; internal stock margin; and unused taxation losses. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized.

Property, plants, and equipment
Property, plants, and equipment are valued at their original acquisition cost minus accumulated depreciation and any impairment losses.

If a property, plant, and equipment item consists of several parts with different useful lives, each part is accounted for as a separate item. When such a part is replaced, the related costs are capitalized. Otherwise, subsequent expenses are included in the carrying amount for property, plants, and equipment only if it is probable that they will increase the economic benefit to the company and that the acquisition cost of the item can be determined reliably. The earnings impact of other repair and maintenance costs is recognized as incurred.

Property, plants, and equipment are depreciated on a straight-line basis over the estimated useful life. Land is not depreciated. The estimated useful lives are as follows:

Buildings	35–40 years
Machinery and equipment	5–25 years

The residual value of assets and their useful lives are reassessed annually when the financial statements are prepared, and they are adjusted if necessary. Gains or losses from the sale or disposal of property, plants, and equipment are recognized as either other operating income or other operating expenses.

Intangible assets

Goodwill
Goodwill represents that amount of the acquisition cost that exceeds the Group's share of the fair value on the date of acquisition of the net assets of a company acquired after the IFRS transition date. Goodwill on business combination acquired before this corresponds to the carrying amount of the previous financial statement standards, which has been used as the assumed acquisition cost. The handling of these acquisitions in the financial statements has not been adjusted in preparing the Group's opening IFRS balance sheet.

Planned depreciation is not deducted from the consolidated goodwill. Instead, it is tested annually for impairment. For this purpose, goodwill is allocated to cash-generating units. Goodwill is valued at the original acquisition cost, with any impairment deducted.

Expenditure on research and development
Research costs are entered in the income statement as expenses. Development costs for new or more advanced products are capitalized on the balance sheet as intangible assets when the product is technologically viable and commercially exploitable and when economic benefits can be expected from the product. Development costs previously entered as expenses are not capitalized later. Depreciation is recognized for the asset from the date it is ready for use. The useful life of capitalized development expenditure is five years, and capitalized assets are amortized on a straight-line basis over this period.

Other intangible assets
An intangible asset is included in the balance sheet figures only if its acquisition cost can be determined reliably and if it will increase the economic benefit to the company. Patents, trademarks, and licenses whose useful life is finite are entered on the balance sheet at the original acquisition cost and amortized in the income statement on a straight-line basis over their known or estimated useful life. Intangible assets with an infinite useful life are not depreciated. Instead, they are tested annually for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The depreciation periods are as follows:

Intangible rights	5 years
Computer software	5 years
Other expenses with long-term effects	5 years

Investment properties

Investment properties refer to real-estate properties that the Group holds for the purpose of receiving rental income or an increase in property value. Investment properties are valued using the acquisition cost method. As allowed by the IFRS 1 transition standard, the acquisition costs used are the revaluated amounts of the investment properties, with accumulated depreciation taken into account.

Impairments

Annually, on the balance sheet date, the Group reviews its assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is also estimated annually for the following assets, irrespective of whether there is any indication of impairment: goodwill, intangible assets with an infinite useful life, and intangible assets not yet available for use.

The recoverable amount is calculated as the higher of 1) fair value minus cost to sell and 2) value in use. The value in use is the present value of the estimated future net cash flows obtainable from the asset or cash-generating unit. An impairment loss is recognized if the carrying amount of an asset exceeds the recoverable amount. An impairment loss is reversed if conditions have changed and the recoverable amount for the asset changed after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been declared if no impairment loss had been recognized. An impairment loss in relation to goodwill is never reversed.

Inventories

Inventories are stated at the lower of acquisition cost and probable net realizable value. The acquisition cost is based on the FIFO principle. The acquisition cost of manufactured products and work in progress includes the cost of raw materials, direct labor costs, and an appropriate share of variable and fixed production overheads based on normal operating capacity. The net realizable value is the estimated selling price in the ordinary course of business, minus the costs of completion and the selling expenses.

Trade and other receivables

Trade and other receivables are recognized at original value. Credit losses are expensed when there is sufficient evidence that the Group will not obtain all of its receivables under the original terms.

Financial assets and liabilities

The Group has applied the IFRS standards IAS 32 ("Financial Instruments: Disclosure and Presentation") and IAS 39 ("Financial Instruments: Recognition and Measurement") since September 1, 2005. In the 2004–2005 fiscal year, financial assets and liabilities were valued in accordance with the Finnish Accounting Standards, and the reference information has not been adjusted in this respect.

Financial assets are classified as belonging to the following categories: loans and other receivables, held-to-maturity investments, and available-for-sale financial assets. Financial assets are classified on their original acquisition date on the basis of the purpose for which they were acquired.

Loans and other receivables are financial assets with fixed or determinable payments that are not quoted on an active market and that the company does not hold for trading purposes. This category includes the Group's financial assets that have been generated by transferring money or assets to a debtor. They are valued at the amortized acquisition cost and included in long- and short-term financial assets – the latter if they fall due for payment within 12 months.

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. They are valued at the amortized acquisition cost.

Available-for-sale financial assets consist of shares and debt with interest, and they are recognized at their fair value. Fair value is determined in most cases according to quoted market prices and rates. Changes in the fair value are entered in the fair value reserve in equity, with the tax effect taken into account. Changes in fair value are transferred from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Available-for-sale financial assets are included in long-term assets, except if the intention is to hold them for less than 12 months after the balance sheet date, in which case they are included in short-term assets.

Cash and cash equivalents comprise cash in hand, bank deposits that can be obtained on demand, and other extremely liquid short-term investments.

Financial liabilities are valued at the amortized acquisition cost. Financial liabilities are included in non-current and current liabilities, and they may be interest-bearing or not.

Provisions

A provision is recognized in the balance sheet figures when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the obligation will have to be settled, and the amount of the obligation can be reliably estimated.

A warranty provision is recognized when the underlying product is sold. The warranty provision is based on past experience of actual claims over the warranty period.

A provision is recognized for unprofitable contracts when the costs required to fulfil the obligations exceed the benefits received under the contract.

Rental agreements

Rental agreements concerning tangible assets in which the Group holds a material share of the risks and benefits of ownership are classified as financial lease agreements. A financial lease agreement is entered on the balance sheet at either the fair value of the leased asset on the starting date of the lease agreement or the current value of the minimum rent amounts, whichever is lower. Tangible assets acquired under financial lease agreements are depreciated over their economic life or the period of lease, whichever is shorter. Lease payments are divided into financing costs and instalment payment of the liability so that the interest rate for the remaining liability remains unchanged. Rental obligations are included in interest-bearing liabilities.

Rental agreements under which the risks and benefits of ownership are retained by the hirer are treated as other rental agreements. Rent paid in connection with other rental agreements is expensed in even instalments in the income statement over the duration of the rental period.

Derivative financial instruments and hedge accounting

The Group has handled derivative financial instruments in accordance with IAS 39 ("Financial Instruments: Recognition and Measurement") since September 1, 2005. Derivative financial instruments are initially entered in the accounts at their acquisition cost, which corresponds to their fair value. Subsequently, derivatives are stated at fair value.

The fair values of currency forward contracts are determined by comparing the value of the currency amount of the contract as calculated using the original forward rate with the value calculated using the forward rate on the balance sheet date. Gains and losses generated by recognition at fair value are handled in the accounts in the manner specified according to the purpose of the derivative financial instrument.

Some of the derivative financial instruments and other financial instruments may be defined as hedging instruments, in which case hedge accounting in accordance with IAS 39 is applied to them. When the hedge accounting begins, the Group documents the item to be hedged and the hedging instrument in accordance with the IAS 39 requirements. The effectiveness of the hedging relationship is evaluated on each financial statement date.

Changes in the fair value of the effective portion of derivative financial instruments that qualify for cash flow hedging are entered in the shareholders' equity in the hedging reserve. Gains and losses that are recognized in shareholders' equity are transferred to the income statement in the fiscal year in which the hedged item affects the income statement. If hedge accounting is applied to sales or purchases denominated in foreign currencies, changes in the fair value of derivatives are handled as adjustments to sales and purchases. Changes in fair value related to the ineffective portion of the hedge are immediately recognized in the income statement. If hedge accounting is not applied, changes in the fair value of derivatives are entered under financial items.

Accounting principles requiring judgments by management and key sources of estimation uncertainty

For preparation of the consolidated financial statements in accordance with the IFRS standards, estimates and assumptions have to be made concerning the future, and actual results may differ from these estimates and assumptions. For the most part, these estimates affect the valuation of assets, the recognition of long-term projects under the percentage-of-completion method, and the utilization of deferred tax assets.

The Group tests goodwill, intangible assets not yet available for use, and intangible assets with an infinite useful life annually for impairment and evaluates indications of impairment as set forth in the accounting principles above. The recoverable amount from cash-generating units is determined using calculations that are based on value in use. The use of these calculations requires the application of estimates.

As described in the income recognition policies, the income and expenses from long-term projects are recognized as income and expenses on the basis of the percentage of completion when the result of the project can be assessed reliably. Recognition associated with the percentage of completion is based on the expected income and expenses of the project and on reliable measurement of project progress. If estimates of the project's outcome change, the recognized sales and profit are amended in the fiscal year during which the change becomes known and can be estimated for the first time. Any loss expected from the project is recognized as an expense immediately.

3. SEGMENT INFORMATION

Segment information is presented for the Group's business and geographical segments. In segment reporting, the business segment has been determined as primary and the geographical segment as secondary. The segments are based on the Group's internal organizational structure and internal financial reporting.

The Group's business segments (i.e., divisions) are Pulp & Paper Machinery and Process Machinery. Pulp & Paper Machinery's products and services include paper and board machines and their rebuilds as well as rolls, roll coating, and roll servicing. Process Machinery manufactures pressure vessels, agitators and other mixing equipment, reactors, columns, and heat exchangers. Each business segment consists of operations whose product- or service-related risks differ from those of the other business segment.

The Group's geographical segments are Finland and the rest of Europe. The products or services of each geographical segment are produced in a specific financial environment whose risks and profitability differ from those of the other geographical segment.

Inter-segment pricing is determined on an arm's length basis.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated to a segment. Unallocated items include taxes, financial items, and other corporate assets and expenses. Investments comprise increases in tangible and intangible assets that are expected to be used for more than one fiscal year.

The "Other operations" segment comprises, for the most part, real property owned by the Group that has been rented out outside the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Business segments / Primary segment information

Fiscal period 2005-2006 1000 €	Pulp & Paper Machinery	Process Machinery	Other business	Eliminations	Non-allocated	Group total
Income statement information						
External net sales	38 426	26 986	1			65 414
Intra-Group net sales	10	3		-12		
Net turnover	**38 436**	**26 989**	**1**	**-12**		**65 414**
Operating profit or loss of the segment	1 927	576	-21	-22		2 461
Operating profit or loss						**2 461**
Financing income and expenses					-948	-948
Income taxes					-451	-451
Profit or loss for the period	1 927	576	-21	-22		2 461
Profit or loss for the period						**1 062**
Balance sheet information						
Segments assets	18 662	17 166	166	-479		35 514
Non-allocated assets					6 377	6 377
Assets total	**18 662**	**17 166**	**166**	**-479**		**41 892**
Segments liabilities	14 582	8 071	8	-472		22 189
Non-allocated liabilities					9 013	9 013
Liabilities total	**14 582**	**8 071**	**8**	**-472**		**31 203**
Other information						
Net sales, goods	38 426	26 986	1			65 414
Investments	1 268	581	9			1 859
Depreciation	1 111	666	27			1 804
Average number of personnel	226	184				410

Fiscal period 2004-2005 1000 €	Pulp & Paper Machinery	Process Machinery	Other business	Eliminations	Non-allocated	Group total
Income statement information						
External net sales	29 530	28 528	27			58 084
Intra-Group net sales	41	29		-70		
Net turnover	**29 571**	**28 556**	**27**	**-70**		**58 084**
Operating profit or loss of the segment	2 165	-1 536	-6	-34		588
Operating profit or loss						**588**
Financing income and expenses					-673	-673
Income taxes					-164	-164
Profit or loss for the period	2 165	-1 536	-6	-34		588
Profit or loss for the period						**-249**
Balance sheet information						
Segments assets	18 476	16 035	231	-1 046		33 695
Non-allocated assets					5 551	5 551
Assets total	**18 476**	**16 035**	**231**	**-1 046**		**39 246**
Segments liabilities	11 050	5 615		-500		16 164
Non-allocated liabilities					12 043	12 043
Liabilities total	**11 050**	**5 615**		**-500**		**28 207**
Other information						
Net sales, goods	29 530	28 528	27			58 084
Investments	666	473				1 139
Depreciation	1 131	679	19			1 828
Average number of personnel	214	206				420

Geographical segments / Secondary segment information

The turnover for the geographical segments is presented in the order of the clients' location and financial resources, and the investments are presented in accordance with their location.

Fiscal period 2005-2006	Finland	Other Europe	North America	Asia	Africa	Other	Group total
Net turnover	20 796	28 646	3 069	10 482		2 421	65 414
Assets	36 797	6 094					42 892
Investments	1 828	31					1 859

Fiscal period 2004-2005	Finland	Other Europe	North America	Asia	Africa	Other	Group total
Net turnover	18 069	25 120	2 823	11 296	453	322	58 084
Assets	33 111	6 134					39 246
Investments	1 091	48					1 139

4. CONSTRUCTION CONTRACTS

1 000 €	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Net turnover		
Net turnover of construction contracts recognized under the percentage of completion method	27 925	18 276
Other turnover	37 488	39 808
Total	**65 414**	**58 084**
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	26 758	5 388
Order backlog		
Construction contracts recognized under the percentage of completion method	32 661	22 084
Projects entered on completion of the project	17 062	12 156
Order backlog total	**49 723**	**34 240**
The amount of contract revenue of the construction contracts recognized as revenue has been deducted from the order backlog.		
Specification of combined items of assets and liabilities concerning the construction contracts		
Accrued income from the construction contracts recognized under the percentage of completion method	16 106	5 388
Advances received from the customers	20 398	5 774
Difference	**-4 292**	**-386**
Accrued income from the construction contracts in the Balance Sheet	3 451	1 580
Advance payments from the construction contracts in the Balance Sheet	7 744	1 966
Receivables from the construction contracts in the Balance Sheet	**-4 292**	**-386**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. OTHER OPERATING INCOME

Other operating income	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Profit from sales of fixed assets	10	54
Rent income from investments properties	37	35
Other rent income	21	22
Other income	534	99
Total	**602**	**210**

6. OTHER OPERATING EXPENSES

Other operating expenses	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Investment property management expenses	4	1
Rents	693	693
Non-statutory employee benefits	389	309
Other expenses	8 294	8 880
Total	**9 381**	**9 883**
Other operating expenses include fees paid to the auditors:		
Auditing fees	82	80
Consulting and other fees	13	10
Total	**96**	**90**

7. DEPRECIATIONS AND IMPAIRMENT LOSSES

Depreciations by groups of assets	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Intangible assets		
Development expenditure	50	3
Intangible rights	17	7
Other long-term assets	163	189
Total	**230**	**200**
Tangible assets		
Buildings	300	297
Investment properties	17	16
Machinery and equipment	1 061	1 103
Machinery and equipment, financial lease	142	142
Other tangible assets	54	70
Total	**1 574**	**1 628**
Total	**1 804**	**1 828**

8. EMPLOYEE BENEFITS

Employee benefits expenses	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Salaries and fees	14 788	14 357
Pension expenses, defined contribution plan	2 521	2 020
Other employee benefits	1 332	1 456
Total	**18 641**	**17 832**
Management and Board salaries, fees and benefits		
Managing Directors	246	363
Board members and substitute members	48	51
Total	**294**	**414**
Average number of personnel of the Group		
Office staff	163	169
Workers	247	251
Total	**410**	**420**

The information concerning the employee benefits of the management can be found on note 31. Related party transactions

9. RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Research and development expenditure on income statement	83	175
Increase in capitalized research and development expenditure	263	129
Total	**345**	**305**

10. FINANCING INCOME

Financing income	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Interest income	89	43
Dividends	1	8
Foreign exchange gains	103	49
Other financing income	8	9
Total	**201**	**110**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. FINANCING EXPENSES

Financing expenses	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Interest expenses	442	576
Foreign exchange losses	3	104
Impairment losses on other securities	0	4
Impairment losses on shares and other investments:		
Impairment loss of shares in Jipka Oy	190	0
Other financing expenses	514	97
Total	**1 149**	**782**
The instalments above the operating profit include net exchange rate conversion profits and losses	-112	-318

12. INCOME TAXES

Income taxes	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Tax on income from operations	263	182
Tax for previous accounting periods	-9	1
Change in deferred tax liabilities and tax assets	196	-19
Total	**451**	**164**

Reconciliation between tax provision on income statement and mathematical tax based on parent company's tax rate 26%	**1.9.2005-31.8.2006**	**1.9.2004-31.8.2005**
Profit or loss before taxes	1 513	-85
Mathematical tax based on parent company's tax rate 26%	393	-22
Differences between tax provision on income statement and mathematical tax based on parent company's tax rate due to:		
Non-deductible expenses	122	8
Tax for previous accounting periods	-9	1
Unrecognized taxes on losses	-53	175
Change in depreciations entered to the accounting but not recognized in taxation	-3	2
Tax provision on income statement	**451**	**164**
Effective tax rate	30%	-194%

13. EARNINGS PER SHARE

Earnings per share	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Net profit or loss attributable to equity holders' of the parent, euros	919 681.64	-508 717.63
Average number of shares during the fiscal period	2 872 302	2 872 302
Earnings per share undiluted, euros/share	0.32	-0.18

14. TANGIBLE ASSETS

Fiscal period 2005-2006 1000 €	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	755	9 552	15 466	2 136	1 200	643	29 753
Increase			484		12	1 128	1 624
Decrease			-674			-34	-707
Transfers between items	6		196			-268	-67
Acquisition cost at the end of the period	761	9 552	15 473	2 136	1 212	1 470	30 604
Accumulated depreciations and impairment losses at the beginning of the period		-2 857	-10 398	-440	-985		-14 679
Depreciations of transfers' and decrease items			663				663
Depreciations		-300	-1 061	-142	-54		-1 557
Accumulated depreciations and impairment losses at the end of the period		-3 156	-10 796	-582	-1 039		-15 573
Book value at the beginning of the period	755	6 696	5 068	1 696	215	643	15 074
Book value at the end of the period	**761**	**6 396**	**4 677**	**1 554**	**173**	**1 470**	**15 031**

Fiscal period 2004-2005 1000 €	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	755	9 599	15 217	2 136	1 136	351	29 194
Increase		6	546		5	328	884
Decrease			-262			-22	-285
Transfers between items		-52	6		59	-13	
Acquisition cost at the end of the period	755	9 552	15 507	2 136	1 200	643	29 793
Accumulated depreciations and impairment losses at the beginning of the period		-2 581	-9 589	-297	-894		-13 361
Depreciations of transfers' and decrease items		21	253		-21		253
Depreciations		-297	-1 103	-142	-70		-1 612
Accumulated depreciations and impairment losses at the end of the period		-2 857	-10 439	-440	-985		-14 720
Book value at the beginning of the period	755	7 018	5 628	1 839	242	351	15 833
Book value at the end of the period	**755**	**6 696**	**5 068**	**1 696**	**215**	**643**	**15 074**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Fiscal period 2005-2006 1000 €	Development expenditure	Intangible rights	Other long-term assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	129	88	1 801	4	2 021
Increase	199		35		234
Decrease			4	-4	
Transfers between items	67				67
Acquisition cost at the end of the period	395	88	1 839		2 322
Accumulated depreciations and impairment losses at the beginning of the period	-3	-71	-1 419		-1 493
Depreciations	-50	-17	-163		-230
Accumulated depreciations and impairment losses at the end of the period	-54	-88	- 1 582		-1 723
Book value at the beginning of the period	126	17	382	4	528
Book value at the end of the period	**342**	**0**	**257**	**0**	**599**

Fiscal period 2004-2005 1000 €	Development expenditure	Intangible rights	Other long-term assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period		88	1 688	4	1 780
Increase	129		126		255
Decrease			-13		-13
Acquisition cost at the end of the period	129	88	1 801	4	2 021
Accumulated depreciations and impairment losses at the beginning of the period		-65	-1 240		-1 305
Depreciations of transfers' and decrease items		2	10		12
Depreciations	-3	-7	-189		-200
Accumulated depreciations and impairment losses at the end of the period	-3	-71	-1 419		-1 493
Book value at the beginning of the period		23	449	4	475
Book value at the end of the period	**126**	**17**	**382**	**4**	**528**

16. GOODWILL

Goodwill	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Acquisition cost at the beginning of the period	1 702	1 702
Book value at the end of the period	**1 702**	**1 702**

Goodwill values correspond to the bookkeeping value, in accordance with the standards applied previously for the annual accounts, which has been used as the default acquisition cost. The goodwill values concern AK-Tehdas Oy, AP-Tela Oy, and Stelzer Rührtechnik International GmbH.

Goodwill values are tested for depreciation annually. The testing is performed for those cash generating units, to which the goodwill values are allocated. The value of the recoverable amount is based on utility value calculations. The cash flow forecasts used for the calculations are based on the financial plans of the management. The pretax WACC specified for Vaahto Group has been used as the discount rate. The discount rate for fiscal period 2005–2006 was 11.83–13.53% (11.83–13.53% in 2004–2005). Depreciation tests indicated that there has been no need for writing anything off. The company's management is of the opinion that reasonable changes in the central assumptions will not result in the book value of assets exceeding the amount of money recoverable thereof.

17. INVESTMENT PROPERTIES

Investment properties	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Acquisition cost at the beginning of the period	700	700
Acquisition cost at the end of the period	700	700
Accumulated depreciations and impairment losses at the beginning of the period	-375	-359
Depreciations	-17	-16
Accumulated depreciations and impairment losses at the end of the period	-392	-375
Book value at the beginning of the period	325	341
Book value at the end of the period	**308**	**325**
Fair value of the investment properties at the end of the period	350	350

The fair value of investment properties is based on estimates of the sale price of the property, as provided by an external expert.

18. LONG-TERM RECEIVABLES

	31.8.2006	31.8.2005
Non-current receivables		
Long-term loan receivables	3	3
Total	**3**	**3**
Long-term investments		
Other long-term investments		
Other shares and holdings	46	236
Total	**46**	**236**

The investments of the group in other shares consist of investments in unlisted shares, which are either non-profit shares or shares related to the group's business. During the fiscal year under review, the group registered a depreciation loss of 190,000.00 euros for the shares of Jipka Oy, after which these shares have no book value in the group's balance. In the same fiscal year, Jipka Oy was declared bankrupt, and no profit is expected from its shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets	31.8.2006	Recognized in income statement	31.8.2005	Recognized in income statement	31.8.2004
Internal margin of inventories	1	-7	7	5	3
Losses		-32	32	11	21
Other timing differences		-11	11	-71	83
Total	**1**	**-50**	**51**	**-55**	**106**
Deferred tax liabilities					
Cumulative appropriations	284	63	221	-145	366
Other timing differences	87		87	-10	97
IFRS adjustments	433	84	349	80	269
Total	**803**	**146**	**657**	**-75**	**732**

On August 31, 2006, the group had confirmed losses worth 1,877 thousand euros (2,005 thousand euros on August 31, 2005), for which no calculated fiscal claim has been entered.

The confirmed losses consist mainly of losses of the group's German subsidiary, Stelzer Rührtechnik International GmbH. The reorganization carried out within the company has improved the company's profitability. Nonetheless, the requirements for entering the calculated fiscal claim for the confirmed losses are not considered fulfilled.

20. INVENTORIES

Inventories	31.8.2006	31.8.2005
Materials and supplies	3 087	2 918
Work in progress	3 841	4 675
Finished products	0	16
Advance payments for inventories	573	98
Total	**7 501**	**7 708**

During fiscal year 2004–2005, advance purchase debts were not registered in the advance payments of inventories or in accounts payable for the balance sheet, and the reference information has not been corrected in this respect. In the annual accounts of August 31, 2005, advance purchase debts for the group stood at 103,492.81 euros. In the annual accounts of August 31, 2006, the group had no unpaid advance purchase debts.

21. TRADE AND OTHER RECEIVABLES

Trade and other receivables	31.8.2006	31.8.2005
Trade receivables	5 209	5 958
Advance payment receivables	1 813	0
Other receivables	573	358
Prepayments and accrued income	4 101	2 381
Total	**11 695**	**8 697**

During fiscal year 2004–2005, advance sales claims were not registered in the sales claims or advance payments received, for calculation of the balance, and the reference information has not been corrected in this respect. In the annual accounts of August 31, 2005, advance sales claims for the group came to 2,539,714.91 euros.

Prepayments and accrued income consist of:	31.8.2006	31.8.2005
Accrued income on the construction contracts recognized under the percentage of completion method	3 451	1 580
Accrued income on derivatives	11	0
Interest receivables	3	13
Accruals of personnel expenses	133	446
Other prepayments and accrued income on expenses	503	341
Total	**4 101**	**2 381**

22. CASH AND BANK

Cash and bank	31.8.2006	31.8.2005
Cash equivalents	3 600	2 999
Cash and bank	2 391	1 811
Total	**5 991**	**4 810**
Change of liquid funds in the flow of funds statement		
Liquid funds at the beginning of the period	4 810	4 625
Liquid funds at the end of the period	5 991	4 810
Change of liquid funds in the balance sheet	**1 181**	**185**

23. NOTES ON THE SHAREHOLDERS' EQUITY

On August 31, 2006, Vaahto Group Plc Oyj's share capital, fully paid and registered in the trade register, amounted to 2,872,302 euros, and the number of shares was 2,872,302. There were no changes in the number of shares during the 2005–2006 fiscal year. In accordance with the Articles of Association, the company's minimum share capital is 2,800,000 euros and maximum share capital 11,200,000 euros. The company has two series of shares: A and K, shares under each of which have a nominal value of 1 euro. In the Annual General Meeting, each K share carries 20 votes and each A share one vote.

Descriptions of funds in shareholders' equity are as follows:

Fair value reserve and other reserves

These comprise a reserve fund, a revaluation reserve, and a hedging reserve for changes in the fair value of derivative financial instruments used in cash flow hedging.

Translation differences

Translation differences include exchange gains and losses arising from the translation of the financial statements of foreign subsidiaries.

Dividends

After the balance sheet date, the Board proposed that a dividend of 0.20 euros per share be paid.

Distributable assets	31.8.2006	31.8.2005
Retained earnings	3 950	4 510
Share from the accumulated accelerated depreciation and voluntary provisions booked to equity	609	895
Capitalized R&D expenses	-342	-126
Profit or loss for the period	920	-509
Total	**5 137**	**4 771**

24. PENSION LIABILITIES

Pension arrangements have been made according to the local laws and regulations of each country to cover pension liabilities for Group personnel. In Finland, pension liabilities are covered through pension insurance companies in accordance with the Employees' Pensions Act (TEL) system, which is regarded as a defined contribution arrangement in its entirety. Pension costs related to work performed during the fiscal year are entered in the income statement as expenses in their entirety. Pension costs are detailed in item 8 of the Notes, "Employee benefits."

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PROVISIONS

Non-current provisions	Warranty provisions	Pension provisions	Total
Provisions at the beginning of the period	101	166	267
Released during the period	-14	-3	-17
Provisions at the end of the period	**87**	**163**	**250**

The long-term reserves consist of reserves of the group's German subsidiary. The guarantee reserve covers warranty-related costs for products that have a product warranty. The reserve for pensions is statutory in nature.

26. INTEREST-BEARING LIABILITIES

Book values	31.8.2006	31.8.2005
Long-term liabilities, interest-bearing		
Loans to financial institutions	3 353	4 530
Pension loans	674	871
Finance leases	287	642
Total	**4 313**	**6 043**
Current liabilities, interest-bearing		
Loans to financial institutions	3 274	4 574
Pension loans	197	262
Finance leases	355	325
Total	**3 826**	**5 162**

Finance leases	31.8.2006	31.8.2005
Long-term finance leases	287	642
Short-term finance leases	355	325
Total	**642**	**967**

Finance lease liabilities, minimum rentals	31.8.2006	31.8.2005
Within a year	379	362
More than one year but no more than 5 years	295	674
Minimum rentals	**674**	**1 036**
Future financing cost related to leasing agreements	32	69
Future finance lease liabilities at present value	**642**	**967**
Future minimum lease payments at present value		
Within a year	355	325
More than one year but no more than 5 years	287	642
Future finance lease payments at present value	**642**	**967**

27. TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities	31.8.2006	31.8.2005
Advance payments received	11 147	7 886
Advance payments receivables	1 813	0
Trade payables	4 852	4 151
Other short-term liabilities	760	662
Accruals and deferred income	3 401	3 216
Total	**21 973**	**15 916**

For 2004–2005 fiscal year's balance sheet, advance sales claims were not registered in the sales claims or in advance payments received, and the reference information has not been corrected in this respect. In the annual accounts of August 31, 2005, advance sales claims for the group came to 2,539,714.91 euros.

Correspondingly, in the 2004–2005 fiscal year, advance purchase debts were not registered in the advance payments of inventories or in accounts payable, and the reference data had not been corrected in this respect. In the annual accounts of August 31, 2005, the group's advance purchase debts came to 103,492.81 euros. In the annual accounts of August 31, 2006, the group had no unpaid advance purchase debts.

Accruals and deferred income consist of:	31.8.2006	31.8.2005
Interest liabilities	29	18
Accrued employee expenses	1 140	1 829
Derivatives	5	0
Expenses from contracts	212	668
Other accruals and deferred income	2 015	701
Total	**3 401**	**3 216**

28. FINANCIAL RISK MANAGEMENT

The objective of the Group's financial risk management policy is to minimize the harmful effects of financial market volatility on the Group's result. The primary financial risks are currency and interest rate risks, and the Group uses currency and interest rate derivatives for risk management. The Group's general principles of risk management are approved by the Board, and their implementation is the responsibility of the Group's financial administration function and the business units.

Currency risk

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

The fair values of derivative financial instruments are indicated in item 29 of the Notes, "Fair values of financial assets and liabilities."

Interest rate risk

Interest rate risk is caused by the effect of changes in the general level of interest rates on the value of interest-bearing liabilities. The interest rate risk is managed using interest rate swap and interest rate option contracts.

Credit risk

The Group does not have any significant concentrations of credit risks in its receivables, since it has a large customer base with a wide geographical spread. For the most part, protection against credit risks is managed by taking them into account in the selection of the term and method of payment. The Group does not usually provide customer financing; instead, it cooperates with banks and export credit agencies to support the financing of customers' equipment investments.

Liquidity risk

The Group monitors and estimates continuously the quantities of funds needed to run the business operations, so that the Group will, at all times, retain enough liquid assets to fund the operations and repay debts that fall due. The availability and flexibility of funding are ensured by unused credit limits and book credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair values of derivative instruments 31.8.2006	Nominal value	Positive fair value	Negative fair value	Net fair value
Currency derivatives				
Currency forward contracts	899	12	-1	11
Total	**899**	**12**	**-1**	**11**
Interest rate derivatives				
Interest rate swap agreements	3 845	0	-5	-5
Interest rate cap agreements	3 000	0	0	0
Total	**6 845**	**0**	**-5**	**-5**

The fair values of forward exchanges are specified using the market prices on the closing day for contracts of comparable duration. Fair values correspond to the prices the group would receive or would have to pay if terminating the derivative contract on the closing day.

Financial assets	Book value 31.8.2006	Fair value 31.8.2006	Book value 31.8.2005	Fair value 31.8.2005
Trade receivables and other receivables	11 695	11 695	8 697	8 697
Cash equivalents	3 600	3 600	2 999	2 999
Cash and bank	2 391	2 391	1 811	1 811

Financial liabilities	Book value 31.8.2006	Fair value 31.8.2006	Book value 31.8.2005	Fair value 31.8.2005
Finance lease liabilities	642	642	967	967
Trade payables and other liabilities	21 973	21 973	15 916	15 916

The original book value of claims and debts based on other than derivative contracts corresponds to their fair value, since the effect of discounting is not relevant in light of the maturity of the claims.

30. SECURITIES AND CONTINGENT LIABILITIES

Granted securities	31.8.2006	31.8.2005
Debt secured by real estate and corporate mortgages		
Pension loans	582	791
Loans from financial institutions	5 967	7 982
Total	**6 549**	**8 772**
Granted mortgages		
Real estate mortgages	7 307	7 643
Corporate mortgages	8 007	8 007
Total	**15 314**	**15 650**
Corporate mortgages granted to secure other liabilities		
Corporate mortgages granted to secure the bank guarantee limit	8 235	8 235
Total	**8 235**	**8 235**
Other securities for own debts		
Deposits	555	548
Total	**555**	**548**

Contingent liabilities and other liabilities	31.8.2006	31.8.2005

Other rent agreements

The group has rented production and office buildings for its use with various types of terminable rental agreements. The rental costs registered in the profit and loss statement has been presented in the attached information under item 6, “Other operating expenses.”

Lease agreements

Operating lease agreements		
Within a year	252	220
More than one year but no more than 5 years	138	199
Total	**389**	**419**

Contracts other than financial leasing contracts consist mainly of short-term leasing contracts for IT equipment and software.

Other contingent liabilities		
Granted guarantees	637	703
Total	**637**	**703**

The group’s companies have a transfer-related, warranty-period responsibility for projects transferred by the end of the fiscal year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. RELATED PARTY TRANSACTIONS

Parent company and subsidiaries

Group companies

Company	Registered office	Number of shares	Share of ownership %	Share of voting rights %
AK-Tehdas Oy	Tampere	2 900	100.00	100.00
Akpija Oy	Joutseno	190	100.00	100.00
AP-Tela Oy	Kokkola	250	52.08	52.08
Japrotek Oy Ab	Pietarsaari	100 000	100.00	100.00
Profitus Oy	Hollola	1 600	100.00	100.00
Stelzer Rührtechnik International GmbH	Warburg, Germany		100.00	100.00
Vaahto Oy	Hollola	2 700	100.00	100.00

Akpija Oy has in its possession an investment property rented to a tenant external to the group. The company has no other business operations.

Profitus Oy had no business activity during the fiscal period.

Subsidiaries of subconcern

Company	Registered office	Number of shares	Share of ownership %	Share of voting rights %
AK-Tehdas AB	Lindesberg, Sweden		100.00	100.00

Associations of subconcern

Company	Registered office	Number of shares	Share of ownership %	Share of voting rights %
Slalom, Closed Joint Stock Company	St. Petersburg, Russia	120	50.00	

Share holdings of the related parties in the Group companies

The ownership of AP-Tela Oy of the corporation in the control of members of the Board is 18.75% .

Transactions with related parties	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Rent income		
The rental yields of the plot belonging to the corporation in the control of the members of the Board	9	9
Rent expenses		
The renting expenses of the factory property for the corporation in the control of the members of the Board	392	392
The renting expenses of the office rooms for the corporation in control of the members of the Board	56	56

Employee benefits for the management	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Salaries and fees of the parent company management		
CEO:		
Vaahto Antti	10	10
Board members:		
Jaatinen Seppo	19	19
Unkuri Martti	15	15
Vaahto Antti	5	5
Vaahto Ilkka	2	6
Vaahto Mikko	4	6

No special conditions for retirement, pension benefits, or discharge-related conditions have been specified for the members of the group's management. The members of the group's management have not received the group's own shares as a reward or incentive. The group currently has no stock option plan.

32. THE MOVE TO IFRS REPORTING

As mentioned in the accounting principles for financial statements, this is Vaahto Group's first IFRS-compliant financial statement. Prior to the adoption of IFRS standards, the Group's financial statements were prepared according to the Finnish Accounting Standards.

Vaahto Group's IFRS transition date was September 1, 2004, except for the financial instrument standards IAS 32 ("Financial Instruments: Disclosure and Presentation") and IAS 39 ("Financial Instruments: Recognition and Measurement"), which have been applied since September 1, 2005.

The move to IFRS accounting principles was made in accordance with the IFRS 1 transition standard. Of the exemptions allowed by the standard, the Group utilized the option of not applying the IAS 22 ("Business Combinations") standard retroactively to earlier business combinations. The acquisition costs used for tangible assets are the revaluated amounts of the assets with depreciation taken into account.

The exchange report of January 30, 2006, presents an account of Vaahto Group's switch to IFRS accounting principles and adjustments to the opening balance on the transition date of September 1, 2004, in accordance with the IFRS standards, compared to the closing balance for the 2003–2004 fiscal year.

The effects of the adoption of IFRS accounting principles on the Group's shareholders' equity and result are described below.

1. Tangible assets

The buildings and land among the Group's tangible assets were valued for the opening balance sheet in the manner allowed by the IFRS 1 standard, at the reassessed fair values for the previous years, with retroactive depreciation deducted. A property rented out outside the Group is handled as investment property where the IFRS balance sheet is concerned.

In accordance with the Finnish Accounting Standards, rental agreements were dealt with as other financing agreements, so the rent amounts collected on their basis were entered in the accounts as expenses in equal amounts during the rental period. In IFRS reporting, some rental agreements are classified as financial lease agreements. Items rented under financial lease agreements were entered in the accounts as tangible assets, and most of them will be fully depreciated over the rental period. The corresponding rental obligations are entered in the accounts as long- and short-term liabilities with interest.

2. Goodwill

The goodwill in the consolidated balance sheet figures consists of the consolidated goodwill and the goodwill from the German company's balance sheet.

Under the Finnish Accounting Standards, the consolidated goodwill entered on the balance sheet consists of the difference between the purchase price and the equity of the subsidiaries at the time of acquisition. The relevant portion of the consolidated goodwill was registered for those tangible assets of the subsidiary from which it was deemed to have resulted. Planned depreciation was deducted from the consolidated goodwill in accordance with the Finnish Accounting Standards.

Correspondingly, planned depreciation was deducted from the German company's goodwill in preparation of the annual consolidated financial statements in accordance with the Finnish Accounting Standards.

In the opening IFRS balance sheet, the consolidated goodwill remained unchanged in accordance with the exemption allowed by the IFRS 1 transition standard. Also, in accordance with the IFRS standards, planned depreciation is no longer deducted from the consolidated goodwill.

3. Imputed tax claims and deferred taxes

With FAS principles applied, the consolidated financial statements included taxes calculated on the basis of the results of the Group companies for the fiscal period, according to local tax laws and at the tax rate applicable on the date of the financial statement. Imputed tax claims or deferred taxes were calculated for all accrual differences between accounting and taxation, at the tax rate in effect on the date of the financial statement.

According to the IFRS accounting principles, imputed deferred taxes are for the most part entered for all taxable differences. For the adjustments caused by the move to IFRS accounting policies, the imputed effect on taxes was taken into account.

4. Shareholders' equity

The most significant IFRS adjustments in proceeds and other funds resulted from the difference between the financial lease assets entered under assets and liabilities, the change in imputed taxes, and the retroactive depreciation for property revaluation.

The most significant IFRS adjustments with an effect on the result for the fiscal year resulted from the difference between the rent for financial lease assets and the depreciation & financial expenses; the cancellation of goodwill depreciation; and adjustments to the imputed tax claims and deferred taxes.

The minority share of the shareholders' equity is included as a separate item under shareholders' equity, in accordance with the IAS 1 standard, whereas the FAS system saw it presented separately from the equity attributable to the parent company's shareholders.

5. Long- and short-term liabilities

The rental obligations for financial lease assets are entered in the accounts as long- and short-term liabilities with interest.

Implementation of the financial instrument standards IAS 32 ("Financial Instruments: Disclosure and Presentation") and IAS 39 ("Financial Instruments: Recognition and Measurement")

The financial instrument standards IAS 32 and IAS 39 have been applied since September 1, 2005. In the balance sheet's figures, derivative financial instruments are valued at fair value and the changes in fair value are entered in the shareholders' equity in the hedging reserve, given that hedge accounting in accordance with the IAS 39 standard is applied to the derivative. If such hedge accounting is not applied to the derivative, the changes in its market value are entered in the income statement. The fair value of derivatives was not entered in the financial statement of August 31, 2005, which is presented as a reference. Nor is the fair value of derivatives included in the opening balance sheet for the 2005–2006 fiscal year, since the figure is not relevant. In the financial statement of August 31, 2006, hedge accounting in accordance with IAS 39 is applied to all open derivative financial instruments of the Group, and their fair values are included in the shareholders' equity.

33. ACCOUNT OF SIGNIFICANT ADJUSTMENTS TO THE CASH FLOW CALCULATION

There are no significant differences in cash flow calculation between the IFRS and FAS standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BALANCING CALCULATION OF BALANCE SHEET FAS - IFRS

Financial Statements 31.8.2004	FAS 31.8.2004	IFRS adjustments 1.9.2004	IFRS 1.9.2004
Assets			
Intangible assets	506	-31	475
Goodwill	1 702		1 702
Investment properties		341	341
Tangible assets	14 459	1 374	15 833
Non-current trade and other receivables	3		3
Other long-term investments	239		239
Deferred tax asset	79	27	106
Non-current assets	**16 989**	**1 710**	**18 699**
Inventories	5 415		5 415
Trade receivables and other receivables	14 347		14 347
Cash equivalents	2 450		2 450
Cash and bank	2 175		2 175
Current assets	**24 387**		**24 387**
Assets	**41 375**	**1 710**	**43 086**
Equity and liabilities			
Share capital	2 872		2 872
Share premium account	6		6
Other reserves	2 223	-100	2 123
Retained earnings	5 637	110	5 747
Equity attributable to equity holders of the parent	**10 739**	**9**	**10 748**
Minority share	816	68	884
Shareholders' equity	**11 555**	**78**	**11 632**
Deferred tax liability	381	351	732
Long-term liabilities, interest-bearing	5 448	967	6 416
Non-current provisions	292		292
Non-current liabilities	**6 121**	**1 319**	**7 440**
Short-term liabilities, interest-bearing	8 773	314	9 087
Trade payables and other liabilities	14 926		14 926
Tax liability, income tax	1		1
Current liabilities	**23 700**	**314**	**24 013**
Liabilities	**29 821**	**1 633**	**31 453**
Equity and liabilities	**41 375**	**1 710**	**43 086**

BALANCING CALCULATION OF BALANCE SHEET FAS - IFRS

Financial Statements 1.9.2004 - 31.8.2005	FAS 1.9.2004-31.8.2005	IFRS adjustments 1.9.2004-31.8.2005	IFRS 1.9.2004-31.8.2005
Net turnover	**58 084**		**58 084**
Change in finished goods and work in progress	2 234		2 234
Production for own use	339		339
Other operating income	210		210
Material and services	-30 736		-30 736
Employee benefit expenses	-17 832		-17 832
Depreciations	-1 884	56	-1 828
Other operating expenses	-10 245	362	-9 883
Operating profit	**170**	**418**	**588**
Financing income and expenses	-624	-49	-673
Profit or loss before taxes	**-455**	**370**	**-85**
Tax on income from operations	-140	-25	-164
Profit or loss for the fiscal year	**-594**	**345**	**-249**
Net profit or loss attributable:			
To equity holders of the parent	-842	333	-509
To minority interest	248	12	260
Total	**-594**	**345**	**-249**

BALANCING CALCULATION OF BALANCE SHEET FAS - IFRS

Financial Statements 31.8.2005	FAS 31.8.2005	IFRS adjustments 31.8.2005	IFRS 31.8.2005
Assets			
Intangible assets	528		528
Goodwill	1 496	206	1 702
Investment properties		325	325
Tangible assets	13 864	1 209	15 073
Non-current trade and other receivables	3		3
Other long-term investments	236		236
Deferred tax asset	39	11	51
Non-current assets	**16 167**	**1 751**	**17 918**
Inventories	7 708		7 708
Trade receivables and other receivables	8 697		8 697
Tax receivable, income tax	113		113
Cash equivalents	2 999		2 999
Cash and bank	1 811		1 811
Current assets	**21 327**		**21 327**
Assets	**37 495**	**1 751**	**39 246**
Equity and liabilities			
Share capital	2 872		2 872
Share premium account	6		6
Other reserves	2 223	-105	2 119
Retained earnings	4 449	447	4 897
Equity attributable to equity holders of the parent	**9 551**	**342**	**9 893**
Minority share	1 065	81	1 146
Shareholders' equity	**10 616**	**423**	**11 039**
Deferred tax liability	297	360	657
Long-term liabilities, interest-bearing	5 401	642	6 043
Non-current provisions	267		267
Non-current liabilities	**5 965**	**1 002**	**6 967**
Short-term liabilities, interest-bearing	4 836	325	5 162
Trade payables and other liabilities	15 916		15 916
Tax liability, income tax	163		163
Current liabilities	**20 914**	**325**	**21 240**
Liabilities	**26 879**	**1 328**	**28 207**
Equity and liabilities	**37 495**	**1 751**	**39 246**

INCOME STATEMENT OF THE PARENT COMPANY, FAS

1 000 €	1.9.2005-31.8.2006	1.9.2004-31.8.2005	Note
NET TURNOVER	**1 697**	**1 501**	**2**
Other operating income	162	113	3
Personnel expenses	-549	-513	5
Depreciations	-81	-90	6
Other operating expenses	-791	-831	7
OPERATING PROFIT	**438**	**181**	**4**
Financing income and expenses	-196	10	8
PROFIT BEFORE EXTRAORDINARY ITEMS	**242**	**191**	
Extraordinary expenses	-40	-190	9
PROFIT BEFORE INCOME TAXES	**202**	**1**	
Tax on income from operations	-115	-2	10
PROFIT OR LOSS FOR THE FISCAL YEAR	**86**	**-1**	

BALANCE SHEET OF THE PARENT COMPANY, FAS

1 000 €	31.8.2006	31.8.2005	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	55	104	
Tangible assets	95	60	
Investments	8 917	9 167	
NON-CURRENT ASSETS TOTAL	**9 066**	**9 331**	12
CURRENT ASSETS			
Short-term receivables	1 227	712	
Cash and bank deposits	967	675	
CURRENT ASSETS TOTAL	**2 194**	**1 387**	13
ASSETS TOTAL	**11 260**	**10 718**	
LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Reserve fund	2 228	2 228	
Retained earnings	4 582	4 928	
Profit or loss for the fiscal year	86	-1	
SHAREHOLDERS' EQUITY TOTAL	**9 769**	**10 028**	14
LIABILITIES			
Short-term interest-bearing liabilities	1 305	540	
Short-term non-interest-bearing liabilities	185	150	
LIABILITIES TOTAL	**1 490**	**690**	15
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL	**11 260**	**10 718**	

FLOW OF FUNDS STATEMENT OF THE PARENT COMPANY, FAS

1 000 €	1.9.2005-31.8.2006	1.9.2004-31.8.2005
Flow of funds from operations		
Profit before extraordinary items	242	191
Adjustment items:		
Depreciations according to plan	81	90
Financial income and expenses	196	-10
Other adjustments	-10	0
Flow of funds before the change in working capital	509	271
Change in working capital:		
Change in short-term receivables	-20	-114
Change in short-term non-interest bearing creditors	35	-27
Flow of funds before financial items and taxes	524	130
Interest and other financial expenses from operations paid	-35	-6
Dividends received	80	0
Interests received	9	15
Income taxes paid	-115	-2
FLOW OF FUNDS FROM OPERATIONS	**463**	**137**
Flow of funds from investments		
Investments in tangible and intangible assets	-66	-39
Income from sales of tangible and intangible assets	10	3
Other investments	0	-396
Granted loans	-535	0
Repayments of loans receivable	40	230
FLOW OF FUNDS FROM INVESTMENTS	**-551**	**-202**
Flow of funds from financial items		
Withdrawals of short-term loans	865	420
Repayments of short-term loans	-100	0
Dividends	-345	-345
Group transfers	-40	-190
FLOW OF FUNDS FROM FINANCIAL ITEMS	**380**	**-115**
Change of liquid funds	**292**	**-179**
Liquid assets at the beginning of the fiscal year	675	854
Liquid assets at the end of the fiscal year	967	675
Change in liquid assets according to the balance sheet	292	-179

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

Assets and liabilities in foreign currencies

Transactions denominated in foreign currencies are entered at the exchange rate applicable on the date of the transaction. Assets and debts denominated in foreign currencies that are open at the end of the fiscal year are valued at the exchange rate in effect on the balance sheet date.

Other operating income

Other operating income includes proceeds from the sale of tangible assets and other operating income received from Group companies.

Expenditure on research and development

The Pulp & Paper Machinery division's activated expenditure on development during the fiscal year is 64 thousand euros for tangible assets: machines and equipment. The rest of the company's research and development expenditures have been entered under costs.

Pensions

Pension liabilities for the parent company's personnel have been covered through a pension insurance company. Statutory pension expenses have been entered under costs for the fiscal year in which they accumulated.

Leasing payments

In the parent company's financial statement, leasing payments have been entered under annual costs in accordance with the Finnish Accounting Act.

Intangible assets

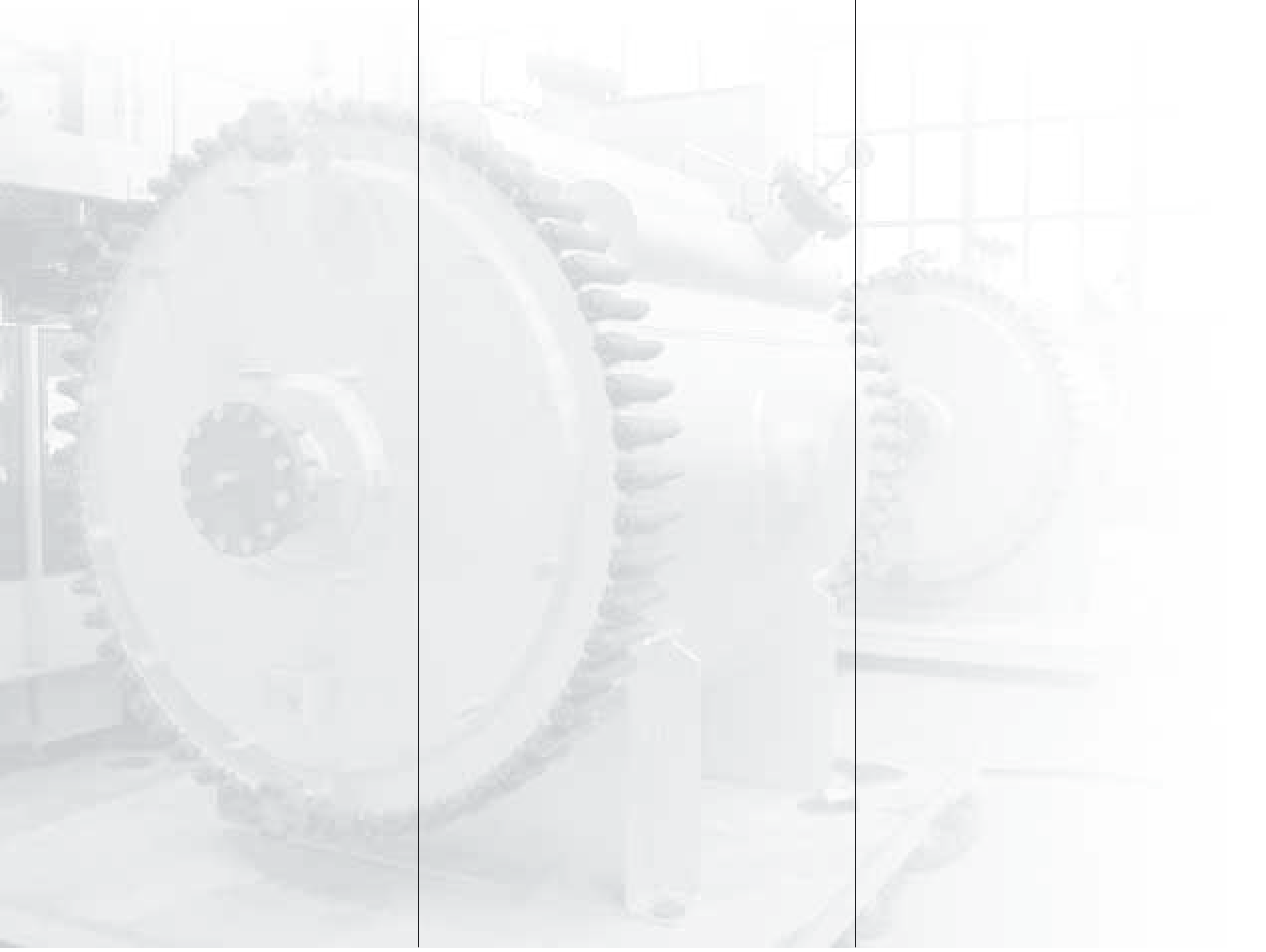
Intangible assets include computer software. They are entered at the original acquisition cost, minus planned depreciation. The economic life (term of depreciation) of software is five years.

Tangible assets

Tangible assets are entered on the balance sheet at their original acquisition cost, planned depreciation deducted. The economic life of buildings and structures is 35–40 years, and that of machines and equipment is 5–25 years.

Income tax

Income tax has been entered in accordance with the Finnish Accounting Act.



1 000 €	1.9.2005-31.8.2006	1.9.2004–31.8.2005
2. TURNOVER BY BUSINESSES AND MARKET AREAS		
By businesses		
Administration	1 697	1 501
Total	**1 697**	**1 501**
By market areas		
Finland	1 697	1 501
Total	**1 697**	**1 501**
3. OTHER OPERATING INCOME		
Profit from sales of fixed assets	10	8
Other	152	106
Total	**162**	**114**
4. OPERATING PROFIT BY BUSINESSES		
Administration	438	181
Total	**438**	**181**
5. PERSONNEL		
Average number of personnel		
Office staff	9	9
Total	**9**	**9**
Personnel expenses		
Wages and salaries	434	399
Pension costs	68	64
Other personnel expenses	46	49
Total	**549**	**513**
Management's salaries and benefits		
Managing directors	10	10
Board members and substitute members	45	48
Total	**54**	**58**
6. 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)		
Other long-term assets	5-10	
Buildings	35-40	
Machinery and equipment	5-25	
Depreciations from tangible and intangible assets	81	90
Total	**81**	**90**
7. OTHER OPERATING EXPENSES		
Rent expenses	136	159
Non-statutory employee benefits	9	-44
Other expenses	647	716
Total	**791**	**831**

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

1 000 €	1.9.2005-31.8.2006	1.9.2004–31.8.2005
8. FINANCIAL INCOME AND EXPENSES		
Income from other investments held as non-current assets		
Group companies	80	0
Total	**80**	**0**
Interest income from long-term investments		
Other	0	1
Total	**0**	**1**
Other interest and financial income		
Group companies	1	7
Other	8	8
Total	**8**	**15**
Financial income total	**89**	**16**
Impairment losses on investments carried as non-current assets		
Impairment losses on investments in Group companies	250	0
Total	**250**	**0**
Interest and other financial expenses		
Group companies	34	6
Total	**35**	**6**
Financial income and expenses total	**-196**	**10**
9. EXTRAORDINARY ITEMS		
Extraordinary expenses/Group transfers	40	190
Total	**40**	**190**
10. INCOME TAXES		
Income taxes from operations	126	52
Income taxes from extraordinary items	-10	-49
Total	**115**	**2**

11. SHARE HOLDINGS

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

12. NON-CURRENT ASSETS	31.8.2006	31.8.2005
Intangible assets		
Other long-term assets		
Acquisition cost at the beginning of the fiscal year	387	349
Increase	2	38
Accumulated depreciations at the beginning of the fiscal year	-283	-231
Depreciation of the fiscal year	-52	-53
Book value at the end of the fiscal year	**55**	**104**
Intangible assets total	**55**	**104**

1 000 €	31.8.2006	31.8.2005
Tangible assets		
Machinery and equipment		
Acquisition cost at the beginning of the fiscal year	490	529
Increase	64	1
Decrease	-41	-40
Accumulated depreciations at the beginning of the fiscal year	-430	-433
Depreciations of transfers' and decrease items	41	40
Depreciation of the fiscal year	-29	-37
Book value at the end of the fiscal year	**95**	**60**
Tangible assets total	**95**	**60**
Investments		
Shares in Group companies		
Acquisition cost at the beginning of the fiscal year	9 675	9 279
Increase	0	396
Accumulated depreciations at the beginning of the fiscal year	-528	-528
Impairment losses	-250	0
Book value at the end of the fiscal year	**8 897**	**9 147**
Other shares		
Acquisition cost at the beginning of the fiscal year	19	23
Decrease	0	-3
Book value at the end of the fiscal year	**19**	**19**
Investments total	**8 917**	**9 167**

13. CURRENT ASSETS

External short-term receivables		
Other receivables	1	1
Prepaid expenses and accrued income	39	63
Total	**40**	**64**
Short-term receivables from Group companies		
Trade receivables	672	624
Loan receivables	515	20
Prepaid expenses and accrued income	0	4
Total	**1 187**	**648**
Short-term receivables total	**1 227**	**712**
Prepaid expenses and accrued income consist of:		
Prepaid social security costs	28	24
Prepaid taxes	0	30
Other prepaid expenses and accrued income	11	10
Other prepaid expenses and accrued income from Group companies	0	4
Prepaid expenses and accrued income total	**39**	**67**
Receivables total	**1 227**	**712**

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

1 000 €	31.8.2006	31.8.2005
14. SHAREHOLDERS' EQUITY		
Share capital at the beginning of the fiscal year	2 872	2 872
Share capital at the end of the fiscal year	**2 872**	**2 872**
Reserve fund at the beginning of the fiscal year	2 228	2 228
Reserve fund at the end of the fiscal year	**2 228**	**2 228**
Retained earnings at the beginning of the fiscal year	4 927	5 273
Dividends	-345	-345
Retained earnings in the end of the fiscal year	**4 582**	**4 928**
Profit or loss for the fiscal year	**86**	**-1**
Shareholders' equity total	**9 769**	**10 028**
Calculation on distributable assets		
Retained earnings	4 582	4 928
Profit or loss for the fiscal year	86	-1
Distributable assets total	**4 669**	**4 927**
The distribution of shareholders' equity by series	**no.**	**euros**
A-share (1 vote/share)	1 452 751	1 452 751
K-shares (20 votes/share)	1 419 551	1 419 551
Total	**2 872 302**	**2 872 302**
15. SHORT-TERM LIABILITIES		
External short-term liabilities		
Accounts payable	28	19
Other liabilities	67	83
Accrued liabilities and deferred income	91	48
Total	**185**	**150**
Short-term liabilities to Group companies		
Other liabilities	1 305	540
Total	**1 305**	**540**
Short-term liabilities total	**1 490**	**690**
Accrued liabilities and deferred income consist of:		
Deferred social security costs	47	44
Income taxes	44	3
Accrued liabilities and deferred income total	**91**	**48**
Short-term liabilities total	**1 490**	**690**
16. GRANTED SECURITIES		
Granted securities by Group companies		
Pledged deposits	555	548
Total	**555**	**548**
17. CONTINGENT LIABILITIES AND OTHER LIABILITIES		
Leasing commitments to be paid		
To be paid during fiscal year 2006-2007	115	105
Later	129	107
Total	**244**	**212**
Granted guarantees by Group companies		
Granted guarantees	637	703
Total	**637**	**703**

SHARES AND SHARE OWNERSHIP

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2006, was 2,872,302 euros, representing a total of 2,872,302 shares. There were no changes in the number of shares during the 2005–2006 fiscal year. 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 Helsinki Stock Exchange.

Share price and trading

During the fiscal period, 614,526 (42.3%) of Vaahto Group Plc Oyj's Series A shares and 184,810 (13.0%) Series K trades were traded. The lowest price of a Series A share was 4.21 euros, the highest 8.70 euros, the mean price 6.22 euros, and the last trading price in the fiscal period 6.50 euros. The lowest price for a Series K share was 4.38 euros, the highest 9.57 euros, the mean price 5.76 euros, and the last trading price in the fiscal period 7.37 euros. The total market capitalization on August 31, 2006, was 19.9 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

During the fiscal year, the Group did not decide to issue new shares, convertible bonds, or stock options. 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.

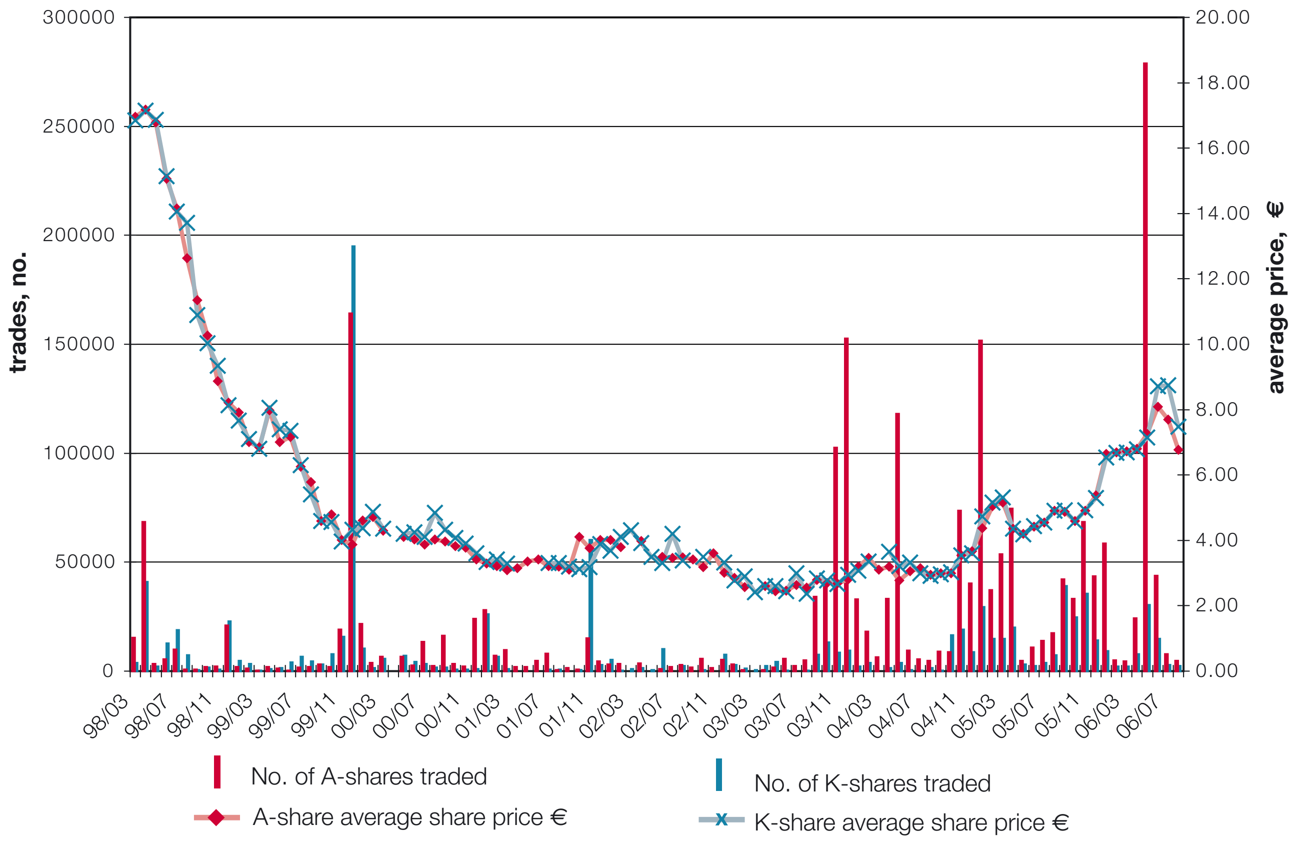
Dividends

At the shareholders' meeting on December 14, 2006, the Board of Directors will propose that the funds at the disposal of the meeting be used to pay a dividend of 0.20 euros per share, or a total of 574,460.40 euros, which is 62.5% of the Group's annual earnings per share. The Board proposes a record date of December 19, 2006, and payment of the dividend on December 28, 2006.

Shareholders' and Board members' share ownership

At the end of the fiscal period on August 31, 2006, Vaahto Group Plc Oyj had 340 registered shareholders. There were in total 37,000 nominee-registered shares. On August 31, 2006, members of the Board of Directors and the CEO owned a total of 505,633 Series A shares and 505,800 Series K shares, representing 35.6% of the votes.

Share prices and numbers of shares traded



SHARES AND SHARE OWNERSHIP

MAJOR SHAREHOLDERS 31.8.2006	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
Laakkonen Mikko	308 550	21.2	54 350	3.8	362 900	12.6	4.7
Mutual Insurance Company Fennia	35 000	2.4	35 000	2.5	70 000	2.4	2.5
Hymy Lahtinen Oy	15 000	1.0	42 400	3.0	57 400	2.0	2.9
Suutari Pekka	18 100	1.2	20 000	1.4	38 100	1.3	1.4
Lutosa Oy	16 067	1.1	16 400	1.2	32 467	1.1	1.2
Kanerva Jyri	24 100	1.7	2 200	0.2	26 300	0.9	0.2
Total of 10 largest	1 169 450	77.7	1 307 850	85.9	2 477 300	81.6	91.6

BREAKDOWN OF SHARE OWNERSHIP BY AMOUNT OF HOLDINGS 31.8.2006	Shareholders no.	Shareholders %	Shares no.	Shares %	Votes no.	Votes %
1 - 100	110	32.4	6 211	0.2	53 103	0.2
101 - 1 000	151	44.4	66 781	2.3	440 283	1.5
1 001 - 10 000	62	18.2	203 025	7.1	1 496 925	5.0
10 001 - 100 000	12	3.5	339 784	11.8	2 919 813	9.8
100 001 - 1 000 000	5	1.5	2 253 033	78.4	24 898 183	83.4
	340	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 BY CATEGORY OF OWNERS 31.8.2006	Shareholders no.	Shareholders %	Shares no.	Shares %	Votes no.	Votes %
Companies	33	9.7	169 767	5.9	1 920 256	6.4
Financial and insurance institutions	6	1.8	119 836	4.2	916 506	3.1
Public corporations	1	0.3	18 040	0.6	189 420	0.6
Households	297	87.4	2 538 791	88.4	26 750 225	89.6
Non-profit organizations	2	0.6	1 200	0.0	10 700	0.0
Foreign countries	1	0.3	21 200	0.7	21 200	0.1
	340	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

SHARE HOLDINGS OF THE MANAGEMENT 31.8.2006	A-shares no	A-shares %	K-shares no	K-shares %	Total no	Total %	Votes %
Board of Directors							
Jaatinen Seppo	0	0.0	0	0.0	0	0.0	0.0
Unkuri Martti	0	0.0	0	0.0	0	0.0	0.0
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Vaahto Mikko	266 667	18.4	267 000	18.8	533 667	18.6	18.8
Group Management							
Vaahto Antti, CEO	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Klinga Anssi, CFO	0	0.0	0	0.0	0	0.0	0.0
CEO's of the subsidiaries							
Kontiainen Antti	0	0.0	0	0.0	0	0.0	0.0
Lassfolk Torsten	20	0.0	20	0.0	40	0.0	0.0
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Viitasalo Pekka	0	0.0	0	0.0	0	0.0	0.0

The holdings also include the shares of companies under the relevant body or individual's control and of minor persons under guardianship.
The members of the Board and the members of the management of the group or its subsidiaries have no holdings or rights in the company's share-based incentive schemes.

KEY FIGURES

The business indicators for fiscal years 2005–2006 and 2004–2005 have been calculated in accordance with IFRS principles, while the business indicators for previous fiscal years have been calculated in accordance with FAS principles (as used at the time).

Key Figures **1 000 €**	**2005/2006** **12 months** **IFRS**	**2004/2005** **12 months** **IFRS**	**2003/2004** **12 months** **FAS**	**2002/2003** **12 months** **FAS**	**2001/2002** **12 months** **FAS**
Turnover	65 414	58 084	61 700	71 272	65 846
Change, %	12.6	-5.9	-13.4	8.2	-18.2
Operating profit or loss	2 461	588	2 812	-1 262	-564
% of turnover	3.8	1.0	4.6	-1,8	-0.9
Profit or loss before taxes	1 513	-85	2 167	-1 903	-1 093
% of turnover	2.3	-0.1	3.5	-2.7	-1.7
Earnings per share calculated on profit attributable to equity holders of the parent	920	-509	1 676	-1 651	-785
% of turnover	1.4	-0.9	2.7	-2.3	-1.2
Return on equity (ROE), %	9.4	-2.2	15.6	-15.4	-6.3
Return on investment (ROI), %	12.5	2.8	10.8	-4.2	-1.7
Equity ratio, %	39.1	35.2	33.2	25.0	30.7
Current ratio	1.0	1.0	1.0	1.1	1.3
Gearing	18.4	57.9	83.1	128.6	77.6
Gross investments in fixed assets	1 859	1 139	1 188	2 884	3 197
% of turnover	2.8	2.0	1.9	4.0	4.9
Order backlog	49 723	34 240	19 744	25 600	22 262
Consolidated balance sheet total	42 892	39 246	41 375	42 679	44 048
Total number of personnel (average)	410	420	464	570	580

During fiscal year 2003–2004, the group adopted the income recognition for long-term projects on the basis of the percentage of completion, as well as the activation of fixed costs in the inventory acquisition costs. Therefore, the business indicators for various fiscal years are not comparable in this respect. The amounts registered as profit from the long-term projects have been deducted from the order books for fiscal years 2003–2004, 2004–2005, and 2005–2006.

Share related data	**2005/2006** **12 months** **IFRS**	**2004/2005** **12 months** **IFRS**	**2003/2004** **12 months** **FAS**	**2002/2003** **12 months** **FAS**	**2001/2002** **12 months** **FAS**
Earning per share (EPS), euros	0.32	-0.18	0.61	-0.57	-0.27
Shareholders' equity per share, euros	3.65	3.44	3.74	3.13	3.71
Dividend per share, euros 1)	0.20	0.12	0.12	0.00	0.00
Dividend payout, %	62.5	-67.8	19.8	0.0	0.0
Effective dividend return, %	2.9	2.4	3.7	0.0	0.0
Price earnings ratio (P/E)	21.6	-28.6	5.3	-4.5	-12.6
Number of shares outstanding at the end of the 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

KEY FIGURES

Share Prices €	2005/2006 12 months	2004/2005 12 months	2003/2004 12 months	2002/2003 12 months	2001/2002 12 months
A share					
- high	8.70	5.98	3.55	3.70	4.45
- low	4.21	2.91	2.50	2.45	3.01
- average	6.22	4.30	2.84	2.84	3.29
- share price at the end of the fiscal year	6.50	5.04	3.18	2.60	3.40
K share					
- high	9.57	5.92	3.90	3.70	4.80
- low	4.38	2.90	2.55	2.36	3.00
- average	5.76	4.33	2.91	2.94	3.77
- share price at the end of the fiscal year	7.37	5.09	3.25	2.36	3.40
Total market value, million euros					
A share	9.4	7.3	4.6	3.8	4.9
K share	10.5	7.2	4.6	3.4	4.8
Total	19.9	14.5	9.2	7.1	9.8
Number of shares traded during the fiscal year					
A share	614 526	495 445	558 800	32 466	84 330
K share	184 810	140 000	51 430	19 426	37 100
Number of shares traded, %					
A share	42.3	34.1	38.5	2.2	5.8
K share	13.0	9.9	3.6	1.4	2.6
Number of shareholders	340	435	411	381	377

CALCULATION OF KEY FIGURES

Return on equity, % (ROE) = $\dfrac{\text{Profit or loss before taxes - income taxes}}{\text{Shareholders' equity + minority interest (average)}} \times 100$

Return on investments, % (ROI) = $\dfrac{\text{Profit or loss before taxes + interest expenses and other financial expenses}}{\text{Total assets - non-interest bearing debts (average)}} \times 100$

Equity ratio % = $\dfrac{\text{Shareholders' equity + minority interest}}{\text{Total assets - advances received}} \times 100$

Current ratio = $\dfrac{\text{Current assets}}{\text{Short-term liabilities}}$

Gearing = $\dfrac{\text{Interest bearing debts - cash and bank deposits and other securities}}{\text{Shareholders' equity + minority interest}} \times 100$

Formulas for per share items

Earnings per share, euros = $\dfrac{\text{Profit or loss before taxes - income taxes -/+ minority interest}}{\text{Number of shares outstanding issue adjusted (average)}}$

Shareholders' equity/share, euros = $\dfrac{\text{Shareholders' equity}}{\text{Number of shares outstanding issue adjusted, at the end of the fiscal year}}$

Dividend/share, euros = $\dfrac{\text{Dividend for the fiscal year/share}}{\text{Adjustment factor of share issue made after closing the books}}$

Dividend/share, percentage = $\dfrac{\text{Dividend for the fiscal year/share}}{\text{Earnings/share}} \times 100$

Effective dividend return, percentage = $\dfrac{\text{Dividend for the fiscal year/share}}{\text{Adjusted price of the share at the end of the fiscal year}} \times 100$

Price per earnings (P/E) = $\dfrac{\text{Adjusted price of the share at the end of the fiscal year}}{\text{Earnings/share}}$

Average share price = $\dfrac{\text{Total value of shares traded during the fiscal year}}{\text{Total number of shares traded during the fiscal year}}$

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

BOARD OF DIRECTORS' PROPOSAL

Group funds available for distribution of profits total 5,136,961.53 euros. Parent company funds available for distribution of profits total 4,668,619.79 euros, of which 86,228.32 euros represents profits for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.20 euros per share, amounting to a total of 574,460.40 euros, be paid. The remaining operating profit is to be transferred to the earnings account.

Lahti, November 15, 2006

Seppo Jaatinen
Chairman of the Board

Martti Unkuri

Antti Vaahto
CEO

Mikko Vaahto

AUDITORS´ REPORT

To the shareholders of Vaahto Group Plc Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Vaahto Group Plc Oyj for the period 1.9.2005 - 31.8.2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Lahti, November 21, 2006

ERNST & YOUNG OY
Authorized Public Accounting Firm

Pauli Hirviniemi
Authorized Public Accountant

CORPORATE GOVERNANCE STATEMENT

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 governance for listed companies.

Annual General Meeting
The company's highest decision-making body is the Annual General Meeting. This is called by the Board of Directors. Shareholders are invited to the Annual General Meeting through a meeting invitation published in a national newspaper selected by a previous Annual General Meeting. The invitation provides the shareholders with the necessary information about the issues to be addressed at the meeting.

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

The Annual General Meeting is attended by the CEO and a majority of the Board members. A person running for a position on the Board for the first time attends the AGM that decides on the selection.

Supervisory Board
The company has no Supervisory Board.

BOARD OF DIRECTORS

Duties and rules of procedure 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.

Issues are handled at Board meetings in accordance with an agenda prepared for each meeting. The Group's chief financial officer acts as secretary of the Board. The minutes of each Board meeting are commented upon and accepted at the next meeting.

Members of the Board
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 Board members are selected by the Annual General Meeting. The Chairman of the Board is selected by the Board from among its members.

The names of candidates announced for Board positions are published in the invitation to the Annual General Meeting if the candidate is supported by shareholders holding a minimum of 10% of the number of votes as determined by the number of shares and if the candidate has accepted the candidacy. Names of candidates nominated after the publication of the AGM invitation are published separately. A person selected as a Board member must meet the qualifications for the position and have the opportunity to allocate enough time to handle the position.

Board members' right to receive information and obligation to provide information
The presenter at Board meetings is the company's CEO or a member of the Group's personnel authorized by the CEO. The CEO is responsible for providing the Board with sufficient information for assessing the Group's operations and financial situation. The CEO is also responsible for implementing the Board's decisions and reports on this to the Board.

The Board members are obliged to provide the Board with sufficient information for assessment of their qualifications and level of independence and to report any changes to the information.

Board committees
No committees are part of 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 Group in accordance with the Finnish Companies Act, the Articles of Association, and instructions from the Board of Directors. The CEO is neither chairman nor 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 company has no separate management team.

COMPENSATION

Compensation of Board members
Compensation for the Board members is determined each year by the Annual General Meeting. The Board members have not received shares in the company as compensation. The company currently has no stock option plan.

Compensation of the CEO and other members of the company's management
The CEO's salary and other financial benefits are decided by the Board. The CEO's employment contract has no specific terms addressing the CEO's retirement, pension benefits, or dismissal.

Compensation for other members of the management is decided upon by the CEO and the Chairman of the Board.

The Group has an incentive program for the top management and other key persons. The program includes compensation systems for management, sales, production, and support functions. The application and principles of the system are determined each year by the parent company's Board of Directors.

The CEO and other members of the company's management have not received shares in the company as compensation. The Group currently has no stock option plan.

Internal monitoring, risk management, and internal auditing
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 center management with sufficient information for planning, control, and monitoring of operations.

Business-related risks of material, consequential, and liability losses are covered with appropriate insurance policies.

The Group has no internal audit unit.

CORPORATE GOVERNANCE STATEMENT

Insider administration
Vaahto Group Plc Oyj follows the Helsinki Exchanges Insider Guidelines. The public insider register includes statutory insiders and insiders as determined by the company's Board of Directors. In accordance with the Securities Markets Act, permanent insiders comprise the company's Board members, CEO, and auditors. In addition, the company has defined as insiders those members of the company's top management who regularly receive insider information and are entitled to make decisions concerning developments and business arrangements related to the issuer of shares. Subsidiary-specific insider registers include persons who regularly receive insider information in the course of their duties. Vaahto Group Plc Oyj's public and subsidiary-specific insider registers are maintained by the company. The insider register can be seen at the company's head office. The company's insiders are not allowed to trade in shares of the company within a period of 21 days before publication of a financial statement or interim report.

Audit
In accordance with the Articles of Association, the company's statutory audit is performed by one or two qualified auditors, who must be auditors or auditing firms certified by Finland's Central Chamber of Commerce. The auditors' term ends at the end of the first full Annual General Meeting after the election.

The Board's proposal for auditor(s) is indicated in the invitation to the Annual General Meeting, or, if an auditor candidate is not known to the Board at the time the invitation is published, the name of the candidate(s) shall be published separately.

Information
Each year, the company publishes an annual report and an interim report in Finnish and English. The annual report is sent by mail to the shareholders of the company and to certain organizations and individuals according to the mailing list maintained by the company. The interim report is distributed in accordance with a separate mailing list. In addition, the annual report and interim report are published on the company's Web site at www.vaahtogroup.fi.

Information about financial statements and interim reports is published in exchange reports, which are also published on the company's Web site. Other exchange reports are available on the Web site as well.

Deviations from the recommendations in the corporate governance statement and information for the 2005–2006 fiscal year
The Annual General Meeting of December 15, 2005, elected four members to the Board of Directors: Seppo Jaatinen, Martti Unkuri, Antti Vaahto, and Mikko Vaahto. At its organization meeting of December 15, 2005, the Board elected Seppo Jaatinen as chairman and Mikko Vaahto as vice-chairman.

Board members Antti Vaahto and Mikko Vaahto are employed by the company and are also principal shareholders of the company. Seppo Jaatinen and Martti Unkuri do not own any of the company's shares and have no interdependence with the company in any other way.

In the 2005–2006 fiscal year, the Board met 11 times. The member attendance rate was 96%.

The Annual General Meeting of December 15, 2005, decided to pay Board members employed by the company an attendance fee of 450 euros per meeting, and members not employed by the company an annual compensation amount of 19,000 euros for the chairman and 15,000 euros for other members.

In addition, Board members are entitled to a per diem and travel allowance in accordance with the Group's general travel regulations. No attendance fees are paid to persons employed by Vaahto Group for membership of a subsidiary's board of directors.

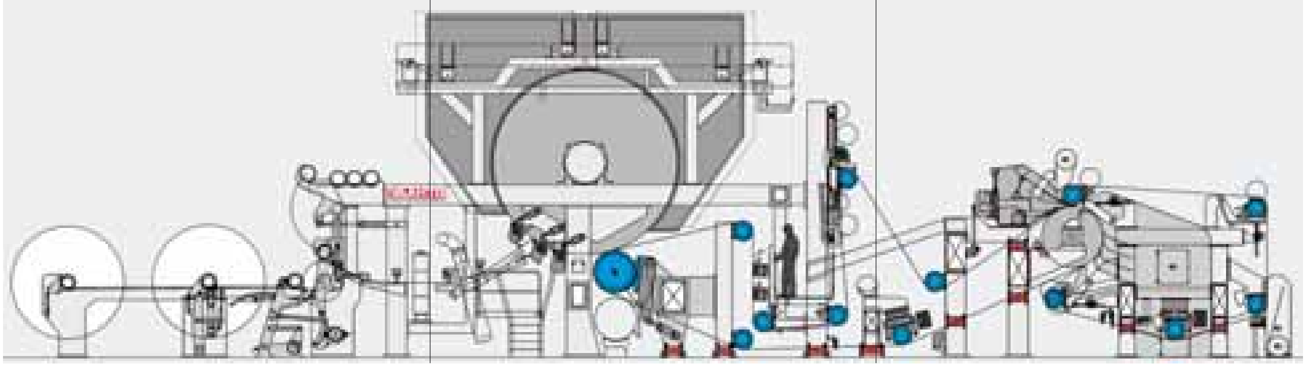
The Annual General Meeting of December 15, 2005, selected public auditing firm Ernst & Young Oy as the company's auditor, with Pauli Hirviniemi, CPA, as chief auditor.

More information about the Board members, the CEO, other members of the management, and auditors is included on page 57.

Information about the management's compensation for the 2005–2006 fiscal year is included in item 31 of the Notes to the Consolidated Financial Statements, "Related party transactions."

Information about the auditors' fees for the 2005–2006 fiscal year is included in item 6 of the Notes to the Consolidated Financial Statements, "Other operating expenses."

Management holdings as of August 31, 2006
The management's holdings are detailed on page 50.



ADMINISTRATION

Board of Directors

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

Vice-Chairman
Mikko Vaahto, b.1963, Business College Graduate
Vaahto Group Plc Oyj, Sales Manager,
Member of Vaahto Group Plc Oyj's Board of Directors since 1994

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

Antti Vaahto, b.1947, M.Sc. (Econ.), M.Sc. (Tech.), MBA
Vaahto Group Plc Oyj , CEO
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

Auditors

Ernst & Young Oy
Chief Auditor
Pauli Hirviniemi, CPA

Group Management

Chief Executive Officer
Antti Vaahto, b.1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA

Chief Financial Officer
Anssi Klinga, b.1965
M.Sc. (Econ.)
Secretary to the Board of Directors since 2004

Subsidiaries

AK-Tehdas Oy
Managing Director **Antti Kontiainen**, b.1964
M.Sc. (Eng.)

AP-Tela Oy
Managing Director **Pekka Viitasalo**, b.1955
Technician

Japrotek Oy Ab
Managing Director **Torsten Lassfolk**, b.1946
Basic Business Degree

Stelzer Rührtechnik International GmbH
Managing Director **Antti Vaahto**, b.1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA

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

INFORMATION FOR SHAREHOLDERS

Annual General Meeting
The Annual General Meeting of Vaahto Group Plc Oyj will be held on December 14, 2006, at 1:00 p.m. in the Sibelius Hall, Ankkurikatu 7, Lahti.

The meeting is open to all shareholders entered by December 4, 2006, 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 11, 2006, 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 0.20 euros per share for the fiscal period September 1, 2005 - August 31, 2006. 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 19, 2006. The Board proposes that the dividend be paid on December 28, 2006.

Financial information
During the fiscal period 2006–2007, Vaahto Group Plc Oyj will publish an interim report for the period September 1, 2006 – February 28, 2007. The interim report will be published on April 19, 2007, 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**.

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