Annual Report
2006-2007

FINANCIAL STATEMENTS

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VAAHTO GROUP 1874

Review by the Board

Business developments

Vaahto Group's turnover for the fiscal year ending in August 2007 was 88.2 million euros (65.4 million euros), with an operating profit of 5.8 million euros (2.5 million euros). The turnover increased by 34.8% from that of the previous fiscal period. Due to the increased turnover and succesful project deliveries, the profitability and result of the Group improved significantly. The order backlog decreased during the period under review and came to 42.9 million euros (49.7 million euros) at the end of the fiscal year.

Pulp & Paper Machinery

Despite the tough competition, the Pulp & Paper Machinery division achieved fair sales figures for the fiscal year. Significant orders included a glass nonwovens production line for Ahlstrom Tver in Russia and the modernization of a board machine for Corenso, a subsidiary of Stora Enso, in the US. Other notable orders included projects for Lee & Man (China), Kombassan (Turkey), Anhui Shanying (China), and Powerflute Savon Sellu (Finland).

The division's order backlog emphasizes technologically advanced key components of paper and board machines, such as headboxes, formers, and shoe presses. Product development has enabled the division to produce new, competitive products, including short-circulation systems, size presses, and center reels.

The division's roll sales and roll-servicing business have been moderate. The fiscal year saw product-development and production investments initiated for polyurethane and composite coatings. The expansion of the product range strengthens the competitiveness of the division's roll-servicing business and supports the full-system deliveries of the Pulp & Paper Machinery division.

The fiscal year also saw Vaahto Group establish a subsidiary company in Shanghai to strengthen the division's operations in China. The purpose of the company is to aid the division with sales to the Chinese market, and to create and develop a subcontractor network that also serves projects outside China.

The Pulp & Paper Machinery division's turnover for the period under review was 54.2 million euros (38.4 million euros), with an operating profit of 3.7 million euros (1.9 million euros). The turnover increased by 40.9% from that of the previous fiscal period. The fiscal year's most significant delivery projects included main equipment for Ninxia Meil's new board machine (China) and a rebuild of Iggesund Paperboard's board machine (Sweden).

The international market and competitive situation of the division is challenging. The main demand peak seems to be evening out, and the order backlog decreased during the fiscal period. However, the division is processing a significant number of projects in the offer phase.

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 environments.

Process Machinery

The market situation during the fiscal period was excellent for the Process Machinery division. The division's turnover for the period under review was 34.1 million euros (27.0 million euros), with an operating profit of 2.0 million euros (0.6 million euros). Turnover increased by 26.2% from that of the previous fiscal period.

The Process Machinery division's tank and pressure vessel manufacture is the responsibility of a separate Group company, Japrotek Oy Ab. The company's ability to deliver demanding tank and agitator assemblies has proven to be a major competitive advantage. During the fiscal period, Japrotek Oy Ab received several large orders, including for a storage tank and agitator delivery to Belgium, soaking reactors for agitators for Outotec in China, storage tanks for Yara in Norway, and process equipment for OMG Kokkola in Finland. In the 2004–2005 fiscal year, the division won a delivery contract for demanding pressure vessels for the nuclear power plant in Olkiluoto. Due to changes in the customer's schedule, the delivery is still unfinished, and equipment deliveries will be completed in the current fiscal period.

The agitator business of the Process Machinery division in the German subsidiary Stelzer Rührtechnik International GmbH developed favorably during the fiscal period. The company's reorganization of operations has proven to be successful. In the improved market situation, the company's turnover and order backlog clearly increased from those of the previous fiscal period.

Spiral heat exchanger business again was clearly behind the targets set for the period. After the close of the fiscal period, Vaahto Oy, a subsidiary of Vaahto Group, made an agreement to sell its spiral heat exchanger business to German company HES Heat Exchanger System GmbH. The sale includes the spiral heat exchanger production line and its machines and equipment, with related intangible rights. Under the agreement, Vaahto Oy is responsible for the manufacture and delivery of the existing order backlog. The production machines and equipment will be transferred to the buyer gradually in spring 2008. The annual turnover for the spiral heat exchanger business has fluctuated between two to four million euros.

Results

Vaahto Group's operating profit for the fiscal period was 5.8 million euros, as compared to 2.5 million euros in the previous fiscal year. The operating profit for the period was 6.6% (3.8%) of the Group's turnover. Profits before taxes totaled 5.2 million euros (1.5 million euros), and the return on investment was 25.8% (12.5%). The business indicators of the Group are stated on page 4.

Financing

The Group's cash flow was -5.8 million euros (6.5 million euros). In the decrease of the Group's cash flow, one must consider the advance payments received in the previous fiscal period that were put toward large project deliveries completed only in the period that just ended. Advance payments received decreased during the period under review and came to 6.3 million euros (11.1 million euros) at the end of the fiscal year. In addition, the strong growth in turnover considerably increased the amount of committed working capital.

The Group's net financial expenses came to 0.6 million euros (0.9 million euros), or 0.7% (1.4%) of turnover. Investment cash flow was less than in the previous year, at -1.1 million euros (-1.8 million euros). The increase in debt, including interest, was 3.1 million euros.

Total assets and liabilities on the consolidated balance sheet stood at 52.2 million euros (42.9 million euros), and the parent company's balance sheet showed 11.1 million euros (11.3 million euros). The Group's equity ratio decreased and was 35.5% (39.1%).

Investments

The Group's investments in capital assets for the fiscal period totaled 1.5 million euros (1.9 million euros). The polyurethane and composite coating plant of AK-Tehdas Oy and the rebuilding of Vaahto Oy's production facility heating system were the most significant investments. Other investments consisted mainly of smaller machinery and equipment acquisitions and of 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 R&D 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, and specification of the new Group-wide enterprise resource planning system began. The system's implementation is scheduled for the 2007–2008 fiscal year.

Personnel

Group personnel averaged 414 (410) over the fiscal year and numbered 428 (404) at the end of the period. In the Group, salaries and fees for the fiscal period were 15.9 million euros, pension expenses 2.7 million euros and other employee benefits 1.7 million euros. Employee benefits expenses totaled 20.2 million euros.

Risks and business uncertainties

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

Large-scale projects involve the risk of the final result falling short of expectations, since the project's future costs and other risks that could affect the delivery cannot be assessed explicitly enough at the tender stage. Risks associated with large projects can be managed by applying 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 gain equity and liability financing on competitive terms.

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

Environment

There are no remarkable environmental influences related to the own production of the Group. The Group strives to minimize the environmental defects by taking care of the proper sorting and further handling of its wastes, including hazardous wastes as well as by decreasing the use of power, raw materials and hazardous substances.

Shareholders' equity

Information of the shares of Vaahto Group Plc Oyj is included in item 25. Notes on the 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 14, 2006, elected the following 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

The market situation for the Group's major products is quite challenging at the moment. In Europe, the forest industry is investing very carefully, and in North America the weak US dollar is making the position of European suppliers more difficult. In the largest growing market area, China, local suppliers are growing stronger and the competitive situation is tightening up.

Vaahto Group's competitiveness has grown, thanks to determined product development, the expanded product range, and procedures aimed at rationalizing the business operations. However, the order backlog was lower near the start of the fiscal period than at the corresponding time in the previous period, which poses clear challenges for a continuing increase of turnover in the new fiscal period.

However, with improved competitiveness and the progressive product range, it is believed that the Group will succeed in the tough international competition, and the prerequisites for profitable business will therefore exist for the 2007–2008 fiscal year.

Proposal for distribution of profits

Parent company funds available for distribution of profits total 4,880,594.79 euros, of which 786,435.40 euros represents profits for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.40 euros per share, for a total of 1,148,920.80 euros, be paid. The remaining operating profit is to be transferred to the earnings account.

Key Figures

The business indicators for fiscal years 2006-2007, 2005-2006 and 2004-2005 have been calcukated 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).

The business indicators 1 000 €	**2006/2007 12 months IFRS**	**2005/2006 12 months IFRS**	**2004/2005 12 months IFRS**	**2003/2004 12 months FAS**	**2002/2003 12 months FAS**
Turnover	88 161	65 414	58 084	61 700	71 271
Change. %	34.8	12.6	-5.9	-13.4	8.2
Operating profit or loss	5 812	2 461	588	2 812	-1 261
% of turnover	6.6	3.8	1.0	4.6	-1.8
Profit or loss before taxes	5 226	1 513	-85	2 167	-1 903
% of turnover	5.9	2.3	-0.1	3.5	-2.7
Earnings per share calculated on profit attributable to equity holders of the parent:	3 639	920	-509	1 676	-1 651
% of turnover	4.1	1.4	-0.9	2.7	-2.3
Return on equity (ROE). %	29.5	9.4	-2.2	15.6	-15.4
Return on investment (ROI). %	25.8	12.5	2.8	10.8	-4.2
Equity ratio. %	35.5	39.1	35.2	33.2	25.0
Current ratio	1.1	1.0	1.0	1.0	1.1
Gearing	65.5	18.4	57.9	83.1	128.6
Gross investments in fixed assets	1 502	1 859	1 139	1 188	2 884
% of turnover	1.7	2.8	2.0	1.9	4.0
Order backlog	42 894	49 723	34 240	19 744	25 600
Consolidated balance sheet total	52 190	42 892	39 246	41 375	42 679
Total number of personnel (average)	414	410	420	464	570

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, 2005-2006, and 2006-2007 .

Share related data	**2006/2007 12 months IFRS**	**2005/2006 12 months IFRS**	**2004/2005 12 months IFRS**	**2003/2004 12 months FAS**	**2002/2003 12 months FAS**
Earning per share (EPS). euros	1.27	0.32	-0.18	0.61	-0.57
Shareholders' equity per share. euros	4.68	3.65	3.44	3.74	3.13
Dividend per share. euros 1)	0.40	0.20	0.12	0.12	0.00
Dividend payout. %	31.6	62.5	-67.8	19.8	0.0
Effective dividend return. %	3.1	2.9	2.4	3.7	0.0
Price earnings ratio (P/E)	10.3	21.6	-28.6	5.3	-4.5
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

Share Prices €	**2006/2007 12 months**	**2005/2006 12 months**	**2004/2005 12 months**	**2003/2004 12 months**	**2002/2003 12 months**
A share					
- high	14.20	8.70	5.98	3.55	3.70
- low	6.52	4.21	2.91	2.50	2.45
- average	11.11	6.22	4.30	2.84	2.84
- share price at the end of the fiscal year	12.54	6.50	5.04	3.18	2.60
K share					
- high	14.95	9.57	5.92	3.90	3.70
- low	7.28	4.38	2.90	2.55	2.36
- average	11.75	5.76	4.33	2.91	2.94
- share price at the end of the fiscal year	13.51	7.37	5.09	3.25	2.36
Total market value, million euros					
A share	18.2	9.4	7.3	4.6	3.8
K share	19.2	10.5	7.2	4.6	3.4
Total	37.4	19.9	14.5	9.2	7.1
Number of shares traded during the fiscal year					
A share	2 596 692	614 526	495 445	558 800	32 466
K share	1 082 285	184 810	140 000	51 430	19 426
Number of shares traded. %					
A share	178.7	42.3	34.1	38.5	2.2
K share	76.2	13.0	9.9	3.6	1.4
Number of shareholders	315	340	435	411	381

Consolidated Income Statement, IFRS

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006	Note
NET TURNOVER	**88 161**	**65 414**	**3,4**
Change in finished goods and work in progress	696	-835	
Production for own use	377	359	
Other operating income	303	602	5
Material and services	-50 629	-33 254	
Employee benefit expenses	-20 241	-18 641	8
Depreciations	-1 840	-1 804	7
Other operating expenses	-11 015	-9 381	6
OPERATING PROFIT	**5 812**	**2 461**	
Financing income and expenses	-611	-948	10,11
Share of profits of affiliated companies	24	0	18
PROFIT OR LOSS BEFORE TAXES	**5 226**	**1 513**	
Tax on income from operations	-1 313	-451	12
PROFIT OR LOSS FOR THE FISCAL YEAR	**3 913**	**1 062**	
NET PROFIT OR LOSS ATTRIBUTABLE:			
To equity holders of the parent	3 639	920	
To minority interest	274	143	
	3 913	1062	
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS undiluted, euros/share, continuing operations	1.27	0.32	13
EPS diluted, euros/share, continuing operations	1.27	0.32	
Average number of shares			
-undiluted	2 872 302	2 872 302	
-diluted	2 872 302	2 872 302	

Consolidated Balance Sheet, IFRS

1 000 €	31.8.2007	31.8.2006	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	621	599	15
Goodwill	1 702	1 702	16
Investment properties	0	308	17
Tangible assets	14 644	15 031	14
Shares in affiliated companies	24	0	18
Non-current trade and other receivables	13	3	19
Other long-term investments	44	46	20
Deferred tax asset	120	1	21
NON-CURRENT ASSETS	**17 169**	**17 690**	
CURRENT ASSETS			
Inventories	8 188	7 501	22
Trade receivables anf other receivables	25 276	11 695	23
Tax receivable, income tax	23	16	23
Cash equivalents	960	3 600	24
Cash and bank	574	2 391	24
CURRENT ASSETS	**35 021**	**25 202**	
ASSETS	**52 190**	**42 892**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Share premium account	6	6	
Other reserves	2 128	2 118	
Retained earnings	8 436	5 479	
Equity attributable to equity holders of the parent	13 442	10 475	
Minority share	1 393	1 215	
SHAREHOLDERS' EQUITY	**14 835**	**11 689**	**25**
NON-CURRENT LIABILITIES			
Deferred tax liability	928	803	21
Long-term liabilities, interest-bearing	4 923	4 313	27
Non-current provisions	684	250	26
NON-CURRENT LIABILITIES	**6 536**	**5 367**	
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	6 331	3 826	27
Trade payables and other liabilities	23 558	21 973	29
Tax liability, income tax	931	36	29
CURRENT LIABILITIES	**30 819**	**25 836**	
EQUITY AND LIABILITIES	**52 190**	**42 892**	

Consolidated Flow of Funds Statement, IFRS

1000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
Flow of funds from operations		
Profit or loss before taxes	5 226	1 513
Adjustments:		
Depreciations	1 840	1 804
Impairment losses	0	190
Unrealized foreign exchange gains and losses	16	6
Other income and expenses, no payment related	428	-17
Financing income and expenses	611	758
Share of profits of affiliated companies	-24	0
Other adjustments	-173	-10
Flow of funds from operations before the change in working capital	**7 923**	**4 244**
Change in working capital:		
Change in short-term receivables	-11 287	-1 088
Change in inventories	-505	207
Change in short-term non-interest-bearing creditors	-5	4 119
Flow of funds from operations before the change in working capital	**-3 875**	**7 482**
Inrerest and other financial expenses from operations paid	-735	-959
Dividends received	7	1
Interests received	118	200
Income taxes paid	-1 307	-254
FLOW OF FUNDS FROM OPERATIONS	**-5 792**	**6 470**
Flow of funds from investments		
Investments in tangible and intangible assets	-1 502	-1 859
Income from sales of tangible and intangible assets	405	54
Granted loans	-11	0
FLOW OF FUNDS FROM INVESTMENTS	**-1 109**	**-1 805**
Flow of funds from financial items		
Withdrawals of short-term loans	4 297	30
Repayments of short-term loans	-1 792	-1 365
Withdrawals of long-term loans	2 247	620
Repayments of long-term loans	-1 637	-2 350
Dividends	-671	-418
FLOW OF FUNDS FROM IFINANCIAL ITEMS	**2 444**	**-3 483**
Change of liquid funds	**-4 457**	**1 181**
Liquid assets at the beginning of the fiscal year	5 991	4 810
Liquid assets at the end of the fiscal year	1 534	5 991
Change in liquid assets according to the balance sheet	-4 457	1 181

Consolidated Statement of Changes in Shareholders' Equity, IFRS

Change in shareholders' equity 1.9.2006 - 31.8.2007	**Share capital**	**Share premium account**	**Hedging reserve**	**Other reserves**	**Retained earnings**	**Total**	**Minority shares**	**Total**
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**6**	**2 112**	**5 479**	**10 475**	**1 215**	**11 689**
Cash flow hedging: increase (hedging reserve)	0	0	16	0	0	16	0	16
Decrease of the revaluation	0	0	0	0	-106	-106	0	-106
Change in translation difference	0	0	0	0	-7	-7	0	-7
Reclassifications between items	0	0	0	-6	6	0	0	0
Net profits or losses regocnized directly to shareholders' equity	**0**	**0**	**16**	**-6**	**-106**	**-97**	**0**	**-97**
Profit or loss for the period	0	0	0	0	3 639	3 639	274	3 913
Total profits and losses	**0**	**0**	**16**	**-6**	**3 532**	**3 542**	**274**	**3 816**
Dividend distribution	0	0	0	0	-574	-574	-97	-671
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**22**	**2 106**	**8 437**	**13 442**	**1 393**	**14 835**

Change in shareholders' equity 1.9.2005 - 31.8.2006	**Share capital**	**Share premium account**	**Hedging reserve**	**Other reserves**	**Retained earnings**	**Total**	**Minority shares**	**Total**
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**0**	**2 119**	**4 897**	**9 893**	**1 146**	**11 039**
Cash flow hedging: increase (hedging reserve)	0	0	6	0	0	6	0	6
Change in translation difference	0	0	0	0	1	1	0	1
Reclassifications between items	0	0	0	-6	6	0	0	0
Net profits or losses regocnized directly to shareholders' equity	**0**	**0**	**6**	**-6**	**7**	**6**	**0**	**6**
Profit or loss for the period	0	0	0	0	920	920	143	1 062
Total profits and losses	**0**	**0**	**6**	**-6**	**927**	**926**	**143**	**1 069**
Dividend distribution	0	0	0	0	-345	-345	-74	-418
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**6**	**2 112**	**5 479**	**10 475**	**1 215**	**11 689**

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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 what is now the OMX Nordic Exchange in Helsinki 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 financial statement has been prepared in accordance with the International Financial Reporting Standards, or IFRS, system. It applies the IAS and IFRS standards and SIC and IFRIC interpretations as of August 31, 2007.

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 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.

Application of new or changed IFRS standards

In the 2007–2008 fiscal year, the Group will start applying the IFRS 7 ("Financial Instruments: Disclosures") standard and the amendments made to the IAS 1 ("Presentation of Financial Statements") standard. The Group assumes that implementation of the new and changed standards will mostly affect the notes to the consolidated financial statements concerning financial instruments and equity information.

The Group expects no other changes to standards or their interpretations published by August 31, 2007, to affect the Group's financial statement reporting.

IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC12	Service Concession Arrangements

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.

In the previous fiscal year, the Group was involved in establishing an affiliated company named ZAO Slalom in Russia. The company is to focus on the Russian sales and marketing for Vaahto's Pulp & Paper Machinery division. The Group holds 50% of the voting rights in the company. The affiliate was included in the consolidated financial statements for the first time for the 2006–2007 fiscal year. The Group's share of the affiliate's result was reported using the equity method.

The fiscal year saw the Group establish a subsidiary company in Shanghai, China: Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd. This company had no operations during the fiscal year and has not been included in 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.

The depreciation periods are as follows:

Intangible rights	5 years
Computer software	5 years
Other intangible assets	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

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 fulfill 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 installment 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 installments in the income statement over the duration of the rental period.

Derivative financial instruments and hedge accounting

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 un-

Notes to the Consolidated Financial Statements

der 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.

Interim report
The Group's six-month interim report, published on April 19, 2007, was drawn up in accordance with International Financial Reporting Standard IAS 34 ("Interim Financial Reporting").

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 that was owned by the Group and rented out outside the Group. The real property was sold during the fiscal year, and the sale profit was 110,000 euros.

Business segments / Primary segment information

Fiscal period 2006-2007 **1000 €**	**Pulp & Paper Machinery**	**Process Machinery**	**Other business**	**Eliminations**	**Non-allocated items**	**Group total**
Income statement information						
External net sales	54 136	34 025				88 161
Intra-Group net sales	20	25		-45		
Net turnover	**54 156**	**34 050**		**-45**		**88 161**
Operating profit or loss of the segment	3 721	1 992	113	-14		5 812
Operating profit or loss						**5 812**
Financing income and expenses					-611	-611
Shares of profits of affiliated companies	24					24
Income taxes					-1 313	-1 313
Profit or loss for the period	3 721	1 992	113	-14		5 812
Profit or loss for the period						**3 913**
Balance sheet information						
Segments assets	29 796	19 759	96	-166		49 486
Shares in affiliated companies	24					24
Non-allocated assets					2 680	2 680
Assets total	**29 820**	**19 759**	**96**	**-166**		**52 190**
Segments liabilities	12 339	10 071	10	-110		22 310
Non-allocated liabilities					15 045	15 045
Liabilities total	**12 339**	**10 071**	**10**	**-110**		**37 355**
Other information						
Net sales, goods	54 136	34 025				88 161
Investments	1 348	155				1 502
Depreciation	1 236	604				1 840
Average number of personnel	243	171				414

Fiscal period 2005-2006 1000 €	Pulp & Paper Machinery	Process Machinery	Other business	Eliminations	Non-allocated items	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

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 2006-2007 1000 €	Finland	Other Europe	North America	Asia	Africa	Other	Group total
Net turnover	26 361	40 525	3 718	14 125	197	3 235	88 161
Assets	45 489	6 700					52 190
Investments	1 475	28					1 502

Fiscal period 2005-2006 1000 €	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

Notes to the Consolidated Financial Statements

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
4. CONSTRUCTION CONTRACTS		
Net turnover		
Net turnover of construction contracts recognized under the percentage of completion method	52 976	27 925
Other turnover	35 185	37 488
Total	**88 161**	**65 414**
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	59 162	26 758
Order backlog		
Construction contracts recognized under the percentage of completion method	26 957	32 661
Projects entered on completion of the project	15 937	17 062
Order backlog total	42 894	49 723
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	59 162	16 106
Advances received from the customers	47 200	20 398
Difference	**11 962**	**-4 292**
Accrued income from the construction contracts in the Balance Sheet	12 446	3 451
Advance payments from the construction contracts in the Balance Sheet	485	7 744
Receivables from the construction contracts in the Balance Sheet	**11 962**	**-4 292**
5. OTHER OPERATING INCOME		
Other operating income		
Profit from sales of investment properties	110	0
Profit from sales of fixed assets	64	10
Rent income from investments properties	16	37
Other rent income	21	21
Other income	92	534
Total	**303**	**602**
6. OTHER OPERATING EXPENSES		
Other operating expenses		
Overhead costs of production	2 098	1 744
Sales costs	2 016	1 596
Rents	616	693
IT-costs	438	306
Non-statutory employee benefits	373	389
Investment property management expenses	14	4
Losses from sales of fixed assets (investments)	1	0
Other expenses	5 460	4 647
Total	**11 015**	**9 381**
Other operating expenses include fees paid to the auditors:		
Auditing fees	83	82
Consulting and other fees	29	13
Total	**111**	**96**

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006

7. DEPRECIATIONS AND IMPAIRMENT LOSSES

Depreciations by groups of assets

Intangible assets		
Development expenditure	104	50
Intangible rights	0	17
Other long-term assets	109	163
Total	**213**	**230**
Tangible assets		
Buildings	313	300
Investment properties	0	17
Machinery and equipment	1 098	1 061
Machinery and equipment, financial lease	139	142
Other tangible assets	76	54
Total	**1 627**	**1 574**
Total	**1 840**	**1 804**

8. EMPLOYEE BENEFITS

Employee benefits expenses		
Salaries and fees	15 922	14 788
Pension expenses, defined contribution plan	2 667	2 521
Other employee benefits	1 652	1 332
Total	**20 241**	**18 641**
Management and Board salaries, fees and benefits		
Monaging Directors	234	246
Board members and substitute members	46	48
Total	**280**	**294**
Average number of personnel of the Group		
Office staff	167	163
Workers	247	247
Total	**414**	**410**

The information concerning the employee benefits of the management can be found on note 33. ”Related party transactions”.

9. RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure		
Research and development expenditure on income statement	128	83
Increase in capitalized research and develpment expenditure	153	263
Total	**281**	**345**

10. FINANCING INCOME

Financing income		
Interest income	56	89
Dividends	7	1
Foreign exchange gains	50	103
Other financing income	12	8
Total	**125**	**201**

Notes to the Consolidated Financial Statements

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
11. FINANCING EXPENSES		
Financing expenses		
Interest expenses	513	442
Foreign exchange losses	52	3
Impairment losses on shares and other investments: Impairment loss of shares in Jipka Oy	0	190
Other financing expenses	171	514
Total	**735**	**1 149**
The instalments above the operating profit include net exchange rate conversion profits and losses	-19	-112

12. INCOME TAXES

Income taxes in income statement		
Tax on income from operations	1 324	263
Tax for previous accounting periods	-17	-9
Change in deferred tax liabilities and tax assets	5	196
Total	**1 313**	**451**
Reconciliation between tax provision on income statement and mathematical tax based on parent company's tax rate 26%		
Profit or loss before taxes	5 226	1 513
Mathematical tax based on parent company's tax rate 26%	1 359	393
Differences between tax provision on income statement and mathematical tax based on parent company's tax rate due to:		
Effect of different tax rates in foreign subsidiaries	3	0
Non-deductible income	-1	0
Non-deductible expenses	22	122
Tax for previous accounting periods	-17	-9
Decrease of the revaluation	-28	0
Unrecognized taxes on losses	-19	-53
Shares of profits of affiliated companies	-6	0
Change in depreciations entered to the accounting but not recognized in taxation	0	-3
Tax provision on income statement	**1 313**	**451**
Effective tax rate	25%	30%

13. EARNINGS PER SHARE

Net profit or loss attributable to equity holders' of the parent, euros	3 638 783.32	919 681.64
Average number of shares during the fiscal period	2 872 302	2 872 302
Earnings per share undiluted, euros/share	1.27	0.32

14. TANGIBLE ASSETS

Fiscal period 2006-2007 1000 €	Land	Buildings	Machinery and equipments	Machinery and equipments, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	755	9 558	15 473	2 136	1 212	1 470	30 604
Increase	58	63	646		74	461	1 302
Decrease			-223		-7		-230
Transfers between items		451	806	-72	246	-1 486	-55
Acquisition cost at the end of the period	813	10 072	16 702	2 064	1 525	445	31 621
Accumulated depreciations and impairment losses at the beginning of the period		-3 156	-10 796	-582	-1 039		-15 573
Depreciations of transfers' and decrease items			223				223
Depreciations		-313	-1 098	-139	-76		-1 627
Accumulated depreciations and impairment losses at the end of the period		-3 469	-11 672	-721	-1 115		-16 977
Book value at the beginning of the period	755	6 402	4 677	1 554	173	1 470	15 031
Book value at the end of the period	**813**	**6 603**	**5 030**	**1 343**	**410**	**445**	**14 644**

Fiscal period 2005-2006 1000 €	Land	Buildings	Machinery and equipments	Machinery and equipments, 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			-33	-707
Transfers between items		6	196			-268	-67
Acquisition cost at the end of the period	755	9 558	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	15 073
Book value at the end of the period	**755**	**6 402**	**4 677**	**1 554**	**173**	**1 470**	**15 031**

Notes to the Consolidated Financial Statements

15. INTANGIBLE ASSETS

Fiscal period 2006-2007 1000 €	Development expenditure	Intangible rights	Other long-term assets	Advance payments and unfinished investments	Total	Goodwill	Goodwill total
Acquisition cost at the beginning of the period	395	88	1 839		2 322	2 944	2 944
Increase	153		55		208		
Decrease			-38		-38		
Transfers between items			55		55		
Acquisition cost at the end of the period	548	88	1 911		2 547	2 944	2 944
Accumulated depreciations and impairment losses at the beginning of the period	-54	-87	-1 582		-1 723	-1 242	-1 242
Depreciations of transfers' and decrease items			11		11		
Depreciations	-104		-109		-213		
Accumulated depreciations and impairment losses at the end of the period	-157	-88	-1 681		-1 926	-1 242	-1 242
Book value at the beginning of the period	342	0	257		599	1 702	1 702
Book value at the end of the period	**391**	**0**	**230**		**621**	**1 702**	**1 702**

Fiscal period 2005-2006 1000 €	Development expenditure	Intangible rights	Other long-term assets	Advance payments and unfinished investments	Total	Goodwill	Goodwill total
Acquisition cost at the beginning of the period	129	88	1 801	4	2 021	2 944	2 944
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	2 944	2 944
Accumulated depreciations and impairment losses at the beginning of the period	-3	-71	-1 419		-1 493	-1 242	-1 242
Depreciations of transfers' and decrease items							
Depreciations	-50	-17	-163		-230		
Accumulated depreciations and impairment losses at the end of the period	-54	-87	-1 582		-1 723	-1 242	-1 242
Book value at the beginning of the period	126	17	382	4	528	1 702	1 702
Book value at the end of the period	**342**	**0**	**257**	**0**	**599**	**1 702**	**1 702**

Development expenditure include mostly the development costs caused by the planning of new or more advanced products.

Intangible rights include activated acquisition costs of patents, trade marks and licences.

Other long-term assets consist mostly of acquisition costs of IT-software, licences and the like.

Goodwill, see Notes to the Consolidated Financial Statements, item 16. "Goodwill".

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006

16. GOODWILL

Goodwill		
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, whihc has been used as a default acquisition cost. The goodwill values concern AK-Tehdas Oy, AP-Tela Oy, and Stelzer Rührtechnik International GmbH.

Testing of goodwill:
Goodwill values are tested for depreciation annually. The testing is performed for those cash generating units, to which the goodwill values area allocated. The value of the recoverable amount is based on utility value calculations. Depreciation tests indicated that there has been no need for writing anything off.

Main assumptions in testing goodwill:
The cash flow forecasts used for the calculations are based on the financial plans of the management. The majority of the goodwill is allocated to Stelzer Rührtechnik International GmbH. The company's cash flow forecast is based on an estimate according to which the company's turnover and profitability will increase in the forecast period. The increase in turnover is influenced by the product development investments made and reorganization carried out in sales and marketing operations. The company's profitability is expected to improve due to the enhanced cost structure. The rationalization activities carried out in the company over the past few years will have full effect from the 2007–2008 fiscal year onward.

Discount rate:
The pretax WACC specified for Vaahto Group has been used as the discount rate. The discount rate for fiscal period 2006-2007 was 12,33%-12,83% (11,83%-13,53% in 2005-2006).

Sensitivity of the main assumptions used in testing depreciation:
If Stelzer Rührtechnik International GmbH's turnover remains at the last fiscal year's level in the forecast period, the unit's book value will correspond to the recoverable amount. Also, if the company's profitability remains at the previous financial year's level in the time covered by the forecast, the unit's book value will still correspond to the recoverable amount. Thus, the company's management is of the opinion that reasonable changes in the main assumptions will not result in the book value of assets exceeding the amount of money recoverable therefrom.

17. INVESTMENT PROPERTIES

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
Investment properties		
Acquisition cost at the beginning of the period	700	700
Decrease	-700	0
Acquisition cost at the end of the period	0	700
Accumulated depreciations and impairment losses at the beginning of the period	-392	-375
Depreciations of transfers' and decrease items	392	0
Depreciations	0	-17
Accumulated depreciations and impairment losses at the end of the period	0	-392
Book value at the beginning of the period	308	325
Book value at the end of the period	**0**	**308**
Fair value of the investment properties at the end of the period	0	350

The investment property owned by the Group (industrial and ofiice building) has been sold during the fiscal period. The profit from the sale of investment property was 110 thousand euros.

1 000 €	31.8.2007	31.8.2006
18. SHARES IN AFFILIATED COMPANIES		
Shares in affiliated companies		
Shares in affiliated companies		
Shares of profit of affiliated companies	24	
Total	**24**	

Shares in affiliated companies consists of the Group's share in Russian Joint Stock Company ZAO Slalom.

19. LONG-TERM RECEIVABLES

1 000 €	31.8.2007	31.8.2006
Non-current receivables		
Long-term loan receivables	13	3
Total	**13**	**3**

20. LONG-TERM INVESTMENTS

1 000 €	31.8.2007	31.8.2006
Other long-term investments		
Other shares and holdings	44	46
Total	**44**	**46**

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.

21. DEFERRED TAX ASSETS AND LIABILITIES

1 000 €	31.8.2007	Recognized in income statement	31.8.2006	Recognized in income statement	31.8.2005
Deferred tax assets					
Internal margin of inventories	2	1	1	-7	7
Losses				-32	32
Other timing differences	118	118		-11	11
Total	**120**	**119**	**1**	**-50**	**51**
Deferred tax liabilities					
Cumulative appropriations	327	43	284	63	221
Cancelling of depreciations of the goodwill	207	69	138	69	69
Other timing differences	394	12	381	14	367
Total	**928**	**124**	**803**	**146**	**657**

On August 31, 2007, the Group had confirmed losses worth 1,909 thousand euros (1,877 thousand euros on August 31, 2006), 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 fullfilled. According the local taxation regulations, the confirmed losses have no expiration time.

1 000 €	31.8.2007	31.8.2006

22. INVENTORIES

Inventories		
Materials and supplies	3 056	3 087
Work in progress	4 659	3 841
Finished products	291	573
Advance payments for inventories	182	0
Total	**8 188**	**7 501**

In the period the carrying amount of inventories was reduced by 163 thousand euros to correspond for its net realization value.

23. SHORT-TERM RECEIVABLES

Trade and other receivables		
Trade receivables	7 212	5 209
Advance payment receivables	4 114	1 813
Other receivables	841	573
Prepayments and accrued income	13 110	4 101
Total	**25 276**	**11 695**

Prepayments and accrued income consist of:		
Accrued income on the construction contracts recognized under the percentage of completion method	12 446	3 451
Accrued income on derivatives	36	11
Interest receivables	1	3
Accruals of personnel expenses	300	133
Other prepayments and accrued income on expenses	327	503
Total	**13 110**	**4 101**

Tax receivables		
Tax receivable, income tax	23	16
Total	**23**	**16**

24. CASH AND BANK

Cash and bank		
Cash equivalents	960	3 600
Cash and bank	574	2 391
Total	**1 534**	**5 991**

Change of liquid funds in the flow of funds statement		
Liquid funds at the beginning of the period	5 991	4 810
Liquid funds at the end of the period	1 534	5 991
Change of liquid funds in the balance sheet	**-4 457**	**1 181**

Notes to the Consolidated Financial Statements

25. NOTES ON THE SHAREHOLDERS' EQUITY

On August 31, 2007, 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 2006–2007 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 an emergency reserve, 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 0.40 euros per share be paid.

26. 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 (TyEL) 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."

27. PROVISIONS

Fiscal period 2006-2007 **1000 €**	**Warranty provisions**	**Pension provisions**	**Provision for unprofitable contracts**	**Total**
Non-current provisions				
Provisions at the beginning of the period	87	163	0	250
Change of the provisions (net)	-17	-3	455	435
Provisions at the end of the period	**70**	**160**	**455**	**684**

The warranty provision and the pension provision consist of reserves of the Group's German subsidiary. The warranty provision covers warranty-related costs for products that have a product warranty. The pension provision is statutory in nature.

The loss provision is the provision recognized for the loss expected from Vaahto Oy's long-term project. Delivery of the project is expected to take place in early 2008, by which time the provision will have been used.

1 000 €	31.8.2007	31.8.2006
28. INTEREST-BEARING LIABILITIES		
Interest-bearing liabilities, book values		
Long-term liabilities, interest-bearing		
Loans to financial institutions	4 213	3 353
Pension loans	710	674
Finance leases	0	287
Total	**4 923**	**4 313**
Current liabilities, interest-bearing		
Loans to financial institutions	5 792	3 274
Pension loans	252	197
Finance leases	287	355
Total	**6 331**	**3 826**
Finance leases		
Long-term finance leases	0	287
Short-term finance leases	287	355
Total	**287**	**642**
Finance lease liabilities, minimum rentals		
Within a year	295	379
More than one year but no more than 5 years	0	295
Minimum rentals	**295**	**674**
Future financing cost related to leasing agreements	8	32
Future finance lease liabilities at present value	**287**	**642**
Future minimum lease payments at present value		
Within a year	287	355
More than one year but no more than 5 years	0	287
Future finance lease payments at present value	**287**	**642**

29. 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 forward contracts and interest rate swaps 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 31 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

1 000 €	31.8.2007	31.8.2006
30. SHORT-TERM LIABILITIES		
Trade payables and other liabilities		
Advance payments received	6 261	11 147
Advance payments, unpaid	4 114	1 813
Trade payables	7 074	4 852
Trade payables, unpaid	182	0
Other short-term liabilities	1 261	760
Accruals and deferred income	4 666	3 401
Total	**23 558**	**21 973**
Accruals and deferred income consist of:		
Interest liabilities	58	29
Accrued employee expenses	1 884	1 140
Derivatives	14	5
Expenses from contracts	1 722	212
Other accruals and deferred income	987	2 015
Total	**4 666**	**3 401**
Tax liability		
Tax liability, income tax	931	36
Total	**931**	**36**

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair values of derivative instruments

Currency derivatives **1 000 €**	**Nominal value** **31.8.2007**	**Positive fair value** **31.8.2007**	**Negative fair value** **31.8.2007**	**Net fair value** **31.8.2007**
Currency forward agreements	1 271	0	-14	-14
Currency option agreements	6 401	62	-29	33
Total	**7 673**	**62**	**-43**	**19**

The fair values of forward exchanges are spesified using the market prices on the closing day for contracts of comparate 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.

Interest rate derivatives **1 000 €**	**Nominal value** **31.8.2007**	**Positive fair value** **31.8.2007**	**Negative fair value** **31.8.2007**	**Net fair value** **31.8.2007**
Interest rate swap agreements	5 323	12	-9	2
Total	**5 323**	**12**	**-9**	**2**

Maturing of the cash-flow hedged by the currency derivatives

Currency forward agreements	**Currency**	**Amount**
Maturing within 1-3 months	SEK	7 417 000
Maturing within 4-6 months	SEK	4 350 000

Currency option agreements	**Currency**	**Amount**
Maturing within 1-3 months	USD	1 400 000
Maturing within 4-6 months	USD	2 828 000

Maturing of the cash-flow hedged by the interest rate derivatives

Interest rate derivatives	**Valuutta**	**Valuutta-määrä**
Maturing within 1-5 years	EUR	4 023 275
Maturing more than 5 years	EUR	1 300 000

Fair values of other than derivative contracts

Financial assets 1 000 €	**Book value 31.8.2007**	**Fair value 31.8.2007**	**Book value 31.8.2006**	**Fair value 31.8.2006**
Trade receivables and other receivables	25 276	25 276	11 695	11 695
Cash equivalents	960	960	3 600	3 600
Cash and bank	574	574	2 391	2 391

Financial liabilities 1 000 €	**Book value 31.8.2007**	**Fair value 31.8.2007**	**Book value 31.8.2006**	**Fair value 31.8.2006**
Finance lease liabilities	287	287	642	642
Trade payables and other liabilities	23 558	23 558	21 973	21 973

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

32. SECURITIES AND CONTINGENT LIABILITIES

Granted securities 1 000 €	**31.8.2007**	**31.8.2006**
Debt secured by real estate and corporate mortgages		
Pension loans	752	582
Loans from financial institutions	9 031	5 967
Total	**9 783**	**6 549**
Granted mortgages		
Real estate mortgages	6 962	7 307
Corporate mortgages	7 789	8 007
Total	**14 751**	**15 314**
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	0	555
Total	**0**	**555**

Contingent liabilities and other liabilities 1 000 €	**31.8.2007**	**31.8.2006**
Operating lease agreements		
Within a year	114	252
More than one year but no more than 5 years	272	138
Total	**386**	**389**

Contracts other than financial leasing contracts consist mainly of short-term leasing contracts for IT equipment and software.
The terms and conditions of leasing agreements correspond to those of normal operational leasing agreements.

Arrangements according to IFRIC 4
The Group has no arrangements meant in IFRIC 4.

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 income statement has been presented in the attached information under item 6, ”Other operating expenses”.

Other contingent liabilities		
Granted guarantees	452	637
Total	**452**	**637**

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

Environmental impact:
The fiscal year saw Vaahto Oy assess the environmental impact of the old pickling facility at the Hollola plant in accordance with the environmental permit obligations. The analysis is not yet complete, and the corrective actions will be completed in the 2007–2008 fiscal year.

Notes to the Consolidated Financial Statements

33. 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
Vaahto Group Asia Limited	Hong Kong, China		100.00	100.00

Subsidiaries of subconcern

Company	Registered office	Number o f shares	Share of ownership %	Share of voting rights %
AK-Tehdas AB	Lindesberg, Sweden		100.00	100.00
Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., LTD.	Shanghai, China		100.00	100.00

Associations of subconcern

Company	Registered office	Number of shares	Share of ownership %	Share of voting rights %
ZAO Slalom	St. Petersburg, Russia		50%	50%

Transactions with related parties

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
Rent income		
The renting income of the plot belonging to the corporation in the control of the members of the Board	10	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 the control of the members of the Board	57	56

Employee benefits for the management

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
Salaries and fees of the parent company management		
CEO	10	10
Board members:		
Jaatinen Seppo	19	19
Unkuri Martti	15	15
Vaahto Antti	5	5
Vaahto Mikko	5	4

No special conditions for retirement, pension benefits, or discharge-related conditions have been spesified 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.

34. CALCULATIONS OF KEY FIGURES

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

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

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

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

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

Formulas for per share items

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

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

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

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

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

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

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

$$\text{Total market value} = \frac{\text{Total number of shares at the end of the fiscal year x}}{\text{share price at the end of the fiscal year}}$$

$$\text{Development of shares traded} = \frac{\text{Total number of shares traded during the fiscal year}}{\text{and its percentual share of the total number of series' shares}}$$

Notes to the Consolidated Financial Statements

35. SHARES AND SHAREHOLDERS

According to the book-entry security system, Vaahto Group Plc Oyj had 315 registered shareholders on August 31, 2007. There were in total 50,897 nominee-registered shares.

MAJOR SHAREHOLDERS	**A shares**		**K shares**		**Total**		**Votes**
According to the book-entry security system, on August 31, 2007	**no.**	**%**	**no.**	**%**	**no.**	**%**	**%**
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
Laakkonen Mikko	352 860	24.3	76 503	5.4	429 363	14.9	6.3
Vaahto Heikki	0	0.0	384 700	27.1	384 700	13.4	25.8
Mutual Insurance Company Fennia	35 000	2.4	35 000	2.5	70 000	2.4	2.5
Hymy Lahtinen Oy	20 000	1.4	46 800	3.3	66 800	2.3	3.2
Viscount Management Ltd	29 580	2.0	2 600	0.2	32 180	1.1	0.3
Svenska Handelsbanken AB (Publ)	26 000	1.8	4 200	0.3	30 200	1.1	0.4
Kanerva Jyri	22 900	1.6	2 200	0.2	25 100	0.9	0.2
Total for 10 largest	1 238 973	77.7	1 304 803	85.9	2 543 776	81.6	91.6

BREAKDOWN OF SHARE OWNERSHIP BY AMOUNT OF HOLDINGS	**Shareholders**		**Shares**		**Votes**	
According to the book-entry security system, on August 31, 2007	**no.**	**%**	**no.**	**%**	**no.**	**%**
1 - 100	110	34.9	6 032	0.2	44 032	0.1
101 - 1 000	138	43.8	56 416	2.0	379 948	1.3
1 001 - 10 000	51	16.2	168 774	5.9	1 285 423	4.3
10 001 - 100 000	11	3.5	318 136	11.1	2 713 561	9.1
100 001 - 1 000 000	5	1.6	2 319 496	80.8	25 385 553	85.1
	315	100.0	2 868 854	99.9	29 808 517	99.9
Outside the book-entry securities system			3 448	0.1	35 254	0.1
			2 872 302	100.0	29 843 771	100.0

BREAKDOWN OF SHARE OWNERSHIP BY CATEGORY OF OWNER	**Shareholders**		**Shares**		**Votes**	
According to the book-entry security system, on August 31, 2007	**no.**	**%**	**no.**	**%**	**no.**	**%**
Companies	33	10.5	141 320	4.9	1 654 328	5.5
Financial and insurance institutions	6	1.9	127 428	4.4	895 712	3.0
Public corporations	1	0.3	18 040	0.6	189 420	0.6
Households	272	86.3	2 549 685	88.8	26 987 276	90.4
Non-profit organizations	2	0.6	201	0.0	201	0.0
Foreign countries	1	0.3	32 180	1.1	81 580	0.3
	315	100.0	2 868 854	99.9	29 808 517	99.9
Outside the book-entry securities system			3 448	0.1	35 254	0.1
			2 872 302	100.0	29 843 771	100.0

SHARE HOLDINGS OF THE MANAGEMENT	**A shares**		**K shares**		**Total**		**Votes**
According to the book-entry security system, on August 31, 2007	**no.**	**%**	**no.**	**%**	**no.**	**%**	**%**
Board of directors and CEO							
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Vaahto Mikko	258 634	17.8	258 801	18.2	517 435	18.0	18.2
CEO's of the subsidiaries							
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

Members of the Board owned a total of 513,667 Series A shares and 514,000 Series K shares, representing 36.2% of the votes.
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.

36. EVENTS AFTER THE END OF THE FISCAL YEAR

Sale of the spiral heat exchanger business

On October 29, 2007, Vaahto Oy signed an agreement to sell its spiral heat exchanger business to the German HES Heat Exchanger Systems GmbH. The sale includes the spiral heat exchanger production line and its machines and equipment, with related intangible rights. Under the agreement, Vaahto Oy is responsible for the manufacture and delivery of the existing order backlog. The production machines and equipment and their ownership will be transferred to the buyer gradually in spring 2008.

The annual turnover for the spiral heat exchanger business has fluctuated between two and four million euros over the past few years. Vaahto Oy is to enter in the accounts the sale profit for the deal, but the final profit will be affected by any additional costs of stopping production as well as sale of the stockpile. The conditions for sale of the stocks of materials and components related to the production of spiral heat exchangers will be specified later.

In segment-based reporting, the spiral heat exchanger business is included in the Process Machinery division.

Income Statement of the Parent Company, FAS

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006	Note
NET TURNOVER	**1 600**	**1 697**	**2**
Other operating income	144	162	3
Personnel expenses	-595	-549	5
Depreciations	-49	-81	6
Other operating expenses	-1 147	-791	7
OPERATING PROFIT	**-48**	**438**	**4**
Financing income and expenses	48	-196	8
PROFIT BEFORE EXTRAORDINARY ITEMS	**0**	**242**	
Extraordinary expenses	1 000	-40	9
PROFIT BEFORE INCOME TAXES	**1 000**	**202**	
Tax on income from operations	-214	-115	10
PROFIT OR LOSS FOR THE FISCAL YEAR	**786**	**86**	

Balance Sheet of the Parent Company, FAS

1 000 €	31.8.2007	31.8.2006	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	40	55	
Tangible assets	94	95	
Investments'	8 917	8 917	
NON-CURRENT ASSETS TOTAL	**9 052**	**9 066**	**12**
CURRENT ASSETS			
Short-term receivables	1 846	1 227	
Cash and bank deposits	177	967	
CURRENT ASSETS TOTAL	**2 023**	**2 194**	**13**
ASSETS TOTAL	**11 074**	**11 260**	
LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Reserve fund	2 228	2 228	
Retained earnings	4 094	4 582	
Profit or loss for the fiscal year	786	86	
SHAREHOLDERS' EQUITY TOTAL	**9 981**	**9 769**	**14**
LIABILITIES			
Short-term interest-bearing liabilities	740	1 305	
Short-term non-interest-bearing liabilities	353	185	
LIABILITIES TOTAL	**1 093**	**1 490**	**15**
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL	**11 074**	**11 260**	

Flow of Funds Statement of the Parent Company, FAS

1 000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
Flow of funds from operatioms		
Profit before extraordinary items	0	242
Adjustment items:		
Depreciations according to plan	49	81
Financial income and expenses	-48	196
Other adjustments	0	-10
Flow of funds before the change in working capital	**1**	**509**
Change in working capital:		
Change in short-term receivables	391	-20
Change in short-term non-interest bearing creditors	167	35
Flow of funds before financial items and taxes	**559**	**524**
Interest and other financial expenses from operations paid	-77	-35
Dividends received	107	80
Interests received	18	9
Income taxes paid	-214	-115
FLOW OF FUNDS FROM OPERATIONS	**393**	**463**
Flow of funds from investments		
Investments in tangible and intangible assets	-34	-66
Income from sales of tangible and intangible assets	0	10
Granted loans	-1 070	-535
Repayments of loans receivable	60	40
FLOW OF FUNDS FROM INVESTMENTS	**-1 044**	**-551**
Flow of funds from financial items		
Withdrawals of short-term loans	500	865
Repayments of short-term loans	-1 065	-100
Dividends	-574	-345
Group transfers	1 000	-40
FLOW OF FUNDS FROM FINANCIAL ITEMS	**-139**	**380**
Change of liquid funds	**-790**	**292**
Liquid assets at the beginning of the fiscal year	967	675
Liquid assets at the end of the fiscal year	177	967
Change in liquid assets according to the balance sheet	-790	292

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 research and development expenditures, totaling 14,000 euros, 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.

1000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
2. TURNOVER BY BUSINESSES AND MARKET AREAS		
By businesses		
Administration	1 600	1 697
Total	**1 600**	**1 697**
By market areas		
Finland	1 600	1 697
Total	**1 600**	**1 697**
3. OTHER OPERATING INCOME		
Profit from sales of fixed assets	0	10
Other	144	152
Total	**144**	**162**
4. OPERATING PROFIT OR LOSS BY BUSINESSES		
Administration	-48	438
Total	**-48**	**438**
5. PERSONNEL		
Average number of personnel		
Office staff	9	9
Total	**9**	**9**
Personnel expenses		
Wages and salaries	474	434
Pension costs	78	68
Other personnel expenses	44	46
Total	**595**	**549**
Management's salaries and benefits		
Managing directors	10	10
Board members and substitute members	45	45
Total	**55**	**54**

1000 €	1.9.2006-31.8.2007	1.9.2005-31.8.2006
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 years	5-10 years
Buildings	35-40 years	35-40 years
Machinery and equipment	5-25 years	5-25 years
Depreciations and decreased values		
Depreciations from tangible and intangible assets	49	81
Total	**49**	**81**
7. OTHER OPERATING EXPENSES		
Other operating expenses		
Rent expenses	144	136
Non-statutory employee benefits	17	9
Other expenses	986	647
Total	**1 147**	**791**
8. FINANCIAL INCOME AND EXPENSES		
Income from other investments held as non-current assets		
Group companies	105	80
Other	2	0
Total	**107**	**80**
Interest income from long-term investments		
Group companies	7	1
Other	12	7
Total	18	8
Financial income total	**125**	**89**
Impairment losses on investments carried as non-current assets		
Impairment losses on investments in Group companies	0	250
Total	**0**	**250**
Interest and other financial expenses		
Group companies	77	34
Other	0	0
Total	**77**	**35**
Financial income and expenses total	48	-196
9. EXTRAORDINARY ITEMS		
Extraordinary items		
Exraordinary income/Group transfers	1 000	0
Exraordinary expences/Group transfers	0	-40
Total	**1 000**	**-40**
10. INCOME TAXES		
Income taxes		
Income taxes from operations	-46	126
Income taxes from extraordinary items	260	-10
Total	**214**	**115**

Flow of Funds Statement of the Parent Company, FAS

11. SHAREHOLDINGS

Group companies

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

1000 €	**31.8.2007**	**31.8.2006**
12. NON-CURRENT ASSETS		
Other long-term assets		
Acquisition cost at the beginning of the fiscal year	390	387
Increase	11	2
Acquisition cost at the end of the fiscal year	**401**	**390**
Accumulated depreciations at the beginning of the fiscal year	335	283
Depreciation of the fiscal year	26	52
Accumulated depreciations at the end of the fiscal year	**360**	**335**
Book value at the end of the fiscal year	**40**	**55**
Intangible assets total	**40**	**55**
Machinery and equipments		
Acquisition cost at the beginning of the fiscal year	513	490
Increase	23	64
Decrease		-41
Acquisition cost at the end of the fiscal year	**536**	**513**
Accumulated depreciations at the beginning of the fiscal year	418	430
Depreciations of transfers' and decrease items		-41
Depreciation of the fiscal year	23	29
Accumulated depreciations at the end of the fiscal year	**442**	**418**
Book value at the end of the fiscal year	**94**	**95**
Tangible assets total	**94**	**95**
Investments		
Shares in Group companies		
Acquisition cost at the beginning of the fiscal year	9 675	9 675
Acquisition cost at the end of the fiscal year	**9 675**	**9 675**
Accumulated depreciations at the beginning of the fiscal year	778	528
Decrease		250
Accumulated depreciations at the end of the fiscal year	**778**	**778**
Book value at the end of the fiscal year	**8 897**	**8 897**
Other shares		
Acquisition cost at the beginning of the fiscal year	19	19
Acquisition cost at the end of the fiscal year	**19**	**19**
Book value at the end of the fiscal year	**19**	**19**
Investments total	**8 917**	**8 917**

1000 €	31.8.2007	31.8.2006
13. CURRENT ASSETS		
External short-term receivables		
Other receivables		1
Prepaid expenses and accrued income	44	39
Total	**44**	**40**
Short-term receivables from Group companies		
Trade receivables	273	672
Loan receivables	715	515
Other receivables	810	
Prepaid expenses and accrued income	4	
Total	**1 802**	**1 187**
Short-term receivables total	**1 846**	**1 227**
Prepaid expenses and accrued income consist of:		
Prepaid social security costs	26	28
Other prepaid expenses and accrued income	18	11
Other prepaid expenses and accrued income from Group companies	4	
Prepaid expenses and accrued income total	**48**	**39**
Receivables total	**1 846**	**1 227**
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	4 669	4 927
Dividends	-574	-345
Retained earnings in the end of the fiscal year	**4 094**	**4 582**
Profit the fiscal year	**786**	**86**
Shareholders' equity total	**9 981**	**9 769**
Calculation on distributable assets		
Retained earnings	4 094	4 582
Profit for the fiscal year	786	86
Distributable assets total	**4 881**	**4 669**
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**

Notes to the Parent Company's Financial Statements

1000 €	31.8.2007	31.8.2006
15. SHORT-TERM LIABILITIES		
External short-term liabilities		
Accounts payable	42	28
Other liabilities	104	67
Accrued liabilities and deferred income	194	91
Total	**340**	**185**
Short-term liabilities to Group companies		
Accounts payable	12	0
Other liabilities	740	1 305
Total	**753**	**1 305**
Short-term liabilities total	**1 093**	**1 490**
Accrued liabilities and deferred income consist of:		
Deferred social security costs	55	47
Income taxes	139	44
Accrued liabilities and deferred income total	**194**	**91**
Liabilities total	**1 093**	**1 490**
16. GRANTED SECURITIES		
Granted securities by Group companies		
Pledged deposits	0	555
Total	**0**	**555**
17. CONTINGENT LIABILITIES AND OTHER LIABILITIES		
Leasing commitments to be paid		
To be paid during fiscal year 2006-2007	83	115
Later	270	129
Total	**353**	**244**
Granted guarantees by Group companies		
Granted guarantees	452	637
Total	**452**	**637**

Board of Directors' Proposal

Parent company funds available for distribution of profits total 4,880,594.79 euros, of which 786,435.40 euros represents profits for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.40 euros per share, amounting to a total of 1,148,920.80 euros, be paid. The remaining operating profit is to be transferred to the earnings account.

Helsinki, November 15, 2007

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 1.9.2006 - 31.8.2007. 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 19, 2007

ERNST & YOUNG OY
Authorized Public Accounting Firm

Pauli Hirviniemi
Authorized Public Accountant

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