Annual Report 2010–2011

VAAHTO

SINCE 1874

Vaahto Group

Vaahto Group
is a globally operating high technology company serving process industry in the fields of paper-making technology and process technology.

The shares of the Group's parent company, Vaahto Group Plc Oyj, are quoted on the NASDAQ OMX Exchange in Helsinki, where the company was first listed in 1989.

In Paper Technology,
Vaahto Group's core competence lies in paper and board machine rebuilds and servicing.

Vaahto Projects
plans and builds production lines, machines, equipment, and components for the paper, board, and pulp industries, with the objective of improving the customers' production processes and competitive edge.

Vaahto Service
provides technology solutions related to roll covers, maintenance and spare parts for the paper, board, and pulp industries through its One-Stop-Shop concept. The objective is to support the customers' investments and keep production lines running smoothly for the entire life cycle.

In Process Technology,
the Group's core competence lies in high quality agitator technology, pressure vessels for demanding applications, and heat exchangers.

Stelzer Mixing Technology
specializes in agitator technology. Its business rests on a strong foundation of solid technological expertise, thorough knowledge of the customers' core processes, and extensive inhouse research and development work.

Japrotek Vessels
designs and manufactures tanks such as pressure vessels, columns, reactors, heat exchangers, and large tanks assembled on-site for demanding process-industry applications.

VAAHTO GROUP

VAAHTO PAPER TECHNOLOGY	VAAHTO PROCESS TECHNOLOGY
Vaahto Projects Vaahto Service	Stelzer Mixing Technology Japrotek Vessels

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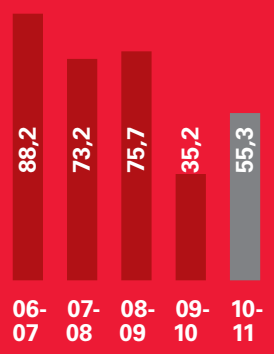
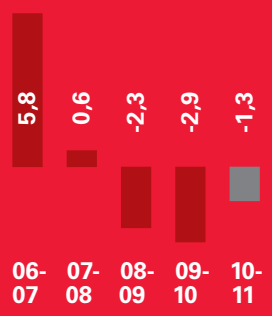
IFRS, M€	2010/2011	2009/2010	Change %
Turnover	**55,3**	35,2	+57
Operating profit	**-1,3**	-2,9	+54
Return on investment ROI %	**-4,2**	-11,0	+62
Equity ratio %	**17,8**	21,8	-18
Investments	**1,9**	0,8	+145
Number of personnel (average)	**348**	371	-6

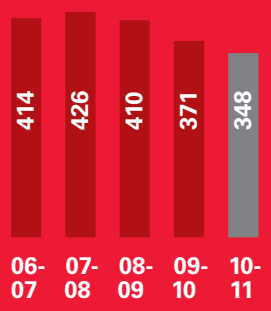
TURNOVER M€



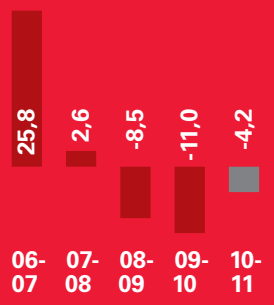
OPERATING PROFIT M€



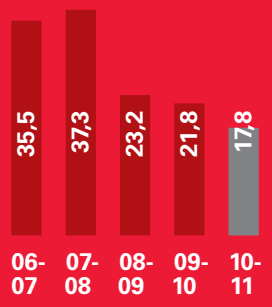
PERSONNEL AVERAGE



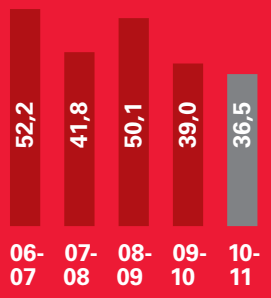
RETURN ON INVESTMENT ROI %



EQUITY RATIO %



CONSOLIDATED BALANCE SHEET TOTAL M€



Vaahto Group's products and expertise represent the top of the industry

Vaahto Group is an international technology supplier. The Group's Vaahto Paper Technology division specialises in paper and cardboard machine modernisation projects and maintenance services, while the Vaahto Process Technology division focuses on high-level agitator technologies under the brand name Stelzer and designs tank and heat exchanger solutions for demanding applications as Japrotek.

Vaahto Paper Technology's profitability figures saw a significant development in the last financial year. The division's turnover nearly doubled from the previous financial year's level, and its result too improved significantly from that of the previous period. Our turnover increased as projected for both project and service business. Vaahto strengthened its position as an international technology leader in projects such as cardboard machine headbox deliveries. The headbox is the key system component of paper and board machines: it determines most of the factors that influence the machine's production efficiency and the quality of the end product. Vaahto is the leading headbox supplier in its market areas. In Finland and Sweden, for example, Vaahto has delivered nearly half of the new headboxes and headbox overhauls for the past four years.

In the paper machine maintenance business, we have extended our product range as planned. One of the key points of focus has been the development of on-site services performed at customer facilities. In addition, we aim to extend our range of analysis and research services. At the heart of our maintenance business are roll coating and servicing operations performed for customers under our highly flexible One-Stop-Shop concept.

Key strengths of the Vaahto Paper Technology division include technological expertise, cost-efficient operations, short response times, and organisational agility. We believe we stand out from our competitors in the excellent price-to-quality ratio of our products and in our flexible and customer-oriented services. Proof of this can be seen in the longevity of our customer relationships. One of our main challenges lies in the fact that Vaahto is still not very well known in certain markets. Active work must be continued to increase potential customers' awareness of Vaahto Paper Technology's ability to deliver.

For the Vaahto Process Technology division, the financial year now closing had both ups and downs. The turnover and financial result of Stelzer Mixing Technology, the business unit that specialises in agitator technologies for demanding applications, developed very favourably, and Stelzer's standing in the international market improved as planned. The tank business unit, Japrotek, however, continued to suffer on account of the poor market situation and fell short of the objectives set for the financial year. One of Vaahto Process Technology's important competitive advantages is the ability to deliver complete tank–agitator systems that ensure uninterrupted operation of customer processes. The Group aims to continue focusing on the agitator business, where considerable growth is anticipated.

Anssi Klinga
CEO

The development of the international economy has shown alarming signals, and we must be prepared to react to changes in the market. Vaahto Group aims to continue striving to improve our competitive edge, profitability, and solvency. The Group's employees, management, and shareholders play the key role in the success of this task. I wish to thank all of Vaahto Group's stakeholders for their excellent collaboration.

Anssi Klinga

Vaahto Paper Technology

Areas of Expertise

In paper technology, Vaahto Group's core competence lies in paper and board machine rebuilds; roll coating; and servicing and other maintenance, service, and spare parts services for paper machines. The Group's main customer industries are the paper, board, and pulp industries.

The products and maintenance services provided by the Vaahto Paper Technology division improve customers' competitive edge by increasing the production capacities of paper and board machines, improving the end products' quality, increasing energy-efficiency, and ensuring uninterrupted production.

The division provides its customers with a comprehensive range of services – covering research and design, manufacture, installation, startup, maintenance, and spare parts services. It has operations and employees in Finland, China, and Russia.

Key Figures

M€	2010/2011	2009/2010	Change %
Turnover	**39,7**	21,5	+85
Profit of the segment	**-0,1**	-4,8	+98
Personnel average	**223**	242	-8

The operations of the Vaahto Paper Technology division are divided into two business units: the Projects unit, which focuses on investment projects, and the Service unit, which focuses on roll covers and repairs, process improvements, maintenance and spare parts services.

Vaahto Projects

plans and builds production lines, machines, equipment, and components for the paper, board, and pulp industries, with the objective of improving the customers' production processes and competitive edge.

Vaahto Service

provides technology solutions related to roll covers, maintenance and spare parts for the paper, board, and pulp industries through its One-Stop-Shop concept. The objective is to support the customers' investments and keep production lines running smoothly for the entire life cycle.

Significant increase in Vaahto Paper Technology's turnover

In the course of the 2010–2011 financial year, Vaahto Paper Technology's turnover almost doubled from that of the previous financial year, which suffered from the effects of the global economic downturn. The divisions overall result increased significantly from the previous financial year's level but still remained slightly negative.

Market demand was good in the Asian and Finnish projects markets and in the South American service market. The Swedish and Russian service markets also became more active during the year under review. In summer 2011, the overall market downturn started to be reflected in the order books. During the final quarter of the financial year, Vaahto Paper Technology's turnover was lower than expected. Profitability was hit also by increased subcontracting, material, and personnel costs.

Products and services of Vaahto Projects

- Key components for paper and board machines, such as dilution-controlled headboxes, formers, shoe presses, film sizing and coating units, center reels, pulpers and screens
- Rebuilding and modernization of paper, pulp, and board machines from the headbox to the reel, including stock preparation
- Rolls and dryer cylinders
- Installation and start-up services, consultation and project management services

Vaahto Projects

- as reigning market leader in headbox deliveries
- Our key success factors are technological expertise, our cost-to-quality ratio, bespoke solutions, and agility.
- Growing customer sectors include production of packaging board and tissue products.
- The most important market areas are Finland, Sweden, Russia, and Asia.

Vaahto Projects
as the leading headbox supplier

Vaahto Projects offers an extensive range of products and services for new paper, pulp, and board machines as well as rebuilds of existing production lines.

We aim to improve our customers' productivity. New components and production line overhauls increase production capacity and improve the quality of the end product while bringing down unit prices, reducing downtime and refuse rates, and improving energy-efficiency.

The best solutions for paper machine key components

Vaahto Projects specialises in rebuilds of paper, board, and pulp-drying machines, which the unit has delivered in nearly 40 countries, all over the world. The unit employs its own, patented solutions for dilution-controlled headboxes, formers, shoe presses, film sizing and coating units, center reels, and other key components of paper machines and stock preparation equipment.

Bespoke customerspecific solutions delivered to international corporations may include assembly, installation supervision, training, and full startup services.

One of our key products is the dilution-controlled headbox. The headbox is the most important wet end component in paper machines. It determines most of the quality characteristics of the finished product. Vaahto is the leading headbox supplier in its market areas. For the past four years, Vaahto has delivered almost half of the new headboxes and headbox overhauls in Finland and Sweden.

Technological expertise, an excellent cost-to-quality ratio, and rapid turnaround

Our key strengths in international competition are technology expertise, cost-efficiency, customer-specific tailored applications, and the speed and agility of a medium-sized organisation.

The products represent the best available technology and provide our customers with an excellent cost-to-quality ratio. Our in-house manufacturing and product development capacity enables us to give our customers the tailored solutions they need, and our horizontal organisation allows us to address customer needs quickly and efficiently.

Vaahto holds a significant portfolio of patents that includes technical innovations for headboxes, shoe presses, center reels and pulpers. Many of our deliveries include product development, and our products are improved in collaboration with the customers. Our collaboration partners in product development include VIB GmbH for spray sizing technologies and Honeywell for automation solutions. Collaboration increases the cost-efficiency of product development efforts.

Our customers include the leading paper mills in Northern Europe, where conditions are challenging and the machine base is highly efficient. According to customer satisfaction surveys, our customers have been very happy with the quality of our products and services – a fact also attested to by continued collaboration and new projects.

Expanding markets

The biggest equipment and service providers in our field of operation are the Finnish Metso, the German Voith, and the Austrian Andritz, which all have a significant market share.

Vaahto is a middle-sized service and equipment provider whose technological expertise is among the strongest in its field. The principal markets of Vaahto Projects are Finland, Sweden, Russia, and China. In Asia, new markets have opened in Indonesia and Korea. Vaahto Projects has operations in countries such as the United Kingdom, the United States, Poland, and Turkey and lately also United Arab Emirates. Deliveries have been made globally, in almost 40 countries. Our expanding geographical market reduces the effects of the cyclical nature of the industry.

In Sweden, Vaahto entered into service market in collaboration with Oy Banmark Ab, a company with an extensive network of contacts spanning the country. This enables Vaahto to expand its operations in Sweden, where industry has been hit less by the recent economic downturn than other parts of Europe.

Our objective is to increase our reputation as the technology leader and a provider with excellent value for money in all markets.

Significant growth in sales

The 2010–2011 financial year saw Vaahto Projects sales increase significantly from the previous financial year's figure, which suffered from the effects of the global economic downturn.

The market situation was good, especially in the first three quarters, and our efforts in the Asian markets in particular bore fruit as two substantial orders were received from a new customer in Indonesia and the first inroads were made into the Korean market. Also, our Chinese customers commissioned nine further headbox delivery projects. Domestic demand was also at a good level, and the Swedish and Russian markets started becoming more active in the course of the year.

Major deliveries in Finland and Asia

One of the most significant deliveries of the financial year was the shoe press delivery for Indonesia's Fajar Paper mill. The same customer ordered PM7 liner board headboxes, a wire section, a calender, and a film size press.

Our Chinese customers Dongguan Jianhui Paper Co. Ltd and Dongguan Jinzhou Paper Co. Ltd commissioned four dilution-controlled headboxes for new board production lines. Four headboxes were also delivered for plasterboard production lines in China's Taishan, Taihe.

Installation work for a PM7 printing paper machine is complete in Kama, Russia, and the first paper rolls have been produced. The project has, however, been delayed more than 18 months from its original schedule, primarily because the construction work that was the responsibility of the customer proved more extensive and challenging than anticipated.

In Finland, new projects have been commissioned, especially by Stora Enso. A major headbox overhaul was completed for Stora Enso Kaukopää's liquid packaging board line 4 in Imatra. Deliveries for a pulp-drying machine rebuild at the same plant were beginning as the financial year ended, and the planning stage for Kaukopää's cardboard machine n:o 2 center reel project also started at that time.

We will also deliver the second stage of the rebuild of the press section of Stora Enso's Inkeroinen cardboard factory's machine 4, using shoe press technology. The delivery also includes a pulper, stretchers, and installation work.

Growth in packaging board and tissue paper products

The global economic outlook influences our customers' investment decisions and the development of our own turnover and profitability. The early-autumn forecast given in the economic survey of the Confederation of Finnish Industries was negative but did not predict actual decreased production.

The product categories that are seeing growth in our markets are cardboard and tissue paper products. Global product flows keep growing,

and cardboard is set to maintain its standing as the ecological choice among packaging materials. The demand for soft tissues and hygiene products is increasing especially in developing countries.

In Russia, substantial forest reserves guarantee the availability of raw material for the paper industry. The domestic demand of this large country also requires overhaul of production machines. The machines were originally built to be large and wide, which makes them worth continued maintenance and overhaul efforts. Project management expertise is also in demand in the Russian market.

In the Nordic countries, ageing machines create opportunities for overhaul and modernization projects for rebuild experts. The newest paper machine in Finland entered production use in 1998; therefore, the existing machines are in need of rebuild and overhaul operations. Additionally, productivity is increased by rebuilding and changing of key components.

Projections of continued demand in the Nordic countries and Russia

The market competition continues to be demanding. Many of the smallest operators have left or are leaving the market. Success requires technological expertise, a good reputation as a vendor, and references from earlier projects. Vaahto is able to fulfill these requirements, and moderate, profitable growth is expected for the next few years.

The 2011–2012 financial year began under favourable winds when Vaahto Projects received a substantial order from Sweden's Södra Cell Mönsterås plant in September. The pulp mill's TM5 drying machine is being modernised to increase production and improve runnability.

Tender activity has been especially high in the Swedish and the Russian market in the first part of our new financial year.

The headbox is the heart of the paper machine

The headbox is the most important element in the wet end of the paper machine. It mixes the fibre with other raw materials, forming a smooth press web for the wire section of the paper or cardboard machine.

The headbox determines most of the finished board's quality characteristics, which, in turn, are crucial in terms of the machine's runnability and production capacity. The headbox also influences the runnability characteristics of the press web and the overall efficiency of the machine. Vaahto has patented its headbox product development innovations.

Vaahto is the leading headbox supplier in its market areas. For the past four years, Vaahto has delivered almost half of the new headboxes and headbox rebuilds in Finland and Sweden.

Vaahto Service:

Growth in new services and market areas

The Vaahto Service unit supports investments and uninterrupted operation of production lines in the paper, cardboard, and pulp industries by providing technology solutions for maintenance and spare parts services through its One-Stop-Shop concept.

The unit's special expertise includes optimisation, measurement and condition survey services, On-Site services, spare part services, components and wearing parts, small modernisation projects, relocation of machinery and equipment, roll servicing and coating, and maintenance contracts of varying size and scope. Vaahto Service's maintenance and analysis services include all process equipment and systems from the short circulation of the paper and board machines to the winder.

Growth in analysis and On-Site services

All analysis, maintenance, and coating services that our customers require are available flexibly through our One-Stop-Shop concept. Our traditional, constantly evolving services include roll servicing and coating. We provide all coating methods from rubber, polyurethane, and composite coating to thermal coating materials.

One of our strategic points of focus is On-Site services provided at customer sites. We also aim to increase the volume of our new analysis and research services, which already constitute a considerable proportion of Vaahto Service's business activities.

Vaahto Service strives to increase the productivity of its customers' activities and to increase the stability, quality, and runnability of their processes. Analysis, maintenance, and coating services are used to minimise interruptions to production; decrease refuse rates; save water and energy; and extend the service life of paper, pulp, and cardboard machines.

New markets in China, Eastern Europe, and South America

Vaahto Projects and Vaahto Service support each other through synergy derived from their joint expertise and marketing potential. The majority of Vaahto Service's turnover, however, is formed by servicing of machines built by third-party manufacturers.

Vaahto Service's principal market areas are Finland, Sweden, Norway, the United Kingdom, and Russia, in all of which the company has established itself among the top three maintenance service providers. New, growing markets include China, Poland and South America. China has a substantial installed base of machines and high demand for optimisation and analysis services. In South America, the demand for maintenance service expertise exceeds the supply.

Our strategy is to continue our maintenance business development programme while focusing our efforts on refining our current products and establishing a deeper presence in selected markets. In maintenance services, special effort will be focused on making the products of Vaahto Service better known, especially in the Russian, Eastern European, Chinese, and South American markets. Successful collaboration with our present customers continues in Northern Europe and the United Kingdom.

Success built on quality and speed

Vaahto Service's success factors are its extensive range of services, high-quality products, rapid response, and fast deliveries. Our services include operation analysis, optimisation, servicing, and coating services for paper, pulp, and cardboard machines – throughout their service life. Our products and services represent the best available technology, and our expertise is at the forefront of development.

Customers include the leading paper mills in Europe, where conditions are challenging and the machine base is highly efficient. In appeal studies performed among customer markets, Vaahto Service has performed very well, especially among its existing customers. As a mid-sized operator, we are able to react quickly to our customers' needs. Communication within the Group and to our customers is efficient.

Major deliveries in Europe and South America

The market situation for our service business unit improved in the course

of the financial year. That period's most important deliveries were the numerous overhaul, research, and optimisation services provided at Iggesund's Workington plant, in the United Kingdom. On-Site roll coatings and grindings were performed at the Smurfit Kappa Cartón de Colombia plant and the Propal Columbia plant, both in Colombia, and at International Paper's Kwidzyn plant in Poland. Also, many demanding polyurethane and composite coating operations were performed for various customers throughout the year.

Planning of the service products to be featured under the On-Site service concept was largely completed during the 2010–2011 financial year, and the investments we have made are expected to bear fruit in 2011–2012. Development of roll coating, component, and other maintenance services continues – but without ever forgetting the development of the efficiency of our own production processes.

Continued good outlook for Vaahto Service

The global profitability of the paper industry has increased slightly. An uncertain economic forecast may, however, affect our customers' utilisation rates, which could also move addressing of maintenance needs into the future.

Both Vaahto Service's investments in new analysis and maintenance service products and the new market areas, however, balance out the risks associated with the global economic situation to some extent. The On-Site service concept extends the range of services offered by Vaahto Service, making it possible to utilise strategic partnerships as part of the development of our customers' production lines. We will continue our investments for increasing the proportion of analysis and research services in our business operations. Growth is expected in Chinese, Polish, and South American markets.

Products and services of Vaahto Service

- maintenance and spare parts services through the One-Stop-Shop concept
- optimisation, measurement and condition survey services
- On-Site services
- spare parts, components and wearing parts
- small modernisation projects
- relocation of machinery and equipment
- roll maintenance and coating
- maintenance contracts of varying size and scope

Vaahto Service's

- main success factors are its extensive range of services, high-quality products, short response times, and fast delivery.
- New, growing markets include China, Poland, and South America.
- Among the business areas showing growth are analysis and research services, along with on-site services provided at customer facilities.

Vaahto Process Technology

Areas of Expertise

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

The Group's customers are companies operating in industries such as the energy and the environmental industry, the chemical industry, metallurgy, pharmaceuticals, biogas and the food processing industry.

In special cases the design and production of agitators and tanks have strong synergy benefits. On customer´s request the Group's objective is to deliver complete tank and agitator systems that guarantee high-quality process results to the end user.

Key Figures

M€	2010/2011	2009/2010	Change %
Turnover	**15,7**	13,8	+14
Profit of the segment	**-1,2**	1,9	-163
Personnel average	**125**	129	-3

The operations of the Vaahto Process Technology division fall into two business areas, covered by the Stelzer Mixing Technology, which specializes in agitator technology, and the Japrotek Vessels unit, which focuses on tanks and pressure vessels.

Stelzer Mixing Technology

specializes in agitator technology and is one of Europe's leading agitator manufacturers. Its business rests on a strong foundation of solid technological expertise, thorough knowledge of the customers' core processes, and extensive inhouse research and development work.

Japrotek Vessels

designs and manufactures tanks such as pressure vessels, columns, reactors, heat exchangers, and large tanks assembled on-site for demanding process-industry applications.

A slightly improved market situation for Vaahto Process Technology

Vaahto Process Technology's turnover improved in the course of the 2010–2011 financial year. The divisions overall result, however, remained negative.

The situation in the agitator markets improved clearly: the food processing and the chemical industries increased their investments, and the order book for the next financial year looks promising.

In the vessel business, the market situation and competition remain tight. Nonetheless, an upturn was seen toward the end of the financial year, and the stock of offers for the new financial year looks favourable.

Stelzer Mixing Technology met increased demand

Stelzer Mixing Technology's expertise covers the majority of industrial agitator applications. Our agitator technologies are exported globally. The scope of the deliveries varies from small magnetically driven agitators with a volume of a few dozen litres to digesters with capacities in the range of tens of thousands of cubic metres.

Our agitator solutions are used for blending mixtures, suspending insoluble substances, supporting liquid-gas reactions and increasing heat transfer.

Our mixing technology is exported all over the world. Our customers include the food processing industry, the chemical, the biogas, the sewage treatment industry, the pulp and paper, the hydrometallurgy, the mineral processing and the pharmaceutical industry.

We operate under the Stelzer brand

The agitator business was managed by the Finnish Japrotek Oy Ab in the Nordic countries and the German Stelzer Rührtechnik International GmbH globally. In June 2011, Vaahto Group combined the Group's agitator operations to form the new Mixing Technology business unit. In the future, agitator systems will be manufactured under the Stelzer brand. Our objective is to leverage our synergy benefits, make our processes more efficient, and strengthen our market position by using our joint global sales network.

Success based on technology, quality, experience, and reliability

Our success is built on our strong technical expertise and our high-quality work, many years of experience, precision, and reliability. Successful deliveries of agitator solutions and of maintenance and analysis services for our customers' demanding applications require cutting-edge technical expertise and long-term experience that enables us to address the needs of our customers in an optimal way.

The core of our expertise is formed by high-quality system and process technology know-how; mechanical design expertise; and top-notch manufacturing work in which special materials, such as titanium, high-alloy nickel, and chrome steel and corrosion- and acid-resistant steel grades, are used.

Our in-house product development and the expertise of our staff guarantee our customers full availability of the latest high-technology solutions. Computational fluid analysis (CFD) methods enable us to simulate compositions of mixtures; develop and apply process flow models; and analyze turbulence, energy-efficiency, and system disturbances. We can optimize the mixing process by means

New solutions for a new product in Asia

Stelzer has developed a new mixing technology system for a product based on a completely new formulation of polymers for a co-operation partner in South-East Asia.

To handle highly viscous slurry with strong non-Newtonian flow behaviour and more than 500 m^3 mixing volume, we implemented a full computational fluid dynamics (CFD) analysis.

The Stelzer Draft Tube Turbine we have developed can minimise the back-flow, reducing the associated pumping losses from 15% to only 3%. The newly developed draft tube turbine has blade angles specially engineered to guarantee maximum pumping directly forward, without radial losses. We were able to produce excellent flow characteristics as well as short blending times and maximal heat transfer.

As the customer's product is abrasive and extremely corrosive, high-alloy materials are used. The conditions – temperatures of up to 330 °C and pressures as great as 65 bar – demand a sealing technology suited to highly demanding applications.

In view of the large investments, requirements for production process reliability, and the nature of the product, the customer's goal was to obtain complete reliability for the process and expertise in the manufacture, as well as assembly, maintenance, and after-sales service.

of our mixture analysis tools without interrupting production.

Our comprehensive range of services includes manufacture, assembly, commissioning, and testing, as well as maintenance and spare-part services for agitator systems and equipment. Our global customer support guarantees that the customers receive the support they need, when they need it. Our competitive advantages also include our high-quality, reliable, and timely deliveries.

An improving market situation

The situation in agitator markets improved significantly during the 2010–2011 financial year. Our primary market areas are Central Europe and Asia. Over 60 per cent of our turnover consists of direct and indirect export sales.

Our most important sector in terms of growth is the food processing industry, with the biggest orders coming from the sugar industry, where investments had been postponed for several years. The chemical industry also increased its investments. The financial year saw the agitator investments of the biogas industry, however, remain low.

As a provider of agitator systems for food-industry applications, we are in the top three, and we are among the top five in other industries in which our customers operate.

Expectations of growth from the food processing, chemical and pharmaceutical industries

The global economic forecast also affects the business of Stelzer Mixing Technology. However, the market always needs agitator systems. The broad base of our clientele will balance the negative impact of the economic situation.

The food processing industry's demand for products and its investment outlook remain more or less unchanged despite the economic situation. In Asia, for example, the demand for dairy products and beverages is increasing in the wake of Western consumption habits.

In Germany, the peak of biogas-plant agitator investments has passed, as the investments already made satisfy the current demand. A growth track is, however, anticipated to emerge in other European countries within the next few years.

Great changes are expected in the chemical industry. The German government has decided to close its nuclear power plants, and other sources of energy are now being sought. The development of electric cars, rechargeable battery packs, and batteries of various types continues, and agitator systems are needed for the solutions used in their production.

By optimizing agitation processes, we are able to improve the processes' energy-efficiency and address the future needs of energy-efficient applications.

Products and services of Stelzer Mixing Technology

- Design and manufacture of agitator systems and equipment
- Analysis and testing
- Assembly and commissioning
- Maintenance and spare part services

Stelzer Mixing Technology's

- Primary customers are the food processing industry, the environmental industry, and the chemical industry
- Success factors are technology, quality, experience, and reliability
- Important market areas are Central Europe, the Nordic region, and Asia

Japrotek Vessels

delivers tanks and pressure vessels for demanding applications

Japrotek Vessels designs and manufactures tanks such as pressure vessels, columns, reactors, heat exchangers, and large tanks assembled on-site for demanding applications.

Products and services of Japrotek Vessels

- Pressure vessels (including agitators)
- Reactors and their auxiliary equipment
- Columns and their components
- Tubular heat exchangers
- Large tanks constructed at the installation site
- Consulting and start-up services

Japrotek Vessels

- serves actors in the paper, pulp, and process industries as well as the metallurgy, energy, and chemical industries
- can cite quality, capacity to supply products for demanding applications, and tank–agitator combinations as key strengths
- has the Nordic region as its primary market area

Our key strengths are quality, products for demanding applications, and tank–agitator combinations

Our key strengths are quality, the capacity to work with demanding applications, and the ability to supply tank–agitator combinations tailored to customer specifications. Our customers include the paper, pulp, and process industries as well as the metallurgy, energy, and chemical industries. Japrotek has delivered pressure vessels for highly demanding projects such as the nuclear power plant being built in Olkiluoto, Finland.

We specialise in the design and construction of structures for challenging conditions and the use of special materials, such as titanium, high alloy nickel and chrome steel, and stainless and acidproof steel.

We are able to plan and deliver products for demanding applications, such as pressure vessels for nuclear power plants, titanium-structure pressure-leaching autoclaves for the hydrometallurgy industry, and large nitric acid absorption columns for the fertiliser industry.

The design and production of agitators and tanks have strong synergy benefits, and our objective is to deliver complete tank and agitator systems that guarantee high-quality process results to the end user.

We hold pressure vessel permits and standards compliance certificates for key markets around the world

Pressure vessels are used to store gases and liquids at a pressure that exceeds ambient pressure. The design and manufacture of pressure vessels is highly regulated. Japrotek Vessels holds vessel permits and standards compliance certificates for the key markets, around the world. Our operations are ISO 9001 quality-certified and comply with industry standards such as the European PED (Pressure Equipment Directive) and the US ASME BPVC (American Society of Mechanical Engineers Boiler and Pressure Vessel Code). Successful management of standards and permits is backed by constant development of the skills of our personnel.

Continuing challenges in the market

The market situation faced by Japrotek Vessels was difficult. Competition was tight, few new investments were made, and prices remained low. A slight market upturn, however, occurred, starting in late spring of 2011. Our sales activities were successful in May, June, and August.

In consequence of the unfavourable market situation, low turnover, and low price level, the unit did not reach its objectives in terms of financial results. While fixed costs have been cut and the number of employees reduced, we have refused to compromise our expertise and continued development of the skills of our personnel.

As no large investment projects materialised in our primary markets of Finland, Sweden, Norway, and Denmark, our deliveries have consisted of smaller, lightweight systems and repair and extension projects.

Tank deliveries in Finland and Sweden

The major delivery projects in 2010–2011 were the pre-construction and installation work for nine storage tanks at the Södra Cell Mönsterås plant, in Sweden. A bleaching tower was built and installed for Metso Paper in Finland. Danisco Sweeteners commissioned the building and installation of two hydrogenation reactors in Finland.

Projects that will continue in the 2011–2012 financial year are the pre-construction work and plant installation for eight tanks at Södra Cell Mörrum; construction of a heat exchanger for Swedish Exergy; and the construction and installation of a pulper, storage tanks, and agitators for the Talvivaara Mining Company in Finland.

The stock of offers for the coming year is good

Developments in the global economy have significant influence on the investment decisions of our customers, and global forecasts remain uncertain. An upturn was nevertheless seen toward the end of the 2010–2011 financial year, and the stock of offers for the new financial year look favourable.

New orders include the pre-construction work and installation of strong liquor tanks at the Rosenblad Södra Cell plant in Mörrum, Sweden; delivery of tanks and pressure vessels to Boliden, Sweden, through Chematur Ecoplanning; and delivery of pressure vessels for Andritz.

We look for opportunities for new growth in the customer sectors related to operations in the fields of energy and environmental technologies, utilising our strengths and references as a supplier of tanks for strict requirements, pressure vessels, columns, reactors, and heat exchangers in all industries in which our customers operate.

Personnel
supporting successful business

The Group human resource policy is guided by the strategic goals for the Group's business operations.

Vaahto Group's success is rooted in a skilled and motivated workforce. Continuity, enjoying one's work, and developing one's skills support the Group's business operations.

Vaahto Group had 363 employees at the beginning and 346 at the end of the financial year, with 67 of them working in subsidiaries outside Finland. The average number of personnel during the 2010–2011 financial year was 348. For the previous financial year, the figure was 371.

The Group's organisational structure has changed considerably over the past few years. The Group's structure has been made clearer, which improves not only the reaching of business goals but also the practical collaboration and professional satisfaction of employees. The number of employees in production tasks has decreased, while the resources of sales, project management, and customer communications have been increased.

The Group employed 203 production workers and 145 office staff and supervisors (the latter making up 42% of staff) in the year under review. In addition to workshop operations, a significant part of the company's operation consists of planning work. Women account for nine per cent of the Group's employees, and the average age of employees at the end of the financial year was 47 years. The average duration of employment was 15 years – a clear indicator of continuity and employee satisfaction.

Caring and safety are important for occupational well-being

The Group has commenced an early-intervention model. The objective is to increase occupational well-being and motivation through a model that promotes a workplace culture of mutual caring. This model is also intended to make it easier to address and speak about physical and psychological pressure both within and outside the workplace. Relations between supervisors and their subordinates too are intended to be straightforward and caring. Opportunities to have an influence on one's work are considered important.

Health and safety form an important part of occupational well-being. In the industries where Vaahto Group operates, the main health and safety risks are caused by the use of chemicals and heavy machinery and equipment. Good planning of work, thorough briefing of workers, and the use of protective equipment are important preparations. Industrial safety committees perform regular surveys of workplaces in order to identify potential risks. In workshops, monitoring the safety of all operations is part of daily work.

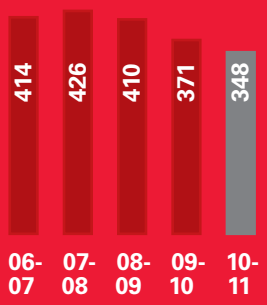
Toward continuous development

Training and development of human resources supports the achieving of business and quality objectives. The most important objective now is to improve the personnel's information technology skills. Other points of focus include continuous development and improving of processes, project work, and overall quality and service levels, as well as the forming of a deeper understanding of our customers' operations.

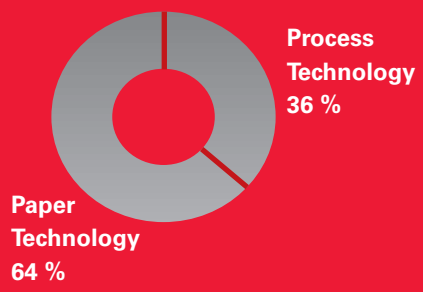
Vaahto Group collaborates with schools and universities, offering apprenticeship and diploma opportunities for students. New recruits are briefed on the practical work by experienced experts.

The operations of the Group rely on collaboration and communication. The procedures and the personnel of the various units are well known. Collaboration is straightforward, and best practice is shared across unit boundaries within the Group.

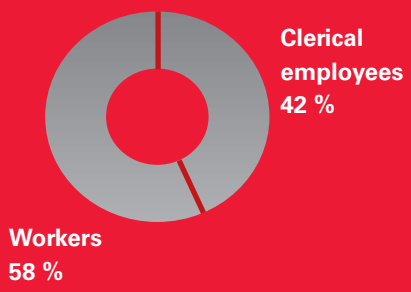
PERSONNEL AVERAGE



PERSONNEL AVERAGE IN THE BUSINESS SEGMENTS 2010–2011



DIVISION OF PERSONNEL 2010–2011



International affairs

Engineer **Tapio Rajantaus**, 49, joined Vaahto Group in 1998, and has since then worked as a project manager in several international projects.

Mr Rajantaus has worked as the head of paper, pulp, and cardboard machine service and start-up projects in China, Indonesia, Korea, Turkey, Estonia, Sweden, Norway, and the United States – and, after thinking for a moment, adds France, Italy, Hungary, Poland, South Africa, and Saudi Arabia to the list.

The tasks of the project manager include responsibility for project planning, scheduling, and budgeting as well as communicating with the customer. Some of the projects are brief shutdown-linked maintenance jobs, while others may be start-up runs that take several weeks to complete.

In international assignments, one has plenty of opportunities to see the world outside the office. Over the years, Rajantaus has met many people and seen different cultures; different cuisines; and different, sometimes authoritarian approaches to leadership. In his experience, however, people, their thoughts, and their dreams are fairly similar in different parts of the world.

Rajantaus considers the chief competitive advantages of Vaahto Group's organisation to be the good team spirit, support and communication, rapid response, and the ability of individual employees to influence important decisions. He warmly welcomes new young, enthusiastic professionals to the international team.

Responsible business
as part of our daily operations

The Vaahto Group follows the principles of responsible business operations. Continuous development of operations and personnel combines with solid environmental and quality policies to guarantee global business operations that are competitive and responsible.

Vaahto Group employs business-group-level certification of its systems and procedures in the form of an ISO 9001 quality management system and ISO 14001 environmental system. The Group-level certification system was adopted in 2007, and the certificates have been issued by Inspecta Sertifiointi Oy.

In addition to the certification agreement, Vaahto Group has an extensive service agreement with Inspecta to guarantee the highest level of service for certification, auditing, and testing services. The service level is monitored and is assessed annually by a joint co-ordination group. Group audits are performed in accordance with an annual plan.

Product quality ensures customer satisfaction

The key issues addressed by our quality management policy are customer satisfaction, a good operating result, compliance with product requirements and specifications, commitment of the personnel, and constant improvement of business operations. An ISO 9001 quality management system is followed in all business units.

Our success is built on product development and excellent product quality. Vaahto Group holds a considerable patent portfolio, and most of our delivery projects also involve product development tasks. We develop our products in collaboration with our customers and international partners.

Our factories comply with the latest directives and standards for the design and production of pressure vessels (ASMEU, CHINA A2, and PED).

Our customer survey results have been good. Our customers' satisfaction is also manifested in the number of new orders received from existing customers.

Improved energy-efficiency

The objectives of the Group's environmental policy are to minimise the environmental impact of our operations and to take environmental factors into account when developing the processes of our customers. The Vaahto Service unit follows an ISO 14001 environmental management system, and preparations are in progress for adopting the ISO 14001 standard in Japrotek, our tank and pressure vessel unit.

We strive for minimising our environmental impacts by means of certification, application of standards, and good operation guidelines. In 2008, Vaahto Group entered into an energy-efficiency agreement under which the Group aims to improve the energy-efficiency of its operations by a minimum of 10% before the end of 2016.

The positive environmental effects of our operations include improved energy-efficiency of customer processes. Energy-efficiency can be enhanced by modernising machines to improve their efficiency and extend their service life, reducing the refuse rate, and avoiding production downtime and energy-intensive restarts of production lines.

Product quality and energy-efficiency

Vaahto Group's success is built on solid product development and excellent product quality. An ISO 9001 quality management system is followed in all business units.

The positive environmental effects of our operations include improved energy-efficiency of customer processes.

Vaahto Group's

Mission

Vaahto Group enhances production processes in the paper, board, pulp, and process industries by developing and manufacturing equipment and services that boost production and improve the products' quality and competitiveness.

Vision

Vaahto Group's objective is to be a global and esteemed supplier of high-quality implementations of technology and consulting services, serving the process industry in the fields of paper-making technology and process machinery.

Strategy

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

Board of Directors

Chairman **Reijo Järvinen**, b. 1948, M.Sc.(Chem.)
Attorney Krogerus Oy, Senior Advisor
Member of the Vaahto Group Plc Oyj Board of Directors 2010 -
Previous work experience:
Finnvera Oyj, Regional Director
Most significant positions of trust:
PHP Holding Oy, Member of the Board
PHP Liiketoiminta Oyj, Member of the Board
Lahden Autokori Oy, Member of the Board
Attendance to the Board meetings 2010-2011: 18/18

Vice-Chairman **Rainer Häggblom**, b. 1956, M.Sc.(For.), M.S.Sc.(Econ. and Business Adm.)
Vision Hunters Ltd. Oy, Chairman of the Board and founder
Member and vice-chairman of the Vaahto Group Plc Oyj Board of Directors since 2010
Previous work experience:
Pöyry Forest Industry Consulting Oy, CEO and Chairman of the Board
Most significant positions of trust:
The Forest Company Ltd., Chairman of the Board
Preseco Oy, Member of the Board
Attendance to the Board meetings 2010-2011: 17/18

Seppo Jaatinen, b. 1948, M.Sc. (Econ.)
Foxhill Oy, Senior Partner
Member of the Vaahto Group Plc Oyj Board of Directors 15.6.2000 – 14.12.2010
Chairman of the Vaahto Group Plc Oyj Board of Directors 2.10.2000 – 14.12.2010
Previous work experience:
Interpolator Oy, CEO and Executive Vice President
Amer Group Plc, Development Director
Attendance to the Board meetings 2010-2011: 7/7

Topi Karppanen, b. 1956, M.Sc. (Tech.),
Coninor Oy, Managing Partner
IMP Teollinen Markkinointi Oy, Managing Partner
Member of the Vaahto Group Plc Oyj Board of Directors since 2010
Previous work experience:
Larox Oyj and Larox Group, President and CEO
Larox Oyj and Larox Group, Executive Vice President, Marketing and Sales
Attendance to the Board meetings 2010-2011: 11/11

Martti Unkuri, b. 1936, M.Sc. (Tech.)
Member of the Vaahto Group Plc Oyj Board of Directors 15.6.2000 – 14.12.2010
Previous work experience:
Rauma Oy, CEO
Attendance to the Board meetings 2010-2011: 7/7

Antti Vaahto, b. 1947, M.Sc. (Econ.), M.Sc. (Tech.), MBA
Vaahto Group Plc Oyj, CEO in 1984–2009
Member of the Vaahto Group Plc Oyj Board of Directors 13.9.1984 – 28.4.2011
Attendance to the Board meetings 2010-2011: 12/13

Mikko Vaahto, b. 1963, with vocational qualifications in business and administration
Member of the Vaahto Group Plc Oyj Board of Directors since 1994
Attendance to the Board meetings 2010-2011: 17/18

Management and Auditors

CEO

Anssi Klinga, b. 1965, M.Sc. (Econ.)
Vaahto Group Plc Oyj, CEO since May 1, 2009
Previous work experience:
Vaahto Group Plc Oyj, CFO in 2004–2009
Eimo Oyj, CFO
Rautaruukki Oyj, CFO
Componenta Oyj, CFO
Suomen Unilever Oy, Financial Manager

Group management team

The Group's operations have been separated into two divisions: Vaahto Paper Technology and Vaahto Process Technology. The activities and results of these are the responsibility of the Group management team. The CEOs of the subsidiaries and the managers of the business units are members of the management team of the Group.

Timo Kerola, b. 1960, M.Sc. (Tech.)
Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd., CEO 2006 –
Previous work experience:
Metso Paper (China) Co., Ltd., Area Vice President
Metso Paper Inc. Beijing Representative Office, Representative
Valmet Karlstad Inc. , Senior Sales Manager, Far East and Oceania
Valmet Karlstad Inc. , Senior Sales Manager, Central and South America
Valmet Korea Inc., Area Sales Manager, Korea, China, Japan and Taiwan

Christian Kessen, b. 1963, M.Sc. (Tech.)
Stelzer Rührtechnik International GmbH, CEO 2007 –
Stelzer Rührtechnik International GmbH, Manager of Engineering 1991 – 2006

Jyrki Strengell, b. 1960, M.Sc. (Tech.)
Vaahto Ltd, CEO 2009 –
Vaahto Pulp & Paper Machinery, President 2009 –
Vaahto Ltd, Sales Manager 2005 – 2009
Previous work experience:
Metso Paper Ltd, Järvenpää units, Sales Manager
Enso Gutzeit Ltd, Anjala paper mill, Production and Customer Service Manager
Yhtyneet Paperitehtaat Ltd, Kotka, Walkisoft Development and Production Engineer
Most significant positions of trust:
Oy Banmark Ab, Chairman of the Board of Directors

Tom Tarkkinen, b. 1962, engineer
Japrotek Oy Ab, CEO 2009 –
Japrotek Oy Ab, Production Manager 2005– 2009
Japrotek Oy Ab, different positions since 1989
Previous work experience:
Westmatic Oy, Desing Engineer

Pekka Viitasalo, b. 1955, technician
AP-Tela Oy, CEO 1994 –
Previous work experience:
AP-Konepaja Oy, Project Manager

Auditors

Ernst & Young Oy
Chief Auditor
Panu Juonala, CPA

Corporate Governance Statement

FOR THE 2010–2011 FISCAL YEAR

Applicable regulations

Corporate governance of Vaahto Group is based on the Finnish legislation and the Articles of Association of the Group's parent company, Vaahto Group Plc Oyj.

The company follows the NASDAQ OMX Helsinki corporate governance code 2010 for Finnish listed companies. Vaahto Group deviates from the Finnish Corporate Governance Code Recommendation 9 concerning the gender parity of the Board. Suitable candidates as a Board member to meet the recommendations of the Corporate Governance Code has so far not found.

The governance code issued by the Securities Market Association took effect on October 1, 2010, and it is publicly available, e.g., on the Securities Market Association's Web site via the address www.cgfinland.fi.

Administration of Vaahto Group

In accordance with the Companies Act, the Group's business operations and administration are the responsibility of the following bodies: the Annual General Meeting, which elects the members of the Board of Directors of the parent company, and the CEO, appointed by the Board.

Vaahto Group Plc Oyj's highest decision-making body is the Annual General Meeting, where the shareholders exercise their authority. The Board of Directors is responsible for the company's administration and appropriate operation. As the parent company of the Group, Vaahto Group Plc Oyj is responsible for the management, strategic planning, financial administration and financing, and human resources management of the Group.

The Group's business operations are divided into two divisions, Vaahto Paper Technology and Vaahto Process Technology. The activities and results of these are the responsibility of the Group management team.

Annual General Meeting

The company's highest decision-making body is the Annual General Meeting. An extraordinary general meeting is arranged when necessary. This is called by the Board of Directors. Shareholders are invited to the Annual General Meeting through a meeting invitation published on the company's Web site. The invitation provides the shareholders with the necessary information about the issues to be addressed at the meeting. The meeting notice is also published as a stock exchange release and to any other way decided by the Board of Directors.

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

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

Board of Directors

Activities of the Board

The Board of Directors of the parent company, which also acts as that of the Group, is responsible for the Group's administration and appropriate operation, and it decides on issues that are highly significant in light of the scope of the Group's operations. Some of the key responsibilities of the Board are to

- confirm the Group's strategy and objectives, monitor their implementation, and commence corrective measures if these should be necessary
- decide on significant investments as well as acquisitions and real-estate transactions
- handle and approve the interim management statements, interim reports, and financial statements
- decide on the Group's financial policies and financing methods
- approve the dividend policy and make a proposal to the AGM concerning distribution of dividends
- be in charge of arrangement of the Group's risk management and internal monitoring
- appoint and relieve the CEO, and decide on the terms of the CEO's employment
- confirm the Group's strategy and decide on the central principles governing the Group's compensation system

The Board of Directors regularly evaluates its own activities and work methods.

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

The Board meets regularly, once a month, and at other times, if necessary. During the 2010–2011 fiscal period, the Board met 18 times. There was 97% attendance by the Board members.

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

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

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

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

The AGM of December 14, 2010, confirmed that the Board shall have five members. Rainer Häggblom, Reijo Järvinen, Topi Karppanen, Antti Vaahto, and Mikko Vaahto were elected for the Board. The Board elected Reijo Järvinen as chairman and Rainer Häggblom as vice-chairman. Antti Vaahto has April 28, 2011 resigned from the Board.

Information about Board members
Presented in the item Board of Directors on page 24.

Mikko Vaahto is a major shareholder of the company. Other members of the Board do not own any of the company's shares, nor do they have interdependence with the company in any other way.

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

The Annual General Meeting of December 14, 2010, decided to pay Board members the following attendance fees as annual compensation amounts: 26,000 euros to the Chairman and 19,000 euros to each of the members.

The Annual General Meeting of December 16, 2009, decided to pay Board members the following attendance fees as annual compensation amounts: 26,000 euros to the Chairman and 19,000 euros to each of the members.

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

Fees paid to Board members in the 2010–2011 financial year for Board duties:

Reijo Järvinen, Chairman 14.12.2010 – 31.8.2011	23,667 euros
Seppo Jaatinen, Chairman 1.9.2009 – 14.12.2010	8,667 euros
Rainer Häggblom	19,000 euros
Topi Karppanen	12,667 euros
Martti Unkuri	6,333 euros
Antti Vaahto	12,567 euros
Mikko Vaahto	19,000 euros

Board member Antti Vaahto has been employed by the company until September 30, 2010. Salaries paid during the fiscal year 2010-2011 for the Board members according to the employment contract:

Antti Vaahto	4,170 euros

Board committees

The Board has no committees.

Supervisory Board

The company has no Supervisory Board.

CEO

The Board appoints the parent company's CEO, who acts as the Group's president. The CEO is responsible for day-to-day management of the Group in accordance with the Finnish Companies Act, the Articles of Association, and instructions from the Board of Directors. The CEO is neither chairman nor vice-chairman of the Board.

Vaahto Group Plc Oyj's CEO for fiscal year 2010–2011 has been Anssi Klinga.

Information about the CEO
Presented in the item Management and auditors on page 25.

Business organization

The Group's operations have been separated into two divisions: Vaahto Paper Technology and Vaahto Process Technology. The activities and results of these are the responsibility of the Group management team. The CEOs of the subsidiaries and the managers of the business units are members of the management team of the Group.

Information about the members of the Group's management
Presented in the item Management and auditors on page 25.

Compensation of the CEO and other members of the company's management

The CEO's salary and other financial benefits are decided by the Board. Compensation for other members of the management is decided upon by the CEO and the chairman of the Board.

The Group currently has no stock option plan.

No special conditions for retirement or pension benefits have been

specified for the members of the Group's management. According to the employment contract of CEO Anssi Klinga, both the company and the CEO are entitled to terminate the contract without any particular reason. In such a case, the period of notice on either side is three months. If the company terminates the contract, the CEO will be paid a sum of money corresponding to the total salary for 12 months in addition to the salary paid during the period of notice.

Salaries and fees paid to the CEO for the 2010–2011 fiscal year:

Anssi Klinga	216,249 euros

Body responsible for the duties of the audit committee

The company has no audit committee; instead, the duties of the audit committee are attended to by the Board of Directors of the company.

Internal monitoring, risk management and internal audit

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

Risk management:
The objective of the Group's risk management process is to identify any risks that pose a threat to the business operations, evaluate them, and develop the necessary risk management methods. Business-related risks of material, consequential, and liability losses are covered by appropriate insurance policies.

Internal auditing:
With regard to the nature and scope of its business operations, the Group has not deemed it appropriate to establish a separate internal auditing organization. Rather, its tasks are included in the duties of the business organization.

Insider administration

Vaahto Group Plc Oyj follows the NASDAQ OMX Helsinki Insider Guidelines. The public insider register includes statutory insiders and insiders as determined by the Board of Directors of the company. In accordance with the Securities Markets Act, permanent insiders comprise the company's Board members, CEO, and auditors. In addition, the company has defined as insiders those members of the company's top management who regularly receive insider information and are entitled to make decisions concerning developments and business arrangements related to the issuer of shares. Subsidiary-specific insider registers include persons who regularly receive insider information in the course of their duties.

Vaahto Group Plc Oyj's public and subsidiary-specific insider registers are maintained by the company. The insider register can be seen at the company's head office.

The company's insiders are not allowed to trade in shares of the company within the 21 days before publication of a financial statement or interim report.

Audit

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

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

The Annual General Meeting of December 14, 2010, selected public auditing firm Ernst & Young Oy as the company's auditor, with Panu Juonala, CPA, as chief auditor.

Auditors' fees from the Group in the 2010–2011 fiscal period totaled 155,805 euros, of which audit fees accounted for 93,172 euros, with consulting and other fees accounting for the remaining 62,633 euros.

Information

Each year, the company publishes an annual report and an interim report in both Finnish and English. The interim report is published for the first six months of the fiscal period. For Q1 and for Q1–Q3 of the fiscal period, the company publishes an interim management statement instead of an interim report.

Information about financial statements, interim reports, and interim management statements is published in exchange reports. The annual report is sent by mail to the shareholders of the company and to certain organizations and individuals according to the mailing list maintained by the company. The interim report is distributed in accordance with a separate mailing list. In addition, the annual report and interim report are published on the company's Web site **www.vaahto.fi.** The company's other press releases are also available on the Web site.

Shares and shareholders

Share Capital

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2011, was 2,872,302 euros, representing a total of 2,985,866 shares.

The new shares, a total of 113,564 shares, issued in the directed free share issue resolved upon by Vaahto Group Plc Oyj's general meeting on December 14, 2010 have been registered with the Trade Register on December 17, 2010. The new shares include the shareholder rights as from the registration date.

The combination of the share series as well as the amendments to the Articles of Association resolved upon by Vaahto Group Plc Oyj's general meeting on December 14, 2010 have also been registered with the Trade Register on December 17, 2010.

Following the share issue and the combination of the share series, the total number of shares in Vaahto Group Plc Oyj is 2,985,866. Each share carries one (1) vote and has equal rights in all respects. The share issue or the combination of the share series has no effect on the share capital of the company.

Quotation of shares

Vaahto Group Plc Oyj's shares are quoted on the NASDAQ OMX Helsinki.

Share price and trading

During the fiscal period 2010-2011, 266,706 (9.7%) of Vaahto Group Plc Oyj's Series A shares and 4,758 (1.1%) Series K trades were traded. The lowest price of a Series A share was 5.87 euros, the highest 10.00 euros, the mean price 7.26 euros, and the last trading price in the fiscal period 6.79 euros. The lowest price for a Series K share was 7.08 euros, the highest 7.97 euros and the mean price 7.57 euros. At the end of the fiscal year, the series K shares have been combined to the shares of series A. The total market capitalization on August 31, 2011 was 19.7 million euros. Vaahto Group Plc Oyj and Nordea Bank Finland Plc have a market making agreement that meets the requirements of Liquidity Providing (LP) on the NASDAQ OMX Helsinki.

Board authorizations

The new shares, a total of 113,564 shares, issued in the directed free share issue resolved upon by Vaahto Group Plc Oyj's general meeting on December 14, 2010 have been registered with the Trade Register on December 17, 2010. The new shares include the shareholder rights as from the registration date.

Following the share issue and the combination of the share series, the total number of shares in Vaahto Group Plc Oyj is 2,985,866. Each share carries one (1) vote and has equal rights in all respects. The share issue or the combination of the share series has no effect on the share capital of the company.

During the fiscal year 2010-2011, the Group did not decide to issue convertible bonds, or stock options.

The Annual General Meeting December 14, 2010 authorized the Board to decide on an issue of new shares in one or several lots. The number of new shares issued would be no more than 300,000 (three hundred thousand) shares.

The authorization entitles the Board to decide on all the terms of the share issue, including the right to deviate from the shareholders' subscription privilege.

The authorization is in effect until December 31, 2011, unless the Annual General Meeting amends or cancels the authorization before that.

Dividends

At the shareholders' meeting on December 12, 2011, the Board of Directors will propose that no dividends be paid and that the loss for the fiscal year be left in the profit and loss account.

Shareholders' and Board members' share ownership

At the end of the fiscal period on August 31, 2011, Vaahto Group Plc Oyj had 299 registered shareholders. There were in total 58,974 nominee-registered shares. On August 31, 2011, members of the Board of Directors owned a total of 521,248 shares, representing 17.5% of the votes. The holdings also include shares owned by companies under the relevant body or individual's control and those owned by minors 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.

Information for shareholders

The Annual General Meeting

The Vaahto Group Plc Oyj Annual General Meeting will be held on Monday, December 12, 2011, starting at 13.00 at Sibelius Hall, Ankkurikatu 7, in the city of Lahti.

Every shareholder who on November 29, 2011, is registered as a shareholder in the list of shareholders kept by Euroclear Finland Ltd. has the right to participate in the Annual General Meeting.

All shareholders who wish to participate in the Annual General Meeting must register no later than on December 7, 2011, before 4:00pm. Registration can be done in person or via an authorized person by letter to Vaahto Group Plc Oy, Laiturikatu 2, P.O. Box 5, FI-15141 Lahti, Finland, or by telephone call to Taina Kajander at +358 20 1880 355. Registration letter must arrive before the registration deadline.

The documents pertaining to the company's financial statement will be on view at the company's headquarters from November 21, 2011.

Dividend

The Board proposes to the Annual General Meeting that no dividends be paid.

Financial information

Vaahto Group Plc Oyj will publish during the next fiscal year that will begin September 1, 2011 only one interim report per February 29, 2012 covering six months of operations. The Interim Report will be published on April 12, 2012.

Instead of the interim reports for the first three and nine months of the accounting period, Vaahto Group Plc Oyj will disclose the interim management statements during both the first and the last half-year of the fiscal period. The Interim Management Statement for Q1 will be published on January 13, 2012 and for Q3 on June 29, 2012.

Annual reports and interim reports can be ordered from Vaahto Group Plc Oyj, P.O.Box 5, 15141 Lahti, Finland; tel. +358 20 1880 511; fax +358 20 1880 301; or e-mail taina.kajander@vaahto.fi.

The annual report, interim reports, exchange releases and other information about Vaahto Group Plc Oyj is available on the company's Web site, **www.vaahto.fi**.

Exchange reports and bulletins

The following list includes all Vaahto Group Plc Oyj's stock exchange releases and stock exchange announcements published in fiscal period 1.9.2010 – 31.8.2011.

Some of the information included in the bulletins might be out of date.

Stock exchange releases and stock exchange announcements published by Vaahto Group Plc Oyj are available on the company's web site at **www.vaahto.fi** under Releases and News.

September

06.09.2010 Vaahto Group's Annual Summary 1.9.2009 - 31.8.2010

14.09.2010 Vaahto Pulp & Paper Machinery Will Deliver Headboxes to China

22.09.2010 Vaahto Pulp & Paper Machinery to Rebuild Fajar Paper PM7 in Indonesia

November

11.11.2010 Vaahto Group's Preview of Results for Fiscal Year 1.9.2009–31.8.2010

16.11.2010 Invitation to the Annual General Meeting of Vaahto Group Plc Oyj 14.12.2010

17.11.2010 Notification on a Change in Holdings Referred to in Chapter 2, Section 10 of the Securities Markets Act

December

03.12.2010 Prospectus of Vaahto Group Plc Oyj Published

07.12.2010 Vaahto Pulp & Paper Machinery to Supply Boardmachine Headboxes to China

14.12.2010 Vaahto Group Plc Oyj Annual General Meeting December 14, 2010

14.12.2010 Notification on a Change in Holding referred to in Chapter 2, Section 10 of the Securities Markets Act

17.12.2010 Vaahto Group Plc Oyj's New Shares and Combination of Share Series Registered with the Trade Register

21.12.2010 Vaahto Group Plc Oyj's Annual Report from fiscal period 1.9.2009-31.8.2010 is published

January

14.01.2011 Vaahto Group Interim management Statement for September 1, 2010 - January 14, 2011

February

09.02.2011 Notification on a Change in Holdings in accordance with Chapter 2, Section 10 of the Finnish Securities Markets Act

10.02.2011 Notification on a Change in Holdings in Accordance with Chapter 2, Section 10 of the Finnish Securities Markets Act

March

21.03.2011 Vaahto Pulp & Paper Machinery Selected to Rebuild Stora Enso Imatra Pulp Drying Machine

April

01.04.2011 Vaahto Pulp & Paper Machinery rebuilds press section at Stora Enso Ingerois BM4

08.04.2011 Vaahto Group Interim Report for the Period September 1, 2010 - February 28, 2011

28.04.2011 Antti Vaahto Resigned from the Board of Directors of Vaahto Group Plc Oyj

June

01.06.2011 Christian Kessen Appointed to be Responsible for the Mixing Technology of Vaahto Group

July

01.07.2011 Vaahto Group Interim Management Statement for September 1, 2010 - July 1, 2011

August

31.08.2011 Publication of the Financial Statements and Interim Reports of Vaahto Group

Financial Statements 2010 2011

VAAHTO
SINCE 1874

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Review by the Board

FOR THE 1 SEPTEMBER 2010 – 31 AUGUST 2011 FINANCIAL YEAR

DEVELOPMENT OF BUSINESS OPERATIONS

For the financial year ending in August 2011, Vaahto Group's turnover was 55.3 MEUR (comparative from the previous financial year: 35.2 MEUR) and operating loss 1.3 MEUR (comparative: operating loss of 2.9 MEUR). Turnover increased by 57 per cent from the reference period's level, and the operating result improved. The Group's outstanding orders stood at 22.4 MEUR (15.2 MEUR) at the closing of the financial year.

VAAHTO PAPER TECHNOLOGY

Vaahto Paper Technology's turnover was 39.7 MEUR (21.5 MEUR) and net result an operating loss of 0.1 MEUR (operating loss of 4.8 MEUR). The result of the previous financial year was improved upon through sales profit of approximately 2 MEUR resulting from the Group's sale of real estate in Tampere. Vaahto Paper Technology's turnover increased by 85 per cent from the reference period's figure, and the result of the financial year was approximately 6.6 MEUR higher than that of the previous financial year (with the real-estate transaction included).

The most important orders received by Vaahto Paper Technology's project business unit during the financial year under review were an order for four headboxes received from Dongguan Jianhui Paper Co. Ltd and Dongguan Jinzhou Paper Co. Ltd in China; an order for five headboxes for two exterior package board production lines of Vantage Dragon Ltd, also in China; and a paper machine modernisation project commissioned by Fajar Paper in Indonesia. In addition, the business unit received substantial domestic orders from Finland, including the modernisation of a drying machine at the Stora Enso pulp mill in Imatra and the modernisation of the press section of a cardboard machine at Stora Enso's mill in Inkeroinen.

The financial year also saw continued efforts toward developing Vaahto Paper Technology's service business branch. Service and maintenance operations, however, fell short of the objectives set for the period, especially during the first half of the financial year. Toward the end of the financial year, however, the market situation for short-circulation maintenance services improved and orders started accumulating.

The objective of the Vaahto Paper Technology business unit is to continue strengthening its position as a leading supplier of technologies and services for the international paper and cardboard market.

VAAHTO PROCESS TECHNOLOGY

Vaahto Process Technology's turnover was 15.7 MEUR (13.8 MEUR) and result an operating loss of 1.2 MEUR (operating profit of 1.9 MEUR). The result of the previous financial year was improved upon, thanks to sales profit of approximately 2.6 MEUR resulting from the sale of real estate in Pietarsaari and the sale of the HVAC business. Turnover increased from the reference period's level by 14 per cent, but the result remained negative and was 0.4 MEUR weaker than that of the reference period (including real-estate transactions and the selling of business operations). The division's negative operating result was principally caused by the low profitability of the tank business.

Vaahto Process Technology's market situation in the tank sector was very weak. Orders did, however, start coming in as the end of the financial year approached, and the outlook for the next financial year is better.

Vaahto Process Technology's market situation in the agitator business was good, and orders were received in significant numbers in the course of the financial year. The agitator business objectives have been met, and the outlook for our agitator operations in the 2011–2012 financial year is good.

PROFITABILITY

Vaahto Group's turnover during the financial year was 55.3 MEUR (35.2 MEUR) and operating loss 1.3 MEUR (2.9 MEUR). The operating loss represented 2.3 per cent (8.1 per cent) of the turnover. The primary reason for the negative result was weak profitability in the tank business.

We improved on the result of the previous financial year through sales profit of approximately 4.6 MEUR from the sale of real estate in Tampere and Pietarsaari and the sale of the Group's HVAC business. Turnover increased by 57 per cent from the reference period's level, and the result for the financial year showed an increase of approximately 6.2 MEUR from the previous financial year's figure (including the real-estate transactions and the sale of business operations).

FINANCING

The cash flow of the Group's business operations was -3.8 MEUR (-16.0 MEUR). The Group's financing costs came to 0.6 MEUR (1.0 MEUR). The cash flow for investments made during the financial year was 7.1 MEUR (-0.3 MEUR). The Group's consolidated balance sheet total was 36.5 MEUR (39.0 MEUR), with an equity ratio of 17.8 per cent (21.8 per cent).

Important changes were made in the Group's financing arrangements during the financial year under review. The Group sold real estate in Tampere and Pietarsaari during the previous financial year, but the payment was received only in September 2010. The purchase price, approximately eight million euros, was primarily used to pay off bank and pension loans.

The Group is constantly monitoring and tracking the level of financing required for its operations, to ensure the availability of sufficient liquid assets to finance the Group's operations and repay its loans. Availability of the working capital required by the Group's normal operations is aimed to be ensured by means of sufficient financing instruments.

The Group's financing agreement includes covenant condition restrictions that are specified in more detail in Section 27 of the attached documentation.

INVESTMENTS

The Group's capital expenditure during the financial year was 1.9 MEUR (0.8 MEUR), mostly consisting of small-scale machine and equipment investments.

INFORMATION SYSTEMS

Development of the Group's information administration efforts and information systems was continued in accordance with the centralised model.

RESEARCH AND DEVELOPMENT

The Group's research and development activities focused on expansion of Vaahto Paper Technology's service business product range and improvement to the competitive features of the key components of paper and cardboard machines. The scope of research and development activities remains at the level seen in the previous financial year.

HUMAN RESOURCES

The average number of personnel employed by the Group during the financial year was 348 (371).

RISKS AND UNCERTAINTY FACTORS

Demand for Vaahto Group's products is highly dependent on trends and other developments in the global economy and the Group's primary customer industries. Attempts are made to balance out the risks caused by market fluctuations by adapting the Group's sales operations in accordance with current trends in the relevant market areas and customer industries.

Large-scale projects entail the risk of inaccurate assessment of project costs and other risks inherent to projects in the tender stage, which may cause a project's financial result to be lower than expected. Attempts are made to control the risks involved in large-scale projects, by means of several quality management systems, profitability analyses, operation guidelines, and approval procedures.

The objective of the efforts to manage the Group's financing risks is to minimise the negative impact of changes in financing markets on the Group's result and to ensure the availability of internal and external capital on competitive terms.

The risk of property losses, consequential losses, and liability losses caused by business operations is addressed by means of appropriate insurance arrangements.

SHARE CAPITAL

Information on Vaahto Group Plc Oyj's shares is presented in Section 24 of the attached documentation of the annual accounts.

The Annual General Meeting of 14 December 2010 authorised the Board of Directors to decide on the issuing of new shares in one or more instalments. The maximum number of new shares that may be issued is 300,000. The authorisation is valid until 31 December 2011 unless a general meeting amends or revokes the authorisation prior to that date.

The Board of Directors has no authorisation to issue convertible bonds or warrant bonds or for purchasing or transferring the Group's own stock.

ADMINISTRATION

The Annual General Meeting of 14 December 2010 nominated the following members to the Board of Directors of Vaahto Group Plc Oyj:

Reijo Järvinen, as Chairman
Rainer Häggblom, as Deputy Chairman
Topi Karppanen, as an ordinary member
Antti Vaahto, as an ordinary member
Mikko Vaahto, as an ordinary member

Antti Vaahto resigned from the Board on 28 April 2011.

The Group's managing director throughout the 2010–2011 financial year was Anssi Klinga.

The Group's accounts have been audited by certified auditing company Ernst & Young Oy. The head auditor was Certified Public Accountant Panu Juonala.

The company follows the 2010 Corporate Governance Code issued for companies listed on the NASDAQ OMX Helsinki exchange. A report on the Group's management and steering system is available on the Group's Web site.

DEVELOPMENT PROSPECTS

The development of the international economy has shown alarming signals, and the market situation of Vaahto Group's principal customer industries is increasingly uncertain. No significant changes, however, had occurred in demand for Vaahto Group products by the beginning of the new financial year, and the volume of outstanding orders is higher than that at the start of the 2010–2011 financial year. Vaahto Group's profitability can be expected to increase from the previous financial year's level. The result for the financial year is expected to be positive.

DISTRIBUTION OF PROFIT

The parent company's financial resources available for distribution of profit stood at 3,120,471.55 EUR, with the operating loss for the financial year at 354,920.90 EUR.

The Board will propose to the Annual General Meeting that no dividend be distributed and that the retained earnings be deposited in the profit account.

Key figures

The business indicators 1 000 €	2010/2011 12 months IFRS	2009/2010 12 months IFRS	2008/2009 12 months IFRS	2007/2008 12 months IFRS	2006/2007 12 months IFRS
Turnover	55 318	35 160	75 694	73 207	88 161
Change, %	57,3	-53,5	3,4	-17,0	34,8
Operating profit or loss	-1 304	-2 857	-2 320	649	5 812
% of turnover	-2,4	-8,1	-3,1	0,9	6,6
Profit or loss before taxes	-1 946	-3 840	-3 458	-77	5 226
% of turnover	-3,5	-10,9	-4,6	-0,1	5,9
Earnings per share calculated on profit attributable to equity holders of the parent	-2 225	-2 910	-2 460	238	3 639
% of turnover	-4,0	-8,3	-3,3	0,3	4,1
Return on equity (ROE), %	-31,0	-32,2	-20,6	2,2	29,5
Return on investment (ROI), %	-4,2	-11,0	-8,5	2,6	25,8
Equity ratio, %	17,8	21,8	23,2	37,3	35,5
Current ratio	0,9	0,8	0,9	1,1	1,1
Gearing	248,3	222,5	11,1	99,8	65,5
Gross investments in fixed assets	1 876	776	3 656	4 613	1 502
% of turnover	3,4	2,2	4,8	6,3	1,7
Order backlog	22 401	15 175	17 098	54 384	42 894
Consolidated balance sheet total	36 525	39 045	50 086	41 847	52 190
Total number of personnel (average)	348	371	410	426	414

Share related data	2010/2011 12 months IFRS	2009/2010 12 months IFRS	2008/2009 12 months IFRS	2007/2008 12 months IFRS	2006/2007 12 months IFRS
Earnings per share (EPS), euros	-0,75	-1,01	-0,86	0,08	1,27
Shareholders' equity per share, euros	1,52	2,36	3,37	4,32	4,68
Dividend per share, euros *1)*	0,00	0,00	0,00	0,10	0,40
Dividend payout, %	0,0	0,0	0,0	120,6	31,6
Effective dividend return, %	0,0	0,0	0,0	1,0	3,1
Price earnings ratio (P/E)	-9,0	-7,1	-7,9	124,0	10,3
Number of shares outstanding at the end of the period (1 000)	2 986	2 872	2 872	2 872	2 872
Number of shares outstanding, average (1 000)	2 953	2 872	2 872	2 872	2 872

1) Proposal by the Board

Share prices €	2010/2011 12 months *2)*	2009/2010 12 months	2008/2009 12 months	2007/2008 12 months	2006/2007 12 months
A share					
- high	10,00	7,03	9,90	12,32	14,20
- low	5,87	5,46	4,72	8,85	6,52
- average	7,26	6,30	6,69	10,55	11,11
- share price at the end of the fiscal year	6,79	6,70	6,40	9,82	12,54
K share					
- high	7,97	7,69	10,74	12,55	14,95
- low	7,08	6,56	6,20	8,80	7,28
- average	7,57	7,30	7,98	10,35	11,75
- share price at the end of the fiscal year		7,68	7,30	10,74	13,51
Total market value, million euros					
A share	20,3	9,7	9,3	14,3	18,2
K share		10,9	10,4	15,2	19,2
Total	20,3	20,6	19,7	29,5	37,4
Number of shares traded during the fiscal year					
A share	266 706	19 270	517 074	1 413 803	2 596 692
K share	4 758	8 324	90 113	1 062 841	1 082 285
Number of shares traded, %					
A share	9,7	1,3	35,6	97,3	178,7
K share	1,1	0,6	6,4	74,9	76,2
Number of shareholders	299	295	303	305	315

2) Share series A and K has been combinated into one share serie on December 16, 2010.

Consolidated Statement of Comprehensive Income, IFRS

1 000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010	Note
NET TURNOVER	**55 318**	**35 160**	**3,4**
Change in finished goods and work in progress	547	1 264	
Production for own use	1 183	500	
Other operating income	390	4 901	5
Share of profits of affiliated companies	-4	17	
Material and services	-28 614	-17 548	
Employee benefit expenses	-17 586	-16 374	8
Depreciations	-2 115	-2 547	7
Other operating expenses	-10 424	-8 230	6
OPERATING PROFIT OR LOSS	**-1 304**	**-2 857**	
Financing income	320	91	10
Financing expenses	-963	-1 075	11
PROFIT OR LOSS BEFORE TAXES	**-1 946**	**-3 840**	
Tax on income from operations	-172	812	12
PROFIT OR LOSS FOR THE FISCAL YEAR	**-2 118**	**-3 028**	
OTHER COMPREHENSIVE INCOME:			
Translation differences	-1	14	
Other comprehensive income, net of tax	-1	14	
TOTAL COMPREHENSIVE INCOME	**-2 120**	**-3 014**	
NET PROFIT OR LOSS ATTRIBUTABLE:			
Equity holders of the parent	-2 225	-2 910	
Non-controlling interests	107	-118	
	-2 118	-3 028	
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE:			
Equity holders of the parent	-2 226	-2 896	
Non-controlling interests	107	-118	
	-2 120	-3 014	
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS undiluted, euros/share	-0,75	-1,01	13
EPS diluted, euros/share	-0,75	-1,01	
Average number of shares			
-undiluted	2 952 591	2 872 302	
-diluted	2 952 591	2 872 302	

Consolidated Balance Sheet, IFRS

1 000 €	31.8.2011	31.8.2010	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	1 030	1 642	15
Goodwill	1 702	1 702	16
Tangible assets	10 907	10 923	14
Shares in affiliated companies	57	62	17
Available for sale investments	44	44	19
Non-current trade receivables and other receivables	11	11	18
Deferred tax asset	2 274	2 172	20
NON-CURRENT ASSETS	**16 026**	**16 557**	
CURRENT ASSETS			
Inventories	5 601	5 241	21
Trade receivables and other receivables	7 305	14 732	22
Current receivables for revenue recognized in part prior to project completion	6 818	1 953	
Tax receivable, income tax	0	2	22
Cash and bank	775	560	23
CURRENT ASSETS	**20 500**	**22 488**	
ASSETS	**36 525**	**39 045**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Share premium account	6	6	
Other reserves	1 995	1 995	
Translation differences	29	41	
Retained earnings	-351	1 864	
Equity attributable to equity holders of the parent	4 552	6 778	
Non-controlling interests	1 217	1 110	
SHAREHOLDERS' EQUITY	**5 768**	**7 888**	**24**
NON-CURRENT LIABILITIES			
Deferred tax liability	624	549	20
Long-term liabilities, interest-bearing	6 831	3 042	27
Non-current provisions	273	245	26
NON-CURRENT LIABILITIES	**7 728**	**3 836**	
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	8 269	15 068	27
Trade payables and other liabilities	14 573	12 072	29
Tax liability, income tax	186	182	29
CURRENT LIABILITIES	**23 028**	**27 321**	
EQUITY AND LIABILITIES	**36 525**	**39 045**	

Consolidated Flow of Funds Statement, IFRS

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010	Note
FLOW OF FUNDS FROM OPERATIONS			
Profit or loss before taxes	-1 946	-3 840	
Adjustments:			
Depreciations	2 115	2 547	7
Unrealized foreign exchange gains and losses	-150	0	
Other income and expenses, no payment related	30	-95	
Financing income and expenses	643	984	10, 11
Share of profits of affiliated companies	4	-17	17
Other adjustments	-213	-4 755	5
Flow of funds from operations before the change in working capital	**482**	**-5 177**	
Change in working capital:			
Change in short-term receivables	-5 060	3 574	
Change in inventories	-360	-835	
Change in short-term non-interest-bearing creditors	1 950	-12 554	
Flow of funds from operations before financial items and taxes	**-2 988**	**-14 992**	
Interests and other financial expenses from operations paid	-746	-1 033	11
Dividends received	3	3	10
Interests and other financial income received	100	88	10
Income taxes paid	-200	-114	12
FLOW OF FUNDS FROM OPERATIONS	**-3 831**	**-16 047**	
FLOW OF FUNDS FROM INVESTMENTS			
Investments in tangible and intangible assets	-1 879	-776	14, 15
Income from sales of tangible and intangible assets	8 934	479	
Lainasaamisten takaisinmaksut	1	1	
FLOW OF FUNDS FROM INVESTMENTS	**7 055**	**-295**	
FLOW OF FUNDS FROM FINANCIAL ITEMS			
Withdrawals of short-term loans	55	6 172	31
Repayments of short-term loans	-6 793	-869	31
Withdrawals of long-term loans	5 274	238	28
Repayments of long-term loans	-1 545	-1 039	28
FLOW OF FUNDS FROM FINANCIAL ITEMS	**-3 009**	**4 502**	
Change of liquid funds	**215**	**-11 840**	
Liquid assets at the beginning of the fiscal year	560	12 400	
Liquid assets at the end of the fiscal year	775	560	
Change in liquid assets according to the balance sheet	215	-11 840	

Consolidated Statement of Changes in Shareholders' Equity, IFRS

1 000 €

Change in shareholders' equity 1.9.2010-31.8.2011	Share capital	Share premium account	Reserve fund	Translation differences	Retained earnings	Total	Non-controlling interests	Total
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**1 995**	**41**	**1 864**	**6 778**	**1 110**	**7 888**
Total comprehensive income				-12	-2 214	-2 226	107	-2 120
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**1 995**	**29**	**-351**	**4 552**	**1 217**	**5 768**

Change in shareholders' equity 1.9.2009-31.8.2010	Share capital	Share premium account	Reserve fund	Translation differences	Retained earnings	Total	Non-controlling interests	Total
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**1 995**	**20**	**4 781**	**9 673**	**1 229**	**10 902**
Total comprehensive income				22	-2 917	-2 896	**-118**	-3 014
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**1 995**	**41**	**1 864**	**6 778**	**1 110**	**7 888**

Note 24. Shareholders' equity

Notes to the Consolidated Financial Statements

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1. BASIC INFORMATION

Vaahto Group's parent company, Vaahto Group Plc Oyj, is a public Finnish company. The company's domicile is Hollola, and its registered address is Laiturikatu 2, FI-15140 Lahti, Finland. The company's shares have been quoted on the exchange now known as NASDAQ OMX Helsinki Oy since 1989.

Vaahto Group is a supplier of implementations of technology and consulting services, serving the process industry globally in the fields of paper-making technology and process machinery. The Group has two main business divisions: Vaahto Paper Technology and Vaahto Process Technology.

At its meeting of November 10, 2011, the Vaahto Group Plc Oyj Board approved this financial statement for publication. According to the Finnish Companies Act, shareholders have the choice of accepting or rejecting the financial statement at the Annual General Meeting held after its publication. The Annual General Meeting also has the opportunity to decide to amend the financial statement.

2. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENT

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on August 31,2011. The term "IFRS standards" refers to standards and interpretations which are approved and adopted by the European Union (regulation EY 1606/2002) and thus are in force in the Finnish legislation. The notes to the consolidated financial statements are also in accordance with the Finnish accounting and corporation legislation.

The consolidated financial statements have been prepared on the basis of original acquisition costs, except for derivative financial instruments.

APPLICATION OF NEW OR AMENDED IFRS STANDARDS

The Group adopted in fiscal year 2010-2011 the following new, revised or amended standards and interpretations:

IFRS 2 Share-based payments (amendment)
The amendment concerns and clarifies share-based payment transactions in which the subsidiary receives goods or services from staff or suppliers, but the parent company or other affiliates pay for performance. The amendment has not effected on the financial statements of the Group.

IAS 32 Financial instruments: presentation – Classification of issued rights (amendment)
The amendment concerns the classification of foreign currency share issues, options or warrants as equity or liability. The amendment has not effected on the financial statements of the Group.

IFRIC 15 Agreements for the construction of real estate
The interpretation has not effected on the financial statements of the Group.

IFRIC 17 Distributions of non-cash assets to owners
According to the interpretation, non-cash dividend should be measured at fair value. The difference between book-value and fair value of the funds to be distributed is recognized in profit or loss. The interpretation has not effected on the financial statements of the Group.

IFRIC 18 Transfers of assets from customers
The interpretation concerns communities which receive from their clients tangible asset and the community uses the asset so that the client will be connected to the distribution network. The interpretation has not effected on the financial statements of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments
The interpretation has not effected on the financial statements of the Group.

Annual improvements to IFRS (2009)
The amendments did not have significant effect on the financial statements of the Group.

The Group will adopt the following new, revised or amended standards or interpretations since the effective date of each standard or interpretation or, if the effective date is other than the first date of the fiscal year, since the beginning of the next fiscal year after the effective date. The Group estimates that the amendments will not have a significant impact on the Group's future financial statements.

IAS 24 Related party disclosures (revised)
The revision is effective during the fiscal periods beginning on January 1, 2011 or after that. The revised standard has clarified the definition of related party and supplemented with new disclosure requirements. The amendments are not significant concerning the Group's financial statements.

IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction (amendments)
The amendments are effective during the fiscal periods beginning on January 1, 2011 or after that. The amendment does not effect on the financial statement of the Group.

IFRS 7 Financial instruments: disclosures – transfers of financial assets (amendment)
The amendment is effective on fiscal periods beginning on July 1, 2011 or after that. The amendment does not effect significantly on the financial statement of the Group. The amended standard has not yet been approved for application in the EU.

Annual improvements to IFRS (May 2010)
The effects of the amendments vary by standards, but the amendments are not significant to the financial statements of the Group. The amendments are effective mainly during the fiscal periods beginning on September 1, 2011 or after that.

IAS 12 Income taxes (amendment)
The amendment is effective on fiscal periods beginning on January 1, 2012 or after that. Standard requires that deferred taxes related to an asset are valued according to that, if the book-value of the asset is expected to be cumulated by using or selling it. The amendments of the standard IAS 12 concern the assets recognized according to the standard IAS 40 Investment properties and the assets revaluated according to the standard IAS 16 Tangible assets. The Group has neither assets recognized according to the standard IAS 40 Investment properties nor assets revaluated according to the standard IAS 16 Tangible assets. Hence, the amendments of standard IAS 12 Income taxes do not effect on the financial statement of the Group. The amended standard has not yet been approved for application in the EU.

IFRS 9 Financial instruments (new standard)
The standard is effective on fiscal periods beginning on January 1, 2013 or after that. However, IASB (International Accounting Standards Board) has proposed to postpone the transfer the entry into force since January 1, 2015. The standard will change the classification of the financial assets; in the future the financial assets are recognized either as financial assets measured at fair value or as financial assets measured at amortized acquisition costs. The standard will step by step replace the current standard IAS 39 Financial Instruments. The amended standard has not yet been approved for application in the EU.

IFRS 10 Consolidated financial statements
The new standard will be effective on January 1, 2013. The new standard will replace the standard IAS 27 Consolidated and separate financial statements and will renew the concept of the control.
The amendment will not have a significant impact on the Group's financial statements. The amended standard has not yet been approved for application in the EU.

IFRS 11 Joint arrangements
The new standard will be effective on January 1, 2013. The new standard will replace the standard IAS 31 Shares in affiliated companies and will renew the concept of the control. In the future, the joint ventures (former jointly controlled entities) will be included in the consolidated financial statements according to the equity method and proportionate consolidation method will be prohibited. The amendment will not have a significant impact on the Group's financial statements. The amended standard has not yet been approved for application in the EU.

IFRS 12 Disclosures of interests in other entities
The new standard will be effective on January 1, 2013. It includes the disclosure requirements concerning subsidiaries, affiliated companies and joint arrangements as well as structured units (today called special purpose entities). The disclosure requirements will increase from current and they have an effect on Group's disclosures. The amended standard has not yet been approved for application in the EU.

IFRS 13 Fair value measurement
The new standard will be effective on January 1, 2013. It instructs how the fair value of assets is determined. The standard does not define what assets are measures at the fair value in the financial statements or how the fair value is recognized. The amendment will not have an impact on the Group's financial statements. The amended standard has not yet been approved for application in the EU.

IAS 19 Employee benefits (amendment)
The amendment of the standard will change the calculation and recognition of the defined benefit plan employee benefits as well as increases the disclosures concerning those. In addition to this, the amendment includes clarifications to the definitions of the employee benefits. The amendment will not have an impact on the Group's financial statements, because there are no defined benefit plan employee benefits in the Group. The amended standard has not yet been approved for application in the EU.

IAS 1 Presentation of financial statements – presentation of other comprehensive income
The amendment will be effective on January 1, 2013. The amendment requires group and present separately those other comprehensive income that will never recognize in profit or loss. The amendment will not have an impact on the Group's financial statements. The amended standard has not yet been approved for application in the EU.

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.

The Group owns part of an affiliated company named ZAO Slalom, in Russia. The company is to focus on the Russian sales and marketing for Vaahto Paper Technology division. The company has two series of shares: ordinary registered shares and convertible preferred shares, which differ from each other in relation to voting rights: convertible preferred shares have no voting rights in the shareholders' meeting. The Group has 40 ordinary registered shares of total 100 shares of the company and 20 convertible preferred shares of total 20 shares of the company. The Group's share of voting rights is 40%. According to the foundation agreement of the company, the convertible preferred shares of the Group can be converted to ordinary registered shares starting from January 1, 2010. The Group has not used this right during the fiscal year. The Group's share of the affiliate's result was included in the consolidated financial statements according to the equity method. This was done on the basis of the situation on June 30, 2011.

Profitus Oy, a fully owned subsidiary by the parent company, has changed its name into Steva Oy during the fiscal period.

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 differ-

ences related to financial items are included in financing gains or losses.

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. An exception to this is the German company, which has a provision for pension of one person in addition to the pension arrangements based on payment. The provision is described in more detail in item 25 of the notes, "Provisions."

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. Shares of profits of affiliated companies are included in the operating profit, if the operation of the affiliated company is considered to be closely related to the Group's business, otherwise they are included in the 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; nontax- 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.

TANGIBLE ASSETS

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. 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 straightline 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.

Costs for development and construction of significant new software are capitalized on the balance sheet as intangible assets and amortized on a straight-line basis over their useful life. The direct costs capitalized include consulting and specialist fees paid to third parties, software licenses purchased for applications, and other direct costs. Software maintenance and operation costs are recorded as an expense for the financial year in which they are incurred. The depreciation periods are as follows:

Intangible rights	5 years
IT - software	5 years
Other intangible assets	5 years

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 goodwill, irrespective of whether there is any indication of impairment.

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 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.

Available-for-sale financial assets consist of shares and debt with interest, and they are recognized at their fair value. However, not-listed shares have been recognized at the acquisition cost, because reliable fair values have not been available. 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 and bank deposits that can be obtained on demand.

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 and intangible 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 term of the 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 HEDGING

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.

The fair values of interest derivatives are specified by discounting the contractual cash flows to the current value with the market interest of the balance sheet date.

Derivative instruments are used in the Group as a rule to hedge against exchange rate and interest rate risks. The currency forward contracts and currency option contracts are used to protect trade receivables and account payables as well as future receivables and liabilities. The interest rate derivatives are used to hedge against the changes of interest rates. However, the hedge accounting does not meet the criteria of the hedge accounting according to the IAS 39 standard, and therefore the derivative instruments are not defined as hedging instruments in the financial statements, but the changes of their fair value are recognized in the income statement.

ACCOUNTING PRINCIPLES REQUIRING JUDGMENTS BY MANAGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The Group tests goodwill 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. The cash flow forecasts used for the calculations are based on the annual predictions concerning the income statement and maintenance investments made by the management, prepared in connection with the Group's budgeting process. The management bases its forecast on actual developments and its opinion of the growth outlook for the industry. The forecasts include uncertainty in respect of the development of the industry's market situation.

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.

The Group has recognized the deferred tax assets concerning the confirmed losses and losses to be confirmed from the fiscal period to the extent that it is probable that they can be utilized in the taxation of future fiscal periods according to the tax regulations of each country. Registration of tax receivables is based on forecasts approved by the Group's management. The forecasts include uncertainty factors, particularly with regard to the result of the Group's Vaahto Paper Technology division, which is dependent on future economic developments in the industry and may therefore diverge from the value used for these forecasts.

3. SEGMENT INFORMATION

The Group's business is reported as two operating segments: Vaahto Paper Technology (former Pulp & Paper Machinery) and Vaahto Process Technology (former Process Machinery). The segments are based on the Group's internal organizational structure and internal financial reporting, which is based on accounting principles according to IFRS.

Vaahto Paper Technology's products and services include paper and board machines and their rebuilds as well as rolls, roll coating, and roll servicing. Vaahto Process Technology manufactures pressure vessels, agitators and other mixing equipment, reactors, columns, and heat exchangers.

Inter-segment pricing is based on market price.

The profit or loss of the segment is profit or loss before financial items and taxes. During the fiscal period 2010 - 2011 the profit of Vaahto Paper Technology include the profit from sales of Hollola factory building as well as sales profit from the additional sales price from the sale of HVAC business in the previous fiscal year. In the previous fiscal period, Vaahto Paper Technology's profit or loss included the sales profit from the sale of Tampere building. Vaahto Process Technology's profit or loss included the sales profit from the sale of Pietarsaari building as well as from the sale of HVAC business. 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 centrally managed financial items and taxes, and other corporate items. Investments comprise increase in tangible and intangible assets that are expected to be used for more than one fiscal year.

Notes to the Consolidated Financial Statements

OPERATING SEGMENTS

1000 € Fiscal period 2010-2011	Vaahto Paper Technology	Vaahto Process Technology	Elimina-tions	Segments total	Non-allocated items	Group total
Income statement information						
External net sales	39 627	15 691		55 318		55 318
Intra-Group net sales	26	16	-42	0		0
Net turnover	**39 653**	**15 707**	**-42**	**55 318**		**55 318**
Shares of profits of affiliated companies	-4			-4		-4
Profit or loss of the segment	**-98**	**-1 202**		**-1 300**		**-1 304**
Financing income and expenses					-643	-643
Profit or loss before taxes, Group						**-1 946**
Balance sheet information						
Segments assets	26 433	12 148	-5 358	33 223		33 223
Shares in affiliated companies	57			57		57
Segments assets total	**26 490**	**12 148**	**-5 358**	**33 280**		**33 280**
Deferred tax asset					2 274	
Cash and bank					775	
Other non-allocated assets					196	
Non-allocated assets total						3 246
Assets total, Group						**36 525**
Segments liabilities	10 556	3 976		14 532		14 532
Segments liabilities total	**10 556**	**3 976**		**14 532**		**14 532**
Long-term and short-term liabilities, interest-bearing					15 101	
Deferred tax liabilities					624	
Tax liability, income tax					186	
Derivatives					241	
Other non-allocated liabilities					73	
Non-allocated liabilities total						16 225
Liabilities total, Group						**30 757**
Other information						
Net sales, goods	30 083	15 691		45 774		45 774
Net sales, services	9 544			9 544		9 544
Investments	1 698	182		1 879		1 879
Depreciation	1 605	510		2 115		2 115
Average number of personnel	223	125		348		348

OPERATING SEGMENTS

1000 € Fiscal period 2009-2010	Vaahto Paper Technology	Vaahto Process Technology	Elimina-tions	Segments total	Non-allocated items	Group total
Income statement information						
External net sales	21 398	13 762		35 160		35 160
Intra-Group net sales	103	44	-146			
Net turnover	**21 501**	**13 806**	**-146**	**35 160**		**35 160**
Shares of profits of affiliated companies	17			17		17
Profit or loss of the segment	**-4 812**	**1 922**		**-2 890**	**16**	**-2 857**
Financing income and expenses					-984	-984
Profit or loss before taxes, Group						**-3 840**
Balance sheet information						
Segments assets	27 288	18 271	-9 357	36 203		36 203
Shares in affiliated companies	62			62		62
Segments assets total	**27 350**	**18 271**	**-9 357**	**36 265**		**36 265**
Deferred tax asset					2 172	
Cash and bank					560	
Other non-allocated assets					49	
Non-allocated assets total						2 780
Assets total, Group						**39 045**
Segments liabilities	10 281	3 620	-2 000	11 902		11 902
Segments liabilities total	**10 281**	**3 620**	**-2 000**	**11 902**		**11 902**
Long-term and short-term liabilities, interest-bearing					18 109	
Deferred tax liabilities					549	
Tax liability, income tax					182	
Derivatives					391	
Other non-allocated liabilities					23	
Non-allocated liabilities total						19 255
Liabilities total, Group						**31 157**
Other information						
Net sales, goods	14 758	13 762		28 521		28 521
Net sales, services	6 639			6 639		6 639
Investments	629	146		776		776
Depreciation	1 891	656		2 547		2 547
Average number of personnel	242	129		371		371

1000 €

GEOGRAPHICAL AREA INFORMATION

The geographical areas are presented by the main market areas. The turnover for the geographical areas is presented in the order of the clients' location. Financial resources and the investments are presented in accordance with their location. As financial resources are presented tangible and intangible assets, goodwill and shares in affiliated companies.

Fiscal period 2010-2011	Finland	Other Europe	Asia	Africa	North America	Other	Group total
Net turnover	14 176	16 828	23 096	425	436	356	55 318
Assets	11 852	1 825	20				13 697
Investments	1 703	167	9				1 879

Fiscal period 2009-2010	Finland	Other Europe	Asia	Africa	North America	Other	Group total
Net turnover	15 600	15 468	2 813	468	130	681	35 160
Assets	11 008	3 296	25				14 330
Investments	631	142	3				776

INFORMATION ABOUT KEY CUSTOMERS

The Group's turnover includes proceeds from an individual customer a sum that exceeds 10% of the Group's turnover. These proceeds come to 12 million euros. The proceeds are included in the income of the Vaahto Paper Technology division.

4. LONG-TERM PROJECTS

	1.9.2010-31.8.2011	1.9.2009-31.8.2010
Net turnover		
Net turnover of construction contracts recognized under the percentage of completion method	24 290	13 960
Other turnover	31 028	21 200
Total	**55 318**	**35 160**
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	56 875	41 234

Order backlog	**31.8.2011**	**31.8.2010**
Construction contracts recognized under the percentage of completion method	12 066	6 963
Projects entered on completion of the project	10 335	8 212
Order backlog total	**22 401**	**15 175**

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	53 880	37 473
Advances received from the customers	47 258	35 520
Difference	**6 622**	**1 953**
Accrued income from the construction contracts in the Balance Sheet (Balance Sheet item Current receivables for revenue recognized in part prior to project completion, note 22. Current assets)	6 818	1 953
Advance payments received from the construction contracts in the Balance Sheet (Balance Sheet item Advance payments, received, note 28. Trade payables and other liabilities)	196	0
Receivables from the construction contracts in the Balance Sheet (net)	**6 622**	**1 953**

5. OTHER OPERATING INCOME

	1.9.2010-31.8.2011	1.9.2009-31.8.2010
Other operating income		
Profit from sales of other tangible assets	168	532
Subventions	101	131
Profit from sales of land and buildings	74	4 097
Other rent income	19	19
Profit from sales of intangible assets	0	10
Other income	28	112
Total	**390**	**4 901**

Profit from sales of land and buildings in the fiscal period 2010 - 2011 consist of the sales of the Vaahto Ltd's factory building in Hollola. The business carried out in the real estate in question has been transferred in other factory of Vaahto Ltd in Hollola.

In the previous fiscal period 2009 - 2010 the profits from sales of lands and buildings consisted of the sales profit from factory and office buildings in Tampere and Pietarsaari.

The profit from sales of other tangible assets in the fiscal period 2009 - 2010 consists mainly of the proceeds from the sale of the HVAC business and in the fiscal period 2010 - 2011 of the additional sales price of the mentioned sale.

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010

6. OTHER OPERATING EXPENSES

Other operating expenses		
Overhead costs of production	1 892	1 418
Rents	1 667	981
Traveling expenses	1 179	1 033
Sales costs	969	747
IT-costs	805	634
Expenses from real estates and apartments	676	732
Non-statutory employee benefits	404	315
Marketing expenses	211	215
Costs of bank guarantees	205	106
Losses from sales of fixed assets (tangible assets)	29	0
Other expenses	2 386	2 049
Total	**10 424**	**8 230**

Other operating expenses include fees paid to the auditors		
Auditing fees	93	80
Consulting and other fees	63	8
Total	**156**	**88**

7. DEPRECIATION AND IMPAIRMENTS

Depreciations by groups of assets

Intangible assets		
Development expenditure	75	162
Intangible rights	62	31
Other long-term assets	49	52
Other long-term assets, financial lease	541	681
Total	**727**	**926**

Tangible assets		
Buildings	125	328
Machinery and equipment	932	987
Machinery and equipment, financial lease	241	228
Other tangible assets	91	78
Total	**1 388**	**1 621**

Total	**2 115**	**2 547**

8. COSTS OF EMPLOYEE BENEFITS

Costs of employee benefits		
Salaries and fees	14 441	13 350
Pension expenses, defined contribution plan	2 293	2 226
Other employee benefits	851	797
Total	**17 586**	**16 374**

Management and Board salaries, fees and benefits		
Managing Directors	795	779
Board members and substitute members	103	93
Total	**898**	**872**

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010
Average number of personnel of the Group		
Office staff	145	159
Workers	203	212
Total	**348**	**371**

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

9. EXPENDITURE ON RESEARCH AND DEVELOPMENT

Research and development expenditure		
Research and development expenditure on income statement	552	304
Total	**552**	**304**

10. FINANCING INCOME

Financing income		
Interest income	4	3
Dividends	3	3
Foreign exchange gains	133	84
Unrealized gains on fair value measurement	179	0
Other financing income	1	0
Total	**320**	**91**

11. FINANCING EXPENSES

Financing expenses		
Interest expenses	756	998
Foreign exchange losses	178	35
Unrealized losses on fair value measurement	29	42
Total	**963**	**1 075**

12. INCOME TAX

Income taxes in income statement		
Tax on income from operations from the fiscal period	200	26
Tax for previous accounting periods	0	88
Change in deferred tax liabilities and tax assets	-28	-926
Total	**172**	**-812**

Reconciliation between tax provision on income statement and mathematical tax based on parent company's tax rate 26%		
Profit or loss before taxes	-1 946	-3 840
Mathematical tax based on parent company's tax rate 26%	-506	-998
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	26	10
Non-deductible income	-12	-1
Non-deductible expenses	24	52
Tax for previous accounting periods	0	97
Used losses for which no deferred tax assets booked	-50	0
Unrecognized taxes on losses from the fiscal period	742	32
Shares of profits of affiliated companies	1	-5
Change of depreciation bookked but not deducted in taxation	5	0
Other timing differences	-59	0
Tax provision on income statement	**172**	**-812**
Effective tax rate	-9 %	21 %

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010

13. EARNINGS PER SHARE

Net profit or loss attributable to the shareholders' of the parent	-2 225	-2 910
Average number of shares during the fiscal period	2 952 591	2 872 302
Earnings per share undiluted, euros/share	-0,75	-1,01

14. TANGIBLE ASSETS

Fiscal period 2010-2011	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	428	4 050	18 442	3 694	1 717	465	**28 797**
Translation differences					-3		**-3**
Increase	7	4	273	250	42	1 188	**1 764**
Decrease	-10	-717	-499		-11		**-1 238**
Transfers between items			687			-687	**0**
Acquisition cost at the end of the period	425	3 337	18 902	3 944	1 745	966	**29 320**
Accumulated depreciations and impairment losses at the beginning of the period		-1 461	-13 842	-1 239	-1 331		**-17 874**
Translation differences					2		**2**
Depreciations of transfers' and decrease items		468	368		11		**847**
Depreciations		-125	-932	-241	-91		**-1 388**
Accumulated depreciations and impairment losses at the end of the period		-1 118	-14 405	-1 480	-1 409		**-18 413**
Book value at the beginning of the period	428	2 589	4 599	2 454	387	465	**10 923**
Book value at the end of the period	**425**	**2 219**	**4 497**	**2 464**	**336**	**966**	**10 907**

Fiscal period 2009-2010	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	827	10 768	18 680	3 694	1 647	230	**35 847**
Translation differences					5		**6**
Increase	7		184		65	422	**677**
Decrease	-406	-6 718	-610				**-7 733**
Transfers between items			187			-187	**0**
Acquisition cost at the end of the period	428	4 050	18 442	3 694	1 717	465	**28 797**
Accumulated depreciations and impairment losses at the beginning of the period		-4 121	-13 451	-1 011	-1 252		**-19 834**
Translation differences					-1		**-1**
Depreciations of transfers' and decrease items		2 988	595				**3 583**
Depreciations		-328	-987	-228	-78		**-1 621**
Accumulated depreciations and impairment losses at the end of the period		-1 461	-13 842	-1 239	-1 331		**-17 874**
Book value at the beginning of the period	827	6 647	5 230	2 683	396	230	**16 012**
Book value at the end of the period	**428**	**2 589**	**4 599**	**2 454**	**387**	**465**	**10 923**

1000 €

15. INTANGIBLE ASSETS

Fiscal period 2010-2011	Development expenditure	Intangible rights	Other long-term assets	Other long-term assets, financial lease	Intangible assets total
Acquisition cost at the beginning of the period	715	129	1 990	3 020	**5 853**
Increase		69	46		**115**
Acquisition cost at the end of the period	715	198	2 035	3 020	**5 968**
Accumulated depreciations and impairment losses at the beginning of the period	-640	-71	-1 877	-1 623	**-4 211**
Depreciations	-75	-56	-56	-541	**-727**
Accumulated depreciations and impairment losses at the end of the period	-715	-126	-1 933	-2 164	**-4 938**
Book value at the beginning of the period	75	58	113	1 397	**1 642**
Book value at the end of the period	**0**	**72**	**103**	**856**	**1 030**

Fiscal period 2009-2010	Development expenditure	Intangible rights	Other long-term assets	Other long-term assets, financial lease	Intangible assets total
Acquisition cost at the beginning of the period	715	44	2 012	3 020	**5 790**
Increase		85	13		**98**
Decrease			-35		**-35**
Acquisition cost at the end of the period	715	129	1 990	3 020	**5 853**
Accumulated depreciations and impairment losses at the beginning of the period	-478	-40	-1 836	-942	**-3 296**
Depreciations of transfers' and decrease items			10		**10**
Depreciations	-162	-31	-52	-681	**-926**
Accumulated depreciations and impairment losses at the end of the period	-640	-71	-1 877	-1 623	**-4 211**
Book value at the beginning of the period	237	3	176	2 078	**2 495**
Book value at the end of the period	**75**	**58**	**113**	**1 397**	**1 642**

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. Goodwill, see Notes to the Consolidated Financial Statements, item 16. "Goodwill". Other long-term assets consist mostly of acquisition costs of IT-software, licences and the like.

16. GOODWILL VALUES

	1.9.2010-31.8.2011	1.9.2009-31.8.2010
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**

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, i.e. Vaahto Ltd, AP-Tela Oy and Japrotek Oy Ab. 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 of goodwill: The main assumptions applied in testing of goodwill are related to development of the turnover and cost level of the unit in question. The cash flow forecasts used for the calculations are based on the annual predictions concerning the income statement and maintenance investments made by the management, prepared in connection with the Group's budgeting process. The management bases its forecasts on actual developments and its opinion of the growth outlook for the industry. The growth forecasts take approves investment decisions into account. Financial plans and forecasts have been prepared for the units tested for a five-year period, and cash-flows have been projected for this period in the testing calculations. The rate of growth used in extrapolation of cash flows for the period after the plans has been 0%.

The majority of the goodwill, 1.6 million euros, 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 in the fiscal period 2011-2012 and after that is expected to arise in a more boarder product range and market area. No significant changes are expected in the company's cost levels in the period covered by the forecast.

Discount rate: The pretax WACC spesified for Vaahto Group has been used as the discount rate. The discount rate for fiscal period 2010-2011 was 11.61% for AP-Tela Oy and Vaahto Ltd (11.03% in 2009-2010) and 12.12% for Stelzer Rührtechnik International GmbH (11.52% in 2009-2010).

Sensitivity of the main assumptions used in testing of depreciation: Where the forecast used for the Stelzer Rührtechnik International GmbH's depreciation testing is concerned, the cash flow may decrease by about 69% or the discount rate may increase by about 234% (which is about 40 %-units) without the need to write anything off. The company's management is of the opinion that reasonable changes in the central assumptions will not result in the book value of assets exceeding the amount of money recoverable thereof.

1000 €	31.8.2011	31.8.2010

17. OWNERSHIP IN AFFILIATED COMPANIES

Shares in affiliated companies		
Shares of profit of affiliated companies from the previous fiscal periods	62	50
Change in translation difference	-2	-6
Shares of profit of affiliated companies from the fiscal period	-4	17
Total	**57**	**62**

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

Affiliated companies information		
Assets	198	169
Liabilities	82	45
Net turnover	659	803
Profit for the period	**-8**	**33**

18. LONG-TERM RECEIVABLES

Non-current receivables		
Long-term loan receivables	11	11
Total	**11**	**11**

19. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments		
Other shares and holdings, available for sale, not listed	44	44
Total	**44**	**44**

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.

20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets	**31.8.2011**	**Recognized in income statement**	**31.8.2010**	**Recognized in income statement**	**31.8.2009**
Internal margin of inventories	8	-3	10	9	1
Internal margin of fixed assets	23	23			
Losses from the previous fiscal periods	1 897	-85	1 982	781	1 201
Other timing differences	347	167	179	157	23
Total	**2 274**	**103**	**2 172**	**947**	**1 225**

Deferred tax liabilities	**31.8.2011**	**Recognized in income statement**	**31.8.2010**	**Recognized in income statement**	**31.8.2009**
Cumulative appropriations	17	14	3	-4	7
Cancelling of depreciations of the goodwill	373	53	320	53	267
Fair values of derivative instruments	-63	39	-102	-11	-91
Other timing differences	296	-32	328	-17	346
Total	**624**	**75**	**549**	**21**	**528**

The Group companies have tax losses, on August 31, 2011 totalling 10,149 thousand euros (on August 31, 2010 7,858 thousand euros), which can be applied against future taxable income. A deferred tax asset has not been recognized for all tax losses, due to uncertainty regarding the extent to which they can be used.

On August 31, 2011, the Group had confirmed losses total worth 7,295 thousand euros (7,666 thousand euros on August 31, 2010), for which the calculated fiscal claim has been entered for total worth 1,897 thousand euros (1,982 thousand euros on August 31, 2010). The losses concern mainly Vaahto Ltd and Japrotek Oy Ab.

On August 31, 2011, the Group had losses from the fiscal period 2010-2011 to be confirmed total worth 2,854 thousand euros (192 thousand euros on August 31, 2010), for which no calculated fiscal claim has been entered. The losses concern Vaahto Ltd, Japrotek Oy Ab and Vaahto Group Plc Oyj.

Registration of tax receivables is based on forecasts approved by the Group management, according to which the result for the Group is expected to be profitable in the 2011-2012 financial year and the tax receivables will be utilizated no later than in the 2013-2014 fiscal period. The forecasts include uncertainty factors, particularly with regard to the result of the Group's Vaahto Paper Technology division, which is dependent on future economic developments in the industry and may therefore diverge from the value used for these forecasts.

1000 €

Expiration times regarding losses, for which the deferred tax asset has been entered

Expiration time	Confirmed losses total	Deferred tax asset entered total
Year 2018	1 086	282
Year 2019	2 728	709
Year 2020	3 481	905
Total	**7 295**	**1 897**

21. INVENTORIES

Inventories	31.8.2011	31.8.2010
Materials and supplies	1 983	1 779
Work in progress	2 740	2 679
Finished products	879	784
Total	**5 601**	**5 241**

In the period 2010-2011 the carrying amount of inventories was reduced by 8 thousand euros (30 thousand euros in the previous period) for the scrappings of the inventories.

22. SHORT-TERM RECEIVABLES

Trade and other receivables		
Trade receivables	4 439	4 474
Advance payment receivables	1 285	579
Advance payments for inventories	261	242
Other receivables	366	85
Prepayments and accrued income	7 773	11 305
Total	**14 124**	**16 685**

Ageing analysis of trade receivables	Trade receivables	Advance payment receivables	Total
Not due	3 559	1 224	4 783
Past due less than 180 days	678	32	710
Past due more than 180 days	201	29	230
Total	**4 439**	**1 285**	**5 723**

The Group has booked total 2 thousands euros bad debts during the fiscal period 2010-2011 (53 thousand euros during the fiscal period 2009-2010).

1000 €	31.8.2011	31.8.2010
Prepayments and accrued income		
Prepayments and accrued income consist of:		
Accrued income on the construction contracts recognized under the percentage of completion method	6 818	1 953
Receivable for the sale of real estates	300	8 450
Accruals of personnel expenses	258	366
Interest accruals	1	0
Other prepayments and accrued income on expenses	397	537
Total	**7 773**	**11 305**
Tax receivables		
Tax receivable, income tax	0	2
Total	**0**	**2**

23. CASH AND CASH EQUIVALENTS

Cash and bank		
Cash and bank	775	560
Total	**775**	**560**
Change of liquid funds in the flow of funds statement		
Liquid funds at the beginning of the period	560	12 400
Liquid funds at the end of the period	775	560
Change of liquid funds in the balance sheet	**215**	**-11 840**

24. SHAREHOLDERS' EQUITY

Share Capital

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2011, was 2,872,302 euros, representing a total of 2,985,866 shares.

The new shares, a total of 113,564 shares, issued in the directed free share issue resolved upon by Vaahto Group Plc Oyj's general meeting on December 14, 2010 have been registered with the Trade Register on December 17, 2010. The new shares include the shareholder rights as from the registration date.

The combination of the share series as well as the amendments to the Articles of Association resolved upon by Vaahto Group Plc Oyj's general meeting on December 14, 2010 have also been registered with the Trade Register on December 17, 2010. Following the share issue and the combination of the share series, the total number of shares in Vaahto Group Plc Oyj is 2,985,866. Each share carries one (1) vote and has equal rights in all respects. The share issue or the combination of the share series has no effect on the share capital of the company.

Share premium account

Share premium account includes the share premiums of issues according to the previous Companies Act (29.9.1978).

Emergency reserve

Emergency reserve includes non-distributable items that have been transferred there from the distributable funds according to the decision of the shareholders.

Translation differences

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

Dividends

During the fiscal year 2010 - 2011 and 2009 – 2010 no dividends have been paid.

After the balance sheet date, the Board proposed that no dividends be paid.

Capital management

The objective of Group's capital management is to ensure the continuity of the business of Vaahto Group and to maintain the optimal capital structure in order to ensure the investments taking into the account the capital expenses. Shareholders' equity and liabilities, excluded the advance payments received, are included into the capital.

The amount of annual dividends is depending to the profit of the company. The part, which is not considered to be needed to ensure the healthy development of the company, will be distributed to the shareholders.

The Group monitors the development of the capital structure using the equity ratio quarterly. This key figure is calculated by dividing the shareholders' equity of the Group with the total liabilities, excluded the amount of advance payments received. The equity ratio on August 31, 2011 was 17.8% (21.8% on August 31, 2010).

25. PROVISIONS

Non-current provisions	Warranty provisions	Pension provisions	Total
Provisions at the beginning of the period	96	149	**245**
Increase of the provisions	96	33	**129**
Used provisions	-96	-5	**-101**
Provisions at the end of the period	**96**	**177**	**273**

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. Warranty periods are usually 24 months long, in which time the provisions will be used. The pension provision consists of pension liabilities of one retired person.

Transferred projects

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

1000 €	31.8.2011	31.8.2010

26. INTEREST-BEARING LIABILITIES

Long-term liabilities, interest-bearing		
Loans from financial institutions	5 022	388
Pension loans	473	705
Finance leases	1 337	1 949
Total	**6 831**	**3 042**
Current liabilities, interest-bearing		
Loans from financial institutions	7 336	14 105
Pension loans	103	188
Finance leases	830	775
Total	**8 269**	**15 068**
Finance lease liabilities, minimum rentals		
Within a year	933	884
More than one year but no more than 5 years	1 396	2 098
Minimum rentals	**2 330**	**2 983**
Future financing cost related to leasing agreements	163	259
Future finance lease liabilities at present value	**2 167**	**2 724**
Future minimum lease payments at present value		
Within a year	830	775
More than one year but no more than 5 years	1 337	1 949
Future finance lease payments at present value	**2 167**	**2 724**

27. 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 results. 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 29 of the Notes, "Fair values of financial assets and liabilities."

Exposure to foreign exchange risk from transactions

Foreign currency exposure in companies whose reporting currency is other than the currency under analysis:

Group total at the end of the fiscal period				31.8.2011				31.8.2010
	GBP	USD	SEK	RUB	GBP	USD	SEK	RUB
Foreign currency trade receivables		58				16		
Foreign currency account payables	-40	-51	-1	-6	-56	-1	-64	-4
Net exposure in balance sheet	**-40**	**7**	**-1**	**-6**	**-56**	**15**	**-64**	**-4**
Currency forward contracts						-199		
Currency option contracts						-34		
Net exposure	**-40**	**7**	**-1**	**-6**	**-56**	**-217**	**-64**	**-4**

1000 €

Sensitivity analysis
The effect of a 10% weakening currencies (against euro) in euro:

Group total at the end of the fiscal period				**31.8.2011**				**31.8.2010**
	GBP	**USD**	**SEK**	**RUB**	**GBP**	**USD**	**SEK**	**RUB**
Profit or loss for the period before taxes	-4	1		-1	-6	-19	-7	
Profit or loss for the period, net of taxes	-3	1		-1	-5	-14	-5	

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

Interest rate derivatives	**Currency**	**Amount**
Maturing within 1-5 years	EUR	4 803
Maturing after 5 years	EUR	2 000
Total	**EUR**	**6 803**

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.

Sensitivity analysis of interest rate	**Interest expenses according to the payment plan 1000 € 31.8.2011**	**Increase of the interest expenses 1000 € resulted from the change of the interest rate +1%**	**+2%**
Interest-bearing liabilities	618	165	330

CREDIT RISK

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.

REFINANCING AND 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.

Cash flows of financial liabilities according to the payment plan

Interest-bearing liabilities

Maturing during the fiscal period	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**Later**	**Total**
Loans from financial institutions, capital	3 708	1 405	1 405	1 263	748	200	8 730
Loans from financial institutions, interests	196	144	53	21	5		418
Pension loans, capital	103	103	102	95	92	82	576
Pension loans, interests	18	15	12	8	5	7	66
Finance leases, capital	830	659	378	265	35		2 167
Finance leases, interests	72	42	21	7			142
Total	**4 927**	**2 368**	**1 971**	**1 659**	**885**	**289**	**11 957**

Interest-free liabilities

Maturing during the fiscal period	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**Later**	**Total**
Trade payables	4 400						4 400
Advance payments, unpaid	15						15
Interest rate derivatives			58		182		240
Total	**4 415**	**0**	**58**	**0**	**182**	**0**	**4 656**

1000 €

Cash flows of financial receivables according to the payment plan

Long-term receivables

Maturing during the fiscal period	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Later	Total
Loan receivables, capital and interests						2	3
Other receivables, capital and interests	1					7	8
Total	**1**	**0**	**0**	**0**	**0**	**9**	**11**

Short-term receivables

Maturing during the fiscal period	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Later	Total
Trade receivables	4 439						4 439
Advance payments receivables	1 285						1 285
Total	**5 723**	**0**	**0**	**0**	**0**	**0**	**5 723**

Maturing times and effective interest rates (weighted averages) of interest-bearing liabilities 31.8.2011

	Maturing times, years	Interest rate %
Loans from financial institutions	1,9	3,52
Loans from financial institutions including interest rate swap agreements	1,9	4,10
Pension loans	3,0	3,44
Finance leases	1,6	4,07
Finance leases including interest rate swap agreements	1,6	4,14

Credit limits in use

In the end of the fiscal year 31.8.2011 the Group had credit limits in use total 3.6 million euros. The average interest rate of the credit limits was 3.35 %.

Unused credit limits

In the end of the fiscal year 31.8.2011 the Group had unused book limits total 2.0 million euros.

Financial arrangements

Loans from credit institutions involve repayment covenant conditions related to the equity ratio of the Group. The covenant conditions were violated on the balance sheet date, August 31, 2011. However, the Group has at the end of the fiscal period 2010-2011 received from the financier a commitment that the violations will not lead to any consequences. The Group does not consider the covenants of the bank loans should threat the liquidity of the Group in the near future.

28. SHORT-TERM LIABILITIES

	31.8.2011	31.8.2010
Trade payables and other liabilities		
Advance payments received	2 783	2 310
Advance payments, unpaid	1 264	579
Trade payables	4 400	4 175
Trade payables, unpaid	15	0
Other short-term liabilities	512	470
Accruals and deferred income	5 598	4 538
Total	**14 573**	**12 072**
Accruals and deferred income consist of:		
Interest liabilities	59	23
Accrued employee expenses	2 003	2 026
Derivatives	241	391
Expenses from contracts	515	531
Other accruals and deferred income	2 780	1 566
Total	**5 598**	**4 538**
Tax liability		
Tax liability, income tax	186	182
Total	**186**	**182**

1000 €

29. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group uses derivative financial instruments to hedge against interests and exhange risks, but the hedge accounting of the derivatives does not meet the hedge accounting criteria of the IAS 39 standard. For this reason, derivative instruments are not treated as hedging instruments in the financial statements; instead, the changes in their value are registered according to their impact on earnings.

Fair values of derivative instruments, non-hedging derivatives 31.8.2011

Interest rate derivatives	Nominal value	Positive fair value	Negative fair value	Net fair value
Interest rate swap agreements	6 666	0	-241	-241
Total	**6 666**	**0**	**-241**	**-241**

Fair values of derivative instruments, non-hedging derivatives 31.8.2010

Currency derivatives	Nominal value	Positive fair value	Negative fair value	Net fair value
Currency forward contracts	199	0	-14	-14
Currency option contracts	1 315	0	-89	-89
Total	**1 513**	**0**	**-104**	**-104**

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

Interest rate derivatives	Nominal value	Positive fair value	Negative fair value	Net fair value
Interest rate swap agreements	4 030	0	-288	-288
Total	**4 030**	**0**	**-288**	**-288**

Fair values of other than derivative contracts

Financial assets	Book value 31.8.2011	Fair value 31.8.2011	Book value 31.8.2010	Fair value 31.8.2010
Long-term receivables	11	11	11	11
Trade receivables and other receivables	14 124	14 124	16 685	16 685
Rahat ja pankkisaamiset	775	775	560	560

Financial liabilities	Book value 31.8.2011	Fair value 31.8.2011	Book value 31.8.2010	Fair value 31.8.2010
Long-term loans from financial institutes	5 022	5 022	388	388
Long-term pension loans	473	473	705	705
Long-term finance lease	1 337	1 337	1 949	1 949
Short-term loans from financial institutes	7 336	7 336	14 105	14 105
Short-term pension loans	103	103	188	188
Short-term finance lease	830	830	775	775
Trade payables and other liabilities	14 573	14 573	12 072	12 072

30. SECURITIES AND RESPONSIBILITIES

	31.8.2011	31.8.2010
GRANTED SECURITIES		
Debt secured by real estate and corporate mortgages		
Pension loans	0	253
Loans from financial institutions	1 098	3 703
Total	**1 098**	**3 956**
Mortgages granted to secure loans and bank guarantees		
Real estate mortgages	2 543	12 687
Corporate mortgages	5 384	6 730
Total	**7 927**	**19 417**
Mortgages granted to secure the bank guarantee limit		
Corporate mortgages granted to secure the bank guarantee limit	8 235	8 235
Total	**8 235**	**8 235**

1000 €	31.8.2011	31.8.2010
Other granted securities for own behalf		
Deposits	9	0
Total	**9**	**0**

CONTINGENT LIABILITIES AND OTHER LIABILITIES

Bank guarantees		
Bank guarantee limits total	18 000	25 000
Bank guarantee limits, used	11 218	5 720

Operating lease agreements		
Within a year	246	220
More than one year but no more than 5 years	275	287
Total	**521**	**508**

Contracts other than financial leasing contracts consist mainly of short-term leasing contracts for IT equipment and software.The terms and conditions are 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".

The Group's factory and office buildings in Tampere and in Pietarsaari have been sold to Sponda Fund II Ky managed by Sponda Plc on previous period. The Group companies continue their operations as leaseholders in the above mentioned properties.

Rent liabilities		
Within a year	804	804
More than one year but no more than 5 years	3 216	3 216
Later	3 216	4 020
Total	**7 236**	**8 040**

Annual rent payments under lease agreements that are in effect until further notice total 452,000 euros.

Other contingent liabilities		
Granted guarantees to customers and creditors	500	660
Guarantees granted to secure the bank guarantee limit	17 600	17 600
Guarantees granted to secure the bank guarantees	290	0
Guarantees granted to secure the bank loans	2 910	2 910
Guarantees granted to secure the rent guarantees	400	0
Total	**21 700**	**21 170**

Environmental impact

The 2006-2007 financial year saw Vaahto Ltd complete charting of procedures for the old pickling facility at the Hollola plant in accordance with the environmental permit. Procedures under the assessment are incomplete for the time being.

Litigation

Vaahto Ltd is going to a patent dispute with another device with the supplier. The matter is mediation in negotiations between the companies, but it seems very likely that the matter will be settled in the District Court. Experts estimate that Vaahto Ltd does not give rise to the dispute other than attorneys' fees and the consolidated financial statements are free of this reservation.

1000 €

31. RELATED PARTY TRANSACTIONS

Related parties include persons who, according to the Securities Markets Act, are regarded as the company's permanent insiders - i.e. members of the Board of Directors, the CEO, and auditors, as well as members of senior management specifically designated as insiders by the company. Related parties also include people who are related parties of those who have an obligation to declare as well as corporations under the control of people with an obligation to declare or their related parties, and corporations controlled jointly by those with an obligation to declare and a family member, or another person with the obligation to declare or a relevant family member of such a person.

TRANSACTIONS WITH RELATED PARTIES

	1.9.2010-31.8.2011	1.9.2009-31.8.2010
Rent income		
The renting income of the plot belonging to the corporation in the control of the members of the Board	12	11
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	64	63

EMPLOYEE BENEFITS FOR THE MANAGEMENT

Salaries and fees of the parent company management		
CEO:		
Klinga Anssi	216	209
Board members:		
Häggblom Rainer	19	5
Jaatinen Seppo	9	26
Järvinen Reijo	24	5
Karppanen Topi	13	0
Unkuri Martti	6	19
Vaahto Antti	13	19
Vaahto Mikko	19	19

No special conditions for retirement, pension benefits, or discharge-related conditions have been spesified for the members of the Group's management. According to the employment contract of CEO Anssi Klinga, both the company and the CEO are entitled to terminate the contract without any particular reason. In such a case, the period of notice on either side is three months. If the company terminates the contract, the CEO will be paid a sum of money corresponding to the total salary for 12 months in addition to the salary paid during the period of notice.

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.

PARENT COMPANY AND SUBSIDIARIES

Group companies	Registered office	Number of shares	Share of ownership %	Share of voting rights %
AP-Tela Oy	Kokkola, Finland	250	52,08	52,08
Japrotek Oy Ab	Pietarsaari, Finland	100 000	100,00	100,00
Steva Oy (previously Profitus Oy)	Hollola, Finland	1 600	100,00	100,00
Stelzer Rührtechnik International GmbH	Warburg, Germany		100,00	100,00
Vaahto Group Asia Limited	Hong Kong, China		100,00	100,00
Vaahto Ltd	Hollola, Finland	2 700	100,00	100,00

Subsidiaries of subconcern	Registered office	Number of shares	Share of ownership %	Share of voting rights %
Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., LTD.	Shanghai, China		100,00	100,00

Associations of subconcern	Registered office	Number of shares	Share of ownership %	Share of voting rights %
ZAO Slalom	St. Petersburg, Russia		50 %	40 %

32. INDICATOR CALCULATION FORMULAS

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

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

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

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

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

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

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

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

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

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

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

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

Total market value = Total number of shares at the end of the fiscal year x share price at the end of the fiscal year

Development of shares traded = Total number of shares traded during the fiscal year and its percentual share of the total number of series' shares

33. SHARES AND SHAREHOLDERS

According to the book-entry security system, Vaahto Group Plc Oyj had 299 registered shareholders on August 31, 2011. There were in total 58,974 nominee-registered shares.

MAJOR SHAREHOLDERS		Shares		Votes
According to the book-entry security system on August 31, 2011	**no.**	**%**	**no.**	**%**
Laakkonen Mikko	535 483	17,9	535 483	17,9
Vaahto Antti	530 649	17,8	530 649	17,8
Vaahto Mikko	521 248	17,5	521 248	17,5
Vaahto Ilkka	453 985	15,2	453 985	15,2
Vaahto Heikki	149 236	5,0	149 236	5,0
Mutual Employee Pension Company Varma	120 640	4,0	120 640	4,0
Hymy Lahtinen Oy	81 100	2,7	81 100	2,7
Mäkihonko Juha	77 758	2,6	77 758	2,6
Mutual Insurance Company Fennia	72 800	2,4	72 800	2,4
Nordea Pankki Suomi Oyj (nominee-registered)	58 974	2,0	58 974	2,0
Total for 10 largest	**2 601 873**	**87,1**	**2 601 873**	**87,1**

SHARE OWNERSHIP BY AMOUNT OF HOLDINGS		Shareholders		Shares		Votes
According to the book-entry security system on August 31, 2011	**no.**	**%**	**no.**	**%**	**no.**	**%**
1 - 100	105	35,1	4 517	0,2	4 517	0,2
101 - 1 000	130	43,5	45 981	1,7	45 981	1,7
1 001 - 10 000	46	15,4	139 413	4,3	139 413	4,3
10 001 - 100 000	12	4,0	481 234	12,9	481 234	12,9
100 001 - 1 000 000	6	2,0	2 311 241	80,8	2 311 241	80,8
	299	100,0	2 982 386	99,9	2 982 386	99,9
Outside the book-entry securities system			3 480	0,1	3 480	0,1
			2 985 866	**100,0**	**2 985 866**	**100,0**

SHARE OWNERSHIP BY CATEGORY OF OWNER		Shareholders		Shares		Votes
According to the book-entry security system on August 31, 2011	**no.**	**%**	**no.**	**%**	**no.**	**%**
Companies	24	8,0	180 733	6,1	180 733	6,1
Financial and insurance institutions	3	1,0	141 922	4,8	141 922	4,8
Public corporations	2	0,7	139 400	4,7	139 400	4,7
Households	267	89,3	2 512 130	84,1	2 512 130	84,1
Non-profit organizations	2	0,7	201	0,0	201	0,0
Foreign countries	1	0,3	8 000	0,3	8 000	0,3
	299	100,0	2 982 386	99,9	2 982 386	99,9
Outside the book-entry securities system			3 480	0,1	3 480	0,1
			2 985 866	**100,0**	**2 985 866**	**100,0**

SHARE HOLDINGS OF THE MANAGEMENT		Shares		Votes
According to the book-entry security system on August 31, 2011	**no.**	**%**	**no.**	**%**
Board of directors and CEO				
Vaahto Mikko	538 139	18,0	538 139	18,0

Group management team

Members of the Group management team had no share holdings on August 31, 2011.

The holdings also include the shares of companies under the relevant body or individual's control and of minor persons under guardianship.

Members of the Board owned a total of 521,248 shares (excluding the shares of companies under the relevant body or individual's control and of minor persons under guardianship), representing 17.5% of the votes.

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.

34. EVENTS AFTER THE END OF THE FISCAL YEAR

No major events have taken place after the end of the year in review.

Income Statement of the Parent Company, FAS

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010	Note
NET TURNOVER	**3 216**	**3 650**	**2**
Other operating income	2	114	3
Material and services	0	-2	
Personnel expenses	-1 118	-1 163	5
Depreciations	-44	-38	6
Other operating expenses	-2 207	-2 232	7
OPERATING PROFIT OR LOSS	**-150**	**329**	**4**
Financing income and expenses	-205	-288	8
PROFIT OR LOSS BEFORE EXTRAORDINARY ITEMS	**-355**	**42**	
Extraordinary expenses	0	-70	9
PROFIT OR LOSS BEFORE INCOME TAXES	**-355**	**-28**	
Appropriations	0	7	
Tax on income from operations	0	-56	10
PROFIT OR LOSS FOR THE FISCAL YEAR	**-355**	**-78**	

Balance Sheet of the Parent Company, FAS

1000 €	31.8.2011	31.8.2010	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	68	72	
Tangible assets	68	84	
Investments	8 981	8 891	
NON-CURRENT ASSETS	**9 117**	**9 047**	**12**
CURRENT ASSETS			
Long-term receivables	4 008	2 009	
Short-term receivables	4 915	8 915	
Cash and bank	11	167	
CURRENT ASSETS	**8 935**	**11 090**	**13**
ASSETS	**18 052**	**20 137**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Reserve fund	2 228	2 228	
Retained earnings	3 475	3 553	
Profit or loss for the fiscal year	-355	-78	
SHAREHOLDERS' EQUITY	**8 221**	**8 576**	**14**
Depreciation in excess of plan	10	10	
CUMULATIVE APPROPRIATIONS	**10**	**10**	**15**
LIABILITIES			
Long-term interest-bearing liabilities	2 434	1 636	16
Short-term interest-bearing liabilities	7 050	9 553	17
Short-term non-interest-bearing liabilities	337	362	17
LIABILITIES	**9 821**	**11 551**	
EQUITY AND LIABILITIES	**18 052**	**20 137**	

Flow of Funds Statement of the Parent Company, FAS

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010
FLOW OF FUNDS FROM OPERATIONS		
Profit before extraordinary items	-355	42
Adjustment items:		
Depreciations according to plan	44	38
Other income and expenses, no payment related	0	-15
Financial income and expenses	205	288
Capital gains and losses	-1	-20
Flow of funds before the change in working capital	**-107**	**332**
Change in working capital:		
Change in short-term receivables	63	-10
Change in short-term non-interest bearing creditors	-25	-47
Flow of funds before financial items and taxes	**-69**	**275**
Interest and other financial expenses from operations paid	-439	-427
Dividends and other financial income received	1	1
Interests received	233	154
Income taxes paid	0	-56
FLOW OF FUNDS FROM OPERATIONS	**-274**	**-54**
FLOW OF FUNDS FROM INVESTMENTS		
Investments in tangible and intangible assets	-25	-10
Other investments	-90	0
Income from sales of tangible and intangible assets	1	20
Granted loans	-2 000	-2 000
Repayments of loans receivables	1	1
FLOW OF FUNDS FROM INVESTMENTS	**-2 113**	**-1 989**
FLOW OF FUNDS FROM FINANCIAL ITEMS		
Withdrawals of short-term loans	2 500	4 126
Repayments of short-term loans	-4 498	0
Withdrawals of long-term loans	600	0
Repayments of long-term loans	0	-273
Change in Group account receivable or debt	3 629	-13 774
Group transfers	0	-70
FLOW OF FUNDS FROM FINANCIAL ITEMS	**2 231**	**-9 991**
Change of liquid funds	**-155**	**-12 034**
Liquid assets at the beginning of the fiscal year	167	12 200
Liquid assets at the end of the fiscal year	11	167
Change in liquid assets according to the balance sheet	-155	-12 034

Notes to the Parent Company's Financial Statements

1. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

The financial statements of Vaahto Group Plc Oyj for the fiscal period September 1, 2009 – August 31, 2010, were drawn up in accordance with Finnish accounting legislation.

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
There were no research and development costs during the fiscal year under review.

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 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010

2. TURNOVER BY BUSINESSES AND MARKET AREAS

By businesses		
Administration	3 216	3 650
Total	**3 216**	**3 650**
By market areas		
Finland	3 216	3 650
Total	**3 216**	**3 650**

3. OTHER OPERATING INCOME

Other operating income		
Profits from sales	1	20
Other	1	94
Total	**2**	**114**

4. OPERATING PROFIT OR LOSS BY BUSINESSES

Operating profit or loss		
Administration	-150	329
Total	**-150**	**329**

5. PERSONNEL

Average number of personnel		
Office staff	14	15
Total	**14**	**15**
Personnel expenses		
Wages and salaries	916	967
Pension costs	162	149
Other personnel expenses	39	47
Total	**1 118**	**1 163**

1000 €	1.9.2010-31.8.2011	1.9.2009-31.8.2010
Management's salaries and benefits		
Managing directors	216	209
Board members	102	101
Total	**318**	**310**

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	44	38
Total	**44**	**38**

7. OTHER OPERATING EXPENSES

Other operating expenses		
Rent expenses	751	1 023
Non-statutory employee benefits	50	43
Other expenses	1 406	1 166
Total	**2 207**	**2 232**

8. FINANCIAL INCOME AND EXPENSES

Income from other investments held as non-current assets		
Other	1	1
Total	**1**	**1**

Other interest and other financial income		
Group companies	122	153
Other	-105	88
Total	**16**	**241**
Financial income total	**17**	**241**

Interest and other financial expenses		
Group companies	15	15
Other	208	514
Total	**222**	**529**
Financial expenses total	**222**	**529**
Financial income and expenses total	**-205**	**-288**

9. EXTRAORDINARY ITEMS

Extraordinary items		
Exraordinary expenses/Group transfers	0	70
Total	**0**	**70**

10. INCOME TAXES

Income taxes		
Income taxes from operations	0	-95
Income taxes from previous periods	0	56
Income taxes from extraordinary items	0	-18
Total	**0**	**-56**

Notes to the Parent Company's Financial Statements

11. SHAREHOLDINGS

Group companies

Company	Registered Office	Number of Shares	Group Ownership, %
AP-Tela Oy	Kokkola	250	52,08
Japrotek Oy Ab	Pietarsaari	100 000	100,00
Steva Oy (previously Profitus Oy)	Hollola	1 600	100,00
Stelzer Rührtechnik International GmbH	Warburg, Germany		100,00
Vaahto Group Asia Limited	Hong Kong, China		100,00
Vaahto Ltd	Hollola	2 700	100,00
Vaahto Oy	Hollola	2 700	100,00

1 000 €	**31.8.2011**	**31.8.2010**

12. NON-CURRENT ASSETS

INTANGIBLE ASSETS

Other long-term assets		
Acquisition cost at the beginning of the fiscal year	503	493
Increase	24	10
Acquisition cost at the end of the fiscal year	**527**	**503**
Accumulated depreciations at the beginning of the fiscal year	431	410
Depreciation of the fiscal year	27	21
Accumulated depreciations at the end of the fiscal year	**458**	**431**
Book value at the end of the fiscal year	**68**	**72**
Intangible assets total	**68**	**72**

TANGIBLE ASSETS

Machinery and equipments		
Acquisition cost at the beginning of the fiscal year	378	519
Increase	1	0
Decrease	-45	-141
Acquisition cost at the end of the fiscal year	**334**	**378**
Accumulated depreciations at the beginning of the fiscal year	306	430
Accumulated depreciations of the decrease	-45	17
Depreciation of the fiscal year	17	-141
Accumulated depreciations at the end of the fiscal year	**278**	**306**
Book value at the end of the fiscal year	**56**	**72**
Other tangible assets		
Acquisition cost at the beginning of the fiscal year	12	12
Acquisition cost at the end of the fiscal year	**12**	**12**
Book value at the end of the fiscal year	**12**	**12**
Tangible assets total	**68**	**84**

1 000 €	31.8.2011	31.8.2010

INVESTMENTS

Shares in Group companies		
Acquisition cost at the beginning of the fiscal year	9 399	9 399
Increase	90	0
Acquisition cost at the end of the fiscal year	**9 489**	**9 399**
Accumulated depreciations and impairment losses at the beginning of the fiscal year	528	528
Accumulated depreciations and impairment losses at the end of the fiscal year	**528**	**528**
Book value at the end of the fiscal year	**8 962**	**8 872**
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	**8 981**	**8 891**

13. CURRENT ASSETS

External long-term receivables		
Other long-term receivables	8	9
Total	**8**	**9**
Long-term receivables from Group		
Other long-term receivables	4 000	2 000
Total	**4 000**	**2 000**
Long-term receivables total	**4 008**	**2 009**
External short-term receivables		
Prepaid expenses and accrued income	127	147
Other short-term receivables	0	5
Total	**127**	**153**
Short-term receivables from Group companies		
Other receivables	4 788	8 763
Total	**4 788**	**8 763**
Prepaid expenses and accrued income consist of:		
Prepaid social security costs	25	21
Tax receivable, VAT	0	5
Other prepaid expenses and accrued income	102	127
Prepaid expenses and accrued income total	**127**	**153**
Short-term receivables total	**4 915**	**8 915**

Long-term receivables from the Group are capital loans to Vaahto Ltd and Japrotek Oy Ab meant by the Chapter 12 of the Companies Act § 1-2.

1 000 €	31.8.2011	31.8.2010

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	3 475	3 553
Retained earnings in the end of the fiscal year	**3 475**	**3 553**
Profit or loss for the fiscal year	**-355**	**-78**
Shareholders' equity total	**8 221**	**8 576**
Calculation on distributable assets		
Retained earnings	3 475	3 553
Profit for the fiscal year	-355	-78
Distributable assets total	**3 120**	**3 475**
Number of shares by series at the end of the fiscal period	**no.**	**no.**
A-share (1 vote/share)	2 985 855	1 452 751
K-shares (20 votes/share)	0	1 419 551
Total	**2 985 855**	**2 872 302**
The distribution of shareholders' equity by series	**euros**	**euros**
A-share (1 vote/share)	2 872 302	1 452 751
K-shares (20 votes/share)	0	1 419 551
Total	**2 872 302**	**2 872 302**

1 000 €	31.8.2011	31.8.2010

15. CUMULATIVE APPROPRIATIONS

Depreciation in excess of plan		
Depreciation in excess of plan, machinery and equipment	10	10
Total	**10**	**10**

16. LONG-TERM LIABILITIES

External long-term liabilities		
Loans from financial institutions	2 434	1 636
Total	**2 434**	**1 636**
Long-term liabilities total	**2 434**	**1 636**

1 000 €	31.8.2011	31.8.2010

17. SHORT-TERM LIABILITIES

External short-term liabilities, interest-bearing		
Loans from financial institutions	3 120	4 818
Credit limits used	3 628	4 126
Total	**6 748**	**8 944**
Short-term liabilities to Group companies, interest-bearing		
Other liabilities	301	609
Total	**301**	**609**
External short-term liabilities, non-interest-bearing		
Accounts payable	96	103
Other liabilities	85	48
Accrued liabilities and deferred income	157	212
Total	**337**	**362**
Accrued liabilities and deferred income consist of:		
Accrued employee expenses	102	94
Interest liabilities	29	11
Tax liability, income tax	0	76
Other accruals and deferred income	26	31
Total	**157**	**212**
Short-term liabilities total	**7 387**	**9 915**

18. CONTINGENT LIABILITIES AND OTHER LIABILITIES

Leasing commitments to be paid		
To be paid during fiscal year 2010-2011	954	932
Later	594	1 305
Total	**1 548**	**2 237**
Granted guarantees by Group companies		
Granted guarantees to customers and creditors	500	660
Granted guarantees to secure bank guarantee limits	17 600	17 600
Granted guarantees to secure loans	2 910	2 910
Granted guarantees to secure rent bank guarantees	400	0
Total	**21 410**	**21 170**

The Board of Directors' proposal

Parent company funds available for distribution of profits total 3,120,471.55 euros, of which 354,920.90 euros represents a loss for the fiscal period. The Board will propose to the Annual General Meeting that no dividends be distributed and that the retained earnings be deposited in the profit account.

Lahti, November 10, 2011

Reijo Järvinen

Rainer Häggblom

Topi Karppanen

Mikko Vaahto

Anssi Klinga

Auditor's Report

TO THE ANNUAL GENERAL MEETING OF VAAHTO GROUP PLC OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Vaahto Group Plc Oyj for the year ended on 31 August, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, statement of cash flows and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Lahti, November 16, 2011

Ernst & Young Oy
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