

Interim Report

1.9.2004 – 28.2.2005



VAAHTO GROUP
1874

VAAHTO GROUP INTERIM REPORT FOR THE PERIOD SEPTEMBER 1, 2004 – FEBRUARY 28, 2005

Vaahto Group's turnover for the period under review was 26.8 million euros (26.2 million euros), with an operating profit of 0.1 million euros (-1.4 million euros). The Group's turnover was higher than in the reference period but a little lower than the target. The Group's profitability improved considerably from the reference period. The profitability increased mainly because of successful project deliveries and procedures aimed at business development and cost savings. Thanks to the healthy order backlog, turnover for the latter half of the fiscal period is expected to increase and the result for the entire fiscal period is expected to be positive.

Market situation and order backlog

In spite of the challenging market situation, the Group achieved fair sales. The Group's order backlog was 27.8 million euros at the end of the period under review, whereas it was 19.7 million euros at the beginning of the period. For paper and board machines, the market situation was weak at the beginning but improved toward the end of the period. The market for process machinery was mostly weak throughout the period. However, the Group received a significant order for the Olkiluoto nuclear power plant currently under construction, which is an indication of the trust of demanding customers in the Group's delivery capabilities.

Pulp & Paper Machinery

The market situation for the Group's Pulp & Paper Machinery division was weak at the beginning of the period under review but improved considerably toward the end. In spite of the challenging market situation sales of paper and board machines and their key components were fairly good, and significant new orders were received from, e.g., Turkey, the U.S., and China. Most of the orders were, in line with the division's objectives, for advanced headboxes, formers, shoe presses, and other key components of paper and board machines. The division's roll sales increased from the previous period and clearly exceeded objectives.

The division's roll servicing activities suffered on account of the weak market situation at the beginning of the period under review, but demand picked up considerably at the end of the period. The healthy order backlog is expected to significantly increase the profitability of roll services in the latter half of the fiscal period.

The Pulp & Paper Machinery division's turnover increased from that of the reference period, profitability improved, and the division reached positive result. Determined product

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

Process Machinery

The Process Machinery division's market situation was difficult for most of the period. At the beginning of the period, Japrotek Oy Ab, one of the companies in the division, received a significant order for the design and delivery of pressure vessels for the new Olkiluoto nuclear power plant. Deliveries for the order will begin in the current fiscal period and continue until late in the next fiscal year. Apart from this, pressure vessel, reactor, and column activities have suffered due to weak market conditions, and sales objectives have not been reached.

Sales of spiral heat exchangers, on the other hand, have been good, and the order backlog reached a record high at the end of the period under review. The division's heat exchanger operations, including production, have continued in line with the goals set, and prospects are promising.

In agitator sales, the period under review was disappointing. Stelzer Rührtechnik International GmbH, the division's German company, was particularly far behind the goals set. To improve profitability, the company has started to make its operations more effective and to attain cost savings by means of business redistribution and personnel reduction.

The Process Machinery division's turnover was lower than the equivalent figure for the reference period, and the division did not reach its sales objectives. However, the reorganization procedures carried out by the division have now begun to have an effect, and profitability improved considerably from the reference period. The result was still negative, but the completed and ongoing procedures aimed at business development and cost savings enable the further improvement of profitability in the latter half of the fiscal period.

Research and development

The Group's research and development activities still concentrate for the most part on improving the competitiveness of the Pulp & Paper Machinery division's paper and board machines, key components, and roll servicing. The Process Machinery division aims at increasing the value of its products and improving profitability. The scope of the Group's research and development activities remained the same as in the previous fiscal period.

Investments

The Group's gross investment for the period came to 0.3 million euros (0.6 million euros). Investments were lower than in the reference period and mainly consisted of small machine and equipment acquisitions and of information systems.

Financing

The Group's liquidity remained at a satisfactory level. The net financial expenses were 0.3 million euros (0.3 million euros), or 1.2% of the turnover. The equity ratio was 34.0%, which was an improvement from both the reference period (25.5%) and the situation at the beginning of the period under review (33.2%).

Personnel

The number of Group personnel averaged 426 (474) over the period under review. The main reasons for the decrease in personnel were the rationalization and associated reductions in personnel in the Process Machinery division.

Introduction of international financial reporting standards

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

Share issue authorizations

The Board currently has no valid share issue authorizations.

Forecast of future developments

The Group's operating environment is still challenging due to the hard-to-predict and rather weak market situation for the Group's main products. However, successful product development work and completed rationalization projects have improved the Group's competitiveness and thus laid a foundation for profitable business. Thanks to the fairly good order backlog, it is possible for Vaahto Group to further improve its profitability in the latter half of the fiscal period and attain positive results for the entire fiscal period.

Lahti, April 14, 2005

Board of Directors

Consolidated Income Statement

1 000 €	Interim Report		Interim Report		Annual Report	
	1.9.2004-28.2.2005		1.9.2003-29.2.2004		1.9.2003-31.8.2004	
	6 months		6 months		12 months	
TURNOVER	26 769		26 232		61 700	
OPERATING PROFIT / LOSS	126	0,5 %	-1 358	-5,2 %	2 812	4,6 %
Financial income and expenses	-314		-312		-645	
PROFIT BEFORE EXTRAORDINARY ITEMS	-188	-0,7 %	-1 670	-6,4 %	2 167	3,5 %
Extraordinary items	0		0		0	
PROFIT BEFORE TAXES	-188	-0,7 %	-1 670	-6,4 %	2 167	3,5 %
Income taxes from operations	-105		0		-220	
Change in deferred tax liabilities	-10		601		-270	
Minority interest	-156		108		62	
PROFIT FOR THE PERIOD	-459	-1,7 %	-962	-3,7 %	1 738	2,8 %

Consolidated Balance Sheet

	28.2.2005	29.2.2004	31.8.2004
ASSETS			
Intangible assets	1 976	2 192	2 089
Group goodwill	105	133	119
Tangible assets	13 928	14 940	14 459
Investments	236	49	239
NON-CURRENT ASSETS TOTAL	16 245	17 314	16 907
Inventories	6 743	6 469	5 415
Long-term receivables	3	3	3
Short-term receivables	20 392	9 949	14 347
Deferred tax assets	39	883	79
Financial assets	1 994	2 513	4 625
CURRENT ASSETS TOTAL	29 171	19 816	24 469
TOTAL ASSETS	45 416	37 131	41 375
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	9 934	8 039	10 739
Minority interest	974	770	816
Obligatory provisions	292	291	292
Long-term liabilities	7 050	7 424	5 448
Short-term liabilities	26 816	20 294	23 700
Deferred tax liability	350	313	381
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	45 416	37 131	41 375

Key Figures

1 000 €	Interim Report 1.9.2004-28.2.2005 6 months	Interim Report 1.9.2003-29.2.2004 6 months	Annual Report 1.9.2003-31.8.2004 12 months
Earnings per share, euros	-0,16	-0,33	0,61
Shareholders' equity per share, euros	3,46	2,80	3,74
Equity ratio, %	34,0	25,5	33,2
Derivative agreements:			
Currency forward agreements			
Nominal value	5 628	478	84
Market value	1	-17	-1
Currency options			
Nominal value	453	0	0
Market value	7	0	0
Nominal values state for the use of the currency forward agreements and they don't measure the risks. Market value of the currency exchange agreements states for the income or expenses the Group would book if the agreements were closed at the end of the period.			
Interest rate cap agreements			
Nominal value	3 000	3 000	3 000
Market value	0	12	11
The interest rate cap agreement has been made to protect the financial institute loan from the interest rate risk. The agreement will end in 2007 and the strike price of the agreement is 4.75%. Market value is the cost of the agreement for the Group.			
Order backlog	27 791	35 256	19 744
Gross investments in fixed assets	308	558	1 188
Total number of personnel (average)	426	474	464

Flow of Funds Statements

1 000 €	Interim Report 1.9.2004-28.2.2005 6 months	Interim Report 1.9.2003-29.2.2004 6 months	Annual Report 1.9.2003-31.8.2004 12 months
Flow of funds from operations:			
Profit / loss before extraordinary items	-188	-1 670	2 167
Adjustment items	1 215	285	1 737
Change in working capital	-651	2 190	1 309
Financial income and expenses and taxes	-419	-312	-865
FLOW OF FUNDS FROM OPERATIONS	-43	492	4 348
Flow of funds from investments:			
Investments in tangible and intangible assets	-308	-558	-1 188
Income from sales of tangible and intangible assets	68	11	461
Decrease caused by the change in Group structure	0	0	-516
FLOW OF FUNDS FROM INVESTMENTS	-240	-547	-1 243
Flow of funds from financial items:			
Increase of the liabilities	3 599	960	1 767
Decrease of the liabilities	-5 602	-1 358	-3 214
Dividends	-345	0	0
FLOW OF FUNDS FROM FINANCIAL ITEMS	-2 348	-397	-1 447
Change of liquid funds	-2 631	-453	1 658

Figures are in thousand euros unless stated otherwise.