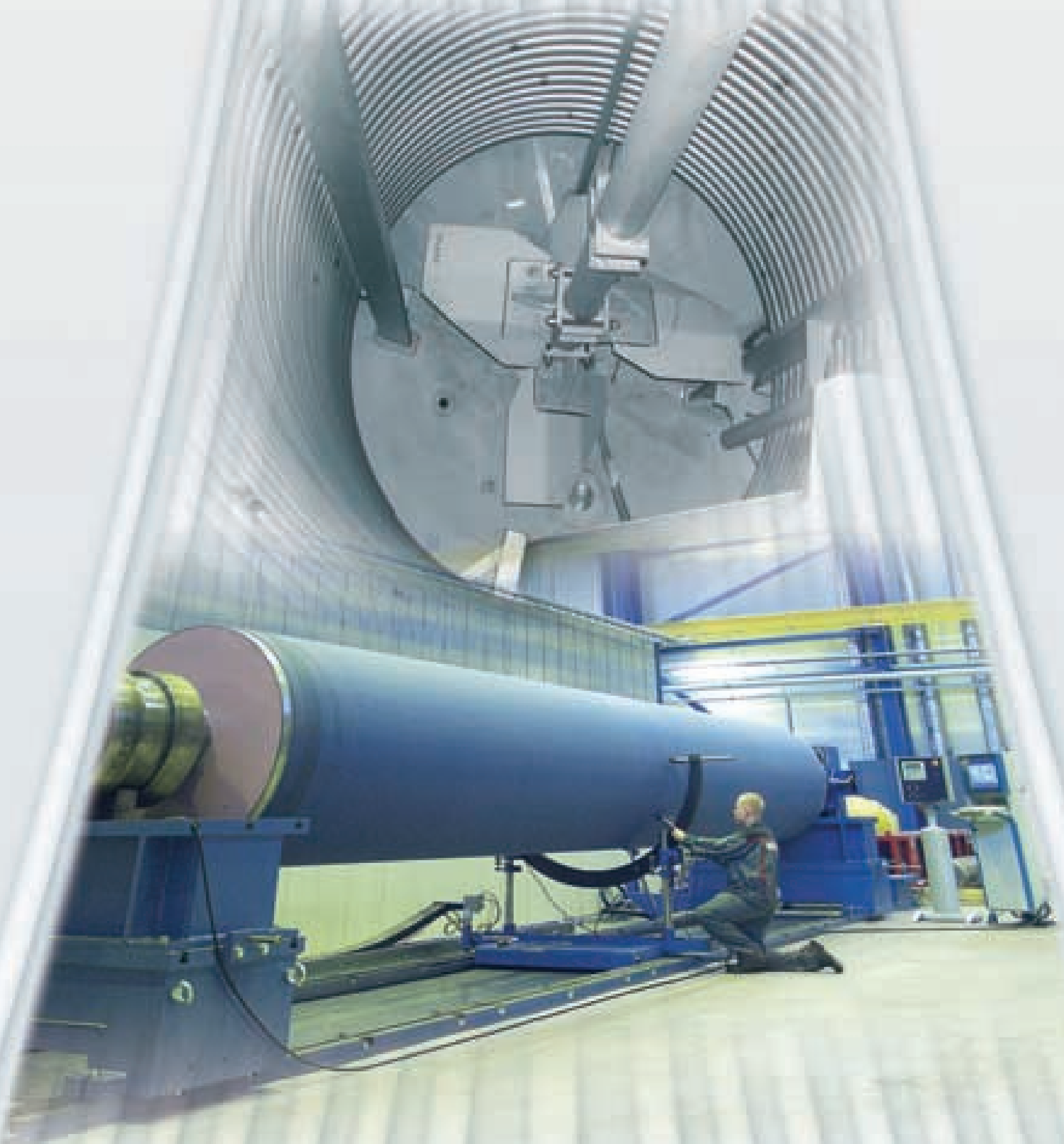
Annual Report

2002 – 2003



VAAHTO GROUP 1874

Annual Report 2002-2003

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Information for Shareholders

Annual General Meeting

The Annual General Meeting of Vaahto Group Plc Oyj will be held on December 11, 2003, at 1:00 p.m. in Congress Room 5 in the Sibelius Hall, Ankkurikatu 7, Lahti.

The meeting is open to all shareholders entered by December 1, 2003, in the register of the company's shareholders maintained by Finnish Central Securities Depository Ltd. Shareholders whose shares have not been transferred to the book-entry security system may also attend but only if they were registered in the company's share register before March 31, 1995. In such a case, the shareholder must present a share certificate or other proof that his holding of the company's shares has not been transferred to a book-entry account.

Shareholders who wish to attend the meeting must register by 4:00 p.m. on December 5, 2003, either in writing to Vaahto Group Plc Oyj, Shareholders' Meeting, P.O. Box 5, FIN-15141 Lahti or by telephone to Taina Kajander at +358 20 1880 355. Proxies should be enclosed when registering.

Dividends

The Board will propose to the Annual General Meeting that no dividends be paid for the fiscal period September 1, 2002 – August 31, 2003, and that the loss for the period be transferred to the earnings account.

Financial information

During the fiscal period 2003–2004, Vaahto Group Plc Oyj will publish an interim report for the period September 1, 2003 – February 29, 2004. The interim report will be published on April 14, 2004, in both Finnish and English.

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

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

Fiscal Period in Brief

Key figures M€	2002/2003 12 months	2001/2002 12 months	Change %
Turnover	71.3	65.8	8
Operating profit/loss	-1.3	-0.6	124
Return on investment, %	-4.2	-1.7	147
Equity ratio, %	25.0	30.7	-19
Investments	2.9	3.2	-10
Total number of personnel (average)	570	580	-2

Vaahto Group

Vaahto Group

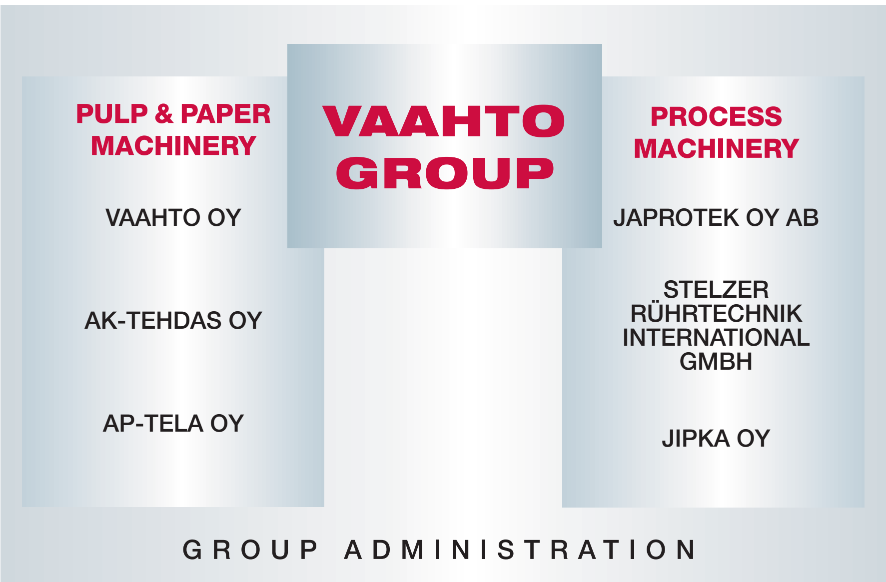
Vaahto Group, established in 1874, is a globally operating supplier of high-quality technology and consulting services, serving the process industry in the fields of paper-making technology and process machinery. Vaahto Group Plc Oyj's shares have been quoted on the I List of the Helsinki Exchanges since 1988.

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

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

The Group's operations in the area of paper-making technology focus on its core competence in paper and board machine rebuilds, provision of roll covers and roll servicing, and other maintenance and servicing, as well as spare parts services for paper machines. In the area of process machinery, the Group's core competence lies in high-quality agitator technology, pressure vessels for demanding applications, and spiral heat exchangers.

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



Mission

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

Vision

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

Strategy

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

CEO's Review

The operating environment Vaahto Group faced during the fiscal period was quite challenging, as the growth in the world economy was weaker than expected. In Finland, industrial production and investments declined, and the largest Western European economies suffered due to the increase in unemployment and other financial problems. The SARS epidemic shook Asia, and in the US, the war in Iraq undermined confidence in the growth of the global economy. Demand for products of the pulp and paper industry decreased, as did the demand for investment products in industry overall, except in China, whose economy continued to grow delightfully.

The difficult market situation also affected Vaahto Group's operations. The Group's turnover nevertheless increased by a little more than 8%, to 71.3 million euros, but profitability decreased, resulting in an operating loss of 1.3 million euros. Business for the Pulp & Paper Machinery division developed positively for the most part, in spite of the weak market situation throughout the fiscal period. The division's turnover remained almost unchanged, but its profitability improved, reaching a satisfactory level. The Process Machinery division's turnover grew, but its profitability was weak and the result for the fiscal period showed a significant loss.

The profits of the Process Machinery division and the Group in general suffered particular harm as a result of the weak profits and financial problems of the German subsidiary Canzler GmbH, which applied for insolvency in September, after the end of the fiscal period. The main reason for this was the errors discovered in the company's management reporting, which made financing negotiations more difficult and in practice prevented the continuation of operations. Without Canzler GmbH's unexpected loss of 1.4 million euros, the Group would have made an operating profit of 0.1 million euros.

The Group managed to transfer a sizable process equipment delivery from Germany to Finland, as well as the spiral heat exchanger business and the order backlog. The transferred orders have been included in the Group's order backlog. In spite of the weak market situation, the Group's order backlog increased to 25.6 million euros. The relatively healthy order backlog and the new orders received after the end of the fiscal period give us hope for positive business developments during the current fiscal period.

In the course of the fiscal period, the **Pulp & Paper Machinery** division's business developed in line with longterm goals. Most of the division's deliveries were to Finland and Sweden, but the number for China is on the rise. In Sweden, one of the projects completed was the extensive modernization of a paper machine at the Gruvön mill, owned by Billerud Ab. Quite a few of the new orders received in the fiscal period came from the rapidly growing Chinese market, of which the division has gained a larger than expected share. The division aims to further strengthen its foothold in China.

As a result of long-term, determined development work, the key technologies and components of paper and board machines have achieved commercial success both in Finland and abroad, and now form a foundation for increasing sales. Thanks to advanced headbox, former, and shoe press technologies, the value of the division's technical expertise has increased significantly. Over the last two years, the Group has been one of the twelve most active patent applicants in Finland, which is also a clear sign of innovation.

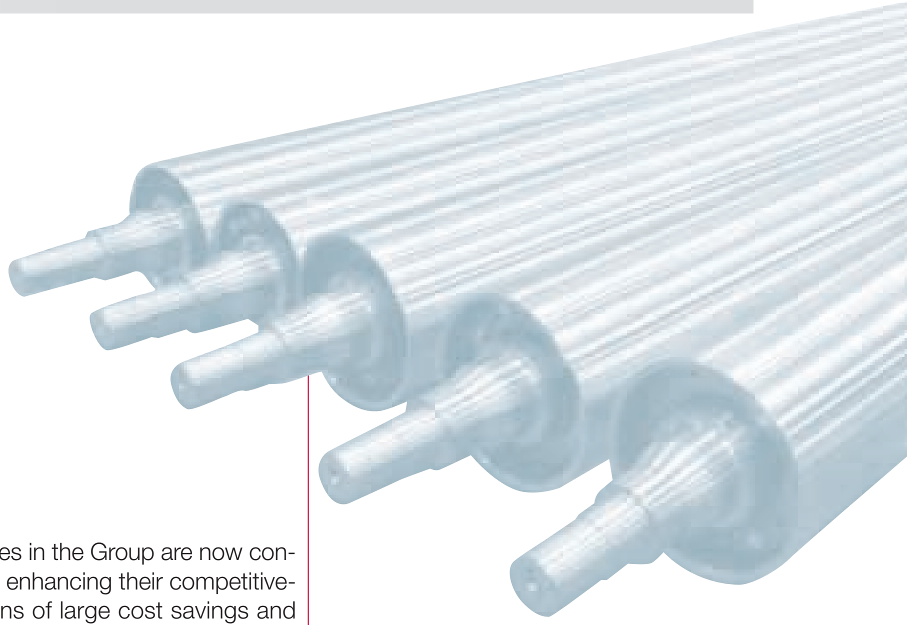
The Pulp & Paper Machinery division's roll servicing activities and delivery capacity have been enhanced by an investment program that was started earlier. New roll servicing facilities were completed for AK-Tehdas Oy in Tampere in December 2002. Machinery deliveries are not yet complete, but most of the extension is already being used for production. Thanks to the investments, AK-Tehdas Oy's roll servicing capabilities are up to the task of dealing with the widest, fastest, largest, and most demanding paper machines. The positive effects of the investments are expected to show in the profits for the current fiscal period.

Given the changes occurring in the competitive environment, the Pulp & Paper Machinery division enjoys a strong strategic competitive position. The division's competitive position has been improved by its extensive technology base, successful project delivery, and flexible structure. The division's turnover per employee is at a highly competitive level, even better than that of the major companies in the field.

The **Process Machinery** division concentrates on developing the competitiveness of the current product selection and on increasing profitability. The division's key products still are reactors, pressure vessels, and agitators for demanding applications, as well as spiral heat exchangers, which utilize heat transfer technology. Special attention is paid to increasing sales and improving profitability in the spiral heat exchanger business area. Spiral heat exchanger operations are now the responsibility of Finland's Vaahto Oy, which is expected to make them easier to control and more profitable. The market share of the division's spiral heat exchanger business is estimated to be the second largest in the world. The vessel and agitator business in Finland invests in deliveries of tank/agitator assemblies.

Both the manufacture of reactors and mastering agitator technology are in general highly specialized fields requiring knowledge of process technology and mechanical technology. In the agitator technology field, the company has a strong market position in Western Europe and Germany in particular. Exports from Germany to the Far East have rapidly increased, especially in the basic plastics industry. The division concentrates on developing sales channels and improving profitability and efficiency. The number of personnel in the agitator business in Germany has been cut by more than a fifth in the last five years. The Finnish agitator business is also undergoing fundamental reorganization in order to increase profitability.

In the fiscal period under review, sales of pressure vessels, reactors, and agitators were better than in the previous period, and the number of orders increased, even though the overall demand for investment products decreased, especially in Finland and Western Europe, due to the low investment activity of the chemical industry. The division's turnover per employee remained quite high, but the result for the fiscal period did not meet the objectives set and was clearly negative.



The companies in the Group are now concentrating on enhancing their competitiveness by means of large cost savings and reorganization. At the same time, the Group aims to increase its equity ratio, which has dropped to quite a low level. The removal of Canzler GmbH from the Group will improve the equity ratio by an estimated 4 percentage points during the current fiscal period, but that alone is not enough to increase solvency to a sufficient level.

The Group's investments during the fiscal period totaled 2.9 million euros. The period saw the completion of AK-Tehdas Oy's building investment and a majority of the machine installations. The spiral heat exchanger production line was moved from Germany to Finland, which required investments in Vaahto Oy. The main goal is to make the investments as profitable as possible, and the Group is thus not considering any significant new investment projects at the moment.

The recovery of the world economy has long been the subject of estimation and guesswork. Events during and before the fiscal period weakened confidence in economic growth and the demand for investment products. The US and Chinese economies are on the growth track, but consumer confidence remains undermined by the recession or zero growth and the deficit financing of the large European countries, as well as the strong euro. Looking at the future, however, one might assume that the current fiscal period is unlikely to see as many negative events as have been witnessed during the last two years.

The Group's order backlog at the end of the fiscal period was quite good, and it has further increased thanks to new orders, but some deliveries are not due for completion until the next fiscal period. The challenging and hard-to-predict operating environment and the lack of a percentage of completion method in accounting is another factor making it difficult to estimate the Group's economic development in the current fiscal period. Considering the increased order backlog and the projects aimed at cost savings and business development, there is reason to expect the Group to attain better results, provided that the global economy develops in a positive manner and investments pick up.

Vaahto Group can boast years of experience, extensive expertise, and a good market position in its main lines of business – paper technology and process machinery. In the current fiscal period, we are concentrating on investing in improving profitability. I am also convinced that our actions aimed at increased profitability and business development are steps in the right direction, providing our customers and owners with added value.

I would like to conclude by thanking our customers, personnel, and partners for their confidence and excellent cooperation during the fiscal period.

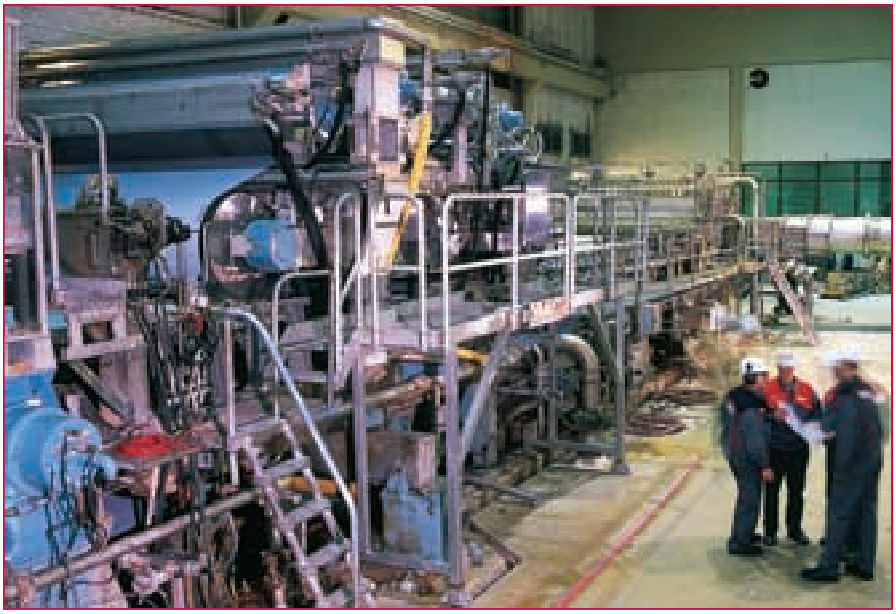
Antti Vaahto
CEO

Pulp & Paper Machinery

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

Products and services

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



A paper machine rebuild for Laminated Papers Ltd: the main components were the headbox, the former, and the guide rolls, stretchers, and guides in the drying section.

Business developments

Despite the uncertain world economy and weak economic development, the Pulp & Paper Machinery division managed to run its business in a positive direction. In addition to Finland and Sweden, the division delivered paper and board machines to China. A majority of the new orders received during the fiscal period were from rapidly growing Asian markets. Particular growth was achieved in the Chinese market.

The Pulp & Paper Machinery division's turnover remained at the previous year's level, but the division managed to improve its profitability and saw satisfactory results. However, the turnover and profitability objectives were not met, on account of the weak market situation, increased competition, and decreased margins.

The division's order backlog decreased a little from that of the previous fiscal year but remained satisfactory. Most of the orders were paper machine rebuilds and associated machinery and equipment deliveries. With the orders received, the division further strengthened its position as a supplier of machine rebuilds, machinery, equipment, and maintenance services for the paper, board, and pulp industries in the selected product, customer, and market sectors.

The most important of the projects completed during the fiscal period was the extensive modernization of a paper machine at Billerud Ab's Gruvön mill in Sweden. A kraft paper machine was converted into a two-ply liner machine by rebuilding the machine's wet end, headboxes, and formers, and raising the drying section's capacity to 400 tons per day.

Product development yields results

Given the changes in the operating environment, the Pulp & Paper Machinery division's strategic competitive position has improved. The product development work and roll servicing investments made in the last few years have greatly influenced the division's success and its sales development. The division has gained a larger than expected share of the growing Chinese market.

As a result of the product development, the key technologies and components of paper and board machines have achieved commercial success both in Finland and abroad. Thanks to advanced headbox, former, and shoe press technologies, the value of the division's technical expertise has increased significantly. Over the last two years, the Group has been one of the twelve most active patent applicants in Finland.

Roll services and other servicing on the rise

Demand for roll services and other servicing remained satisfactory for the entire period, and turnover remained at the previous year's level. The division's roll servicing activities and delivery capacity have been enhanced by an investment program started earlier.

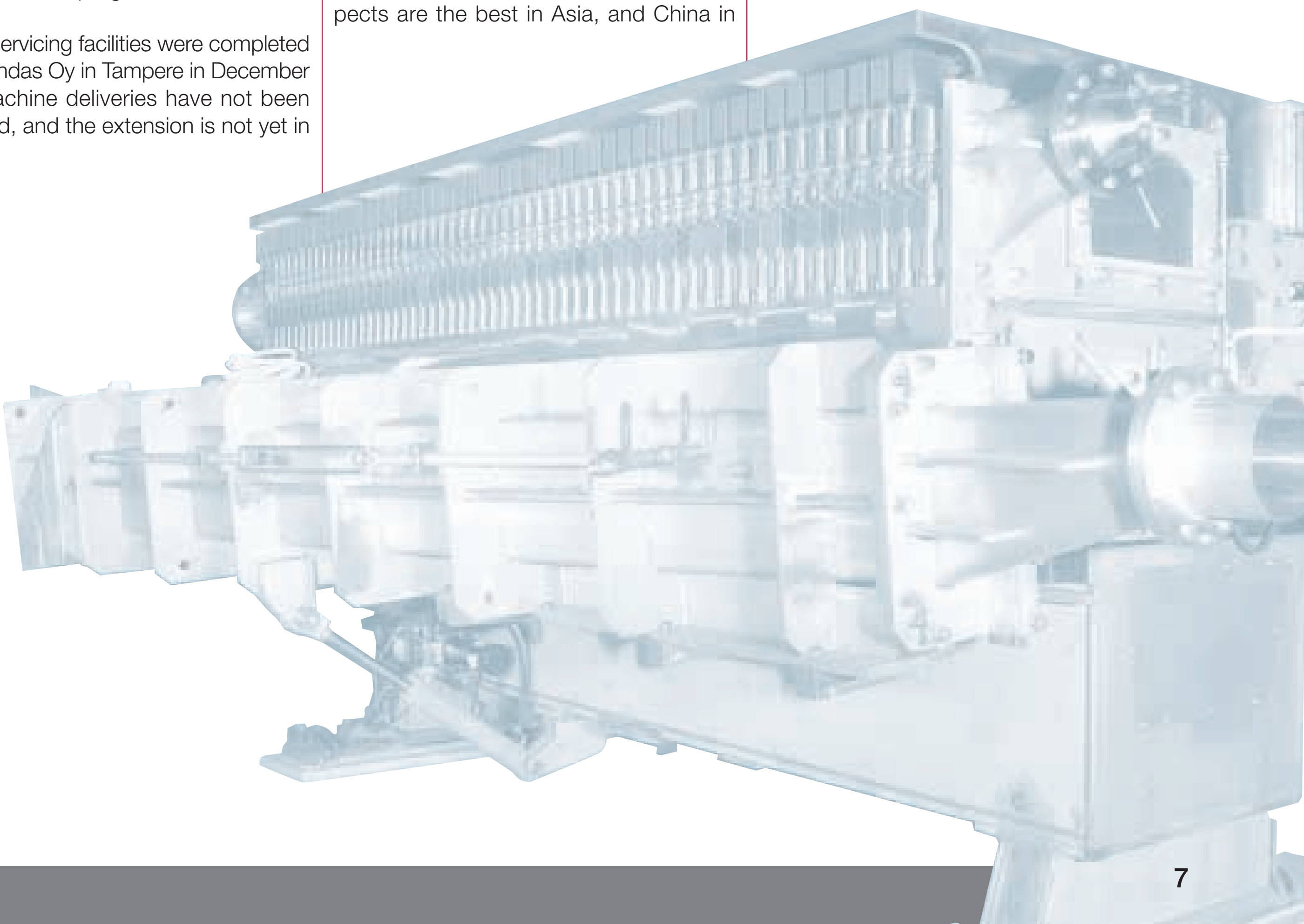
New roll servicing facilities were completed for AK-Tehdas Oy in Tampere in December 2002. Machine deliveries have not been completed, and the extension is not yet in full use for production; therefore, the positive effects of the investment have not been reflected to a significant extent in the results for the fiscal period.

The investment aims at increasing the company's roll servicing capabilities so that they meet requirements for dealing with the widest, fastest, largest, and most demanding paper machines. Thanks to the investment, customers can be provided with roll services with practically no size constraints, and the quality of the rolls can also be improved with respect to both dimension precision and balancing.

Markets growing in the Far East

Market prospects are uncertain for the Pulp & Paper Machinery division's customer industries. The industry’s capacity utilization rate is low, and large paper machine investments continue to remain on hold. Prospects are the best in Asia, and China in particular, where the demand for paper is growing more quickly than in the rest of the world. It is estimated that demand for roll services and other servicing, which is less dependent on the cyclic nature of modernization projects and the paper industry in general, will remain satisfactory.

The division's goal is to further strengthen its position as one of the leading suppliers of technology for the selected product, customer, and market groups. The division has gained a strong foothold in Scandinavia and has made a promising start in China. For paper machine rebuilds, the division offers high-quality, competitive technology for small and middlesized machines in particular, as well as components, roll services, and other servicing for larger and faster machines. The division's main competitive assets include customized, innovative solutions.



Process Machinery

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

Products and services

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

A reactor with an agitator, delivered to China for use in the chemical industry.

Business developments

The general uncertainty of the world economy and the resulting low demand for investments in the customers' industrial fields adversely affected the Process Machinery division's business during the fiscal period. The situation was difficult in most of the division's major market areas. Increased competition led to a decrease in margins and undermined profitability. While the division's turnover was higher than in the previous fiscal period, the result was clearly negative.

The division's profitability was affected particularly strongly by the weak profit levels and financial problems of the German subsidiary Canzler GmbH, which filed for insolvency shortly after the end of the fiscal period. The division's results were also hampered by cost overruns encountered with a few technologically demanding, largescale deliveries and the extra costs caused by the transfer and restarting of the production of spiral heat exchangers. The production operations were moved from Germany to Finland at the beginning of 2003, and the entire business area became the responsibility of the Finnish company in the autumn of 2003, as Canzler GmbH applied for insolvency.

Markets concentrating on growth areas

As the customers' industries' large investment projects neared an end, the volume of domestic sales decreased by about a third from that seen in the last few years. The division prepared deliveries mainly for Scandinavia and Western Europe but also increasingly for customers in Asia. The importance of China as a market for process machinery increased significantly during the fiscal period. Also outside Europe, investments were begun in the South African wood processing industry.

Investment prospects in China are good in nearly all fields in which customers operate. In Sweden, investments are expected to increase in the paper and pharmaceutical industries. Prospects for investments by the chemical industry in Scandinavia are weak, with the exception of Norway. In Germany, the chemical industry is mainly investing in smaller replacement and rebuilding projects. In South Africa, new investments are to be expected on the part of the chemical industry and the wood processing industry. The strong metallurgy industry is expected to keep making investments in South Africa.

Strong market share for key products

Despite difficult market conditions, the division has retained its strong market position with respect to agitators, pressure vessels for demanding applications, and reactors in Europe. In Finland, the division is concentrating mainly on the production and assembly of products for the pulp and paper industry, metallurgy, and environmental technology, with a particular emphasis on large agitators and pressure vessel/agitator assemblies. In Germany, the focus is on products for the chemical, pharmaceutical, and food processing industries. The division's pressure equipment is approved for use in nearly all market areas, including the US, China, Russia, and several European countries.

The division is still heavily involved in the spiral heat exchanger market, in which it is the second largest supplier in the world. After redistribution of Canzler GmbH's business, led by an administrator, spiral heat exchanger business was moved to Finland. The negotiations resulted in the transfer of a significant process machinery order to Japrotek Oy Ab and Vaahto Oy, which also received the backlog of spiral heat exchanger orders to fill. The main markets for spiral heat exchangers are Western Europe and the US.

Increasing profitability

The division's primary goal for the current fiscal period is improving profitability and competitiveness in the more demanding product areas instead of seeking growth. To improve profitability, the division has taken action to make its operations more effective. The objective is to boost production and increase profitability by hastening the completion and delivery of projects and by improving project management via the development of ERP-systems. Cost savings are being sought by adjusting the number of personnel to match the volume of business, rationalizing activities, and eliminating unprofitable products.

The division continues to invest in the design, development, and production of reactors, agitators, and heat exchangers. Special attention is being paid to increasing sales and improving profitability in the heat exchanger business area. Synergy between the agitator and tank businesses has increased, and the focus is kept on deliveries of pressure vessel/agitator assemblies made of bright and other special materials for increasingly demanding applications. In addition to the current main markets, the division aims to expand its operations in growing markets outside of Europe: China, Southeast Asia, and South Africa.

Review by the Board

Fiscal Period of September 1, 2002 – August 31, 2003

Business developments
Vaahto Group's turnover for the fiscal period ending in August 2003 was 71.3 million euros (65.8 million euros). The turnover increased by 8.2% from that of the previous fiscal period. Without the German subsidiary Canzler GmbH's unexpected loss of 1.4 million euros, the Group would have made an operating profit of 0.1 million euros. The Group's operating loss was thus 1.3 million euros (-0.6 million euros). In early September, just after the end of the fiscal period, Canzler GmbH applied for insolvency when the Group's board of directors decided to stop financing the company. The main reason for this was the errors discovered in the company's management reporting, which hampered financing negotiations. Canzler GmbH's turnover was 10.7 million euros, and it employed 77 persons at the end of the fiscal period.

The market situation for the Group's main products and in key countries was weaker than expected throughout the fiscal period. The customer industry's investment activity remained low due to the weakness of the global economy. The most significant exception was China, where economic growth remained high. The significance of China as a market area for paper and board machines as well as process machinery increased considerably during the fiscal period and is still on the rise. The Group's order backlog increased to some extent despite the weak market conditions and was 25.6 million euros at the end of the fiscal period (22.3 million euros). Canzler GmbH's orders have been deducted from the order backlog, but it does include the orders that were transferred from the company to the Group, totaling 5.4 million euros.

Canzler GmbH's insolvency and business redistribution
Canzler GmbH's profitability and financial health declined in the latter half of the fiscal period, as a consequence of which the company's equity was increased at the end of June 2003. As the company's liquidity further decreased, several negotiations were held with the company's management and bank in order to solve the problems and enable the company to continue its operations. At the beginning of September, just after the end of the fiscal period, it was discovered that the company's monthly accounts and profit forecasts after the latest interim report had been missleading. Upon finding out the company's actual situation, the Group's board of directors decided to discontinue the financing of Canzler GmbH, which led to the company to file for preliminary insolvency on September 5, 2003. After this, control over the company was transferred to a court-appointed administrator.

After Canzler GmbH applied for insolvency, the administrator initiated negotiations aiming at redistribution of the company's business. During the negotiations, the Group reached an agreement on transferring a significant process machinery order, made in the name of Canzler GmbH, directly to Japrotek Oy Ab and Vaahto Oy. The total value of the transferred orders was 4.3 million euros, and they are included in the Group's order backlog for the period under review. In addition, it was agreed that the spiral heat exchanger business and the order backlog, worth about 1.1 million euros, would be transferred to Vaahto Oy. Vaahto Oy has been responsible for the production of heat exchangers since the beginning of 2003. The transfer of business will receive final confirmation at the creditors meeting of Canzler GmbH.

Pulp & Paper Machinery
The division delivered paper and board machines mainly to Finland and Sweden, as well as to China. The significance of China as a market area grew, as a growing number of new orders originated there. The Chinese market will be increasingly important for the division in the future. The most important of the projects completed during the fiscal period was the modernization of a paper machine at Billerud Ab's Gruvön mill in Sweden. As for roll servicing activities, AK-Tehdas Oy's production extension investment gradually drew near completion. The investment is aimed at developing roll servicing capabilities further, to suit the widest, fastest, largest, and most demanding paper machines.

The Pulp & Paper Machinery division's turnover remained at the previous year's level, but the division managed to improve its profitability and attained satisfactory results. However, the turnover and profitability objectives were not met, due to the weak market situation, increased competition, and decreased margins. The division's order backlog fell slightly from that of the previous fiscal period.

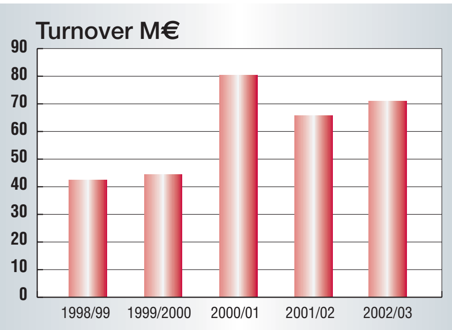
The Pulp & Paper Machinery division's strategic competitive position has improved thanks to the longterm, determined product development work and the roll servicing extension investment. The headboxes, formers, and shoe presses utilize advanced technology and provide a foundation for increasing sales.

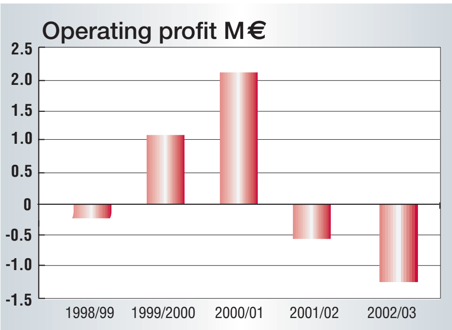
Process Machinery
The division made deliveries mainly to Scandinavia and Western Europe, and increasingly to Asia. Market conditions were difficult for the duration of the fiscal period, and no substantial changes occurred in demand. Margins decreased to some extent due to increased competition.

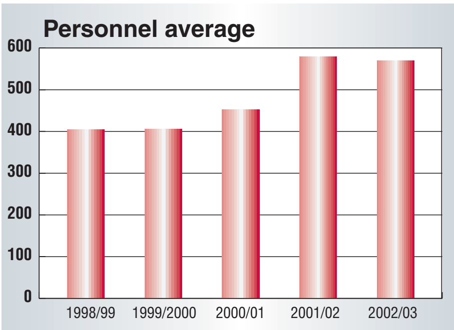
The division's turnover saw an increase from the previous fiscal period, but profitability decreased and the result was clearly negative. The result was most adversely affected by the loss made by Canzler GmbH and the initial difficulties in spiral heat exchanger production. Despite the profitability problems, the division has a strong market share in Europe when it comes to spiral heat exchangers and agitators as well as reactors and pressure vessels for demanding applications.

To improve profitability, the division has already taken action to make its operations more effective. The aim is to reach cost savings, increase the efficiency of production, adjust the number of personnel so that it matches the volume of business, and eliminate unprofitable products. Special attention will be paid to increasing sales and productivity in the spiral heat exchanger business area and improving the profitability of the agitator business.

Results
Vaahto Group's operating loss for the fiscal period was 1.3 million euros (-0.6 million euros), and losses before extraordinary items and taxes totaled 1.9 million euros (-1.1 million euros). The return on investment was -4.2% (-1,7%), i.e., negative. The Group's profitability decreased from the previous fiscal period's levels, and the targets set were not achieved, despite the centralization of production activities as well as retrenchments and layoffs. However, the Group's Pulp & Paper Machinery







division did manage to improve its profitability despite the difficult market conditions, attaining satisfactory results. The Process Machinery division showed a clearly negative result.

Without Canzler GmbH's unexpected loss of 1.4 million euros, the Group would have made an operating profit of 0.1 million euros. At the end of February 2003, the company's result and profit forecasts were positive, and the remaining provision for restructuring was enough to cover the further costs of the reduction of personnel. In consolidation only a preliminary, unaudited financial statement was available for Canzler GmbH.

Financing
The Group's cash flow was -1.7 million euros (-0.9 million euros). The cash flow decreased from the previous fiscal period due to, e.g., reduced profitability and increased working capital. The Group's net financial expenses increased somewhat from the previous fiscal period and came to 0.6 million euros (0.5 million euros), i.e., 0.9% of its turnover. The cash flow for investments for the period was -2.1 million euros (-3.3 million euros), which was clearly less than in the previous period. The Group's liquidity decreased but remained at a satisfactory level. The shortage in financing was covered using cash and short-term loans. The increase in interest-bearing net debt was 1.7 million euros.

Total assets and liabilities on the consolidated balance sheet stood at 42.7 million euros (44.0 million euros), and the parent company's balance sheet showed 10.5 million euros. The Group's equity ratio decreased to 25.0% from the previous period's 30.7%, mostly due to Canzler GmbH's negative result. The removal of Canzler GmbH from the Group will improve the equity ratio by an estimated 4 percentage points in the current fiscal period.

Investments
The Group's investments in fixed assets for the fiscal period totaled 2.9 million euros (3.2 million euros). The most significant investments included the completion of AK-Tehdas Oy's extension project and acquisitions related to the commencement of Vaahto Oy's spiral heat exchanger production. The rest of the investments dealt with boosting the efficiency of production, improving the quality of products, and replacing machinery and equipment.

Research and development
The Group's research and development activities still concentrated for the most part on improving the competitiveness of the Pulp & Paper Machinery division's paper and board machines, components, and roll services. The Process Machinery division's research and development efforts focused on improving the production technology for more demanding products, such as various types of reactors, pressure vessels, and agitators. The scope of the Group's research and development activities remained the same as in the previous fiscal period.

Information systems
The Group's information and information management systems were further developed during the fiscal period in accordance with the centralized operation model. There were no significant new IT-projects or investments during the period. Purchases mainly involved increasing machine capacity and upgrading operating systems. Towards the end of the fiscal period, however, the Group's Finnish companies started building a new access control and timekeeping system. Attention is still being paid to more efficient utilization of the Group's ERP- system by adjusting working methods to address system requirements, thus decreasing the amount of overlapping work and improving the manageability of business. These development efforts are being continued in the current fiscal period.

Personnel
Group personnel averaged 570 (580) over the fiscal period, of which Canzler GmbH's staff totaled 81. The decrease in the number of personnel was mainly due to the redundancies at Canzler GmbH. Over the course of the current fiscal period, the entire staff of Canzler GmbH will be made redundant, with the exception of a few persons who continue to work for the Group in the spiral heat exchanger business.

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

Administration
The Annual General Meeting on December 12, 2002, elected the following members to the Board of Vaahto Group Plc Oyj:

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

Antti Vaahto served as CEO throughout the fiscal period.

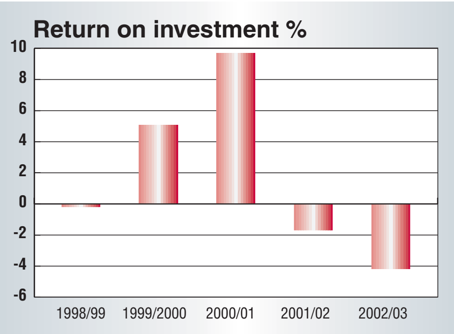
The Group companies have been audited by Risto Järvinen, CPA, and the certified public auditing firm Ernst & Young Oy, with Pauli Hirviniemi, CPA, as chief auditor.

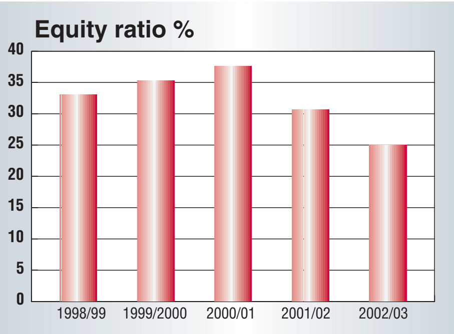
Forecast of future developments
It is very hard to forecast world economic developments given the current political and economic conditions. The US and Chinese economies are on the growth track, but consumer confidence in a rapid recovery is undermined by the recession or zero growth and the deficit financing of the large European countries, as well as the strength of the euro. The challenging and hard-to-predict operating environment and the lack of a percentage of completion method make it difficult to estimate the Group's economic development in the current fiscal period. However, considering the relatively solid order backlog and the projects aiming at cost savings and business development, there is reason to expect the Group to see better results, provided that the global economy takes a positive turn and investments pick up.

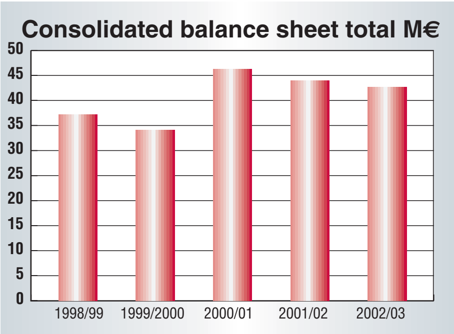
Proposal for distribution of profits
Group funds available for distribution of profits total 2,530,248.50 euros. Parent company funds available for distribution of profits total 5,027,230.29 euros, of which 188,102.23 euros represents losses for the fiscal period.

The Board will propose to the Annual General Meeting that the loss be transferred to the earnings account and no dividends be paid.

Board of Directors







Income Statement

1 000 €	Group 1.9.2002-31.8.2003 12 months	Group 1.9.2001-31.8.2002 12 months	Parent 1.9.2002-31.8.2003 12 months	Parent 1.9.2001-31.8.2002 12 months	Note
TURNOVER	**71 271**	**65 846**	**1 530**	**1 458**	1
Change in products and work in progress	-2 788	-3 539	0	0	
Production for own use	630	287	0	0	
Other operating income	1 461	3 485	0	0	2
Purchases	-21 231	-19 916	0	0	
Increase (-) or decrease (+) in inventories	-237	-501	0	0	
External services	-10 375	-10 912	0	0	
Personnel expenses	-24 458	-22 775	-416	-404	4
Depreciation	-2 180	-2 095	-614	-100	5
Other operating expenses	-13 356	-10 444	-710	-755	
OPERATING PROFIT / LOSS	**-1 261**	**-564**	**-211**	**198**	3
Financial income and expenses	-642	-530	16	155	6
PROFIT / LOSS BEFORE EXTRAORDINARY ITEMS	**-1 903**	**-1 093**	**-195**	**353**	
Extraordinary expenses	0	0	0	-350	7
PROFIT / LOSS BEFORE INCOME TAXES	**-1 903**	**-1 093**	**-195**	**3**	
Increase (-) or decrease (+) in accelerated depreciations	0	0	7	0	
Income taxes	253	308	0	-2	8
MINORITY INTEREST	**7**	**9**	**0**	**0**	
PROFIT / LOSS FOR THE FISCAL YEAR	**-1 644**	**-777**	**-188**	**1**	

Balance Sheet

1 000 €	Group 31.8.2003	Group 31.8.2002	Parent 31.8.2003	Parent 31.8.2002	Note
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	2 410	2 763	91	126	
Group goodwill	147	175	0	0	
Tangible assets	15 862	14 787	130	175	
Investments	49	73	8 076	8 103	
NON-CURRENT ASSETS TOTAL	**18 468**	**17 798**	**8 297**	**8 404**	10
CURRENT ASSETS					
Inventories	7 886	11 442	0	0	
Long-term receivables	3	140	0	0	
Short-term receivables	13 126	9 459	517	370	
Deferred tax assets	230	211	0	0	15
Receivables total	13 359	9 810	517	370	
Other securities	55	1 138	0	699	
Cash and bank deposits	2 911	3 861	1 642	1 308	
CURRENT ASSETS TOTAL	**24 212**	**26 250**	**2 160**	**2 377**	11
TOTAL ASSETS	**42 679**	**44 048**	**10 457**	**10 781**	
LIABILITIES					
SHAREHOLDERS' EQUITY					
Share capital	2 872	2 872	2 872	2 872	
Share premium account	6	6	0	0	
Revaluation reserve	229	229	0	0	
Reserve fund	1 995	1 995	2 228	2 228	
Retained earnings	5 543	6 320	5 215	5 215	
Profit / loss for the fiscal year	-1 644	-777	-188	1	
SHAREHOLDERS' EQUITY TOTAL	**9 001**	**10 645**	**10 128**	**10 316**	12
MINORITY INTEREST	**878**	**884**	**0**	**0**	
Accumulated accelerated depreciation	0	0	2	9	
APPROPRIATIONS TOTAL	**0**	**0**	**2**	**9**	13
OBLIGATORY PROVISIONS TOTAL	**2 004**	**2 766**	**0**	**0**	14
LIABILITIES					
Long-term liabilities	8 097	9 149	0	0	16
Short-term liabilities	22 439	20 082	327	456	17
Deferred tax liability	261	522	0	0	15
LIABILITIES TOTAL	**30 797**	**29 753**	**327**	**456**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**42 679**	**44 048**	**10 457**	**10 781**	

Flow of Funds Statements

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
FLOW OF FUNDS FROM OPERATIONS				
Profit / loss before extraordinary items	-1 903	-1 093	-195	353
Adjustment items:				
Depreciations according to plan	2 180	2 095	87	100
Value adjustments	0	0	528	0
Other income and expenses, no payment related	-762	2 624	0	0
Financial income and expenses	642	530	-16	-155
Flow of funds before the change in working capital	**156**	**4 155**	**404**	**299**
Change in working capital:				
Change in short-term receivables	-4 282	-1 501	-147	-62
Change in inventories	3 555	3 172	0	0
Change in short-term non-interest bearing creditors	-419	-6 251	21	-167
Flow of funds before financial items and taxes	**-989**	**-424**	**278**	**69**
Interest and other financial expenses from operations paid	-743	-661	-15	0
Dividends received	2	0	0	88
Interests received	98	131	31	67
Income taxes paid	-28	20	0	-2
FLOW OF FUNDS FROM OPERATIONS	**-1 659**	**-934**	**293**	**222**
FLOW OF FUNDS FROM INVESTMENTS				
Investments in tangible and intangible assets	-2 884	-3 197	-7	-143
Other investments	0	0	-500	-528
Increase caused by the change in Group structure	0	-749	0	0
Income from sales of tangible and intangible assets	10	1 381	0	0
Granted loans	0	-744	0	0
Withdrawals of loan receivables	752	0	0	1 024
Income from sales of other investments	24	0	0	0
FLOW OF FUNDS FROM INVESTMENTS	**-2 097**	**-3 309**	**-507**	**354**
FLOW OF FUNDS FROM FINANCIAL ITEMS				
Withdrawals of short-term loans	3 833	2 365	0	350
Payments of short-term loans	-1 604	0	-151	0
Withdrawals of long-term loans	1 015	940	0	0
Payments of long-term loans	-1 520	0	0	0
Dividends	0	-919	0	-862
Group transfers	0	0	0	-350
FLOW OF FUNDS FROM FINANCIAL ITEMS	**1 724**	**2 386**	**-151**	**-862**
Change of liquid funds	**-2 033**	**-1 857**	**-364**	**-286**
Liquid assets at the beginning of the fiscal year	4 999	6 855	2 007	2 293
Liquid assets at the end of the fiscal year	2 966	4 999	1 642	2 007
Change in liquid assets according to the balance sheet	-2 033	-1 857	-364	-286

Notes on Financial Statements

Group Consolidation

Parent company Vaahto Group Plc Oyj, Vaahto Oy, Japrotek Oy Ab, AK-Tehdas Oy, Jipka Oy, AP-Tela Oy, Stelzer Rührtechnik International GmbH, Canzler GmbH, Canzler LLC, and Profitus Oy form the group for which the consolidated financial statements have been drawn up. Profitus Oy had no business activity during the fiscal period. Canzler GmbH applied for insolvency on September 5, 2003, and the company has made no official financial statement on the situation on August 31, 2003. The company has been added to the consolidated financial statements on the basis of a preliminary financial statement drawn up by an outside expert.

Accounting Principles for Consolidated Financial Statements

Internal shareholding

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

Internal transactions and profits

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

Valuation of fixed assets

Fixed assets are valued at their direct acquisition cost. The planned depreciation periods are presented below under “Depreciation”. The depreciation recorded in Stelzer Rührtechnik International GmbH's official financial statements comes to 14 thousand euros less than (previous fiscal period: 32 thousand euros more than) the depreciation entered on the consolidated financial statements in line with the consolidated accounting policy.

Revaluations

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

Appropriations

The difference between planned and book depreciation is divided in the consolidated financial statements between deferred taxes and shareholders' equity. The deferred taxes are calculated at a rate of 29%.

Inventory valuation

The values of inventories have been determined using the first-in, first-out method or entered at acquisition cost or at the expected sale value, if lower. In-house production included in the inventory is valued according to the direct acquisition cost.

Entering ongoing project results in the accounts

Long-term projects have been entered on the income statement as before, only on completion of the project.

Assets and liabilities in foreign currencies

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

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

Expenditure on research and development

The research and development expenditures for the fiscal period have been entered under costs.

Pension liabilities

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

Taxes

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

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

Notes on Financial Statements

APPENDIX TO INCOME STATEMENT 1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
1. TURNOVER BY BUSINESSES AND MARKET AREAS				
By businesses				
Manufacturing	71 271	65 846	0	0
Administration	0	0	1 530	1 458
Total	**71 271**	**65 846**	**1 530**	**1 458**
By market areas				
Domestic	24 591	31 721	1 530	1 458
Other Europe	32 208	27 497	0	0
North-America	116	1 511	0	0
Other	14 356	5 117	0	0
Total	**71 271**	**65 846**	**1 530**	**1 458**
2. OTHER OPERATING INCOME				
Profit from sales of fixed assets	30	34	0	0
Decrease of the obligatory provision of Canzler GmbH	954	3 008	0	0
Other	477	443	0	0
Total	**1 461**	**3 485**	**0**	**0**
3. OPERATING PROFIT / LOSS BY BUSINESSES				
Manufacturing	-1 261	-564	0	0
Administration	0	0	-211	198
Total	**-1 261**	**-564**	**-211**	**198**
4. PERSONNEL				
Average number of personnel				
Office staff	220	204	9	9
Workers	350	376	0	0
Total	**570**	**580**	**9**	**9**
Personnel expenses				
Wages and salaries	19 733	19 476	318	304
Pension costs	2 775	1 982	53	53
Other personnel expenses	1 950	1 317	45	47
Total	**24 458**	**22 775**	**416**	**404**
Management's salaries and benefits				
Managing directors	422	408		
Board members and substitute members	53	54		
Total	**475**	**462**	**66**	**65**

5. 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.

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
The estimated economic lives (years)				
Other long-term assets	5-10	5-10	5-10	5-10
Buildings	35-40	35-40	35-40	35-40
Machinery and equipment	5-25	5-25	5-25	5-25
Group goodwill	10	10		
Goodwill	15	15		
Depreciations				
Depreciations from tangible and intangible assets	2 180	2 095	87	100
Value adjustments of non-current assets (shares in Canzler GmbH)	0	0	528	0
Total	**2 180**	**2 095**	**614**	**100**
6. FINANCIAL INCOME AND EXPENSES				
Income from other investments held as non-current assets				
From Group companies	0	0	0	88
Other	2	0	0	0
Total	**2**	**0**	**0**	**88**
Interest income from long-term investments				
From Group companies	0	0	0	15
Other	2	0	2	2
Total	**2**	**0**	**2**	**17**
Other interest and financial income				
From Group companies	0	0	0	2
Other	97	131	29	47
Total	**97**	**131**	**29**	**50**
Interest and other financial expenses				
To Group companies	0	0	15	0
Other	743	661	0	0
Total	**743**	**661**	**15**	**0**
Financial income and expenses total	**-642**	**-530**	**16**	**155**
Currency gains included in financial income and expenses	**21**	**8**	**0**	**0**
7. EXTRAORDINARY ITEMS				
Extraordinary expenses/Group transfers	0	0	0	350
Total	**0**	**0**	**0**	**350**
8. INCOME TAXES				
Income taxes from extraordinary items	0	0	0	-102
Income taxes from operations	28	-20	0	103
Change in deferred tax liabilities	-280	-288	0	0
Total	**-253**	**-308**	**0**	**2**

9. SHAREHOLDINGS

Group companies **Company**	**Registered Office**	**Number of Shares**	**Group Ownership,%**
AK-Tehdas Oy	Tampere	2 900	100.00
AP-Tela Oy	Kokkola	250	52.08
Canzler GmbH	Düren, Germany		100.00
Japrotek Oy Ab	Pietarsaari	100 000	100.00
Jipka Oy	Joutseno	190	100.00
Profitus Oy	Hollola	1 600	100.00
Stelzer Rührtechnik International GmbH	Warburg, Germany		100.00
Vaahto Oy	Hollola	2 700	100.00
Subsidiaries of subconcern	**Registered Office**		**Group Ownership,%**
Canzler LLC	Columbia, USA		100.00

All Group companies have been consolidated to financial statements.

APPENDIX TO BALANCE SHEET **1 000 €**	**Group 2002/2003 12 months**	**Group 2001/2002 12 months**	**Parent 2002/2003 12 months**	**Parent 2001/2002 12 months**
10. NON-CURRENT ASSETS				
Intangible assets *)				
Intangible rights				
Acquisition cost at the beginning of the fiscal year	94	88		
Increase caused by the change in Group structure	0	9		
Accumulated depreciations at the beginning of the fiscal year	48	40		
Depreciation of the fiscal year	8	11		
Book value at the end of the fiscal year	**38**	**46**		
Goodwill				
Acquisition cost at the beginning of the fiscal year	2 664	2 668		
Accumulated depreciations at the beginning of the fiscal year	726	551		
Depreciation of the fiscal year	178	178		
Book value at the end of the fiscal year	**1 761**	**1 939**		
Other long-term assets				
Acquisition cost at the beginning of the fiscal year	1 620	1 257	269	134
Increase	85	191	3	136
Increase caused by the change in Group structure	0	172	0	0
Decrease	-1	0	0	0
Transfers between items	15	0	0	0
Accumulated depreciations at the beginning of the year	841	628	144	98
Depreciation of the fiscal year	266	214	37	45
Book value at the end of the fiscal year	**611**	**779**	**91**	**126**
Intangible assets total	**2 410**	**2 763**	**91**	**126**

*) The classification of the intangible assets in the balance sheet has been changed in the fiscal period and the figures of the period of comparison has been changed accordingly.

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
Group goodwill				
Acquisition cost at the beginning of the fiscal year	280	277		
Increase	0	3		
Accumulated depreciations at the beginning of the fiscal year	105	74		
Depreciation of the fiscal year	28	31		
Book value at the end of the fiscal year	**147**	**175**		
Tangible assets				
Land				
Acquisition cost at the beginning of the fiscal year	725	713		
Increase	0	12		
Revaluations	30	30		
Book value at the end of the fiscal year	**755**	**755**		
Buildings				
Acquisition cost at the beginning of the fiscal year	7 766	7 747		
Increase	3	19		
Transfers between items	2 040	0		
Accumulated depreciations at the beginning of the fiscal year	2 166	1 926		
Depreciation of the fiscal year	295	241		
Revaluations	335	335		
Book value at the end of the fiscal year	**7 682**	**5 935**		
Machinery and equipments				
Acquisition cost at the beginning of the fiscal year	12 910	11 791	517	510
Increase	1 722	688	4	7
Increase caused by the change in Group structure	0	527	0	0
Decrease	-73	-71	0	0
Transfers between items	924	0	0	0
Accumulated depreciations at the beginning of the fiscal year	7 503	6 274	342	287
Depreciations of transfers and decrease items	-64	0	0	0
Depreciation of the fiscal year	1 249	1 253	50	55
Book value at the end of the fiscal year	**6 796**	**5 408**	**130**	**175**
Other tangible assets				
Acquisition cost at the beginning of the fiscal year	1 108	1 002		
Increase	66	68		
Increase caused by the change in Group structure	0	42		
Decrease	0	-2		
Accumulated depreciations at the beginning of the fiscal year	636	469		
Book value at the end of the fiscal year	**382**	**471**		
Advance payments and unfinished investments				
Acquisition cost at the beginning of the fiscal year	2 218	1 308		
Increase	1 008	2 218		
Decrease	0	-1 308		
Transfers between items	-2 979	0		
Book value at the end of the fiscal year	**247**	**2 218**		
Tangible assets total	**15 862**	**14 787**	**130**	**175**

Notes on Financial Statements

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
Revaluations				
Land				
Value at the beginning of the fiscal year	30	30		
Value at the end of the fiscal year	**30**	**30**		
Buildings				
Value at the beginning of the fiscal year	335	335		
Value at the end of the fiscal year	**335**	**335**		
Investments				
Shares in Group companies				
Acquisition cost at the beginning of the fiscal year			8 081	7 553
Increase			500	528
Value adjustments of shares in Canzler GmbH			-528	0
Book value at the end of the fiscal year			**8 053**	**8 081**
Other shares				
Acquisition cost at the beginning of the fiscal year	73	73	23	23
Decrease	-24	0	0	0
Book value at the end of the fiscal year	**49**	**73**	**23**	**23**
Investments total	**49**	**73**	**8 076**	**8 103**
11. CURRENT ASSETS				
Short-term receivables				
External short-term receivables				
Trade receivables	11 118	6 266	0	0
Loan receivables	0	615	0	0
Other receivables	974	1 248	0	1
Prepaid expenses and accrued income	1 034	1 331	191	195
Total	**13 126**	**9 459**	**191**	**195**
Prepaid expenses and accrued income consist of:				
Prepaid social security costs	261	393	11	12
Prepaid lease expenses	222	118	0	0
Prepaid taxes	174	228	159	160
Prepaid insurance premiums	81	45	19	15
Insurance compensations	61	0	0	0
Income from delivered contracts	17	173	0	0
Interest receivables	4	28	2	6
Other items	215	345	0	1
Prepaid expenses and accrued income total	**1 034**	**1 331**	**191**	**195**
Short-term receivables from Group companies				
Trade receivables			326	175
Total			**326**	**175**
Short-term receivables total	**13 126**	**9 459**	**517**	**370**
Long-term receivables				
External long-term receivables				
Loan receivables	3	140	0	0
Total	**3**	**140**	**0**	**0**
Long-term receivables total	**3**	**140**	**0**	**0**

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
Deferred tax assets (see no. 15)	**230**	**211**	**0**	**0**
Receivables total	**13 359**	**9 810**	**517**	**370**
12. SHAREHOLDERS' EQUITY				
Share capital at the beginning of the fiscal year	2 872	2 872	2 872	2 872
Share capital at the end of the fiscal year	**2 872**	**2 872**	**2 872**	**2 872**
Reserve fund at the beginning of the fiscal year	1 995	1 995	2 228	2 228
Reserve fund at the end of the fiscal year	**1 995**	**1 995**	**2 228**	**2 228**
Share premium account at the beginning of the fiscal year	6	6		
Share premium account at the end of the fiscal year	**6**	**6**		
Revaluation fund at the beginning of the fiscal year	229	229		
Revaluation fund at the end of the fiscal year	**229**	**229**		
Retained earnings at the beginning of the fiscal year	5 543	7 182	5 215	6 076
Dividends	0	-862	0	-862
Retained earnings in the end of the fiscal year	**5 543**	**6 320**	**5 215**	**5 215**
Profit / loss for the fiscal year	**-1 644**	**-777**	**-188**	**1**
Shareholders' equity	**9 001**	**10 645**	**10 128**	**10 316**
Calculation on distributable assets				
Retained earnings	5 543	6 320	5 215	5 215
Profit / loss for the fiscal year	-1 644	-777	-188	1
Capitalized R&D expenses, not meant in Accounting Act 5:8	-3	-27	0	0
Share from accumulated accelerated depreciation and voluntary provisions booked to equity	-1 366	-1 921	0	0
Distributable assets total	**2 530**	**3 595**	**5 027**	**5 215**
The distribution of shareholders' equity by series	**no.**	**euros**	**no.**	**euros**
A-share (1 vote/share)	1 452 751	1 452 751	1 452 751	1 452 751
K-shares (20 votes/share)	1 419 551	1 419 551	1 419 551	1 419 551
Total	**2 872 302**	**2 872 302**	**2 872 302**	**2 872 302**
13. APPROPRIATIONS				
Accumulated accelerated depreciation			2	9
Total			**2**	**9**
14. OBLIGATORY PROVISIONS				
Provision for pensions (Canzler GmbH)	1 647	1 468		
Provision for restructuring (Canzler GmbH)	66	1 021		
Warranty provisions (Stelzer Rührtehnik International GmbH)	291	277		
Total	**2 004**	**2 766**		
15. DEFERRED TAX LIABILITIES AND ASSETS				
Deferred tax assets				
Consolidation differences	27	24		
Allocation differences	204	187		
Total	**230**	**211**		

Notes on Financial Statements

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
Deferred tax liabilities				
Appropriations	164	423		
Provisional differences	97	97		
Consolidation differences	0	2		
Total	**261**	**522**		
16. LONG-TERM LIABILITIES				
External long-term loans				
Loans from financial institutions	6 836	7 625		
Pension loans	1 261	1 524		
Long-term liabilities total	**8 097**	**9 149**		
17. SHORT-TERM LIABILITIES TOTAL				
External short-term liabilities				
Loans from financial institutions	7 309	4 515	0	0
Pension loans	262	280	0	0
Advance payments received	3 203	6 444	0	0
Accounts payable	5 681	4 364	13	26
Other liabilities	1 702	999	67	51
Accrued liabilities and deferred income	4 282	3 480	32	30
Total	**22 439**	**20 082**	**112**	**106**
Accrued liabilities and deferred income consist of:				
Deferred social security costs	1 773	2 348	32	30
Expenses from delivered contracts	376	337	0	0
Provision for costs of projects transferred from Canzler GmbH	158	0	0	0
Income taxes	65	38	0	0
Interest expenses	47	44	0	0
Deferred insurance costs	40	25	0	0
Other items	1 821	688	0	0
Accrued liabilities and deferred income total	**4 282**	**3 480**	**32**	**30**
Short-term liabilities to Group companies				
Other liabilities			199	350
Accrued liabilities and deferred income			15	0
Total			**214**	**350**
Short-term liabilities total	**22 439**	**20 082**	**327**	**456**

OTHER INFORMATION 1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
18. GRANTED SECURITIES				
Debts that have been granted mortgages as security				
Pension loans	983	1 228		
Granted mortgages	1 177	1 207		
Loans from financial institutions	9 116	8 516		
Granted mortgages	11 446	11 111		
Granted mortgages total	**12 623**	**12 319**		

1 000 €	Group 2002/2003 12 months	Group 2001/2002 12 months	Parent 2002/2003 12 months	Parent 2001/2002 12 months
Other securities				
Other mortgages	3 027	4 614		
Pledged deposits	989	773		
Total	**4 016**	**5 387**		
For the contracts delivered by August 31, 2003 the Group companies have warranty liabilities.				
Granted securities by Group companies				
Pledged deposits	989	773	989	773
Total	**989**	**773**	**989**	**773**
19. CONTINGENT LIABILITIES AND OTHER LIABILITIES				
Leasing commitments to be paid				
To be paid during fiscal year 2003-2004	485	445	94	12
Later	1 150	1 750	110	6
Total	**1 635**	**2 196**	**204**	**18**
Granted guarantees by Group companies				
Granted guarantees	257	0	257	0
Total	**257**	**0**	**257**	**0**
20. DERIVATIVE CONTRACTS				
Currency forward agreements				
Nominal value	110	1 868		
Market value	4	16		
Nominal values state for the use of the currency forward agreements and they don't measure the risks. Market value of the currency exchange agreements states for the income or expenses the group would book if the agreements were closed at the end of the fiscal period.				
Interest rate cap agreements				
Nominal value	3 000	3 000		
Market value	14	18		
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.				
21. ORDER BACKLOG				
Order backlog at the end of the fiscal year, millions of euros (The orders transferred from Canzler GmbH are included in the order backlog. The order backlog of the previous period contains the whole order backlog of Canzler GmbH.)	25.6	22.3		
22. ACCOUNTING MATERIAL AND VOUCHERS				
List of accounting books, list of the sorts of vouchers and information of retaining the vouchers are included in the balance book.				

Shares and Share Ownership

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2003, was 2,872,302 euros, representing a total of 2,872,302 shares. According to the company's Articles of Association, the company's minimum share capital is 2,800,000 euros and the maximum share capital 11,200,000 euros, within which limits the company's share capital can be raised or lowered without amending the Articles of Association. The company has two share series, A and K, the nominal value of each being one (1) euro. Each Series K share confers twenty (20) votes, and each Series A share one (1) vote at shareholders' meetings.

Quotation of shares

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

Share price and trading

During the fiscal period, 32,466 (2.2%) of Vaahto Group Plc Oyj's Series A shares and 19,426 (1.4%) Series K trades were traded. The lowest price of a Series A share was 2.45 euros, the highest 3.70 euros, the average price 2.48 euros, and the last trading price in the fiscal period 2.60 euros. The lowest price for a Series K share was 2.36 euros, the highest 3.70 euros, the average price 2.94 euros, and the last trading price in the fiscal period 2.36 euros. The total market capitalization on August 31, 2003, was 7.1 million euros.

Share issue authorizations

The company has no currently valid share issue authorizations, convertible bond loans, or related authorizations.

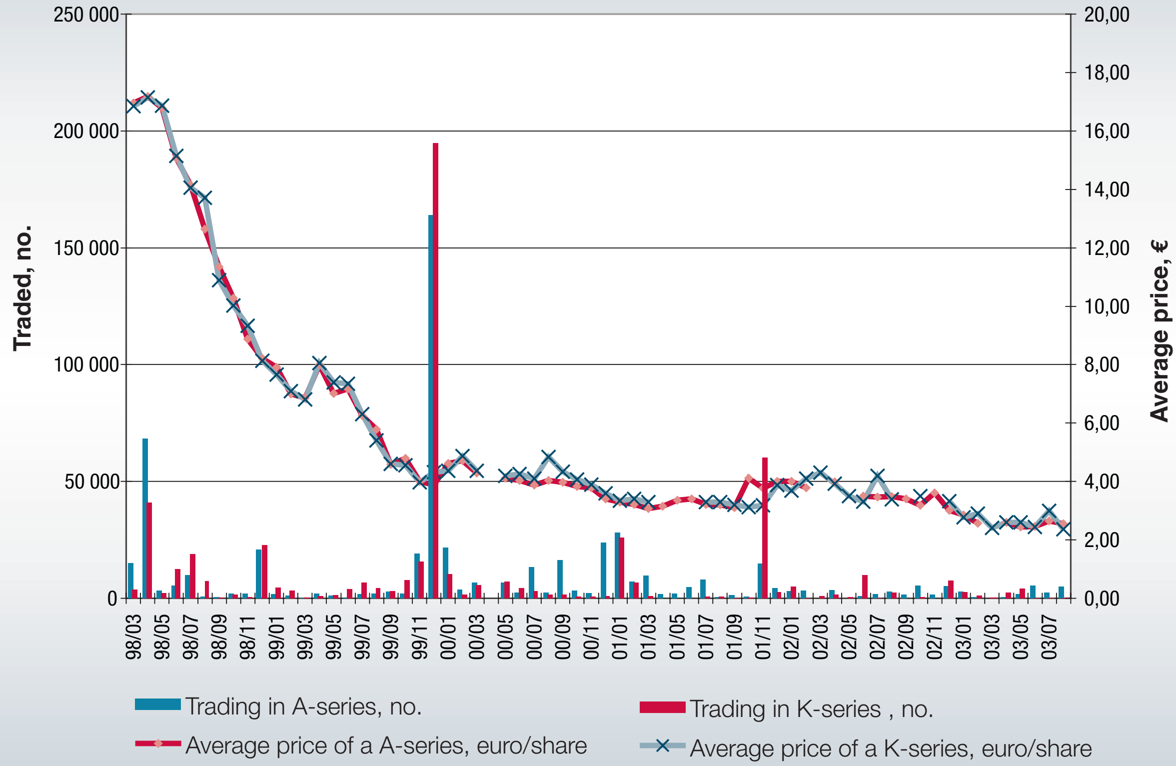
Dividends

The Board will propose to the Annual General Meeting on December 11, 2003, that no dividends be paid and the loss for the fiscal period be transferred to the earnings account.

Shareholders' and Board members' share ownership

At the end of the fiscal period on August 31, 2003, Vaahto Group Plc Oyj had 381 registered shareholders. There were in total 11,800 nominee-registered shares, representing 0.5% of the votes. On August 31, 2003, members of the Board of Directors and the CEO owned a total of 752,633 Series A shares and 752,800 Series K shares, representing 53.0% of the votes.

Share prices and number of shares traded



Major shareholders on August 31, 2003

	A shares		K shares		Total		Votes
	no.	%	no.	%	no.	%	%
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Vaahto Mikko	250 600	17.3	250 600	17.7	501 200	17.4	17.6
Vaahto Ilkka	247 000	17.0	247 000	17.4	494 000	17.2	17.4
Vaahto Heikki	0	0.0	384 700	27.1	384 700	13.4	25.8
Mutual Pension Insurance Company Ilmarinen	105 100	7.2	0	0.0	105 100	3.7	0.4
Mutual Insurance Company Pension-Fennia	49 220	3.4	53 520	3.8	102 740	3.6	3.8
Mutual Insurance Company Fennia	35 000	2.4	35 000	2.5	70 000	2.4	2.5
Sampo Life Insurance Company	66 200	4.6	0	0.0	66 200	2.3	0.2
The Local Governments Pension Institutions	61 500	4.2	0	0.0	61 500	2.1	0.2
If Casualty Insurance Company	38 300	2.6	0	0.0	38 300	1.3	0.1
Total for 10 largest	1 107 953	77.7	1 226 020	85.9	2 333 973	81.6	85.9

Breakdown of share ownership by amount of holdings on August 31, 2003

	Shareholders		Shares		Votes	
	no.	%	no.	%	no.	%
1 - 100	112	29.4	7 057	0.3	56 989	0.2
101 - 1 000	176	46.2	81 480	2.8	617 432	2.1
1 001 - 10 000	71	18.6	225 237	7.8	1 838 356	6.2
10 001 - 100 000	16	4.2	457 067	15.9	2 567 967	8.6
100 001 - 1 000 000	6	1.6	2 097 973	73.0	24 727 353	82.9
	381	100.0	2 868 814	99.9	29 808 097	99.9
Outside the book-entry securities system			3 488	0.1	35 674	0.1
			2 872 302	100.0	29 843 771	100.0

Breakdown of share ownership by category of owner on August 31, 2003

	Shareholders		Shares		Votes	
	no.	%	no.	%	no.	%
Companies	48	12.6	203 654	6.7	1 611 763	5.4
Financial and insurance institutions	5	1.3	190 277	6.6	1 027 056	3.4
Public corporations	3	0.8	269 340	9.4	1 286 220	4.3
Non-profit organizations	3	0.8	5 200	0.2	52 700	0.2
Households	321	84.3	2 200 343	76.6	25 830 358	86.1
	381	100.0	2 868 814	99.9	29 808 097	99.9
Outside the book-entry securities system			3 488	0.1	35 674	0.1
			2 872 302	100.0	29 843 771	100.0

Key Figures

Key Figures

1 000 €	2002/2003 12 months	2001/2002 12 months	2000/2001 18 months	1999/2000 12 months	1998/1999 12 months
Turnover	71 271	65 846	80 503	44 579	42 571
Change, %	8.2	-18.2	80.6	4.7	23.3
Operating profit / loss	-1 261	-564	2 097	1 096	-223
% of turnover	-1.8	-0.9	2.6	2.5	-0.5
Profit / loss before extraordinary items	-1 903	-1 093	1 245	487	-763
% of turnover	-2.7	-1.7	1.5	1.1	-1.8
Profit / loss before taxes	-1 903	-1 093	1 245	487	-763
% of turnover	-2.7	-1.7	1.5	1.1	-1.8
Profit / loss before extraordinary items ./. taxes	-1 651	-785	862	322	-595
% of turnover	-2.3	-1.2	1.1	0.7	-1.4
Return on equity (ROE), %	-15.4	-6.3	7.0	2.9	-4.9
Return on investment (ROI), %	-4.2	-1.7	9.7	5.1	-0.2
Equity ratio, %	25.0	30.7	37.6	35.3	33.1
Current ratio	1.1	1.3	1.2	1.5	1.5
Gearing, %	128.6	77.6	58.5	77.8	82.8
Gross investments in fixed assets	2 884	3 197	3 991	641	8 270
% of turnover	4.0	4.9	5.0	1.4	19.4
Order backlog	25 600	22 262	30 042	13 918	16 219
Consolidated balance sheet total	42 679	44 048	46 304	34 159	37 270
Total number of personnel (average)	570	580	453	407	405

Per Share Items

	2002/2003	2001/2002	2000/2001	1999/2000	1998/1999
Earnings/share (EPS), euros	-0.57	-0.27	0.18	0.11	-0.21
Shareholders' equity/share, euros	3.13	3.71	4.28	3.95	3.85
Dividend/share, euros *)	0.00	0.00	0.30	0.00	0.00
Dividend payout, %	0.0	0.0	168.1	0.0	0.0
Effective dividend return, %	0.0	0.0	9.3	0.0	0.0
Price earnings ratio (P/E)	-4.5	-12.6	18.2	42.4	-33.0
Number of shares outstanding at the end of period (1 000)	2 872	2 872	2 872	2 872	2 872
Number of shares outstanding, average (1 000)	2 872	2 872	2 872	2 872	2 872

*) Proposal by the Board

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

Share Prices

€	2002/2003 12 months	2001/2002 12 months	2000/2001 18 months	1999/2000 12 months	1998/1999 12 months
A share					
- high	3.70	4.45	4.70	8.70	18.16
- low	2.45	3.01	2.97	3.10	7.00
- average	2.84	3.29	3.56	4.08	14.90
- share price at the end of the fiscal year	2.60	3.40	3.20	4.50	7.00
K share					
- high	3.70	4.80	5.30	9.00	18.16
- low	2.36	3.00	3.30	3.50	6.75
- average	2.94	3.77	3.73	4.47	13.69
- share price at the end of the fiscal year	2.36	3.40	3.30	4.81	6.75
Total market value, millions of euros					
A share	3.8	4.9	4.6	6.5	10.2
K share	3.4	4.8	4.7	6.8	9.6
Total	7.1	9.8	9.3	13.4	19.7
Number of shares traded during the fiscal year					
A share	32 466	84 330	139 105	220 700	131 296
K share	19 426	37 100	61 145	251 010	119 074
Number of shares traded, %					
A share	2.2	5.8	9.6	15.2	9.0
K share	1.4	2.6	4.3	17.7	8.4
Number of shareholders	381	377	376	415	373

Formulas for the Key Figures and Financial Ratios

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

Formulas for per share items

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

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

Board of Directors’ Proposal

Group funds available for distribution of profit total 2,530,248.50 euros. Parent company funds available for distribution of profit total 5,027,230.29 euros, of which 188,102.23 euros represents losses for the fiscal period.

The Board will propose to the Annual General Meeting that the loss be transferred to the earnings account and no dividends be paid.

Lahti, November 7, 2003

Seppo Jaatinen
Chairman of the Board

Martti Unkuri

Ilkka Vaahto

Antti Vaahto
CEO

Mikko Vaahto

Auditors' Report

To the shareholders of Vaahto Group Plc Oyj

We have audited the accounting, the financial statements and the corporate governance of Vaahto Group Plc Oyj for the period September 1, 2002 – August 31, 2003. The financial statements prepared by the Board of Directors and the Managing Director include the report of the Board of Directors and the consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express our opinion on the financial statements and on corporate governance.

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

In our opinion, the financial statements, which for the parent company indicate a loss of 188,102.23 euros have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's operating result and financial position. The financial statements, including the consolidated financial statements, can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Lahti, November 18, 2003

Risto Järvinen
CPA

Ernst & Young Oy
CPA Corporation
Pauli Hirviniemi
CPA

Administration

Board of Directors

Seppo Jaatinen
M. Sc. (Econ.)
Born 1948
Member of the Board 2000 -
Chairman 2000 -

Ilkka Vaahto
Director
Born 1953
Member of the Board 1984 -
Vice-Chairman 1999 -

Martti Unkuri
M. Sc. (Eng.)
Born 1936
Member of the Board 2000 -

Mikko Vaahto
Business college graduate
Born 1963
Member of the Board 1994 -

Antti Vaahto
M. Sc. (Econ.), M. Sc. (Eng.), MBA
Born 1947
Member of the Board 1984 -

Auditors

Risto Järvinen CPA
Ernst & Young Oy
Chief auditor
Pauli Hirviniemi CPA

Mikko Vaahto, Antti Vaahto, Seppo Jaatinen, Martti Unkuri and Ilkka Vaahto

Corporate Governance

Vaahto Group's administration is based on the Finnish Companies Act and the Articles of Association of the Group's parent company, Vaahto Group Plc Oyj. The administrative authority has been divided among the shareholders attending the Annual General Meeting, the Board of Directors, and the CEO. The Group follows the recommendations of the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the administration of publicly listed companies as well as the Helsinki Exchanges Insider Guidelines.

Annual General Meeting

The company's highest decision-making body is the Annual General Meeting. The Annual General Meeting must be held no more than six months after the end of the Group's fiscal period. The Meeting decides on the issues under its jurisdiction 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.

Board of Directors

The parent company's board of directors is responsible for the Group's administration and appropriate operation and decides on issues that are highly significant in light of the scope of the Group's operations. According to the Articles of Association, the Board of Directors has a minimum of three and a maximum of six members, whose term of office ends at the end of the first full Annual General Meeting following the election. The Chairman of the Board is selected by the Board from among its members.

CEO

The Board appoints the parent company's managing director, who also acts as the Group's CEO. The CEO is responsible for the daytoday management of the Group in accordance with the Finnish Companies Act, the Articles of Association, and instructions from the Board of Directors.

Auditors

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

Organization of business

The Group's business has been separated into divisions, whose operations and results are the responsibility of the Group subsidiaries belonging to them.

Contacts

Group management

Chief Executive Officer
Antti Vaahto
M. Sc. (Econ.), M. Sc. (Eng.), MBA
Managing Director 1984 –

Chief Financial Officer
Vesa Hopia
M. Sc. (Econ.)
Secretary to the
Board of Directors 2001–

Subsidiaries

AK-Tehdas Oy
Managing Director
Antti Kontiainen
M. Sc. (Eng.)

AP-Tela Oy
Managing Director
Pekka Viitasalo
Technician

Japrotek Oy Ab
Managing Director
Esa Rintala
Engineer

Jipka Oy
Managing Director
Seppo Kettunen
Engineer

Stelzer Rührtechnik International GmbH
Managing Director
Ingo Engelmann
Ph.D. (Chemistry)

Vaahto Oy
Managing Director
Antti Vaahto
M. Sc. (Econ.),M. Sc.(Eng.),MBA

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