

ANNUAL REPORT 2007-2008



VAAHTO GROUP
1874



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Information For Shareholders

Annual General Meeting

Vaahto Group Plc Oyj's Annual General Meeting will be held on Monday, December 15, 2008, starting at 1pm, at Sibelius Hall, at Ankurikatu 7 in the City of Lahti.

Every shareholder who by the end of December 5, 2008, has been registered as a shareholder in the list of shareholders kept by the Finnish Central Securities Depository (Suomen Arvopaperikeskus Oy) has the right to participate in the Annual General Meeting.

To be able to participate in the Annual General Meeting, the shareholder must register him- or herself for this no later than 4pm on Wednesday, December 10, 2008. Registration can be done in person or via an authorized person by letter to: Vaahto Group Plc Oyj, Laiturikatu 2 (P.O. Box 5), FI-15141 Lahti, Finland, or by telephone call to Taina Kajander at +358 20 1880 355. Registration by letter must arrive before the registration deadline.

The documents pertaining to the company's financial statement will be on view in the company's headquarters from December 5, 2008.

Payment of dividends

The Board will propose to the Annual General Meeting that a dividend of 0.10 euros per share be paid, and that the remaining operating profit be transferred to the earnings account. The Board will propose that the dividend be paid to each shareholder who on the dividend distribution's balancing date of December 18, 2008, is registered in the list of shareholders maintained by the Finnish Central Securities Depository, and that the dividend payment date be December 30, 2008.

Financial information

For the September 1, 2008 – August 31, 2009 fiscal year, Vaahto Group Plc Oyj will publish one interim report, for September 1, 2008 – February 28, 2009.

Instead of interim reports on the first three and nine months of the fiscal year, Vaahto Group Plc Oyj will publish an interim management statement in both the first and second half of the fiscal year. The interim management statement for Q1 will be published on January 16, 2009.

Annual reports and interim reports can be ordered from

Vaahto Group Plc Oyj
P.O. Box 5, FI-15141 Lahti, Finland
Tel. +358 20 1880 511
Fax +358 20 1880 301
taina.kajander@vaahtogroup.fi.

The annual report, interim reports, interim management statements, stock exchange reports, and other information about Vaahto Group Plc Oyj are available at www.vaahtogroup.fi.

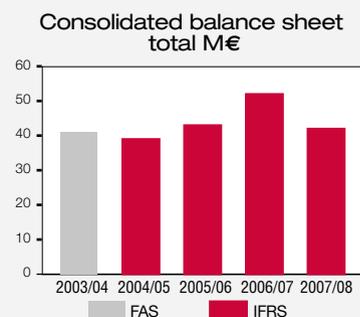
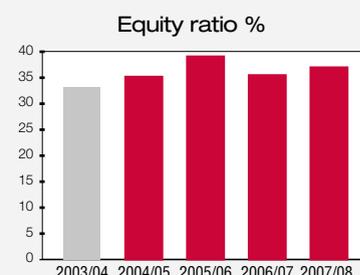
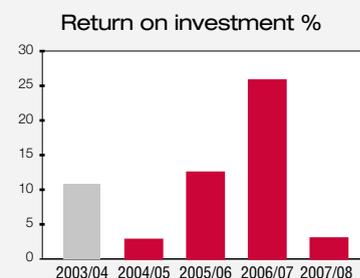
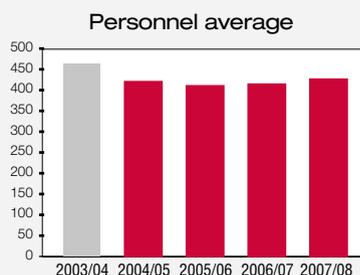
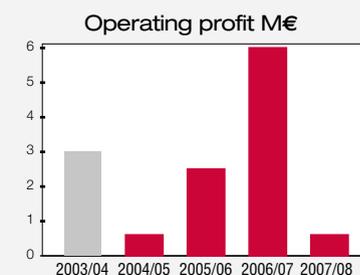
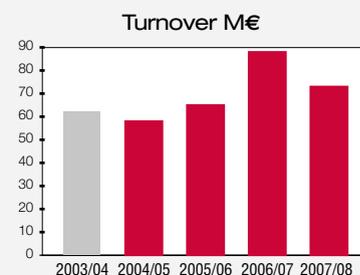
Fiscal Year in brief



- The market situation had two sides. The paper and board industry's investment rate was low and demand decreased. In the process industry, investments continued and the demand for process machinery remained healthy.
- The turnover was 73.2 million euros, a decrease of 17% from that of the previous fiscal year, due to the Pulp & Paper Machinery division's reduced turnover. The Process Machinery division's turnover increased slightly from the previous fiscal year's figure.
- The operating profit was 0.6 million euros (5.8 million euros). Profits were hampered by the decreased turnover and the poor profitability of Pulp & Paper Machinery's project deliveries. Process Machinery's profitability increased clearly.
- Earnings per share (EPS) came to 0.08 euros (1.27 euros). The Board proposes that a dividend of 0.10 euros per share be paid.
- The order backlog increased toward the end of the period, coming to 54.4 million euros (42.9 million euros) on August 31. Pulp & Paper Machinery received significant new orders from China and Russia. Process Machinery's new orders were from Europe, North America, and Asia.
- The subsidiary company established in Shanghai in the previous fiscal year has strengthened Pulp & Paper Machinery's position in the Chinese market, and the affiliate in St. Petersburg has facilitated the division's establishment in the growing Russian market.
- The fiscal year saw the implementation of the Group's new ERP system, which enhances the use of resources and improves project management.

Key Figures, IFRS M €

	2007/2008 12 months	2006/2007 12 months	Change %
Turnover	73.2	88.2	-17
Operating profit	0.6	5.8	-89
Return on investment ROI%	2.6	25.8	-90
Equity ratio %	37.3	35.5	5
Investments	4.6	1.5	207
Total number of personnel (average)	426	414	3





VAAHTO GROUP

PULP & PAPER MACHINERY

VAAHTO OY
VAAHTO ROLL SERVICE OY
AP-TELA OY
VAAHTO PULP & PAPER MACHINERY DISTRIBUTION (Shanghai) Co., Ltd.

PROCESS MACHINERY

JAPROTEK OY AB
STELZER RÜHRTECHNIK INTERNATIONAL GMBH

GROUP ADMINISTRATION

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 papermaking technology and process machinery.

Strategy

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

Global markets

Vaahto Group, established in 1874, is a supplier of high-quality implementations of technology and consulting services, serving the process industry in the fields of papermaking technology and process machinery. The Group operates globally.

Added value for customers through technology

Vaahto 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 that support the customer's investments throughout their service life. Continuous product development has expanded the Group's selection of products with new product innovations and resulted in several new patents.

Responsibility for quality and the environment

The quality of our design and output is guaranteed by the certified quality and environmental systems of our subsidiaries and our familiarity with the official pressure vessel permits and standards demanded in the world's main markets. The Group continuously develops its products and services in an environmentally sound direction and aims to decrease the environmental impact of its operations.

Listed company since 1989

The Group's parent company, Vaahto Group Plc Oyj, is based in the City of Lahti, and its shares are quoted on the NASDAQ OMX Helsinki. Vaahto Group Plc Oyj's shares have been quoted on the Helsinki Exchanges since 1989.

Two main business divisions

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

Pulp & Paper Machinery

In paper technology, the Group's core competencies are paper and board machine rebuilds, provision of roll covers and roll service, and other maintenance and service, as well as spare parts services for paper and board machines. The Pulp & Paper Machinery division's main customer industries are the paper, board, and pulp industries.

The Pulp & Paper Machinery division is made up of the following subsidiaries: Vaahto Oy in Hollola, Vaahto Roll Service Oy in Tampere, AP-Tela Oy in Kokkola, and foreign subsidiary Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd. in Shanghai, China.



Roll covering and service are an integral part of Pulp & Paper Machinery's service concept.

Process Machinery

In the area of process machinery, the Group's core competence lies in the provision of high-quality agitator technology, pressure vessels for demanding applications, and heat exchangers. The Process Machinery division's customer industries are the wood processing, metallurgy, chemical, food processing, and pharmaceutical industries.

The division comprises two subsidiaries: Japrotek Oy Ab in Pietarsaari and Stelzer Rührtechnik International GmbH in Warburg, Germany.



Process Machinery delivers pressure vessels and agitators for demanding applications.

Streamlining of operations to continue in challenging markets

Vahto Group's turnover for the fiscal period ending in August 2008 was 73.2 million euros, in contrast to the 88.2 million euros of the previous period. The 17 percent decrease in turnover mostly reflects investment development trends in the global economy. On account of the reduced turnover and low-profit projects, the Group's operating profit came to only 0.6 million euros, which was significantly less than in the previous fiscal year (5.8 million euros). Profitability was also undermined by material and subcontracting costs, which increased heavily at the beginning of the period. Despite the weak result, the Group's equity ratio increased slightly, to 37.3% (comparative: 35.5%). Although the global economy has been clearly slowed down by the financial crisis, the Group's order backlog increased, coming to 54.4 million euros (42.9 million euros) on the date of the financial statement.

Our aim is to keep developing the Group's operations. The reorganization of operations carried out in the past few years has raised the Process Machinery division's profitability to a very healthy level. Corresponding procedures are now being carried out in the Pulp & Paper Machinery division by combining the division's companies and streamlining their operations.

The sales company investments in the Russian and Chinese markets have proven to be wise decisions as well. Local production activities, aimed at improved cost-effectiveness, are in preparation according to plan in China. The Group's systematic product development work, which has been going on for a long time, has made us a technology company whose product range can hold its own against the world's leading manufacturers of paper machines in terms of technology. In the process industry, the Group's growth potential lies in investments related to improvement of energy-efficiency and the increasing demand from bio-fuel refinery plants.

Pulp & Paper Machinery

The Pulp & Paper Machinery division's turnover decreased significantly from the previous year's level. The result did not meet the objectives and was clearly negative.

In Finland, turnover for the service business, and roll service in particular, remained almost unchanged. However, profits weakened, partially suffering on account of paper machine shutdowns and decreased capacity utilization rates in the paper industry. In the export markets, deliveries were made to, for example, Russia, China, and Sweden, where an extensive modernization project was carried out for Iggesund Paperboard, including elements such as a three-ply wire section and two headboxes. In North America, Stora Enso subsidiary Corenso received a modernization delivery including a wire section, headbox, and shoe press. In Turkey, a Vahto Sizer film size press of the latest design was delivered for Kombasan's fine-paper machine.

The global paper and board industry has undergone rapid changes over the last few years. Due to the changed geographic focus of industry investments, the Group's efforts in the Russian and Chinese markets, including the sales companies established, have proven to be steps in the right direction.

Near the end of the fiscal period, the first paper machine modernization project was sold to Russia – a significant project nearly corresponding to the delivery of an entire new machine. The paper machine at InvestLesProm Group's Kama paper mill is to be converted into an LWC machine, becoming the first machine to produce this type of paper in Russia.

In China, demand for entire machines is slowing down, but several potential modernization projects aimed at energy savings and quality

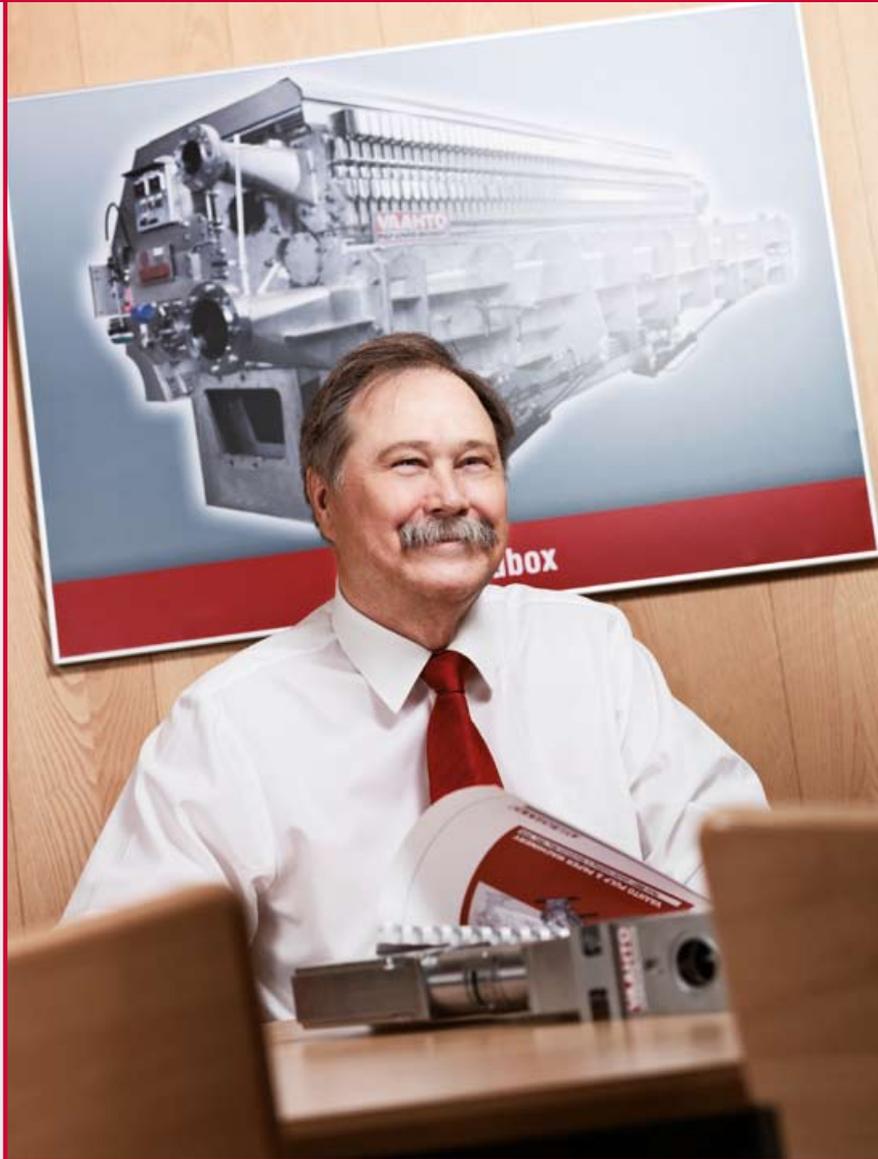
improvement have emerged, with shoe press and glue sizer solutions as key components. The significance of local production in China as a competitive factor is increasing, also on account of customs and tax developments. The lack of a local production plant has somewhat slowed the sales of paper machines and larger units in China.

As competition toughens, business success requires the right high-quality products. The Group's product development work, which has been under way for a long time, has made us a technology company with a product range that enables us to hold our own against the world's leading suppliers. The significance of successful product development can be seen in, for example, the Group's headboxes, more than 70 of which have been delivered to customers so far.

Process Machinery

The Process Machinery division's result was clearly better than in the previous fiscal year. While the division's turnover did not grow much, profits increased significantly. The rationalization activities carried out in Process Machinery's companies in recent years have considerably improved the division's profitability.

The majority of Process Machinery's turnover comes from outside Finland – from Sweden; Central Europe; and, to a lesser extent, also Russia and China. Growth in the demand for energy-industry and biofuel investment products seems to be continuing, contributing to the opportunities for further development of the division's operations. Agitator operations developed in a very positive direction in Germany and Finland, in terms of both turnover and profits.



Japrotek Oy Ab's deliveries for the Olkiluoto nuclear power plant project continued throughout the fiscal year and will be completed in spring 2009. The period saw production of spiral heat exchangers at Vaahto Oy's Hollola plant discontinued in accordance with earlier plans, and the production machinery and equipment, sold to the German HES Heat Exchanger Systems GmbH, were moved to Germany.

Development prospects

It is difficult to estimate the ramifications of the world's financial crisis in detail. Nevertheless, it is clear that the effects will be reflected in the real economy and will serve to undermine financing opportunities for large investment projects.

However, the financial crisis is likely to have less of an effect on service operations, streamlining of production, and actions aimed at energy savings. What is more, government investments in the infrastructure and energy sector are growing at an increasing rate. Many new investment projects are still being planned in Asia and Russia. For example, China is about to begin construction of nine nuclear power plants.

Earlier product development efforts have increased the competitiveness of the Group companies' product range, and there is no immediate need to start any large new development projects. The implementation of the new SAP system and the related investments were nearly completed during the period under re-

view. Rationalization activities will now focus on improvement of cost-efficiency, enhancement of the operations of Pulp & Paper Machinery's business units, and the immediate adjustment of costs required by the market situation.

Vaahto Group's order backlog was very healthy on the date of the financial statement. The starting point for the new fiscal year thus is good, although the market situation is challenging in all main markets, particularly so in the forest industry. However, the efforts of the skilled and motivated personnel of the Group's companies lay a foundation for business growth.

Antti Vaahto

Pulp & Paper Machinery



Vaahto Pulp & Paper Machinery develops its customers' production processes by designing and manufacturing machinery, equipment and components for the paper, board, and pulp industries. The division specializes in rebuilds of paper, board, and pulp drying machines, as well as roll cover services, maintenance and spare parts. The Pulp & Paper Machinery unit's services and products are intended to enhance the production capabilities of paper and board machines, improve end-product quality, increase energy-efficiency, ensure uninterrupted production, and boost the customers' competitiveness. Vaahto Pulp & Paper Machinery offers its customers comprehensive services, which include engineering, development, manufacturing, installation, training, start-up, maintenance and spare parts services.

Key Figures M €	2007/2008	2006/2007	Change %
Turnover	39.5	54.2	-27
Operating profit	-3.3	3.7	-189
Number of personnel (average)	249	243	2

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 size presses, center wind assisted reels, pulpers, coating kitchens, chemical and additive dosing systems, and various components)
- rolls and roll covers and service
- installation, training and start-up services



Increased challenges during the period

The market situation for the Pulp & Paper Machinery division remained challenging. Its turnover decreased, and the result was negative. The result was undermined by the poor profitability of project deliveries completed during the period and the low turnover experienced at the end of the period. The order backlog increased, however, thanks to the large modernization project order received from Russia near the end of the period.

Active Chinese and Russian markets

The paper and board industry's investment rate was low in Finland and the rest of Europe. While the growth in demand remained moderate in China, competition toughened. In Russia, the industry continued its investments. Russia is becoming an important market area for Pulp & Paper Machinery, along with China.

Operations of the Chinese subsidiary company, Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd., have gotten off to a good start, and the new company has further improved the division's competitive position in Asia. Vaahto is an important supplier in China, particularly where headboxes and wire section equipment are concerned. The affiliate in St. Petersburg, ZAO Slalom, has also proven a successful solution, thanks to the increasing demand in the Russian market.

The market situation in Pulp & Paper Machinery's traditional domestic markets of Finland and Sweden was exceptional, thanks to the elimination of spare capacity in the paper industry. While the division's products are being exported to more than 30 countries, almost half of the overall turnover still came from domestic markets.

Demand in the Nordic region focused not on large investments but on service and maintenance investments, as well as smaller modernization projects intended to boost efficiency and profitability. Such investments are expected to continue in order to guarantee production capacity for the remaining players in the paper industry.

The paper and board industry encountered difficulties in North America during the period, and sales were hampered by the weakness of the dollar against the euro.

New orders thanks to good references

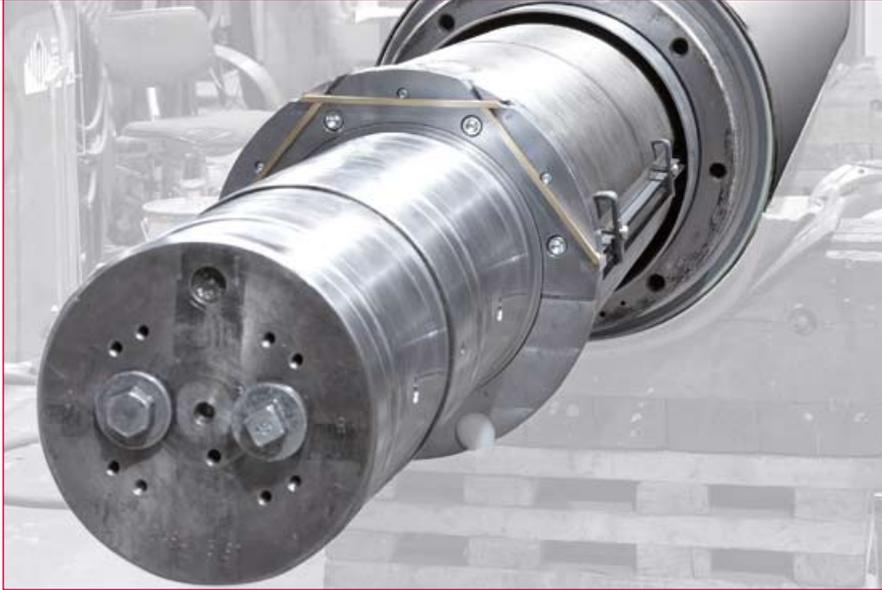
Good references from Pulp & Paper Machinery's previous deliveries resulted in more orders from China and Russia. The largest order received during the period was for InvestLesProm Group's paper machine rebuild for the Kama paper mill in Russia. The order includes extensive modernization of the paper machine and conversion of the machine from newsprint to LWC paper production. The order is worth about 30 million euros, which amounts to more than half of the entire new-order backlog. In addition, several smaller orders for machinery and equipment were received from Russia. Spare parts and service accounted for a substantial proportion of the deals made.

Paper and board industry investments continued in China. Zhejiang Jingxing Paper Joint Stock Co., Ltd., ordered three headboxes and a top former unit for the new multi-layer board machine at the Pinghu plant. In the division's traditional domestic markets of Finland and Sweden, as well as in the rest of Europe, demand for investments was slowed down by the paper industry's elimination of excess

Vaahto's shoe press improves energy-efficiency and end-product quality at Ningxia Meili's board mill in China.



Pulp & Paper Machinery



Successful solutions for production improvements

capacity and by plant shutdowns and closures. The demand for roll service decreased as well. The most significant new Finnish order was for a new headbox for Stora Enso's Tainionkoski mill.

Iggesund Paperboard's board machine, rebuilt using Vaahto's key components, was started up in Sweden in October 2007. The rebuild project was a great success. It helped strengthen the position of Iggesund's Invercote board as the quality leader in boards for graphical products. Another successful project was the board machine wet-end rebuild for Stora Enso's Fors mill in Sweden, carried out in December 2007.

Ningxia Meili's new board machine entered production use in China in January 2008. The customer is highly satisfied with the delivery and the board quality. Vaahto delivered all of the main equipment for the machine. Lee & Man's new board machine in the province of Guangdong was started successfully. Vaahto's delivery comprised two headboxes and a top wire unit.

An important new Chinese customer is Jingxing Pinghu, which ordered key components for two board machines. The order included three

headboxes and a top former unit, and the first headboxes were implemented at the plant near Shanghai at the end of the period. The headboxes for the other machine will be completed in the first quarter of 2009.

The glass nonwovens production line for Ahlstrom Tver in Russia began operation in spring 2008. The delivery included, e.g., the new Vaahto Sizer film sizing and coating unit, which has become a significant addition to Vaahto's product range. A similar sizer was delivered for Kombassan's fine-paper machine in Turkey.

The largest deliveries for Finnish projects were the rebuilds of Powerflute Savon Sella's fluting machine and Tervakoski's paper machine 8. The main equipment for the wet-end rebuild of board machine 5 at Stora Enso's Tainionkoski mill was ready for installation at the end of the period.

In the US, Stora Enso's coreboard division, called Corenso, converted its Wisconsin Rapids fine-paper machine into a board machine. Vaahto was responsible for delivering the main equipment. The equipment installed for the machine included, for example, a dilution-controlled headbox and a shoe press.

Market success for new roll service products

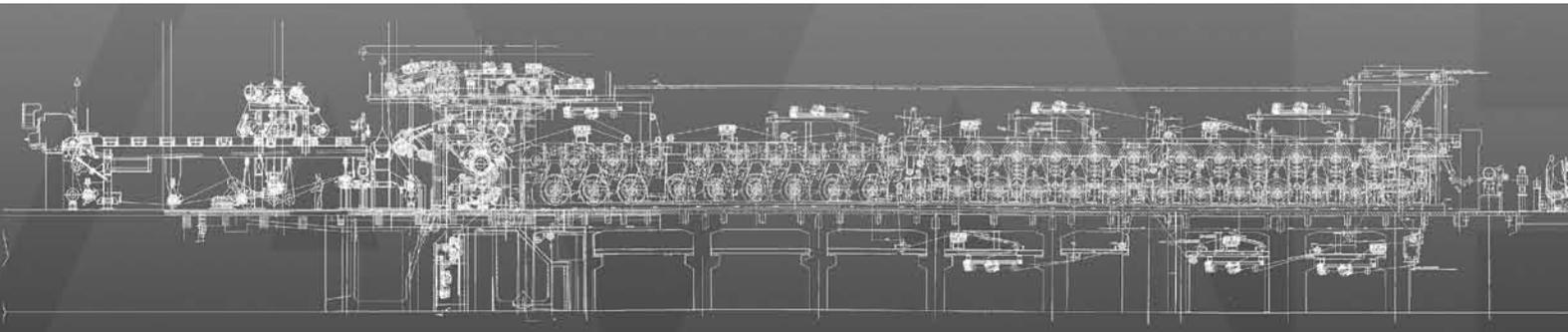
The growth of Pulp & Paper Machinery's roll sales and roll service business was slowed down by the paper industry's elimination of excess capacity and by plant shutdowns and closures. The volume of the service business in the division's main market, Finland, was reduced by the decrease in paper production and the toughened competition in service. The most important export markets were still Sweden and Russia.

The investments in new production technology started in the previous period have been completed, and deliveries of new polyurethane and composite coatings began. While the investments in production and expansion of the product range improved the competitiveness of roll services and will continue to support the division's full-system deliveries, they have not yet resulted in much additional sales volume. Development of new products and streamlining of production will continue in the current fiscal year, with the aim of full utilization of production lines and gaining of new references.

The domestic market situation for roll services is still challenging. The new products can help to increase sales not only in Sweden and Russia but in other export markets as well. The Pulp & Paper Machinery division's full-system deliveries involve good growth opportunities for roll sales and service. This objective is promoted and the Group's structure simplified by the merger of Vaahto Roll Service Oy (formerly AK-Tehdas Oy), which is responsible for the roll service business, with sister company Vaahto Oy. The combination of the two companies is to be carried out during the current fiscal year.

More profitability with new products

In terms of prices, the Pulp & Paper Machinery division's competitiveness remained fairly good. Most of the products are designed and manufactured at the division's own plants in Finland. The cost-efficiency of purchasing operations has been improved by utilizing local suppliers via, for example, the Chinese subsidiary. The purpose of this company is to aid the division with sales to the Chinese market, and to create



and develop a subcontractor network that also serves projects outside China.

The capacity utilization rate varied heavily during the period, due to changes in the schedule of a few large delivery projects. While there were concurrent delivery and implementation projects, which even caused a momentary labor shortage, layoffs could not be avoided either. The new ERP system, deployed during the period under review, enhances the use of resources and improves project management.

Investments in product development activities have continued and yielded good results. The latest products, such as short-circulation systems, the Vaahto Sizer film sizing and coating unit, the Vaahto VCR center reel, and the new polyurethane and composite roll coatings, have achieved market success. One of the division's core business areas is rebuilds of paper and board machines. The division's market position for headboxes is very strong; it received its 70th headbox order during the period under review.

Pulp & Paper Machinery's clear competitive assets include its experienced and skilled personnel as well as its proven cost structure, which is lighter than that of its competitors. The division has achieved a reputation among customers as a high-quality, reliable supplier that is capable of quick deliveries as well.

Prospects weakened by the uncertainty in the world economy

Demand for the Pulp & Paper Machinery division's products and services may be undermined by the continued uncertainty in the development of the world economy and prolongation of the financial crisis.

Demand in the paper and board industry has continued to decline since the end of the period under review, due to which the demand for investments in the field is expected to decrease. Reduced utilization rates will impair the demand for roll services and other service as well. Should it last long, the uncertainty might also influence the scheduling and realization of delivery projects already included in the order backlog.



Vaahto's stand at the China Paper 2008 exhibition, in Shanghai, drew customers.

Economic growth has slowed in China, a significant market area. As customers have become increasingly cautious, investment decisions for entire paper and board machine projects have been postponed. The reduced demand is projected to have less of an effect on Pulp & Paper Machinery's special field of modernization and maintenance investments.

The paper industry's markets and investment needs are still growing in Russia, which has become an important market area for the division. Russia is investing in building of new capacity, modernization of old machines, and spare parts services and service.

The division is expected to retain a strong market position in its traditional domestic markets of Finland and Sweden, in spite of closures in the paper industry. To guarantee the production capacity of the remaining facilities in the paper industry, maintenance investments and modernization projects intended to boost efficiency and profitability will continue, and there will still be demand for service and spare parts services.

The Pulp & Paper Machinery division is continuing to invest in the Chinese and Russian markets. A well-known and reputable supplier of paper machine modernization deliveries, the division will keep strengthening its position in the developing markets. Product development will continue, leading to several new products being launched during the current period. Roll sales and service will become an increasingly important part of the division's operations, which will boost the marketing of the products and services outside Finland.

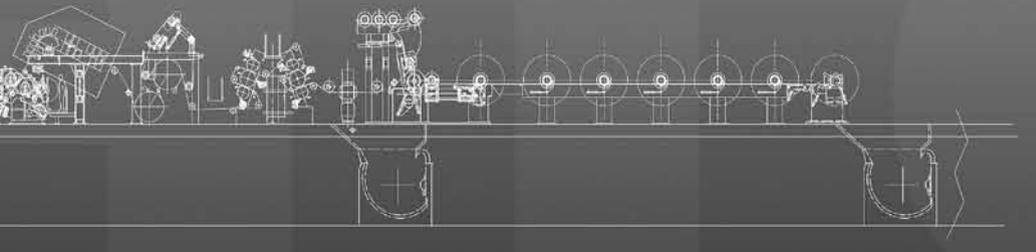
The first Russian manufacturer of LWC paper

Pulp & Paper Machinery will provide InvestLesProm Group with a paper machine modernization for the Kama paper mill in Russia. The order includes extensive modernization of the paper machine and conversion of the machine from newsprint to LWC paper production. It is worth more than 30 million euros.

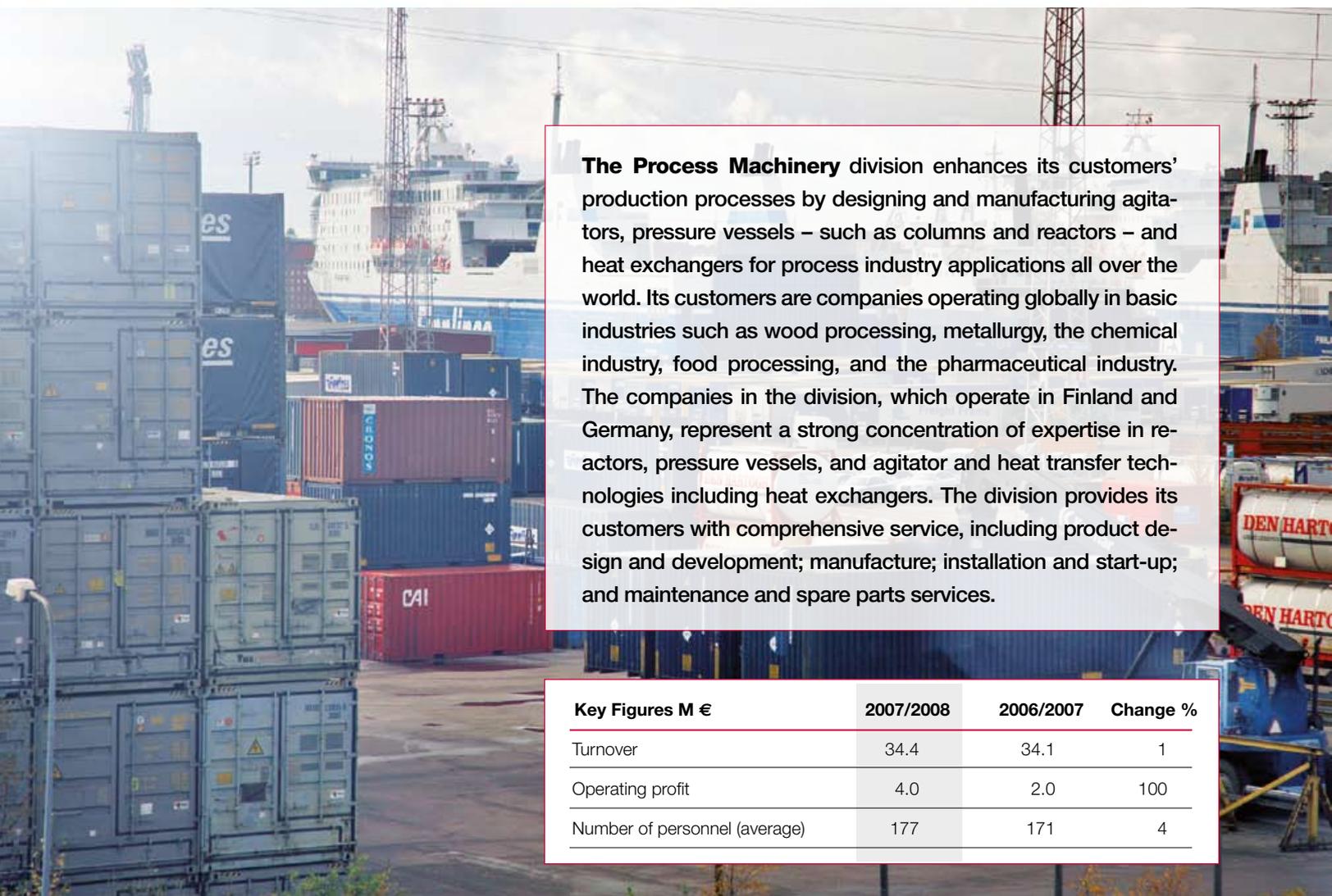
The investment will make InvestLesProm Group the first Russian manufacturer of LWC paper. The term "LWC" stands for "lightweight coated." This type of paper is used in various print products, for example.

Pulp & Paper Machinery's delivery includes an entire new wire section and top former unit, a dilution-controlled HQC headbox, a coating station, a multi-roller calender, and a VCR center reel. Significant parts of the delivery include short circulation, pulpers, an air-drying system, a coating kitchen, and an advanced automation system. The machine is to be started up in late 2009.

The Kama paper mill, located in Krasnokamsk, in the Perm region, belongs to InvestLesProm Group. InvestLesProm's business units cover the entire forest industry chain. It owns forests, sawmills, paper and board mills, and upgrading plants.



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 including heat exchangers. The division provides its customers with comprehensive service, including product design and development; manufacture; installation and start-up; and maintenance and spare parts services.

Key Figures M €	2007/2008	2006/2007	Change %
Turnover	34.4	34.1	1
Operating profit	4.0	2.0	100
Number of personnel (average)	177	171	4

Products and services

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



Continued profitable growth

The Process Machinery division's market situation remained excellent during the fiscal period. Turnover saw a slight increase, and the result improved considerably. Project deliveries carried out during the period were successful, and profitability improved for both tanks and agitators. Design and manufacturing capacity were fully utilized throughout the period in the division's companies in Finland and Germany.

Demand in the process industry remained fairly high throughout the period, and the division received several significant orders. The order backlog decreased from that of the previous period. Although the market situation became more challenging later in the period, the order backlog at the end of the period was satisfactory. In Germany, more new orders were received than in the previous year.

Special expertise in tank and agitator technologies

The Process Machinery division is a strong specialist in tank and agitator technologies, delivering pressure vessels, tanks, agitators, and heat exchangers for the process industry's production applications all over the world. The division is highly skilled in designing and manufacturing pressure vessels and tanks in accordance with various standards. One of the division's main competitive advantages is its ability to deliver tank and agitator assemblies that meet the varied and demanding needs of customers.

The division's business development efforts have proven successful in both Finland and Germany. The division further improved its competitiveness by modernizing and streamlining its operations, thus ensuring good overall delivery capabilities and cost-effectiveness.

The fiscal year saw the implementation of the new ERP system, which further enhances the use of resources and improves project management. The reorganization carried out in the German subsidiary led to clear business growth and profitability improvement during the period.

The spiral heat exchanger business was sold to the German HES Heat Exchanger Systems GmbH in October 2007. The spiral heat exchanger production machines and equipment were transferred to the buyer gradually in spring 2008. The annual turnover for spiral heat exchanger business has been about 2–4 million euros.

Challenging deliveries and new orders

The Process Machinery division's Finnish company, Japrotek Oy Ab, has a solid and long tradition as a process industry equipment supplier capable of providing its customers with reliable, high-quality solutions to difficult tank and agitator problems. The company operates globally and is a well-known supplier in the Nordic region in particular.

Japrotek received several significant new orders during the period, the most important Finnish ones being for a leaching autoclave for Norilsk Nickel Harjavalta Oy, five filters for Larox Oy, and two reactors with agitators for Styro Chem Finland Oy. The most significant new export order was for delivery of two absorption towers for Uhde GmbH in Germany.

The fiscal year saw the delivery of eight pressure vessels for the reactor building at the new Olkiluoto nuclear power plant. The first vessel was installed in December 2007, and the last

Stelzer, the German company in the division, designs and manufactures agitators for demanding applications.



Process Machinery



Stelzer's product range includes small agitators as well.

Pressurized water accumulators for the Olkiluoto nuclear power plant, ready for delivery at Jäprotek's plant in Pietarsaari.

six will be delivered early in the current fiscal period. The delivery is part of the contract that the division won in the 2004–2005 fiscal year for design and delivery of demanding pressure vessels for the nuclear power plant. Although the deliveries have been postponed because of changes in the customer's schedule, they have been successful.

The final stage of deliveries for SEA-invest's paper chemical storage terminal in Belgium, the insulation work, was completed at the beginning of the period, and the work was handed over to the customer in November 2007.

Columns for biofuel production were delivered to Sweden and handed over in January 2008. At the same time, the division delivered large reactor agitators to China. These were handed over in June 2008.



Continued positive development in Germany

Stelzer Rührtechnik International GmbH, the German company in the division, achieved good sales in the period under review. The turnover increased by 12%, and profits kept increasing. The company received significant orders from, e.g., North America and China, in addition to its strong local market area in Central Europe, and its order backlog increased from that of the previous period.

Stelzer designs and manufactures agitators for global use. Its main markets are the food processing, chemical, biotechnology, and pharmaceutical industries. Demand remained healthy, particularly in Stelzer's traditionally strongest market, the food processing industry, in Europe and Asia alike.

Demand for biogas applications that enhance energy-efficiency and utilize renewable fuels increased considerably, opening up new business opportunities for Stelzer. The largest single order during the period, constituting a significant entry into the biogas markets, was for delivery of agitators for the Cavendish Farms biogas plant in Canada.

The increase in turnover and in the order backlog in the past two years is proof that the redistribution and adaptation of Stelzer's operations have been successful and that the company is capable of reaching its sales objectives with the current operations model and structure.

Prospects are still satisfactory

The Process Machinery division's order backlog at the end of the period under review was satisfactory. The division has a strong market position in the metallurgy, chemical, and food processing industries as well as energy production.

The division specializes in the design and manufacture of process equipment, such as reactors, columns, dissolution autoclaves, and heavy special agitators, for demanding applications. The short-term prospects are fairly good for these products as well as for agitator/tank assemblies.

Demand for the Process Machinery division's products and services may be undermined by the continued uncertainty in the development of the world economy and prolongation of the financial crisis. Should it last a long while, the uncertainty might also influence the scheduling and realization of delivery projects already included in the order backlog.



Stelzer celebrated its 10 years as a member of Vaahto Group in summer 2008. Pictured (from left) are CEO Antti Vaahto, Mayor of Warburg Michael Sticklein, Managing Director Christian Kessen, and Executive Vice President Anssi Klinga.

New technology for a Canadian biogas plant

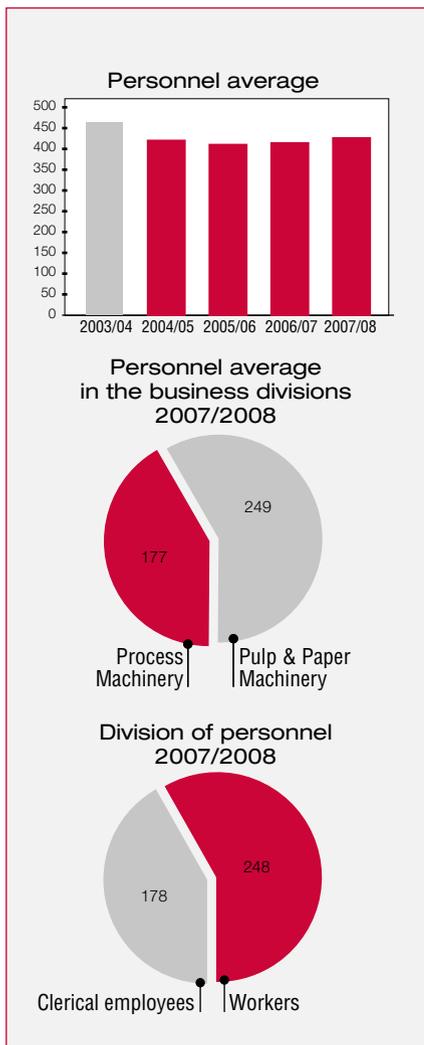
Stelzer Rührtechnik International GmbH, one of the companies in the Process Machinery division, made a significant entry into the biogas markets by delivering agitators and related equipment for the new Cavendish Farms biogas plant in Canada. The delivery included nine agitators, representing top technology to respond to strict requirements in the field.

Cavendish Farms is a food processing company that produces various potato products. Its production processes generate a large amount of organic waste, such as potato peels. The company's new biogas plant uses the organic waste to produce energy through the process of fermentation. The delivery was technically very challenging, since agitators are crucial for the success of the entire process.

The deal required lengthy and thorough negotiations. The stringent regulations of the Canadian Standards Association (CSA) demanded several challenging technical analyses, performed with the help of both Canadian and European specialists.

The design of the agitators was verified via detailed computational fluid dynamics (CFD) analysis. It was strong CFD expertise that made Stelzer stand out from the competition. The agitators were delivered in July 2008 and successfully installed and commissioned in September and October.

Development of Personnel and Skills



Personnel development

Vaahito Group is one of the leading technology companies in its field. The Group's skilled, innovative, and committed personnel are essential for its competitiveness. To succeed in international competition and ensure that its human resources are sufficient in terms of number and skill level, the Group makes strong ongoing investments in personnel development.

Development supporting business and quality

The development of personnel and skills is guided by Vaahito Group's strategic business objectives. In addition to professional skills, attention is paid to, for example, processes, project work, quality of operations, and customer-oriented service. The development activities contribute to the attainment of business and quality goals, lay the foundation for good work motivation, and guarantee development opportunities for skilled personnel.

Both external and in-house experts are utilized in training. One part of the development work is the dissemination of best practices within the Group. Since Vaahito Group participates in development of its customers' business, it aims to increase its personnel's knowledge of the customers' business and earnings logic, also ensuring subcontractors' expertise and conformance to quality requirements.

Introduction of the new ERP system

The focus of personnel training in the 2007–2008 fiscal year was on the implementation of the new enterprise resource planning system; use of the related information system and other software; and completion of the changes that the new system necessitated in the organization, job descriptions, and responsibilities. Thus new forms of on-the-job learning, interaction, and sharing of expertise have been developed for the entire organization. In conjunction with the new ERP system, the Group has centralized its financial administration and other business support services.

Unchanged number of personnel

As Vaahito Group has placed ever more focus on its core business operations, the number of personnel has stabilized. At the end of the period, the Group employed 424 people, 62 of whom worked for the foreign subsidiaries. Personnel averaged 426 over the fiscal year, showing a growth of 12 persons. About 8 percent of the personnel are female.

The Group's employee turnover rate is very low. The average age of the personnel at the end of the period was 46 years, with an average of 14 years of experience at Vaahito Group. The longest of the current employment relationships has lasted more than 46 years. The Group is involved in active cooperation with schools and colleges, providing students with traineeship positions and diploma subjects.



Principles of responsible business

Vaahto Group has a responsible business policy (quality and environmental policy) and full certification for its operation systems (ISO 9001 quality system certification and ISO 14001 environmental management system certification). The quality and environmental policy can be viewed on the Group's Web site, at www.vaahtogroup.fi.

The move to Group certification was made at the beginning of 2007, and the certifying body was Inspecta Sertifiointi Oy. In addition to the certification agreement, the Group has an extensive service agreement with Inspecta, the purpose of which is to ensure an optimal service level for certification, inspection, and testing services. The service level is monitored and assessed annually by a joint coordination group.

Focus on development of core processes

Group audits are performed in accordance with the annual plan. The results of the company audits are combined into a summary, which is then presented in the Group's management review. The audits performed during the period under review focused on specification of the companies' core processes and on implementation of the Group strategy in the companies.

As a result of the audits, a project was started at the end of the period to integrate the systems of operation of the Group companies. The project will continue at least until the end

of the current fiscal year. The core processes that were deemed the most important development target are project management and specification of the Group's project model.

In quality management, the current period's focus will be on improvement of the quality of operations and maintenance of existing production permits (ASME, China manufacture license, and PED). The responsibility for coordination of production permits is being gradually transferred to Vaahto Oy's quality department.

Environmental responsibility and energy-efficiency

Vaahto Group deals with environmental issues according to a centralized operations model. The most important development projects and investments during the period were final assessments of Vaahto Oy's procedures for the old pickling facility in accordance with the environmental permit, construction of Japrotek Oy Ab's new pickling facility and gaining of an environmental permit for it, and the environmental permit application for Vaahto Roll Service Oy's new roll coating process.

The current period will see the commencement of energy reviews in all Group companies. In addition, outstanding environmental permit obligations will be met.

In August 2008, the Group entered into an energy-efficiency agreement. The objective is to improve the energy-efficiency of all Group companies by at least 10 percent by the end of 2016.



Administration



Martti Unkuri, Mikko Vaahto, Antti Vaahto and Seppo Jaatinen

Board of Directors

Chairman

Seppo Jaatinen, b.1948, M.Sc. (Econ.)
Foxhill Oy, Senior Partner
Member and Chairman of Vaahto Group Plc Oyj's Board of Directors since 2000
Previous work experience:
Interpolator Oy, CEO and Executive Vice President
Amer Group Plc, Development Director
Most notable positions of trust:
Ixonos Oyj, Member of the Board

Vice-Chairman

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

Martti Unkuri, b.1936, M.Sc. (Tech.)
Member of Vaahto Group Plc Oyj's Board of Directors since 2000
Previous work experience:
Rauma Oy, CEO

Antti Vaahto, b.1947
M.Sc. (Econ.), M.Sc. (Tech.), MBA
Vaahto Group Plc Oyj, CEO since 1984
Member of Vaahto Group Plc Oyj's Board of Directors since 1984
Most notable positions of trust:
Mutual Insurance Company Fennia, Member of the Board
Insurance Company Fennia Life, Member of the Board

Auditors

Ernst & Young Oy
Chief Auditor
Pauli Hirviniemi, CPA

Group Management

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

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

Subsidiaries

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

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

Stelzer Rührtechnik International GmbH
Managing Director **Christian Kessen**, b.1963
M.Sc. (Tech.)

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

Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd.
Managing Director **Timo Kerola**, b. 1960
M.Sc. (Tech.)

Vaahto Roll Service Oy
Managing Director **Anssi Klinga**, b.1965
M.Sc. (Econ.)

Applicable regulations

Vahto Group's administration is based on the Finnish Companies Act and the Articles of Association of the Group's parent company, Vahto Group Plc Oyj.

The company follows the NASDAQ OMX Helsinki recommendations on corporate governance for listed companies.

Annual General Meeting

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

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

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

Supervisory Board

The company has no Supervisory Board.

Board of Directors

Duties and rules of procedure of the Board

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

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

Members of the Board

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

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

Board members' right to receive information and obligation to provide information

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

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

Board committees

No committees are part of the Board.

CEO

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

Business organization

The Group's operations have been separated into two divisions. The activities and results of these are the responsibility of the Group subsidiaries, whose CEOs report to the parent company's CEO. The company has no separate management team.

Compensation

Compensation of Board members

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

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

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

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

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

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

Internal monitoring, risk management, and internal auditing

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

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

The Group has no internal audit unit.

Insider administration

Vahto Group Plc Oyj follows the NASDAQ OMX Helsinki Insider Guidelines. The public insider register includes statutory insiders and insiders as determined by the company's Board of Directors. In accordance with the Securities Markets Act, permanent insiders comprise the company's Board members, CEO, and auditors. In addition, the company has defined as



insiders those members of the company's top management who regularly receive insider information and are entitled to make decisions concerning developments and business arrangements related to the issuer of shares. Subsidiary-specific insider registers include persons who regularly receive insider information in the course of their duties.

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

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

Audit

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

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

Information

Each year, the company publishes an annual report and an interim report in Finnish and English. The interim report is published for the first six months of the fiscal period. For Q1 and 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 at www.vaahitogroup.fi. Other exchange reports are available on the Web site as well.

Deviations from the recommendations for the corporate governance statement and information for the 2007-2008 fiscal year

The Annual General Meeting of December 14, 2007, elected four members to the Board of Directors: Seppo Jaatinen, Martti Unkuri, Antti Vaahto, and Mikko Vaahto. At its organization meeting of December 14, 2007, the Board elected Seppo Jaatinen as chairman and Mikko Vaahto as vice-chairman.

Board member Antti Vaahto is employed by the company and is also a principal shareholder. Mikko Vaahto has been employed by the company since November 13, 2008, and is a principal shareholder of the company. Seppo Jaatinen and Martti Unkuri do not own any of the company's shares, nor do they have interdependence with the company in any other way.

In the 2007-2008 fiscal year, the Board met 15 times. The members' attendance rate was 98%.

The Annual General Meeting of December 14, 2007, decided to pay Board members employed by the company an attendance fee of 450 euros per meeting, and members not employed by the company an annual compensation amount of 19,000 euros for the chairman and 15,000 euros for other members.

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

The Annual General Meeting of December 14, 2007, selected public auditing firm Ernst & Young Oy as the company's auditor, with Pauli Hirviniemi, CPA, as chief auditor.

More information about the Board members, the CEO, other members of the management, and auditors is provided on page 18.

Information about the management's compensation for the 2007-2008 fiscal year is included in item 33 of the Notes to the Consolidated Financial Statements, "Related party transactions."

Information about the auditors' fees for the 2007-2008 fiscal year is included in item 6 of the Notes to the Consolidated Financial Statements, "Other operating expenses."

Management holdings

The management's holdings are detailed in item 35 of the Notes to the Consolidated Financial Statements, "Shares and shareholders."

Shares and Share Ownership

Vaahito Group Plc Oyj's paid-up share capital entered in the Trade Register on August 31, 2008, was 2,872,302 euros, representing a total of 2,872,302 shares. There were no changes in the number of shares during the 2007–2008 fiscal year. According to the company's Articles of Association, the company's minimum share capital is 2,800,000 euros and the maximum share capital 11,200,000 euros, within which limits the company's share capital can be raised or lowered without amending the Articles of Association. The company has two share series, A and K, the nominal value of each being one (1) euro. Each Series K share confers twenty (20) votes, and each Series A share one (1) vote at shareholders' meetings.

Quotation of shares

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

Share price and trading

During the fiscal period, 1,413,803 (97.3%) of Vaahito Group Plc Oyj's Series A shares and

1,062,841 (74.9%) Series K trades were traded. The lowest price of a Series A share was 8.85 euros, the highest 12.32 euros, the mean price 10.55 euros, and the last trading price in the fiscal period 9.82 euros. The lowest price for a Series K share was 8.80 euros, the highest 12.55 euros, the mean price 10.35 euros, and the last trading price in the fiscal period 10.74 euros. The total market capitalization on August 31, 2008 was 29.5million euros. Vaahito 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

During the fiscal year, the Group did not decide to issue new shares, convertible bonds, or stock options. The Board of Directors has no authority to issue new shares, convertible bonds, or bonds with warrants, nor the authorization to obtain or surrender shares.

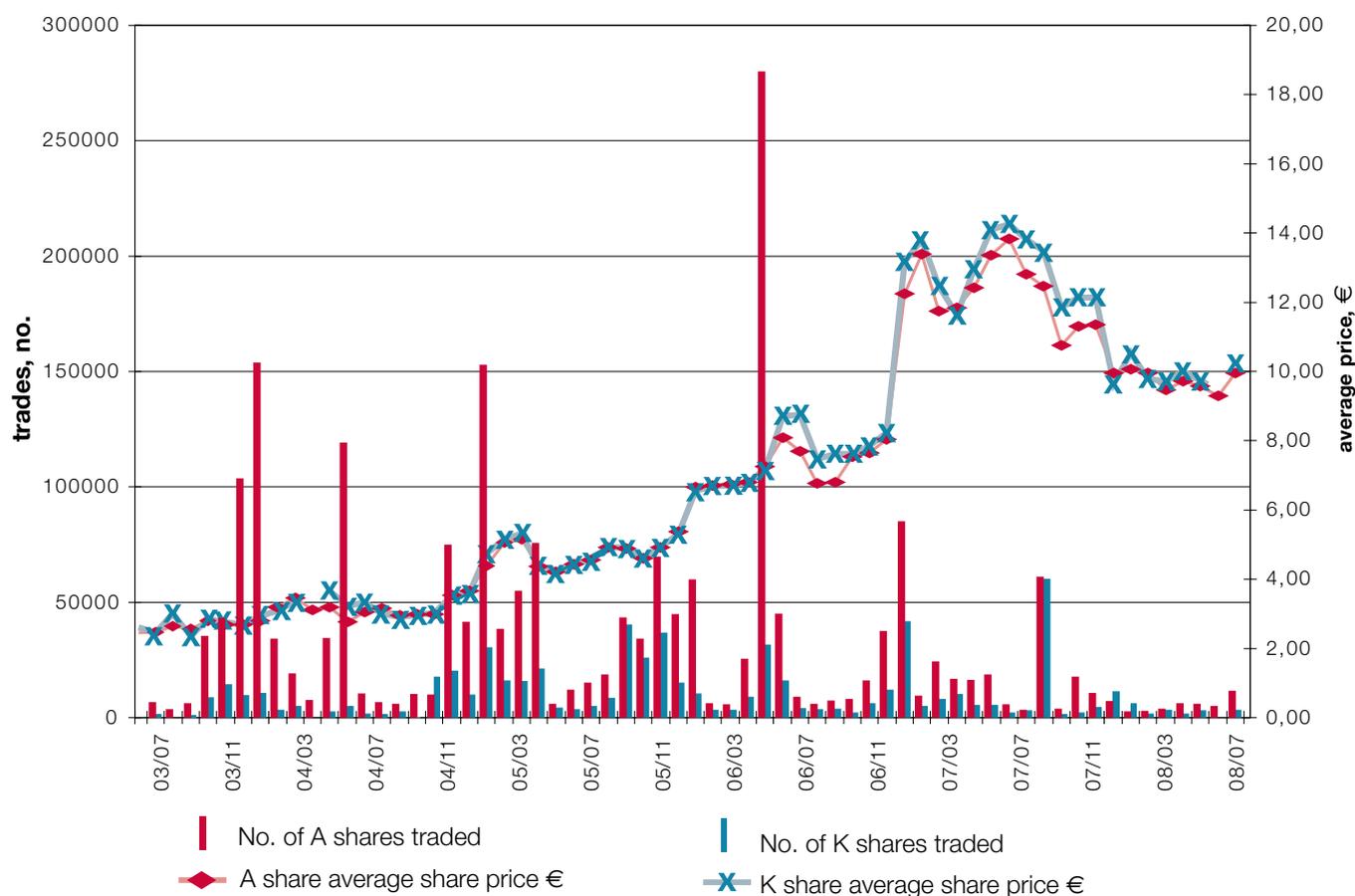
Dividends

At the shareholders' meeting on December 15, 2008, the Board of Directors will propose that the funds at the disposal of the meeting be used to pay a dividend of 0.10 euros per share, or a total of 287,230.20 euros, which is 119.4% of the Group's annual earnings per share. The Board proposes a record date of December 18, 2008, and payment of the dividend on December 30, 2008.

Shareholders' and Board members' share ownership

At the end of the fiscal period on August 31, 2008, Vaahito Group Plc Oyj had 305 registered shareholders. There were in total 73,036 nominee-registered shares. On August 31, 2008, members of the Board of Directors owned a total of 505,633 Series A shares and 505,800 Series K shares, representing 35.6% 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.

Share prices and numbers of shares traded



Exchange Reports and Bulletins



September

September 17, 2007

Announcement following the Securities Market Act, Chapter 2, Section 10, about changes in ownership

September 18, 2007

Announcement following the Securities Market Act, Chapter 2, Section 10 – correction to the announcement of September 17, 2007

October

October 5, 2007

Vaahto Group's annual summary for September 1, 2006 – August 31, 2007

October 29, 2007

Vaahto Oy's sale of spiral heat exchanger production to HES Heat Exchanger Systems GmbH

October 16, 2007

Preview of Vaahto Group's consolidated financial statements for September 1, 2006 – August 31, 2007

October 16, 2007

Invitation to Vaahto Group Plc Oyj's Annual General Meeting on December 14, 2007

November

November 19, 2007

Japrotek Oy Ab, a subsidiary of Vaahto Group, to deliver an absorption tower to Uhde GmbH

December

December 14, 2007

Vaahto Group Plc Oyj's Annual General Meeting on December 14, 2007

January

January 9, 2008

Renaming of AK-Tehdas Oy, a subsidiary of Vaahto Group, to Vaahto Roll Service Oy

January 17, 2008

Vaahto Group interim management statement for September 1, 2007 – November 30, 2007

January 25, 2008

Japrotek Oy Ab, a subsidiary of Vaahto Group, to deliver a leaching autoclave to Norilsk Nickel Oy

April

April 18, 2008

Vaahto Group interim report for September 1, 2007 – February 29, 2008

June

June 27, 2008

Vaahto Group interim management statement for September 1, 2007 – June 27, 2008

July

July 2, 2008

Vaahto Pulp & Paper Machinery to supply paper machine equipment to China

August

August 13, 2008

Vaahto Pulp & Paper Machinery to supply paper machine modernization to the Kama paper mill in Russia

August 27, 2008

Announcement of the number of interim reports, and publication of the financial statements of Vaahto Group

The above list includes all exchange reports and bulletins published by Vaahto Group Plc Oyj in the fiscal period September 1, 2007 – August 31, 2008. Vaahto Group Plc Oyj's stock exchange reports are available in their entirety on the Group's Web site at www.vaahtogroup.fi, under News & Media -> Stock news.

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FINANCIAL STATEMENTS

2007-2008



VAAHTO GROUP
1874

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Review by the Board

FISCAL PERIOD OF SEPTEMBER 1, 2007 – AUGUST 31, 2008

Business developments

Vahto Group's turnover for the fiscal year ending in August 2008 was 73.2 million euros (88.2 million euros), with an operating profit of 0.6 million euros (5.8 million euros). The Group's turnover decreased by 17% from the previous fiscal year's figure. In addition to the decreased turnover, the result was undermined by the poor profitability of the Pulp & Paper Machinery division's project deliveries completed during the period under review. Vahto Group's order backlog increased toward the end of the period, coming to 54.4 million euros (42.9 million euros) on August 31.

Pulp & Paper Machinery

The Pulp & Paper Machinery division's turnover for the fiscal year was 39.5 million euros (54.2 million euros), with an operating loss of 3.3 million euros (operating profit of 3.7 million euros). The division's result was significantly lower than in the previous fiscal year and became negative. Profits were hampered by the decreased turnover and the poor profitability of project deliveries completed during the period.

The division's roll sales and roll-servicing business saw moderate results. The expansion of the product range has strengthened the competitiveness of the division's roll-servicing business and supports Pulp & Paper Machinery's full-system deliveries.

The market situation has remained challenging. The forest industry's investment rate in Finland and the rest of Europe is low, and the competitive situation in Asia has tightened considerably. Despite the tough competition, the Pulp & Paper Machinery division's sales picked up toward the end of the fiscal year. Significant orders included the modernization of a paper machine for Kama in Russia and delivery of the main equipment for a multi-layer board machine at the Jingxing Pinghu plant in China.

The operations of the subsidiary company established in Shanghai in the previous fiscal year have gotten off to a good start, which has improved the division's competitive position in the Chinese market.

Vahto Pulp & Paper Machinery's goal is to keep strengthening its position as one of the leading suppliers of technology and services in the demanding international paper and board machine markets.

Process Machinery

The Process Machinery division's turnover for the fiscal year was 34.4 million euros (34.1 million euros), with an operating profit of 4.0 million euros (2.0 million euros). Profitability improved for both tanks and agitators.

The Process Machinery division's sales were good during the period under review. The most significant orders for Japrotek Oy Ab, part of the division, included an absorption tower for Uhde GmbH in Germany and a leaching autoclave for Norilsk Nickel Harjavalta Oy. Stelzer Rührtechnik International GmbH, a German company in the division, achieved good sales for the fiscal year, and the company received significant orders from, e.g., North America and China, in addition to its strong local market area in Central Europe.

During the period under review, Vahto Oy signed an agreement to sell its spiral heat exchanger business, which belonged to the Process Machinery division, to the German HES Heat Exchanger Systems GmbH. The sale included the spiral heat exchanger production line and its machinery and equipment, with related intangible rights. The production machinery and equipment were transferred to the buyer in spring 2008. The annual turnover for spiral heat exchanger business has fluctuated between two and four million euros. Vahto Oy recognized a profit of 0.6 million euros for the sale in the fourth quarter of the fiscal year.

Results

Vahto Group's operating profit for the fiscal year was 0.6 million euros, as compared to 5.8 million euros in the previous fiscal year. The operating profit for the period equaled 0.9% (6.6%) of the Group's turnover. Profits for the fiscal year totaled 0.3 million euros (3.9 million euros), and the Group saw a 2.6% (25.8%) return on investment. The main reasons for the reduced profitability were the decreased turnover and the poor profitability of the Pulp & Paper Machinery project deliveries completed during the period.

Financing

The Group's cash flow was 1.2 million euros (-5.8 million euros). The Group's net financial expenses came to 0.7 million euros (0.6 million euros), or 1.0% (0.7%) of turnover. Investment cash flow in the fiscal year was -4.0 million euros (-1.1 million euros). The increase in interest-bearing debt was 3.2 million euros.

Period-end total assets and liabilities on the consolidated balance sheet stood at 41.8 million euros (52.2 million euros), and the parent company's balance sheet showed 17.0 million euros (11.1 million euros). The Group's equity ratio increased slightly, to 37.3% (35.5%).

Investments

The Group's investments in capital assets for the fiscal period totaled 4.6 million euros (1.5 million euros). The most significant investments were Vahto Group's new enterprise resource planning system, the polyurethane and composite equipment for Vahto Roll Service Oy (formerly AK-Tehdas Oy), and Japrotek Oy Ab's water treatment equipment. Other investments consisted mainly of smaller machinery and equipment acquisitions and of investments in information systems.

Information systems

The Group's information systems and information management were developed further, in accordance with the centralized operations model. The period saw the new Group-wide SAP enterprise resource planning system implemented successfully.

Research and development

The Group's research and development activities focused for the most part on improving the competitiveness of roll servicing and of the Pulp & Paper Machinery division's key components for paper and board machines. The scope of the Group's R&D activities remained the same as in the previous fiscal period.

Personnel

Group personnel averaged 426 (414) over the fiscal year and numbered 424 (428) at the end of the period.

Risks and business uncertainties

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

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

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

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

Shareholders' equity

Information concerning Vaahto Group Plc Oyj's shares is provided in item 25 of the Notes to the Consolidated Financial Statements, "Notes on the shareholders' equity."

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

Administration

The Annual General Meeting of December 14, 2007, elected the following to the Board of Vaahto Group Plc Oyj:

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

Antti Vaahto served as CEO throughout the fiscal period.

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

Forecast of developments

Vaahto Group's competitiveness has improved, thanks to determined product development and the expanded product range. However, the market situation for the Group's major products is highly challenging. In Europe and North America, the forest industry is having trouble and investing very carefully. In the largest growing market area, China, local suppliers are growing stronger and competition is growing tighter. In addition, the international financial crisis has caused insecurity in the market and postponement of investment decisions.

In spite of the challenging market situation, the Group's order book as of 31 August is higher than a year earlier, laying a foundation for business growth.

Proposal for distribution of profits

Parent company funds available for distribution of profits total 3,555,313.93 euros, of which 176,360.06 euros represents loss for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.10 euros per share, for a total of 287,230.20 euros, be paid. The remaining operating profit is to be transferred to the earnings account.

Key Figures

The business indicators for fiscal years 2007-2008, 2006-2007, 2005-2006 and 2004-2005 have been calculated in accordance with IFRS principles, while the business indicators for previous fiscal years have been calculated in accordance with FAS principles (as used at the time).

The business indicators 1 000 €	2007/2008 12 months IFRS	2006/2007 12 months IFRS	2005/2006 12 months IFRS	2004/2005 12 months IFRS	2003/2004 12 months FAS
Turnover	73 207	88 161	65 414	58 084	61 700
Change, %	-17.0	34.8	12.6	-5.9	-13.4
Operating profit or loss	635	5 812	2 461	588	2 812
% of turnover	0.9	6.6	3.8	1.0	4.6
Profit or loss before taxes	-77	5 226	1 513	-85	2 167
% of turnover	-0.1	5.9	2.3	-0.1	3.5
Earnings per share calculated on profit attributable to equity holders of the parent	238	3 639	920	-509	1 676
% of turnover	0.3	4.1	1.4	-0.9	2.7
Return on equity (ROE), %	2.2	29.5	9.4	-2.2	15.6
Return on investment (ROI), %	2.6	25.8	12.5	2.8	10.8
Equity ratio, %	37.3	35.5	39.1	35.2	33.2
Current ratio	1.1	1.1	1.0	1.0	1.0
Gearing	99.8	65.5	18.4	57.9	83.1
Gross investments in fixed assets	4 613	1 502	1 859	1 139	1 188
% of turnover	6.3	1.7	2.8	2.0	1.9
Order backlog	54 384	42 894	49 723	34 240	19 744
Consolidated balance sheet total	41 847	52 190	42 892	39 246	41 375
Total number of personnel (average)	426	414	410	420	464

Share related data	2007/2008 12 months IFRS	2006/2007 12 months IFRS	2005/2006 12 months IFRS	2004/2005 12 months IFRS	2003/2004 12 months FAS
Earning per share (EPS), euros	0.08	1.27	0.32	-0.18	0.61
Shareholders' equity per share, euros	4.32	4.68	3.65	3.44	3.74
Dividend per share, euros 1)	0.10	0.40	0.20	0.12	0.12
Dividend payout, %	120.6	31.6	62.5	-67.8	19.8
Effective dividend return, %	1.0	3.1	2.9	2.4	3.7
Price earnings ratio (P/E)	124.0	10.3	21.6	-28.6	5.3
Number of shares outstanding at the end of the period (1 000)	2 872	2 872	2 872	2 872	2 872
Number of shares outstanding, average (1 000)	2 872	2 872	2 872	2 872	2 872

1) Proposal by the Board

Key Figures

Share prices €	2007/2008 12 months	2006/2007 12 months	2005/2006 12 months	2004/2005 12 months	2003/2004 12 months
A share					
- high	12.32	14.20	8.70	5.98	3.55
- low	8.85	6.52	4.21	2.91	2.50
- average	10.55	11.11	6.22	4.30	2.84
- share price at the end of the fiscal year	9.82	12.54	6.50	5.04	3.18
K share					
- high	12.55	14.95	9.57	5.92	3.90
- low	8.80	7.28	4.38	2.90	2.55
- average	10.35	11.75	5.76	4.33	2.91
- share price at the end of the fiscal year	10.74	13.51	7.37	5.09	3.25
Total market value, million euros					
A share	14.3	18.2	9.4	7.3	4.6
K share	15.2	19.2	10.5	7.2	4.6
Total	29.5	37.4	19.9	14.5	9.2
Number of shares traded during the fiscal year					
A share	1 413 803	2 596 692	614 526	495 445	558 800
K share	1 062 841	1 082 285	184 810	140 000	51 430
Number of shares traded, %					
A share	97.3	178.7	42.3	34.1	38.5
K share	74.9	76.2	13.0	9.9	3.6
Number of shareholders	305	315	340	435	411

Consolidated Income Statement, IFRS

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007	Note
NET TURNOVER	73 207	88 161	3,4
Change in finished goods and work in progress	92	696	
Production for own use	693	377	
Other operating income	688	303	5
Material and services	-39 404	-50 629	
Employee benefit expenses	-21 082	-20 241	8
Depreciations	-2 220	-1 840	7
Other operating expenses	-11 339	-11 015	6
OPERATING PROFIT	635	5 812	
Financing income and expenses	-726	-611	10,11
Share of profits of affiliated companies	14	24	18
PROFIT OR LOSS BEFORE TAXES	-77	5 226	
Tax on income from operations	396	-1 313	12
PROFIT OR LOSS FOR THE FISCAL YEAR	320	3 913	
NET PROFIT OR LOSS ATTRIBUTABLE:			
To equity holders of the parent	238	3 639	
To minority interest	82	274	
	320	3 913	
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS undiluted, euros/share, continuing operations	0,08	1,27	13
EPS diluted, euros/share, continuing operations	0,08	1,27	
Average number of shares			
-undiluted	2 872 302	2 872 302	
-diluted	2 872 302	2 872 302	

Consolidated Balance Sheet, IFRS

1 000 €	31.8.2008	31.8.2007	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3 127	621	15
Goodwill	1 702	1 702	16
Tangible assets	14 198	14 644	14
Shares in affiliated companies	39	24	18
Non-current trade and other receivables	13	13	19
Other long-term investments	44	44	20
Deferred tax asset	471	120	21
NON-CURRENT ASSETS	19 594	17 169	
CURRENT ASSETS			
Inventories	8 508	8 188	22
Trade receivables and other receivables	12 392	25 276	23
Tax receivable, income tax	624	23	23
Cash equivalents	0	960	24
Cash and bank	730	574	24
CURRENT ASSETS	22 253	35 021	
ASSETS	41 847	52 190	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Share premium account	6	6	
Other reserves	2 006	2 128	
Retained earnings	7 537	8 436	
Equity attributable to equity holders of the parent	12 421	13 442	
Minority share	1 336	1 393	
SHAREHOLDERS' EQUITY	13 757	14 835	25
NON-CURRENT LIABILITIES			
Deferred tax liability	736	928	21
Long-term liabilities, interest-bearing	7 378	4 923	28
Non-current provisions	271	684	27
NON-CURRENT LIABILITIES	8 385	6 536	
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	7 087	6 331	28
Trade payables and other liabilities	12 618	23 558	30
Tax liability, income tax	1	931	30
CURRENT LIABILITIES	19 705	30 819	
EQUITY AND LIABILITIES	41 847	52 190	

Consolidated Flow of Funds Statement, IFRS

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
Flow of funds from operations		
Profit or loss before taxes	-77	5 226
Adjustments:		
Depreciations	2 220	1 840
Unrealized foreign exchange gains and losses	-148	16
Other income and expenses, no payment related	-409	428
Financing income and expenses	726	611
Share of profits of affiliated companies	-14	-24
Other adjustments	-558	-173
Flow of funds from operations before the change in working capital	1 740	7 923
Change in working capital:		
Change in short-term receivables	7 627	-11 287
Change in inventories	-659	-505
Change in short-term non-interest-bearing creditors	-6 631	-5
Flow of funds from operations before the financial items and taxes	2 076	-3 875
Interests and other financial expenses from operations paid	-796	-735
Dividends received	2	7
Interests received	68	118
Income taxes paid	-114	-1 307
FLOW OF FUNDS FROM OPERATIONS	1 236	-5 792
Flow of funds from investments		
Investments in tangible and intangible assets	-4 613	-1 502
Income from sales of tangible and intangible assets	650	405
Granted loans	0	-11
FLOW OF FUNDS FROM INVESTMENTS	-3 963	-1 109
Flow of funds from financial items		
Withdrawals of short-term loans	5 688	4 297
Repayments of short-term loans	-5 840	-1 792
Withdrawals of long-term loans	4 878	2 247
Repayments of long-term loans	-1 515	-1 637
Dividends	-1 287	-671
FLOW OF FUNDS FROM FINANCIAL ITEMS	1 923	2 444
Change of liquid funds	-804	-4 457
Liquid assets at the beginning of the fiscal year	1 534	5 991
Liquid assets at the end of the fiscal year	730	1 534
Change in liquid assets according to the balance sheet	-804	-4 457

Consolidated Statement of Changes in Shareholders' Equity, IFRS

Change in shareholders' equity 1.9.2007 - 31.8.2008 1 000 €	Share capital	Share premium account	Hedging reserve	Other reserves	Retained earnings	Total	Minority shares	Total
Shareholders' equity at the beginning of the fiscal period	2 872	6	22	2 106	8 437	13 442	1 393	14 835
Cash flow hedging:								
Increase (hedging reserve)	0	0	-148	0	0	-148	0	-148
Deferred taxes' share of period movements	0	0	33	0	0	33	0	33
Change in translation difference	0	0	0	0	5	5	0	5
Reclassifications between items	0	0	0	-6	6	0	0	0
Net profits or losses recognized directly to shareholders' equity	0	0	-115	-6	11	-110	0	-110
Profit or loss for the period	0	0	0	0	238	238	82	320
Total profits and losses	0	0	0	0	238	238	82	320
Dividend distribution	0	0	0	0	-1 149	-1 149	-138	-1 287
Shareholders' equity at the end of the fiscal period	2 872	6	-93	2 100	7 537	12 421	1 336	13 757

Change in shareholders' equity 1.9.2006 - 31.8.2007 1 000 €	Share capital	Share premium account	Hedging reserve	Other reserves	Retained earnings	Total	Minority shares	Total
Shareholders' equity at the beginning of the fiscal period	2 872	6	6	2 112	5 479	10 475	1 215	11 689
Cash flow hedging:								
Increase (hedging reserve)	0	0	16	0	0	16	0	16
Decrease of the revaluation	0	0	0	0	-106	-106	0	-106
Change in translation difference	0	0	0	0	-7	-7	0	-7
Reclassifications between items	0	0	0	-6	6	0	0	0
Net profits or losses recognized directly to shareholders' equity	0	0	16	-6	-106	-97	0	-97
Profit or loss for the period	0	0	0	0	3 639	3 639	274	3 913
Total profits and losses	0	0	16	-6	3 532	3 542	274	3 816
Dividend distribution	0	0	0	0	-574	-574	-97	-671
Shareholders' equity at the end of the fiscal period	2 872	6	22	2 106	8 437	13 442	1 393	14 835

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Notes to the Consolidated Financial Statements

1. BASIC INFORMATION

Vaahito Group's parent company, Vaahito 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 1988.

Vaahito 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: Pulp & Paper Machinery and Process Machinery.

At its meeting of November 13, 2008, the Vaahito 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 for the fiscal period September 1, 2007 – August 31, 2008, were drawn up in accordance with International Financial Reporting Standards (IFRS), approved for use in the EU. The notes to the consolidated financial statements are also in accordance with the Finnish accounting and corporation legislation.

On September 1, 2005, the Group moved its financial reporting over to calculation and final accounting principles that are in accordance with the IFRS standards. Previously, the Group followed the Finnish Accounting Standards (FAS). The IFRS 1 standard, "First-time Adoption of International Financial Reporting Standards," was applied to the transition.

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

sheet. The acquisition costs used for tangible assets are the revaluated amounts of the assets, taking into account retroactive depreciation.

Application of new or changed IFRS standards

In the 2007–2008 fiscal year, the Group started applying the IFRS 7 ("Financial Instruments: Disclosures") standard. Implementation of the new standard affects the notes to the consolidated financial statements concerning financial instruments but not the classification or valuation of financial instruments.

The Group expects no other changes to standards or their interpretations published by August 31, 2008, to affect the Group's financial statement reporting.

IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
IFRIC 15	Agreements for the Construction of Real Estate

In the 2009–2010 fiscal year, the Group will start applying the IFRS 8 ("Operating Segments") standard (effective from January 1, 2009), as well as the amendments made to the IAS 1 ("Presentation of Financial Statements") standard. The Group assumes that implementation of the new and changed standards will mostly affect the presentation of financial statements and segment information, as well as the requirements for notes on segments.

The amendments to the IAS 23 ("Borrowing Costs") standard, effective from January 1, 2009, are assumed not to affect the consolidated financial statements, since the nature of the Group's operations means that a significant proportion of the turnover comes from projects in which the advance payments received from customers mostly correspond to the capital committed to the project.

Principles of consolidation

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

Subsidiaries that have been acquired are consolidated from the date on which the Group acquired control. Intra-group shareholdings have been eliminated using the acquisition cost method. The acquisition cost is allocated to the specified assets and liabilities on the item acquisition date

at their fair value. The difference between the acquisition cost of a subsidiary and the net fair value of the subsidiary's specifiable assets and liabilities is entered on the balance sheet as goodwill. In accordance with the exemption allowed by the IFRS 1 transition standard, acquisitions that were made before the IFRS transition date have not been adjusted in accordance with IFRS principles; they have been left at the values that are in accordance with the Finnish Accounting Standards.

The Group owns part of an affiliated company named ZAO Slalom, in Russia. The company is to focus on the Russian sales and marketing for Vaahito's Pulp & Paper Machinery division. The Group holds 50% of the voting rights in the company. 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, 2008.

The previous fiscal year saw the Group establish a subsidiary company in Shanghai, China: Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd. The company is to focus on the Chinese sales and marketing for Vaahito's Pulp & Paper Machinery division and to purchase materials and subcontracting services for the division's delivery projects. The company was included in the consolidated financial statements for the first time for the fiscal year ending on August 31, 2008.

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

Assets and liabilities in foreign currencies

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

Transactions denominated in foreign currencies are converted into euros at the exchange rate applicable on the date of the transaction. Assets and debts denominated in foreign currencies are converted into euros at the exchange rate in effect on the balance sheet date. Foreign exchange gains and losses are included in the corresponding items above operating profit. Currency translation differences related to financial items are included in financing gains or losses. Hedge accounting is applied to currency forward contracts used to hedge sales in foreign currencies, and these are

handled in accordance with the cash flow hedge accounting model, which means that the earnings impact of currency forward contracts is entered in the income statement at the same time as the earnings impact of hedged sales. The earnings impact of the effective portion of currency forward contracts is recorded to adjust sales, and the ineffective portion of the hedging relationship is entered in financial items.

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

Recognition principles

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

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

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

Subsidies received

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

Employee benefits

Pension liabilities for the Group's Finnish personnel have been covered through a pension insurance company. Pension liabilities at foreign subsidiaries have been addressed in accordance with local laws and regulations. All of the Group's pension arrangements are defined contribution arrangements, and the related costs are entered in the

income statement for the fiscal year in which they were incurred. 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 27 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.

Borrowing costs

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

Income tax

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

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

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 in-

cluded in the carrying amount for property, plants, and equipment only if it is probable that they will increase the economic benefit to the company and that the acquisition cost of the item can be determined reliably. The earnings impact of other repair and maintenance costs is recognized as incurred.

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

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

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

Intangible assets:

Goodwill

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

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

Expenditure on research and development

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

Notes to the Consolidated Financial Statements

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

Intangible assets with an infinite useful life are not depreciated. Instead, they are tested annually for impairment.

Investment properties

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

Impairments

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

The recoverable amount is calculated as the higher of 1) fair value minus cost to sell and 2) value in use. The value in use is the present value of the estimated future net cash flows obtainable from the asset or cash-generating unit. An impairment loss is recognized if the carrying amount of an asset exceeds the recoverable amount. An impairment loss is reversed if conditions have changed

and the recoverable amount for the asset changed after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been declared if no impairment loss had been recognized. An impairment loss in relation to goodwill is never reversed.

Inventories

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

Trade and other receivables

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

Financial assets and liabilities

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

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

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

Available-for-sale financial assets consist of shares and debt with interest, and they are recognized at their fair value. Fair value is determined in most cases according to quoted market prices and rates. Changes in the fair value are entered in the fair value reserve in equity, with the tax effect taken into account. Changes in fair value are transferred

from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Available-for-sale financial assets are included in long-term assets, except if the intention is to hold them for less than 12 months after the balance sheet date, in which case they are included in short-term assets.

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

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

Provisions

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

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

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

Rental agreements

Rental agreements concerning tangible 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 hedge accounting

Derivative financial instruments are initially entered in the accounts at their acquisition cost, which corresponds to their fair value. Subsequently, derivatives are stated at fair value.

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

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

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

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

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

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

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

Interim report

The Group's six-month interim report, published on April 18, 2008, was drawn up in accordance with International Financial Reporting Standard IAS 34 ("Interim Financial Reporting").

3. SEGMENT INFORMATION

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

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

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

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

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

Geographical segments / Secondary segment information

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

Fiscal period 2007-2008 1 000 €	Finland	Other Europe	North America	Asia	Africa	Other	Group total
Net turnover	28 859	30 182	3 837	9 881	120	328	73 207
Assets	35 325	6 341	0	181	0	0	41 847
Investments	4 493	88	0	32	0	0	4 613

Fiscal period 2006-2007 1 000 €	Finland	Other Europe	North America	Asia	Africa	Other	Group total
Net turnover	26 361	40 525	3 718	14 125	197	3 235	88 161
Assets	45 489	6 700	0	0	0	0	52 190
Investments	1 475	28	0	0	0	0	1 502

Notes to the Consolidated Financial Statements

Business segments / Primary segment information

Fiscal period 2007-2008 1 000 €	Pulp & Paper Machinery	Process Machinery	Other business	Eliminations	Non-allocated items	Group total
Income statement information						
External net sales	38 801	34 406				73 207
Intra-Group net sales	748	1		-748		0
Net turnover	39 549	34 406		-748		73 207
Operating profit or loss of the segment	-3 330	3 982	-2	-14		635
Operating profit or loss						635
Financing income and expenses					-726	-726
Shares of profits of affiliated companies	14					14
Income taxes					396	396
Profit or loss for the period	-3 316	3 982	-2	-14		320
Profit or loss for the period						320
Balance sheet information						
Segments assets	24 127	22 449	80	-6 730		39 926
Shares in affiliated companies	39					39
Non-allocated assets					1 883	1 883
Assets total	24 166	22 449	80	-6 730		41 847
Segments liabilities	6 798	10 578	33	-206		17 203
Non-allocated liabilities					10 886	10 886
Liabilities total	6 798	10 578	33	-206		28 090
Other information						
Net sales, goods	38 801	34 406				73 207
Investments	2 694	1 919				4 613
Depreciation	1 520	700				2 220
Average number of personnel	249	177				426

Fiscal period 2006-2007 1 000 €	Pulp & Paper Machinery	Process Machinery	Other business	Eliminations	Non-allocated items	Group total
Income statement information						
External net sales	54 136	34 025				88 161
Intra-Group net sales	20	25		-45		0
Net turnover	54 156	34 050		-45		88 161
Operating profit or loss of the segment	3 721	1 992	113	-14		5 812
Operating profit or loss						5 812
Financing income and expenses					-611	-611
Shares of profits of affiliated companies	24					24
Income taxes					-1 313	-1 313
Profit or loss for the period	24	1 992	113	-14		3 913
Profit or loss for the period						3 913
Balance sheet information						
Segments assets	29 796	19 759	96	-166		49 486
Shares in affiliated companies	24					24
Non-allocated assets					2 680	2 680
Assets total	29 820	19 759	96	-166		52 190
Segments liabilities	12 339	10 071	10	-110		22 310
Non-allocated liabilities					15 045	15 045
Liabilities total	12 339	10 071	10	-110		37 355
Other information						
Net sales, goods	54 136	34 025				88 161
Investments	1 348	155				1 502
Depreciation	1 236	604				1 840
Average number of personnel	243	171				414

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
4. CONSTRUCTION CONTRACTS		
Net turnover		
Net turnover of construction contracts recognized under the percentage of completion method	32 395	52 976
Other turnover	40 811	35 185
Total	73 207	88 161
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		
	15 257	59 162
Order backlog		
Construction contracts recognized under the percentage of completion method	44 279	26 957
Projects entered on completion of the project	10 105	15 937
Order backlog total	54 384	42 894
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		
Advances received from the customers	14 281	59 162
Difference	2 520	11 962
Accrued income from the construction contracts in the Balance Sheet		
Advance payments from the construction contracts in the Balance Sheet	2 911	12 446
Receivables from the construction contracts in the Balance Sheet	2 520	11 962
5. OTHER OPERATING INCOME		
Other operating income		
Profit from sales of intangible assets	275	0
Profit from sales of investment properties	0	110
Profit from sales of other tangible assets	287	64
Rent income from investments properties	0	16
Other rent income	17	21
Subventions	8	0
Other income	101	92
Total	688	303
6. OTHER OPERATING EXPENSES		
Other operating expenses		
Overhead costs of production	1 876	2 098
Sales costs	1 876	2 016
Non-statutory employee benefits, variable	189	163
Rents, variable	144	74
Other variable expenses	1 202	1 129
Traveling expenses	1 657	1 434
Rents, fixed	702	543
Expenses from real estates and apartments	850	816
IT-costs	692	438
Non-statutory employee benefits, fixed	206	210
Marketing expenses	261	358
Other fixed expenses	1 683	1 722
Investment property management expenses	0	14
Losses from sales of fixed assets (investments)	0	1
Total	11 339	11 015
Other operating expenses include fees paid to the auditors		
Auditing fees	71	83
Consulting and other fees	20	29
Total	91	111

Notes to the Consolidated Financial Statements

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
7. DEPRECIATIONS AND IMPAIRMENT LOSSES		
Depreciations by groups of assets		
Intangible assets		
Development expenditure	150	104
Intangible rights	2	0
Other long-term assets	103	109
Other long-term assets, financial lease	338	0
Total	593	213
Tangible assets		
Buildings	321	313
Machinery and equipment	1 115	1 098
Machinery and equipment, financial lease	126	139
Other tangible assets	64	76
Total	1 627	1 627
Total	2 220	1 840
8. EMPLOYEE BENEFITS		
Employee benefits expenses		
Salaries and fees	16 882	15 922
Pension expenses, defined contribution plan	2 876	2 667
Other employee benefits	1 324	1 652
Total	21 082	20 241
Management and Board salaries, fees and benefits		
Managing Directors	262	234
Board members and substitute members	45	46
Total	307	280
Average number of personnel of the Group		
Office staff	178	167
Workers	248	247
Total	426	414
The information concerning the employee benefits of the management can be found on note 33. "Related party transactions".		
9. RESEARCH AND DEVELOPMENT EXPENDITURE		
Research and development expenditure		
Research and development expenditure on income statement	197	128
Increase in capitalized research and development expenditure	167	153
Total	364	281
10. FINANCING INCOME		
Financing income		
Interest income	56	56
Dividends	2	7
Foreign exchange gains	12	50
Other financing income	0	12
Total	70	125
11. FINANCING EXPENSES		
Financing expenses		
Interest expenses	703	513
Foreign exchange losses	93	52
Other financing expenses	1	171
Total	796	735

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
12. INCOME TAXES		
Income taxes in income statement		
Tax on income from operations	117	1 324
Tax for previous accounting periods	-3	-17
Change in deferred tax liabilities and tax assets	-511	5
Total	-396	1 313
Reconciliation between tax provision on income statement and mathematical tax based on parent company's tax rate 26%		
Profit or loss before taxes	-77	5 226
Mathematical tax based on parent company's tax rate 26%	-20	1 359
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	27	3
Non-deductible income	-0	-1
Non-deductible expenses	-40	22
Tax for previous accounting periods	-3	-17
Using losses for which no tax assets have been entered	-320	0
Recognized tax asset on losses from the previous fiscal periods	-89	0
Unrecognized taxes on losses from the fiscal period	51	-19
Shares of profits of affiliated companies	-4	-6
Decrease of the revaluation	0	-28
Tax provision on income statement	-396	1 313
Effective tax rate	518%	25%
Deferred tax liabilities and tax assets booked to the shareholders' equity		
Interest rate derivatives		
Deferred tax liabilities in the beginning of the period	0	0
Deferred taxes' share of period movements (decrease of the deferred tax liabilities)	33	0
Decrease of the deferred tax liabilities in the end of the period	33	0
13. EARNINGS PER SHARE		
Net profit or loss attributable to shareholders' of the parent, euros	238	3 639
Average number of shares during the fiscal period	2 872 302	2 872 302
Earnings per share undiluted, euros/share	0.08	1.27

14. TANGIBLE ASSETS

Fiscal period 2007-2008 1 000 €	Land	Buildings	Machinery and equipments	Machinery and equipments, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	813	10 072	16 702	2 064	1 525	445	31 621
Increase	7	224	706		83	471	1 490
Decrease			-662				-662
Transfers between items			14			-14	0
Acquisition cost at the end of the period	820	10 296	16 759	2 064	1 608	902	32 449
Accumulated depreciations and impairment losses at the beginning of the period		-3 469	-11 672	-721	-1 115		-16 977
Depreciations of transfers' and decrease items			353				353
Depreciations		-321	-1 115	-126	-64		-1 627
Accumulated depreciations and impairment losses at the end of the period		-3 791	-12 434	-847	-1 179		-18 251
Book value at the beginning of the period	813	6 603	5 030	1 343	410	445	14 644
Book value at the end of the period	820	6 506	4 325	1 217	429	902	14 198

Notes to the Consolidated Financial Statements

Fiscal period 2006-2007 1 000 €	Land	Buildings	Machinery and equipments	Machinery and equipments, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	755	9 558	15 473	2 136	1 212	1 470	30 604
Increase	58	63	646		74	461	1 302
Decrease			-223		-7		-230
Transfers between items		451	806	-72	246	-1 486	-55
Acquisition cost at the end of the period	813	10 072	16 702	2 064	1 525	445	31 621
Accumulated depreciations and impairment losses at the beginning of the period		-3 156	-10 796	-582	-1 039		-15 573
Depreciations of transfers' and decrease items			223				223
Depreciations		-313	-1 098	-139	-76		-1 627
Accumulated depreciations and impairment losses at the end of the period		-3 469	-11 672	-721	-1 115		-16 977
Book value at the beginning of the period	755	6 402	4 677	1 554	173	1 470	15 031
Book value at the end of the period	813	6 603	5 030	1 343	410	445	14 644

15. INTANGIBLE ASSETS

Fiscal period 2007-2008 1 000 €	Development expenditure	Intangible rights	Other long-term assets	Other long- term assets, financial lease	Intangible assets total	Goodwill	Goodwill total
Acquisition cost at the beginning of the period	548	88	1 911		2 547	2 944	2 944
Increase	167	6	50	2 900	3 123		0
Decrease		-50 456			-50 456		0
Transfers between items		1	-1		0		0
Acquisition cost at the end of the period	715	45	1 959	2 900	5 620	2 944	2 944
Accumulated depreciations and impairment losses at the beginning of the period	-157	-88	-1 681	0	-1 926	-1 242	-1 242
Depreciations of transfers' and decrease items		50	-24		26		0
Depreciations	-150	-3	-101	-338	-593		0
Accumulated depreciations and impairment losses at the end of the period	-307	-41	-1 807	-338	-2 493	-1 242	-1 242
Book value at the beginning of the period	391	0	230	0	621	1 702	1 702
Book value at the end of the period	408	4	153	2 562	3 127	1 702	1 702

Fiscal period 2006-2007 1 000 €	Development expenditure	Intangible rights	Other long-term assets	Other long- term assets, financial lease	Intangible assets total	Goodwill	Goodwill total
Acquisition cost at the beginning of the period	395	88	1 839		2 322	2 944	2 944
Increase	153		55		208		0
Decrease			-38		-38		0
Transfers between items			55		55		0
Acquisition cost at the end of the period	548	88	1 911		2 547	2 944	2 944
Accumulated depreciations and impairment losses at the beginning of the period	-54	-87	-1 582		-1 723	-1 242	-1 242
Depreciations of transfers' and decrease items			11		11		0
Depreciations	-104		-109		-213		0
Accumulated depreciations and impairment losses at the end of the period	-157	-88	-1 681		-1 926	-1 242	-1 242
Book value at the beginning of the period	342	0	257		599	1 702	1 702
Book value at the end of the period	391	0	230		621	1 702	1 702

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

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

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

During the fiscal period 2007-2008, total 2,900 thousand euros development and acquisition costs of the new enterprise resource planning system of the Group has been booked to the Other long-term assets.

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

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
16. GOODWILL		
Goodwill		
Acquisition cost at the beginning of the period	1 702	1 702
Book value at the end of the period	1 702	1 702

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

Testing of goodwill:

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

Main assumptions in testing goodwill:

The cash flow forecasts used for the calculations are based on the financial plans of the management. The majority of the goodwill is allocated to Stelzer Rührtechnik International GmbH. The company's cash flow forecast is based on an estimate according to which the company's turnover will increase moderately and profitability decrease slightly in the forecast period. The increase in turnover is influenced by the product development investments made and reorganization carried out in sales and marketing operations. Due to the rationalization activities carried out in the company over the past few years, the profitability has been improved.

Discount rate:

The pretax WACC specified for Vaahto Group has been used as the discount rate. The discount rate for fiscal period 2007-2008 was 12.16% - 12.67% (12.33%-12.83% in 2006-2007).

Sensitivity of the main assumptions used in testing of depreciation:

Where the forecast used for Stelzer Rührtechnik International GmbH's depreciation testing is concerned, the cash flow may decrease by about 40% or the discount rate may increase by about 10% 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.

1 000 €	31. 8. 2008	31. 8. 2007
17. INVESTMENT PROPERTIES		
Investment properties		
Acquisition cost at the beginning of the period	0	700
Decrease	0	-700
Acquisition cost at the end of the period	0	0
Accumulated depreciations and impairment losses at the beginning of the period	0	-392
Accumulated depreciations and impairment losses at the end of the period	0	392
Book value at the beginning of the period	0	308
Book value at the end of the period	0	0
Fair value of the investment properties at the end of the period	0	0
The investment property owned by the Group (industrial and office building) has been sold during the previous fiscal period.		
18. SHARES IN AFFILIATED COMPANIES		
Shares in affiliated companies		
Shares of profit of affiliated companies from the previous fiscal periods	24	0
Shares of profit of affiliated companies from the fiscal period	14	24
Total	39	24
Shares in affiliated companies consists of the Group's share in Russian Joint Stock Company ZAO Slalom.		
19. LONG-TERM RECEIVABLES		
Non-current receivables		
Long-term loan receivables	13	13
Total	13	13

Notes to the Consolidated Financial Statements

1 000 €	31. 8. 2008	31. 8. 2007
20. LONG-TERM INVESTMENTS		
Other long-term investments		
Other shares and holdings	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.

21. DEFERRED TAX ASSETS AND LIABILITIES

1 000 €	31.8.2008	Recognized in income statement	Recognized in shareholders' equity	31.8.2007	Recognized in income statement	31.8.2006
Deferred tax assets						
Internal margin of inventories	5	4	0	2	1	1
Losses from the fiscal period	377	377	0	0	0	0
Losses from the previous fiscal periods	89	89	0	0	0	0
Other timing differences	0	-118	0	118	118	0
Total	471	351	0	120	119	1
Deferred tax liabilities						
Cumulative appropriations	160	-166	0	327	43	284
Cancelling of depreciations of the goodwill	277	69	0	207	69	138
Fair values of derivative instruments	-33	0	-33	0	0	0
Other timing differences	331	-62	0	394	12	381
Total	736	-159	-33	928	124	803

On August 31, 2008, the Group had confirmed losses worth 333 thousand euros (1,909 thousand euros on August 31, 2007), for which no deferred tax asset has been entered.

The confirmed losses consist of losses of the Group's Swedish subsidiary, AK-Tehdas AB and Chinese company Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., LTD.

No deferred tax assets were earlier recognized for the confirmed losses of the Group's German subsidiary Stelzer Rührtechnik International GmbH for previous fiscal years, since the requirements for this were not considered fulfilled. The reorganization carried out within the company has improved its profitability, and most of the losses for previous fiscal years have now been used. For the remaining losses, deferred tax assets were recognized for the 2007-2008 fiscal year. Losses confirmed according to local tax laws do not expire.

1 000 €	31.8.2008	31.8.2007
22. INVENTORIES		
Inventories		
Materials and supplies	2 431	3 056
Work in progress	5 073	4 659
Finished products	739	0
Advance payments for inventories	107	291
Advance invoices, unpaid	158	182
Total	8 508	8 188

In the period the carrying amount of inventories was reduced by 83 thousand euros (163 thousand euros in the previous period) to correspond for its net realization value.

23. SHORT-TERM RECEIVABLES

Trade and other receivables		
Trade receivables	7 436	7 212
Advance payment receivables	774	4 114
Advance payment receivables from affiliated companies	11	0
Other receivables	163	841
Prepayments and accrued income	4 007	13 110
Total	12 392	25 276

Ageing analysis of trade receivables	Trade receivables	Advance payment receivables	Advance payment receivables from affiliated companies	Total
Not due	3 924	320	11	4 256
Past due less than 180 days	3 130	453	0	3 584
Past due more than 180 days	382	0	0	382
Total	7 436	774	11	8 221

The Group has not booked any bad debts during the fiscal period 2007-2008.

1 000 €	31.8.2008	31.8.2007
Prepayments and accrued income		
Prepayments and accrued income consist of:		
Accrued income on the construction contracts recognized under the percentage of completion method	2 911	12 446
Accrued income on derivatives	2	36
Interest receivables	12	1
Accruals of personnel expenses	446	300
Other prepayments and accrued income on expenses	636	327
Total	4 007	13 110
Tax receivables		
Tax receivable, income tax	624	23
Total	624	23
24. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents		
Cash equivalents	0	960
Cash and bank	730	574
Total	730	1 534
Change of liquid funds in the flow of funds statement		
Liquid funds at the beginning of the period	1 534	5 991
Liquid funds at the end of the period	730	1 534
Change of liquid funds in the balance sheet	-804	-4 457

25. NOTES ON THE SHAREHOLDERS' EQUITY

On August 31, 2008, Vaahto Group Plc Oyj's share capital, fully paid and registered in the trade register, amounted to 2,872,302 euros, and the number of shares was 2,872,302. There were no changes in the number of shares during the 2007-2008 fiscal year. In accordance with the Articles of Association, the company's minimum share capital is 2,800,000 euros and maximum share capital 11,200,000 euros. The company has two series of shares: A and K, shares under each of which have a nominal value of 1 euro. In the Annual General Meeting, each K share carries 20 votes and each A share one vote.

Descriptions of funds in shareholders' equity are as follows:

Fair value reserve and other reserves

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

Translation differences

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

Dividends

After the balance sheet date, the Board proposed that a dividend of 0.10 euros per share be paid.

26. PENSION LIABILITIES

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

Notes to the Consolidated Financial Statements

27. PROVISIONS

Fiscal period 2007-2008 1 000 €	Warranty provisions	Pension provisions	Provision for unprofitable contracts	Total
Non-current provisions				
Provisions at the beginning of the period	70	160	455	684
Increase of the provisions	50	0	0	50
Used provisions	-5	-4	-455	-463
Provisions at the end of the period	115	156	0	271

The warranty provision and the pension provision consist of reserves of the Group's German subsidiary. The warranty provision covers warranty-related costs for products that have a product warranty. The pension provision consists of pension liabilities of one retired person.

The loss provision is the provision recognized for the loss which was expected from Vaahto Oy's long-term project. Delivery of the project has taken place in the period 2007-2008 and the provision has then been used.

1 000 €	31.8.2008	31.8.2007
28. INTEREST-BEARING LIABILITIES		
Long-term liabilities, interest-bearing		
Loans from financial institutions	4 998	4 213
Pension loans	502	710
Finance leases	1 878	0
Total	7 378	4 923
Current liabilities, interest-bearing		
Loans from financial institutions	6 190	5 792
Pension loans	208	252
Finance leases	688	287
Total	7 087	6 331
Finance lease liabilities, minimum rentals		
Within a year	823	295
More than one year but no more than 5 years	2 058	0
Minimum rentals	2 881	295
Future financing cost related to leasing agreements	316	8
Future finance lease liabilities at present value	2 566	287
Future minimum lease payments at present value		
Within a year	688	287
More than one year but no more than 5 years	1 878	0
Future finance lease payments at present value	2 566	287

The investment made in the Group-wide SAP ERP system in the 2007-2008 fiscal year was mainly financed by means of financial leasing. In the consolidated financial statements, 2,900 thousand euros of costs for this information system project was capitalized for other intangible assets, and a corresponding amount was entered under long- and short-term financial leasing liabilities.

Vaahto Oy concluded a hire agreement for production machinery in the 2007-2008 fiscal year; this is to be treated as a financial leasing agreement in the consolidated financial statements. The agreed term of lease has not yet started, so the leasing object or leasing liability has not yet been entered on the balance sheet. In accordance with the hire agreement, 12 thousand euros was paid as advance rental fees in the 2007-2008 fiscal year and entered under financing costs.

Repayment schedule of the interest-bearing liabilities

Maturing in the fiscal period	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	Later	Total
Loans from financial institutions	6 190	1 482	1 160	1 005	805	545	0	11 189
Pension loans	208	123	103	75	74	31	97	710
Finance leases	688	721	762	394	0	0	0	2 566
Total	7 087	2 326	2 026	1 474	880	576	97	14 465

Maturing times and effective interest rates (weighted averages) of interest-bearing liabilities 31.8.2008

	Maturing time (years)	Interest rate %
Loans from financial institutions	1.6	5.37
Loans from financial institutions including interest rate swap agreements	1.6	5.43
Pension loans	2.7	4.30
Finance leases	1.8	5.27

29. FINANCIAL RISK MANAGEMENT

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

Currency risk

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

The fair values of derivative financial instruments are indicated in item 31 of the Notes, "Fair values of financial assets and liabilities."

Interest rate risk

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

Credit risk

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

Liquidity risk

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

1 000 €	31.8.2008	31.8.2007
30. SHORT-TERM LIABILITIES		
Trade payables and other liabilities		
Advance payments received	4 221	6 261
Advance payments, unpaid	774	4 114
Advance payments, unpaid, from affiliated companies	11	0
Trade payables	2 397	7 074
Trade payables, unpaid advance payments	158	182
Other short-term liabilities	1 344	1 261
Accruals and deferred income	3 713	4 666
Total	12 618	23 558
Accruals and deferred income consist of:		
Interest liabilities	62	58
Accrued employee expenses	1 986	1 884
Derivatives	129	14
Expenses from contracts	605	1 722
Other accruals and deferred income	931	987
Total	3 713	4 666
Tax liability		
Tax liability, income tax	1	931
Total	1	931

Notes to the Consolidated Financial Statements

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair values of derivative instruments

Interest rate derivatives 1 000 €	Nominal value 31.8.2008	Positive fair value 31.8.2008	Negative fair value 31.8.2008	Net fair value 31.8.2008
Interest rate swap agreements	15 924	14	-140	-126
Total	15 924	14	-140	-126

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

Interest rate derivatives	Currency	Amount
Maturing within 1-5 years	EUR	10 334
Maturing more than 5 years	EUR	5 590
Total	EUR	15 924

Fair values of other than derivative contracts

Financial assets 1 000 €	Book value 31.8.2008	Fair value 31.8.2008	Book value 31.8.2007	Fair value 31.8.2007
Trade receivables and other receivables	13 799	13 799	25 276	25 276
Cash equivalents	0	0	960	960
Cash and bank	730	730	574	574
Financial liabilities 1 000 €	Book value 31.8.2008	Fair value 31.8.2008	Book value 31.8.2007	Fair value 31.8.2007
Finance lease liabilities, short-term	688	688	287	287
Trade payables and other liabilities	8 905	8 905	23 558	23 558

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

1 000 €	31.8.2008	31.8.2007
32. SECURITIES AND CONTINGENT LIABILITIES		
Granted securities		
Debt secured by real estate and corporate mortgages		
Pension loans	524	752
Loans from financial institutions	3 844	9 031
Total	4 369	9 783
Mortgages granted to secure loans and bank guarantees		
Real estate mortgages	9 914	9 914
Corporate mortgages	7 386	7 386
Total	17 300	17 300
Corporate mortgages granted to secure other liabilities		
Corporate mortgages granted to secure the bank guarantee limit	8 235	8 235
Total	8 235	8 235
Contingent liabilities and other liabilities		
Bank guarantees		
Bank guarantee limits total	33 700	26 700
Bank guarantee limits, used	16 523	21 692
Operating lease agreements		
Within a year	208	114
More than one year but no more than 5 years	242	272
Total	450	386
<p>Contracts other than financial leasing contracts consist mainly of short-term leasing contracts for IT equipment and software. The terms and conditions of leasing agreements correspond to those of normal operational leasing agreements.</p>		
Arrangements according to IFRIC 4		
The Group has no arrangements meant in IFRIC 4.		
Other rent agreements		
The Group has rented production and office buildings for its use with various types of terminable rental agreements. The rental costs registered in the income statement has been presented in the attached information under item 6, "Other operating expenses".		
Other contingent liabilities		
Granted guarantees	38	452
Total	38	452
Transferred projects		
The Group's companies have a transfer-related, warranty-period responsibility for projects transferred by the end of the fiscal period.		
Environmental impact		
The fiscal year saw Vaahto Oy complete final assessments of procedures for the old pickling facility at the Hollola plant in accordance with the environmental permit. Other projects involving environmental impact included the construction of and environmental permit for Japrotek Oy Ab's new pickling facility, as well as the environmental permit application for Vaahto Roll Service Oy's new roll coating process.		

Notes to the Consolidated Financial Statements

33. RELATED PARTY TRANSACTIONS

Parent company and subsidiaries

Group companies

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

Subsidiaries of subconcern

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

Associations of subconcern

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

Transactions with related parties

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
Rent income		
The renting income of the plot belonging to the corporation in the control of the members of the Board	10	10
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	59	57
Employee benefits for the management		
Salaries and fees of the parent company management		
CEO	10	10
Board members:		
Jaatinen Seppo	19	19
Unkuri Martti	15	15
Vaahto Antti	5	5
Vaahto Mikko	5	5

No special conditions for retirement, pension benefits, or discharge-related conditions have been specified for the members of the Group's management.

The members of the Group's management have not received the group's own shares as a reward or incentive. The Group currently has no stock option plan.

34. CALCULATIONS OF KEY FIGURES

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

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

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

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

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

Formulas for per share items

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

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

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

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

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

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

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

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

$$\text{Development of shares traded = } \frac{\text{Total number of shares traded during the fiscal year}}{\text{Total number of shares at the end of the fiscal year}} \times 100$$

Notes to the Consolidated Financial Statements

35. SHARES AND SHAREHOLDERS

According to the book-entry security system, Vaahto Group Plc Oyj had 305 registered shareholders on August 31, 2008. There were in total 73,036 nominee-registered shares.

MAJOR SHAREHOLDERS According to the book-entry security system, on August 31, 2008	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	189 000	13.0	247 000	17.4	436 000	15.2	17.2
Laakkonen Mikko	352 860	24.3	76 503	5.4	429 363	14.9	6.3
Vaahto Heikki	0	0.0	326 700	23.0	326 700	11.4	21.9
Mutual Employee Pension Company Varma	58 000	4.0	58 000	4.1	116 000	4.0	4.1
Hymy Lahtinen Oy	20 500	1.4	61 000	4.3	81 500	2.8	4.2
Mutual Insurance Company Fennia	35 000	2.4	35 000	2.5	70 000	2.4	2.5
Svenska Handelsbanken AB (Publ)	47 580	3.3	6 800	0.5	54 380	1.9	0.6
Kanerva Jyri	27 990	1.9	2 200	0.2	30 190	1.1	0.2
Total for 10 largest	1 236 563	77.7	1 319 003	85.9	2 555 566	81.6	92.5

BREAKDOWN OF SHARE OWNERSHIP BY AMOUNT OF HOLDINGS

According to the book-entry security system, on August 31, 2008

	Shareholders		Shares		Votes	
	no.	%	no.	%	no.	%
1 - 100	111	36.4	5 718	0.2	45 105	0.2
101 - 1 000	127	41.6	52 369	1.8	340 371	1.1
1 001 - 10 000	50	16.4	154 082	5.4	1 113 297	3.7
10 001 - 100 000	11	3.6	337 189	11.7	2 924 191	9.8
100 001 - 1 000 000	6	2.0	2 319 496	80.8	25 385 553	85.1
	305	100.0	2 868 854	99.9	29 808 517	99.9
Outside the book-entry securities system			3 448	0.1	35 254	0.1
			2 872 302	100.0	29 843 771	100.0

BREAKDOWN OF SHARE OWNERSHIP BY CATEGORY OF OWNER

According to the book-entry security system, on August 31, 2008

	Shareholders		Shares		Votes	
	no.	%	no.	%	no.	%
Companies	31	10.2	155 710	5.4	1 915 148	6.4
Financial and insurance institutions	5	1.6	154 950	5.4	998 227	3.3
Public corporations	2	0.7	134 040	4.7	1 407 420	4.7
Households	264	86.6	2 415 953	84.1	25 479 521	85.4
Non-profit organizations	2	0.7	201	0.0	201	0.0
Foreign countries	1	0.3	8 000	0.3	8 000	0.0
	305	100.0	2 868 854	99.9	29 808 517	99.9
Outside the book-entry securities system			3 448	0.1	35 254	0.1
			2 872 302	100.0	29 843 771	100.0

SHARE HOLDINGS OF THE MANAGEMENT

According to the book-entry security system, on August 31, 2008

	A shares		K shares		Total		Votes
	no.	%	no.	%	no.	%	%
Board of directors and CEO							
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0
Vaahto Mikko	258 634	17.8	258 801	18.2	517 435	18.0	18.2
CEO's of the subsidiaries							
Lassfolk Torsten	20	0.0	20	0.0	40	0.0	0.0
Vaahto Antti	255 033	17.6	255 200	18.0	510 233	17.8	18.0

Members of the Board owned a total of 505,633 Series A shares and 505,800 Series K shares, representing 35.6% of the votes.

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

The members of the Board and the members of the management of the Group or its subsidiaries have no holdings or rights in the company's share-based incentive schemes.

36. ANNOUNCEMENTS IN ACCORDANCE WITH SECTION 2, SUBSECTION 10 OF THE SECURITIES MARKETS ACT

On September 17, 2007, Vaahto Group Plc Oyj received an announcement that Heikki Vaahto's ownership in Vaahto Group Plc Oyj has decreased by 25% of the total number of votes. Ownership by share type:

Vaahto Group A: 0 shares

Vaahto Group K: 326,700 shares

Total ownership: 11.37% of all shares and 21.89% of all votes

37. EVENTS AFTER THE END OF THE FISCAL YEAR

Dissolution of Akpija Oy

The decision was made to dissolve Akpija Oy, a subsidiary fully owned by Vaahto Group Plc Oyj, after that company's operations ceased. The real property owned by Akpija Oy was sold during the previous fiscal year, and the company did not have any operations in the 2007–2008 fiscal year. The Annual General Meeting of September 16, 2008, decided to place the company in liquidation, which was registered in the trade register on September 30, 2008.

Merger of Vaahto Roll Service Oy with Vaahto Oy

The Vaahto Group Plc Oyj Board has decided to take action to merge Vaahto Roll Service Oy with Vaahto Oy without any merger compensation. The merger is to take place during the fiscal period September 1, 2008 – August 31, 2009. Vaahto Oy and Vaahto Roll Service Oy are both wholly owned subsidiaries of the Group's parent company, Vaahto Group Plc Oyj. The purpose of the merger is to simplify the Group's structure and develop the operations of Vaahto's Pulp & Paper Machinery division.

Income Statement of the Parent Company, FAS

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007	Note
NET TURNOVER	2 424	1 600	2
Other operating income	76	144	3
Personnel expenses	-1 020	-595	5
Depreciations	-52	-49	6
Other operating expenses	-1 735	-1 147	7
OPERATING PROFIT	-308	-48	4
Financing income and expenses	137	48	8
PROFIT BEFORE EXTRAORDINARY ITEMS	-171	0	
Extraordinary income	0	1 000	9
PROFIT OR LOSS BEFORE INCOME TAXES	-171	1 000	
Appropriations	-5	0	
Tax on income from operations	0	-214	10
PROFIT OR LOSS FOR THE FISCAL YEAR	-176	786	

Balance Sheet of the Parent Company, FAS

1 000 €	31.8.2008	31.8.2007	
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	43	40	
Tangible assets	91	94	
Investments	9 087	8 917	
NON-CURRENT ASSETS TOTAL	9 221	9 052	12
CURRENT ASSETS			
Short-term receivables	7 732	1 846	
Cash and bank deposits	92	177	
CURRENT ASSETS TOTAL	7 824	2 023	13
ASSETS TOTAL	17 045	11 074	
LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Reserve fund	2 228	2 228	
Retained earnings	3 732	4 094	
Profit or loss for the fiscal year	-176	786	
SHAREHOLDERS' EQUITY TOTAL	8 656	9 981	14
Depreciation in excess of plan	5	0	
CUMULATIVE APPROPRIATIONS	5	0	15
LIABILITIES			
Long-term interest-bearing liabilities	2 727	0	16
Short-term interest-bearing liabilities	961	740	17
Short-term non-interest-bearing liabilities	4 696	353	17
LIABILITIES TOTAL	8 383	1 093	
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL	17 045	11 074	

Flow of Funds Statement of the Parent Company, FAS

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
Flow of funds from operations		
Profit before extraordinary items	-171	0
Adjustment items:		
Depreciations according to plan	52	49
Financial income and expenses	-137	-48
Flow of funds before the change in working capital	-256	1
Change in working capital:		
Change in short-term receivables	-61	391
Change in short-term non-interest bearing creditors	70	167
Flow of funds before financial items and taxes	-247	559
Interests and other financial expenses from operations paid	-173	-77
Dividends received	151	107
Interests received	159	18
Income taxes paid	0	-214
FLOW OF FUNDS FROM OPERATIONS	-110	393
Flow of funds from investments		
Investments in tangible and intangible assets	-51	-34
Other investments	-170	0
Granted loans	-6 635	-1 070
Repayments of loans receivable	810	60
FLOW OF FUNDS FROM INVESTMENTS	-6 047	-1 044
Flow of funds from financial items		
Withdrawals of short-term loans	5 233	500
Repayments of short-term loans	-740	-1 065
Withdrawals of long-term loans	2 727	0
Dividends	-1 149	-574
Group transfers	0	1 000
FLOW OF FUNDS FROM FINANCIAL ITEMS	6 072	-139
Change of liquid funds	-85	790
Liquid assets at the beginning of the fiscal year	177	967
Liquid assets at the end of the fiscal year	92	177
Change in liquid assets according to the balance sheet	-85	-790

Notes to the Parent Company's Financial Statements

1. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

Assets and liabilities in foreign currencies

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

Other operating income

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

Expenditure on research and development

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.

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
2. TURNOVER BY BUSINESSES AND MARKET AREAS		
By businesses		
Administration	2 424	1 600
Total	2 424	1 600
By market areas		
Finland	2 424	1 600
Total	2 424	1 600
3. OTHER OPERATING INCOME		
Other	76	144
Total	76	144
4. OPERATING PROFIT OR LOSS BY BUSINESSES		
Administration	-308	-48
Total	-308	-48
5. PERSONNEL		
Average number of personnel		
Office staff	14	9
Total	14	9
Personnel expenses		
Wages and salaries	798	474
Pension costs	162	78
Other personnel expenses	60	44
Total	1 020	595
Management's salaries and benefits		
Managing directors	10	10
Board members and substitute members	45	45
Total	55	55

1 000 €	1.9.2007-31.8.2008	1.9.2006-31.8.2007
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		
Buildings	5-10 years	5-10 years
Machinery and equipment	35-40 years 5-25 years	35-40 years 5-25 years
Depreciations and decreased values		
Depreciations from tangible and intangible assets	52	49
Total	52	49
7. OTHER OPERATING EXPENSES		
Rent expenses	479	144
Non-statutory employee benefits	13	17
Other expenses	1 243	986
Total	1 735	1 147
8. FINANCIAL INCOME AND EXPENSES		
Income from other investments held as non-current assets		
Group companies	150	105
Other	1	2
Total	151	107
Interest income from long-term investments		
Group companies	142	7
Other	17	12
Total	159	18
Financial income total	310	125
Interest and other financial expenses		
Group companies	68	77
Other	105	0
Total	173	77
Financial income and expenses total	137	48
9. EXTRAORDINARY ITEMS		
Extraordinary income/Group transfers	0	1 000
Total	0	1 000
10. INCOME TAXES		
Income taxes from operations	0	-46
Income taxes from extraordinary items	0	260
Total	0	214

Notes to the Parent Company's Financial Statements

11. SHAREHOLDINGS

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

1 000 €	31.8.2008	31.8.2007
12. NON-CURRENT ASSETS		
Intangible assets		
Other long-term assets		
Acquisition cost at the beginning of the fiscal year	401	390
Increase	34	11
Acquisition cost at the end of the fiscal year	435	401
Accumulated depreciations at the beginning of the fiscal year	360	335
Depreciation of the fiscal year	32	26
Accumulated depreciations at the end of the fiscal year	392	360
Book value at the end of the fiscal year	43	40
Intangible assets total	43	40
Machinery and equipments		
Acquisition cost at the beginning of the fiscal year	536	513
Increase	5	23
Acquisition cost at the end of the fiscal year	541	536
Accumulated depreciations at the beginning of the fiscal year	442	418
Depreciation of the fiscal year	20	23
Accumulated depreciations at the end of the fiscal year	462	442
Book value at the end of the fiscal year	79	94
Other tangible assets		
Acquisition cost at the beginning of the fiscal year	0	0
Increase	12	0
Acquisition cost at the end of the fiscal year	12	0
Book value at the end of the fiscal year	12	0
Tangible assets total	91	94
Investments		
Shares in Group companies		
Acquisition cost at the beginning of the fiscal year	9 675	9 675
Increase	170	0
Acquisition cost at the end of the fiscal year	9 845	9 675
Accumulated depreciations at the beginning of the fiscal year	778	778
Accumulated depreciations at the end of the fiscal year	778	778
Book value at the end of the fiscal year	9 067	8 897
Other shares		
Acquisition cost at the beginning of the fiscal year	19	19
Acquisition cost at the end of the fiscal year	19	19
Book value at the end of the fiscal year	19	19
Investments total	9 087	8 917

1 000 €	31.8.2008	31.8.2007
13. CURRENT ASSETS		
External short-term receivables		
Prepaid expenses and accrued income	368	44
Total	368	44
Short-term receivables from Group companies		
Trade receivables	0	273
Loan receivables	715	715
Other receivables	6 635	810
Prepaid expenses and accrued income	14	4
Total	7 364	1 802
Short-term receivables total	7 732	1 846
Prepaid expenses and accrued income consist of:		
Prepaid social security costs	95	26
Tax receivable, income tax	233	0
Other prepaid expenses and accrued income	40	18
Other prepaid expenses and accrued income from Group companies	14	4
Prepaid expenses and accrued income total	382	48
14. SHAREHOLDERS' EQUITY		
Share capital at the beginning of the fiscal year	2 872	2 872
Share capital at the end of the fiscal year	2 872	2 872
Reserve fund at the beginning of the fiscal year	2 228	2 228
Reserve fund at the end of the fiscal year	2 228	2 228
Retained earnings at the beginning of the fiscal year	4 881	4 669
Dividends	-1 149	-574
Retained earnings in the end of the fiscal year	3 732	4 094
Profit or loss for the fiscal year	-176	786
Shareholders' equity total	8 656	9 981
Calculation on distributable assets		
Retained earnings	3 732	4 094
Profit for the fiscal year	-176	786
Distributable assets total	3 555	4 881
The distribution of shareholders' equity by series		
	no.	euros
A-shares (1 vote/share)	1 452 751	1 452 751,00
K-shares (20 votes/share)	1 419 551	1 419 551,00
Total	2 872 302	2 872 302,00
15. CUMULATIVE APPROPRIATIONS		
Depreciation in excess of plan, machinery and equipment	5	0
Total	5	0
16. LONG-TERM LIABILITIES		
External long-term liabilities		
Loans from financial institutions	2 727	0
Total	2 727	0

Notes to the Parent Company's Financial Statements

1 000 €	31.8.2008	31.8.2007
17. SHORT-TERM LIABILITIES		
External short-term liabilities		
Loans from financial institutions	4 273	0
Accounts payable	29	42
Other liabilities	147	104
Accrued liabilities and deferred income	246	194
Total	4 696	340
Short-term liabilities to Group companies		
Accounts payable	0	12
Other liabilities	961	740
Total	961	753
Short-term liabilities total	5 656	1 093
Accrued liabilities and deferred income consist of:		
Accrued employee expenses	203	55
Interest liabilities	14	0
Tax liability, income tax	0	139
Other accruals and deferred income	29	0
Total	246	194
18. CONTINGENT LIABILITIES AND OTHER LIABILITIES		
Leasing commitments to be paid		
To be paid during fiscal year 2008-2009	1 020	83
Later	2 288	270
Total	3 307	353
Granted guarantees by Group companies		
Granted guarantees	38	452
Granted guarantees to secure bank guarantee limits	31 000	24 000
Granted guarantees to secure loans	1 300	1 300
Total	32 338	25 752

Board of Directors' Proposal

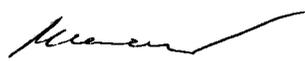
Parent company funds available for distribution of profits total 3,555,313.93 euros, of which 176,360.06 euros represents loss for the fiscal period.

The Board will propose to the Annual General Meeting that a dividend of 0.10 euros per share, amounting to a total of 287,230.20 euros, be paid. The remaining operating profit is to be transferred to the earnings account.

Lahti, November 13, 2008



Seppo Jaatinen
Chairman of the Board



Martti Unkuri



Antti Vaahto
CEO



Mikko Vaahto

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, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with 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 perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 and the Managing Director have complied with the Limited Liability Companies Act.

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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

The audit was performed in accordance with good auditing practice in Finland. 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, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company 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 18, 2008

Ernst & Young Oy
Authorized Public Accountant Firm

Pauli Hirviniemi
Authorized Public Accountant

VAAHTO GROUP
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