Annual Report 2011 2012

VAAHTO

SINCE 1874

Vaahto Group

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

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

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

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

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

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

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

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

VAAHTO GROUP

VAAHTO PAPER TECHNOLOGY

Vaahto Projects
Vaahto Service

VAAHTO PROCESS TECHNOLOGY

Stelzer Mixing Technology
Japrotek Vessels

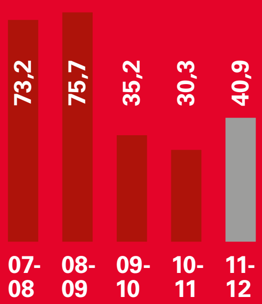
Contents

The Fiscal Year in Brief

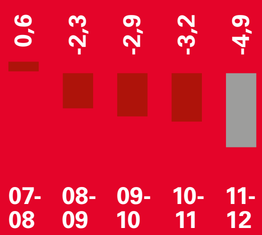
Key Figures

IFRS, MEUR	2011/2012 16 months	2010/2011 12 months
Turnover, continuing operations	**40,9**	30,3
Operating profit or loss, continuing operations	**-4,9**	-3,2
Return on investment ROI%	**-19,6**	-4,2
Equity ratio%	**-7,9**	17,8
Investments	**1,3**	1,9
Number of personnel average	**333**	348

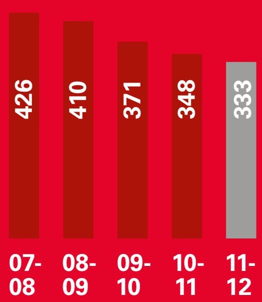
TURNOVER, CONTINUING OPERATIONS MEUR



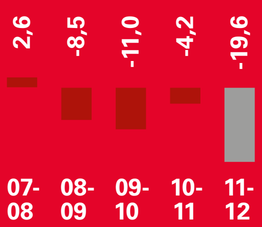
OPERATING PROFIT OR LOSS, CONTINUING OPERATIONS MEUR



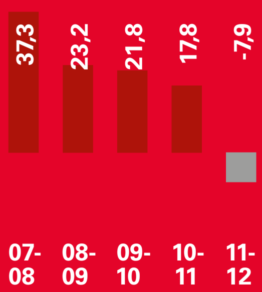
NUMBER OF PERSONNEL AVERAGE



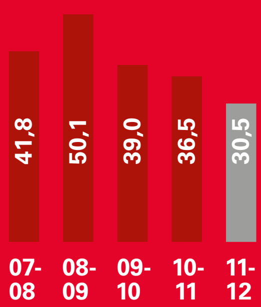
RETURN ON INVESTMENT ROI%



EQUITY RATIO%



CONSOLIDATED BALANCE SHEET TOTAL MEUR



Vaahto Group:
A new boost to business

The extended financial year of 16 months, which is now closing, turned out to be very difficult for Vaahto Group and produced a weak result. The primary reason for the negative result was Vaahto Paper Technology's weak order book and low profitability.

After the end of the period under review, Vaahto Paper Technology Oy signed a preliminary contract for the sale of Vaahto Paper Technology's project-business unit and also the spare-parts and small-project operations belonging to the company's service unit for a new company to be established by the German firm Gebr. Bellmer GmbH Maschinenfabrik.

This divestment was part of our new strategy to focus on those business operations wherein the company sees considerable potential for growth, along with business-group-level synergies.

In the future, Vaahto Paper Technology will consist of the Vaahto Service business unit, representing continuing operations. Roll servicing and coating is among our most important, constantly evolving services in the paper-machine service and maintenance operations unit. One of our strategic points of focus is formed by on-site services provided at customer sites. Our customers include Europe's leading paper mills, where conditions are challenging and the machine base must be highly efficient. In its market area, Vaahto Service is one of the three largest service suppliers.

The uncertain economic situation and changes in global demand for paper have an effect on the paper industry's maintenance needs. At the same time, however, ageing machines still need maintenance, and the outlook for Vaahto Service remains unchanged.

The profitability of our service and maintenance business failed to meet the goals set, and improving it is our most important target, with product development also being vital.

Vaahto Process Technology is composed of the Stelzer Mixing Technology unit, which specialises in agitator technology, and the Japrotek Vessels unit, which focuses on the manufacture of special tanks and vessels for demanding applications. Stelzer Mixing Technology's primary market areas are Central Europe and Asia. As a provider of agitator systems for food-industry applications, Stelzer is in the top three, and we are among the top five in other industries in which our customers operate.

In the tank business, our key strengths are our ability to manage demanding deliveries and capacity to build tank–agitator combinations tailored to customer specifications. Japrotek has delivered pressure vessels for demanding projects such as the nuclear power plant being built in Olkiluoto, Finland. For Vaahto Process Technology, the financial year now closing proved promising. Over the last few years, the division's turnover has been increasing by approximately 15% each year. Industrial agitators and tanks have strong synergy, and our objective is to give the end users complete tank–agitator combinations that guarantee the customer optimal process results. As the new financial year begins, Vaahto Process Technology's order book looks very good, and we expect it to bring improved profitability in 2013.

Despite the general uncertainty in the global economy, we enter the new financial year in a fairly good position. The volume of our outstanding orders ensures a certain rate of capacity utilisation, which enables us to focus on developing and increasing our business. The Group's financing situation remains tight, and we need to continue our efforts to improve the profitability and solvency of Vaahto Group.

I thank all of Vaahto's employees, our partners, and Vaahto Group's shareholders for the work done last year and the strong faith shown in Vaahto Group.

Ari Viinikkala
CEO

Vaahto Paper Technology

Areas of Expertise

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

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

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

Key Figures

MEUR	**2011/2012 16 months**	**2010/2011 12 months**
Turnover, continuing operations	**16,9**	14,6
Profit, continuing operations	**-4,2**	-2,0
Number of personnel average	**211**	223

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

Vaahto Projects

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

Vaahto Service

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

Vaahto Paper Technology's result was weak

Converted into annual terms, Vaahto Paper Technology's turnover in the 2010–2011 financial period decreased, and the result was weak.

Vaahto Group decided to sell the project business belonging to the Vaahto Paper Technology division and the spare-parts and small-project business belonging to the service-business unit. The Group made a preliminary contract with a buyer in January 2013.

The financial year saw continued efforts toward developing service-business branch which, however, fell short of the objectives set for the period.

Vaahto Projects
preliminary sale contract

Vaahto Projects offers an extensive range of products and services for new paper, pulp, and cardboard machines, along with projects for modernisation of existing production lines.

After the review period, Vaahto Paper Technology Oy has signed a preliminary contract for the sale of Vaahto Paper Technology's project-business unit and the spare-parts and small-project operations belonging to the company's service unit, for a new company to be established by the German firm Gebr. Bellmer GmbH Maschinenfabrik.

Vaahto Group and Bellmer GmbH are also in the process of negotiating a collaboration agreement between the project unit being sold and Vaahto's service division, Vaahto Service.

In line with the strategy set out by the Vaahto Group Board of Directors, the business units are being sold as a means of improving Vaahto Group's cash flow during the 2013 financial year.

Key components for paper machines

Vaahto Projects specialises in overhauls of paper-, cardboard-, and pulp-drying machines, which the unit has delivered in approximately 40 countries, all over the world.

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

The unit employs its own solutions for dilution-controlled headboxes, formers, shoe presses, film sizing and coating units, centre reels, and other key components of paper machines and pulp-processing equipment. In addition to machinery, the solutions tailored to the needs of our international customers often include installation supervision, training, and full startup services. Many of our solutions are protected by patents.

Among our leading products is the dilution-controlled headbox. The headbox is the most important wet-end component in paper machines. It determines most of the quality characteristics of the finished product. Vaahto is one of the leading headbox suppliers in its market areas. During the financial period now ending, Vaahto received its 100th headbox order.

Technological expertise, excellent cost-to-quality ratio, and speed

Vaahto Projects is a medium-sized service provider whose technological expertise is among the strongest in the field. Our key strengths in international competition are technology, cost-efficiency, the ability to tailor solutions to customer needs, and the speed and agility of a medium-sized organisation.

Our products represent the best available technology and provide our customers with an excellent cost-to-quality ratio. Thanks to in-house manufacturing and product-development capacity, we can give our customers the tailored solutions they need.

Vaahto holds a significant portfolio of patents that includes technical innovations for headboxes, shoe presses, centre reels, and pulp-grading solutions. Vaahto Projects currently has 137 patents and 19 pending patent applications.

A challenging market situation

The main markets of Vaahto Projects are Finland, Sweden, Russia, and China. In Asia, new markets have opened in Indonesia and Korea. Our operations also target the United Kingdom, the United States, Eastern Europe, Turkey, and the Middle East. Vaahto Projects has made deliveries around the globe, in nearly 40 countries.

Our customers include many of Europe's leading paper and cardboard mills, where conditions are challenging and the existing machine base is highly efficient. Results of our customer-satisfaction surveys have been good.

Vaahto Project's market situation was very challenging during the 2011–2012 financial period. European demand was weak because of the continuing economic problems in the euro area. Despite the weak market situation, Vaahto Projects was able to maintain its position in Finland and China. In Russia, demand for overhauls of existing production lines was moderate.

Vaahto Projects underwent structural changes throughout the year, which also had an impact on the unit's day-to-day operation. The market situation also required the company to cut costs and make some temporary layoffs.

Major deliveries to Asia

During the financial period now ending, Asia Paper Chungwon ordered dilution-controlled headbox technology for its cardboard machine PM1 in Korea. The modernisation project improves the quality of the end product and the runnability of the machine. Vaahto earlier completed a similar order for Asia Paper Chungwon's PM3.

Also, a new dilution-controlled headbox was delivered to Henan Tianbang Group Paper Co. Ltd's fine-paper mill in China. The Vaahto HQZ+ headbox represents cutting-edge engineering and the latest technology for control of fibre orientation.

The four dilution-controlled headboxes at the cardboard-production lines of the Chinese Dongguan Jianhui Paper Co. Ltd and Dongguan Jinzhou Paper Co. Ltd were started up during the period under review.

We also delivered two headboxes, a wire section, a calendering machine, and a film size press to cardboard machine PM7 at Fajar Paper in Indonesia. A decommissioned sack-paper machine acquired by Fajar was repurposed for a production line that produces raw materials for corrugated cardboard boxes, and a shoe press was installed for Fajar Paper's paper machine PM2.

In addition, Kievsky Cardboard and Paper Mill ordered a cardboard-machine overhaul for its Obukhov mill in Ukraine.

We are also working on modernisation of the Swedish Södra Cell's drying machine TM5 at the Mönsterås pulp mill, to increase production and improve runnability.

In Finland, several smaller projects were ordered by Stora Enso's mills in Inkeroinen and Imatra.

Continuing tight competition

The market competition continues to be demanding. Challenges faced by the print media are starting to show in falling demand for print paper. In contrast, growth can be seen for some product categories: cardboard and soft tissue products. Cardboard is set to maintain its standing as the ecological choice among packaging materials. The demand for soft tissues and hygiene products is increasing, especially in developing countries.

In Russia, substantial forest reserves guarantee the availability of raw material for the paper industry. Domestic demand in that large country also requires overhauls to production machines. Project-management expertise is also in demand in the Russian market.

In the Nordic countries, the ageing but still efficient machine base creates opportunities for modernisation projects for rebuild experts.

Products and services of Vaahto Projects

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

Vaahto Projects:

- The most important market areas are Finland, Sweden, Russia, and Asia.
- Key success factors are technological expertise, an excellent cost-to-quality ratio, tailored solutions, and flexibility.
- Vaahto Projects has received its 100th headbox order.
- The operations will soon be sold (a preliminary contract has been made).

Vaahto Service
met unchanged demand

Vaahto Service supports investments and ensures uninterrupted operation of production lines in the paper, cardboard, and pulp industries by providing technology solutions for maintenance and spare-parts services.

The unit's areas of special expertise include roll servicing and coating, on-site services, optimisation and measurement services, condition inspections, spare-parts services, supply and installation of components and wearing parts, small-scale modernisation projects, relocation of machines and equipment, and maintenance contracts of varying size and scope.

Emphasis on on-site services

Vaahto Service's maintenance, coating, and analysis services cover all process equipment and systems from short circulation elements of paper and board machines to winders. Roll servicing and coating is among our most important, constantly evolving services. We work with all coating methods from rubber, polyurethane, and composite materials to thermal coating. One of our strategic points of focus is formed by on-site services provided at customer sites.

Vaahto Service works to boost the productivity of its customers' operations and to increase the stability, quality, and runnability of their processes. Our analysis, maintenance, and coating services help our customers minimise interruptions to production and refusal rates; save water and energy; and extend the service life of paper, pulp, and cardboard machines.

Speed and flexibility

Among Vaahto Service's greatest assets is the ability to provide services quickly, flexibly, and cost-efficiently. Other key factors in our success are our broad range of services, high product quality, and fast delivery. Our products and services represent the best available technology. Our customers include Europe's leading paper mills, where conditions are challenging and the machine base must be highly efficient. As a mid-sized operator, we are able to react quickly to customers' needs.

We develop our operations constantly, using the Lean Manufacturing method. Our aim is always to produce maximum benefit for the customer, focus on what is essential, and eliminate the superfluous. We follow the 5S model by systematising our operations, standardising best practice, cleaning up and removing what is unnecessary, and tracking the results.

A place in the top three

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

Vaahto Service's main geographical market areas are Finland, Sweden, Norway, the United Kingdom, and Russia, and the company has established a solid position as one of the top three maintenance service providers in each of these countries. Our biggest domestic customers include Stora Enso, UPM, Metsä Board, and Mirka.

New and growing markets include China, Eastern Europe, and South America. China has a substantial base of installed machines and considerable demand for spare parts and maintenance services. In South America, the demand for maintenance-service expertise exceeds the supply. Demand for roll-coating and maintenance know-how is high in Russia too.

An unchanged outlook for Vaahto Service

The uncertain economic situation and changes in global demand for paper have an effect on the paper industry's maintenance needs. At the same time, however, ageing machines still need maintenance; therefore, the demand for servicing is set to continue with relatively little change.

Our on-site service concept enables us to utilise strategic partnerships in the development of our customers' production lines. Vaahto Service's extensive service offering and ability to operate in several market areas balance the risks caused by economic fluctuation.

Demand for cardboard products remains high in packaging applications. Accordingly, the demand for cardboard-machine maintenance and roll-coating services can be expected to remain relatively unchanged in all market areas. Growth is anticipated especially in the Russian market.

Products and services of Vaahto Service

- roll maintenance and coating
- on-site services at customer sites
- optimisation, measurement and condition surveys
- spare parts, components and wearing parts
- small modernisation projects
- relocation of machinery and equipment
- maintenance contracts of varying size and scope

Vaahto Service's

- Markets include Nordic countries, the United Kingdom, Russia, Eastern Europe, China, and South America.
- Main success factors are speed, flexibility, and cost-efficiency.
- Strategic points of focus are on-site services provided at customer sites.

Vaahto Process Technology

Areas of Expertise

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

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

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

Key Figures

MEUR	**2011/2012 16 months**	**2010/2011 12 months**
Turnover, continuing operations	**24,1**	15,7
Profit, continuing operations	**-0,7**	-1,2
Number of personnel average	**122**	125

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

Stelzer Mixing Technology

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

Japrotek Vessels

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

Vaahto Process Technology order book improved

Scaled to annual figures, Vaahto Process Technology's turnover increased from the level of the reference period but the business result remained negative.

Market situation in the agitator business was good, and the stock of orders continued growing.

Market situation in the tank sector improved toward the end of the financial period. At the end of the financial period, the order book was strong.

Stelzer Mixing Technology experienced growth in sales

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

Our agitator solutions are used for homogenising mixtures, mixing solid suspensions and gas liquid mixtures, mixing insoluble fluid substances, and achieving the desired mass - and heat transfer.

Our services include manufacture, assembly, commissioning, and testing, as well as maintenance and spare-part services for agitator systems and equipment. The unit's global customer support provides our customers with all the support they need.

Our customers include the food processing industry, the chemical industry, the biogas industry, the sewage treatment industry, the paper and pulp industry, the mining and hydrometallurgy industries, biotech and the pharmaceutical industry.

Process know-how, quality, technology, experience, and reliability

Our success is built on our solid technical expertise, high-quality work, many years of experience, precision, and reliability. Successful deliveries of agitator solutions and of maintenance and analysis services for our customers' demanding applications require cutting-edge technical expertise and long-term experience.

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

The skills of our experienced staff and our product development work combine to yield world-class technology expertise. Computational Fluid Dynamics analyses (CFD studies) enable us to simulate compositions of mixtures; develop and apply process flow models; and analyse turbulence, energy-efficiency, and system improvement opportunities. We can optimise the mixing process by means of our mixture analysis tools without interrupting production.

Our competitive advantages also include high-quality, reliable, and timely deliveries.

Increased investments by the chemical industry

Stelzer Mixing Technology's primary market areas are Central Europe and Asia. Over 60 per cent of our turnover consists of direct or indirect export sales. As a provider of agitator systems for food-industry applications, we are in the top three, and we are among the top five in other industries in which our customers operate.

In early 2012, the demand for agitator systems fell from the level of the previous year, but a market upturn occurred in September 2012, and orders started accumulating. Our customers needed larger agitator systems than before.

The highest growth took place in the chemical industry, as companies launched investments they had been postponing earlier. Our largest order came from an Asian chemical industry customer with whom we had earlier co-operated to a smaller extent. The Chinese market continued to experience profitable development. We supplied agitators to, for instance, companies in the polymer industry that produce raw materials for textiles, packages and computers, etc.

The agitator investments of the biogas industry remain low in Germany. Also the investment needs in the food industry were lower than in the year before. In general, the demand for food products remains fairly steady, so we can expect the industry to make investments in the future.

Continued market growth in the chemical industry

Although the world market situation affects the demand for Stelzer Mixing Technology's products, there is always a market need for agitator systems. The broad base of our clientele balances the negative impact of the economic situation.

The demand for food products continues at a fairly steady level regardless of the economic situation. In Asia, for example, the demand for dairy products and beverages is increasing in the wake of spreading Western consumption habits.

In Germany, the biogas-plant agitator investments already made satisfy the current demand. A growth track is, however, anticipated to emerge in other European countries in the future.

The chemical industry is undergoing renewal and seeking innovations to meet customer needs. The German government has decided to close its nuclear power plants, and other sources of energy are now being sought. The development of electric cars, rechargeable battery packs, and batteries of various types continues, and agitator systems are needed for the solutions used in their production. There is a constant drive to develop new products from waste and recycled materials. For instance, in Russia, the use of biochemical reactions in waste reuse is being studied.

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

Products and services of Stelzer Mixing Technology

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

Stelzer Mixing Technology's

- Primary customers are the food processing industry, biotech and pharmaceuticals , the environmental, and the chemical industry.
- Important market areas are Central Europe, the Nordic region, and Asia.
- Success factors are technology, quality, experience, and reliability.
- Highest growth took place in the chemical industry.

Products and services of Japrotek Vessels

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

Japrotek Vessels

- Serves actors in the paper, pulp, and process industries as well as the metallurgy, energy, and chemical industries
- Can cite quality, capacity to supply products for demanding applications, and tank–agitator combinations as key strengths
- Has the Nordic region as its primary market area
- Received an important order from South Africa.

Japrotek Vessels order book improved

Japrotek Vessels designs and manufactures tanks for demanding applications. Our products include pressure vessels, columns, reactors, heat exchangers, and large tanks assembled on site.

Japrotek's key strengths are our ability to manage demanding deliveries and capacity to build tank–agitator combinations tailored to customer specifications. Our customers include the paper, pulp, metallurgy, energy, and chemical industries, alongside players in other process-based industries.

In addition to design and production of traditional stainless and acid-proof steel components, we specialise in the design and construction of challenging structures and applications that require special materials, such as titanium and nickel alloys.

Our products include pressure vessels for nuclear power plants, titanium-structure pressure-leaching autoclaves for the hydrometallurgy industry, and large nitric acid absorption columns for the fertiliser industry.

Japrotek has delivered demanding pressure vessels for projects such as the nuclear power plant being built in Olkiluoto, Finland.

Industrial agitators and tanks have strong synergy, and our objective is to give the end users complete tank–agitator combinations that guarantee the customer optimal process results.

Operations guided by international standards

Pressure vessels are used for storing gases and liquids at pressures that exceed atmospheric pressure. The design and manufacture of pressure vessels is highly regulated. Japrotek's pressure-vessel permits and standards-compliance certificates cover key markets around the world.

Our operations are ISO 9001 certified and comply with industry standards including the European Pressure Equipment Directive (PED), the US ASME BPVC (American Society of Mechanical Engineers Boiler and Pressure Vessel Code), and the ISO 3834 welding standard. Since February 2012, we have also implemented the ISO 14001 environmental standard.

Successful management of standards and permits requires constant training of our personnel. The flawless operation of our systems is also auditable by our customers.

An important order from South Africa

Our key market areas are Finland, Sweden, and Norway, but we also deliver tank–agitator combinations and heavy-duty pressure vessels globally.

Despite the challenging market situation, the company's high standard of excellence, well-implemented quality-management systems, and good references won Japrotek Vessels important orders in 2012. The good work situation enabled us to avoid competition involving large discounts.

In August 2012, Japrotek received an important order for the planning, manufacture, and installation of eight large tank structures for Sasol Technology in South Africa. The engineering and manufacturing work started in autumn 2012, and the final tanks will be delivered to the customer in September 2013. The tanks are manufactured at Japrotek's production facilities in Pietarsaari, Finland. The order is part of a tar-separator replacement project implemented and managed on Sasol Technology's behalf by Fluor SA.

The past financial year also saw us deliver transformer tanks to ABB, operating in Norway's offshore industry, and a column to a Kemira plant in Uruguay. Kemira has also ordered two reactors for its facility in Pori, Finland, with delivery in 2013.

A solid order book for the new financial year

Europe's financial crisis is still holding back industrial demand. On the other hand, the long period of uncertainty has dammed industry ventures and created pressure for substitute investments.

For 2013, the Japrotek Vessels order book shows significant improvement from previous financial periods, and our balance outlook is favourable.

The order placed by Sasol Technology will keep the Pietarsaari workshop operating at full capacity for the first quarter of 2013.

Expertise, quality, ability to focus on our customers' processes, and our good references will remain our strengths in international competition.

Personnel:
Continuous development

Vaahto Group's human resource policy is guided by the group's strategic business goals.

Skilled and motivated workers are a key factor for successful provision of customer services and implementation of customer projects. Job satisfaction, continuous development, and safety of our expert personnel form the cornerstone of our business operations.

Vaahto Group employed 346 personnel at the beginning and 324 at the end of the financial year, with 72 of them working in subsidiaries outside Finland. The average number of personnel during the 2011–2012 financial year was 333. The previous financial year's figure was 348.

The group employed 184 production workers and 140 office staff and supervisors (the latter making up 43% of the staff) at the end of the financial period under review. In addition to workshop operations, a significant amount of the company's operation consists of planning work. Women account for about seven per cent of Vaahto Group employees. The average age of employees at the end of the financial year was 48 years. The average duration of employment was 16 years – an indicator of continuity and employee satisfaction.

Health and safety are employee rights

Vaahto Group's organisational structure is undergoing great changes. Structural changes are being made to reach business objectives and, as a result, improve job satisfaction.

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

Health and safety form an important part of occupational well-being. The main health and safety risks in the industries where Vaahto Group operates are created by the use of chemicals, heavy machinery, and equipment. Good planning of the work, thorough briefing of workers, and the use of protective equipment are important preparations. Industrial-safety committees perform regular surveys of workplaces in order to identify potential risks. In workshops, monitoring the safety of all operations is part of daily work. Any deviations observed are recorded, and the measures taken to correct them are tracked. We work in close collaboration with occupational-health services to prevent lengthy sick leaves and to determine the causes.

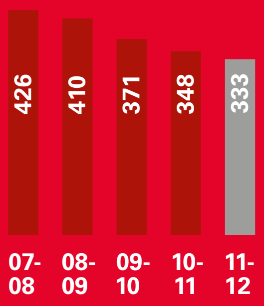
Training improves motivation

Continuous training and development of our personnel support reaching of the group's business goals and quality objectives. The most important training objective is to improve the personnel's information-technology and management system skills. Other points of focus include continuous development and improvement of processes, project work, and overall levels of quality and service, alongside forming of a deeper understanding of our customers' operations. In addition, employee expertise has been developed via cross-training of individual employees to perform different tasks in the workshop. Variation and changes in one's tasks also contribute to motivation.

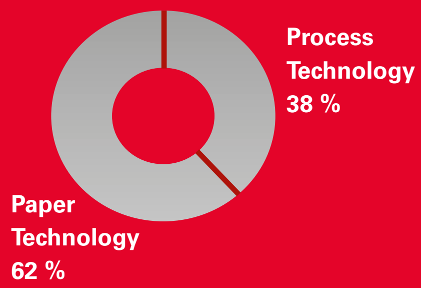
Vaahto Service has initiated a Lean Manufacturing training programme that emphasises orderliness, safety, and the removal of unnecessary clutter. The programme has improved the unit's team spirit.

Our operations depend on collaboration and communication. The procedures and the personnel of our various units are well known within the group. Collaboration is straightforward, and best practices are shared across unit boundaries.

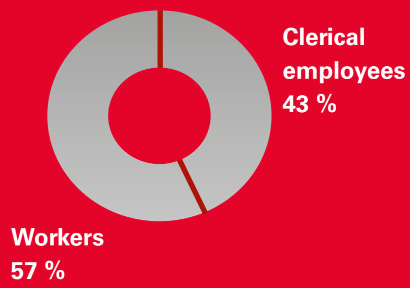
PERSONNEL AVERAGE



PERSONNEL AVERAGE IN THE BUSINESS SEGMENTS 2011–2012



DIVISION OF PERSONNEL 2011–2012



Reason for professional pride

Ulf Sarelin (left) and **Stig Sandström** (right) are both sales managers at Japrotek. They joined the company back in 1980. Sarelin is an engineer by training, Sandström a technician. Thanks to their interesting jobs and the team spirit in the department, they have enjoyed their work at Japrotek.

Sales managers travel all over the world on business. Most of the company's projects are in Europe, but recently South Africa too has become familiar. Sarelin and Sandström have good reason to be proud of their work and the products they have sold. For winning of contracts, the balance between price and quality has to be exactly right – and the service must be flawless.

The most important projects of the last few years have been the pressure-vessel delivery for the Olkiluoto 3 nuclear power plant in Finland and the nitric-acid absorption columns delivered to the German company Uhde GmbH in Egypt, Indonesia, and Portugal. Japrotek is the biggest Finnish supplier of process equipment to date on the Olkiluoto nuclear power plant construction site.

Tanks and agitators are not serial-production products: all deliveries are tailored to the customer's needs. Japrotek's clientele is extensive, with customers ranging from paper mills to companies in the medicine and chemical industries. Each project requires close collaboration, detailed analysis of the customer's processes, and the building of trust in order to reach the objectives set.

A satisfied customer is always the ultimate objective of Sarelin and Sandström – and the best possible reference for future projects.

Quality & environment:
Policies guide operations

Vaahto Group follows the principles of responsible business operations. Continuous development of our activities and our responsibility for quality and the environment are important factors in competitive and responsible business operations.

Vaahto Group has a group-level ISO 9001 quality-management system and ISO 14001 environmental management system certification. The group-level certification system was adopted in 2007, and the certificates have been issued by Inspecta Sertifiointi Oy. Certification was granted in 2012 for the next three years.

In addition to the certification agreement, Vaahto Group has an extensive service agreement in place with Inspecta to guarantee the highest level of service for certification, auditing, and testing services. Group-level audits are performed in line with an annual plan.

Quality systems responding to customer demand

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

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

Our key strengths are continuous product development and excellent product quality. Vaahto Group holds a considerable patent portfolio, and the majority of our delivery projects also involve product-development tasks. We develop our products in collaboration with our customers and international partners.

Our customers perform audits to confirm that our operations meet their requirements. Results of customer surveys have been good. Our customer satisfaction is best proved by the number of new orders received from existing customers.

ISO 14001 environmental certification for Japrotek

The objectives of our environment-related policy are to minimise the environmental impact of our operations and to take environmental factors into account when developing the processes of our customers. An ISO 14001 environmental management system was implemented at Japrotek, a manufacturer of tanks and pressure vessels, in 2012. The system had been adapted by Vaahto Service earlier.

We aim to minimise our environmental impact by means of certification, application of standards, and sound operation guidelines. In 2008, Vaahto Group entered into an energy-efficiency agreement under which the group aims to improve its operations' energy-efficiency by 10% before the end of 2016.

The positive environmental effects of our operations include improved energy-efficiency of our customers' processes. Energy-efficiency can be increased through modernisation of machines to improve their efficiency and extend their service life, reduction in the refuse rate, and avoidance of downtime and the associated energy-intensive restarting of production lines.

Quality and environmental management systems in operation

The ISO 9001 quality-management system is applied in all business units. The ISO 14001 environmental management system is used at both Vaahto Service and Japrotek.

Vaahto Group's

Mission

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

Vision

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

Strategy

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

Board of Directors

Chairman **Reijo Järvinen**, b. 1948, M.Sc. (Chem.)
Attorney Krogerus Oy, Senior Advisor
Member and Chairman of the Vaahto Group Plc Oyj Board of Directors 2010 –
Previous work experience:
Finnvera Oyj, regional director
Most significant positions of trust:
Delipap Oy, member of the Board
Festivo Finland Oy, Chairman of the Board
Jomet Oy, member of the Board
Konepaja Laaksonen Oy, member of the Board
Lahden Autokori Oy, member of the Board
Suomen Kotikylmiö Oy, member of the Board
Attendance to the Board meetings 2011-2012: 31/31

Vice-Chairman **Rainer Häggblom**, b. 1956, M.Sc. (For.), M.S.Sc. (Econ. and Business Adm.)
Vision Hunters Ltd. Oy, chairman of the Board and founder
Member and vice-chairman of the Vaahto Group Plc Oyj Board of Directors since 2010
Previous work experience:
Pöyry Forest Industry Consulting Oy, CEO and chairman of the Board
Most significant positions of trust:
The Forest Company Ltd., chairman of the Board
Attendance to the Board meetings 2011-2012: 30/31

Sami-Jussi Alatalo, b. 1971, Master of Laws
Member of the Vaahto Group Plc Oyj Board of Directors since 19 June 2012
Ultivista Group, CEO
Previous work experience:
Ultivista Group, CFO
Nordea Group, managerial and specialist positions in Corporate Banking
Most significant positions of trust:
Westpro cc Oy, member of the Board
Attendance to the Board meetings 2011-2012: 16/16

Topi Karppanen, b. 1956, M.Sc. (Tech.),
Coninor Oy, Managing Partner
IMP Teollinen Markkinointi Oy, Managing Partner
Previous work experience:
Larox Oyj and Larox Group: President and CEO, 2000 – 2009
Larox Oyj and Larox Group: Executive Vice President, Marketing and Sales, 1991 – 2000
Attendance to the Board meetings 2011-2012: 31/31

Mikko Vaahto, b. 1963, with vocational qualifications in business and administration
Member of the Vaahto Group Plc Oyj Board of Directors since 1994
Attendance to the Board meetings 2011-2012: 31/31

Management and Auditors

CEO

Ari Viinikkala
b. 1967, M.Sc. (Econ.)
Acting CEO of Vaahto Group Plc Oyj since 4 April 2012
CFO of Vaahto Group Plc Oyj since 1 February 2012
Previous work experience:
Dynea, SVP Finance Europe
GS-Hydro Group, Director, Corporate Controller
KONE Group, financial management positions in Finland and abroad

Group management team

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

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

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

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

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

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

Auditors

Ernst & Young Oy
chief auditor
Panu Juonala,CPA

Corporate Governance Statement

FOR THE 2011–2012 FISCAL YEAR

Applicable regulations

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

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

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

Administration of Vaahto Group

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

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

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

Annual General Meeting

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

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

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

Board of Directors

Activities of the Board

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

Some of the key responsibilities of the Board are to

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

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

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

The Board meets regularly, once a month, and at other times, if necessary. During the 2011–2012 fiscal period, the Board met 31 times. There was 99% attendance by the Board members.

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

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

Composition of the Board

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

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

The Annual General Meeting of 12 December 2011 confirmed that the Board shall have four members. Rainer Häggblom, Reijo Järvinen, Topi Karppanen and Mikko Vaahto were elected for the Board. The Board elected Reijo Järvinen as chairman and Rainer Häggblom as vice-chairman.

The Extraordinary General Meeting of 19 June 2012 confirmed that the Board shall have five members instead of the previous four members. In addition to the previous members of the Board, Sami Alatalo was elected to the member of Board for the next mandate that ends in the end of the next Annual General Meeting.

Information about Board members

Presented in the item Board of Directors on page 22.

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

Compensation of Board members

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

The Annual General Meeting of 12 December 2011, decided to pay Board members the following attendance fees as annual compensation amounts: 26,000 euros to the CEO and 19,000 euros to each of the members.

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

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

Fees paid to Board members in the 2011–2012 financial year for Board duties:

Reijo Järvinen, chairman	34,667 euros
Sami Alatalo	9,500 euros
Rainer Häggblom	25,333 euros
Topi Karppanen	25,333 euros
Mikko Vaahto	25,333 euros

Board committees

The Board has no committees.

Supervisory Board

The company has no Supervisory Board.

CEO

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

Ari Viinikkala has been appointed as acting CEO of Vaahto Group Plc Oyj since 4 April 2012. Anssi Klinga served as CEO until 4 April 2012.

Information about the CEO

Presented in the item Management and auditors on page 23.

Business organization

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

Information about the members of the Group's management

Presented in the item Management and auditors on page 23.

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

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

The Group currently has no stock option plan.

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

Salaries and fees paid to the CEO for the 1 September 2011 – 31 December 2012 fiscal year:

Anssi Klinga until 4 April 2012
192,157 euros

Ari Viinikkala since 4 April 2012
140,696 euros

Body responsible for the duties of the audit committee

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

Internal monitoring, risk management and internal audit

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

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

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

Insider administration

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

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

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

Audit

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

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

The Annual General Meeting of 12 December 2011, selected public auditing firm Ernst & Young Oy as the company's auditor, with Panu Juonala, CPA, as chief auditor.

Auditors' fees from the Group in the 2011–2012 fiscal period totaled 213,221 euros, of which audit fees accounted for 135,885 euros, with consulting and other fees accounting for the remaining 77,336 euros.

Information

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

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

Shares and shareholders

Share capital

Vaahto Group Plc Oyj's registered and fully paid share capital of 31 December 2012 was €2,872,302, and the number of shares in the company was 3,977,360.

In deviation from the pre-emptive subscription right of the current shareholders, the Vaahto Group Plc Oyj Board of Directors decided on 19 April 2012 to issue an offering of 917,602 new shares in the company. In total, 600,000 shares were issued for subscription by a restricted group of selected investors, while 317,602 shares were issued for the minority shareholders of AP-Tela Oy as part of a share-exchange arrangement completed on 19 April 2012. No shares were offered for public subscription. The Vaahto Group Plc Oyj Board of Directors decided to approve the new subscriptions and decided on the share issue in line with the subscription commitments made by the investors and the agreement on the share-exchange arrangement. In accordance with the share-issue decisions made by the Board of Directors on 19 April 2012, the new shares were entered in the trade register on 23 April 2012.

The Board of Directors also decided, on 2 December 2012, to issue 73,892 new shares in the company in a special rights issue to Mikko Laakkonen. The new shares were entered in the trade register on 18 December 2012.

As a result of the share issues, the total number of shares in Vaahto Group Plc Oyj now stands at 3,977,360. All shares entitle the holder to one vote and equal rights in the company. The share issues did not affect the company's share capital.

The company's stock symbol is WAT1V, and its ISIN code is FI0009900708.

Listing of shares

Vaahto Group Plc Oyj is listed on the NASDAQ OMX Helsinki exchange.

Share trends and trade statistics

In total, 137,241 (3.5%) of Vaahto Group Plc Oyj's shares were traded during the 2011–2012 financial year. The share price was €1.60 at its lowest and €5.92 at its highest, the average share price was €3.65, and the financial year's closing price was €1.78. The total market value of the company's shares on 31 December 2012 stood at €7.1 million. The company has a liquidity agreement with Nordea Pankki Suomi Oyj.

The Board's authorisations

The General Meeting of 12 December 2011 authorised the Board of Directors to decide on the issuing of new shares in one or more instalments. The maximum number of new shares that could be issued was 1,000,000. The proposed authorisation corresponded to a maximum of approximately 33% of all shares in the company. This authorisation entitled the Board to decide on all terms of the share issue, including the right to deviate from the shareholders' subscription privilege.

The authorisation was valid until 31 December 2012.

Distribution of dividends

The Board of Directors' proposal to the General Meeting of 10 April 2013 is that no dividend be distributed and that the retained earnings be deposited in the profit account.

Shareholders and the management's ownership

At the end of financial year 2011–2012, on 31 December 2012, Vaahto Group Plc Oyj had 337 registered shareholders. On that date, there were 58,924 shares under administrative registration. Members of the Board of Directors owned, in all, 546,248 shares (13.7% of the company's votes) as of 31 December 2012. These holdings also include shares in companies under the parent company's control and shares owned by minors under guardianship. Board members or managers of the Group or its subsidiaries have no holdings or special rights based on the company's share-based incentive systems.

Information for shareholders

The Annual General Meeting

The Vaahto Group Plc Oyj Annual General Meeting will be held on Wednesday, April 10, 2013, starting at 13.00 at Sibelius Hall, Ankkurikatu 7, in the city of Lahti.

Every shareholder who on March 27, 2013, is registered as a shareholder in the list of shareholders kept by Euroclear Finland Ltd. has the right to participate in the Annual General Meeting.

All shareholders who wish to participate in the Annual General Meeting must register no later than on Friday April 5, 2013, before 4:00pm. Registration can be done in person or via an authorized person by letter to Vaahto Group Plc Oy, Laiturikatu 2, P.O. Box 5, FI-15141 Lahti, Finland, or by telephone call to Leena Junninen at +358 20 1880 356. Registration letter must arrive before the registration deadline.

The documents pertaining to the company's financial statement will be on view at the company's headquarters from March 20, 2013.

Dividend

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

Financial information

Vaahto Group Plc Oyj will publish during the fiscal year 1.1.-31.12.2013 only one interim report per June 30, 2013 covering six months of operations. The Interim Report will be published on August 23, 2013.

Instead of the interim reports for the first three and nine months of the accounting period, Vaahto Group Plc Oyj will disclose the interim management statements during both the first and the last half-year of the fiscal period. The Interim Management Statement for Q1 will be published on May 16, 2013 and for Q3 on November 14, 2013.

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

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

Exchange reports and bulletins

The following list includes all Vaahto Group Plc Oyj's stock exchange releases and stock exchange announcements published in fiscal period 1.9.2011–31.12.2012.

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

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

2011

9/1/2011	Vaahto Group lowers its Fiscal Year 2011-2012 outlook
9/6/2011	Vaahto Group selected to rebuild Södra Cell Mönsterås pulp drying machine in Sweden
9/7/2011	Vaahto Group's Annual Summary 1.9.2010 - 31.8.2011
11/11/2011	Vaahto Group's Financial Statement release for 1.9.2010 - 31.8.2011
11/18/2011	Invitation to the Annual General Meeting of Vaahto Group Plc Oyj
11/23/2011	Vaahto Group's Annual Report from Fiscal Period 19.2010 - 31.8.2011 is published
12/12/2011	Vaahto Group Plc Oyj Annual General Meeting December 12, 2011

2012

1/13/2012	Vaahto Group Interim Management Statement for September 1, 2011 - January 13, 2012
2/1/2012	Ari Viinikkala appointed CFO of Vaahto Group
4/4/2012	Vaahto Group has appointed Ari Viinikkala as acting CEO of Vaahto Group
4/12/2012	Vaahto Group Interim report for 1 September 2011 - 29 February 2012
4/18/2012	Vaahto Group Plc Oyj contemplates a Directed Share Issue to a Selected Group of Investors
4/19/2012	Acquisition of the Shares in AP-Tela Oy
4/19/2012	Directed Share Issue of Vaahto Group Plc Oyj to Selected Investors and the Minority Shareholders of AP-Tela Oy
4/19/2012	Notification on a Change in Holdings referred to in Chapter 2, Section 10 of the Securities Market Act
4/23/2012	917 602 New Shares of Vaahto Group Plc Oyj registered with the Trade Register
4/23/2012	Publication of the Listing Prospectus concerning 917 602 New Shares issued by Vaahto Group Plc Oyj
4/23/2012	Invitation to the Annual General Meeting of Vaahto Group Plc Oyj
6/19/2012	Vaahto Group Plc Oyj Extraordinary General Meeting June 19, 2012
6/29/2012	Vaahto Group Interim Management Statement for September 1, 2011 - June 29, 2012
8/6/2012	Vaahto Group has appointed Peter Hutton as Service Business Director
8/28/2012	Japrotek Oy Ab, a subsidiary of Vaahto Group, will deliver tank structures to South Africa
10/10/2012	Vaahto Group Interim report for 1 September 2011 - 31 August 2012
11/28/2012	Vaahto Group has completed the financial negotiations
11/29/2012	Vaahto Group has appointed Ari Viinikkala as CEO of Vaahto Group Plc Oyj
12/3/2012	Directed Share Issue of Vaahto Group Plc Oyj
12/5/2012	Publication of the Financial Statements and the Interim Reports of the Vaahto Group
12/11/2012	Subscription of the shares issued in the directed share issue by Vaahto Group Plc Oyj
12/18/2012	73 892 New Shares of Vaahto Group Plc Oyj registered with the Trade Register

Financial Statements 2011 2012

VAAHTO

SINCE 1874

Contents

Review by the Board

FOR THE 1 SEPTEMBER 2011 – 31 DECEMBER 2012 FINANCIAL PERIOD

DEVELOPMENT OF BUSINESS OPERATIONS

Turnover from Vaahto Group's continuing operations for the financial year closing in December 2012 was 40.1M EUR (comparative: 30.3M EUR) and the operating loss from continuing operations 4.9M EUR (3.2M EUR). Scaled to annual figures, the company's turnover showed a 1% increase from the reference period, but the operating result was clearly weaker. The primary reason for the negative result was Vaahto Paper Technology's weak order book and low profitability. The Group's outstanding orders stood at 24.8M EUR (22.4M EUR) at the closing of the financial year. The reference period is 12 months, while the financial period now ending is 16 months.

Vaahto Group Plc Oyj's Extraordinary Meeting of Shareholders of 19 June 2012 approved an amendment to the company's bylaws whereby the company's financial year changes to run from 1 January to 31 December. For this reason, the duration of the financial period now being closed is 16 months (1 September 2011 to 31 December 2012).

VAAHTO PAPER TECHNOLOGY

Vaahto Paper Technology's turnover from continuing operations was 16.9M EUR (14.6M EUR) and the net result an operating loss of 4.2M EUR (loss of 2.0M EUR). Converted into annual terms, Vaahto Paper Technology's turnover decreased by 13%, and the financial year's result was very weak.

Therefore, the Group decided in December 2012 to sell the project business belonging to the Vaahto Paper Technology division and the spare-parts and small-project business belonging to the service-business unit. The Group made a preliminary contract with a buyer in January 2013, and the transaction is expected to be completed by the end of the first quarter of 2013. Because the sale was considered highly likely at the closing of the financial year, assets and liabilities belonging to the project business are included on the balance sheet as long-standing assets on sale and related debts. In the profit and loss statement, the project business is presented as a terminated function. Also, reference data from the 2010–2011 financial period included in the profit and loss statement have been adjusted accordingly. The business loss from terminated functions in the course of the financial period under review came to 1.6M EUR (the comparative figure was a gain of 2.0M EUR).

The most significant new order during the period under review was for modernisation of the pulp dryer at the Södra Cell Mönsterås pulp mill.

The financial year also saw continued efforts toward developing Vaahto Paper Technology's service-business branch. Service and maintenance operations, however, fell short of the objectives set for the period.

VAAHTO PROCESS TECHNOLOGY

Vaahto Process Technology's turnover was 24.1M EUR (15.7M EUR) and net result an operating loss of 0.7M EUR (an improvement from the previous period's operating loss of 1.2M EUR). Scaled to annual figures, turnover increased by 15% from the level of the reference period. Though up 0.5M EUR from that of the reference period, the business result remained negative. The division's negative operating result was principally caused by the low profitability of the tank business in the first eight months of the financial year.

Vaahto Process Technology's market situation in the tank sector was weak but improved substantially toward the end of the financial period. In August 2012, Japrotek Oy Ab received an important order for the planning, manufacture, and installation of eight large tank structures for Sasol Technology (Pty) Limited in South Africa.

As the end of the financial period approached, Japrotek's order book was very strong, making the outlook for the next financial year good.

Vaahto Process Technology's market situation in the agitator business was good, and new orders were received steadily over the course of the period. The business result of the agitator business unit is nearly in line with the business objectives set, and the outlook for the next financial year is good.

FINANCING AND SOLVENCY

The cash flow of the Group's business operations was -3.3M EUR (-3.8M EUR). The Group's net financing costs came to 1.2M EUR (0.7M EUR). The cash flow for investments made during the period under review was -1.0M EUR (7.1M EUR). The Group's consolidated balance sheet total was 30.5M EUR (36.5M EUR), with an equity ratio of -7.9% (17.8%).

The Group's financing situation remains tight and requires that the plans made by the management succeed and that profitability improve. Plans must also be made, however, to prepare for rearrangement of short-term payment programmes or for obtaining additional funding. The Board of Directors has initiated negotiations with financiers to rearrange present payment plans.

Loans from banking institutions entail repayment covenants linked to the Group's solvency ratio. The Group's year-end accounts of 31 December 2012 are in breach of a covenant, but the Group at the closing of the 2011–2012 financial period received a guarantee from the financier in question that no consequences of the breach will arise for the Group. This guarantee does not, however, apply to the next 12 months, and for this reason debt to the financier in question is classified as short-term debt in the year-end accounts of 31 December 2012.

INVESTMENTS

The Group's capital expenditure during the period under review came to 1.3M EUR (1.9M EUR). This figure consists mainly of machine and equipment investments for the Vaahto Paper Technology division's service business.

ENVIRONMENTAL AFFAIRS

In November 2012, Vaahto Paper Technology Oy received the Supreme Administrative Court's decision of rejection of the company's appeal of the decision made by the Häme Regional Environment Centre. The company's appeal dealt with the Environment Centre's decision not to extend the time limit set for the work required by the company's environmental permit for the processing of drainage water in the courtyard areas of the company's production plant in Hollola. Asphalting of the courtyard area and installation of storm drains at the Hollola plant will therefore be completed in 2013 as the environmental permit requires. The estimated cost of this operation is €500,000.

RESEARCH AND DEVELOPMENT

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

HUMAN RESOURCES

The average number of personnel employed by the Group during the period under review was 333 (348), with terminated functions accounting for 69 employees (91).

EXTRAORDINARY MEETING OF SHAREHOLDERS (19 JUNE 2012)

Vaahto Group Plc Oyj's Extraordinary Meeting of Shareholders of 19 June 2012 nominated a new member, Sami Alatalo, to the Board of Directors. The shareholders' meeting also approved an amendment of the company's by-laws that changes the company's financial year to run from 1 January to 31 December. For this reason, the duration of the financial period now ending is 16 months (from 1 September 2011 to 31 December 2012).

RISKS AND UNCERTAINTY FACTORS

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

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

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

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

EQUITY CAPITAL

The Annual General Meeting of 12 December 2011 authorised the Board of Directors to decide on the issuing of new shares in one or more instalments. The maximum number of shares that may be issued is 1,000,000. This authorisation is valid until 31 December 2012 unless a general meeting amends or revokes the authorisation before that date.

On 19 April 2012, the Vaahto Group Plc Oyj Board of Directors decided on two separate share issues:

Private offering to selected investors

In deviation from the subscription right of the current shareholders, the Vaahto Group Plc Oyj Board of Directors decided to issue an offering of 600,000 new shares in the company to a group of selected investors. The issue price was set at €3.50 per share, for a total issue value of 2.1M EUR. The issue sum paid for the new shares was allocated to the invested non-restricted equity capital reserve.

Acquisition of shares in AP-Tela Oy and a private offering to minority shareholders of AP-Tela Oy

The Vaahto Group Board of Directors also decided to approve a share-exchange contract made with the company's subsidiary AP-Tela Oy, signed on 19 April 2012, and to arrange a private offering to carry out the share exchange as specified in the contract. The share exchange was implemented as specified in Article 52 of the Law on the Taxation of Business Income, with Vaahto Group Plc Oyj issuing 317,602 new shares in Vaahto Group Plc Oyj to the minority shareholders of AP-Tela Oy as payment for 47.92% ownership of AP-Tela Oy (230 shares therein) held by the minority shareholders of AP-Tela Oy. The issue price of the shares issued in the share-exchange scheme was €3.50 per share. The total issue value of the new shares, €1,111,607, was allocated to the invested non-restricted equity capital reserve.

New shares issued in both share issues, 917,602 shares in all, were entered in the trade register on 23 April 2012. The new shares give their owners right of ownership in the company with effect from the date of registration.

Private offering to Mikko Laakkonen

Additionally, the Vaahto Group Plc Oyj Board of Directors decided, on 2 December 2012, to issue 73,892 new shares of the company in a special rights issue to Mikko Laakkonen. The subscription price of the shares issued to Laakkonen was €2.03 per share, the closing rate for a share in the company on the Helsinki stock exchange, operated by NASDAQ OMX Helsinki Oy, on 30 November 2012. The total issue price of the shares issued to Laakkonen was €150,000.76. These new shares, 73,892 shares in all, were entered in the trade register on 18 December 2012. The new shares give their owner a right of ownership in the company from the date of registration. The issue sum of the new shares was allocated to the invested non-restricted equity capital reserve.

The share issues did not affect the company's equity capital.

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

DEFERRED TAX LIABILITIES AND RECEIVABLES

In total, 1.7M EUR of value adjustments for deferred tax liabilities from confirmed business losses has been booked for the 2011–2012 financial period.

ADMINISTRATION

The Annual General Meeting of 12 December 2011 nominated the following members for the Vaahto Group Plc Oyj Board of Directors:

Reijo Järvinen, as chairman
Rainer Häggblom, as deputy chairman
Topi Karppanen, as an ordinary member
Mikko Vaahto, as an ordinary member

Vaahto Group Plc Oyj's Extraordinary Meeting of Shareholders of 19 June 2012 nominated a new member, Sami Alatalo, to the Board of Directors.

The company's managing director was Anssi Klinga from 1 September 2011 to 4 April 2012. The acting managing director was Ari Viinikkala from 4 April 2012 to 30 November 2012. Viinikkala has held the title Managing Director since 30 November 2012.

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

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

DEVELOPMENT PROSPECTS

The development of the international economy has shown alarming signals, and the market situation of Vaahto Group's main customer industries remains uncertain. No significant change, however, has occurred in total demand for Vaahto Group's products in the first few weeks of the new financial year, and the volume of outstanding orders is higher than it was at the start of the previous financial year. Vaahto Group's result is expected to increase substantially from that of the previous financial period.

DEVELOPMENTS SINCE THE CLOSING OF THE FINANCIAL YEAR

On 16 January 2013, Vaahto Group signed a preliminary contract for the sale of the project business belonging to the Vaahto Paper Technology division and the spare-parts and small-project business falling under the service-business unit's operations for a new company to be established by the German company Bellmer GmbH Maschinenfabrik. The transaction is expected to be completed by the end of the first quarter of 2013. Vaahto Group and Bellmer GmbH are also in the process of negotiating a collaboration agreement between the project entity being sold and Vaahto Paper Technology's service-business unit.

DISTRIBUTION OF PROFIT

The parent company's business loss for the financial year was €7,730,277.29, and the company has no distributable funds.

The Board of Directors proposes to the general meeting that no dividend be distributed and that the loss be covered with funds from the profit account.

Key figures

The business indicators 1 000 €	2011/2012 16 months IFRS	2010/2011 12 months IFRS	2009/2010 12 months IFRS	2008/2009 12 months IFRS	2007/2008 12 months IFRS
Turnover, continuing operations	40 908	30 316	35 160	75 694	73 207
Change, % *1)*	1,2	-13,8	-53,5	3,4	-17,0
Operating profit or loss, continuing operations	-4 895	-3 219	-2 857	-2 320	649
% of turnover	-12,0	-10,6	-8,1	-3,1	0,9
Profit or loss before taxes, continuing operations	-6 103	-3 944	-3 840	-3 458	-77
% of turnover	-14,9	-13,0	-10,9	-4,6	-0,1
Profit or loss for the period fron the discontinuing operations	-1 597	1 965	0	0	0
Earnings per share calculated on profit attributable to equity holders of the parent	-9 926	-2 225	-2 910	-2 460	238
% of turnover	-24,3	-7,3	-8,3	-3,3	0,3
Return on equity (ROE), % *2)*	-346,5	-31,0	-32,2	-20,6	2,2
Return on investment (ROI), % *2)*	-19,6	-4,2	-11,0	-8,5	2,6
Equity ratio, %	-7,9	17,8	21,8	23,2	37,3
Current ratio	0,6	0,9	0,8	0,9	1,1
Gearing	-749,1	248,3	222,5	11,1	99,8
Gross investments in fixed assets	1 289	1 876	776	3 656	4 613
% of turnover	3,2	6,2	2,2	4,8	6,3
Order backlog	24 771	22 401	15 175	17 098	54 384
Consolidated balance sheet total	304 840	36 525	39 045	50 086	41 847
Total number of personnel (average)	333	348	371	410	426

1) Change % of turnover has been calculated by converting the turnover for the reporting period 1 September 2011 - 31 December 2012 to correspond the turnover for the fiscal period of 12 months.

2) Return on equity % and return on investment % have been calculated by converting the profit or loss for the reporting period 1 September 2011 - 31 December 2012 to correspond the profit or loss for the fiscal period of 12 months.

Share related data	2011/2012 16 months IFRS	2010/2011 12 months IFRS	2009/2010 12 months IFRS	2008/2009 12 months IFRS	2007/2008 12 months IFRS
Earning per share (EPS), euros *3)*	-2,15	-0,75	-1,01	-0,86	0,08
Shareholders' equity per share, euros	-0,54	1,52	2,36	3,37	4,32
Dividend per share, euros *4)*	0,00	0,00	0,00	0,00	0,10
Dividend payout, %	0,0	0,0	0,0	0,0	120,6
Effective dividend return, %	0,0	0,0	0,0	0,0	1,0
Price earnings ratio (P/E)	-1,3	-9,0	-7,1	-7,9	124,0
Number of shares outstanding at the end of the period (1 000)	3 977	2 986	2 872	2 872	2 872
Number of shares outstanding, average (1 000)	3 463	2 953	2 872	2 872	2 872

3) Earning per share (EPS) has been calculated by converting the profit or loss for the reporting period 1 September 2011 - 31 December 2012 to correspond the profit or loss for the fiscal period of 12 months. The Earning per share (EPS) includes also the profit or loss of the discontinuing operations.

4) Proposal by the Board

Share prices €	**2011/2012 16 months**	**2010/2011 12 months** *4)*	**2009/2010 12 months**	**2008/2009 12 months**	**2007/2008 12 months**
A share					
- high	5,92	10,00	7,03	9,90	12,32
- low	1,60	5,87	5,46	4,72	8,85
- average	3,65	7,26	6,30	6,69	10,55
- share price at the end of the fiscal year	1,78	6,79	6,70	6,40	9,82
K share					
- high		7,97	7,69	10,74	12,55
- low		7,08	6,56	6,20	8,80
- average		7,57	7,30	7,98	10,35
- share price at the end of the fiscal year			7,68	7,30	10,74
Total market value, million euros					
A share	7,1	20,3	9,7	9,3	14,3
K share			10,9	10,4	15,2
Total	7,1	20,3	20,6	19,7	29,5
Number of shares traded during the fiscal year					
A share	137 241	266 706	19 270	517 074	1 413 803
K share		4 758	8 324	90 113	1 062 841
Number of shares traded, %					
A share	3,5	9,7	1,3	35,6	97,3
K share		1,1	0,6	6,4	74,9
Number of shareholders	337	299	295	303	305

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

Consolidated Statement of Comprehensive Income, IFRS

1 000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011	Note
NET TURNOVER	**40 908**	**30 316**	**4,5**
Change in finished goods and work in progress	1 385	373	
Production for own use	788	1 161	
Other operating income	96	119	6
Share of profits of affiliated companies	25	-4	
Material and services	-19 459	-13 818	
Employee benefit expenses	-17 194	-12 604	9
Depreciations	-2 188	-1 573	8
Impairment losses of goodwill	-28	0	8
Other operating expenses	-9 229	-7 190	7
OPERATING PROFIT OR LOSS	**-4 895**	**-3 219**	
Financing income	62	139	11
Financing expenses	-1 270	-863	12
PROFIT OR LOSS BEFORE TAXES	**-6 103**	**-3 944**	
Tax on income from operations	-2 226	140	13
PROFIT OR LOSS FOR THE FISCAL YEAR FROM THE CONTINUING OPERATIONS	**-8 329**	**-4 084**	
DISCONTINUING OPERATIONS			
Profit of loss for the fiscal year from the discontinuing operations	-1 597	1 965	
PROFIT OR LOSS FOR THE FISCAL YEAR	**-9 926**	**-2 118**	
OTHER COMPREHENSIVE INCOME:			
Translation differences	38	-1	
OTHER COMPREHENSIVE INCOME, NET OF TAX	**38**	**-1**	
TOTAL COMPREHENSIVE INCOME	**-9 888**	**-2 120**	
NET PROFIT OR LOSS ATTRIBUTABLE:			
Equity holders of the parent	-9 926	-2 225	
Non-controlling interests	0	107	
	-9 926	-2 118	
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE:			
Equity holders of the parent	-9 888	-2 226	
Non-controlling interests	0	107	
	-9 888	-2 120	
Earnings per share calculated on profit attributable to equity holders of the parent:			
EPS undiluted, euros/share, continuing operations	-2,40	-1,42	14
EPS diluted, euros/share, continuing operations	-2,40	-1,42	
EPS undiluted, euros/share, disontinuing operations	-0,46	0,67	
EPS diluted, euros/share, discontinuing operations	-0,46	0,67	
EPS undiluted, euros/share	-2,86	-0,75	
EPS diluted, euros/share	-2,86	-0,75	
Average number of shares			
-undiluted	3 463 206	2 952 591	
-diluted	3 463 206	2 952 591	

Consolidated Balance Sheet, IFRS

1 000 €	31.12.2012	31.8.2011	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	233	1 030	16
Goodwill	1 692	1 702	17
Tangible assets	7 596	10 907	15
Shares in affiliated companies	83	57	18
Available for sale investments	43	44	20
Non-current trade receivables and other receivables	3	11	19
Deferred tax asset	271	2 274	21
NON-CURRENT ASSETS	**9 921**	**16 026**	
CURRENT ASSETS			
Inventories	5 783	5 601	22
Trade receivables and other receivables	5 483	7 305	23
Current receivables for revenue recognized in part prior to project completion	1 293	6 818	
Cash and bank	1 449	775	24
CURRENT ASSETS	**14 007**	**20 500**	
NON-CURRENT ASSETS HELD FOR SALE	**6 557**	**0**	**3**
ASSETS	**30 484**	**36 525**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Share premium account	6	6	
Fair value reserve and other reserves	5 063	1 995	
Translation differences	56	29	
Retained earnings	-10 160	-351	
Equity attributable to equity holders of the parent	**-2 163**	**4 552**	
Non-controlling interests	0	1 217	
SHAREHOLDERS' EQUITY	**-2 163**	**5 768**	**25**
NON-CURRENT LIABILITIES			
Deferred tax liability	699	624	21
Long-term liabilities, interest-bearing	3 608	6 831	27
Non-current provisions	395	273	26
NON-CURRENT LIABILITIES	**4 701**	**7 728**	
CURRENT LIABILITIES			
Short-term liabilities, interest-bearing	14 045	8 269	27
Trade payables and other liabilities	10 662	14 573	29
Tax liability, income tax	264	186	29
CURRENT LIABILITIES	**24 971**	**23 028**	
LIABILITIES OF DISPOSAL GROUP HELD FOR SALE			
Interest-bearing liabilities held for sale	573	0	
Interest-free liabilities held for sale	2 402	0	
LIABILITIES OF DISPOSAL GROUP HELD FOR SALE	**2 975**	**0**	**3**
EQUITY AND LIABILITIES	**30 484**	**36 525**	

Consolidated Flow of Funds Statement, IFRS

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011	Note
FLOW OF FUNDS FROM OPERATIONS:			
Profit or loss before taxes	-9 926	-2 118	
Adjustments:			
Depreciations	2 758	2 115	8
Impairment losses	28	0	8
Unrealized foreign exchange gains and losses	-33	-150	
Other income and expenses, no payment related	155	30	
Financing income and expenses	1 213	643	11,12
Share of profits of affiliated companies	-25	4	18
Other adjustments	-18	-213	6
Taxes	2 266	172	13
Flow of funds from operations before the change in working capital	**-3 582**	**482**	
Change in working capital:			
Change in short-term receivables	3 397	-5 060	
Change in inventories	-1 730	-360	
Change in short-term non-interest-bearing creditors	-31	1 950	
Flow of funds from operations before financial items and taxes	**-1 946**	**-2 988**	
Interests and other financial expenses from operations paid	-1 322	-746	12
Dividends received	5	3	11
Interests and other financial income received	104	100	11
Income taxes paid	-175	-200	13
FLOW OF FUNDS FROM OPERATIONS	**-3 333**	**-3 831**	
FLOW OF FUNDS FROM INVESTMENTS:			
Investments in tangible and intangible assets	-1 289	-1 879	15,16
Increase caused by the change in the Group structure	-18	0	
Income from sales of tangible and intangible assets	319	8 934	
Repayments of loans	8	1	
FLOW OF FUNDS FROM INVESTMENTS	**-980**	**7 055**	
FLOW OF FUNDS FROM FINANCIAL ITEMS:			
Share issue	1 861	0	
Withdrawals of short-term loans	2 946	55	27
Repayments of short-term loans	-1 136	-6 793	27
Withdrawals of long-term loans	3 000	5 274	27
Repayments of long-term loans	-1 685	-1 545	27
FLOW OF FUNDS FROM FINANCIAL ITEMS	**4 987**	**-3 009**	
Change of liquid funds	**674**	**215**	
Liquid assets at the beginning of the fiscal year	775	560	
Liquid assets at the end of the fiscal year	1 449	775	
Change in liquid assets according to the balance sheet	674	215	

Consolidated Statement of Changes in Shareholders' Equity, IFRS

1000 €

Change in shareholders' equity 1.9.2011-31.12.2012	Share capital	Share premium account	Un-restricted equity reserve	Reserve fund	Translation differences	Retained earnings	Total	Non-controlling interests	Total
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**0**	**1 995**	**29**	**-351**	**4 552**	**1 217**	**5 768**
Comprehensive income:									
Profit or loss for the period						-9 926	**-9 926**		**-9 926**
Translation differences					27	11	**38**		**38**
Total comprehensive income	**0**	**0**	**0**	**0**	**27**	**-9 915**	**-9 888**	**0**	**-9 888**
Transactions with owners:									
Share issue			2 250				**2 250**		**2 250**
Transaction costs for equity			-389				**-389**		**-389**
Acquisition of subsidiary			1 112			105	**1 217**		**1 217**
Disposal of subsidiary							**0**	-1 217	**-1 217**
Deferred taxes due to period changes			95				**95**		**95**
Transactions with owners total	**0**	**0**	**3 068**	**0**	**0**	**105**	**3 174**	**-1 217**	**1 957**
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**3 068**	**1 995**	**56**	**-10 160**	**-2 163**	**0**	**-2 163**

Change in shareholders' equity 1.9.2010-31.8.2011	Share capital	Share premium account	Un-restricted equity reserve	Reserve fund	Translation differences	Retained earnings	Total	Non-controlling interests	Total
Shareholders' equity at the beginning of the fiscal period	**2 872**	**6**	**0**	**1 995**	**41**	**1 864**	**6 778**	**1 110**	**7 888**
Comprehensive income:									
Profit or loss for the period						-2 225	**-2 225**	107	**-2 118**
Translation differences					-12	11	**-1**		**-1**
Total comprehensive income	**0**	**0**	**0**	**0**	**-12**	**-2 214**	**-2 226**	**107**	**-2 120**
Shareholders' equity at the end of the fiscal period	**2 872**	**6**	**0**	**1 995**	**29**	**-351**	**4 552**	**1 217**	**5 768**

Note 25. Shareholders' equity

Notes to the Consolidated Financial Statements

TABLE OF CONTENTS

1. BASIC INFORMATION

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

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

At its meeting of February 27, 2013, the Vaahto Group Plc Oyj Board approved this financial statement for publication. According to the Finnish Companies Act, shareholders have the choice of accepting or rejecting the financial statement at the Annual General Meeting held after its publication. The Annual General Meeting also has the opportunity to decide to amend the financial statement.

2. ACCOUNTING PRINCIPLES

BASIS OF PREPARATION

Vaahto Group's consolidated financial statements have been drafted in compliance with the International Financial Reporting Standards (IFRS) system, the IAS and IFRS standards, and the SIC and IFRIC 'Interpretation' materials that were in effect on 31 December 2012. International financial reporting standards refer to standards and interpretations of the Finnish Accounting Act and its provisions approved for use within the European Union in accordance with EU regulation (EC) 1606/2002. The notes to consolidated accounts also comply with the requirements of Finnish accounting and community legislation that complement the IFRS regulations.

With the exception of derivatives contracts, consolidated financial statements are based on original acquisition costs.

FINANCIAL PERIOD

Vaahto Group Plc Oyj's Extraordinary Meeting of Shareholders of 19 June 2012 decided to extend the financial period then in progress (1 September 2011 – 31 August 2011) from 12 to 16 months, changing the end date to 31 December 2012. From now on, the company's financial year will run from 1 January to 31 December. The reference figures are 12-month figures from the 1 September 2010 to 31 August 2011 financial period.

GOING CONCERN

The year-end accounts have been drafted under the going-concern assumption. This requires that the Group reach during financial year 2013 the result and profitability objectives set in the forecasts made by the Group's management, and be able to obtain additional funding or renegotiate external capital-payment terms. Because the levels of operating profit used in the forecasts do not reflect actual development in previous financial periods, they include uncertainties.

APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The following new and revised standards and interpretations have been applied in the Group during the 2011–2012 financial year:

IAS 24, Related Party Disclosures (revised standard)
The new standard clarifies the definition of 'related party' and includes new disclosure requirements. The revisions have no significant bearing on the Group's consolidated accounts.

IFRIC 14, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amended interpretation)
The revisions have no bearing on the Group's accounting.

IFRS 7, Financial Instruments: Disclosures – Transfers of Financial Assets (amended standard)
The amendments have no bearing on the Group's accounting.

Improvements to IFRS standards (May 2010)
The impact of the revisions varies with the standard, but the revisions have no significant bearing on the Group's consolidated accounts.

The IASB has published the following new or revised standards and interpretations, which the Group has not yet implemented. The Group will implement each standard and interpretation from its effective date or, if the effective date is a date other than the first day of a financial period, from the beginning of the next financial period. The revisions are assessed as having no significant bearing on the Group's future consolidated accounts.

IAS 1, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
The amended standard will be effective from 1 July 2012 or from the beginning of the next financial period starting after the effective date. The amendments require entities preparing financial statements to group together those items under other comprehensive income that are recognised at fair value through profit or loss and to present them separately from items that are never recognised at fair value through profit or loss. The revision is assessed as having no bearing on the Group's consolidated accounts.

IAS 12, Income Taxes (amended standard)
The amendment will be effective from 1 January 2012 or from the beginning of the next financial period starting after the effective date. The standard requires entities to measure deferred tax related to an asset in line with whether the entity expects to recover the carrying amount of the asset through use or sale. Amendments to IAS 12 apply to assets recognised in accordance with the IAS 40 standard, 'Investment Property', and assets revalued in accordance with the standard IAS 16, 'Property, Plant and Equipment'. The Group has no assets recognised under IAS 40 ('Investment Property') or assets revalued under IAS 16 ('Property, Plant and Equipment'). Amendments to the IAS 12 standard ('Income Taxes') therefore have no bearing on the Group's consolidated accounts.

IAS 19, Employee Benefits (amended standard)
The amended standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The amended standard changes the procedure used for calculating and recognising 'defined-benefit'-type benefits and includes new disclosure requirements related to defined benefits. The revision also clarifies definitions of employee benefits. As the Group has no defined-benefit arrangements, the amendment is expected to have no significant bearing on the Group's consolidated accounts.

Notes to the Consolidated Financial Statements

IAS 27, Consolidated and Separate Financial Statements (revised standard)
The revised standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The revised standard incorporates the requirements pertaining to separate financial statements that remain after the items related to control are included in the new IFRS 10. The revision is expected to have no significant bearing on the Group's consolidated accounts. The revised standard has not yet been approved for application within the EU.

IAS 28, Investments in Associates and Joint Ventures (revised standard)
The revised standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The revised standard includes requirements pertaining to accounting of associates and joint ventures using the equity method as a result of the publication of IFRS 11. The revision is expected to have no bearing on the Group's consolidated accounts. The revised standard has not yet been approved for application within the EU.

IAS 32, Financial Instruments: Presentation (amended standard)
The amended standard will be effective from 1 January 2014 or from the beginning of the next financial period starting after the effective date. The amended standard provides more detailed rules for presentation of financial assets and liabilities on a net basis and includes new application guidelines. The revised standard will have no significant bearing on the Group's consolidated accounts. The revised standard has not yet been approved for application within the EU.

IFRS 7, Financial Instruments: Disclosures (amended standard)
The standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The amended standard provides more detailed requirements for disclosures about financial instruments presented on a net basis on the balance sheet, netting arrangements, and comparable agreements. The revised standard will have no significant bearing on the Group's consolidated accounts. The standard has not yet been approved for application within the EU.

IFRS 9, Financial Instruments
The standard will be effective from 1 January 2015 or from the beginning of the next financial period starting after the effective date. The standard will gradually replace the standard currently in use – IAS 39, 'Financial Instruments: Recognition and Measurement' – in its entirety.

The first part of IFRS 9, containing requirements pertaining to classification and measurement of financial assets, was published in November 2009. Classification and measurement of financial assets in accordance with IFRS 9 depends on the characteristics of cash flows based on agreements and on the company's business model. The second part of IFRS 9, published in October 2010, includes requirements related to classification and measurement of financial liabilities, and it is largely based on the current requirements of IAS 39. The International Accounting Standards Board (IASB) is, however, still considering making limited changes to the published IFRS 9 guidelines on classification and measurement of financial assets. Other sections not yet completed address impairment and hedge accounting. Because of the unfinished nature of the standard, its eventual bearing on the Group's consolidated financial statements cannot be estimated yet. The standard has not yet been approved for application within the EU.

IFRS 10, Consolidated Financial Statements
The new standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The new standard supersedes the standard IAS 27, 'Consolidated and Separate Financial Statements', and revises the definition of control. The revision is expected to have no significant bearing on the Group's consolidated accounts. The standard has not yet been approved for application within the EU.

IFRS 11, Joint Arrangements
The new standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The new standard supersedes IAS 31 ('Interests in Joint Ventures') and revisits the definition of control. It also changes the classification of jointly controlled arrangements. In the future, joint ventures (referred to previously as jointly controlled entities) are consolidated in accordance with the equity method in consolidated accounts. Use of the proportional method of consolidation will be prohibited. The revision is expected to have no significant bearing on the Group's consolidated accounts. The standard has not yet been approved for application within the EU.

IFRS 12, Disclosure of Interests in Other Entities
The new standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. It includes requirements for disclosures pertaining to interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities (currently known as special-purpose entities). The disclosure requirements increase relative to present requirements and will have an impact on the Group's disclosures. The standard has not yet been approved for application within the EU.

IFRS 13, Fair Value Measurement
The new standard will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. It provides guidelines for measuring fair value (current value) of assets. The standard does not specify which assets are to be measured at fair value in year-end accounts or how fair value shall be recognised. The new standard is assessed as having no bearing on the Group's consolidated accounts. The standard has not yet been approved for application within the EU.

Improvements to IFRS standards (Annual Improvements to IFRS 2009–2011, May 2012)
The revisions will be effective from 1 January 2013 or from the beginning of the next financial period starting after the effective date. The Annual Improvements procedure is used to compile small and less urgent revisions of the standards as a single element for annual implementation. Revisions falling within the scope of the procedure apply to, in total, five individual standards. The impacts of the revisions vary with the standard, but the revisions have no significant bearing on the Group's consolidated accounts. The changes have not yet been approved for application within the EU.

CONSOLIDATION PRINCIPLES

The consolidated accounts include data for Vaahto Group Plc Oyj and all subsidiaries under its control. The Group's control of all subsidiaries is based on full ownership of each subsidiary's shares. During the 2011–2012 financial period, the Group acquired full ownership of AP-Tela Oy, in which the Group's ownership at the beginning of the financial period was 52.08% of the company's shares and voting power.

Acquired subsidiaries are consolidated into group accounts from the date on which the business group has acquired control in the companies. Intra-group interests are eliminated in line with the acquisition-cost method. Acquisition cost is allocated to funds and liabilities itemised at the time of the entity's acquisition at their current value. The difference between the subsidiary's acquisition cost and the current net value of its separately identifiable funds and liabilities is recognised as the company's business value on the balance sheet.

The Group is a shareholder in an associated company in Russia, named ZAO Slalom. The company's purpose is to manage Vaahto Paper Technology's sales and marketing efforts in Russia. The company has two series of shares: ordinary registered shares and convertible preferred shares, which differ in terms of voting power: convertible preferred shares do not entitle the holder to any voting right at the company's General Meeting. The Group owns 40 ordinary registered shares out of the company's total of 100 ordinary registered shares, and 20 convertible preferred shares out of the 20 convertible preferred shares. The Group's share of the company's voting power is 40%. According to the company's articles of association, the convertible preferred shares owned by the Group can be converted to ordinary registered shares from 1 January 2010. This right has not been exercised during the financial period under review. The company is presented as an associate in the consolidated accounts, and the Group's share of the company's result has been consolidated into Group accounts in accordance with the equity method.

Vaahto Oy, a subsidiary wholly owned by the parent company, changed its name to 'Vaahto Paper Technology Oy' during the financial period under review.

Intra-group business transactions, receivables, liabilities, unrealised gains, and internal distribution of profit are eliminated in the consolidated accounts. Distribution of profit to the parent company's owners and minority interest is presented in connection with the profit and loss statement, and the amount of equity belonging to minority interest is presented as an individual equity item on the balance sheet. Minority interest's share of cumulative loss is entered in the consolidated accounts at a value equal to or lower than investment value.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets held for sale, disposal groups, and liabilities related to assets held for sale are classified as assets held for sale and valued at book value or, if lower, current value less sales costs, if the value corresponding to their book value will be generated mostly from asset sale instead of continuous use. In this case, the Group's management have committed to the sale of the asset in question and sale during the next 12 months is expected to be highly likely and considered practicable in the intermediate time.

An operation is classified to be discontinued on the date it fulfils the precondition either of being classified as an asset held for sale or of the operation having been disposed of. A discontinued operation is a part of an entity that has been disposed of or classified as an asset held for sale and that represents a separate, important business area or geographic area of operation; is part of a single co-ordinated plan addressing disposing of operations in a separate, important business area or geographic area of operation; or is a subsidiary that has been acquired with the sole intention of it being resold.

On 16 January 2013, the Group signed a preliminary contract for the sale of the project-business entity belonging to the Vaahto Paper Technology branch and the spare-parts and small-project business operations belonging to the company's services-business unit for a new company to be established by the German company Gebr. Bellmer GmbH Maschinenfabrik. The transaction is expected to be completed by the end of the first quarter of 2013. Because the sale was considered highly likely at the closing of the financial year, assets and liabilities related to the project-business entity are included on the balance sheet as non-current assets held for sale and related liabilities. In the profit and loss statement, the project-business entity is presented as a discontinued operation. There were no discontinued operations during the 2010–2011 financial year. In the profit and loss statement, figures from the project-business entity for the 2010–2011 reference financial year are presented under discontinued operations.

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.

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 26 of the notes, "Provisions."

OPERATING PROFIT

The Group has defined "operating profit" as follows: operating profit is the net sum obtained after adding other operating income to the turnover and then deducting purchasing costs, adjusted by the change in stocks of finished products and work in progress and the expenses of products manufactured for the Group's own use; costs of employee benefits; depreciation; any impairment losses; and other operating expenses. All other income statement items are presented below the operating profit. Currency translation differences are included in the operating profit if they arise from items connected with business operations; otherwise, they are entered among financial items. Shares of profits of affiliated companies are included in the operating profit, if the operation of the affiliated company is considered to be closely related to the Group's business, otherwise they are included in the financial items.

BORROWING COSTS

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

INCOME TAX

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

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

TANGIBLE ASSETS

Property, plants, and equipment are valued at their original acquisition cost minus accumulated depreciation and any impairment losses.

If a property, plant, and equipment item consists of several parts with different useful lives, each part is accounted for as a separate item. When such a part is replaced, the related costs are capitalized. Otherwise, subsequent expenses are included in the carrying amount for property, plants, and equipment only if it is probable that they will increase the economic benefit to the company and that the acquisition cost of the item can be determined reliably. The earnings impact of other repair and maintenance costs is recognized as incurred.

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

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

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

INTANGIBLE ASSETS:

Goodwill

Goodwill represents that amount of the acquisition cost that exceeds the Group's share of the fair value on the date of acquisition of the net assets of a company acquired after the IFRS transition date. Planned depreciation is not deducted from the consolidated goodwill. Instead, it is tested annually for impairment. For this purpose, goodwill is allocated to cash-generating units. Goodwill is valued at the original acquisition cost, with any impairment deducted.

Expenditure on research and development

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

Other intangible assets

An intangible asset is included in the balance sheet figures only if its acquisition cost can be determined reliably and if it will increase the economic benefit to the company. Patents, trademarks, and licenses whose useful life is finite are entered on the balance sheet at the original acquisition cost and amortized in the income statement on a straight-line basis over their known or estimated useful life.

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

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

Impairments

Annually, on the balance sheet date, the Group reviews its assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is also estimated annually for the goodwill, irrespective of whether there is any indication of impairment.

The recoverable amount is calculated as the higher of 1) fair value minus cost to sell and 2) value in use. The value in use is the present value of the estimated future net cash flows obtainable from the asset or cash-generating unit. An impairment loss is recognized if the carrying amount of an asset exceeds the recoverable amount. An impairment loss is reversed if conditions have changed and the recoverable amount for the asset changed after the impairment loss was recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been declared if no impairment loss had been recognized. An impairment loss in relation to goodwill is never reversed.

INVENTORIES

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

TRADE AND OTHER RECEIVABLES

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

FINANCIAL ASSETS AND LIABILITIES

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

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

Available-for-sale financial assets consist of shares and debt with interest, and they are recognized at their fair value. However, not-listed shares have been recognized at the acquisition cost, because reliable fair values have not been available. Changes in the fair value are entered in the fair value reserve in equity, with the tax effect taken into account. Changes in fair value are transferred from equity to the income statement when the instrument is sold or its value has fallen so that an impairment loss has to be recognized for the instrument. Available-for-sale financial assets are included in long-term assets, except if the intention is to hold them for less than 12 months after the balance sheet date, in which case they are included in short-term assets.

Cash and cash equivalents comprise cash in hand and bank deposits that can be obtained on demand.

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

PROVISIONS

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

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

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

RENTAL AGREEMENTS

Rental agreements concerning tangible and intangible assets in which the Group holds a material share of the risks and benefits of ownership are classified as financial lease agreements. A financial lease agreement is entered on the balance sheet at either the fair value of the leased asset on the starting date of the lease agreement or the current value of the minimum rent amounts, whichever is lower. Tangible assets acquired under financial lease agreements are depreciated over their economic life or the term of the lease, whichever is shorter. Lease payments are divided into financing costs and installment payment of the liability so that the interest rate for the remaining liability remains unchanged. Rental obligations are included in interest-bearing liabilities.

Rental agreements under which the risks and benefits of ownership are retained by the hirer are treated as other rental agreements. Rent paid in connection with other rental agreements is expensed in even installments in the income statement over the duration of the rental period.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

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

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

The Group tests goodwill annually for impairment and evaluates indications of impairment as set forth in the accounting principles above. The recoverable amount from cash-generating units is determined using calculations that are based on value in use. The use of these calculations requires the application of estimates. The cash flow forecasts used for the calculations are based on the annual predictions concerning the income statement and maintenance investments made by the management, prepared in connection with the Group's budgeting process. The management bases its forecast on actual developments and its opinion of the growth outlook for the industry. The forecasts include uncertainty in respect of the development of the industry's market situation.

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

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

The Group decided in December 2012 to sell the project-business entity belonging to the Vaahto Paper Technology unit and the spare-parts and small-project business operations belonging to the company's service-business unit. The Group made a preliminary contract covering the sale with a buyer in January 2013, with the transaction expected to be completed by the end of the first quarter of 2013. Because the sale was considered highly likely at the closing of the financial year, assets and liabilities related to the project-business entity are included on the balance sheet as non-current assets held for sale and related liabilities. In the profit and loss statement, the project business is presented as a discontinued operation. According to the preliminary contract, the final terms of sale, including the final assets to be sold and their selling prices, will be specified later. Therefore, the final sales result of the transaction shall be determined on the basis of the balance-sheet values on the day of the sale and, for the time being, includes uncertainties.

3. NON-CURRENT ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUING OPERATIONS

DISCONTINUING OPERATIONS

The Group has in December 2012 made a decision to sell the Vaahto Paper Technology group's Projects business unit. The Group has in January 2013 entered to an initial agreement for the sale with the buyer, and the parties will seek to negotiate the final terms of the transaction so that it can be completed no later than at the end of Q1 of year 2013. According to the initial sale agreement, the conditions of the transaction, like final sale items as well as sale prices, will be specified later. Hence, the final result of the business deal will be determined only when the transaction will be finally realized according to the balance sheet values of the closing date and so far, it includes uncertainty.

As the sale was considered highly likely at the closing of the financial year, assets and liabilities related to the project-business entity are presented on the balance sheet as non-current assets held for sale and associated debts. In the profit and loss statement, the project business is presented as a discontinued operation. The profit and loss statement's reference data from the 2010–2011 financial period have been adjusted correspondingly. Administration, IT, and other expenses from centralised group functions related to the project-business entity but expected not to decrease significantly in value upon discontinuation of operations are not included in the financial result for discontinued operations. Items classified as assets held for sale and funds and liabilities of the disposal groups are valued at their current value. No need for value-adjustment entries for classified items has been found. In the case of fixed assets, balance-sheet values of items classified as assets held for sale were considered to correspond substantially to current values. Materials and supplies included in current assets were earlier valued at current value in ordinary stocktaking. The value of unfinished products included in current assets also corresponds to current asset value. Available-for-sale liabilities include prepayments from customers in relation to unfinished products included in available-for-sale assets and financial-leasing liabilities. The balance-sheet values of available-for-sale liabilities correspond to current values.

DISCONTINUING OPERATIONS

1000 €

Profit or loss of the Project business unit	**1.9.2011-31.12.2012**	**1.9.2010-31.8.2011**
Income	19 786	25 650
Expenses	-21 342	-23 653
Profit or loss before taxes	-1 556	1 997
Taxes	-41	-32
Profit or loss after taxes	-1 597	1 965
Profit or loss of the fiscal period from the discontinuing operations	**-1 597**	**1 965**
Flow of funds from the Project business unit		
Flow of funds from operations	-1 203	-1 456
Flow of funds from investments	-169	-100
Flow of funds from financial items	-265	-187
Flow of funds total	**-1 637**	**-1 744**

Non-current assets held for sale of Project business unit	**31.12.2012**
Intangible assets	93
Tangible assets	2 549
Inventories	1 548
Receivables	2 367
Assets total	**6 557**

Non-current assets held for sale include total 590 thousand euros trade receivables of Vaahto Paper Technology Ltd related to the additional project work that the customer has challenged. The case is ongoing arbitration. The receivables contain uncertainty.

Liabilities of disposal group held for sale of Project business unit	**31.12.2012**
Non-current liabilities held for sale, interest-bearing	362
Current liabilities held for sale, interest-bearing	212
Current liabilities held for sale, interest-free	2 402
Liabilities total	**2 975**

Interest-bearing liabilities held for sale are finance lease liabilities whose average maturing time is 1.4 years and average interest rate is 4.94%.

4. SEGMENT INFORMATION

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

The Group has in January 2013 made a decision to sell the Vaahto Paper Technology group's Projects business and the spare part and small projects businesses belonging to its Services business. In the financial statements 31 January 2012 the assets and liabilities of Project business are stated in the balance sheet as non-current assets held for sale and liabilities of disposal group held for sale and in the income statement the Project business is stated as a discontinuing operation. Also the comparative figures of the income statement from the fiscal period 2010-2011 have been adjusted accordingly.

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

The profit or loss of the segment is profit or loss before financial items and taxes. During the previous fiscal period 2010 - 2011 the profit of discontinuing operations of Vaahto Paper Technology include the profit from sales of Hollola factory building as well as sales profit from the additional sales price from the sale of HVAC business in the previous fiscal year. Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated to a segment. Unallocated items include centrally managed financial items and taxes, and other corporate items. Investments comprise increase in tangible and intangible assets that are expected to be used for more than one fiscal year.

Notes to the Consolidated Financial Statements

OPERATING SEGMENTS

1 000 €

Fiscal period 2011-2012	**Vaahto Paper Technology**	**Vaahto Process Technology**	**Elimina-tions**	**Segments total**	**Non-allocated items**	**Group total**
Income statement information						
External net sales	16 878	24 030		**40 908**		40 908
Intra-Group net sales	61	49	-110			
Net turnover	**16 939**	**24 079**	**-110**	**40 908**		**40 908**
Shares of profits of affiliated companies	25			**25**		25
Operating profit or loss	-4 230	-690		**-4 920**		-4 920
Profit or loss of the segment	**-4 205**	**-690**		**-4 895**		**-4 895**
Financing income and expenses					-1 208	-1 208
Taxes					-2 226	-2 226
Profit or loss from continuing operations						**-8 329**
Profit or loss from continuing operations	-1 597			**-1 597**		-1 597
Profit or loss for the fiscal period						**-9 926**
Balance sheet information						
Segments assets	16 365	13 670	-1 409	**28 626**		28 626
Shares in affiliated companies	83			**83**		83
Segments assets total	**16 448**	**13 670**	**-1 409**	**28 709**		**28 709**
Deferred tax asset					271	
Cash and bank					1 449	
Other non-allocated assets					56	
Non-allocated assets total						1 775
Assets total, Group						**30 484**
Segments liabilities	6 637	6 491		**13 128**		13 128
Segments liabilities total	**6 637**	**6 491**		**13 128**		**13 128**
Long-term and short-term liabilities, interest-bearing					18 226	
Deferred tax liabilities					699	
Tax liability, income tax					264	
Derivatives					208	
Other non-allocated liabilities					123	
Non-allocated liabilities total						19 519
Liabilities total, Group						**32 647**
Other information						
Net sales, goods	6 338	24 030		**30 369**		30 369
Net sales, services	10 540			**10 540**		10 540
Investments	1 082	225		**1 307**		1 307
Depreciation	1 499	689		**2 188**		2 188
Average number of personnel:						
Continuing operations	142	122		**264**		264
Discontinuing operations	69			**69**		69
Total	211	122		**333**		333

OPERATING SEGMENTS

1 000 €

Fiscal period 2010-2011	**Vaahto Paper Technology**	**Vaahto Process Technology**	**Elimina-tions**	**Segments total**	**Non-allocated items**	**Group total**
Income statement information						
External net sales	14 625	15 691		**30 316**		30 316
Intra-Group net sales		16	-16			
Net turnover	**14 625**	**15 707**	**-16**	**30 316**		**30 316**
Shares of profits of affiliated companies	-4			**-4**		-4
Operating profit or loss	-2 013	-1 203		**-3 216**		-3 216
Profit or loss of the segment	**-2 017**	**-1 203**		**-3 219**		**-3 219**
Financing income and expenses					-724	-724
Taxes					-140	-140
Profit or loss from continuing operations						**-4 084**
Profit or loss from continuing operations	1 965			**1 965**		1 965
Profit or loss for the fiscal period						**-2 118**
Balance sheet information						
Segments assets	26 433	12 148	-5 358	**33 223**		33 223
Shares in affiliated companies	57			**57**		57
Segments assets total	**26 490**	**12 148**	**-5 358**	**33 280**		**33 280**
Deferred tax asset					2 274	
Cash and bank					775	
Other non-allocated assets					196	
Non-allocated assets total						3 245
Assets total, Group						**36 525**
Segments liabilities	10 556	3 976		**14 532**		14 532
Segments liabilities total	**10 556**	**3 976**	**0**	**14 532**		**14 532**
Long-term and short-term liabilities, interest-bearing					15 101	
Deferred tax liabilities					624	
Tax liability, income tax					186	
Derivatives					241	
Other non-allocated liabilities					73	
Non-allocated liabilities total						16 225
Liabilities total, Group						**30 757**
Other information						
Net sales, goods	5 081	15 691		**20 772**		20 772
Net sales, services	9 544			**9 544**		9 544
Investments	1 698	182		**1 879**		1 879
Depreciation	1 063	510		**1 573**		1 573
Average number of personnel:						
Continuing operations	132	125		**257**		257
Discontinuing operations	91			**91**		91
Total	223	125		**348**		348

Notes to the Consolidated Financial Statements

1000 €

GEOGRAPHICAL AREA INFORMATION

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

Fiscal period 2011-2012	Finland	Other Europe	Asia	Africa	North America	Other	Group total
Net turnover	17 879	18 618	3 146	148	225	893	40 908
Assets	7 708	1 883	13	0	0	0	9 604
Investments	1 101	188	0	0	0	0	1 289

Fiscal period 2010-2011	Finland	Other Europe	Asia	Africa	North America	Other	Group total
Net turnover	122 015	14 456	2 891	425	172	356	140 315
Assets	11 852	1 825	20	0	0	0	13 697
Investments	1 703	167	9	0	0	0	1 879

INFORMATION ABOUT KEY CUSTOMERS

The Group's turnover doesn't include proceeds from any individual customer a sum that would exceed 10 % of the Group's turnover.

5. LONG-TERM PROJECTS

	1.9.2011-31.12.2012	1.9.2010-31.8.2011
Net turnover		
Net turnover of construction contracts recognized under the percentage of completion method	6 935	2 781
Other turnover	33 974	27 535
Total	**40 908**	**30 316**
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	22 592	56 875

Order backlog	31.12.2012	31.8.2011
Construction contracts recognized under the percentage of completion method	15 195	12 066
Projects entered on completion of the project	9 576	10 335
Order backlog total	**24 771**	**22 401**
Accrued income from the construction contracts recognized under the percentage of completion method	6 169	53 880
Advances received from the customers	4 876	47 258
Difference	**1 293**	**6 622**

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 in the Balance Sheet (Balance Sheet item Current receivables for revenue recognized in part prior to project completion, note 23. Current assets)	1 293	6 818
Advance payments received from the construction contracts in the Balance Sheet (Balance Sheet item Advance payments, received, note 29. Trade payables and other liabilities)	0	196
Receivables from the construction contracts in the Balance Sheet (net)	**1 293**	**6 622**

6. OTHER OPERATING INCOME

	1.9.2011-31.12.2012	1.9.2010-31.8.2011
Other operating income		
Profit from sales of other tangible assets	14	3
Other rent income	9	7
Subventions	1	101
Other income	73	8
Total	**96**	**119**

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011

7. OTHER OPERATING EXPENSES

Other operating expenses		
Overhead costs of production	1 663	1 440
Rents	1 503	1 066
IT-costs	968	764
Expenses from real estates and apartments	748	453
Traveling expenses	673	581
Sales costs	650	506
Non-statutory employee benefits	390	280
Costs of bank guarantees	101	39
Marketing expenses	211	114
Losses from sales of fixed assets (tangible assets)	20	94
Other expenses	2 301	1 851
Total	**9 229**	**7 190**

Other operating expenses include fees paid to the auditors		
Auditing fees	136	93
Consulting and other fees	77	63
Total	**213**	**156**

8. DEPRECIATION AND IMPAIRMENTS

Depreciations by groups of assets

Intangible assets		
Intangible rights	50	9
Other long-term assets	35	38
Other long-term assets, financial lease	721	541
Total	**806**	**588**

Tangible assets		
Buildings	143	107
Machinery and equipment	990	694
Machinery and equipment, financial lease	207	153
Other tangible assets	41	32
Total	**1 381**	**986**
Total	**2 187**	**1 573**

Impairments

Impairments of goodwill		
Impairment of Group goodwill	28	0
Total	**28**	**0**
Depreciations and impairments total	**2 216**	**1 573**

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011

9. COSTS OF EMPLOYEE BENEFITS

Costs of employee benefits		
Salaries and fees	14 350	10 393
Pension expenses, defined contribution plan	2 421	1 693
Other employee benefits	423	518
Total	**17 194**	**12 604**

Management and Board salaries, fees and benefits		
Managing Directors	1 176	795
Board members and substitute members	122	103
Total	**1 299**	**898**

Average number of personnel of the Group

Continuing operations (other than Project business personnel)		
Office staff	113	106
Workers	151	151
Total	**264**	**257**

Discontinuing operations (Project business personnel)		
Office staff	31	39
Workers	38	52
Total	**69**	**91**

Total		
Office staff	145	145
Workers	189	203
Total	**333**	**348**

The information concerning the employee benefits of the management can be found on note 32. "Related party transactions".

10. EXPENDITURE ON RESEARCH AND DEVELOPMENT

Research and development expenditure		
Research and development expenditure on income statement	629	385
Total	**629**	**385**

11. FINANCING INCOME

Financing income		
Interest income	14	3
Dividends	5	3
Foreign exchange gains	8	92
Unrealized gains on fair value measurement	35	41
Total	**62**	**139**

12. FINANCING EXPENSES

Financing expenses		
Interest expenses	1 212	703
Foreign exchange losses	32	131
Unrealized losses on fair value measurement	26	29
Total	**1 270**	**863**

13. INCOME TAX

Income taxes in income statement		
Tax on income from operations from the fiscal period	93	193
Change in deferred tax liabilities and tax assets	2 133	-52
Total	**2 226**	**140**

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011
Reconciliation between tax provision on income statement and mathematical tax based on parent company's tax rate		
Profit or loss before taxes	-6 103	-3 944
Parent company's tax rate at the end of the fiscal period	24,5 %	26,0 %
Mathematical tax based on parent company's tax rate	-1 495	-1 025
Differences between tax provision on income statement and mathematical tax based on parent company's tax rate due to:		
Change of the tax rate of the parent company	124	0
Effect of different tax rates in foreign subsidiaries	30	34
Non-deductible income	-6	-44
Non-deductible expenses	22	34
Impairment concerning deferred tax assets on confirmed losses recognized in previous periods	1 663	0
Unrecognized taxes on losses from the fiscal period	1 503	742
Shares of profits of affiliated companies	-6	1
Change of depreciation booked but not deducted in taxation	391	5
Other timing differences	0	393
Tax provision on income statement	**2 226**	**140**
Effective tax rate	-36,5 %	-3,6 %

14. EARNINGS PER SHARE

Net profit or loss attributable to the shareholders' of the parent, continuing operations	-8 329	-4 190
Net profit or loss attributable to the shareholders' of the parent, discontinuing operations	-1 597	1 965
Average number of shares during the fiscal period	3 463 206	2 952 591
Earnings per share calculated on profit attributable to equity holders of the parent:		
Earnings per share undiluted, euros/share, continuing operations	-2,40	-1,42
Earnings per share undiluted, euros/share, discontinuing operations	-0,46	0,67

15. TANGIBLE ASSETS

Fiscal period 2011-2012 1000 €	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	425	3 337	18 902	3 944	1 745	966	**29 320**
Translation differences					8		**8**
Increase	14	32	320		62	674	**1 101**
Decrease			-923		-3		**-926**
Transfers between items			1 258		8	-1 266	**0**
Reclassification to non-current held for sale assets		-412	-5 802	-1 335	-618		**-8 166**
Acquisition cost at the end of the period	439	2 957	13 756	2 609	1 201	375	**21 338**
Accumulated depreciations and impairment losses at the beginning of the period	0	-1 118	-14 405	-1 480	-1 409	0	**-18 413**
Translation differences					-5		**-5**
Depreciations of transfers' and decrease items			922		3		**925**
Depreciations		-157	-1 272	-325	-113		**-1 867**
Reclassification to non-current held for sale as-sets, cumulative amortisation		65	4 696	362	494		**5 618**
Accumulated depreciations and impairment losses at the end of the period	0	-1 210	-10 059	-1 443	-1 030	0	**-13 742**
Book value at the beginning of the period	425	2 219	4 497	2 464	336	966	**10 907**
Book value at the end of the period	**439**	**1 747**	**3 697**	**1 166**	**172**	**375**	**7 596**

TANGIBLE ASSETS

Fiscal period 2010-2011 1000 €	Land	Buildings	Machinery and equipment	Machinery and equipment, financial lease	Other tangible assets	Advance payments and unfinished investments	Total
Acquisition cost at the beginning of the period	428	4 050	18 442	3 694	1 717	465	**28 797**
Translation differences			0		-3		**-3**
Increase	7	4	273	250	42	1 188	**1 764**
Decrease	-10	-717	-499		-11		**-1 238**
Transfers between items			687			-687	**0**
Acquisition cost at the end of the period	425	3 337	18 902	3 944	1 745	966	**29 320**
Accumulated depreciations and impairment losses at the beginning of the period	0	-1 461	-13 842	-1 239	-1 331	0	**-17 874**
Translation differences			0		2		**2**
Depreciations of transfers' and decrease items		468	368		11		**847**
Depreciations		-125	-932	-241	-91		**-1 388**
Accumulated depreciations and impairment losses at the end of the period	0	-1 118	-14 405	-1 480	-1 409	0	**-18 413**
Book value at the beginning of the period	428	2 589	4 599	2 455	386	465	**10 923**
Book value at the end of the period	**425**	**2 219**	**4 497**	**2 464**	**336**	**966**	**10 907**

16. INTANGIBLE ASSETS

Fiscal period 2011-2012 1000 €	Development costs	Intangible rights	Other long-term assets	Other long-term assets, financing lease	Intangible assets total
Acquisition cost at the beginning of the period	715	198	2 035	3 020	**5 968**
Increase		186	1		**188**
Decrease		-17	-651		**-668**
Transfers between items		699	-699		**0**
Reclassification to non-current held for sale assets		-253	-353		**-606**
Acquisition cost at the end of the period	715	813	335	3 020	**4 882**
Accumulated depreciations and impairment losses at the beginning of the period	-715	-126	-1 933	-2 164	**-4 938**
Depreciations of transfers' and decrease items		-668	1 336		**668**
Depreciations		-131	-39	-721	**-891**
Reclassification to non-current held for sale assets, cumulative amortisation		162	350		**512**
Accumulated depreciations and impairment losses at the end of the period	-715	-763	-286	-2 885	**-4 649**
Book value at the beginning of the period	0	72	103	856	**1 030**
Book value at the end of the period	**0**	**49**	**49**	**135**	**233**

Fiscal period 2010-2011 1000 €	Development costs	Intangible rights	Other long-term assets	Other long-term assets, financing lease	Intangible assets total
Acquisition cost at the beginning of the period	715	129	1 990	3 020	**5 853**
Increase		69	46		**115**
Acquisition cost at the end of the period	715	198	2 035	3 020	**5 968**
Accumulated depreciations and impairment losses at the beginning of the period	-640	-71	-1 877	-1 623	**-4 211**
Depreciations	-75	-56	-56	-541	**-727**
Accumulated depreciations and impairment losses at the end of the period	-715	-126	-1 933	-2 164	**-4 938**
Book value at the beginning of the period	75	58	113	1 397	**1 642**
Book value at the end of the period	**0**	**72**	**103**	**856**	**1 030**

Development expenditure include mostly the development costs caused by the planning of new or more advanced products. Intangible rights include activated acquisition costs of patents, trade marks and licences. Goodwill, see Notes to the Consolidated Financial Statements, item 17. "Goodwill". Other long-term assets consist mostly of acquisition costs of IT-software, licences and the like.

1000 €

17. GOODWILL VALUES

Goodwill	**1.9.2011-31.12.2012**	**1.9.2010-31.8.2011**
Acquisition cost at the beginning of the period	1 702	1 702
Increase caused by the change in the Group structure	18	0
Acquisition cost at the end of the period	1 720	1 702
Impairment losses	-28	0
Book value at the end of the period	**1 692**	**1 702**

Testing of goodwill:

Goodwill values are tested for depreciation annually. The testing is performed for those cash generating units, to which the goodwill values area allocated, i.e. Vaahto Paper Technology Ltd, AP-Tela Oy and Japrotek Oy Ab. The value of the recoverable amount is based on utility value calculations. The impairment testing reveals the impairment of goodwill of Vaahto Paper Technology Oy, and this goodwill of 28 thousand euros has been recognized an impairment loss in the financial statements.

Main assumptions in testing of goodwill:

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

The majority of the goodwill, 1.6 million euros, is allocated to Stelzer Rührtechnik International GmbH. The company's cash flow forecast is based on an estimate according to which the company's turnover in the fiscal period 2013 and after that is expected to grow moderately. No significant changes are expected in the company's cost levels in the period covered by the forecast.

Discount rate:

The pretax WACC spesified for Vaahto Group has been used as the discount rate. The discount rate for fiscal period 2011-2012 was 10.77% for AP-Tela Oy and Vaahto Paper Technology Ltd (11.61% in 2010-2011) and 11.4% for Stelzer Rührtechnik International GmbH (12.12% in 2010-2011).

Sensitivity of the main assumptions used in testing of depreciation:

Where the forecast used for the Stelzer Rührtechnik International GmbH's depreciation testing is concerned, the cash flow may decrease by about 71% or the discount rate may increase by about 254% (which is about 29 %-units) without the need to write anything off. The company's management is of the opinion that reasonable changes in the central assumptions will not result in the book value of assets exceeding the amount of money recoverable thereof.

1000 €	31.12.2012	31.8.2011

18. OWNERSHIP IN AFFILIATED COMPANIES

Shares in affiliated companies		
Shares of profit of affiliated companies from the previous fiscal periods	57	62
Change in translation difference	1	-2
Shares of profit of affiliated companies from the fiscal period	25	-4
Total	**83**	**57**

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

Affiliated companies information		
Assets	594	198
Liabilities	429	82

	1.9.2011-31.12.2012	1.9.2010-31.8.2011
Net turnover	2 158	659
Profit for the period	49	-8

19. LONG-TERM RECEIVABLES

Non-current receivables	31.12.2012	31.8.2011
Long-term loan receivables	3	11
Total	**3**	**11**

20. AVAILABLE FOR SALE INVESTMENTS

Available for sale investments		
Other shares and holdings, available for sale, not listed	43	44
Total	**43**	**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

Deferred tax assets	31.12.2012	Recognized in income statement	31.8.2011	Recognized in income statement	31.8.2010
Internal margin of inventories	0	-8	8	-3	10
Internal margin of fixed assets	19	-4	23	23	0
Losses from the previous fiscal periods	124	-1 773	1 897	-85	1 982
Other timing differences	128	-219	347	167	179
Total	**271**	**-2 004**	**2 274**	**103**	**2 172**

Deferred tax liabilities	31.12.2012	Recognized in income statement	31.8.2011	Recognized in income statement	31.8.2010
Cumulative appropriations	0	-17	17	14	3
Cancelling of depreciations of the goodwill	444	71	373	53	320
Fair values of derivative instruments	-51	12	-63	39	-102
Other timing differences	304	7	296	-32	328
Total	**697**	**73**	**624**	**75**	**549**

The Group companies have tax losses on 31 December 2012 totalling 18,074 thousand euros (on 31 August 2011 10,149 thousand euros), which can be applied against future taxable income. A deferred tax asset has not been recognized for all tax losses, due to uncertainty regarding the extent to which they can be used. During the fiscal period 2011-2012, the Group has booked total 1,663 thousand euros impairment losses on tax assets which are based on confirmed losses. Impairment losses are booked of the deferred tax assets recognized on confirmed losses of Vaahto Paper Technology Ltd.

On 31 December 2012, the Group had confirmed losses total worth 508 thousand euros (7,296 thousand euros on 31 August 2011), for which the calculated fiscal claim has been entered for total worth 124 thousand euros (1,897 thousand euros on 31 August 2011). The losses for which the calculated fiscal claim has been entered concern Japrotek Oy Ab and AP-Tela Oy.

On 31 December 2012, the Group had losses from the fiscal period 2011-2012 to be confirmed as well as confirmed losses confirmed from the previous periods total worth 17,566 thousand euros (2,854 thousand euros on 31 August 2011), for which no calculated fiscal claim has been entered.

1000 €

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

Expiration time	**Confirmed losses total**	**Deferred tax asset entered total**
Year 2019	330	81
Year 2020	178	44
Total	**508**	**124**

22. INVENTORIES

Inventories	**31.12.2012**	**31.8.2011**
Materials and supplies	1 691	1 983
Work in progress	3 581	2 740
Finished products	510	879
Total	**5 783**	**5 601**

In the period 2011-2012 the carrying amount of inventories was reduced by 23 thousand euros (8 thousand euros in the previous period) for the scrappings of the inventories.

23. SHORT-TERM RECEIVABLES

Trade and other receivables	**31.12.2012**	**31.8.2011**
Trade receivables	3 564	4 439
Advance payment receivables	1 384	1 285
Advance payments for inventories	-35	261
Other receivables	289	366
Prepayments and accrued income	1 573	7 773
Total	**6 776**	**14 124**

Ageing analysis of trade receivables	**Trade receivables**	**Advance payment receivables**	**Total**
Not due	2 626	1 384	**4 010**
Past due less than 180 days	792	0	**792**
Past due more than 180 days	146	0	**146**
Total	**3 564**	**1 384**	**4 948**

The Group has booked total 75 thousands euros bad debts during the fiscal period 2011-2012 (2 thousand euros during the fiscal period 2010-2011).

Prepayments and accrued income **Prepayments and accrued income consists of:**	**31.12.2012**	**31.8.2011**
Accrued income on the construction contracts recognized under the percentage of completion method	1 293	6 818
Interest accruals	10	1
Accruals of personnel expenses	1	258
Receivable for the sale of real estates	0	300
Other prepayments and accrued income on expenses	270	397
Total	**1 573**	**7 773**

1000 €	31.12.2012	31.8.2011

24. CASH AND CASH EQUIVALENTS

Cash and bank		
Cash and bank	1 449	775
Total	**1 449**	**775**

Change of liquid funds in the flow of funds statement		
Liquid funds at the beginning of the period	775	560
Liquid funds at the end of the period	1 449	775
Change of liquid funds in the balance sheet	**674**	**215**

25. SHAREHOLDERS' EQUITY

Share Capital

Vaahto Group Plc Oyj's paid-up share capital entered in the Trade Register on 31 December 2012, was 2,872,302 euros, representing a total of 3,977,360 shares.

The new shares, a total of 917,602 shares, issued in the directed share issue resolved upon by Vaahto Group Plc Oyj's Board of Director on 19 April 2012 have been registered with the Trade Register on 23 April 2012. The new shares include the shareholder rights as from the registration date.

The new shares, a total of 73,892 shares, issued in the directed share issue resolved upon by Vaahto Group Plc Oyj's Board of Director on 2 December 2012 have been registered with the Trade Register on 18 December 2012. The new shares include the shareholder rights as from the registration date.

Each share carries one (1) vote and has equal rights in all respects. The share issue or the combination of the share series has no effect on the share capital of the company.

Share premium account

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

Reserve fund

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

Translation differences

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

Dividends

During the fiscal year 2011–2012 and 2010–2011 no dividends have been paid.

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

Capital management

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

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

The Group monitors the development of the capital structure using the equity ratio quarterly. This key figure is calculated by dividing the shareholders' equity of the Group with the total liabilities, excluded the amount of advance payments received. The equity ratio on 31 December 2012 was -7.9% (17.8% on 31 August 2011).

1000 €	31.12.2012	31.8.2011
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Share capital		
Share capital at the beginning of the period	2 872	2 872
Share capital at the end of the period	**2 872**	**2 872**
RESERVES		
Share premium account		
Share premium account at the beginning of the period	6	6
Share premium account at the end of the period	**6**	**6**
Unristrected equity reserve		
Unristrected equity reserve at the beginning of the period	0	0
Share issue	2 250	0
Increase in interest in subsidiary (non-cash issue of the share exchange)	1 112	0
Share issue expenses	-389	0
Deferred taxes due to period changes	95	0
Unristrected equity reserve at the end of the period	**3 068**	**0**
Reserve fund		
Reserve fund at the beginning of the period	1 994	1 994
Reserve fund at the end of the period	**1 994**	**1 994**
Reserves total	**5 069**	**2 000**
Translation differences		
Translation difference, restricted equity at date of acquisition	56	29
Translation differences	**56**	**29**
RETAINED EARNINGS		
Retained earnings		
Retained earnings at the beginning of the period	-1 369	1 867
Increase in interest in subsidiary	1 086	0
Retained earnings	**-283**	**1 867**
Equity in discretionary provisions		
Equity in discretionary provisions	49	7
Equity in discretionary provisions	**49**	**7**
Profit or loss for the fiscal period		
Profit or loss for the fiscal period	-9 926	-2 225
Profit or loss for the fiscal period	**-9 926**	**-2 225**
Retained earnings	**-10 160**	**-351**
Shareholders of the parent company	**-2 163**	**4 552**
MINORITY INTEREST		
Minority interest		
Minority interest at the beginning of the period	1 217	1 110
Decrease in interest in subsidiary	-1 217	0
Profit or loss for the fiscal period	0	107
Minority interest at the end of the period	**0**	**1 217**
Total shareholders' equity	**-2 163**	**5 768**

1000 €

26. PROVISIONS

Non-current provisions	Warranty provision	Pension provision	Total
Provisions at the beginning of the period	96	177	**273**
Increase of the provisions	229	0	**229**
Used provisions	-96	-11	**-107**
Provisions at the end of the period	**229**	**166**	**395**

The warranty provision and the pension provision consist of reserves of the Group's German subsidiary. The warranty provision covers warranty-related costs for products that have a product warranty. Warranty periods are usually 24 months long, in which time the provisions will be used. The pension provision consists of pension liabilities of one retired person.

Transferred projects

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

27. INTEREST-BEARING LIABILITIES

	31.12.2012	31.8.2011
Long-term liabilities, interest-bearing		
Loans from financial institutions	675	5 022
Pension loans	2 725	473
Finance leases	207	1 337
Total	**3 608**	**6 831**
Current liabilities, interest-bearing		
Loans from financial institutions	11 742	7 336
Pension loans	703	103
Other loans	1 350	0
Finance leases	250	830
Total	**14 045**	**8 269**
Finance lease liabilities, minimum rentals		
Within a year	259	933
More than one year but no more than 5 years	221	1 396
Minimum rentals	**480**	**2 330**
Future financing cost related to leasing agreements	23	163
Future finance lease liabilities at present value	**457**	**2 167**
Future minimum lease payments at present value		
Within a year	250	830
More than one year but no more than 5 years	207	1 337
Future finance lease payments at present value	**457**	**2 167**
Future minimum lease payments concerning the financing lease liabilities transferred to liabilities of a disposal group held for a sale	**614**	

28. FINANCIAL RISK MANAGEMENT

The objective of the Group's financial risk management policy is to minimize the harmful effects of financial market volatility on the Group's results. The primary financial risks are currency and interest rate risks, and the Group uses currency forwrd contracts and interest sate swaps for risk management. The Group's general principles of risk management are approved by the Board, and their implemention 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 30 of the Notes, "Fair values of financial assets and liabilities."

Exposure to foreign exchange risk from transactions

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

Group total at the end of the fiscal period	**31.12.2012**					**31.8.2011**
	USD	**SEK**	**GBP**	**USD**	**SEK**	**RUB**
Foreign currency trade receivables	24			58		
Foreign currency account payables	-23	-3	-40	-51	-1	-6
Foreign currency cash and bank	14	2	0	0	0	0
Net exposure in balance sheet	**15**	**-1**	**-40**	**7**	**-1**	**-6**

Sensitivity analysis

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

Group total at the end of the fiscal period	**31.12.2012**					**31.8.2011**
	USD	**SEK**	**GBP**	**USD**	**SEK**	**RUB**
Profit or loss for the period before taxes	0	0	-4	1	0	-1
Profit or loss for the period, net of taxes	0	0	-3	1	0	-1

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

Interest rate derivatives	**Currency**	**Amount**
Maturing within 1-5 years	EUR	4 581
Maturing after 5 years	EUR	0
Total	**EUR**	**4 581**

INTEREST RATE RISK

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

Sensitivity analysis of interest rate 1000 €	**Interest expenses according to the payment plan**	**Increase of the interest expenses resulted from the change of the interest rate**	
	31.12.2012	**+1%**	**+2%**
Loans from financial institutions	143	43	87
Pension loans	263	60	173
Other loans	42	7	14
Finance leases	15	5	10
Total	**462**	**115**	**284**

When calculating the sensitivity of interest rates, the non-current loans from financial institutions recorded as current liabilities because of the violation of covenant conditions have been treated as maturing after the first six months of the fiscal year 2013, which is the period covered by the commitment of the financier.

CREDIT RISK

For the most part, protection againts credit risks is managed by taking them into account in the selection of the term and method of payment. The Group does not usually provide customer financing; instead, it cooperates with banks and export credit agencies to support the financing of customers' equipment investments.

REFINANCING AND LIQUIDITY RISK

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.

The Group's liquidity situation is tight and the adequacy of funding requires to realization of management's plans and improved profitability, as well as reorganization of short-term financing payment plans or additional financing.

To assess the liquidity, the Group has prepared the monthly cash flow forecast, which extends until the end of the fiscal period 2013. The cash flow statement is based on the earnings forecast for fiscal period 2013 prepared in connection with the consolidated financial statements. At the balance sheet date, the working capital of the Group is sufficient for the needs of next 12 months, if the Group will achieve the forecasted profit targets and the short-term financing can be reorganized. After the end of the fiscal period, the Board of Directors of the parent company has started negotiations with the financiers regarding the reorganization of the payment plans. The result of the Group is expected to improve significantly in 2013. As the result levels used in the calculations do not reflect the actual performance of previous years, they include the uncertainty

Financial arrangements:

Loans from credit institutions involve repayment covenant conditions related to the equity ratio of the Group. The covenant conditions were violated on the balance sheet date, 31 December 2012, but the Group has at the end of the fiscal period 2011-2012 received from the financier a commitment that the violations will not lead to any consequences. However, the commitment doesn't cover the next twelve months, so liabilities to this financier has been recorded as current liabilities in the financial statement on 31 December 2012.

1000 €

Cash flows of financial liabilities according to the payment plan
Interest-bearing liabilities

Maturing during the fiscal period	**2013 During 1-6 months**	**2013 During 7-12 months**	**2014**	**2015**	**2016**	**Later**	**Total**
Loans from financial institutions, capital	4 829	6 517	250	225	200	396	12 417
Loans from financial institutions, interests	88	16	22	13	4	0	143
Pension loans, capital	351	351	702	692	649	682	3 428
Pension loans, interests	51	41	71	51	31	18	263
Other loans, capital	1 350	0	0	0	0	0	1 350
Other loans, interests	42	0	0	0	0	0	42
Finance leases, capital	197	53	141	66	0	0	457
Finance leases, interests	7	3	4	1	0	0	15
Total	**6 915**	**6 982**	**1 191**	**1 048**	**884**	**1 096**	**18 115**

The non-current loans from financial institutions recorded as current liabilities because of the violation of covenant conditions (total 3,183 thousand euros) have been stated maturing during 7-12 months in the table, because the commitment from the financier cover the period for the first 6 months of the fiscal year 2013. Accordingly, the interest expenses from those loans have been stated in the table only for the period covered by the commitment of the financier. The annual interest expenses of those loans are approximately 130 thousand euros.

Interest-free liabilities

Maturing during the fiscal period	**Overdue**	**2013 During 1-6 months**	**2013 During 7-12 months**	**2014**	**2015**	**Later**	**Total**
Trade payables	1 067	2 522	0	0	0	0	3 589
Advance payments, unpaid	39	13	0	0	0	0	52
Interest rate derivatives	0	0	0	31	177	0	208
Total	**1 106**	**2 535**	**0**	**31**	**177**	**0**	**3 849**

Liabilities of disposal group held for sale include total 1.4 million euros account payables of which 1.2 million euros was overdue at the balance sheet date.

1000 €

Cash flows of financial receivables according to the payment plan

Long-term receivables

Maturing during the fiscal period	2013	2014	2015	2016	2017	Later	Total
Loan receivables, capital and interests	0	0	0	0	0	3	3
Total	**0**	**0**	**0**	**0**	**0**	**3**	**3**

Short-term receivables

Maturing during the fiscal period	2013	2014	2015	2016	2017	Later	Total
Trade receivables	3 564	0	0	0	0	0	3 564
Advance payments receivables	1 384	0	0	0	0	0	1 384
Total	**4 948**	**0**	**0**	**0**	**0**	**0**	**4 948**

Maturing times and effective interest rates (weighted averages)

of interest-bearing liabilities 31.12.2012	Maturing times, years	Interest rate %
Loans from financial institutions	0,6	3,12
Loans from financial institutions including interest rate swap agreements	0,6	3,82
Pension loans	2,5	3,00
Other loans	0,5	6,19
Finance leases	1,1	3,27
Finance leases including interest rate swap agreements	1,1	3,27

When calculating the average maturing times and effective interest rates, the non-current loans from financial institutions recorded as current liabilities because of the violation of covenant conditions have been treated as maturing after the first six months of the fiscal year 2013, which is the period covered by the commitment of the financier.

Credit limits in use

In the end of the fiscal year 31.12.2012 the Group had credit limits in use total 3.7 million euros. The average interest rate of the credit limits was 2.51%.

Unused credit limits

In the end of the fiscal year 31.12.2012 the Group had unused book limits total 1.5 million euros.

29. SHORT-TERM LIABILITIES

Trade payables and other liabilities	31.12.2012	31.8.2011
Advance payments received	1 650	2 783
Advance payments, unpaid	1 384	1 264
Trade payables	3 589	4 400
Trade payables, unpaid	52	15
Other short-term liabilities	638	512
Accruals and deferred income	3 349	5 598
Total	**10 662**	**14 573**

Accruals and deferred income consist of:

Accrued employee expenses	2 101	2 003
Expenses from contracts	270	515
Derivatives	208	241
Interest liabilities	71	59
Other accruals and deferred income	699	2 780
Total	**3 349**	**5 598**

Tax liability

Tax liability, income tax	264	186
Total	**264**	**186**

1000 €

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Fair values of derivative instruments, non-hedging derivatives 31.12.2012

Interest rate derivatives	Nominal value	Positive fair value	Negative fair value	Net fair value
Interest rate swap agreements	4 581	0	-208	-208
Total	**4 581**	**0**	**-208**	**-208**

Fair values of derivative instruments, non-hedging derivatives 31.8.2011

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

Fair values of other than derivative contracts

Financial assets	Book value 31.12.2012	Fair value 31.12.2012	Book value 31.8.2011	Fair value 31.8.2011
Long-term receivables	3	3	11	11
Trade receivables and other receivables	6 776	6 776	14 124	14 124
Rahat ja pankkisaamiset	1 449	1 449	775	775

Financial liabilities	Book value 31.12.2012	Fair value 31.12.2012	Book value 31.8.2011	Fair value 31.8.2011
Long-term loans from financial institutes	675	675	5 022	5 022
Long-term pension loans	2 725	2 725	473	473
Long-term finance lease	207	207	1 337	1 337
Short-term loans from financial institutes	11 742	11 742	7 336	7 336
Short-term pension loans	703	703	103	103
Other short-term loans	1 350	1 350	0	0
Short-term finance lease	250	250	830	830
Trade payables and other liabilities	10 662	10 662	14 573	14 573

31. SECURITIES AND RESPONSIBILITIES

GRANTED SECURITIES

	31.12.2012	31.8.2011
Debt secured by real estate and corporate mortgages		
Loans from financial institutions	7 887	1 098
Total	**7 887**	**1 098**
Mortgages granted to secure loans and bank guarantees		
Real estate mortgages	2 543	2 543
Corporate mortgages	4 928	5 384
Total	**7 471**	**7 927**
Mortgages granted to secure the bank guarantee limit		
Corporate mortgages granted to secure the bank guarantee limit	8 235	8 235
Total	**8 235**	**8 235**
Other granted securities for own behalf		
Deposits	759	9
Total	**759**	**9**

Other granted securities

Vaahto Group Plc Oyj has granted as securities the share capitals of its subsidiaries Vaahto Paper Technology Ltd, Japrotek Oy Ab, AP-Tela Oy and Stelzer Rührtechnik International GmbH.

Japrotek Oy Ab has granted as securities the receivable of 11 million euros based on the agreement with Sasol (Pty) Limited -company.

1000 €

CONTINGENT LIABILITIES AND OTHER LIABILITIES	31.12.2012	31.8.2011
Bank guarantees		
Bank guarantee limits total	8 660	18 000
Bank guarantee limits, used	**7 405**	**11 218**
Operating lease agreements		
Within a year	272	246
More than one year but no more than 5 years	296	275
Total	**568**	**521**

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

Arrangements according to IFRIC 4

The Group has no arrangements meant in IFRIC 4.

Other rent agreements

The Group has rented production and office buildings for its use with various types of terminable rental agreements. The rental costs registered in the income statement has been presented in the attached information under item 7, "Other operating expenses".

Rent liabilities		
Within a year	804	804
More than one year but no more than 5 years	3 216	3 216
Later	2 144	3 216
Total	**6 164**	**7 236**

Annual rent payments under lease agreements that are in effect until further notice total 454 thousand euros.

Other contingent liabilities		
Granted guarantees to customers and creditors	730	500
Guarantees granted to secure bank guarantee limit	8 860	17 600
Guarantees granted to secure bank guarantees	315	290
Guarantees granted to secure bank loans	3 780	2 910
Guarantees granted to secure guarantee insurances	750	0
Guarantees granted to secure trial guarantees	1 500	0
Guarantees granted to secure rent guarantees	400	400
Total	**16 335**	**21 700**

Environmental impact

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

Vaahto Paper Technology Ltd has on November 2012 received from the Supreme Administrative Court a decision according to which the company's complaint concerning the decision of the Häme Environmental Centre has been rejected. The company's complaint concerned the decision of the Environmental Centre not to lengthen the deadline for the action according to the environmental permit concerning the handling of the flood water of the company's Hollola plant yard area. The surfacing of the storage yard area and construction of the flood water piping as demanded in the environmental permit of the Hollola plant will be accomplished during year 2013. Estimated costs for the measures are approximately 500 thousand euros.

Litigation

Vaahto Paper Technology Ltd is going to a patent dispute with another equipment supplier. The district court is hereby Vaahto Paper Technology Ltd advantage, but the other party has appealed to the Court of Appeal. The Group estimates that Vaahto Paper Technology Ltd does not give rise to the dispute other than attorney's fees and the consolidated financial statements are free of this reservation. Procedure before the Court of Appeal has not yet finished.

Vaahto Paper Technology Ltd is going to a dispute with customer concerning the equipment supply. The matter will be handled in Swiss arbitration court in accordance with the agreement and the issue is out there so far incomplete. Proceedings has been issued 1.5 million euros trial guarantee security for the counter. The Group estimates that Vaahto Paper Technology Ltd does not give rise to the dispute other than attorney's fees and the consolidated financial statements are free of this reservation. Non-current assets held for sale include total 590 thousand euros trade receivables of Vaahto Paper Technology Ltd related to the this project additional work that the customer has challenged.

32. RELATED PARTY TRANSACTIONS

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

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011
TRANSACTIONS WITH RELATED PARTIES		
Rent income		
The renting income of the plot belonging to the corporation in the control of the members of the Board	12	12
Rent expenses		
The renting expenses of the factory property for the corporation in the control of the members of the Board	523	392
The renting expenses of the office rooms for the corporation in the control of the members of the Board	88	64
Other operating expenses		
Consulting and other professional fees to company, to which the Chairman of Board of the parent company is in the service of	40	4
Short-term loans		
Short-term loans from the shareholders of the parent company	1 350	0
EMPLOYEE BENEFITS FOR THE MANAGEMENT		
Salaries and fees of the parent company management		
CEO:		
Klinga Anssi, until 4 April 2012	192	216
Viinikkala Ari, since 4 April 2012	141	0
Board members:		
Alatalo Sami	10	0
Häggblom Rainer	25	19
Jaatinen Seppo	0	9
Järvinen Reijo	35	24
Karppanen Topi	25	13
Unkuri Martti	0	6
Vaahto Antti	0	13
Vaahto Mikko	25	19

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

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

PARENT COMPANY AND SUBSIDIARIES

Group companies

Company	Registered office	Number of shares	Share of ownership %	Share of voting rights %
AP-Tela Oy	Kokkola	480	100,00	100,00
Japrotek Oy Ab	Pietarsaari	100 000	100,00	100,00
Steva 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 Paper Technology Ltd (previously Vaahto Ltd)	Hollola	2 700	100,00	100,00

Subsidiaries of subconcern

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

Associations of subconcern

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

33. INDICATOR CALCULATION FORMULAS

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

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

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

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

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

Notes to the Consolidated Financial Statements

FORMULAS FOR PER SHARE ITEMS

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

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

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

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

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

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

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

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

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

34. SHARES AND SHAREHOLDERS

According to the book-entry security system, Vaahto Group Plc Oyj had 337 registered shareholders on 31 December 2012. There were in total 58,924 nominee-registered shares.

MAJOR SHAREHOLDERS		**Shares**		**Votes**
According to the book-entry security system, on 31 December 2012	**no.**	**%**	**no.**	**%**
Laakkonen Mikko	769 375	19,3	769 375	19,3
Vaahto Mikko	546 248	13,7	546 248	13,7
Vaahto Antti	530 649	13,3	530 649	13,3
Vaahto Ilkka	453 985	11,4	453 985	11,4
Hymy Lahtinen Oy	289 800	7,3	289 800	7,3
Vaahto Heikki	130 696	3,3	130 696	3,3
Kiinteistö Oy Vaahtoila	124 280	3,1	124 280	3,1
Mutual Employee Pension Company Varma	120 640	3,0	120 640	3,0
Mäkihonko Juha	108 558	2,7	108 558	2,7
Laakkonen Hannu	95 000	2,4	95 000	2,4
Total for 10 largest	**3 169 231**	**79,7**	**3 169 231**	**79,7**

BREAKDOWN OF SHARE OWNERSHIP BY AMOUNT OF HOLDINGS		**Shareholders**		**Shares**		**Votes**
According to the book-entry security system, on 31 December 2012	**no.**	**%**	**no.**	**%**	**no.**	**%**
1 - 100	120	35,6	5 495	0,1	5 495	0,1
101 - 1 000	145	43,0	52 297	1,3	52 297	1,3
1 001 - 10 000	48	14,2	155 997	3,9	155 997	3,9
10 001 - 100 000	15	4,5	685 860	17,2	685 860	17,2
100 001 - 1 000 000	9	2,7	3 074 231	77,3	3 074 231	77,3
	337	100,0	3 973 880	99,9	3 973 880	99,9
Outside the book-entry securities system			3 480	0,1	3 480	0,1
			3 977 360	**100,0**	**3 977 360**	**100,0**

BREAKDOWN OF SHARE OWNERSHIP BY CATEGORY OF OWNER	Shareholders		Shares		Votes	
According to the book-entry security system, on 31 December 2012	**no.**	**%**	**no.**	**%**	**no.**	**%**
Companies	31	9,2	554 575	13,9	554 575	13,9
Financial and insurance institutions	3	0,9	157 880	2,5	157 880	2,5
Public corporations	2	0,6	139 400	3,5	139 400	3,5
Households	298	88,4	3 113 824	78,3	3 113 824	78,3
Non-profit organizations	2	0,6	201	0,0	201	0,0
Foreign countries	1	0,3	8 000	0,2	8 000	0,2
	337	100,0	3 973 880	98,4	3 973 880	98,4
Outside the book-entry securities system			3 480	0,1	3 480	0,1
			3 977 360	**98,5**	**3 977 360**	**98,5**

SHARE HOLDINGS OF THE MANAGEMENT	Shares		Votes	
According to the book-entry security system, on 31 December 2012	**no.**	**%**	**no.**	**%**
Board of directors and CEO				
Vaahto Mikko	563 139	14,2	563 139	14,2

Group management team

The members of the Group management team did not own shares on 31 December 2012.

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

Members of the Board owned a total of 546,248 shares (excluding the shares of companies under the relevant body or individual's control and of minor persons under guardianship), representing 13.7% of the votes.

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

35. EVENTS AFTER THE END OF THE FISCAL YEAR

Agreement for the sale of the Project business

Vaahto Group has on 16 January 2013 entered into an initial agreement for the sale of the Vaahto Paper Technology group's Projects business and the spare part and small projects businesses belonging to its Services business to a company to be incorporated by Gebr. Bellmer GmbH Maschinenfabrik of Germany. The parties will seek to negotiate the final terms of the transaction so that it can be completed no later than at the end of Q1 of year 2013. Vaahto Group and Bellmer GmbH have in connection with negotiating the transaction also negotiated a co-operation agreement, to be entered into by the Projects business and Vaahto Paper Technology's Service business.

Income Statement of the Parent Company, FAS

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011	Note
NET TURNOVER	**4 320**	**3 216**	**2**
Other operating income	6	2	3
Personnel expenses	-1 581	-1 118	5
Depreciations and impairment losses	-4 657	-44	6
Other operating expenses	-2 784	-2 207	7
OPERATING PROFIT OR LOSS	**-4 697**	**-150**	**4**
Financing income and expenses	-843	-205	8
Impairment losses	-2 200	0	9
PROFIT OR LOSS BEFORE INCOME TAXES AND APPROPRIATIONS	**-7 740**	**-355**	
Appropriations	10	0	
PROFIT OR LOSS FOR THE FISCAL YEAR	**-7 730**	**-355**	

Balance Sheet of the Parent Company, FAS

1000 €	31.12.2012	31.8.2011	Note
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	38	68	
Tangible assets	27	68	
Investments	5 527	8 981	
NON-CURRENT ASSETS	**5 592**	**9 117**	**11**
CURRENT ASSETS			
Long-term receivables	8 300	4 008	
Short-term receivables	1 660	4 915	
Cash and bank	30	11	
CURRENT ASSETS	**9 990**	**8 935**	**12**
ASSETS	**15 581**	**18 052**	
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	2 872	2 872	
Reserve fund	5 590	2 228	
Retained earnings	3 120	3 475	
Profit or loss for the fiscal year	-7 730	-355	
SHAREHOLDERS' EQUITY	**3 853**	**8 221**	**13**
Depreciation in excess of plan	0	10	
CUMULATIVE APPROPRIATIONS	**0**	**10**	**14**
LIABILITIES			
Long-term interest-bearing liabilities	2 086	2 434	15
Short-term interest-bearing liabilities	9 194	7 050	16
Short-term non-interest-bearing liabilities	448	337	16
LIABILITIES	**11 729**	**9 821**	
EQUITY AND LIABILITIES	**15 581**	**18 052**	

Flow of Funds Statement of the Parent Company, FAS

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011
FLOW OF FUNDS FROM OPERATIONS:		
Profit before extraordinary items	-5 540	-355
Adjustment items:		
Depreciations according to plan	74	44
Impairment losses from the shares in Group companies	4 583	0
Financial income and expenses	843	205
Capital gains and losses	0	-1
Flow of funds before the change in working capital	**-40**	**-107**
Change in working capital:		
Change in short-term receivables	78	63
Change in short-term non-interest bearing creditors	111	-25
Flow of funds before financial items and taxes	**150**	**-69**
Interest and other financial expenses from operations paid	-968	-439
Dividends and other financial income received	2	1
Interests received	123	233
FLOW OF FUNDS FROM OPERATIONS	**-694**	**-274**
FLOW OF FUNDS FROM INVESTMENTS:		
Investments in tangible and intangible assets	-2	-25
Other investments	-18	-90
Income from sales of tangible and intangible assets	0	1
Granted loans	-6 500	-2 000
Repayments of loans receivables	8	1
FLOW OF FUNDS FROM INVESTMENTS	**-6 512**	**-2 113**
FLOW OF FUNDS FROM INVESTMENTS:		
Share issue	2 250	0
Withdrawals of short-term loans	3 000	2 500
Repayments of short-term loans	-4 066	-4 498
Withdrawals of long-term loans	0	600
Change in Group account receivable or debt	6 040	3 629
FLOW OF FUNDS FROM FINANCIAL ITEMS	**7 224**	**2 231**
Change of liquid funds	**18**	**-155**
Liquid assets at the beginning of the fiscal year	11	167
Liquid assets at the end of the fiscal year	30	11
Change in liquid assets according to the balance sheet	19	-155

Notes to the Parent Company's Financial Statements

1. ACCOUNTING PRINCIPLES FOR FINANCIAL STATEMENTS

The financial statements of Vaahto Group Plc Oyj for the fiscal period 1 September 2011 – 31 December 2012 were drawn up in accordance with Finnish accounting legislation.

Assets and liabilities in foreign currencies

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

Other operating income

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

Expenditure on research and development

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

Pensions

Pension liabilities for the parent company's personnel have been covered through a pension insurance company. Statutory pension expenses have been entered under costs for the fiscal year in which they accumulated.

Leasing payments

In the parent company's financial statement, leasing payments have been entered under annual costs in accordance with the Finnish Accounting Act.

Intangible assets

Intangible assets include computer software. They are entered at the original acquisition cost, minus planned depreciation. The economic life (term of depreciation) of software is five years.

Tangible assets

Tangible assets are entered on the balance sheet at their original acquisition cost, planned depreciation deducted. The economic life of buildings and structures is 35–40 years, and that of machines and equipment is 5–25 years.

Income tax

Income tax has been entered in accordance with the Finnish Accounting Act.

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011

2. TURNOVER BY BUSINESSES AND MARKET AREAS

By businesses		
Administration	4 320	3 216
Total	**4 320**	**3 216**

By market areas		
Finland	4 320	3 216
Total	**4 320**	**3 216**

3. OTHER OPERATING INCOME

Other operating income		
Profits from sales	6	1
Other	0	1
Total	**6**	**2**

4. OPERATING PROFIT OR LOSS BY BUSINESSES

Operating profit or loss		
Administration	-4 697	-150
Total	**-4 697**	**-150**

5. PERSONNEL

Average number of personnel		
Office staff	14	14
Total	**14**	**14**

Personnel expenses		
Wages and salaries	1 300	916
Pension costs	230	162
Other personnel expenses	51	39
Total	**1 581**	**1 118**

Management's salaries and benefits		
Managing directors	333	216
Board members	120	102
Total	**453**	**318**

Notes to the Parent Company's Financial Statements

1000 €	1.9.2011-31.12.2012	1.9.2010-31.8.2011

6. DEPRECIATIONS AND DECREASED VALUES

Fixed assets have been depreciated according to plan. Depreciation according to plan is calculated based on straight line depreciation, the economic life and the original purchase value of assets.

The estimated economic lives (years)		
Other long-term assets	5-10 years	5-10 years
Buildings	35-40 years	35-40 years
Machinery and equipment	5-25 years	5-25 years

Depreciations and decreased values		
Depreciations from tangible and intangible assets	74	44
Impairment losses from the shares in Group companies	4 583	0
Total	**4 657**	**44**

7. OTHER OPERATING EXPENSES

Other operating expenses		
Rent expenses	1 036	751
Non-statutory employee benefits	87	50
Other expenses	1 662	1 406
Total	**2 784**	**2 207**

8. FINANCIAL INCOME AND EXPENSES

Income from other investments held as non-current assets		
Other	1	1
Total	**1**	**1**
Other interest and other financial income		
Group companies	114	122
Other	8	-105
Total	**123**	**16**
Financial income total	**124**	**17**
Interest and other financial expenses		
Group companies	82	15
Other	886	208
Total	**968**	**222**
Financial expenses total	**968**	**222**
Financial income and expenses total	-843	-205

9. IMPAIRMENT LOSSES

Impairment loss on securities carried as current assets		
Impairment loss on capital loan receivables	2 200	0
Total	**2 200**	**0**

Note 12.

10. SHAREHOLDINGS

Group companies

Company	**Registered Office**	**Number of Shares**	**Group Ownership, %**
AP-Tela Oy	Kokkola	480	100,00
Japrotek Oy Ab	Pietarsaari	100 000	100,00
Steva Oy	Hollola	1 600	100,00
Stelzer Rührtechnik International GmbH	Warburg, Germany		100,00
Vaahto Group Asia Limited	Hong Kong, China		100,00
Vaahto Paper Technology Ltd (previously Vaahto Ltd)	Hollola	2 700	100,00

1000 €	31.12.2012	31.8.2011

11. NON-CURRENT ASSETS

	31.12.2012	31.8.2011
INTANGIBLE ASSETS		
Other long-term assets		
Acquisition cost at the beginning of the fiscal year	527	503
Increase	1	24
Decrease	-287	0
Acquisition cost at the end of the fiscal year	**240**	**527**
Accumulated depreciations at the beginning of the fiscal year	458	431
Depreciation of the fiscal year	32	27
Accumulated depreciations of the decrease	-287	0
Accumulated depreciations at the end of the fiscal year	**202**	**458**
Book value at the end of the fiscal year	**38**	**68**
Intangible assets total	38	**68**
TANGIBLE ASSETS		
Machinery and equipments		
Acquisition cost at the beginning of the fiscal year	334	378
Increase	1	1
Decrease	-186	-45
Acquisition cost at the end of the fiscal year	**149**	**334**
Accumulated depreciations at the beginning of the fiscal year	278	306
Accumulated depreciations of the decrease	-186	-45
Depreciation of the fiscal year	42	17
Accumulated depreciations at the end of the fiscal year	**134**	**278**
Book value at the end of the fiscal year	14	**56**
Other tangible assets		
Acquisition cost at the beginning of the fiscal year	12	12
Acquisition cost at the end of the fiscal year	**12**	**12**
Book value at the end of the fiscal year	**12**	**12**
Tangible assets total	**27**	**68**
INVESTMENTS		
Shares in Group companies		
Acquisition cost at the beginning of the fiscal year	9 489	9 399
Increase	1 129	90
Acquisition cost at the end of the fiscal year	**10 619**	**9 489**
Accumulated depreciations and impairment losses at the beginning of the fiscal year	528	528
Impairment losses of the fiscal year	4 583	0
Accumulated depreciations and impairment losses at the end of the fiscal year	**5 111**	**528**
Book value at the end of the fiscal year	**5 508**	**8 962**
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	**5 527**	**8 981**

Impairment-testing of shares in subsidiaries

The value of shares in subsidiaries in the parent company's accounts is the original cost plus investments made subsequently to consolidate the subsidiaries' equity capital. Share value has substantial bearing on the parent company's solvency ratio and, thereby, on equity capital and other factors. Impairment tests of shares in subsidiaries have been performed on the basis of the situation presented in the year-end accounts of 31 December 2012. Impairment-test calculations show signs of impairment in the acquisition cost of shares of Vaahto Paper Technology Oy. For this reason, a value-adjustment entry of -€4,583,135.65 has been made for the acquisition cost of shares in Vaahto Paper Technology Oy (€4,583,135.65) in the parent company's year-end accounts of 31 December 2012. The calculations show no sign of share-value impairment in other subsidiaries.

1000 €	31.12.2012	31.8.2011
12. CURRENT ASSETS		
External long-term receivables		
Other long-term receivables	0	8
Total	**0**	**8**
Long-term receivables from Group		
Other long-term receivables	8 300	4 000
Total	**8 300**	**4 000**
Long-term receivables total	**8 300**	**4 008**
External short-term receivables		
Prepaid expenses and accrued income	43	127
Total	43	127
Short-term receivables from Group companies		
Other receivables	1 617	4 788
Total	**1 617**	**4 788**
Prepaid expenses and accrued income consist of:		
Prepaid social security costs	0	25
Other prepaid expenses and accrued income	43	102
Prepaid expenses and accrued income total	**43**	**127**
Short-term receivables total	**1 660**	**4 915**

Capital loan receivables from Group companies

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

At the closing of the financial period, on 31 December 2012, the parent company had, in total, 10.5M EUR of subordinated loan receivables from subsidiaries, consisting of 8.55M EUR from Vaahto Paper Technology Oy and 1.95M EUR from Japrotek Oy Ab. The value of subordinated loan receivables has substantial bearing on the parent company's solvency ratio and, therefore, on equity capital and other factors.

Impairment tests of subordinated loan receivables from subsidiaries have been performed on the basis of the situation presented in the year-end accounts of 31 December 2012. In the impairment calculations, recoverable funds are determined on the basis of utility value. The cash-flow forecasts used in the calculations are based on the management's annual loss and profit forecast and on maintenance investment forecasts made in connection with the Group's budgeting process. The management base their forecasts on actual business development and the management's view of the industry's growth outlook. Approved investment decisions are taken into account in the growth forecasts. Financial plans and forecasts made for the units subject to testing are prepared for five-year periods, and the test calculations include cash flows predicted for that full period. The growth rate applied in extrapolation of cash flows to post-forecast periods is 0%. The discount rate used in the calculations is Vaahto Group's weighted average cost of capital (WACC) before tax. During the 2011–2012 financial period, the discount rate was 10.77%.

Impairment-test calculations show signs of impairment in the subordinated loan receivables of Vaahto Paper Technology Oy. For this reason, a value-adjustment entry of -2.2M EUR has been made in the subordinated loan receivables from Vaahto Paper Technology Oy (8.55M EUR) in the parent company's year-end accounts of 31 December 2012. Vaahto Paper Technology Oy's subordinated loan receivables have no sensitivity. Therefore, failure of the company to meet its profitability objectives would create a need for further value adjustments of subordinated loan receivables.

The calculations show no sign of impairment in subordinated loan receivables from Japrotek Oy Ab.

As the turnover and operating profit levels used in the calculations do not reflect actual development achieved over the past few years, they include uncertainties.

1000 €	31.12.2012	31.8.2011

13. 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**
Unrestricted equity reserve at the beginning of the fiscal period	0	0
Share issue	2 250	0
Increase in interest in subsidiary (non-cash issue of the share exchange)	1 112	0
Unrestricted equity reserve at the end of the fiscal period	**3 362**	**0**
Reserve fund at the beginning of the fiscal year	2 228	2 228
Reserve fund at the end of the fiscal year	**2 228**	**2 228**
Retained earnings at the beginning of the fiscal year	3 120	3 475
Retained earnings in the end of the fiscal year	**3 120**	**3 475**
Profit or loss for the fiscal year	**-7 730**	**-355**
Shareholders' equity total	**3 853**	**8 221**
Calculation on distributable assets		
Retained earnings	3 120	3 475
Profit for the fiscal year	-7 730	-355
Distributable assets total	**-4 610**	**3 120**
Number of shares by series at the end of the fiscal period	**no.**	**no.**
A-share (1 vote/share)	3 977 360	2 985 866
The distribution of shareholders' equity by series	**euros**	**euros**
A-share (1 vote/share)	2 872 302	2 872 302

14. CUMULATIVE APPROPRIATIONS

Depreciation in excess of plan		
Depreciation in excess of plan, machinery and equipment	0	10
Total	**0**	**10**

15. LONG-TERM LIABILITIES

External long-term liabilities		
Loans from financial institutions	2 086	2 434
Total	**2 086**	**2 434**
Long-term liabilities total	**2 086**	**2 434**

Notes to the Parent Company's Financial Statements

1000 EUR	31.12.2012	31.8.2011

16. SHORT-TERM LIABILITIES

External short-term liabilities, interest-bearing		
Loans from financial institutions	2 695	3 120
Credit limits used	3 334	3 628
Total	**6 030**	**6 748**

Short-term liabilities to Group companies, interest-bearing		
Other liabilities	3 165	301
Total	**3 165**	**301**

External short-term liabilities, non-interest-bearing		
Accounts payable	184	96
Other liabilities	127	85
Accrued liabilities and deferred income	137	157
Total	**448**	**337**

Accrued liabilities and deferred income consist of:		
Accrued employee expenses	114	102
Interest liabilities	23	29
Other accruals and deferred income	1	26
Total	**137**	**157**

Short-term liabilities total	**9 642**	**7 387**

17. SECURITIES AND RESPONSIBILITIES

GRANTED SECURITIES

Other granted securities

Vaahto Group Plc Oyj has granted as securities the share capitals of its subsidiaries Vaahto Paper Technology Ltd, Japrotek Oy Ab, AP-Tela Oy and Stelzer Rührtechnik International GmbH.

Book values of the shares in subsidiaries granted as securities total	**5 240**	**0**

LIABILITIES

Leasing commitments to be paid		
To be paid during fiscal year 2013	442	954
Later	189	594
Total	**632**	**1 548**

Granted guarantees by Group companies		
Granted guarantees to customers and creditors	730	500
Granted guarantees to secure bank guarantee limits	8 860	17 600
Guarantees granted to secure guarantee insurances	750	0
Guarantees granted to secure trial guarantees	1 500	0
Granted guarantees to secure loans	3 780	2 910
Granted guarantees to secure rent bank guarantees	400	400
Total	**16 020**	**21 410**

The Board of Directors' proposal

The parent company's business loss for the financial year was €7,730,277.29, and the company has no distributable funds. The Board of Directors proposes to the general meeting that no dividend be distributed and that the loss be covered with funds from the profit account.

Lahti, February 28, 2013

Reijo Järvinen	Rainer Häggblom	Sami-Jussi Alatalo
Topi Karppanen	Mikko Vaahto	Ari Viinikkala

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 December, 2012. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, statement of cash flows and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AN ADDITIONAL INFORMATION RELATING TO EMPHASIZING OF A CERTAIN ISSUE

We want to draw attention to the issues described in the report of the Board of Directors and in paragraph 28 of notes to financial statements of the company's liquidity and liabilities. The company estimates that the group's working capital in closing date is sufficient to the needs of the following twelve months, provided that the group achieves the forecasted financial targets and the short-term financing can be rearranged. These factors, together with other issues mentioned in the report of the Board of Directors and the notes to the financial statements show material uncertainty, which may challenge the company's going concern assumption. Our statement not been adopted regarding this matter.

In addition, we want to draw attention to the valuation of the subsidiary shares described in paragraph 12 of notes to financial statements of the parent company and the uncertainty relating to them. Our statement not been adopted regarding this matter.

Lahti, 5.3.2013

Ernst & Young Oy
Authorized Public Accountant Firm

Panu Juonala
Authorized Public Accountant

Contacts

VAAHTO GROUP

Vaahto Group Plc Oyj
Laiturikatu 2
P.O.Box 5
FIN-15141 LAHTI
Tel. +358 20 1880 511
Fax +358 20 1880 301
firstname.surname@vaahto.fi

www.vaahto.fi

VAAHTO PAPER TECHNOLOGY

Vaahto Paper Technology Ltd, Projects and Service
Vanha Messiläntie 6
P.O.Box 1000
FIN-15861 HOLLOLA
Tel. +358 20 1880 511
Fax +358 20 1880 290
firstname.surname@vaahto.fi

Vaahto Paper Technology Ltd, Service
Kuoppamäentie 5-7
P.O.Box 838
FIN-33101 TAMPERE
Tel. +358 20 1880 511
Fax +358 20 1880 701
firstname.surname@vaahto.fi

AP-Tela Oy
Ahertajantie 18
FIN-67800 KOKKOLA
Tel. +358 20 1880 511
Fax +358 20 1880 660
firstname.surname@vaahto.fi

Vaahto Pulp & Paper Machinery Distribution (Shanghai) Co., Ltd.
Room 1703, Tower 1 Plaza Hyundai
369 Xian Xia Road
Changning District, Shanghai 200336
CHINA
Tel. + 86 21 5155 9151
Fax + 86 21 5155 9153
firstname.surname@vaahto.fi

ZAO Slalom
196247 Saint-Petersburg,
Constitution sq., bld.7, office 626
RUSSIAN
Tel. + 7(812) 974 80 10
Fax + 7(812) 676 03 24
slalom@slalom-spb.ru

VAAHTO PROCESS TECHNOLOGY

Japrotek Oy Ab
Pohjantie 9
P.O.Box 12
FIN-68601 PIETARSAARI
Tel. +358 20 1880 511
Fax +358 20 1880 449
firstname.surname@vaahto.fi

Steva Oy
Pohjantie 9
P.O.Box 12
FIN-68601 PIETARSAARI
Tel. +358 20 1880 511
Fax +358 20 1880 449
firstname.surname@vaahto.fi

Stelzer Rührtechnik International GmbH
Speckgraben 20
D-34414 Warburg
GERMANY
Tel. + (49) 5641 903-0
Fax + (49) 5641 903-50
firstname.surname@stelzer-mt.com
www.stelzerruehrtechnik.de

Design and production: Viestintätoimisto Pilkku Oy, www.pilkkutehdas.fi
Printing: Erweko Oy, www.erweko.fi

www.vaahto.fi