VAPO'S YEAR 1 May 2015– 30 April 2016 Vapo is local Vapo is a primarily local operator that produces vital fuel and energy solutions for its customers. Vapo's delivery reliability ensures that communities do not run out of energy. Vapo has a strong capacity Vapo's core business is the local energy business based on domestic fuels, with a focus on leveraging the company's competencies to produce added value services for current and new customers. The company also seeks growth by investing in entirely new business areas. Vapo is close to the customer Vapo's success is built on delivery reliability, responsibility and renewal, as well as change in proximity to — and in cooperation with — customers. Vapo is responsible Corporate responsibility is the foundation of all of Vapo's business operations. The focus is on



environmental responsibility and transparency in operations.

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GREATING GHANGE LOGALLY

Vapo operates locally. Individual measures and changes may seem small in the big picture, but they represent significant actions locally and for each customer.

Vapo pursues renewal and strong results and, as a responsible company, it looks after its operating environment. In practice, this approach must be reflected in everything Vapo does.

Our work consists of actions close to people. They have a positive impact on local communities as well as the world in a broader sense.



Vapo is local



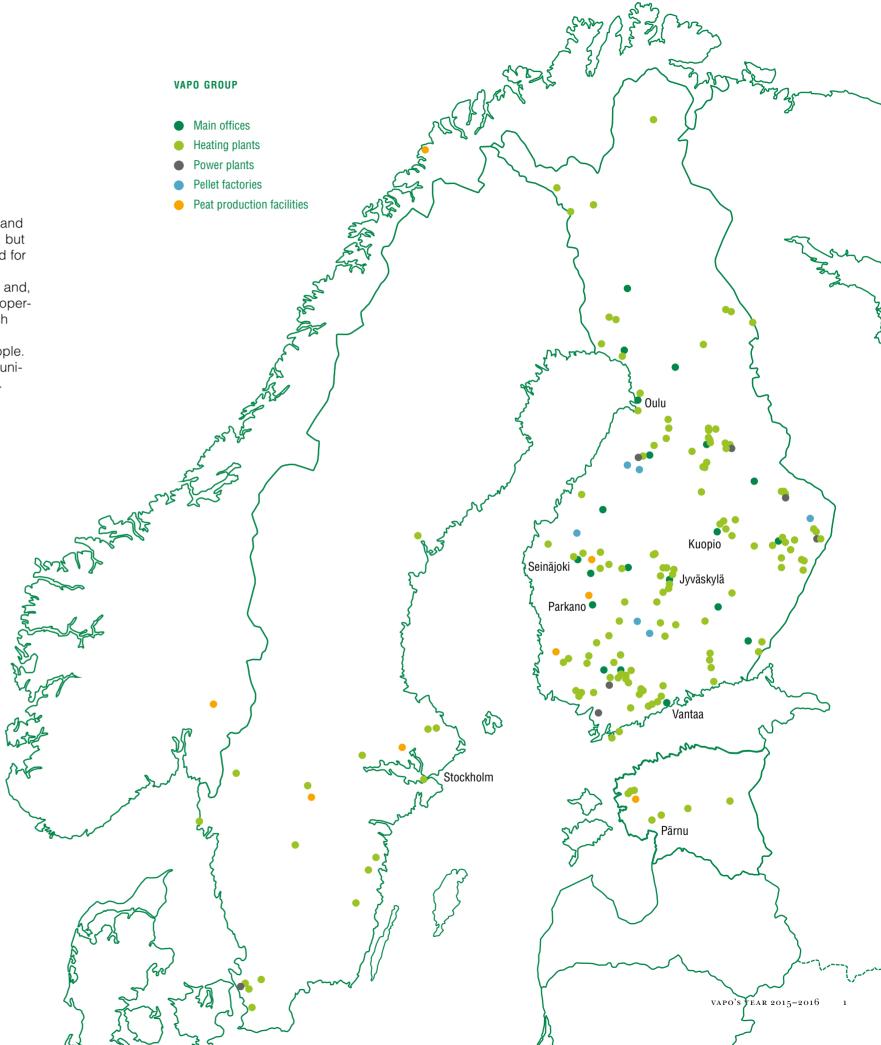
Vapo has a strong capacity for renewal



Vapo is close to the customer



Vapo is responsible



BUILDING ON OUR STRENGTHS

— Vapo has defined the strategic core of its business operations as the energy business in Finland, Sweden and Estonia.

The company's structure was streamlined accordingly during the past year when the last sawmills owned by Vapo were sold. We are now a nearly fullblooded energy company.

Up until a few years ago, Vapo and its subsidiary Kekkilä Oy were linked by raw material resources, namely peat. Peat serves as an excellent garden substrate for both professional and amateur growers. Today, the link between Vapo and Kekkilä is more multifaceted. Peat is used as a source of fibre, while the composting and digestion techniques related to Kekkilä's core business are closely linked to the renewable energy business.

The use of energy peat has fallen to about half of what it was in the peak years. The most significant reason behind this decline is that generating electricity from any fuel at separate condensing power plants is not profitable at the prevailing prices. This has meant that peat consumption among Vapo's customers has fallen by millions of cubic metres. However, peat remains a very important fuel in large-scale district heating plants and separate heating production units, either in a fuel mixture with wood chips or on its own in certain applications such as greenhouses heated by sod peat.

Peat is needed

The targets stipulated by the national energy policy are to increase Finland's self-sufficiency in energy to 55 per cent by 2030 from the current level of just over 30 per cent, with a concurrent increase in the share of renewable energy to over 50 per cent from the current level of slightly under 40 per cent. As a domestic fuel that provides jobs and is suitable for storage to support the security of supply, peat will continue to play a significant role in Finland's energy palette going forward, corresponding to approximately five per cent. Using peat also helps secure the raw material sourcing of industries that use wood to produce higher value added products. Responsibly produced energy peat will continue to see demand in the market for at least as long as imported fossil fuels.

New products

The use of peat for purposes other than energy, garden substrates and animal litter has been badly overlooked in research. Finland has massive peat resources. Based on the studies conducted by Vapo over the past few years, these resources represent significant commercial potential. Peat fibre can replace many other natural fibres in a sustainable manner without having to produce fibre crops on land that is suitable for food production, without the use of fertilisers or crop protection products. Using peat for fibre also helps conserve wood fibre for other uses.

I expect that the non-energy use of peat will see very significant growth over the next five years. We already know that peat fibre and peat possess many special characteristics, such as mould resistance, antibacterial properties and excellent moisture tolerance, as well as the high absorbency of peat used to clean up oil spills. The benefits of these special characteristics have not yet been marketed to industrial operators on a large scale, and the differentiating factors and competitive advantages based on these special characteristics have yet to be commercialised and leveraged in any market.

Towards a service business

At Vapo, we have built the strategy of our core business on the expertise we have accumulated over decades in domestic fuels and their combustion close to where they are produced. This is why we are confident in our strategy, which is aimed at making Vapo the world leader in the local energy value chain. The past financial year saw us take a significant step forward on this path. We have become to be known as a fuel supplier but, going forward, we want to develop deeper customer partnerships with a stronger focus on selling services. The services we offer to our customers can include stand-by services, the full-time or part-time remote operation of power and heating plants, or pure expert services. The digitalisation of the industry is a

significant factor in this development, as it enables economies of scale, even more energy-efficient operations and greater operational efficiency for both the service provider and the customer. A good example of this is the operations centre we built in Vantaa's Tikkurila district.

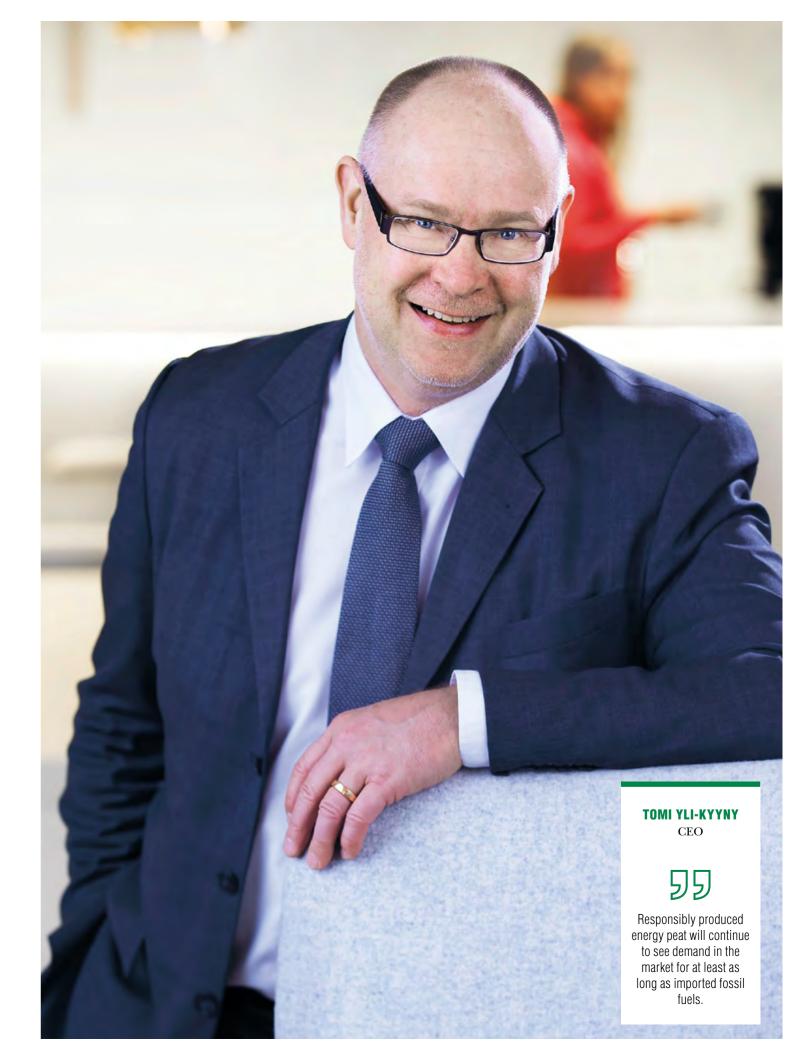
I am confident that a company like Vapo has room to operate in the market using this business model and, in a few years' time, these types of highly integrated energy solutions sold as services will be a rapidly growing business area.

The past financial year was challenging. Write-downs related to the divestment of the sawn timber business, peat and fuel wood reserves and the Norwegian operations of Hasselfors Garden, along with one-off expenses associated with the renewal of the business model, reduced the operating result nearly EUR 20 million. The exceptionally warm weather during the financial year also had a negative effect on operations.

Clear successes during the year included the development measures implemented in the Heat and Power business and further improvement in customer satisfaction. I want to take this opportunity to thank our customers for their partnership in a period of time that, for many customers, has been at least as challenging as it has been for us at Vapo. During the year, we implemented an extensive renewal of our operating model based on focusing on improving the competence of our personnel and expanding their personal areas of responsibility. These changes mean that an even larger proportion of Vapo employees will be in direct contact with our customers. We hope that this will be reflected in even more flexible service and continued improvement in customer satisfaction.

I would like to thank all of our personnel and contractors for the change in culture that has seen responsibility assigned the significance it deserves in our day-to-day operations.

Tomi Yli-Kyyny CEO



VAPO'S YEAR

2015

MAY

Only some two per cent of the season's total target of 13 million cubic metres was produced in May, which made it one of the weakest starts to the peat production season in Vapo's entire history.

JUNE

All over 300 peat production sites operated by Vapo in the production season have water treatment systems using the best available technology (BAT).

JULY

The open house events was held in June. It gave local permanent residents and summer residents the opportunity to visit peat production areas and ask questions from Vapo's representatives.

AUGUST

Vapo Oy and Adven Oy signed a biofuel supply agreement for a heating plant to be built for Valio in Oulu.

The heating plant will use some 30,000 MWh of local fuels per year.

SEPTEMBER

The peat production volume for the season was slightly under eight million cubic metres. Reserves accumulated in previous production seasons ensure that customers' energy needs will continue to be met in all circumstances.

OCTOBER

Vapo launched an extensive project to revise its operating model in Finland. The renewal is aimed at improving the company's competitiveness and flexibility.

NOVEMBER

Vapo Oy and Kuopion Energia Oy signed a three-year fuel agreement under which Vapo will supply a total of 600 GWh of energy peat at a fixed price.

DECEMBER

Vapo Oy and Turku Energia Oy signed an agreement on the supply of pellets to Turku Energia's new 40 MW pellet heating plant. Turku Energia will use pellets in order to replace heavy fuel oil.

2016

JANUARY

Vapo sold the entire share capital of its wholly-owned subsidiary Vapo Timber Oy to the Austrian wood processing group Binderholz. Vapo Timber Oy had sawmills in Lieksa and Nurmes.

FEBRUARY

The subsidy for fuel wood was increased from EUR 15.9/MWh to EUR 18.0/MWh. At the same time, the tax on peat which is used for heating was reduced from EUR 3.4/MWh to EUR 1.9/MWh.

MARCH

The modernised power plant in Sotkamo was commissioned.

The modernisation investments improved the plant's energy efficiency and reduced its environmental impacts.

APRIL

Vapo seeks growth by developing new uses for peat fibre. To expedite the project, the company established Vapo Fibers as a separate business function focused on the commercialisation of natural fibres.

OPERATING ENVIRONMENT

— The transformation of the electricity markets has had a massive impact on the operating environment of European energy companies.

As an energy company that operates primarily in Finland, the most significant external factors that influence Vapo Oy's operations are the weather during the heating season, which affects the demand for heating, as well as the development of prices of fossil fuels, namely oil, natural gas and coal, and the price of electricity.

The demand for heating during the past financial year in Jyväskylä, for example, was 89 per cent of the 30-year average. The exceptionally warm weather significantly reduced Vapo's own heating sales and, most importantly, the demand for fuel among Vapo's customers. This went for both peat and wood fuels.

Having fallen significantly in recent years, the price of crude oil was at a tenyear low in early 2016. In July 2014, the price of crude oil stood at USD 115 per barrel. In early February 2016, the price per barrel was USD 32. The price of crude oil is also reflected in the prices of other fossil fuels. While its exact impact is not yet known, the lower price of oil has certainly not accelerated the rate at which fossil fuels are replaced by domestic fuels.

Global economic growth in 2015 was slower than in 2014, which means that the declining price of oil did not boost growth figures, at least not directly. In Finland, the falling price of oil kept energy price increases in check last year and pushed total inflation down to negative territory for the first time since 1955. The negative inflation boosted household purchasing power and consumption. Finland imported a substantial amount of crude oil and its lower price saw the trade balance rise to a surplus for the first time since 2010.

In 2015, the average system price of electricity was EUR 21.0 (29.6)/MWh. The decrease in price was attributable to the annual inflow in hydroelectric power production being the highest on record, the corresponding very high level of hydroelectric power production as well as the mild weather and low raw material prices. Wind power production also grew during the year and contributed to lower spot prices. The area price in Finland was EUR 29.7 (36.0)/MWh.

For Vapo, the low price of electricity has been directly reflected in recent years in the amount of energy peat delivered to customers. The sales volume of Vapo's main product, energy peat, has decreased by approximately 50 per cent over the past five years. The most significant factor behind this decline has been the decrease in the use of peat in condensing power production by several million cubic metres. Cost per unit produced has increased significantly.

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Having fallen significantly in recent years, the price of crude oil was at a ten-year low in early 2016.

Wind power was used to generate under three per cent of Finland's total electricity consumption in 2015. In the Nordic countries, wind power currently accounts for approximately five per cent of the total electricity consumption, but this share is expected to increase to 10 per cent by 2020. Highly subsidised wind power has contributed to lower market prices for electricity during off-peak periods but, at the same time, it has amplified price fluctuations on windless and cold weekdays.

Paris Climate Agreement

The global climate agreement for the post-2020 period was signed in December 2015. All of the signing countries are committed to preparing national plans to be reviewed in five-year intervals. The plans include mitigation, adaptation and funding measures related to climate change.

The long-term goal is to limit the temperature increase to well below two degrees compared to pre-industrial levels and to pursue efforts to limit it to 1.5 degrees.

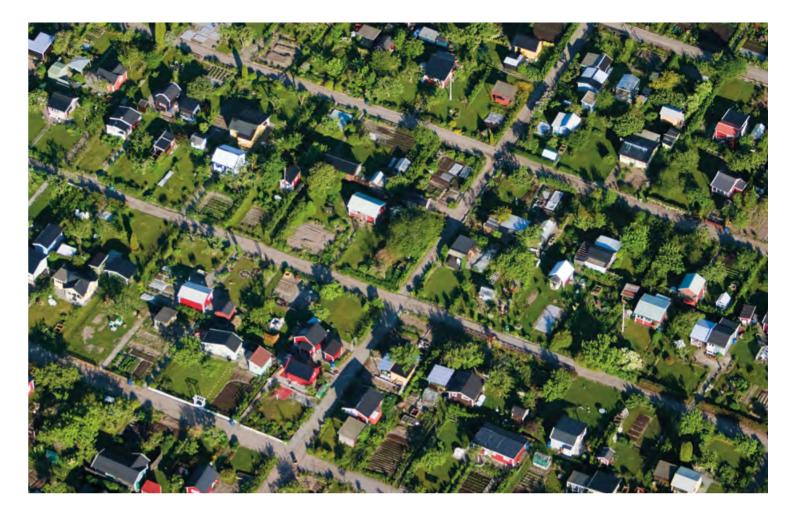
The agreement increases stability and predictability in the long term, promotes market-based measures and reduces the risk of carbon leakage. The agreement may expedite the transition to a low-emission energy system and create new business opportunities. It does not, however, directly impact the price of carbon dioxide emissions unless the EU decides to tighten its emissions target for 2030.

Kimmo Tiilikainen, the Minister of Agriculture and the Environment, signed the Paris Agreement on Finland's behalf at the UN headquarters in New York. The historical agreement was signed by 170 countries at a high-level ceremony organised by Secretary General Ban Ki-moon.

In 2015, the European Council officially approved the European Commission's proposal to create a reserve for unallocated emissions allowances under the EU Emissions Trading System. Under the agreement, the proposed Market Stability Reserve for Emissions Trading will start in January 2019 and reduce surplus allowances by 12 per cent annually as long as the surplus remains above 833 million tonnes.

Target for the share of domestic energy is under threat

The European Commission approved new subsidy policies for fuel wood in February 2016. The subsidy for fuel wood was increased from EUR 15.9/MWh to EUR 18.0/MWh. At the same time, the tax on peat used for heating was reduced according to the decision made by the Finnish Parliament in spring 2015, from EUR 3.4/MWh to EUR 1.9/MWh. The EU approval applied to the restriction of subsidies for electricity generated from wood chips, according to which electricity generated from wood chips produced from fibre wood or roundwood harvested



from large-diameter wood sites will be subject to a reduced subsidy. The restriction will enter into force in 2019.

Finland's low level of self-sufficiency in energy represents a weakness in our security of supply and energy policy. The recent decisions give operators in the energy sector the opportunity to plan new investments. Increasing the use of wood and peat is very important from the perspective of employment as well as the trade balance.

The current Government Programme includes two significant items concerning domestic energy sources. The targets for 2030 set by the government are that 50 per cent of energy production must be renewable and 55 per cent must be domestic. Of the fuels produced by Vapo, energy chips and pellets are categorised as renewable fuels, while peat supports the achievement of the target for the share of domestic energy.

Reaching the government's target of 55 per cent for the share of domestic energy requires long-term confidence. Only with long-term confidence will energy companies invest in plants that use domestic fuels and mobile work machine entrepreneurs and fuel suppliers invest in harvesting machines and terminals.

New challenges will be introduced by

the setting of emissions limits for large combustion plants in accordance with the best available techniques, which is currently in progress at the EU level. The LCP BREF draft concerns the replacement of coal and other fossil fuels with biomass fuels and proposes substantially tougher limits on emissions arising from the combustion of biomass and peat.

The use of domestic fuels is being promoted at the EU level, and it seems likely that countries that produce coal will have less strict emissions limits on domestic brown coal, while Finland, Ireland and Sweden would not be granted a similar relaxation of emissions limits on domestic peat. Having peat be treated in the same manner as brown coal is very important, as stricter emissions limits on biomass and peat will make it more difficult for Finland to achieve the government's stated aim of increasing its self-sufficiency in energy. This also affects the degree to which the production of domestic energy creates jobs in sparsely populated areas.

In 2015, pellet exports from Finland to Scandinavia and Central Europe amounted to just slightly over 10,000 tonnes. Vapo's annual pellet production capacity in Finland is approximately 300,000 tonnes. Last year, Vapo pro-

duced some 175,000 tonnes of pellets in Finland. Vapo's market share of Finnish pellet production and Finnish pellet consumption is slightly above 50 per cent. According to Vapo's forecast, the use of pellets will increase significantly in Finland in the coming years as a result of boiler plant investments that have already been decided on, as well as planned investments.

Slow permit processes

The weather risk materialised in peat production in summer 2015. It would be easier to prepare for such risks if permits were obtained for new peat production areas and production at new areas could begin. New production areas would enable a higher production volume and better security of supply, as lowered mires cannot be fully utilised in peat production in rainy summers. While the amended legislation related to permit processes that entered into force two years ago was specifically intended to expedite permit processes for category 1 and 2 peatlands that have lost their nature value as a mire habitat, the permit processes have not been expedited in practice.

STRATEGY IN A CHANGING BUSINESS ENVIRONMENT

— Vapo's strategic focus is shifting from fuels to producing various energy solutions and expert services.

Vapo Oy's strategy, updated in 2014, can be summarised in one sentence: Vapo's objective is to be the world's leading expert on the local energy value chain. In defining the updated strategy, it was essential to identify the changes taking place in the operating environment and take proactive steps to prepare for them. The European and Finnish energy markets are in a period of transformation, which gives rise to new kinds of risks related to the demand for both electricity and heating. Political decisions have an even greater impact than before on the demand for both peat and wood fuels.

Three decisions included in the strategy

The first decision is to create value for our customers by being the world's leading expert on the local energy value chain. The local energy value chain refers to the activities that extend from the source of fuel, such as forests and peatlands, to individual consumers. The aim is to create added value for the customer by combining Vapo's decades-long experi-

ence with fuels with Vapo's expertise in energy production. Differentiating Vapo as the industry-leading operator can be achieved through value chain synergies, improved cost efficiency and matching Vapo's expertise with the changing needs of customers. To accomplish this, Vapo will actively develop customer relationships, transform from a seller of fuel to more of a service provider and pursue growth in competitive energy business.

The second decision is to create new and innovative business solutions. In addition to developing its normal business operations, Vapo will invest in identifying and creating new business opportunities. The new businesses will be based on the company's existing resources, strengths and competencies. The Vapo Ventures business has been established to carry out these development efforts. The first subsidiary established through Vapo Ventures is Vapo Clean Waters Oy, which provides solutions for the treatment of natural waters. The most recent new business is Vapo Fibers. It specialises in fibre technology, specifically the use of peat fibre and other natural fibres for various purposes. Vapo Ventures will continue to research

new businesses through the innovative operating model developed by the unit.

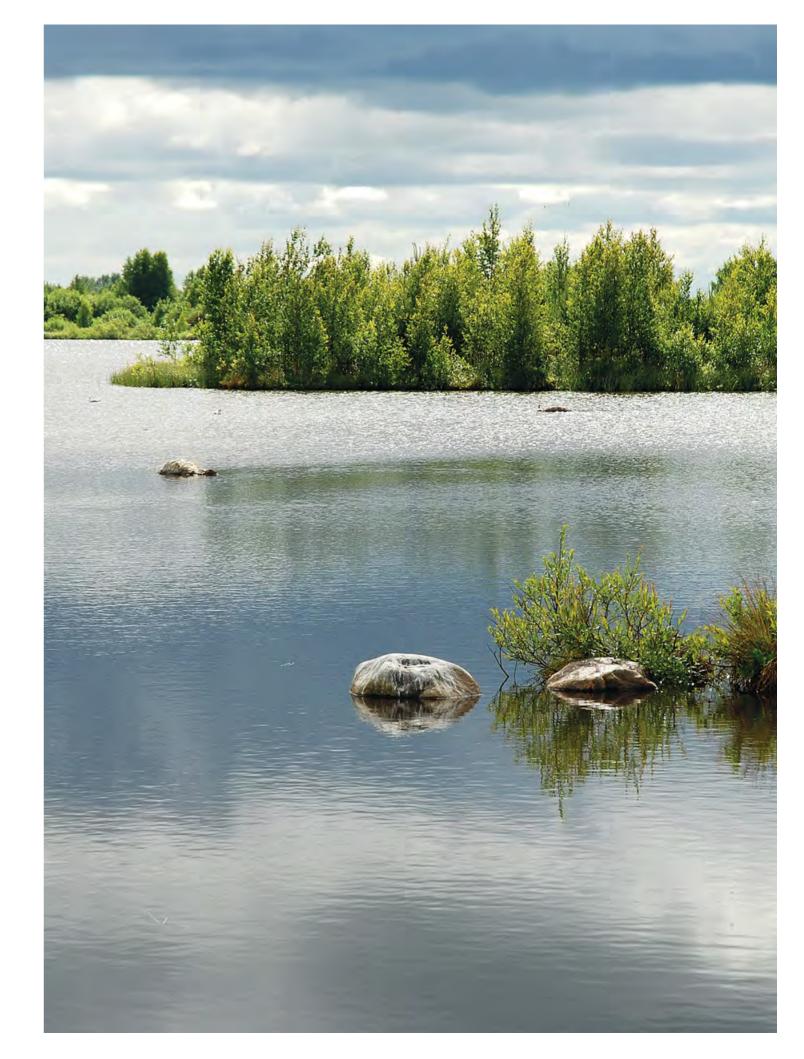
The third decision was to significantly increase the value of Vapo's subsidiary Kekkilä Oy. During the financial year, Vapo sold its timber subsidiary, Vapo Timber Oy, in accordance with the strategy.

Code of Conduct

Vapo implemented its updated Code of Conduct in 2015. Vapo's personnel, as well as Vapo's suppliers of products and services, are required to adhere to responsible business practices. Vapo's Code of Conduct covers the legislation, regulations and other ethical standards concerning human rights, workers' rights, occupational safety and health, the environment, competition law, product safety and the prevention of corruption. The realisation of the Code of Conduct will be monitored and any irregularities will be processed, rectified and reported in accordance with the management system. Responsibility is part of the management of Vapo's business, and each individual is responsible for acting in an ethically appropriate manner.



In addition to developing its normal business operations, Vapo invests in identifying and creating new business opportunities.



Values

RESPONSIBILITY

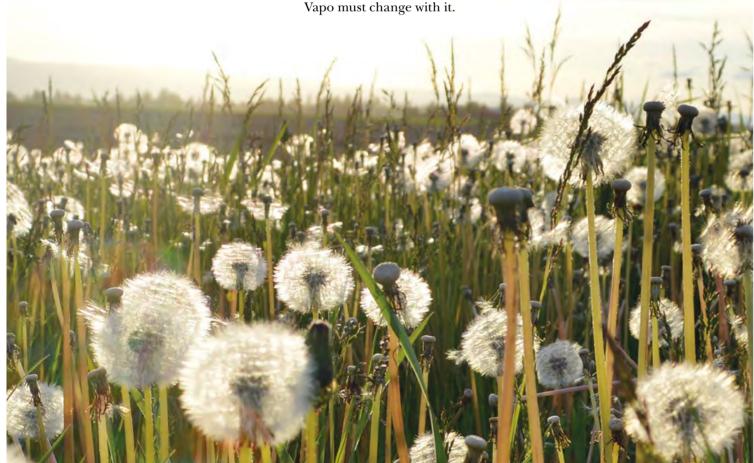
gives Vapo the justification for its existence. All of our operations must stand up to public scrutiny. Everyone at Vapo must take responsibility for their work.

RESULTS ORIENTATION

gives us the tenacity to follow through, even on things that are difficult, when doing so is in line with our business objectives.

RENEWAL

is what shapes our future. We need to listen to our customers. The world is changing and



STRATEGY IMPLEMENTATION AND NEW OBJECTIVES

— Vapo revised its operating model to correspond to the changing needs of its customers.

The energy markets are undergoing a transformation that has seen the sales volume of Vapo's main product, energy peat, decrease by approximately 50 per cent over the past five years. In the short term, it appears unlikely that the demand for fuel will grow. "Demand is likely to remain low as a result of several factors. These factors include the low market price of electricity, warm weather and the largely weak demand in domestic industry," says **Jyrki Vainionpää**, Chief Operating Officer at Vapo, to explain the difficult market situation. At the same time, customers expect Vapo to engage in renewal and provide services of even greater expertise and diversity.

Improved competitiveness and flexibility through a new operating model

Vapo adopted a new operating model in spring 2016 to put the focus on the customer and emphasise the importance of expanding the competence of Vapo's personnel. The new operating model is aimed at achieving improved competitiveness and flexibility in a changing market. The new organisational structure, which took effect in February, has a strong focus on active customer relations and service. The number of Vapo employees working at the customer

interface increased significantly in spite of a decrease in the total number of employees. At the same time, many of Vapo's production-related activities were reorganised and outsourced. Vapo's own employees are increasingly focusing on activities that create added value for the customer. "We will provide an even more comprehensive and competent service than before," Vainionpää explains.

The organisational reforms apply largely to Vapo's large and medium-sized fuel customers, such as heat and power plants. Smaller customers will continue to use Vapo's services as before, but they will also benefit from Vapo's improved competitiveness and flexibility.

Achieving profitable growth in the energy business requires new heating customers as well as investments in energy efficiency and the improved operability of plants.

"We have expanded our energy production operations by acquiring new heating customers and switching our heating plants to domestic solid fuels. We acquired the district heating business in Tuusula's Jokela district in January 2015. During the year, we also built a new heating plant that uses domestic fuels and connected it to the district heating network, replacing the old oil boilers in normal use. The new plant was commissioned on 15 January 2016. The change improved the unit's profitability and

reduced the price of district heating for customers," says **Markus Hassinen**, Director of the Heat and Power business area.

Another example of investments in energy production is the significant modernisation project carried out at the Sotkamo power plant. Millions of euros were invested in Sotkamo to implement improvements such as the installation of a heat pump, flue gas scrubber and electrical filter. The investment helped halve the use of oil in district heating production in Sotkamo, increase energy efficiency and reduce environmental emissions. "We are now able to produce more energy for customers in Sotkamo while using less fuel. Combined with the successful energy policy implemented by Finland in recent times, these measures have allowed us to make downward adjustments to heating prices for many of our customers, while our relative profitability, measured by our return on invested capital, has increased significantly," Hassinen adds.

Vapo has also digitised its processes in operations and maintenance activities by building a new operating model based on a centralised control room. We are currently using remote control to operate one pellet factory and 11 power and heating plants, eight of which are Vapo's own. The aim is to offer the services of the operations centre located in Tikkurila to existing and new energy customers.

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Vapo's employees are increasingly focusing on activities that create added value for the customer.

VAPO'S ORGANISATIONAL STRUCTURE ON 30 APRIL 2016

— Vapo Group comprises Vapo Oy, Neova AB, AS Tootsi Turvas and Kekkilä Group.

Capacity for renewal

Local



Responsible

Close to the custome?

Heat and Power

Fuels

Vapo Oy is an energy company that operates in Finland, providing its customers with domestic peat and wood fuels as well as related energy solutions and environmental peat products. The Vapo Ventures unit is focused on the development of new businesses based on Vapo Oy's resources and competencies.

Vapo's Turnover 257.0 EUR million

Vapo's Operating Profit 7.4 EUR million

Fuels account for approximately 70 per cent of the company's external turnover, heating solutions approximately 25 per cent, and environmental peat approximately 5 per cent.

During the financial year, Vapo Oy's deliveries to customers were as follows:

9.8 TWh of energy peat 2.5 TWh of wood fuels

1.3 TWh of heat, power and steam

Vapo Ventures New businesses developed by Vapo Ventures include Vapo Clean Waters Oy, which provides treatment solutions for natural waters, and Vapo Fibers, which provides ecological fibre solutions to industry.

Neova AB

Neova AB is Vapo Oy's Swedish subsidiary. It provides its customers with district heating as well as heating solutions tailored to industrial requirements. The company also produces and markets peat products to industry as well as energy and agricultural peat customers.

Turnover 47.8 EUR million Operating Profit
1.7 EUR million

AS Tootsi Turvas is Vapo Oy's Estonian subsidiary. Its primary business is the sale of agricultural peat products, energy peat products and wood fuels, as well as the sale of various heat generation solutions.

Kekkilä Group develops, produces and markets high-end garden substrates, plant fertilisers and mulches, as well

Turnover 13.0 EUR million Operating Profit
1.1 EUR million

as garden and yard construction products for amateur and professional growers and landscapers. The products are marketed under the Kekkilä brand in Finland and under the Hasselfors Garden brand in Sweden and Norway.

Turnover 87.9 EUR million Operating Profit -1.3 EUR million

Kekkilä Group

AS Tootsi

Turvas

VAPO IN SHORT

— Vapo is a leading supplier and developer of bioenergy in Finland, Sweden and Estonia. Vapo produces energy responsibly from sources including peat and wood, and supplies its customers with different kinds of environmental business solutions. Vapo is an important part of the local energy infrastructure in its market area.





VAPO ENERGY

Vapo Energy consists of the Fuels as well as the Heat and Power business areas. Vapo Energy brings together decades of expertise in fuel and energy production, allowing the customer to benefit from energy expertise throughout the production and supply chain. Vapo's heating solutions rely on its own fuel expertise, supply chain optimisation and delivery reliability throughout the term of each contract. Vapo Energy aims to create value for the customer by being the world leader in the local energy value chain.

FUELS

Vapo provides domestic solid fuels, such as fuel wood, peat and pellets—as well as related added value services—to its customers. The fuel solutions are based on delivery reliability, local and responsible operations, as well as Vapo's own expertise in fuels and energy production. The customers of the Fuels business area consist primarily of operators in the energy sector and industry. At Vapo, all of the fuels are sold by the same organisation. This ensures that each customer's overall

needs are considered and the fuel mix is optimised according to the customer's requirements. Vapo produces and supplies fuels in Finland, Sweden and Estonia.

HEAT AND POWER

Vapo's Heat and Power business area offers its customers tailored heating solutions, district heating and remote operation services for plants. These turnkey solutions are implemented according to each customer's individual needs. Vapo manages the use and maintenance of the production facility throughout its life cycle. The company offers heating solutions to municipalities, heating companies, large properties and the industrial sector, and district heating to consumers in areas covered by the district heating networks operated by the company. Vapo's Heat and Power business area operates in Finland, Sweden and Estonia. It owns, operates and maintains seven power plants of its own and nearly 150 heating plants. The business area operates 27 district heating networks, 25 of which are its own. The business operations of the two remaining networks have been outsourced to operate

under Vapo. In addition to Vapo's own plants, the operations centre located in Tikkurila, Vantaa, runs the energy production plants and district heating network of Vatajankosken Sähkö. The electricity generated by Vapo's power plants is sold to the Nordic Electricity Exchange. The business area produces approximately 1.7 TWh of energy per year.

ENVIRONMENTAL PEAT

Vapo supplies approximately 900,000 cubic metres of environmental peat per year in Finland. Environmental peats are used as, among other things, litter for animals, organic raw material for garden substrates and as a compost amendment. In Sweden, the supply of environmental peat is managed by Neova AB, and in Estonia, it is managed by AS Tootsi Turvas. Both companies are fully-owned subsidiaries of Vapo Oy.

KEKKILÄ GROUP

Kekkilä Group develops, produces and markets high-end garden substrates, plant







fertilisers and mulches as well as home garden and yard construction products for hobby gardeners, professional growers and landscapers. The operations are divided into three business areas: Home, Park and Professional Growing. Owned by Vapo Oy, Kekkilä Group is the Nordic market leader in garden substrates, fertilisers and mulches. The company operates under the Kekkilä brand in Finland, other European countries and Russia. In Sweden, Norway and Denmark, the products are marketed under the Hasselfors Garden brand.

VAPO VENTURES

Vapo Ventures develops Vapo's new business ventures. The new business solutions are related to new consumption goods and the sustainable use of natural resources aiming to increase the refining rate to create energy products. Based on this premise, Vapo Ventures creates environmentally sustainable and financially profitable business ventures that have a strong focus on customers. The first Vapo Ventures startups are Clean Waters Oy, which provides solutions for the treatment of natural waters, and Vapo

Fibers, which provides natural fibres for the industrial sector.

NEOVA AB

Neova AB is one of Sweden's leading bioenergy companies, with a turnover of approximately EUR 48 million. Neova's personnel is composed of 65 full-time employees and some 200 seasonal workers. Neova's product and service selection includes peat and wood fuels, district heating and various kinds of comprehensive energy solutions, with which it covers a significant portion of the Swedish market's bioenergy needs. Neova AB owns 50 per cent of the pellet producer Agroenergi Neova Pellets AB, which is Swden's market leader with its approximately EUR 80 million turnover. Neova AB produces energy and agricultural peat from the company's own production areas. In 2015, the production area covered roughly 4,300 hectares, and the company produced a total of approximately six million cubic metres of peat.

Neova's Heat business area offers its customers district heating and tailored, comprehensive energy solutions. Neova has 12 district heating networks and 36 heating plants across Sweden. In addition to district heat, Neova provides its customers with various kinds of comprehensive energy solutions, in which Neova assumes full responsibility for the customer's energy requirements. Its clientele includes major business customers in the industrial sector as well as smaller sites where heat is often produced with pellet boilers. In the past financial year, Neova's heat distribution totalled approximately 435 GWh.

AS TOOTSI TURVAS

AS Tootsi Turvas is a fully-owned subsidiary of Vapo Oy operating in Estonia. The company's turnover is around EUR 13 million and it employs 32 people. Tootsi Turvas supplies its customers with energy and agricultural peat produced from its own production areas. In addition, it supplies energy chips.

Tootsi Turvas has a total of seven heating plants and one district heating network in Estonia. The company's heat distribution in the past financial year totalled approximately 30 GWh.



Vapo is a primarily local operator that produces vital fuel and energy solutions for its customers. Vapo's delivery reliability ensures that communities do not run out of energy. Vapo's strategy is aimed at enhancing local, responsible and effective solutions in its core businesses as well as facilitating the scaling of solutions and creating new business.



Vapo has a strong capacity for renewal



Vapo is close to the customer



Vapo is responsible



CASE Vapo Fuels

Turku Energia replaces oil with wood pellets

Vapo Oy and Turku Energia Oy signed an agreement in December 2015 regarding the supply of pellets to Turku Energia's new pellet heating plant located in Luolavuori. Intended for the production of back-up and peak load heating, the plant will use an estimated 20-50 GWh of pellets annually, which makes the agreement one of Vapo's largest individual pellet agreements. According to Pasi Rantonen, Area Manager at Vapo Oy, it further strengthens the position of pellets as a fuel for medium-sized heating plants in Finland.

"Many energy plants are planning similar investments to use pellets to replace imported fuels in base load, peak load and reserve power plants," Rantonen says.

For Turku Energia, the pellet heating plant in Luolavuori is one step towards

increasing the share of renewable energy to the target level of 50 per cent by 2020. According to Ilkka Syrjälä, Heat Purchasing Manager at Turku Energia Oy, the company previously used oil corresponding to some 100 GWh annually in reserve and peak load production. The company can now replace approximately half of that amount with pellets.

"We chose pellet because it is a renewable, domestic and price-competitive fuel that suits our purposes. We chose Vapo as our fuel supplier due to the good quality of their pellets and the fact that their delivery logistics suit our requirements. Our experiences have been positive: deliveries have been on time and the pellets have been of good quality," Syrjälä adds.



CASE Vapo Fuels

Whisky gets its smoky aroma from peat

Teerenpeli is a family distillery that produces whisky in Lahti, Finland. Peat plays an important role in the production

In the drying stage, peat pellets give malt a round, smoky aroma.

"The whisky then acquires its final aroma as it matures in oak casks that were previously used for maturing products such as bourbon, sherry, Madeira wine and rum," says Jari Mämmi, Marketing and Sales Manager at the Teerenpeli Distillery.

Teerenpeli's flagship product is a ten-year-old single malt whisky. The company's products are increasingly exported as whisky culture is growing in popularity worldwide.







Vapo has a strong capacity for renewal

Vapo's core business is the local energy business based on domestic fuels, with a focus on leveraging the company's competencies to produce added value services for current and new customers. The company also seeks growth by investing in entirely new business areas. Vapo has engaged in renewal to ensure that it can respond even better to local regional and national needs. Sometimes such needs give rise to solutions that can generate new business with good international prospects.



Vapo is close to the customer



Vapo is responsible



CASE Environmental Peat

Vapo facilitates the recycling of litter manure

During the current year, Vapo Oy has studied possibilities for recycling racing stable manure.

During the year, Vapo has tested the burning of litter manure in the Forssa power plant and composting at various sites of the company and its partners. By handling manure in a centralised manner and with advanced technology, Vapo can minimise its negative environmental impacts, such as ammonia emissions and the migration of nutrients, while recovering the benefits of its natural nutrients, humus and energy.

The most important quality of litter is its capacity to absorb urine and odours. In other words, the greater its absorbing capacity, the better the litter. A high capacity for absorption also leads to a better nutrient value. Fuel, on the other hand, must be as dry as possible to be combustible. This is why dry litter and a good fuel are opposites of each other. Given litter peat's excellent power to bind urine and odours, the best way to use peat manure is the recycling of nutrients.

The burning tests of racing stable litter manure revealed that its use as a fuel on an industrial scale is challenging. This is due to the aforementioned high degree of moisture resulting from peat's

good absorbing capacity and partly the current legislation, which categorises manure as waste.

As a result of the development work, Vapo introduced the VapoPuhti service package, intended to ease the everyday life of racing stables. The VapoPuhti manure pickup service picks up manure and takes care of its efficient recycling throughout the year and under all repeatedly changing legislative conditions. According to Niko Nevalainen, the project manager in charge of the recycling of racing stable litter manure at Vapo, the manure recycling service has been very well received among customers and consumers. "There is a clear demand for a cost-effective pickup and recycling service," he says. At the moment, the service is available in southern Finland, within an area delimited by Kotka, Lahti, Forssa and Lohja.

Vapo recycles the litter manure collected from the stables in cooperation with either Kekkilä or other operators. The recycled litter manure is recycled into a nutrient-rich soil for the purposes of both landscaping and gardening.



CASE Vapo Ventures / Vapo Fibers

New business from fibre

Vapo Fibers uses peat to produce Finnish, ecological and cost-effective raw material, unmatched in its special qualities.

The Vapo Ventures business unit researches and develops new businesses in the Vapo Group based on the Group's raw material resources or competencies acquired in other businesses. The first business to come through this development pipeline and reach the commercial stage is Clean Waters, which specialises in the treatment of natural waters. The second new business developed by Vapo Ventures is Vapo Fibers. Established in April 2016, Vapo Fibers will pursue new commercial customer applications for the use of peat fibre on an industrial scale.

Formed by various plants that grow in mires, peat contains a large amount of fibre fractions that can be used in various fibre products to replace alternative raw materials and introduce new attributes to products. Vapo has already successfully demonstrated the manufacture of products, such as insulating materials, building boards, inner packaging and non-woven fabrics from peat fibre.

Compared to combustion, these uses represent a substantial increase in value added for peat. Vapo believes that the first new commercial peat fibre customer applications will enter the market during the next financial year and that fibre business operations have the potential to emerge as a significant business area for the whole company.

According to Vapo Fibers Sales Director **Jorma Kautto**, peat fibre has many special qualities that offer peat fibre products a competitive advantage compared with products made of synthetic or natural fibre. The latter two require more cultivated area, irrigation, crop protection products and fertilising. Peat fibre is an ecologically sustainable Finnish alternative with a low carbon footprint, and it allows energy-efficient production.

Peat fibre is naturally mould-resistant, requiring no added chemicals to prevent mould fungus growth. When it dries, it becomes water-repellent. These qualities

make it an interesting raw material for the construction industry. Peat moulding products are another promising prospect, including as an alternative to plastic inner packaging for electronic products. The current main ingredient of electronic product inner packaging is recycled paper. Peat fibre is a clean natural product that does not contain any printing colour or the chemicals used in paper production.

The advantages of peat fibre include its good availability, which is based on Finland's plentiful raw material reserves and the methods developed by Vapo Fibers for fractioning peat fibre according to customers' needs. According to Kautto, Vapo Fibers does not intend to produce the final products. Its role is to supply producers with even large quantities of peat fibre as a raw material. Vapo currently produces approximately 10 million cubic metres of peat annually and the peat can also serve as a source of peat fibre.





Vapo has a strong capacity for renewal



Vapo is close to the customer

Vapo's success is built on delivery reliability, responsibility and renewal, as well as change in proximity to — and in cooperation with — customers. Vapo revised its operating model and restructured its organisation in 2016. Vapo develops its competencies through continuous improvement and by duplicating best practices, while also increasing the company's customer focus and flexibility.



Vapo is responsible



CASE Vapo Heat and Power

Modern energy production in Sotkamo and Jokela

In 2015, the Sotkamo power plant was modernised, and a new heating plant using domestic fuels was built in Jokela.

Vapo's strategy includes the profitable growth of the energy business, and increasing energy efficiency is one aspect of this. The heat pump, flue gas scrubber and electrical filter installed at the Sotkamo power plant in 2015 make the plant's heating and electricity production even more energy-efficient than before while also reducing emissions. Vapo acquired the district heating business in Tuusula's Jokela district in January 2015 and, during the summer, built a new heating plant that uses domestic fuels and connected it to the district heating network. The new heating plant replaces the old oil boilers in normal use.

"The focus of our investments is on domestic energy solutions. Our aim is to provide our customers with environmentally friendly, low-maintenance and economical district heating," says **Markus Hassinen**, Director of the Heat and Power business area.

The investments speak for themselves. The energy price of district heating has decreased by more than ten per cent in Sotkamo and Jokela over the past year. The decrease in price was made possible by the reduction in peat taxation and the fact that domestic fuels are less expensive and more stable in price than oil. Emissions are also significantly reduced by the decreased use of oil.

"The decrease in district heating prices illustrates how energy efficiency, plant investments and policies that support domestic fuels can help produce clean and competitive district heating while also improving the local employment situation," Hassinen adds.







Vapo has a strong capacity for renewal



Vapo is close to the customer



Vapo is responsible

Corporate responsibility is the foundation of all of Vapo's business operations. The focus is on environmental responsibility and transparency in operations. Vapo is aware of the impacts its operations have on society. Vapo's business has a wealth of positive local impacts, for example, through its extensive tax and employment footprint.



CASE Vapo Oy

Vapo's Code of Conduct and its preparation

The implementation of Vapo's revised Code of Conduct and the related training activities began in early 2015. Over the past year, the Code of Conduct has become familiar to customers, Vapo's employees and Vapo's suppliers of goods and services. The Code of Conduct is reviewed and discussed when employment contracts, purchasing agreements and sales agreements are signed, and it is also included as an appendix to the agreements. All Vapo employees are also required to complete an online course and quiz on the Code of Conduct. An online course for Vapo's suppliers of goods and services is also in the works. The course will provide suppliers with a comprehensive review of the Code of Conduct with practical examples. Vapo has also revised its other guidelines and processes based on the Code of Conduct.

At Vapo, management, supervisors and process owners are responsible for ensuring that operations are in compliance with the Code of Conduct and that operating models and processes are reviewed and updated accordingly. The implementation of the Code of Conduct, and compliance with it, will be monitored this year in conjunction with internal and external auditing and by the internal audit function. Vapo also ensures that all its employees complete the online course and quiz on the Code of Conduct.

CASE Vapo Oy / Fuels

MOF project

Lower flow rates, lower environmental load.

The MOF (Minimum Out Flow) project launched in 2013 investigates the use of evaporation from specially bred willows in order to minimise the load on waterways from peat production areas. The goal is to reduce the load on waterways by storing, recycling and evaporating water, particularly in overflow situations, in separate basin structures in which willows are grown.

"Our performance in preventing emissions into waterways is better than what we are generally given credit for, but there are still challenges in this area. Effectively utilising these methods would allow us to achieve a substantial reduction in emissions, such as the amount of solid matter that ends up in downstream waterways," says Pasi Koivisto, Business Area Director for Vapo Fuels.



CASE Vapo Ov

Precise training to meet special requirements

Precise training was introduced as a new element to Vapo's training programme in 2015. Vapo revised its Code of Conduct in 2015. In order for the company to ensure that all of its personnel and direct subcontractors are aware of the new Code of Conduct and the requirements stipulated by it, a special online learning environment was created to support communication, training and testing in this area.

More women in management

To support its goal of having more women in managerial positions, Vapo has launched Avatar managerial training targeted specifically at women to encourage them to advance in their careers.

According to Chief Financial Officer **Suvi Kupiainen**, the idea for training targeted at women was first proposed at

a codetermination committee meeting held in May 2015 to lay the foundation for the equality plan for the next two-year period. 2016–2017.

Vapo wants to invest in high-quality managerial work and in developing managerial competencies. At the same time, the company wants to promote opportunities for women to seek positions of even greater responsibility, which will also help increase the diversity of Vapo's management. Training under the Avatar programme began in spring 2016.

The programme consists of group and individual training as well as individual intermediate exercises that help participants develop and reinforce their management and leadership competencies. A total of 10 participants were selected for the training programme. The programme comprises

five group training periods, individual coaching and various intermediate exercises.

Training multi-skilled experts to support the renewal of the operating model

In order to ensure the successful implementation of its new operating model, Vapo has created a training programme called "On the Path to Global Leadership". The programme supports the successful work performance of employees selected for new roles that require a broader range of skills.

The training content is initially focused on sales and customer work, but it also includes periods that familiarise the participants with topic areas such as purchasing, peat production, wood energy and environmental responsibility.

KEKKILÄ AND HASSELFORS GARDEN

— Kekkilä Group is the Nordic market leader in garden substrates, fertilisers and mulches.

The Group develops, produces and markets high-end garden substrates, plant fertilisers and mulches as well as home garden and yard construction products for amateur and professional growers and landscapers. In Finland, the Baltic countries and Russia, the group is known as Kekkilä, while in Sweden, Norway and Denmark, it operates under the brand of Hasselfors Garden. Kekkilä's home market area covers the Nordic countries, but the group's products are sold to more than 70 countries, from Japan to South America.

Kekkilä has been developing products for the needs of hobby gardeners and professionals alike since the 1920s. Its wide range of products includes products for professional growers and traditional home gardeners as well as the needs of apartment dwellers.

At the crest of horticultural trends

Kekkilä's vision is to be a leading company of the horticulture industry. Our business operations are divided into three business areas: consumers, landscaping and professional growers. The product development has focused particularly on soil and fertiliser products aimed at consumers as well as on new composting solutions. Our entirely new kinds of dry toilets have attracted a lot of positive attention and their sales have gotten off to a nice start. Development efforts have also included the use of recycled raw materials that have proved to be a good supplement to peat-such as wood fibre and moss-particularly with regard to products aimed at professional growers. In terms of landscaping, Kekkilä has developed substrates from the

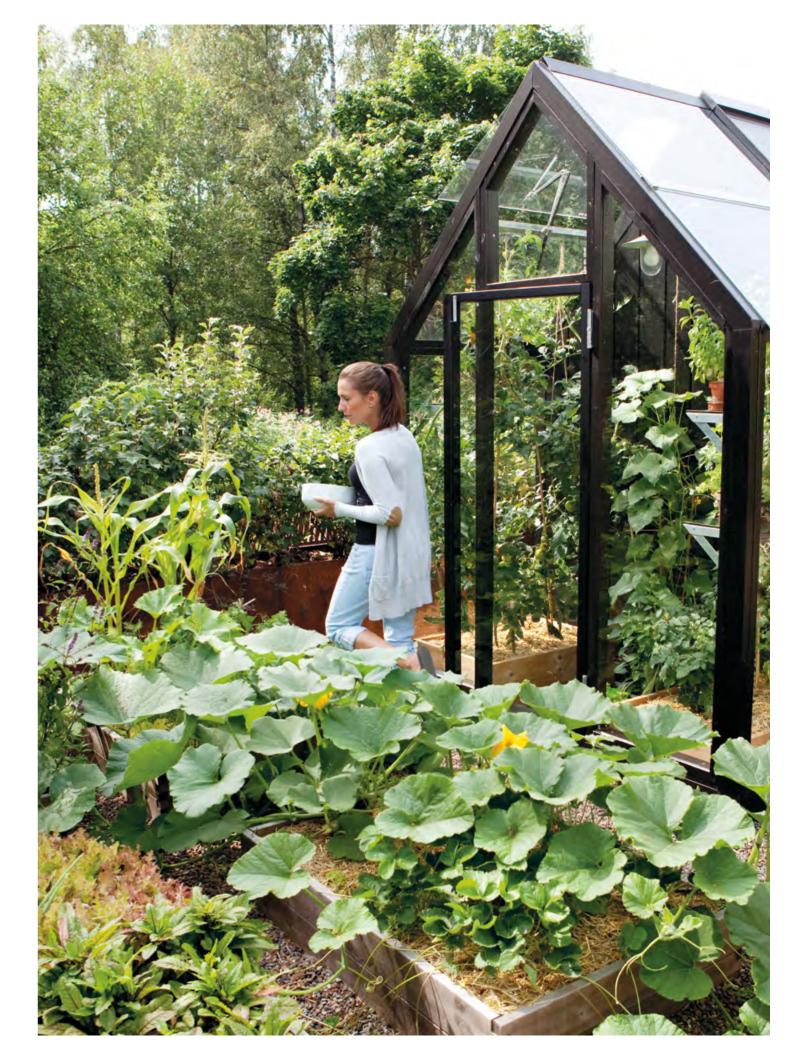
by-product streams of forestry in cooperation with Metsä Group.

"The starting point for our product development is to develop solutions for consumers and professionals which are always of a first-rate quality and which improve growth results, in addition to accounting for environmental values and changes in consumer behaviour. What's important to us is that a product's development is always driven by a genuine customer or consumer need. By combining our competence and solid customer intelligence we can develop products which provide their end-users with a growth experience as successful as possible from the perspective of their goals. We complement the end-products by offering our experiences in growing to both home gardeners and professionals. We believe this to be the best path to the creation of a long-standing customer relationships," says Tiia Kujanpää, Kekkilä's Market Operations Director.

What is also of a priority with regard to sales is attracting interest where the consumers are. Quality web content that invites consumers to try products and is visible to the right target groups, in addition to visibility in sales outlets, are key areas in which Kekkilä Group seeks Nordic leadership in the horticulture trade.

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The starting point for our product development is to develop solutions for consumers and professionals which are always of a first-rate quality and which improve growth results.



CORPORATE RESPONSIBILITY AND COMMITMENTS

— At Vapo Oy, the CEO is responsible for corporate responsibility and its implementation. The responsibility report is reviewed before publication in its entirety by the Board's Audit Committee and the Board of Directors.

The CEO has delegated the main components of responsibility reporting as follows. The Chief Financial Officer is responsible for reporting on economic responsibility and the development of reporting areas. The Environmental Director is responsible for areas related to environmental responsibility, and the Human Resources Director is responsible for areas related to social responsibility. The Director of Communications and Public Affairs is responsible for the planning, composition and production of the report.

The Board of Directors discusses the company's financial situation at each Board meeting based on the CEO's review and in more detail in conjunction with the interim reports published every four months.

According to materiality analyses conducted among stakeholders (2010, 2013, 2015), environmental responsibility is perceived as Vapo Oy's most significant area of corporate responsibility reporting. For this reason, the realisation of environmental responsibility is also the area scrutinised the most by the Board of Directors.

The Environmental Director compiles a summary for the Board of Directors to report on all obligations currently subject to legal proceedings as well as decisions by the authorities. The environmental responsibility report was presented to the Board of Directors six times in 2015. Starting from 2016, the report will be presented to the Audit Committee on a quarterly basis. In addition to Board meetings, the reports are also discussed in Audit Committee meetings.

Significant changes or renewal measures that belong to the reporting area of social responsibility and have an impact on the position of the company's

personnel are always discussed in Board meetings. Examples of such changes or measures include acquisitions and divestments that affect the position of personnel, the scaling down of production and other matters that are subject to negotiations pursuant to the Finnish Act on Co-operation within Undertakings.

The company's responsibility policy and operations are presented on the company website. The corporate responsibility report is also published in Finnish and English on the website.

Responsibility commitments

In 2012, Vapo made a commitment to build water treatment systems using the best available water treatment technology (BAT) at all of its peat production areas by the end of 2014. This commitment was fulfilled 100%.

In addition to being monitored by the authorities, the water treatment systems at all Vapo peat production areas are inspected at least once every two weeks during the production season. Employees and contractors are provided with training continuously to ensure that all those participating in peat production have the required knowledge and skills related to the company's standards of environmental responsibility.

On its website, Vapo publishes information on the contact persons for each production area, as well as reports on emissions and the monitoring of waterways produced for the authorities by independent consulting agencies.

Vapo has increased the use of continuously operating meters in load monitoring and publishes the results online.

Vapo produces peat only in production areas where the natural state has

been altered, generally meaning ditched peatlands. Vapo does not apply for environmental permits for category 4 and 5 mires in line with the strategy for the sustainable and responsible use of mires and peatlands.

Vapo will continue to actively exchange mires with significant nature value owned by the company to ditched peatlands, or to sell such mires for use for conservation purposes.

Vapo is committed to ensuring that...

- From 2016, the solid matter and humus load of new peat production areas will be lower than that of the same area before peat production.
 If the load exceeds the initial level, waters originating from other land use methods will be purified in the same area.
- All of Vapo's peat production areas are subject to emissions monitoring during the peat production season, and half of the production areas are subject to year-round emissions monitoring. The increase in measurements will be implemented systematically over several phases.
- Areas owned by Vapo and released from peat production will be in active after-use within two years of the end of production operations. The land use methods after peat production include reforestation, agriculture, establishing various types of wetlands such as bird lakes, and paludification.



VALUES AND CODE OF CONDUCT

— Vapo revised its Code of Conduct. All Vapo employees completed an online training module and examination on the new Code of Conduct by the end of the financial year.

In 2014, Vapo conducted internal discussions on its values, resulting in the identification of the values that guide the company's business, support its customers' needs and encourage its personnel to support the company's renewal.

The company's strategy is based on responsible operations and its skills in the production of local energy, accumulated over the decades. In 2014, we initiated a process resulting in the definition of our own Code of Conduct, which details the company's expectations with regard to its employees and subcontractors, not forgetting, of course, what the company commits to when providing products and services to it customers.

Responsibility

Responsibility gives Vapo the justification for its existence. All of our operations must be transparent and stand up to public scrutiny. Everyone at Vapo must take responsibility for their work.

Results orientation

Results orientation does not apply to numerical goals alone; rather, it gives us the tenacity to follow through, even on things and goals that are difficult, when doing so is in line with our business objectives and our customers' interests, also in the long term.

Renewal

Renewal is a necessity. We need big ears to hear even the weakest signals as to how our customers want us to develop. The world changes, and only renewal and adaptation to change will guarantee our future.

Adoption of renewed Code of Conduct

In September 2015, Vapo Oy's Board of Directors approved the company's renewed Code of Conduct. The entire Code of Conduct is available online at http://www.vapo.fi/en/responsibility/the-way-we-operate/code-of-conduct. Vapo's primary objective in renewing its Code of Conduct was to answer its customers' wishes in advance. We based our model of the Code on examples provided by companies with an exemplary

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Vapo's values are responsibility, results orientation and renewal.

track record in this respect. The Code of Conduct drawn up by Vapo is strict and extensive enough to be suitable, as such, to serve as an appendix to agreements made with even the most demanding of our customers.

The responsible operations defined in the Code of Conduct cover Vapo Oy's personnel and the company's subcontractors throughout the value chain, all the way up to deliveries to our customers.

Vapo Oy's Code of Conduct covers the requirements applicable to the company itself and its subcontractors in the following contexts:

- Human rights
- Basic workers' rights
- Wages and working hours
- Occupational health and safety
- Environmental impacts
- Responsible business
- Management system

During the first phase of its adoption, the Code of Conduct was reviewed in cooperation with a group of experts, which also drew up the written training materials, e-learning course and other. more detailed instructions on the Code's application. The adoption began from discussions held by Vapo's management teams and managerial training sessions. In addition, every Vapo employee made a commitment to complete the e-learning course on the Code of Conduct, including the related exams. The Code of Conduct is also reviewed in the context of employee orientation, meaning that every new Vapo employee will complete the e-learning course concerning the Code. The company's subcontractors are likewise familiarised with the requirements of Code of Conduct with an e-learning module intended specifically for them, in addition to which the Code of Conduct is reviewed in discussions when entering into procurement agreements.

At Vapo, management, supervisors and process owners are responsible for ensuring that operations and the operating models that support them are in compliance with the Code of Conduct and that these models and processes are reviewed and updated accordingly. Every Vapo employee is furthermore responsible for being familiar with the Code of Conduct and operating according to them. Vapo favours an open business culture in which every issue can be discussed with a supervisor or the organisation's manager. Vapo also has its own whistleblowing channel which allows anyone at Vapo to anonymously report any behaviour at odds with the Code of Conduct. The Code of Conduct's realisation is monitored as part of the internal and external audits of the company's quality system. Ensuring the ethicality of operations is also emphasised in internal

RELIABLE, RESPONSIBLE AND HIGHLY COMPETENT

— We want to be the most reliable, competent and responsible provider of local fuel and energy solutions.

In a customer satisfaction survey conducted in late 2015, the highest score we achieved was for our delivery reliability (8.7, scale 1–10). "This is particularly pleasing because we have worked on building our delivery reliability for several decades. In domestic solid fuels, we have the best capacity to sign multi-year fuel agreements. In energy solutions, our delivery reliability is based on the high usability of heat and power plants that use domestic fuels, through every

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At the beginning of 2016, we revised our operating model and restructured our organisation to better respond to customer needs.

moment of the customer relationship. We can take pride in the fact that we are currently the most reliable supplier and will continue to be the most reliable supplier decades from now", says Vapo's COO Jyrki Vainionpää.

"According to the customer satisfaction survey, we could improve in terms of listening to customer needs and taking them into consideration. Over several decades, our operations throughout the local energy value chain have allowed us to accumulate a great deal of experience and competence ranging from fuels to our own energy production expertise. At the beginning of 2016, we revised our operating model and restructured our organisation to better respond to customer needs. We



will develop our expertise through continuous improvement while also increasing our customer orientation and flexibility. Our aim is to combine our experience, competence and listening to the customer in the optimal manner to provide our customers with flexible and valuable domestic energy solutions and services that suit their needs", Jyrki Vainionpää adds.

"We are a responsible operator. Vapo has implemented a strict Code of Conduct. Vapo's personnel, as well as Vapo's suppliers of products and services, are required to adhere to responsible business practices with respect to legislation and regulations concerning areas such as human rights, workers' rights, occupational safety and health, the environment, competition law, product safety and the prevention of corruption, as well as other ethical standards. We recognise our social responsibility and acknowledge our important role as a responsible producer of domestic energy. To this end, we engage in continuous open dialogue with various stakeholders and report on our responsibility in accordance with the international GRI guidelines", says Jyrki Vainionpää.

ENVIRONMENTAL IMPACT

In 2015, Vapo continued to implement its commitments detailed in the environmental responsibility programme. By investing in environmental protection and engaging in effective environmental management, we aim to continue to improve our operations.

Vapo has a total of nine environmental commitments, of which eight were realised by the end of 2015. Currently, the company is pursuing its commitment according to which the humus and solid matter load on downstream watercourses of all peat production areas opened after 2016 will be lower than before peat production began.

All production areas under emissions monitoring

Vapo monitors emissions to waterways from peat production to a greater extent than what is stipulated by environmental permits. All of Vapo's peat production areas are subject to emissions monitoring during the peat production season, and half of the production areas are subject to year-round monitoring.

In 2015, the number of emissions monitoring was increased in such a way that the number of samples and analyses increased by 30 per cent from 2014. In 2015, more than 17,800 samples were taken as part of emissions monitoring, with approximately 150,000 analyses carried out. In addition, the monitoring of waterways involved taking over 2,600 samples, with more than 35,200 analyses carried out.

In 2015, the load on waterways from Vapo's peat production was slightly higher than in the previous year, and also slightly higher than the long-term benchmark, which is the average load over the past ten years. The annual load is influenced by weather conditions. While dry years reduce the load, rainy years increase it. In 2015, precipitation levels were above average in large parts of Finland.

Continuous measurement of water quality

Vapo has acquired a comprehensive solution from Valmet for the continuous

measurement and monitoring of water quality. Vapo's original goal was to install 30 automated measurement devices, and in 2015, the company employed 33 measurement stations across the country. The continuous monitoring of water quality will be carried out for a period of three years, with the first monitoring activities set to end in 2016.

BAT water treatment methods

Pursuant to its environmental responsibility programme, the company brought all of its peat production areas under the scope of the best available water treatment technology by the end of 2014. This included, among other things, the construction of 60 new overland flow areas and 40 new wetlands.

Effective self-monitoring

Vapo continues the enhanced monitoring of the effectiveness of water treatment structures at peat production areas. Vapo has ordered peat contractors to inspect water treatment structures at two-week intervals since 2012. In addition, environmental inspectors hired for the summer season have inspected the water treatment methods and environmental permit compliance at all production areas since 2011.

Released areas' effective transition into after-use

Areas released from peat production will be in active after-use within two years of the end of production operations. In relation to this commitment, we have built nearly 300 hectares of wetlands and reforested nearly 1,800 hectares of areas released from production.

Transparency and engagement

Vapo has increased cooperation with schools and educational institutes. Nearly 1,000 pupils and students together with their teachers visited Vapo's peat production sites in 2015.

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LOCAL IMPACT

— Approximately two thirds of the price of energy peat is attributable to local work.

Peat production is a highly local activity. The rule of thumb is that the produced peat should be used within a maximum distance of a hundred kilometres from the production location so that the logistics costs will not rise too steeply. The amount of energy yielded by a peat production area of 100 hectares is approximately 40,000 MWh, which is equal to the heating needs of 1,800 detached homes or the volume of litter peat required by roughly 50 large dairy farms. The direct and indirect employment impact of the peat production, transportation, machine manufacturing and support functions of this same 100 hectares is roughly 20 man-years per year. The share of wages—i.e. labour accounts for more than 60 per cent of peat's price.

Vapo's energy peat production employs about 200 people at Vapo, in addition to which the production involves more than 1,000 tractors and slightly more than 2,000 drivers during the production season. The sales of Vapo's energy peat during the financial year amounted to 9,8 TWh, or 10,7 million cubic metres. The value of the energy peat sold by the company was EUR 148 million. 5.1 TWh of the energy peat was used in the production of heat and industrial steam, of which heat producers paid a total of EUR 17 million to the state in energy taxes. The peat's transportation from the production sites to the usage sites involves 114 transport entrepreneurs and 90 loading entrepreneurs. At its maximum, the peat supply chain employed 628 drivers operating 157 lorries. All in all, the tax revenue related to peat production amounted to approximately EUR 66 million.

The taxes on salaries and wages paid by Vapo Group amounted to EUR 13 million, of which EUR 9.6 million was paid in Finland. Other significant taxes related to Vapo's operations include value added



taxes on sales and purchases, and the corporate income tax paid by Vapo.

Financial responsibility also entails all companies of Vapo Group paying their statutory taxes, based on their own business operations, to the country in which they operate. Vapo's financial responsibility also extends to the broad network of local subcontractors, the earnings of which often depend on the continuity of Vapo's operations.

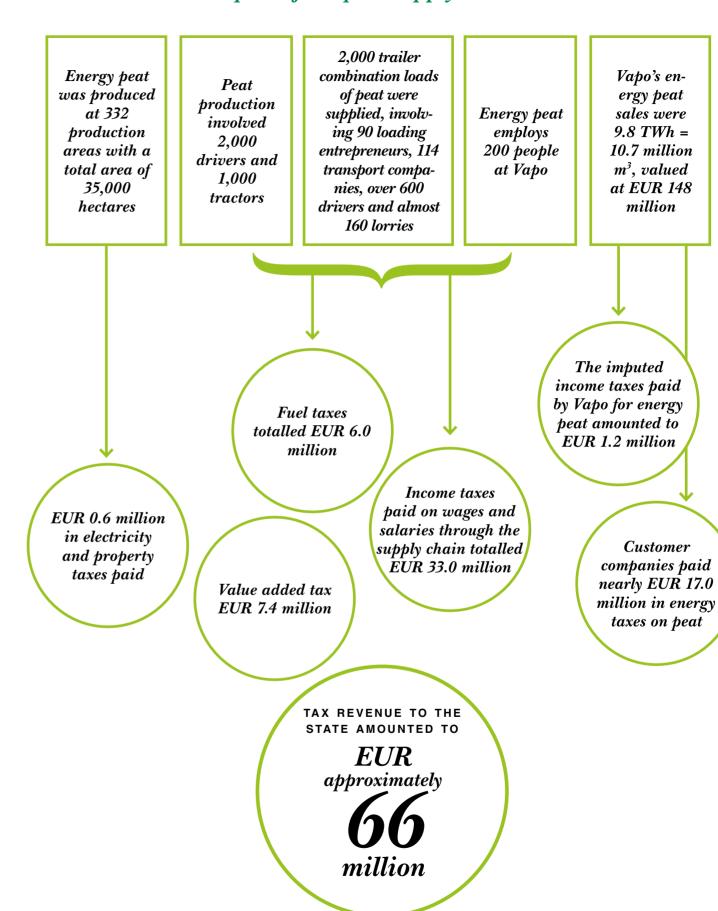
The total wages and salaries paid by the Group in 2015 amounted to nearly EUR 33.9 million, and the withholding taxes on this amount came to almost EUR 9.6 million. A significant proportion of the total wage bill of EUR 8.0 million benefited the Central Finland region. The main reason for this is the Group's head office being located in Jyväskylä. In the Uusimaa region, which is where Vapo's Heat and Power business area is headquartered, the total wages paid amounted to more than EUR 5.5 million.

Vapo Timber, which was still a part of Vapo Group in 2015, paid slightly more than EUR 4.2 million in wages and salaries, which accrued EUR one million in tax revenue in the region of Northern Karelia.

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Vapo's energy peat production employs about 200 people at Vapo, in addition to which the production involves more than 1,000 tractors and slightly more than 2,000 drivers during the production season.

The tax impact of the peat supply chain in Finland



RESPONSIBILITY FOR PERSONNEL

— Improving occupational safety and competence development are the key areas of Vapo's responsibility for personnel.

In accordance with our HR policy, we develop Vapo as a workplace where actions are guided by objectives and where people enjoy their work. Developing employee competence is a key aspect of the implementation of Vapo's strategy to be the world's leading expert on the local energy value chain. To enable this, we offer our personnel a wide variety of learning and career options.

At the end of the financial year in April 2016, Vapo Group's Finnish companies employed 654 people. Vapo Timber Oy's sale to Binderholz Group at the beginning of 2016 reduced the number of employees by one hundred. In 2016, the number of employees will reduce by approximately 50 people due to Vapo Oy's new operating model. In the context of this adjustment situation concerning our personnel, we were forced to resort to redundancies in about 15 cases.

Line management and new training

Good line management is one of the focal areas of personnel development at Vapo. According to the employee survey conducted in 2015, the overall level of line management had improved from the previous year and was on a good level. Given that there is nevertheless still a fair amount of variation in the results, we have invested in developing the competence of supervisors.

The "On the Path to Global Leadership" programme is an extensive training package that supports the successful performance of employees selected for new roles that require a broader range of skills.

What is also new are the precise training projects aiming to answer specific needs and support studying outside working hours. In 2015, we built a special e-learning environment to support the adoption of the Code of Conduct and in early 2016, we launched the Avatar management training.



Retiring healthy

At Vapo, well-being at work means looking after employees' work ability and ensuring that it is supported by managerial work, and also supporting the healthy functioning of the work community. Our goal is to ensure that once our employees reach retirement age, they can retire healthy.

Activities have focused on the early identification of risks to work ability, enhanced support to help long-term absentees return to work, the implementation of a model for alternative work, and on providing active support to supervisors in the identification of risks to work ability and in ensuring employees' work ability.

Investments in occupational safety continued

The improvement of occupational safety continued to be one of the focal points at Vapo Group in 2015, and the number of work accidents did indeed decline slightly. Too many of them nevertheless still occur, given that we have set ourselves a goal of zero accidents. The

increase in occupational safety observations has been a positive development.

Efforts to develop employees' attitudes towards a direction that is increasingly favourable to safety continued with the help of training and proactive occupational health and safety measures. Supervisors, for example, took part in the Koutsi occupational safety coaching.

Responsible summer jobs

Vapo employs a great number of seasonal workers during the summer. We want to offer these workers a good summer job experience. In this respect, too, Vapo is committed to responsible business operations and participates in the Responsible Summer Job campaign.

Seasonal jobs at Vapo are popular as well: the fact that we received 2,800 applications for the 50 seasonal jobs offered in the summer of 2015 bears witness to this, particularly since the jobs were advertised only on our website and in social media. The majority of Vapo's seasonal employees work in field jobs related to environmental inspections.

FINANCIAL SATEMENTS

The cornerstones of Vapo's economic responsibility are profitability and the long-term development of competitiveness. Sustainable economic activity also creates value for stakeholders. The financial statements for the financial year 1 May 2015–30 April 2016 provide a look into Vapo's economic performance.

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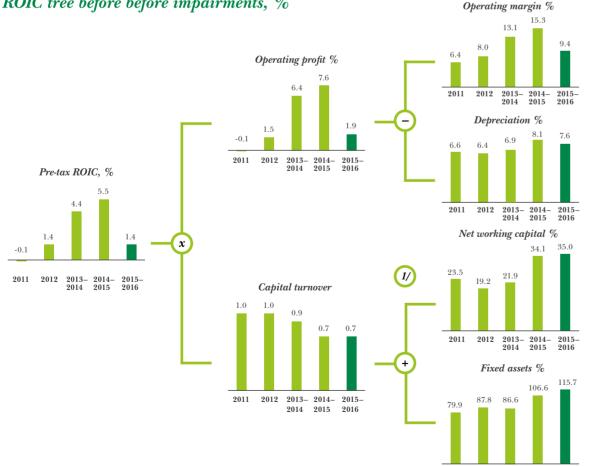
FINANCIAL YEAR IN BRIEF

Key figures

EUR million	2011	2012	1 Jan 2013 – 30 Apr 2014	1 May 2014 – 30 Apr 2015	1 May 2015 – 30 Apr 2016
Turnover	705.0	652.9	847.4	486.9	459.8
Operating margin (EBITDA)	45.4	52.1	110.8	74.7	43.1
% of turnover	6.4%	8.0%	13.1%	15.3%	9.4%
Operating profit (EBITA)	-38.4	9.1	50.0	36.9	8.6
% of turnover	-5.5%	1.4%	5.9%	7.6%	1.9%
Operating profit (EBITA) before impairments	-1.0	9.7	53.9	37.6	9.4
% of turnover	-0.1%	1.5%	6.4%	7.7%	2.1%
Free cash flow before taxes	20.6	64.4	61.9	-25.1	60.7
Return on invested capital %	-5.3%	1.3%	3.8%	5.4%	1.2%
Return on invested capital before impairments %	-0.1	1.4	4.4	5.5	1.4
Equity ratio %	34.1	37.7	40.2	37.8	37.6
Gross investments	94.5	48.0	65.0	88.4	38.5
Average number of personnel	1,226	1,154	1,091	961	914
Depreciations / net sales %	6.6%	6.4%	6.4%	8.1%	7.6%

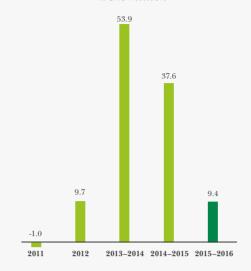
The financial year 1.1.2013-30.4.2014 was 16 months long.

Vapo's ROIC tree before before impairments, %

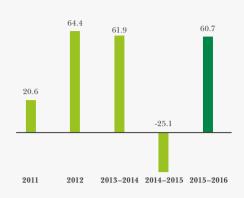


2011 2012 2013- 2014- 2015-2014 2015 2016

Operating profit (EBITA) before impairment, EUR million



Free cash flow (pre-tax), EUR million



Operating profit shows the profitability of business operations and largely determines the return on invested capital, among other things. In Vapo's operations, operating profit is particularly influenced by the weather dependence of the fuel and heating business and the success of peat production. The winter in financial year 2016 was warmer than average, which reduced the demand for fuels and heating. The rainy summer also restricted peat production and increased costs. Furthermore, one-off items had an exceptionally large impact on the result for the financial year, which reduced operating profit.

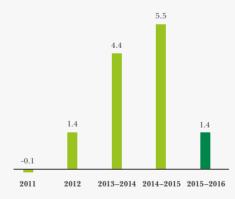
The financial year 1.1.2013-30.4.2014 was 16 months long.

account the operating margin as well as factors such as changes in capital tied up in businesses, the impacts of sales of assets, and investments made. Vapo continued to divest non-core businesses in the 2016 financial year by selling its subsidiary Vapo Timber Oy, which improved cash flow. In addition, fuel reserves were smaller due to lower production and investments declined from the previous year. Due to these factors, cash flow was positive at EUR 60.7 million.

Free cash flow before taxes and financial items takes into

The financial year 1.1.2013–30.4.2014 was 16 months long.

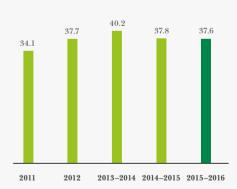
Return on invested capital (ROIC) before impairment %



Return on invested capital (ROIC) is the main indicator of profitability in Vapo's capital-intensive industries as it takes invested capital into account in addition to operating profit. ROIC reflects the company's ability to create shareholder value, meaning that it should be higher than the weighted average cost of capital (WACC). At the end of the financial year, Vapo's return on invested capital before impairment was 1.4%.

The financial year 1.1.2013-30.4.2014 was 16 months long.

Equity ratio %



Equity ratio measures a company's solvency and tolerance for losses and indicates the extent to which the company's assets are financed by equity. Changes in organisational structure, the divestment of loss-making operations and a focus on cash flow are reflected in the equity ratio improving in recent years. At the end of the 2016 financial year, the equity ratio stood at 37.6%.

The financial year 1.1.2013-30.4.2014 was 16 months long.

MEMBERS OF THE BOARD OF DIRECTORS

Chairman of the Board of Directors

JAN LÅNG

b. 2 February 1957, M.Sc. (Econ.)

Relevant concurrent positions of trust:

Okmetic Oyj and Antilooppi Ky, Chairman of the Board 2015-; Stiftelsen för Åbo Akademi, Member of the Board 2013-

Relevant work experience: Huhtamäki Ov, several positions, 1982–2003 Uponor Ovi, CEO, 2003–2008. Ahlström Ovi, CEO, 2009–2014 Chairman of Vapo's Board of Directors

Chairman of the Compensation Committee 2015-

Vice Chairman of the Board of Directors

PERTTU RINTA

b. 24 August 1954, M.Sc. (Econ.), Commercial Counsellor Managing Director, Suur-Savon Sähkö Oy, 1 September 2007-

Relevant concurrent positions of trust:

Energiateollisuus ry and Kymppivoima Oy, Board Member; Järvi-Suomen Voima Oy and Suur-Savon Sähkötyö Oy, Chairman of the Board; Kymppivoima-Hydro Oy, Vice Chairman of the Board Relevant concurrent positions of trust: Kymppivoima Oy, Managing Director, 8/2002-8/2007

Rauta-Kesko Ov, Director, Baltic operations, K-Rauta chain and Corporate Services, 2000–2002 Kauppiasliitto ry, Managing Director, 1998-2000

Kesko Corporation, Director, Local stores, 1996-1997 Kesko, Vaasa Province Aluekesko, several positions, 1989–1996 Hankkija, several positions, 1979–1989 Vice Chairman of Vapo's Board of Directors 2009-

Chairman of the Audit Committee 2009-2010 and 2011-2014, member 2011-Member of the Compensation Committee 2010-2011 and 2015-

MARTTI HAAPAMÄKI

b. 17 February 1950, M.Sc. (Eng.), Engineering Counsellor, CEO, Seinäjoen Energia Oy

Relevant concurrent positions of trust:

Voimajunkkarit Ov, Chairman of the Board; Vaskiluodon Voima Oy, Board Member; EPV Energia Oy, Deputy Board Member

Relevant work experience:

Vaasan Sähkö Ov, Business Unit Director, 1991-2003 Teollisuuden Voimansiirto Oy,

Senior Specialist (1989–1991) Länsi-Suomen Voima Ov, Operation Manager, 1982–1989 Nokia Engineering Oy, Project Manager, 1987-1991

Helsinki Energy Board, Design Engineer,

Board Member at Vapo 2015-Member of the Audit Committee 2015-

1985-1987

b. 4 December 1955, M.Sc. (Eng.) CEO, Vaasan Sähkö Ov, 20 August 2001-

Relevant concurrent positions of trust:

Ov RAVERA Ab, Chairman of the Board; EPV Energia Ov, Voimapiha Ov and Power-Deriva Oy, Board Member; Pohjolan Voima Oy, Deputy Board Member; Finnish Energy Industries, Vice Chairman of the Board

Relevant concurrent positions of trust:

Korpelan Voima joint municipal authority, Managing Director, 11/1994–7/2001 Mellano Oy, Managing Director, 9/1992-10/1994 Pyhännän Rakennustuote Oy (PRT-Forest Oy), IT Manager, 1984–1991, Project Manager 1991–1992 Imatran Voima Oy, Staff Engineer, 1980-1984

Board Member at Vapo 2009-2012 and 2014 -

Member of the Compensation Committee 2009-2010 and 2011-2012 Chairman of the Audit Committee 2010-2011 and 2014-Member of the Board of Directors of Vapo Timber Oy 2012–2014

PIRITA MIKKANEN

b. 15 February 1966, D.Sc. (Tech.) Partner, TM System Finland Ov

Relevant concurrent positions of trust:

Finnfund Ov. Pihita Ov. Enersize Ov. and GloCell Ltd Ov, Board Member; Lifa Air Oy, Chairman of the Board

Relevant concurrent positions of trust:

GreenStream Network Ov, Executive Vice President, 2010–2014 Climate Opportunity Fund and Fine Post, 2012

Carbon Fund, Fund Manager, 2011-2013 KemiCell Oy, CEO, 2009-2013 GloCell Ov, CEO, 2009-2010

PricewaterhouseCoopers Oy, Senior Manager, 2008-2009

Labtium Oy (Geological Survey of Finland), Business Area Director, 2006-2008 Gaia Consulting Oy, Business Director, 2005-2006

Dekati Oy, Business Director, 2000–2005 Board Member at Vapo 2014-Member of the Audit Committee 2014-

MINNA PAJUMAA

b. 19 April 1963, M.Sc. (Econ.), CEFA Senior Financial Specialist, Prime Minister's Office

Relevant concurrent positions of trust:

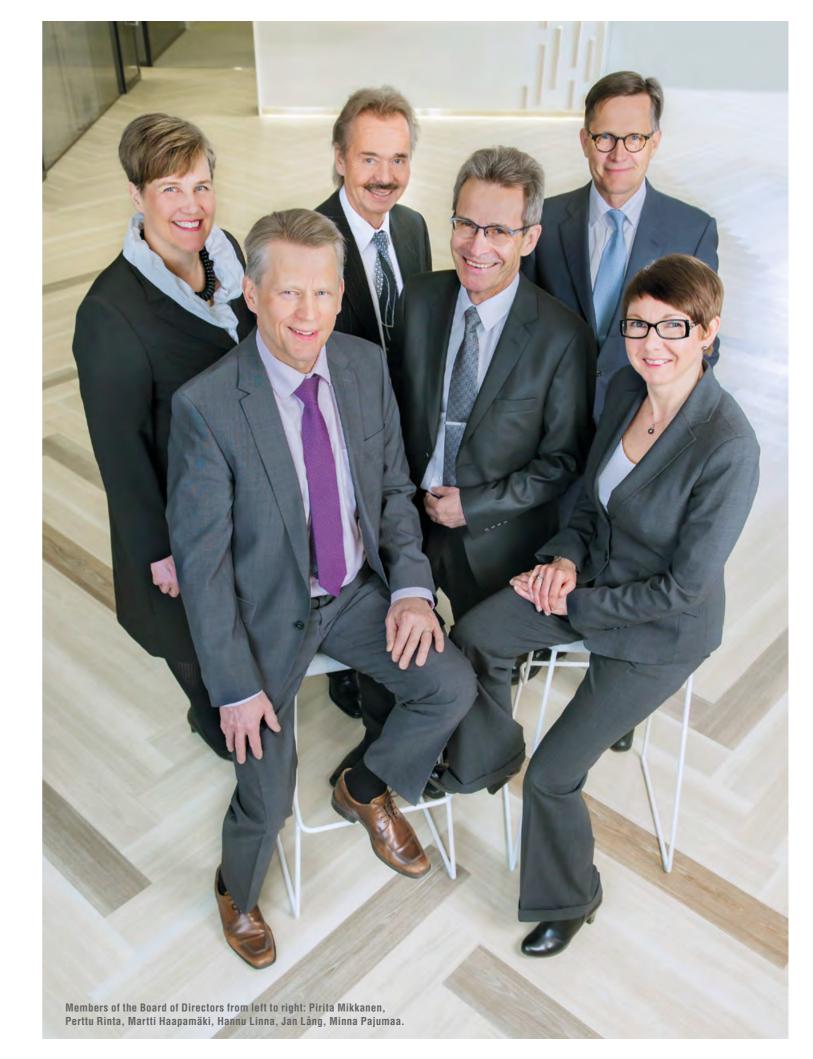
Suomen Lauttaliikenne Oy, Gasonia Oy and Terrafame Group Oy, Board Member Relevant concurrent positions of trust: HSH Nordbank AG, Client Executive, 2004-2008

HSH Nordbank AG, Project Manager, 2002-2004

SEB, Vice President, 1998-2002 Suomen Vientiluotto Oy, 1990-1998 Regional Representative Singapore, Assistant Regional Representative Hong Kong and other positions Board Member at Vapo 2013-Member of the Audit Committee 2013-2014

Chairman of the Compensation Committee 2014–2015, member 2015–

The Members of the Board of Directors do not own shares in Vapo Oy.



CORPORATE GOVERNANCE AT VAPO

Vapo Oy is a Finnish non-listed jointstock company whose decision-making and management comply with the Limited Liability Companies Act and the company's Articles of Association and Shareholders' Agreement. In addition, Vapo Oy complies with the recommendation on the handling of Corporate Governance matters in publicly owned and affiliated companies issued by the Ownership Steering Department in the Prime Minister's Office and, where applicable, the Securities Market Association's Finnish Corporate Governance Code, which took effect on 1 January 2016.

Vapo Group's administrative bodies are Vapo Oy's general meeting of shareholders, the Supervisory Board, the Board of Directors, its CEO and the boards and managing directors of its subsidiaries. Vapo Oy's Board of Directors, its chairman and vice chairman are elected by the general meeting of shareholders in compliance with what is agreed in the Shareholders' Agreement between the owners. Vapo Oy's Board of Directors appoints the CEO and the members of the boards of directors of its subsidiaries and other Group companies.

Vapo Oy's Board of Directors appoints the Audit Committee and the Remuneration Committee from among its number.

The operations of the Group's parent company Vapo Oy are composed of the business areas of the local energy value chain—Fuels, Heat and Power—as well as the regional operations in Finland, which are in the same responsibility matrix for regional operations as the aforementioned. Vapo Ventures, which operates within Vapo Oy, develops new business operations for Vapo. In addition to the above, the Group includes, as an independent business, Vapo Oy's subsidiary Kekkilä Oy, which operates in the sectors of garden substrates, fertilisers and environmental solutions. Vapo Oy's most important subsidiaries are Neova Ab in Sweden and AS Tootsi Turvas in Estonia. In line with Vapo Oy's operations, the business of both of these subsidiaries covers the entire value chain of local energy. Kekkilä Group includes Hasselfors Garden AB in Sweden and Hasselfors Garden AS in Norway. In addition, Vapo Group includes the subsidiaries and associates of the aforementioned.

General meeting of shareholders

The highest decision-making body in Vapo Group is Vapo Oy's general meeting of shareholders. In accordance with the Articles of Association, the general meeting is convened by registered letter to the shareholders sent to the address in the share register no later than eight days before the meeting. The Annual General Meeting is held annually in either Jyväskylä or Helsinki on a date determined by the Board of Directors, no later than six months after the end of the financial year.

The Annual General Meeting was held in Helsinki on 9 September 2015. The Annual General Meeting adopted the financial statements of the parent company and the consolidated financial statements for the financial period 1 May 2014-30 April 2015 and discharged the Board of Directors and the CEO from liability. The Annual General Meeting also approved the Board of Directors' proposal on the distribution of dividends, according to which dividends in the amount of EUR 12 million, or EUR 400 per share, were paid for the financial period 1 May 2014-30 April 2015. In addition, the Annual General Meeting decided on the members of the Board of Directors and elected an auditor for the company.

An Extraordinary General Meeting in which the composition of Vapo's Supervisory Board was decided was held on 12 November 2015.

Supervisory Board

Vapo Oy has a Supervisory Board consisting of a minimum of eight and a maximum of ten members elected by the

Annual General Meeting for a term of one year, and three employee representatives elected by the personnel for a term of two years.

The Supervisory Board operates according to the Limited Liability Companies Act and the rules of the Articles of Association, and is tasked with the following:

- Supervising the administration of the company carried out by the Board of Directors and the CEO.
- 2. Issuing a statement to the Annual General Meeting on the financial statements and the Auditor's Report.
- 3. Providing instructions to the Board of Directors on matters that have far-reaching consequences and involve important principles.
- 4. Issuing statements to the general meeting of shareholders on matters in which the Limited Liability Companies Act requires a statement by the Supervisory Board.

The Supervisory Board convened four times during the financial period 1 May 2015–30 April 2016. The average attendance rate was 92%.

The Annual General Meeting held on 9 September 2015 elected the following members to continue on the Supervisory Board:

Pirkko Mattila, Member of Parliament Heikki Miilumäki, D.Sc. (Tech.) (h.c.) Antti Kaikkonen, Member of Parliament Eero Kubin, Customer Manager, Professor

Esko Kurvinen, engineer Jukka Kärnä, industrial policy expert Tommi Lunttila, agricultural and forestry entrepreneur Tiina Snicker, Financial Manager

Pirkko Mattila was elected Chairman and Heikki Miilumäki was elected Vice Chairman of the Supervisory Board.

In the Extraordinary General Meeting held on 12 November 2015, the

composition of the Supervisory Board changed as follows:

To continue on the Supervisory Board: Heikki Miilumäki, D.Sc. (Tech.) (h.c.) Eero Kubin, Customer Manager, Professor

Esko Kurvinen, engineer Tommi Lunttila, agricultural and forestry entrepreneur

Tiina Snicker, Financial Manager

Elected on the Supervisory Board as new members: Hannu Hoskonen, Member of Parliament Reijo Hongisto, Member of Parliament Markku Eestilä, Member of Parliament Johanna Ojala-Niemelä, Member of Parliament Hanna Halmeenpää,

Johanna Ojala-Niemelä was elected Chairman of the Supervisory Board, with Heikki Miilumäki continuing as Vice Chairman.

Board of Directors

Vapo Oy's Board of Directors comprises a minimum of four and a maximum of eight members elected, as agreed in the Shareholders' Agreement, by the general meeting of shareholders for a term of one year. The chairman and vice chairman are elected by the general meeting of shareholders as agreed in the Shareholders' Agreement. The election of the Board members complies with the guidelines concerning the realisation of diversity issued by the Ownership Steering Department in the Prime Minister's Office.

Vapo Oy's Board of Directors is responsible for managing and supervising Vapo in accordance with the Limited Liability Companies Act, the company's Articles of Association and Corporate Governance principles, the Board's charter and the shareholders' instructions. Vapo's Corporate Governance principles and the charters of the Board and its committees are available on the company's website at: http://www.vapo.fi/en/vapo-group-2/corporate-governance.

The key parts of the Board's charter read as follows:

- the preparation of matters to be presented to the general meeting of shareholders and the Supervisory Board;
- defining and ratifying the long-term goals and strategies of the Group and its business areas;
- approving the operational, investment and financial plans for the business areas for the current financial period and monitoring the reporting related to the plans;
- organising the Group's accounting, including the policies applied in the preparation of the financial statements;
- creating the necessary organisational structure and appointing the CEO, the Group's Business Area Directors and the Directors in charge of the Group's support functions, as well as deciding on their remuneration;
- approving operational policies and monitoring their implementation;
- organising internal auditing;acquisitions and related practices;
- deciding on major investments by the Group companies, other long-term expenses, assignments of property and financing arrangements according to set budgets given in euros;
- deciding on significant expansions and reductions of operations.

The Annual General Meeting held on 9 September 2015 elected Perttu Rinta, Minna Pajumaa, Hannu Linna and Pirita Mikkanen to continue as Board members and Jan Lång and Martti Haapamäki to join the Board as new members. Jan Lång was elected Chairman and Perttu Rinta Vice Chairman of the Board of Directors. All members of

the Board of Directors are independent of the company.

The Board of Directors convened 12 times during the financial period 1 May 2015–30 April 2016. The average attendance rate in the meetings was 96%.

The Board of Directors monitors and assesses its work with annually conducted internal evaluations.

Committees

The Board of Directors appoints two permanent Committees from among its number: the Audit Committee and the Remuneration Committee.

Audit Committee

The task of the Board of Directors' Audit Committee is to prepare, direct and evaluate financial reporting as well as auditing, internal auditing, risk management, legal risks and internal monitoring systems.

The Audit Committee is composed of Hannu Linna (Chairman), Pirita Mikkanen and Martti Haapamäki. The Audit Committee convened three times during the financial year and the attendance rate was 100%.

Remuneration Committee

The task of the Board of Directors' Remuneration Committee is to make proposals on the management's salaries and remuneration system to the Board of Directors and to prepare any significant organisational and appointment issues.

The Remuneration Committee is composed of Jan Lång (Chairman), Minna Pajumaa and Perttu Rinta. The Remuneration Committee convened five times during the financial year and the attendance rate was 94%.

Chief Executive Officer

The tasks and responsibilities of the CEO include:

- 1.The day-to-day management of the company and the Group in accordance with the Articles of Association, the Limited Liability Companies Act and instructions issued by the Board of Directors.
- 2. Reporting to the Board of Directors and the Supervisory Board.
- 3. Preparation of the Group's strategy and business plans and their presentation to the Board of Directors for approval.
- 4. Informing the Board of Directors of the company's operations and financial position on a regular basis.
- 5. Presenting matters to be decided on by the Board of Directors, unless this is delegated to the Business Area Director concerned.
- 6. Presenting matters to be dealt with by the Board Committees.

The division of tasks between the CEO and the Board of Directors is described in more detail in the Board's charter (http://www.vapo.fi/en/vapo-group-2/corporate-governance).

Vapo's management

Vapo Group management is appointed by Vapo Oy's Board of Directors. It is tasked with supporting the CEO in his work. The management's work takes place within two management teams: the Group's management team and the management team of Vapo Oy's energy business. The management teams are responsible for:

- 1. Deciding on investments and acquisitions within the limits of authority approved by the Board of Directors.
- 2. Ensuring that the decisions made by the governing bodies are implemented in an appropriate manner in the organisation.
- 3. Assisting Vapo Oy's CEO in preparing for Vapo Oy's Board meetings and investigating all matters which the CEO has ordered them to investigate.
- 4. Actively promoting cooperation between the Business Areas and agreeing on joint principles and development measures in Group management.

The management teams convene on a regular basis. The Group's management team convenes at least three times a year and the energy business's management team at least once a month.

During the financial period, the Group's management team was composed of:

Tomi Yli-Kyyny

Managing Director, Vapo Oy with Vapo since 2011

Torbjörn Claesson

Managing Director, Neova AB with Neova since 2007

Markus Hassinen

Business Area Director, Vapo Heat and Power with Vapo since 2011

Pasi Koivisto

Business Area Director, Vapo Fuels with Vapo since 2008

Suvi Kupiainen

Chief Financial Officer, Vapo Oy with Vapo since 2011

Ahti Martikainen

Director, Communications and Public Affairs, Vapo Oy with Vapo since 2011

Kari Poikolainen

Senior Vice President, Corporate Planning, Vapo Oy with Vapo since 1990

Matti Puuronen

Regional Director, Baltic Operations with Vapo since 1996

Sari Rämö

CEO, Kekkilä Oy with Kekkilä from 2015

Mia Suominen

Business Area Director, Vapo Oy, Vapo Ventures with Vapo since 2006

Jyrki Vainionpää

Chief Operating Officer, Vapo Oy with Vapo since 2011

Juhani Ylä-Sahra

Director, Vapo Oy with Vapo since 1989

Subsidiaries

The subsidiaries are managed by their own boards and management teams in accordance with their own Corporate Governance principles, which include regulations on issues subject to the approval of Vapo Oy's Board of Directors

The boards and CEOs of Vapo Group's subsidiaries are tasked with:

- making decisions concerning the business operations of the respective companies and supervising the companies as required by law in the best interests of each company and Vapo Group in such a way as to ensure long-term increase in the value of the company as part of Vapo Group.
- ensuring that the company has enough information at its disposal to carry out its tasks;
- ensuring that the company operates in accordance with approved business principles and set targets; ensuring that the company complies with the Articles of Association and any possible instructions given in company-specific Corporate Governance principles and by Group management;
- ensuring that the company complies with local laws and regulations applicable to its business;
- monitoring legislation and informing Group management, Vapo
 Oy's CEO and /or the responsible
 business area or function director of
 relevant changes to it;
- ensuring that all tasks assigned by Vapo Oy's Board of Directors and CEO are implemented;
- ensuring that the company operates in accordance with its ethical principles and carries out corporate responsibility reporting where applicable.

Companies with minority shareholders external to the Group comply, for the most part, with the procedures described above, nevertheless taking into account the rights of the minority shareholders, and the rules detailed in the Articles of Association and any possible shareholders' agreement.

Remuneration of management

In accordance with the remuneration principles described in Vapo Oy's Corporate Governance guidance, remuneration for the financial period 1 May 2015–30 April 2016 took place as follows:

Fees paid to the members of the Supervisory Board

The Chairman receives EUR 800, the Deputy Chairman EUR 600 and the other members EUR 500 per meeting.

Fees paid to the members of the Board of Directors

The Chairman of the Board of Directors is paid EUR 2,750, the Deputy Chairman EUR 1,900 and other members EUR 1,550 per month. A meeting fee of EUR 500 is paid for both Board and Board committee meetings.

Terms of the CEO's contract

The CEO's monthly salary including fringe benefits is EUR 27,704.

The contract includes an incentive bonus, which may not exceed 40% of the annual salary, bound to annual targets set by the Board of Directors. No annual incentive bonus was paid for the financial year 1 May 2015–30 April 2016.

The CEO may furthermore receive an incentive bonus for reaching long-term targets. The incentive bonus is based on three-year earnings periods. The Board of Directors will decide on the earnings criteria and targets for each earnings period. The long-term incentive scheme for 2013-2015 ended during the financial period 1 May 2015-30 April 2016. The scheme's rewarding criteria consisted of Vapo's environmental responsibility, its equity ratio on 31 December 2015 and the cumulative operating result for the calendar years 2013-2015. The bonuses pursuant to the long-term incentive scheme are paid to the recipients in equal instalments over a delayed period within three years of the end of the earnings period in question. The first instalment, EUR 15,475, was paid in March 2016.

In addition to a statutory pension, the CEO is entitled to a defined contribution collective supplementary pension insurance to which Vapo contributes an amount equivalent to 10 per cent of the CEO's total annual salary (12 x monthly salary), excluding bonuses, every year.

The CEO's contract terminates when the CEO turns 63.

The CEO's period of notice is six months if he is dismissed by the Board of Directors, in addition to which he is entitled to compensation corresponding to 12 months' salary. If the CEO resigns, the period of notice is six months.

The total salary paid to CEO Tomi Yli-Kyyny in the financial period 1 May 2015–30 April 2016 was EUR 349,644. During the financial year, incentive bonuses amounting to EUR 90,500 were paid based on a previous financial year.

Remuneration of other management

In addition to a monthly salary, other members of the Group's management are entitled to a bonus, which can be 20-30% of the annual salary, for reaching annual targets set by the CEO. In addition, other members of the management separately named by the Board of Directors may also receive an incentive bonus for meeting long-term targets on grounds equal to those applicable to the CEO. The bonuses pursuant to the long-term incentive scheme are paid to the recipients in equal instalments over a delayed period within three years of the end of the earnings period in question. The first instalment, EUR 50,594, was paid in March 2016.

Vapo Oy's directors who are members of the Group management, including the CEO, are covered by the pension scheme provided by the Employees' Pensions Act. They are entitled to a defined contribution collective supplementary pension insurance to which Vapo contributes an amount equivalent to 10 per cent of their total annual salary (12 x monthly salary), excluding bonuses, every year. The company has an agreement with a pension insurance company on said supplementary pension rights.

The remuneration paid to the external members of the boards of directors of the subsidiaries is determined by Vapo Oy's Board of Directors. Members of the board of directors of the subsidiaries employed by Vapo are not usually paid separately for their membership. Members of the boards of directors of associates or subsidiaries who are employed by Vapo can be paid a fee when it is justifiable to ensure equality between them and the other members. The principles for the fees are agreed upon by Vapo Oy's Board of Directors, and the Board

of Directors issues a recommendation concerning the remuneration for review by the general meeting of shareholders of the company in question.

During the financial year, Vapo Group's management team (excluding the CEO of Vapo Oy) was paid salaries totalling EUR 1,853,325 and bonuses amounting to EUR 248,436 for the previous financial year. Based on the result for the financial year 1 May 2015–30 April 2016, bonuses will possibly be paid to individual management team members according to their personal score card results at amounts to be subsequently approved by the Board of Directors.

Ontions

The company does not make use of option bonus schemes.

Remuneration of personnel (other than senior management)

Based on the result for the financial year 1 May 2015–30 April 2016, bonuses will possibly be paid to the personnel according to their personal score card results at amounts to be subsequently approved by the Board of Directors. Incentive bonuses and other personal bonuses in the amount of EUR 1,486,534 for previous financial periods were paid to the personnel during the past financial year.

Internal monitoring

The Board of Directors' Audit Committee is tasked with monitoring the effectiveness of Vapo's internal monitoring, internal auditing and the company's risk management systems. Vapo has defined operating principles for internal monitoring and the key controls of processes. The CEO and CFO are responsible for the practical organisation of internal monitoring.

Internal monitoring applies to the entire organisation and its management. Effective internal monitoring supports the achievement of strategic objectives and improves the steering of business operations. The aim of internal monitoring is to give the Board of Directors and acting management adequate assurance of the realisation of the following objectives:

• the efficiency and appropriateness of operations;

- the achievement of targets and profitability;
- the reliability and completeness of financial reporting and other reporting;
- the safeguarding of assets;
- compliance with operating principles, plans, guidelines, laws and regulations to prevent errors and misconduct, for example.

Internal monitoring forms an essential part of the Group's operations on all levels of the organisation, and is conducted on all organisational levels and in all operations. The methods of internal monitoring include internal guidelines, reporting, various ICT systems and operational practices. These help to ensure that the management's instructions are followed and that any risks to the achievement of the Group's objectives are responded to in the appropriate manner. Regular monitoring activities include management audits and audits concerning the measurement of operations, the performance of measurements suitable for each sector, physical monitoring, monitoring compliance with agreed approval limits and operational principles and any deviations therefrom, a system of approvals and authorisations, as well as various assurance and integration arrangements.

Operations are managed and monitored on a monthly basis, primarily by business area and, from an operational perspective, by company. Reviewing the financial period under way and rolling monthly forecasts is an essential component of the control and monitoring process.

At Group level, the monitoring activities are managed by the Chief Financial Officer (CFO). At the level of companies, they are managed by the CEOs, and at the level of business areas by the management of the business areas. The implementation of monitoring is the responsibility of business controllers appointed for the business areas and companies in question operating under the CFO who, together with the CEOs and operational management, see to business transactions being entered in the systems in a timely manner and reported appropriately and efficiently,

complying with the separately issued Group guidelines on the content of internal monitoring and reporting.

Internal auditing:

Internal auditing supports Vapo Oy's Board of Directors, its CEO and the subsidiaries' senior management in carrying out their supervisory tasks. Internal audit services are purchased from an external service provider in the manner approved by the Board of Directors. The Group's Senior Vice President for Corporate Planning controls and supervises the implementation of these services and is responsible for communicating with the Board of Directors, its Audit Committee and the senior management in matters related to the internal audit.

Internal auditing:

- Assesses the adequacy and efficiency of the control and supervision measures required to manage the organisation from the perspective of business goals and identified material business risks.
- Supports the organisation in its efforts to maintain effective supervision measures.
- Carries out audits that assess
 the reliability and integrity of
 business-critical financial and
 operational information, the
 effectiveness and efficiency of
 operations, safeguarding of assets
 and compliance with legislation,
 regulations, agreements and the
 organisation's internal instructions.
- Prevents risks of misconduct.

The aforementioned is implemented by providing assessment and assurance services independent of the business organisation's management and by way of consulting in a manner that does not compromise independence.

Reporting:

The Senior Vice President for Corporate Planning and the external auditor performing the internal audit report, as necessary and appropriate, either jointly or independently, to the Group's Board of Directors,

the Audit Committee and the senior management, in addition to the preparing analyses, assessments and development recommendations on the operations of the Group and the Group companies.

Auditing

The Group's auditing is organised so that the parent company's Authorised Public Auditors appointed by the general meeting of shareholders carries out its auditing through its own global organisation throughout Vapo Group.

The appointed firm of auditors is KPMG Oy Ab, Authorised Public Auditors, with Ari Eskelinen (APA) as the principal auditor. The auditor's term is a financial year.

The auditors were paid fees totalling EUR 285,000 during the financial year.

RISK MANAGEMENT

Risk management is an integral part of the management of business operations at Vapo Group. Comprehensive risk management supports the achievement of Vapo's strategic and business goals and ensures the continuity of business operations under changing circumstances.

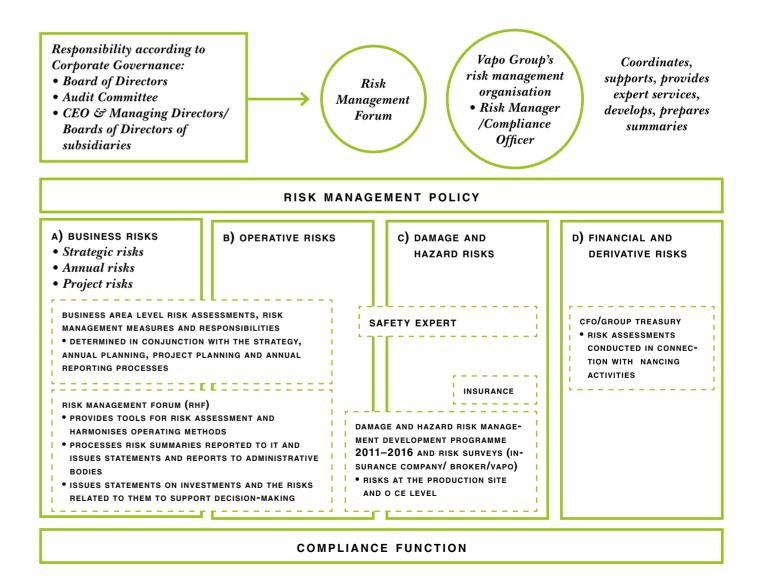
Successful and long-range business requires the proactive identification of business-related risks, managed risk-taking, the active monitoring of risk development and correct measures undertaken at the right time.

The risk management that implements the aforementioned objectives forms a part of the job description of every Vapo employee. Risks are managed at different levels of the organisation depending on where they can be influenced. The implementation and effectiveness of risk management is the responsibility of the directors responsible for business areas in Vapo

Group and Vapo Oy. They organise risk management activities in their respective business areas and report the most significant risks and their management methods to their administrative bodies and Vapo Oy's Board of Directors at agreed intervals.

The main risks threatening the Group's diverse operations and the ways to prepare for these risks are reported in the annual reports published by the Group companies.

Risk management at Vapo Group



VAPO'S YEAR 2015–2016 45

BOARD OF DIRECTORS' REPORT

Operating environment

Vapo is an energy company that provides local fuels and heating solutions based on local fuels. The Group's operational goal is to be the most reliable, responsible and competent provider. Vapo is an important part of the local energy infrastructure in Finland, Sweden and Estonia. Vapo Group also includes the gardening group Kekkilä.

The financial year in figures:

- Group turnover in the financial year 1 May 2015–30 April 2016 was EUR 459.8 million (EUR 486.9 million during the period 1 May 2014–30 April 2015).
- The operating margin (EBITDA) was EUR 43.1 million, or 9.4% of turnover (EUR 74.7 million, 15.3%).
- The operating result was EUR 8.6 million, or 1.9% of turnover (EUR 36.9 million, 7.6%). The operating result includes one-off expenses of EUR 8.9 million (one-off gains of EUR 2.5 million).
- The operating result for the Group's continuing business operations, excluding one-off items and the effect of divested businesses, was EUR 19.4 million (EUR 29.5 million).
- The pre-tax return on invested capital (ROIC, previous 12 months) was 1.2% (5.4%).
- Free cash flow before taxes was EUR 60.7 million (EUR-25.1 million).
- Gross investments were EUR 38.5 million, ratio to depreciation 1.1 (EUR 88.4 million, 2.3).
- Net investments were EUR 21.9 million, ratio to depreciation 0.6 (EUR 67.1 million, 1.7).
- The equity ratio on 30 April 2016 was 37.6% (37.8%).
- Interest-bearing net debt on 30 April 2016 was EUR 366.6 million (EUR 393.1 million).
- The ratio of interest-bearing net debt to operating margin (net debt/ EBITDA, previous 12 months) on 30 April 2016 was 8.5 (5.3).
- 10.4 TWh of energy peat was delivered (10.5 TWh).

Tomi Yli-Kyyny, CEO, on the financial year: one-off items weighed down on the result for the period

Vapo Group's result for the financial year fell into loss-making territory, which was a disappointment. Peat production in summer 2015 was substantially lower than usual, and the weather in the 2015–2016 heating season in Finland was substantially warmer than the longterm average. These two factors had a negative impact in excess of EUR 10 million on the Group's result. Vapo Oy carried out two significant restructuring measures during the financial year. In January 2016, the company sold Vapo Timber Ov, a non-core business. During the winter, the company carried out a major renewal of its operating model to revise the operation and management of Vapo Oy's energy value chain in order to correspond with the current demand for energy peat. A key driver of the renewal was the need to improve the company's competitiveness by creating broader and more flexible roles in the organisation in a market situation where peat is barely used at all in the production of condensing power. The divestment of the sawmill business and the one-off expenses associated with the renewal of the operating model had a combined negative impact of nearly EUR 10 million on operating

While the operating result was weak, the company's free cash flow (before taxes and financial expenses) was at an excellent level, enabling higher-than-anticipated debt repayments.

Vapo Oy is entering the new financial year as a substantially more cost-efficient energy company. The company's strategy is to shift its focus from just the sale of fuels and heating towards more comprehensive energy solutions and new digital added value services. One such example is the operations centre completed in Vantaa's Tikkurila district, which is already being used to operate over ten power and heating plants—both Vapo's own and those of its customers—as well as several district heating networks.

The operations of Vapo Ventures, the Group's new business development unit, developed favourably during the financial year. Vapo Ventures' first internal start-up, Vapo Clean Waters Oy, was incorporated and began its operations at the end of the financial year. In addition, Vapo Fibers, a unit that creates new business from peat fibre and other natural fibres, began its operations at the beginning of May. These new start-ups are aimed at creating new industrial business based on Vapo's competencies and extensive peat resources on a relatively rapid schedule. The company's goal is to introduce the first commercial applications of peat fibre to the market within the new financial year.

With respect to the operating environment, a positive factor worth noting is that the reduction of peat tax and increase in subsidies for fuel wood, which were decided by Finland's previous government, were put into effect in spring 2016. This provides much-needed continuity for the future planning of customers who use domestic fuels.

However, the planned new limits on particle emissions represent a significant concern for large-scale (over 50 MW) Finnish combustion plants that use biofuels. The Industrial Emissions Directive LCP BREF document (Large Combustion Plant Best Available Technique Reference Document), which is currently in the draft stage, proposes substantially tougher limits on emissions arising from the combustion of biomass and peat. The use of domestic fuels is being promoted at the EU level, and it seems likely that countries that produce coal will have less strict emissions limits on their domestic brown coal, while Finland, Ireland and Sweden would not be granted a similar relaxation of emissions limits on domestic peat. It would be costly for Finland as a nation to become a driftwood when it comes to the LCP BREF regulations or policies concerning the next emissions trading period or the sustainability criteria governing the use of wood for energy. It is essential for Finland to be successful in these significant energy industry lobbying projects.

Consolidated key figures

	1-4/2016	1-4/2015	5/2015-4/2016	5/2014-4/2015	1/2013-4/2014
Turnover	182.6	195.1	459.8	486.9	847.4
Operating profit (EBIT)	18.1	26.0	8.6	36.9	50.0
% of turnover	9.9	13.3	1.9	7.6	5.9
Operating profit (EBIT) before impairments	12.8	26.8	9.4	37.6	53.9
% of turnover	7.0	13.8	2.1	7.7	6.4
Profit/loss for the period	10.0	19.6	-4.4	19.8	22.7
Operating margin (EBITDA)	20.7	35.5	43.1	74.7	110.8
+/- Change in working capital	31.5	0.7	39.6	-32.7	-27.4
- Net investments	-10.1	-31.1	-21.9	-67.1	-21.6
Free cash flow before taxes	42.1	5.1	60.7	-25.1	61.9
Gross investments	11.9	33.6	38.5	88.4	65.0
Return on invested capital % *			1.2	5.4	3.8
Return on invested capital % before impairments *			1.4	5.5	4.4
Return on equity % *			-1.5	6.6	1.3
Balance sheet total			795.0	838.2	786.9
Shareholders' equity			288.2	304.4	305.2
Interest-bearing net debt			366.6	393.1	329.0
Equity ratio %			37.6	37.8	40.2
Interest-bearing net debt/operating margin			8.5	5.3	4.4
Gearing %			127.2	128.7	110.3
Average number of employees			914	961	1,091
Previous 19 months					

^{*)} Previous 12 months

Key figures for parent company Vapo Oy

	5/2015-4/2016	5/2014-4/2015	1/2013-4/2014**
Turnover	252.0	244.8	377.0
Operating profit (EBIT)	8.4	46.2	48.3
% of turnover	3%	19%	13%
Operating profit (EBIT) before impairments	8.4	46.8	48.5
% of turnover	3%	19%	13%
Profit/loss for the period	0.2	26.3	24.7
Operating margin (EBITDA)	28.4	70.1	77.3
Return on invested capital % *	1%	8%	9%
Return on invested capital % before impairments *	1%	8%	9%
Return on equity % *	0%	10%	10%
Balance sheet total	770.8	802.8	726.0
Shareholders' equity	251.3	263.1	249.4
Equity ratio %	33%	34%	34%

^{*)} Previous 12 months

The financial year 1.1.2013-30.4.2014 was 16 months long

^{**)} The financial year was 16 months long

Developments by business segment

In accordance with Vapo's management model, the Group's subsidiaries are managed primarily by their respective boards of directors. As a result, Vapo changed its segment reporting starting from 1 May 2015, with the separate companies now constituting the reporting segments

instead of the previous business areas. However, the Vapo Oy segment also reports the results of smaller subsidiaries that serve the energy business, as their operations are managed by Vapo Oy. These subsidiaries include Salon Energiantuotanto Oy, Piipsan Turve Oy, Suo Oy and Hanhisuon Turve Oy.

Turnover by segment

MEUR	1–4/2016	1-4/2015	Change %	5/2015-4/2016	5/2014-4/2015	Change %
Vapo Oy	117.3	109.0	7.6	257.0	251.9	2.0
Vapo Timber Oy	5.5	29.5	-81.3	63.5	89.0	-28.6
Kekkilä Group	34.9	35.0	-0.3	87.9	87.1	1.0
Neova AB	21.5	19.9	8.1	47.8	48.9	-2.2
AS Tootsi Turvas	5.9	5.4	9.7	13.0	12.9	0.5
Others	0.0	-0.1	100.0	0.0	7.8	-99.8
Inter-segment turnover	-2.6	-3.6	29.2	-9.4	-10.7	12.1
Total	182.6	195.1	-6.4	459.8	486.9	-5.6

Operating result by segment

MEUR	1–4/2016	1-4/2015	Change %	5/2015-4/2016	5/2014-4/2015	Change %
Vapo Oy	6.6	32.0	-79.3	7.4	49.1	-84.9
Vapo Timber Oy	-0.6	-0.1	-311.2	-2.2	0.8	-382.9
Kekkilä Group	0.6	3.3	-81.7	-1.3	1.1	-219.2
Neova AB	2.6	2.8	-6.8	1.7	1.0	74.2
AS Tootsi Turvas	0.3	0.6	-53.1	1.1	1.6	-33.0
Others	0.3	-0.6	145.0	0.2	0.9	-74.4
Associates	2.2	2.7	-18.1	1.4	2.2	-36.0
Eliminations	6.0	-15.3	139.3	0.3	-19.8	101.6
Total	18.1	25.4	-28.7	8.6	36.9	-76.6

Vapo Ov

Vapo Oy provides local fuels, heating solutions and environmental peat products to businesses, municipalities and consumers. Fuels account for approximately 70 per cent of the company's external turnover, heating solutions approximately 25 per cent, and environmental peat approximately five per cent. Vapo Oy's latest commercial businesses are Clean Waters and Vapo Fibers. Clean Waters provides solutions for the treatment of natural waters, primarily to reduce the impacts of agriculture and forestry on waterways, as well as solutions

for managing the quantity and quality of drainage waters in the built environment. Vapo Fibers uses peat to produce a domestic and ecological raw material with unique special characteristics to serve the needs of fibre-using industries.

The segment's turnover in the final third of the financial year (January–April 2016) was EUR 117.3 million (EUR 109.0 million). The operating profit for the reporting period was EUR 6.6 million (EUR 32.0 million). The figures for the comparison period included a gain of EUR 15 million arising from internal restructuring, which was eliminated at the Group level. After a period of freezing

weather in January, the winter was warmer than average, which had a negative impact on the sales of fuels and heating. Energy peat deliveries during the period amounted to 4.6 TWh (4.3 TWh). The Heat and Power business launched an operating service for power and heating plants, which is now being offered to customers' plants in addition to Vapo's own.

The segment's turnover for the full financial year was EUR 257.0 million (EUR 251.9 million). Operating profit amounted to EUR 7.4 million (EUR 49.1 million). The comparable operating profit, excluding the effect of one-off items, divested businesses and

internal restructuring, was EUR 15.1 million (EUR 26.3 million). Investments amounted to EUR 31.4 million (EUR 51.1 million). Energy peat deliveries totalled 9.8 TWh (9.5 TWh) and heating deliveries totalled 1.2 TWh (1.2 TWh) during the financial year.

The peat production volume corresponded to the demand for fuel during the heating season. Stockpiles accumulated in previous years, together with the upcoming peat production season, nevertheless secure fuel deliveries to customers. The turnover and operating result for the reporting period was increased by heating businesses acquired in the previous financial year in Sysmä, Jokela and Karkkila. The higher purchasing costs of wood fuels led to lower profitability for forest fuels and the pellet business compared to the previous financial year.

The Clean Waters business focused on customer projects in the fields of agriculture and forestry, and continued to implement an urban wetland in Jyväskylä to treat drainage waters. The goal of Clean Waters is to design and implement water treatment solutions for natural waters and urban drainage waters in a manner that generates economic benefit for the customer while also increasing biodiversity and the recreational value of nature. The sufficient availability of clean water is a global issue that will only increase in importance. In the final third of the financial year, the focus was particularly on strategic product development and preparing for the incorporation of Clean Waters. Vapo Clean Waters Oy began its operations on 1 May 2016.

Also in the final third of the financial year, Vapo Oy launched Vapo Fibers, a new business focused on peat fibres. Peat represents a valuable domestic natural resource alongside Finland's forests and clean water. Vapo Fibers uses peat to produce an ecological raw material with unique special characteristics. Peat fibre can be refined into products such as boards for the construction industry, insulating materials, inner packaging, composites and non-woven fabrics. Vapo Fibers combines decades of experience and know-how related to the sustainable use of peat with the ability to see new opportunities in a traditional raw material.

Neova AB

Neova AB is a Swedish subsidiary of Vapo Oy. It provides district heating to its customers through its own district heating networks and offers customised heating solutions for industrial customers. The company also produces and markets peat products for its energy customers and users of agricultural peat products. Its annual turnover is evenly divided between heating solutions and peat productions.

Turnover in the final third of the financial year (January–April 2016) amounted to EUR 21.5 million (EUR 19.9 million). The operating profit for the period was EUR 2.6 million (EUR 2.8 million). The latter part of the period being colder than the autumn and early winter helped increase demand for fuels and heating.

Turnover for the full financial year was EUR 47.8 million (EUR 48.9 million) and the operating profit was EUR 1.7 million (EUR 1.0 million). Operating profit was improved by the increased profitability of the heating business as well as lower fixed costs compared to the previous year. Investments during the financial year amounted to EUR 3.8 million (EUR 31.2 million). The figures for the comparison period include Neova AB's pellet business, which was turned into a joint venture with the pellet business of Lantmännen Agroenergi AB in June 2014. Neova AB owns 50 per cent of the larger peat company that was created by the launch of the joint venture.

Energy peat deliveries during the financial year totalled 0.7 TWh (0.7 TWh) while heating deliveries amounted to 0.4 TWh (0.4 TWh). Deliveries of agricultural peat totalled 0.6 million cubic metres (0.5).

AS Tootsi Turvas

AS Tootsi Turvas is Vapo Oy's Estonian subsidiary. Its primary business is the sale of agricultural peat products, energy peat products and wood fuels, as well as the production and sale of heating. Agricultural peat accounts for 47 per cent of the subsidiary's annual turnover, while wood fuels account for 29 per cent, energy peat 14 per cent, and heating 10 per cent.

Turnover in the final third of the financial year (January–April 2016) amounted to EUR 5.9 million (EUR 5.4 million). The operating profit for the period was EUR 0.3 million (EUR 0.6 million).

Turnover for the full financial year was EUR 13.0 million (EUR 12.9 million) and the operating profit was EUR 1.1 million (EUR 1.6 million). Investments during the financial year amounted to

EUR 1.1 million (EUR 1.9 million).

Energy peat deliveries during the financial year totalled 0.2 TWh (0.2 TWh). Deliveries of agricultural peat totalled 0.6 million cubic metres (0.5).

Kekkilä Group

Kekkilä Group develops, produces and markets high-end garden substrates, plant fertilisers and mulches as well as home garden and yard construction products for amateur and professional growers and landscapers. The products are marketed under the Kekkilä brand in Finland and under the Hasselfors Garden brand in Sweden and Norway.

Turnover in the final third of the financial year (January–April 2016) amounted to EUR 34.9 million (EUR 35.0 million). The operating profit for the period was EUR 0.6 million (EUR 3.3 million). The result includes a writedown of EUR 1.1 million related to Norwegian and Russian operations.

Turnover was largely unchanged from the corresponding period in the previous year. Turnover grew in the professional grower business, while the later start to the spring season compared to the previous year had a negative impact on consumer sales and the landscaping business

Turnover for the full financial year was EUR 87.9 million (EUR 87.1 million) and the operating profit was EUR -1.3 million (EUR 1.1 million). The result includes a one-off expense of EUR 0.5 million. Investments during the financial year amounted to EUR 3.6 million (EUR 4.1 million).

Turnover grew in the professional grower markets, particularly in Asia and South America. The start of the spring season being delayed – compared to the previous year – slowed sales in the consumer and landscaping businesses.

Vapo Timber Oy

The Austria-based Binderholz Beteiligungs AG acquired 100 per cent of the share capital of Vapo Timber Oy in early January 2016. The transaction was subject to approval by the Austrian competition authorities, which meant that the change in ownership officially took place on 15 February 2016. Vapo Timber Oy's figures are included in Vapo Group's consolidated figures until 31 January 2016.

Vapo Timber Oy's cumulative turnover for the period 1 May 2015–31 January

2016 was EUR 63.5 million (EUR 89.0 million during the period 1 May 2015-30 April 2015) and its operating result was EUR -2.2 million (EUR 0.8 million). Investments in May-January amounted to EUR 0.2 million (EUR 0.4 million).

Other activities

The Others segment includes the Group's Danish subsidiary Vapo A/S. It also includes Forest BtL, the operations of which were discontinued in 2014. The financial statements include EUR 0.2 million in operating profit attributable to the sale of documentation related to Forest BtL's biodiesel project. The result for the comparison period includes Mustankorkea Ov, a waste processing company that was majority-owned by Vapo but whose shares were subsequently sold in December 2014.

Cash flow, investments and financing

Free cash flow before taxes was EUR 60.7 million (EUR -25.1 million). The operating margin (EBITDA) was EUR 43.1 million (EUR 74.7 million). Decreased working capital improved cash flow by EUR 39.6 million (in the comparison period, working capital increased by EUR 32.7 million).

Gross investments in the financial year were EUR 38.5 million (EUR 88.4 million), or 114 per cent of the amount of depreciation (225%). The most significant investments in the financial year were allocated to improving the energy efficiency of heat and power plants, reducing emissions to waterways from peat production and the preparation and acquisition of new production areas. Net investments were EUR 21.9 million (EUR 67.1 million).

Interest-bearing net debt at the end of the financial year was EUR 366.6 million (EUR 393.1 million). Interest-bearing net debt includes a EUR 5 million capital loan in one of Vapo's subsidiaries. The ratio of interest-bearing net debt to operating margin (net debt/EBITDA) on 30 April 2016 was 8.5 (5.3). Shortterm interest-bearing debt was EUR 35.0 million (EUR 112.4 million). Of Vapo's long-term interest-bearing debt, 50.7 per cent is covered by a covenant related to the company's equity ratio. The terms of the covenant were met at the end of the review period. The equity ratio at the end of the financial year was 37.6 per cent (37.9%) and the gearing ratio

was 126.7 per cent (128.7%). The consolidated balance sheet total was EUR 795.0 million (EUR 838.2 million). The Group's net financing items were EUR -9.7 million (EUR -13.5 million). Net financing items were 2.1 per cent (2.8%) of turnover.

General Meetings

Vapo Oy's Annual General Meeting was held in Helsinki on 9 September 2015. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2014-30 April 2015 and discharged the members of the Supervisory Board and the Board of Directors, as well as the CEO, from liability. The AGM resolved to distribute a dividend for the financial period ended 30 April 2015 amounting to EUR 400 per share, or EUR 12.0 million in total. The dividend payment date was 10 September 2015.

The AGM confirmed the number of members of the Supervisory Board as eight. Pirkko Mattila was elected Chairman and Heikki Miilumäki was elected Vice Chairman. Antti Kaikkonen, Eero Kubin, Esko Kurvinen, Jukka Kärnä, Tommi Lunttila and Tiina Snicker were re-elected as members.

The AGM confirmed the number of members of the Board of Directors as six. Jan Lång was elected Chairman as a new member, with Perttu Rinta continuing as Vice Chairman. Pirita Mikkanen, Minna Pajumaa and Hannu Linna were re-elected to the Board of Directors, and Martti Haapamäki was elected as a new

The audit firm KPMG Oy was elected

Vapo Oy's Board of Directors elected Jan Lång (Chairman), Minna Pajumaa and Perttu Rinta to the Compensation Committee from among its members. Hannu Linna (Chairman), Pirita Mikkanen and Martti Haapamäki were elected to the Audit Committee.

Vapo Oy's Extraordinary General Meeting was held in Helsinki on 12 November 2015. The Extraordinary General Meeting confirmed the number of members of the Supervisory Board as 10. Johanna Ojala-Niemelä was was elected Chairman of the Supervisory Board as a new member, with Heikki Miilumäki continuing as Vice Chairman. Eero Kubin, Esko Kurvinen, Tommi Lunttila and Tiina Snicker were re-elected to the Supervisory Board, with Hannu Hoskonen, Reijo Hongisto, Markku Eestilä

and Hanna Halmeenpää elected as new

A more detailed description of the company's governance system during the financial year is available in a separate statement published on the company

Changes in the organisation

The demand for energy peat has declined year after year, and it is expected to continue to decline as energy production focuses on renewable fuels such as wood. In order to improve cost-efficiency and flexibility under the changed market conditions, in late October the company commenced codetermination negotiations aimed at the renewal of the operating model. The negotiations concerned a total of 249 employees of Vapo Oy and Salon Energiantuotanto Oy. The negotiations were completed on 1 December 2015 and the new organisation became operational in February 2016. The changes to the operating model led to reductions amounting to 50 man-years, which will take effect by the end of the 2016 calendar year. The change security offered to employees included a financial support package and re-employment training. The financial statements include a cost provision of EUR 0.8 million for future expenses arising from the organisational changes.

In April 2016, the company commenced codetermination negotiations concerning the pellet business, with the aim of improving profitability and adjusting production to the prevailing market demand. In recent years, nearly half a million tonnes of new production capacity has been built in Europe, while the supply of North American pellets has increased significantly, particularly in the Central European markets. Nevertheless, the company believes that domestic pellet will be a key element of Finland's renewable energy solutions in the coming years. The negotiations concerned a total of 39 employees and the planned adjustments include both permanent reductions in the number of personnel as well as temporary production restrictions and temporary layoffs. The negotiations were completed in May. As a result of the negotiations, the number of personnel at the Turenki, Vilppula, Haukineva and Ylistaro factories will be reduced by at most 12 employees. Efforts will be made to reduce the actual number of dismissals through pension arrangements and other voluntary arrangements. Decisions were also made on new production restrictions that will lead to temporary layoffs concerning at most nine employees during the remainder of the year.

Sari Rämö, Managing Director of Kekkilä Group, vacated her post in April 2016. Juha Mäkinen joined Kekkilä Group as Chief Operating Officer starting from 16 May 2016.

Changes in Group structure

The company held negotiations during 2015 regarding the sale of its sawmill company Vapo Timber Oy. The negotiations were completed in early January 2016. Vapo reached an agreement on the sale of the entire share capital of Vapo Timber Ov to the Austrian wood processing group Binder Beteiligungs AG, and the sales agreement was signed on 4 January 2016. Vapo Timber Oy's two sawmills in Northern Karelia were transferred to the new owner on 15 February 2016.

Vapo Clean Waters Oy was established as a new business entity in April 2016 and it began its operations on 1 May 2016. The company is a wholly owned subsidiary of Vapo Oy. Its field of business comprises expert, design, construction and maintenance services and products related to water protection and biodiversity. The company's operations also include recovering, refining and recycling water and nutrients, as well as business related to wild plants and garden plants.

Events after the review period

The Vapo Ventures unit, which focuses on the development of new business ventures, launched the Vapo Fibers business on 1 May 2016. Vapo Fibers uses peat to produce an ecological raw fibre material that possesses unique special characteristics and has a wide variety of uses, even on the international stage.

In accordance with its strategy, Vapo will invest in the growth of the Heat and Power business area in future. Achieving the planned growth will require significant investments in improving the energy efficiency of the existing power and heating plants as well as developing operating services and maintenance operations. Vapo has several production plants across Finland, which presents a significant opportunity for improving operational efficiency. Accordingly, Vapo Oy commenced codetermination negotiations concerning Salon Energiantuotanto Oy and the Haapavesi power plant in May

Vapo Group's personnel on average:

	5/2015-4/2016	5/2014-4/2015	1/2013-4/2015
Finland	654	707	759
Other countries	260	254	332
Total	914	961	1,091

Vapo Group employees by segment, average:

	5/2015-4/2016	5/2014-4/2015	1/2013-4/2015
Vapo Oy	451	466	443
Vapo Timber Oy	81	107	170
Kekkilä Group	256	248	227
Neova AB	92	87	149
AS Tootsi Turvas	33	35	47
Others	1	18	55
Total	914	961	1,091

2016. The negotiations covered a total of 16 employees. Following the conclusion of the negotiations in summer 2016, the company will make its final decisions regarding the measures to be taken.

Natural seasonal fluctuation in activities

Vapo's energy business is cyclical due to seasonal variation in the demand for heating. In the first third of the financial year, from May to August, the focus is on fuel production and acquisition, while the second third of the financial year brings with it the start of the heating season, and the volume of fuel deliveries increases. The final third of the financial year is the strongest period for the company's sales of heating, electricity and fuels.

Kekkilä's gardening business is also sensitive to seasonal fluctuations, with demand peaking in the spring. The general economic climate is also reflected in consumers' purchasing behaviour, which creates variation in the company's result.

Personnel

The Group employed an average of 914 (961) persons in the financial year.

The codetermination committees of Vapo Oy and Kekkilä Oy met twice during the financial year.

Research and development

The Group's research and development investments during the financial year 1 May 2015-30 April 2016 amounted to EUR 1.1 million (EUR 1.3 million), which is equal to 0.2 per cent of turnover

Progress was made during the financial year in the development and commercialisation of existing and new businesses in both the energy business and Vapo Ventures.

Research and development activities also included the continuation of projects aimed at reducing the environmental impacts of peat production in order to fulfil the company's environmental commitments. The significant focus areas of research and development activities included, among others, surveying heavy metal concentrations in peat and leachates at peatlands, developing leachate treatment methods to make them even more environmentally friendly, developing peat production methods and production machines, and increasing awareness concerning the quality of energy peat. A new service concept named VapoPuhti was developed for environmental peat customers. The service comprises a manure pick-up service for litter customers as well as a container solution that improves the storage and preservation of litter.

Starting from the beginning of 2015,

Vapo Ventures has developed and commercialised new businesses based on Vapo's extensive peat assets, competencies and networks. The first new businesses developed by Vapo Ventures are Clean Waters, which provides treatment solutions for natural waters, and Vapo Fibers, which produces natural fibre solutions. Research and development activities also continued in other projects.

The stricter environmental quality standards for waterways have brought about more extensive obligations related to surveying and reporting. During the past financial year, the Clean Waters business continued to implement a project to survey heavy metal concentrations in peat and leachates at peatlands. The aim of the project is to determine average heavy metal concentrations for peat and leachates at peatlands. The project is funded by peat industry companies and 'the Finnish Energy Industries environmental pool.

With future peat production set to increasingly take place on ditched peatlands, the company began to assess the functioning of overland flow areas built in ditched peatlands to ensure the appropriate treatment of leachates. A geographically comprehensive sample of ditched overland flow areas was selected for the study, and the effects of their structural characteristics on water treatment outcomes were analysed using statistical methods. The company also continued to study new water treatment methods during the past financial year with various partners. Research into new methods is aimed at fulfilling Vapo Oy's environmental commitments. The methods tested in the pilot phase included electric sedimentation and various filtration methods.

In the energy business, research conducted during the financial year included a study of variation in the concentration of elements in stacks of milled fuel peat. The main purpose of the study was to find out the extent to which one composite sample of a stack can be used to precisely determine the qualitative characteristics of the entire stack. The aim of the study was to increase awareness of the quality of peat and improve customer service.

Vapo partnered with Peatmax Oy to jointly develop a new harvester for use in the production of sod peat. The harvester prototype was tested in production conditions. The results will be used to build two pilot harvesters for use in the upcoming production season. The new harvester offers improved opportunities

for utilising production areas that are small in size.

In the production of sod peat, the company also studied and compared sod peat footing techniques and implemented a more precise sampling and quality assessment concept for stored sod peat. A new pump station concept utilising solar power was developed in partnership with machine suppliers. A solar power pump station can significantly reduce the use of light fuel oil while also improving the functioning of water treatment structures through optimised pumping.

Environmental responsibility

Environmental responsibility is an important element of Vapo's day-to-day business operations. Three years ago, the company made a commitment to implement an environmental programme that is unique even by international standards. One of the goals of the project, known as Tiger's Leap, was to build water treatment systems using the best available water treatment technology (BAT) at all of Vapo's peat production areas by the end of 2014. Summer 2015 was the first production season in which all of Vapo's peat production areas had water treatment systems using the best available technology. Vapo is committed to ensuring that areas released from peat production will be in active after-use within two years of the end of production operations. The programme's other goals included improving the effectiveness of voluntary environmental inspections and engaging in even more active communications on the overall impacts of using peat.

Vapo also increased the number of samples taken under its emissions monitoring programme in 2015 by 30 per cent from the previous year. In 2015, more than 17,800 samples were taken as part of emissions monitoring, with approximately 150,000 analyses carried out. In addition, the monitoring of waterways involved taking over 2,600 samples, with more than 35,200 analyses carried out.

Self-initiated environmental impact inspections continued with increased intensity. Contractors inspected water treatment structures in two-week intervals during the production season. In addition, 24 environmental inspectors recruited for the summer season inspected water treatment methods and other aspects related to environmental permit conditions at all production areas. In 2015, inspections by the authorities

were carried out at 110 production sites.

Vapo continued to sell peat bogs of high natural value for protection purposes.

In accordance with its permit policy, Vapo only applies for new production permits for ditched peatlands. In 2015, Vapo filed 29 new environmental permit applications for peat production, and received 408 hectares in newly approved production sites.

Vapo is committed to ensuring is that all new production areas opened after 2016 will have a lower solid and humus load on downstream watercourses than before peat production. To follow through on these commitments, Vapo launched the Clean Water and Monitoring 100 projects involving the monitoring of the impacts of new production areas on watercourses at approximately 100 sites before the potential start of peat production.

The Group's environmental investments amounted to EUR 4.0 million (EUR 10.5 million) and were primarily related to improving and building water treatment structures at peat production sites. Excluding Vapo's own personnel's input, environmental protection costs for the period amounted to EUR 20.8 million (EUR 21.4 million). The costs primarily consisted of peat production costs, such as the maintenance of water treatment structures and environmental load monitoring.

Active production areas in Finland amounted to 34,900 hectares in summer 2015 (41,000 ha in summer 2014). A total of 265 hectares (1,238 ha) of new peatlands became ready for production by the end of the financial year. Peatlands released from production during the financial year amounted to 545 hectares (3,764 ha).

A total of 4,996 hectares (4,185 ha) were transferred to other land use methods, of which 826 hectares (838 ha) were sold. A total of 2,024 hectares (1,174 ha) were assigned for forestation, 0 hectares (146 ha) for farming, and 150 hectares (250 ha) for building wetland habitats for birds. A total of 1,996 hectares (1,777 ha) of land was returned to landowners. Vapo has an aftercare reserve for the costs resulting from the rehabilitation of decommissioned production areas, which covers the costs of water protection measures, water rehabilitation, landscaping and other restoration measures after decommissioning.

In the area of wood fuels, Vapo expanded PEFC certification in 2015 to include all products. Vapo's wood pellets received PEFC certification for the first time

In accordance with the environmental programme for Vapo's own heat and power plants, the company improved the efficiency of using domestic fuels and reduced the use of coal in 2015. The use of fuel oil increased slightly due to the higher number of cold winter days compared to the previous year. Flue gas emissions, and sulfur oxide emissions in particular, were reduced by means such as the installation of flue gas scrubbers at the Sotkamo power plant and the Tikkakoski heating plant. Energy efficiency was improved particularly by new investments at the Sotkamo power plant and boiler optimisation at the Haapavesi power plant. An energy review covering all of the company's operating locations was completed by the end of 2015.

Notable risks and uncertainty factors

Regulation

The uncertainty associated with securing environmental permits, caused by increasingly strict regulations that are open to interpretation, is a significant risk from the perspective of all of Vapo's peat-related businesses and, with respect to energy peat, also from the perspective of Finland's self-sufficiency in energy. This risk, which has already materialised to an extent, prevents and slows down the commissioning of new peat production areas to adequately meet future customer needs in all circumstances. Vapo has increased its investments in environmental protection at its production sites and enhanced the treatment of leachates originating from its peat production areas to ensure that there are no obstacles to the granting of permits attributable to Vapo itself. In accordance with the mire and peatland strategy approved by the Finnish government, Vapo applies for environmental permits and opens new production areas only in peatlands where the natural state has been altered, meaning forest-ditched peatlands.

In the energy industry, operations are typically developed in accordance with long-term objectives, and investments in the industry often have a decades-long life span. Constantly changing regulations constitute a regulatory risk that complicates operations in the industry and has led to a situation in which investments in plants using Vapo's fuels have decreased from their previous level. This has led to a contraction in the size of Vapo's fuel market. One positive regulatory change

was the reduction in peat tax to EUR 1.90 per MWh in spring 2016 and the corresponding increase of fuel wood subsidies. However, the impact of these changes on the demand for fuels did not yet materialise in the past financial year. Going forward, the change in taxation may have the effect of increasing demand, although there is a concurrent move away from combustion-based energy production in the customer base due to regulatory reasons as well as other factors.

Large-scale Finnish combustion plants

(over 50 MW) that use wood and peat as fuel face a significant risk in the form of the planned new emissions limits. The process of updating the BAT (Best Available Technology) reference document for large combustion plants pursuant to the Industrial Emissions Directive began in the EU in 2011. The first draft was completed in autumn 2013 and the content of the BAT conclusions was decided in June 2015. Finland submitted a total of eight dissenting opinions regarding the decisions made. From the Finnish perspective, requirements such as those concerning biofuel and peat boilers were set at the expected level only in the case of a few emission components and plant categories. The BREF document and an assessment of dissenting opinions is currently being finalised. The document will be discussed in October 2016 in a forum under the European Commission. The LCP BREF draft proposes substantially tougher limits on emissions arising from the combustion of biomass and, in particular, peat. If implemented, the new limits will be taken into consideration in issuing permits. This would reduce the competitiveness of Nordic energy production compared to other parts of Europe. The EU is in the process of revising its regulations governing emissions trading, which may have significant impacts on the energy industry as a whole, both locally and more broadly with respect to Europe's competitiveness in the global economy. In addition, the sustainability criteria of solid wood-based fuels are being evaluated in the EU, and subsequently in Finland. Depending on the content of future regulations, they will represent a threat to the use of woodbased fuels and the national economy of Finland.

Market risks

Vapo's fuel and energy production businesses are subject to significant market risks related to end product demand as well as the prices and availability of woodbased fuels and their raw materials.

Concerns over the state of the climate. most recently illustrated by the Paris Climate Agreement, have led to a transformation of the energy industry focused on using all available means to find renewable low-emission energy solutions that satisfy the requirements of sustainable development. This will lead to a decline in the share of energy solutions based on traditional fossil fuels. Over the past five years, the use of peat in Finland has declined by half. The rate of decline has been the fastest in energy production. The demand for wood fuels has increased as energy companies use them as one solution for replacing fossil fuels.

The higher demand has led to increased pellet production in Europe. Imports from outside of Europe have also increased. However, supply has exceeded demand, which has driven European pellet producers into financial difficulties and even bankruptcy. As the market grows, the availability of appropriately priced raw material in relation to the price of the end product plays a key role in ensuring competitiveness. Due to the profitability of Vapo's pellet business not reaching the targets set for it, the company is currently implementing measures aimed at improving profitability.

Vapo has sought to manage the profitability risk of the pellet business and other wood fuel businesses by developing its logistics processes and customer relationship management. Particular attention has been paid to improving fuel quality and reducing quality-based losses caused by storage.

The Heat and Power business is influenced by the development of the heating, industrial steam and electricity markets as well as fuel markets and the markets for competing energy solutions. Electricity prices in Finland and Europe remained at a low level, which reduced electricity sales revenue. In the fuel market, the low price of oil has had a positive effect in the form of lower costs, but it has also had a negative effect on the sales of fuels produced by Vapo, as customers have postponed their decisions on replacing oil with solutions based on domestic fuels. Competing energy solutions based on new technology constitute a growing threat to energy produced from domestic fuels, although the costs of heating alternatives that compete with district heating remained largely unchanged during the past financial year, and district heating remained competitive. New forms of heating, combina-

tions of different forms of heating, and energy conservation are key considerations in the development of the district heating business.

Weather risks

Weather is a risk that has extensive effects on Vapo's business. In the winter, temperature influences fuel purchases by external and internal customers and the utilisation rates of the Group's own heat and power plants. In the spring, weather conditions are crucial for the sales volume of the garden trade. During the summer, the effects of weather concern the production volumes and quality of wood fuels and environmental products.

Rainy weather in summer 2015 limited peat production in Finland and Sweden, which reduced the company's profitability. However, long-term delivery reliability did not suffer from the lower production volume, as the warmer-than-average winter led to lower demand for fuels. This meant that fuel reserves remained at a high level at the end of the financial year. Fuel production and purchasing during the upcoming season will be scaled according to anticipated demand in the coming years as well as customer-specific storage requirements that are known to the company. This means that production targets will be lowered at certain production areas compared to previous production seasons. This may make it more difficult to acquire peat contractors in the future due to contractors exiting the market, which would also have longterm effects in the form of lost industry expertise.

Damage risks

Damage risks include occupational safety risk, property risk, interruption risk and environmental risk. Vapo aims to prevent damage risks through proactive risk management measures and by reacting quickly to any observed hazards. Risks that cannot be managed by the company's own actions are insured where possible. The goal is to continuously promote a positive culture of occupational safety and asset protection throughout the organisation. Regular safety visits by management at the company's various operating locations are one ongoing measure aimed at further improving the organisational culture with regard to occupational safety and asset protection.

Risk management is a conscious and systematic effort that permeates

Board of Directors 1 May 2015-30 Apr 2016

Chairman	Juho Lipsanen (until 9 September 2015)
	Jan Lång (from 9 September 2015)
Vice Chairman	Perttu Rinta
Membedrs	Martti Haapamäki (from 9 September 2015)
	Risto Kantola (until 9 September 2015)
	Hannu Linna
	Pirita Mikkanen
	Minna Pajumaa

Members of the Supervisory Board 1 May 2015–30 Apr 2016

Chairman	Pirkko Mattila, Member of Parliament (until 12 November 2015)
	Johanna Ojala-Niemelä, Member of Parliament (from 12 November 2015)
Vice Chairman	Heikki Miilumäki, D.Sc. (Tech.) h.c.
Members	Markku Eestilä, Member of Parliament (from 12 November 2015)
	Hanna Halmeenpää, Member of Parliament (from 12 November 2015)
	Reijo Hongisto, Member of Parliament (from 12 November 2015)
	Hannu Hoskonen, Member of Parliament (until 12 November 2015)
	Antti Kaikkonen, Member of Parliament (until 12 November 2015)
	Eero Kubin, Professor
	Esko Kurvinen, Engineer
	Jukka Kärnä, Member of Parliament (until 12 November 2015)
	Tommi Lunttila, Agriculture and Forestry Entrepreneur
	Tiina Snicker, Financial Manager

Board of Directors 30 Apr 2016

Tomi Yli-Kyyny, Chief Executive Officer, Vapo Oy
Torbjörn Claesson, Managing Director, Neova AB
Markus Hassinen, Business Area Director, Vapo Heat and Power
Pasi Koivisto, Business Area Director, Vapo Fuels
Suvi Kupiainen, Chief Financial Officer, Vapo Oy
Ahti Martikainen, Director, Communications and Public Affairs, Vapo Oy
Kari Poikolainen, Senior Vice President, Corporate Planning, Vapo Oy
Matti Puuronen, Regional Director, Baltic Operations
Mia Suominen, Business Area Director, Vapo Ventures, Vapo Oy
Jyrki Vainionpää, Chief Operating Officer, Vapo Oy
Juhani Ylä-Sahra, Director, Vapo Oy

all activities. Vapo Group is continuing to implement a damage risk development programme in cooperation with the insurance company and insurance broker. The main objective of the development programme is to improve awareness of existing damage risks associated with the production plants and outlets, preventing the realisation of detected risks and increase general safety at Vapo Group's operating locations.

Financing and commodity risks

The company actively monitors the amount of financing required by business operations so that the Group's liquidity is sufficient for financing the operations and the Group is also able to cover other financing obligations. Liquidity is managed by balancing the proportional share of short-term and long-term loans and the repayment schedules of long-term loans. In addition, the risk related to the availability and price of financing is managed by diversifying fundraising between different banks and financial instruments.

The company's main financial risks are currency risk, interest rate risk and liquidity risk. The Group treasury, guided by the financial policy ratified by the Board of Directors, is responsible for identifying and managing financial risks. The Group's risk management tools include currency derivatives and options, currency swaps, foreign currency loans, interest rate swaps and commodity derivatives. The divestment of the sawmill business, which was unprofitable, sensitive to economic cycles and

export-dominated, during the past financial year reduced the company's liquidity risk and currency risk.

With regard to commodity risks, Vapo purchases hedging services related to the purchase and sale of electricity. Electricity trading does not represent a substantial share of Vapo's business.

Future outlook

Vapo Group is the world's largest producer of energy peat and environmental peat. The company holds an important role in ensuring Finland's self-sufficiency in energy and the security of supply. Political decisions have a substantial impact on the profitability of Vapo's business operations and its capacity to make investments. Vapo Group's turnover is expected to be lower than in the previous financial year due to the divestment of the sawmill business. However, the Group's operating result is anticipated to show a significant improvement compared to the previous financial year. Electricity prices are expected to remain low in 2016 and 2017. As a result, the fuel market will not see significant growth, as the volume of electricity generation from solid fuels will remain low.

Vapo Oy's share capital and shareholders

Vapo Oy has one class of shares. The total number of shares is 30,000. Each share carries one vote at the General

Meeting, and all shares carry the same dividends. If a Vapo share is transferred to an external party other than one that is in a Group relationship with the shareholder pursuant to Chapter 8, Section 12 of the Finnish Limited Liability Companies Act, the company's shareholder shall have the right to redeem the share in question. If more than one shareholder wishes to exercise this redemption right, the shares are divided between the parties wishing to redeem them in proportion to their existing shareholdings. At the end of the financial year, on 30 April 2016, Vapo Oy's share capital amounted to EUR 50,456,377.94.

Vapo Oy is a joint venture of the Finnish State and Suomen Energiavarat Ov. The Finnish State holds 50.1% of the shares (15,030 shares) and Suomen Energiavarat Oy 49.9% (14,970 shares).

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the General Meeting to be convened on 8 September 2016 that Vapo Oy's profit for the financial year, EUR 174,909.93, be added to retained earnings, after which the distributable funds available to the General Meeting amount to EUR 170,726,202.64.

The Board of Directors also proposes to the General Meeting that EUR 4.0 million, which is EUR 133.33 per share, be paid as dividends for the financial year 1 May 2015-30 April 2016.

Vantaa, 30 June 2016 Board of Directors of Vapo Oy

> JAN LÅNG Chairman

HANNU LINNA

MINNA PAJUMAA

PERTTU RINTA Vice Chairman

PIRITA MIKKANEN

MARTTI HAAPAMÄKI

TOMI YLI-KYYNY CEO

VAPO'S YEAR 2015-2016

CONSOLIDATED FINANCIAL STATEMENTS 2016, IFRS

Consolidated statement of comprehensive income

EUR 1,000	Note	1 May 2015 – 30 Apr 2016	1 May 2014 - 30 Apr 2015
TURNOVER	2	459,800	486,856
Change in stock levels of finished and unfinished products		-15,109	43,696
Production for own use		844	583
Other operating income	5	8,668	12,514
Share of associates' results		1,381	2,160
Materials and services	6	-213,507	-268,506
Expenses arising from staff benefits	7	-54,154	-58,626
Depreciation	8	-35,020	-39,263
Impairment	8	-789	-736
Impairment of goodwill	8	0	0
Other operating expenses	9	-143,472	-141,825
OPERATING PROFIT		8,641	36,854
Financial income	10	6,383	5,307
Financial expenses	10	-16,082	-18,838
PROFIT/LOSS BEFORE TAXES		-1,057	23,322
Income taxes	11	-3,387	-3,564
PROFIT/LOSS FOR THE PERIOD		-4,444	19,758
OTHER COMPREHENSIVE INCOME ITEMS (not to be reclassified through profit or loss):			
Translation differences from foreign units		52	-1,353
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		-4,392	18,405
Distribution of profit for the period:			
To parent company shareholders		-4,392	18,518
To non-controlling shareholders		-52	1,240
		-4,444	19,758
Distribution of comprehensive income for the period:			
To parent company shareholders		-4,275	17,644
To non-controlling shareholders		-117	761
		-4,392	18,405
Earnings per share calculated from profits due to parent company shareholders			
Earnings/share, EUR		-146	617
Average number of shares		30,000	30,000

Consolidated balance sheet

EUR 1,000	Note	30 Apr 2016	30 Apr 2015
ASSETS			
Long-term assets			
Intangible assets	12	10,701	12,71
Goodwill	12	5,799	5,84
Land and water areas	13	45,403	46,26
Buildings and structures	13	46,181	52,08
Machinery and equipment	13	129,465	130,95
Other tangible assets	13	217,301	203,38
Pending acquisitions	13	48,596	57,98
Shares in associates	14	26,153	24,45
Other long-term financial assets	16	8,028	10,89
Other long-term investments	17	4,687	34
Deferred tax assets	18	136	1,75
Long-term assets total		542,449	546,68
Current assets			
Inventories	19	147,931	182,06
Sales and other receivables	20	92,839	103,41
Income tax receivables		2,351	1,85
Cash on hand and in the bank	21	9,415	4,14
Current assets total		252,536	291,49
ASSETS TOTAL		794,985	838,17
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		50,456	50,45
Fair value fund and other funds		30,126	30,43
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Translation differences		-2,242	-2,32
Retained earnings		208,804	224,96
Parent company shareholders' share of shareholders' equity		287,144	303,19
Non-controlling shareholders	00	1,039	1,21
Shareholders' equity total	22	288,183	304,40
Long-term liabilities			
Deferred tax liability	18	16,761	16,77
Pension liabilities	26	3,482	3,30
Long-term interest-bearing liabilities	23	349,446	295,69
Other long-term liabilities	24	7,393	5,73
Long-term provisions	25	8,090	8,00
Long-term liabilities total		385,172	329,50
Current liabilities			
	23	35,016	112,43
Current interest-bearing liabilities	23 27	35,016 86,310	
Current interest-bearing liabilities Accounts payable and other debts		*	91,03
Current liabilities Current interest-bearing liabilities Accounts payable and other debts Income tax liability Current liabilities total		86,310	112,43: 91,03 79: 204,26

Consolidated cash flow statement

EUR 1,000	30 Apr 2016	30 Apr 2015
Cash flow from operating activities		
Profit/loss for the period	-4,444	19,758
Adjustments to the result for the period		
Depreciation and impairment	35,810	39,999
Share of associates' profit (-) / loss (+)	-1,381	-2,160
Financial income and expenses	14,082	13,531
Income taxes	3,387	3,564
Other adjustments	6,608	-5,522
Adjustments to the profit/loss for the period total	58,506	49,412
Change in working capital		
Increase/decrease in inventories	11,801	-43,258
Increase/decrease in sales receivables and other receivables	-1,388	276
Increase/decrease in accounts payable and other debts	13,701	108
Change in provisions	227	-526
Change in working capital total	24,341	-43,401
Interest paid	-9,705	-7,909
Interest received	492	301
Other financial items	-4,252	-262
Taxes paid	-2,467	-16,443
Cash flow from operating activities	62,471	1,458
Cash flow from investing activities		
Investments in tangible and intangible assets	-38,739	-67,819
Proceeds from disposal of tangible and intangible assets	18,457	6,313
Acquisition of subsidiaries, net of cash		-362
Disposal of subsidiaries, net of cash	3,468	3,695
Associates' shares bought		
Associates' shares sold		
Other investments	-80	
Proceeds from disposal of other investments	3	38
Loans granted	-200	-22
Repayments of loans receivable	2,604	305
Dividends received	48	2,441
Cash flow from investing activities	-14,437	-55,413
•		
Cash flow from financing activities		
Increase (+)/decrease (-) in short-term loans	-3,032	-25,975
Proceeds from long-term loans	70,131	144,594
Repayment of long-term loans	-96,974	-48,824
Repayment of finance lease liabilities	-933	-390
Dividends paid	-12,055	-12,239
Cash flow from financing activities	-42,863	57,166
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Change in cash and cash equivalents	5,171	3,211
Cash and cash equivalents opening balance	4,147	303
Change in cash and cash equivalents	5,171	3,211
Effect of changes in exchange rates	97	633
Cash and cash equivalents at end of period	9,415	4,147

Consolidated statement of changes in shareholders' equity

EUR 1,000	Share capital	Fair value fund	Other funds	Transla- tion dif- ferences	Retained earnings	Total	Non-con- trolling share- holders	Total
SHAREHOLDERS' EQUITY 1 May 2015	50,456	0	30,099	-2,325	224,960	303,191	1,210	304,401
Changes in shareholders' equity								
Dividend distribution					-12,000	-12,000	-55	-12,055
Total comprehensive income				82	-4,392	-4,310	-117	-4,427
Other changes								
Imputed taxes					-68	-68		-68
Other changes			27		303	330		330
SHAREHOLDERS' EQUITY 30 Apr 2016	50,456	0	30,126	-2,242	208,804	287,144	1,039	288,183

EUR 1,000	Share capital	Fair value fund	Other funds	Transla- tion dif- ferences	Retained earnings	Total	Non-con- trolling share- holders	Total
SHAREHOLDERS' EQUITY 1 May 2014	50,456	0	30,153	-1,565	220,199	299,243	4,987	304,230
Changes in shareholders' equity								
Dividend distribution					-12,000	-12,000	-239	-12,239
Total comprehensive income				-760	18,405	17,645	761	18,406
Other changes								
Imputed taxes					52	52	-21	31
Other changes			-54		-1,080	-1,134		-1,134
Changes in holdings in subsidiaries					-616	-616	-4,278	-4,894
SHAREHOLDERS' EQUITY 30 Apr 2015	50,456	0	30,099	-2,325	224,960	303,191	1,210	304,401

Group key figures 2011–2016

EUR million	2011	2012	04/2014	04/2015	04/2016
Turnover	705.0	652.9	847.4	486.9	459.8
Growth %	-2.0	-7.4	29.8	0.0	-5.6
Operating margin (EBITDA)	45.4	52.1	110.8	74.7	43.1
% of turnover	6.4	8.0	13.1	15.3	9.4
Depreciation	-46.2	-42.0	-54.2	-39.3	-35.0
Impairment	-37.5	-0.6	-3.8	-0.7	-0.8
Operating profit (EBIT)	-38.4	9.1	50.0	36.9	8.6
% of turnover	-5.5	1.4	5.9	7.6	1.9
Operating profit before impairment	-1.0	9.7	53.9	37.6	9.4
% of turnover	-0.1	1.5	6.4	7.7	2.1
Net financial items	-8.3	-6.4	-17.2	-13.5	-9.7
Profit/loss before taxes	-46.7	2.7	32.9	23.3	-1.1
Taxes	9.6	3.5	-10.2	-3.6	-3.4
Profit/loss for the period	-37.1	6.1	22.7	19.8	-4.4
Return on invested capital %	-5.3	1.3	3.8	5.4	1.2
Return on invested capital before impairment %	-0.1	1.4	4.4	5.5	1.4
Restricted capital on average	728.9	680.6	671.4	687.0	695.8
Turnover of restricted capital (turnover/restricted capital on average)	1.0	1.0	0.9	0.7	0.7
Average working capital	165.7	125.6	130.4	164.3	163.4
Average working capital % of turnover	23.5	19.2	21.9	33.7	35.5
Restricted capital at the end of the year	713.7	667.7	659.4	713.2	669.8
Working capital at the end of the year	156.0	116.9	144.2	176.9	140.2
Gross investments	94.5	48.0	65.0	88.4	38.5
% of turnover	13.4	7.4	7.7	18.1	8.4
Gross investments/depreciation	2.0	1.1	1.2	2.3	1.1
Operating margin	45.4	52.1	110.8	74.7	43.1
+/- Change in working capital	56.4	39.1	-27.4	-32.7	39.6
- Net investments	-81.2	-26.9	-21.6	-67.1	-21.9
Free cash flow before taxes	20.6	64.4	61.9	-25.1	60.7
Balance sheet total	862.0	801.2	786.9	838.2	795.0
Shareholders' equity	285.5	294.7	305.2	304.4	288.2
Shareholders' equity (average)	326.4	296.8	300.5	297.4	296.1
Interest-bearing debt	422.8	368.2	340.2	408.1	384.5
Interest-bearing net debt	416.7	355.9	329.0	393.1	366.6
Equity ratio %	34.1	37.7	40.2	37.8	37.6
Gearing %	145.8	120.7	110.3	128.7	127.2
Interest-bearing net debt/operating margin	9.2	6.8	4.4	5.3	8.5
Liquidity	2.7	2.5	2.5	3.2	2.9
Return on equity %	-11.4	2.1	1.3	6.6	-1.5
Dividend distribution	0.0	10.0	12.0	12.0	0.0
Dividend % of profit *	0.0	187.5	52.9	64.8	0.0
Personnel on average	1,226	1,154	1,091	961	914
Key figures per share					
Number of shares	30,000	30,000	30,000	30,000	30,000
Earnings/share, EUR *	0	178	683	617	-146
Shareholders' equity/share, EUR	9,164	9,483	9,763	10,106	9,571
Dividend/share, EUR	0	333	400	400	0
= profit attributable to owners of the parent company	-				

^{* =} profit attributable to owners of the parent company

Note! The financial year 1.1.2013–30.4.2014 was 16 months long.

Principles for calculating key figures

EBITDA	=	Operating profit + Depreciations and impairment +/- Shares of associates' results	
Working capital	=	Inventories + Non-interest-bearing receivables of businesses - Non-interest-bearing debt	
Restricted capital	=	Fixed assets of businesses + Working capital	
Turnover of restricted capital	=	Turnover rolling 12 months Restricted capital (on average)	-
Return on invested capital % (ROIC)	=	Operating profit rolling 12 months Restricted capital (on average)	- X 100
Return on equity %	=	Profit before taxes rolling 12 months - income tax (Shareholders' equity + minority interest) on average	- X 100
Liquidity	=	Short-term on-interest bearing receivables Short-term non-interest-bearing liabilities	_
Equity ratio %	=	Shareholders' equity + minority interest + capital loan X 100 Balance sheet total - Advances received	_
Interest-bearing net debt	=	Interest-bearing debt - Interest-bearing loans receivable - Cash and cash equivalents	
Gearing %	=	Interest-bearing net debt Shareholders' equity + minority interest	- X 100
Free cash flow before taxes	=	EBITDA +/- Change in working capital - net investments	
Earnings / share	=	Profit attributable to owners of the parent company / Number of shares	
Shareholders' equity / share	=	Parent company's shareholders' equity / Number of shares	
Dividend / share	=	Distribution of dividend for the financial period / Number of shares	
Dividend / profit %	=	100 * dividend / share / earnings / share	



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