



**Interim Report
1.5.–31.12.2016**

Board of Directors, 13 February 2017

VAPO OY INTERIM REPORT 1 MAY–31 DECEMBER 2016

The second third of the year in brief:

September–December 2016:

- Group turnover in September–December 2016 was EUR 130.5 million (EUR 153.1 million in September–December 2015).
- The operating margin (EBITDA) was EUR 18.5 million (EUR 20.7 million), or 14.2% (13.5%) of turnover.
- The operating profit (EBIT) was EUR 8.5 million (EUR 3.3 million), or 6.5% (2.2%) of turnover. The operating profit includes one-off income in the amount of EUR 0.4 million (one-off expenses of EUR 7.2 million).
- Free cash flow before taxes was EUR -0.1 million (EUR 0.3 million).
- Gross investments were EUR 13.9 million (EUR 13.3 million).
- Net investments were EUR 7.2 million (EUR 12.2 million).
- 3.8 TWh of energy peat was delivered (3.6 TWh).

May–December 2016:

- Group turnover in May–December 2016 was EUR 218.4 million (EUR 277.2 million in May–December 2015).
- The operating margin (EBITDA) was EUR 24.3 million (EUR 22.4 million), or 11.1% (8.1%) of turnover.
- The operating profit (EBIT) was EUR -0.5 million (EUR -9.5 million), or -0.2% (-3.4%) of turnover. The operating profit includes one-off income in the amount of EUR 1.4 million (one-off expenses of EUR 7.2 million).
- The pre-tax return on invested capital (pre-tax ROIC) was 2.6% (2.4%).
- Free cash flow before taxes was EUR 16.1 million (EUR 18.6 million).
- Gross investments were EUR 26.2 million (EUR 26.7 million).
- Net investments were EUR -1.3 million (EUR 11.8 million).
- The equity ratio on 31 December 2016 was 42.7% (35.7%).
- Interest-bearing net debt on 31 December 2016 was EUR 316.8 million (EUR 412.1 million).
- The ratio of interest-bearing net debt to EBITDA (net debt / EBITDA) on 31 December 2016 was 7.0 (7.1).
- 5.3 TWh of energy peat was delivered (5.5 TWh).

Tomi Yli-Kyyny, CEO: Improving profitability enables investments in digital services to enhance the customer experience

The Group's turnover in the second third of the financial year (September–December 2016) was EUR 130.5 million (EUR 153.1 million). The turnover in the comparison period included EUR 30.5 million in turnover from the divested sawmill business. The early winter was slightly colder than in the previous year, which was reflected in higher turnover in the energy business. Kekkilä's sales improved year-on-year, particularly due to strong demand for products aimed at professional growers.

The Group's operating profit for the second third of the year was EUR 8.5 million (EUR 3.3 million). The company has improved the efficiency of its operations by seeking cost savings throughout the production and supply chain, releasing funds from non-core balance sheet items and reducing the amount of capital tied up in operations by, for example, lowering inventory levels. At the end of October, the company issued a EUR 50 million hybrid bond. The funds raised were used to strengthen the company's balance sheet and prepare for future strategic growth investments. The hybrid bond issue was well received by the market and it was oversubscribed six-fold.

The Group's cumulative turnover in May–December 2016 was EUR 218.4 million (EUR 277.2 million). The sawmill business accounted for EUR 58 million of the turnover in the comparison period. The cumulative operating result improved substantially from the comparison period, to EUR -0.5 million (EUR -9.5 million). The result for the comparison period includes the operating loss of the sawmill business, EUR 1.7 million, and the EUR 7.0 million write-down recognised in conjunction with the divestment of the sawmill business. The Group's cumulative result after financial items and taxes was EUR 4.6 million (EUR -2.7 million), which includes gains from foreign exchange differences in the amount of EUR 0.9 million (EUR -1.9 million).

The company continued to clarify its Group structure in the second third of the year. One of the most significant changes was the sale of a 45% stake in Harvestia Oy to Powerflute Oyj. The negotiations were completed during the reporting period and the transaction took effect on 2 January 2017.

Vapo has identified its strategic focus area as enhancing the customer experience by leveraging the opportunities presented by digitalisation in customer service, delivery optimisation and marketing. During the review period, Vapo Oy carried out a complete redesign of its online store for pellet and litter products, and opened an entirely new kind of electronic service portal for district heating customers.

Vapo Oy's enhanced pellet services offer consumer customers a more flexible and cost-efficient way to order and buy high-quality Finnish pellets. The new electronic service portal for district heating customers is based on hourly consumption data, which facilitates the provision of real-time property-specific consumption information. The portal makes it possible for district heating customers to optimise their district heating use and compare their consumption data against benchmarks such as the previous heating season, the budget or other similar properties.

The most significant regulations and obligations that are in the decision stage at the EU level and affect Vapo Oy's operating environment are the LCP BREF document related to large combustion plants (over 50 MW) and agreeing on the sustainability criteria concerning the energy use of wood in the next emissions trading period. In spite of the efforts of Finland and Finnish companies that use biofuels, the LCP BREF document (Large Combustion Plant Best Available Technique Reference Document) 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 and wood. According to an estimate by Pöyry, this would result in hundreds of millions of euros in additional costs for Finland.

The sustainability criteria governing the energy use of wood, on the other hand, are not expected to be subject to significant changes. The energy use of wood in solid fuel plants and as raw material for transport fuels will continue under the existing terms in the next emissions trading period.

The Finnish Government published its energy and climate strategy to 2030 during the review period. In line with the Government Programme, the strategy states that Finland's goal is to increase its self-sufficiency in energy to the current level of approximately one third to 55% by 2030, with the share of renewable energy rising to 50% during the same time frame. The strategy enables the continued energy use of peat at the current scale in the coming years.

Study proves that peat production has not had an impact on sedimentation in Lake Martinjärvi

The Geological Survey of Finland, the University of Jyväskylä and the University of Turku conducted a joint project to study sediment accumulation at the bottom of Lake Martinjärvi in Keuruu, Central Finland, in order to evaluate the impact of peat production on waterways. To identify the impacts of peat production, the researchers also took sediment samples from the neighbouring Lake Iso Kivijärvi. There is no peat production in its catchment area, but its sediments provide a record of other factors that have affected sedimentation in the lake's catchment area.

In contrast to what has been suggested in public debate, no massive impacts of peat production were observed in Lake Martinjärvi. Based on dating, the rate of increase in the thickness of sediment deposits has been quite similar in the two lakes. The increase in Cs-137 concentration caused by the Chernobyl fallout was found in gyttja at the depth of approximately 7–8 cm at all of the coring locations in Lake Martinjärvi. Americium 241 measurements from both lakes confirmed that the peak cesium concentrations have not migrated. This indicates that there has been no recent accumulation of several metres of sediment at the coring locations, as some have suggested.

The recent accumulation of carbon and dry matter was also compared with long-term reference values for the same series of core samples at each of the two lakes. This was done

to ensure that the natural rate of sedimentation at the coring locations has not distorted the results. Both lakes showed a recent increase in the rate of carbon and dry matter accumulation. In Lake Iso Kivijärvi, which served as the reference lake in the study, the rate of sedimentation had increased slightly faster than in Lake Martinjärvi.

The study was published in the German scientific journal *Environmental Earth Sciences*.

Consolidated key figures

MEUR	9-12/2016	9-12/2015	5-12/2016	5-12/2015	5/2015- 4/2016	5/2014- 4/2015
Turnover	130.5	153.1	218.4	277.2	459.8	486.9
Operating profit (EBIT)	8.5	3.3	-0.5	-9.5	8.6	36.9
% of turnover	6.5	2.2	-0.2	-3.4	1.9	7.6
Operating profit (EBIT) before impairments	8.6	9.4	-0.3	-3.4	9.4	37.6
% of turnover	6.6	6.1	-0.1	-1.2	2.1	7.7
Profit/loss for the period	4.6	-2.7	-6.5	-14.4	-4.4	19.8
Operating margin (EBITDA)	18.5	20.7	24.3	22.4	43.1	74.7
+/- Change in working capital	-12.8	-8.3	-9.4	8.0	39.6	-32.7
- Net investments	7.2	12.2	-1.3	11.8	21.9	67.1
Free cash flow before taxes	-1.5	0.3	16.1	18.6	60.7	-25.1
Gross investments	13.9	13.3	26.2	26.7	38.5	88.4
Return on invested capital % *			2.6	2.3	1.2	5.4
Return on invested capital % before impairments *			1.9	3.3	1.4	5.5
Return on equity % *			1.2	1.4	-1.5	6.6
Balance sheet total			799.5	821.1	795.0	838.2
Shareholders' equity			327.3	278.6	288.2	304.4
Interest-bearing net debt			316.8	412.1	366.6	393.1
Equity ratio %			42.7	35.6	37.6	37.8
Interest-bearing net debt/operating margin			7.0	7.1	8.5	5.3
Gearing %			96.8	148.2	127.2	128.7
Average number of employees			788	960	914	961

*) Previous 12 months

**) In calculating the equity ratio, the capital loan on the balance sheet was calculated as shareholders' equity

Developments by business segment

In accordance with Vapo Oy's management model, the Group's subsidiaries are primarily managed 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	9-12/2016	9-12/2015	Change %	5-12/2016	5-12/2015	Change %	5/2015-4/2016	5/2014-4/2015
Vapo Oy	90.3	86.6	4.2	132.5	139.7	-5.1	257.0	251.9
Vapo Timber Oy	0.0	30.5	-100.0	0.0	58.0	-100.0	63.5	89.0
Kekkilä Group	20.7	18.9	9.7	56.1	53.1	5.7	87.9	87.1
Neova AB	15.3	17.3	-11.1	23.6	26.3	-10.2	47.8	48.9
AS Tootsi Turvas	5.5	3.9	41.3	8.5	7.1	20.3	13.0	12.9
Others	0.1	0.0	1,673.1	0.2	0.0	1,313.2	0.0	7.8
Inter-segment turnover	-1.4	-4.1	66.2	-2.5	-6.9	63.9	-9.4	-10.8
Total	130.5	153.1	-14.7	218.4	277.2	-21.2	459.8	486.9

Operating profit/loss by

MEUR	9-12/2016	9-12/2015	Change %	5-12/2016	5-12/2015	Change %	5/2015-4/2016	5/2014-4/2015
Vapo Oy	9.2	12.3	-25.7	1.3	0.8	67.3	7.4	49.1
Vapo Timber Oy	0.0	-0.8	100.0	0.0	-1.7	100.0	-2.2	0.8
Kekkilä Group	-3.0	-3.6	16.3	-0.5	-1.9	72.3	-1.3	1.1
Neova AB	1.1	0.6	80.6	-1.0	-0.9	-16.5	1.7	1.0
AS Tootsi Turvas	0.3	0.5	-42.0	0.4	0.8	-54.3	1.1	1.6
Others	-0.3	0.0	-8,547.1	-0.6	0.0	-1,203.9	0.2	0.9
Associates	0.9	0.1	643.7	-0.5	-0.9	39.4	1.4	2.2
Eliminations	0.3	-5.9	104.5	0.4	-5.7	107.9	0.3	-19.8
Total	8.5	3.3	154.7	-0.5	-9.5	94.6	8.6	36.9

Vapo Oy

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. The company's newest commercial businesses are Vapo Fibers and Vapo Carbons. Vapo Fibers is focused on utilising peat fibre on an industrial scale

for entirely new purposes. Vapo Carbons aims to make a quick entry into the growing international market for technical carbons, a product that uses peat as raw material.

The company's turnover in the second third of the financial year (September–December 2016) was EUR 90.3 million (EUR 86.6 million in September–December 2015). The operating profit for the reporting period was EUR 9.2 million (EUR 12.3 million). The operating profit includes one-off items of EUR -1.1 million (EUR -0.3 million). Gross investments in September–December 2016 amounted to EUR 11.3 million (EUR 9.9 million).

Fuel and heating deliveries in the second third of the financial year (September–December) were higher than in the comparison period. The autumn and early winter were warmer than the long-term average but colder than the previous year. As a result, the demand for fuel and heating increased year-on-year, although the demand for peat was reduced by the higher supply of wood fuels, particularly by-products. Energy peat deliveries during the period totalled 3.4 TWh (3.2 TWh).

The company's turnover in May–December 2016 was EUR 132.5 million (EUR 139.7 million) and the operating profit was EUR 1.3 million (EUR 0.8 million). The operating profit includes one-off income of EUR 2.0 million (EUR 1.3 million). Investments in May–December amounted to EUR 20.1 million (EUR 21.1 million). Energy peat deliveries totalled 4.9 TWh (5.1 TWh) in May–December.

The sales volume and prices of power and heating plants developed favourably compared to the corresponding period last year. At the same time, costs were reduced by development measures related to plant operation and maintenance.

The peat production volume, seven million cubic metres, was lower than planned due to the rainy weather in the late summer. However, the reserve stocks produced in previous summers ensure fuel deliveries to customers.

The sales volume of forest fuel remained on a par with the comparison period, but profitability was weaker particularly due to the increased supply of sawmill industry by-products. Pellet sales volume increased year-on-year. In the pellet business, profitability was improved by efficiency improvement measures related to raw material sourcing and the demand-based optimisation of inventories and production.

Neova AB

Neova AB is a Swedish subsidiary of Vapo Oy. It provides district heating to its customers and 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.

The company's turnover in the second third of the financial year (September–December 2016) was EUR 15.3 million (EUR 17.3 million in September–December 2015). The operating result for the period was EUR 1.1 million (EUR 0.6 million). The result includes one-off income

of EUR 0.2 million arising from the reversal of a previously recognised cost provision. The result and the sales of peat were negatively affected by longer-than-planned production stoppages by certain fuel customers. Gross investments in September–December 2016 amounted to EUR 1.3 million (EUR 1.6 million).

The company's turnover in May–December 2016 was EUR 23.6 million (EUR 26.3 million) and the operating result was EUR -1.0 million (EUR -0.9 million). Investments in May–December amounted to EUR 2.3 million (EUR 2.5 million).

Energy peat deliveries totalled 0.3 TWh (0.3 TWh) in May–December.

Brostorpsmossen, a subsidiary of Neova AB, was merged with the parent company at the beginning of September 2016.

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 30 per cent, energy peat 13 per cent and heating 10 per cent.

The company's turnover in the second third of the financial year (September–December 2016) was EUR 5.5 million (EUR 3.9 million in September–December 2015). The operating profit for the period was EUR 0.3 million (EUR 0.5 million). The operating profit includes one-time expenses of EUR 0.5 million arising primarily from revised accounting principles related to provisions for pension expenses. Turnover increased year-on-year, particularly in agricultural peat products. Gross investments in September–December 2016 amounted to EUR 0.3 million (EUR 0.4 million).

The company's turnover in May–December 2016 was EUR 8.5 million (EUR 7.1 million) and the operating profit was EUR 0.4 million (EUR 0.8 million). Investments in May–December amounted to EUR 1.9 million (EUR 0.6 million). Energy peat deliveries totalled 0.1 TWh (0.1 TWh) in May–December.

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.

Turnover in the second third of the financial year (September–December 2016) was EUR 20.7 million (EUR 18.9 million in September–December 2015). Turnover showed year-on-year growth in each of the main businesses. Growth was the strongest in the professional grower business. In spite of intense competition, sales also saw a slight year-on-year

increase in the consumer business. The operating result was EUR -3.0 million (EUR -3.6 million). The result includes a one-off expense of EUR -0.3 million (EUR -0.5 million). The operating result improved year-on-year due to higher sales and lower fixed costs. Kekkilä Group's gross investments were EUR 1.0 million (EUR 1.3 million).

Kekkilä Group's turnover in May–December 2016 amounted to EUR 56.1 million (EUR 53.1 million). The operating result was EUR -0.5 million (EUR -1.9 million). The result includes a one-off expense of EUR -0.3 million (EUR -0.5 million). Kekkilä Group's gross investments were EUR 1.8 million (EUR 2.3 million).

Kekkilä Group carried out a reform of its management model in the latter part of the year. The changes are geared towards achieving stronger growth and better profitability through higher operational efficiency.

Other activities

The Others segment includes Vapo Clean Waters Oy and the Danish subsidiary Vapo A/S. It also includes Forest BtL, the operations of which were discontinued in 2014. The Others segment's effect on the operating result was EUR -0.3 million (EUR 0.0 million) in September–December and EUR -0.6 million (EUR 0.0 million) in May–December.

Cash flow, investments and financing

Free cash flow before taxes in May–December 2016 amounted to EUR 16.1 million (EUR 18.6 million). The operating margin (EBITDA) was EUR 24.3 million (EUR 22.4 million). Due to inventories being lower than planned, working capital decreased and improved cash flow by EUR -9.4 million (working capital increased by EUR 8.0 million).

Gross investments in May–December 2016 amounted to EUR 26.2 million (EUR 26.7 million), or 109 per cent (107%) of depreciation. Approximately half of the total investments were directed to the growth of the Heat and Power business as well as plant use and maintenance. Investments in the preparation of peat production areas accounted for 35 per cent of the total. Net investments in the reporting period amounted to EUR 1.3 million (EUR -11.8 million).

In September, Vapo paid dividends to shareholders totalling EUR 4.0 million (EUR 12.0 million). Interest-bearing net debt at the end of the reporting period stood at EUR 316.8 million (EUR 412.1 million). Interest-bearing net debt includes a EUR 5.0 million capital loan in one of Vapo Oy's subsidiaries. The ratio of interest-bearing net debt to operating margin over the previous 12 months (net debt/EBITDA) on 31 December 2016 was 7.0 (7.1). Short-term interest-bearing debt was EUR 102.4 million (EUR 72.4 million). Of the Group's long-term interest-bearing debt, 36.5 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 December was 42.7 per cent (35.7%) and the gearing ratio was 96.8 per cent (147.5%). The consolidated balance sheet total was EUR 799.5 million (EUR 821.1 million).

The Group's net financing items were EUR -6.6 million (EUR -6.1 million). Net financing items were -3.0 per cent (-2.2%) of turnover.

The company issued a EUR 50 million hybrid bond during the review period. The arrangement strengthened the Group's financial position and provides flexibility for the funding of future strategic investments.

General Meetings

Vapo Oy's Annual General Meeting was held in Helsinki on 22 September 2016. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2015–30 April 2016 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 2016 amounting to EUR 133.33 per share, or EUR 4.0 million in total. The dividend payment date was 23 September 2016.

The AGM confirmed the number of members of the Supervisory Board as eight. Johanna Ojala-Niemelä was elected Chairman, with Heikki Miilumäki as Vice Chairman. Markku Eestilä, Hanna Halmeenpää, Reijo Hongisto, Hannu Hoskonen, Eero Kubin, Esko Kurvinen, 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 will continue as Chairman, with Hannu Linna elected Vice Chairman. Pirita Mikkanen, Minna Pajumaa and Martti Haapamäki were re-elected to the Board of Directors, and Markus Tykkyläinen was elected as a new member.

The audit firm KPMG Oy Ab was elected as auditor.

Vapo Oy's Extraordinary General Meeting was held in Helsinki on 13 October 2016. The AGM confirmed the number of members of the Board of Directors as seven. Tuomas Hyyryläinen was elected to the Board of Directors as a new member. Vapo Oy's Extraordinary General Meeting held on 7 December 2016 confirmed the number of members of the Board of Directors as eight and elected Minna Smedsten to the Board of Directors as a new member.

Vapo Oy's Board of Directors elected Jan Lång (Chairman), Martti Haapamäki, Tuomas Hyyryläinen and Minna Pajumaa to the Personnel Committee (formerly the Compensation Committee) from among its members. Hannu Linna (Chairman), Pirita Mikkanen, Minna Smedsten and Markus Tykkyläinen were elected to the Audit Committee.

Changes in the organisation

Brostorpsmossen AB, a subsidiary of Neova AB, was merged with the parent company in September 2016.

In September 2016, AS Tootsi Turvas merged with AS Uuemõisa Teenus, a heating production and distribution company it acquired in June 2016 from Ridala municipality.

Kekkilä Oy sold its loss-making Russian subsidiary Kekkilä RUS LLC to the subsidiary's Managing Director in an MBO transaction. The transaction was completed on 30 December 2016.

Vapo Oy agreed to sell its 45 per cent stake in the wood sourcing company Harvestia Oy to Powerflute Oyj. The agreement was signed on 31 October 2016 and the transaction entered into effect on 2 January 2017.

Natural seasonal fluctuation in activities

The Group's energy business is cyclical due to seasonal variation in the demand for heating. The recently concluded second third of the financial year marked the start of the actual heating season. Cold spells in the early winter meant that the demand for fuel and heating was higher than in the comparison period. The temperatures in the upcoming winter months will have a significant impact on the company's result for the full financial year.

During the second third of the year, Kekkilä Group focused on the sales, marketing and production of gardening products for the upcoming sales season in spring 2017.

Personnel

The Group employed an average of 788 (960) persons during the reporting period.

Employees by segment, average

	5–12/2016	5–12/2015	5/2015– 4/2016	5/2014– 4/2015
Vapo Oy	392	466	451	466
Vapo Timber	0	110	81	107
Kekkilä Group	264	256	256	248
Neova AB	87	96	92	87
AS Tootsi Turvas	33	33	33	35
Others	11	0	1	17
Total	788	960	914	961

Vapo Oy's codetermination committee met once during the reporting period, in accordance with the annual calendar, to discuss current topics. Kekkilä Oy held codetermination negotiations to support the company's profitable growth and clarify the Group's business structure. The negotiations covered Kekkilä Oy's personnel in Finland, excluding blue collar workers. The negotiations with the representatives of personnel groups were held in a spirit of positive co-operation and the planning of operations was effective. As a result of the negotiations, the employer announced the new organisational structure and operating model. The decisions made following the negotiations did not have personnel impacts.

The Board of Directors of Vapo Oy appointed Jyrki Vainionpää as the company's deputy CEO on 17 October 2016.

Vapo Oy's CEO Tomi Yli-Kyynty announced his resignation in late December. The company's Board of Directors commenced measures to select a new CEO. Tomi Yli-Kyynty will continue as the company's CEO until 30 April 2017.

Near-term risks to businesses

Regulatory changes pertaining to the energy sector constitute the most significant risk in Vapo Oy's business. The LCP BREF document related to large combustion plants (over 50 MW) and agreeing on the sustainability criteria concerning the energy use of wood in the EU in the next emissions trading period, in particular, threaten to compromise the competitiveness of domestic peat compared to imported fuels. The sustainability criteria concerning the energy use of wood have been agreed upon in the European Commission's energy package, but the parliamentary discussion of the matter is still unfinished. In addition, the LULUCF land use directive, which affects sectors outside emissions trading, can also affect the operating environment in the energy sector if changes are made to carbon sink calculations for forests. For the continuity of peat production, it is important that the issuing of environmental permits for new peat production areas is consistent throughout the country and based on unambiguous environmental criteria.

The Finnish Government published its energy and climate strategy to 2030. In line with the Government Programme, the strategy states that Finland's goal is to increase its self-sufficiency in energy to the current level of approximately one third to 55% by 2030, with the share of renewable energy rising to 50% during the same time frame. The strategy is aimed at phasing out coal and maintaining peat's position to ensure the security of supply. The relevant legislative proposal will be drafted during the term of the current government and it may still introduce changes to the previously announced targets.

The discussion of the EU's clean energy package will continue in 2017 in the European Parliament and the Council of Europe. The package comprises eight legislative proposals. Amongst others, they include the renewable energy directive, REDII, according to which the EU's binding target for renewables is 27 per cent by 2030. The final content is likely to be confirmed in 2018 at the earliest. The European Commission has also proposed increasing the use of renewable energy in heating and cooling by one percentage point per year.

In summer 2016, peat production was in line with the plans in Sweden but fell short of the targets in Finland and Estonia. Falling short of the target increased the costs recognised through profit and loss allocated to the financial year as the quantity of stored peat was lower than expected. Due to the Group companies' own commercial stockpiling, however, the season's lower peat production will not have a material impact on the supply of products by Vapo and Kekkilä in the coming heating and production season.

The temperatures in the upcoming winter months will have a significant impact on fuel and heating sales and thereby on the company's performance for the full financial year. The weak market price of electricity has already resulted in combined heat and power plants operating in such a way as to not produce electricity at all.

The use of peat in the production of heating has decreased due to competing fuels, and the production and heating seasons being characterised by exceptional weather conditions has introduced variation to the company's result and cash flow. The company has adjusted its operations in the changed market situation and will increasingly focus on new service models, products and demand-driven processes. The company's operations are required to be increasingly flexible and cost-efficient.

The company's balance sheet has improved thanks to strong operating cash flow, changes in Group structure and asset sales. The hybrid bond arrangement also improved the company's financial position.

A legal process is starting related to a contractual dispute concerning the sale of the shares of Vapo Timber Oy carried out by the company last spring.

There have been no other significant changes to Vapo Group's near-term business risks compared to the information presented in the previous financial statements.

Outlook for the remainder of the financial year, to 30 April 2017

Vapo Group is one of the world's largest producers 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 will be lower than in the previous financial year due to the divestment of the sawmill business. Of the turnover of EUR 460 million in the comparison period, the sawmill business represented EUR 63.5 million. The Group's profitability is expected to improve due to the increased efficiency brought about by restructuring measures in the energy business and Kekkilä Group. The fuel market is not expected to see significant growth due to the low volume of electricity production from solid fuels. The new businesses will not yet generate significant turnover during the current financial year.

Vantaa, 13 February 2017

Vapo Oy

Board of Directors

For further information, please contact:

Tomi Yli-Kyyny, CEO

tel. +358 20 790 5605

Suvi Kupiainen, CFO
tel. +358 20 790 5516

Ahti Martikainen, Director, Communications and Public Affairs
tel. +358 20 790 5608

Interim Report Tables

Complying with IFRS standards in the preparation of an Interim Report requires Group management to make estimates and assumptions. These estimates and assumptions have a bearing on the value of balance sheet items, the disclosure of contingent assets and liabilities, and the amounts of reported revenues and expenses. Although the estimates are accurate to the best of management's knowledge, actual results may differ from the estimates. The estimates used in this Interim Report are the same as those used in the financial statements for the financial year 1 May 2015–30 April 2016.

The information presented in this Interim Report is unaudited.

Consolidated statement of

MEUR	9-12/2016	9-12/2015	Change %	5-12/2016	5-12/2015	Change %	5/2015-4/2016
TURNOVER	130.5	153.1	-14.7%	218.4	277.2	-21.2%	459.8
Other operating income	6.3	4.1	51.9%	8.8	5.6	56.5%	8.7
Share of associates' results	0.9	0.1	643.8%	-0.5	-0.9	-39.4%	1.4
Operating expenses	-118.3	-136.5	-13.4%	-202.9	-260.4	-22.1%	-425.4
Depreciation	-10.9	-11.4	-4.6%	-24.0	-24.9	-3.5%	-35.0
Impairment	-0.1	-6.1		-0.2	-6.1		-0.8
OPERATING PROFIT	8.5	3.3		-0.5	-9.5	94.9%	8.6
Financial income	2.5	0.6	319.7%	6.2	6.6	-6.8%	6.4
Financial expenses	-5.1	-5.2	-2.8%	-12.8	-12.7	0.7%	-16.1
PROFIT/LOSS BEFORE TAXES	6.0	-1.3	558.9%	-7.1	-15.5	54.3%	-1.1
Income taxes	-1.4	-1.4	2.9%	0.6	1.1	-43.3%	-3.4
PROFIT/LOSS FOR THE PERIOD	4.6	-2.7	271.1%	-6.5	-14.4	55.1%	-4.4
OTHER COMPREHENSIVE INCOME ITEMS:							
Items to be reclassified through profit or loss in future periods provided that certain conditions are met							
Translation differences from foreign units	-0.1	0.4		-0.4	-1.1		0.1
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	4.5	-2.2		-6.9	-15.5		-4.4
Distribution of profit for the period:							
To parent company shareholders	4.7	-2.5		-6.4	-14.3		-4.4
To non-controlling shareholders	-0.1	-0.2		0	-0.2		-0.1
	4.6	-2.7		-6.5	-14.4		-4.4
Distribution of comprehensive income for the period:							
To parent company shareholders	4.5	-2.1		-6.9	-15.2		-4.3
To non-controlling shareholders	-0.1	-0.2		0	-0.2		-0.1
	4.5	-2.2		-6.9	-15.5		-4.4
Earnings per share calculated from profits due to parent company shareholders							
Earnings/share, EUR	155	-84		-215	-475		-146
Average number of shares	30,000	30,000		30,000	30,000		30,000

Consolidated balance sheet

MEUR	31.12.2016	31.12.2015	30.4.2016
ASSETS			
LONG-TERM ASSETS			
Intangible assets	11.7	10.3	10.7
Goodwill	6.0	5.8	5.8
Land and water areas	43.2	45.4	45.4
Buildings and structures	39.3	46.2	46.2
Machinery and equipment	125.4	128.9	129.5
Other tangible assets	222.8	214.1	217.3
Investments in progress	42.8	52.3	48.6
Investments	20.0	32.3	34.2
Long-term receivables	3.0	0.8	4.7
Deferred tax asset	0.1	1.8	0.1
LONG-TERM ASSETS	514.2	538.0	542.4
CURRENT ASSETS			
Inventories	156.1	187.3	147.9
Sales and other receivables	74.2	68.7	95.2
Cash on hand and in the bank	44.9	1.2	9.4
CURRENT ASSETS	275.2	257.2	252.5
AVAILABLE-FOR-SALE LONG-TERM ASSETS	10.1	25.9	0.0
ASSETS	799.5	821.1	795.0
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Parent company shareholders' share of shareholders' equity	326.3	277.6	287.1
Non-controlling shareholders	1.0	0.9	1.0
SHAREHOLDERS' EQUITY	327.3	278.6	288.2
LONG-TERM LIABILITIES			
Deferred tax liability	15.8	16.7	16.8
Long-term interest-bearing liabilities	266.8	349.4	349.4
Long-term non-interest-bearing liabilities	7.2	7.1	7.4
Long-term provisions	7.6	7.3	8.1
Pension liabilities	3.8	2.4	3.5
LONG-TERM LIABILITIES	301.2	382.9	385.2
CURRENT LIABILITIES			
Current interest-bearing liabilities	102.4	72.4	35.0
Current non-interest-bearing liabilities	67.1	72.4	86.6
CURRENT LIABILITIES	169.4	144.8	121.6
AVAILABLE-FOR-SALE INTEREST-BEARING AND NON-INTEREST-BEARING DEBT	1.6	14.8	0

SHAREHOLDERS' EQUITY AND LIABILITIES	799.5	821.1	795.0
---------------------------------------------	--------------	--------------	--------------

Statement of change in Group

MEUR	Share capital	Fair value fund	Other funds	Translation difference s	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	TOTAL
SHAREHOLDERS' EQUITY 1.5.2016	50.5	0	30.1	-2.2	208.8		287.1	1.0	288.2
Changes in shareholders' equity									
Dividend distribution	0	0	0	0	-4.0		-4.0	0	-4.0
Total comprehensive income				-0.4	-6.4		-6.9	0	-6.9
Other changes	0	0	0	0	0	50.0	50.0	0	50.0
SHAREHOLDERS' EQUITY 31.12.2016	50.5	0	30.1	-2.7	198.4	50.0	326.2	1.0	327.3

MEUR	Share capital	Fair value fund	Other funds	Translation difference s	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	TOTAL
SHAREHOLDERS' EQUITY 1.5.2015	50.5	0	30.1	-2.3	225.9		304.2	1.2	305.4
Changes in shareholders' equity									
Dividend distribution	0	0	0	0	-12.0		-12.0	-0.1	-12.1
Total comprehensive income				-0.8	-14.5		-15.2	-0.2	-15.5
Other changes	0	0	0	0	0.8		0.8	0	0.8
SHAREHOLDERS' EQUITY 31.12.2015	50.5	0	30.1	-3.1	200.2	0	278.5	0.9	278.6

Condensed consolidated cash flow statement

MEUR	5-12/2016	5-12/2015	5/2015-4/2016
<u>Cash flow from operating activities</u>			
Profit/loss for the period	-6.5	-14.4	-4.4
Adjustments to the result for the period	24.9	34.7	58.5
Change in working capital	-9.7	8.0	24.3
Cash flow from operating activities before financial items and taxes	8.7	28.2	78.4
Net financial expenses	0.6	-10.2	-13.5
Taxes paid on operating activities	-1.2	-2.1	-2.5
Cash flow from operating activities	8.1	15.9	62.5
<u>Cash flow from investing activities</u>			
Investments in tangible and intangible assets	-25.0	-26.5	-38.7
Proceeds from disposal of tangible and intangible assets	33.3	16.9	18.5
Subsidiary shares bought	-1.2	0.0	0.0
Subsidiary shares sold	0.0	0.0	3.5
Other investments	0.0	-0.1	-0.1
Proceeds from disposal of other investments	7.7	0.0	0.0
Changes in loans receivable	1.1	2.4	2.4
Dividends received	0.0	0.0	0.0
Cash flow from investing activities	15.8	-7.3	-14.4
Cash flow before financing	23.9	8.6	48.1
<u>Cash flow from financing activities</u>			
Change in long-term loans and other financing items	15.6	0.5	-30.8
Dividends paid	-4.0	-12.1	-12.1
Cash flow from financing activities	11.6	-11.6	-42.9
Change in cash and cash equivalents	35.5	-3.0	5.2
Cash and cash equivalents, opening balance	9.4	4.1	4.1
Change in cash and cash equivalents	35.5	-3.0	5.2
Effect of changes in exchange rates	0.0	0.1	0.1
Cash and cash equivalents	44.9	1.2	9.4

Notes to the interim report

SEGMENT DATA 5–12/2016

MEUR	Vapo Oy	Vapo Timber Oy	Kekkilä Group	Neova AB	AS Tootsi Turvas	Others	Eliminations	Group total
External turnover	131.4	0	55.2	23.5	8.1	0.1	0.1	218.4
Internal turnover	1.1	0	0.9	0.1	0.4	0.1	-2.6	0
Turnover	132.5	0	56.1	23.6	8.5	0.2	-2.5	218.4
Segment operating profit/loss	1.3	0	-0.5	-1.0	0.4	-0.6	-0.1	-0.5
Financial income and expenses	-4.4	0	-0.8	1.4	0	-0.2	-2.6	-6.6
Appropriations and income taxes	2.6	0	0.2	0	0	0.1	-2.3	0.6
Result for the period	-0.5	0	-1.2	0.4	0.4	-0.6	-5.0	-6.5
Segment assets	821.7	0	95.9	90.3	48.4	9.4	-285.5	780.2
Shares in associates	8.0	0	0	18.3	0	0	-7.0	19.2
Assets total	829.7	0	95.9	108.6	48.4	9.4	-292.5	799.5
Segment debt	563.6	0	67.3	91.6	4.7	6.6	-261.7	472.1
Debt total	563.6	0	67.3	91.6	4.7	6.6	-261.7	472.1
Investments	20.1	0	1.8	2.3	1.9	0	0.1	26.2
Depreciation	-15.8	0	-4.2	-3.5	-1.1	0	0.3	-24.3

SEGMENT DATA 5–12/2015

MEUR	Vapo Oy	Vapo Timber Oy	Kekkilä Group	Neova AB	AS Tootsi Turvas	Others	Eliminations	Group total
External turnover	137.0	55.9	52.1	25.6	6.7	0	0	277.2
Internal turnover	2.7	2.1	1.0	0.6	0.4	0	-6.8	0
Turnover	139.7	58.0	53.1	26.3	7.1	0	-6.9	277.2
Segment operating profit/loss	0.8	-1.7	-1.9	-0.9	0.8	0	-6.5	-9.5
Financial income and expenses	-3.4	-0.4	-0.9	-1.4	-0.1	0	-0.1	-6.1
Appropriations and income taxes	3.0	0.5	0.7	0	-0.1	0	-3.0	1.1
Result for the period	0.5	-1.5	-2.1	-2.3	0.7	0	-9.6	-14.4
Segment assets	832.7	32.4	99.2	95.4	46.8	7.6	-317.3	796.8
Shares in associates	8.0	0	0	19.0	0	0	-2.7	24.3
Assets total	840.7	32.4	99.2	114.4	46.8	7.6	-320.1	821.1
Segment debt	513.8	18.6	68.4	98.3	3.5	0.1	-160.3	542.5
Debt total	513.8	18.6	68.4	98.3	3.5	0.1	-160.3	542.5
Investments	21.1	0.2	2.3	2.5	0.6	0	0	26.7
Depreciation	-15.3	-1.1	-4.3	-3.5	-0.9	-0.1	0.3	-24.9

SEGMENT DATA 5/2015–4/2016

MEUR	Vapo Oy	Vapo Timber Oy	Kekkilä Group	Neova AB	AS Tootsi Turvas	Others	Eliminations	Group total
External turnover	253.7	61.0	86.2	46.6	12.3	0	0	459.8
Internal turnover	3.3	2.5	1.7	1.2	0.7	0	-9.4	0
Turnover	257.0	63.5	87.9	47.8	13.0	0	-9.4	459.8
Segment operating profit/loss	7.4	-2.2	-1.3	1.7	1.1	0.2	1.7	8.6
Financial income and expenses	-5.7	-0.4	-1.4	-2.0	0.1	-0.2	-0.1	-9.7
Appropriations and income taxes	-2.1	0.5	0.3	0	0	0	-2.0	-3.4
Result for the period	-0.4	-2.1	-2.4	-0.3	1.2	0	-0.4	-4.4
Segment assets	809.8	0	118.7	92.2	47.5	8.7	-308.1	768.8
Shares in associates	8.0	0	0	19.1	0	0	-0.9	26.2
Assets total	817.8	0	118.7	111.3	47.5	8.7	-309.0	795.0
Segment debt	483.0	0	87.2	94.5	4.8	6.3	-169.1	506.8
Debt total	483.0	0	87.2	94.5	4.8	6.3	-169.1	506.8
Investments	31.3	0.2	3.6	3.8	1.1	0	-1.5	38.5
Depreciation	-21.7	-1.2	-6.7	-5.0	-1.3	-0.2	1.0	-35.0

COLLATERAL, CONTINGENT COMMITMENTS AND OTHER LIABILITIES

31.12.2016

31.12.2015

30.4.2016

EUR THOUSAND

Collateral

As collateral for own debt

Mortgages

6,867

6,497

6,498

Liabilities for own commitments

Mortgages

Guarantees

22,056

29,558

29,147

Pledged collateral

4

4

4

Total

28,927

36,059

35,649

Financial leasing and other rental liabilities

Financial leasing liabilities

Due within the next one-year period

2,515

1,250

1,242

Due later

38,827

14,321

20,841

Other rental liabilities

Due within the next one-year period

2,881

3,187

2,723

Due later

6,376

4,689

4,501

Total

50,599

23,447

29,307

The Group has leased machinery and equipment, vehicles and computer hardware. Leased production machinery and equipment, with a capital value

of EUR 8.7 million on the closing date, comprise the most significant part of the leases.

There are no agreements in the acquisition period. The duration of the rental agreements is ten years. The agreements include an option, but not an

obligation, to continue the agreement after the original ending date.

	31.12.2016	31.12.2015	30.4.2016
EUR THOUSAND			
Contingent commitments on behalf of associates			
Guarantees	2,000	4,500	4,300

	31.12.2016	31.12.2015	30.4.2016
DERIVATIVE CONTRACTS	Nominal value	Nominal value	Nominal value
EUR THOUSAND	Fair value	Fair value	Fair value
Interest rate derivatives	205,000	238,000	235,000
	-1,324	55	-284
Currency derivatives	100,389	108,540	126,478
	-912	424	142
Commodity derivatives	5,922	6,551	6,641
	-707	-1,536	-1,396
Nominal value, total	306,788	353,091	368,119
Fair value, total	-2,979	-1,057	-1,538