FINANCIAL STATEMENTS AND BOARD OF DIRECTORS' REPORT

1 May 2017–30 April 2018

VAPO

CONTENTS

VAPO IN BRIEF

Vapo is a leading bioenergy company in Finland, Sweden and Estonia. The product and service selection developed for Vapo's energy customers consists of local fuels, such as peat, pellets and forest fuels as well as added value services related to energy production. The company also owns seven combined heat and power (CHP) plants and approximately 150 heating plants producing local energy. Vapo is an important part of the local energy infrastructure in all of its markets.

Vapo Group also includes the gardening group Kekkilä, which is the market leader in gardening products in Finland and Sweden. The company produces garden soils, mulches and fertilisers professional growers, consumers and landscapers in Finland under the Kekkilä brand and in Sweden under the Hasselfors Garden brand.

Vapo Group's Ventures business develops new business solutions based on the Group's strengths. The company's newest businesses are Vapo Fibers and Vapo Carbons. Vapo Fibers focuses on utilising peat fibre for new purposes. Vapo Carbons aims to make a quick entry into the growing international market for peat-based technical carbons.

Vapo Group had an average of 758 employees during the financial year. The company also employs hundreds of local contractors in the fuel production and supply chain.

More information about the company: www.vapo.com.

The financial year in figures:

MEUR	1 May 2017–30 April 2018	1 May 2016–30 April 2017
Turnover, EUR million	419.8	392.1
Operating margin/EBITDA, EUR million	61.1	56.9
Operating profit/EBIT, EUR million	26.3	20.0
*) comparable operating profit excluding one-off items and the effect of divested businesses, EUR million	26.3	23.2
Profit/loss for the period, EUR million	17.6	8.1
Earnings per share	586	271
Pre-tax return on invested capital	4.3	3.0
Free cash flow before taxes, EUR million	73.4	73.2
Equity ratio on 30 April	51.2	43.0
Ratio of interest-bearing net debt to operating margin	3.4	4.7
Energy peat deliveries (TWh)	11.4	10.2
Wood fuel deliveries (TWh)	3.3	3.0
Heating deliveries (TWh)	1.8	1.6
Accident frequency*	16	19

* Accident frequency=number of accidents requiring a visit to occupational health services/million working hours

BOARD OF DIRECTORS' REPORT 1 MAY 2017–30 APRIL 2018

CEO Vesa Tempakka: Turnover increased by 7%, equity ratio exceeded 50%

Vapo Group's financial performance during the financial year 1 May 2017–30 April 2018 was fairly satisfactory. The Group's turnover increased substantially after declining for several years. Sales of fuels, heating and electricity were significantly higher than in the comparison period. The Group's turnover for the financial year amounted to EUR 419.8 million (EUR 392.1 million). Turnover growth was the highest in Vapo Oy (+9%) and Neova AB (+13%). Kekkilä Group's turnover was on a par with the previous year.

With improved profitability across all of the Group's businesses, Vapo Group's operating profit increased by nearly a third compared to the previous financial year. The Group's operating result was EUR 26.3 million (EUR 20.0 million). The most significant improvement in profitability was achieved by Neova AB (including its associate Scandbio Ab), with a threefold increase in operating profit to reach EUR 5.6 million (EUR 1.5 million). The Group's result for the financial year doubled to EUR 17.6 million (EUR 8.1 million).

The peat production season in summer 2017 was poor and the sourcing of fuel wood was complicated by wet conditions in the autum. Previously produced buffer stocks of energy peat enabled a substantial increase in fuel sales and ensured heating deliveries to many energy customers in the spring when there was a shortage of fuel wood in the market and temperatures were exceptionally low. At the end of the heating season, Vapo's inventory levels were lower than usual in all fuel categories.

The reduced inventories and strong sales were reflected in strong cash flow, which was on a par with the previous year at EUR 73 million. Thanks to the strong cash flow and moderate investments, the Group was able to substantially reduce its net debt. The equity ratio increased to 51 per cent (43%) at the end of the financial year, while the ratio of net debt to operating margin was 3.4 (4.7).

Vapo renewed its strategy and structure during the financial year. The Group abandoned the previous holding company model based on subsidiaries in different countries in favour of a new structure consisting of international divisions. The business operations are now divided into three divisions supported by the shared Supply Chain Management and Group Services functions. Going forward, the Group's business is focused on a strategy aimed at achieving business growth in the Grow&Care division, which targets professional growers, the provision of customised energy solutions and digital services alone and with partners in the Energy division and the development of new business under the New Businesses division. Supplying energy peat will remain a central aspect of the Group's business, but growth in the demand for peat is expected to be derived from uses other than energy.

The aim of the changes is to improve the efficiency of the Group's operations and accelerate its transformation in response to market needs related to food growing and the use of new technologies. The positive profit performance and stronger balance sheet also provide the Group with greater room to manoeuvre in making investments for the future. Energy is an important cornerstone for the Group.. We will ensure that our customers' energy supply is secured well into the future.

The Vapo Fibers project announced in 2016 has progressed to the commercialisation stage and it was transferred into the Grow&Care division because the first products are related to food plant cultivation. Vapo Carbons, which was first announced in October 2016, aims to launch the production of peat-based technical carbons in Finland using a new method developed by the company. The environmental permit process for the project has not been completed yet. The investment decision is planned to be made later this year.

Operating environment

According to preliminary data from Statistics Finland, the total energy consumption of Finland in 2017 was 377 TWh, which is one per cent higher than in the previous year. Electricity consumption totalled 85.5 TWh and was practically unchanged from the previous year. Domestic electricity production in 2017 amounted to 65 TWh, representing a year-on-year decrease of approximately two per cent. Among the end-use sectors, the largest change was the two per cent increase seen in the industrial sector, which accounted for 46 per cent of the total end-use of energy. The total heating energy consumption of buildings was on par with the previous year, representing 26 per cent of the total end-use of energy. The energy consumption of transport also remained largely unchanged at 17 per cent of the total.

The use of renewable energy sources continued to grow, reaching a record-high 36 per cent of the total consumption of energy. The share of renewable energy has increased by nearly 10 percentage points in the 2010s. The use of fossil fuels decreased by five per cent and the carbon dioxide emissions arising from energy production also declined by five per cent in 2017. The consumption of wood fuels increased by 3.5 per cent and they remained Finland's most significant source of energy with a share of 27 per cent. The growth was due to the increased burning of forest industry by-products and waste wood. Peat consumption was close to the same level as in the previous year.

Compared to the previous years' price levels, the prices of oil, coal and natural gas increased significantly during the financial year. Water reserves in the Nordic countries were under the long-term average at the beginning of the financial year, but the rainy summer increased the reserves and kept electricity prices low. Condensing power plants barely produced any electricity at all, which was reflected in the demand for peat and energy chips.

The Government Programme of Finland's current government includes the goal of increasing the share of renewable and emission-free energy to more than 50 per cent by 2030. The second target set by the Government Programme is to increase the rate of self-sufficiency in energy to 55 per cent, and peat has an important role to play in achieving this. The government wants to halve the consumption of imported oil and ban the use of coal in energy production ahead of schedule, in 2029.

In Finland, Vapo Oy's peat production volume, seven million cubic metres, was lower than planned due to the rainy summer. This was the third consecutive year that peat production fell short of the target. However, stockpiles accumulated in previous summers secured fuel deliveries to customers.

The peat production season in summer 2017 was poor and the sourcing of fuel wood was complicated by wet conditions in the autum. The last three months of the financial year were significantly colder than average, which led to an increase in fuel and heating deliveries.

Vapo Group

The Group's profit for the financial year 1 May 2017–30 April 2018 doubled year-on-year and amounted to EUR 17.6 million (EUR 8.1 million). Turnover increased by seven per cent to EUR 419.8 million (EUR 392.1 million). The Group's operating profit improved by 31 per cent and amounted to EUR 26.3 million (EUR 20.0 million). The previous financial year's comparable operating result excluding one-off items and divested operations was EUR 23.2 million. The reduction of working capital and a conservative approach to investments were reflected in strong operating cash flow (free cash flow before financial items and taxes), which amounted to EUR 73.4 million (EUR 73.2 million) for the financial year. This has also enabled the reduction of the Group's debt, which is reflected in improved key indicators related to financing. The Group's equity ratio stood at 51.2 per cent (43.0%) at the end of the financial year, while the ratio of net debt to operating margin was 3.4 (4.7).

Developments by business segment

The company's segment reporting corresponds to the Group's separate companies. 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.

Change in segment structure effective from the start of the 2019 financial year

Effective from the start of FY2019, Vapo Group adopted a new organisational structure consisting of international divisions. The divisions share common support functions. In Vapo Group's financial reporting, the previous segment reporting structure based on separate companies was replaced by the new divisional segment structure effective from 1 May 2018. The new reporting segments are Energy, Grow&Care and New Businesses.

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

Turnover by segment

MEUR	1–4/2018	1–4/2017	Change %	5/2017–4/2018	5/2016–4/2017	Change %
Vapo Oy	132.3	114.9	15.2	269.8	247.4	9.1
Kekkilä Group	32.3	33.5	-3.4	90.4	89.5	0.9
Neova AB	22.8	19.6	16.3	48.7	43.3	12.5
AS Tootsi Turvas	6.7	7.5	-10.2	16.8	16.0	5.0
Others	0.2	0.1	149.6	0.5	0.3	67.3
Inter-segment turnover	-2.8	-1.9	47.8	-6.3	-4.4	45.1
Total	**191.6**	**173.7**	**10.3**	**419.8**	**392.1**	**7.1**

Operating profit/loss by segment

MEUR	1–4/2018	1–4/2017	Change %	5/2017–4/2018	5/2016–4/2017	Change %
Vapo Oy	19.3	11.9	62.5	16.8	13.2	27.0
Kekkilä Group	1.3	-0.6	314.4	2.7	-1.1	342.6
Neova AB	3.2	1.9	67.9	3.5	0.9	304.9
AS Tootsi Turvas	0.7	1.0	-29.9	1.9	1.3	47.1
Others	-0.1	-0.2	52.4	-0.7	-0.8	9.7
Associates	2.0	1.1	78.7	2.1	0.6	250.0
Eliminations	0.5	5.4	-90.5	-0.1	5.8	-102.2
Total	**26.9**	**20.5**	**31.2**	**26.3**	**20.0**	**31.7**

cent. The company's newest commercial businesses are Vapo Fibers and Vapo Carbons. Vapo Fibers focuses on utilising peat fibre for new purposes. Vapo Carbons aims to make a quick entry into the growing international market for peat-based technical carbons.

The segment's turnover in the final third of the financial year (January–April 2018) was EUR 132.3 million (January–April 2017: EUR 114.9 million). The operating profit for the reporting period was EUR 19.3 million (EUR 11.9 million). The operating profit includes one-off expenses in the amount of EUR 2.0 million (EUR 6.0 million). The previous year's one-off items included EUR 3.5 million in costs associated with the sale of Vapo's holding in Harvestia, which was eliminated at the Group level. The cold spring compensated for the reduced heating needs caused by the mild autumn and turn of the year, which was reflected in year-on-year growth in the demand for fuels and heating. The energy sales prices of power and heating plants developed favourably compared to the corresponding period last year. Turnover and sales volume were increased by the Heat and Power business area's newly commissioned plants in locations including Jyväskylä, Jämsä and Luoto.

The segment's turnover for the full financial year was EUR 269.8 million (EUR 247.4 million). The operating profit was EUR 16.8 million (EUR 13.2 million). The operating profit includes one-off expenses in the amount of EUR 0.7 million (EUR 4.0 million). Fuel and heating energy deliveries for the full financial year increased compared to the previous period. The higher sales volume and enhanced operational efficiency improved operating profit before one-off items. Investments amounted to EUR 23.6 million (EUR 30.9 million). Energy peat deliveries during the financial year totalled 10.2 TWh (9.2 TWh) while heating deliveries amounted to 1.4 TWh (1.2 TWh).

The sales of the Heat and Power business were increased by growth investments made during previous and current year and the cold winter. Fuel costs increased, which meant that the result was slightly below the previous year's level.

Peat production in the summer 2017 production season was substantially below the targeted volume and below the heating season's order backlog. Although inventory levels declined, stockpiles accumulated in previous years secured fuel deliveries to customers. The result of the peat business was improved by higher sales volume. However, the result was lower than in the previous financial year due to the poor peat summer having an impact on the development of costs and also due to lower proceeds from the sale of land areas.

The profitability of wood fuels improved year-on-year. The sales volume of forest fuels saw strong growth. Sales prices were slightly lower than in the previous period due to factors such as the high supply of by-products by the wood processing industry.

The turnover of the pellet business declined, but profitability improved year-on-year. The domestic delivery volume increased due to higher demand from power plants, among other factors, and the share of turnover represented by exports declined significantly. Profitability was improved by efficiency improvement measures implemented in production and raw material procurement.

Vapo Oy

	1–4/2018	1–4/2017	Change	5/2017–4/2018	5/2016–4/2017	Change
Turnover (EUR million)	132.3	114.9	15.2%	269.8	247.4	9.1%
Operating profit (EUR million)	19.3	11.9	62.5%	16.8	13.2	27.0%
Investments (EUR million)	6.5	10.8	-39.3%	23.6	30.9	-23.8%
Number of employees	381	365	4.5%	391	383	2.2%
Peat production (million m3)	0	0		7.1	7.4	-4.1%
Energy sales, peat (GWh)	5,391	4,419	22.0%	10,186	9,244	10.2%
Energy sales, other fuels (GWh)	1,539	1,259	22.2%	2,944	2,588	13.7%
Heat and steam sales (GWh)	664	582	14.0%	1,372	1,163	18.0%

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 2018) amounted to EUR 22.8 million (EUR 19.6 million). The operating profit for the period was EUR 3.2 million (EUR 1.9 million). Sales of energy peat exceeded expectations and grew year-on-year. Sales of environmental peat also increased substantially from the previous year. The turnover of the Heat and Power business was on a par with the previous year. The operating profit includes one-off income, expenses and write-downs amounting to EUR 0.1 million (EUR -1.0 million).

Turnover for the full financial year was EUR 48.7 million (EUR 43.3 million) and the operating profit grew significantly, reaching EUR 3.5 million (EUR 0.9 million). Investments during the financial year amounted to EUR 5.6 million (EUR 3.2 million). The operating profit includes one-off income, expenses and write-downs amounting to EUR 0.8 million (EUR -0.7 million).

Buoyed by sales growth, the affiliate Scandbio Ab continued to see positive profit performance in the final third of the financial year. The company's full-year profit showed a significant year-on-year improvement.

Energy peat deliveries during the financial year totalled 0.8 TWh (0.7 TWh) while heating deliveries amounted to 0.4 TWh (0.4 TWh). Deliveries of agricultural peat increased significantly and amounted to 1.0 million cubic metres (0.6).

Neova AB

	1–4/2018	1–4/2017	Change	5/2017–4/2018	5/2016–4/2017	Change
Turnover (EUR million)	22.8	19.6	16.3%	48.7	43.3	12.5%
Operating profit (EUR million)	3.2	1.9	67.9%	3.5	0.9	304.9%
Share of affiliate's result (EUR million)	1.9	1.5	27.4%	2.1	0.6	279.8%
Investments (EUR million)	2.7	0.9	191.1%	5.6	3.2	74.0%
Number of employees	86	84	1.8%	87	86	0.7%
Peat production (million m3)	0	0		1.2	1.3	-5.6%
Energy sales, peat (GWh)	458	357	28.1%	831	710	16.9%
Energy sales, other fuels (GWh)	38	36	5.0%	69	68	2.1%
Heat and steam sales (GWh)	196	199	-1.4%	421	448	-6.1%

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 45 per cent of the subsidiary's annual turnover, while wood fuels account for 30 per cent, energy peat 15 per cent and heating 10 per cent.

Turnover in the final third of the financial year (January–April 2018) amounted to EUR 6.7 million (EUR 7.5 million). The operating profit for the period was EUR 0.7 million (EUR 1.0 million).

Turnover for the full financial year was EUR 16.8 million (EUR 16.0 million) and the operating profit was EUR 1.9 million (EUR 1.3 million). Investments during the financial year were EUR 0.8 million (EUR 3.3 million).

Energy peat deliveries for the financial year totalled 0.4 TWh (0.2 TWh). Deliveries of agricultural peat amounted to 0.7 million cubic metres (0.7).

AS Tootsi Turvas

	1–4/2018	1–4/2017	Change	5/2017–4/2018	5/2016–4/2017	Change
Turnover (EUR million)	6.7	7.5	-10.2%	16.8	16.0	5.0%
Operating profit (EUR million)	0.7	1.0	-29.9%	1.9	1.3	47.1%
Investments (EUR million)	0.2	0.6	-71.6%	0.8	3.3	-74.9%
Number of employees	32	33	-3.0%	32	33	-2.8%
Peat production (million m3)				0.7	0.4	75.0%
Energy sales, peat (GWh)	191	115	66.1%	353	223	58.3%
Energy sales, other fuels (GWh)	76	152	-50.0%	316	358	-11.8%
Heat and steam sales (GWh)	18	16	12.5%	31	30	4.4%

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 final third of the financial year (January–April 2018) amounted to EUR 32.3 million (EUR 33.5 million). The turnover figure for the previous year includes EUR 1.9 million in sales from the subsequently divested Norwegian business. The operating profit for the period was EUR 1.3 million (EUR -0.6 million). The previous year's profit included one-off expenses in the amount of EUR 3.0 million related to the divestment of the Norwegian business.

For continuing business operations, Kekkilä Group's turnover for the final third of the year was on par with the corresponding period in the previous financial year. The timing of spring and the peak sales season makes direct comparisons difficult but, in the case of both years, the weather conditions pushed sales from the previous financial year to the next. Kekkilä's professional grower and recycling businesses grew year-on-year. Comparable profit was lower than in the previous year, particularly in the consumer business.

Turnover for the full financial year was EUR 90.4 million (EUR 89.5 million) and the operating profit was EUR 2.7 million (EUR -1.1 million). Investments during the financial year were EUR 3.0 million (EUR 2.2 million). The previous year's profit included one-off expenses in the amount of EUR 3.2 million related primarily to the divestment of the Norwegian business.

Cumulative turnover growth for continuing business operations was achieved particularly in the professional grower and consumer businesses. In the professional grower business, the global market has been on an upward trajectory. The consumer business continues to suffer from excess capacity in the production of soil products and a consolidation of purchasing power within the customer base.

On 31 March 2017, Kekkilä Oy divested its stake in Kekkilä Group's Norwegian subsidiaries by selling their shares to the Norway-based company Nordic Garden AS.

Kekkilä Group

	1–4/2018	1–4/2017	Change	5/2017–4/2018	5/2016–4/2017	Change
Turnover (EUR million)	32.3	33.5	-3.4%	90.4	89.5	0.9%
Operating profit (EUR million)	1.3	-0.6	314.4%	2.7	-1.1	342.6%
Investments (EUR million)	0.9	0.4	112.4%	3.0	2.2	33.8%
Number of employees	239	261	-8.3%	240	261	-8.1%
Peat production (million m3)	0	0		1.4	1.4	-2.5%

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.

Vapo Clean Waters Oy began operating as a company on 1 May 2016. The company has specialised in design, construction and maintenance services and product development related to water protection and biodiversity. The business has not achieved profitability and Vapo made the decision in April to wind down the company in a controlled manner. The company's operations will cease during the next financial year after its current customer projects have been completed. Product development activities related to the management and purification of natural waters will continue under the Vapo Oy organisation, where most of the personnel of Vapo Clean Waters have been transferred.

The Others segment's turnover for the final third of the financial year was EUR 0.2 million (EUR 0.1 million) and the operating result was EUR -1.1 million (EUR -0.2 million). Turnover for the full financial year was EUR 0.5 million (EUR 0.3 million) and the operating profit was EUR -0.7 million (EUR -0.8 million).

Other

	1–4/2018	1–4/2017	Change	5/2017–4/2018	5/2016–4/2017	Change
Turnover (EUR million)	0.2	0.1	149.6%	0.5	0.3	67.3%
Operating profit (EUR million)	-0.1	-0.2	52.4%	-0.7	-0.8	9.7%
Number of employees	7	10	-30.0%	8	10	-17.1%

Cash flow, investments and financing

The Group's free cash flow before taxes in the financial year 1 May 2017–30 April 2018 amounted to EUR 73.4 million (EUR 73.2 million). Working capital continued to decrease, particularly due to lower fuel stockpiles, which increased cash flow by EUR 37.6 million (EUR 14.7 million). Asset sales improved cash flow by EUR 6.3 million (EUR 41.2 million).

Gross investments for the financial year amounted to EUR 31.5 million (EUR 39.6 million). The most significant investments during the financial year were allocated to capacity expansion, energy efficiency investments and reducing the use of fossil fuels in the Heat and Power business as well as environmental protection, field maintenance and the preparation of new peat production areas in the peat production business. Net investments (gross investments – asset sales) totalled EUR 25.2 million (EUR -1.6 million).

Interest-bearing net debt at the end of the financial year was EUR 206.2 million (EUR 269.6 million). The ratio of interest-bearing net debt to operating margin (net debt/EBITDA) on 30 April 2018 was 3.4 (4.7). Short-term interest-bearing debt amounted to EUR 12.2 million (EUR 127.4 million). Of Vapo'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 the financial year was 51.2 per cent (43.0%) and the gearing ratio was 59.3 per cent (79.4%). The consolidated balance sheet total was EUR 697.5 million (EUR 812.4 million). The Group's net financing items were EUR -6.0 million (EUR -9.8 million). Net financing items were 1.4 per cent (2.5%) of turnover.

In accordance with its hedging policy, the Group hedges the majority of its predicted net foreign currency exposure for the next 12 months. The hedging instruments used are primarily forward exchange agreements and currency swaps. The most important hedged currency is the Swedish krona. At the end of April, the Group's currency hedging ratio for the next 12 months was 94 per cent.

Natural seasonal fluctuation in activities

The Group's business is cyclical to a significant extent 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. The temperatures during the heating season in the financial year were colder than previous year especially during the final third. This increased the sales of heat and power and fuels.

Kekkilä's gardening business is also sensitive to seasonal fluctuations, with demand peaking in spring. During the past financial year, the spring season did not get up to full speed by the end of April, which moved sales to the following financial year and reduced the duration of the season.

Risk management and notable risks

At Vapo, risk management is an integral part of business management and the management system. This forms a natural approach where risk identification and risk monitoring have a clear place in the creation of the organisation's strategy and its operational execution. At Vapo Group, 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, and on an independent basis, the managing directors of Vapo Group's subsidiaries. In addition, the directors of Group functions are responsible for risk management in their respective areas. They organise risk management activities in their respective business areas and report at agreed intervals to their management teams and boards of directors on the most significant risks related to their area of responsibility.

Vapo Group's risks are divided into the following main categories: strategic and annual level business risks (including risks related to investments & restructuring measures, the market environment and regulation), operational risks (including damage risks) and risks related to the financial and commodity markets.

1. BUSINESS RISKS
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. 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 EU's drafting of sustainability criteria for bioenergy has progressed relatively favourably from Finland's perspective
The European Parliament's decision in January 2018 regarding the sustainability criteria for bioenergy is supportive of Finnish forest management and the production methods used for wood energy. The parliament voted for a risk-based country-specific assessment and rejected bans on specific wood fractions. The policy applies the same principles to developed biofuels and solid and gaseous bioenergy. The Council of the EU drafted its view on the matter in December 2017. However, there are several differences of opinion between the Council and the European Parliament, which must be reconciled in the trilogue negotiations during 2018. The trilogues between the European Commission, European Parliament and Council of the EU started in February 2018. Once a decision on the matter has been reached, the framework for the use of wood energy will be clear for as long as the next decade.

The sustainability criteria have involved certain risks from Vapo's perspective. There have been proposals to make the use of bioenergy in condensing power production ineligible for subsidies, which would have incalculably negative consequences on achieving the Central European bioenergy targets: significantly increasing CHP production is impossible in many EU countries due to the lack of consumption potential. The co-firing of biomass with fossil fuels has also been proposed as an obstacle to receiving renewable energy subsidies. These proposals would have seriously undermined the international pellet market in particular, as that market has grown due to the co-firing of pellets and coal in the production of condensing power. These potential risks remain until the trilogue negotiations on the sustainability criteria have been completed.

Finland to ban the use of coal in 2029 – pressure on energy peat may increase
In its discussion on spending limits on 10 April 2018, the Finnish Government decided to ban the use of coal in 2029. The government will also prepare an incentives package amounting to EUR 90 million for district heating companies that commit to phasing out coal by 2025.

Minister of the Environment Kimmo Tiilikainen has proposed making gas more competitive against coal as one way to reduce the use of coal. This could help gas replace coal by making use of the existing gas plants.

Following the announcement of the ban on coal being brought forward, there have been calls in public discussion for a ban on energy peat as well as higher taxes on peat. These opinions have been voiced in spite of the Parliamentary Committee on Energy and Climate Issues previously stating that peat "will be dispensed with last, after discontinuing the use of fossil fuels" in a report published in 2014.

In early spring 2018, the parliamentary working group on corporate subsidies failed to reach an agreement on cutting corporate subsidies. Two separate proposals by the working group's chairperson Mauri Pekkarinen included cuts to tax credits for energy-intensive companies, which would apply to the forest industry, among other industries. The cuts would have been compensated for by reductions to electricity taxation.

Pekkarinen's proposal included an increase in peat tax to EUR 3.4/MWh from the current level of EUR 1.9. A peat tax hike would result in reduced subsidies for wood chips under the current legislation. If peat taxes were increased and the tax credits for the forest industry were discontinued, customers in the forest industry would face an approximately eightfold increase in peat taxes. Energy taxes were also not addressed in the government's discussion on spending limits. The next occasion when energy taxes may be discussed is the government's budget proposal negotiations in autumn 2018.

The elimination of forest management subsidies in the 2020s may compromise the availability of wood fuels
The subsidies based on the Finnish Act on the Financing of Sustainable Forestry are known as Kemera subsidies. The subsidies are intended to support the management of young forests and they also help supply the market with fuel wood. The Kemera subsidy system will be subject to reforms after 2020.

Discontinuing the Kemera system would risk creating a situation where the boom period in the forest industry and the increased use of wood for more processed purposes would mean that the market availability of forest energy falls short of growth targets.

Buffer stocks of energy peat declined further
According to a member survey carried out by the Bioenergy Association of

Finland, the total Finnish stockpiles of energy peat amounted to 5.3 TWh on 1 May 2018. According to the Association, the level of buffer stocks on the first day of May have decreased steadily for the past five years. To ensure adequate security of supply, the commercial stockpiles of energy peat should amount to 7–8 TWh at the end of the heating season and before the start of the new peat production season.

The solid domestic fuels section under the power economy pool of the National Emergency Supply Agency expressed its concerns regarding the issue in May 2018. "Peat consumption in energy production was widely increased by the wetness of fuels caused by the rainy autumn, the freezing weather in late winter and the forest energy delivery difficulties caused by roads being inaccessible. The high demand eroded the buffer stocks of energy peat," stated the Agency's release on the matter.

The Finnish Government's decision on the objectives pertaining to the security of supply is as follows: "The use of peat in the combined production of electricity and heating must be secured. To ensure availability and mitigate weather-related risks, the target is for Finland to have peat stockpiles corresponding to approximately six months of peat consumption at the start of the peat production season."

If the use of peat is made increasingly difficult by tax policy decisions while production conditions are weakened due to factors such as stricter terms for environmental permits, the risk emerges that Vapo may no longer be able to respond to unexpected changes in fuel supply needs.

Market risks

Vapo's energy business is subject to significant market risks related to end product demand as well as the prices and availability of wood-based fuels and their raw materials.

Concern about the climate has led to a transformative shift in the energy industry, which will inevitably see a reduction in the share of energy solutions based on traditional fossil fuels. According to Statistics Finland, the use of peat as an energy source in Finland amounted to 27 TWh in 2010 (7% of the total consumption), while the corresponding figure in 2017 was 15.6 TWh (4.1%). The rate of decline has been the fastest in electricity production. To mitigate the demand risk of peat, Vapo invests in developing deeper relationships with existing fuel customers by offering the most reliable fuel and energy solutions through plant operation services, plant efficiency improvement projects and other added value services.

The demand for wood fuels has increased as energy companies have sought alternatives to fossil fuels. The higher demand has led to increased pellet production in Europe. Imports from outside of Europe have also increased. The competition in the pellet market has intensified due to oversupply, which is reflected in a decrease in market prices in the company's primary markets in Finland and Sweden. 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.

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

The market price of oil increased substantially during the financial year, which increased costs in fuel production and the supply chain.

2. OPERATIVE RISKS

Weather risks

Weather is a risk that has extensive effects on Vapo's business. In winter, temperature influences the fuel needs of external and internal customers and the utilisation rates of the Group's own heat and power plants. In spring, the weather conditions also determine the timing of the peak season in the gardening trade. As the peak season takes place around the end of the Group's financial year, its timing affects the profit performance for the full year. During summer, the effects of weather concern the production volumes and quality of wood fuels and environmental products.

In summer 2017, peat production was in line with the plans in Sweden and Estonia, but the production volume fell short of the target in Finland. Falling short of the target increased the costs recognised through profit and loss allocated to the financial year

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. Extensive investments in changing the organisation's safety culture are already being reflected in a reduced number of accidents and lower accident frequency as well as an increase in safety observations and related improvement measures throughout Vapo Group.

Occupational safety

Vapo Group's investments on occupational safety and well-being have produced good results. The starting point for all of our operations is workplace safety and developing a proactive and caring safety culture. The total accident frequency (MTR) for the full financial year 2018 decreased year-on-year and stood at 16 (FY2017: 19). The number of safety observations continued to increase at a steady rate. In the 2018 financial year, the number of safety observations grew by approximately 52% year-on-year.

3. FINANCING AND COMMODITY RISKS

The company manages its financing risk and maintains liquidity 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.

With regard to commodity risks, Vapo purchases hedging services related to the purchase and sale of electricity. Electricity trading represents a very minor share of Vapo's business.

Research and development

The Group's research and development investments during the financial year 1 May 2017–30 April 2018 amounted to EUR 1.9 million (EUR 1.1 million), which is equal to 0.4 per cent of turnover (0.3%). Research and development activities were focused on supporting the company's strategic renewal in Vapo Oy and the Vapo Group's other companies.

Vapo Ventures develops and commercialises Vapo's new businesses based on the company's strengths, emerging customer needs, raw material resources, competencies and networks. Ventures is also responsible for the Group's innovation and IPR management. The aim is to find solutions based on the sustainable use of natural resources to increase the refining rate and produce new products and services.

Vapo Fibers® is a new business initiative developed by the Vapo Ventures unit with the aim of introducing peat as a raw material for industrial operators. During the financial year, resources were focused on the development of selected products that are believed to have strong potential for market entry and that highlight the special properties of peat fibre.

The Vapo Carbons project developed by Vapo Ventures is planning an investment in a production plant for activated carbon. Activated carbon is used in the purification of water and gases and it has a promising international market due to the growing need for purification solutions. The aim is to make the decision on the construction of the first production plant within 2018.

Vapo's first start-up business, Vapo Clean Waters Oy, was focused on the management and purification of natural waters. The aim was to attract enough external customers to make the business profitable. The business was developed for a total of four years, first under Vapo Oy and later as an incorporated entity. Despite good customer feedback, the business will be wound down in 2018 because the market for the treatment of natural waters has not supported the growth of the business as Vapo Group had hoped.

Vapo Oy's research and development activities were focused on the development of environmental responsibility in peat production, new businesses and methods related to the production of energy peat and environmental peat. To promote environmental responsibility, the membrane filtration of water as a treatment option for waters in peat production was evaluated for the first time in the field. The company also continued to assess the suitability of solar power systems to the pumping of drainage waters in peat production. To improve peat quality management, the company developed various measurement methods for quickly measuring fuel moisture and illustrating the results.

The creation of new business based on sphagnum moss biomass was promoted by developing the sphagnum moss production method and treatment process.

Environmental responsibility

Environmental responsibility is an important element of Vapo's day-to-day business operations. The company has implemented an environmental responsibility programme that was unique even by international standards. One goal 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. Summer 2017 was the third production season in which all of Vapo's peat production areas had water treatment systems using the best available technology. Vapo is also 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.

In 2017, Vapo Oy also made significant investments in increasing its environmental expertise. A total of 17 days of environmental and quality training were organised, with 291 people participating.

In 2017, Vapo Group launched the Kekkilä Recycling business, which is a new business model focused on providing regional processing solutions for waste and by-product streams.

In 2017, nearly 17,000 (18,000) samples were taken as part of emissions monitoring in peat production, with 138,000 (145,000) analyses carried out. A further 3,100 (2,900) samples were taken in the monitoring of waterways, with 39,000 (35,000) analyses carried out.

The company continued to carry out self-initiated environmental impact inspections at peat production areas. Contractors inspected water treatment structures in two-week intervals during the production season. In addition, 16 environmental inspectors recruited for the summer season inspected water treatment methods and other aspects related to environmental permit conditions at all production areas. In 2017, Centres for Economic Development, Transport and the Environment made 136 inspection visits to Vapo's peat production areas.

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 2017, 249 hectares in newly approved production sites were obtained through environmental permit applications for peat production in Finland. The EIA process was completed for areas totalling 679 hectares.

Vapo is committed to ensuring is that all new production areas opened after 2015 will have a lower solid and humus load on downstream watercourses than before peat production. To follow through on this commitment, Vapo launched the Clean Water project involving the monitoring of the impacts of new production areas on watercourses before the potential start of peat production. In 2017, a total of 978 samples were taken at such sites, with approximately 6,800 analyses performed on the samples.

The Group's environmental investments amounted to EUR 2.8 million (EUR 2.3 million) and were primarily related to improving and building water treatment structures at peat production sites and investments required by environmental legislation in the Heat and Power business area. The company also invested in energy efficiency and reducing the use of fossil fuels. Excluding Vapo's own personnel's input, environmental protection costs for the period amounted to EUR 17.2 million (EUR 18.8 million). The costs primarily consisted of the maintenance of water treatment structures in peat production and environmental load monitoring.

Active production areas in Finland amounted to 32,000 hectares (32,000 ha) in summer 2017. A total of 395 hectares (311 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 1,114 hectares (1,156 ha).

A total of 1,125 hectares (4,194 ha) were transferred to other land use methods from peat production operations in Finland during the financial year. Of this total, 131 hectares (1,371 ha) were sold. A total of 369 hectares (1,235 ha) were assigned for forestation, 0 hectares (0 ha) for farming, and 109 hectares (223 ha) for building wetland habitats for birds. A total of 516 hectares (1,364 ha) of land was returned to landowners. The company prepares for the subsequent maintenance of cutaway areas by means of an environmental provision that covers the costs associated with post-production obligations.

In 2017, Vapo continued its own power and heating plants' multi-year development programme aimed at reducing oil consumption and improving energy efficiency. The use of domestic fuels increased slightly compared to the previous year at Vapo Oy's energy production plants in Finland. The use of coal and fuel oil decreased from the previous year. The share of domestic fuels was 94.3 per cent (95.3%) at the Group level and 95.0 per cent (94.3%) in Finland. The coefficient of efficiency for Vapo's plants remained on par with the previous year.

The most significant energy efficiency investments in 2017 were the deployment of a flue gas scrubber at the Vekaranjärvi heating plant and the introduction of remote operation at the Forssa power plant.

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 2018, 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 Oy. The Finnish State holds 50.1% of the shares (15,030 shares) and Suomen Energiavarat Oy 49.9% (14,970 shares).

General Meetings

Vapo Oy's Annual General Meeting was held in Helsinki on 9 October 2017. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2016–30 April 2017 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 2017 amounting to EUR 133.33 per share, or EUR 4.0 million in total. The dividend payment date was 9 October 2017.

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 eight. Jan Lång continues as Chairman, with Markus Tykkyläinen elected Vice Chairman. Tuomas Hyyryläinen, Pirita Mikkanen, Minna Pajumaa and Minna Smedsten continue as members of the Board of Directors. Juhani Järvelä and Risto Kantola were elected to the Board of Directors as new members.

The audit firm KPMG Oy Ab was elected as auditor.

Vapo Oy's Board of Directors elected Jan Lång (Chairman), Tuomas Hyyryläinen, Juhani Järvelä and Minna Pajumaa to the Personnel Committee from among its members. Minna Smedsten (Chairman), Risto Kantola, Pirita Mikkanen and Markus Tykkyläinen were elected to the Audit Committee.

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

Number of employees

The Group employed an average of 744 (752) persons during the final third of the financial year. The average number of employees for the full financial year was 758 (773).

The codetermination committees of Vapo Oy and Kekkilä Oy met twice, as planned, during the financial year to discuss current topics. Employees are also represented on Vapo's Supervisory Board. The Supervisory Board met four times during the financial year.

Organisational restructuring

Organisational restructuring concerning the entire Vapo Group was initiated in March 2018 in relation to the implementation of the Group's new business strategy: the previous holding company model based on subsidiaries in different countries was discontinued so that, in the future, three business divisions will be responsible for their operations as a whole in the areas of Finland, Sweden and Estonia.

When the codetermination negotiations related to the restructuring measures and other legally required processes in each country had been completed, the new organisation reflecting the revised structure was announced. The new structure entered into effect on 1 May 2018. The decisions made after the negotiations had no impact on the number of employees or the Group's current legal corporate structure.

Juha Mäkinen was appointed as the Director of the Grow&Care division and Markus Hassinen was appointed as Director of the Energy division. The New Businesses division is under the direct control of CEO Vesa Tempakka. Under the new model, the raw material supply, production, logistics and sourcing for all three business divisions is served by a separate Supply Chain Management function headed by Petri Järvinen. As in the case of the Supply Chain Management function, the Group Services function serves all businesses across national boundaries.

Personnel changes in Group management to support the restructuring of the organisation

Jaakko Myllymäki was appointed as Business Area Director for Vapo Carbons and a member of the Management Team effective from 1 February 2018.

Petri Järvinen was appointed as Chief Supply Chain Officer and a member of the Management Team effective from 1 April 2018.

Other executive appointments

Vesa Tempakka, M.Sc. (Econ.), was appointed the Chief Executive Officer of Vapo Oy effective from 29 May 2017. Vapo's previous CEO, Tomi Yli-Kyyny, left the company at the end of April 2017. Deputy CEO Jyrki Vainionpää served as Acting CEO from 1 May 2017 to 28 May 2017 and left the company on 1 February 2018. Senior Vice President for Corporate Planning Kari Poikolainen left the company on 31 March 2018. CFO Suvi Kupiainen left the company on 28 February 2018. Jarmo Santala was appointed the Group's new CFO effective from 23 July 2018. Antti Koivula has served as the Group's interim CFO since 15 January 2018.

Vapo Group employees by segment, average

	2018	2017	2016
Vapo Oy	391	383	466
Kekkilä-Group	240	261	248
Neova AB	87	86	87
AS Tootsi Turvas	32	33	35
Others	8	10	18
Total	**758**	**773**	**961**

Changes in Group structure

Kekkilä Oy sold its wholly owned Norwegian subsidiary Hasselfors Garden AS and its 60 per cent stake in Andoy Torv AS in Norway to Nordic Garden AS. The transaction was completed on 31 March 2017.

Hanhisuon Turve Oy was merged with the parent company Vapo Oy on 30 April 2018.

The decision was made in April 2018 to wind down the business operations of Vapo Clean Waters Oy. The company's operations will cease during the next financial year after its current customer projects have been completed.

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the General Meeting to be convened on 6th of September 2018 that Vapo Oy's profit for the financial year, EUR 3,266,546.92, be added to retained earnings, after which the distributable funds available to the General Meeting amount to EUR 170,056,215.76.

In line with its dividend policy, Vapo Oy targets to distribute as dividends on average 50 per cent of the annual profit shown in the company's financial statements. There have been no substantial changes in the company's financial position after the end of the financial year. The Board of Directors also proposes to the General Meeting that EUR 5.0 million, or EUR 166.67 per share, be paid as dividends for the financial year 1 May 2017–30 April 2018.

Events after the review period

On 25 May 2018, the Board of Directors of Vapo Oy decided that Forest Btl Oy will be placed into liquidation.

Future outlook

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. Vapo Group is also a significant producer of agricultural peat in the European market.

Vapo's Energy division will continue to implement measures in line with the Group's new strategy to increase the competence of its personnel and deliver new energy solutions that make use of digitality in Finland, Sweden and Estonia, alone and with partners. The fuel market is not expected to see significant growth due to the low volume of electricity production from solid fuels.

Vapo's Grow&Care division's focus during the current financial year will be on developing its product selection and increasing sales. The emphasis is on achieving growth in the professional grower business. The Grow&Care division will continue to develop production capacity for manufacturing new products from peat fibres in cooperation with the Vapo Fibers business, which was transferred to the Grow&Care division from Vapo Group's product development unit.

Vapo will continue the commercialisation of new businesses in the Vapo Carbons and Vapo Ventures units. The plans for Vapo Carbons' first pilot plant for producing technical carbons are moving ahead, and the aim is to make the investment decision within this year. The company has not yet received the environmental permits required for making the investment decision. The new businesses will not yet generate significant turnover during this financial year.

The peat production season has begun well, but fuel wood inventories are currently at an exceptionally low level, which may create shortages in the next heating season.

Vapo Group's long-term success is measured in terms of its operational profitability and the following performance indicators: return on invested capital, ratio of net debt to operating margin and equity ratio.

Consolidated key figures

MEUR	1-4/2018	1-4/2017	5/2017-4/2018	5/2016-4/2017	5/2015-4/2016
Turnover	191.9	173.7	419.8	392.1	459.8
Turnover, continuing operations			419.8	392.1	398.2
Operating profit (EBIT)	26.8	20.5	26.3	20.0	8.6
Operating profit (EBIT), continuing operations			26.3	23.2	12.0
% of turnover	14.0	11.8	6.3	5.1	1.9
Operating profit (EBIT) before impairments	27.8	22.7	27.2	22.4	9.4
% of turnover	14.5	13.1	6.5	5.7	2.1
Profit/loss for the reporting period	20.4	14.6	17.6	8.1	-4.4
Operating margin (EBITDA)	36.8	32.6	61.1	56.9	43.1
+/- Change in working capital	30.0	24.1	37.6	14.7	39.6
- Net investments	-6.4	0.4	-25.2	1.6	-21.9
Free cash flow before taxes	60.4	57.1	73.4	73.2	60.7
Gross investments	9.6	13.4	31.5	39.6	38.5
Return on invested capital % *			4.3	3.0	1.2
Return on invested capital % *, continuing operations			4.3	3.5	1.7
Return on invested capital % before impairments *			4.4	3.4	1.4
Return on equity % *			5.2	2.6	-1.5
Balance sheet total			697.5	812.4	795.0
Shareholders' equity			347.9	339.7	288.2
Interest-bearing net debt			206.2	269.6	366.6
Equity ratio %			51.2	43.0	37.6
Interest-bearing net debt/operating margin			3.4	4.7	8.5
Gearing %			59.3	79.4	127.2
Average number of employees			758	773	914

* Previous 12 months

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

Key figures for parent company Vapo Oy

MEUR	5/2017-4/2018	5/2016-4/2017	5/2015-4/2016
Turnover	263.3	241.9	252.0
Operating profit (EBIT)	14.6	11.8	8.4
% of turnover	5.6%	4.9%	3.3%
Operating profit (EBIT) before impairments	15.5	13.6	8.6
% of turnover	5.9%	5.6%	3.4%
Profit/loss for the period	3.3	5.7	-7.3
Operating margin (EBITDA)	37.1	33.4	28.4
Return on invested capital % *	2.4%	2.0%	1.2%
Return on invested capital % before impairments *	2.5%	2.3%	1.2%
Return on equity % *	1.2%	2.2%	-2.9%
Balance sheet total	665.6	777.0	770.8
Shareholders' equity	252.2	252.9	251.3
Equity ratio % **	38.2%	32.9%	33.2%

* Previous 12 months

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

CONSOLIDATED FINANCIAL STATEMENTS 2017, IFRS

Consolidated statement of comprehensive income

EUR 1,000	Note	5/2017–4/2018	5/2016–4/2017
TURNOVER	2	**419,804**	392,103
Change in stock levels of finished and unfinished products		**-23,534**	-20,284
Production for own use		**4**	395
Other operating income	5	**7,657**	11,020
Share of results of companies consolidated using the equity method		**1,882**	1,106
Materials and services	6	**-162,372**	-155,684
Expenses arising from staff benefits	7	**-50,350**	-48,123
Depreciation	8	**-35,740**	-35,616
Impairment	8	**-914**	-2,424
Other operating expenses	9	**-130,156**	-122,516
OPERATING PROFIT		**26,281**	19,977
Financial income	10	**2,393**	5,995
Financial expenses	10	**-8,391**	-15,819
PROFIT/LOSS BEFORE TAXES		**20,284**	10,152
Income taxes	11	**-2,664**	-2,038
PROFIT/LOSS FOR THE PERIOD		**17,620**	8,115
OTHER COMPREHENSIVE INCOME ITEMS			
(items that may not be reclassified subsequently to profit or loss):			
Remeasurement of defined benefit plans		**-251**	0
Items that may be reclassified subsequently to profit or loss:			
Translation differences from foreign units		**-2,058**	-775
Other comprehensive income items, after taxes		**-2,309**	-775
TOTAL COMPREHENSIVE INCOME		**15,311**	7,340
PROFIT/LOSS FOR THE PERIOD			
Distribution of profit for the period:			
To parent company shareholders		**17,576**	8,133
To non-controlling shareholders		**44**	-18
		17,620	8,115
Distribution of comprehensive income for the period:			
To parent company shareholders		**15,267**	7,353
To non-controlling shareholders		**44**	-12
		15,311	7,340
Earnings per share calculated from profits due to parent company shareholders			
Earnings/share, EUR		**586**	271
Average number of shares		**30,000**	30,000

Consolidated balance sheet

EUR 1,000	Note	30 Apr. 2018	30 Apr. 2017
ASSETS			
Long-term assets			
Intangible assets	12	**12,854**	12,940
Goodwill	12	**5,399**	5,436
Land and water areas	13	**40,821**	43,169
Buildings and structures	13	**37,875**	38,683
Machinery and equipment	13	**123,886**	121,956
Other tangible assets	13	**225,992**	221,583
Prepayments and unfinished acquisitions	13	**24,297**	43,849
Shares in entities consolidated using the equity method	14	**19,844**	20,654
Other long-term financial assets	15	**709**	756
Long-term sales and other receivables	16	**3,258**	3,272
Deferred tax asset	18	**0**	204
Long-term assets total		**494,935**	512,502
Current assets			
Inventories	19	**91,407**	123,469
Sales and other receivables	20	**77,924**	80,138
Income tax receivables		**251**	806
Cash and cash equivalents	21	**32,999**	95,495
Current assets total		**202,581**	299,908
ASSETS TOTAL		**697,515**	812,410
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		**50,456**	50,456
Fair value fund and other funds		**30,479**	30,236
Translation differences		**-5,077**	-3,020
Retained earnings		**221,624**	211,661
Hybrid bond	28	**50,000**	50,000
Parent company shareholders' share of shareholders' equity		**347,482**	339,334
Non-controlling shareholders		**418**	384
Shareholders' equity total	22	**347,900**	339,718
Long-term liabilities			
Deferred tax liability	18	**16,189**	15,925
Long-term interest-bearing liabilities	23	**230,407**	241,122
Long-term non-interest-bearing liabilities	24	**6,764**	7,077
Long-term provisions	25	**7,853**	7,749
Pension liabilities	26	**4,866**	4,629
Long-term liabilities total		**266,079**	276,501
Current liabilities			
Current interest-bearing liabilities	23	**12,213**	127,399
Current non-interest-bearing liabilities	27	**69,964**	68,687
Current provisions		**1,359**	105
Current liabilities total		**83,536**	196,191
SHAREHOLDERS' EQUITY AND LIABILITIES		**697,515**	812,410

Consolidated cash flow statement

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Cash flow from operating activities		
Profit/loss for the period	**17,620**	8,115
Adjustments to the result for the period		
Depreciation and impairment	**36,654**	38,040
Share of results of entities consolidated using the equity method	**-1,882**	-1,106
Financial income and expenses	**1,400**	5,243
Income taxes	**2,664**	2,038
Other adjustments	**1,992**	320
Adjustments to the profit/loss for the period total	**40,829**	44,535
Change in working capital		
Increase/decrease in inventories	**30,188**	20,582
Increase/decrease in sales receivables and other receivables	**586**	5,428
Increase/decrease in accounts payable and other debts	**5,200**	-14,974
Change in provisions	**451**	78
Change in working capital total	**36,425**	11,113
Interest paid	**-7,788**	-8,891
Interest received	**120**	389
Other financial items	**5,735**	2,801
Taxes paid	**32**	-1,467
Cash flow from operating activities	**92,972**	56,596
Cash flow from investing activities		
Investments in tangible and intangible assets	**-31,944**	-37,920
Proceeds from disposal of tangible and intangible assets	**8,759**	34,797
Acquisition of subsidiaries, net of cash	**0**	-1,237
Disposal of subsidiaries, net of cash	**0**	3,502
Associates' shares bought	**0**	0
Associates' shares sold	**0**	3,592
Other investments	**-181**	0
Proceeds from disposal of other investments	**77**	7,669
Loans granted	**0**	0
Repayments of loans receivable	**0**	5,099
Dividends received	**1,020**	2,623
Cash flow from investing activities	**-22,269**	18,125
Cash flow from financing activities		
Proceeds from hybrid bond	**0**	50,000
Increase (+)/decrease (-) in short-term loans	**-125,234**	-6,246
Proceeds from long-term loans	**1,497**	815
Repayment of long-term loans	**0**	-27,077
Repayment of finance lease liabilities	**-2,186**	-2,065
Dividends paid	**-4,000**	-4,000
Dividends paid / hybrid loan	**-3,260**	
Cash flow from financing activities	**-133,183**	11,427
Change in cash and cash equivalents	**-62,480**	86,148
Cash and cash equivalents opening balance	**95,495**	9,415
Change in cash and cash equivalents	**-62,479**	86,148
Effect of changes in exchange rates	**-17**	-68
Cash and cash equivalents at end of period	**32,999**	95,495
Cash and cash equivalents related to mergers and acquisitions	**0**	0

Consolidated statement of changes in shareholders' equity

EUR 1,000	Share capital	Other funds	Translation differences	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	Total
SHAREHOLDERS' EQUITY 1 MAY 2017	50,456	30,234	-3,020	211,661	50,000	339,334	384	339,718
Changes in shareholders' equity								
Dividend distribution	0	0	0	-7,250		-7,250	-10	-7,260
Transfers between items		136		-136		0		0
Total comprehensive income		0	-2,058	17,325		15,267	44	15,311
Other changes								0
Other changes		107		24	0	131		131
SHAREHOLDERS' EQUITY 30 APR 2018	50,456	30,477	-5,077	221,624	50,000	347,482	418	347,900

EUR 1,000	Share capital	Other funds	Translation differences	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	Total
SHAREHOLDERS' EQUITY 1 MAY 2016	50,456	30,123	-2,242	208,804		287,144	1,039	288,183
Changes in shareholders' equity								
Dividend distribution	0	0	0	-4,000		-4,000	0	-4,000
Transfers between items		111		-111		0		0
Total comprehensive income		0	-778	8,130		7,353	-12	7,340
Other changes								
Imputed taxes								
Other changes				-1,162	50,000	48,838		48,838
Changes in holdings in subsidiaries				0		0	-643	-643
SHAREHOLDERS' EQUITY 30 APR 2017	50,456	30,234	-3,020	211,661	50,000	339,334	384	339,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, IFRS

Company

Vapo is a leading supplier and developer of bioenergy in Finland, Sweden and Estonia. Vapo produces energy responsibly from sources including peat and wood. The company's services also include various comprehensive energy solutions as well as related digital services and environmental business solutions. Vapo is an important part of the local energy infrastructure in all of its markets. Vapo Group also includes the gardening group Kekkilä.

Vapo Group consists of five business areas: Vapo Peat Products, Vapo Heat and Power, Vapo Wood Fuels, Vapo Ventures and Kekkilä Group. The Group has subsidiaries in Finland and other countries.

The parent company, Vapo Oy, is a Finnish company established in compliance with Finnish laws, domiciled in Jyväskylä at the registered address Vapo Oy, Yrjönkatu 42, PO Box 22, 40101 Jyväskylä, Finland. The company website is at www.vapo.com.

The Board of Directors of Vapo Oy approved these financial statements for publication at its meeting on 25 June 2018.

According to the Finnish Companies Act, shareholders are entitled to either approve or dismiss the financial statements at the General Meeting of Shareholders following their publication. The General Meeting is also entitled to vote on a revision of the financial statements.

A copy of the consolidated financial statements is available at www.vapo.com or from the head office of the parent company.

1. Accounting policies for the consolidated financial statements

1.1 General

Vapo Oy's consolidated financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS), which have been approved for use in the EU, and in accordance with the IAS and IFRS standards in force on 30 April 2018 as well as the SIC and IFRIC standing interpretations. International accounting standards refer to standards and their interpretations approved to be used in the EU according to the Finnish Accounting Act and regulations based on it in accordance with the procedures set in EU regulation (EC) No. 1606/2002. Vapo Group adopted the IFRS accounting standards in its financial reporting in 2006. Previously, the Group complied with Finnish Accounting Standards (FAS).

The notes to the consolidated financial statements also comply with the requirements of the Finnish accounting and company acts which complement the IFRS regulations. The profit and loss statement figures are presented in thousands of euros and are based on the original acquisition costs, unless stated otherwise in the accounting policies. For presentation purposes, individual figures and totals have been rounded up to the nearest thousand, resulting in rounding differences in the totals.

The new narrow-scope amendments to IFRS standards applicable from the start of the financial year have not had an impact on Vapo's consolidated financial statements.

1.2. Consolidation principles

The consolidated financial statements cover the parent company, Vapo Oy, and all subsidiaries in which the parent company holds over 50% of the votes carried by shares, or which are otherwise controlled by the parent company. Piipsan Turve Oy, in which Vapo's holding is 48%, has been consolidated as a subsidiary in the consolidated profit and loss statements. Associates in which Vapo controls 20–50% of the share votes, and in which Vapo has considerable influence but no absolute control, have been consolidated using the capital share method. When the Group's share of the associate's result exceeds the book value, the investment is recognised in the balance sheet at zero value and the exceeding losses are not recognised unless the Group has incurred obligations or made payments on behalf of the associate.

Acquired subsidiaries have been consolidated in the consolidated financial statements from the date on which the Group acquired control until this control ceases. Group companies' mutual share ownerships have been eliminated using the acquisition cost method. The acquisition cost has been allocated to the acquired company's assets and debts at their fair value at the time of the acquisition, where a reliable figure could be determined. For these allocations, imputed taxes have been estimated at the current tax rate and the remainder has been entered in the balance sheet as goodwill.

The Group's internal business transactions, receivables, debts, unrealised margins and internal distribution of profit are not included in the consolidated financial statements. Total comprehensive income is allocated to the owners of the parent company, even if this means that the non-controlling shareholders' share becomes negative. The share of non-controlling shareholders is also presented as a separate item as part of shareholders' equity. The changes in the share of ownership of the subsidiary by the parent company, which do not lead to loss of control, shall be treated as business operations regarding shareholders' equity.

1.3. Summary of key accounting principles

Compilation principles requiring management judgement and key uncertainties related to estimates

When compiling financial statements, it is necessary to make estimates and assumptions about the future. The actual outcome can be different from the estimates and assumptions made. In addition, it is necessary to exercise judgement when applying the financial statement compilation principles.

The Group management makes decisions based on discretion concerning the choice and application of the financial statement compilation principles. This particularly concerns cases where the IFRS norms have alternative entry, valuation and presentation methods. The most significant components for which management discretion has been applied concern the amounts of reserves, compiling the impairment testing and the assumptions used therein, as well as determining the fair values of the financial assets and debts.

Income recognition principles

Sales are entered as income once the significant risks and benefits associated with the ownership of the products sold have passed to the buyer and Vapo Group has no actual authority over the goods sold.

Income from services is recorded once these services have been performed. When turnover is calculated, indirect taxes and reductions are deducted from sales revenue.

Interest income is entered according to the effective interest method and dividend income when there is a right to the dividend.

Transactions denominated in foreign currency

Figures concerning the result and financial status of the Group's units are defined in the currency that is the currency in each unit's main operational environment ('functional currency'). The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate prevailing on the transaction date. Monetary items are translated into functional currency using the exchange rates prevailing on the balance sheet date.

Profits and losses arising from transactions denominated in foreign currency and translation of monetary items have been treated through the profit and loss account. The exchange rate gains and losses of business operations are included in financial income and expenses.

Conversion of foreign Group company financial statements

The income and expense items on the comprehensive income statements and separate income statements of foreign subsidiaries are converted to euros using the average exchange rate for the period and the balance sheets are converted using the exchange rate on the closing date. The average exchange rate difference arising from the different exchange rates used for the income statement, comprehensive income statement and balance sheet creates a translation difference recognised in equity. The change in the translation difference is recognised in other comprehensive income. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and the translation of equity items accrued after the acquisition are recognised in other comprehensive income. When a subsidiary is sold as a whole or in part, the conversion differences gained are transferred through profit and loss as a part of gains or losses on sale.

Research and development expenditure
Research expenses are entered as expenditure for the accounting period in which they are incurred. Development expenses from the design of new or significantly improved products are capitalised as intangible assets on the balance sheet once the expenses of the development phase can be calculated reliably, once the product can be utilised technically and commercially, once the Group expects the product to generate a likely future financial benefit, and once the Group has both the intention and resources to complete the development work.

Goodwill
Goodwill arising from the acquisition of a company is the difference between the acquisition cost and the acquired, individualised net assets measured at fair value. Goodwill is assigned to cash flow generating units and is tested annually for impairment. In the case of associates, goodwill is incorporated into the value of the associate investment. If the said goodwill can be seen to be associated with the funds or other intangible rights of the acquired associate, it is depreciated over its useful life. Goodwill is valued at the original acquisition cost less impairment.

Other intangible assets
An intangible asset is entered on the balance sheet at the original acquisition cost if it can be reliably defined, and it is likely that the corresponding economic benefit expected will profit the Group. Other intangible assets include patents, copyright, trademarks, software licences and customer relationships. They are valued at the original acquisition cost and depreciated using straight line depreciation over their estimated economic life, which can vary from five to 25 years.

Tangible fixed assets
Tangible fixed assets acquired by Group companies are measured at the original acquisition cost. The tangible fixed assets of acquired subsidiaries are measured at the fair value at the time of acquisition. Tangible fixed assets are presented on the balance sheet at the acquisition cost less accumulated depreciation and impairment losses. If a fixed asset consists of a number of parts with differing economic lives, the parts are treated as separate assets.

Depreciation is based on the following expected economic lives:

Buildings and structures	15–40	years
Machinery and equipment	3–25	years
Other tangible assets	5–30	years

No depreciation is recorded on land areas; peat assets are depreciated by substance depreciation over their estimated economic life. Ordinary repair and maintenance expenses are entered as expenditure during the accounting period in which they are incurred. Expenses for significant renewal and improvement projects are entered on the balance sheet if it is likely that they will increase the economic benefit accrued by the company. Profits and losses arising from the sale and disposal of tangible fixed assets are calculated as the difference between the net income received and the carrying amounts. Gains and losses on sales are included in the profit and loss statement under operating profit. When a fixed asset is classified as held for sale according to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, depreciation is no longer recorded.

Peat assets
The peat assets relating to Vapo's peat division are included under tangible assets on the balance sheet. Depreciation of peat assets is applied according to use. With regard to the acquisition of new production areas, a portion of the total purchase price that corresponds to the estimated volume of the peat assets is entered as an increase in peat assets.

Costs arising from preparing peat production areas for production are treated as an addition to the acquisition cost of peat assets. The volume (m3) of peat assets in the Group's production areas is monitored by measurement. Measurement results do not lead to changes in the carrying amounts, but the depreciation plan, which is based on volumes of planned use and remaining peat, is revised as necessary.

Subsidies received
Subsidies received from states or other organisations are entered as income in the profit and loss statement. Entries are made systematically, which means that subsidies are entered under the expenses which they are intended to cover. Subsidies granted for the acquisition of fixed assets are entered as deductions to the book values of fixed assets when it is reasonably certain that the subsidies will be received and the Group satisfies the conditions for eligibility for the subsidy. Subsidies are recognised as income according to the economic life of the asset.

Impairments
Carrying amounts of assets are assessed at the end of each reporting period in order to determine impairment. Key financial figures, official decisions, energy market changes and regulations as well as the actions of competitors are monitored as factors which may suggest a need to adjust the value of assets. The impairment is examined at the level of cash flow generating units, i.e. at the lowest unit level, since this is largely independent of other units and the cash flows can be separated. The impairment is calculated by comparing the carrying amount of the item with the recoverable value of the corresponding assets. As a rule, the recoverable value is based on the future discounted net cash flow obtainable with the aid of the corresponding asset.

In order to determine a possible impairment of peat production areas, Vapo Group monitors factors affecting the income-generating capacity of these areas. These include the volume of peat and its thermal content, the logistical location of the peatland, its geographical conditions, the environmental permit process, the acquisition price, the preparation cost and the stage of the life cycle.

Pension liabilities
Pension plans are classified as defined benefit and defined contribution plans. Contributions to defined contribution plans are recognised in the income statement in the financial period to which they relate to. The statutory pension security of the Group's Finnish companies is arranged with Finnish pension insurance companies. The statutory employment security is a defined contribution plan.

Defined benefit plans are based on defining the pension benefit the employee will receive upon retirement. The size of the benefit depends on factors such as age, years of employment and pay. Current service cost is the present value of the post-employment benefit, which is earned by the employees during the financial year and recognised in personnel expenses. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The discount rate used in the calculation of the present value of the obligation is based on the average interest rates of long-term government bonds in the euro zone.

The Group's Estonian subsidiary AS Tootsi Turvas has defined contribution pension plans as well as a defined benefit pension plan under which the company is obligated to pay a fixed pension to 17 employees under pre-specified conditions. The average gross monthly wage in Estonia in 2001 is the basis of the benefit. This sum is adjusted annually in accordance with the change in the cost-of-living index and factors related to the person's employment relationship. The liability to pay the pension benefit arises when the employee entitled to the benefit turns 65. The liability is discounted on the basis of the estimate that the liability will continue until 2042, considering the statistical life expectancy.

Inventories
Inventories have been valued at the lower of acquisition cost and net realisable value. The net realisable value is the estimated selling price obtainable in ordinary business activities less estimated expenses arising from the preparation and implementation of the transaction. The value of inventories has been determined using the FIFO method and it includes all expenses arising from the acquisition as well as other indirect allocable expenses. The acquisition cost of manufactured inventories includes not only the cost of purchasing materials, direct labour and other direct costs, but also the share of general costs corresponding to the normal production level, excluding the costs of general administration, sales and financing. Peat production inventories include the sales stock of peat, i.e. the volume of peat extracted in the summer. The exception to the use of FIFO valuation is peat produced in stacks, which is valued at the average price per stack. The value of inventories has been depreciated with respect to non-marketable assets.

Cash assets
Cash assets consist of cash funds, short-term bank deposits and other short-term highly liquid money market investments which have a maximum maturity of three months.

Financial assets
Financial assets are classified in the following groups on the basis of IAS 39: assets at fair value through profit or loss, held for sale financial assets, and loans and receivables. Classification is based on the function of the acquisition of financial assets, and they are classified in connection with the original acquisition. Transaction expenses are included in the original book value of the financial assets for items that are not measured at fair value through profit or loss. All purchases and sales of financial assets are entered on the day of the sale, which is the day on which the Group commits to purchasing or selling the financial instrument. Derecognition of a financial asset from the balance sheet takes place when the Group has lost the contractual right to cash flow or when it has transferred a significant part of the risks and profits outside the Group.

Held for sale financial assets as well as financial assets recognised at fair value through profit or loss are measured at fair value using quoted market prices and rates. Unquoted shares whose fair value cannot be determined reliably are entered at acquisition cost less impairment write-downs. Changes in the fair value of held for sale financial assets are entered directly under shareholders' equity. When an asset of this kind is sold, the accrued changes in fair value are carried over from shareholders' equity to the profit and loss statement.

Loans and other receivables are assets which are not part of derivative assets and their payments are fixed or can be defined and that are not notified on the active market, and the Group does not hold them for trading or define them as being for sale in connection with the original entry. They are measured at amortised cost using the effective interest method. They are included in short- or long-term assets on the balance sheet according to their nature: long-term if they fall due after more than 12 months.

The Group records a credit loss on sales receivables when there is objective evidence that the receivable will not be collected in full. A debtor being in significant financial difficulties, probable bankruptcy, delinquent payments, or payments that are more than 90 days overdue constitute evidence of probable credit loss.

Financial liabilities
Financial liabilities are initially recorded at fair value. Transaction costs related to financial liabilities are recorded as expenses. Financial liabilities, excluding derivative liabilities, are subsequently measured at amortised cost. Financial liabilities are included in non-current and current liabilities. Financial liabilities are classified as current if the Group does not have an absolute right to postpone the repayment of the debt at a minimum of 12 months after the closing date of the reporting period.

Derivative instruments and hedge accounting
All derivatives are measured and recorded at fair value on the transaction and closing date. Fair value measurement is based on quoted market prices. The Group does not apply hedge accounting. Realised and unrealised gains and losses from derivative instruments are recorded in the financial items of the statement of income.

Emission rights
The principles of emission right calculation are based on valid IFRS standards. Emission rights are intangible rights measured at cost. Emission rights received without consideration are measured at nominal value, meaning that their value is nil. A provision for fulfilling the obligation to return the emission rights is recorded if the emission rights received without consideration are not sufficient to cover the actual amount of emissions. Therefore, the possible impact on the result is the difference between actual emissions and emission rights received.

Provisions and contingent liabilities
A provision is entered on the balance sheet if the Group has a legal or factual obligation as a result of a previous event and it is probable that fulfilling the obligation requires payment or results in an economic loss and the amount of the liability can be reliably estimated. The amount of provisions is adjusted at each closing date, and their amounts are adjusted to reflect the best estimate at the time of review. Adjustments to provisions are recognised in the same item of the income statement in which they were initially recognised. Provisions may be related to restructuring of functions, loss-making agreements as well as environmental and pension liabilities.

Provision for environmental liabilities
A provision for environmental liabilities is recognised whenever the Group has an obligation based on environmental legislation and the Group's principles

of environmental liability that is related to the decommissioning of a production plant, clean-up of environmental damage or transfer of equipment from one place to another. Starting peat production in a mire area requires an environmental permit. The permit specifies, among other things, the clean-up measures in the area after the end of peat production. In order to prepare for the clean-up measures, Vapo Group accumulates provisions varying annually on the basis of the production volume; for leased land areas it is recognised in the income statement as an expense, and the amount of the provision on the balance sheet is accumulated at the same time. The corresponding provision for company-owned land is recognised in fixed assets as an acquisition cost of other tangible assets. For leased land areas, the provision is cancelled by recognising it as an expense in the income statement annually on the basis of the actual costs incurred from clean-up measures and, for company-owned land, the cancellation of the provision is recorded as depreciation.

A provision for environmental liabilities is recognised whenever the Group has an obligation based on environmental legislation and the Group's principles of environmental liability that is related to the decommissioning of a production plant, clean-up of environmental damage or transfer of equipment from one place to another. Starting peat production in a mire area requires an environmental permit. The permit specifies, among other things, the clean-up measures in the area after the end of peat production. In order to prepare for the clean-up measures, Vapo Group accumulates provisions varying annually on the basis of the production volume; for leased land areas it is recognised in the income statement as an expense, and the amount of the provision on the balance sheet is accumulated at the same time. The corresponding provision for company-owned land is recognised in fixed assets as an acquisition cost of other tangible assets. For leased land areas, the provision is cancelled by recognising it as an expense in the income statement annually on the basis of the actual costs incurred from clean-up measures and, for company-owned land, the cancellation of the provision is recorded as depreciation.

Other provisions include the liability to compensate for permanent health damage recognised in AS Tootsi Turvas as well as the provision recognised in AS Tootsi Turvas for the costs of closing down the briquette plant.

Lease agreements

Lease agreements concerning property, plant and equipment in which an essential part of the risks and benefits of ownership is transferred to the Group are classified as financial leases. An asset obtained through a financial lease is recognised as an asset on the balance sheet at the beginning of the lease period at the lower of the fair value of the object of the lease or current value of minimum rents. Assets leased through financial leases are amortised over the shorter of economic useful life or duration of the lease. Paid leasing rents are divided into financial expenses and repayment of debt. The corresponding leasing rent liabilities are recognised in interest-bearing liabilities as current and non-current liabilities. Lease agreements concerning property, plant and equipment in which an essential part of the risks and benefits of ownership remain with the lessor are classified as other leases. Rents determined on the basis of other leases are recognised as expenses in the income statement.

Taxes and deferred taxes based on the taxable income for the period

Tax expenses comprise taxes based on the taxable income for the period and deferred tax. Taxes are recognised through profit or loss, except if they are related to items recognised in shareholders' equity or other items of comprehensive income. In this case, the tax is also recognised under these items. The tax based on the taxable income for the period is calculated on the basis of taxable income in accordance with the tax rate valid in each country.

Deferred taxes are calculated on all temporary differences between accounting and taxation using the tax rates in force at the closing date. Deferred tax is recognised in the case of investments in subsidiaries or associates, except if the Group is able to determine the time the temporary difference will be eliminated and the temporary difference will probably not be eliminated during the foreseeable future. The most substantial temporary differences arise from appropriations, measurement of the net assets of acquisitions at fair value, measurement of financial assets held for sale at fair value, unused tax losses and internal margins. Deferred tax receivables are recognised up to the probable amount of taxable income in the future against which the temporary difference can be utilised. The conditions for recognising a deferred tax liability are estimated in this respect on each closing date of a reporting period.

The Group offsets deferred tax assets and liabilities if they are related to the same taxpayer and the same tax collector and the deferred tax liabilities are higher than the deferred tax assets.

Non-current assets held for sale and discontinued operations

A non-current asset (or a disposal group) as well as assets and liabilities associated with a discontinued operation are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The recognition criteria are regarded to be met when: a sale is highly probable, the asset (or a disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary, the management is committed to the plan to sell the asset and the sale is expected to take place within one year from the date of classification. Immediately before the initial classification of the asset or disposal group as held for sale, the assets and liabilities will be measured in accordance with applicable IFRS standards. After classification as held for sale, assets (or disposal groups) are measured at the lower of the carrying amount or fair value less selling costs. Depreciation of these assets will be discontinued upon classification. Assets included in disposal groups that do not fall within the scope of application of the measurement rules of IFRS 5 and liabilities are measured in accordance with the applicable IFRSs also after classification.

Operating profit

IAS 1 Presentation of Financial Statements does not give a definition for operating profit. The Group has specified it as follows: operating profit is the net of turnover and other operating income, acquisition costs adjusted for change in inventories of finished goods and work in progress and costs of production for own use, employee benefit expense, depreciation and any impairment losses and other operating expenses. All income statement items other than the above are presented below operating profit.

Application of upcoming IFRS standards and IFRIC interpretations

IFRS 15 Revenue from Contracts with Customers and the related Clarifications* are effective for financial years beginning on or after 1 January 2018. The new standard replaces the current IAS 18 and IAS 11 standards and the related interpretations. IFRS 15 includes a five-step model for the recognition of revenue: to which amount and when it is recognised. Revenue is recognised as control is passed, either over time or at a point in time. The standard also increases the number of notes presented.

Vapo Group has analysed customer contracts with different types of revenue streams using the five-step model included in the standard. Based on the analysis, IFRS 15 will not lead to substantial changes in the determination of the Group's sales revenue or the timing of its recognition.

IFRS 9 Financial Instruments and amendments thereto (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing IAS 39 standard. The new standard includes revised guidance on the classification and measurement of financial instruments. It also includes a new expected credit loss model for determining impairment on financial assets. The standard's requirements concerning general hedge accounting have also been revised. Based on the Group's preliminary assessment, the standard will only have a minor effect on Vapo's consolidated financial statements.

IFRS 16 Leases is effective for financial years beginning on or after 1 January 2019. The new standard replaces the IAS 17 standard. From a lessee's perspective, the division between operating leases and financial leases will no longer apply. The IFRS 16 standard requires lessees to record leases in the balance sheet as a lease liability and a related asset. Recording in the balance sheet is highly similar to the accounting for financial leasing in accordance with IAS 17. There are two exemptions to recording in the balance sheet, applicable to short-term leases with a lease term of 12 months or less and leases where the underlying asset has a low value. For lessors, the accounting will largely remain as defined in the current IAS 17.

The Group has begun an assessment of the standard's impacts. The adoption of the standard will have an impact on the consolidated financial statements and certain performance measures, such as the gearing ratio, particularly as the majority of the non-current operating leases (presented in Note 31) will be recognised on the balance sheet. The significant leases to be recognised on the balance sheet are leases for machinery, equipment and real estate. The adoption of the standard is not, however, expected to have a significant impact on the balance sheet total. The assessment of the standard's impacts will continue in the upcoming financial year.

Other new or revised standards are not estimated to have an impact on Vapo Group's financial statements.

2. Segment information

The Group's organisational structure was revised in 2015 in accordance with the holding model and administrative functions that support operations were moved closer to business functions. Vapo's energy business constitutes a tight-knit structure that is managed consistently across subsidiaries located in different countries in order to maximise cross-business synergies. As a result, Vapo changed its reporting practices starting from the 2016 financial year, with the separate companies constituting the reporting segments instead of the previous business areas.

Business transactions between the segments are based on market prices or, if there is no market price, on fair value. All sales and other transactions between segments are eliminated upon consolidation. The segments report the operating result as their result. The assets of a segment include all of the assets of units belonging to the segment except for assets related to financing and taxes. Goodwill from the acquisition of subsidiaries is allocated to the business segments. The liabilities of a segment include all of the liabilities of the business functions belonging to the segment except for liabilities related to financing and taxes. Functions not included in the main segments are reported in the Other operations segment.

Vapo Oy: The Vapo Oy segment also reports the 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. Vapo Oy provides local fuels, heating solutions and environmental peat products to businesses, municipalities and consumers in Finland. 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.

Neova AB: the company operates in Sweden, providing district heating to its customers through its own district heating networks and offering 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.

AS Tootsi Turvas: the company's primary business is the sale of agricultural peat products, energy peat products and wood fuels, as well as the production and sale of heating, in Estonia. Agricultural peat accounts for 40 per cent of the subsidiary's annual turnover, while wood fuels account for 30 per cent, energy peat 20 per cent, and heating 10 per cent.

Kekkilä Group: the company 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. In addition to Finland, the company has production operations in Sweden, Norway and Estonia.

Others: The Others segment reports the result for the period of Group companies that do not belong to the above segments. Such Group companies include Vapo Clean Waters Oy, Forest BtL and Vapo A/S, which did not carry out any business operations during the financial year. Vapo Clean Waters Oy provides solutions for the purification of natural waters in natural environments as well as water treatment solutions for waters in agriculture and forestry, and drainage waters in cities.

Effective from the start of the 2019 financial year, Vapo Group adopted a new organisational structure consisting of international divisions. The divisions share common support functions. In Vapo Group's financial reporting, the previous segment reporting structure based on separate companies was replaced by the new divisional segment structure effective from 1 May 2018. The new reporting segments are Energy, Grow&Care and New Businesses.

Segment information 5/2017–4/2018

EUR 1,000	Vapo Oy	Kekkilä Group	Neova AB and Scan-dbio	AS Tootsi Turvas	Other	Eliminations	Group total
External turnover	267,892	87,585	47,897	16,080	350		419,804
Internal turnover	1,913	2,768	786	675	158	-6,300	0
Turnover	**269,805**	**90,353**	**48,683**	**16,755**	**508**	**-6,300**	**419,804**
Segment operating profit/loss	16,827	2,732	5,641	1,991	-679	-231	26,281
Financial income and expenses	-2,404	-1,160	-1,698	281	3	-1,019	-5,997
Appropriations and income taxes	-4,479	-250	-221	0	606	1,680	-2,664
Result for the period	**9,944**	**1,322**	**3,722**	**2,272**	**-70**	**430**	**17,620**
Segment assets	747,939	100,546	96,762	51,179	2,030	-281,097	717,359
Shares in associates	648		16,651			2,545	19,844
Unallocated assets							
Assets total							
Segment debt	341,591	72,401	78,589	6,213	6,597	-155,776	349,615
Unallocated debt							
Debt total							
Investments	22,477	2,196	6,490	835	0	-540	31,458
Depreciation	24,666	4,590	4,760	1,514	121	89	35,740

Vapo Timber Oy removed and reported under 3. Businesses sold

Segment information 5/2016–4/2017

EUR 1,000	Vapo Oy	Kekkilä Group	Neova AB and Scandbio	AS Tootsi Turvas	Other	Eliminations	Group total
External turnover	245,837	88,014	42,733	15,257	132	134	392,103
Internal turnover	1,561	1,531	541	698	171	-4,502	0
Turnover	**247,398**	**89,545**	**43,274**	**15,955**	**303**	**-4,368**	**392,103**
Segment operating profit/loss	13,227	-1,126	1,474	1,318	-751	5,835	19,977
Financial income and expenses	-5,668	-1,266	-56	39	-230	-2,640	-9,820
Appropriations and income taxes	-585	-168	399	0	153	-1,838	-2,038
Result for the period	**6,974**	**-2,559**	**1,217**	**1,357**	**-828**	**1,958**	**8,119**
Segment assets	833,869	104,043	85,203	48,814	9,245	-289,010	792,164
Shares in associates	898	0	18,151	0	0	1,605	20,654
Unallocated assets							
Assets total	**834,767**	**104,043**	**103,353**	**48,814**	**9,245**	**-287,404**	**812,818**
Segment debt	560,428	76,315	85,674	5,869	6,171	-260,840	473,617
Unallocated debt							
Debt total	**560,428**	**76,315**	**85,674**	**5,869**	**6,171**	**-260,840**	**473,617**
Investments	30,924	2,225	3,219	3,324	20	-102	39,611
Depreciation	22,857	6,706	4,989	1,499	128	-562	35,616

3. Businesses sold

In the comparison period, Kekkilä Oy sold its wholly owned subsidiary Hasselfors Garden AS and its 60 per cent stake in Andoy Torv AS in Norway to Nordic Garden AS. The transaction was completed on 31 March 2017.

The operating result, profit on sale and share of cash flow of the sold business units were as follows:

The Group's loss on the sale of its Norwegian companies, totalling EUR 1.067 million, is recognised in the income statement under Other operating expenses. The consideration received for the Norwegian companies was EUR 3.6 million. The company's cash assets at the time of the sale amounted to EUR 0.08 million.

The assets and liabilities of Hasselfors Garden AS and Andoytorv AS

EUR 1,000	2018	2017
Assets		
Fixed assets	0	3,802
Deferred tax assets	0	10
Inventories	0	2,830
Sales and other receivables	0	1,359
Assets total	**0**	**8,001**
Liabilities		
Accounts payable and other non-interest-bearing debt	0	1,222
Provisions	0	14
Liabilities total	**0**	**1,236**

EUR 1,000	2018	2017
Assets		
Fixed assets	0	9
Deferred tax assets	0	53
Inventories	0	37
Sales and other receivables	0	36
Assets total	**0**	**135**
Liabilities		
Accounts payable and other non-interest-bearing debt	0	13
Provisions	0	0
Liabilities total	**0**	**13**

4. Acquisitions

No acquisitions were made during the financial year.

During the comparison period, Vapo Oy's subsidiary AS Tootsi Turvas acquired the heating production and distribution company AS Uuemõisa Teenus from Ridala municipality. The acquired company was merged with the parent company in September 2016.

EUR 1,000	Fair value recorded upon consolidation	Fair value recorded upon consolidation
Effect on assets (+)		
Tangible assets	0	1,050
Intangible assets	0	0
Available-for-sale investments	0	0
Inventories	0	7
Sales and other receivables	0	16
Cash on hand and in the bank	0	150
Effect on liabilities (-)	0	1,224
Effect on minority interest	0	0
Effect on liabilities (-)		
Deferred tax liability	0	0
Provisions	0	0
Long-term interest-bearing liabilities	0	0
Current interest-bearing liabilities	0	0
Accounts payable and other debts	0	-19
Effect on liabilities	0	-19
Effect on net assets	0	1,205
Goodwill from acquisition	0	
Cost	0	1,387
Cash in hand of the acquired subsidiary	0	150
Cash flow effect	0	1,237
Itemisation of purchase price		
Paid in cash	0	1,387

5. Other operating income

EUR 1,000	2018	2017
Rental revenue	371	595
Grants and public subsidies	398	446
Other operating income	2,308	2,963
Gains on the sale of tangible assets	4,579	7,016
Other operating income	7,657	11,020

6. Materials and services

EUR 1,000	2018	2017
Purchases during the financial period	-91,744	-89,662
Increase/decrease in inventories	-6,482	234
External services	-64,146	-66,257
Materials and services	-162,372	-155,684

7. Expenses arising from staff benefits

EUR 1,000	2018	2017
Salaries and fees	-39,109	-37,224
Pension expenses, defined contribution	-5,909	-5,872
Voluntary pensions	-761	-542
Pension expenses, defined benefit	-93	-135
Pension expenses	-6,763	-6,550
Other fixed personnel expenses	-4,479	-4,349
Expenses arising from staff benefits	-50,350	-48,123
Management salaries and fees		
Salaries and other short-term employment benefits	1,425	1,041
Total	**1,425**	**1,041**
Salaries and fees		
CEO and the Managing Directors of subsidiaries	865	767
Members of the Board of Directors	523	238
Members of the Supervisory Board	37	36
Management salaries, fees and fringe benefits total	**1,425**	**1,041**

The company publishes a separate corporate governance statement and remuneration statement annually. The reports are available on the company's website at www.vapo.com.

Employees, average

	2018	2017
Vapo Oy	391	383
Kekkilä Group	240	261
Neova AB	87	86
AS Tootsi Turvas	32	33
Others	8	10
Total	**758**	**773**

8. Depreciation and impairment

EUR 1,000	2018	2017
Depreciation		
Intangible rights	-2,758	-2,252
Buildings and structures	-3,397	-3,762
Machinery and equipment	-18,390	-18,137
Other tangible assets	-11,195	-10,940
Total	**-35,740**	**-35,090**
Impairment		
Land areas	0	-168
Buildings	-383	-492
Machinery and equipment	-493	-1,125
Other tangible assets	-38	-639
Inventories	0	0
Total	**-914**	**-2,424**
Depreciation and impairment total	-36,654	-37,514

9. Other operating expenses and auditor's fees

EUR 1,000	2018	2017
Rents	-9,839	-10,467
Cost of sales freight	-55,770	-50,665
Losses on the sale and scrapping of tangible assets	-1,383	-2,314
Auditor's fees: actual audit	-213	-213
Auditor's fees: attestations and statements	-19	-4
Auditor's fees: other expert services	-126	-106
Auditor's fees: tax advice	-9	-18
Audit costs	-367	-342
External services	-17,380	-17,053
Other expenses	-45,416	-41,674
Other operating expenses	-130,156	-122,516

10. Financial income and expenses

EUR 1,000	2018	2017
Dividend income from available-for-sale investments	1	4
Changes in the value of financial assets measured at fair value through profit or loss		
- interest derivatives, no hedge accounting	1,102	0
- currency derivatives, no hedge accounting	197	182
- commodity derivatives, no hedge accounting	789	585
Interest income	106	388
Other foreign exchange gains	18	4,436
Other financial income	180	400
Financial income total	**2,393**	**5,995**
Interest expenses	-7,241	-8,791
Changes in the value of financial assets measured at fair value through profit or loss		
- interest derivatives, no hedge accounting	0	-1,392
- currency derivatives, no hedge accounting	-195	-12
- commodity derivatives, no hedge accounting	0	0
Foreign exchange losses from financial loans measured at amortised cost	0	-266
Other foreign exchange losses	-250	-4,383
Other financial expenses	-704	-975
Financial expenses total	-8,391	-15,819
Financial income and expenses total	**-5,997**	**-9,824**

11. Income taxes

EUR 1,000	2018	2017
Income taxes from actual operations	-1,781	-2,829
Taxes for previous financial periods	19	19
Deferred taxes	-903	772
Income taxes	**-2,664**	**-2,038**

Reconciliation of taxes

EUR 1,000	2018	2017
Profit/loss before taxes	20,284	10,152
Deferred tax, parent company rate of 20%	-4,057	-2,030
Effect of the different tax rates used in foreign subsidiaries	289	1,076
Effect of non-deductible items with the unit's tax rate	2,470	2,798
Effect of non-deductible items with the unit's tax rate	-1,359	-3,799
Taxes for previous financial periods	13	61
Unbooked deferred tax for losses of the financial period	-18	-143
Effect of change in tax rate on taxes for the financial period	0	0
Tax expense in the income statement	**-2,663**	**-2,038**

12. Intangible assets

EUR 1,000	Goodwill	Intellectual property rights	Other intangible assets	Prepayments	Total
Cost 1 May 2017	9,501	30,663	8,235	1,051	49,450
Translation differences (+/-)	-37	-45	-2		-85
Increase		-165		3,041	2,876
Divestment of subsidiaries					
Decrease	100	-2		-184	-86
Transfers between items		1,179	31	-1,210	
Cost 30 April 2018	9,564	31,630	8,264	2,698	52,156
Accumulated depreciation and impairment 1 May 2017	-4,065	-22,687	-4,322		-31,074
Translation differences (+/-)	0	29	0		29
Accumulated depreciation on acquisitions					
Accumulated depreciation on decrease and transfers	-100	0			-100
Depreciation for the financial period		-2,428	-330		-2,758
Accumulated depreciation and impairment 30 April 2018	-4,165	-25,086	-4,652		-33,903
Book value 30 April 2018	**5,399**	**6,544**	**3,612**	**2,698**	**18,253**

EUR 1,000	Goodwill	Intellectual property rights	Other intangible assets	Prepayments	Total
Cost 1 May 2016	11,240	26,333	8,160	1,409	47,142
Translation differences (+/-)	-8	-22			-30
Increase	182	740	76	4,192	5,190
Divestment of subsidiaries	-1,913	-421			-2,334
Decrease		-536			-536
Transfers between items		4,569		-4,550	19
Cost 30 April 2017	9,501	30,663	8,235	1,051	49,450
Accumulated depreciation and impairment 1 May 2016	-5,442	-21,269	-3,932		-30,643
Translation differences (+/-)	-10	10			-1
Accumulated depreciation on acquisitions					
Accumulated depreciation on decrease and transfers	1,913	434			2,347
Depreciation for the financial period	-526	-1,862	-390		-2,778
Accumulated depreciation and impairment 30 April 2017	-4,065	-22,687	-4,322		-31,074
Book value 30 April 2017	**5,436**	**7,975**	**3,914**	**1,051**	**18,376**

Impairment testing of cash-generating units with goodwill

Goodwill and intangible assets that are not yet ready to use are tested annually for impairment. Impairment testing is also done whenever there is any indication of impairment. Impairment losses are recognised on the income statement to the extent that the carrying amount exceeds the asset's recoverable amount. The recoverable amount of an asset is the higher of the net sales price and service value. The basis for impairment for non-financial assets, except goodwill, is reviewed on the financial statements date to determine whether impairment should be reversed.

Goodwill is allocated for the purposes of impairment testing to cash-generating units defined by the Group. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The service value is determined by discounting the estimated future net cash flows of the asset or cash-generating unit at the present value. Cash flow forecasts are based on the most recent budget approved by the management and forecasts for the coming years. Forecasts are based on the various businesses' historical data, order backlog, current market situation and information on the industry's future growth prospects. The cash flows of the explicit forecast period correspond with the management's views of the development of the profitability of different businesses and the effect of inflation on cash flows. Cash flows are expected to continue to follow the same trend after the explicit forecast period. As a rule, the calculation period for anticipated cash flow is five years. The terminal growth rate applied for all cash-generating units is a maximum of one (1) per cent.

Key assumptions applied in impairment testing and sensitivity analysis

Preparing cash flow forecasts requires management estimates of future cash flows. The nature of the estimates depends on the business area the assets being tested are part of. In addition

to goodwill testing based on basic assumptions, separate sensitivity analyses were conducted for each cash-generating unit. The variables used in the analyses were the discount rate, change in cash flow and change in sales. The other key assumptions used in impairment testing for Vapo's cash-generating units are also presented below along with the results of the sensitivity analysis.

Vapo Oy Fuels

The Fuels business area comprises both peat and wood fuels. The demand for energy peat has declined significantly in recent years, primarily due to the lower prices of competing fossil fuels. Energy policy decisions have a significant impact on the demand for peat, and the management's estimate is that the demand for peat will decline in the long run as energy generation shifts to alternative fuels, such as wood. As a result, the demand for pellets and forest fuels is expected to grow in the future, compensating for the declining sales of peat. In wood fuels, the tested assets only comprise the terminal and commercial timber inventories whose inventory value is lower than their sales price. No separate assessments were conducted on the pellet plants this year. In the previous financial year, as a result of production capacity being too high relative to market demand, a write-down of EUR 1.4 million was recognised for the Haukineva pellet factory. Other impairments were not deemed to be necessary with regard to Vapo Oy's Fuels business.

The discount rate used is 6.3 per cent (post-tax WACC) for peat and 5.9 per cent for wood fuels. Other factors remaining unchanged, each of the following changes would lead to the carrying amount of the business area being equal to its recoverable amount:

- An increase of 5.2 percentage points (pellet) and 2.3 percentage points (peat) in the discount rate
- The discounted cash flows would be 40 per cent lower in pellets and 26.2 per cent lower in peat products

Vapo Oy Heat and Power

The Heat and Power business area comprises the sale of district heating and industrial heating solutions. The long-term average increase in the turnover of the heating business is estimated to be 1 per cent. Investment volume and timing are based on the current condition of existing power plants, heating plants and district heating networks and their remaining technical useful lives. The most significant investments in energy efficiency will be completed during the 2017–2018 financial years. The discount rate used is 4.1 per cent (pre-tax WACC), which is calculated based on the yield and risk assumptions generally used in the sector for the district heating and industrial segments. Other factors remaining unchanged, each of the following changes would lead to the carrying amount of the business area being equal to its recoverable amount:

- An increase of 4 percentage points in the discount rate
- The discounted cash flows would be 26 per cent lower

Neova AB

Within the company, the Peat Products business and the Heat and Power business were used in testing as separate cash-generating units. The discount rates used are 5.9 per cent for the Peat Products business and 3.7 per cent for the Heat and Power business (pre-tax WACC). Other factors remaining unchanged, each of the following changes would lead to the carrying amount of the business area being equal to its recoverable amount:

- An increase of 1.7 percentage points (Peat Products) and 38 percentage points (Heat and Power) in the discount rate
- The discounted cash flows would be 22.8 per cent lower in Peat Products and 51.7 per cent lower in the Heat and Power business

AS Tootsi Turvas

AS Tootsi Turvas is treated as one cash-generating unit in impairment testing.

The discount rate used is the businesses' weighted average, 5.7 per cent (pre-tax WACC). Other factors remaining unchanged, each of the following changes would lead to the carrying amount of the business area being equal to its recoverable amount:

- An increase of 0.8 percentage points in the discount rate
- The discounted cash flows would be 10 per cent lower

Kekkilä

Business growth is sought particularly in the professional growing and landscaping segments, while growth in the consumer segment is expected to remain moderate due to intensifying competition. The environmental business will contract as a result of the expiration of contracts. Intensifying competition, cost efficiency and the seasonality of demand are the most significant factors affecting future cash flows. The discount rate used is 5.5 per cent (pre-tax WACC). Other factors remaining unchanged, each of the following changes would lead to the carrying amount of the business area being equal to its recoverable amount:

- A decrease of 6.9 per cent in sales volume
- An increase of 2.1 percentage points in the discount rate
- The discounted cash flows would be 31 per cent lower

The calculations for all cash-generating units have been made based on existing production capacity, which will be maintained through replacement investments.

Impairment testing conducted at the end of the 2018 financial year did not give rise to the need to recognise impairment losses in the Group's core businesses.

Allocation of goodwill to cash-generating units:

EUR 1,000	30 Apr. 2018	30 Apr. 2017
AS Tootsi Turvas	1,402	1,402
Neova AB	267	291
Kekkilä Group	3,730	3,743
Total	**5,399**	**5,436**

13. Property, plant and equipment

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and unfinished acquisitions	Total
Cost 1 May 2017	43,689	85,245	346,464	404,928	43,849	924,175
Translation differences	-212	-1,326	-4,858	-5,342	-380	-12,118
Acquisition of subsidiaries						0
Increase	235	28	2,760	523	24,928	28,474
Divestment of subsidiaries						0
Decrease	-2,372	-765	-1,054	-2,073	-1,049	-7,312
Transfers between items		3,979	19,703	19,369	-43,051	0
Cost 30 April 2018	41,340	87,160	363,016	417,406	24,297	933,220
Accumulated depreciation and impairment 1 May 2017	-520	-46,562	-224,509	-183,345		-454,935
Translation differences (+/-)		618	3,355	2,593		6,566
Accumulated depreciation on decrease and transfers		438	906	570		1,915
Accumulated depreciation from divestments						0
Depreciation for the financial period		-3,397	-18,390	-11,195		-32,982
Impairment*		-383	-493	-39		-914
Accumulated depreciation and impairment 30 April 2018	-520	-49,286	-239,130	-191,415	0	-480,350
Book value 30 April 2018	**40,821**	**37,875**	**123,886**	**225,992**	**24,297**	**452,870**

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and unfinished acquisitions	Total
Cost 1 May 2016	46,072	97,649	343,419	396,972	48,596	932,708
Translation differences	-476	-780	-2,825	-3,143	-84	-7,308
Acquisition of subsidiaries	3	-356	293	755		694
Increase	307	627	13,391	12,058	26,420	52,803
Divestment of subsidiaries	-5	-2,048	-4,941	-2,698		-9,693
Decrease	-2,211	-11,722	-12,586	-18,013	-479	-45,011
Transfers between items		1,874	9,713	18,998	-30,604	-19
Cost 30 April 2017	43,689	85,245	346,464	404,928	43,849	924,175
						,
Accumulated depreciation 1 May 2016	-669	-51,469	-213,954	-179,671		-445,762
Translation differences (+/-)	318	317	1,574	1,382		3,591
Accumulated depreciation on decrease and transfers		7,283	3,630	5,254		16,167
Accumulated depreciation from divestments		1,376	3,518	1,465		6,359
Depreciation for the financial period		-4,070	-19,277	-11,775		-35,122
Impairment*	-168					-168
Accumulated depreciation 30 April 2017	-520	-46,562	-224,509	-183,345	0	-454,935
Book value 30 April 2017	**43,169**	**38,683**	**121,956**	**221,583**	**43,849**	**469,240**

* Any depreciation of land and water areas is included in impairment.

The cost of property, plant and equipment includes assets leased through financial leases as follows:

EUR 1,000	Machinery and equipment	Other tangible assets	Total
Cost 1 May 2017	26,413	16,295	42,708
Increase	0	0	0
Decrease	0	0	0
Accumulated depreciation	-5,252	-1,791	-7,043
Accumulated depreciation on decreases			0
Book value 30 April 2018	**21,161**	**14,504**	**35,665**

EUR 1,000	Machinery and equipment	Other tangible assets	Total
Cost 1 May 2016	18,093	5,000	23,093
Increase	8,320	11,295	19,615
Decrease	0	0	0
Accumulated depreciation	-3,710	-976	-4,686
Accumulated depreciation on decreases			0
Book value 30 April 2017	**22,703**	**15,319**	**38,022**

14. Shares in associates and joint ventures

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Shares in associates	519	777
Shares in joint ventures	19,640	19,795
Non-depreciated goodwill included in joint ventures	3,561	3,639

Shares in associates and joint ventures

Information on the Group's significant associates and joint ventures:

Name	Primary industry	Domicile	Holding (%)	
			30 Apr. 2018	**30 Apr. 2017**
Scandbio AB, joint venture	Manufacture and sale of olid wood fuels	Jönköping	50	50

Financial information on associates and joint ventures

The Group's significant associates and joint ventures listed in the table are accounted for in the consolidated financial statements using the equity method. The companies' income statements have been converted to correspond with the financial year of the Group's parent company.

EUR 1,000	Scandbio AB 30 Apr. 2018	30 Apr. 2017	Others 30 Apr. 2018	30 Apr. 2017
Current assets	25,838	29,447	1,144	1,162
Long-term assets	20,543	22,145	277	897
Short-term liabilities	13,022	18,234	57	47
Long-term liabilities	0	1,046	112	102
Turnover	101,641	98,334	528	698
Profit/loss for the period	4,282	920	29	-30
Dividends received during the period	1,019	2,620		
Net assets	33,359	32,312	1,252	1,911
Group's holding	50	50		
Group's share of net assets	16,679	16,156		
Goodwill	3,561	3,841		
Translation difference	-600	-202		
The associate's/joint venture's carrying amount in the consolidated balance sheet	19,640	19,795		

15. Available-for-sale investments

Available-for-sale investments include both quoted and unquoted shares. Quoted shares are measured at fair value. Unquoted shares are measured at cost, as their fair values cannot be reliably determined.

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Cost 1 January	756	8 028
Increase	10	
Decrease	-57	-7 272
Cost 30 April	709	756
Book value 30 April	**709**	**756**

16. Long-term receivables

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Long-term interest-bearing receivables		
Loan receivables from others	3,183	3,183
Total	3,183	3,183
Long-term non-interest-bearing receivables		
From others	75	88
Long-term sales and other receivables total	**3,258**	**3,271**

17. Other long-term investments

The Group has no other long-term investments.

18. Deferred taxes

EUR 1,000	1 May 2017	Translation difference	Recognised in the income statement	Recognised in shareholders' equity	Acquired/divested companies	30 Apr. 2018
Itemisation of deferred tax assets						
Losses	181		-14			167
Provisions	634		-6			628
Other items	888	-3	-313	133		705
Total	**1,704**	**-3**	**-333**	**133**	**0**	**1,500**

EUR 1,000	1 May 2017	Translation difference	Recognised in the income statement	Recognised in shareholders' equity	Acquired/divested companies	30 Apr. 2018
Itemisation of deferred tax liabilities						
Depreciation difference and provisions	14,582	-19	410			14,973
Capitalisation of intangible assets						
Fair value measurement of						
of intangible and tangible assets in business combinations	2,840	-283	159			2,716
Other items	0					0
Total	**17,421**	**-302**	**569**	**0**	**0**	**17,688**

Deferred taxes on the balance sheet	
Deferred tax assets	1,500
Deferred tax liability	17,689
Net tax liability	**16,189**

EUR 1,000	1 May 2016	Translation difference	Recognised in the income statement	Other changes	Acquired/divested companies	30 Apr. 2017
Itemisation of deferred tax assets						
Losses	170	6	58		-53	181
Provisions	692		-58			634
Other items	722	0	176		-10	888
Total	**1,584**	**7**	**176**	**0**	**-63**	**1,704**

EUR 1,000	1 May 2016	Translation difference	Recognised in the income statement	Other changes	Acquired/divested companies	30 Apr. 2017
Itemisation of deferred tax liabilities						
Depreciation difference and provisions	14,780	-56	-150	8		14,582
Capitalisation of intangible assets						0
Fair value measurement of						
of intangible and tangible assets in business combinations	3,428	-133	-447	-8		2,840
Other accrual differences	1		-1			0
Total	**18,209**	**-189**	**-598**	**0**	**0**	**17,421**

Deferred taxes on the balance sheet	
Deferred tax assets	207
Deferred tax liability	15,925
Net tax liability	**15,718**

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes related to the same fiscal authority.

On 30 April 2018, the Group had EUR 7.3 million (30 April 2017: EUR 5.7 million) in confirmed losses for which deferred tax assets were not recognised because the Group is unlikely to accrue taxable income against which the losses could be offset. The losses in question will not expire.

Deferred tax assets on losses not recognised in the balance sheet amounted to EUR 1.3 million (30 April 2017: EUR 1.3 million).

19. Inventories

EUR 1,000	2018	2017
Materials and supplies	31,490	38,699
Unfinished products	10,712	9,433
Finished products	48,910	75,191
Prepayments from inventories	294	145
Inventories total	**91,407**	**123,469**

The raw material inventories of forest fuel and pellets declined significantly during the financial year. The impairment multipliers adopted in the previous financial year were no longer applied in inventory calculations. No changes were made to the valuation principles of peat inventories during the financial year.

20. Sales and other receivables

EUR 1,000	2018	2017
Sales receivables		
Sales receivables	68,213	70,117
Joint ventures' sales receivables	35	54
	68,249	70,171
Short-term other receivables and accrued income		
Loan receivables	200	200
Other short-term receivables	2,787	2,577
Short-term accrued income (from others)	5,938	6,426
Other accrued income from joint ventures	0	17
	8,925	9,220
Financial assets measured at fair value through profit or loss		
Derivative instruments, no hedge accounting	750	747
Sales and other receivables total	**77,924**	**80,138**

The short-term sales receivables are divided by currency as follows:

EUR 1,000	2018	2017
Euro	50,584	50,851
USD	1,308	1,145
SEK	16,373	18,142
Other currencies	-16	34
Total	**68,249**	**70,171**

Age distribution of sales receivables and items recognised as credit losses

EUR 1,000	2018	2017
Undue	62,709	65,496
Due under 30 days	4,533	3,413
Due 31–60 days	247	506
Due 61–91 days	251	279
Due over 90 days	509	477
Total	**68,249**	**70,171**
Credit losses	93	66

21. Cash and cash equivalents

EUR 1,000	2018	2017
Cash and cash equivalents	32,999	95,495

22. Notes to equity

Shareholders' equity

Vapo Oy has one class of shares. The total number of shares is 30,000. Vapo's share capital on 30 April 2018 amounted to EUR 50,456,377.90. The nominal value of the share has not been defined. There are 30,000 shares outstanding.

Descriptions of the equity funds are presented below:

The invested unrestricted equity fund consists of other equity-type investments and the subscription price of shares to the extent that it is not recognised in share capital according to a case-specific decision.

The reserve fund is a fund pursuant to the Estonian Commercial Code, equal in size to 10% of the separate company's share capital. The company must transfer 10% of its annual earnings to the fund until the required amount is reached.

Translation differences comprise foreign exchange-denominated changes in foreign subsidiaries' equity and post-acquisition retained earnings.

23. Financial liabilities

EUR 1,000	2018	2017
Long-term financial liabilities measured at amortised cost		
Bonds	79,039	88,975
Subordinated loans	5,000	5,000
Loans from financial institutions	112,314	110,881
Financial leasing liabilities	34,054	36,267
Total	**230,406**	**241,122**
Short-term financial liabilities measured at amortised cost		
Bonds	10,000	100,000
Loans from financial institutions	0	25,000
Overdraft facility	0	0
Commercial papers	0	0
Financial leasing liabilities	2,213	2,186
Other liabilities to associates		213
Total	**12,213**	**127,399**

Long-term debt repayment schedule (per calendar year/nominal values)

EUR 1,000	2018	2019	2020	2021	2022	2023 →	Total
Bonds	10,000	0	0	0	0	80,000	90,000
Subordinated loans	0	0	0	0	5,000	0	5,000
Loans from financial institutions	0	60,000	50,000	0	0	2,315	112,315
Financial leasing liabilities	2,206	7,091	1,803	1,820	1,835	21,512	36,267
Total	**12,206**	**67,091**	**51,803**	**1,820**	**6,835**	**103,827**	**243,582**

The interest-bearing liabilities are measured at nominal values in the financial statements as they are equal to the fair values. The interest-bearing liabilities are euro-denominated.

Financial leasing liabilities

EUR 1,000	2018	2017
Total amount of minimum rents		
In less than one year	2,525	2,518
In more than one year and not more than 5 years	15,294	13,780
Later than in five years	20,168	24,208
Minimum rents total	**37,988**	**40,506**
Residual value liability of financial leases	19,199	19,199
Current value of minimum rents		
In less than one year	2,213	2,186
In more than one year and not more than five years	14,251	12,780
Later than in five years	19,803	23,486
Current value of minimum rents total	**36,267**	**38,453**

24. Long-term non-interest-bearing debt

EUR 1,000	2018	2017
Connection fee debt	4,966	5,014
Advances received	714	846
Other liabilities	1,084	1,217
Total	**6,764**	**7,077**

25. Provisions

EUR 1,000	Environmental expense provisions	Other provisions	Total
Provisions 1 May 2017	7,501	249	7,750
Translation difference	-347		-347
Increases in provisions	991	37	1,028
Used provisions	-558	-20	-578
Acquisition/divestment of subsidiaries			
Provisions 30 April 2018	**7,588**	**265**	**7,853**

EUR 1,000	Environmental expense provisions	Other provisions	Total
Provisions 1 May 2016	7,834	255	8,090
Translation difference	-205		-205
Increases in provisions	408	12	420
Used provisions	-522	-19	-542
Acquisition/divestment of subsidiaries	-14		-14
Provisions 30 April 2017	**7,501**	**249**	**7,750**

26. Pension liabilities

The statutory pension security of the Group's Finnish companies is arranged with a Finnish pension insurance company. The statutory employment security is a defined contribution plan.

The Group's Estonian subsidiary AS Tootsi Turvas has defined contribution pension plans as well as a defined benefit pension plan under which the company is obligated to pay a fixed pension to 17 employees under pre-specified conditions. The average gross monthly wage in Estonia in 2001 is the basis of the benefit. This sum is adjusted annually in accordance with the change in the cost-of-living index and factors related to the person's employment relationship. The liability to pay the pension benefit arises when the employee entitled to the benefit turns 65. The liability is discounted on the basis of the estimate that the liability will continue until 2042, considering the statistical life expectancy. The statistical life expectancy was updated to correspond to the latest statistics in Estonia.

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Liability shown in the balance sheet at the start of the period	4,629	3,482
Expenses in the income statement	185	178
Contributions made to the plan	-199	-194
Reclassification of items into other comprehensive income	251	0
Liability shown in the balance sheet on 30 April	4,866	4,629
Actuarial assumptions		
Discount rate, %	1.00%	1.00%

27. Accounts payable and other short-term debt

EUR 1,000	2018	2017
Short-term financial liabilities measured at amortised cost		
Advances received	7,511	9,367
Accounts payable	27,830	26,578
Accounts payable to associates	125	328
	35,465	**36,273**
Other liabilities	12,872	9,151
Interest liabilities and other financial liabilities	2,914	3,461
Salary and social expense allocations	9,907	8,412
Other accrued expenses	7,593	8,468
Financial liabilities measured at fair value through profit or loss		
Derivative instruments, no hedge accounting	1,212	2,923
Accounts payable and other short-term debt	**69,964**	**68,687**

The short-term accounts payable are divided by currency as follows

EUR 1,000	2018	2017
Euro	20,122	20,266
USD	8	24
SEK	7,815	6,561
Other currencies	10	54
Accounts payable, external, other currencies	**27,955**	**26,906**

28. Financial and commodity risk management

The company's operations are exposed to diverse financial risks. The primary aim of financial risk management is to minimise the negative effects of market prices of currencies and interest rates related to operation on the Group's profit and cash flow as well as ensure the liquidity of the Group. The main financial risks are currency risk, interest rate risk and liquidity risk. The Group treasury is responsible for identifying and managing financial risks. Financial risk management is guided by the financial policy ratified by the Board of Directors.

The Group treasury acts as a counterparty for the Group's subsidiaries and takes care of external fundraising centrally. It is also responsible for the administration of cash assets and cash flows as well as hedging measures according to the financial policy. The Group's risk management tools include currency derivatives and options, currency swaps, foreign currency loans, interest rate swaps and diverse commodity derivatives.

Currency risk

The Group operates internationally and is therefore exposed to currency risks. Currency risks arise from exports and imports, the Group's internal trade, the Group's currency-denominated internal financing (transaction risk) and currency-denominated net investment in foreign subsidiaries (translation risk). The majority of the turnover is generated in the euro area. The Group's most significant internal financing currency is the Swedish krona.

The hedging policy is to hedge essential currency exposures in full. The currency exposures comprise currency-denominated receivables, liabilities and order backlogs. In addition, the Group hedges its internal SEK-denominated financing items. The hedging complies with the Group's financing policy, but hedge accounting is not applied to these items. The Group treasury makes currency forwards in the market mainly in the name of the subsidiary. Foreign exchange-denominated loans are always in the name of the Group's parent company. At the end of the year, Vapo's transaction risk, translated into euros at the exchange rate of the closing date, was:

MEUR	2018				2017			
	Exposure	Hedging	Net	Hedging %	Exposure	Hedging	Net	Hedging %
DKK	6.2	0.0	6.2	0%	6.2	0.0	6.2	0%
EUR	4.5	4.4	0.1	98%	3.9	3.7	0.2	95%
SEK	76.1	76.0	0.1	100%	90.5	90.5	0.0	100%
USD	1.3	1.3	0.0	101%	1.1	1.1	0.0	100%
Yhteensä	**88.1**	**81.7**	**6.4**	**93%**	**101.7**	**95.3**	**6.4**	**94%**

The Group has foreign net investments and it is, therefore, exposed to risks emerging from the translation of currency-denominated investments into the parent company's operating currency (translation risk). Currency-denominated net investments in subsidiaries are not hedged. The most significant translation risks are in the Swedish and Danish krona.

At the closing date, the Group's net investments in euros were:

MEUR	2018	2017
DKK	14.7	14.7
SEK	36.7	36.7
Total	**51.4**	**51.4**

The table below indicates the strengthening or weakening of the euro against the Group's main currencies: Net investments in subsidiaries are not included in the sensitivity analysis. The currency risk sensitivity analysis is based on the Group-level total currency exposure, taking into account the currency hedging made. The total combined effect of a change of +/- 10 per cent of the exchange rate of the euro against other currencies is presented below.

MEUR		2018	2017
Euro strengthens by 10%	+ / -	-0.6	-0.6
Euro weakens by 10%	+ / -	0.6	0.6

Liquidity and refinancing risk

The Group's liquidity remained good during the financial year. A EUR 100 million bond that matured in June was paid off and no new long-term credit was taken out during the financial year. The EUR 150 million commercial paper programme was entirely unused at the end of the financial year. Standby credit facilities, totalling EUR 100 million, were fully unused during the financial period.

The Group expects that no significant new loan arrangements are necessary during the coming financial year. Potential new financing arrangements and needs will be evaluated in autumn 2018 when the final outcome of the substantial investment decision on a technical carbon production plant is known.

The Group actively monitors the amount of financing required by the business operations so that the Group's liquidity is sufficient for financing the operations and the Group is able to cover also 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 distributing fundraising among different banks and capital markets.

During the financial period, Vapo met the covenants and other terms and conditions related to its financing agreements. The Group's equity ratio at the closing date was 51.2 per cent. Bilateral loan agreements include a 35 per cent equity covenant and a change-of-control clause, according to which the combined holding of the current owners (the Finnish State and Suomen Energiavarat Oy) must remain above 50%. Bonds also include a change of control clause but they do not include a financial covenant. The Group's long-term private placement bonds maturing in 2030 (amounting to EUR 70 million in total) include a clause related to Vapo Group's credit rating. According to the clause, the investor has the right to demand the partial or full repayment of debt in the event that Vapo's credit rating falls by two notches from its current level of BBB.

The cash flows of the repayments and financial expenses related to Vapo's interest-bearing debt and cash flows of derivatives were as follows:

MEUR	< 1 year	1–5 years	> 5 years
Long-term loans			
Repayments	12.2	127.6	103.8
Financial expenses	4.6	12.7	18.2
Short-term loans			
Repayments	0.0	-	-
Financial expenses	0.0	-	-
Derivative liabilities			
Income	90.8	3.2	0.0
Expenses	100.9	0.2	0.0
Total	**208.5**	**143.7**	**122.0**

Interest rate risk

The Group's interest-bearing net debt stood at EUR 206.2 million (EUR 269.6 million) on the balance sheet date. The Group aims to hedge against the essential impacts on the interest-bearing liabilities and receivables on the balance sheet caused by changes in interest rates. Interest rate swaps are primarily used as hedging instruments. Interest rate risk is measured with the average interest rate tying period of the debt portfolio (gap). The average interest rate tying period of the debt portfolio on 30 April 2018, including derivative instruments, was 4.5 (3.5) years. The weighted average interest rate of long-term loans including hedging was 2.7 (2.3) per cent.

The interest rate risk sensitivity analysis is based on the combined company-level interest rate risk comprised of interest-bearing liabilities and derivatives, such as interest rate swaps that hedge against interest rate risk. An increase of interest rates by one percentage point, with the other factors remaining unchanged, would increase the interest expenses of Vapo's interest-bearing liabilities and receivables that will be repriced within the next 12 months by EUR +0.7 million excluding tax effects.

Interest rate derivatives are measured at full market value and the effect of changes is recognised in the income statement.

Market risk of investing activity

The Group is exposed to price risk due to fluctuation in the market prices of publicly quoted shares in its operations. The Group does not have publicly listed shares or other securities.

Counterparty and credit risk

Counterparty risks related to depositing cash assets and financing and commodity derivative instruments are managed by only making agreements and transactions with creditworthy parties that operate actively in the market.

The business units are liable for credit risks related to commercial receivables. Business-related credit risk is decreased through credit insurance and customer-specific credit limits, among other measures.

The Group does not have any significant concentrations of credit risk.

Price risk of emission rights

Some of the Group's power plants are included in the sphere of the EU emissions trading system. The Group received emission rights without consideration for the financial period, in addition to which emission rights were obtained from the market to fulfil the obligations for 2017. In addition, emission reduction units (CER) from funds were utilised.

During the current emissions trading period, 2013–2020, the Group will not receive all of the emissions rights it needs in the national allocation plan. The Group obtains the majority of the emission rights it needs from the EU emission trading market, in addition to which the Group purchases emission reduction units from Nefco Carbon Fund. The fund produces certified emission reductions (CER), which can be used to cover the Group's emission obligations to a limited extent.

Price risk of electric energy

The Group's Finnish companies purchase electric energy from the market, and correspondingly the electricity generated by the power plants is sold to the market. The price risk of physical electricity is hedged using derivative instruments in accordance with the electricity trading policy. An electricity broker chosen as the partner is responsible for the practical hedging measures related to electricity trading and related investigations. The maturity of the hedges made ranges from 1 month to 5 years. The amount of energy covered by hedging is 181 GWh.

Capital management

The aim of the Group's capital management is to facilitate growth according to the strategy of the business operations while optimising the total costs of capital.

Hybrid bond

Equity includes EUR 50 million in a hybrid bond withdrawn in 2016. The hybrid bond carries a fixed annual coupon of 6.5% for the first five years and at least 11.5% thereafter. The hybrid bond does not have a maturity date, but the company has the right to redeem it five years after its issuance. The hybrid bond is subordinated to the company's other debt instruments. It is, however, senior to other equity instruments. The interest on the hybrid loan is paid if the Annual General Meeting decides to distribute a dividend. If dividend is not distributed, the company will decide separately on whether to pay the interest. Hybrid loan holders have no control over the company and no right to vote at shareholders' meetings.

In accordance with the dividend policy, Vapo Oy aims to annually distribute 50 per cent of the annual profit shown in the parent company's financial statements on average, unless this compromises the preconditions for financing.

Net gearing was as follows:

EUR 1,000	2018	2017
Interest-bearing debt	242,620	368,521
Interest-bearing receivables	-3,383	-3,383
Cash and cash equivalents	-32,999	-95,495
Net debt	206,238	269,642
Shareholders' equity total	347,900	339,718
Net gearing	59.3%	79.4%

29. Fair values of financial assets and liabilities

EUR 1,000	30 Apr. 2018			30 Apr. 2017		
	Positive	Negative	Net	Positive	Negative	Net
Agreement	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Interest rate derivatives, no hedge accounting		-574	-574	386	-2,062	-1,676
Currency derivatives, no hedge accounting	236	-201	35	327	-15	312
Electricity derivatives, no hedge accounting	423	-445	-23	34	-661	-627
Emission right derivatives, no hedge accounting	1,442		1,442		-185	-185
Short-term derivative agreements	**2,101**	**-1,221**	**880**	**747**	**-2,923**	**-2,176**

EUR 1,000	2018	2017
Nominal value of interest rate derivatives	40,000	195,000
Nominal value of currency derivatives	81,963	96,795
Nominal value of electricity derivatives	5,338	4,163
Nominal value of emission rights	1,491	1,008
Short-term	**128,793**	**296,966**

Fair value hierarchy

Vapo determines and presents the fair value classification of financial instruments according to the following hierarchy:

- Level 1. Financial instruments for which there is a publicly quoted market price
- Level 2. Instruments whose measurement uses directly observable market prices
- Level 3. Instruments with no direct market prices available for measurement.

Level 1 includes stock exchange-listed shares, level 2 derivatives and level 3 investments in unquoted shares.

EUR 1,000	2017 Total	Level 1	Level 2	Level 3	2016 Total	Level 1	Level 2	Level 3
ASSETS MEASURED AT FAIR VALUE								
Financial assets measured at fair value through profit or loss -held for trading								
Derivatives - no hedge accounting	2,101	0	2,101	0	747	0	747	0
Total	**2,101**	**0**	**2,101**	**0**	**747**	**0**	**747**	**0**
LIABILITIES MEASURED AT FAIR VALUET								
Financial liabilities measured at fair value through profit or loss -held for trading								
Derivatives - no hedge accounting	-1,221	0	-1,221	0	2,923	0	2,923	0
Total	**-1,221**	**0**	**-1,221**	**0**	**2,923**	**0**	**2,923**	**0**

30. Subsidiaries and significant non-controlling interests

The following table presents information on the Group's structure on the financial statements date

Primary industry	Country	Number of wholly-owned subsidiaries 2018	2017
Energy business	Finland	4	4
Energy business	Sweden	1	1
Energy business	Estonia	1	1
Energy business	Denmark	1	1
Agricultural peat business	Finland	1	1
Agricultural peat business	Sweden	1	1
Agricultural peat business	Estonia	1	1
Agricultural peat business	Spain	1	1
Water protection	Finland	1	1

Primary industry	Country	Number of partly-owned subsidiaries 2018	2017
Energy business	Finland	1	1

As the Group has de facto control over Piipsan Turve Oy based on a shareholders' agreement, the company is consolidated as a subsidiary.

A full list of the Group's subsidiaries is provided in Note 31 "Transactions with related parties"

Itemisation of significant non-controlling interests in the Group

EUR 1,000	Share of profit/loss attributable to non-controlling interests		Share of equity attributable to non-controlling interests	
	2018	2017	2018	2017
Subsidiaries in which there are non-controlling interests, but which are not significant individually	44	-18	418	384
	0.3%	0.2%	0.1%	0.1%

31. Contingent commitments

EUR 1,000	2018	2017
Guarantees given on behalf of own commitments		
Mortgages given (as collateral for loans)	0	0
Guarantees	19,741	20,948
Assets pledged	0	4
Total	**19,741**	**20,952**
Contingent commitments on behalf of Group companies		
Guarantees	10,013	17,345
Other contingent commitments	0	0
Total	**10,013**	**17,345**
Other rental liabilities		
Due within the next one-year period	2,867	3,119
Due later, within the next 1–5 years	4,606	4,496
Due later, after more than 5 years	1,232	2,195
Total	**8,705**	**9,810**

The Group has leased machinery and equipment, vehicles and computer hardware. Leased production machinery and equipment, with a capital value of EUR 7.0 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 leasing agreements is ten years. The agreements include an option, but not an obligation, to continue the agreement after the original end date.

Vapo Oy is an investor in the Nefco Carbon Fund. The fund generates emission reductions that can be used to satisfy emission right obligations. The purchasing obligations for emission reductions amounted to EUR 0.1 million on the closing date.

The Group has land lease agreements for peat production. At the end of the financial year, annual and land area-based lease liabilities totalled EUR 24.5 million.

Year of payment	Lease amount (based on 2017)	Number of agreements	Year of payment	Lease amount (based on 2017)	Number of agreements	Year of payment	Lease amount (based on 2017)	Number of agreements
2018	2,950,261	1,155	2033	504,377	287	2047	23,221	22
2019	2,880,574	1,097	2034	477,194	270	2048	22,190	18
2020	2,339,736	1,038	2035	271,016	184	2049	20,966	17
2021	2,320,764	993	2036	228,021	155	2050	19,716	16
2022	1,474,389	955	2037	211,223	146	2051	19,274	15
2023	1,323,307	685	2038	191,901	131	2052	14,972	7
2024	1,222,093	670	2039	182,246	125	2053	14,765	6
2025	1,175,065	636	2040	173,115	117	2054	14,765	6
2026	1,071,487	542	2041	93,496	55	2055	5,347	5
2027	1,023,442	517	2042	68,913	45	2056	5,347	5
2028	973,259	456	2043	56,653	38	2057	697	4
2029	887,139	447	2044	55,199	36	2058	697	4
2030	858,947	428	2045	32,313	31	2059	697	4
2031	633,901	374	2046	30,440	27	2060	697	4
2032	592,248	351						

Other financial liabilities

Companies are obligated to revise their value added tax deductions for completed property investments if the taxable use of the property decreases during the period under review.

	Maximum liability EUR 1,000	Last review year
Investment completed in 2009	172	2018
Investment completed in 2010	25	2019
Investment completed in 2011	471	2020
Investment completed in 2012	62	2021
Investment completed 012013-042014	58	2023
Investment completed 052014-042015	185	2024
Investment completed 052015-042016	420	2025
Investment completed 052016-042017	752	2026
Investment completed 052017-042018	3,706	2027
Total	**5,850**	

32. Transactions with related parties

Business transactions and open balances with related parties

Vapo complies with the provisions of the Finnish Limited Liability Companies Act and IAS24 with regard to monitoring transactions with related parties. The Group's related parties include its subsidiaries and associates. The related parties also include the Managing Directors of Group companies, the members of Supervisory Boards and Boards of Directors, and the members of Vapo Group's management team. The spouses and other family members living in the same household of the aforementioned individuals are also considered related parties. The related parties can also include entities under the control or influence of the aforementioned individuals.

In order to reliably monitor transactions with related parties, Vapo maintains a Group register of related parties. The information in the register is obtained from the related parties themselves annually. The register is not public and the information it contains are not disclosed to third parties with the exception of the authorities and the auditor.

The Group's parent and subsidiary relationships are as follows:

	Country	Holding, %	Share of votes, %
Parent company Vapo Oy			
Kekkilä Oy	Finland	100.00	100.00
Suo Oy	Finland	100.00	100.00
Piipsan Turve Oy	Finland	48.00	48.00
Forest BtL Oy	Finland	100.00	100.00
Salon Energiantuotanto Oy	Finland	100.00	100.00
Vapo Clean Waters Oy	Finland	100.00	100.00
Neova AB	Sweden	100.00	100.00
AS Tootsi Turvas	Estonia	100.00	100.00
Vapo A/S	Denmark	100.00	100.00
Subsidiary shares held by Kekkilä Oy:			
Hasselfors Garden AB	Sweden	100.00	100.00
Kekkilä Eesti Oü	Estonia	100.00	100.00
Kekkilä Iberia S.L.	Spain	100.00	100.00

A list of the Group's significant associates and joint ventures is provided in Note 14 "Shares in associates and joint ventures".

Transactions with, receivables from and liabilities to related parties

EUR 1,000	2018	2017
Associates		
Sales	439	494
Purchases	-13	-924
Receivables	33	39
Liabilities	238	213
Joint ventures		
Sales	79	1,876
Purchases	-826	-1,252
Receivables	18	15
Liabilities	125	328

Management salaries and fees are itemised in Note 7 "Expenses arising from staff benefits".

Senior management's employment benefits and loan receivables

The senior management comprises the Board of Directors, CEO and the rest of the Management Team.

The CEO and members of the Group Management Team have an incentive bonus linked to financial targets amounting to, at a maximum, 20–40% of the annual salary. In accordance with the decision of the Board of Directors, the main principles used to determine this incentive bonus are linked to Vapo Group's profit and cash flow.

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 6 months' salary. If the CEO resigns, the period of notice is six months.

The company does not have share option plans.

The CEO's retirement age is the lower limit for old-age pension pursuant to the Employees Pensions Act in effect at the time.

Members of the Group Management Team, including the CEO, are covered by the pension scheme pursuant to the Employees' Pensions Act. In addition, 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. Members of the Management Team The company has an agreement with a pension insurance company on said supplementary pension rights. The supplementary pension programme for senior management was closed on 23 November 2017. Members of the Management Team appointed after the aforementioned date will no longer have the right to a supplementary pension as part of their contract terms.

There were no loan receivables from the senior management on 30 April 2018 and 30 April 2017.

PARENT COMPANY'S FINANCIAL STATEMENTS, FAS

Parent company's income statement

EUR 1,000	Note	5/2017-4/2018	5/2016-4/2017
TURNOVER	**2**	**263,271**	**241,900**
Change in stock levels of finished and unfinished products		-21,611	-19,262
Production for own use		3	7
Other operating income	3	5,079	8,805
Materials and services	4	-94,469	-90,092
Expenses arising from staff benefits	5	-25,209	-23,506
Depreciation and impairment	6	-22,441	-21,592
Other operating expenses	6	-90,004	-84,448
OPERATING PROFIT		**14,620**	**11,813**
Financial income	8	3,836	9,078
Financial expenses	8	-11,362	-15,109
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**7,094**	**5,782**
Appropriations	9	-2,803	2,278
Direct taxes	10	-1,024	-2,401
PROFIT/LOSS FOR THE PERIOD		**3,267**	**5,659**

Parent company's balance sheet

EUR 1,000	Note	30 Apr. 2018	30 Apr. 2017
ASSETS			
Non-current assets			
Intangible assets	11	10,195	9,771
Tangible assets	12	295,432	301,245
Investments	13	117,987	118,915
		423,614	429,931
Current assets			
Inventories	14	54,957	83,348
Long-term receivables	13	110,550	121,257
Short-term receivables	16	43,891	48,220
Cash on hand and in the bank		32,573	94,212
		241,970	347,037
ASSETS		**665,584**	**776,969**
LIABILITIES			
Shareholders' equity			
Share capital		50,456	50,456
Other funds		30,096	30,096
Retained earnings		172,385	170,726
Profit/loss for the period		3,267	5,659
Dividend distribution		-4,000	-4,000
Shareholders' equity total	**17**	**252,204**	**252,938**
Accrual of appropriations		**61,461**	**59,262**
Mandatory provisions	**18**	**3,271**	**2,970**
Liabilities			
Long-term interest-bearing liabilities	19	257,683	266,186
Long-term non-interest-bearing liabilities	19	5,680	5,860
Current interest-bearing liabilities	20	43,176	148,459
Current non-interest-bearing liabilities	20	42,109	41,294
Liabilities total		**348,648**	**461,799**
LIABILITIES		**665,584**	**776,969**

Parent company's cash flow statement

EUR 1,000	30 Apr. 2018	30 Apr. 2017
Cash flow from operating activities		
Profit/loss for the period	3,267	5,659
Adjustments to the result for the period		
Depreciation and impairment	22,441	21,592
Financial income and expenses	7,526	6,031
Income taxes	1,024	2,401
Other adjustments	1,575	-3,648
Adjustments to the profit/loss for the period total	32,567	26,376
Change in working capital		
Increase (-)/decrease (+) in inventories	28,391	20,491
Increase (-)/decrease (+) in short-term non-interest-bearing business receivables	-56	6,000
Increase (+)/decrease (-) in short-term non-interest bearing debt	295	-16,677
Change in provisions	301	-303
Change in working capital total	28,931	9,511
Interest paid	-10,783	-8,611
Interest received	3,610	4,216
Other financial items	6,011	2,930
Taxes paid	146	-1,375
Cash flow from operating activities	**63,748**	**38,696**
Cash flow from investing activities		
Investments in tangible and intangible assets	-21,478	-30,514
Proceeds from disposal of tangible and intangible assets	5,940	33,087
Subsidiary shares bought	0	0
Subsidiary shares sold	0	0
Proceeds from investments consolidated using the equity method	0	3,592
Other investments	-10	0
Proceeds from disposal of other investments	7	7,769
Increase (-)/decrease (+) in long-term loan receivables	4,289	7,294
Increase (-)/decrease (+) in short-term loan receivables	3,840	8,348
Dividends received from operating activities	10	0
Cash flow from investing activities	**-7,402**	**29,576**
Cash flow from financing activities		
Loans taken out	0	50,000
Increase (+)/decrease (-) in short-term loans	-115,283	-1,271
Proceeds from long-term loans	1,497	815
Repayment of long-term loans	0	-27,020
Dividends paid	-4,000	-4,000
Group contributions paid	-604	0
Cash flow from financing activities	**-118,389**	**18,525**
Change in cash and cash equivalents	**-62,033**	**86,797**
Cash and cash equivalents opening balance	94,212	7,516
Change in cash and cash equivalents	-62,033	86,697
Cash and cash equivalents at end of period	32,573	94,212
Cash and cash equivalents, other arrangements	-395	0

In the change in cash and cash equivalents, the cash and cash equivalents of EUR 395,000 associated with a merger are presented as a separate item

PARENT COMPANY'S NOTES

1. Accounting principles applied in the financial statements

Vapo Oy's financial statements have been prepared in accordance with the Finnish Accounting Act. The Group has adopted the international financial reporting standards (IFRS) as of 1 January 2006.

Currency-denominated items and derivative agreements
Foreign exchange-denominated business transactions are recognised at the exchange rate of the transaction date and assets and liabilities on the balance sheet at the closing date are translated at the exchange rate on the closing date. Exchange rate differences are recognised in exchange rate differences in financing.

Derivative agreements made to cover currency risks are measured at the exchange rate at the closing date. The interest factor included in derivatives is allocated to the agreement period, and exchange rate differences of agreements hedging liabilities or receivables on the balance sheet are recorded as exchange rate differences in financial income and expenses.

Turnover and principles of revenue recognition
Revenue recognition takes place when the output is handed over. In calculating turnover, the indirect taxes, discounts granted and complaint-related reimbursement is deducted from the proceeds of sale.

Other operating income and expenses
Other operating income includes capital gains from property, plant and equipment, rental revenue, gains from emission rights sold and received subsidies. Other operating expenses include capital losses from property, plant and equipment, actual expenses of emission rights and sale freight expenses, credit losses, sales provisions and other operating expenses.

Research and development expenditure
Research and development expenditure is recognised through profit or loss for the year during which they are incurred.

Property, plant and equipment and depreciation
The balance sheet values of property, plant and equipment is based on initial cost less annual depreciation and impairment. Property, plant and equipment is depreciated according to plan based on the financial useful life using the straight-line method or based on use. Economic lifetimes are 5–10 years for intangible assets and 3–40 years for tangible assets.

Emission rights
Emission rights are handled as intangible rights measured at cost. The measurement value of emission rights received without consideration is nil. A provision for fulfilling the obligation to return the emission rights is recorded if the emission rights received without consideration are not sufficient to cover the actual amount of emissions. Therefore, the possible impact on the result is the difference between actual emissions and emission rights received.

Leasing
In the parent company's financial statements, leasing fees are recognised as an annual expense.

Inventories
Inventories are measured at the less of cost or probably replacement value or sales price. The value of inventories is determined using the FIFO method.

The cost of inventories also includes the allocated part of fixed procurement and manufacturing expenses, which as allocated to products according to the normal utilised capacity of the production unit. The inventories of peat production include peat reserved processed ready for sale, i.e. the peat sales inventory. Peat reserves not processed ready for sale are handled as peat substance in fixed assets and depreciated according to use.

Taxes
Income taxes are recognised in accordance with Finnish tax legislation. Deferred tax assets are presented in the notes.

2. Turnover

EUR 1,000	2018	2017
Finland	260,638	237,393
Other countries	2,633	4,507
Total	**263,271**	**241,900**

3. Other operating income

EUR 1,000	2018	2017
Rental revenue	325	392
Grants and public subsidies	213	255
Capital gains from equity	2,840	5,946
Other income	1,700	2,213
Total	**5,078**	**8,805**

4. Materials and services

EUR 1,000	2018	2017
Purchases during the financial period	-47,633	-46,572
Change in inventories	-6,849	-1,211
External services	-39,987	-42,308
Total	**-94,469**	**-90,092**

5. Notes concerning personnel and members of administrative bodies

EUR 1,000	2018	2017
Personnel expenses		
Salaries and fees	-20,631	-19,134
Pension expenses	-3,545	-3,335
Other personnel expenses	-1,033	-1,037
Total	**-25,209**	**-23,506**
Management salaries, fees and fringe benefits total		
CEO and CEO's deputy	307	518
Members of the Board of Directors	229	191
Members of the Supervisory Board	37	36
Other Management Team members	1,411	1,138
Total	**1,984**	**1,884**
Number of personnel		
Average during the financial period	368	360

6. Depreciation and impairment

EUR 1,000	2018	2017
Intangible rights	-2,306	-1,610
Buildings and structures	-1,424	-1,567
Machinery and equipment	-10,763	-10,026
Other tangible assets	-7,034	-6,637
Planned depreciation	-21,527	-19,840
Impairment of equity assets	-914	-1,752
Planned depreciation and impairment total	**-22,441**	**-21,592**

7. Other operating expenses

EUR 1,000	2018	2017
Rents	-6,102	-8,436
Cost of sales freight	-37,994	-34,556
ICT and other services	-14,118	-12,886
External transport	-8,862	-7,785
Capital losses from equity	-1,344	-4,554
Audit costs, actual audit	-112	-111
Audit costs, attestations and statements	-4	0
Audit costs, other expert services	-48	-80
Audit costs total	-164	-190
Audit costs, actual audit	-21,420	-16,041
Audit costs, attestations and statements	**-90,004**	**-84,448**

8. Financial income and expenses

EUR 1,000	2018	2017
Dividend income from Group companies	10	0
Dividend income from others	0	0
Income from shares	10	0
Interest income from Group companies	3,505	3,838
Interest income from others	91	369
Other financial income from others	179	399
Other interest and financial income	3,775	4,605
Interest expenses to Group companies	-324	-81
Interest expenses to others	-10,159	-9,736
Other financial expenses to others	-618	-918
Other interest and financial income	-11,102	-10,736
Financial income and expenses total	**-7,317**	**-6,130**
Foreign exchange gains	51	4,472
Foreign exchange losses	-10	-4,373
Exchange rate differences in financing	**41**	**99**

9. Appropriations

EUR 1,000	2018	2017
Change in depreciation difference		
Intangible assets	75	-744
Buildings and structures	283	1,337
Machinery and equipment	-257	2,639
Other tangible assets	-2,300	-1,274
Total	**-2,199**	**1,958**
Group contributions paid	-604	0
Change in voluntary provisions		
Use of replacement reserve		320
Total	**0**	**320**

10. Direct taxes

EUR 1,000	2018	2017
Income taxes from actual operations	-1,040	-2,413
Taxes for previous financial periods	16	12
Total	**-1,024**	**-2,401**

11. Intangible assets

EUR 1,000	Intangible rights	Other intangible assets	Prepayments	Total
Cost 1 May 2017	28,894	1,788	721	31,403
Increase	246		2,659	2,905
Decrease			-174	-174
Transfers between items	1,058		-1,058	0
Cost 30 April 2018	30,197	1,788	2,148	34,134
Accumulated depreciation 1 May 2017	-21,409	-224		-21,633
Accumulated depreciation on decrease and transfers				0
Depreciation for the financial period	-2,235	-71		-2,306
Accumulated depreciation 30 April 2018	-23,643	-295	0	-23,939
Book value 30 April 2018	**6,554**	**1,493**	**2,148**	**10,195**

EUR 1,000	Intangible rights	Other intangible assets	Prepayments	Total
Cost 1 May 2016	24,191	1,713	1,134	27,037
Increase	740	76	4,067	4,883
Decrease	-517			-517
Transfers between items	4,480		-4,480	0
Cost 30 April 2017	28,894	1,788	721	31,403
Accumulated depreciation 1 May 2016	-20,014	-90		-20,104
Accumulated depreciation on decrease and transfers	81			81
Depreciation for the financial period	-1,476	-134		-1,610
Accumulated depreciation 30 April 2017	-21,409	-224	0	-21,633
Book value 30 April 2017	**7,486**	**1,564**	**721**	**9,771**

12. Tangible assets

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and unfinished acquisitions	Total
Cost 1 May 2017	37,515	43,655	213,509	283,562	41,418	619,658
Increase	231		1,126	33	17,183	18,573
Decrease	-1,503	-757	-166	-1,996	-956	-5,378
Transfers between items		3,836	18,884	18,434	-41,154	0
Cost 30 April 2018	36,243	46,734	233,352	300,033	16,492	632,853
Accumulated depreciation 1 May 2017	-520	-26,313	-151,792	-139,788		-318,413
Accumulated depreciation on decrease and transfers		433	123	570		1,126
Depreciation for the financial period		-1,806	-11,255	-7,073		-20,135
Impairment						0
Accumulated depreciation 30 April 2018	-520	-27,687	-162,924	-146,291		-337,422
Book value 30 April 2018	**35,723**	**19,047**	**70,428**	**153,742**	**16,492**	**295,432**

EUR 1,000	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and unfinished acquisitions	Total
Cost 1 May 2016	39,415	53,130	215,196	286,658	41,569	635,968
Increase	240	17	3,536	-317	22,156	25,631
Decrease	-2,140	-10,693	-10,956	-17,673	-479	-41,942
Transfers between items		1,201	5,733	14,893	-21,827	0
Cost 30 April 2017	37,515	43,655	213,509	283,562	41,418	619,658
Accumulated depreciation 1 May 2016	-351	-30,912	-143,196	-138,126		-312,585
Accumulated depreciation on decrease and transfers		6,659	2,518	4,978		14,154
Depreciation for the financial period		-2,059	-11,114	-6,641		-19,814
Impairment	-168					-168
Accumulated depreciation 30 April 2017	-520	-26,313	-151,792	-139,788	0	-318,413
Book value 30 April 2017	**36,995**	**17,342**	**61,717**	**143,773**	**41,418**	**301,245**

13. Investments

EUR 1,000	Shares in Group companies	Shares in associates	Other shares and participations	Total
Cost 1 May 2017	117,307	898	711	118,915
Increase			10	10
Increase, intra-Group mergers and acquisitions				0
Decrease	-663	-250	-25	-939
Decrease, mergers and acquisitions				0
Decrease, intra-Group mergers and acquisitions				0
Impairment				0
Book value 30 April 2018	**116,643**	**648**	**696**	**117,987**

EUR 1,000	Shares in Group companies	Shares in associates	Other shares and participations	Total
Cost 1 May 2016	117,307	7,962	7,983	133,251
Increase				0
Increase, intra-Group mergers and acquisitions				0
Decrease		-7,064	-7,272	-14,336
Decrease, mergers and acquisitions				0
Decrease, intra-Group mergers and acquisitions				0
Impairment				0
Book value 30 April 2017	**117,307**	**898**	**711**	**118,915**

14. Inventories

EUR 1,000	2018	2017
Materials and supplies	16,586	23,436
Work-in-progress	7,958	7,085
Finished products	30,207	52,691
Prepayments from inventories	205	137
Inventories total	**54,957**	**83,348**

15. Long-term receivables

EUR 1,000	2018	2017
Receivables from Group companies		
Loan receivables	107,367	118,073
Loan receivables from others	3,183	3,183
Total	**110,550**	**121,257**

16. Short-term receivables

EUR 1,000	2018	2017
Receivables from Group companies		
Sales receivables	1,076	1,014
Loan receivables	7,231	11,071
Accrued income	33	88
Receivables from associates		
Sales receivables	34	45
Accrued income	0	17
Receivables from others		
Sales receivables	28,771	28,226
Loan receivables	200	200
Accrued income	4,334	5,292
Other receivables	2,211	2,267
Total	**43,891**	**48,220**

Essential accrued income items		
Allocated taxes	0	531
Other accrued income from sales	2,184	2,487
Other accrued income from expenses	2,150	2,274
Total	**4,334**	**5,292**

17. Shareholders' equity

Restricted equity

EUR 1,000	2018	2017
Share capital	50,456	50,456
TOTAL RESTRICTED EQUITY ON 30 APRIL	**50,456**	**50,456**

Unrestricted equity

EUR 1,000	2018	2017
Other funds	30,096	30,096
Retained earnings at the start of the financial period	172,385	170,726
Dividend distribution	-4,000	-4,000
Profit for the period	3,267	5,659
TOTAL UNRESTRICTED EQUITY ON 30 APRIL	201,748	202,481

Account of funds available for the distribution of profit		
Retained earnings	168,385	166,726
Profit/loss for the period	3,267	5,659
- capitalised development expenditure for unfinished	-1,595	0
DISTRIBUTABLE FUNDS	170,057	172,385

18. Mandatory provisions

EUR 1,000	2018	2017
Provision due to environmental obligations	3,271	2,970
Total	**3,271**	**2,970**

19. Long-term liabilities

EUR 1,000	2018	2017
Bonds	79,039	158,975
Hybrid bond	50,000	50,000
Loans from financial institutions	112,314	40,881
Loans from Group companies	16,331	16,331
Connection fees	4,966	5,014
Advances received	714	846
Total	**263,363**	**272,046**

Repayment schedule of long-term interest-bearing debt (per calendar year)

EUR 1,000	2018	2019	2020	2021	2022	2023 ->	Total
Bonds	10,000	0	0	0	0	80,000	90,000
Subordinated loans	0	0	0	0	5,000	0	5,000
Loans from financial institutions	0	60,000	50,000	0	0	2,315	112,315
Financial leasing liabilities	1,774	1,789	1,804	1,819	1,834	21,652	30,672
Total	**11,774**	**61,789**	**51,804**	**1,819**	**6,834**	**103,967**	**237,987**

20. Current liabilities

EUR 1,000	2017	2016
Convertible bonds	10,000	0
Loans from financial institutions	0	125,000
Advances received	4,830	7,967
Accounts payable	14,016	14,365
Liabilities to Group companies:		
Accounts payable	735	566
Other liabilities	33,176	23,246
Accrued expenses	467	34
Liabilities to joint ventures:		
Accounts payable	0	4
Advances received	0	18
Other liabilities	238	213
Other liabilities	9,482	6,189
Accrued expenses	12,341	12,150
Total	**85,285**	**189,753**

21. Contingent commitments

EUR 1,000	2018	2017
Other guarantees given on behalf of own commitments		
Guarantees	15,128	16,349
Assets pledged	0	0
Total	15,128	16,349
Contingent commitments on behalf of Group companies		
Guarantees	10,013	10,752
Other contingent commitments	0	0
Total	10,013	10,752
Other contingent commitments		
Derivative agreements	123,090	290,216
Contingent commitments on behalf of associates		
Guarantees	0	0
Other rental liabilities		
Rental liabilities maturing in less than one year	2,136	2,434
Rental liabilities maturing within 1–5 years	3,544	3,884
Rental liabilities maturing later	1,695	2,157
Total	**7,374**	**8,475**

The parent company is an investor in the Nefco Carbon Fund. The fund generates emission reductions that can be used to satisfy emission right obligations. The purchasing obligations for emission reductions amounted to EUR 0.1 million on the closing date.

The parent company has land lease agreements for peat production. At the end of the financial year, annual and land area-based lease liabilities totalled EUR 11.3 million.

Year of payment	Lease amount (based on 2017)	Number of agreements	Year of pay-ment	Lease amount (based on 2017)	Number of agreements	Year of pay-ment	Lease amount (based on 2017)	Number of agreements
2018	971,654	1032	2032	326,211	278	2046	30,440	27
2019	913,111	976	2033	275,330	215	2047	23,221	22
2020	891,667	938	2034	250,337	199	2048	22,190	18
2021	872,998	894	2035	181,931	140	2049	20,966	17
2022	849,014	859	2036	138,936	111	2050	19,716	16
2023	722,671	591	2037	122,138	102	2051	19,274	15
2024	675,749	577	2038	102,816	87	2052	14,972	7
2025	644,057	544	2039	93,161	81	2053	14,765	6
2026	563,841	455	2040	85,986	74	2054	14,765	6
2027	515,795	430	2041	68,174	50	2055	5,347	5
2028	472,533	371	2042	45,830	42	2056	5,347	5
2029	454,201	364	2043	39,657	37	2057	697	4
2030	428,180	346	2044	38,203	35	2058	697	4
2031	365,831	300	2045	32,313	31	2059	697	4

Other financial liabilities

The company is obligated to revise its value added tax deductions for completed property investments if the taxable use of the property decreases during the period under review.

	Maximum liability EUR 1,000	Last review year
Investment completed in 2009	115	2018
Investment completed in 2010	15	2019
Investment completed in 2011	97	2020
Investment completed in 2012	62	2021
Investment completed 012013-042014	54	2023
Investment completed 052014-042015	153	2024
Investment completed 052015-042016	413	2025
Investment completed 052016-042017	684	2026
Investment completed 052017-042018	3 704	2027
Total	**5 297**	

The company has made a commitment to purchasing Peatmax Oy's products for EUR 19.5 million and services for EUR 8.6 million during the period 1 September 2013–31 August 2018. At the end of the financial year, the accrued purchases amounted to EUR 22.4 million.

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

Group key figures 2013–2018

MEUR	04/2014	04/2015	04/2016	04/2017	04/2018
Turnover	847.4	486.9	459.8	392.1	**419.8**
Growth %	29.8	0.0	-5.6	-5.0	**7.1**
Operating margin (EBITDA)	110.8	74.7	43.1	56.9	**61.1**
% of turnover	13.1	15.3	9.4	14.5	**14.5**
Depreciation	-54.2	-39.3	-35.0	-35.6	**-35.7**
Impairment	-3.8	-0.7	-0.8	-2.4	**-0.9**
Operating profit (EBIT)	50.0	36.9	8.6	20.0	**26.3**
% of turnover	5.9	7.6	1.9	5.1	**6.3**
Operating profit before impairment	53.9	37.6	9.4	22.4	**27.2**
% of turnover	6.4	7.7	2.1	5.7	**6.5**
Net financial items	-17.2	-13.5	-9.7	-9.8	**-6.0**
Profit/loss before taxes	32.9	23.3	-1.1	10.2	**20.3**
Taxes	-10.2	-3.6	-3.4	-2.0	**-2.7**
Profit/loss for the period	22.7	19.8	-4.4	8.1	**17.6**
Return on invested capital %	3.8	5.4	1.2	3.0	**4.3**
Return on invested capital before impairment %	4.4	5.5	1.4	3.4	**4.4**
Restricted capital on average	671.4	687.0	695.8	656.9	**613.2**
Turnover of restricted capital (turnover/restricted capital on average)	0.9	0.7	0.7	0.6	**0.7**
Average working capital	130.4	164.3	163.4	138.1	**112.6**
Average working capital % of turnover	15.4	33.7	35.5	35.2	**26.8**
Restricted capital at the end of the year	659.4	713.2	669.8	633.9	**578.9**
Working capital at the end of the year	144.2	176.9	140.2	125.6	**88.0**
Gross investments	65.0	88.4	38.5	39.6	**31.5**
% of turnover	7.7	18.1	8.4	10.1	**7.5**
Gross investments/depreciation	1.2	2.3	1.1	1.1	**0.9**
Operating margin	110.8	74.7	43.1	56.9	**61.1**
+/- Change in working capital	-27.4	-32.7	39.6	14.7	**37.6**
- Net investments	-21.6	-67.1	-21.9	1.6	**-25.2**
Free cash flow before taxes	61.9	-25.1	60.7	73.2	**73.4**
Balance sheet total	786.9	838.2	795.0	812.4	**697.5**
Shareholders' equity	305.2	304.4	288.2	339.7	**347.9**
Shareholders' equity (average)	300.5	297.4	296.1	313.0	**341.8**
Interest-bearing debt	340.2	408.1	384.5	368.5	**242.6**
Interest-bearing net debt	329.0	393.1	366.6	269.6	**206.2**
Equity ratio %	40.2	37.8	37.6	43.0	**51.2**
Gearing %	110.3	128.7	127.2	79.4	**59.3**
Interest-bearing net debt/operating margin	4.4	5.3	8.5	4.7	**3.4**
Liquidity	2.5	3.2	2.9	4.4	**2.8**
Return on equity %	1.3	6.6	-1.5	2.6	**5.2**
Dividend distribution	12.0	12.0	4.0	4.0	**0.0**
Dividend % of profit *	52.9	64.8	-91.1	49.4	**0.0**
Average number of employees	1,091	961	914	773	**758**
Key figures per share					
Number of shares	30,000	30,000	30,000	30,000	**30,000**
Earnings/share, EUR *	756	617	-146	271	**586**
Shareholders' equity/share, EUR	9,763	10,106	9,571	11,311	**11,583**
Dividend/share, EUR	400	400	133	133	**0**

* = profit attributable to owners of the parent company

Note! The financial year 1 January 2013–30 April 2014 was 16 months long.

SIGNATURES TO THE FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

Vantaa, 25 June 2018, Board of Directors of Vapo Oy

Jan Lång
Chair

Markus Tykkyläinen
Vice Chair

Risto Kantola

Tuomas Hyyryläinen

Pirita Mikkanen

Minna Pajumaa

Minna Smedsten

Juhani Järvelä

Vesa Tempakka
CEO

Auditor's note

A report on the audit has been issued today.

Helsinki, June 2018

KPMG Oy Ab

Ari Eskelinen
APA