VAPO'S YEAR

1 May 2017–30 April 2018

The Direction is Clear.

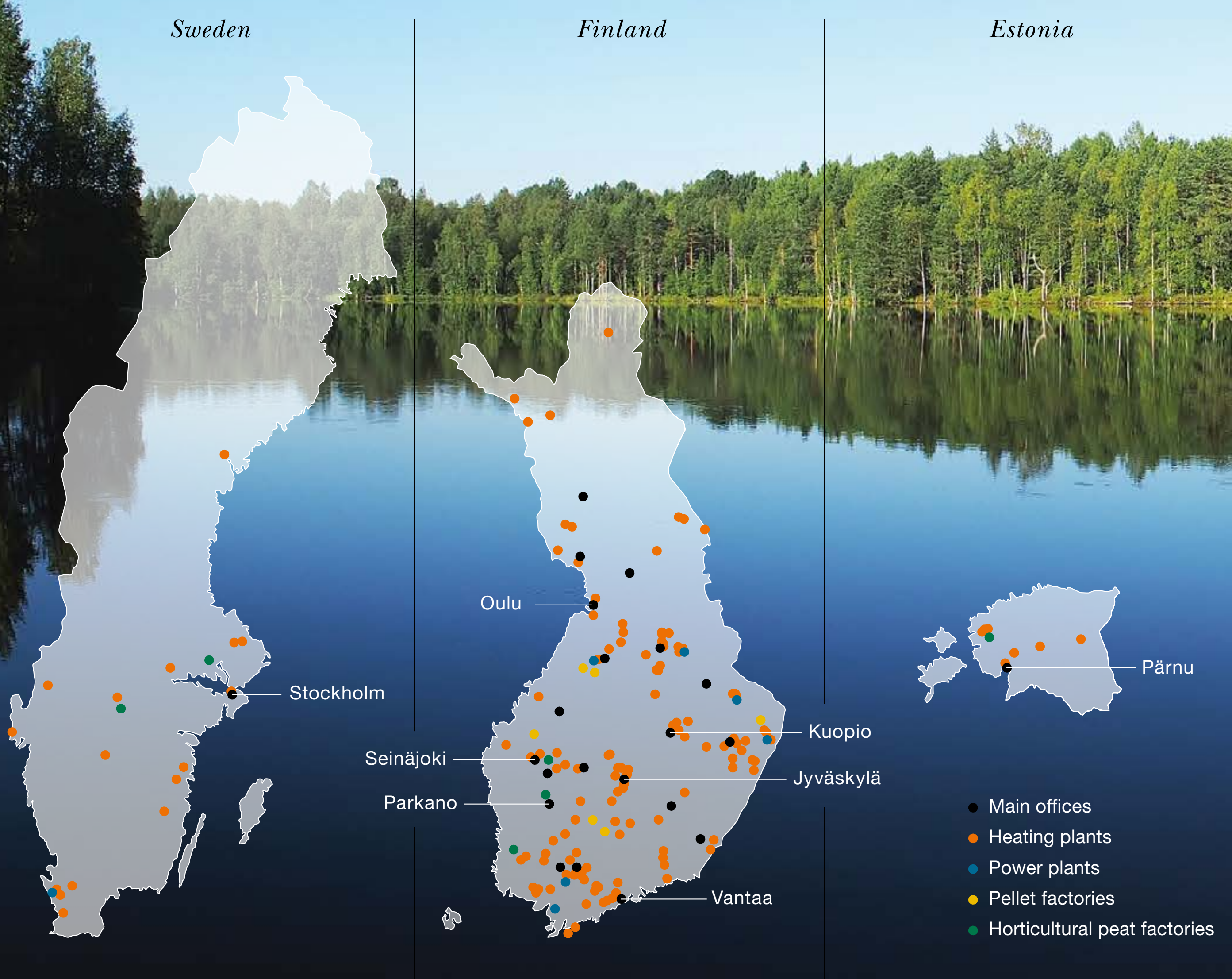
VAPO

VAPO GROUP

Key Figures 1 May 2017–30 April 2018

Turnover	*Operating profit*	*Balance sheet total 30 April 2018*	*Equity ratio*	*Average number of employees*
419.8 MEUR	**26.3** MEUR	**697.5** MEUR	**51.2** %	**758**

Where we operate



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CEO'S REVIEW

Vapo Group has renewed its strategy and structure. With the new strategy, the company aims to ensure that it has the ability to achieve continued profitable growth in the future. In addition to the energy business, the Group seeks growth from the international growing media market as well as entirely new businesses. According to CEO Vesa Tempakka, Vapo is evolving into a genuinely responsible international company that responds to the changes in its operating environment.

Starting from the beginning of May 2018, Vapo Group's business is divided into three divisions: Energy, Grow&Care and New Businesses. All three divisions are served by the new Supply Chain Management function, which is responsible for areas such as peat production, logistics and purchasing. The organisational structure has been updated to match the Group's new strategy.

Our operating environment is changing dramatically. Climate change and the restrictions it brings for non-renewable fuels, urbanisation and the growing demand for local food together with living environments becoming polluted and droughts pestering many countries are megatrends that present us with threats as well as opportunities. The digital transformation is accelerating the changes.

Faced with a changing operating environment, we must also change. To that end, we first conducted a comprehensive analysis of where the world is going and how the major changes will affect us. Our conclusions are now reflected in our strategy and Vapo's new structure, which will expedite and ensure the effective execution of the strategy.

Establishing the Supply Chain Management function is a key component of our new structure. Comprehensive supply chain management from raw material sources to customers and the centralising of functions at the Group level are expected to create significant synergies. Like our newly established divisions, the Supply Chain Management function operates across national and regional boundaries in Finland, Sweden and Estonia. Our greatest potential for growth lies in the Grow&Care division and particularly the professional grower business. Vapo also has a very robust market share and strong brands in the home gardener segment in Finland (Kekkilä) and Sweden (Hasselfors Garden), and we will continue to invest in these markets in the future. This means that the Grow&Care division holds a key role in Vapo's strategy.

We are seeking growth particularly in growing media. The international demand for growing media is increasing, which presents very promising opportunities for us. We are already the leading European raw material producer and we aim to increase our share of the growing media market. Our goal is to be the European market leader.

The potential of the growing media market is not, however, limited to Europe. Greenhouse cultivation is increasing rapidly in Asia, South America and North America, making these regions increasingly attractive export markets.

The demand for peat-based growing media, which are recognised for their excellent water retention qualities, is increased by water shortages in many countries as well as the growing demand for local food. Greenhouse growing is more efficient in terms of resource utilisation, enabling food production with less land and, in particular, water. Greenhouse cultivation is also less vulnerable to the impacts of climate change. Vapo's strengths in this scenario include the Group's strong expertise, raw material reserves and existing pathways to the international markets.

We ensure the reliability of deliveries

Vapo aims to achieve significant growth in business based on industrial and community energy solutions and the supply of renewable biofuels. These areas already account for approximately 50 per cent of the Energy division's operating profit. The relative share of peat, wood and pellets sold as fuels will decrease in favour of tailored energy solutions and digital services based on high-level expertise. Under our new structure, the Energy division constitutes a single seamless business in our home markets of Finland, Sweden and Estonia. In the past, we had separate companies operating in each of these countries.

Our main goals for the energy business are long-term customer relationships and improved profitability.

Energy peat will continue to play a role in our business. Peat is the best fuel for the transition phase on the way towards a carbon-neutral energy future. Peat is also significant in maintaining the security of supply due to its suitability for long-term storage. Last winter provided a concrete example of peat's significance, as it salvaged the wintertime energy supply of many Finnish towns. Vapo is committed to supplying its energy peat customers well into the 2030s but, at the same time, we are preparing for a decline in peat's long-term significance in the fuel market.

Competence is our most important resource

We have placed great expectations on our New Businesses division, which develops new products from peat and other natural materials.

The fibre business has reached the commercialisation stage and transferred to the Grow&Care division, as its first products are mainly related to growing.

The Carbons business, which is focused on producing activated carbons from peat, is awaiting a decision on the construction of the first production facility in 2018. We have applied for environmental permits in three towns. We are also still conducting tests with equipment vendors and discussing potential distribution channels.

Peat presents a variety of interesting opportunities for us. The challenge is to find and develop products that have high potential for commercialisation. Our principle is to get in touch with customers at a very early stage to assess their interest and continue testing the products with them. This is a more sensible approach than engaging in extensive product development while remaining isolated in our own laboratories.

Vapo wants to lead its market in the speed of the digital transformation

Vapo's transformation is not only about the restructuring of operations and the development of new products. We are adopting a new approach that involves increasing cooperation with our customers and partners. Our move in this direction is also related to our desire to grow into a genuinely international company and take advantage of the opportunities presented by the digital transformation.

Our growth cannot rely on Finland alone due to the small size of the market. However, we must adopt a more international approach to ensure that we can operate effectively in Finland, Sweden and Estonia. We also need to be prepared to find the best possible partners, and they are not always going to be found in Finland.

We are in a good position to pursue internationalisation, as Vapo can offer attractive products to the international market. We also have a great deal of expertise and access to good raw material reserves. Vapo has a long heritage which I highly value and consider worth holding on to. Having said that, we also need new ideas and insights. People are interested in Vapo's direction and the changes we are pursuing.

In addition to internationalisation, taking advantage of the opportunities presented by the digital transformation is a key aspect of our continued evolution. One prominent example of this development is the round-the-clock operations centre in Vantaa's Tikkurila district. The centre operates Vapo's own power and heating plants as well as those of our customers. The operations centre is significant, but it is only one element of Vapo's digital transformation.

We are constantly looking for ways to help our customers with new technology. In the energy business, for example, the digital transformation presents opportunities for automated inventory management and product analysis.

The automation of our own operations is also an important aspect. Our goal is to automate routine tasks as much as possible. This will free up our human resources to spend their time and energy on things that create genuine added value. There are many opportunities in this regard, and we aim to look at things from the entire Group's perspective. This is also one of the areas in which we work closely with our partners.

Vapo's pursuit of growth requires investment. We have prepared for this by, among other things, selling unnecessary assets, improving inventory management and focusing on the profitability of operations.

Last autumn, we launched a project to sell land areas that are not required for peat production.

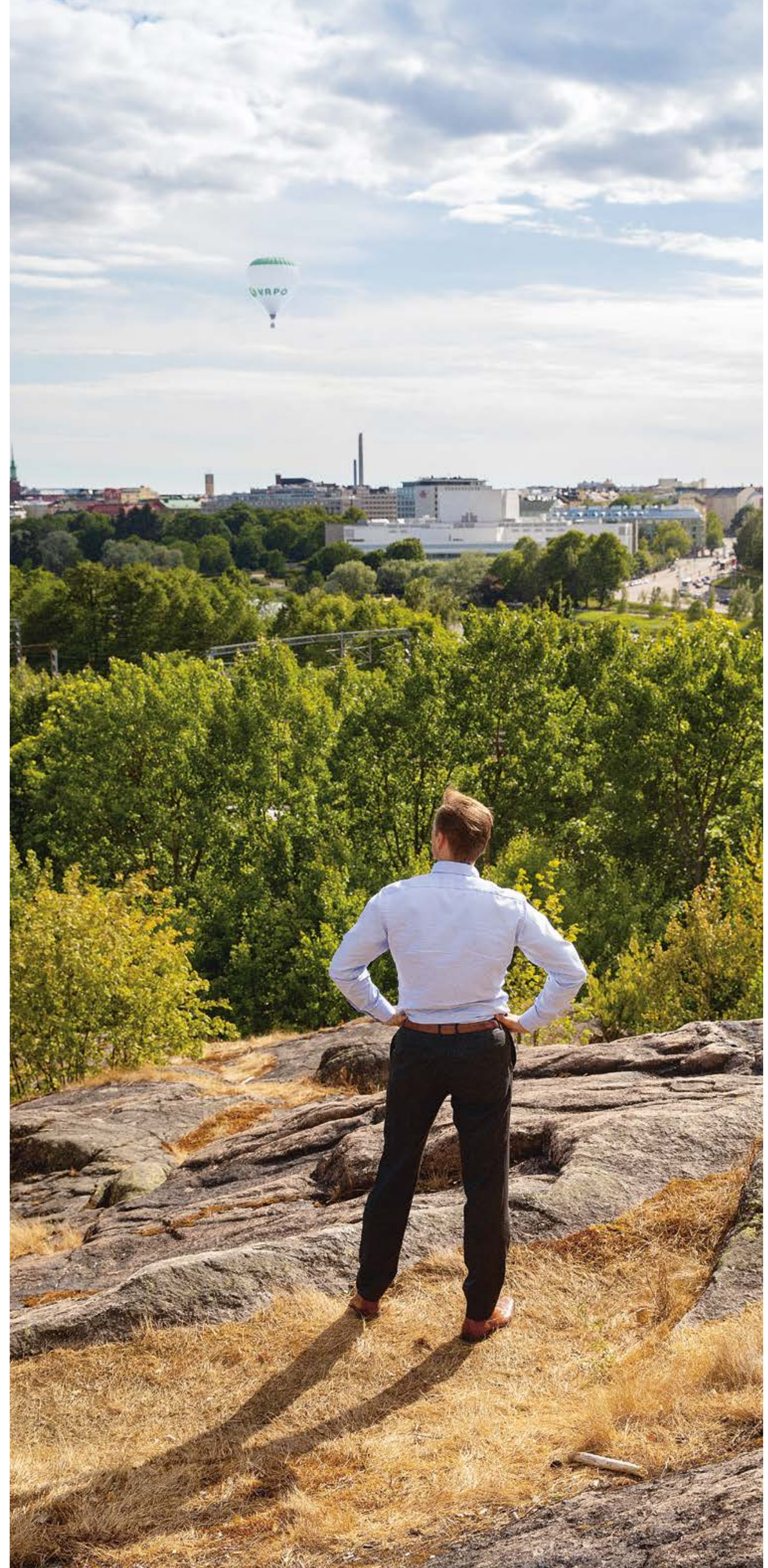
These measures have enabled us to reduce our balance sheet and net debt. The ratio between our operating margin and net debt has developed favourably.

We have taken determined efforts to improve our profitability and increase operational efficiency. The measures we have taken have improved our balance sheet structure, giving us greater opportunities for the renewal of our operations. Much remains to be done, and increasing our profitability will continue to be a high priority. We want to create constantly growing added value for our owners and customers.

When a company is in a period of renewal, it is not necessary to do everything alone or to own everything the business requires. We are open to new structures and solutions. The key is finding the right partners. One example of productive cooperation is Vapo Lämpövoima Ky, which was established in partnership with OP-Eläkekassa, OP Vakuutus Oy and OP-Henkivakuutus Oy, which belong to OP Vakuutus- ja Eläkeyhteisöt, and their jointly owned Otso Infrastruktuuri I Ky. Vapo Oy owns 19.9 per cent of the company and the OP Group companies own the other 81.1 per cent. The owners participate in the financing of investments according to their ownership shares, but Vapo Group is responsible for the actual operational activities. The purpose of the joint fund is to actively participate as an energy partner in heating plant investments by industrial players, cities and municipalities.

Focus on the customer

The changes in Vapo's operating structure have hardly any impact on customer service. They do not affect the company's legal structure or day-to-day operations.



The goal is for the changes to only be evident to the customer in more efficient operations and improved service. We aim to achieve this goal by, among other things, increasingly engaging our customers' participation in the development and testing of new services and businesses. After all, customers are at the heart of our renewal. In the energy business, we are also committed to ensuring that those of us who work with customers will always have comprehensive responsibility for — and understanding of — each customer's fuel requirements and other needs.

A strong foundation for renewal

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).

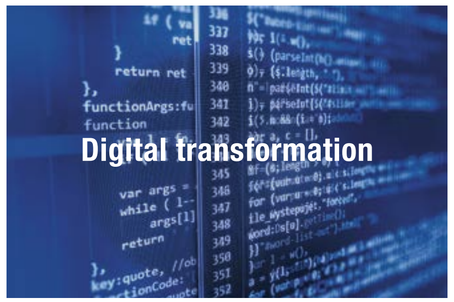
The reduced inventories and strong sales were reflected in strong cash flow, which was on a par with the previous year at EUR 73 million. Thanks to the strong cash flow and moderate investments, the Group was able to substantially reduce its net debt. The equity ratio increased to 51 per cent (43%) at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

These results provide a strong foundation for continued growth and improved profitability in the new financial year.

Vesa Tempakka
CEO

FORCES OF CHANGE

The most significant forces of change that drive the renewal of our strategy and operations are urbanisation, the digital transformation and climate change. Identifying the trends that affect our operations allows us to better anticipate future challenges and opportunities as well as promote the well-being of people and the environment.



Vapo and its Group companies in Finland, Sweden and Estonia produce products and services in two main areas: the energy business and the Grow&Care business. The Grow&Care business comprises professional growing in greenhouse and tunnels, home gardening and the creation of pleasant living environments through landscaping. Vapo's professional growing products are developed under the Kekkilä Professional brand, which is widely known in the global market. Vapo also owns the Kekkilä Garden brand, which has a strong tradition and a market-leading position in the gardening industry in Finland. In Sweden, the gardening and landscaping business is conducted under the Hasselfors Garden brand, which was established in the 17th century.

The company's operating environment is currently in a strong state of flux. Climate change and the restrictions it brings for non-renewable fuels, urbanisation and the growing demand for local food together with living environments becoming polluted and droughts pestering many countries present us with threats and opportunities at the same time. Simultaneously, the digital transformation provides completely new opportunities for making operations more efficient.

Vapo has renewed its strategy and structure, and is now ready for change. Our goal is to decrease our dependency on energy peat in a controlled manner and, in its place, increase the share of peat-based growing media and bedding peat in our business. In addition, we will offer an increasingly diverse response to urban consumers' need to make their surroundings greener.

In the energy business, we will move further along in the value chain, which will see the relative share of peat, pellets and wood chips sold as fuels decrease in favour of tailored energy solutions and digital services based on our expertise. Under the new operating model, we will produce some of the services alone, but increasingly, we will produce them together with our customers and partners. Renewable fuels are already a significant part of our fuel selection, and their share will only increase.

We also have to reinvent peat, or develop completely new, refined products out of peat and other natural materials that will bring new turnover for us and added value for our customers.

The most significant megatrends that drive the renewal of our strategy and operations are climate change, urbanisation, the digital transformation and the well-being of people and the environment. Identifying the trends that affect our operations allows us to better anticipate and respond to future challenges and opportunities.

Our goal is to decrease our dependence on energy peat in a controlled manner and, instead, increase the share of growing media made of peat and bedding peat in our business.

STRATEGY

Vapo's new strategy is clear: We satisfy people's basic needs.

- **We promote healthy and local food production**
- **We help solve the fresh water shortage problem**
- **We provide local heating production**
- **We offer new solutions for cleaning up polluted environments**
- **We create well-being**

VAPO GROUP'S OPERATING MODEL

The Group's structure was changed to correspond to the new strategy. As before, the Group's parent company is Vapo Oy, but the Group's operations are now managed under a divisional structure instead of country-specific companies.

Vapo Group reorganised its operations effective from 1 May 2018.

The structural reforms did not affect the company's legal structure. The consolidated financial statements for the period 1 May 2017–30 April 2018 have been prepared in accordance with the previous segment structure based on country-specific companies. As we are now operating under the new structure, the first part of this annual report is written in accordance with the structure that went into effect on 1 May 2018.

The structural reforms saw the Group's business operations divided into the Energy division, the Grow&Care division and the New Businesses division. Shared services used by all three business divisions, such as peat production in various countries, logistics services and procurement, are provided by a separate Supply Chain Management function. In addition, the Group's parent company is responsible for producing Group services, such as finance, ICT, communication, HR and legal services, for the Group's various parts.

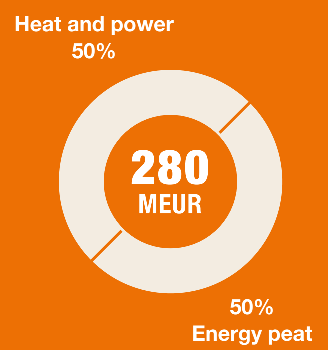
ENERGY DIVISION	GROW&CARE DIVISION	NEW BUSINESSES DIVISION

Supply Chain Management

Group Services

ENERGY DIVISION

- Turnover approx. EUR 280 million
- Approximately 200 employees
- We operate in Finland, Sweden and Estonia
- We sell local solid fuels, heating, steam and electricity as well as tailored energy solutions
- Our customers include energy companies, industrial companies, municipalities, small businesses and consumers

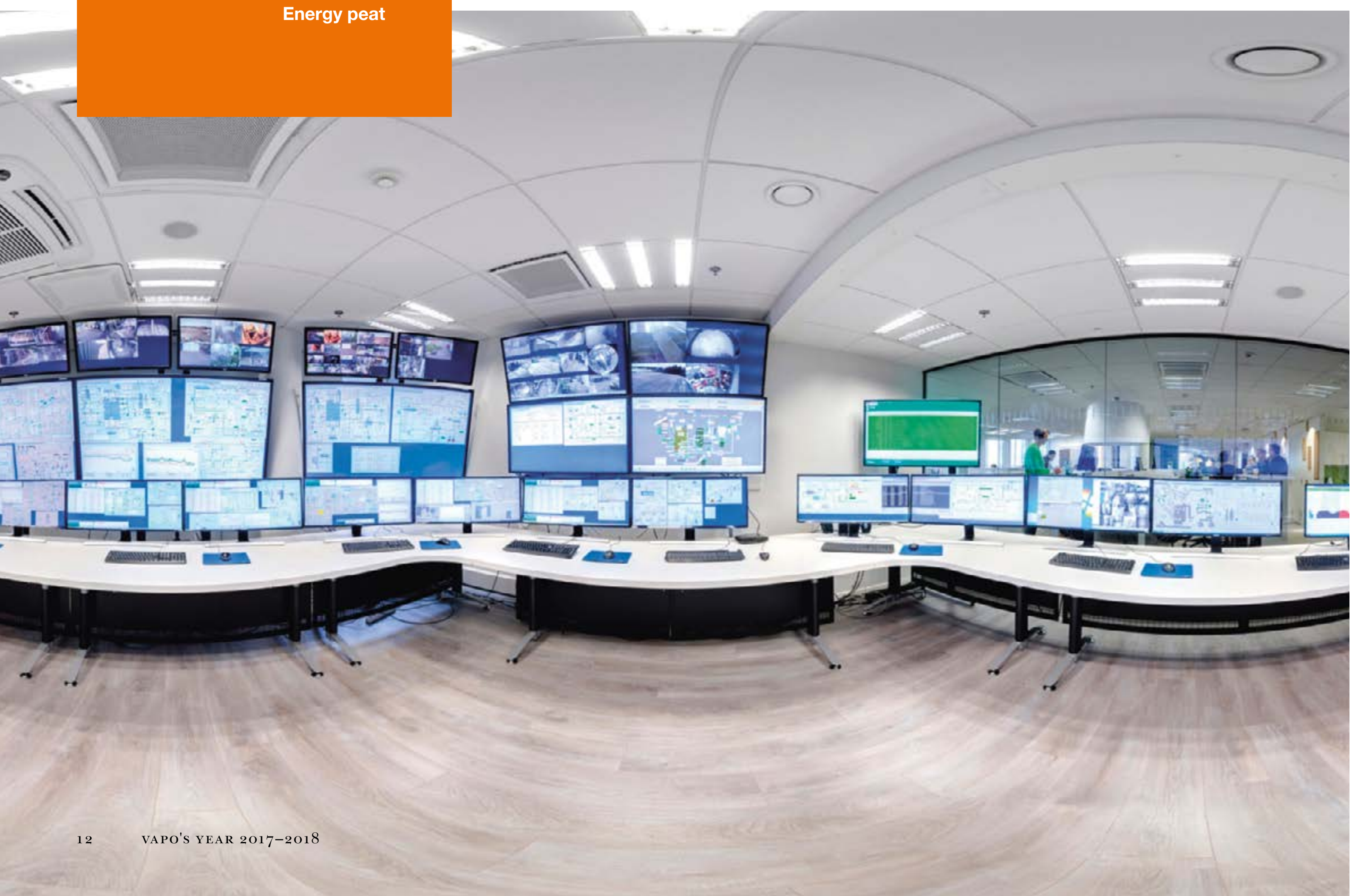


The Energy division is responsible for the sale of fuels, i.e. energy peat, wood chips and pellets. The division is also responsible for fuel wood purchasing as well as the purchasing raw material for pellets and producing pellets in Finland. The division also handles the Group's heating, electricity and steam production and their sale to businesses, communities and consumers as well as the production of various digital energy services for the Group's own facilities and external customers. The Energy division consists of the Finnish energy businesses that were previously under Vapo Oy as well as Neova AB's Swedish energy businesses and AS Tootsi Turvas' energy businesses in Estonia.

Their combined turnover is approximately EUR 280 million. Rather than pursuing significant growth in turnover, the aim is to increase the share of long-term customer relationships and tailored energy solutions and services in the portfolio. These measures are also aimed at higher profitability.

Advanced energy solutions and renewable biofuels currently account for approximately 50 per cent of the division's operating result. Over the next few years, the goal is to achieve significant growth in business based on industrial and community energy solutions and the supply of renewable biofuels. We will also continue offering and developing services to meet the needs of our customers. Examples of typical services are remote operation services offered to all energy producers, which are based on the most advanced operations centre in the sector. Our goal is to improve customer satisfaction and increase shareholder value.

> *Rather than pursuing significant growth in turnover, the aim is to increase the share of long-term customer relationships and services in the product and service portfolio.*



Local fuels for local operators. Our fuel selection consists of energy peat, wood chips and pellets. In addition to six fully-owned pellet factories, we have a 50 per cent share in Scandbio AB in Sweden.

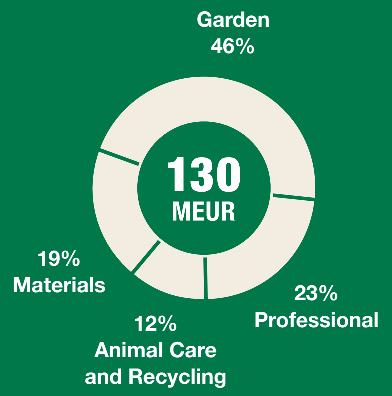
Energy efficiency is responsibility. The use of heat accumulators, on-off operation, digitalisation and flue gas scrubbers can significantly increase the energy efficiency of small boiler plants. Smaller fuel quantities and lower emissions are part of responsible energy policy.

A significant player in Finland, Sweden and Estonia. We are responsible for operating six power plants and approximately 150 other boiler plants in Finland, Sweden and Estonia. We also operate 36 district heating networks. We have implemented more than 100 different energy production solutions for our industrial, municipal and energy sector customers.

Millions of euros in savings from digitalisation. The digitalisation and remote operation of boiler plants improves their operability and helps optimise fuel use. For large plants, this can mean millions of euros in savings per year. The operations centre in Vantaa's Tikkurila district is already responsible for operating dozens of plants 24/7.

GROW&CARE DIVISION

- Turnover approx. EUR 130 million
- 240 employees
- Six own growing media production facilities
- Exports to more than 70 countries
- Europe's leading supplier of raw material for growing media



The Grow&Care division plays a central role in Vapo Group's future strategy. We have centralised all of Kekkilä Group's operations in this division, along with the animal bedding business and the peat raw material sales of all of our Group companies in Finland, Sweden and Estonia. The division also includes our new fibre business.

We are the leading supplier of peat raw material in Europe. By consolidating our horticultural peat expertise in the Grow&Care division, we aim to become the strongest player in growing media intended for professional greenhouse growing in Europe. We are the market leader in the gardening business in Finland and Sweden and we export professional growing products to more than 70 countries.

The Grow&Care business has three main customer segments: consumers, landscaping customers and professional growers. In the bedding peat business, our customers include horse farms, cattle farms, pig houses and poultry producers. In the Kekkilä Recycling business, we create new growth from waste by composting biomaterials at our own composting plants to produce growing media for green areas. In the raw material trade, we supply horticultural peat for further processing by customers around the world.

As part of the Grow&Care division, Kekkilä Garden and Hasselfors Garden offer products under their own strong brands to the home gardener market in Finland and Sweden. Kekkilä Professional focuses on the professional grower business in Vapo Group's home markets as well as the global markets.

The Grow&Care division's strategy is supported by several megatrends. Urbanisation and climate change are creating more demand for clean and plant-based local food. Peat's qualities as a growing media support sustainable food production and reduce water consumption in agriculture.

Growing interest in well-being supports not only the professional growing business, but also more natural lifestyles. This will have a favourable impact on consumer demand as well as our businesses related to recycling and landscaping.

Investing in our brands, customer insight, sustainability, personnel, product development and the Group's internal cooperation will give us an excellent opportunity to achieve our goals.

The Grow&Care division's strategy is supported by several megatrends

We are a strong brand in the consumer market. Kekkilä Garden is a well-known consumer and landscaping brand in Finland and the Baltic countries. Hasselfors Garden operates in the same markets in Sweden. The Hasselfors Garden brand also has a presence in the Norwegian market, represented by Nordic Garden.

Bedding peat and recycling. Grow&Care is responsible for the Group's bedding peat marketing as well as the sale of peat for use as raw material by refiner customers in the home markets and the global export markets. The division also includes the Kekkilä Recycling business.

The demand for clean food is growing. In the professional grower business, Central Europe is our most important and fastest-growing market aside from our home markets. The growing demand for safe and clean food also supports the growth of our business in the Asian market. Our products are already exported to more than 70 countries, both directly and through distributors.

We are the leading producer of horticultural peat and bedding peat in Europe. The Grow&Care division also includes the use and processing of peat raw material for purposes other than energy, namely horticultural peat and bedding peat. Grow&Care is also responsible for the continued development and commercialisation of the fibre business originally developed by the Group's product development unit.

NEW BUSINESSES DIVISION

- Competence as the most important resource
- Own product development laboratory in Jyväskylä
- The fibre business was transferred to the Grow&Care division after the product development stage
- Carbons awaits environmental permits for the decision to build a production facility
- Peat research is still in its early stages

The New Businesses division creates new products and innovations based on the Group's competencies and raw material resources. The Ventures unit is responsible for the development and refining of new innovations in the New Businesses division. When a business initiative is ready for commercialisation, it will be separated into a business of its own or transferred to one of the existing divisions.

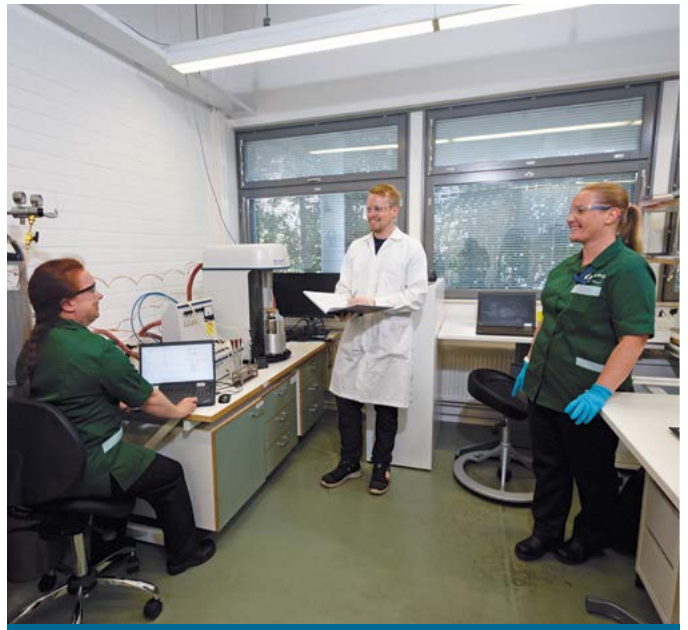
Product development efforts have already produced two promising projects that are moving ahead swiftly. Both of them are based on refining peat and peat fibre to create new products. The fibre business is currently the furthest along on this path, and it was transferred to the Grow&Care division because the first products are mainly related to growing. Peat fibre can be used in various growing media products, but it is also a highly promising material in the construction industry because it can be used to manufacture various construction and sound insulation boards and insulating materials.

Another promising project focuses on producing active carbons from peat. Vapo Oy has developed a new manufacturing method for producing activated carbon, which has various industrial applications, using peat as the raw material. The Carbons business has reached the stage where our aim is to make the decision on the construction of the first production plant within this calendar year. The company is waiting for environmental permits for three potential locations: Haapavesi, Ilomantsi and Seinäjoki.

Product development requires money, resources and time, but the most valuable resource in this area, as in any area, is highly competent people. The goal of the New Businesses division is to produce sustainable new business based on our resources and expertise, which will increase our shareholder value in the long run.

Vapo Ventures is also responsible for developing and managing the Group's shared innovation activities and managing the company's IPR assets.

When a business initiative reaches the stage where commercialisation is possible, it will be separated into a business of its own or transferred to one of the existing divisions.



Laboratory located at a university. Establishing the company's own product development laboratory on the premises of the University of Jyväskylä has substantially accelerated the process of conducting various trial runs. It makes it possible to quickly adjust key parameters and repeat series of tests. This is particularly important in developing entirely new businesses, using new raw materials and new methods.

Controlled innovation. Vapo Ventures' primary focus is on product development, but the unit also manages the Group's innovation activities. The Group Innovation Model gives all of the Group's employees the opportunity to present their innovations and develop them on a collaborative basis. The effort is led by Pekka Pirhonen, supported by a group of innovation ambassadors across the Group.

Business from fibre. The size of the global fibre industry is measured in tens of billions of euros. Like wood fibre, peat fibre can be used as a raw material in board construction. It also has qualities that make it an excellent material for sound and heat insulation. The area where development is the furthest along is fibre applications in growing media.

A new method for producing activated carbon. Vapo has developed a method for producing activated carbon from peat. Activated carbon is used in many industrial applications and various food industry processes as well as air and water purification. One common use of activated carbon is in the extractor hoods fitted in kitchens.

Supply Chain Management

- An organisation that works across borders
- Duplicating best practices
- A responsible approach to operations
- Added value through quality
- Delivery reliability for our customers

The new organisation's goals in this area are ambitious. Our aim is to have an industry-leading supply chain.

Group Supply Chain Management is a function with just over 200 employees. In all three of our operating countries, it is responsible for areas such as peat production, purchasing, logistics as well as the environment, quality, occupational safety and health. Our structure was previously built around having independent companies in our different countries of operation. The new operating model involves more cooperation and consolidation of our resources. It also improves our ability to share best practices between businesses and countries.

The new organisation's goals in this area are ambitious. Our aim is to have an industry-leading supply chain. We seek to engage in comprehensive management and development of the supply chain, from raw material sources to customers, which will create significant synergies and greater added value.

Synergies and added value are expected to be reflected in improved operations in all areas. The areas being monitored include delivery reliability, cost-efficiency, optimal use of tied-up capital, product quality, operational quality, environmental responsibility and safety in all activities throughout the Group.

The shared Supply Chain Management function will also enable the investment of resources in developing the professional skills and competencies of the individuals and teams who work on our supply chain. Customer orientation and close cooperation with the businesses and the ICT function are among the cornerstones of the Supply Chain Management function.

Under the new model, production operations in all operating countries and involving all types of peat are centralised in a single function. This ensures our ability to optimise production according to demand and production conditions.

The leading producer of horticultural peat. Vapo Group is Europe's leading producer of energy peat and horticultural peat. In Estonia, nearly all of the production volume consists of horticultural peat. In Sweden, non-energy peat accounts for half of the total production volume. Horticultural peat is an excellent growing media. The high water retention capacity of peat means significant savings in fresh water use in greenhouse cultivation. Vapo Group's horticultural peat is exported to foreign markets as far away as South America.

Customers value delivery reliability. The Group's fuels, products and raw materials are transported in volumes exceeding 100,000 lorry loads per year. The effective management and optimisation of logistics and ensuring the responsible operation of the subcontractor chain are essential to our capacity to maintain our high degree of delivery reliability.

Transparent communication is part of responsibility. Vapo has measured peat production areas' impact on waterways using continuously operating monitoring devices for several years now. The results are available in real time on the Valmet Oyj website. Continuous measurements complement the emissions monitoring activities required by environmental permits. Each year, Vapo hires dozens of seasonal employees to conduct inspections at production areas.

A target of zero accidents leading to absence from work. This target applies to Vapo's permanent employees as well as subcontractors. In 2017, the Group recorded 3,375 occupational safety observations, an increase of 65 per cent from the previous year. The recording of observations has been promoted by the introduction of a new electronic reporting tool for subcontractors.

Group Services

- Shared support functions for the entire Group
- Responsibility characterises our operations
- Focus on digital solutions
- Prioritise the development of competence
- Reputation management

The largest Group Services functions are Group Finance and Business Control (Fina) and ICT

Group Services are shared support functions that facilitate the Group's business operations and other functions. Group Services currently employs just over 70 people.

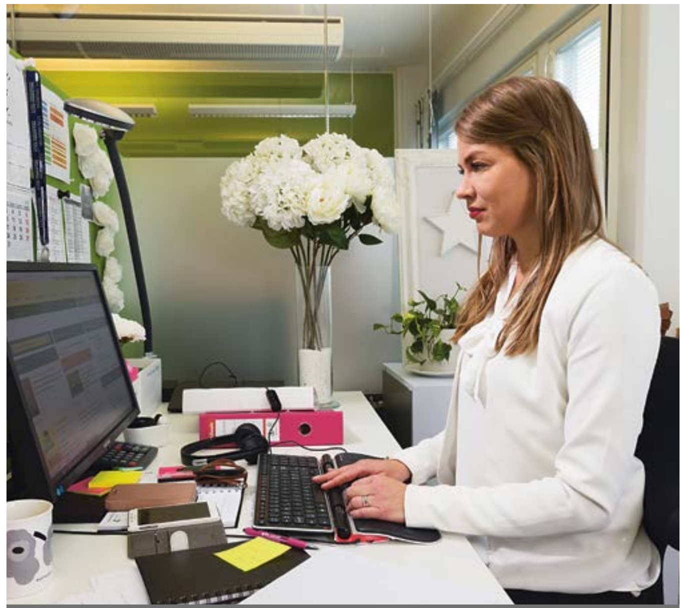
The largest Group Services functions are Group Finance and Business Control (Fina) and ICT. Fina ensures that all businesses have access to up-to-date information on financial performance. Fina is also responsible for reporting on the Group's financial situation, Group financing and the management of financial risks.

The ICT function plays a central role in the development of the Group's operations. It ensures that the Group's employees have access to current tools, effective telecommunications and the IT infrastructure required for production operations. Vapo wants to lead its industry in the speed of the digital transformation. Achieving this goal and maintaining a high level of data security are among the Group's key development projects for the coming years.

In HR, the main focus is on competence and its development. In the communications function, the focus has shifted from financial communications towards communications on responsibility. Group Communications and Public Relations is in charge of the Group's internal and external communications as well as the coordination of lobbying.

Group Legal Services and Internal Audit is responsible for ensuring that our operations are always fully compliant with the laws and norms of each operating country. Risk management and its development is a key area of development for this function.

The Finnish State is Vapo Oy's largest shareholder. At the end of the financial year, it owned 50.1 per cent of the company. Vapo's other shareholder is Suomen Energiavarat Oy, a company owned by local and regional energy companies that owns a 49.9 per cent share of Vapo. While Vapo is not a listed company, it aims to adhere to the principles governing listed companies when it comes to financial reporting and the distribution of financial information.



The Intranet is a key tool for Group Services. It serves as a communication channel as well as a shared archive of operating policies, scorecards and other types of material. In addition to using the Intranet, the Group's employees communicate in dozens of Yammer groups on a daily basis.

Satisfaction through digitalisation. Using videoconferencing facilities and Skype meetings when possible allows the Group to reduce travel-related CO_2 emissions, make more efficient use of time and promote job satisfaction.

No compromises on safety. Personnel surveys have indicated that competence development and occupational safety are high priorities for Vapo's employees.

VAPO CREATES VALUE

INPUT

Finances

- Balance sheet EUR 697.5 million
- Equity EUR 347.9 million
- Gross investments EUR 31.5 million

Personnel

- 758, of whom 530 in Finland
- 100 seasonal workers per year
- Over 344 employees attended a training

Natural resources

- 95,000 hectares of land assets
- Over 500,000 m3 of certified wood fuel
- Water consumption 1,198,000 m3*

Production plants

- Approx. 400 peat production areas
- 6 power plants
- About 150 heating plants
- 36 district heating networks
- 6 pellet factories
- 6 horticultural peat factories
- 2 composting plants

Intangible assets

- Industry expertise
- Certified quality management and environmental system
- Patents, brands
- Treatment methods for natural waters and drainage waters

Partner network

- Contractors
- Logistics partners
- Land owners
- Wood suppliers
- Research institutes, universities, schools
- Retailers

BUSINESS

- **Energy industry expertise in solid fuels**
- **Peat expertise**
- **Expertise in growing**
- **Leveraging the digital transformation**
- **Customer-focused solutions and services**

FORCES OF CHANGE

- The digital transformation
- Responsibility
- Urbanisation
- Climate change

OUTPUT

Fuel supplied

Heat, electricity and steam supplied

Growing media and other gardening products

Environmental peat

Peat fibres

Energy solutions

Operating services for energy assets

Digital services

Water treatment solutions

Security of supply and logistics services

Innovation

Waste and emissions

Airborne emissions:

- Carbon dioxide
- Particle emissions
- Sulphur and nitrogen oxides
- Ash

Emissions into waterways:

- Phosphorus
- Nitrogen
- Solid matter
- Waste water
- Waste

IMPACT

Economic impact

- Turnover EUR 419.8 million
- Salaries and fees EUR 39.1 million
- Purchases EUR 162.0 million
- Dividends EUR 4.0 million
- Income taxes EUR 2.7 million

Social impacts

- Reliability of the supply of electricity and heating
- Direct and indirect employment effects in Finland, Sweden and Estonia
- An important employer in sparsely populated areas
- 15 accidents per one million working hours
- Promoting the construction of green areas and gardening
- Promoting food safety
- Developing global food production
- Animal welfare

Environmental impacts

- Urban green areas sequester carbon and wetlands purify drainage waters
- Converting cutaway peat production areas into carbon-sequestering areas
- Promoting biodiversity by reforestation and building wetlands
- Exchanging mires with significant natural resources or selling them for conservation purposes
- Waste recycling rate 89%*
- Ash recycling rate 86%*

* Figures exclude Kekkilä Eesti OÜ and Hasselfors Garden

RESPONSIBILITY PROGRAMME

The first responsibility programme designed to support Vapo Group's new strategy is entitled "Sustainable growth and well-being from nature". We use natural raw materials to produce growing media, heat, energy and new innovations that promote sustainable development. We use our raw materials to build sustainable growth and well-being for people and the communities we operate in.

The responsibility programme's themes and material aspects are based on a materiality analysis conducted in autumn 2017. The materiality analysis was based on an online survey and interviews. The Management Team also validated and assessed the material themes.

The online survey was distributed to 200 stakeholder representatives and the company's employees were also offered the chance to complete the survey on Vapo's intranet. Nearly a hundred respondents completed the survey, representing employees, customers, Vapo Group's Board of Directors, partners and the authorities. The online survey was also complemented by interviews with representatives of various stakeholder groups.

The working group on responsibility evaluated the current status of each material aspect as well as a target level for the year 2021, using a scale of 1–4. The material aspects for which the current status and target level were at least two steps apart on the four-point scale will be given special attention during the period from 2018 to 2021. These aspects include the life cycle impacts of products and solutions, subcontractor health and safety, the assessment of suppliers according to relevant criteria concerning environmental and social aspects as well as business ethics and anti-bribery.

Targets and performance indicators were set for each of the material aspects for the period 2018–2021. We will report annually on our progress towards achieving the targets and realising our vision.

At Vapo Group, the CEO is in charge of corporate responsibility and its implementation. Business-level management is in charge of the practical measures related to responsibility in each business area.

More information on the highlights and development areas related to our responsibility efforts is provided in Vapo Group's first corporate responsibility report, available online at vapo.com.

We take care of nature

- Life-cycle impact of products and solutions
- Emissions into waterways from peat production
- Energy efficiency
- Emissions into the air
- The biodiversity of nature

We develop continuously

- Delivery reliability and the security of supply by making use of digitality
- Customer satisfaction
- Innovations for sustainable development
- Development of competence

We guarantee quality and safety

- Quality and cost-efficiency of products and services
- Health and safety of personnel
- Health and safety of contractors
- Assessment of suppliers according to relevant criteria concerning environmental and social aspects

We create well-being

- Job satisfaction and well-being of personnel
- Equality and diversity
- Local employment effects
- Economic impact

Responsible operating principles, transparent and active communications

Our policies, commitments, reporting and stakeholder communications guide our operations.

FINANCIAL STATEMENTS

1 May 2017–30 April 2018

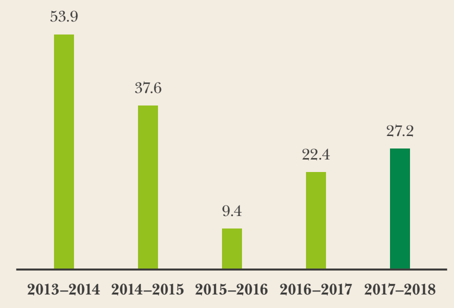
FINANCIAL YEAR IN BRIEF

Key figures

MEUR	2012	4/2014	4/2015	4/2016	4/2017	4/2018
Turnover	652.9	847.4	486.9	459.8	392.1	419.8
Operating margin (EBITDA)	52.1	110.8	74.7	43.1	56.9	61.1
% of turnover	8.0	13.1	15.3	9.4	14.5	14.6
Operating profit (EBITA)	9.1	50.0	36.9	8.6	20.0	26.3
% of turnover	1.4	5.9	7.6	1.9	5.1%	6.3
Operating profit (EBITA) before impairments	9.7	53.9	37.6	9.4	22.4	27.2
% of turnover	1.5	6.4	7.7	2.1	5.7	6.5
Free cash flow before impairments	64.4	61.9	-25.1	60.7	73.2	73.4
Return on invested capital %	1.3	3.8	5.4	1.2	3.0	4.3
Return on invested capital before impairments %	1.4	4.4	5.5	1.4	3.4	4.4
Equity ratio %	37.7	40.2	37.8	37.6	43.0	51.2
Interest-bearing net debt/operating margin	6.8	4.4	5.3	8.5	4.7	3.4
Gross investments	48.0	65.0	88.4	38.5	39.6	31.5
Average number of personnel	1 154	1 091	961	914	773	758
Depreciations	-42.0	-54.2	-39.3	-35.0	-35.6	-35.7
Depreciations / net sales %	6.4%	6.4%	8.1%	7.6%	9.1%	8.5

* The financial year 1.1.2013–30.4.2014 was 16 months long.

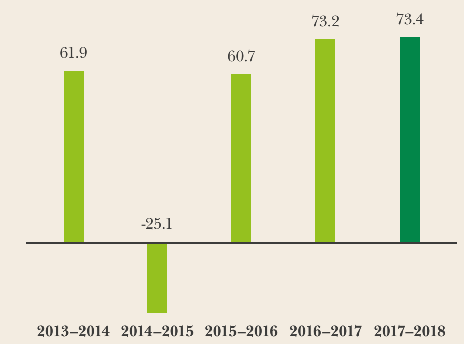
Operating profit (EBIT) before impairment, EUR million



Operating profit shows the profitability of business operations and largely determines the return on invested capital, among other things. In Vapo's operations, operating profit is particularly influenced by the weather dependence of the fuel and heating business and the success of peat production. The peat production season in summer 2017 was poor and the sourcing of fuel wood was complicated by wet conditions in the autumn. The last three months of the financial year were significantly colder than average, which led to an increase in fuel and heating deliveries. The Group's operating profit increased year-on-year and amounted to EUR 26.3 million.

The financial year 1.1.2013–30.4.2014 was 16 months long.

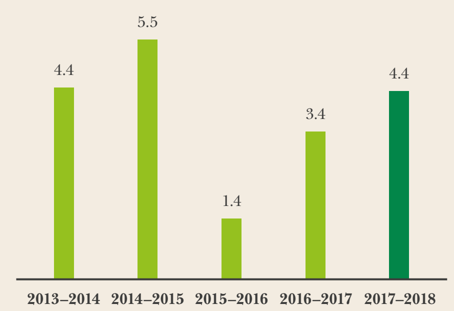
Free cash flow (pre-tax), EUR million



Free cash flow before taxes and financial items takes into account the operating margin as well as factors such as changes in capital tied up in businesses, the impacts of sales of assets, and investments made. The Group's free cash flow before taxes in the 2018 financial year 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). Net investments (gross investments – asset sales) totalled EUR 25.2 million (EUR -1.6 million).

The financial year 1.1.2013–30.4.2014 was 16 months long.

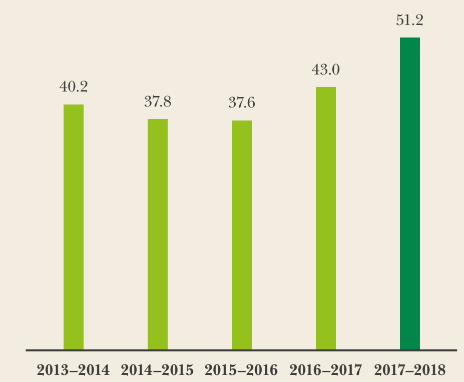
Return on invested capital (ROIC) before impairment %



Return on invested capital (ROIC) is the main indicator of profitability in Vapo's capital-intensive industries as it takes invested capital into account in addition to operating profit. ROIC reflects the company's ability to create shareholder value, meaning that it should be higher than the weighted average cost of capital (WACC). At the end of the financial year, Vapo's return on invested capital before impairment was 4.4 per cent.

The financial year 1.1.2013–30.4.2014 was 16 months long.

Equity ratio %



The equity ratio measures the company's solvency and indicates the extent to which the company's assets are financed by equity. The improved profitability of operations, the divestment of loss-making operations, asset sales and a focus on cash flow are reflected in the equity ratio improving in recent years. At the end of the 2018 financial year, the equity ratio stood at 51.2 per cent.

The financial year 1.1.2013–30.4.2014 was 16 months long.

BOARD MEMBERS

Chairman of the Board

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

Relevant concurrent positions of trust: Chairman of the Board: Molok Oy 2016- and Antilooppi ky, 2015-; Member of the Board: Stiftelsen för Åbo Akademi, 2013-
Relevant work experience: Huhtamäki Oy, several positions 1982-2003; Uponor Oyj, CEO 2003-2008; Ahlström Oyj, CEO 2009-2014
Chairman of Vapo's Board of Directors 2015-
Chairman of the Personnel Committee 2015-

Vice Chairman of the Board

Markus Tykkyläinen
b. 28 October 1973, M.Sc. (Energy Technology), eMBA (Strategic Management), M.Sc. in Economics and Business Administration (Finance)

Relevant concurrent positions of trust: Member of the Board: Kymppivoima Tuotanto Oy, Kymppivoima Hankinta Oy and Järvi-Suomen Voima Oy; Chairman of the Board: Elvera Oy
Relevant work experience: Rovaniemen Energia Oy/Napapiirin Energia and Vesi Oy, Managing Director 2011-2016; Ranuan Bioenergia Oy, Managing Director 2015-2016; Vakka-Suomen Voima Oy, Development Director 2010-2011; Kainuun Sähkö Oy/Graninge Kainuu Oy/Kainuun Energia Oy/E.ON Kainuu Oy, Design Engineer, Quality Manager, Environmental Director, Risk Manager, Development Manager 1998-2010
Member of the Board at Vapo 2016-
Member of the Audit Committee 2016-

Members

Tuomas Hyyryläinen
s. 1.12.1977, KTM, Senior Vice President, Emerging businesses, Neste Oyj, 14.9.2016-

Relevant concurrent positions of trust: Member of the Board: Nynas Ab
Relevant work experience: Neste Corporation, SVP, Strategy and New Ventures 6/2014-9/2016, SVP Strategy 6/2012-6/2014; F-Secure Corporation, Vice President, Strategy and M&A, 6/2010-6/2012; Nokia Corporation, several different positions, 2004-2010
Member of the Board at Vapo 2016-
Member of the Personnel Committee 2016-

Juhani Järvelä
b. 20 July 1956, M.Sc. (Eng.) Managing Director, Oulun Energia Oy 2010–

Relevant concurrent positions of trust: Chairman of the Board: Voimapato Oy, Oulun Sähkönmyynti Oy and Oulun Energia Urakointi Oy; Board Member: Pohjolan Voima Oy, Kolsin Voima Oy and Oulu Chamber of Commerce
Relevant work experience: Fortek Oy, Managing Director 2005–2009; Stora Enso Oy, Development Director 1999–2004; Enso Group, Project Manager 1995–1998; Veitsiluoto Oy, 1985–1994; Orion Oy, 1983–1984; Metsäliiton Teollisuus Oy, 1980–1982
Board Member at Vapo 2017–
Member of the Personnel Committee 2017–

Risto Kantola
b. 15 March 1960, M.Sc. (Eng.) Managing Director, Oulun Seudun Sähkö 1 August 2003–

Relevant concurrent positions of trust: Chairman of the Board: Oulun Seudun Sähkö Verkkopalvelut Oy, Pohjois-Suomen Voima Oy; Board Member: Svartisen Holding AS, Voimapato Oy, Kolsin Voima Oy, SF Power Company, Eltel Networks Pohjoinen Oy
Relevant work experience: Oulun Energia Oy, Production Director 1995–2003; Pohjolan Voima Oy, Design Engineer 1990–1995; Ekono Oy, Design Engineer 1986–1990
Board Member at Vapo 2009–2011, 2013–2015 and 2017–
Member of the Audit Committee 2009–2011 and 2017–
Member of the Personnel Committee 2013–2015

Pirita Mikkanen
b. 15 February 1966, D.Sc. (Tech.) Partner, TM System Finland Oy

Relevant concurrent positions of trust: Member of the Executive Board: Finnfund Oy; Member of the Board: Pihita Oy, Enersize Oy and GloCell Ltd Oy; Chairman of the Board: Lifa Air Oy
Relevant work experience: GreenStream Network Oy, Executive Vice President 2010-2014, Climate Opportunity Fund and Fine Post 2012; Carbon Fund, Fund Manager 2011-2013; Kemi-Cell Oy, CEO 2009-2013; GloCell Oy, CEO 2009-2010; PricewaterhouseCoopers Oy, Senior Manager 2008-2009; Labtium Oy (Geological Survey of Finland), Business Area Director 2006-2008; Gaia Consulting Oy, Business Director 2005-2006; Dekati Oy, Business Director 2000-2005
Member of the Board at Vapo 2014-
Member of the Audit Committee 2014-

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

Relevant concurrent positions of trust: Member of the Board: Veikkaus Oy, Gasonia Oy and Terrafame Group Oy
Relevant work experience: HSH Nordbank AG, Client Executive 2004-2008, Project Manager 2002-2004; SEB, Vice President 1998-2002; Suomen Vientiluotto Oy, Regional Representative Singapore, Assistant Regional Representative Hong Kong and other positions 1990-1998
Member of the Board at Vapo 2013-
Member of the Audit Committee 2013-2014
Chairman of the Personnel Committee 2014-2015, member 2015-

Minna Smedsten
b. 30 August 1976, M.Sc. (Econ.) Group CFO, Taaleri Plc. 1 August 2013-

Relevant concurrent positions of trust: Member of the Board: Havsfrun Investment AB and Taaleri Equity Funds Ltd
Relevant work experience: GreenStream Network Plc, CFO 2009-2013; Kaupthing Bank Finland, Finance Manager 2005-2008; Norvestia Plc, IR & Finance Manager 2000-2004; Tuokko Deloitte & Touche, Auditor 1999-2000
Member of the Board at Vapo 2016-
Member of the Audit Committee 2016-

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

CORPORATE GOVERNANCE AT VAPO

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

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

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

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

General meeting of shareholders

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

The Annual General Meeting was held in Helsinki on 9 October 2017. The Annual General Meeting adopted the financial statements of the parent company and the consolidated financial statements for the financial period 1 May 2016–30 April 2017 and discharged the Board of Directors and the CEO from liability. The Annual General Meeting also approved the Board of Directors' proposal on the distribution of dividends, according to which dividends in the amount of EUR 4 million, or EUR 133.33 per share, were paid for the financial period 1 May 2016–30 April 2017. In addition, the Annual General Meeting decided on the members of the Board of Directors and elected an auditor for the company.

Supervisory Board

Vapo Oy has a Supervisory Board consisting of a minimum of eight and a maximum of ten members elected by the Annual General Meeting for a term of one year, and three employee representatives elected by the personnel for a term of two years.

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

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

The Supervisory Board convened four times during the financial period 1 May 2017–30 April 2018. The average attendance rate in the meetings was 87.5%.

The Annual General Meeting held on 9 October 2017 elected the following members to continue on the Supervisory Board:

- Johanna Ojala-Niemelä, Member of Parliament
- Heikki Miilumäki, D.Sc. (Tech.) (h.c.)
- Markku Eestilä, Member of Parliament
- Hanna Halmeenpää, Member of Parliament
- Reijo Hongisto, Member of Parliament
- Hannu Hoskonen, Member of Parliament
- Eero Kubin, Customer Manager, Professor
- Esko Kurvinen, engineer
- Tommi Lunttila, agricultural and forestry entrepreneur
- Tiina Snicker, Financial Manager

Johanna Ojala-Niemelä was elected to continue as the Chairman of the Supervisory Board and Heikki Miilumäki as the Vice Chairman.

Board of Directors

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

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

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

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

The Annual General Meeting held on 9 October 2017 elected Jan Lång, Tuomas Hyyryläinen, Pirita Mikkanen, Minna Pajumaa, Minna Smedsten and Markus Tykkyläinen to continue as Board members and Juhani Järvelä and Risto Kantola to join the Board as new members. Jan Lång was elected to continue as the Chairman of the Board of Directors, with Markus Tykkyläinen as the Vice Chairman. All members of the Board of Directors are independent of the company.

The Board of Directors convened 15 times during the financial period 1 May 2017–30 April 2018. The average attendance rate in the meetings was 95.8%.

The Board of Directors monitors and assesses its working methods with annual internal reports.

Committees

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

Audit Committee

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

The Audit Committee comprised Minna Smedsten (Chairman), Risto Kantola, Pirita Mikkanen and Markus Tykkyläinen. The Audit Committee convened five times during the financial year and the attendance rate was 100%.

Personnel Committee

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

The Personnel Committee comprised Jan Lång (Chairman), Tuomas Hyyryläinen, Juhani Järvelä and Minna Pajumaa. The Personnel Committee convened six times during the financial year and the attendance rate was 95.8%.

Chief Executive Officer

The tasks and responsibilities of the CEO include:

1. The day-to-day management of the company and the Group in accordance with the Articles of Association, the Limited Liability Companies Act and instructions issued by the Board of Directors.
2. Reports to the Board of Directors and the Supervisory Board.
3. Is responsible for drawing up and presenting the Group's strategy and business plans to the Board of Directors for approval.
4. Regularly informs the Board of Directors of the company's operations and financial position.
5. Presents matters to be decided on by the Board of Directors, unless this is delegated to the Business Area Director concerned.
6. Acts as the presenter of the Committees of the Board of Directors.

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

Vapo's management

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

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

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

Vesa Tempakka
Chief Executive Officer, Vapo Oy
with Vapo since 2017

Torbjörn Claesson
Managing Director, Neova AB
with Neova since 2007

Markus Hassinen
Business Area Director, Vapo Heat and Powerwith Vapo since 2011

Petri Järvinen
Chief Supply Chain Officer, Vapo Oy
with Vapo since 2018

Pasi Koivisto
Business Area Director, Vapo Fuels
with Vapo since 2008

Antti Koivula
Chief Financial Officer (Interim), Vapo Oy
with Vapo since 1/2018

Suvi Kupiainen
Chief Financial Officer, Vapo Oy
with Vapo since 2011- 2/2018

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

Jaakko Myllymäki
Business Area Director, Vapo Oy Carbons
with Vapo since 2/2018

Juha Mäkinen
CEO, Kekkilä Oy, with Kekkilä since 2016

Kari Poikolainen
Senior Vice President, Corporate Planning, Vapo Oy, with Vapo from 1990 to 3/2018

Matti Puuronen
Regional Director, Baltic Operations
with Vapo since 1996

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

Jyrki Vainionpää
Chief Operating Officer, Deputy CEO, Vapo Oy
with Vapo 2011 -1/2018

Juhani Ylä-Sahra
Director, Vapo Oy
with Vapo 1989-5/2017

Subsidiaries

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

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

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

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

Remuneration of management

In accordance with the remuneration principles described in Vapo Oy's Corporate Governance guidance, remuneration for the financial period 1 May 2016–30 April 2017 took place as follows:

Fees paid to the members of the Supervisory Board
The Chairman receives EUR 800, the Deputy Chairman EUR 600 and the other members EUR 500 per meeting.

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

Terms of the CEO's contract
CEO Vesa Tempakka's monthly salary including fringe benefits is EUR 27,500.

The contract includes an incentive bonus, which may not exceed 40% of the annual salary, bound to annual targets set by the Board of Directors. Based on the result for the financial year 1 May 2017–30 April 2018, bonuses will possibly be paid to the CEO in accordance with the achievement of the targets specified in the remuneration programme, with the amount to be subsequently approved by the Board of Directors.

The CEO may furthermore receive an incentive bonus for reaching long-term targets. According to the bonus programme approved by the Board of Directors in May 2017, the bonus is based on a two-year earnings period. The Board of Directors decides on the earnings criteria and targets for each earnings period and, based on the achievement of the targets, approves the amounts of the bonuses for delayed payment in accordance with the bonus programme.

The total salary paid to CEO Vesa Tempakka during the period 29 May 2017–30 April 2018 was EUR 307,064.

Remuneration of other management
In addition to a monthly salary, other members of the Group's management are entitled to a bonus, which can be 20–30% of the annual salary, for reaching annual targets set by the CEO. In addition, other members of the management separately named by the Board of Directors may also receive an incentive bonus for meeting long-term targets on grounds equal to those applicable to the CEO. During the financial year 1 May 2017–30 April 2018, incentive bonuses amounting to EUR 99,506 were paid to management based on previous long-term incentive schemes.

Vapo Oy's directors who are members of the Group management, including the CEO, are covered by the pension scheme provided by the Employees' Pensions Act. 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. 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.

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

During the financial year, Vapo Group's management team (excluding the CEO of Vapo Oy) was paid salaries totalling EUR 2,090,275 and bonuses amounting to EUR 182,417 for the previous financial year.

Options
The company does not make use of option bonus schemes.

Remuneration of personnel (other than senior management)
In addition to a monthly salary, the Group's personnel may be entitled to a bonus, which can be 5–20% of the annual salary, for reaching annual targets set by the CEO.

Based on the result for the financial year 1 May 2017–30 April 2018, bonuses will possibly be paid to the personnel according to their personal score card results at amounts to be subsequently approved by the Board of Directors. Incentive bonuses and other personal bonuses in the amount of EUR 931,604 for previous financial periods were paid to the personnel during the past financial year.

Internal monitoring

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

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

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

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

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

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

Internal auditing

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

Internal auditing:

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

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

Reporting:
The manager in charge of the Group's internal auditing and the external auditor performing the internal audit report, as necessary and appropriate, either jointly or independently, to the Group's Board of Directors, the Audit Committee and the senior management, in addition to preparing analyses, assessments and development recommendations on the operations of the Group and the Group companies.

Risk management

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

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

The risk management that implements the aforementioned objectives forms a part of the job description of every Vapo employee. Risks are managed at different levels of the organisation depending on where they can be influenced. The implementation and effectiveness of risk management is the responsibility of the directors responsible for business areas in Vapo Group and Vapo Oy. They organise risk management activities in their respective business areas and report the most significant risks and their management methods to their administrative bodies and Vapo Oy's Board of Directors at agreed intervals.

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

Auditing

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

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

The fees paid to the auditors during the financial year for the actual audit amounted to EUR 213,000.

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 produc-

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

tion 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 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

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**

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 horticultural 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).

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).

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.

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).

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

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**

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.

Board of Directors 1 May 2017–30 Apr 2018

Chairman	Jan Lång
Vice Chairman	Tuomas Hyyryläinen
Members	Risto Kantola
	Juhani Järvelä
	Pirita Mikkanen
	Minna Pajumaa
	Minna Smedsten
	Markus Tykkyläinen

Members of the Supervisory Board 1 May 2017–30 Apr 2017

Chairman	Johanna Ojala-Niemelä, Member of Parliament
Vice Chairman	Heikki Miilumäki, D.Sc. (Tech.) (h.c.)
Members	Markku Eestilä, Member of Parliament
	Hanna Halmeenpää, Member of Parliament
	Reijo Hongisto, Member of Parliament
	Hannu Hoskonen, Member of Parliament
	Eero Kubin, Customer Manager, Professor
	Esko Kurvinen, Engineer
	Tommi Lunttila, agricultural and forestry entrepreneur
	Tiina Snicker, Financial Manager

Group's Management Team 30 Apr 2018

Vesa Tempakka, Chief Executive Officer, Vapo Oy
Torbjörn Claesson, Managing Director, Neova AB
Markus Hassinen, Business Area Director, Heat and Power, Vapo Oy
Pasi Koivisto, Business Area Director, Polttoaineet, Vapo Oy
Antti Koivula, Chief Financial Officer (interim), Vapo Oy
Ahti Martikainen, Director, Communications and Public Affairs, Vapo Oy
Jaakko Myllymäki, Business Area Director, Vapo Oy Carbons
Matti Puuronen, Regional Director, Estonia
Juha Mäkinen, Chief Executive Officer, Kekkilä Oy
Mia Suominen, Business Area Director, Vapo Ventures, Vapo Oy

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.

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.

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

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

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.

Principles for calculating key figures

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

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