

Vapo's year
1 MAY 2018-30 APRIL 2019

Sustainable Everyday Living

Vapo Group

Sustainable Everyday Living

We are an international company. Through our businesses, we promote clean, local and water-conserving food production, supply local fuels and provide heat and steam production solutions. We also develop new products for cleaning contaminated environments and create wellbeing by providing jobs, recycling and creating comfortable living environments.

Key figures for 1 May 2018–30 April 2019

Group turnover	Group operating profit	Balance sheet total	Equity ratio	Average number of employees
460.8	33.3	805.8	51.3	1,061
MEUR	MEUR	MEUR	%	

Where we operate	Vapo Group companies	Owners
Finland Sweden Estonia The Netherlands Spain, Germany Australia	Vapo Oy Kekkilä-BVB Oy Kekkilä Oy BVB Substrates BV G&C Materials Oy Hasselfors Garden AB Kekkilä Iberia SL Oü Kekkilä Eesti Neova AB AS Tootsi Turvas Salon Energiantuotanto Oy	State ownership: 50.1% Suomen Energiavarat Oy: 49.9%

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Johan Nyberg, Chief Legal Officer. Besides his law degree, he has an M.Sc. in Economics and he is experienced in M&A law. In addition to Swedish, he is able to work with legal documents in English, German and Finnish. He commutes by bicycle all year round.

We fulfil basic needs

- We boost healthy local food production
- We are part of the solution for the world's freshwater problem
- We offer local energy solutions
- We provide new solutions to purify the polluted environment
- We create wellbeing

Targets

- A respectful and inspiring corporate culture
- Being a forerunner in sustainable development
- Adding value to our customers together
- Valuable brand portfolio
- Profitable growth and results for Vapo Group

Megatrends

Urbanisation, Digitalisation
Climate change



Our Values

Focus on customer success

Achieving together

Courage to renew

Trust through respect

Purpose

Sustainable Everyday Living

Vapo is an international company, with a strategy of satisfying people's basic needs. Our business operations promote professional growing and home gardening, the construction of attractive and pleasant living environments, and the wellbeing of animals. We provide our corporate and consumer customers with tailored energy solutions and local fuels, and develop products for air and water purification. Vapo Group is owned by the Finnish state (50.1%) and Suomen Energiavarat Oy (49.9%).

A Controlled Transformation from an Energy Company to a Conglomerate

Vapo is currently undergoing the most significant process of renewal in its entire history. We are on the path to becoming an international conglomerate whose businesses are linked by a common raw material and a responsible approach. The past financial year was a successful period for us in terms of the implementation of our strategy as well as the numbers we achieved. Our operating environment is changing rapidly, and we are committed to changing with it.

Just under two years ago, we started a strategy process at Vapo, with the starting point being the global phenomena and trends that influence Vapo and its customers. The world is becoming more urbanised and digital. The demand for food will increase as a result of population growth. The climate will become warmer, air quality will deteriorate, and clean fresh water will become a scarce commodity within the foreseeable future.

We analysed what kind of operating environment this future world will present to a company whose core business has been the sale of energy peat. The unequivocal answer was that the operating environment would be a rapidly deteriorating one. We then carefully assessed our current strengths and resources and the areas that we need to improve upon in order to transform Vapo into a company that is equipped to achieve success in our rapidly changing world and that has social justification and approval for its existence.

Our resources include very large peat reserves along with world-leading expertise in peat. We also have world-class expertise in local energy production and its digital transformation and, through Kekkilä and Hasselfors, we have strong brands

and expertise in amateur and professional growing, and highly committed, competent and motivated employees.

We finished drafting our new strategy just before the start of the recently concluded financial year. The most significant departure from the previous one was to make products for professional and amateur growers as well as peat-based animal bedding core strategic compo-

nents for the Vapo of the future. Another significant change was to accelerate the development of entirely new, value-adding products manufactured from peatland biomass and other natural materials. In the energy business, growth will be sought by providing tailored energy solutions and services to customers instead of merely selling fuels. We will pursue growth in renewable fuels.



Structure Ensures the Effective Execution of Strategy

The new strategy needed a new organisational structure to support it. We are pursuing growth in the global professional-grower market while, in the energy business, our home markets are Finland, Sweden and Estonia. Our previous organisational model based on countries and regions was no longer effective as we set our sights on new targets.

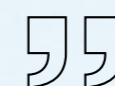
For these reasons, we adopted a new structure effective from the start of the recently concluded financial year. The new business structure spans national borders and also includes a shared Supply Chain Management (SCM) function that manages, among other things, peat production in each country. At the same time, we are seeking synergies and best practices by centralising our purchasing and logistics functions, along with environmental issues and occupational safety, in our SCM organisation. We have also centralised our financial administration, HR, ICT and communications into a new Group Services function.

The strategy has proved easy to understand and communicate. Our strategic renewal and structural reform represented a major transformation. To put the new strategy into action, we organised three rounds of communication and training for all of the Group's personnel during the financial year. The focus was on the implementation of the new strategy, communicating the Group's shared values and discussing the meaning of our purpose, which we have summarised as "Sustainable Everyday Living," and how we can all contribute towards realising that purpose.

The message communicated in the dozens of internal training events we held was clear. The Group's personnel are committed to the new strategy, and they understand its targets and preconditions. We did not include responsibility among our values as a separate item because we consider it to be a prerequisite for our existence and all of our operations. For this reason, we drafted a Group-wide purpose statement – Sustainable Everyday Living – that encompasses all of our operations.

The Four Big Achievements of the Year

Choosing the three most significant highlights of the past financial year is quite easy. The summer of 2018 was exceptionally warm and dry throughout Scandinavia. The results of our peat harvesting operations exceeded our targets in all of our operating countries. This tied up cash flow, but it also created a situation where we are able to ensure the supply of fuel for our energy customers for the next heating season regardless of the outcome of our harvesting operations in summer 2019.



We are committed to change. We operate in an industry where investment life cycles can be as long as several decades. Through renewal, we will be able to respond to the changes that occur in market terms, but political decisions made too quickly could compromise our controlled process of structural reform.

"Chronologically second among the major events of the year was a transaction that was the biggest news at Vapo Group for several decades. In October 2018, we announced that Kekkilä Oy and the Netherlands-based BVB Substrates BV are joining forces.

The merger, which entered into effect in January 2019, created Kekkilä-BVB Oy, the leading European player in its field, with products that are exported to some 100 countries around the world.

The third big news story was that Vapo Oy will build the first production facility to refine activated carbon in Ilomantsi. Construction will start in the summer of 2019 and production operations at the facility are scheduled to begin by the end of 2020.

During the financial year, Vapo Oy joined forces with OP Financial Group's insurance and pension companies to establish Vapo Lämpövoima Ky, which actively participates in heat and power investments as an energy partner for industrial corporations and municipalities. Vapo holds a 19.9% stake in the company, but is fully responsible for its practical operations.

A Satisfactory Year in Financial Terms

Successful peat production provided a solid foundation for the financial year. The increased stockpiles of energy peat and the investments made in the growing media business in the Netherlands reduced free cash flow, but all other key financial indicators improved. In spite of the higher investments, the Group's equity ratio improved slightly, to 51.3%.

Accelerating Structural Reforms

Vapo has actively communicated the fact that the use of peat will become increasingly diverse. Energy peat has a significant, although declining, role in the transition to a carbon neutral world.

The demand for agricultural peat and bedding peat is growing thanks to their excellent attributes related to food production and animal wellbeing. Bedding peat increases animal wellbeing, reduces the risk of disease and helps minimise odours. Agricultural peat promotes food production, conserves water, reduces plant diseases and serves as a recyclable soil-conditioning substance after its initial use in growing media.

In Finland alone, some 150 million saplings are planted each year, nearly all of which have been grown in our agricultural peat. Without agricultural peat, we would not have 70,000 hectares of new forest planted each year. Things are not always unequivocal.

Producing activated carbon from peat is an even clearer example of the

new uses of peat. Activated carbons are used to clean the air and water. Activated carbon produced from peat replaces other products in the market, which are manufactured from coal, among other things.

Change Takes Time

Even though our company is transforming quickly, change does not happen overnight. We were fairly satisfied with the Finnish government's policy statements pertaining to the various uses of peat.

We are on the path towards a carbon neutral world, but it is good that the government's policies enable the use of peat in energy production until the end of the 2030s beyond being merely a fuel that

ensures the security of supply. The use of peat has already declined to approximately half of its peak consumption, and it is fairly realistic to estimate that the energy use of peat will halve again during the next decade.

I am convinced that this gives us enough time to build a new and more carbon-neutral Vapo, as long as certain conditions are in place. As we have previously stated, on the path to carbon neutrality we already have an effective market-based model in the form of Europe-wide emissions trading, which steers the market towards zero-emission energy solutions.

The prices of emission rights have grown fivefold during the past year. For users, this corresponds to a price increase of about seven euros. If the

taxes on peat were to be increased in an uncontrolled manner, energy companies would have no other choice in the short term but to increase their use of wood, which would inevitably lead to a situation where commercial timber is used for energy production. This would not be a desirable or sensible outcome from any perspective.

The new financial year has got off to a normal start in terms of sales, but the start of the peat production season has been substantially slower than in the previous year due to the unstable weather conditions during the early summer. The current financial year has an exceptional duration of eight months. From the beginning of 2020, we will switch to using the calendar year as our financial year.

We aim to further accelerate our transformation and improve our occupational safety and employee satisfaction, as well as create added value for our customers and owners as a responsible company.

Vesa Tempakka
CEO



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Ahti Martikainen More than three decades in the communications industry has taught me that all target audiences are used to good news and bad news, but nobody gets used to surprises. Be enthusiastic and create enthusiasm in others. That will get you far. A passionate builder. Before his time at Vapo, he worked in communications and PR at TeliaSonera, Alma Media and KOP Bank, among others.

Everything Must Have a Purpose

The past two years have been a tremendously interesting period as we have crafted a new strategy for Vapo Group, defined our values and summarised the purpose of our existence in a single statement. The purpose of everything we do is to promote sustainable everyday living, says Ahti Martikainen, Director, Communications and Public Relations.

Vapo began the process of defining its new strategy two years ago, in the summer of 2017. To establish a foundation for this effort, the Group analysed its strengths and resources as well as the areas that require development and improvement. These were all evaluated against global megatrends. The most significant megatrends that influence Vapo's operations and the Group's strategy include climate change, urbanisation, the digital transformation and the well-being of the environment and people.

Vapo's strategy is to achieve growth in the global growing media market, pursue a determined transition from the role of a fuel supplier to a provider of customised energy solutions and develop new sustainable products based on the Group's competencies and resources. Through our businesses, we promote clean, local and water-conserving food production, supply local fuels and provide heat and steam production solutions. We also develop new products for cleaning contaminated environments and create wellbeing by providing jobs, recycling and creating comfortable living environments.

The Group adopted a new operating model in May 2018. The organisational structure was reshaped to create an international business matrix supported by a shared Supply Chain Management

function and Group Services.

The strategy proved its effectiveness quite quickly and, in October 2018, Vapo announced a transaction that would see its subsidiary Kekkilä Oy and the Netherlands-based BVB-Substrates BV join forces to form Kekkilä-BVB Oy, the leading growing media company in Europe. "As the company was taking a significant step in its expansion into new markets, we simultaneously worked on establishing common core values and tested a number of alternative vision statements for the Group as a whole," Martikainen says.

In summer 2018, a process was started to define new values for the Group as a whole. The process involved interviewing dozens of Vapo employees, analysing the results of the most recent personnel survey and organising multiple workshops to define and refine the values. Shaped in collaboration with the personnel, the values promote the implementation of strategy, clarify leadership, increase solidarity and support change. The second phase of the implementation of the strategy began last autumn when everyone at Vapo received training to ensure their engagement with the Group's values and targets.

Vapo Group's values are:

- Focus on customer success
- Achieving together

- Courage to renew
- Trust through respect

"The values support our strategy and they have been well received. The vision was a trickier proposition," says Martikainen. All of Vapo's operations are guided by a common strategy, shared values and common standards of responsibility. In connection with defining the values, the Group also defined its Purpose Statement, which summarises what Vapo wants to work towards. Sustainable Everyday Living summarises the purpose of the entire Group's existence, as its three businesses are very different from each other. The purpose statement is in English to reflect the fact that Vapo operates in seven countries.

Sustainable Everyday Living defines everything that Vapo aims to achieve through its operations.

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When we launch new products and produce products and services for our customers, customer companies and their customers, the aim is for everything to move us towards our defined purpose of providing solutions for Sustainable Everyday Living.



Vapo and the Dutch Company BVB Joined Forces

The most significant event in Vapo’s Grow&Care division in 2018 was the decision to merge the Grow&Care division with the Netherlands-based BVB Substrates B.V. The merger took effect on 4 January 2019, creating Europe’s leading and most versatile company in the market for professional growers and home gardeners. The merger was a concrete example of Vapo’s new strategy.

Kekkilä-BVB Oy provides growing media solutions that support sustainable development and conserve fresh water, catering to the growing global trend of clean local food and the construction of attractive and pleasant living environments. The merger was carried out by establishing a new company, Kekkilä-BVB Oy, to which Vapo Oy transferred all the shares of Kekkilä Oy and the Dutch company Nielson Belegging en Beheer B.V transferred all the shares of BVB Substrates B.V.

The new company’s annual turnover is approximately EUR 250 million and it employs about 500 people in Finland, the Netherlands, Sweden, Estonia, Germany, Spain and Australia. Vapo Oy holds 70% of the shares in the new company, with the van Buuren family investment company holding 30%.

Of the company’s turnover, 48% comes from the professional grower business, 39% comes from the consumer and landscaper business, and the remaining 13% comes from raw materials, animal litter and recycling.

Some 37% of the company’s business is from the Nordic countries, 27% from the Netherlands and 18% from Central and Eastern Europe. Outside Europe, the

company has significant export markets in Asia, Africa, North America and South America. The company’s products are sold in more than a hundred countries.

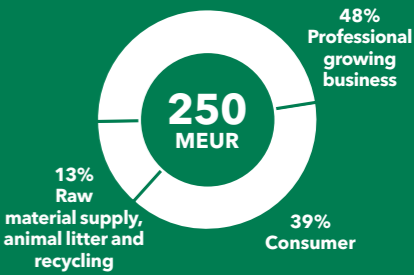
The reasons for the merger are related to the complementary strengths of the two companies. The Finland-based Vapo is one of the major players in the European professional grower business and the largest producer of agricultural peat. With its well-known Kekkilä and Hasselfors Garden brands, the company is the market leader in its field in the Nordic countries. The product portfolio also includes animal litter and recycling services. Products for professional growers are marketed under the Kekkilä Professional brand, which is exported to more than 80 countries. In addition, the raw materials used in the production of growing media are sold globally.

Established in 1908, BVB Substrates B.V is a family business based in the Netherlands. BVB’s most important business areas have been the professional grower business, the consumer business and services for landscapers. The principles underpinning the company’s operations have been customer orientation, sustainable solutions and research and training. The company’s products

GROW&CARE DIVISION

- Pro forma turnover approx. EUR 250 million
- Approximately 500 employees
- Six own facilities for producing growing media
- Exports to more than 100 countries
- The leading European supplier of raw material for growing media

Distribution of turnover:



Juha Mäkinen Kekkilä-BVB Oy CEO Juha Mäkinen’s background is, quite literally, colourful. He started his career at the paint company Tikkurila Oy. Every time the pigment producer became part of a larger corporate entity, Juha went with it – first to Kemira, then the Germany-based Sachtleben Chemie GmbH and finally to the NYSE-listed Huntsman Corporation. Outside of work, and flying between Finland, the Netherlands and Poland, Juha enjoys tending to his garden and spending time with his family.

have been exported to more than 80 countries, primarily under the BVB Substrates brand.

The new company combines the two companies' strong expertise in their respective markets and product development along with an expanding raw material base. Together, the two companies can now take the next step towards growth in the global market. The current megatrends are also favourable to the merger, with population growth, urbanisation and freshwater shortages significantly increasing the demand for clean local food.

To achieve growth in the market, it is also necessary to be at the leading edge of development. The Netherlands is the "Silicon Valley of agriculture" and Kekkila-BVB is at the heart of the green industry ecosystem and state-of-the-art technologies.

The focus of Kekkila-BVB's strategy is to find new innovations for growing solutions that can be used close to the end consumer. The companies have several years of experience in joint research activities. The company represents a new type of player in the global market and, with its increased resources, it has the capacity to take on an even more significant role in its field. BVB's traditional strength has been the entrepreneurial spirit and agility that is characteristic of a family business, with customer needs always at the heart of its operations. This attitude will remain essential to the success of Kekkila-BVB. The aim is to provide highly demanding customers with products that satisfy their needs perfectly. Cooperation, responsibility and customers are at the core of the strategy. This will support the diversification of the customer offering and expansion of the

merged company's expertise into new markets.

In addition to a common strategy, the keys to success include market and customer insight, as well as the desire to establish a shared Kekkila-BVB culture shared by all of the company's employees in various countries and that combines the best aspects of the two companies' operating cultures. In 2019, the focus will be on integration to establish a solid foundation for future growth. Juha Mäkinen has been appointed the CEO of Kekkila-BVB. He also continues as the Director of Vapo's Grow&Care division. The newly established company's domicile is Vantaa, Finland. The members of the company's Board of Directors are Mart van Buuren, Peter Jan Kuiper, Petri Järvinen, Jarmo Santala and Vapo Oy's CEO Vesa Tempakka (serving as the Chairman).



Cooperation, responsibility and customers are at the core of the strategy.



Kekkila and Hasselfors Garden consumer packaging redesigned. The consumer packaging was redesigned to make the packaging more informative and to better serve consumer needs. A consumer test predicted that the new packaging will be met with an overwhelmingly positive response among consumers in Finland as well as Sweden. Sell-in during 2018 indicated that the redesigned packaging was also well received by retailers.



Kekkila's new plant stands were favoured by interior design magazines in Finland and other markets. The plant stands designed by Kekkila in collaboration with Pentagon Design represented a new response to the growing trend of balcony gardening, which is especially popular among the millennial generation. The plant stands were prominently featured on the pages of Finnish as well as foreign interior design magazines and their sales were piloted in Kekkila's new online store.



Making sustainable development an area of special expertise in landscaping. Municipalities in Finland and Sweden are in need of more sustainable operating models for the construction of green areas. Kekkila and Hasselfors Garden have the ability to provide highly specialised solutions for runoff water management, rooftop gardens as well as growing media solutions that increase biodiversity. In Finland, Kekkila's composting plants make it possible to utilise municipalities' side stream products in accordance with the principles of the circular economy.



The continuously growing popularity of berry cultivation accelerated Kekkila Professional's growth in the global market. Berry cultivation is a rapidly growing segment of professional growing in which Kekkila Professional's growing media are being used in a wide range of markets, from Finland to the greenhouses of Morocco. The grow boards marketed in Finland in cooperation with Schetelig have become very popular among berry growers. They are also very well suited for new and more sustainable cultivation methods, such as tunnel growing.

The Bridge to an Optimised Energy Future

The cooperation models created in 2018 strengthen Vapo's Energy division's role in the energy market as a provider of infrastructure solutions for industrial operators and municipalities and also as a supplier of renewable energy. We operate as a partner in the transformation of the energy market and create better value-adding services. Vapo's energy solutions and plant operation service are good examples of automating the energy value chain and they have also attracted interest in Sweden.

Vapo's Energy division has strong core competencies in a number of areas. Our business includes infrastructure solutions for industrial operators and municipalities, energy and district heating solutions as well as biofuels and energy peat. We provide value-adding services for our customers and strive to satisfy

customer needs even better than before. We produce services for industrial corporations, energy industry operators, municipalities and households. We produce energy solutions and digital services not only for our customers, but also for our own heating plants. The Energy division comprises Vapo

Oy's Finnish energy businesses, the energy business of our Swedish subsidiary Neova AB and the energy business of our Estonian subsidiary AS Tootsi Turvas. The Energy division's turnover is approximately EUR 290 million. Vapo's Energy division is focused on sustainability in the following key areas of energy produc-

tion: improving energy efficiency, reducing the emissions of the 150 heating plants owned by Vapo and enhancing the energy efficiency of the customers' own processes.

During the financial year, we focused on improving the reliability of operations and making even better use of renewable energy. Many of our customers have adopted new technical solutions for optimising energy production and consumption. We launched a cooperation with the Swedish company Foodhills Fastighet AB, with Neova AB being responsible for its carbon neutral energy production. We are building a new heating plant for Fazer in Lappeenranta. In Utajärvi, we cooperate with Kinnusen Mylly to produce energy from the oat mill's leftover oat hulls in the heating plant. We provide energy as a service for Sotkamo Silver. We support our customers in energy

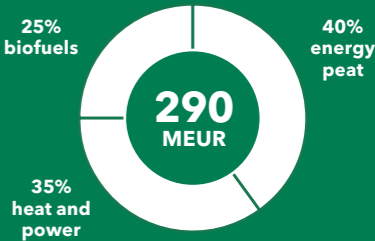
production and strive to replace existing arrangements with local sources and energy-efficient solutions.

Vapo and the OP Group established a joint fund in 2018 to invest in heat and power plants owned by cities, municipalities and industrial operators. The fund is a domestic and responsible investor. Named Vapo Lämpövoima Ky, the fund aims to operate in the Finnish and Swedish markets. Through these investments, we can play a role in expediting efficient and environmentally friendly investments. These investments include the construction of new multi-fuel plants and

ENERGY DIVISION

- Approximately 200 employees
- We operate in Finland, Sweden and Estonia
- We provide infrastructure solutions for industrial customers and municipalities as well as renewable energy and energy peat for use as fuel during the transition period.
- Our customers include energy companies, industrial companies, small businesses and households

Distribution of turnover:



Markus Hassinen Having travelled the world during his time at ÅF and armed with an M.Sc. degree in Energy, Markus joined Vapo as Business Development Director in the summer of 2011. He had barely gotten started before he was put in charge of the Heat and Power business. Markus is a man of speed who appreciates speed and high return on capital. His hobbies include golf and photography, and he takes advantage of the hours he spends on the road by studying with the help of audiobooks.



Our target is to provide higher-value-added services for our customers.

the modernisation of old oil-powered plants to make them eco-friendlier. The OP Group investors are pension and insurance companies that invest their funds with a long-term perspective and emphasise security and the rate of return in their investment criteria.

Targets

The Energy division's targets are growth and the development of profitability. Our targets also include developing customer satisfaction and shareholder value.

The division will build new competencies to complement its existing expertise in order to create even more added value for customers. We will develop our role as a provider of advanced industrial and municipal infrastructure solutions and renewable energy sources. Renewable energy sources also include biofuels.

Energy peat is an important fuel during the transition period and part of the division's offering.

Our target is to provide better value-adding services for our customers. We aim to satisfy the needs of our customers even better by developing customer cooperation and acting as a partner in the transformation of the energy market. We will develop our competencies in line with our targets and invest in areas such as district heating services, industrial solutions, sales models and the development of Vapo's plant operation services, including remote operation services. Vapo's plant operation service has an excellent track record of using automation in energy production and we will invest in the continued development of the service to make it available to a growing number of customers also in Sweden.

We aim to provide a comprehensive service for industrial and municipal

operators in relation to energy or infrastructure outsourcing, for example. We have the ability to act as a highly versatile partner for municipalities and industrial operators, which frees them from having to make direct investments in capital-intensive energy operations. The division seeks to significantly grow its business targeted at these customer segments in the near future.

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Vapo provides a carbon-neutral energy solution for a concentration of food companies. Vapo's subsidiary Neova AB is responsible for carbon-neutral energy production for Foodhills Fastighet AB, which provides sustainable facility services for a concentration of companies located in Sweden's Skåne region. We have invested in a new production plant that uses biofuels. A flue gas scrubber ensures that the power plant's particulate emissions will be very low.



Cooperation at the Fazer confectionery factory in Lappeenranta is a significant first step. Vapo is responsible for constructing a new boiler plant at the confectionery factory and supplying heat and steam. Production will begin in late 2019. This project is Vapo Lämpövoima Ky's first investment and Vapo's first steam plant that uses natural gas as its primary fuel. *Photo: Fazer*



The local circular economy in action in Utajärvi. Vapo's heating plant will produce energy for use by the oat mill and nearby animal feed factory as well as district heating for the Utajärvi municipality. All of the energy will be produced from oat hulls generated as a by-product at the oat mill. The excess heat is channelled into the district heating network.



Automation reduces emissions. For just over a year, UPM Kalso's steam boiler plant in Vuohijärvi has been managed 24 hours per day, all year round by Vapo's remote operation centre located in Vantaa's Tikkurila district. Automation and remote operation help minimise costs and emissions while improving the steam boiler plant's reliability in all load circumstances.



Targeting Hundreds of Millions of Euros in Turnover

In Vapo's strategy, the role of the New Businesses division is to promote and steer the Group's innovation activities in such a way as to generate sustainable innovation, based on Vapo's competencies and raw material resources, to develop future cash-generating business.

The primary goal of the New Businesses division is to validate ideas that have passed carefully defined criteria and to refine them into business activities. The innovations do not need to be related to the Group's existing businesses but, preferably, they will be based on the Group's strengths, networks and emerging customer needs.

Vapo's innovation-based product development is driven by strategic priorities defined based on the world's current megatrends. The priorities are as follows:

- Clean local food
- Responsible energy
- Healthy life and living environments

Ideally, we will be able to provide new products and services related to these priorities that are ecologically sustainable, financially profitable and highly customer-focused. The priorities include water and air purification as well as the promotion of sustainable and efficient food production. The world also needs safe natural products that can replace hazardous chemicals, petroleum-based products and plastic.

The Circular Economy and Better Added-Value Products are at the Heart of the Vapo Refinery 2030 Vision

Around the world, peat has traditionally been used mainly in growing media and as fuel. Its other uses include animal litter, insulating materials, various fibre products and activated carbon. It is actually very surprising how little organic peatland biomass, such as peat and moss, has been studied and utilised thus far, says the division's director Mia Suominen. Based on the research that has been done, these raw materials have plenty of valuable attributes and functionalities.

High-added-value products made from peatland biomass aim at replacing existing artificial plastic compounds, petroleum-based products and various persistent hazardous chemical compounds in the market. The target over the next 10 years is to create business for the Group that could bring in as much as hundreds of millions of euros in turnover and serve an international market. We call this the Vapo Refinery 2030 vision.

Mia Suominen It is only natural that the only PhD in the Group Management Team is in charge of new businesses and our innovation activities. Before joining Vapo, Mia worked as a research scientist at MTT Agrifood Research Finland in Jokioinen. During the past 15 years, she has been responsible for a reed canary grass project, worked as an Environmental Director and she has also been in charge of start-up companies. Her hobbies include cottage life, cats and outdoor sports.

NEW BUSINESSES DIVISION

- Competence as the most important resource
- Own product development laboratory in Jyväskylä
- Carbons started building a production facility to Ilomantsi in 2019
- Peat research is still in its early stages

The development of the Refinery concept is currently underway. The aim is to utilise the refined raw materials and side stream products as comprehensively as possible in various process stages in line with the principles of the circular economy. Ideally, the end product will be recyclable or reusable. The by-products of manufacturing operations can be used as they are or refined into new products in accordance with the same principles. Raw materials are simultaneously refined into multiple value-adding products. Many of the projects under investigation may not be sufficiently profitable for commercialisation in isolation, but combining and chaining

them with other processes improves the overall profitability. This improves raw material efficiency and increases the overall level of added value. To date, we have announced projects focused on producing activated carbons and fibre products from peat. Activated carbon is already on its way to becoming an industrial scale business for the Group, as we are currently building our first production plant for activated carbon in Ilomantsi. In the fibres business, we are investigating opportunities to produce recyclable growing media for vertical farming and various types of boards for use by the construction industry.



Many of the projects under investigation may not be sufficiently profitable for commercialisation in isolation, but combining and chaining them with other processes improves the overall profitability.

Biostimulants from Humics

The next research project under the Refinery concept is called Vapo Humics. In laboratory conditions, humic products have been extracted from peatland biomass to produce substances that can be used as biostimulants in greenhouse and open field cultivation. Biostimulants improve the nutrient absorption of plants. They can also make plants more tolerant of higher temperatures and longer periods of warm weather. Improving crop yields and developing the weather tolerance of crops is a very promising combination that meets the global need to increase the efficiency of food production. Nevertheless, it will take years of further research and development before this project reaches the commercialisation stage.



We develop the responsible harvesting of moss. Rapidly renewable moss and developing its responsible harvesting is one of our main projects in the new financial year. Even in small quantities, moss improves the water retention of growing media, which means that less water is required during cultivation. It also helps prevent fungal diseases, enhances the texture of growing media and improves air flow to the root system. Sphagnum moss is also a potential raw material for value-adding products.



Vapo's laboratory is integrated with the University of Jyväskylä . The Vapo Ventures product development laboratory is connected to the University of Jyväskylä. The laboratory supports the Group's business development projects. The Group having its own laboratory and research activities significantly increases the speed of product development. The laboratory's current focus is particularly on investigating the production of activated carbon and humic products from peatland biomass.



As part of the peatland biomass Refinery concept, existing scientific data and expertise are leveraged as efficiently as possible. Over the past few decades, peatland biomass and its various fractions have been actively studied by several different research institutions with which Vapo's product development laboratory is networked.



The digital innovation environment we have developed gives all of the Group's personnel the opportunity to share their ideas and create new business. We are currently looking for new ideas related to, among other things, replacing plastic, reducing the carbon footprint of our production and logistics as well as utilising various industrial side stream products in our energy business. Nearly half of the Group's personnel posted, developed or commented on ideas online during the year.

Vapo Carbons - Business for Clean Air and Water

The most significant new business created by Vapo from start to finish is producing activated carbon from peat. After the idea emerged in the Group's in-house innovation incubator, the concept was further refined in Vapo's laboratory, and in partnership with various universities as well as Finnish and foreign research institutes, over a period of three years. In December 2018, Vapo Oy's Board of Directors was ready to decide on a strategic investment to build Vapo's first activated carbon production facility in Ilomantsi.

One of the cornerstones of Vapo's strategy is to refine peat and other raw materials into value-adding products for the international markets. The investment in the Ilomantsi production plant represents a concrete move towards this goal.

Vapo aims to sell its product in the European activated carbon market, which is growing at an annual rate of 3-6%. The worrying and deteriorating state of the natural environment, the shortage of fresh water and increasingly strict environmental regulations are all factors that are contributing to higher global demand for activated carbon. With the size of the market being approximately 300,000 tonnes, Vapo's production plant's annual output of 5,000 tonnes is less than the annual market growth rate.

The earth-moving phase at the site began in July 2019 and the construction of the production facility itself will start in

autumn 2019. Equipment installation work will begin in spring 2020 and the plant is scheduled to begin production by the end of 2020. The first production plant will test the production technology and market response. If the expectations are fulfilled, the Group is prepared to build additional production plants. The Group has already secured environmental permits for similar plants in Haapavesi and Seinäjoki. The plant under construction in Ilomantsi can also be expanded to double its capacity.

Activated Carbon Has Many Applications

Activated carbon is a highly porous form of clean carbon that has a very large surface area relative to its weight. One gram of activated carbon can have a surface area as large as 1,000 m². The pore size of activated carbon can be customised to separate or filter molecules of different sizes.

Jaakko Myllymäki A career in the military or the life of an engineer? That was the choice facing a young man who had represented Finland at the international level. In the end, he decided to pursue the career opportunities of an engineer. Jaakko joined Vapo from Vaisala to take charge of the development of Vapo's first activated carbon facility in Ilomantsi. An accomplished athlete with 19 full marathons and many triathlons under his belt. He spent much of his career at Nokia working in Asia, among other places.



Activated carbon is used in industrial processes for purposes such as flue gas scrubbing, cleaning, by water utilities in the purification of tap water and wastewater, and in removing even the smallest impurities from air and food products. In households, activated carbon is used in many familiar applications, such as vacuum cleaners, cooker hoods and, of course, the air filters of cars.

Peat is an Excellent Raw Material

A significant proportion of the activated carbon in the market is currently produced from coal. Activated carbon can also be produced from peat, wood and other materials, such as coconut husks. Peat is well suited for use as a raw material for the highest-quality activated carbon applications.

When Vapo began to narrow down the options for the location of the first production plant, the most significant consideration was to have suitable and sufficiently large reserves of raw material

located close to the plant. In Ilomantsi and North Karelia, there is very high quality, low-ash peat available in areas for which permits have already been issued and areas that are already in production. The Ilomantsi production plant will require approximately 200,000 m³ of peat per year, which corresponds to about five lorry loads per day.

In the production of activated carbon, the goal is not to burn the carbon. Instead, the aim is to preserve it as much as possible. In the first stage, peat is prepared for carbonation. The carbon is then activated by using different processes to achieve the correct level of porosity for each application. The production process does not generate wastewater and the airborne emissions are lower than in a heating boiler plant of a similar size. The process produces more energy than it requires, which means that the excess heat can be routed into the municipal district heating network.

A Significant Local Employer

The production facility in Ilomantsi employs approximately 50 people during the construction stage, and the aim is to use as many local contractors and workers as possible. During production, the plant will directly employ about 15 people, along with many more throughout the raw material and finished product supply chains.

The project has been well received in the market. The new production plant is the only one in the European market to be under full European ownership, and it is the only producer of activated carbon that exclusively uses Nordic organic raw material to produce activated carbon. While Vapo is starting with peat, the same technique can be used to produce activated carbon from other natural materials as well.

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Peat is well suited for use as a raw material for the highest-quality activated carbon applications.

Supply Chain Management

The Group's Supply Chain Management function is responsible for the comprehensive management and development of the supply chain, from raw material sources all the way to customers. The function is in charge of managing the Group's peat production, sourcing, procurement, logistics, quality and safety issues as well as environmental management and the coordination of corporate responsibility.

The Supply Chain Management (SCM) function creates customer-oriented added value by improving the efficiency of our operations. Our aim is to optimise the use of capital, reduce the environmental impacts of our operations, improve quality and, above all, promote occupational safety. Vapo Group's SCM function employs just over 200 people.

The SCM function's success factors include customer focus throughout the SCM organisation as well as efficient cooperation with businesses and support functions within the Group and externally with customers, suppliers, the authorities, production partners and logistics partners.

Best Practices for Enhancing Peat Operations

The Peat and Wood Operations organisation under the SCM function is responsible for managing Vapo Group's peat production areas as well as the production and delivery of peat products to customers in Finland, Sweden and Estonia.

The organisation's main functions are the management of peat assets, the development of operations and production methods as well as operational activities consisting of the preparation of production areas, the production phase and releasing decommissioned

production areas for subsequent land uses.

We harmonised and improved the management of peat reserves and peat production in Finland, Sweden and Estonia. We have worked together with the Group's businesses to develop a planning process geared towards ensuring that peat needs are met.

Aiming for Lower CO₂ Emissions in Logistics

Vapo is known for its delivery reliability. In logistics, our focus is on maintaining good customer service.

We want to reduce the carbon dioxide emissions arising from our transport operations. We aim to deliver our products using newer and lower-emission EU5 class vehicles that have a larger capacity, exceeding 50 tonnes, or 160 m³.

In international transports within Europe, we have switched over customer deliveries from road transport to sea shipping to reduce carbon dioxide emissions.

The logistics operating model of the Garden business in Sweden was revised by changing the logistics partners and modernising the IT solution used for the management of transport orders.

Taking Advantage of Economies of Scale in the Group's Purchasing

We manage and develop Vapo Group's purchasing activities with a comprehensive approach, which plays a significant role in controlling costs and ensuring the efficiency of operations.

Purchasing takes place in many different organisations within the Group. That makes it important to ensure that we have harmonised operating methods,

Petri Järvinen When you are a systematic, patient and internationally experienced professional in the field of sourcing and supply chain management, your work is as easy as 1-2-3. Petri is equally familiar with 5-6-7-8, after all, he has won numerous championships in competitive ballroom dancing. Before joining Vapo, he spent time in Sweden working at Coop and Mölnlycke, and he also held various positions at Nokia earlier in his career.



Significant cost savings in peat production.

The Group-wide operational efficiency improvement programme produced significant cost savings in peat production and Group procurement.



We harmonised and improved the management of peat reserves and peat production in Finland, Sweden and Estonia. We have worked together with the Group's businesses to develop a planning process geared towards ensuring that peat needs are met.

processes and tools and that purchasing activities are managed and monitored in a consistent manner.

The key goal in purchasing operations is to ensure that purchasing is cost-efficient while achieving the necessary level of quality.

We require our suppliers to operate responsibly and commit to compliance with our Code of Conduct.

Responsibility is at the Heart of Environmental Management

Last year, we defined the goals of the Group’s common environmental strategy:

- Towards a carbon-neutral society
- Protecting biodiversity and making sustainable use of natural materials
- Reducing emissions to waterways and improving water use efficiency
- Promoting the circular economy through improved material efficiency, efficient recycling and the use of recycled raw materials

Vapo uses RPP (Responsibly Produced Peat) certification for agricultural peat, but the system is not well known outside Europe. We defined criteria for verifying the sustainability of products made from peatland biomass other than peat and, in 2019, we will also implement a sustain-



A peatland biomass responsibility concept will be introduced in 2019.

ability concept for peatland biomass.

We conducted a survey in Autumn 2018 regarding the current status and future of the circular economy at Vapo. Vapo’s strengths were seen as being related to raw materials that are recyclable and, to some extent, already recycled. Using the ash generated at heating plants as fertiliser is also one of Vapo’s strengths.

One circular economy challenge that remains to be solved is the recycling of stack plastic, which is one of the Group’s development projects for 2019.

Prioritising Safety and Quality in Continuous Improvement

Our customer-driven approach and ISO 9001 and ISO 14001 compliant management system ensure that our products and operations meet stakeholder needs.

Quality control is an integral aspect of management and the day-to-day operating culture of our company.

Internal and external audits and

inspections are important aspects of our quality-related efforts. They establish a concrete foundation for our culture of continuous improvement. Safety is one of our highest priorities. Our starting point is that every Vapo Group employee and partner should go home healthy at the end of the day.

As a result of the development of our safety culture, the number of recorded safety observations increased by 22% compared to the previous year. A total of 4,116 safety observations were logged during the year. Communication about safety has increased in all of the Group’s operating countries and safety management and a genuine commitment to safety are also reflected in our day-to-day work.

Wintery and slippery conditions were the most common individual factor leading to workplace accidents.

The main target for 2019 is to reduce the total number of workplace accidents, particularly with respect to accidents leading to lost time.



We aim to reduce transport emissions. We have started the transition to delivering products using, at a minimum, EU5 class vehicles that are also larger than our existing vehicles, with a capacity exceeding 50 tonnes and 160 m³. We have switched European transport operations from road transport to sea shipping to reduce CO₂ emissions.



Vapo Group began drafting a Group-level environmental strategy in late 2018. The targets of our environmental strategy are as follows: towards a carbon neutral society, protecting biodiversity and making sustainable use of natural materials, reducing the load on waterways and improving water use efficiency, and promoting the circular economy.



We want to observe the principles of responsibility in our supply chain. We require our suppliers to operate responsibly and commit to compliance with our Code of Conduct. In 2018, some 80% of all contractors in Finland participated in occupational safety training.



Our target is to have zero workplace accidents. The first of our units achieved the zero-accident target in 2018 and the number of safety observations increased by 22%.

Group Services Assists All of the Group's Functions

Vapo Group's business operations are organised in divisions: services that directly support business operations, such as purchasing and safety, are centralised in the Supply Chain Management function, while support functions that concern all of the Group's units and employees constitute the Group Services function. The Group's shared support functions include Group Finance and Business Control, ICT, HR, Group Legal Services and Internal Audit as well as Group Communications and Public Affairs. The Group Services function employs about 70 people.

Group Finance and Business Control is responsible for ensuring that all of the Group's businesses, the CEO and the Board of Directors always have access to current information on the financial performance of the businesses and the Group's financial position. The function is also responsible for the Group's financial reporting, Group finance and financial risk management as well as correspondence with the auditors and owners. Internally, the function's responsibilities include functions and processes related to areas such as payroll management, invoicing and credit monitoring.

ICT is responsible for developing information systems that support the Group's businesses and service functions, the digital transformation of operations and the production of IT services in all of the Group's operating countries. Its duties include the Group's ICT strategy, project management, project planning, IT architecture, software licences, hardware, software and service purchases, as well as data security. Making optimal use of the opportunities presented by information technology is a key factor in the success of the Group's change projects. For this reason, the ICT is closely involved in all projects aimed at the development

of productivity and operations, ensuring that projects have access to cost-efficient and optimal solutions in cooperation with its professional partner network. With the world in the midst of a digital transformation and customer needs related to e-commerce growing continuously, the ICT function ensures that its own expertise is up-to-date and keeps the IT skills of the Group's employees current with the help of various competence development programmes and e-learning materials.

HR is responsible for the implementation of Group-wide HR policies. In the current period of change and transformation, this means establishing consistent operating cultures and ways of working, harmonising systems and training supervisors and all of the Group's personnel to support the implementation of the new operating model. The emphasis of the activities is on the assessment and development of competencies. In the new financial year, the focus will shift to also include the development of leadership and managerial work as well as the

promotion of an equal and non-discriminatory operating culture.

Group Communications and Public Affairs is in charge of the Group's internal and external communications, as well as lobbying. In internal communications, the focus is on developing, maintaining and producing content for the Group's intranet as well as organising various face-to-face and online communication events. In external communications, the primary tools are news releases, websites, blogs and content produced for social media channels. In lobbying, the emphasis is on continuously ensuring that the Group has open relationships with decision-makers and other key stakeholders, and that these stakeholders have access to accurate and up-to-date information on the Group's business operations, business strategy and their significance to different areas of society.

Group Legal Services and Internal Audit is responsible for the Group's legal affairs and the coordination of the use of external legal services. The function is

responsible for risk management related to agreements signed by the Group and it also ensures that the Group's interests are appropriately represented in legal proceedings and other situations pertaining to contracts and agreements. The function is also responsible for ensuring that the Group's governance model and related policies and guidelines are always up to date.

One continuously growing role is monitoring the regulations governing business operations and organising internal training for the Group's businesses and support functions.

Jukka Holm An IT industry heavyweight who can handle everything in his area of responsibility, from local support to large-scale ICT architecture projects. Jukka's hobbies include travel with his family, boating and spending time outdoors with his dogs. He has previous experience from Posti, international logistics and Fortum.

Employees Want Their Work to Have Meaning

The HR function has played a key role in the implementation of Vapo Group's organisational restructuring, the execution of the strategy and the use of employee feedback. This role was made more challenging by the fact that shifting from country-specific organisations to a single Group function also changed the organisation and working methods of the HR function itself.

In connection with the renewal of the Group's strategy and organisational structure, the employees' views regarding their ideal workplace community and culture were assessed. In addition to analysing the results of previous personnel satisfaction surveys, the subject was approached by conducting dozens of interviews and clarifying the target at management workshops.

The shared goal of the entire Group was summarised as a learning-oriented and target-driven workplace culture where work has meaning. To achieve this goal, the Group defined new values that support the courage to renew, emphasise the importance of the client's success and achieving together while demanding trust through respect.

Three Rounds of Training on a Group-wide Basis

During the financial year, we carried out three rounds of training on a Group-wide basis. In Spring 2018, the emphasis was on communicating the new strategy. The focus of the second round was on the Group's values and target

culture. The third round focused on the impact of the Group's changes on the individual's work as well as the meaning of the Group's purpose statement "Sustainable Everyday Living" and what is required to realise that purpose.

The entire Group Management Team was involved in each of the three rounds of training and strategy implementation.

Jenni Nevasalo Chief HR Officer, Jenni is the latest addition to Vapo's Group Management Team. Joined the team at the beginning of 2019. Has experience in HR and the implementation of various change projects from the Prime Minister's Office, Tekes and various units at Nokia. Her hobbies include various sports as well as crafts ranging from DIY jewellery to knitting.

As part of the training, the employees were informed of the importance of customer success and achieving together as well as the need for trust through respect the Group's result, targets, the results of the personnel satisfaction survey and the next steps to be taken.

Two extensive personnel satisfaction surveys were conducted during the year. A quick Pulse survey was carried out each month to gauge the employees' emotional state in relation to the organisational renewal and assess the degree to which each respondent felt they had embraced the new strategy and begun to operate accordingly. All this took place in addition to the usual recurrent training activities aimed at enhancing professional skills and improving occupational safety, among other things.

Changes Creates Uncertainty

In times of major change, surprising development areas sometimes emerge. The monthly Pulse survey indicated that the strategy has been increasingly embraced by the personnel from one month to the next, but the changes also had negative impacts. During the year, we did not achieve the targets we had set with respect to areas such as strengthening

our culture of doing things together, or how each of us can contribute to the implementation of the Group's strategy.

Together, these issues were all reflected in the employees not having the feeling that they are the Group's most important resource. There is a need for more communication, reviewing the strategic targets and having senior management get involved at the practical level.

Zero Tolerance for Discrimination

Another area of development, one that is independent of the Group's strategy, emerged in the brief surveys. That area was the perception of equality among employees. The surveys, which were conducted on a Group-wide basis for the first time, indicated that the incidence of inappropriate conduct and discrimination is too high in the Group. To rectify the situation, inappropriate conduct and discrimination were highlighted for special monitoring at all levels of the organisation. The Group has zero tolerance for discrimination and inappropriate conduct, so this area is monitored particularly closely. Clearer operating models, corrective action and monitoring practices prove that the

Group is serious about all of its obligations related to non-discrimination. In the future, the Group's expansion and internationalisation will increasingly highlight issues of linguistic, cultural and ethnic diversity in addition to the traditional themes pertaining to age and gender. Our aim is to embrace diversity and take advantage of it, and to build a culture based on respect and trust.

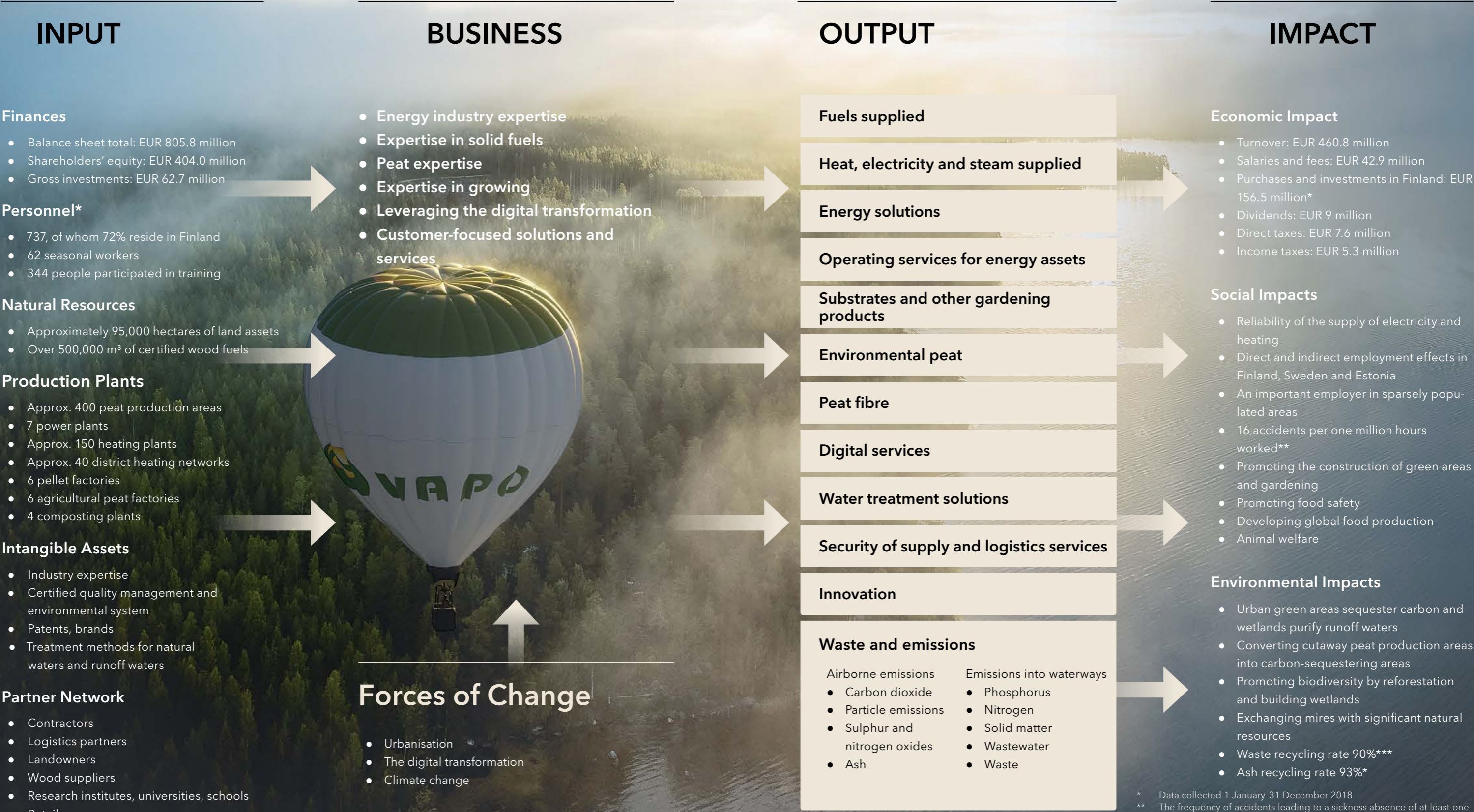
New Systems Make HR Processes Easier

The Group-wide HR system implemented during the year makes it easier to achieve the Group's HR targets. It supports the harmonisation of operating processes. The Group-wide system provides reliable comparative data at the country-specific and function-specific levels. It also enables us to monitor targets more effectively, whether those targets are related to target-setting discussions, training or managerial work. While English is the Group language used on the intranet, HR services in the redesigned intranet are always available in the local language in each operating country.

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The Group has a zero-tolerance policy for discrimination and inappropriate conduct, so this area is monitored particularly closely.

Vapo Creates Value



* Data collected 1 January-31 December 2018
** The frequency of accidents leading to a sickness absence of at least one day (LTA1) was 6.9 accidents per one million hours worked.
*** The figure does not include Kekkilä Eesti OÜ



Financial Statements

1.5.2018-30.4.2019

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Jarmo Santala The CFO has a tight grasp of numbers. As a young man Jarmo played handball on the national level and nowadays he plays badminton actively. Before Vapo he has worked at Ahlström-Munksjö, Ahlström and Nokia in Finland and abroad.

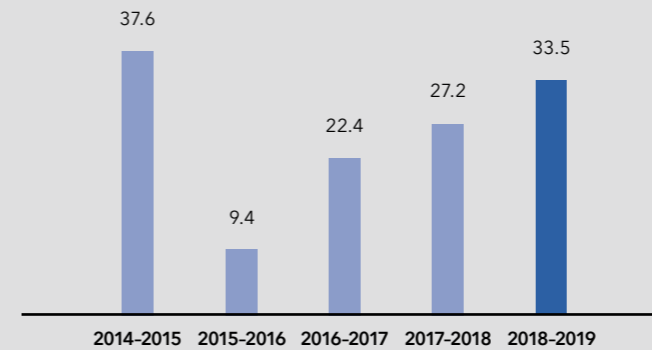
Financial Year in Brief

Consolidated Key Figures 2013-2019

MEUR	4/2015	4/2016	4/2017	4/2018	4/2019
Turnover	486.9	459.8	392.1	419.8	460.8
Operating margin (EBITDA)	74.7	43.1	56.9	61.1	74.1
% of turnover	15.3	9.4	14.5	14.5	16.1
Operating profit (EBIT)	36.9	8.6	20.0	26.3	33.3
% of turnover	7.6	1.9	5.1	6.3	7.2
Operating profit before impairment	37.6	9.4	22.4	27.2	33.5
% of turnover	7.7	2.1	5.7	6.5	7.3
Free cash flow before taxes	-25.1	60.7	73.2	73.6	-22.3
Return on invested capital %	5.4	1.2	3.0	4.3	5.4
Return on invested capital before impairment %	5.5	1.4	3.4	4.4	5.4
Equity ratio %	37.8	37.6	43.0	51.2	51.3
Gross investments	88.4	38.5	39.6	31.3	62.7
Average number of personnel	961	914	773	758	869
Depreciation	-39.3	-35.0	-35.6	-35.7	-41.5
Depreciation/turnover %	8.1	7.6	9.1	8.5	9.0

The financial year 1 January 2013-30 April 2014 was 16 months long.

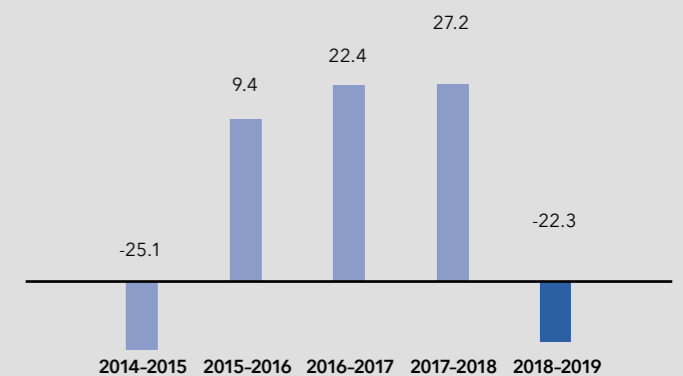
Operating Profit (EBIT) Before Impairment, MEUR



Operating profit shows the profitability of business operations and largely determines the return on invested capital, among other things. For Vapo, the operating profit of both divisions is significantly influenced by weather dependence and the success of peat production. The peat production season in Summer 2018 was fairly good. In addition to the successful production season, the operating profit was improved by a strong start to efficiency improvement measures and the acquisition of the Netherlands-based BVB Substrates (January-April 2019). The Group's operating profit increased significantly year-on-year and amounted to EUR 33.5 million (EUR 27.2 million).

Financial year 1 January 2013-30 April 2014, 16 months

Free Cash Flow (Pre-Tax), MEUR

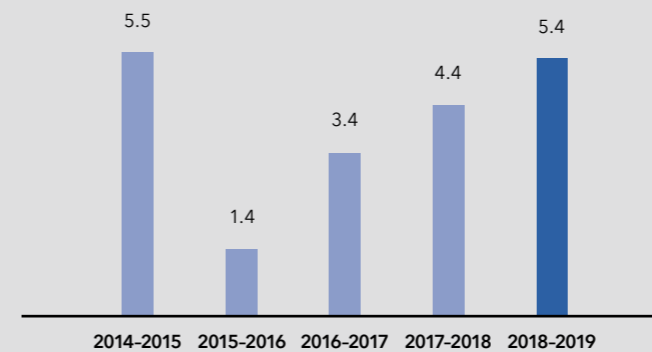


Free cash flow before taxes and financial items takes into account the operating margin as well as factors such as changes in capital tied up in businesses, the impacts of sales of assets, and investments made.

The Group's free cash flow before taxes in the 2019 financial year amounted to EUR -22.3 million (EUR 73.6 million). Investments in working capital needed to be initiated particularly due to lower fuel stockpiles, which reduced cash flow by EUR -45.7 million (EUR +37.6 million). In addition, gains from the acquisition/sale of assets improved cash flow by EUR 12.0 million (EUR 6.3 million). Gross investments for the financial year amounted to EUR 62.7 million (EUR 31.3 million). Net investments (gross investments-acquisition/sale of assets) were EUR 50.7 million (EUR 25.0 million).

Financial year 1 January 2013-30 April 2014, 16 months

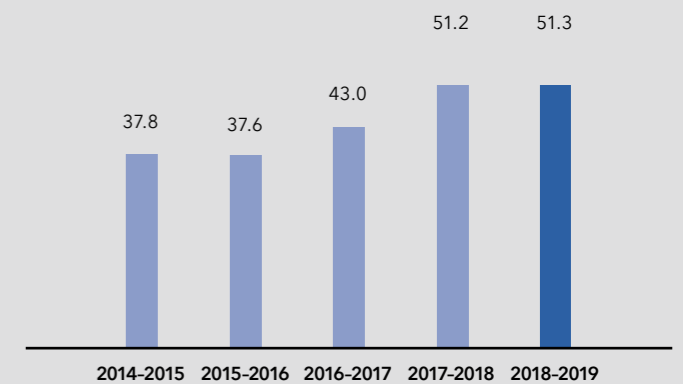
Return on Invested Capital (ROIC), Before Impairment, %



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 5.4 (4.4)%.

Financial year 1 January 2013-30 April 2014, 16 months

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 expansion of profitable businesses, the divestment of loss-making operations and asset sales are reflected in the equity ratio improving in recent years. At the end of the 2019 financial year, the equity ratio stood at 51.3 (51.2)%, which represents a slight improvement in spite of significant cash flow investments in working capital and the BVB-Substrates acquisition.

Financial year 1 January 2013-30 April 2014, 16 months

Board Members

Chairman of the Board of Directors



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–; Unisport-Saltex Oy 2019–

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



Markus Tykkyläinen

b. 28 October 1973, M.Sc. (Energy Technology), eMBA, M.Sc. (Econ.)

Managing Director, Suur-Savon Sähkö Oy, 1 September 2016–

Relevant concurrent positions of trust:

Member of the Board of Directors: Elvera Oy, Kymppivoima Tuotanto Oy, KymppiVoima Hankinta, PD Power Oy, Power Deriva Oy, Voimapiha Oy and Etelä-Savo Chamber of Commerce; Chairman of the Board: Lumme Energia Oy; Järvi-Suomen Voima Oy; member of the Etelä-Savo regional forest council

Relevant work experience:

Rovaniemen Energia Oy/Napapiirin Energia ja Vesi Oy, Managing Director 2011–2016; Ranuan Bioenergia Oy, Managing Director 2015–2016; Vakka-Suomen Voima Oy, Development Director 2010–2011; Member of the Board at Vapo 2016– Member of the Audit Committee 2016–

Members



Tuomas Hyryläinen

b. 1 December 1977, M.Sc. (Econ.), Chief Growth Officer, Fiskars Corporation 1 September 2018

Relevant concurrent positions of trust:

No relevant concurrent positions of trust

Relevant work experience:

Neste Corporation, SVP Strategy and New Ventures 6/2014–9/2016, SVP Strategy 6/2012–6/2014; F-Secure Corporation, Senior Vice President, Emerging Businesses, Neste Corporation, 14 September 2016–8/2018 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:

Relevant concurrent positions of trust:

Chairman of the Board: Voimapato Oy, Oulun Sähkönmyynti Oy and Oulun Energia Urakointi Oy; Member of the Board: Finnish Energy and Kolsin Voima Oy

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 Member of the Board 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, Lakeuden Kuitu Oy, Pohjois-Suomen Voima Oy; Member of the Board: Svartisen Holding AS, Hafslund Produksjon Holding AS, Voimapato Oy, Kolsin Voima Oy, Eltel Networks Pohjoinen Oy, Solar Power Holding Oy, Pohjois-Suomen Energiatieto Oy

Relevant work experience:

Oulu Energy Ltd, 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



Minna Pajumaa

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

Relevant concurrent positions of trust:

Member of the Board: Veikkaus Oy, Gasonia Oy and Finnish Minerals Group

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–



Kirsi Puntila

b. 1 November 1970, M.Sc. (Econ.)

Relevant concurrent positions of trust:

No relevant concurrent positions of trust

Relevant work experience:

Altia Oyj, Spirits Category Director 2015–2016. Altia Oyj, Marketing Director, own brands 2014–2015. The Absolut Company/Pernod Ricard, Global Marketing Manager 2010–2014. Chivas Brothers/Pernod Ricard, Global Senior Brand Manager 2006–2010. Member of Marketing Executives Group Inc (MJR) 2016– Member of the Board at Vapo 2018–



Minna Smedsten

b. 30 August 1976, M.Sc. (Econ.)

Group CFO, Taaleri Plc. 1 August 2013–

Relevant concurrent positions of trust:

Havsfrun Investment AB, Taaleri Equity Funds Ltd and Evervest Oy

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 applicable legislation, such as the Finnish Limited Liability Companies Act, the Finnish Accounting Act and the company's Articles of Association as well as the Shareholders' Agreement between the company's owners. In addition, Vapo Oy complies with the Government Resolution on the handling of Corporate Governance matters in publicly owned companies issued by the Ownership Steering Department of the Prime Minister's Office and, where applicable, the Securities Market Association's Finnish Corporate Governance Code, which took effect on 1 January 2016. The company's Articles of Association include a redemption clause. Pursuant to the redemption clause, if a share is transferred to an outside party, other than one that exercises control over a shareholder of the company, the other shareholders shall have the right to redeem the transferred shares.

Vapo Group's operations consist of the Energy division, Grow&Care division, New Businesses division, the Supply Chain Management function and the Group Services function. The Energy division specialises in the production of solid fuels, heating, electricity and steam as well as the provision of various fuel and energy solutions and services. The Grow&Care division specialises in growing media, recycling, the wholesale of peat raw material and the production and sale of bedding peat. The New Businesses division focuses on the development of new products from peat and other natural materials. The Supply Chain Management function is responsible for the raw material supply, peat production, logistics, shared procurement and the management of environmental, quality and occupational safety issues for each of the Group's divisions. The Group Services function consists of HR, Finance & Business Control, ICT, Communications & Public Relations and Legal Services & Internal Audit for the entire Group. Each division and function is responsible for its operations throughout Vapo Group's operating countries and subsidiaries.

Vapo's Governance Bodies

The highest decision-making power in Vapo is exercised by the shareholders at the General Meeting. The management of the Group is the responsibility of the Board of Directors appointed by the General Meeting and the CEO appointed by the Board of Directors. The work of the Board of Directors and CEO is supervised by the Supervisory Board appointed by the General Meeting. The Group Management Team and other senior management assist the CEO in his duties. The Board of Directors decides on the Group's governance systems and ensures that the company observes good corporate governance.

General Meeting

The Annual General Meeting shall be held annually in either Jyväskylä or Helsinki on a date determined by the Board of Directors, within six months after the end of the financial year, no later than the end of October. An Extraordinary General Meeting may be held if the Board of Directors deems it necessary or there are legal grounds for doing so.

Vapo Oy's Annual General Meeting for the financial year 1 May 2018-30 April 2019 was held in Helsinki on 6 September 2018. All shares and votes were represented at the General Meeting. In addition, an Extraordinary General Meeting held on 17 October 2018 amended the composition of the Board of Directors and, on 18 March 2019, the shareholders unanimously decided to amend the company's financial year, with the next financial year being 1 May-31 December 2019, and the financial year being the calendar year thereafter.

Supervisory Board

The Annual General Meeting of Vapo Oy annually appoints a Supervisory Board consisting of a minimum of eight and a maximum of 10 members elected by the Annual General Meeting for a term of one year in the manner specified in the Shareholders' Agreement between the company's owners. The meetings of the Supervisory Board are

also attended by three employee representatives elected by the personnel for a term of two years at a time.

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

1. Supervise the administration of the company carried out by the Board of Directors and the CEO.
2. Issue a statement to the Annual General Meeting on the financial statements and the auditor's report.
3. Issue instructions and directions to the Board of Directors on far-reaching, essential and significant matters.
4. Issue a statement to the General Meeting on issues that require a statement by the Supervisory Board as per the Limited Liability Companies Act.

Vapo Oy's Annual General Meeting held on 6 September 2018 appointed the following as members of the Supervisory Board: Member of Parliament Johanna Ojala-Niemelä, D.Sc. (Tech.) h.c. Heikki Miilumäki, Member of Parliament Markku Eestilä, Member of Parliament Hanna Halmeenpää, Member of Parliament Hannu Hoskonen, Professor Eero Kubin, Engineer Esko Kurvinen, agriculture and forestry entrepreneur Tommi Lunttila, Member of Parliament Lea Mäkipää and Financial Manager Tiina Snicker. Johanna Ojala-Niemelä was appointed as Chairman and Heikki Miilumäki as Vice Chairman. The Supervisory Board met four times during the financial year 1 May 2018-30 April 2019.

The members of the Supervisory Board do not hold any shares in Vapo Oy or its subsidiaries and they are independent of the company.

Board of Directors

The Annual General Meeting of Vapo Oy annually appoints a minimum of four and a maximum of eight members to the company's Board of Directors in the manner specified in the Shareholders' Agreement between the company's owners. The chairman and vice chairman are appointed in the manner stipulated by the Shareholders' Agreement. The company does

not deem it necessary to provide information on candidates for Board of Directors membership because the company only has three shareholders that participate in the selection process. The appointment of the Board members complies with the guidelines concerning the realisation of diversity issued by the Ownership Steering Department of the Prime Minister's Office. The Board of Directors is convened at least six times per year.

Vapo Oy's Board of Directors sees to the administration of the company and the appropriate organisation of its operations. The Board of Directors is also responsible for the appropriate arrangement of the control of the company accounts and finances. Vapo Oy's Board of Directors is responsible for managing and supervising Vapo in accordance with the Limited Liability Companies Act, the Articles of Association, the Board's charter and the shareholders' instructions in such a way that the decisions are in the company's interest and support the growth of the company's value.

The Board must ensure that it has adequate information at its disposal to attend to its duties. The Board must ensure that the Group operates in accordance with approved business principles and sets targets in an ethical manner.

The Board appoints and discharges the CEO, supervises the CEO's work and decides on the CEO's remuneration and other terms of employment. The Board also appoints and discharges the CEO's direct subordinates and decides on their remuneration. In addition, the Board defines the long-term targets for the company's operations, the primary strategies required for the achievement of the targets and approves the company's operating policies.

The Board organises the internal audit and prepares the audit plan in collaboration with the CEO. The Board monitors and assesses its working methods with annual internal reports.

The Board also decides on significant expansions and contractions of operations as well as the Group companies' investments exceeding EUR 3 million and other significant investments, other long-term expenditure, assignments of property and financing arrangements. Board meetings are attended by the CEO, as a presenter, and by the company's Chief Financial Officer. Other members of the Group Management Team and senior management attend the meetings when necessary. The Chief Legal Officer acts as the Secretary of the Board of Directors.

At Vapo Oy's Annual General Meeting held on 6 September 2018, Jan Lång,

Markus Tykkyläinen, Tuomas Hyryläinen, Juhani Järvelä, Risto Kantola, Minna Pajumaa and Minna Smedsten were appointed to the Board of Directors. Jan Lång was appointed as Chairman and Markus Tykkyläinen as Vice Chairman. Kirsi Puntila was appointed as a member of the Board of Directors at the Extraordinary General Meeting held on 17 October 2018.

The Board of Directors convened 15 times during the financial year 1 May 2018-30 April 2019. The members' attendance in the meetings of the Board of Directors is shown in the table below. Key themes and issues discussed by the Board of Directors included revising the Group's strategy and monitoring strategic targets, the Kekkilä-BVB merger and monitoring the integration of the companies, the start-up of the Carbons business, sustainability, updating the Group's policies and investments.

The members of the Board of Directors do not hold any shares in Vapo Oy or its subsidiaries and they are independent of the company.

Board Committees

The Board of Directors appoints an Audit Committee and Personnel Committee from among its members. The Committees of the Board assist it by preparing matters for the Board. The Committees report regularly to the Board of Directors. The Board of Directors has approved charters for the committees to follow.

Audit Committee

The task of the Audit Committee is to prepare, direct and evaluate financial reporting as well as auditing, internal audits, risk management, judicial risks and internal auditing systems. The Audit Committee comprised Markus Tykkyläinen, Risto Kantola, Pirita Mikkonen, Kirsi Puntila and Minna Smedsten. The Audit Committee convened 6 times during the financial year 1 May 2018-30 April 2019.

Personnel Committee

The task of the Personnel Committee is to prepare proposals to the Board of Directors regarding the management's salaries and remuneration systems as well as management appointments. The Personnel Committee comprised Jan Lång (Chairman), Tuomas Hyryläinen, Juhani Järvelä and Minna Pajumaa. The Personnel Committee convened 10 times during the financial year 1 May 2018-30 April 2019.

Management

Chief Executive Officer

The Board of Directors appoints and discharges the CEO and decides on the CEO's remuneration and other terms of employment.

1. The CEO sees to the daily administration of the company in accordance with the instructions and orders given by the Board of Directors. The CEO is responsible for the day-to-day management of the company and Group as well as drawing up and presenting the Group's strategy and business plans to the Board of Directors for approval. The CEO reports to the Board of Directors and the Supervisory Board.
2. The CEO also presents matters to be decided on by the Board of Directors.

Toimitusjohtajan ja hallituksen työnjaThe division of tasks between the CEO and the Board of Directors is described in more detail in the Board's charter. Vesa Tempakka, M.Sc. (Econ.), born 1963, has been the Chief Executive Officer of Vapo Oy since 29 May 2017. The Chief Executive Officer does not hold any shares in Vapo Oy or its subsidiaries.

Group Management Team

Vapo Group has a Group Management Team appointed by Vapo Oy's Board of Directors, supporting the CEO in his work. The CEO acts as the Chairman of the Group Management Team and appoints its Secretary. The Group Management Team is responsible for:

1. Supporting the CEO in investment decisions and procurement, taking the Board-approved authorisations into consideration.
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. Organising and developing occupational safety.

The Group Management Team convenes on a regular basis. The Group Management Team convenes at least 10 times a year. During the financial year 1 May

2018-30 April 2019, the members of the Group Management Team were, in addition to the CEO as Chairman:

- **Markus Hassinen** Director, Energy Division
- **Jukka Holm** Chief Information Officer, CIO
- **Petri Järvinen** Chief Supply Chain Officer, SCM
- **Jaakko Myllymäki** Business Area Director, Vapo Carbons
- **Ahti Martikainen** Director, Communications and Public Relations
- **Juha Mäkinen** Director, Grow&Care Division
- **Jenni Nevasalo** Chief HR Officer, 1.1.2019 alkaen
- **Jarmo Santala** Chief Financial Officer, CFO
- **Mia Suominen** Business Area Director, New Businesses Division

Starting from 11 September 2018, the Secretary of the Group Management Team was Johan Nybergh (Chief Legal Officer, CLO). The Group Management Team convened 13 times during the financial year 1 May 2018-30 April 2019.

Subsidiaries

Vapo Group is managed by the Annual General Meeting of Vapo Oy, the Supervisory Board, the Board of Directors, the Chief Executive Officer and the directors of its divisions and business functions. Vapo Oy's Board of Directors appoints the members of the boards of directors of its subsidiaries and other Group companies, ensuring that the work of the statutory executive bodies supports the operative business.

The operational management of Vapo Group's divisions and functions is the responsibility of the director of each division and function. The directors report to Vapo Oy's CEO. The management of subsidiaries also takes place through Vapo Group's divisions and business functions.

Apart from the Group companies in which Vapo Oy's CEO is a Board member, the Chairman of the Board of Directors is, where possible, the Business Area Director for the Vapo Group division or function to whose business the company's operations are most closely associated.

The Chairman of the senior governing body of the Group's subsidiaries and the managing director of the company in question are responsible for ensuring that the subsidiary's Board of Directors confirms the decisions of the company's management team to implement the decisions made by Vapo Oy's Board of Directors, Vapo Oy's CEO and Vapo Oy's director for the division or function in question, or by the Board of the parent company of the company concerned, to the extent that the applicable legislation requires a decision

by a senior governing body. The decisions made by the governing bodies are recorded in the minutes.

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

- Ensuring that the Group management 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 policies 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 legislation.
- Ensuring that all decisions 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 2018-30 April 2019 took place as follows:

Fees Paid to the Members of the Supervisory Board
The Chairman of the Supervisory Board is paid a meeting fee of EUR 800, the Vice 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 both Board and Board committee meetings.
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.

Terms of the CEO's Contract
The CEO'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.
The CEO may furthermore receive an incentive bonus for reaching long-term targets. The bonus is based on a two-year earnings period. The Board of Directors will decide on the earnings criteria and targets for each earnings period.
The bonuses paid under the various incentive schemes cannot under any circumstances exceed 80% of the CEO's fixed annual salary.

The CEO is entitled to statutory pension benefits as well as a defined contribution group pension scheme for senior management. The amount paid into the CEO's defined contribution pension plan corresponds to 10% of total pay (12 x monthly salary) excluding bonuses.

Internal Control

The Board of Directors is responsible for ensuring that the Group's internal control and risk management are sufficient relative to the scope of the Group's business and that their supervision is appropriate.
The Board of Directors supervises that the CEO manages the company's operative business and administration in accordance with the instructions and orders issued by the Board of Directors. The Board of Directors assesses the Group's financial reports, division-specific reviews and material changes in business operations to ensure that risk management is sufficient. In addition, the Board's Audit Committee evaluates the sufficiency and effectiveness of internal control and risk management.
The Board of Directors' Audit Committee is tasked with monitoring the effectiveness of Vapo's internal control, internal

auditing and the company's risk management systems. Vapo has defined operating principles for internal control and the key controls of processes. The CEO and CFO are responsible for the practical organisation of internal control.
Internal control applies to the entire organisation and its management. Effective internal control supports the achievement of strategic targets and improves the steering of business operations. The aim of internal control is to give the Board of Directors and acting management adequate assurance of the realisation of the following targets:

- the effectiveness 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 control constitutes 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 control include internal guidelines, reporting, various ICT systems and standard practices pertaining to the Group's business functions. These help to ensure that the management's instructions are followed and that any risks to the achievement of the Group's targets are responded to in the appropriate manner. Regular control activities include management audits and audits concerning the measurement of operations, the performance of measurements suitable for each sector, physical control, 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. Reviewing the current financial period and rolling monthly forecasts is an essential component of the control and monitoring process.
Control activities are led at the Group level by the Group Management Team and at the business level by the management of divisions, profit centres and business functions. The implementation of control is the responsibility of business controllers assigned to business areas and profit centres operating under the CFO who, together with the managing directors and operational man-

agement, 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 control and reporting.

Internal Audit

The Board of Directors is responsible for organising internal audit activities and preparing audit plans together with the CEO. The internal audit supports Vapo Oy's Board of Directors, the CEO and other 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. Vapo Group's Chief Legal Officer 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 targets and identified material business risks.
- Supports the organisation in its efforts to maintain effective supervision and control 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 Chief Legal Officer and the external auditor performing the internal audit report to the Board of Directors, the Audit Committee and the senior management, in addition to the preparing analyses, assessments and development recommendations on the operations of the Group and the Group companies.

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. During the past financial year, Vapo Group updated its risk survey based on the new strategy. The members of the Group Management Team are each responsible for managing various aspects of the risk survey.
The risk management that implements the aforementioned targets also constitutes 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 in charge of the business areas. 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

Vapo shall have one auditor, which shall be an auditing company approved by the Central Chamber of Commerce. The auditor is appointed at the Annual General Meeting for a term ending at the conclusion of the next Annual General Meeting. Since 27 August 2014, Vapo's auditor has been KPMG Oy Ab, Authorised Public Auditors, with APA Ari Eskelinen as the auditor in charge since 27 August 2014. Vapo's auditing fees for the financial year 1 May 2018-30 April 2019 amounted to EUR 211 thousand (EUR 213 thousand) and consulting fees totalled EUR 78 thousand (EUR 154 thousand).

Board of Directors' Report

CEO Vesa Tempakka: Good Progress in Vapo's Strategic Transformation

The past financial year was a time of major changes for Vapo. Vapo Group adopted a new strategy on May 1, 2018, along with a new organisational structure based on international divisions and shared Group support functions. The growth areas defined in the strategy included growth in the global growing media market, focusing on customised fuel solutions, providing remote operation and other digital services, increasing the sale of renewable fuels in the energy business as well as developing new products and services from peat and other natural materials.

In line with the new strategy, in October the Group announced a transaction that saw Kekkilä Oy and the Netherlands-based BVB Substrates join forces to become the leading player in its field in Europe. Kekkilä-BVB Oy began its operations on 4 January 2019. The effect of the merger is already clearly evident in the higher turnover and improved operating result of the recently concluded financial year.

In December 2018, Vapo Oy made another announcement of high strategic significance by confirming that an activated carbon production facility will be built in Ilomantsi. The Group's first activated carbon production facility is scheduled to be completed in late 2020. The value of the investment is approximately EUR 25 million and it will directly and indirectly create tens of new jobs and, even more importantly, serve as a platform for a sustainable and high added value business based on the Group's own research and resources.

The heating season was warmer than in the previous financial year, which reduced the demand for heating and fuels. The fuel production season of summer 2018 was a good one, with Vapo's production targets being exceeded. This was reflected in an increase in inventories, lower unit costs in production and improved margins. Due to these factors

and the positive start to the programme to improve operational efficiency, Vapo Group's result for the financial year was quite satisfactory. Turnover increased by 10 per cent and comparable operating margin by nearly 30 per cent. In spite of investments doubling from EUR 31 million to EUR 62 million, including working capital investments, the Group maintained its equity ratio at 51 per cent. Return on invested capital improved from 4.3 per cent to 5.4 per cent.

CEO Vesa Tempakka comments on the result:

It is not possible to draw direct conclusions regarding future profitability based on Vapo Group's result for the financial year. The Grow&Care division is seeing continued growth, but it should be noted that the consolidated figures are substantially influenced by the fact that BVB is only included for the period of the spring sales season. The most significant investments associated with the Carbons production plant project are still ahead and production will not begin nearly 1.5 years from now, and the future of the energy sector is quite difficult to predict. It is impossible to predict the combined near-future impact of the public debate regarding Finland's carbon sinks, the rising prices of emission rights and the energy policy outlined in the new Government Programme on the price of wood fuels and the production costs of district heating.

As a company, we are in a period of major transformation and we play a role in promoting the achievement of Finland's climate targets. We are responsible for a significant proportion of Finland's security of supply and the reliability of deliveries for our energy customers. We operate in a growing international market on the one hand and in the increasingly tight domestic fuel and energy market on the other hand. In our growth areas, namely the international growing media business and entirely new businesses, we are now investing in projects whose results will only become evident in the longer term.

In the energy business, we must be

particularly careful in monitoring the price development of raw materials and tax-like payments and we need to adapt our operations in such a way as to simultaneously satisfy the requirements related to profitability, customer satisfaction and sustainability. We aim to achieve our profitability targets by improving the efficiency of operations and engaging in closer cooperation with our customers and partners. At the same time, we will strive to increase customer satisfaction by improving our services and investing in the competence of our employees. With regard to sustainability, our focus will be on the areas that have been empirically shown to have the most significant benefits to our operating environment.

Nevertheless, there are two major risks that we need to manage: weather risk and the risk of changes in the operating environment due to political decisions. The peat production season that has just begun can be characterised as weak so far. However, we have large inventories of high-quality energy peat from the previous production season, which ensures deliveries to our customers during the coming heating season in all circumstances.

The new Government Programme also introduced a much-needed long-term perspective, which is important for the energy sector. The decisions of the new Finnish government establish a controlled operating environment for Finland's gradual shift to carbon neutrality. Peat, burned in combination with wood chips, plays a significant role in this scenario. We are pleased that the Government Programme has incorporated the tax treatment of peat into the overall reform of energy taxation. It is also positive that the Government Programme aims to ensure that changes in taxation will not lead to the uncontrolled use of commercial timber for energy.

Operating Environment

According to preliminary data from Statistics Finland, the total energy consumption of Finland in 2018 was

Consolidated key figures

MEUR	1-4/2019	1-4/2018	5/2018-4/2019	5/2017-4/2018	5/2016-4/2017
Turnover	235.9	191.9	460.8	419.8	392.1
Operating profit (EBIT)	29.2	26.8	33.3	26.3	20.0
% of turnover	12.4	14.0	7.2	6.3	5.1
Operating profit (EBIT) before impairments	29.4	27.8	33.5	27.2	22.4
% of turnover	12.5	14.5	7.3	6.5	5.7
Profit/loss for the reporting period	20.9	20.4	25.2	17.6	8.1
Operating margin (EBITDA)	41.9	36.8	74.1	61.1	56.9
+/- Change in working capital	4.0	30.0	-45.7	37.6	14.7
- Net investments	-32.6	-6.2	50.7	-25.0	1.6
Free cash flow before taxes	-11.1	60.6	-22.3	73.6	57.1
Gross investments	-37.0	-9.5	-62.7	-31.3	-39.6
Return on invested capital %*			5.4	4.3	3.0
Return on invested capital % before impairments*			5.4	4.4	3.4
Return on equity %*			7.0	5.2	2.6
Balance sheet total			805.8	697.5	812.4
Shareholders' equity			404.0	347.9	339.7
Interest-bearing net debt			265.6	206.2	269.6
Equity ratio %			51.3	51.2	43.0
Interest-bearing net debt/operating margin			3.6	3.4	4.7
Gearing %			65.8	59.3	79.4
Average number of employees			869	758	773

*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	5/2018-4/2019	5/2017-4/2018	5/2016-4/2017
Turnover	246.3	263.3	241.9
Operating profit (EBIT)	23.4	14.6	11.8
% of turnover	9.5%	5.6%	4.9%
Operating profit (EBIT) before impairments	23.6	15.5	13.6
% of turnover	9.6%	5.9%	5.6%
Profit/loss for the reporting period	35.2	3.3	5.7
Operating margin (EBITDA)	49.6	37.1	33.4
Return on invested capital %*	1.5%	2.4%	2.0%
Return on invested capital % before impairments*	1.4%	2.5%	2.3%
Return on equity %*	12.6%	1.2%	2.2%
Balance sheet total	662.7	665.6	777.0
Shareholders' equity	278.4	252.2	252.9
Equity ratio %	42.5%	38.2%	32.9%

*Previous 12 months

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

380 TWh, which is two 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 2018 amounted to 67 TWh, representing a year-on-year increase of approximately four per cent. Among the end-use sectors, the largest change was the four per cent increase seen in the industrial sector, which accounted for 48 per cent of the total end-use of energy. The total heating energy consumption of buildings was on par with the previous year, representing 25 per cent of the total end-use of energy. The energy consumption of transport declined by one per cent and accounted for 17 per cent of the total.

The use of renewable energy sources continued to grow, reaching a record-high 37 per cent of the total consumption of energy. The share of renewable energy has increased significantly in the 2010s. The use of fossil fuels and peat increased by two per cent and the carbon dioxide emissions arising from energy production increased by three per cent in 2018. Challenges related to the procurement of solid wood fuels during the cold period early in the year significantly increased the consumption of peat. As a result, the consumption of peat for the full calendar year 2018 increased by 24 per cent compared to the previous year. The consumption of wood fuels increased by 4 per cent and they remained Finland's most significant source of energy with a share of 27 per cent.

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

The target stated in Finland's national energy and climate strategy is to increase the share of renewable and emission-free energy to more than 50 per cent by 2030. Another key target is to increase the rate of self-sufficiency in energy to 55 per cent. In political decision-making, the aim is to halve the consumption of imported oil and ban the use of coal in energy production ahead of schedule, in 2025. There is also

pressure to discontinue the energy use of peat by the 2040s at the latest.

After three consecutive poor peat production summers, Vapo Oy's peat production volume increased to 15 million cubic metres in Finland, ensuring fuel deliveries to customers during the coming summer.

Summer 2018 was warm, as was the subsequent heating season, which had a negative impact on the deliveries of fuels and heating.

Vapo Group

The Group's profit for the financial year 1 May 2018–30 April 2019 improved substantially year-on-year and amounted to EUR 25.2 million (EUR 17.6 million). Turnover grew by 10 per cent to EUR 460.8 million (EUR 419.8 million). The Group's operating profit improved by 27 per cent and was EUR 33.3 million. Comparable operating profit improved by 38 per cent and amounted to EUR 36.3 million. The previous financial year's comparable operating profit excluding non-recurring items was EUR 26.3 million. Increased working capital and larger investments were reflected in weaker operating cash flow (free cash flow before financial items and taxes), which amounted to EUR -22.3 million (EUR 73.6 million) for the financial year. In spite of the investments made in acquisitions and working capital, the key financial figures have remained relatively stable. The Group's equity ratio stood at 51.3 per cent (51.2%) at the end of the financial year, while the ratio of net debt to operating margin was 3.6 (3.4).

Vapo Oy's Grow&Care division and the Netherlands-based BVB Substrates joined forces effective from 4 January 2019 to form Kekkilä-BVB Oy, Europe's leading and most versatile company in the market for professional growers and home gardeners. The new company created by the merger combines decades of experience in professional growing and related products. Kekkilä-BVB Oy's aim is to provide horticultural solutions that support sustainable development and conserve fresh water, catering to the growing global trend of clean local food and the construction of attractive and pleasant living environments. The merger supports the implementation of Vapo's new strategy.

The new company's pro forma turnover is approximately EUR 240 million and it employs around 500 people. Vapo Oy holds 70% of the shares in the new company, with the van Buuren family investment company holding 30%.

Developments by Business Segment

The reporting segments comprise the Group's divisions in accordance with Vapo's new management model. Effective from 1 May 2018, Vapo Group's reporting segments are Energy, Grow&Care, New Businesses and other activities.

Energy

The Energy division is responsible for the energy and fuel solutions provided by Vapo Group in Finland, Sweden and Estonia. We provide energy producers with peat, wood and pellet fuels as well as the most advanced remote operation services in the industry. For our industrial and municipal customers, we produce heat and steam as a service at six power plants and approximately 150 heating plants. We supply our consumer customers with district heating in more than 35 district heating networks. We serve our pellet customers through our own sales service as well as our online store. The division's turnover for the financial year that ended in April 2019 amounted to EUR 289.4 million, with renewable bio-fuels and energy solutions representing more than half of this total.

Turnover in the final third of the financial year (January-April) amounted to EUR 142.1 million (EUR 147.5 million). The operating profit for the reporting period was EUR 27.0 million (EUR 28.1 million). Investments amounted to EUR 6.1 million (EUR 6.6 million).

Turnover for the full financial year was EUR 289.4 million (EUR 298.9 million). The operating profit was EUR 33.2 million (EUR 32.7 million).

During the final third of the year, the demand for heating was approximately 12 per cent lower than in the comparison period. This was reflected in peat deliveries, which declined by 22 per cent year-on-year. The strong demand for biofuels continued during the final third of the year, with sales increasing by 10 per cent year-on-year. Heating deliveries decreased by 9 per cent year-on-year.

The weather conditions during the financial year were characterised by a favourable summer peat production season with low rainfall followed by a winter that was warmer than the year before. The heating demand for the financial year was 13 per cent lower than in the comparison period. Peat deliveries decreased by 15 per cent and heating sales by 9 per cent year-on-year. Bio-fuels continued to see strong demand throughout the financial year, increasing by 6 per cent year-on-year.

The strong peat production summer of 2018 created a buffer against potentially weaker production seasons in the coming years, helping ensure peat deliveries to customers in the upcoming heating season and the one after it.

Grow&Care

The Grow&Care division's strategy matches several megatrends. Urbanisation and climate change are creating more demand for clean and plant-based local food. Peat's qualities as a growing medium 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. These trends will have a favourable impact on consumer demand as well as businesses related to recycling and landscaping.

The Grow&Care division comprises all of the Group's businesses in the horticultural sector. We provide solutions for professional growers, consumers and landscapers as well as for the processing and recycling of biomass. We also supply agricultural peat for further processing around the world as well as bedding peat to horse farms, cattle farms, pig houses and poultry producers.

The division's well-known brands, Kekkilä Garden and Hasselfors Garden, offer products to home gardeners and landscapers in Finland, Estonia and Sweden. Kekkilä Professional focuses on the professional grower business in Vapo Group's home markets as well as the global markets. The Netherlands-based BVB Substrates Group became part of the division from the start of the 2019 calendar year. Vapo merged Kekkilä Group and BVB Substrates Group to establish Kekkilä-BVB Oy, a joint venture in which Vapo Group holds a 70% stake. The new company brings together decades of

experience in professional growing and related products. The new company also combines the two companies' strong expertise in their respective markets and product development along with an expanding raw material base. Together, the two companies can take the next step towards growth in the global market.

Turnover in the final third of the financial year (January-April) amounted to EUR 100.5 million (EUR 44.4 million). The operating profit was EUR 7.6 million (EUR 3.1 million). Measured by figures adjusted for mergers, acquisitions and divestments, turnover and operating profit were both higher than in the corresponding third of the previous financial year. The division's gross investments were EUR 2.1 million (EUR 0.5 million)

Turnover for the full financial year was EUR 179.0 million (EUR 121.2 million). The operating profit was EUR 13.0 million (EUR 7.4 million). Measured by figures adjusted for mergers, acquisitions and divestments, turnover and operating profit were both higher than in the previous financial year. The division's gross investments were EUR 4.2 million (EUR 3.1 million)

The Grow&Care division's operating profit improved compared to the corresponding third of the previous financial year. Measured in terms of comparable figures, the growth of the Professional business has continued and the future sales outlook remains favourable. In the consumer business, the sales season falls on both sides of the turn of the financial year. As such, and due to changes in weather patterns, comparability between the different thirds of the year has decreased, but this will balance out in the coming months. The outlook for the current sales season remains unchanged. One element of the positive development of profit performance is the previous summer's successful peat production season, which enabled growth and ensured the availability of raw material resources for the recently concluded financial year.

The year-on-year growth in personnel is mainly due to 310 employees of BVB Substrates joining the Grow&Care division.

New Businesses

The New Businesses division creates new products and innovations based on the Group's competencies and raw ma-

terial resources. Product development requires resources and 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.

The Vapo Carbons investment announced in December is also part of this business area. The announcement concerned a strategically significant decision to build a production facility in Ilomantsi to refine activated carbon. The construction of the approximately EUR 25 million facility will begin in spring 2019 and the plan is to begin commercial production by the end of 2020. The employment effect of the construction stage is more than 100 person-years and the constant employment effect of the first stage of the facility, including the supply and production chain, is roughly 50 persons.

The operating loss for the final third of the financial year was EUR -0.7 million (EUR -0.6 million). Gross investments were EUR 2.3 million (EUR 0.7 million).

The operating loss for the full financial year was EUR -2.2 million (EUR -1.1 million). Gross investments were EUR 3.1 million (EUR 2.1 million).

Other Activities

The other activities segment consists of costs that are not allocated to the Vapo Group's business units. These costs are related to the Group's administrative activities, supply chain management, M&A activities and support functions.

The other activities segment's effect on the operating profit in January-April was EUR 2.0 million (EUR -5.4 million).

The other activities segment's effect on the operating profit for the full financial year was EUR -4.2 million (EUR -13.4 million).

Both of the figures mentioned above include non-recurring M&A income related to the formation of Kekkilä-BVB.

Cash Flow, Investments and Financing

The Group's free cash flow before taxes for the financial year 1 May 2018–30 April 2019 was EUR -22.3 million (EUR 73.6 million). In spite of the higher oper-

ating margin of the Group’s businesses, investments in acquisitions and working capital reduced cash flow by EUR -45.7 million (EUR 37.6 million).

Gross investments in the financial year were EUR 62.7 million (EUR 31.3 million), or 151.0 per cent of the amount of depreciation (87.6%). The most significant investments during the financial year were allocated to the BVB acquisition, the start-up of the Carbons business and increasing working capital. Investments were also 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 50.7 million (EUR -25.0 million).

Interest-bearing net debt at the end of the financial year amounted to EUR 265.6 million (EUR 206.2 million). Interest-bearing net debt includes a EUR 5 million capital loan in one of Vapo Oy’s subsidiaries. The ratio of interest-bearing net debt to operating margin (net debt/EBITDA) on 30 April 2019 was 3.6 (3.4). Short-term interest-bearing debt amounted to EUR 78.2 million (EUR 12.2 million). Of Vapo’s long-term interest-bearing debt, 34 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 51.3 per cent (51.2%) and the gearing ratio was 65.8 per cent (59.3%). The consolidated balance sheet total was EUR 805.8 million (EUR 697.5 million). The Group’s net financing items were EUR -2.8 million (EUR -6.0 million). Net financing items were -0.6 per cent (-1.4%) 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.

Natural Seasonal Fluctuation in Activities

The Group’s business is cyclical to a significant extent due to seasonal

variation in the demand for heating. The January–April third of the year is the strongest period for the Energy division’s sales of heating, electricity and fuels. The temperatures during the heating season in the financial year were substantially warmer than average, which reduced the sales of heating and fuels. In the May–August third of the year, the focus was on fuel production and acquisition, while the September–December third of the year brings with it the start of the heating season, and the volume of fuel deliveries increases.

The Grow&Care division’s growing media business is also sensitive to seasonal fluctuations, with demand peaking from late spring to early summer. During the recently concluded financial year, the spring season got off to a normal start in Finland, the Netherlands and Sweden. Peat production also played a key role in the Grow&Care division in the first two thirds of the financial year. The company achieved its production target during the production season, which enabled an improvement in profitability.

NOTABLE RISKS AND UNCERTAINTY FACTORS
Regulation

The interpretation of the Water Framework Directive is set to become stricter. This may lead to more stringent provisions in the Finnish Water Act, which in turn may make it more difficult to obtain environmental permits for peat production. The risk of the conditions of environmental permits becoming increasingly strict applies to all of Vapo’s peat-related businesses. With respect to energy peat, tighter permit conditions would also present a risk to Finland’s self-sufficiency in energy.

Finland to ban the use of coal in 2029-pressure on energy peat to increase

Finnish legislation prohibiting the use of coal in the future has entered into effect. The use of coal will be banned starting from 1 May 2029. 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.

The Government Programme states that the energy use of peat is expected to be halved from the current level by 2030. Surveys conducted by the Finnish Energy Industries and the Bioenergy Association of Finland indicate that this will happen on market terms, with the consumption of peat predicted to be 5–7 TWh in 2030. According to the Government Programme, the use of peat will be permitted until the end of the 2030s and energy peat will also play a role as a fuel to ensure the security of supply. The Government Programme expresses the view that the use of peat will decline on market terms as a result of emissions trading.

The view taken in the Government Programme is moderate and deserving of support. It does not force customers to discontinue the use of energy peat before the end of a given facility’s life cycle. Energy peat will remain a part of the fuel selection for the next 20 years, which provides customers with flexibility in fuel choices. Without energy peat, Vapo’s customers would have to rely on light fuel oil as the only fuel to ensure the security of supply in the event of problems associated with the availability of fuel wood.

The Government Programme further states that the taxation of peat needs to be considered in conjunction with changes to other energy taxes in such a way as to ensure that changes in taxation will not lead to the uncontrolled use of commercial timber as fuel.

The new government will gradually eliminate the energy tax refund for energy-intensive industry. This will reduce the use of peat in the forest industry. Depending on the schedule of discontinuing the energy tax refund, this policy will reduce the forest industry’s use of energy peat by 1–2 TWh.

The risk of policymakers wanting to reduce the production and use of all peat along with energy peat is diminishing. The new Government Programme specifically mentions energy peat, the use of which will be reduced, and the other current uses of peat, such as agricultural peat and bedding peat, and the new higher added value uses of peat are separately addressed.

The rapidly increased price of emission rights, to a level as high as EUR 20–25 per tonne of CO₂, has increased the costs of energy peat users by

EUR 7–9 per MWh. At this price level, the electricity production subsidy for wood chips is no longer paid and the various wood fractions (wood chips vs. forest industry by-products), including commercial timber, are in the same competitive position from the perspective of energy production. The price level of energy wood has increased, nearly reaching the price of pulpwood. The entry of pulpwood into the energy market would further complicate the market situation for energy peat.

At the time of the government negotiations, the Department of Energy Supply at the National Emergency Supply Agency and the Domestic Fuels section of its Power and District Heat Pool issued the following statement on 17 May 2019 (summarised): “It is the view of the National Emergency Supply Agency that peat should maintain its current role in the fuel selection for energy production. The use of peat will diminish using the existing steering measures to a minimum level that ensures the security of supply. With our energy system being in a period of major transformation, a premature ban on peat would unnecessarily increase Finland’s energy supply risks and create the need for obligatory long-term investments in security of supply solutions based on light fuel oil.”

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.

According to the Bioenergy Association of Finland, discontinuing the current system for small-diameter wood would have a negative impact on forest development in circumstances where forest management areas are declining.

The Bioenergy Association of Finland and Vapo Oy as one of its members support a subsidy system that promotes the sustainable growth of forests and aims to ensure good health for forests. This improves felling opportunities and the carbon binding capacity of forests. The incentive system should promote the market for small-diameter wood from

young forests and support young forests’ growth in value.

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.

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 2018 was 18.5 TWh (4.8%). 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 or other added value services as well as by focusing on new uses for peat.

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. 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 increased, leading to higher electricity sales revenue. Competing energy solutions based on new technology constitute a growing threat to energy produced from domestic fuels, although, in the past financial year, the costs of heating alternatives that compete with district heating remained at a level at which district heating maintained its

competitiveness. 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.

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 2018, peat production went better than planned in Finland, Sweden and Estonia, which improved the Group’s result.

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.

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 2018-30 April 2019 amounted to EUR 6.4 million (EUR 1.9 million), which corresponds to 1.4 per cent of turnover (0.4%). Research and development activities were focused on supporting the company's strategic renewal in all of the Vapo Group companies.

The New Businesses division develops and commercialises Vapo's new businesses based on the company's strengths, emerging customer needs, raw material resources, competencies and networks. 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. Examples of these include Vapo Carbons, an initiative focused on activated carbon products that has already progressed to the business stage, and Vapo Fibers, which is aimed at providing eco-friendly peat fibre solutions for industry. The division is also responsible for the Group's innovation and IPR management.

The Vapo Refinery 2030 vision was worked on during the financial year. It will contribute to solving global problems by supporting the replacement of harmful chemicals and plastics with natural products and the discovery of new products and solutions for treating contaminated environments. In the Vapo Refinery vision, raw materials and side streams are comprehensively utilised in accordance with the circular economy principle. Peatland biomass is a natural organic material that has valuable attributes and functionalities that may be developed into new and innovative high

added value products for the international market.

The Group's innovation activities reached a new level during the financial year following the implementation of a harmonised operating model and digital innovation platform. Innovation activities are now strategically targeted at the areas in which new ideas are needed the most: clean and local food, sustainable energy, healthy life and healthy living environments. The ideas will be processed faster and more openly than before, making use of the Group's synergies.

Environmental Responsibility

Environmental responsibility is an important element of Vapo's day-to-day business operations. The company has implemented an environmental responsibility programme in Finland 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 2018 was the fourth 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.

The Group began drafting its environmental strategy in 2018. The environmental strategy is based on Vapo Group's strategy, key environmental perspectives and changes in the operating environment. All of the Group's employees responsible for environmental issues, such as environmental managers and experts – as well as business unit representatives – participated in the drafting of the environmental strategy. The drafting of the strategy then continued under the leadership of the Group's environmental team.

The four Kekkilä Recycling composting plants that started operations in 2017 have the capacity to process an annual total of some 90,000 tonnes of various types of organic waste and industrial

by-products. The end products of these processing activities are high-quality recycled fertilisers and soil-conditioning products.

In 2018, nearly 13,000 (17,000) samples were taken as part of emissions monitoring in peat production, with 106,000 (138,000) analyses carried out. A further 2,800 (3,100) samples were taken in the monitoring of waterways, with 35,000 (39,000) 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 2018, Centres for Economic Development, Transport and the Environment made 124 inspection visits to Vapo's peat production sites.

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

In accordance with its permit policy, Vapo only applies for new production permits for ditched peatlands. In 2018, 305 (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 485 (679) hectares.

Vapo is committed to ensuring is that all new production areas opened after 2016 will have a lower solid and humus load on downstream watercourses than before peat production. To follow through on 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 2018, a total of 830 (978) samples were taken at such sites, with approximately 5,100 (6,800) analyses performed on the samples. After considerable research investments made over several years, the Group began preparing to redefine this target in 2019 based on a summary produced in late 2018.

The Group's environmental investments amounted to EUR 3.0 million (EUR 2.8 million) and were primarily related to improving and building water treatment structures at peat produc-

tion sites and investments required by environmental legislation in the Heat and Power business area. The Energy Users business unit's investments stipulated by the Finnish Government Decree on Environmental Protection Requirements for Medium-sized Energy Production Units (PIPO Decree) totalled EUR 715 thousand and the environmental protection investments for peat production areas amounted to EUR 1,032 thousand. 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 financial year amounted to EUR 19.2 million (EUR 17.2 million). The costs primarily consisted of the maintenance of water treatment structures in peat production and environmental load monitoring.

Vapo Group's active peat production areas in Finland in summer 2018 totalled 35,400 hectares. Vapo Oy accounted for 34,500 (32,000) hectares of this total and Kekkilä Oy for 900 hectares. A total of 139 (395) hectares of new peatlands became ready for production by the end of the financial year. Peatlands released from production during the financial year amounted to 2,001 (1,114) hectares.

A total of 1,086 (1,125) hectares were transferred to other land use methods from peat production operations in Finland during the financial year. A total of 339 (369) hectares were assigned for forestation and 195 (109) hectares for building wetlands. In addition, a significant amount of land was sold, with the new owner deciding on their subsequent use. Areas released from peat production and returned to land owners totalled 551 (516) hectares. 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. A total of 418 hectares of peatlands were sold for protection purposes during the financial year.

In 2018, Vapo continued its own power and heating plants' multi-year development programme aimed at reducing oil consumption and improving energy efficiency. Renewable fuels currently account for approximately half of all fuels used. The use of domestic fuels remained unchanged from the previous year at Vapo Oy's energy production plants in Finland. The use of fuel oil decreased from the previous year.

The share of domestic fuels was 94.6 per cent (95.0%) in Finland. The coefficient of efficiency for Vapo's plants remained on par with the previous year.

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 2019, 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 33.4% of the shares (10,020 shares) directly and 16.7% (5,010 shares) indirectly through the State Development Company Vake Oy, while Suomen Energiavarat Oy holds 49.9% of the shares (14,970 shares).

General Meetings

Vapo Oy's Annual General Meeting was held in Helsinki on 6 September 2018. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2017-30 April 2018 and discharged the members of the Supervisory Board and the Board of Directors, as well as the CEO, from liability. The AGM resolved to distribute a dividend for the financial period ended 30 April 2018 amounting to EUR 300.00 per share, or EUR 9.0 million in total. The dividend payment date was 7 September 2018.

The AGM confirmed the number of members of the Supervisory Board as ten. Johanna Ojala-Niemelä was appointed as Chairman and Heikki Mii-lumäki as Vice Chairman. Markku Eestilä, Hanna Halmeenpää, Lea Mäkipää, Hannu Hoskonen, Eero Kubin, Esko Kurvinen, Tommi Lunttila and Tiina Snicker were re-elected as members.

The AGM confirmed the maximum number of members of the Board of Directors as eight. Jan Lång continues as Chairman, with Markus Tykkyläinen as Vice Chairman. Tuomas Hyryläinen, Juhani Järvelä, Risto Kantola, Minna Pajumaa and Minna Smedsten continue as members of the Board of Directors.

The audit firm KPMG Oy Ab was elected as the auditor.

Vapo Oy's Extraordinary General Meeting held on 17 October 2018 strengthened Vapo's Board of Directors by appointing Kirsi Puntila, Senior Vice President, Marketing, Altia Group, as the eighth member of the Board.

The shareholders of Vapo Oy unanimously decided at a meeting held on 18 March 2019 to change Vapo Oy's financial year to be the calendar year. The change will take effect on 1 January 2020. Before this change, Vapo Oy's financial year has been 1 May-30 April. Due to the change, the financial year beginning on 1 May 2019 will be 8 months long and it will end on 31 December 2019.

Number of Employees

The Group employed an average of 1,061 (745) persons during the final third of the financial year. The average number of employees for the full financial year was 869 (758).

Employees by segment, average

	2019	2018
Energy	370	374
Grow&Care	380	268
New Businesses	16	18
Other	103	98
Total	869	758

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.

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 final third of the financial year decreased compared to the previous financial year. The most typical cause of accidents in the final third of the financial year was slipping in winter conditions. Next winter, we will activate even more proactive measures to prevent accidents caused by slippery conditions.

The total accident frequency (MTR) for the full financial year 2018 was largely unchanged from FY2018. In FY2019, the number of safety observations continued its significant rise, which began in the previous year.

Executive Appointments in Vapo Group

Group CFO Jarmo Santala took up his post on 23 July 2018. Antti Koivula was the acting CFO from 1 May to 31 August 2018.

Johan Nybergh took up the post of Vapo Group’s Chief Legal Officer on 11 September 2018.

Jenni Nevasalo became the Group’s Chief HR Officer on 1 January 2019.

Changes in Organisational Structure

Vapo Lämpövoima GP Oy was established as a new company on 13 August 2018 and Vapo Lämpövoima Ky on 22 August 2018. The two companies are treated as associates in IFRS reporting.

Kekkilä-BVB Oy was established as a new company on 30 November 2018. Vapo Oy held 70% of the company’s shares on 30 April 2019.

G&C Materials Oy was established as a new company on 30 November 2018. Kekkilä-BVB Oy held 100% of the company’s shares on 30 April 2019.

A majority share was acquired in the Netherlands-based subgroup BVB Substrates B.V. Kekkilä-BVB Oy held 100% of the company’s shares on 30 April 2019.

The Danish subsidiary Vapo A/S was merged with Vapo Oy on 30 April 2019.

Board of Directors’ Proposal for the Distribution of Profits

The Board of Directors proposes to the General Meeting to be convened on 5 September 2019 that Vapo Oy’s profit for the financial year, EUR 35,204,750.86, be added to retained earnings, after which the distributable funds available to the General Meeting amount to EUR 195,785,075.72.

In line with its dividend policy, Vapo Oy distributes as dividends, on average, 50 per cent of the annual profit shown in the 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 proposes to the General Meeting that EUR 12,3 million, or EUR 410,00 per share, be paid as dividend for the financial year 1 May 2018–30 April 2019.

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. Nevertheless, political decisions have a material impact on the profitability of nearly all of the company’s businesses and therefore affect the company’s ability to invest in higher added value production.

Vapo will continue to implement measures in line with its strategy to increase the competence of its personnel and achieve market-leading customer service in the local energy value chain. This includes the development of new services and comprehensive solutions for our energy customers. At the same time, the company will continue to increase the efficiency of its business processes in order to improve profitability. The fuel market is not expected to see significant growth due to the low volume of electricity production from solid fuels.

In the new financial year, the Kekkilä-BVB Group will invest in developing its product selection and the profitable growth of its international sales in the professional, consumer grower and landscaping businesses.

Vapo will continue the commercialisation of new business operations in the

Vapo Carbons business as well as the researching of further new business initiatives in the Vapo Refinery business area. The construction of Vapo Carbons’ first production facility for manufacturing technical carbons is progressing as planned in Ilomantsi. However, the new businesses will not yet generate turnover during the abbreviated financial year 2019.

Signatures to the financial statements and the report of the Board of Directors

Vantaa, 19 June 2019

Board of Directors of Vapo Oy

Jan Lång
Chair

Markus Tykkyläinen
Vice Chair

Risto Kantola

Tuomas Hyryläinen

Pirita Mikkonen

Minna Pajumaa

Minna Smedsten

Juhani Järvelä

Vesa Tempakka
CEO

Auditor’s note

A report on the audit has been issued today.

Helsinki, June 2019

KPMG Oy Ab

Ari Eskelinen
APA

Consolidated Financial Statements 2018, IFRS

Consolidated statement of comprehensive income

EUR 1,000	Note	5/2018-4/2019	5/2017-4/2018
TURNOVER	2	460,827	419,804
Change in stock levels of finished and unfinished products		35,552	-23,534
Production for own use		23	4
Other operating income	5	7,547	7,657
Share of results of companies consolidated using the equity method		888	1,882
Materials and services	6	-239,689	-162,372
Expenses arising from staff benefits	7	-55,507	-50,350
Depreciation	8	-41,494	-35,740
Impairment	8	-194	-914
Other operating expenses	9	-134,626	-130,156
OPERATING PROFIT		33,327	26,281
Financial income	10	4,226	2,393
Financial expenses	10	-7,070	-8,391
PROFIT/LOSS BEFORE TAXES		30,483	20,284
Income taxes	11	-5,328	-2,664
PROFIT/LOSS FOR THE PERIOD		25,155	17,620
OTHER COMPREHENSIVE INCOME ITEMS			
(items that may not be reclassified subsequently to profit or loss):			
Remeasurement of defined benefit plans		42	-251
Items that may be reclassified subsequently to profit or loss:			
Translation differences from foreign units		638	-2,058
Other comprehensive income items, after taxes		680	-2,309
TOTAL COMPREHENSIVE INCOME		25,835	15,311
PROFIT/LOSS FOR THE PERIOD			
Distribution of profit for the period:			
To parent company shareholders		25,208	17,576
To non-controlling shareholders		-53	44
		25,155	17,620
Distribution of comprehensive income for the period:			
To parent company shareholders		25,896	15,267
To non-controlling shareholders		-61	44
		25,835	15,311
Earnings per share calculated from profits due to parent company shareholders			
Earnings/share, EUR		840	586
Average number of shares		30,000	30,000

Consolidated balance sheet

EUR 1,000	Note	30 Apr. 2019	30 Apr. 2018
ASSETS			
Long-term assets			
Intangible assets	12	37,343	12,854
Goodwill	12	26,562	5,399
Land and water areas	13	37,061	40,821
Buildings and structures	13	39,507	37,875
Machinery and equipment	13	135,097	123,886
Other tangible assets	13	221,013	225,992
Prepayments and unfinished acquisitions	13	23,618	24,297
Shares in entities consolidated using the equity method	14	19,946	19,844
Other long-term financial assets	15	808	709
Long-term sales and other receivables	16	3,225	3,258
Deferred tax asset	18	0	0
Long-term assets total		544,182	494,935
Current assets			
Inventories	19	145,994	91,407
Sales and other receivables	20	107,236	77,924
Income tax receivables		401	251
Cash and cash equivalents	21	7,962	32,999
Current assets total		261,593	202,581
ASSETS TOTAL		805,775	697,515
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		50,456	50,456
Fair value fund and other funds		30,481	30,479
Translation differences		-4,467	-5,077
Retained earnings		239,776	221,624
Hybrid bond	28	50,000	50,000
Parent company shareholders' share of shareholders' equity		366,246	347,482
Non-controlling shareholders		37,734	418
Shareholders' equity total	22	403,980	347,900
Long-term liabilities			
Deferred tax liability	18	11,655	16,189
Long-term interest-bearing liabilities	23	198,820	230,407
Long-term non-interest-bearing liabilities	24	7,887	6,764
Long-term provisions	25	7,530	7,853
Pension liabilities	26	4,806	4,866
Long-term liabilities total		230,699	266,079
Current liabilities			
Current interest-bearing liabilities	23	78,161	12,213
Current non-interest-bearing liabilities	27	85,309	69,964
Current provisions		7,625	1,359
Current liabilities total		171,096	83,536
SHAREHOLDERS' EQUITY AND LIABILITIES		805,775	697,515

Consolidated cash flow statement

EUR 1,000	30 Apr. 2019	30 Apr. 2018
Cash flow from operating activities		
Profit/loss for the period	25,155	17,620
Adjustments to the result for the period		
Depreciation and impairment	41,688	36,654
Share of results of entities consolidated using the equity method	-888	-1,882
Financial income and expenses	5,788	1,400
Income taxes	5,328	2,664
Other adjustments	-5,509	1,992
Adjustments to the profit/loss for the period total	46,406	40,829
Change in working capital		
Increase/decrease in inventories	-40,528	30,188
Increase/decrease in sales receivables and other receivables	-10,506	586
Increase/decrease in accounts payable and other debts	7,932	5,200
Change in provisions	-327	451
Change in working capital total	-43,429	36,425
Interest paid	-5,899	-7,788
Interest received	110	120
Other financial items	84	5,735
Taxes paid	-6,225	32
Cash flow from operating activities	16,202	92,972
Cash flow from investing activities		
Investments in tangible and intangible assets	-37,816	-31,944
Proceeds from disposal of tangible and intangible assets	14,512	8,759
Acquisition of subsidiaries, net of cash	-21,377	
Disposal of subsidiaries, net of cash		
Associates' shares bought	-1,791	
Associates' shares sold		
Other investments	136	-181
Proceeds from disposal of other investments		77
Loans granted	-112	
Repayments of loans receivable	33	
Dividends received	2,410	1,020
Cash flow from investing activities	-44,005	-22,269
Cash flow from financing activities		
Proceeds from hybrid bond		
Increase (+)/decrease (-) in short-term loans	17,134	-125,234
Proceeds from long-term loans	306	1,497
Repayment of long-term loans		
Repayment of finance lease liabilities	-2,440	-2,186
Dividends paid	-9,018	-4,000
Dividends paid / hybrid loan	-3,250	-3,260
Cash flow from financing activities	2,732	-133,183
Change in cash and cash equivalents		
Change in cash and cash equivalents	-25,072	-62,479
Cash and cash equivalents opening balance	32,999	95,495
Change in cash and cash equivalents	-25,072	-62,479
Effect of changes in exchange rates	35	-17
Cash and cash equivalents at end of period	7,962	32,999
Cash and cash equivalents related to mergers and acquisitions	0	

Consolidated statement of changes in shareholders' equity

EUR 1,000	Share capital	Share premium reserve	Other funds	Translation differences	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	Total
SHAREHOLDERS' EQUITY 1 MAY 2018	50,456	2	30,477	-5,077	221,624	50,000	347,482	418	347,900
Changes in shareholders' equity									
Dividend distribution					-12,250		-12,250	-18	-12,268
Transfers between items		-5,425			-111		-5,536		-5,536
Total comprehensive income	0		0	610	25,278		25,888	-61	25,827
Other changes									
Imputed taxes									
Other changes			111		5,213		5,324	-23	5,302
Changes in holdings in subsidiaries	0	5,422	-107		22		5,337	37,419	42,756
SHAREHOLDERS' EQUITY 30 APR. 2019	50,456	0	30,481	-4,467	239,776	50,000	366,246	37,734	403,980
EUR 1,000	Share capital	Share premium reserve	Other funds	Translation differences	Retained earnings	Hybrid bond	Total	Non-controlling shareholders	Total
SHAREHOLDERS' EQUITY 1 MAY 2017	50,456	2	30,234	-3,020	211,661	50,000	339,334	384	339,718
Changes in shareholders' equity									
Dividend distribution					-7,250		-7,250	-10	-7,260
Transfers between items			136		-136				
Total comprehensive income				-2,058	17,325		15,267	44	15,311
Other changes									
Imputed taxes									
Other changes			107		24		131		131
Changes in holdings in subsidiaries									
SHAREHOLDERS' EQUITY 30 APR. 2018	50,456	2	30,477	-5,077	221,624	50,000	347,482	418	347,900

Group key figures 2014-2019

MEUR	04/2015	04/2016	04/2017	04/2018	04/2019
Turnover	486.9	459.8	392.1	419.8	460.8
Growth %	0.0	-5.6	-5.0	7.1	9.8
Operating margin (EBITDA)	74.7	43.1	56.9	61.1	74.1
% of turnover	15.3	9.4	14.5	14.5	16.1
Depreciation	-39.3	-35.0	-35.6	-35.7	-41.5
Impairment	-0.7	-0.8	-2.4	-0.9	-0.2
Operating profit (EBIT)	36.9	8.6	20.0	26.3	33.3
% of turnover	7.6	1.9	5.1	6.3	7.2
Operating profit before impairment	37.6	9.4	22.4	27.2	33.5
% of turnover	7.7	2.1	5.7	6.5	7.3
Net financial items	-13.5	-9.7	-9.8	-6.0	-2.8
Profit/loss before taxes	23.3	-1.1	10.2	20.3	30.5
Taxes	-3.6	-3.4	-2.0	-2.7	-5.3
Profit/loss for the reporting period	19.8	-4.4	8.1	17.6	25.2
Return on invested capital %	5.4	1.2	3.0	4.3	5.4
Return on invested capital before impairment %	5.5	1.4	3.4	4.4	5.4
Restricted capital on average	687.0	695.8	656.9	613.2	620.8
Turnover of restricted capital (turnover/restricted capital on average)	0.7	0.7	0.6	0.7	0.7
Average working capital	164.3	163.4	138.1	112.6	122.8
Average working capital % of turnover	33.7	35.5	35.2	26.8	26.7
Restricted capital at the end of the year	713.2	669.8	633.9	578.9	691.8
Working capital at the end of the year	176.9	140.2	125.6	88.0	133.7
Gross investments	88.4	38.5	39.6	31.3	62.7
% of turnover	18.1	8.4	10.1	7.5	13.6
Gross investments/depreciation	2.3	1.1	1.1	0.9	1.5
Operating margin	74.7	43.1	56.9	61.1	74.1
+/- Change in working capital	-32.7	39.6	14.7	37.6	-45.7
- Net investments	-67.1	-21.9	1.6	-25.0	-50.7
Free cash flow before taxes	-25.1	60.7	73.2	73.6	-22.3
Balance sheet total	838.2	795.0	812.4	697.5	805.8
Shareholders' equity	304.4	288.2	339.7	347.9	404.0
Shareholders' equity (average)	297.4	296.1	313.0	341.8	360.8
Interest-bearing debt	408.1	384.5	368.5	242.6	277.0
Interest-bearing net debt	393.1	366.6	269.6	206.2	265.6
Equity ratio %	37.8	37.6	43.0	51.2	51.3
Gearing %	128.7	127.2	79.4	59.3	65.8
Interest-bearing net debt/operating margin	5.3	8.5	4.7	3.4	3.6
Liquidity	3.2	2.9	4.4	2.8	2.8
Return on equity %	6.6	-1.5	2.6	5.2	7.0
Dividend distribution	12.0	4.0	4.0	7.3	12.3
Dividend % of profit*	60.7	-90.0	49.3	41.4	48.7
Average number of employees	961	914	773	758	869
Key figures per share					
Number of shares	30,000	30,000	30,000	30,000	30,000
Earnings/share, EUR*	617	-146	271	586	840
Shareholders' equity/share, EUR	10,106	9,571	11,311	11,583	12,208
Dividend/share, EUR	400	133	133	243	408

* = 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	=	$\frac{\text{Turnover rolling 12 months}}{\text{Restricted capital (on average)}}$	
Return on invested capital % (ROIC)	=	$\frac{\text{Operating profit rolling 12 months}}{\text{Restricted capital (on average)}}$	X 100
Return on equity %	=	$\frac{\text{Profit before taxes rolling 12 months - income tax}}{(\text{Shareholders' equity} + \text{minority interest}) \text{ on average}}$	X 100
Liquidity	=	$\frac{\text{Short-term on-interest bearing receivables}}{\text{Short-term non-interest-bearing liabilities}}$	
Equity ratio %	=	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{capital loan X 100}}{\text{Balance sheet total} - \text{advances received}}$	
Interest-bearing net debt	=	Interest-bearing debt - Interest-bearing loans receivable - Cash and cash equivalents	
Gearing %	=	$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity} + \text{minority interest}}$	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	



Vapo Oy

Yrjönkatu 42, Jyväskylä
P.O.Box 22
FI-40101 Jyväskylä
Finland

Tel. +358 20 790 4000

www.vapo.com

Twitter: @VapoEnergia
LinkedIn: Vapo Oy