

Sustainable Everyday Living



VAPO GROUP
FINANCIAL REVIEW
1 MAY-31 DECEMBER 2019



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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 well-being by providing jobs, recycling and creating comfortable living environments.

We satisfy people's 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 well-being

Our targets

- A respectful and inspiring corporate culture
- Being a forerunner in sustainable development
- Adding value to our customers together
- A respected company image and brand portfolio, positive interaction
- Profitable growth and results for Vapo Group

Megatrends

Urbanisation, digitalisation and climate change

Our Values

Focus on customer success
Achieving together
Courage to renew
Trust through respect

Purpose

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 well-being by providing jobs, recycling and creating comfortable living environments.

Vapo Group

Balance sheet
total EUR

828.5

million

Equity
ratio

42.9

%

Average number of
employees

1,050

Financial year 1 May-31 December 2019

Consolidated
turnover EUR

297.7

million

Consolidated
operating profit EUR

-40.4

million



Vapo Group

Vapo Oy
Kekkilä-BVB Australia Pty Ltd
Haasnot BVBA
Kekkilä Iberia S.L.
Bas van Buuren B.V.
BVB Gardening B.V.
BVB Landscaping B.V.
BVB Research B.V.
BVB Substrates B.V.
Bogro B.V.
Euroveen B.V.
Euroveen Logistics B.V.
Geluc B.V.
Veenbas Potgrond B.V.
BVB Gardening GmbH
Grow & Care Materials Oy
Kekkilä-BVB Oy
Kekkilä Oy
Nevel Oy
Piipsan Turve Oy
Salon Energiantuotanto Oy
Suo Oy
BVB Substrates AB
Hasselfors Garden AB
Neova AB
Nevel AB
AS Tootsi Turvas
Kekkilä Eesti Oü
Nevel Eesti Oü

Owners

State ownership 50.1%
Suomen Energiavarat Oy 49.9%

CEO'S REVIEW

A strategically positive but financially challenging year

Vapo Group changed its financial year back to the calendar year effective from 1 January 2020. The reason for this change was quite rational. When Vapo changed its financial year to 1 May-30 April, the fuel trade and energy peat represented the majority of the Group's turnover, cash flow, expenses and income. Weather conditions have a very significant impact on the peat production season, as does the winter heating season, which is spread over two calendar years. Having the peat production season and the entire heating season fall on the same financial year gave a more accurate picture of the Group's operations and profitability. It meant that corresponding expenses and income were included in the same financial statements, which improved comparability.

Today, the situation is different. Energy peat now represents less than a quarter of the Group's total turnover, while the volumes of the wood and pellet business are growing and Kekkilä-BVB accounts for approximately half of the Group's turnover. Kekkilä-BVB's business is less cyclical than the energy peat business. Under these circumstances, it makes sense to change the Group's financial year to be the calendar year. Due to this transition, the recently concluded financial year covers only the period 1 May-31 December 2019.

Vapo is in the midst of the biggest and fastest change in its entire history. During the past eight-month financial year, the company began implementing three very significant changes. In October 2018, Vapo Oy subsidiary Kekkilä Oy and the Netherlands-based BVB Substrates B.V. announced a transaction that led to the formation of Europe's leading growing media company Kekkilä-BVB. Tens of integration projects were carried out during



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the year and the company is now ready to seek growth in the expanding global growing media market. The harmonisation of the companies' operations took up a lot of resources from the operational management and the organisation as a whole, which is why the financial targets set for Kekkilä-BVB were not fully achieved in its first financial year after the merger. Nevertheless, the integration process itself has gone even better than expected. Kekkilä-BVB's goal for the new financial year is profitable growth.

For several years now, Vapo has engaged in research and product development to produce activated carbon from peat. Vapo made a decision regarding this second project of high strategic significance in December 2018. The Group decided to build the first activated carbon production facility in Ilomantsi. The facility will be modern and very eco-friendly. Construction of the production facility began with earth-moving operations in June, the foundation stone was laid in October and the aim is to have the facility ready for pilot production in autumn 2020, with full production to commence at the beginning of 2021.

This investment also supports Vapo's strategy of reducing its dependence on energy peat. The project to build the production facility in Ilomantsi will tie up approximately EUR 20 million in investments during the current financial year without contributing to any increase in sales.

In our communications regarding the Ilomantsi production facility, we have referred to it as our first such facility. However, it may well be the first of many. Once the plant meets our quality expectations and barring any significant changes in the market, we are prepared to start planning the expansion of the Ilomantsi production facility immediately as well as begin preparations for at least one new production facility either elsewhere in Finland or in Estonia or Sweden.

The third significant strategic renewal measure we took during the financial year was to bring our energy infrastructure under the newly established company Nevel in Finland, Sweden and Estonia. Our goal in this business area is to achieve growth in the Finnish market as well as Sweden, in particular. Nevel generates its turnover of approximately EUR 100 million by operating some 150 boiler plants of various sizes as well as district heating networks.



A year ago, we estimated that the demand for energy peat would be halved over a time horizon of about ten years. We are now prepared for demand to be reduced by half in just five years. The changes will only accelerate, driven by our operating environment and by our own desire.

Nevel's growth strategy is based on taking advantage of the digital transformation and modern technology, scalable international operations based on the company's special expertise and a cost-effective operating model.

We are committed to ensuring the reliable availability of fuel for our energy peat customers far into the future and, at the same time, we seek growth in wood-based fuels.

A year ago, we estimated that the demand for energy peat would be halved over a time horizon of about ten years. We are now prepared for demand to be reduced by half in just five years. In light of this assessment, we decided in December 2019 to discontinue energy peat production at about 90 production sites or parts thereof. This also meant a write-down of approximately EUR 30 million on our peat assets.

While the write-down meant that our result showed a loss for the financial year, it did not endanger our solvency and it will not slow down our future investments.

Overall, the year was financially satisfactory. Our businesses did not quite reach the overall targets set for them, but savings achieved in the Group's shared functions improved the operating result to some extent.

The current situation is challenging, as the new year has been exceptionally warm, which has reduced the sales of energy and fuels during the season that is usually the coldest period of the year.

Aiming to halve emissions by 2025

In spring 2020, Vapo Group set an ambitious target of halving the carbon dioxide emissions of its Finnish operations by the year 2025. The Group's total emissions in 2018 were approximately 1.2 million tonnes, of which the Finnish operations produced approximately one million tonnes. The most significant emission reductions are sought by reducing emissions from peat production areas and increasingly transitioning to the use of renewable fuels in energy production.

Vesa Tempakka
CEO

Highlights during the financial year

May

A carbon-neutral energy solution for Foodhills Fastighet

Vapo Oy's subsidiary Neova AB and Foodhills Fastighet AB signed an agreement that saw Neova AB become Foodhills Fastighet AB's energy supplier in autumn 2019. Based in Bjuv, Skåne, Foodhills Fastighet AB is a provider of sustainable business premises services for a cluster of food businesses. The agreement enables Foodhills Fastighet to transition to using 100% renewable district heating.

June

Smooth progress in Kekkilä-BVB integration driven by 66 projects

Vapo Group's shared values help in the creation of a new corporate culture. Kekkilä-BVB has more than 500 employees in six countries. The projects of Kekkilä-BVB's year of integration are progressing on schedule to be completed by the end of the year. The first phase of the integration has been completed. Carrying out the projects requires the courage to renew.

July

Wind farms in areas released from production

Vapo brought all of its business operations related to fuel wood – from sourcing to production and distribution – together under the Energy division. The Group also started an assessment of using its land assets in the wind power industry. The target is to create new business opportunities related to obtaining permits for wind farms in areas released from production.

August

Peat production targets were fulfilled

Vapo Group's peat production targets were fulfilled as planned in all countries of production. For energy peat, the current stockpiles ensure deliveries for the 2020-2021 heating season. The stockpiles of horticultural peat are also at a good level.

September

Foundation stone laid at activated carbon production facility

The foundation stone for the activated carbon production facility under construction in Ilomantsi was laid in a ceremony attended by Prime Minister Antti Rinne. The production facility will be completed in autumn 2020 and the plan is for the first product batches to reach customers before the end of the year.

October

A target of being net positive in 2030

Kekkilä-BVB has set a target of being net positive by 2030. One example of concrete measures on the path to net positivity is the development of professional and consumer products containing renewable sphagnum moss.

November

Nevel is an international infrastructure company

Vapo incorporated its heat and power business as Nevel Oy to respond to the demand for advanced infrastructure solutions among municipal and industrial customers in Finland, Sweden and Estonia. Nevel operates more than 150 power plants and 40 district heating networks through its unique industry-leading digital platform.

December

Accelerating decline in the demand for energy peat

Vapo is preparing for the declining demand for energy peat by discontinuing energy peat production at more than 90 production sites in Finland. In spite of the growing demand for horticultural peat, bedding peat and new uses for peat, the overall demand for peat is declining.

Business operations

Our business operations are divided into the Grow&Care, Energy and New Businesses divisions. The Supply Chain Management function used by all three business divisions manages peat production, logistics services and procurement, among other things, in many countries. The Group services shared by all business operations are managed by the Group Service function.

Grow&Care

Kekkilä and BVB Substrates joined forces at the beginning of 2019 to form Europe's leading growing media company. Professional growing media is sold in more than 100 countries and the customers include not only professional growers but also landscapers, retailers and consumers in the Nordic countries and Central Europe. Kekkilä-BVB combines the Dutch spirit of entrepreneurship, strong cultural heritage in gardening and landscaping and robust networks with Nordic expertise and efficiency. Kekkilä-BVB has approximately 500 employees at production facilities and offices located in seven countries.

Sustainable growth is at the core of Kekkilä-BVB's business. Sustainability-related opportunities and challenges, such as the reduction of greenhouse gas emissions, water conservation, promoting human well-being through green homes and green spaces as well as boosting plant-based food production are all areas in which Kekkilä-BVB's business creates solutions.

- Approximately 500 employees
- Twelve own facilities for producing growing media
- Exports to more than 100 countries
- Europe's leading supplier of raw material for growing media

Energy

Based on the transformation of the energy markets and the opportunities it presents as well as the declining use of energy peat, the Energy division's targets are to invest in renewable energy, digitalisation and service development related to material and energy efficiency. Last year, Vapo consolidated its resources and personnel involved in the industrial and municipal infrastructure business into a new entity by establishing a new subsidiary called Nevel. The company is responsible for the heating production and district heating business in Finland, Sweden and Estonia. As part of the restructuring of the biofuel and energy peat business, the company has implemented a new operating model that supports the improvement of cost efficiency and operating methods as volumes change.

- 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, municipalities, small businesses and households.

New Businesses

The New Businesses division promotes and steers 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 businesses.

The strategic priorities that guide product development are as follows:

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

- Competence as the most important resource
- Own product development laboratory in Jyväskylä
- The construction of the Ilomantsi production facility started in summer 2019
- Peat research is still in its early stages

Grow&Care

The successful integration of Kekkilä and the Dutch company BVB Substrates was the main target for 2019. The integration process involved building a new company, from shared processes to a visual identity, while also establishing new working methods and embracing the shared values. At the same time, it was important to focus on customers.

A key priority in the integration process was to ensure synergies and create a shared foundation for growth. A well-managed project office and highly committed personnel ensured that all 13 areas of integration and the 66 projects under these areas achieved their targets. Thanks to efficient operations and synergy benefits, Kekkilä-BVB also improved its profitability.

The target of the Kekkilä-BVB business is to further strengthen the company's position as Europe's leading growing media company while also pursuing growth in selected international markets. The turnover growth target is EUR 320 million by 2022.

Investments will be made in ensuring that production capacity corresponds to sales growth. In Sweden, investments were made in production efficiency at the Mosås plant and the acquisition of the Bredaryd production unit. Production capacity will be increased in the Netherlands, and the efficiency and capacity of the Niibi production facility in Estonia will be increased in 2020.

Sales growth will be accelerated in 2020 by opening new sales offices in new markets and deploying a new shared ERP system for the company. In addition, Kekkilä-BVB will make use of new raw materials alongside peat, integrate sustainability into all operations and invest in well-being at work and leadership skills. This will be seen by existing and new customers as an even more comprehensive range of services and products, a pioneering position in the gardening sector, business that genuinely promotes sustainability as well as profitable growth.

Energy

Vapo's Energy division streamlined its structure and operations in 2019 in response to the transformation of the market. The business consists of the

offering of Nevel, which provides infrastructure solutions for industrial operators and municipalities, as well as biofuels and energy peat. Services will be produced by different units for industrial operators, energy companies, municipalities and households. Energy solutions and digital services will also be utilised at the company's own heating plants. The Energy division comprises Nevel's operations in Finland, Sweden and Estonia as well as the operations of the Swedish subsidiary Neova AB and the Estonian subsidiary AS Tootsi Turvas. The Energy division's total turnover is approximately EUR 290 million.

A new operating model was implemented during the financial year to support the restructuring of the biofuel and energy peat business. The optimisation of supply chain areas makes it possible to focus on the challenge created by declining demand in peat production – we will be able to improve cost-efficiency and operating methods as volumes change.

The development of digital operations in 2019 included the platform-independent Nevel Remote Operation Service. Concrete benefits can be shown in the form of reduced fuel consumption and improved residual oxygen ratios, for example.

In 2019, preparations were made at power plants for the increased use of renewable energy. At the Atria plant in Nurmo, for instance, fuel change trials were carried out to support a switch from fossil fuel to biofuel. Also among the highlights of the year was the expansion of the district heating network and the customer base of district heating. During the year, we took over the Ii and Utajärvi district heating networks in Finland and acquired the Hjälnarp and Vejbystrand district heating networks in Sweden as well as the Petäjävesi district heating network in Finland. We also achieved organic growth of our customer base in Sweden. Highlights related to industrial customers included the renewal of the Binderholz agreement in Lieksa.

Targets

The Energy division's targets are to invest in renewable energy, digitalisation and resource efficiency. We operate as a provider of renewable energy as well as advanced industrial and municipal infrastructure solutions, promoting growth and profitability, with energy peat having a role as a fuel for the



transition phase. As part of its investments in renewables, Vapo has evaluated opportunities for taking advantage of wind power. This is linked to Vapo's ownership of 80,000 hectares of land. In the first phase, the company will select locations for wind farm planning and permit application processes in areas released from production. The company is not excluding the possibility of building wind farms itself.

New Businesses

The circular economy and high-added-value products are at the heart of the Vapo Refinery 2030 vision

Peat has traditionally been used in growing media, in animal litter and as fuel. The other uses of organic wetland biomass, i.e. peat and moss, include the production of activated carbon, fibre products and highly valuable chemical compounds.

High value-added products made from organic wetland biomass help find ways to promote sustainable food production and water and air purification as well as to replace harmful chemicals, oil-based products and plastics currently in the market. The target over the next ten years is to create business for the Group that can generate turnover exceeding a hundred million of euros and serve an international market. We call this the Vapo Refinery 2030 vision. The aim is to utilise the refined raw materials and byproducts comprehensively in accordance with the circular economy principle.

The project that is currently the farthest along is the production of activated carbon from peat. Activated carbon is already on its way to becoming an industrial scale business, as we are currently building our first production plant for activated carbon in Ilomantsi.

The next research project under the Refinery concept is focused on humic acids as biostimulants. They are used to improve the nutrient absorption capacity of cultivated plants and make them more weatherproof while also improving gut health in animal nutrition. Efforts are also under way to study

the use of other valuable compounds in organic wetland biomass in the growing food, animal feed, pharmaceutical and cosmetics markets.

Group Services

Group Finance and Business Control is 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.

HR is responsible for the implementation of Group-wide HR policies and the creation of consistent operating cultures and ways of working, the harmonisation of systems as well as the training of supervisors and all of the Group's personnel. The emphasis of the HR function is on the assessment, development and management of competence. The development of managerial work and promoting an equal and non-discriminatory operating culture are particular focus areas in HR.

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.

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.

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 primarily creates customer-oriented added value by maintaining a strong delivery reliability and 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.

The main focus of Peat Operations is on reducing fixed costs

The Peat 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.

Aiming for flexible and efficient logistics solutions

Vapo is known for its delivery reliability, particularly with regard to fuel delivery logistics. The Group was successful in maintaining good customer service during the financial year. The efficiency of bulk logistics was also improved further.



Kekkilä-BVB's global business requires flexible and cost-efficient logistics solutions. The focus has been particularly on the development of container transport and bulk shipping.

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 improving cost efficiency. We updated our Supplier Code of Conduct, which helps further strengthen our suppliers' commitment to sustainability.

Sustainability is at the heart of environmental management

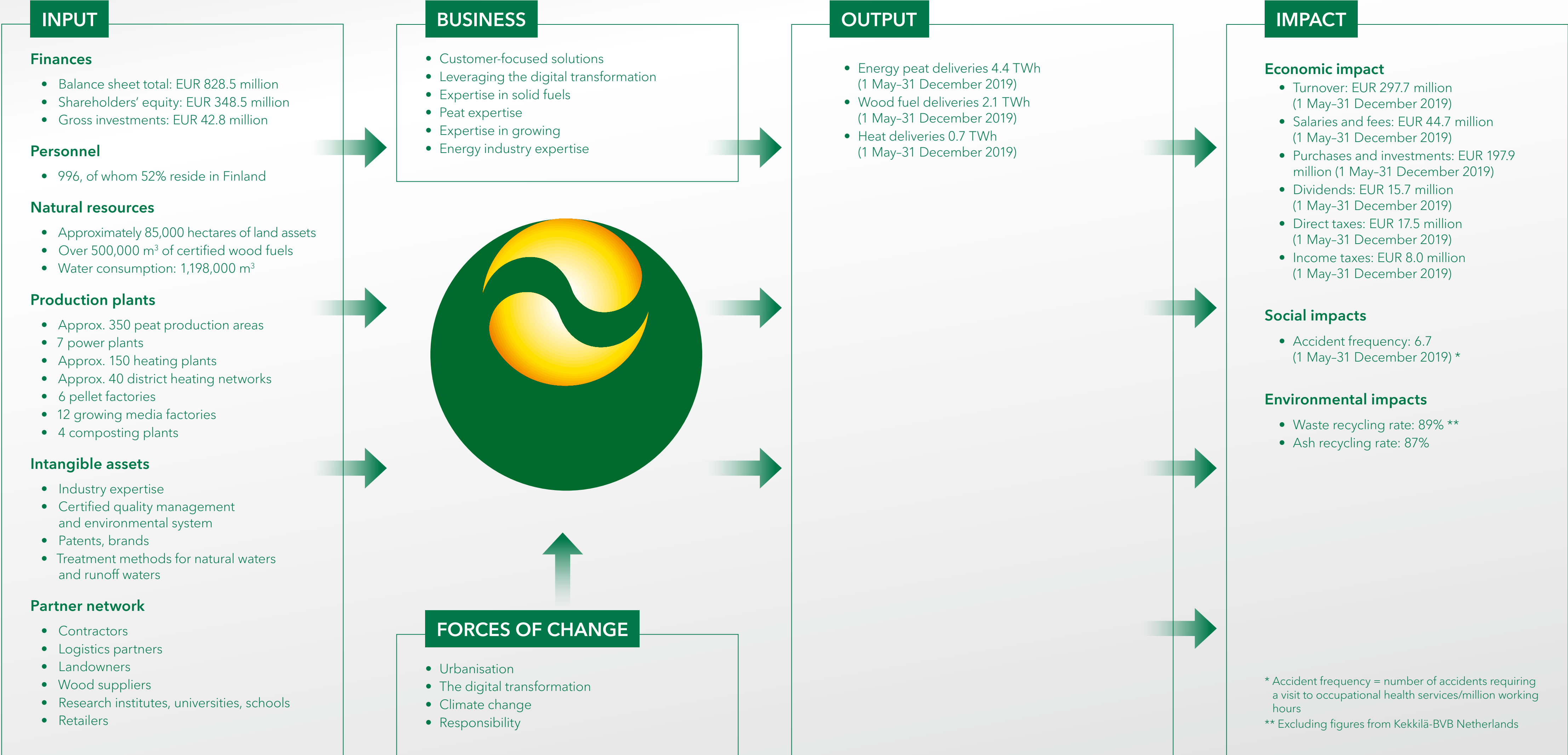
Vapo is committed to continuously improving its operations and developing its environmental efforts. We want to be recognised as a responsible and sustainable company wherever we operate. Vapo Group's long-term sustainability targets and environmental strategy were updated and approved in 2019: we will reduce our emissions to waterways as well as our climate emissions, use natural resources sustainably, improve material efficiency, reduce waste and ensure that our offices are environmentally friendly. Each of Vapo's businesses has an environmental programme in accordance with the environmental strategy. The environmental programmes specify the most significant aspects of environmental responsibility along with annual environmental targets.

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.

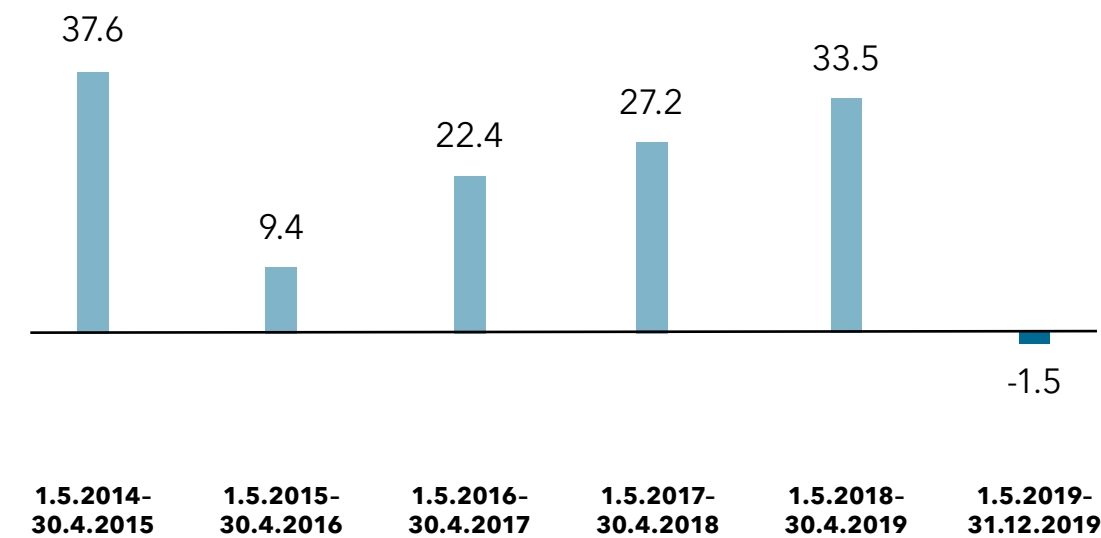
Vapo Group has a strong continuous focus on occupational safety and well-being and the starting point for all of our operations is workplace safety and developing a proactive and caring safety culture.

VAPO CREATES VALUE



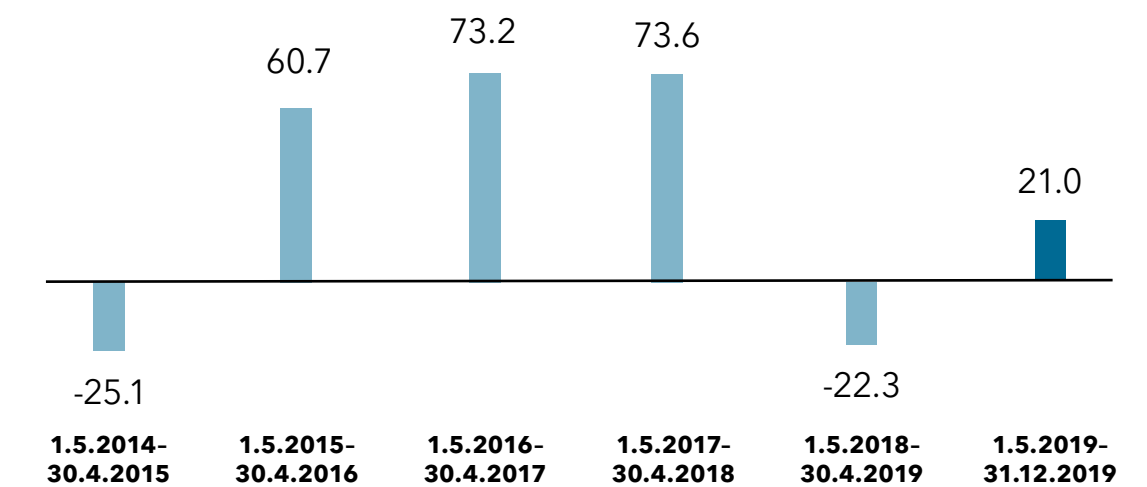
Financial statements 1 May- 31 December 2019

Operating profit before impairment, EUR million



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. In spite of the successful production season, the operating result was weighed down by the timing of Kekkilä-BVB's sales season being different from the previous year and the reduced demand for energy peat, particularly during the warm early part of the winter. The Group's operating profit before impairment declined year-on-year (May-December) and amounted to EUR -1.5 million (EUR 4.1 million).

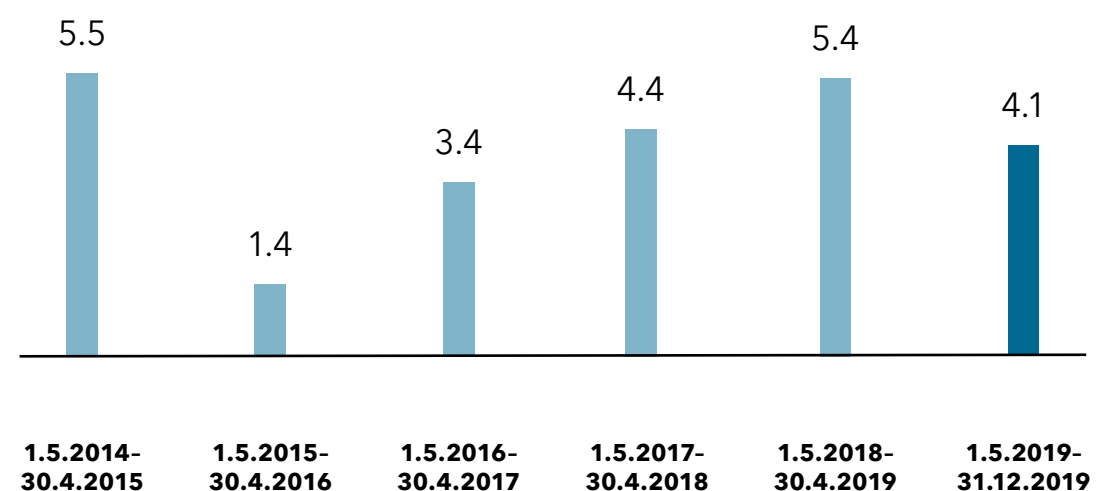
Free cash flow, EUR million



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

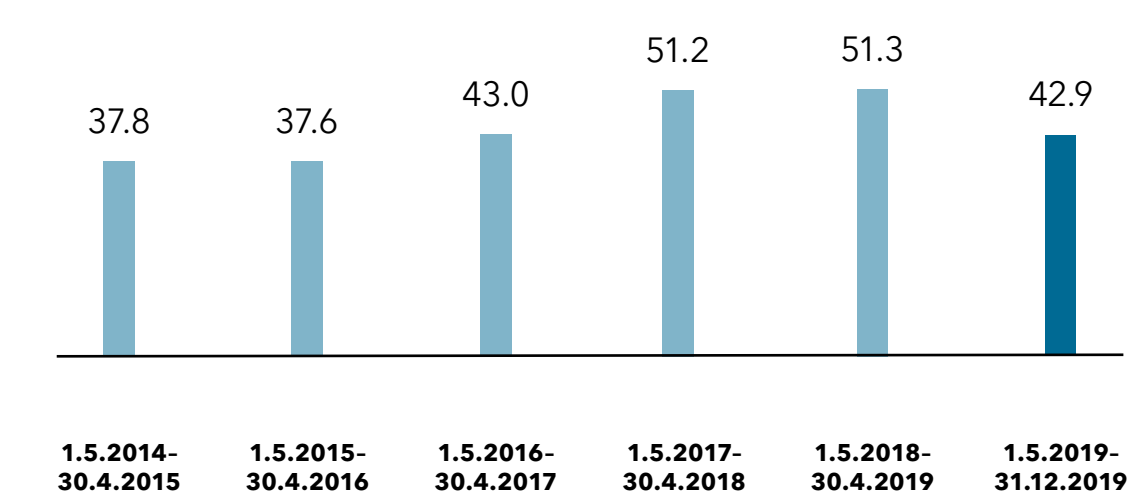
The Group's free cash flow before taxes for the financial year May-December 2019 was EUR 21.0 million (May 2018-April 2019: EUR -22.3 million). The measures taken to enhance working capital turnover had an effect of EUR 10.3 million (EUR -45.7 million). In addition, gains from the acquisition/sale of assets improved cash flow by EUR 16.4 million (EUR 12.0 million). Gross investments for the financial year amounted to EUR 42.8 million (EUR 62.7 million). Net investments (gross investments - acquisition/sale of assets) were EUR 26.3 million (EUR 50.7 million).

Return on invested capital before impairment %



Return on invested capital (ROIC) is the main indicator of profitability in Vapo's capital-intensive industries as it takes invested capital into account in addition to operating profit. ROIC reflects the company's ability to create shareholder value, meaning that it should be higher than the weighted average cost of capital (WACC). At the end of the financial year, Vapo's return on invested capital before impairment was 4.1 (5.4) per cent.

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 financial year, the company's equity ratio was 42.9 (51.3) per cent, with the significant decrease being related to write-downs of approximately EUR 40 million and an increase of approximately EUR 45 million in lease liabilities due to the adoption of the new IFRS 16 accounting standard.

Board of Directors

Chairman of the Board of Directors

Vice Chairman of the Board of Directors

Members

Jan Lång	Markus Tykkyläinen	Tuomas Hyyryläinen	Juhani Järvelä	Risto Kantola	Kirsi Puntila	Minna Smedsten	Maija Strandberg
<p><i>b. 2 February 1957, M.Sc. (Econ.)</i></p> <p>Relevant concurrent positions of trust</p> <p>Chairman of the Board: Unisport Oy 2018–, Molok Oy 2016– and Antilooppi ky, 2015–; Board Member: Infinited Fiber Company Oy 2018–, Flexound Oy 2019–</p> <p>Relevant work experience</p> <p>Various positions, Huhtamäki Oy, 1982-2003; CEO, Uponor Oyj, 2003–2008; CEO, Ahlström Oyj, 2009–2014</p> <p>Chairman of Vapo’s Board of Directors 2015–</p> <p>Chairman of the Personnel Committee 2015–</p>	<p><i>b. 28 October 1973, M.Sc. (Energy Technology), eMBA, M.Sc. (Econ.), CBM, CBM Chairman</i></p> <p><i>Managing Director, Suur-Savon Sähkö Oy, 1 September 2016–</i></p> <p>Relevant concurrent positions of trust</p> <p>Member of the Board: Kymppivoima Tuotanto Oy, Kymppivoima Hankinta, Elvera Oy, Power Deriva Oy, PD Power Oy, Voimapiha Oy, Etelä-Savo Chamber of Commerce; Chairman of the Board: Lumme Energia Oy, Järvi-Suomen Voima Oy, Solarigo Systems Oy</p> <p>Relevant work experience</p> <p>Managing Director, Rovaniemen Energia Oy/Napapiirin Energia ja Vesi Oy, 2011–2016; Managing Director, Ranuan Bioenergia Oy, 2015–2016; Development Director, Vakka-Suomen Voima Oy, 2010–2011; Design Engineer, Quality Manager, Environmental Director, Risk Manager, Development Manager, Kainuun Sähkö Oy/Graninge Kainuu Oy/ Kainuun Energia Oy/E.ON Kainuu Oy, 1998-2010</p> <p>Member of the Board at Vapo 2016–</p> <p>Vice Chairman of the Board of Directors 2017–</p> <p>Member of the Audit Committee 2016–</p>	<p><i>b. 1 December 1977, M.Sc. (Econ.)</i></p> <p><i>Executive Vice President, Fiskars Oyj, 1 September 2018–</i></p> <p>Relevant work experience</p> <p>Senior Vice President, Emerging businesses, Neste Oyj, 9/2016–8/2018; Senior Vice President, Strategy and New Ventures Neste Oyj, 6/2014–9/2016; Senior Vice President, Strategy 6/2012–6/2014; Vice President Strategy and M&A, F-Secure, 6/2010–6/2012; various positions, Nokia Oyj, 2004–2010</p> <p>Member of the Board at Vapo 2016–</p> <p>Member of the Personnel Committee 2016–</p>	<p><i>b. 20 July 1956, M.Sc. (Eng.)</i></p> <p><i>Managing Director, Oulu Energy Ltd, 2010–31 December 2019</i></p> <p>Relevant concurrent positions of trust</p> <p>Chairman of the Board: Voimapato Oy, Oulun Sähkönmyynti Oy and Oulun Energia Urakointi Oy; Board Member: Kolsin Voima Oy</p> <p>Relevant work experience</p> <p>Managing Director, Fortek Oy, 2005–2009; Development Director, Stora Enso Oy, 1999–2004; Project Manager, Enso Group, 1995–1998; Veitsiluoto Oy, 1985–1994; Orion Oy, 1983–1984; Metsäliiton Teollisuus Oy, 1980–1982</p> <p>Member of the Board at Vapo 2017–</p>	<p><i>b. 15 March 1960, M.Sc. (Eng.)</i></p> <p><i>Managing Director, Oulun Seudun Sähkö, 1 August 2003–</i></p> <p>Relevant concurrent positions of trust</p> <p>Chairman of the Board: Oulun Seudun Sähkö Verkkopalvelut Oy, Lakeuden Kuitu Oy, Pohjois-Suomen Voima Oy; Board Member: Svartisen Holding AS, Voimapato Oy, Kolsin Voima Oy, Eltel Networks Pohjoinen Oy, Solar Power Holding Oy</p> <p>Relevant work experience</p> <p>Production Director, Oulu Energy Ltd, 1995–2003; Design Engineer, Pohjolan Voima Oy 1990–1995; Design Engineer, Ekono Oy, 1986–1990</p> <p>Member of the Board at Vapo 2009–2011, 2013–2015 and 2017–</p> <p>Member of the Audit Committee 2009–2011 and 2017–</p> <p>Member of the Personnel Committee 2013–2015</p>	<p><i>b. 1 November 1970, M.Sc. (Econ.)</i></p> <p><i>Senior Vice President, Marketing, Altia Oyj, 1 April 2014–</i></p> <p>Relevant work experience</p> <p>Spirits Category Director, Altia Oyj, 2015–2016; Marketing Director, own brands, Altia Oyj, 2014–2015; Global Marketing Manager, The Absolut Company/Pernod Ricard, 2010–2014; Global Senior Brand Manager, Chivas Brothers/Pernod Ricard, 2006–2010</p> <p>Member of Marketing Executives Group Inc (MJR) 2016–</p> <p>Member of the Board at Vapo 2018–</p>	<p><i>b. 30 August 1976, M.Sc. (Econ.)</i></p> <p><i>Group CFO, Taaleri Plc. 1 August 2013–</i></p> <p>Relevant concurrent positions of trust</p> <p>Member of the Board: Havsfrun Investment AB, Taaleri Energia Oy, Evervest Oy</p> <p>Relevant work experience</p> <p>CFO, GreenStream Network Plc, 2009–2013; Finance Manager, Kaupthing Bank Finland, 2005–2008; IR & Finance Manager, Norvestia Plc, 2000–2004; Auditor, Tuokko Deloitte & Touche, 1999–2000</p> <p>Member of the Board at Vapo 2016–</p> <p>Member of the Board at Vapo 2016–</p> <p>Member of the Audit Committee 2016–</p>	<p><i>b. 20 April 1969, M.Sc. (Econ.)</i></p> <p><i>Senior Financial Specialist, Prime Minister’s Office, Government Ownership Steering Department, 6/2019–</i></p> <p>Relevant concurrent positions of trust</p> <p>Board Member, Chairman of the Audit Committee, VR Group Oyj, 6/2014–; Board Member, Exel Composites Oyj, 3/2017–</p> <p>Relevant work experience</p> <p>CFO, Uponor Oyj, 3/2017–3/2019; CFO, Pulp and Energy Business, Valmet 10/2015–3/2017; CFO, Paper Machine Business, Valmet 1/2013–10/2015; Managing Director, ALSO Nordic Holding Oy 5/2008–6/2012; CFO, ALSO Nordic Holding Oy 3/2007–5/2008; Financial and business management positions, Timberjack/ John Deere C&F Europe 6/1995–2/2007; Financial management positions, Huhtamäki Oy Leaf 5/1993–</p> <p>Member of the Board at Vapo 2019–</p> <p>Member of the Personnel Committee 2019–</p>

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

Corporate Governance

Applicable rules and regulations

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 (Appendix 1) 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 and affiliated companies issued by the Ownership Steering Department of the Prime Minister’s Office (“Government Resolution on State Ownership Policy, available at <https://vnk.fi/en/ownership-steering-data-bank>) and, where applicable, the Securities Market Association’s Finnish Corporate Governance Code, which took effect on 1 January 2020 (“Corporate Governance Code”, available at <https://cgfinland.fi/en/>). The remuneration report is issued in accordance with the instructions for the Remuneration Statement in the Corporate Governance Code 2015 (available at <https://cgfinland.fi/en/corporate-governance-code/>).

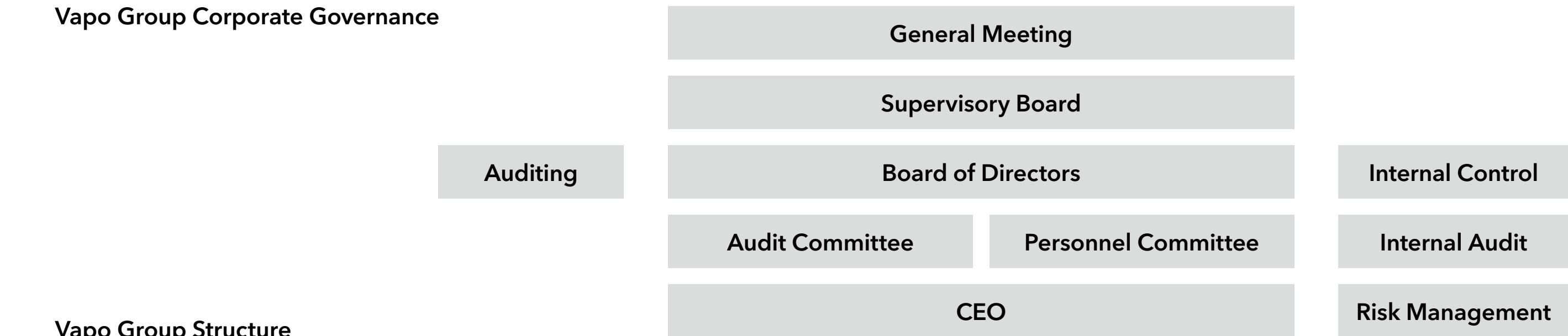
The company’s Articles of Association include a redemption clause. Pursuant to the redemption clause, if a share is transferred to an outside party, other than one that exercises control over a shareholder of the company, the other shareholders shall have the right to redeem the transferred shares.

The company publishes this Corporate Governance Statement annually together with the annual report and management report.

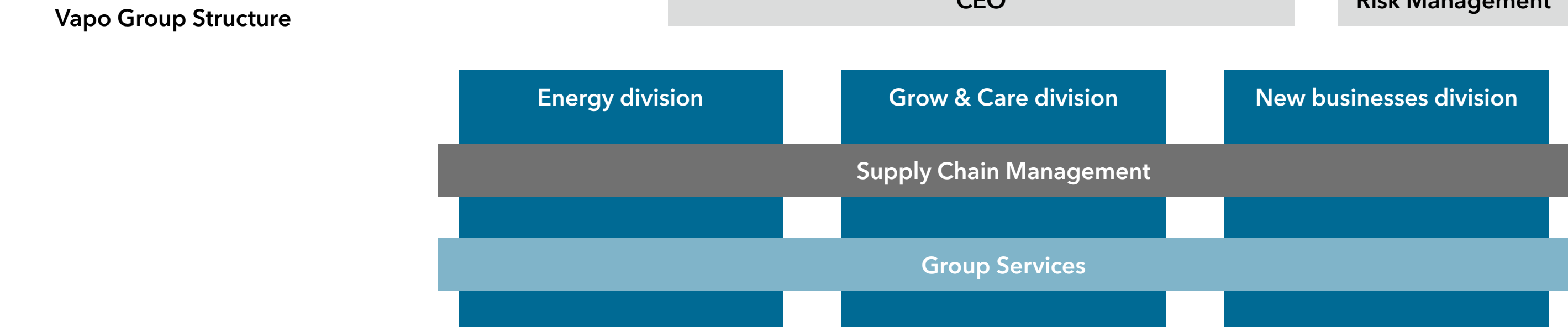
Divisions and business functions

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 pro-

Vapo Group Corporate Governance



Vapo Group Structure



duction 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 governing 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.

Pursuant to the Articles of Associaton, the General Meeting shall be convened by registered letter to each shareholder sent to the address in the share register or sent electronically to the email address given by the shareholder no later than eight days before the meeting.

All shareholders have the right to participate in General Meetings by following the instructions provided in the notice of the General Meeting. Shareholders can participate in the General Meeting themselves or by a proxy representative. Each share confers one vote at the General Meeting.

The General Meeting decides on matters within its purview pursuant to the Limited Liability Companies Act, such as confirming the financial statements, the distribution of profit, discharging the members of the Board of Directors and the CEO from liability and any amendments to the Articles of Association. The General Meeting also appoints the members of the Board of Directors, the members of the Supervisory Board and the company's auditors and decides on their remuneration.

The appointment of members to the Board of Directors and the Supervisory Board is also subject to the provisions of the Shareholders' Agreement between the company's owners. The Shareholders' Agreement also includes more detailed provisions regarding the decision-making procedure concerning certain decisions.

Due to Vapo Oy being a privately held company owned by three shareholders, the company does not publish the minutes of the General Meeting, proposals for resolutions or other meeting documents on its website. In accordance with the instructions of the owners, at least the Chairman of the Board of Directors, the CEO and the auditor are present at the Annual General Meeting. Also, persons nominated for appointment to the Board of Directors for the first time may not be present at the General Meeting deciding on their appointment.

A separate press release shall be published regarding appointments and other key decisions. The financial statements and the notes to the financial statements as well as the management report are published on Vapo's website.

FY 5-12/2019 Vapo Oy's Annual General Meeting for the financial year 1 May-31 December 2019 was held in Helsinki on 5 September 2019. All shares and votes were represented at the General Meeting. In addition, an Extraordinary General Meeting held on 9 October 2019 amended the composition of the Supervisory Board.

Supervisory Board

The Annual General Meeting of Vapo Oy annually appoints a Supervisory Board consisting of a minimum of 8 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 managed 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.

FY 5-12/2019 Vapo Oy's Annual General Meeting held on 5 September 2019 appointed the following as members of the Supervisory Board: Johanna Ojala-Niemelä, Heikki Miilumäki, Markku Eestilä, Hanna Halmeenpää, Hannu Hoskonen, Eero Kubin, Esko Kurvinen, Tommi Lunttila, Lea Mäkipää and Tiina Snicker. Johanna Ojala-Niemelä was appointed as Chairman and Heikki Miilumäki as Vice Chairman. Vapo Oy's Extraordi-

nary General Meeting held on 9 October 2019 appointed the following as members of the Supervisory Board: Antti Häkkänen, Heikki Miilumäki, Eero Kubin, Esko Kurvinen, Tommi Lunttila, Mauri Peltokangas, Jenni Pitko, Antti Rantakangas, Piritta Rantanen and Tiina Snicker. Antti Rantakangas was appointed as Chairman and Heikki Miilumäki as Vice Chairman. Supervisory Board chairman Antti Rantakangas passed away on 22 November 2019. The Supervisory Board convened three times during the financial year 1 May-31 December 2019. The members' attendance in the meetings of the Supervisory Board is shown in the table below.

Name	Attendance in the meetings
Johanna Ojala-Niemelä (b. 1974), -10/2019 Chairman, Member of Parliament	2/2
Heikki Miilumäki (b. 1946) Vice Chairman, D.Sc. (Tech.) (h.c.), tekniikan kunniatohtori	3/3
Markku Eestilä (b. 1956), -10/2019 Member, Member of Parliament	2/2
Hanna Halmeenpää (b. 1976), -10/2019 Member, Member of Parliament	1/2
Hannu Hoskonen (b. 1957), -10/2019 Member, Member of Parliament	2/2
Eero Kubin (b. 1948) Member, Customer Manager, Professor	3/3
Esko Kurvinen (b. 1952) Member, Engineer	2/3
Tommi Lunttila (b. 1976) Member, agricultural and forestry entrepreneur	3/3
Lea Mäkipää (b. 1947), -10/2019 Member 9/2018-, Member of Parliament	2/2
Tiina Snicker (b. 1966) Member, Financial Manager	2/3
Antti Häkkänen (b. 1985), 10/2019- Member, Member of Parliament	1/1
Mauri Peltokangas (b. 1966), 10/2019- Member, Member of Parliament	1/1
Jenni Pitko (b. 1986), 10/2019- Member, Member of Parliament	1/1
Piritta Rantanen (b. 1979), 10/2019- Member, Member of Parliament	1/1

The members of the Supervisory Board do not hold any shares in Vapo Oy or its subsidiaries and they are independent of the company. According to the Supervisory Board’s assessment the following members of the Supervisory Board are not independent of the major shareholders due to being Members of the Finnish Parliament: Antti Häkkänen, Mauri Peltokangas, Jenni Pitko and Piritta Rantanen.

Information on the compensation of the members of the Supervisory Board is provided in the section Report.

Board of Directors

The Annual General Meeting of Vapo Oy annually appoints a minimum of 4 and a maximum of 8 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 Finnish Prime Minister’s Office.

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 decides on the mission, strategy and values of the Company and monitors the realization thereof 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 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. The main tasks of the Board of Directors are specified in the Board’s charter. For members of the Board of Directors appointed on proposal by the State, the preferred duration of the term is 5-7 years pursuant to the Government Resolution on State Ownership Policy.

Name	Member of the Board of Directors	Attendance in the meetings FY5-12/2019	Member in Committees and attendance in the meetings FY5-12/2019	
			Audit Committee	Personnel Committee
Jan Lång (b. 1957) M.Sc. (Econ.) Professional Board Member	2015: Chairman	*10/10		Chairman 5/5
Markus Tykkyläinen (b. 1973) M.Sc. (Eng.), M.Sc. (Econ.), eMBA Managing Director, Suur-Savon Sähkö Oy	2016: Member 2017: Vice Chairman	*10/10	Member 3/3	
Tuomas Hyryläinen (b. 1977) M.Sc. (Econ.) Chief Growth Officer, Fiskars Oyj	2016: Member	*9/10		Member 5/5
Juhani Järvelä (b. 1956) M.Sc, (Eng.) Managing Director Oulun Seudun Sähkö Oy	2017: Member	*10/10		Member 5/5
Risto Kantola (b. 1960) M.Sc. (Eng.) Managing Director Oulun Seudun Sähkö Oy	2017: Member	*10/10	Member 2/3	
Minna Pajumaa (b. 1963) M.Sc. (Econ.), CEFA Senior Financial Councillor Prime Minister's Office	2013-9/2019: Member	*5/5		Member 2/2
Kirsi Puntila (b. 1970) M.Sc. (Econ.) Senior Vice President, Marketing, Altia Oyj	2018: Member	*10/10	Member 2/3	
Minna Smedsten (b. 1976) M.Sc. (Econ.) Group CFO, Taaleri Oyj	2016: Member	*10/10	Chairman 3/3	
Maija Strandberg (b. 1969) M.Sc. (Econ.) Senior Financial Councillor, Prime Minister's Office	9/2019: Member	*5/5		Member 3/3

FY 5-12/2019 At Vapo Oy’s Annual General Meeting held on 5 September 2019, Jan Lång, Markus Tykkyläinen, Tuomas Hyyryläinen, Juhani Järvelä, Risto Kantola, Kirsi Puntila, Minna Smedsten and Maija Strandberg were appointed to the Board of Directors. Jan Lång was appointed as Chairman and Markus Tykkyläinen as Vice Chairman.

The Board of Directors convened 10 times during the financial year 1 May-31 December 2019. The members’ attendance in the meetings of the Board of Directors is shown in the table below. Key themes and issues dealt with by the Board of Directors included the Kekkilä-BVB merger and monitoring the integration of the companies, the start-up of the Carbons business, the transfer of the Heat & Power business to the subsidiary Nevel Oy, sustainability, issuing a MEUR 100 bond and the valuation of peat assets.

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. According to the Board’s assessment, Maija Strandberg is not independent of major shareholders as she is employed by the State owner.

The remuneration of the Board of Directors is described in more detail in the section Remuneration Report.

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 assesses the independence of the auditor and prepares the proposal of the Board of Directors to the Annual General Meeting regarding the appointment of the auditors.

The Audit Committee is comprised of a Chairman and three members appointed annually by the Board of Directors from among its members. The members shall have appropriate expertise pertaining to accounting and financial statements. The members of the Audit Committee shall be independent of the company and at least one member shall be independent of the company’s significant shareholders. The Audit Committee meets whenever necessary but at least three times per year led by the Chairman of the Committee.

FY 5-12/2019 The Audit Committee convened three times during the financial year 1 May-31 December 2019. The members’ attendance in the committee meetings is shown in the table listing the members of the Board of Directors.

In its meetings, the Audit Committee dealt with its regular topics as well as sustainability, issuing a MEUR 100 bond, valuation of peat assets, impairment tests, internal audit reports and the annual plan. The Audit Committee also dealt with the company’s financing strategy, financial strategic targets, risk management and operational efficiency.

Personnel Committee

The task of the Personnel Committee is to prepare proposals to the Board of Directors regarding the remuneration and appointment of the CEO and rest of the Group Management Team as well as the company’s remuneration principles. The Personnel Committee also prepares the Remuneration Policy and Remuneration Report for the company’s governing bodies.

The Personnel Committee is comprised of a Chairman and three members appointed annually by the Board of Directors from among its members. The members shall have appropriate experience pertaining to the terms of employment and compensation systems of senior management. The majority of the members of the Personnel Committee shall be independent of the company. The CEO or management team members shall not be appointed to the Personnel Committee. The Personnel Committee meets when necessary.

FY 5-12/2019 The Personnel Committee convened 5 times during the financial year 1 May-31 December 2019. The members’ attendance in the

committee meetings is shown in the table listing the members of the Board of Directors.

In its meetings, the Audit Committee dealt with the management’s long-term and short-term remuneration and the individuals included in the management remuneration system.

Nomination Committee

Establishing a Nomination Committee as referred to in the Corporate Governance Code is not necessary due to the company’s ownership structure.

Principles regarding the diversity of the Board of Directors

In accordance with the Government Resolution on State Ownership Policy, the key criteria in proposing candidates for Board membership include experience and expertise, assurance of the capacity for cooperation and diversity of competence as well as compliance with the gender equality objectives established by the Government. The State ensures that both genders are adequately represented on the boards of directors of companies.

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.

The division of tasks between the CEO and the Board of Directors is described in more detail in the Board’s charter.

Information on the remuneration and terms of employment of the Chief Executive Officer is provided in the section “Remuneration Report”.

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 ten times a year.

FY 5-12/2019 During the financial year 1 May-31 December 2019, the members of the Group Management Team – in addition to the CEO as Chairman – were the following: Markus Hassinen (Director, Energy Division until 31 October 2019 and Director, Heat & Power starting from 1 November 2019), Jukka Holm (Chief Information Officer, CIO), Petri Järvinen (Chief Supply Chain Officer, SCM), Pasi Koivisto (Director, Fuels starting from 1 November 2019), 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) Jarmo Santala (Chief Financial Officer, CFO) and Mia Suominen (Business Area Director, New Businesses Division). The Secretary of the Group Management Team was Johan Nybergh (Chief Legal Officer, CLO).

The Group Management Team convened 7 times during the financial year 1 May-31 December 2019.

The key focus areas of the Group Management Team’s work were monitoring strategic targets and the execution of the Group’s strategy.

The members of the Group Management Team do not hold any shares in Vapo Oy or its subsidiaries.

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 main subsidiaries, 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.

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 objectives 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 objectives:

- 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 objectives 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 management, see to business transactions being entered in the systems in a timely manner and reported appropriately and efficiently, complying with the separately issued Group guidelines on the content of internal 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.

The internal audit:

- 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 of Finland. The auditor is appointed at the Annual General Meeting for a term ending at the conclusion of the next Annual General Meeting.

Auditing consists of auditing the Group's accounting, financial statements and governance for each financial year. The auditor reports regularly to the Audit Committee and issues an auditor's report to the Annual General Meeting. The auditor's report includes a statement on whether the financial statements provide accurate and sufficient information on the result of the Group's operations and its financial position in accordance with the applicable financial statements standards and whether the information provided in the Report of the Board of Directors is consistent with the financial statements. The auditor's report also includes a statement on key issues pertaining to the audit. The auditor's fees are paid in accordance with the decision of the Annual General Meeting.

The Group's auditing is organised so that the parent company's responsible auditor appointed by the Annual General Meeting carries out its auditing through its own international organisation or network throughout Vapo Group and is responsible for auditing throughout the Group.

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–30 April 2019 amounted to EUR 211 thousand (EUR 211 thousand) and consulting fees totalled EUR 78 thousand (EUR 78 thousand).

CEO's letter

A strategically positive but financially challenging year

Vapo is in the midst of the biggest and fastest change in its entire history. During the past eight-month financial year, the company began implementing three very significant changes. In October 2018, Vapo Oy subsidiary Kekkilä Oy and the Netherlands-based BVB Substrates B.V. announced a transaction that led to the formation of Europe's leading growing media company Kekkilä-BVB Oy. Tens of integration projects were carried out during the year and the company is now ready to seek growth in the expanding global growing media market. The harmonisation of the companies' operations took up a lot of resources from the operational management and the organisation as a whole, which is why the financial targets set for Kekkilä-BVB were not fully achieved in its first financial year after the merger. Nevertheless, the integration process itself has gone even better than expected. Kekkilä-BVB's goal for the new financial year is profitable growth.

Energy peat now represents less than a quarter of the Group's total turnover, while the volumes of the wood and pellet business are growing and Kekkilä-BVB accounts for approximately half of the Group's turnover. Kekkilä-BVB's business is less cyclical than the energy peat business. Under these circumstances, it makes sense to change the Group's financial year to be the calendar year. Due to this transition, the recently concluded financial year exceptionally covers only the period from 1 May 2019 to 31 December 2019.

For several years now, Vapo has engaged in research and product development to produce activated carbon from peat. Vapo made a decision regarding this second project of high strategic significance in December 2018. The Group decided to build the first activated carbon production

facility in Ilomantsi. The facility will be modern and very eco-friendly. Construction of the production facility began with earth-moving operations in June, the foundation stone was laid in October and the aim is to have the facility ready for the start of production in autumn 2020, with full capacity to be reached at the beginning of 2021.

This investment also supports Vapo's strategy of reducing its dependence on energy peat. The project to build the production facility in Ilomantsi will tie up approximately EUR 20 million in investments during the current financial year without contributing to any increase in sales.

In our communications regarding the Ilomantsi production facility, we have earlier referred to it as our first such facility. However it may well be the first of many. Once the plant meets our quality expectations and barring any significant changes in the market, we are prepared to start planning the expansion of the Ilomantsi production facility immediately as well as begin preparations for at least one new production facility either elsewhere in Finland or in Estonia or Sweden.

The third significant strategic renewal measure we took during the financial year was to bring our energy infrastructure under the newly established company Nevel in Finland, Sweden and Estonia. Our goal in this business area is to achieve growth in the Finnish market as well as Sweden, in particular. Nevel generates its turnover of approximately EUR 100 million by operating some 150 boiler plants of various sizes as well as district heating networks. Nevel's growth strategy is based on taking advantage of the digital transformation and modern technology, scalable

international operations based on the company's special expertise and a cost-effective operating model.

We are committed to ensuring the reliable availability of fuel for our energy peat customers far into the future and, at the same time, we seek growth in wood-based fuels.

A year ago, we estimated that the demand for energy peat would be halved over a time horizon of about ten years. We are now prepared for demand to be reduced by half in just five years. In light of this assessment, we decided in December 2019 to discontinue energy peat production at about 90 production sites. This also meant a write-down of approximately EUR 28 million on our peat assets.

While the write-down meant that our result showed a loss for the financial year, it did not significantly endanger our solvency or influence our future investment plans.

Overall, the year was financially satisfactory. Our businesses did not quite reach the overall targets set for them, but efficiency improvement measures taken in the Group's shared functions improved the comparable operating margin already in the abbreviated financial year.

The current situation is nevertheless challenging, as the new year has been exceptionally warm, which has reduced the sales of energy and fuels during the season that is usually the coldest period of the year.

Vesa Tempakka
CEO

Board of Directors' report

Operating environment

The carbon dioxide emissions from the energy use of fuels declined compared to the previous year. The consumption of all fuels used in heating and electricity production declined from the previous year. The decline in CO₂ emissions from the energy use of fuels was mainly attributable to the lower consumption of peat and coal. The decline was the sharpest for energy peat at 20 per cent. After increasing in the previous year, the consumption of energy peat began to decrease again and fell to the level seen in 2017. The use of energy peat was reduced by tax decisions as well as the increased price of emission rights, which have led to higher operating costs for energy peat at heat and power plants.

The share of renewables in energy production continues to grow and is now approaching 50 per cent of the end consumption of energy. Challenges related to the sourcing of solid wood fuels are limiting growth. At the same time, the use of fossil fuels and energy peat is declining, and the CO₂ emissions of energy production are decreasing as a result.

The Finnish government has set a goal of making Finland carbon neutral by 2035. 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. The use of coal will be phased out by 2029 and the use of energy peat will be halved by 2030.

According to the current forecasts, the use of peat primarily as an energy source will be discontinued during the 2030s as the cost of emission allowances increases, although it will remain in use to ensure the security of supply. The overhaul of energy taxation will include an assessment of the necessary changes to the taxation of energy peat to enable the achievement of the energy peat target set for 2030. It is important to ensure that timber material does not end up incinerated.

Parent company's key figures

MEUR	5-12/2019	5/2018-4/2019	5/2017-4/2018
Turnover	114.7	246.3	263.3
Operating profit (EBIT)	-34.3	15.9	14.6
% of turnover	-29.9	6.5	5.6
Operating profit (EBIT) before impairments	-9.1	23.6	15.5
% of turnover	-7.9	9.6	5.9
Profit/loss for the reporting period	-39.2	27.7	3.3
Operating margin (EBITDA)	9.5	49.6	37.1
Return on invested capital % *	-5.9	1.5	2.4
Return on invested capital % before impairment *	-1.6	1.4	2.5
Return on equity % *	-14.4	12.6	1.2
Balance sheet total	645.9	662.7	665.6
Shareholders' equity	226.9	278.4	252.2
Equity ratio %	35.9	42.5	38.2

* Previous 12 months

Consolidated key figures

MEUR	9-12/2019	9-12/2018	5-12/2019	5/2018-4/2019	5/2017-4/2018
Turnover	163.6	134.1	297.7	460.8	419.8
Operating profit (EBIT)	-35.1	14.7	-40.4	33.3	26.3
% of turnover	-21.5	11.0	-13.6	7.2	6.3
Operating profit (EBIT) before impairments	3.8	14.7	-1.5	33.5	27.2
% of turnover	2.3	11.0	-0.5	7.3	6.5
Profit/loss for the reporting period	-32.2	12.7	-40.2	25.2	17.6
Operating margin (EBITDA)	18.6	24.9	37.0	74.1	61.1
+/- Change in working capital	10.3	-25.2	10.3	-45.7	37.6
- Net investments	-18.6	-9.5	-26.3	-50.7	-25.0
Free cash flow before taxes	10.4	-9.9	21.0	-22.3	73.6
Gross investments	-31.5	-15.1	-42.8	-62.7	-31.3
Return on invested capital % *			-1.7	5.4	4.3
Return on invested capital % before impairment *			4.1	5.4	4.4
Return on equity % *			-5.1	7.0	5.2
Balance sheet total			828.5	805.8	697.5
Shareholders' equity			348.5	404.0	347.9
Interest-bearing net debt			315.2	265.6	206.2
Equity ratio %**			42.9	51.3	51.2
Interest-bearing net debt/operating margin			4.0	3.6	3.4
Gearing %			90.4	65.8	59.3
Average number of employees			1050	869	758

*) Previous 12 months

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

The government will establish a broad-based peat industry working group to explore ways to direct the use of peat away from incineration and increase its use in innovative, high added-value products. The working group will present means to ensure that the change occurs in a way that is fair at the regional and social levels and that does not jeopardise the security of electricity and heat in Finland.

The annual growth of the European growing media industry is currently in the range of 2–3 per cent. The successful peat production summers in 2018 and 2019 have ensured the good availability of peat and kept market prices stable.

Especially in Europe, the signs suggest that there is a need for more renewable and recyclable raw materials alongside peat. Moss has been well received by the markets and the growth in the use of wood fibres and coconut fibres is currently faster than the market's overall growth. The demand for raw materials that are complementary to peat is particularly influenced by the retail trade, which creates pressure on farmers to use more renewable growing media. While it has been scientifically proven that using peat in farming provides the best crop yields and strengthens plants against diseases, the market needs for other alternatives cannot be ignored.

Outside Europe, cultivation is moving from open fields to growing media, and peat enjoys continuously growing demand in China, for example. The market growth outside Europe is substantially faster than in Europe.

To ensure a favourable operating environment, it is essential to provide transparent information on the environmental impacts of the use of peat and for the industry to actively produce and share objective information and emphasise peat's significance in greenhouse farming and global food production. The active promotion of recycling solutions and responsible peat production methods as well as the restoration of peat production areas play a very important role in the general acceptability of the use of peat.

Vapo Group's financial result

Turnover grew by 32% year-on-year to EUR 297.7 million (EUR 224.9 million). The increase in turnover was mainly due to the acquisition of BVB Substrates into the Grow&Care business effective from the beginning of 2019.

The Group's operating result was EUR -40.4 million. The comparable operating result declined to EUR -2.6 million. The previous financial year's comparable operating result excluding non-recurring items was EUR 2.6 million. The weaker comparable result was mainly attributable to the warm weather conditions in the early part of the winter, which reduced heating and fuel deliveries, and Kekkilä-BVB's peak sales season falling in the previous financial year in spring 2019.

The Group's result for the financial year 1 May–31 December 2019 declined substantially year-on-year and amounted to EUR -40.2 million (EUR 4.2 million). The result for the financial year was weighed down by significant non-recurring items consisting mainly of write-downs related to the energy peat business (approx. EUR 30 million) and energy infrastructure (approx. EUR 10 million). The primary reasons for the write-downs were the declining demand for energy peat, the anticipated future decrease in energy peat production volumes, related decisions to discontinue production activities at certain sites ahead of schedule and the expiration of an individual energy delivery agreement.

The measures taken to increase the efficiency of working capital were reflected in a substantial improvement in operating cash flow (free cash flow before financial items and taxes), which amounted to EUR 21.0 million (EUR -12.4 million) for the financial year.

The Group's key financial figures weakened during the financial year due to write-downs recognised on significant energy peat assets and other assets primarily related to the energy segment as well as lease liabilities arising from the adoption of IFRS 16. The Group's equity ratio stood at 42.9 per cent (49.5%) at the end of the financial year, while the ratio of net debt to operating margin was 4.0 (3.8).

The comparison figures from the interim report for 5–12/2018 have not been audited.

Developments by business segment

The reporting segments comprise the Group's divisions in accordance with Vapo's management model. 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 December 2019 amounted to EUR 149.1 million, with renewable biofuels and energy solutions representing more than half of this total.

Turnover in the second third of the financial year (September–December) was EUR 103.9 million (EUR 102.6 million). The operating profit for the reporting period was EUR -28 million (EUR 17.3 million). Investments amounted to EUR 25.5 million (EUR 12.1 million).

Turnover for the financial year was EUR 149.1 million (EUR 147.3 million). The operating result was EUR -39.4 million (EUR 6.2 million). The operating result includes non-recurring items in the amount of EUR -40.3 million (EUR -0.5 million).

The significant non-recurring items mainly consisted of write-downs allocated to the energy peat business (totalling approximately EUR 30 million) and energy infrastructure (totalling approximately EUR 10 million). The main reasons for the write-downs were the declining demand for energy peat and the expiration of an individual energy delivery agreement.

The declining demand for energy peat was also reflected in peat deliveries in the second third of the financial year, which declined by 11 per cent year-on-year. The strong demand for biofuels continued in the second third of the financial year, with sales increasing by 8 per cent year-on-year. Heating deliveries increased by 5 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 an autumn that was slightly cooler than the year before. This was reflected in peat deliveries, which declined by 13 per cent year-on-year. Biofuels continued to see strong demand throughout the financial year, increasing by 9 per cent year-on-year. Heating sales also increased by 9 per cent year-on-year.

Energy	9-12/ 2019	9-12/ 2018	Change	5-12/ 2019	5-12/ 2018	Change	5/2018- 4/2019
Turnover (EUR million)	103.9	102.6	1.3%	149.1	147.3	1.2%	289.4
Operating profit (EUR million)	-28.0	17.3	-262.3%	-39.4	6.2	-732.5%	33.2
Investments (EUR million)	25.5	12.1	110.5%	30.3	21.1	43.4%	27.3
Number of employees	351	347	1.2%	366	375	-2.4%	370
Energy sales, peat (GWh)	3,098	3,478	-10.9%	4,360	4,987	-12.6%	9,708
Energy sales, other fuels (GWh)	1,472	1,360	8.2%	2,126	1,960	8.5%	3,691
Heat and steam sales (GWh)	459	439	4.6%	668	614	8.9%	1,187

Grow&Care

The Grow&Care division’s Kekkilä-BVB is Europe’s leading and most versatile growing media operator in the professional grower, landscaping and consumer segments. We specialise in the development, production and marketing of high-quality growing media, mulches and fertilisers for landscapers, professional growers, distributors and home gardeners. Peat is also supplied as bedding peat to horse farms, cattle farms, pig farms and poultry producers. As the world’s largest producer of agricultural peat, we supply agricultural peat as a raw material for further processing around the world, and responsibility is an integral part of everything we do.

The division’s well-known brands, Kekkilä Garden and Hasselfors Garden, offer products to home gardeners and landscapers in the Nordic countries and Estonia. The merger with BVB Substrates has expanded the product range with private label products as well as the Jardino and Florentus brands sold in the Central European markets by significant retail and wholesale chains. In the professional growing media business, the BVB Substrates and Kekkilä Professional brands are focused not only on the home markets but also the global markets with exports to more than 100 countries.

Turnover in the second third of the financial year (September-December) was EUR 60.1 million (EUR 31.8 million). The significant year-on-year growth in turnover was mainly attributable to the Kekkilä-BVB merger. The operating result was EUR -4.7 million (EUR 0.6 million). The result for the reporting period included non-recurring costs in the amount of EUR -1.5 million (EUR -0.1 million) and IFRS acquisition cost amortisation on the BVB Substrates acquisition amounting to EUR -0.6 million (EUR 0 million). The operating result was also weighed down by additional costs arising from integration,

higher logistics prices and the Swedish peat production season being less successful than in the previous year. The division’s gross investments were EUR 8.5 million (EUR 1.1 million)

Turnover for the full financial year was EUR 150.1 million (EUR 78.6 million). The operating result was EUR -0.5 million (EUR 5.4 million). The result for the financial year included non-recurring costs in the amount of EUR -1.5 million (EUR 0 million) and IFRS acquisition cost amortisation on the BVB Substrates acquisition amounting to EUR -1.2 million (EUR 0 million). The division’s investments totalled EUR 11.2 million (EUR 2.1 million)

The Grow&Care division’s operating result declined year-on-year. At comparable figures, the growth of export sales slowed down, but the future sales outlook remained favourable. In the consumer business, the sales season falls on both sides of the turn of the financial year, which means that changes in weather patterns have a significant impact on sales in the different hirds of the year. At comparable figures, sales have increased and the outlook for the upcoming sales season remains positive. The negative profit performance was mainly attributable to higher logistics costs, integration efforts and peat production in Sweden falling short of production targets. The agricultural peat inventories are nevertheless sufficient before the new production year.

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

Grow&Care	9-12/ 2019	9-12/ 2018	Change	5-12/ 2019	5-12/ 2018	Change	5/2018- 4/2019
Turnover (EUR million)	60.1	31.8	88.9%	150.1	78.6	91.1%	179.0
Operating profit (EUR million)	-4.7	0.6	-886.2%	-0.5	5.4	-109.2%	13.0
Investments (EUR million)	8.5	1.1	649.7%	11.2	2.1	437.8%	4.2
Number of employees	524	265	98.1%	547	279	95.9%	380

New Businesses

The New Businesses division creates new products and innovations based on the Group’s competencies and raw material resources as well as emerging customer needs. The goal is to produce sustainable new business that will increase our shareholder value in the long run. Vapo Ventures also coordinates the Group’s innovation and IPR activities.

In the Carbons business, construction began in spring 2019 in Ilomantsi on a strategically significant production facility to process activated carbon. The production facility, which will cost approximately EUR 30 million, is scheduled 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 second third of the financial year was EUR -0.9 million (EUR -0.7 million). Investments amounted to EUR 5.4 million (EUR 0.6 million).

The operating loss for the full financial year was EUR -1.6 million (EUR -1.4 million). Investments amounted to EUR 7.1 million (EUR 0.9 million).

New Businesses	9-12/ 2019	9-12/ 2018	Change	5-12/ 2019	5-12/ 2018	Change	5/2018- 4/2019
Turnover (EUR million)	0.0	0.0	-	0.0	0.0	-	0.0
Operating profit (EUR million)	-0.9	-0.7	-24.7%	-1.6	-1.4	-16.7%	-2.2
Investments (EUR million)	5.4	0.6	872.2%	7.1	0.9	728.9%	3.1
Number of employees	20	15	29.5%	19	17	15.8%	16

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 result in September-December was EUR -1.8 million (EUR -2.6 million).

The other activities segment’s effect on the operating result for the full financial year was EUR 0.9 million (EUR -6.2 million). This was significantly affected by the recognition of non-recurring revenue of EUR 4.9 million in August 2019 related to discontinued business operations.

Other	9-12/ 2019	9-12/ 2018	Change	5-12/ 2019	5-12/ 2018	Change	5/2018- 4/2019
Turnover (EUR million)	0.0	0.1	-67.2%	0.1	0.2	-57.3%	0.2
Operating profit (EUR million)	-1.8	-2.6	29.4%	0.9	-6.2	115.0%	-4.2
Number of employees	115	112	2.0%	117	102	15.1%	103

Geographical information

Cash flow, investments and financing

The Group’s free cash flow before taxes for the financial year 1 May-31 December 2019 was EUR 21 million (May 2018-April 2019: EUR -22.3 million). Free cash flow was significantly improved by measures to increase the efficiency of working capital as well as lower investments. The change in working capital affected cash flow by EUR 10.3 million (EUR -45.7 million).

Gross investments in the financial year were EUR 42.8 million (EUR 62.7 million), or 111 per cent of the amount of depreciation (151.0%). Investments in the Carbons business began to a significant degree during the financial year. 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 and field maintenance in the peat production business. Net investments (gross investments – asset sales) totalled EUR 26.3 million (EUR 50.7 million).

On 30 September 2019, Vapo Oy issued a senior unsecured bond in the aggregate nominal amount of EUR 100 million. The bond matures in October 2024 and it bears interest at a fixed rate of 2.125 per cent per annum. The net proceeds of the issuance will be used for growth investments, refinancing and the Group’s general financing needs.

Interest-bearing net debt at the end of the financial year amounted to EUR 315.2 million (EUR 265.6 million). The ratio of interest-bearing net debt to operating margin (net debt/EBITDA) on 31 December 2019 was 4.0 (3.6). Excluding the debt arising from the adoption of IFRS 16, net debt/EBITDA was 3.5 (3.6).

EUR 1,000	Turnover by country	Long-term assets	Investments
Finland	156,890	422,713	27,550
The Netherlands	42,064	43,315	7,187
Sweden	39,963	44,990	5,207
Germany	11,367	-	44
Estonia	6,799	29,165	2,774
Other Nordic countries	2,960	-	-
Other European countries	23,710	678	-
North and South America	5,641	-	-
Other countries	8,356	-	-
Group total	297,748	540,860	42,761

Short-term interest-bearing debt amounted to EUR 45.7 million (EUR 78.2 million). Of Vapo’s long-term interest-bearing debt, 13 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. Bonds include a change of control clause but they do not include a financial covenant. The equity ratio at the end of the financial year was 42.9 per cent (51.3%) and the gearing ratio was 90.4 per cent (65.8%). The consolidated balance sheet total was EUR 828.5 million (EUR 805.8 million). The Group’s net financing items were EUR -7.8 million (EUR -2.8 million). Net financing items were -2.6 per cent (-0.6%) 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 temperatures during the September-December 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.

The Grow&Care division’s growing media business is also sensitive to seasonal fluctuations, with demand peaking from late spring to early summer. Peat production plays a key role in the Grow&Care division in May-August, and the company achieved its production target during the past season, which enabled the improvement of profitability.

Notable risks and uncertainty factors

Regulation

The government programme of Prime Minister Marin’s government states the following with regard to energy peat (p. 37): *“According to the current forecasts, the use of peat primarily as an energy source will be discontinued during the 2030s as the cost of the emissions allowance rises, although it will remain in use to ensure the security of supply. We will decrease the use*

of peat for energy by at least half by 2030. As part of the overhaul of energy taxation, we will assess the necessary changes to the taxation of peat so that we can achieve our 2030 peat targets. We must ensure that timber material does not end up incinerated.”.

According to the consumption forecasts of Vapo’s fuel customers, the demand for energy peat will fall to half of the current level by 2025. The reasons for this are the price of emission rights and the current energy tax of EUR 3 applied to peat (in heating). Accordingly, in reference to the government programme, Vapo has proposed that the use of energy peat should not be further impeded by tax increases.

Without energy peat, Vapo’s customers would have to rely on commercial timber and 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 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 energy peat. The computational tax subsidies for energy peat have been used as the justification for these views. The fact of the matter is that the state does not subsidise energy peat and the tax structure of energy peat as an output of domestic primary production – with the related wage taxes, value added taxes and taxes on liquid fuels used in production activities – differs significantly from the tax structure of imported fuels, which practically consists only of energy tax.

The price of emission rights, EUR 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 wood energy 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.

The energy tax refund for energy-intensive industry is likely to be gradually eliminated. This will reduce the use of energy peat in the forest industry. Depending on the schedule of discontinuing the energy tax refund, the forest industry’s use of energy peat will be reduced by 1-2 TWh.

In the 2020s, the need to replace coal and the sharp decline in the use of energy peat will lead to rapid growth in the demand for wood energy. The heating up of the energy wood market, combined with wetter winters that hinder wood harvesting, will lead to fluctuating raw material prices for wood fuels as well as problems associated with the quality and delivery of fuels.

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.

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 market availability of forest energy falls short of growth targets.

Risks related to horticultural peat

With respect to horticultural peat, there are signs of political moves in Europe towards tighter regulation. The most significant threats to the horti-

cultural peat business include restrictions on the use of peat, unexpected changes in legislation concerning peat and more negative attitudes towards the use of peat in the retail sector.

To manage these risks, it is essential to provide transparent information on the environmental impacts of the use of peat and for the industry to actively produce and share objective information and emphasise peat's role in greenhouse farming and global food production. The active promotion of recycling solutions and responsible peat production methods as well as the restoration of peat production areas play a very important role in the general acceptability of the use of peat.

Risks related to new businesses

New businesses like Carbons include also the risk for restrictions on the use of peat for higher value adding products. To mitigate the risk Vapo aims to act as described in the chapter above.

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.

In the international market, the demand for wood fuels has increased as energy companies seek 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 pellet market may be affected by Brexit and the potential subsequent reshaping of the UK's energy and climate policy as well as changes and disturbances in international trade.

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. Competing energy solutions based on new technology constitute a growing threat to energy produced from domestic fuels. New forms of heating, combinations of different forms of heating, and energy conservation are key considerations in the development of the district heating business.

Weather risks

Weather is a risk that has extensive effects on Vapo's business. In 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, which 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 2019, peat production went as planned in Finland, Sweden and Estonia.

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 minor share of Vapo's business.

Research and development

The Group's research and development investments during the financial year 1 May–31 December 2019 amounted to EUR 10.7 million (EUR 6.4 million), which corresponds to 3.5 per cent of turnover (1.4%). 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. One example is Vapo Carbons, an initiative focused on activated carbon products that has already progressed to the business stage. The division is also responsible for the Group's innovation and IPR management.

The **Vapo Refinery 2030** vision launched during the financial year aims to accumulate international turnover through the use of peatland biomass. High value-added products made of peat and moss carry enormous future potential because of the worldwide need for new ways to promote sustainable food production and water and air purification as well as to replace harmful chemicals, oil-based products and plastics. In the Vapo Refinery vision, raw materials and side stream products are comprehensively utilised in accordance with the circular economy principle.

The Group's innovation and IPR strategy was revised during the financial year and it supports Vapo's objective of creating new business as well as managing and protecting the tangible assets and intellectual property developed by the company. The key elements are developing the competence of the personnel, fostering a culture of innovation and taking proactive measures to protect intellectual property. The goal is to identify intellectual property rights at the early stages of projects and customer relationships and protect them using either the company's internal operating models or international patents.

Environmental responsibility

Vapo is committed to continuously improving its operations and developing its environmental efforts. We want to be recognised as a responsible and sustain-

able company wherever we operate. **Vapo Group's long-term sustainability targets and environmental strategy** were updated and approved in 2019:

we will reduce our emissions to waterways as well as our climate emissions, use natural resources sustainably, improve material efficiency, reduce waste and ensure that our offices are environmentally friendly. Each of Vapo's businesses has an environmental programme in accordance with the environmental strategy.

The environmental programmes specify the most significant aspects of environmental responsibility along with annual environmental targets. We offered an online course on the management of environmental matters to all employees. Last year, we developed a responsibility concept for peat, especially aimed at new businesses, and agreed on a plan for the certification of responsibly produced peat to meet the needs of Kekkilä-BVB. We created a net impact assessment model for the Group's businesses and will use the results of the model in the sustainability work carried out at Kekkilä-BVB, Nevel and Carbons in 2020.

We continued to carry out self-initiated environmental impact inspections at peat production areas. Contractors in Vapo's Finnish peat production operations inspected water treatment structures in four-week intervals during the production season. In addition, 17 environmental inspectors recruited for the summer season inspected water treatment methods and other aspects related to environmental permit conditions at all production areas. In 2019, Centres for Economic Development, Transport and the Environment made 120 inspection visits to Vapo's peat production sites in Finland.

Vapo decided to discontinue the Clean Water project in 2019 after several years of substantial research investments. To verify the Clean Water commitment, Vapo engaged in preliminary monitoring activities at more than 100 areas assigned for potential peat production to determine their initial environmental discharge levels. The commitment also included a strong focus on the development of water treatment methods in peat production. Nearly all new methods that had even theoretical potential were investigated and piloted in internal and external research projects. In addition, the water treatment methods used in peat production have been continuously developed.

Nevertheless, a feasible solution for fulfilling the commitment was not identified for water treatment in peat production or the purification of waters discharged from other forms of land use. In natural conditions, hydrological

fluctuations, geographical distances and the adequate availability of electricity from the grid pose substantial challenges to the use of new and more advanced water treatment methods. Overland flow areas still represent the best available technique for water treatment in peat production. Under the prevailing conditions, achieving the commitment's goal of reducing the load to a level below the initial level identified in advance monitoring proved to be uncertain and challenging under all conditions. As one of the goals of our updated environmental strategy is to reduce the load on watercourses, Vapo will continue to take a responsible approach to waterways by developing and improving water treatment structures and their effectiveness.

Vapo Group's (Finland, Sweden, Estonia) environmental investments in peat production areas during the financial year amounted to EUR 0.6 million (EUR 3.0 million) and were primarily related to improving and building water treatment structures at peat production sites. Excluding Vapo's own personnel's input, environmental protection costs for the financial year amounted to EUR 11.9 million (EUR 19.2 million). The costs primarily consisted of the maintenance of water treatment structures in peat production and impact monitoring. In accordance with its environmental permit application principles, Vapo only applies for new production permits for ditched peatlands. In 2019, 89 (305) 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 916 (485) hectares.

Vapo Group's **active peat production areas** (Finland, Sweden, Estonia) in summer 2019 totalled approximately 40,600 (42,300) hectares, with Finland accounting for 33,500 (35,400) hectares of the total. A total of 454 (139) hectares of new peatlands became ready for production in Finland and 5,289 (2,001) hectares were released from production by the end of the financial year. In Sweden, 76 hectares of peat production areas were released from production.

A total of 453 (1,086) hectares were transferred to **other land use methods** from peat production operations in Finland during the financial year. A total of 356 (339) hectares were assigned for forestation and 97 (195) hectares for building wetlands. In addition, a significant amount of land was sold, with the new owner deciding on the subsequent use. Areas released from peat production and returned to land owners totalled 1,145 (551) 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. During the financial year, Vapo continued negotiations on the sale of peatlands with significant nature value for protection purposes.

In 2019, Vapo Group **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 more than half of all fuels used: 46% in Finland, 95% in Sweden and 7% in Estonia. Nevel Oy is committed to increasing the share of renewable fuels to more than 75% by the end of 2021. The use of domestic fuels remained unchanged from the previous year at Nevel Oy’s energy production plants in Finland. Fuel oil is used primarily as a reserve fuel and its use declined to approximately 3% thanks to the reduced duration of service shutdowns. The coefficient of efficiency of the plants was improved thanks to the enhanced control of the residual oxygen levels of boilers. During the reporting period, the company invested in energy efficiency and increasing its capacity of using biofuels in all of its operating countries.

General Meetings

Vapo Oy’s Annual General Meeting was held in Helsinki on 5 September 2019. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2018–30 April 2019 and discharged the members of the Supervisory Board, the Board of Directors and the CEO from liability. The AGM resolved to distribute a dividend for the financial year ended 30 April 2019 amounting to EUR 410 per share, or EUR 12.3 million in total. The dividend payment date was 9 September 2019.

The AGM of 5 September 2019 confirmed that the Supervisory Board will continue with its composition unchanged. Tuomas Hyyryläinen, M.Sc. (Econ.); Juhani Järvelä, M.Sc. (Eng.); Risto Kantola, M.Sc. (Eng.); Jan Lång, M.Sc. (Econ.); Kirsi Puntila, M.Sc. (Econ.); Minna Smedsten, M.Sc. (Econ.); and Markus Tykkyläinen, M.Sc. (Econ.) were re-elected to Vapo Oy’s Board of Directors. Senior Financial Counsellor Maija Strandberg, M.Sc. (Econ.), from the Government Ownership Steering Department of the Prime Minister’s Office was elected to the Board of Directors as a new member. Jan Lång continues as Chairman of the Board of Directors, with Markus Tykkyläinen as Vice Chairman.

The audit firm KPMG Oy was elected as auditor, with Ari Eskelinen, M.Sc. (Econ.), Authorised Public Accountant, appointed the principal auditor.

In October, Vapo Oy’s Extraordinary General Meeting appointed a new Supervisory Board. The following were appointed as members of the Supervisory Board: Antti Häkkänen, Heikki Miilumäki, Eero Kubin, Esko Kurvinen, Tommi Luntila, Mauri Peltokangas, Jenni Pitko, Antti Rantakangas, Piritta Rantanen and Tiina Snicker.

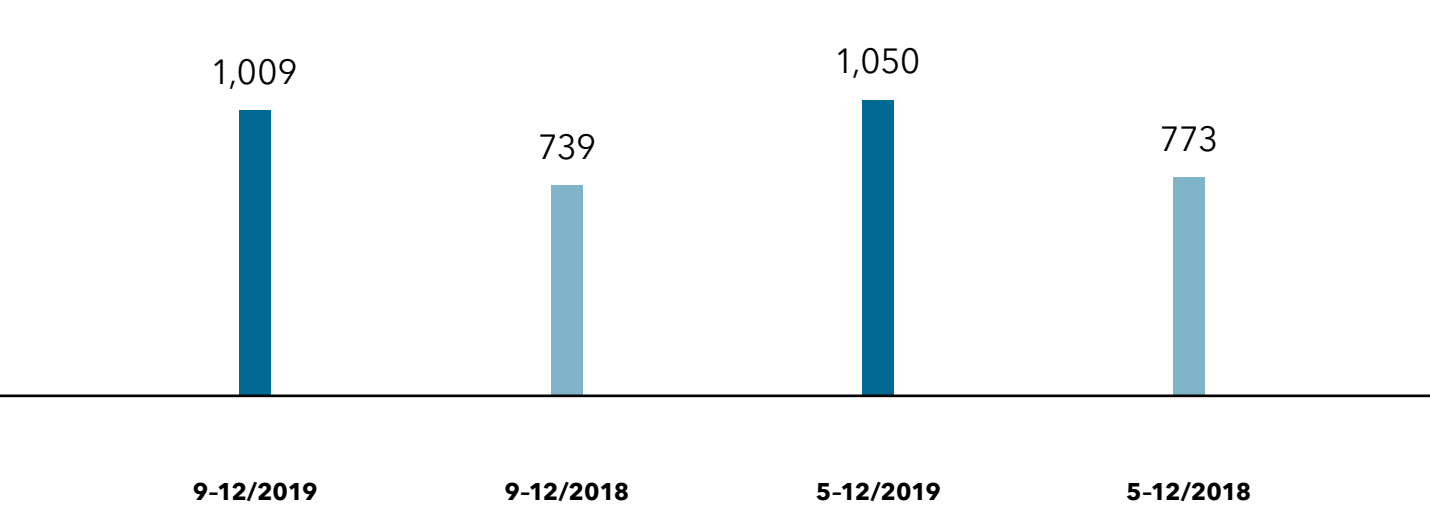
Antti Rantakangas, Member of Parliament, was appointed as the Chairman of the Supervisory Board and Heikki Miilumäki, D.Sc. (Tech.), as the Vice Chairman.

Number of employees

The Group employed an average of 1,009 (739) persons in the final third of the financial year. The average number of employees for the full financial year was 1,050 (869).

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 three times during the financial year.

Vapo Group employees on average



Employees by segment, average

	5-12/2019	5/2018-4/2019
Energy	366	370
Grow&Care	547	380
New Businesses	19	16
Other	117	103
Total	1,050	869

Occupational safety

Vapo Group has a strong continuous focus on occupational safety and well-being and the starting point for all of our operations is workplace safety and developing a proactive and caring safety culture. In 2019, Vapo Group’s accident frequency (LTA1f: lost-time accidents per million working hours) decreased slightly compared to the previous year and was 6.7 (6.9). A significant improvement was achieved in LTA1 accidents in Finland, with only one accident leading to lost time occurring in Finland (8). The accident frequency in 2019 was the highest in Kekkilä-BVB’s units in the Netherlands, where 9 LTA1 accidents occurred. MTR accidents (requiring an evaluation visit to occupational health services) were more evenly spread in the Group.

In the field of safety, we created an online course for our personnel, which existing and new employees alike are required to complete. In 2019, we expanded our safety monitoring activities to also cover our subcontractors and the Group’s number of safety observations continued the significant rise it began in the previous year and amounted to 4,856 (4,058).

Vapo Group has zero tolerance for inappropriate conduct and discrimination, and all reported incidents were reviewed without delay.

Executive appointments in Vapo Group

Pasi Koivisto was appointed as the Director of the business consisting of the sale of renewable energy and fuels and a member of the Group Management Team effective from 1 November 2019.

Changes in organisational structure

The new company Neova Värme AB was established on 2 July 2019 and subsequently renamed as Nevel AB on 13 December 2019. Salon Energiantuotanto Oy owns 100% of the company.

The new company Vapo LS Oy was established on 3 July 2019 and subsequently renamed as Nevel Oy on 20 November 2019. Vapo Oy owns 100% of the company.

Nevel Eesti OÜ was established on 11 December 2019. Vapo Oy owns 100% of the company.

Forest BTL Oy was dissolved on 17 October 2019.

Board of Directors’ proposal for the distribution of profits

The Board of Directors proposes to the General Meeting to be convened on 19 March 2020 that Vapo Oy’s result for the financial year, EUR -39,188,539.78, be recorded as a change in retained earnings, after which the distributable funds available to the General Meeting amount to EUR 144,108,435.91.

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 3.99 million, or EUR 133.00 per share, be paid as dividend for the financial year 1 May–31 December 2019.

Events after the review period

Vapo Clean Waters Oy, a fully-owned subsidiary of Vapo Oy, the merge with the parent company was registered on 14 January 2020.

On 28 January 2020, Vapo Oy’s Extraordinary General Meeting elected Member of Parliament Juha Sipilä as a new member of Vapo Oy’s Supervisory Board and as Chairman of the Supervisory Board, replacing the previous Chairman Antti Rantakangas who passed away suddenly.

Future outlook

Vapo Group is one of the world’s largest producers of energy peat and peat for growing media. 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 demand for fossil fuels is expected to continue to decline, while the demand for bioenergy is expected to grow.

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 Carbons business as well as the researching of further new business initiatives in the Vapo Refinery business area. The construction of Carbons’ first production facility for manufacturing technical carbons is progressing as planned in Ilomantsi and it is expected to become operational in the final third of the current financial year.

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

Vantaa, 27 February 2020,
Board of Directors of Vapo Oy

Jan Lång
Chair

Markus Tykkyläinen
Vice Chair

Tuomas Hyyryläinen

Juhani Järvelä

Risto Kantola

Kirsi Puntila

Minna Smedsten

Maija Strandberg

Vesa Tempakka
CEO

Auditor’s note

A report on the audit
has been issued today.

Helsinki, 27 February 2020

KPMG Oy Ab

Ari Eskelinen, APA

Consolidated financial statements, IFRS

Consolidated statement of comprehensive income

EUR 1,000	Note	5-12/2019	5/2018-4/2019
TURNOVER			
Change in stock levels of finished and unfinished products	2	297,748	460,827
Production for own use		35,843	35,552
Other operating income		74	23
Share of results of companies consolidated using the equity method	4	12,680	7,547
Materials and services		-5	888
Expenses arising from staff benefits	5	-182,102	-239,689
Depreciation	6	-44,740	-55,507
Impairment	7	-38,528	-41,494
Impairment of goodwill	7	-36,904	-194
Other operating expenses	7	-1,995	0
OPERATING PROFIT	8	-40,440	33,327
Financial income			
Financial expenses	9	347	4,226
PROFIT/LOSS BEFORE TAXES		-48,200	30,483
Income taxes	9	-8,107	-7,070
PROFIT/LOSS FOR THE PERIOD		-40,159	25,155
OTHER COMPREHENSIVE INCOME ITEMS			
(items that may not be reclassified subsequently to profit or loss):			
Remeasurement of defined benefit plans		332	42
Items that may be reclassified subsequently to profit or loss:			
Translation differences from foreign units		299	638
Other comprehensive income items, after taxes		630	680
TOTAL COMPREHENSIVE INCOME		-39,529	25,835
PROFIT/LOSS FOR THE PERIOD			
Distribution of profit for the period:			
To parent company shareholders		-39,600	23,822
To non-controlling shareholders *)		-559	-1,333
		-40,159	22,488
Distribution of comprehensive income for the period:			
To parent company shareholders		-38,994	24,510
To non-controlling shareholders *)		-534	1,325
		-39,529	25,835
Earnings per share calculated from profits due to parent company shareholders			
Earnings/share, EUR		-1,320	794
Average number of shares		30,000	30,000

Consolidated balance sheet

EUR 1,000	Note	31 Dec. 2019	30 Apr. 2019
ASSETS			
Long-term assets			
Intangible assets	11	35,912	37,343
Goodwill	11	24,489	26,562
Land and water areas	12	46,129	37,061
Buildings and structures	12	65,584	39,507
Machinery and equipment	12	129,561	135,097
Other tangible assets	12	188,616	221,013
Prepayments and unfinished acquisitions	12	24,743	23,618
Shares in entities consolidated using the equity method	13	21,637	19,946
Other long-term financial assets	14	726	808
Long-term sales and other receivables	15	3,321	3,225
Deferred tax asset	17	367	0
Long-term assets total		540,919	544,182
Current assets			
Inventories	18	190,291	145,994
Sales and other receivables	19	86,902	107,236
Income tax receivables		4,071	401
Cash and cash equivalents	20	6,326	7,962
Current assets total		287,590	261,593
ASSETS TOTAL		828,509	805,775
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		50,456	50,456
Fair value fund and other funds		28,924	30,481
Translation differences		-4,215	-4,467
Retained earnings		182,676	236,696
Hybrid bond	27	50,000	50,000
Parent company shareholders' share of shareholders' equity		307,841	363,166
Non-controlling shareholders *)		40,640	40,815
Shareholders' equity total	21	348,481	403,980
Long-term liabilities			
Deferred tax liability	17	10,490	11,655
Long-term interest-bearing liabilities	22	278,429	198,820
Long-term non-interest-bearing liabilities	23	8,155	7,887
Long-term provisions	24	7,654	7,530
Pension liabilities	25	5,004	4.806
Long-term liabilities total		309,732	230,699
Current liabilities			
Current interest-bearing liabilities	22	46,453	78,161
Current non-interest-bearing liabilities	26	122,011	85,309
Current provisions		1,831	7,625
Current liabilities total		170,296	171,096
SHAREHOLDERS' EQUITY AND LIABILITIES		828,509	805,775

* the minority share of non-controlling shareholders has been restated in the figures for the comparison period

Consolidated cash flow statement

EUR 1,000	5-12/2019	5/2018-5/2019
Cash flow from operating activities		
Profit/loss for the period	-40,159	25,155
Adjustments to the result for the period		
Depreciation and impairment	77,428	41,688
Share of results of entities consolidated using the equity method	5	-888
Financial income and expenses	11,758	5,788
Income taxes	-8,041	5,328
Other adjustments	-15,695	-5,509
Adjustments to the profit/loss for the period total	65,454	46,406
Change in working capital		
Increase/decrease in inventories	-39,945	-40,528
Increase/decrease in sales receivables and other receivables	22,997	-10,506
Increase/decrease in accounts payable and other debts	20,718	7,932
Change in provisions	245	-327
Change in working capital total	4,014	-43,429
Interest paid	-3,837	-5,899
Interest received	54	110
Other financial items	-758	84
Taxes paid	-2,980	-6,225
Cash flow from operating activities	21,788	16,202
Cash flow from investing activities		
Investments in tangible and intangible assets	-48,878	-37,816
Proceeds from disposal of tangible and intangible assets	16,423	14,512
Acquisition of subsidiaries, net of cash	3	-21,377
Associates' shares bought	-1,741	-1,791
Other investments	1,742	136
Loans granted		-112
Repayments of loans receivable	79	33
Dividends received	1	2,410
Cash flow from investing activities	-32,272	-44, 005
Cash flow from financing activities		
Share issue against consideration	5	
Increase (+)/decrease (-) in short-term loans	-51,467	17.134
Proceeds from long-term loans	100,000	306
Repayment of long-term loans	-10,899	
Repayments of lease liabilities *)	-13,018	-2.440
Dividends paid	-12,430	-9,018
Dividends paid/hybrid loan	-3,250	-3,250
Cash flow from financing activities	8,950	2,732
Change in cash and cash equivalents	-1,634	-25,072
Cash and cash equivalents opening balance	7,962	32,999
Change in cash and cash equivalents	-1,634	-25,072
Effect of changes in exchange rates	-2	35
Cash and cash equivalents at end of period	6,326	7,962

*) repayments of financial leases in year of comparison

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 2019	50,456	0	30,481	-4,467	236,696	50,000	363,166	40,814	403,980
Changes in shareholders' equity									
Dividend distribution					-15,550		-15,550	-130	-15,680
Transfers between items			-1,550		989		-561	181	-380
Total comprehensive income				252	-39,600		-39,349	-559	-39,907
Other changes									
Other changes			-7		450		443	25	468
Changes in holdings in subsidiaries					-308		-308	308	0
SHAREHOLDERS' EQUITY 31 DEC. 2019	50,456	0	28,924	-4,215	182,676	50,000	307,841	40,640	348,481

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	610	23,822		24,432	1,325	25,757
Other changes									
Other changes			111		5,284		5,395	-24	5,371
Changes in holdings in subsidiaries		5,422	-107		-1,673		3,643	39,113	42,756
SHAREHOLDERS' EQUITY 30 APR. 2019	50,456	0	30,481	-4,467	236,696	50,000	363,166	40,814	403,980

Consolidated key figures

MEUR	9-12/2019	9-12/2018	5-12/2019	5/2018-4/2019	5/2017-4/2018
Turnover	163.6	134.1	297.7	460.8	419.8
Operating profit (EBIT)	-35.1	14.7	-40.4	33.3	26.3
% of turnover	-21.5	11.0	-13.6	7.2	6.3
Operating profit (EBIT) before impairments	3.8	14.7	-1.5	33.5	27.2
% of turnover	2.3	11.0	-0.5	7.3	6.5
Profit/loss for the reporting period	-32.2	12.7	-40.2	25.2	17.6
Operating margin (EBITDA)	18.6	24.9	37.0	74.1	61.1
+/- Change in working capital	10.3	-25.2	10.3	-45.7	37.6
- Net investments	-18.6	-9.5	-26.3	-50.7	-25.0
Free cash flow before taxes	10.4	-9.9	21.0	-22.3	73.6
Gross investments	-31.5	-15.1	-42.8	-62.7	-31.3
Return on invested capital % *			-1.7	5.4	4.3
Return on invested capital % before impairment *			4.1	5.4	4.4
Return on equity % *			-5.1	7.0	5.2
Balance sheet total			828.5	805.8	697.5
Shareholders' equity			348.5	404.0	347.9
Interest-bearing net debt			315.2	265.6	206.2
Equity ratio %**			42.9	51.3	51.2
Interest-bearing net debt/operating margin			4.0	3.6	3.4
Gearing %			90.4	65.8	59.3
Average number of employees			1,050	869	758

*) Previous 12 months

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

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 %	=	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{capital loan}}{\text{Balance sheet total} - \text{advances received}}$	X 100
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	=	$\frac{\text{Profit attributable to owners of the parent company}}{\text{Number of shares}}$	
Shareholders' equity/share	=	$\frac{\text{Parent company's shareholders' equity}}{\text{Number of shares}}$	
Dividend/share	=	$\frac{\text{Distribution of dividend for the financial period}}{\text{Number of shares}}$	
Dividend/profit %	=	100 * dividend/share / earnings/share	



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