Sustainable Everyday Living

VAPO GROUP IN 2020

VAPO GROUP

Contents

VAPO GROUP – SUSTAINABLE EVERYDAY LIVING

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

Group

Vapo Group operates in 11 countries and has approximately 1,000 employees.

We satisfy people's basic needs

- We enhance the production of healthy local food
- We contribute to solving the world's fresh water problem
- We provide local heating solutions
- We offer new solutions for cleaning up polluted environments
- We create well-being

Our targets

- A respectful and inspiring corporate culture
- Being a forerunner in sustainable development
- Working together to create added value for customers
- A respected company image and brand portfolio, positive interaction
- Vapo Group's profitable growth and results

Megatrends

Urbanisation, digitalisation and climate change

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.

Our values

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

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

Purpose

Sustainable Everyday Living

Vapo Group

Balance sheet total
758.5
million

Equity ratio
27.9
%

Average number of employees
1,031

Financial year 1 January–31 December 2020

Consolidated turnover EUR
544.9
million

Consolidated operating profit EUR
-95.3
million

Vapo Group

BVB Australia Pty Ltd
Haasnot BVBA
Kekkilä Iberia S.L.
Bas van Buuren B.V.
BVB Gardening 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
Kekkilä-BVB Oy
Kekkilä Oy
Nevel Oy
Piipsan Turve 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

Reassessment of strategy as the operating environment changes

Vapo has successfully executed its Group strategy defined in 2019. The cornerstones of the strategy have been to grow the Group's business in the international growing media market targeted at professional growers, launch new high added-value products refined from peat based on Vapo's own research and product development activities and, in the energy business, achieve a purposeful transition from the role of fuel supplier to a provider of infrastructure services for municipalities and industrial operators. The aim of the strategy has been for the aforementioned business areas to compensate for the decline in turnover, operating margin and cash flow caused by the falling demand for energy peat.

The price of emission rights settling permanently at a level above EUR 30 reduced the use of energy peat in Finland in 2019 by approximately one-fifth. The extensive political debate around energy peat, the increase in taxes on energy peat introduced in autumn 2020 and other decisions that have reduced the competitiveness of energy peat have together led to a situation where, according to the current view, the use of energy peat will reduce by half from the 2019 level by 2023.

Vapo has continued to re-evaluate its strategy in response to the declining demand for energy peat. The sharp decline in demand will also lead to the Group's cash flow in the next few years not being sufficient to support the international growth strategy in the growing media market, the necessary product development investments and the production investments required by new higher added value products. The declining demand for energy peat also forced the Group to recognise a write-down of approximately EUR 100 million on its energy peat reserves in autumn

Our strengthened balance sheet and the measures we have begun during the past few years will make our ambitious targets achievable.

2020 as well as recognise expenses associated with continuing obligations related to decommissioned peatlands. These measures substantially reduced the amount of assets on the company's balance sheet. The outcome of this evaluation was the decision to sell the heat and power business to Ardian. The transaction price was EUR 656 million, which will enable Vapo to strengthen its balance sheet to better move forward with the investments required by Kekkilä-BVB and new businesses. The profit of approximately EUR 490 million from the sale of Nevel will be recognised in the consolidated financial statements for 2021.

Even a strong balance sheet will not compensate for the decrease in cash flow in the next few years caused by the divestment of Nevel and the declining demand for energy peat, as the new businesses will only start to bring in significant turnover after 2023. During the past two years, the Group has improved its operational efficiency by about EUR 30 million. The Group also commenced a new cost saving programme at the beginning of 2021 with a target of achieving approximately EUR 25 million in additional savings over the next two to three years.

2020 was a year of accelerated change

The most significant and unexpected change in 2020 was the COVID-19 pandemic. As people switched to remote work and travel ground to a halt, people had more time for recreational activities. This was reflected in an exceptional increase in the demand for gardening products in the consumer segment. The demand for products targeted at professional growers also increased after an initial shock in the spring. The turnover of Vapo's Grow&Care division increased year-on-year by nearly 20 per cent, or approximately EUR 50 million. The division's comparable operating margin was EUR 34 million, representing an increase of nearly EUR 11 million compared to the previous year. Nevertheless, the COVID-19 pandemic also presented challenges to business operations. Cross-border logistics became more difficult and production facilities, offices and laboratories were forced to implement a variety of special arrangements that resulted in delays and additional costs. New customer acquisition was also complicated by the travel restrictions.

The year 2020 will be remembered as a watershed in Vapo's history. The year was the warmest on record in Vapo's operating countries. This was reflected in a very sharp decline in turnover in the fuel and energy businesses. In the fuel business, challenges were created not only by the declining demand for energy peat but also the low price of natural gas, which incentivised large pellet customers to switch from pellets to natural gas. Consequently, there was a decline in the turnover of Vapo's Energy division of approximately EUR 40 million and the operating margin was reduced by nearly half compared to the previous year.

A third significant development during the year was the completion of Vapo's first activated carbon production facility in Ilomantsi. The production facility is scheduled to be in commercial operation by summer 2021. The COVID-19 pandemic and delivery difficulties with the primary equipment supplier have caused delays in commissioning the production facility.

The Group's free cash flow improved year-on-year. The most significant reasons behind this were the successful cost saving programme, income of approximately EUR 10 million earned from the sale of land areas and measures taken to improve the turnover of capital.

On the whole, the Group's financial performance during the year was almost satisfactory in difficult circumstances. The Group's turnover was two per cent higher than in the previous year and the operating margin was at the previous year's level. Due to write-downs associated with the closure of decommissioned peatlands and the recognition of costs related to the continuing obligations concerning the peatlands, the full-year operating result showed a substantial loss.

In the area of corporate responsibility, we have made good progress towards our main targets. The target we set last year of reducing the Group's CO_2 emissions by half by 2025 may be achieved ahead of schedule. As regards social responsibility, I wish to highlight our good performance in the international Great Place to Work assessment. The employee confidence index increased by 5 percentage points year-on-year and was 68. This is a good result in a highly unusual operating environment in which the employees have had to demonstrate exceptional flexibility to enable us to meet the expectations of our customers.

However, the changes are not finished. They are only just beginning. This year, we will continue to execute our strategy in our selected growth areas. The stronger balance sheet we will be working with following the divestment of Nevel in January 2021 and the measures we have begun during the past few years will make our ambitious targets achievable.

Vesa Tempakka
CEO

Operating environment

Vapo Group's operating environment was unpredictable in 2020. In Finland, Sweden and Estonia, it was the warmest year on record. This was reflected in a substantial decrease in fuel and energy deliveries.

Wholesale electricity prices in the Nordic electricity markets were the lowest in 14 years. In addition to the warm weather, this was influenced by the pandemic that broke out in spring 2020 and led to a global macroeconomic downturn. The economic slump reduced the demand for energy among industrial customers and decreased the prices of oil and natural gas. The decline in the price of natural gas was the most relevant to Vapo Group, as natural gas and pellets are competing fuels for many large-scale plants.

The early spring and warm weather had a favourable impact on the Group's business in other areas. In the gardening industry, the peak season of product deliveries began exceptionally early. The warm and low-snow winter in Finland also made construction work on the Ilomantsi activated carbon production facility easier.

The single most significant phenomenon that affected the Group as a whole was the global COVID-19 pandemic that broke out in spring 2020. The need to prepare for the pandemic and prevent infections caused a number of special measures across the Group. When the pandemic began, the Group immediately implemented precautionary measures at least at the level recommended by the authorities in each operating country.

The number of personnel at office properties was restricted from March onwards. For all jobs that can be performed remotely, remote work was recommended for the rest of the year. At the same time, all non-essential traffic to the Group's production plants, heat and power plants and other various construction sites was restricted to the bare minimum level. Vapo Group was successful in its measures to combat the pandemic. During the year, about 20 of the Group's approximately 1,000 employees contracted COVID-19.

Remote work forced the organisation to quickly adopt various changes in work and meeting procedures. The transition from in-office work to digital remote work went smoothly in spite of it having to be carried out very quickly.

The COVID-19 pandemic affected the Group's divisions in different ways. The pandemic had barely any direct effects on the Energy division. It merely delayed pending or planned new customer projects due to visits to Vapo's own plants and customer plants being restricted to a minimum.

In the Grow&Care division, the pandemic closed borders and complicated transport operations in Central Europe and Scandinavia right as the professional growing season was beginning. The pandemic also interrupted the Group's actions aimed at opening new export markets in China and the US for several months.

Perhaps the most surprising effect of the pandemic was the very strong growth in the demand for gardening products in the amateur grower segment. When people switched to remote work and nearly all recreational activities were restricted, gardening as a hobby saw unprecedented growth in Sweden, Finland and Central Europe. The warm spring boosted the start of the season and the season continued throughout the summer. There were even difficulties in meeting market demand in the case of certain products.

The pandemic delayed and complicated the construction of the activated carbon production facility in Ilomantsi. A large number of workers from different countries work construction and installation jobs at the site. Preventing infections required various special arrangements and the precautionary quarantine measures delayed construction to some extent. For the activated carbon production plant, the most significant negative impact of the pandemic was having to stop or slow down the operations of our product development laboratories in Central Europe when the pandemic was at its worst.

An external factor that was even more significant for Vapo Group than the warm weather during the year consisted of changes in the operating environment related to the energy business. Over a period of two years, the price of emission rights has increased from less than EUR 10 per tonne of carbon to the current level of over EUR 30. For 1 MWh of energy produced from energy peat, this means an additional cost of more than EUR 10 in addition to the energy tax.

The increase in the price of emission rights alone has reduced the use of energy peat much faster than the target set by the Finnish Government of halving the use of energy peat by 2030. The political debate around energy peat was more active than ever during the year.

In spite of Vapo, many other energy sector operators and the Finnish Forest Industries Federation repeatedly stating that the energy peat industry does not require additional measures to reduce the use of energy peat, the Finnish Government decided to double the taxes on energy peat starting from January 2021. This decision had the immediate effect of further steepening the decline in the demand for energy peat.

Due to the uncontrollable decline in demand, Vapo commenced a cost saving programme in the autumn and carried out write-downs of approximately EUR 100 million, mainly allocated to prematurely decommissioned peat production areas and their undepreciated infrastructure.

The rapid decline in the demand for energy peat forced Vapo to assess its business strategy in light of the changed circumstances: the Group sold its subsidiary Nevel, which operates in Finland, Sweden and Estonia.

The rapid decline in the demand for energy peat forced Vapo to assess its business strategy in light of the changed circumstances. To ensure its ability to respond to the balance sheet challenges created by write-downs and continue to execute its chosen growth strategy in the international growing media markets and new businesses, Vapo Group sold Nevel – a subsidiary that operates in Finland, Sweden and Estonia – to Ardian.

Megatrends steer us towards sustainability

THE GROUP'S STRATEGY IS BASED ON THE IDENTIFICATION OF MEGATRENDS

Vapo's short-term and long-term targets guide the Group's business operations and encourage all of its employees to take sustainable operating practices into account in their work. In 2020, the decision was made to include a sustainability element of some kind on each employee's scorecard. The target is profitable growth in selected business areas. The factors that influence the Group's operations the most have been identified as climate change, urbanisation and taking advantage of digitalisation.

Vapo's strategic decisions have been successful. In spite of the sharp decline in turnover from energy peat, the growing business areas that take advantage of megatrends were able to maintain growth for the Group as a whole.

Climate change

Climate change has guided the redirection of the Group's strategy. There is a quick transition under way from fossil fuels towards renewable fuels, materials and the circular economy.

Digitalisation

The year 2020 and the COVID-19 pandemic made it clear how important it is for companies to take advantage of digitalisation. The pandemic forced our organisation to quickly adopt various remote work models. Without highly functional networks and digital tools, operations could have ground to a halt. As it turned out, the successful transition to remote work reduced travel expenses and carbon dioxide emissions while actually increasing productivity.

Urbanisation

During the pandemic, local food production became invaluable as countries, regions and cities were forced to restrict free movement. Urbanisation has a strong impact on the growing significance of producing food close to where it is consumed. The restrictions on movement also highlighted the importance of recreational activities at home as well as people's need for increasingly comfortable and attractive living environments. Unfortunately, urbanisation also increases the need to purify air and water. The Novactor activated carbon production plant that will start its operations in 2021 offers solutions to this challenge created by urbanisation.

Business operations

Our business operations are divided into the Grow&Care, Energy and New Businesses divisions.

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, for example, peat production, logistics services and procurement in various countries. It also coordinates the Group's sustainability, quality and occupational safety. The Group services shared by all business operations are managed by the Group Service function.

Grow&Care

Kekkilä-BVB is Europe's leading and most versatile growing media operator in the professional grower, landscaping and consumer segments. Kekkilä Garden and Hasselfors Garden are well-known brands for home gardeners and landscapers in Finland, Sweden and Estonia. In the Central European market, the consumer product range includes the Jardino and Florentus brands as well as private label products. In the professional growing media business, the BVB Substrates and Kekkilä Professional brands are exported to more than 100 countries. Kekkilä-BVB is committed to developing sustainable solutions to increase people's well-being as well as promoting green lifestyles, the circular economy and biodiversity.

Exports to more than **100** countries

Personnel **540**

Energy

The Energy division is a partner for our customers in a changing energy market. We provide local fuel and heating solutions to our customers. Vapo sold its subsidiary Nevel Oy in 2020. The transaction was completed in January 2021. The division includes the fuel businesses of Vapo Oy, Neova AB and AS Tootsi Turvas. Vapo has initiated the charting of suitable sites for wind power production in land areas owned by the company. The aim is for ten of the sites with the highest potential to proceed into concrete projects in 2021. The Energy division is responsible for optimising the Group's land and real estate assets.

- Fuel sales
- Pellet production
- Wind power projects
- Management of land assets

New Businesses

The New Businesses division uses its in-house product development activities to create new products and innovations based on refining peat and other natural materials into air and water purification products, for instance. Vapo is a forerunner in the growing activated carbon market. The first production plant of the activated carbon producer Novactor will be completed in 2021 in Ilomantsi, North Karelia. Activated carbon is used in many air and water purification applications. It is also needed in industrial processes and food production to adsorb chemicals, metals and odours.

- Novactor
- Research & development
- Promoting innovation
- Ventures laboratory

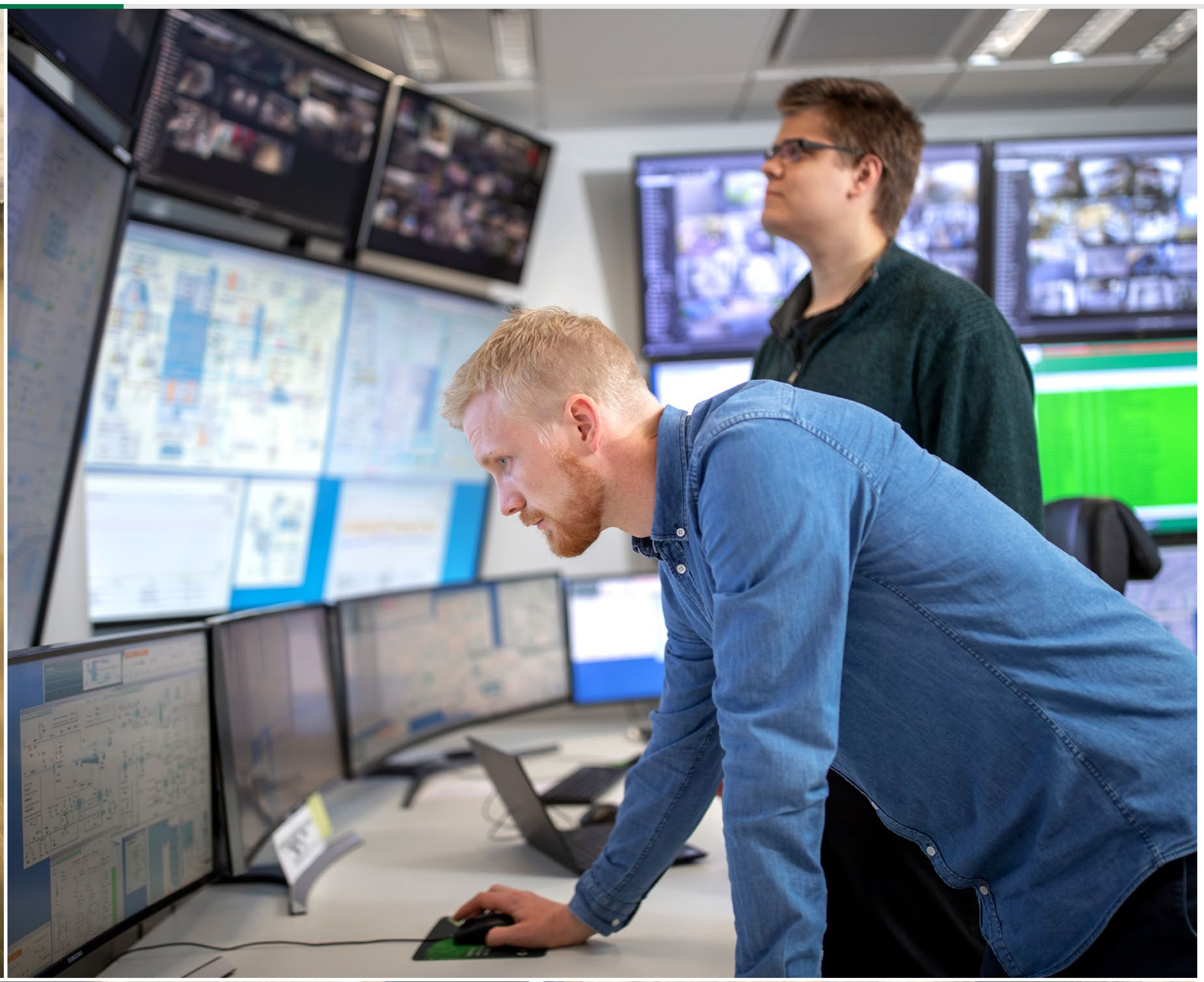
Grow&Care

The use of remote meetings and digital communication tools was already familiar to Kekkilä-BVB, which made it much easier to switch to remote work in response to the COVID-19 pandemic. Continuous employee communications and the management team's scenario planning to prepare for various alternatives increased the sense of security and made it possible to respond to the pandemic consistently using the same operating models throughout the organisation.

The employees' competence and ability to withstand pressure was put to the test particularly in production and customer service as the start of the gardening season made it clear that consumers isolated in their homes would really invest in their gardens. Marketing activities were also quickly adjusted in response to the changed circumstances.

The pandemic highlighted the security of supply in food production, the significance of gardens to people's well-being and the importance of efficient logistics chains. The operating conditions in the consumer business remained good in many countries while the professional growing media business suffered more from delivery difficulties and the restrictions on movement brought about by COVID-19. Nevertheless, 2020 was a highly favourable year for Kekkilä-BVB and it exceeded its growth targets by a significant margin. The previous investments in production capacity proved to be important, as did continuing these investments.

The pandemic did not result in the suspension of any strategic projects. The ERP system was harmonised, sustainability projects moved ahead, strategic projects related to the raw material base were carried on and the digitalisation of the customer interface continued. The strategy was updated in the fourth quarter in response to the trends accelerated by the pandemic. In particular, enabling local operating conditions from the perspectives of management, production and raw materials was taken into account better than previously, as were the growth leap taken in digitalisation in response to the pandemic, the growing significance of green spaces and the increasing popularity of gardening.



Energy

The accelerating decline in the demand for energy peat was very significantly reflected in the Energy division's operations. The most significant reasons for the decline in demand have been the exceptionally rapid increase in the price of emission rights as well as energy tax policy that steers energy customers towards renewable fuels.

The sharp decline in the demand for energy peat also led to substantial write-downs. The write-downs exceeded EUR 100 million and were mostly allocated to production areas to be decommissioned. The Group resolved to strengthen its balance sheet and made the decision in the autumn to divest Nevel Oy. The transaction was completed in January 2021.

The focus has been shifted significantly towards renewable wood fuels. Unfortunately, 2020 was not a favourable period for the pellet business. In the spring, the sharp decline in the price of natural gas saw large pellet customers shift to natural gas. The increased supply of pellets following high tree mortality in Central Europe also reduced world market prices. Conversely, the demand for energy chips has seen strong growth. Following the deployment of a new operating model in 2020, we have signed a significant number of wood fuel partnership agreements. Two-thirds of Vapo's supply volume of wood fuels in Finland is covered by long-term delivery agreements for energy chips.

The project to sell land areas owned by Vapo has progressed according to plan for three years now: the sale of more than 30,000 hectares of land has had a significant impact on the result and cash flow of the division and the Group as a whole.

Wind power project development, which has been launched as a new business, is also progressing as planned. The sites with the highest potential were evaluated in 2020 and the first projects were selected. The aim is to have the first projects progress to the zoning and permit application stages in 2021, followed by the construction of wind farms. The Group will later decide whether to sell the projects to third parties or become actively involved in the construction.

Nevel takes industrial and municipal infrastructure to a new level in partnership with customers
In 2020, Vapo announced it will sell its subsidiary Nevel, which was established in 2019, to Ardian, one of the world's leading private investment companies. The competition authorities in Finland and Sweden approved the transaction in December 2020 and the sale was completed in January 2021. Nevel has now been transferred to a new owner, whose focus areas include sustainable energy and infrastructure projects. Nevel will continue to play an important role in promoting advanced industrial and municipal infrastructure. The company develops energy and resource efficiency while creating the conditions for circular economy at the local level. Nevel's transition to new ownership creates the opportunity to accelerate the implementation of its projects in its operating countries. For customers, Nevel's new ownership presents the opportunity to expand cooperation. Nevel operates more than 130 power plants and manages over 40 district heating networks using the most advanced digital platform in its industry. Nevel employs 130 experts in Finland, Sweden and Estonia. The company's turnover is approximately EUR 100 million.

Group Services

The Finance and Business Control function is responsible for the financial reporting of the Group and the group companies, Group finance and financial risk management as well as correspondence with financial institutions, the auditors and owners. Internally, the function's responsibilities include controller services for various businesses as well as functions and processes related to areas such as 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 business practices and the harmonisation of HR practices. The main focus of operations is on supporting changes in business operations through management and competence development practices as well as the development of operating methods. Promoting well-being and 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 Supply Chain Management function is responsible for the comprehensive management and development of Vapo Group's 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

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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. In 2020, Vapo significantly accelerated the adjustment of its energy peat production in Finland in response to the weakened demand outlook for energy peat. In the management of peat assets, the focus was particularly on assessing the needs of growing business operations and the development of quality. In sustainability, the focus was on increasing responsible peat production (RPP) certification to support the export of horticultural peat as well as increasing the recycling of stack plastic.

Aiming for flexible and efficient logistics solutions

Vapo and its subsidiaries are known for their delivery reliability with regard to the delivery logistics of bulk products as well as packaged products. Although the pandemic created occasional challenges in the availability of transport vehicles during the year, customer service and logistics operated at a good level of customer satisfaction on the whole. Efforts to increase the efficiency of logistics continued through successful transport agreement negotiations as well as larger loads. The strong business growth of Kekkilä-BVB's business was supported through the flexible and efficient management of truck and container transport as well as bulk shipping in cooperation with logistics companies.

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. Significant cost reductions were achieved in 2020 through contract negotiations in nearly all purchasing categories. The Supplier Code of Conduct was implemented among suppliers, further strengthening our suppliers' commitment to sustainability.

Responsibility 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. In 2020, we took systematic action in relation to Vapo Group's long-term sustainability targets, environmental strategy and business-specific environmental programmes. We focused on external and internal communication, the reduction of emissions into waterways and the climate, the sustainable use of natural resources, the improvement of material efficiency and the reduction of waste.

Prioritising safety and quality in continuous improvement

Our customer-driven approach and ISO 9001 and ISO 114001 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. In 2020, all of the Group's employees completed the mandatory Safety first! online course. In addition, nearly all production personnel participated in external safety training.

In 2020, Vapo significantly accelerated the adjustment of its energy peat production in Finland in response to the weakened demand outlook for energy peat.

New Businesses

Vapo Ventures develops new business in collaboration with customers

Vapo Ventures works together with customers and ecosystems to develop solutions to global challenges that secure the world's food production, promote healthy and comfortable living environments and promote the purification of air and water. The aim is to refine organic wetland biomass and other organic natural materials into high-added-value products for the international markets.

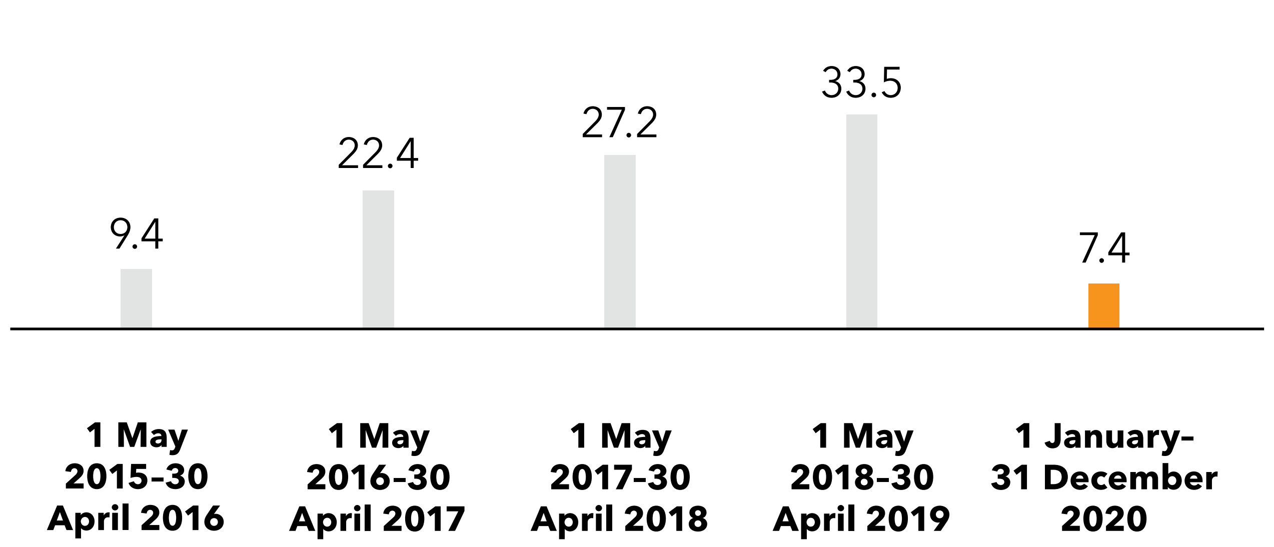
The area in which the most progress has been made consists of biostimulants isolated from organic wetland biomass. They are used in greenhouse and outdoor cultivation to improve plants' nutrient absorption and the efficiency of nutrient use. Biostimulants also help plants adapt to changing conditions related to climate change. In accordance with the Vapo Refinery concept, raw materials and side stream products are comprehensively utilised in adherence to the circular economy principle while minimising energy consumption and emissions.

The global market for activated carbons is growing rapidly and Novactor aims to be the leading European operator in the field. Novactor's activated carbon production plant was presented to the public in September in a virtual opening ceremony. Set to be completed soon in Ilomantsi, the plant is the first activated carbon production facility in the Nordic region and the most modern of its kind in Europe. Steam is used as an activator in the activated carbon production process. Novactor's production plant produces more energy than it requires. The surplus heat is used to generate district heating for the urban part of Ilomantsi. The plant does not emit wastewater that requires special purification. The carbon footprint of the activated carbon produced by the plant is substantially lower than the coal-based activated carbon products that currently dominate the market. Local construction operators and subcontractors were used to the greatest possible extent in the construction of the Ilomantsi production plant. The employment effect of the plant is about 50 person-years. The plant uses local biomass as its raw material. The production of activated carbon will begin in 2021.

Financial Statements and Board of Directors’ Report

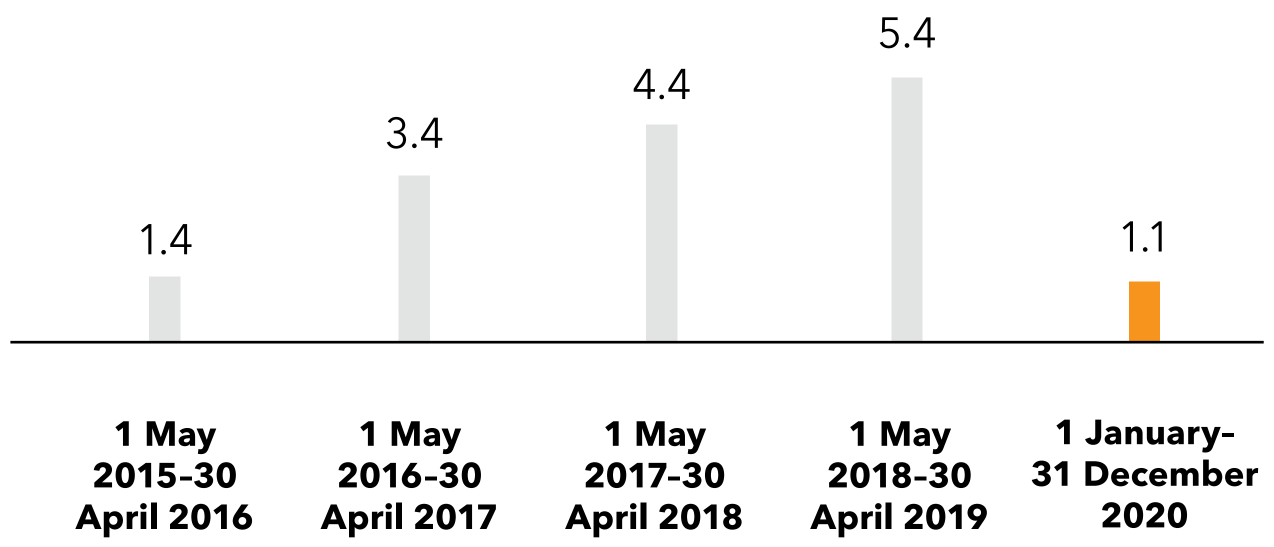
Financial statements 1 May–31 December 2020

Operating profit before impairments, EUR million



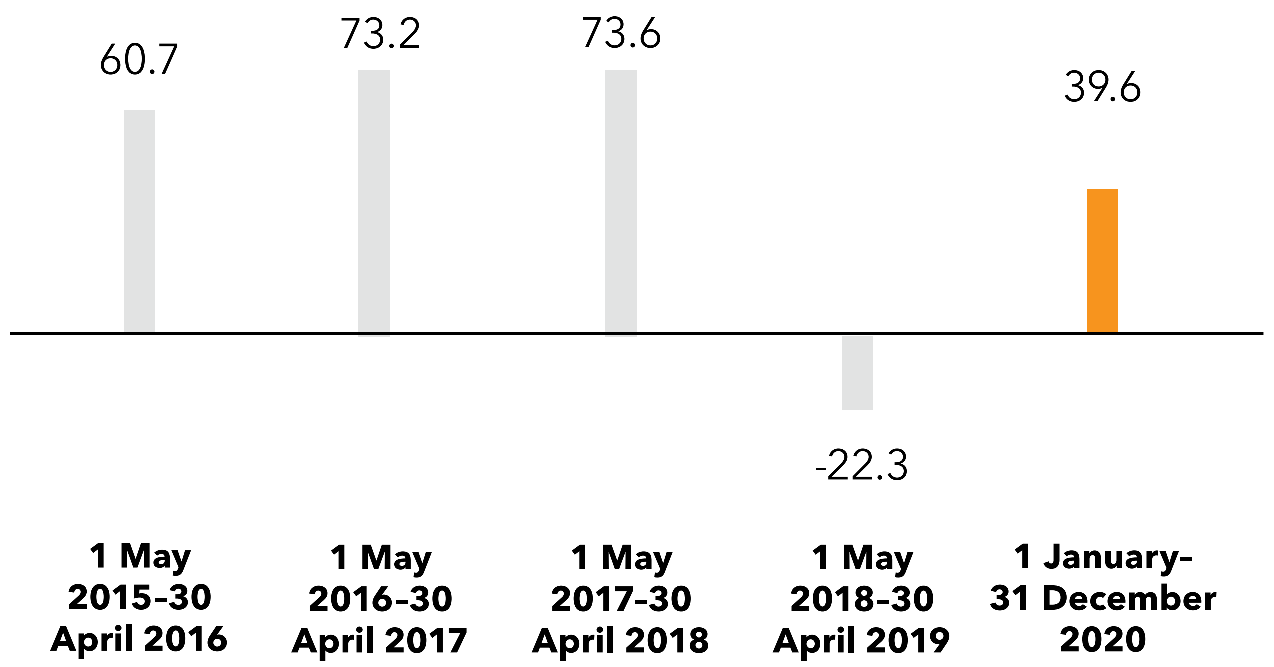
Operating profit shows the profitability of business operations and largely determines the return on invested capital, among other things. For Vapo, the operating profit of both divisions is significantly influenced by weather dependence and the success of peat production. In spite of the warm weather conditions, which had a negative impact on the demand for energy, the operating result developed favourably. This was mainly due to the strong demand for Kekkilä-BVB's products. The Group's operating profit before impairment improved relative to the comparison period in the previous year (May–December 2019) and amounted to EUR 7.4 million (EUR -1.5 million).

Return on invested capital before impairments %



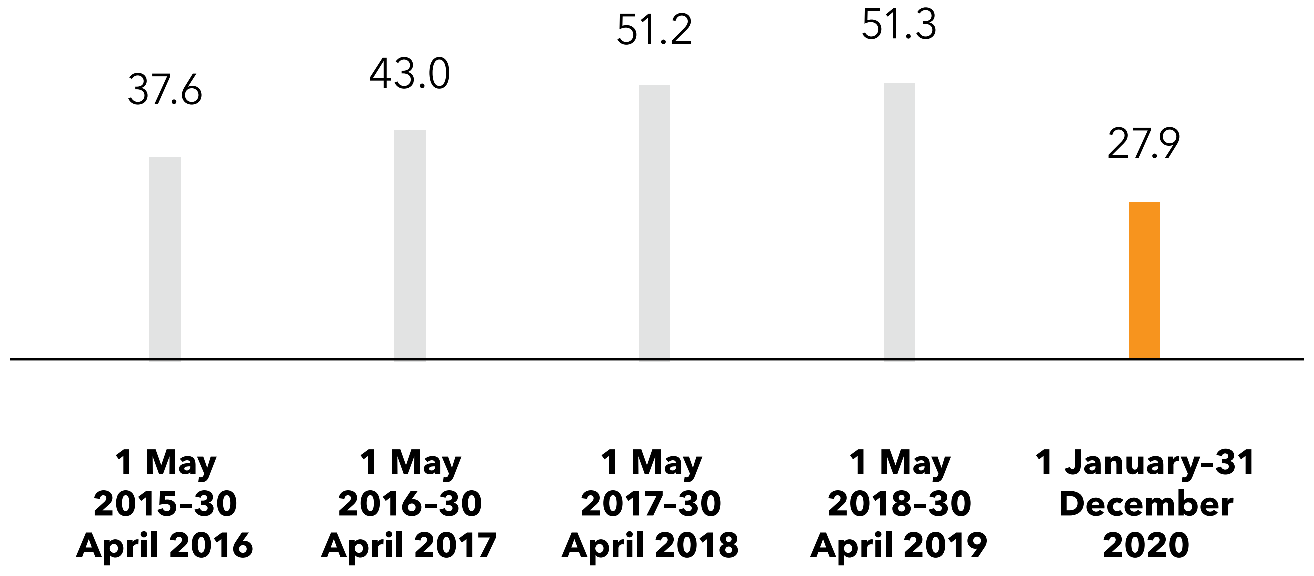
Return on invested capital (ROIC) is the main indicator of profitability in Vapo's capital-intensive industries as it takes invested capital into account in addition to operating profit. ROIC reflects the company's ability to create shareholder value, meaning that it should be higher than the weighted average cost of capital (WACC). At the end of the financial year, Vapo's return on invested capital before impairment was 1.1 (4.1) per cent.

Free cash flow before taxes



Free cash flow before taxes and financial items takes into account the operating margin as well as factors such as changes in capital tied up in businesses, the impacts of sales of assets, and investments made. The Group's free cash flow before taxes in the financial period January–December 2020 amounted to EUR 39.6 million (EUR 21.0 million in May–December 2019). The measures taken to enhance working capital turnover had an effect of EUR 44.3 million (EUR 10.3 million) on cash flow. In addition, gains from the sale of assets improved cash flow by EUR 17.5 million (EUR 16.5 million). Gross investments for the financial year amounted to EUR 76.6 million (EUR 42.8 million). Net investments (gross investments – acquisition/sale of assets) were EUR 59.1 million (EUR 26.3 million).

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 27.9 (42.9) per cent, with the significant decrease being related to write-downs of approximately EUR 103 million, mainly related to energy peat assets, as well as non-recurring costs of approximately EUR 14 million recognised in relation to continuing environmental obligations and the costs associated with the divestment of the subsidiary Nevel. The sale of shares in the subsidiary Nevel Oy in January 2021 improved the equity ratio to a level substantially above the level reported for the financial year 2019.

Board of Directors of Vapo Oy

Chairman of the Board of Directors

Jan Lång

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

Relevant concurrent positions of trust:
Chairman of the Board: Unisport Oy 2018–, Molok Oy 2016– and Antilooppi ky, 2015–. Member of the Board: Infinited Fiber Company Oy 2018–, Flexound Oy 2019–.

Relevant work experience
Ahlström Oyj, CEO, 2009–2014
Uponor Oyj, CEO, 2003–2008
Huhtamäki Oyj, several positions, 1982–2003

Chairman of Vapo's Board of Directors 2015–
Chairman of the Personnel Committee 2015–

Vice Chairman of the Board of Directors

Markus Tykkyläinen

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

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

Relevant concurrent positions of trust:
Chairman of the Board: Lumme Energia Oy, Järvi-Suomen Voima Oy. Member of the Board: Kymppivoima Tuotanto Oy, Kymppivoima Hankinta Oy, Elvera Oy, Solarigo Systems Oy, Itä-Savon Vesi Oy and Etelä-Savo Chamber of Commerce.

Relevant work experience
Joutsan Lämpö Oy, Managing Director 2020
Rovaniemen Energia Oy/Napapiirin Energia ja Vesi Oy, Managing Director 2011–2016
Ranuan Bioenergia Oy, Managing Director 2015–2016
Vakka-Suomen Voima Oy, Development Director 2010–2011
Kainuun Sähkö Oy/Graninge Kainuu Oy/Kainuun Energia Oy/E.ON Kainuu Oy, Design Engineer, Quality Manager, Environmental Director, Risk Manager, Development Manager 1998–2010.

Member of the Board at Vapo 2016–
Vice Chairman of the Board of Directors 2017–
Member of the Audit Committee 2016–

Members

Stefan Damlin

b. 2 May 1968, M.Sc. (Econ.)

Managing Director, Vaasan Sähkö Oy 17 September 2018–

Relevant concurrent positions of trust:
Member of the Board: EPV Voima, Ampner Oy, WOIMA Corporation. Deputy member of the Board: Pohjolan Voima and Power-Deriva Oy.

Relevant work experience
Wärtsilä Finland Oy, Managing Director, 2012–2018
Wärtsilä Corporation, Vice President, Business Development Centre, Global Industrial Operations, 2011–2012
Wärtsilä Corporation, Vice President, Business & Finance Centre, Global Engine Division, 2005–2010
Finn-Power, Group Business Controller, 2004–2005.
Member of the Board: Aktia Bank plc 2006–2020, Wärtsilä Yuchai Engine Company (China) 2015–2018, Wärtsilä Transmashholding (Russia) 2012–2014, DTS (the Netherlands) 2008–2011, Ostrobothnia Chamber of Commerce 2012–2015

Member of the Board at Vapo 2020–
Member of the Audit Committee 2020–

Tuomas Hyyryläinen

b. 1 December 1977, M.Sc. (Econ.)

Executive Vice President, Fiskars Oyj, 1 September 2018–

Relevant work experience
Neste Corporation, Senior Vice President, Emerging Businesses, 9/2016–8/2018
Neste Corporation, Senior Vice President, Strategy and New Ventures, 6/2014–9/2016
Neste Corporation, Senior Vice President, Strategy, 6/2012–6/2014
F-Secure, Vice President, Strategy and M&A, 6/2010–6/2012
Nokia Corporation, several different positions, 2004–2010

Member of the Board at Vapo 2016–
Member of the Personnel Committee 2016–2020
Member of the Audit Committee 2020–

Vesa Hätilä

b. 22 December 1969, M.Sc. (Eng.), MBA, CBM

Managing Director, Seinäjoen Energia Oy and Seiverkot Oy 1 October 2017–

Relevant concurrent positions of trust:
Chairman of the Board: Voimajunkkarit Oy. Member of the Board: EPV Energia Oy, the Finnish Energy Industries, Seinäjoen Voima Oy, Paikallisvoima ry, Vaskiluodon Voima Oy.

Relevant work experience
Koillis-Satakunnan Sähkö Oy, Managing Director, 2014–2017
Sähkö-Virkeät Oy, Managing Director, 2014–2017
Killin Voima Oy, Managing Director, 2014–2017
Empower Oy, Sales Manager, 2002–2014
Football Association of Finland, referee 2000–2014.
ABB Oy, Enermet Oy and Oras Oy in the 1990s.

Member of the Board at Vapo 2020–
Member of the Personnel Committee 2020–

Kirsi Puntila

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

Senior Vice President, Marketing, Innovation and Product Development, Altia Oyj 1 April 2014–

Relevant work experience
Altia Oyj, Spirits Category Director, 2015–2016
Altia Oyj, Marketing Director, own brands, 2014–2015
The Absolut Company/Pernod Ricard, Global Marketing Manager, 2010–2014
Chivas Brothers/Pernod Ricard, Global Senior Brand Manager, 2006–2010
Member of Marketing Executives Group Inc (MJR) 2016–

Member of the Board at Vapo 2018–

Minna Smedsten

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

Group CFO, Taaleri Plc. 1 August 2013–

Relevant concurrent positions of trust:
Member of the Board: Havsfrun Investment AB, Taaleri Energia Oy, Evervest Oy

Relevant work experience
GreenStream Network Plc, CFO, 2009–2013
Kaupthing Bank Finland, Finance Manager, 2005–2008
Norvestia Plc, IR & Finance Manager, 2000–2004
Tuokko Deloitte & Touche, auditor, 1999–2000

Member of the Board at Vapo 2016–
Member of the Audit Committee 2016–

Maija Strandberg

b. 30 April 1969, M.Sc. (Econ.)

Senior Financial Specialist, Prime Minister's Office, Government Ownership Steering Department, 6/2019–

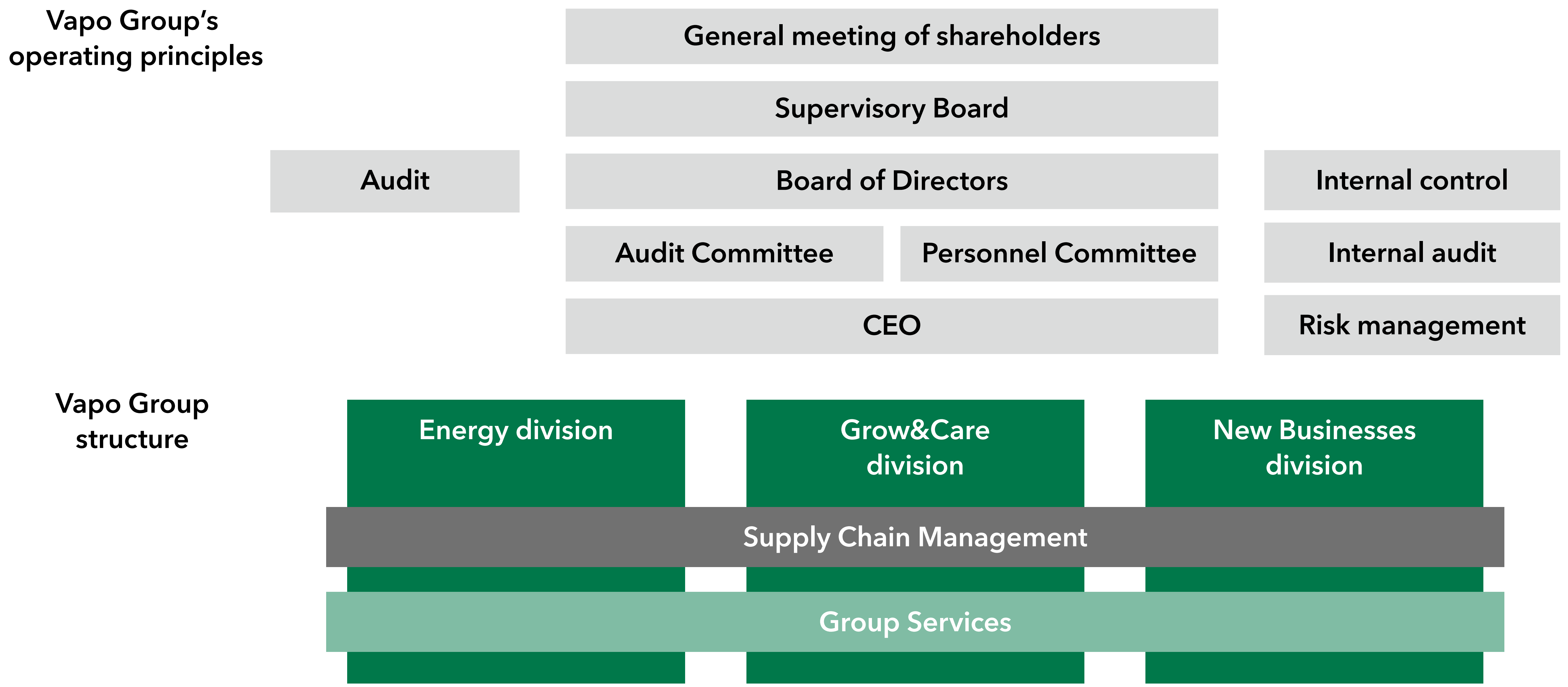
Relevant concurrent positions of trust:
Member of the Board and Chairman of the Audit Committee: Nordic Morning Group
Member of the Board: Finnair Plc

Relevant work experience
Uponor Oyj, CFO 3/2017–3/2019
Valmet, CFO, Pulp and Energy Business Line, 10/2015–3/2017
Valmet, CFO, Paper Business Line, 1/2013–10/2015
ALSO Nordic Holding Oy, Managing Director, 5/2008–6/2012,
ALSO Nordic Holding Oy, CFO, 3/2007–5/2008
Timberjack/John Deere C&F Europe, various positions in financial and operational management, 6/1995–2/2007
Huhtamäki Oy Leaf, various positions in financial management, 5/1993–

Member of the Board at Vapo 2019–
Member of the Personnel Committee 2019–

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

Corporate Governance at Vapo



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 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 cgfinland.fi/en/).

The company's Articles of Association (Appendix 1) 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.

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 production and sale of bedding peat. The New Businesses division focuses on the development of new products from peat and other natural materials. The Supply Chain Management function is responsible for the raw material supply, peat production, logistics, shared procurement and the management of environmental, quality and occupational safety issues for each of the Group's divisions. The Group Services function consists of HR, Finance & Business Control, ICT, Communications & Public Relations and Legal Services & Internal Audit for the entire Group. Each division and function is responsible for its operations throughout Vapo Group's operating countries and subsidiaries.

Vapo's governance bodies

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

General Meeting

The Annual General Meeting is held annually in either Jyväskylä or Helsinki on a date determined by the Board of Directors, no later than six months after the end of the financial year.

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 Association (Appendix 1), the General Meeting shall be convened by sending a registered letter to each shareholder at the address in the share register or by sending an invitation 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 Supervisory Board, 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 Shareholders' Agreement between the company's owners is also observed in the appointment of the members of the Board of Directors and the Supervisory Board. 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 two 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 owners' instructions, the General Meeting is attended, at a minimum, by the Chairman of the Board of Directors, the CEO and the auditor. Persons nominated for appointment to the Board of Directors for the first time do not necessarily need to be present at the General Meeting deciding on their appointment.

A separate press release shall be published regarding appointments and other significant decisions. The financial statements, notes to the financial statements and the Board of Directors' Report are published on Vapo's website.

Financial year 2020: Vapo Oy's Annual General Meeting was held in Helsinki on 19 March 2020. All shares and votes were represented at the General Meeting. In addition, the Extraordinary General Meeting held on 28 January 2020 appointed a new Chairman for the Supervisory Board, the Extraordinary General Meeting held on 4 February 2020 decided to donate 80 hectares of land to 4H Finland and the Extraordinary General Meeting held on 31 October 2020 decided on the sale of Vapo Oy's wholly-owned subsidiary Nevel Oy.

Supervisory Board

The Annual General Meeting of Vapo Oy annually appoints a Supervisory Board consisting of a minimum of 8 and a maximum of

Name	Meeting attendance in 2020
Juha Sipilä (b. 1961) Chairman, Member of Parliament	3/3
Heikki Miilumäki (b. 1946) Deputy Chairman, D.Sc. (Tech.) h.c.,	3/3
Antti Häkkänen (b. 1985) Member, Member of Parliament	3/3
Eero Kubin (b. 1948) Member, Professor	3/3
Esko Kurvinen (b. 1952) Member, Engineer	2/3
Tommi Lunttila (b. 1976) Member, agriculture and forestry entrepreneur	3/3
Mauri Peltokangas (b. 1966) Member, Member of Parliament	3/3
Jenni Pitko (b. 1986) Member, Member of Parliament	3/3
Piritta Rantanen (b. 1962) Member, Member of Parliament	3/3
Tiina Snicker (b. 1966) Member, Financial Manager	3/3

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. to supervise the administration of the company carried out by the Board of Directors and the Chief Executive Officer
2. to issue a statement to the Annual General Meeting on the financial statements and the auditor's report.
3. to provide instructions to the Board of Directors on matters that have far-reaching consequences and involve important primary issues
4. to issue a statement to a General Meeting on issues that require a statement by the Supervisory Board as per the Finnish Companies Act.

Financial year 2020: Vapo Oy's Extraordinary General Meeting held on 28 January 2020 appointed Juha Sipilä as the new Chairman of the Supervisory Board. Vapo Oy's Annual General Meeting held on 19 March 2020 appointed the following members to the Supervisory Board: Antti Häkkänen, Heikki Miilumäki, Eero Kubin, Esko Kurvinen, Tommi Lunttila, Mauri Peltokangas, Jenni Pitko, Piritta Rantanen, Juha Sipilä and Tiina Snicker. Juha Sipilä was elected as Chairman, with Heikki Miilumäki as Vice Chairman. The Supervisory Board met three times during the financial year 2020. The members' attendance in the meetings of the Supervisory Board is shown in the table below.

Name	Board member since	Meeting attendance during the financial year 2020	Committee memberships and meeting attendance during the financial year 2020 (1 January–31 December 2020)	
			Audit Committee	Personnel Committee
Jan Lång (b. 1957) M.Sc. (Econ.), Board professional	2015: Chairman	20/21		Chairman 8/8
Markus Tykkyläinen (b. 1973) M.Sc. (Energy Technology), eMBA, M.Sc. (Econ.), CBM Managing Director, Suur-Savon Sähkö Oy	2016: member 2017: deputy chairman	21/21	member 7/7	
Stefan Damlin (b. 1968) M.Sc. (Econ.), Managing Director, Vaasan Sähkö Oy	3/2020 member	18/21	member 5/5	
Tuomas Hyyryläinen (b. 1977) M.Sc. (Econ.), Chief Growth Officer, Fiskars Oyj	2016: member	21/21	member 5/5	member 3/3
Vesa Hätilä (b. 1969) M.Sc. (Tech.), Managing Director, Seinäjoen Energia Oy	3/2020 member	18/21		member 5/5
Juhani Järvelä (b. 1956) M.Sc. (Tech.), Managing Director, Oulun Energia Oy	2017–3/2020 member	3/3		member 2/2
Risto Kantola, (b. 1960) M.Sc. (Tech.), Managing Director, Oulun Seudun Sähkö Oy	2017–3/2020 member	1/3	member 2/2	
Kirsi Puntila (b. 1970) M.Sc. (Econ.), Senior Vice President, Marketing, Altia Oyj	2018: member	21/21	member 2/2	member 5/5
Minna Smedsten (b. 1976) M.Sc. (Econ.), Chief Financial Officer, Taaleri Oyj	2016: member	21/21	Chairman 7/7	
Maija Strandberg (b. 1969) M.Sc. (Tech.), Senior Financial Specialist, Prime Minister's Office	2019: member	21/21		member 8/8

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

The fees paid to the members of the Supervisory Board are presented in the report section.

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 membership of the Board of Directors because the company only has two shareholders that participate in the selection process. The appointment of the Board members complies with the guidelines concerning the realisation of diversity issued by the Ownership Steering Department of the Prime Minister's Office.

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 company's mission, strategy and values, monitors their realisation 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, financing arrangements and the impairment of assets. Board meetings are attended by the CEO, as a presenter, and by the company's Chief Financial Officer. Other members of the Group Management Team and senior management attend the meetings when necessary.

The Chief Legal Officer acts as the Secretary of the Board of Directors.

The main tasks of the Board of Directors are specified in the Board's charter (Appendix 2).

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.

Financial year 2020: The Annual General Meeting held on 19 March 2020 appointed the following as members of the Board of Directors: Stefan Damlin, Tuomas Hyyryläinen, Vesa Hätilä, Jan Lång, Kirsi Puntila, Minna Smedsten, Maija Strandberg and Markus Tykkyläinen. Jan Lång was appointed as Chairman and Markus Tykkyläinen as Vice Chairman.

The Board of Directors convened 21 times during the financial year 2020. The members' attendance in the meetings of the Board of Directors is shown in the table below. Key topics discussed by the Board of Directors included securing operations and financing during COVID-19, assessing the strategic options concerning Nevel, monitoring the start of the Carbons business, sustainability, updating the operating model for the declining fuel peat business, assessing the portfolio strategy 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 of Directors' estimate, Maija Strandberg is not independent of the company's significant shareholders because she is employed by the state. The other members of the Board of Directors are independent of the company's significant shareholders.

The remuneration of the Board of Directors is discussed in the 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 auditing, risk management, legal risks and internal monitoring 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. The Committee's charter is attached (Appendix 3).

Financial year 2020: The Audit Committee met seven times during the financial year 2020. 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 discussed its regular topics as well as sustainability and corporate responsibility, the valuation of peat assets, impairment testing, internal audit reports and the annual plan. The Audit Committee also discussed the company's financing strategy, risk management and operational efficiency.

Personnel Committee

The task of the Personnel Committee is to prepare proposals to the Board of Directors regarding the appointment and remuneration of the CEO and the Group Management Team as well as the company's remuneration principles. The Personnel Committee also prepares the remuneration policy and drafts the remuneration report of 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 remuneration systems of senior management. A majority of the members of the Personnel Committee shall be independent of the company. The CEO and members of the Group Management Team are not eligible to be members of the Personnel Committee. The Personnel Committee meets when necessary. The Committee's charter is attached (Appendix 4).

Financial year 2020: The Personnel Committee convened eight times during the financial year 2020. The members' attendance in the committee meetings is shown in the table listing the members of the Board of Directors.

In its meetings, the Personnel Committee discussed the management's long-term and short-term remuneration, the individuals included in the management remuneration system and the general remuneration of the company's personnel. The Personnel Committee also discussed plans related to corporate culture, management and personnel development, such as competence development plans, the results of the personnel survey and the impacts of the COVID-19 pandemic on the personnel.

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

CEO

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 Remuneration Report.

Vesa Tempakka, M.Sc. (Econ.), has served as Vapo Oy's Chief Executive Officer 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 area and agreeing on joint principles and development measures in Group management
5. organising and developing occupational safety

The Group Management Team convenes regularly, at least ten times a year.

Financial year 2020: During the financial year 2020, the members of the Group Management Team – in addition to the CEO as Chairman – were the following: Markus Hassinen (Director, Heat & Power), Jukka Holm (Chief Information Officer, CIO), Petri Järvinen (Chief Supply Chain and Sustainability Officer, SCM), Pasi Koivisto (Director, Fuels), 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 18 times during the financial year 2020.

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 most significant 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 Vapo Group subsidiaries in which Vapo Oy's CEO is a Chairman of the Board or 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 Group 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 communicating information on regulatory changes to Group management, Vapo Oy's CEO and/or the director of the relevant business area or function
- 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 targets and improves the steering of business operations. The aim of internal control is to give the Board of Directors and acting management adequate assurance of the realisation of the following targets:

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

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

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

Control activities are led at the Group level by the Group Management Team and at the business level by the management of divisions, profit centres and business functions. The implementation of monitoring is the responsibility of business controllers appointed for the business areas and profit centres in question operating under the CFO who, together with the CEOs and operational management, see to business transactions being entered in the systems in a timely manner and reported appropriately and efficiently, complying with the separately issued Group guidelines on the content of internal monitoring and reporting.

Internal audit

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

Internal 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 maintaining effective monitoring and control procedures
- 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.

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. The members of the Group Management Team are each responsible for the management of different aspects of the risk assessment.

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 different businesses and the ways to prepare for these risks are reported in the annual reports published by the Group companies.

Auditing

Vapo shall have one auditor, which shall be an auditing company approved by the Central Chamber of Commerce. The auditor is appointed at the Annual General Meeting for a term ending at the conclusion of the next Annual General Meeting.

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 January–31 December 2020 amounted to EUR 390 thousand (EUR 372 thousand during the period 1 May–31 December 2019) and consulting fees totalled EUR 531 thousand (EUR 185 thousand during the period 1 May–31 December 2019).

Related party transactions

Transactions carried out with related parties shall relate to the company's normal business operations and shall be in line with the purpose of the company and executed on market or market equivalent terms and practices generally observed and accepted within the industry in question.

If a contemplated transaction should deviate from the company's normal business operations or would not be executed on market or market equivalent terms, the transaction shall be either cancelled or submitted for the Board of Directors' approval.

Information on material transactions concluded between the company and its related parties is available in the Annual Report 2020 in the notes to the company's consolidated financial statements.

Attachments

Appendix 1: Articles of Association
Appendix 2: The charter of the Board of Directors
Appendix 3: The charter of the Audit Committee
Appendix 4: The charter of the Personnel Committee

CEO's review

Vesa Tempakka: Reassessment of strategy as the operating environment changes

Vapo has successfully executed its Group strategy defined in 2019. The cornerstones of the strategy have been to grow the Group's business in the international growing media market targeted at professional growers, launch new high added-value products refined from peat based on Vapo's own research and product development activities and, in the energy business, achieve a purposeful transition from the role of fuel supplier to a provider of infrastructure services for municipalities and industrial operators. The aim of the strategy has been for the aforementioned business areas to compensate for the decline in turnover, operating margin and cash flow caused by the falling demand for energy peat.

The price of emission rights settling permanently at a level of above EUR 30 reduced the use of energy peat in Finland in 2019 by approximately one-fifth. The extensive political debate around energy peat and the increase in taxes on energy peat introduced in autumn 2020 have together led to a situation where, according to the current view, the use of energy peat will reduce by half from the 2019 level already the year 2023.

Vapo has continued to re-evaluate its strategy in response to the declining demand for energy peat. The sharp decline in demand will also lead
to the Group's cash flow in the next few years not being sufficient to support the international growth strategy in the growing media market, the necessary higher value adding product development investments and the production investments required by new products and the energy business. The declining demand for energy peat also forced Vapo to recognise a write-down of approximately EUR 100 million on its energy peat reserves in autumn 2020 as well as recognise expenses associated with continuing obligations related to decommissioned peatlands. These measures taken weakened company assets significantly. As the outcome of this evaluation, Vapo decided to sell its heat and power business to Ardian. The transaction price was approximately EUR 656 million, which will enable Vapo to strengthen its balance sheet to move forward with the investments required by Kekkilä-BVB and new businesses.

Even a strong balance sheet will not compensate for the decrease in cash flow in the next few years caused by the divestment of Nevel and the declining demand for energy peat, as the new businesses will only start to bring in significant turnover after 2023. During the past two years, the Group has improved its operational efficiency by about EUR 30 million. The Group also commenced a new cost saving programme at the beginning of 2021 with a target of achieving approximately EUR 25 million in additional savings over the next two to three years.

2020 was a year of accelerated change

The most significant and unexpected change in 2020 was the COVID-19 pandemic. As consumers in all markets switched to remote work, they had more time for recreational activities. This was reflected in an exceptional increase in the demand for gardening products in the consumer segment. The demand for products targeted at professional growers also increased after an initial shock in the spring. The turnover of Vapo's Grow&Care division increased year-on-year by nearly 20 per cent, approximately EUR 50 million. The division's operating margin was EUR 34 million, representing an increase of nearly EUR 11 million compared to the previous year. Nevertheless, COVID-19 also presented challenges to business operations. Cross-border logistics became more difficult and production facilities, offices and laboratories were forced to implement a variety of special arrangements that resulted in delays and additional costs. New customer acquisition was also complicated by the travel restrictions.

The year 2020 will be remembered as a watershed in Vapo's history. The year was the warmest on record in Vapo's operating countries. This was reflected in a very sharp decline in turnover in the fuel and energy businesses. In the fuel business, challenges were created not only by the declining demand for energy peat but also the low price of natural gas, which incentivised large pellet customers to switch from pellets to natural gas. Consequently, there was a decline in the turnover of Vapo's Energy division of EUR -40 million and of the operating margin reduction of nearly -50 per cent..

A third significant development during the year was the completion of Vapo's first activated carbon production facility in Ilomantsi. The production facility is scheduled to be in commercial operation by summer 2021. The COVID-19 pandemic and delivery difficulties with the primary equipment supplier have caused delays in commissioning the production facility.

The Group's free cash flow improved year-on-year. The most significant reasons behind this were the successful cost saving programme, income of approximately EUR 10 million earned from the sale of land areas and measures taken to improve the turnover of capital.

On the whole, the Group's financial performance during the year was almost satisfactory in difficult circumstances. The Group's turnover was two per cent higher than in the previous year and the comparable operating margin was nearly at the previous year level. Due to write-downs associated with the decommissioning of peatlands and the recognition of costs related to the continuing obligations concerning the peatlands, the full-year operating result showed a substantial loss.

In the area of corporate responsibility, we have made good progress towards our main targets. The target we set last year of reducing the Group's CO_2 emissions by half by 2025 will be achieved ahead of schedule. As regards social responsibility, I wish to highlight our good performance in the international Great Place to Work assessment. The employee confidence index increased by 5 per cent year-on-year and was 68. This is an excellent result in a highly exceptional operating environment in which the employees have had to adopt new operating practices and demonstrate a great deal of flexibility to enable us to meet the expectations of our customers.

However, the changes are not finished. They are only just beginning. This year, we will continue to execute our strategy in our selected growth areas. Over the next few years, our aim is to make up for the turnover and profitability that were lost as a result of the divestment of Nevel. The next two years will be challenging, but I am confident that the stronger balance sheet we will be working with following the divestment of Nevel in January 2021 and the measures we have begun during the past few years will make our ambitious targets achievable.

Board of Directors' report 1 January–31 December 2020

Operating environment

Vapo Group's operating environment was unpredictable in 2020. In Finland, Sweden and Estonia, it was the warmest year on record. This was reflected in a substantial decrease in fuel and energy deliveries. Wholesale electricity prices in the Nordic electricity markets were the lowest in 14 years. In addition to the warm weather, the operating environment was influenced by the pandemic that broke out in spring 2020 and led to a global macroeconomic downturn. The economic slump reduced the demand for energy among industrial customers and decreased the prices of oil and natural gas. The decline in the price of natural gas was the most relevant to Vapo Group, as natural gas and pellets are competing fuels for many large-scale plants.

The early spring and warm weather had a favourable impact on the Group's business in other areas. In the gardening industry, the peak season of product deliveries began exceptionally early.

The single most significant phenomenon that affected the Group as a whole was the global COVID-19 pandemic that broke out in spring 2020. The need to prepare for the pandemic and prevent infections caused a number of special measures across the Group. When the pandemic began, the Group immediately implemented precautionary measures at least at the level recommended by the authorities in each operating country. The number of personnel at office properties was restricted from March onwards. For all jobs that can be performed remotely, remote work was recommended for the rest of the year. At the same time, all non-essential movement at the Group's production plants, heat and power plants and other operating locations was restricted to the bare minimum level. Vapo Group was successful in its measures to combat the pandemic. During the year, only a very small proportion of the Group's approximately 1,000 employees contracted COVID-19. Remote work forced the organisation to quickly adopt various changes in work and meeting procedures. The transition from in-office work to digital remote work went smoothly in spite of it having to be carried out very quickly.

One very significant external factor for Vapo Group during the year consisted of changes in the operating environment related to the Energy business. Over a period of two years, the price of emission rights has increased from less than EUR 10 per tonne of carbon to the current level of over EUR 30. For 1 MWh of energy produced from energy peat, this means an additional cost of more than EUR 12 in addition to the energy tax.

The increase in the price of emission rights alone has reduced the use of energy peat much faster than the target set by the Finnish Government of halving the use of energy peat by 2030. The political debate around energy peat was more active than ever during the year.

In spite of Vapo, many other energy sector operators and the Finnish Forest Industries Federation repeatedly stating that the energy peat industry does not require additional measures to reduce the use of energy peat, the Finnish Government decided to double the taxes on energy peat starting from January 2021. This decision had the immediate effect of further steepening the decline in the demand for energy peat.

Vapo Group

The Group's result for the financial year 1 January–31 December 2020 declined substantially year-on-year and amounted to EUR -108.1 million. The result for the financial year was weighed down by significant non-recurring write-downs of approximately EUR 100 million and the related recognition of non-recurring expenses, mainly arising from obligations associated with the energy peat business, as well as the costs arising from the divestment of the subsidiary Nevel. The write-downs and the recognition of the related costs were caused by the accelerated decline in the demand for energy peat and the consequent significant decline in future energy peat production. This also led to the recognition of costs related to the premature decommissioning of production sites as well as future environmental obligations related to the sites in question. The advisory fees related to the Nevel divestment were also recognised as expenses for the financial year 2020. The estimated profit of approximately EUR 490 from the sale of the subsidiary Nevel will be recognised in T1/2021 as previously announced because the transaction was completed on 28 January 2021. In the financial statements, Nevel is treated as an asset held for sale.

Turnover grew by 2% year-on-year to EUR 544.9 million (EUR 533.7 million). The increase in turnover was mainly attributable to Kekkilä-BVB achieving sales growth of nearly 20 per cent compared to the previous year.

The Group's operating result was EUR -95.3 million. The comparable operating result remained on a par with the previous year at EUR 27.5 million. The previous financial year's comparable operating result excluding non-recurring items was EUR 27.0 million. The comparable result remaining on a par with the previous year was attributable to the strong demand for Kekkilä-BVB products and the efficiency improvement measures taken throughout the Group. The result was negatively affected by the exceptionally warm year and the steep decline in the demand for energy peat, which also made it necessary to terminate a number of production subcontracting agreements.

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 39.6 million (EUR 17.1 million) for the financial year.

The Group's key figures declined during the financial year due to the write-downs of energy peat assets, costs recognised in relation to the continuing obligations associated with decommissioned peatlands and the costs incurred from the Nevel divestment. The Group's equity ratio stood at 27.9 per cent (41.5%) at the end of the financial year, while the ratio of net debt to operating margin was 6.1 (4.0).

The COVID-19 pandemic affected the Group's divisions in very different ways. The pandemic had barely any direct effects on the Energy division. It merely delayed pending or planned new customer projects due to visits to Vapo's own plants and customer plants being restricted to a minimum.

In the Grow&Care division, the pandemic closed borders and initially complicated transport operations in Central Europe and Scandinavia right as the professional growing season was beginning. The pandemic also interrupted the Group's actions aimed at opening new export markets in China and the US for several months.

The most surprising effect of the pandemic was the very strong growth in the demand for gardening products in the amateur grower segment. When people switched to remote work and nearly all recreational activities were restricted, gardening as a hobby saw unprecedented growth in Sweden, Finland and Central Europe. The warm spring boosted the start of the season, and the peak season in the gardening business remained exceptionally strong throughout the summer. There were even difficulties in meeting market demand in the case of certain products.

The pandemic delayed and complicated the construction of the activated carbon production facility in Ilomantsi. A large number of workers from different countries worked construction and installation jobs at the site. Preventing infections required various special arrangements and the precautionary quarantine measures delayed construction to some extent. In addition, our main equipment supplier has had significant delays in deliveries, which have delayed the schedule of the project as a whole. In our product development activities, the most significant negative impact of the pandemic was having to stop or slow down the operations of our product development laboratories in Central Europe when the pandemic was at its worst.

Due to the uncontrollable decline in the demand for energy peat, Vapo commenced a cost saving programme in the autumn and carried out write-downs of approximately EUR 100 million, mainly allocated to prematurely decommissioned peat production areas and their undepreciated infrastructure.

The rapid decline in the demand for energy peat forced Vapo to assess its business strategy in light of the changed circumstances. To ensure its ability to respond to the balance sheet challenges created by write-downs and continue to execute its chosen growth strategy in the international growing media markets and new businesses, Vapo Group sold Nevel – a subsidiary that focuses mainly on energy infrastructure and operates in Finland, Sweden and Estonia – to Ardian.

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. We serve our pellet customers through our own sales service as well as our online store. Under the Nevel brand, we produce heat and steam as a service for our industrial and municipal customers at six power plants and approximately 150 heating plants. For our consumer customers, we supply district heating in more than 35 district heating networks. The division's turnover for the financial year that ended in December 2020 amounted to EUR 245.9 million, with renewable biofuels and energy solutions representing more than half of this total.

The global COVID-19 pandemic was a phenomenon that had an impact on the entire Group in 2020. For the Energy division, the direct impacts of the pandemic were minor. 2020 was the warmest year on record in Vapo's Energy division's operating countries – Finland, Sweden and Estonia – and this was reflected in a substantial decrease in fuel and energy deliveries. In the fuel business, challenges were created not only by the declining demand for energy peat but also the low price of natural gas. Wholesale electricity prices in the Nordic electricity markets were the lowest in 14 years. Turnover in the final third of the financial year (September–December) was EUR 85.6 million (EUR 103.7 million). The operating result for the reporting period was EUR -103.1 million (EUR -27.0 million). Investments amounted to EUR 8.0 million (EUR 21.6 million).

Turnover for the full financial year was EUR 245.9 million (EUR 149.1 million). The operating result was EUR -90.6 million (EUR -39.4 million). The operating result includes non-recurring items in the amount of EUR -111.9 million (EUR -38.9 million).

Energy

	9-12/2020	9-12/2019	Change	1-12/2020	1-12/2019	Change	5-12/2019
Turnover (EUR million)	85.6	103.7	-17.4%	245.9	289.5	-15.1%	149.1
Operating profit (EUR million)	-103.1	-27.0	-281.7%	-90.6	-12.0	-655.0%	-39.4
Investments (EUR million)	8.0	21.6	-62.9%	21.1	56.8	-62.9%	30.3
Number of employees	362	351	3.1%	371	364	1.9%	366
Energy sales, peat (GWh)	2,170	3,093	-29.9%	6,992	9,058	-22.8%	4,360
Energy sales, other fuels (GWh)	1,157	1,374	-15.8%	3,161	3,600	-12.2%	2,126
Heat and steam sales (GWh)	547	585	-6.5%	1,521	1,601	-5.0%	668

The significant non-recurring items mainly consisted of write-downs of energy peat production areas and expenses recognised in relation to the continued environmental obligations associated with those areas.

The decline in the demand for energy peat continued. The declining demand was reflected in peat deliveries in the final third of the year, as they were nearly 30 per cent lower than in the comparison period. The extensive political debate around energy peat, the increase in taxes on energy peat introduced in autumn 2020 and other decisions that have reduced the competitiveness of energy peat have together led to a situation where, according to the current view, the use of energy peat will reduce by half from the 2019 level in a matter of just a few years. Due to the decline in the demand for energy peat, the Group had to recognise a write-down of approximately EUR 100 million on its energy peat assets in the final third of 2020 as well as recognise non-recurring costs of approximately EUR 14 million related to ongoing obligations associated with peatlands. The warm weather and lower price of natural gas, in turn, reduced the demand for wood chips and pellets. The year-on-year decrease in total fuel deliveries was approximately 26 per cent in the final third of the year and 20 per cent for the year as a whole.

Vapo Oy announced in June 2020 that it will begin mapping out strategic options for its heat and power businesses incorporated as Nevel. In November 2020, Vapo announced it would sell its heat and power business to the French company Ardian. The competition authorities approved the transaction at the end of 2020 and the transaction was closed in January 2021. The year being the warmest on record had a direct impact on Nevel Group's business, with heating deliveries declining by approximately 7 per cent in the final third of the year and 5 per cent for the year as a whole.

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. In addition, peat is 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 all of our activities.

The division's well-known brands, Kekkilä Garden and Hasselfors Garden, offer products to home gardeners and landscapers in the Nordic countries and Estonia. In the Central European markets, our consumer products are sold under the Jardino and Florentus brands and under retailers' private labels. 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 final third of the financial year (September–December) was EUR 77.0 million (EUR 60.0 million). The operating result was EUR -6.0 million (EUR -4.8 million). The result for the reporting period includes non-recurring items in the amount of EUR -2.3 million (EUR -1.5 million). The division's gross investments were EUR 10.8 million (EUR 8.5 million).

Turnover for the full financial year grew by nearly 20 per cent year-on-year and amounted to EUR 299.9 million (EUR 250.2 million). The significant year-on-year growth in turnover was mainly attributable to the exceptional demand caused by COVID-19, especially in the consumer and raw material businesses. The exceptional circumstances have forced people to stay home, giving them more time and opportunities to focus on gardening.

The operating result doubled to EUR 14.0 million (EUR 7.0 million). The result for the financial year included non-recurring expenses in the amount of EUR -1.6 million (EUR -2.6 million). At comparable figures, the consumer and raw material businesses saw significant growth due to the exceptional demand caused by COVID-19. The exceptional circumstances caused the most challenges to our professional grower business, where growth compared to the previous year was lower than expected. The division's gross investments were EUR 25.4 million (EUR 14.0 million).

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.

Vapo's multi-year Refinery product development programme was granted significant financial support by Business Finland at the start of the year. The funding enabled Vapo to allocate additional research resources to the chemical refining of organic wetland biomass to produce humic acids, waxes, resins and other valuable materials. The humus project targeted at the biostimulant market progressed to the development of commercial products, test cultivation in cooperation with customers and preliminary planning for a production facility.

In the Carbons business, construction began in spring 2019 in Ilomantsi on a strategically significant production facility to process activated carbon. The production facility is scheduled to be mechanically completed in early spring 2021 and in commercial production by summer 2021. 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. Vapo's activated carbon products will be sold under the Novactor brand. The demand for the products is estimated to be very strong and the first commercial agreements are promising.

Grow&Care

	9-12/2020	9-12/2019	Change	1-12/2020	1-12/2019	Change	5-12/2019
Turnover (EUR million)	77.0	60.0	28.3%	299.9	250.2	19.8%	150.1
Operating profit (EUR million)	-6.0	-4.8	-25.2%	14.0	7.0	101.4%	-0.5
Investments (EUR million)	10.8	8.5	27.0%	25.4	14.0	81.5%	11.2
Number of employees	540	524	3.0%	545	559	-2.5%	547

New Businesses

	9-12/2020	9-12/2019	Change	1-12/2020	1-12/2019	Change	5-12/2019
Turnover (EUR million)	0.8	0.4	104.0%	2.4	1.8	32.4%	0.0
Operating profit (EUR million)	-1.6	-1.0	-52.2%	-3.3	-2.0	-65.3%	-1.6
Investments (EUR million)	14.4	5.4	166.1%	28.0	9.4	198.6%	7.1
Number of employees	29	20	46.8%	26	18	15.8%	19

The pandemic has delayed and complicated the construction of the activated carbon production facility in Ilomantsi. A large number of workers from different countries have worked construction and installation jobs at the site. Preventing infections has required various special arrangements and the precautionary quarantine measures have delayed construction to some extent. In addition, our main equipment supplier has had significant delays in deliveries, which have delayed the schedule of the project as a whole.

The operating loss for the final third of the financial year was EUR -1.6 million (EUR -1.0 million). Gross investments were EUR 14.4 million (EUR 5.4 million).

The operating loss for the full financial year was EUR -3.3 million (EUR -1.6 million). Gross investments were EUR 28.0 million (EUR 7.1 million).

Other activities

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

The other activities segment's effect on the operating result in September–December was EUR -10.9 million (EUR -2.3 million).

The other activities segment's effect on the operating result for the full financial year was EUR -15.0 million (EUR 0.9 million). This is significantly influenced by a non-recurring item of EUR -10.0 million that is mainly attributable to costs associated with the Nevel divestment. The figure for the comparison year includes EUR 4.9 million in revenue recognised in August 2019 related to discontinued business operations.

Cash flow, investments and financing

The Group's free cash flow before taxes for the period 1 January–31 December 2020 amounted to EUR 39.6 million (EUR 17.1 million). Free cash flow was significantly improved by measures to increase the efficiency of working capital. The change in working capital affected cash flow by EUR 44.8 million (EUR 10.3 million).

Gross investments in the financial year were EUR 76.6 million (EUR 79.8 million), or 162.3 per cent of the amount of depreciation (156%). The most significant investments during the financial year were allocated to the start-up of the Carbons business. 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 59.1 million (EUR 58.9 million).

The Group's liquidity remained good during the financial year in spite of the money market disruptions caused by the COVID-19 pandemic. All financial obligations were fulfilled in accordance with the relevant agreements. The Group redeemed EUR 20.1 million of its hybrid notes prematurely in accordance with a release issued on 26 June 2020. Interest-bearing net debt at the end of the financial year amounted to EUR 327.7 million (EUR 315.2 million). The ratio of interest-bearing net debt to operating margin (net debt/EBITDA) on 31 December 2020 was 6.1 (4.0). The operating margin was weighed down by non-recurring items totalling EUR 20 million, consisting mainly of cost provisions allocated to peat production in relation to the continued obligations pertaining to decommissioned

Other

	9-12/2020	9-12/2019	Change	1-12/2020	1-12/2019	Change	5-12/2019
Turnover (EUR million)	0.0	0.0	-31.0%	0.1	0.1	1.0%	0.1
Operating profit (EUR million)	-10.9	-2.3	-365.3%	-15.0	-12.1	-24.0%	0.9
Number of employees	87	115	2.0%	90	113	15.1%	117

Geographical information 1-12/2020

EUR	Turnover by country	Long-term assets	Investments
Finland	267,983	176,133	46,446
Sweden	84,531	178,194	5,053
The Netherlands	74,060	99,357	12,059
Germany	34,512	2,350	1,011
Estonia	11,131	31,564	12,019
Other Nordic countries	3,060		
Other European countries	36,899	587	
North and South America	8,484		
Other countries	24,254		
Group total	**544,913**	**488,185**	**76,588**

peatlands as well as advisory fees reserved for the Nevel transaction.

Short-term interest-bearing debt amounted to EUR 58.1 million (EUR 46.5 million). The equity ratio at the end of the financial year was 27.9 per cent (42.9%). Of Vapo's long-term interest-bearing debt, 17 per cent is covered by a covenant related to the company's equity ratio. Vapo met the covenants and other terms associated with financing agreements at the end of the review period, taking into account the waiver agreements concluded with financing partners, pursuant to which the Group's equity ratio can temporarily fall below 35% (but remain above 25%). The equity ratio was substantially influenced by significant non-recurring write-downs related to peat production. The Group's equity ratio subsequently returned to a level above 35% following a profit recognised on the sale of Nevel Oy's shares in January 2021. Bonds also include a change of control clause but they do not include a financial covenant.

The consolidated balance sheet total was EUR 758.5 million (EUR 829.3 million). The Group's net financing items were EUR -12.5 million (EUR -7.8 million). Net financing items were -2.3% (-2.6%) of turnover. Net gearing was 158.0% (93.4%). Net gearing was negatively affected by significant write-downs associated with peat production. Later, the sale of shares in the subsidiary Nevel Oy reduced the gearing ratio in January 2021 to a level substantially below the level reported for the financial year 2019.

Natural seasonal fluctuation in activities

The Group's Energy business is cyclical to a significant extent due to seasonal variation in the demand for heating. The temperatures during the financial year were historically warm, which led to a substantial reduction in the sales of heating and fuels. The final third of the year, from September to December, is usually a significant heating season in our operating countries.

The Grow&Care division's growing media business is also sensitive to seasonal fluctuations, with demand peaking from late spring to early summer. In September–December, sales are mostly focused on products sold to professional growers, while the retail channels play a larger role in the spring–summer season. Growing media raw material sales are more stable throughout the year.

Notable risks and uncertainty factors

Regulation

The total consumption of energy peat in Finland amounted to 15,640 TWh in 2019. The Government Programme sets out a goal of halving the use of energy peat by 2030. Based on a demand forecast collected by Vapo Oy from its customers, this halving will happen as soon as 2023. In 2025, energy peat consumption is estimated to be only 4,630 TWh, which would put peat consumption at less than 30% of the volume seen in 2019.

Vapo's energy peat sales fell below EUR 100 million for the first time in 2020. The year-on-year decline in energy peat sales was approximately 20% for the second consecutive year. The most significant reasons behind this decline include energy peat taxes being increased from EUR 3.00 to EUR 5.70 effective from the start of the year and the price of emission rights, which rose from approximately EUR 27 per tonne of carbon in autumn 2020 to as much as EUR 38 per tonne of carbon. The price of emission rights per one MWh of energy produced from energy peat now exceeds EUR 12.

Energy peat has been primarily replaced by wood. Unfortunately, the wood it has been replaced by is increasingly imported wood chips, which are transported to Finland from Russia and on ships from further away. At the current tax levels and prevailing prices of emission rights, energy peat is a substantially more expensive fuel for customers than wood chips and pulp wood. The price of energy peat is already approaching the price of large-diameter wood.

Risks related to agricultural peat

With respect to agricultural peat, there are signs of political moves in Europe towards tighter regulation. The most significant threats to the agricultural 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, t 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 in the activated carbon business

The most significant risk related to the activated carbon business concerns the successful commissioning of the first production facility in Ilomantsi before summer 2021. This involves a mechanical functional risk as well as end product quality risk.

Vapo's peat-based raw material for activated carbon, sold under the Novactor brand, also involves an approval risk related to the non-fossil requirement. However, the production facility in Ilomantsi is designed to have the capacity to use other raw materials for the production of activated carbon, if necessary.

Market risks
Vapo's businesses are subject to significant market risks related to end product demand as well as the prices and availability of raw materials.

The demand for wood-based raw materials has grown significantly in the international markets as customers seek environmentally friendly alternatives. Imports of wood-based raw materials 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 is also 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.

Weather risks
Weather is a risk that has extensive effects on Vapo's business. In winter, the temperature affects the customers' fuel requirements. 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 2020, 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, currency swaps, foreign currency loans and commodity derivatives.

Research and development

The Group's research and development investments during the financial year 1 January–31 December 2020 amounted to EUR 27.2 million (EUR 10.7 million), which corresponds to 5.0 per cent of turnover (3.5%). 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 Novactor, 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 product development programme** 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 are geared towards the Group's goal of developing its existing businesses and creating new business. The strategy also governs the management and protection of tangible and intellectual property developed by the Group. The key measures include developing the competence of the personnel, fostering a culture of innovation and taking proactive measures to protect intellectual property.

Environmental responsibility

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 annually updated 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 also provided an online course on the management of environmental matters to all of our personnel, with 408 employees (38% of the Group's personnel) completing the course in 2020.

We developed a **peat sustainability concept** particularly for use by our new businesses. This included documenting peat production methods, obligations and monitoring in Finland, Sweden and Estonia. Last year, we submitted six new certification applications to the Responsibly Produced Peat (RPP) organisation. When these applications have been approved, Vapo's RPP-certified peat sites will expand from 548 hectares to 3,319 hectares to respond to the needs of Kekkilä-BVB's customers.

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, 14 (17) environmental inspectors recruited for the summer season inspected water treatment methods and other aspects related to environmental permit conditions at all operating locations currently in production. In 2020, Centres for Economic Development, Transport and the Environment made 119 (120) inspection visits to Vapo's peat production sites in Finland.

By using continuously operating measurement devices, Vapo Group has accumulated extensive data over time and from several regions regarding water quality and the environmental load of peat production. The data has enabled accurate quantitative analyses that were used in a study conducted by the University of Tampere and Vapo in 2020 to assess the accuracy of the currently used monitoring method – manual sample-taking – in evaluating emissions. The study showed a strong correlation for manual and continuous measurement (0.96 for CODMn, i.e. humus, and 0.90 for solid matter), indicating that the currently used emission monitoring method based on manual sample-taking is a highly reliable method for determining the annual emissions of peat production. As part of the study, a method based on a learning algorithm was also developed to optimise the timing of sample-taking and make the assessment of annual emissions as accurate as possible given a certain number of measurements per year. Based on the study, the optimal measurement times are in spring and autumn when the flow rates are the highest. When the site-specific flow rate can be determined on a continuous basis, 3–6 correctly timed measurements provide a reliable estimate of the overall environmental load at most production areas. The data obtained from the study enables us to achieve significant cost savings in monitoring environmental load while maintaining a high level of accuracy and reliability.

In accordance with its environmental permit application principles, Vapo only applies for new production permits for ditched peatlands. Vapo Group's (Finland, Sweden, Estonia) environmental investments in peat production areas in 2020 amounted to EUR 0.3 million (EUR 0.8 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 14.4 million (EUR 16.1 million). The costs primarily consisted of the maintenance of water treatment structures in peat production and impact monitoring.

Vapo Group's **active peat production areas** (Finland, Sweden, Estonia) in summer 2020 totalled approximately 29,200 (40,600) hectares, with Finland accounting for 20,550 (33,500) hectares of the total, including stacking areas. A total of 374 (454) hectares of new peatlands became ready for production in Finland and 8,700 (5,289) hectares were released from production by the end of the financial year. In Sweden, 204 (76) hectares of peat production areas were released from production.

Vapo moved to the **post-production after-care stage** at just over 100 peat production areas and the closure of production areas at peatlands was one of the key projects in the Group's peat operations in 2020. The reasons behind the transition included the declining demand for energy peat and our customers shifting increasingly from fossil fuels to biofuels.

A total of 1,156 (453) hectares of areas owned by Vapo Group were transferred to other land use methods from peat production operations in Finland during the financial year. A total of 754 (356) hectares were assigned for forestation and 402 (97) hectares for building wetlands. In addition, a significant amount of land was sold, with the new owner deciding on the subsequent use. A total of 3,836 (1,145) hectares of areas released from peat production were returned to land owners. 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 sold 1,063 hectares of peatlands of significant nature value to the Finnish State for conservation purposes.

In 2020, 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 67% of all fuels used: 61% (46%) in Finland, 97% (94%) in Sweden and 18% (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. 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 19 March 2020. The AGM adopted the financial statements and consolidated financial statements for the financial year 1 May 2019–31 December 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 31 December 2019 amounting to EUR 133.00 per share, or EUR 3.99 million in total. The payment dates were 27 March 2020 for the first half of the dividend and 18 June 2020 for the second half.

The AGM confirmed the number of members of the Supervisory Board as ten. Juha Sipilä was elected as Chairman, with Heikki Miilumäki as Vice Chairman. Antti Häkkänen, Eero Kubin, Esko Kurvinen, Tommi Lunttila, Mauri Peltokangas, Jenni Pitko, Piritta Rantanen and Tiina Snicker were elected as members.

The AGM confirmed the number of members of the Board of Directors as eight. Jan Lång continues as Chairman, with Markus Tykkyläinen as Vice Chairman. Tuomas Hyyryläinen, Kirsi Puntila, Minna Smedsten and Maija Strandberg were re-elected to the Board of Directors. Stefan Damlin and Vesa Hätilä were elected to the Board of Directors as new members.

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

Number of employees

The Group employed an average of 1,018 (1,009) persons in the final third of the financial year. The average number of employees for the full financial year was 1,031 (1,050).

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.

Occupational safety

Vapo Group's safety team manages and develops our "safety first!" culture to prevent safety deviations and accidents through effective risk reduction, training and the provision of support to the business functions. In 2020, Vapo Group's accident frequency (LTA1f: lost-time accidents per million working hours) increased slightly compared to the previous year and was 7.2 (6.7). The accident frequency increased mainly in the Group's fuel businesses in Finland as well as peat production. A significant improvement was achieved in the Netherlands, where the accident frequency decreased by 40% (compared to the previous year). Most of our accidents – and serious accidents in particular – took place in production operations. During the past three years, 23% of the incidents were classified as serious accidents or serious near misses (19 incidents out of 81). However, none of these came close to a fatal accident, and 55% of the total number of accidents did not lead to lost time.

To improve and harmonize our safety culture, we focused on safety training in 2020. At the Group level, 97% of all operational employees completed an internal "Safety first!" online course, and 87% of operational employees also received external safety training. We also monitor accidents involving contractors in our operations and conduct accident investigations in cooperation with them. Due to travel restrictions caused by COVID-19, the number of safety observations decreased by 15% and amounted to 3,986 (4,709).

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

Vapo Group participated in the Great Place to Work personnel survey for the second time in October 2020. This enabled us to compare our scores with the previous year's results. Our Trust Index was 68%, representing an increase of five

Employees by segment, average

	1-12/2020	5-12/2019
Energy	371	366
Grow&Care	545	547
New Businesses	26	19
Other	90	117
Total	**1,031**	**1,050**

percentage points compared to 2019. This is a significant step on our journey to becoming one of the best places to work in Europe by 2030. The response rate remained at the same high level of 79 per cent, indicating strong commitment among employees to develop Vapo's corporate culture. The statement "All things considered, I would say this is a great place to work" received a positive response from 75% (69%) of the personnel.

Changes in organisational structure

1 May 2020: the merger of Clean Waters Oy into Vapo Oy was confirmed.

20 May 2020: Nevel Eesti OÜ:n shares were transferred in exchange for share-based consideration to Salon Energiatuotanto Oy and 31 October 2020: Salon Energiatuotanto Oy's merger into Nevel Oy was confirmed.

Board of Directors' proposal for the distribution of profits

The Board of Directors proposes to the General Meeting to be convened on 30 March 2021 that Vapo Oy's result for the financial year, EUR -124,139,477.60, be recorded as a change in retained earnings, after which the distributable funds available to the General Meeting amount to EUR 15,848,259.19.

In line with its dividend policy, Vapo Oy distributes as dividends, on average, 50 per cent of the annual profit shown in the financial statements. There have been no substantial changes in the company's financial position after the end of the financial year related to the divestment of Nevel. The Board of Directors proposes to the General Meeting that no dividend will be paid as dividend for the financial year 1 January–31 December 2020.

Events after the review period

On 28 January 2021, Vapo announced it had closed the sale of its wholly-owned subsidiary Nevel Oy to Ardian. Nevel provides industry and municipalities with advanced infrastructure solutions in Finland, Sweden and Estonia. The transaction was announced on 2 November 2020 and the competition authorities in Finland and Sweden approved the transaction by 23 December 2020. On the same day, just before the sale of Nevel, Nevel acquired 100% ownership of Nevel Lämpövoima Ky, which was previously an associated company of Nevel.

The debt-free acquisition price (enterprise value) of the transaction was EUR 656 million. Vapo will recognise a tax-free sales profit of approximately EUR 490 million in the result for the first third of 2021.

In addition, as a result of the closing of the transaction, Nevel Oy's CEO was relieved of his duties in Vapo's Group Management Team.

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. The funds obtained from the sale of the heat and power company Nevel give Vapo the opportunity to continue its strong transformation from a former conglomerate and energy company into Europe's leading producer of growing media through Kekkilä-BVB and a facilitator of cleaner water and air through the Novactor activated carbon business.

In the new financial year, the Kekkilä-BVB subgroup will again invest in developing its product selection and the profitable growth of its international sales in the professional, consumer grower and landscaping businesses. The Group intends to expand its distribution network into new markets in line with its strategy while increasing its cooperation with its existing comprehensive network of customers in its home markets in Europe.

Vapo will continue to implement measures in line with its strategy to increase the competence of its personnel and achieve market-leading customer service. This includes the development of 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 energy peat as a fuel is expected to continue to decline, while the demand for bioenergy is expected to see strong growth.

Vapo will continue the commercialisation of new business operations in the Carbons business as well as the researching of further new business initiatives in Vapo Ventures. 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 before the summer. Vapo Ventures has a strong focus on cooperation with other industry participants to promote its project as effectively as possible in collaboration with interested partners.

During the previous financial year, Vapo also started the development of its own wind power projects. Further progress will be made in 2021 on the first projects.

Consolidated key figures

MEUR	9-12/2020	9-12/2019	1-12/2020	5-12/2019	5/2018-4/2019
Turnover	162.1	163.6	544.9	297.7	460.8
Operating profit (EBIT)	-121.4	-35.1	-95.3	-40.4	33.3
% of turnover	-74.9	-21.5	-17.5	-13.6	7.2
Operating profit (EBIT) before impairment	-18.6	3.8	7.4	-1.5	33.5
% of turnover	-11.5	2.3	1.4	-0.5	7.3
Profit/loss for the period	-121.5	-32.2	-108.1	-40.2	25.2
Operating margin (EBITDA)	-4.5	18.6	53.8	37.0	74.1
+/- Change in working capital	21.2	10.3	44.8	10.3	-45.7
- Net investments	-26.3	-18.6	-59.1	-26.3	-50.7
Free cash flow before taxes	-9.7	10.4	39.6	21.0	-22.3
Gross investments	-33.2	-31.5	-76.6	-42.8	-62.7
Return on invested capital % *			-14.0	-1.7	5.4
Return on invested capital % before impairment *			1.1	4.1	5.4
Return on equity % *			-34.9	-5.2	7.0
Balance sheet total			758.5	829.3	805.8
Shareholders' equity			207.4	343.5	404.0
Interest-bearing net debt			327.7	315.2	265.6
Equity ratio %**			27.9	42.9	51.3
Interest-bearing net debt/operating margin			6.1	4.0	3.4
Gearing %			158.0	93.4	65.8
Average number of employees			1,031	1,050	869

*Previous 12 months
**In calculating the equity ratio, the capital loan on the balance sheet was calculated as shareholders' equity

Key figures for parent company Vapo Oy

MEUR	1-12/2020	5-12/2019	5/2018-4/2019
Turnover	175.3	114.7	246.3
Operating profit (EBIT)	-120.0	-34.3	15.9
% of turnover	-68.4%	-29.9%	6.5%
Operating profit (EBIT) before impairment	-20.3	-9.1	23.6
% of turnover	-11.6%	-7.9%	9.6%
Profit/loss for the period	-124.1	-39.2	27.7
Operating margin (EBITDA)	-5.2	9.5	49.6
Return on invested capital % *	-22.7%	-5.9%	1.5%
Return on invested capital % before impairment *	-3.8%	-1.6%	1.4%
Return on equity % *	-64.8%	-14.4%	12.6%
Balance sheet total	556.6	653.8	662.7
Shareholders' equity	98.8	226.9	278.4
Equity ratio %	18.3%	35.5%	42.5%

*Previous 12 months

Vapo Oy's share capital and shareholders

Vapo Oy has one class of shares. The total number of shares is 30,000. Each share carries one vote at the General Meeting, and all shares carry the same dividends. If a Vapo share is transferred to an external party other than one that is in a Group relationship with the shareholder pursuant to Chapter 8, Section 12 of the Finnish Limited Liability Companies Act, the company's shareholder shall have the right to redeem the share in question. If more than one shareholder wishes to exercise this redemption right, the shares are divided between the parties wishing to redeem them in proportion to their existing shareholdings. At the end of the financial year, on 31 December 2020, Vapo Oy's share capital amounted to EUR 50,456,377.94.

Vapo Oy is a joint venture of the Finnish State and Suomen Energiavarat Oy. The Finnish State holds 50.1% of the shares (15,030 shares) directly and Suomen Energiavarat Oy holds 49.9% of the shares (14,970 shares).

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

Vantaa, 4 March 2021 Board of Directors
of Vapo Oy

Jan Lång
Chair

Markus Tykkyläinen
Vice Chair

Stefan Damlin

Vesa Hätilä

Tuomas Hyyryläinen

Kirsi Puntila

Minna Smedsten

Maija Strandberg

Vesa Tempakka
CEO

Auditor's note
A report on the audit has been issued today.
Helsinki, 4 March 2021
KPMG Oy Ab

Ari Eskelinen
APA

Consolidated Financial Statements, IFRS

Consolidated statement of comprehensive income

EUR 1,000	Note	1-12/2020	5-12/2019
TURNOVER	2	**544,913**	**297,748**
Change in stock levels of finished and unfinished products		1,336	35,843
Production for own use		202	74
Other operating income	4	10,126	12,680
Share of results of companies consolidated using the equity method		800	-5
Materials and services	5	-268,849	-182,102
Expenses arising from staff benefits	6	-72,091	-44,740
Depreciation	7	-47,179	-38,528
Impairment	7	-102,798	-36,904
Impairment of goodwill	7	0	-1,995
Other operating expenses	8	-161,810	-82,509
OPERATING PROFIT/LOSS		**-95,348**	**-40,440**
Financial income	9	5,497	347
Financial expenses	9	-17,979	-8,107
PROFIT/LOSS BEFORE TAXES		**-107,830**	**-48,200**
Income taxes	10	-261	8,041
PROFIT/LOSS FOR THE PERIOD		**-108,091**	**-40,159**

EUR 1,000	Note	1-12/2020	5-12/2019
OTHER COMPREHENSIVE INCOME ITEMS			
(items that may not be reclassified subsequently to profit or loss):			
Remeasurement of defined benefit plans		389	332
Items that may be reclassified subsequently to profit or loss:			
Translation differences from foreign units		882	299
Other comprehensive income items, after taxes		1,271	630
TOTAL COMPREHENSIVE INCOME		**-106,820**	**-39,529**
PROFIT/LOSS FOR THE PERIOD			
Distribution of profit for the period:			
To parent company shareholders		-111,358	-39,600
To non-controlling shareholders		3,266	-559
		-108,091	-40,159
Distribution of comprehensive income for the period:			
To parent company shareholders		-110,180	-38,994
To non-controlling shareholders		3,360	-534
		-106,820	-39,529
Earnings per share calculated from profits due to parent company shareholders			
Earnings/share, EUR		-3,712	-1,320
Average number of shares		30,000	30,000

Consolidated balance sheet

EUR 1,000	Note	31 Dec. 2020	31 Dec. 2019
ASSETS			
Long-term assets			
Intangible assets	11	32,409	35,746
Goodwill	11	24,306	25,118
Land and water areas	12	38,624	46,129
Buildings and structures	12	40,650	65,584
Machinery and equipment	12	46,096	129,561
Other tangible assets	12	65,588	188,616
Prepayments and unfinished acquisitions	12	44,132	24,743
Shares in entities consolidated using the equity method	13	0	21,637
Other long-term financial assets	14	585	726
Long-term sales and other receivables	15	3,235	3,321
Deferred tax asset	17	1,400	534
Long-term assets total		**297,025**	**541,715**
Current assets			
Inventories	18	187,905	190,291
Sales and other receivables	19	66,885	86,902
Income tax receivables		2,173	4,089
Cash and cash equivalents	20	13,366	6,326
Current assets total		**270,329**	**287,608**
Available-for-sale assets	3	**191,161**	**0**
ASSETS TOTAL		**758,515**	**829,323**

EUR 1,000	Note	31 Dec. 2020	31 Dec. 2019
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		50,456	50,456
Fair value fund and other funds		30,454	30,657
Translation differences		-3,433	-4,215
Retained earnings		58,140	175,965
Hybrid bond	27	29,880	50,000
Parent company shareholders' share of shareholders' equity		**165,497**	**302,863**
Non-controlling shareholders		**41,879**	**40,640**
Shareholders' equity total	21	**207,376**	**343,503**
Long-term liabilities			
Deferred tax liability	17	10,769	16,639
Long-term interest-bearing liabilities	22	257,810	278,429
Long-term non-interest-bearing liabilities	23	1,938	8,155
Long-term provisions	24	11,099	7,654
Pension liabilities	25	4,885	5,004
Long-term liabilities total		**286,501**	**315,881**
Current liabilities			
Current interest-bearing liabilities	22	58,098	46,453
Current non-interest-bearing liabilities	26	147,578	121,655
Current provisions		2,669	1,831
Current liabilities total		**208,345**	**169,939**
Liabilities related to assets held for sale	3	**56,292**	**0**
SHAREHOLDERS' EQUITY AND LIABILITIES		**758,515**	**829,323**

The following restatements have been made to the comparison year's figures concerning Kekkilä-BVB's purchase price calculation and a depreciation difference adjustment related to the Nevel Oy business transfer: Goodwill -629, tax assets -185, reserves 1,733, retained earnings -1,103, deferred tax liabilities -6,150.

Consolidated cash flow statement

EUR 1,000	1-12/2020	5-12/2019
Cash flow from operating activities		
Profit/loss for the period	-108,091	-40,159
Adjustments to the result for the period		
Depreciation and impairment	149,976	77,428
Share of results of entities consolidated using the equity method	-800	5
Financial income and expenses	12,621	11,758
Income taxes	261	-8,041
Other adjustments	-6,367	-15,696
Adjustments to the profit/loss for the period total	**155,691**	**65,454**
Change in working capital		
Increase/decrease in inventories	-1,284	-39,945
Increase/decrease in sales receivables and other receivables	-1,718	22,997
Increase/decrease in accounts payable and other debts	40,408	20,717
Change in provisions	3,221	245
Change in working capital total	**40,627**	**4,014**
Interest paid	-8,951	-3,837
Interest received	300	54
Other financial items	-4,652	-758
Taxes paid	240	-2,980
Cash flow from operating activities	**75,164**	**21,788**

EUR 1,000	1-12/2020	5-12/2019
Cash flow from investing activities		
Investments in tangible and intangible assets	-68,192	-48,879
Proceeds from disposal of tangible and intangible assets	23,428	16,423
Acquisition of subsidiaries, net of cash	-184	3
Associates' shares bought		-1,741
Other investments	711	
Associates' shares sold		1,742
Increase/decrease in short-term investments	25	
Repayments of loans receivable		79
Dividends received	1	1
Cash flow from investing activities	**-44,212**	**-32,372**
Cash flow from financing activities		
Share issue against consideration		5
Increase (+)/decrease (-) in short-term loans	35,176	-51,467
Proceeds from long-term loans	14,753	100,000
Repayment of long-term loans	-24,233	-10,890
Repayments of lease liabilities	-14,790	-13,018
Dividends paid	-3,990	-12,430
Dividends paid/hybrid loan	-2,785	-3,250
Repayments of hybrid bond	-20,120	
Cash flow from financing activities	**-15,990**	**8,950**

EUR 1,000	1-12/2020	5-12/2019
Change in cash and cash equivalents	**14,962**	**-1,634**
Cash and cash equivalents opening balance	6,326	7,962
Change in cash and cash equivalents	14,962	-1,634
Effect of changes in exchange rates	0	-2
Cash and cash equivalents at end of period	21,289	6,326
Cash and cash equivalents related to mergers, acquisitions and divestments/assets held for sale	7,922	

Group key figures 2017–2020

EUR million	04/2017	04/2018	04/2019	5-12/2019	12/2020
Turnover	392.1	419.8	460.8	297.7	544.9
Growth %	-5.0	7.1	9.8	32.4	2.1
Operating margin (EBITDA)	56.9	61.1	74.1	37.0	53.8
% of turnover	14.5	14.5	16.1	12.4	9.9
Depreciation	-35.6	-35.7	-41.5	-38.5	-47.2
Impairment	-2.4	-0.9	-0.2	-38.9	-102.8
Operating profit (EBIT)	20.0	26.3	33.3	-40.4	-95.3
% of turnover	5.1	6.3	7.2	-13.6	-17.5
Operating profit before impairment	22.4	27.2	33.5	-1.5	7.4
% of turnover	5.7	6.5	7.3	-0.5	1.4
Net financial items	-9.8	-6.0	-2.8	-7.8	-12.5
Profit/loss before taxes	10.2	20.3	30.5	-48.2	-107.8
Taxes	-2.0	-2.7	-5.3	8.0	-0.3
Profit/loss for the period	8.1	17.6	25.2	-40.2	-108.1
Return on invested capital %	3.0	4.3	5.4	-1.7	-14.0
Return on invested capital before impairment %	3.4	4.4	5.4	4.1	1.1
Restricted capital on average	656.9	613.2	620.8	676.4	680.9
Turnover of restricted capital (turnover/restricted capital on average)	0.6	0.7	0.7	0.8	0.8
Average working capital	138.1	112.6	122.8	144.8	125.5
Average working capital % of turnover	35.2	26.8	26.7	48.6	23.0
Restricted capital at the end of the year	633.9	578.9	691.8	677.9	704.4
Working capital at the end of the year	125.6	88.0	133.7	141.4	96.5

EUR million	04/2017	04/2018	04/2019	5-12/2019	12/2020
Gross investments	39.6	31.3	62.7	42.8	76.6
% of turnover	10.1	7.5	13.6	14.4	14.1
Gross investments/depreciation	1.1	0.9	1.5	1.1	1.6
Operating margin	56.9	61.1	74.1	37.0	53.8
+/- Change in working capital	14.7	37.6	-45.7	10.3	44.8
- Net investments	1.6	-25.0	-50.7	-26.3	-59.1
Free cash flow before taxes	73.2	73.6	-22.3	21.0	39.6
Balance sheet total	812.4	697.5	805.8	828.5	758.5
Shareholders' equity	339.7	347.9	404.0	348.5	207.4
Shareholders' equity (average)	313.0	341.8	360.8	374.9	309.7
Interest-bearing debt	368.5	242.6	277.0	324.9	344.4
Interest-bearing net debt	269.6	206.2	265.6	315.2	327.7
Equity ratio %	43.0	51.2	51.3	42.9	27.9
Gearing %	79.4	59.3	65.8	90.4	158.0
Interest-bearing net debt/operating margin	4.7	3.4	3.6	4.0	6.1
Liquidity	4.4	2.8	2.8	2.3	1.8
Return on equity %	2.6	5.2	7.0	-5.1	-34.9
Dividend distribution	4.0	7.3	12.3	12.3	4.0
Dividend % of profit *	49.3	41.1	48.7	-30.6	-3.7
Average number of employees	773	758	869	1 050	1 031
Key figures per share					
Number of shares	30,000	30,000	30,000	30,000	30,000
Earnings/share, EUR *	271	586	840	-1,320	-3,712
Shareholders' equity/share, EUR	11,311	11,583	12,208	10,261	5,517
Dividend/share, EUR	133	242	408	410	133

* = profit attributable to owners of the parent company

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 %	$\frac{\text{Profit before taxes rolling 12 months – income tax}}{\text{(Shareholders' equity + minority interest) on average *}}$ X 100
Liquidity	$\frac{\text{Short-term on-interest bearing receivables}}{\text{Short-term non-interest-bearing liabilities}}$
Equity ratio %	$\frac{\text{Shareholders' equity + minority interest + capital loan X 100}}{\text{Balance sheet total – advances received}}$ X 100
Interest-bearing net debt	Interest-bearing debt - Interest-bearing loans receivable – Cash and cash equivalents
Gearing %	$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity + minority interest}}$ X 100
Free cash flow before taxes	EBITDA +/- Change in working capital – net investments
Earnings/share	Profit attributable to owners of the parent company/Number of shares
Shareholders' equity/share	Parent company's shareholders' equity/Number of shares
Dividend/share	Distribution of dividend for the financial period/Number of shares
Dividend/profit %	100 * dividend/share / earnings/share

* the calculations are based on averages on 31 December 2020, 31 August 2020, 30 April 2020 and 31 December 2019

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