

VAPO GROUP CORPORATE RESPONSIBILITY REPORT 2017 IN BRIEF

A reputation of responsibility must be earned



VAPO IN BRIEF

Vapo Group reorganised its operations effective from 1 May 2018. As before, the Group's parent company is Vapo Oy, but the Group's operations are now managed under a divisional structure instead of country-specific companies. The structural reforms did not affect the company's legal structure.



We are a conglomerate that operates in Finland, Sweden and Estonia. We focus on growing and recycling, the production of solid fuels, heat, power and steam as well as the provision of various energy solutions. We also develop new products from peat and other natural materials.

Our business is divided into three divisions: Energy, Grow&Care and New Businesses. Shared services used by all three business divisions, such as peat production in various countries, logistics services and procurement, are provided by a separate Supply Chain Management function. In addition, the Group's parent company is responsible for producing Group services, such as finance, ICT, communication, HR and legal services, for the Group's various parts. We employ approximately 700 people in Finland, Sweden and Estonia.

'We have a long tradition in Finland, Sweden and Estonia in both the energy sector and the production of agricultural peat.'

HIGHLIGHTS IN 2017

The measures we are taking now will have an impact far into the future. Our investments in young people, energy efficiency and environmentally sustainable operations will define our future.

A record number of seasonal workers in summer 2017

Vapo Oy had some 390 permanent employees in Finland and as many as 100 young seasonal workers.

Ranked 68th in the Universum Most Attractive Employer survey

In 2016, Vapo's first year of participation in the survey, the company ranked 85th. The goal is to achieve a top 50 ranking.

All of Vapo Oy's 17 district heating networks

were brought under hourly monitoring in summer 2017, enabling optimal and fuel-efficient production control.

A new boiler plant fuelled by bioenergy was commissioned at Valio's Jyväskylä dairy on 1 September 2017.

Vapo's steam boiler plant made it possible for Valio to discontinue the use of oil almost entirely in heating production at the Jyväskylä dairy and reduced CO2 emissions by nearly a third.

Kekkilä developed a growing media product that is fully biodegradable, including the packaging it comes in.

Natural Control, a growing media for growing cucumbers, tomatoes and strawberries in greenhouses, combines the best attributes of moss and peat.

Approximately 1,200 hectares in mires with significant nature value

were sold to the state of Finland for conservation purposes in Northern Ostrobothnia and Southern Finland. Since 2012, Vapo has sold more than 3,700 hectares of land for conservation purposes in various regions of Finland.

The frequency of accidents leading to absence from work declined: 8 → 2.3

The target of zero accidents leading to absence from work was achieved by Kekkilä Group and AS Tootsi Turvas.

The landfill disposal of ash

from Vapo's heat and power plants was reduced in Finland: 26% → 14% and the reutilisation rate of ash increased: 27% → 46%

Kekkilä Group began cooperating with Natural Step

on issues such as assessing the life cycle impacts of peat.

The areas in which our performance fell short of our plans in 2017

1. We did not reach our peat production target

Due to the unfavourable weather conditions of summer 2017, our peat production volume was only slightly over 60 per cent of the target. This had a negative effect of approximately EUR 9 million on our result.

2. Cooperation between organisations

According to our personnel survey, the most significant challenges are related to cooperation between organisations. The themes with the lowest scores in the survey included the achievement of common goals (7.38), a culture of working together (7.66) and employees feeling that they are perceived as an important resource for the company (7.71).

3. The number of workplace accidents

The Group's target was to have no workplace accidents leading to absence from work. A total of 19 workplace accidents were reported in 2017, with three of them resulting in sickness-related absence.

CEO'S STATEMENT

The world is changing and we must change with it. The past year has been marked by a renewal of our strategy and structure. However, one thing has not changed — and will not change. Operating responsibly is a key aspect of Vapo's strategy both now and in the future.

Vapo Group operates in three countries: Finland, Sweden and Estonia. In all three countries, we engage in the energy business as well as industrial activities related to various gardening products for professional and home gardeners. As our products and services play a role in the daily lives of millions of people, responsibility is the foundation of our strategy. We produce local fuels — namely peat, energy chips and pellets — for our customers and the customers of our customers as well as heat, electricity and steam produced from these fuels. In the cultivation-related business, product safety is an absolute requirement — especially in food production. The responsibility requirements are high in both home gardening and professional growing. Consumers only want to buy responsibly produced and clean food products.

The megatrends of urbanisation, population growth and shortages of clean fresh water support our operations as a producer of growing media, among other things. Horticultural peat makes plants thrive, enabling the production of clean food with minimal irrigation and without the use of pesticides. After their use in cultivation, growing media produced from natural materials can be used for soil conditioning instead of becoming problem waste.

Vapo's business strategy is built on local raw materials and their responsible processing. In peat production, legal compliance is the absolute minimum requirement in all of our operations. We have also made several voluntary environmental commitments and we exceed the legal requirements concerning

the frequency and quality of environmental monitoring. Furthermore, we aim to quickly move cutaway peatlands on to subsequent land uses after production has ceased.

In the energy business, our focus in recent years has been on leveraging the digital transformation to increase the degree of automation in our production plants. Through smarter production plants, we have been able to significantly increase the energy efficiency of our plants, which reduces fuel consumption and lowers carbon dioxide emissions. The remote operations centre for boiler plants, built in Vantaa's Tikkurila district, and the fully automated large district heating batteries that automatically optimise district heating production are good examples of how the digital transformation is changing the energy sector.

New innovations to the rescue

Unfortunately, the Earth is becoming polluted at an increasing rate. Over the recent years, we have worked in our laboratory to develop peat-based products that could help solve this growing problem. The project that is currently the most advanced involves a new method for producing activated carbon from peat for purposes such as water and air purification. We have already produced high-quality activated carbon under laboratory conditions and are now seriously considering the start of industrial production.

During the past few years, we have invested tens of millions of euros in minimising the environmental impacts of peat production as well as employee health care, training



and occupational safety. The materiality analysis we conducted among our stakeholders showed that the measures we have taken have not gone unnoticed. Based on the analysis, environmental issues are currently not perceived as being acute problems to the extent they were in the early 2010s. Stakeholders are now increasingly interested in information related to social and economic responsibility. One area that was highlighted is the need to assess the life cycle impacts of products.

Responsibility programme based on a materiality analysis

Based on our materiality analysis, we have drafted a responsibility programme for

Vapo Group for the next four-year period. The areas highlighted for special monitoring and development in the programme include the calculation of product life cycle impacts, the occupational safety and health of subcontractors, the thorough auditing of subcontractors and suppliers with respect to environmental impacts and social responsibility criteria as well as emphasising business ethics and anti-corruption in all areas.

This is the first time we are publishing our corporate responsibility report for Vapo Group as a whole. The scope of our previous reports was limited to the Group's operations in Finland. The world is changing and we want to change with it in order to respond to our customers' needs in all of our markets.

The shift from a structure built around country-specific companies to an international operating model requires changes in many areas, including the collection of data.

In our reporting, the organisational restructuring means that this is something of a "Year 0" and we do not yet have data on all of our reporting themes that has been collected in a consistent manner. Our goal is that, by the next report, we will be able to offer substantially more comprehensive Group-level reporting to our customers and stakeholders.

Vesa Tempakka
CEO

RESPONSIBILITY PROGRAMME

“Sustainable growth and well-being from nature”, the first responsibility programme that covers the entire Vapo Group, is based on a materiality analysis on responsibility carried out in autumn 2017.



We take care of nature

- Life cycle impact of products and solutions
- Emissions into waterways from peat production
- Energy efficiency
- Airborne emissions
- Biodiversity



We develop continuously

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



We guarantee quality and safety

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



We create well-being

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

Responsible operating principles, transparent and active communications

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

The materiality analysis was based on an online survey and interviews. The Management Team also validated and assessed the material themes.

OPEN COMMUNICATION AND STAKEHOLDER COOPERATION

Key stakeholders	Contact channels	Stakeholder expectations	Examples of responding to expectations during the 2017 reporting period
Personnel	Skype meetings, daily communication, Yammer, Intra, work-spaces, website, personnel satisfaction survey, development discussions, seminars, internal training, online training	Participation in shared affairs, the flow of information, deciding on shared issues, planning the future, occupational health and safety, sharing knowledge and expertise	Personnel magazine, Vapo Studio, Skype meetings, safety observation tools such as Nappi and Obs MMP training programme, online training
Customers	Meetings, phone calls, e-mail, customer magazine, events, customer satisfaction survey, website, digital service channels, customer seminar	High-quality, competitive and responsibly produced fuels, energy and services. Key factors from the customers' perspective include delivery reliability and the security of supply as well as the quality and reliability of products and services	Annual customer satisfaction survey, customers addressed in the Annual Report and the Corporate Responsibility Report, mobile portal for district heating customers, online store for consumer customers
Owners	General Meeting, Board of Directors' meetings, Supervisory Board meetings, the annual owner seminar, regular meetings between the CEO, CFO and representatives of the owners, website, Annual Report, Corporate Responsibility Report	Stable dividend payout capacity, increase in shareholder value, ensuring responsibility in operations. Key aspects include the importance of legal and ethical compliance.	The annual owner seminar, reporting on responsibility commitments in the Board of Directors' meetings, the responsibility programme
Public authorities	Annual meetings, supervision inspections, cooperation groups on the management of waterways, one-on-one meetings	Compliance with environmental permits and legislation, open and truthful communication	Annual reporting of the information stipulated by environmental permit decisions. Cooperation with the authorities; for example, in the form of various notifications, inspections and annual meetings. Active participation in cooperation groups on the management of waterways, among other things.
Peatland lessors and land owners	Customer and stakeholder magazine Polte (published quarterly), Annual Report, customer letters as necessary, direct communication based on the contact details indicated in the register of leases, website	Obtain information on the company's strategy and operating policies, ensuring responsibility in operations and future yield expectations	Providing information via the website and distributing the customer magazine Polte
Scientists, researchers, research institutes	Publications, meetings, joint projects, website	Mutually beneficial cooperation, establishing new research projects and taking advantage of them in business and within the scientific community	The Innoturve ("Innopeat") project between Vapo Fibers and the University of Oulu. Oulu University of Applied Sciences (OAMK)/PaiBiRa project: bio-based raw materials to serve the changing needs of the construction industry. Innovative bioproducts programme
Schools and students	Organising student visits, Me & MyCity cooperation, Energy in Finland school project, partner classes, website	Obtaining information on peat production and the company's other operations	Some 1,500 students and teachers visited peat production areas across Finland during the reporting period and Vapo's personnel also visited schools
Non-governmental organisations	Annual stakeholder seminar, open house events at peat production sites, website	Distributing up-to-date information on the company's environmental responsibility strategy and engaging in open dialogue with NGOs. The key aspect is legal and ethical compliance.	Stakeholder seminar in April 2017, open house events at peat production areas as well as heat and power plants
HR partners and external stakeholders	Agreed-upon forums and meetings, website	Understanding Vapo's business and knowing Vapo's objectives, cooperation models	Regular meetings with HR partners, such as the occupational health service provider

Key stakeholders	Contact channels	Stakeholder expectations	Examples of responding to expectations during the 2017 reporting period
Suppliers, service providers, contractors	Bioenergy industry events and seminars, training and feedback events for entrepreneurs, cooperative development projects with suppliers	Developing a competitive and profitable operating environment in bioenergy supply chains, creating business and investment opportunities for entrepreneurs, cooperation relationships that are mutually beneficial, flexible and responsive	Entrepreneur training events and production feedback events in the autumn and spring. Regional supplier-entrepreneur days in Finland: five entrepreneur events, 10 tractor operating permit training events, two customer service training events related to enhanced pellet services
Political decision-makers	Regular one-on-one meetings with Members of Parliament, their assistants and parliamentary groups and maintaining contact with the background influencers and officers of political parties; meetings and production site visits organised for municipal decision-makers; the annual seminar whose invitees include Members of Parliament and their assistants; stakeholder magazine; website	Access to up-to-date information on Vapo's business strategy and the progress of environmental responsibility projects	Stakeholder seminar in April 2017, met with Members of Parliament, representatives of youth organisations, assistants and party officers. Visits with municipal decision-makers were also organised.
Citizens, media, labour market organisations	Cooperation days and meetings, joint projects, website	Exchanging information, establishing rules and trust, legal and regulatory compliance, open and truthful communication	Open house events, open stakeholder communication, Kurajuhlat 2017 "mud party" at the Aitoneva bog in Kihniö. Organised in cooperation with local businesses and associations, the one-day event attracted about 1,500 visitors.

Dialogue, feedback and good cooperation are the key methods for promoting mutual understanding between stakeholders and Vapo. Vapo Group aims to build networks with important parties as well as collect and share information that is relevant to the Group's business and customers. Feedback from stakeholders is one of the inputs considered in the development of products and services, and it also influences how the company operates. Vapo also monitors and evaluates public discussion.

The first materiality analysis to cover the entire Vapo Group was based on an online survey and interviews. The Management Team also validated and assessed the material themes. The materiality analysis had the GRI framework's reporting principles as its starting point.

In their responses, all of the stakeholders emphasised the importance of legal compliance and ethics in operations. The interviewees attributed the importance of legal and ethical compliance to the existence of contradicting views related to peat, although

the stakeholders' default assumption and belief is that Vapo complies with all applicable legislation in its operations. The responses by customers and partners highlighted the importance of delivery reliability and the security of supply as well as the quality and reliability of products and services. Employees emphasised occupational health and safety more than other stakeholders.

Compared to the previous materiality analysis, conducted in 2015 and limited in scope to Vapo's Finnish companies, the perceived importance of legal and ethical compliance increased and the importance of environmental issues decreased. The significance of social responsibility increased. Products and services as well as customer satisfaction also grew in importance in the analysis.

Vapo Oy's policies and operating principles:

- HR policy
- Quality policy
- Environmental policy
- Occupational safety policy
- Risk management policy

- Data security policy
- Innovation and IPR policy
- Procurement policy
- Financial policies and operating principles
- Internal control, operating principle
- Code of Conduct

Code of Conduct

Vapo's strict and comprehensive Code of Conduct covers the entire Group and is applicable as an appendix to contracts even with the most demanding customers. The requirements concerning the responsibility of operations apply not only to Vapo Group's own personnel, but also the entire supply chain, from subcontractors to customer deliveries. In Kekkilä Group, the Code of Conduct also governs the operations of distributors and retailers.

Vapo's Code of Conduct covers the requirements applicable to the company itself and its subcontractors in the following contexts:

- Human rights
- Basic workers' rights
- Wages and working hours

- Occupational health and safety
- Environmental impacts
- Responsible business operations
- Management system

Highlights in 2017

Of the Group's personnel, 711 had completed the Code of Conduct online course and final examination by the end of 2017. In addition to personnel, Vapo also provides training to its subcontractors on the requirements stipulated by the Code of Conduct in entrepreneur training and by means of an online training programme.

Four anonymous reports were received via the whistleblowing channel in 2017, and corrective action was taken in response to these reports.

There were no incidents of misconduct or breaches of the Code of Conduct in 2017.

RESPONSIBLE OPERATING PRINCIPLES WE DO NOT COMPROMISE ON

Compliance with laws and regulations

- No infringements of environmental legislation or the conditions of environmental permits
- No infringements of laws and regulations related to financial and social matters

Ensuring truthful marketing communications

- No infringements of laws and regulations related to marketing communications

Compliance with the rules of fair competition

- No infringements or legal action related to the rules of fair competition

Business ethics and anti-corruption

- No incidents of corruption

Equality and diversity

- No incidents of discrimination

TRANSPARENT AND ACTIVE COMMUNICATIONS — OBJECTIVES FOR 2018–2021

Business ethics and anti-corruption

Target

Organising training on anti-corruption activities

All Vapo Group employees regularly complete a training course on the Code of Conduct

All of Vapo's strategically significant suppliers regularly complete a training course on the Code of Conduct

Business transparency

Target

Reporting in compliance with the GRI CORE level

Joining the UN Global Compact

WE TAKE CARE OF NATURE

Vapo's management of environmental issues is guided by its environmental policy and environmental strategy 2020. Vapo is committed to continuously improving its operations and developing its environmental efforts. The Group's environmental objectives include the sustainable use of natural resources, reducing greenhouse gas emissions and waste, improving material efficiency and promoting sustainable development in cooperation with the value chain. Each of Vapo's businesses has an environmental programme in accordance with the environmental strategy. The environmental programmes specify the most significant aspects of environmental responsibility along with annual environmental targets. Key environmental issues, including the status of responsibility commitments related to peat production, are regularly reported to Vapo's Board of Directors.

Vapo's environmental policy and strategy as well as the responsibility commitments related to peat production and existing certificates are available online at www.vapo.fi/en/responsibility/the-way-we-operate.

The results of the monitoring of emissions and waterways in Vapo's peat production are available on Vapo's website at www.vapo.com/turvetuotantoavastuullisesti/tarkkailuraportit. Monitoring reports concerning the Group's peat production activities are available online.

Vapo maintains and develops its environmental expertise through training aimed at employees and entrepreneurs. New contractors used in peat production and their drivers receive introductory environmental training for peat production as part of their tractor operating permit training.

Vapo Oy's environmental objectives 2014–2017

The environmental objectives presented in this report are primarily Vapo Oy's objectives. Group-level objectives will be defined during the current financial year.

Objective	Target	Achieved 2017
Sustainable use of natural resources	<ul style="list-style-type: none"> We will monitor the load on waterways from our operations We will reduce the load on waterways from our operations We will protect biodiversity through the active use of cutaway peatlands We will manage the origin chain in accordance with PEFC and FSC certification We will use certified wood raw material in pellet production Sustainable use of natural resources 	<ul style="list-style-type: none"> In the emissions monitoring of peat production in Finland, 9,155 samples were collected and 78,484 analyses were performed. Emissions into waterways from peat production in Finland decreased from the previous year. Solid matter load (t/a) decreased by 15% and the phosphorus load (t/a) decreased by 8%. The nitrogen load (t/a), however, increased by 3%. The rainy summer contributed to the increase in the nitrogen load. In Finland, some 608 hectares of land was reforested and wetlands were built in an area totalling 199 hectares. The wood business and the pellet business are PEFC certified. The raw material used in pellet production was 88% certified. The wood raw materials used by the Fuels business were 58% certified. Kekkilä started a sustainability project that will continue in 2018. In some Kekkilä products, imported raw materials have been replaced by domestic raw materials and plastic has been replaced by biodegradable film.
Reduction of greenhouse gas emissions	<ul style="list-style-type: none"> We will transform cutaway peat production areas into carbon sinks such as forests and fields We will replace fossil fuels, oil and coal, with local fuels and energy solutions We will improve energy efficiency We will reduce energy consumption We will reduce transport emissions 	<ul style="list-style-type: none"> Some 608 hectares of land was reforested in Finland. The use of domestic fuels increased slightly compared to the previous year at Vapo Oy's energy production plants in Finland. The use of coal and fuel oil decreased from the previous year. Neova achieved its target of 1% oil consumption (MWh/MWh of energy delivered). The coefficient of efficiency for Vapo's energy production plants in Finland remained on par with the previous year. Neova's heating plants achieved their energy efficiency target of 87%. Kekkilä's production facilities have implemented changes to heating systems to reduce energy consumption by 10–15%. Vapo Group's electricity consumption in Finland increased by 18% year-on-year. The higher electricity consumption was due to the increased need for pumping caused by the rainy summer. The carbon dioxide emissions from fuel transport in Finland increased by 7% from the previous year.
Improving material efficiency	<ul style="list-style-type: none"> We will optimise material efficiency and reduce raw material losses 	<ul style="list-style-type: none"> Kekkilä used a significant amount of recycled raw materials and will continue to increase the use of recycled raw materials. Kekkilä also reduced its material losses. At pellet factories, the raw material loss rate increased to 3.5% from the previous year's level of 2.3%.
Waste	<ul style="list-style-type: none"> We will reduce the amount of landfill waste We will utilise ash generated in energy production for purposes such as forest fertilisation and soil construction. 	<ul style="list-style-type: none"> The amount of landfill waste decreased by 34% from the previous year. Stack plastic in peat production was recovered at a rate of 100%. The landfill disposal of ash from Vapo's heat and power plants in Finland was significantly reduced compared to the previous years. The reutilisation rate of ash increased by 19 percentage points from the previous year.

WE TAKE CARE OF NATURE — OBJECTIVES FOR 2018–2021



Life cycle impact of products and solutions

Objective

We will optimise material efficiency and reduce raw material losses

We will manage the origin chain in accordance with the PEFC certificate

In pellet production, our target is to use 95 per cent certified raw materials

We will utilise ash generated in energy production as fertiliser and in soil construction.

- We will increase recycling and reduce the amount of landfill waste: The proportion of ash from power and heating plants that ends up will decrease to 13 per cent by 2020
- The recovery rate of stack plastic from peat production will reach 100 per cent by 2021

Energy efficiency

Objective

We will improve energy efficiency

We will reduce energy consumption

Emissions into the air

Objective

We will replace fossil fuels — oil and coal — with local fuels and energy solutions

We will reduce transport emissions

We will transform cutaway peat production areas into carbon sinks such as forests

Emissions into waterways from peat production

Objective

We will monitor the load on waterways from our operations, exceeding the requirements stipulated by the authorities

We will reduce the load on waterways from our operations

Biodiversity

Objective

We will protect biodiversity through the active use of cutaway peatlands

We will participate in at least one voluntary watercourse restoration project annually

WE DEVELOP CONTINUOUSLY

Delivery reliability and the security of supply by making use of digitality

Vapo aims to lead the energy industry in terms of the speed of its digital transformation. Heat and power plant operating services and digital solutions related to the fuel supply chain improve customer service and offer an even higher level of delivery reliability for the customer.

The overall demand for the fuels supplied by Vapo — peat, wood and pellets — was on par with the previous year. The transition from peat to wood continued. Decisions made on energy taxes and subsidies support the increased use of wood. Combined with the low prices of coal and oil, this has a negative impact on peat's market position.

The third consecutive poor peat production summer in Finland saw peat stockpiles decline, but buffer stocks produced in the previous summers in accordance with Vapo's customer promise were sufficient to ensure peat deliveries during the 2017–2018 heating season.

As in the case of the preceding years, the year 2017 was warmer than average, which reduced the demand for district heating and pellet heating.

Customer satisfaction

Vapo's customer satisfaction related to peat and wood has been measured since 1998. In 2013, customer satisfaction began to be measured with the help of a survey that covers all customer segments, products and services.

The 2017 customer survey revealed that delivery reliability, the overall smoothness of operations and product quality are at a very high level. The customers indicated that

listening to customers and competitiveness are two areas in which Vapo has particularly improved. Vapo was also perceived as an increasingly responsible environmental operator throughout the production and supply chain. The areas highlighted for further development by the respondents included pricing, quality and the creation of added value. The NPS score awarded by the customers was 28 (2016: 19).

In 2017, customer satisfaction was surveyed in Kekkilä Group's businesses by an NPS questionnaire that also included open-ended questions.

Consumer preference towards Kekkilä Garden increased by seven percentage points compared to the previous survey, while in Sweden, the preference for Hasselfors Garden increased by 13 percentage points. The NPS scores were 42 for Kekkilä Garden, 21 for Hasselfors Garden and 65 for Kekkilä Professional. Consumers were engaged in the product development of plant stands by forming a consumer panel from the members of a Facebook group maintained by Kekkilä, which has more than 80,000 members.

AS Tootsi Turvas and Neova AB did not conduct a customer satisfaction survey in 2017. Neova has carried out a qualitative customer satisfaction survey of its district heating customers at two-year intervals the form of a telephone interview.

Innovations for sustainable development

Vapo Ventures develops and commercialises Vapo's new businesses based on the company's strengths, emerging customer needs, raw material resources, competencies and networks. Ventures is also respon-

sible for the Group's innovation and IPR (Intellectual Property Rights) management. The aim is to find solutions based on the sustainable use of natural resources to increase the refining rate and produce new products and services.

Vapo Fibers® is a new business initiative developed by the Vapo Ventures unit with the aim of introducing peat as a raw material for industrial operators. Peat fibre has been found to have special properties that can bring added value to diverse applications of fibre. Examples of the potential uses include building boards for the construction industry, mouldings for the packaging industry, composite solutions, professional growing media and oil absorption products.

Peat fibre is also an environmentally sound raw material. Unlike the manufacture of many other fibre materials, the production of peat fibre does not require fields or forests, fertilisers or crop protection products.

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

Development of competence

Vapo's HR policy highlights the importance of training and learning and encourages the personnel to pursue learning, as it is seen as the key to the renewal of the entire Group. Every member of Vapo's personnel has personal learning objectives, which creates more meaning for work. Employees are encouraged to assess the operating methods

available to them, evaluate them critically and suggest improvements.

Training activities under the "On the Path to Global Leadership" programme, introduced in 2016, continued throughout the year.

With a total of 1,674 employees participating in the various training events, many Vapo employees took part in more than five different training events. This supports the findings of the personnel survey, which indicate that the employees have a very high level of interest in their own development.

The customised training for line managers that began in the previous year continued, with two separate "On the Path to Management" training events organised.

With Finland celebrating the centenary of its independence in 2017, Vapo Oy hired a total of 100 young summer workers in summer 2017.

In Finland, Vapo has participated in the Universum Most Attractive Employer survey on three occasions.

The 2017 survey saw Vapo take 68th position on the list, and the company has now set a goal of cracking the Top 50 list of the most attractive employers in Finland. In Sweden, the goal is to achieve a ranking among the Top 100 most attractive employers.

WE DEVELOP CONTINUOUSLY – OBJECTIVES FOR 2018–2021



Delivery reliability and the security of supply by making use of digitality

Objective

Better delivery punctuality

Increasing order automation

We will be the most reliable supplier for our customers

Objective/Grow&Care

Digital delivery tracking based on chip technology, also linked to automatic customer communication and the extranet

Continuously developing the e-commerce offering to match B2B and B2C customer needs with respect to the product range, functionality and deliveries

Customer satisfaction

Objective

In 2021, the Net Promoter Scores per customer segment will be substantially higher than at present

We will be the most trusted partner in our industries (B2B and B2C)

Objective/Grow&Care

In 2020, the turnover-weighted Net Promoter Score will be 42

Innovations for sustainable development

Objective

Vapo's R&D expenses compared to the Finnish average (2.8% of GDP in 2016)

Number of new innovations per year

Development of competence

Objective

In the personnel survey, the score reflecting the employees' perception of learning new things will remain at an excellent level (at 8.7 at a minimum)

Strategic competence areas will guide personnel development programmes and recruitment

Increasing training hours per person

In the personnel survey, the score reflecting the perceived quality of managerial work will rise to an excellent level (at 8.7 at a minimum)

Vapo Group will be perceived as an attractive employer that is popular among new talent. Target rankings for Universum Most Attractive Employer surveys: Top 50 in Finland and Top 100 in Sweden.

Personal career development and target setting discussions included in the performance assessment system are held with every employee

WE GUARANTEE QUALITY AND SAFETY

Quality and cost-efficiency of products and services

Vapo Group produces cost-efficient products and services, taking into account the needs and expectations of customers, owners and society.

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

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

Vapo began the development of feedback management in 2017 and these efforts will continue in 2018. We will enhance the collection of internal observations related to quality, environmental issues and occupational safety as well as customer feedback. We will utilise feedback in the development of our operations.

Kekkilä Group revised the measurement of customer satisfaction in all of its business areas.

The development of remote operating solutions for power plants has produced significant cost savings for Vapo and Vapo's customers.

Health and safety of personnel

Vapo Group invests in the occupational safety and well-being of both employees and subcontractors. The goal is to provide a safe and healthy work environment under all circumstances. To ensure that everyone who works for Vapo Group gets to go home healthy at the end of the day, the safety of work is the starting point for all of our operations.

In 2017, Vapo Group's accident frequency (MTR), measured in terms of workplace acci-

dents requiring a visit to occupational health services, was 15 (16). AS Tootsi Turvas had its third consecutive year of zero accidents. Kekkilä Group achieved the most significant decrease in workplace accidents.

In 2017, Vapo Group's accident frequency, measured in terms of workplace accidents causing an absence of at least one day (LTA1), was 2.3 (8). The number of workplace accidents leading to lost time was substantially reduced in all Group companies. Kekkilä Group and AS Tootsi Turvas had zero accidents leading to lost time.

The recording of safety observations has been proven to reduce accidents. In 2017, Vapo Group recorded a total of 3,375 (2,041) safety observations.

Occupational health services for personnel are organised at the legally required level, at a minimum, in each operating country throughout the Group.

The development measures implemented by the company have led to a significant reduction in sickness-related absences in recent years.

An early intervention model aimed at preventing substance abuse problems and reducing workplace accident risks is in use in Vapo Group's Finnish operations.

Health and safety of contractors

For several years now, Vapo Group has invested in improving safety standards in the subcontracting chain through communication and training on the employer's most significant responsibilities related to safety.

Subcontractors also agree to adhere to Vapo's management system and ensure that their subcontractors and employees are familiarised with the relevant policies and instructions.

In 2017, some 85 per cent of all contractors participated in training that included content related to occupational safety and health.

In 2017, there were a few serious "near misses" in the subcontracting chain as well as one serious workplace accident, namely a road accident resulting in an injury to a driver of a heavy vehicle. There were no work-related fatalities during the year. The level of activity in recording safety observations in the subcontracting chain has remained low. In 2017, they represented less than 10 per cent (2%) of the total number of safety observations. In the second half of 2017, the new safety observation reporting tool Nappi/OBS was also deployed for use by subcontractors.

Assessment of suppliers according to relevant criteria concerning environmental and social aspects

Each year, Vapo purchases products and services worth approximately EUR 350 million (this figure does not include pension insurance and tax expenses).

The Group's most significant procurement-related expense items are peat, wood and logistics contracting. Vapo's network of suppliers currently includes approximately 700 contract suppliers and another 8,500 invoicing suppliers. Vapo's suppliers are largely local and their operations are based in Finland close to where their services are required. Vapo's procurement activities and their guiding principles are determined by Vapo's procurement policy.

Vapo requires its suppliers of goods and services to have certified responsible operations, transparency and certainty that the goods and services are produced and imple-

mented in an ethically sustainable manner. The supplier requirements concerning environmental and social perspectives have been incorporated into Vapo's Code of Conduct. Vapo's suppliers must be committed to compliance with Vapo's Code of Conduct and the requirements specified therein

Actual audits are made in connection with choosing suppliers based on a supplier risk assessment and the degree to which the procurement is critical. The Code of Conduct currently covers approximately 90 per cent of Vapo's procurement contracts.

Vapo Group has identified about 100 strategic suppliers. Of these, some 35 were assessed in accordance with the assessment plan in 2017. Corrective measures were identified based on the assessments. No serious deficiencies were observed and no partnerships were terminated based on the assessments.

WE GUARANTEE QUALITY AND SAFETY – OBJECTIVES FOR 2018–2021



Quality and cost-efficiency of products and services

Objective

New products launched in the market will promote sustainable development

Reducing complaints pertaining to the quality of products and services

We are a competitive alternative in relation to other comparable operators

Health and safety of contractors

Objective

Contractors are 100% committed to the safety commitment and operate accordingly

Contractor health and safety training is organised annually as part of other training organised for contractors

Occupational health and safety of personnel

Objective

100% safety by 2021

10 occupational safety observations per person by 2021

Assessment of suppliers according to relevant criteria concerning environmental and social aspects

Objective

The number of audits of strategic contractual suppliers will be increased to 40 from the current level of 35

The Code of Conduct is incorporated into all contracting agreements (100%)

WE CREATE WELL-BEING

Job satisfaction and well-being of personnel

Vapo Group aims for continuous improvement in areas related to job satisfaction and employee well-being.

Vapo Group conducted its first Group-level personnel survey at the turn of the year 2017–2018. The survey was implemented as an anonymous online questionnaire.

The Group's average score for all of the surveyed areas was 8.43. The highest scores from personnel were received in areas related to the respondents' own work (8.65), managerial work (8.54) and teamwork (8.50). The score awarded for the questions that were focused on cooperation between organisations was 8.07, highlighting this as a development area where job satisfaction should be improved further.

Ongoing and open internal communication aims to promote job satisfaction among the personnel, and employees are also encouraged to offer constructive criticism and suggestions for improvement.

To activate internal communication between various groups, dozens of Yammer groups have been created on the intranet.

In 2017, Vapo Studio was introduced as a new digital channel for internal communication. Vapo Studio is a live-streamed videoconference that covers current topics and gives the personnel the opportunity to present questions to management.

There were no significant codetermination procedures related to personnel reductions in the Group in 2017. At the end of the financial year, the number of personnel was 719, down from 745 a year earlier. Employee turnover was 4.9 per cent.

Equality and diversity

We do not condone discrimination based on race, nationality, ethnic origin, age, religion, political convictions, gender or other such factors.

In the personnel survey conducted in January 2018, the employees were asked whether they have experienced or observed any discrimination or inappropriate treatment. According to the responses, 7.6 per cent of the Group's personnel have experienced discrimination and 12.5 per cent have observed inappropriate treatment. The timing of the observations was not revealed by the survey. In order for the management to establish a clearer picture of the issue, supervisors were instructed to bring up the topic with every employee in performance reviews. The question will be phrased more precisely in the next personnel survey.

In hiring new personnel, the selection is based on the applicants' qualifications and ability to perform the job. A further goal is for gender to have no effect on pay.

Some 70 per cent of the Group's personnel are men and 30 per cent are women. The reason for the difference is that, for example, in heat and power plants as well as peat production, many jobs are physically demanding.

Three of the eight members of Vapo's Board of Directors are women. Of the 10 members of Vapo's Supervisory Board, three are women, and there is one woman among the nine members of Vapo's management team.

The company monitors the development of pay for jobs at different levels via Mercer.

Local employment effects

Vapo's local impacts as an employer, taxpayer and buyer of products and services are significant, particularly in the Group's main operating countries of Finland, Sweden and Estonia.

Vapo's total investments in Finland amounted to approximately EUR 23.4 million in 2017. The corresponding figure for the previous year was more than EUR 26.3 million. The most significant investments were the construction of Valio's heating plant in Jyväskylä and the renovation of the Vekaranjärvi heating plant.

Vapo Group's business is very local. The company aims to continue to use the services of local businesses and subcontractors where possible. The company has no current plans to reduce the size of its network of operating locations.

Economic impact

Profitable business is the foundation for economic responsibility. During the past five years, Vapo has made significant investments in improving profitability and developing new businesses to ensure the company's continued existence and the livelihood of its employees and partners far into the future.

The financial year 1 May 2017–30 April 2018 was fairly satisfactory financially. The Group's turnover grew by seven per cent after declining for several years. Profitability also improved.

Vapo Group companies pay all of their statutory taxes, based on their own business operations, to the country in which they operate. Vapo Group companies do not engage in aggressive tax planning. In

2017, Vapo Group paid EUR 39.1 million in salaries and fees, EUR 2.7 million in income taxes and EUR 6 million in interest expenses and other financial expenses. The Group purchased materials and services worth EUR 162 million.

WE CREATE WELL-BEING – OBJECTIVES FOR 2018–2021



Job satisfaction and well-being of personnel

Objective

Excellent results in the personnel survey (minimum score 8.7)

The employees' perception of being treated as a valuable resource will be at least at a good level in the personnel survey (minimum score 8.5)

Local employment effects

Objective

Contracting and transport agreements are always signed with domestic and local entrepreneurs when possible

Equality and diversity

Objective

Men and women receive the same basic pay for equally demanding jobs

We will increase the number of women among our personnel

Economic impact

Objective

Equity ratio above 40%

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

Targets from the Board meeting held on 25 June 2018

Vapo Oy

PL 22, 40101 Jyväskylä
Yrjönkatu 42, 40100 Jyväskylä

020 790 4000
www.vapo.com

Twitter: @VapoEnergia
LinkedIn: Vapo Oy

