

Vapo Oy Energia

Vapo Oy Biotech

Vapo Timber Oy

Kekkilä Oyj

Working with nature



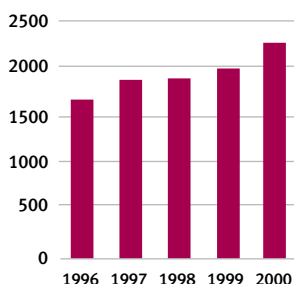
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The businesses that make up the Vapo Group supply a range of products and services that meet important human needs. Vapo's 1 300 dedicated and professional employees utilize renewable natural resources to produce peat for fuel, horticultural and environmental uses, wood-based fuels, heating, electricity, wind power, environmental services, plant fertilizers and construction materials. ■

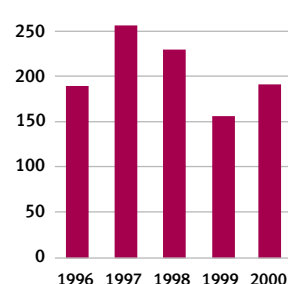
Vapo Oy
Annual Report
For the Company's 60th year of operations

Vapo Group Key Figures and Operating Locations

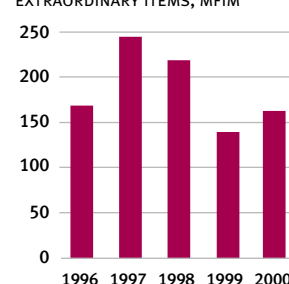
TURNOVER, MFIM



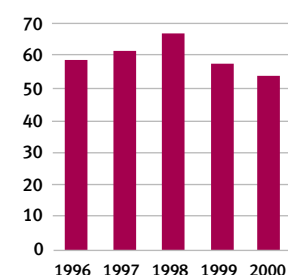
OPERATING PROFIT, MFIM



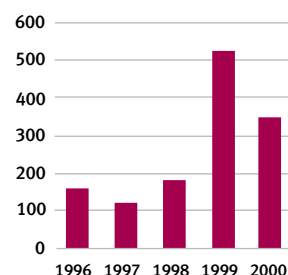
PROFIT BEFORE EXTRAORDINARY ITEMS, MFIM



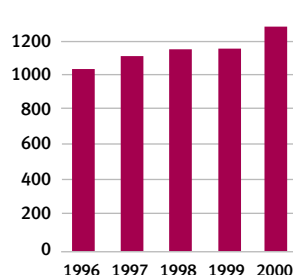
EQUITY RATIO, %



GROSS INVESTMENTS, MFIM



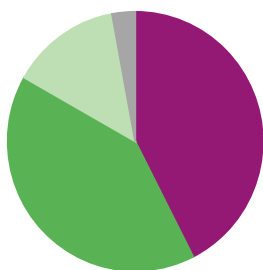
PERSONNEL



FIM MILLION	1996	1997	1998	1999	2000
TURNOVER	1 645	1 861	1 879	1 981	2 263
GROWTH %	7.2	13.1	0.9	5.4	14.3
OPERATING PROFIT	186	253	226	154	188
% OF TURNOVER	11.3	13.6	12.0	7.8	8.3
NET FINANCIAL ITEMS	-18	-9	-6	-16	-27
PROFIT BEFORE EXTRAORDINARY ITEMS	168	245	219	138	161
% OF TURNOVER	10.2	13.2	11.7	7.0	7.1
TAXES	48	76	62	43	67
PROFIT FOR FINANCIAL PERIOD	119	168	159	90	123
DIVIDENDS DISTRIBUTED	36	57	75	57	63
BALANCE SHEET TOTAL	2 107	2 239	2 215	2 591	2 868
INTEREST-BEARING LIABILITIES	487	387	299	654	795
RETURN ON CAPITAL INVESTED (ROI)%	11.9	15.6	13.7	8.4	9.0
RETURN ON EQUITY (ROE)%	10.4	13.4	11.4	6.6	7.0
CURRENT RATIO	2.02	2.37	2.73	2.3	2.3
EQUITY RATIO %	59.6	62.1	67.3	57.7	53.9
GROSS INVESTMENTS	161	120	180	523	346
% OF TURNOVER	9.8	6.5	9.5	26.4	15.3
AVERAGE PERSONNEL	1 046	1 119	1 150	1 162	1 289
PER-SHARE DATA					
NUMBER OF SHARES	30 000	30 000	30 000	30 000	30 000
EARNINGS / SHARE, FIM	4 020.09	5 612.87	5 290.21	2 989.32	3 306.40
SHAREHOLDERS' EQUITY / SHARE, FIM	38 814.46	43 199.14	46 586.35	47 063.66	49 057.00
DIVIDEND / SHARE, FIM	1 200.00	1 900.00	2 500.00	1 900.00	2 100.00
DIVIDEND AS % OF EARNINGS	29.9	33.9	47.3	63.6	63.5

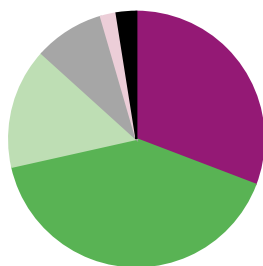
Figures adjusted to eliminate internal transactions.

TURNOVER BY BUSINESS ACTIVITY 2000, %



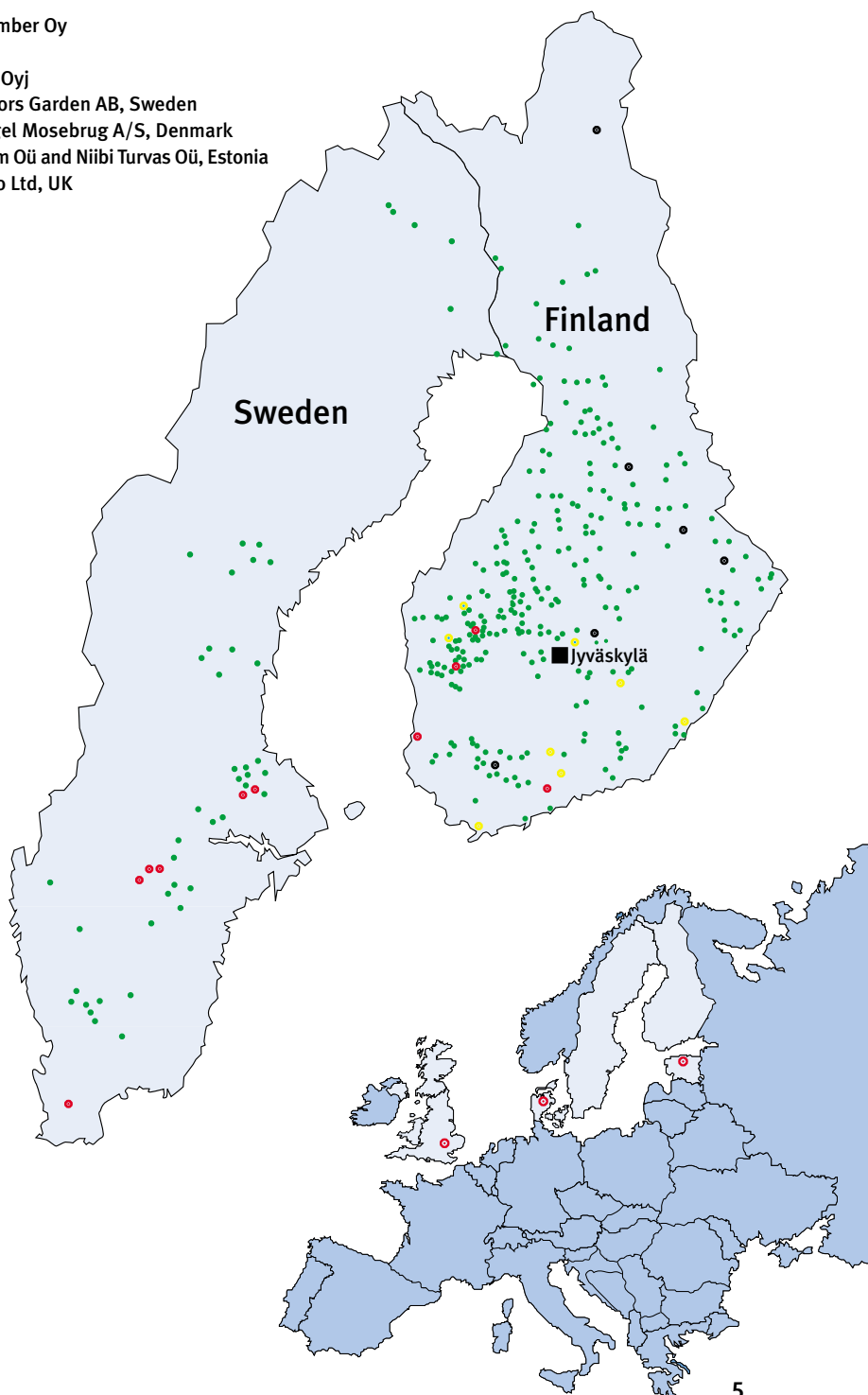
- VAPO OY ENERGIA 42.5%
- VAPO TIMBER OY 40.7%
- KEKKILÄ OYJ 13.9%
- VAPO OY BIOTECH AND OTHERS 2.9%

TURNOVER BY MAIN PRODUCTS 2000, %

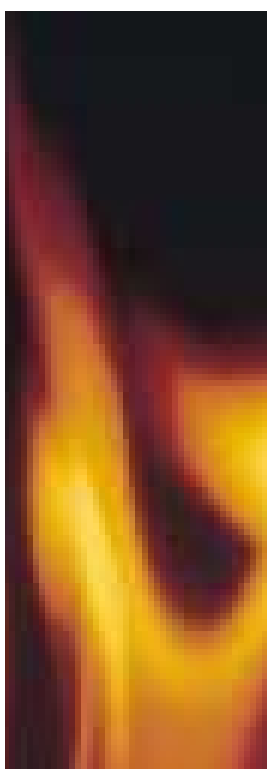


- FUEL PEAT AND OTHER BIOFUELS 30.8%
- SAWMILL PRODUCTS 40.7%
- GROWING MEDIA 15.2%
- HEATING AND ELECTRICITY 8.8%
- ENVIRONMENTAL PRODUCTS 2.0%
- OTHER PRODUCTS 2.5%

- Vapo Oy Energia, Finland
Råsjö Torv AB, Sweden
- Vapo Oy Biotech
- Vapo Timber Oy
- Kekkilä Oyj
Hasselfors Garden AB, Sweden
Stenrøgel Mosebrug A/S, Denmark
Langham Oü and Niibi Turvas Oü, Estonia
VapoGro Ltd, UK

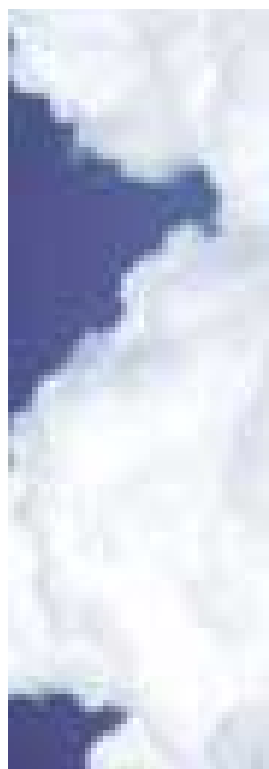


Vapo Group



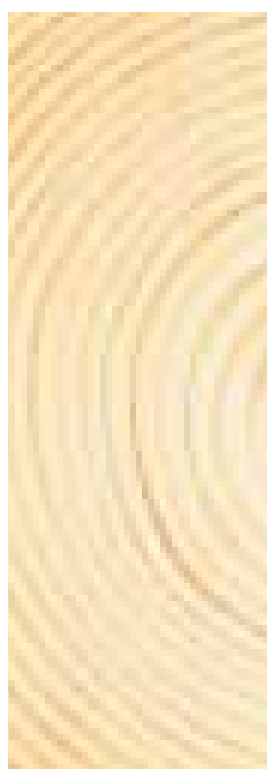
Energy
business
Vapo Oy Energia

Vapo Oy Energia is Finland's leading supplier of indigenous biofuels. In addition to producing fuel peat and wood fuels, Vapo generates heating, electricity and wind power, and it is an important supplier of peat for environmental purposes. Vapo Oy Energia is also the biggest supplier of fuel peat and a significant supplier of wood fuels in Sweden, where the Råsjö Torv group – which is owned by Vapo – is located. ■



Environmental
business
Vapo Oy Biotech

Vapo Oy Biotech's business consists of municipal waste handling, sludge treatment, and the marketing of bio-filters. Biotech is Finland's leading supplier of composting plants. Vapo Oy Biotech also includes Mustankorkea Oy, a joint venture between Vapo Oy and four municipal authorities, which is responsible for waste handling in the Jyväskylä region. ■



Timber
business
Vapo Timber Oy

Vapo Timber Oy is a major sawmill operator in Finland. Its sawmills are located in Hankasalmi, Lieksa, Nurmes, Forssa, Paltamo and Ivalo. Their combined annual production capacity is 780 000 cubic metres of sawn goods and value-added products. Of Vapo Timber's total output, 80% is exported. ■

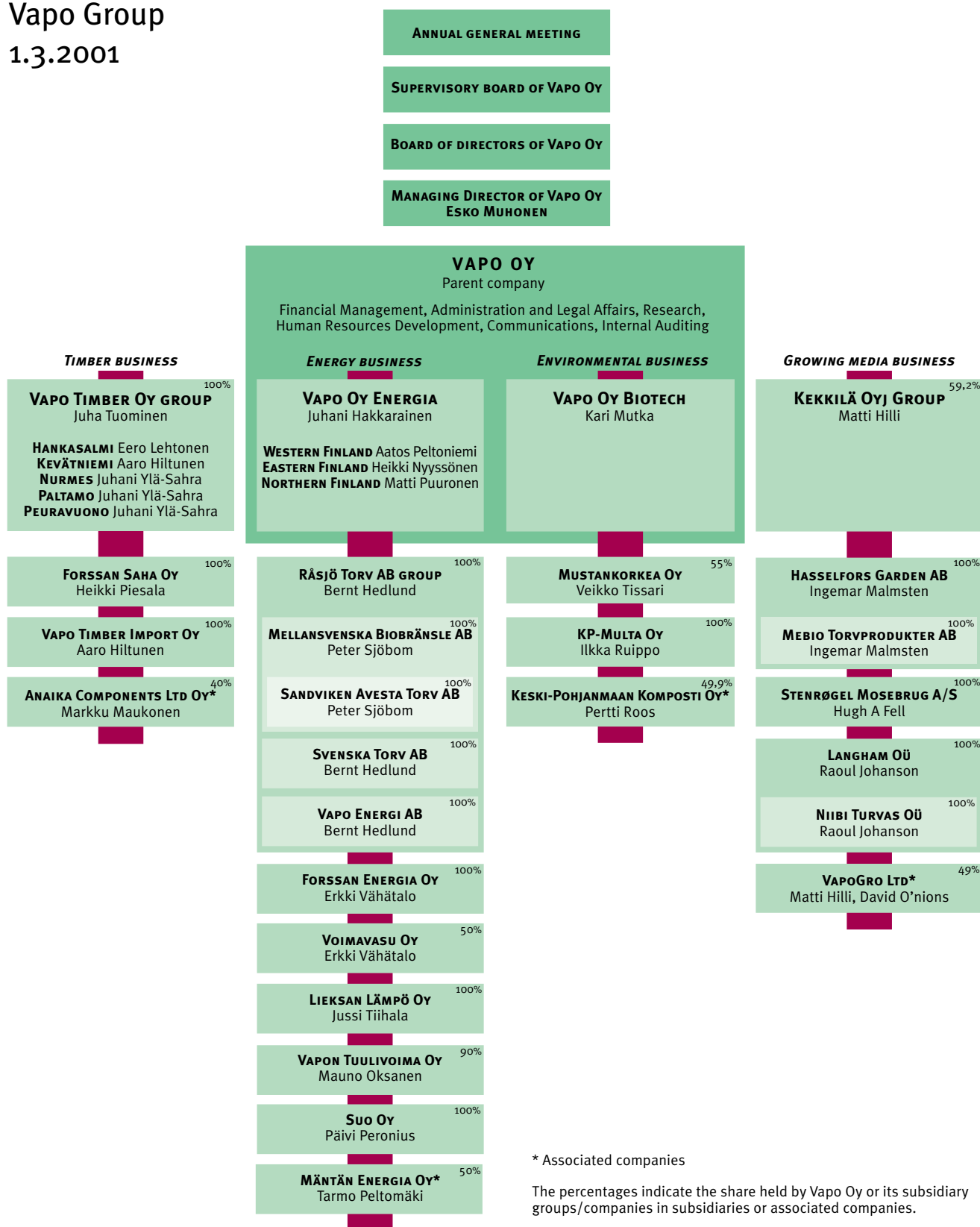


Growing media
business
Kekkilä Oyj

Kekkilä Oyj manufactures growing media and fertilizers for the Finnish and export markets. The Kekkilä group includes subsidiaries Hasselfors Garden AB in Sweden, Stenrøgel Mosebrug A/S in Denmark, Langham Oü and Niibi Turvas Oü in Estonia, as well as an associated company, Vapo-Gro Ltd, in the UK. Kekkilä's shares are quoted on the Helsinki Stock Exchange. ■

Group Organization

Vapo Group
1.3.2001



Managing Director's Survey



Vapo Group's ownership base expanding

According to the team of three scientists appointed by the Ministry of Trade and Industry, in Finland peat should be regarded as a slowly renewable biomass fuel. Many other Finnish studies have produced the same result. There are strong grounds for the inclusion of peat in the classification of renewable energy sources in Finland, in the EU, and in the calculations being performed by the Intergovernmental Panel on Climate Change, but the relevant decision-making bodies have nevertheless resorted to voting and even to drawing lots in order to determine the fundamental nature of peat. This is not good for Finland.

While debating the EU Commission's proposed directive to promote utilization of electricity generated from renewable energy sources, the European Parliament voted to include peat in the renewable energy sources within the limits of its annual growth. Finland is expected to take a similar position, as it is in the interest of Finland and Sweden – but not of the other EU countries – to promote this matter. In Finland's National Climate Strategy, which is presently under preparation, peat is classified as a slowly renewable biomass fuel. The strategy aims to get peat separated out of the category "products from mining and

quarrying", which covers fossil fuels such as coal, and put into its own category. This will make it easier to achieve the targets for increased utilization of renewable energy sources.

The combined effects of three factors – liberalization of the electricity market, significant growth in imports of electricity, and the energy taxation reform of 1997 – have further reduced utilization of peat, and the decrease in usage from 1996 is now over 30%. However, new peat-fired power plants are under construction and being planned. Users of wood fuels have stated that peat has an essential role to play in any attempt to increase wood utilization, as it has to be used alongside wood. It seems that this message has at last been believed. It is essential to utilize peat and wood jointly if energy is to be produced reliably and efficiently and emissions kept under control. Increasing utilization of recovered fuels further emphasizes the essential role played by peat. The optimum way to secure joint usage of peat and wood is to give them the same official status and taxation treatment.

In November the Ministry of Trade and Industry – in its capacity as representative of Vapo's shareholder, the Finnish State

– entered into a preliminary agreement to sell one third of the shares in Vapo Oy to Metsäliitto Osuuskunta. The Government put a proposal before Parliament to reduce the State's ownership in Vapo, while retaining a State majority holding, as Vapo's significant work to develop usage of indigenous fuel makes it an important energy company for the State. The arrival of Metsäliitto as a strategic minority shareholder in Vapo will broaden the interest group supporting our activities and provide a strong basis for the development of the Vapo Group's business activities. The proposed share sale was transferred for final consideration from the EU to the Finnish competition authorities, which have now granted their conditional approval.

Climate and market conditions did not facilitate the Vapo Group's business activities during 2000, but adequate stockpiles of peat alleviated the effect of the rainy summer. Consumption of fuel peat decreased, but we believe usage is now set to grow again. At the beginning of 2000 we expanded our operations in Sweden, and this move has proved to be well-founded. Vapo Timber Oy's profitability improved from 1999, but at the end of 2000 profitability again started to decrease as a result of the

over-supply of sawn timber, delivery problems affecting raw timber, and high prices for saw logs. Vapo Oy Biotech's order book for the current year shows that it is in a strong position, particularly as a supplier of composting plants. In the Kekkilä group, difficulties faced by professional growers, particularly abroad, reduced sales of growing media. This year the potential for all our businesses appears to be encouraging.

My time at Vapo comes to an end this spring, and I will hand over to my successor. Working with our customers and with all the professional people at Vapo has been an enjoyable and rewarding experience. I am convinced that by continuing to work together effectively, our customers, other interest groups, contractors, and all of Vapo's own people, will continue to create opportunities and generate success for the Vapo Group in the years to come. ■

Jyväskylä 9.3.2001

ESKO MUHONEN

Vapo Oy Energia



Fuel peat accounts for a smaller share of operations

In 2000, production of heating and electricity and deliveries of wood fuels by Vapo Oy Energia increased, whilst deliveries of fuel peat decreased. The turnover of Vapo Oy Energia, excluding internal Group sales, was FIM 962 million, an increase of FIM 80 million over 1999. The Energy Business employed an average of 515 persons. In addition, the production and delivery of peat and forest chips provided employment for over 1 000 contractors and their employees in Finland and Sweden.

Consumption of fuel peat in Finland continued to decline up to summer 2000. In the second half of the year consumption stabilized. Demand for electricity produced in condensing power plants from fuel peat declined, largely because of cheap imported electricity. Coal and natural gas continued to account for a greater share of electricity production. Breakdowns at some power plants also reduced fuel consumption.

The warm early winter decreased the need for fuels for heating production. Record levels of production of sawn timber meant that the fuel markets were swamped with by-products from the mechanical wood processing industry, which were used

instead of peat. There were no changes in energy taxation last year even though the report submitted by the international group of scientists for the Ministry of Trade and Industry in May stated that peat could be classified as a slowly renewable biomass fuel.

In the second half of the year the sharp increase in the oil price increased production and transport costs. On the other hand, it improved the competitive position of domestically produced biofuels – peat and wood. The prices of coal and natural gas also increased up till December.

Deliveries of fuel peat in Finland by Vapo Oy Energia decreased by over 20 per cent compared to the previous year.

A plastic spoon on a milled peat harrow

Deliveries of wood fuels, however, increased by 40 per cent. Vapo Oy Energia supplied a total of 14.3 terawatt hours of biofuels, peat and wood in Finland (17.2 TWh in 1999). This was almost 20 per cent less than in 1999.

Despite the decline in demand for peat, Vapo Oy Energia increased its turnover during the year. This was because of the acquisition of Råsjö Torv AB in Sweden at the beginning of the year, increased use of wood fuels and increased sales of heat and power. Forssan Energia Oy, acquired in summer 1999, also contributed to full-year results for Vapo Oy Energia for the first time.

The drop in deliveries of fuel peat meant that peat production had to be brought into line with demand. At the same time a new, more customer-oriented organization was created, which came into being from the start of 2001. The entire organization was involved in defining the operating model of the new structure.

The area of bogs under peat production declined by 10 000 hectares from the previous year and in the summer peat production employed around 1 000 fewer contractors and their employees. During the year a staff adjustment plan was also carried out, leading to a reduction of 80 employees and office staff, mostly at the turn of 2000/2001.

Peat production, adjusted to the lower demand level, was hampered by continual heavy rain, with the result that 55 per cent of the production target for milled peat and environmental peat and 92 per cent of the target for sod peat were met. Vapo Oy Energia produced a total of 10.2 million cubic metres of peat in Finland (22.4 million m³ in 1999). Production of milled fuel peat totalled 8.7 (19.3), sod peat 0.9 (1.5) and environmental peat 0.6 (1.5) million cubic metres. Despite the year being poor for production, deliveries to contract customers are assured since

there are sufficient stocks of peat of the right quality.

The Råsjö Torv Group, which produces and supplies fuel peat and wood fuels in Sweden, has operated as a separate unit with its own operational strategy, and its activities are contained in a separate report (see page 15). Hasselfors Garden AB, which was part of Råsjö Torv, was sold to Kekkilä Oyj in the beginning of 2000. In the beginning of 2001, Vapo Oy sold its subsidiaries Vapo Energi AB and Råsjö Torv AB Mebio Torvprodukter to Råsjö Torv AB and Hasselfors Garden AB respectively.

Vapo Oy Energia's ISO 9002 certificate for its management system was renewed in 2000 for the first time. The system covers the production, sales and deliveries of Vapo biofuels and environmental peats. The certificate is valid for three years at a time.

The Director of Vapo Oy Energia changed on 1 July 2000, when Seppo Sänkiahho was succeeded by Juhani Hakkarainen. The latter was previously head of the Eastern Finland Business Unit.

Vapo Oy Energia

WOOD FUELS

Production and consumption of wood fuels by the Vapo Group totalled 2.4 TWh (1.7 TWh in 1999) in Finland. Vapo Oy Energia produced 0.5 TWh of forest chips (0.4 TWh). Vapo Oy Energia supplied wood fuels to over 100 sites.

2000 saw the conclusion of a four-year project in which Vapo Oy Energia developed the terminal method for the production of forest residue chips. Now the method is in general use. During 2000 contracts were concluded with Stora-Enso Forest and UPM-Kymmene Forest for supplies of logging residues.

The higher oil price improved the competitive position of wood pellets in the heating of single locations. With the higher demand, two new pellet presser lines were installed at Vapo's Ilomantsi wood pellet plant. At the end of the year Vapo concluded an agreement with Hankkija Agriculture, which is part of the S Group, under which their Agrimarkets will manage retail sales of Vapo's wood pellets to homes and farms. Pellet sales to large customers such as municipalities, industrial companies, glasshouse growers and power plants will be supplied direct from

Vapo Oy Energia's own stocks. Vapo Oy Energia uses pellets to heat its own premises at ten peat production sites.

HEAT AND POWER

In the second half of the year, the high price of oil and the rise in coal and natural gas prices further increased interest in sources of heating based on domestic biofuels. Many municipalities and industrial companies outsourced or planned to outsource their energy production.

For heat and power production by Vapo Oy Energia, the year was a period of intense construction activity. FIM 125 million was invested in the construction or overhaul of eight heat and power plants. The largest single project was the new power plant using peat, wood and recovered fuels constructed by Vapo's subsidiary Voimavasu Oy, which started up in Salo at the end of the year.

As of the end of 2000, Vapo and its subsidiaries were responsible for the operation of 23 power or heating plants. Of these, six were wind power plants. Vapo Oy Energia concluded new heating production contracts with Valamo monastery, Sukeva central prison, Vuokatti sports college in Sotkamo, Rauta-ruukki's health centre and the Vuokatinhovi estates. Ekotuli burners based on CMR technology were in use at Tikkakoski and Alavus.

Heat production by Vapo Oy Energia totalled 0.85 TWh (0.7 TWh in 1999), electricity production 0.12 TWh (0.1 TWh) and total electricity sales 0.3 TWh (0.27 TWh). Progress was made with the branding of heating and power production, with services being grouped into Municipal Heat, Industrial Heat and Commercial Heat.

Forssan Energia Oy, acquired by Vapo Oy in 1999, operated as an autonomous unit and its activities are contained in a separate report (see page 14). It was agreed that Forssan Energia Oy would assume responsibility for production of heating and power for Vapo Oy Energia in south and south-west Finland.

WIND POWER

In 2000, a total of 76.6 GWh of electricity was produced in Finland by wind power, which is approximately 0.1 per cent of total

Finnish consumption. During the year, the seven wind turbines at Vapon Tuulivoima Oy's wind park produced a total of 10 GWh of electricity for customers and internal use. Vapo Oy uses wind power at its peat production sites, heating plants and offices throughout Finland. Kuiva-Turve Oy owns one of the plants and 10 per cent of Tuulivoima Oy.

Vapon Tuulivoima Oy is involved in a joint project in which Santasalo Gears Oy (Metso Drives) is testing so-called intelligent gears for wind turbines in real-life conditions at Kuivaniemi.

ENVIRONMENTAL PEAT

Demand for environmental peat continued to be strong in 2000 for the third year in a row. Agricultural producers in particular have become convinced of the practicality and benefits of environmental peat.

Vapo Oy Energia supplied 1.25 million cubic metres of environmental peat (1.45 million m³ in 1999). The lower overall sales figures were caused by a decline in the amount of peat for processing and export. This component made up an unusually large share the previous year because there was a shortage of growing peat all over Europe. On the other hand, sales of environmental peats to the main target group, agriculture, increased. Sales of compost for landscaping also increased strongly. Bedding peat bales were a new product launch. These are primarily intended as bedding for horse stables in urban areas.

PEAT CONSUMPTION ON THE INCREASE

The decline in fuel peat consumption came to an end in summer 2000, and for 2001 it looks as if consumption will increase slightly. It is also expected that environmental peat deliveries will continue at higher volumes. The high oil price will increase demand for domestic biofuels for single-location heating plants.

A priority area for Vapo Oy Energia in 2001 is the continuation of a strategic review in the light of the new organization. Besides cost savings, the aim is to improve the competitive position of peat.

Heat and power production by Vapo Oy Energia will increase further when the power and heating plants built and refitted in 2000 come on full stream. Another reason to expect growth is that municipalities and industry continue to outsource heating and power production. For these clients, Vapo is able to provide an energy production option using environmentally friendly and locally produced domestic biofuels. ■

JUHANI HAKKARAINEN
DIRECTOR, ENERGY BUSINESS

FORSSAN ENERGIA OY IS A WHOLLY OWNED SUBSIDIARY OF THE PARENT COMPANY, VAPO OY. FORSSAN ENERGIA OY IS PART OF VAPO OY ENERGIA (ENERGY BUSINESS).

BOARD OF DIRECTORS OF FORSSAN ENERGIA OY

ESKO MUHONEN, CHAIRMAN

MARKKU MIETTINEN, RAIMO RANTALA, ARI SIMOLA



Forssan Energia Oy

Group structure provides new possibilities

In 2000, Forssan Energia Oy posted a turnover of FIM 72 million and an operating profit of FIM 15 million. Turnover decreased by FIM 0.8 million over the previous year and operating profit by FIM 1.4 million. The company employed an average of 44 persons.

2000 was the first full year that Forssan Energia Oy was part of the Vapo Group. The Group structure provided new possibilities, especially in electricity distribution. The warm weather reduced demand for district heating in the company's catchment area of Forssa.

In 2000, Forssan Energia Oy supplied 123.9 GWh of heating, 9 GWh less than 1999. Compared to earlier years, deliveries decreased especially in December, which was unseasonably warm. The households covered by the Forssa district heating network comprise 13 800 of the town's 18 600 inhabitants.

Electricity deliveries increased by 10 per cent. Sales were boosted by new customers within the Vapo Group. Without these, electricity deliveries remained at the previous year's level.

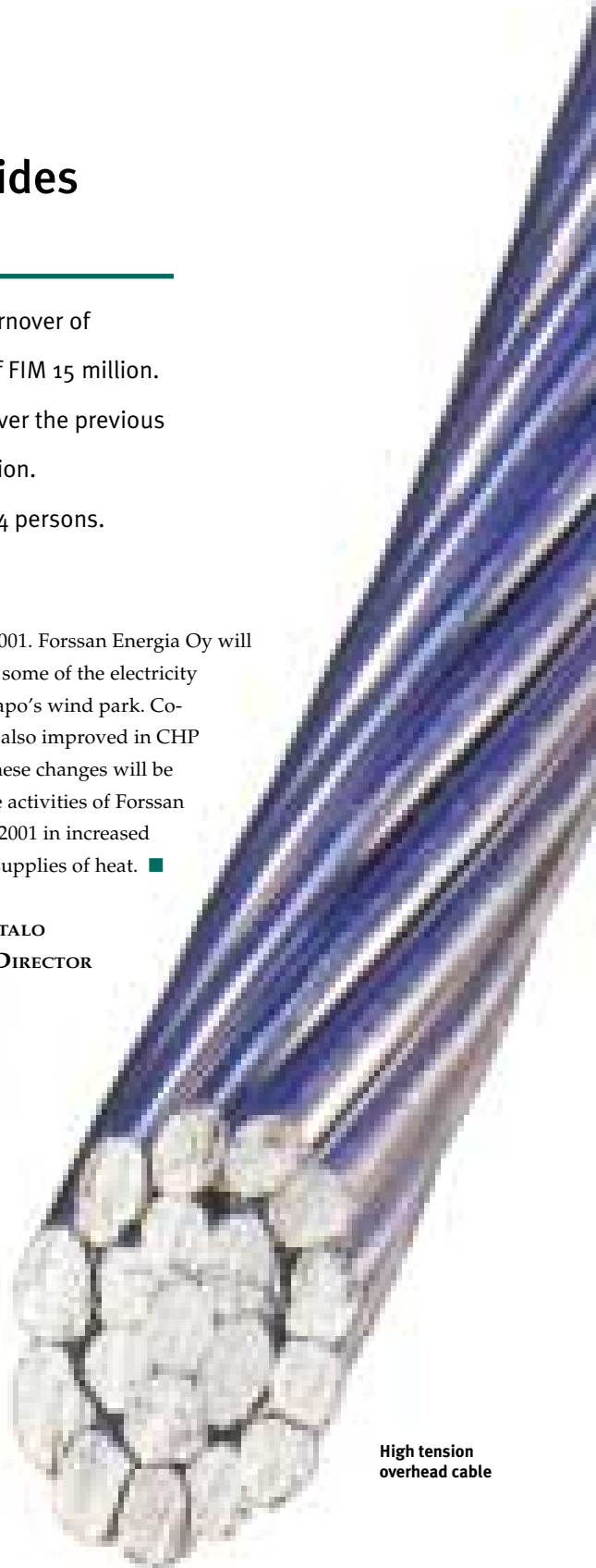
Electricity transmission totalled 194 GWh, representing growth of one per cent over the previous year. Forssan Energia Oy's own electricity production amounted to 38.6 GWh (41.2 GWh in 1999). The lower figure results from the fact that all the company's electricity is produced in a back-pressure power plant and electricity production depends on the amount of heating produced.

Investments by Forssan Energia Oy in 2000 totalled FIM 5.4 million. These mainly consisted of primary improvements to the electricity network and maintenance and extension of the district heating network.

Being part of the Vapo Group meant new opportunities and strengthened the company's position in the area. In addition to new customers, the administration of Voimavasu Oy was transferred from Vapo Oy Energia to Forssan Energia Oy as of the

beginning of 2001. Forssan Energia Oy will also distribute some of the electricity produced at Vapo's wind park. Co-operation was also improved in CHP production. These changes will be reflected in the activities of Forssan Energia Oy in 2001 in increased turnover and supplies of heat. ■

ERKKI VÄHÄTALO
MANAGING DIRECTOR



High tension overhead cable

BOARD OF DIRECTORS OF RÅSJÖ TORV AB

ESKO MUHONEN, CHAIRMAN

JUHANI HAKKARAINEN, BERNT HEDLUND, MATTI HILLI,

JAN PERSSON, RAIMO RANTALA, BENGT RÅBOM



Råsjö Torv AB

Råsjö Torv Group concentrates on biofuels

The turnover of the Råsjö Torv Group in 2000 was SEK 227.7 million and the operating profit was SEK 16.4 million. Compared to the previous year, turnover decreased by SEK 38.1 million and operating profit by SEK 18.8 million. The Group employed an average of 71 persons.

In 2000, demand for fuel peat and wood fuels in Sweden remained at the level of previous years. Consumption of fuel peat totalled 2.4 TWh, and that of wood fuels 50 TWh. However, interest in biofuels increased during the year. This was particularly true of wood pellets. The main reason was higher prices for oil-fired and electric heating, which improved the competitive position of biofuels. Prices nonetheless remained moderate.

The Råsjö Torv Group supplied 1.2 TWh of fuel peat (1.0 TWh in 1999), which was 93 per cent of target. Deliveries were constrained by the mild late winter of 2000.

Peat production was impeded by the very wet summer, as a result of which the Råsjö Torv Group produced 1.3 million cubic metres of peat (1.8 million m³). To complement its own production and in order to ensure peat supplies, Råsjö Torv AB began to import peat from Estonia on a trial basis in autumn 2000 for customers located close to ports. In the second half of the year, peat was also imported from the parent company, Vapo Oy, in Finland.

The Råsjö Torv Group supplied 227 GWh of wood fuels (163 GWh 1999). In the first half of the year the subsidiary Mellansvenska Biobränsle AB (Mebio) started to produce wood pellets at a new pellet plant. Production at the plant achieved the target level in the second half of the year.

The positive trend in sales of soil improvement peats

continued. In production and sales, Mebio Torvprodukter AB achieved its targets.

Vapo Oy acquired Råsjö Torv AB on 4 January 2000. At the same time, Råsjö Torv AB acquired the Mebio Group and sold Hasselfors Garden AB to Kekkilä Oyj, which is reflected in the lower turnover of the Group.

On 2 January 2001 Råsjö Torv AB sold Mebio Torvprodukter AB, a subsidiary of Mebio Group, to Hasselfors Garden AB, and acquired from Vapo Oy the Haparanda-based Vapo Energi AB, which produces and markets peat and wood fuels. This move clarified the structure of the Vapo Group in Sweden. Bioenergy activities are now concentrated with Råsjö Torv AB, and growing media with Hasselfors Garden AB. Råsjö Torv AB will nonetheless continue to produce and process horticultural peat for sale.

In 2000, Råsjö Torv AB and its subsidiary Svenska Torv AB established an ISO 14000 environmental system. The system will be taken into use in 2001.

In 2001, sales and production of biofuels are expected to grow compared to 2000. In particular, significant growth is foreseen in sales and production of wood pellets, which will improve profitability at the Mebio Group. ■

BERNT HEDLUND
MANAGING DIRECTOR

Vapo Oy Biotech



Vapo Oy Biotech and PVO develop a new solution for utilizing dry waste

In 2000, Vapo Oy Biotech posted a turnover of FIM 44.9 million, including internal deliveries. This was FIM 6.3 million more than the previous year. The volume of orders at year-end was FIM 73 million. The average number of personnel was 28, of whom 10 were employed by Mustankorkea Oy.

In the sectors in which Vapo Oy Biotech operates, 2000 was a year of wait-and-see, just as the previous year was. No new decisions were taken as regards biowaste or dry waste processing plants. In the case of recovered fuel made from dry waste, the situation was clarified by the entry into force of the Directive on the incineration of waste in spring 2000.

At the end of year, the tenth tunnel composting plant supplied by Vapo Oy Biotech was completed at Himanka, which furthered strengthened the company's market leadership in the sector. Construction work on Finland's largest composting plant by capacity began in Joutseno in January 2001 following completion of the appeals process. A tender was organized for three composting plant projects, but the outcome was delayed until 2001.

Service and maintenance contracts became a more important operational area, and at year-end five contracts for tunnel

composting plants had been concluded. Twelve similar contracts had been concluded for biofilters. At the end of December, Vapo Oy acquired KP-Multa Oy, which windrow composts purification plant sludge in Lahti. A preliminary contract was concluded for the acquisition of the business activities of Suupohjan Humustuote Oy, which specializes in stack-composting in Teuva. The biofilters business continued along the same lines as the previous year. A total of over 40 biofilters were supplied.

Export marketing of tunnel composting plants in Sweden continued. As in Finland, projects progressed slowly and no purchasing decisions were made. Combustible waste fractions may not be disposed of in landfill sites in Sweden after 2002, therefore municipalities are currently focusing on the processing of dry waste.

In the spring Vapo Oy began construction of a waste manage-

ment research unit at the Mustankorkea waste processing centre together with the University of Jyväskylä. The research unit started up in November. This unique unit makes it possible to fine-tune and guide the composting process more precisely than in the past. The unit is also developing and researching new tunnel composting technology applications: biothermal drying of forest industry and municipal sludge and heat treatment in the production of recovered fuel.

Together with the energy group Pohjolan Voima Oy (PVO), Vapo Oy Biotech developed production and gasification technology for recovered fuels. The objective is to produce fossil fuel replacements for power stations from dry waste, which is difficult to utilize. In the project, announced in December, Vapo Oy Biotech is responsible for the procurement and production of recovered fuel, and PVO supplies power plant expertise. Gasification and gas purification are being developed together with VTT Energy.

The turnover of Mustankorkea Oy, a waste handling company in the Jyväskylä region, was FIM 22.5 million (FIM 18.9 million in 1999). New customers included Toivakka (purification plant sludge), Petäjävesi (biowaste and dry waste) and Keuruu (biowaste).

Operations were dominated by preparations for the major environmental obligations and investments in the years ahead, including modification work on the landfill sites at Mörkökorpi, Palokka and the current Mustankorkea, and the construction of a

new landfill site, gas collection system and dry waste processing plant at Mustankorkea. Despite these preparations, services were provided at a price level below the national average.

The outlook for 2001 has been influenced by EU Directives and the ensuing decisions of the Finnish Council of State, according to which untreated organic material may no longer be disposed of in landfill sites as of the beginning of 2005, when the planned utilization rate for waste will be 70 per cent. If these targets are to be complied with, several composting plants will need to be built and the energy in waste



Raw material for soil improvement from a tunnel composting plant.

utilized in the years ahead. This will open up markets for new types of recovered fuel production and gasification plants. The pending Directive on biological waste will also increase the level and cost of processing plants. ■

KARI MUTKA
DIRECTOR, ENVIRONMENTAL BUSINESS



Growth in turnover and operating profit

In 2000 the Vapo Timber group recorded a turnover of FIM 927 million and an operating profit of FIM 54 million. Turnover showed an increase of FIM 84 million on the previous year while operating profit grew by FIM 17 million. The Vapo Timber group employed an average of 429 people.

At the beginning of 2000 the demand for sawn goods in the group's principal market areas was at a satisfactory level. At the same time, however, production of sawn goods increased in all the major producer countries, bringing about considerable fluctuations in demand and severely restricting hopes of a rise in prices. At the end of the year both demand and prices assumed a downward trend.

The storm damage that occurred in Central Europe the previous winter brought large quantities of poor quality sawn goods onto the market. This factor as well as increased exports of Russian sawn goods to Europe contributed to the difficulties experienced by Scandinavian sawn goods. Use of the euro in the sawn timber trade became even more widespread. Outside Europe, particularly in Japan, development was accelerated by

the weakening of the euro in relation to other currencies used in the timber trade.

Export sales of Finland's sawn goods industry for 2000 amounted to 8.5 million cubic metres, a figure on a par with 1999. The cumulative net factory price of sawn goods exported demonstrated a slight decline both where pine and whitewood were concerned. As a result of the preceding upward trend in prices, however, the average export price was roughly 6-7 per cent higher than that in 1999.

Wood was in abundant supply throughout the year, and purchasing targets were achieved. Prices paid for logs were at an all-time high and rose throughout the year due to the strong demand. The increase in prices was accelerated by a mild autumn, which prevented harvesting of stands marked for winter

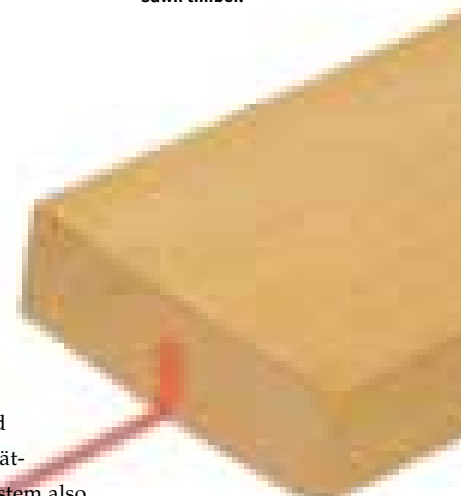
BOARD OF VAPO TIMBER OY

ESKO MUHONEN, CHAIRMAN

AARO HILTUNEN, EERO LEHTONEN, RAIMO RANTALA,

JUHA TUOMINEN, JUHANI YLÄ-SAHRA

A laser being used to measure the length of sawn timber.



felling and pushed up the prices of logs obtained from hard ground stands. The shortage of logs limited production in December.

In 2000 Vapo Timber Oy's sawmills delivered 728 000 cubic metres of sawn goods and further processed products. The figure is an all-time record and represents growth of 5.5 per cent on the previous year. 533 500 cubic metres of sawn goods were exported, which is 6.5 per cent more than the year before. The figure includes sawn goods exported via Anaika Components Ltd Oy. Exports accounted once again for a solid 80 per cent of total deliveries. The chief export countries were Germany, the United Kingdom, France, Holland and Japan. In Germany sales fell well short of target, but this was compensated in other export markets. In Finland development was positive.

The Vapo Timber group's six sawmills produced a total of 737 000 cubic metres of sawn goods and further processed products, which was also a new record. The figure was 6.8 per cent up on the previous year. Production had to be cut back at the end of the year because the mild autumn adversely affected the supply of raw material.

Development of the group's sawmills continued according to plan. Investments totalled FIM 29 million. The largest single investments were the increase in drying capacity at Nurmes sawmill and the construction of a further processing plant at Hankasalmi sawmill. Production at the joint enterprise Anaika Components Ltd Oy got under way in June 2000.

Construction of operating systems at Vapo Timber Oy's sawmills continued. In April certification was obtained for Forssan Saha Oy's quality and environmental system (ISO 9002 and ISO 14001), which covers the sawmill, further processing unit and wood procurement. At Nurmes sawmill certification of the environmental system was awarded and the quality section of the operating system brought to completion, with certification due in

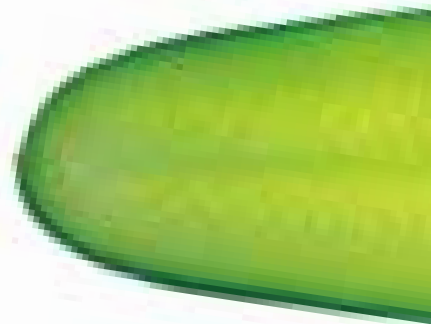
the course of 2001. The vast majority of Vapo Timber Oy's production is managed by operating systems made up of quality and environmental systems. At Kevät-niemi sawmill the operating system also includes a certified occupational health and safety system (BS 8800).

At the end of the year Vapo Timber Oy and its subsidiary Forssan Saha Oy were awarded chain-of-custody certificates for their wood. As a consequence all Vapo Timber Oy's sawmills acquired usage rights for the international PEFC logo at the start of 2001. The sawmills can thus mark their production with the PEFC environmental logo to indicate that the raw material used in the products originates from forests certified as sustainably managed.

It is forecast that in 2001 the consumption of sawn timber as well as demand will continue at a good level in Vapo Timber Oy's chief market areas. One exception is Germany, where demand is expected to decline. Prospects for the early part of the year are poorer than for the year as a whole, however, with improvement in the situation predicted to begin at the earliest in the second quarter of the year. In spite of unsatisfactory profitability production of sawn goods is likely to remain at a peak level and the price of logs high, too, as a result.

Vapo Timber Oy's sales and production targets are somewhat higher than for the year under review. Profitability is threatened by the abundant supply of sawn goods and a rise in costs. ■

JUHA TUOMINEN
MANAGING DIRECTOR



Rise in sales of hobby gardening products

In 2000 the Kekkilä group recorded a turnover of FIM 273.8 million and an operating profit of FIM 19.8 million. Turnover showed an increase of FIM 69.8 million over the previous year while operating profit fell by FIM 0.2 million. Profitability weakened, but remained at a good level, as did the equity ratio and liquidity. The company employed an average of 232 persons.

In 2000 demand in the Finnish and Swedish hobby gardening markets was boosted by people's growing interest in their environment. In Finland sales in the gardening branch were 5 per cent up on the previous year.

Sales of Kekkilä's hobby gardening products in Finland climbed 18 per cent, which clearly exceeded average growth in the sector. Sales were influenced favourably by a TV advertising campaign conducted in the spring which was supported by advertisements in periodicals and gardening magazines as well as national radio advertising. The key factor was that the campaign reached a new target group – young urban families – in the planned manner. The successful advertising campaign won

the advertising industry's AdProfit award in the category for products already on the market.

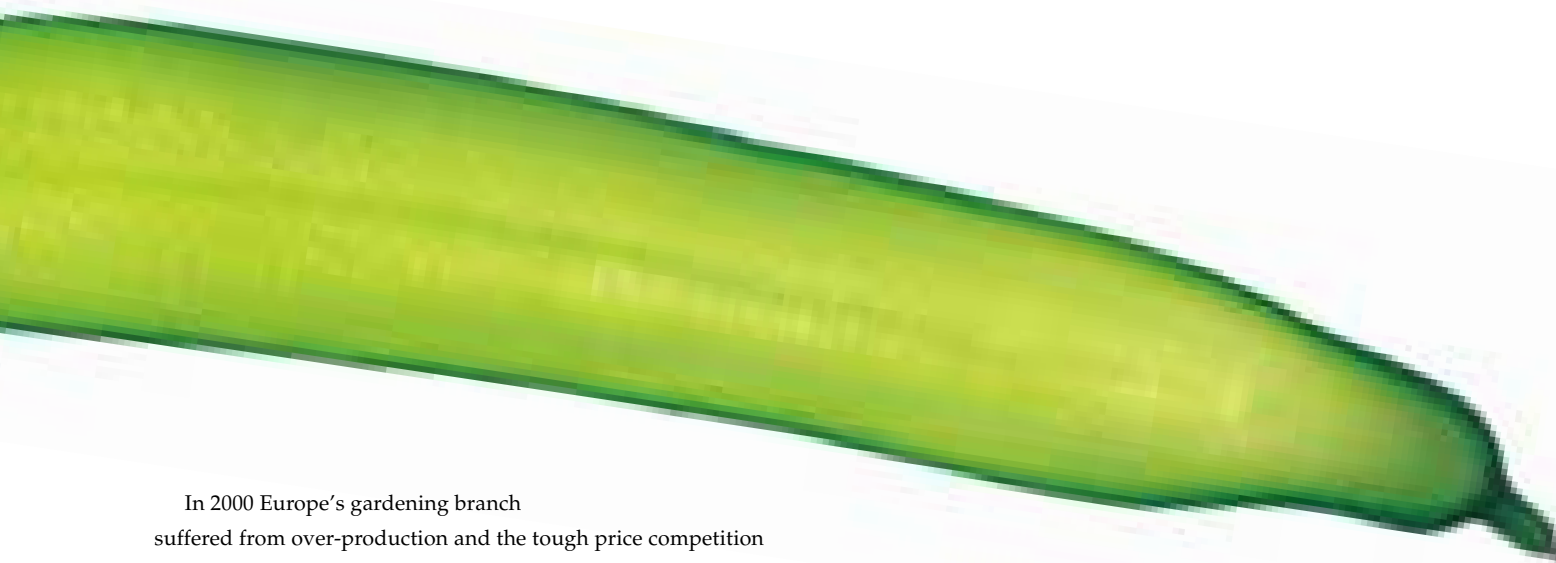
At the beginning of 2000 Kekkilä Oyj acquired Hasselfors Garden AB of Sweden, whose share of the Swedish hobby gardening market amounted to roughly 30 per cent. The deal boosted the turnover of the Kekkilä group by a third and engendered cooperation that is certain to benefit both parties. In 2000 Hasselfors Garden AB's sales rose 6 per cent and the company's profitability also showed an improvement. At the beginning of 2001 Hasselfors Garden AB purchased Mebio Torvprodukter AB from Råsjö Torv AB. Mebio Torvprodukter AB has a horticultural peat plant in Gävle, Central Sweden.

KEKKILÄ OYJ IS A SUBSIDIARY IN WHICH PARENT COMPANY VAPO OY HOLDS A 59.2 PER CENT STAKE. KEKKILÄ OYJ AND ITS SUBSIDIARIES MAKE UP THE GROWING MEDIA BUSINESS.

BOARD OF KEKKILÄ OYJ

ESKO MUHONEN, MANAGING DIRECTOR

ANTTI ERKAMA, RAIMO RANTALA, SEPPO SÄNKIAHO, RISTO WAHLBERG



In 2000 Europe's gardening branch suffered from over-production and the tough price competition resulting from it. This also led to a fall in the prices of growing substrates, which was compounded by over-production in the growing media industry.

The market situation was reflected in Kekkila Oyj's exports from Finland, which experienced a decrease in all market areas. In the domestic professional grower market sales remained at the same level as in 1999. One successful product was Kekkila's growing board, whose share of the vegetable growing market climbed. Demand was also boosted by an increase in year-round cultivation of cucumber.

Deliveries of landscaping materials in the greater Helsinki area remained at the high level achieved the previous year. No major building projects were started in the course of 2000.

Sales recorded by the subsidiary Stenrøgel Mosebrug A/S continued at the 1999 level, but profitability was weaker. Prices were affected negatively by the 30 per cent decrease in exports of gardening products from Denmark to Germany. In the United Kingdom VapoGro Ltd's sales fell, profitability suffered and the company's operations began to produce a loss. At the beginning of 2001 Kekkila Oyj sold 49 per cent of the company's equity to its British partner Avoncrop Ltd and 2 per cent to VapoGro's acting management. In Estonia Langham Oü and its subsidiary Niibi Turvas Oü completed their first full year as Kekkila subsidiaries.

The largest single investments during the year under review were the replacement of the packing line in Denmark and the

construction of a horticultural peat processing plant in Estonia. The Kekkila group committed a total of FIM 50 million to investments. Introduction of a quality and environmental system covering Kekkila Oyj's Finnish operations continued in 2000.

At the end of the year a scheme of organizational reform was decided on, the aim of which is to unite the group's businesses and operational activities in the different countries. In addition to a country-specific profit centre organization the matrix now includes a group organization which combines the development of the hobby gardening and professional grower businesses and unifies ways of working in production, financial management and product development.

It is forecast that growth in the hobby gardening market will continue both in Finland and Sweden. In the professional grower market price competition in Europe will remain tough during 2001. Due to uncertainty in the market situation the results forecast for the year is subject to a greater number of imponderables than earlier. During the current year our aim is to improve profitability in all business areas and achieve a higher operating profit than the year before. ■

MATTI HILLI
MANAGING DIRECTOR

Research and Development



Waste management research unit completed

Among the most visible of the Vapo Group's research projects in 2000 were a waste management research unit and the development of recovered fuels. The Research Department was also involved in efforts in Finland and elsewhere to gain classification for peat as a biofuel. The Research Department employed an average of 22 persons.

Vapo Oy's waste management research unit was taken into use in November 2000 at the Mustankorkea waste handling centre in Jyväskylä. This unique full-scale research unit allows sophisticated research programmes to be carried out, for example biowaste and sludge composting, biothermal drying of sludge and the use of heat drying to produce recovered fuels. The University of Jyväskylä is a project partner, and part of the plant's premises have been set aside for its research and teaching needs.

Vapo Oy Biotech and the energy group Pohjolan Voima Oy continued to co-operate on developing production, gasification and gas purification technology for recovered and sludge fuels. Vapo performed research into the procurement and quality of recovered fuels. The co-operation will continue in 2001.

The Peat 2000 programme started in 1999 continued in the year under review and will be completed in 2001. The aim of the programme is to improve the competitive position of peat and to take better consideration of environmental values in peat production. Work continued on a life-cycle analysis of wood fuels together with VTT Chemical Technology. Research into "bio oil" or pyrolysis oil also continued, and Vapo decided to step up its efforts in this field.

Use of peat outside energy production has been increasing all the time, and this is also reflected in research activity. During the year Vapo looked into the possibilities of using peat for landscaping exhausted gravel extraction sites and for sealing old landfill sites. The company also researched the suitability of peat as bedding material for large pig breeding units.



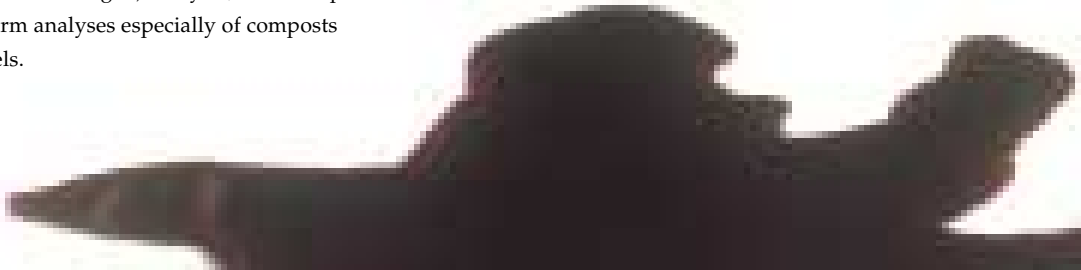
Pyrolysis oil or “bio oil”, which can be made from chips.

Climate change and the classification of peat as a biofuel were issues where the Research Department participated in the debate, both in Finland and elsewhere, gathering and providing information on the subject to decision-makers. Vapo’s Research Department is participating in two EU working groups set up during the year. CEN/TC 335 is working on a European standard for solid biofuels and CEN/BT/TF 118 is working on defining a standard for recovered fuels. There was also international co-operation on promoting rational use of peat and peatlands. The aim is to draw up clear international norms for the conservation and use of mires.

The Research Department’s laboratory concentrated on producing data and analyses for the units of the Vapo Group. In 2000 increased analyses were performed on wood and recovered fuels and efficient use of ash. The laboratory acquired a CHN (carbon, hydrogen and nitrogen) analyser, which improved its ability to perform analyses especially of composts and recovered fuels.

Besides the Group’s internal analysis services, the laboratory participated in national and international joint projects. The CEN standards for soil improvers and growing media were completed. The laboratory has been involved in developing these from the very beginning. The development of CEN standards for solid biofuels and recovered fuels represented new projects that were launched. The laboratory has also been involved in comparative tests to determine nutrient and metal levels in watercourses organized by the Finnish Environment Institute and in a Nordic recovered fuel ring test. ■

TIMO NYRÖNEN
R & D DIRECTOR



Human Resources Development



Management training – the first stage in a four-year personnel development programme

In 2000, the Vapo Group invested FIM 3.1 million in training its personnel. There were an average of 5.3 days of training per employee. The Group had an average personnel total of 1 262 persons.



In 2000, the Vapo Group launched a four-year personnel development programme to develop the Group's shared skills areas. The programme, which extends to all personnel, follows on from the previous programme, which ran from 1994–1998.

In the first year, 120 managers and specialists from different business activities participated in training in leadership and co-operation. The objective of the training is to improve personnel leadership and management techniques and to explore the concepts and attitudes that lie behind leadership and interaction.

Vapo Oy Energia (Energy Business) continued its trainer education programme, which covers all personnel groups and started in 1997. The training comprises quality management, participatory meeting training and training in the roles of

manager and trainer. 170 persons took part in the training programme in 2000.

The Energy Business also launched a strategic and organizational adaptation training programme extending to all of its personnel. The programme takes the form of working groups and helps employees to formulate new approaches to new situations and to get away from old working methods. At the same time the Potra information management system was introduced, which supports change in working methods.

A comprehensive training programme for developing working capacity was started at Vapo Timber Oy's Kevätniemi Sawmill. This was preceded by the certification of the occupational health and safety system on 18 January 2000. The programme extends to

all personnel and is designed to raise the quality of life and well-being as well as the quality of work and productivity.

Initiation events held for Räsjö Torv AB and Hasselfors Garden AB provided information on the Vapo Group, its principles and its plans for the future.

As in previous years, two events were held that brought together personnel from different business activities. Vapo's two-day summer sessions are a traditional event which Vapo employees can attend with their families. In 2000 the event was held in Jyväskylä and in 2001 the venue will be Forssa. For the tenth time, Vapo held its 'contact days', bringing together personnel representatives from different businesses, shop stewards and Vapo management.

Vapo's personnel had access to five holiday resorts throughout Finland. The recreation bonus, paid annually, helps employees to retain and improve their working capacity.

In 2000 the Vapo Group had an average of 1 262 employees, of whom 1 101 were in Finland and 161 abroad. Employees received an average of 5.3 days of training. This is more than the estimated industry average of 4.6 days in 2000. An average of FIM 2 800 per person was invested in training.

The Vapo Group monitors personnel-related success factors, and resources are targeted using internal personnel-related parameters. Working motivation, expertise, productivity and occupational health and safety are among the factors measured. ■

EERO MÄNTYLÄ
DIRECTOR OF HUMAN RESOURCES
DEVELOPMENT

Employee representatives in business unit management groups 1.1.2000–31.12.2001

VAPO OY ENERGIA

Western Finland

Tapio Kamppi
(Pentti Yli-Peltola)
Heimo Pihlajamäki
(Maija Kirvesoja)

Eastern Finland

Kauko Korhonen
(until 26.11.2000)
Toivo Karhapää
(Jorma Heiskanen)
Ritva Kokko
(Matti Hanhinen)

Northern Finland

Jouko Niva
(Eino Ämmänpää)
Jarmo Tirkkonen
(Maija Rintala)

Forssan Energia Oy

Ari Simola
(member of Board of Directors)

VAPO TIMBER OY

Hankasalmi

Pekka Häkkinen
Henrik Leppävuori

Kevätniemi

Juha Palokas
(Armas Ruokolainen)
Jussi Kiljunen
(Markku Torvinen)

Nurmes

Eetu Karhalainen

Paltamo

Tuomo Rautiainen

Peuravuono

Kalevi Siivikko
(Mauri Bogdanoff)

Forssan Saha Oy

Markku Salonen

KEKKILÄ OYJ

Teuvo Kaunismäki
Osmo Sahimäki

Employee participation (EP) committee members 1.7.1999–30.6.2001

Salaried peat industry personnel

Hannu Laukkanen
(Ilpo Vuorela)

Peat industry workers

Teuvo Penttinen
(Ilpo Viinamäki)
Riku Hakala
(Kauko Korhonen until 26.11.2000)
(Timo Talasjoja from 21.12.2000)

Sawmill workers

Juhani Nevalainen
(Esko Leinonen)
Erkki Flink
(Markku Salonen)

Forestry workers

Hannu Turpeinen
(Eetu Karjalainen)

Salaried forestry personnel

Heikki Miettinen
(Paavo Kivimäki)

Sawmill supervisors

Jussi Kiljunen
(Markku Torvinen)

Salaried office personnel

Maija Rintala
(Kirsi Pennanen)
Marja Meriläinen (until 30.4.2000)
(Ilona Kilpala)

Senior salaried personnel

Ilkka Ilmavirta
(Tenho Ruuska)

Employee representatives in in-house magazine editorial board 1.1.2000–31.12.2001

Supervisors

Jari Alkkio
Vapo Oy Energia, Western Finland
Pentti Nieminen
Forssan Saha Oy

Salaried office personnel

Merja Koponen
Vapo Oy Energia, Eastern Finland
Birgitta Kettunen
Vapo Timber Oy, Kevätniemi Sawmill

Peat industry workers

Vesa Tiikkaja
Vapo Oy Energia, Northern Finland

Sawmill workers

Matti Kokkonen
Vapo Timber Oy, Nurmes Sawmill

Senior salaried personnel

Pertti Kaksonen
Vapo Timber Oy, Hankasalmi Sawmill
Pirjo Nylund
Kekkilä Oyj



Increased environmental awareness among customers and personnel

In 2000, Vapo paid particular attention to increasing environmental awareness among its customers, its own employees and peat contractors. The Vapo Group spent a total of FIM 42.5 million on environmental protection (FIM 37 million in 1999). Thirty-three persons were employed full-time in environmental protection.

Vapo Oy is committed to responsibility in its environmental policy and to recognizing the impacts caused over the whole life-cycle of its activities. Our objective is to continually improve the management of environmental matters and to adhere to the principles of sustainable development. In order to implement these principles, environmental programmes and principles have been drawn up for the businesses. Our operations and strategies also take into account our customers' environmental values and the responsibility that comes with managing communal responsibilities.

In seminars and in the media in 2000, there continued to be a lively debate on climate impacts, the definition of fuel peat, the renewability of peat and peat use. The debate centred on a report entitled *The Role of Peat in Finnish Greenhouse Gas Balance* submitted in May to the Finnish Ministry of Trade and Industry by an international group of scientists.

Several amendments to Directives and environmental initiatives were pending in the European Union. Preparing these required thorough monitoring and networking of the issues. The refuse-derived fuels Directive and the Directive on promoting the

use of electricity produced from renewable energy sources in the single market were under discussion. Other important EU projects included CEN standards for solid biofuels and recovered fuels. The effects of the Directive on the incineration of waste, the water policy framework Directive and the nitrate Directive were discussed with different authorities and interest groups.

In the beginning of March, the Environmental Protection Act came into force in Finland which led to changes in the processing of permits and the protection of peatlands. The new land use and building law will affect usage targets and planning for land areas.

Vapo aims to keep its customers up to date on topical issues relating to our products and activities. In addition to normal PR activities, environmental issues relating to wood fuels and peat were debated in Vapo Oy Energia's environmental panel, comprising customers and major interest groups. Environmental awareness was raised among Vapo's own personnel and contractors through internal and external training.

Research into peatlands, their gas economy and the re-use of cut-away areas released from peat production continued to be lively. In 2000 a doctoral thesis was written on the

renewal of the bogs at Aitoneva, Kihniö. The findings show that if the cut-away area is irrigated, disintegration of the peat layer slows and carbon binding is improved with intensified vegetation growth. Together with Tekes, the National Technology Agency and Metla, the Forest Research Institute, Vapo launched a two-year project to study carbon binding and watercourse loading caused by the afforestation of cut-away areas. Other Vapo environmental research projects studied the benefits of the combined use of peat and wood and the environmental impacts of bioenergy production, transport and storage.

In assessing environmental impacts, particular attention was paid to the environmental expertise of consulting subcontractors. The dissemination of information to schools and educational institutions continued. ■

PIRKKO SELIN
ENVIRONMENTAL MANAGER
VAPO OY ENERGIA



Environmental Review

Permit-related costs increase

The costs of environmental protection in Finland for the Vapo Group in 2000 totalled FIM 42.5 million (FIM 37 million in 1999).

Vapo Oy Energia spent FIM 34.8 million on environmental protection (FIM 32.8 million). Of this amount, FIM 7.8 million (FIM 4.6 million) went on environmental investments.

Environmental protection costs represented 3.6 per cent of the

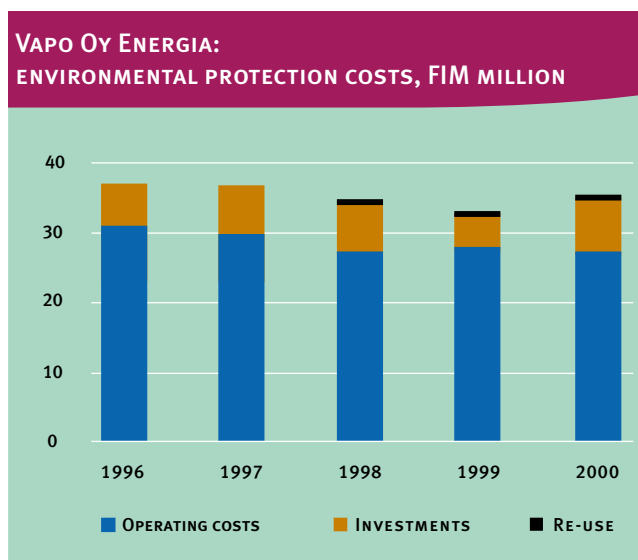
turnover of Vapo Oy Energia (4.4%). Investments in watercourse protection represented 12.8 per cent of all investments in peat operations. Environmental protection costs were six per cent higher than the previous year, even though there was a sharp decline in peat sales. Environmental protection costs incurred by Råsjö Torv AB totalled FIM 1.1 million. The waste management costs of Voimavasu Oy were FIM 11 000.

Environmental investments consisted of obligations relating to peat production permits, improvements to watercourse protection and reductions in problems caused by dust. The costs of permits increased over the previous year. Work related to environmental protection has increasingly been outsourced to contractors or consultants. As in the previous year, FIM 0.5 million was spent on the costs of re-use of areas released from peat production.

Vapo Timber Oy spent FIM 1.2 million on environmental protection (FIM 1.3 million), representing 0.13 per cent of turnover. This amount does not include the costs of fire protection. Most of the costs resulted from the establishment and certification of quality and environmental systems, improvements in waste management, soil studies and inspections.

Kekkilä Oyj spent FIM 0.5 million (FIM 0.27 million) on environmental protection. This represents 0.36 per cent of turnover (0.13%). Costs related to waste management and the establishment of environmental systems.

Vapo Oy Biotech and Mustankorkea Oy spent a total of FIM 5.8 million (FIM 1.5 million) on environmental protection. Most costs stemmed from after-use maintenance of landfill sites and seepage water treatment. ■



In Brief

Vapo studies emissions from transport of biofuels. In 2000, the carbon dioxide emissions caused by transportation of Vapo Oy Energia's biofuels amounted to approximately 33 300 tonnes (42 600 tonnes in 1999) and nitrous oxide emissions were approximately 440 tonnes (563 tonnes). Vapo Oy Energia transported a total of 25 million cubic metres of biofuels (32 million m³). Transport exhaust emissions were calculated using an emission coefficient.

Environmental Award for Teuvo Heikkinen. Vapo's Board of Directors presented the 2000 Environmental Award to Teuvo Heikkinen, who is a project manager at Vapo Timber Oy. The award was made for outstanding efforts in advancing environmental issues. Heikkinen has acted as an internal consultant and expert, developing quality and environmental systems for Vapo Oy's Businesses and Units. Vapo Oy has presented its Environmental Award since 1990 to persons who have distinguished themselves in environmental matters.

424 hectares released from peat production. In 2000, 424 hectares of sites were released from peat production. At year-end, there was a total of 10 877 hectares of cut-away sites released from

QUALITY AND ENVIRONMENTAL SYSTEMS IN THE VAPO GROUP

AREA	SYSTEM	STANDARD	COMPLETION	OTHER
VAPO OY ENERGIA	QUALITY	ISO 9002	1996	CERTIFIED 1997
WESTERN FINLAND UNIT	ENVIRONMENT	ISO 14001	1998	CERTIFIED 1998
EASTERN FINLAND UNIT	ENVIRONMENT	ISO 14001	1998	
NORTHERN FINLAND UNIT	ENVIRONMENT	ISO 14001	1998	
EQUIPMENT-PRODUCING UNITS	QUALITY	ISO 9001	1996	
VAPO OY BIOTECH	QUALITY	ISO 9001	1997	
RESEARCH DEPARTMENT/LABORATORY	QUALITY	ISO 9001	1995	CERTIFICATION IN 2001
KEKKILÄ OYJ	QUALITY	ISO 9001	2000	OPERATIONS IN FINLAND
	ENVIRONMENT	ISO 14001	2000	OPERATIONS IN FINLAND
HASSELFORS GARDEN AB	QUALITY	ISO 9001	1998	CERTIFIED 1998
VAPO TIMBER OY	TIMBER CHAIN OF ORIGIN MANAGEMENT	SMS1003-1	2000	CERTIFIED 2000
KEVÄTNIEMI SAWMILL	QUALITY	ISO 9002	1992	CERTIFIED 1992
	ENVIRONMENT	ISO 14001	1998	CERTIFIED 1998
	OCCUPATIONAL HEALTH AND SAFETY	BS 8800	1999	CERTIFIED 2000
TIMBER PROCUREMENT, KEVÄTNIEMI	QUALITY	ISO 9002	1998	CERTIFIED 1998
	ENVIRONMENT	ISO 14001	1998	CERTIFIED 1998
HANKASALMI SAWMILL	QUALITY	ISO 9002	1993	CERTIFIED 1993
	ENVIRONMENT	ISO 14001	1998	CERTIFIED 1998
NURMES SAWMILL	QUALITY	ISO 9001	2001	CERTIFICATION IN 2001
	ENVIRONMENT	ISO 14001	1999	CERTIFIED 1999
FORSSA SAWMILL	QUALITY	ISO 9002	2000	CERTIFIED 2000
	ENVIRONMENT	ISO 14001	2000	CERTIFIED 2000

production and for market reasons almost 20 000 hectares of productive sites stood unused.

According to a questionnaire conducted among land owners, the most probable re-use of bogs released from peat production is afforestation. It has also become popular to convert cut-away areas into bird sanctuaries and to restore them as peatlands.

Cultivation of reed canary grass as a biofuel doubles. In summer 2000, a total of 224 hectares of fuel-grade reed canary grass were under cultivation in cut-away areas released from peat production and owned by Vapo Oy Energia. In the spring, 107 hectares of new plantations were established. Reed canary grass is a perennial grass which yields 3–10 tonnes of dry matter per

hectare. Together with the relevant research institutes, Vapo Oy Energia has researched and developed the cultivation, harvesting and use of reed canary grass since the early 1990s.

After-use maintenance progresses at Mustankorkea Oy's landfill sites. In 2000, Mustankorkea Oy's disused Mörkökorpi landfill site gained its final appearance, a water collection system was installed and the area was cleaned up. The after-use maintenance will be completed in 2001.

After-use maintenance started at the disused Palokka landfill site with the installation of water piping systems, a sealing layer and surface protection structures in part of the area. The work will continue in 2001. ■

Environmental Review

Water permits for peat production become environmental permits

In 2000, Vapo Oy instituted 12 environmental permit applications, one of which related to the establishment of an entirely new peat production area and the others to amendments to the conditions of an existing permit or extension of a temporary permit. Of the latter, three relate to the extension of an existing area. The Water Rights Courts (as of 1 March 2000 Environmental Permit Offices) delivered their decision on eight new permits and on amendments to the conditions of five existing permits. As of the end of 2000, Vapo had been granted a total of 104 water permits and a further 23 permit applications were pending.

At the end of 2000, Vapo had a total of 40 permits governing other environmental impacts. There were 19 permits relating to power plants, 11 to waste processing and composting and 10 others.

In 2000, Vapo Oy Energia initiated six environmental impact assessments, these being Nuolisuo (Ranua), Kupsussuo (Yli-li), Korentosuo (Utajärvi), Uitonneva, Viitalanneva and Kampinkeidas (Kauhajoki), Porrasneva (Evijärvi and Kortesejärvi) and Pyymaanneva, Saapasneva and Iso-Saapasneva (Evijärvi and Lappajärvi). The environmental impact assessment of Turvesuo-Isosuo (Haukivuori and Virtasalmi) was completed.

PEAT PRODUCTION PERMIT APPLICATIONS BY VAPO OY, DECISIONS DELIVERED AND EIA'S

YEAR	1995	1996	1997	1998	1999	2000
SUBMITTED TO WATER RIGHTS COURT	15	13	6	11	17	4
RESOLVED BY WATER RIGHTS COURT	16	12	17	13	19	17
RESOLVED BY WATER RIGHTS APPEAL COURT	10	13	5	7	9	20
RESOLVED BY SUPREME ADMINISTRATIVE COURT	1	1	1	5	–	1
EIA PROCEDURES INITIATED	–	–	2	2	4	6
EIA PROCEDURES CONCLUDED	–	–	1	3	2	1

On 1 March 2000, the Environmental Protection Act and Statute came into force. These govern the licensing requirements for peat production and replace chapter 10 of the repealed Waters Act. All peat production areas over 10 hectares are subject to a licence. The permit appraisal process considers dust and noise impacts in addition to the watercourse and groundwater impacts. ■

More effective watercourse protection in peat production

The watercourse load caused by peat production by Vapo Oy Energia increased slightly in 2000 compared to the previous year. This was mainly caused by rainfall since 2000 was rainier than average throughout Finland.

From the point of view of peat production, rainfall in the main areas was around 20 per cent higher than the average for 1961–1990. Of the peat production months, only August was slightly drier than average. The plentiful rainfall increased the load from production areas, even though the watercourse protection structures worked properly.

The watercourse load from peat production areas was measured at a total of 109 inspection points (100 in 1999). Of these, 30 (15) were monitored all year round. A total of 1 500 load

inspection samples were taken, and on these approximately 12 000 analyses were performed in accredited water laboratories. Discharge measurements were largely made using automatic equipment.

The load was also studied in excavated and overflow areas and in afforested and irrigated areas. The inspection findings were used to calculate the suspended solid, nitrogen and phosphor load from all of Vapo Oy Energia's peat production areas.

Sedimentation ponds and bed pipe barriers provide basic treatment of run-off water at Vapo's peat production areas. In addition, more sophisticated water treatment methods are used at 50 per cent of production areas to remove dissolved

International group of scientists assembles information on the climate impacts of peat

In May 2000 a comprehensive survey was completed by an international group of scientists for the Ministry of Trade and Industry on the position of peat in Finland's greenhouse gas balances. In the report, three researchers summarize current data on the climate impacts of peat production and use, peatland drainage and of bogs in the natural state.

"We conducted the survey according to general scientific criteria, and it was our aim to use all the relevant material. It should be remembered, however, that there are still gaps in our knowledge of peatlands and peat, so there is ample work to be done", says Atte Korhola, a lecturer and academic researcher and the Finnish member of the group of scientists.

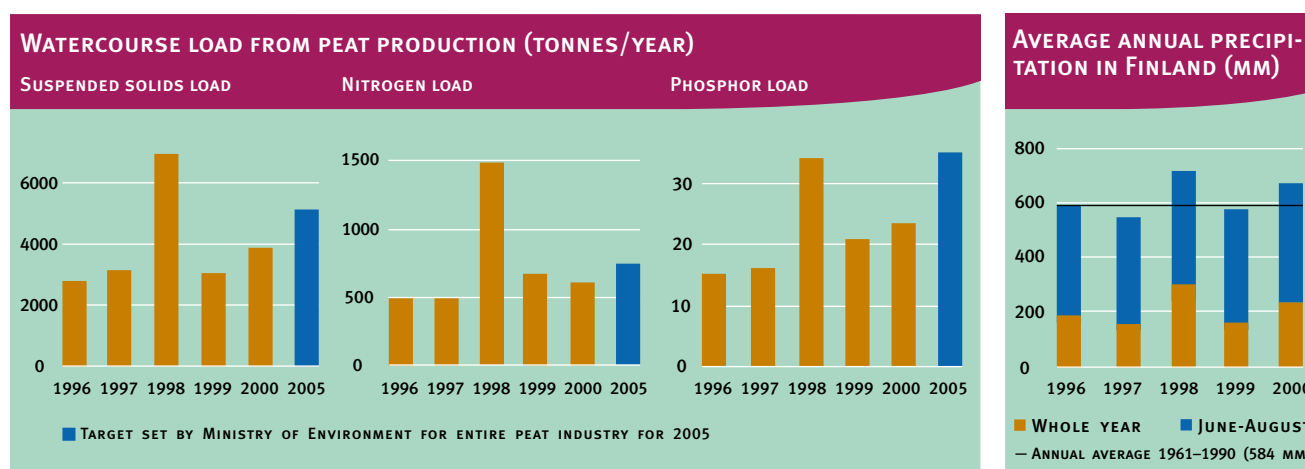
In assembling all the material, the scientists benefited from each other's complementary fields of research. Korhola has most recently researched the effects of climate change on the ecosystems of lakes, Dr Patrick Crill (USA) methane emissions from bogs in Canada and tropical areas, and Dr Ken Hargreaves

(UK) types of usages of peatlands and the effects of drainage on the surroundings.

One of the conclusions of the survey is that peat can be classified as a slowly renewable biomass fuel. Korhola bases this finding on the fact that peat is formed in the same way as other types of vegetable biomass, such as wood. The difference is that whereas trees grow to maturity in southern Finland in around one hundred years, peat layers take thousands of years to develop into a harvestable state.

The group of scientists also concluded that the impact of peat production on natural diversity does not appear to be great when compared to other forms of usage because the proportion of peatlands under peat production in Finland is small, and much of this area has been previously drained for forestry. As regards carbon dioxide emissions, the carbon binding of undisturbed peatlands, and of those drained for forestry, is currently of such an order of magnitude that it may compensate for the emissions from the use of peat for energy production.

"Based on life cycle analysis, peat production works on a sustainable basis as far as carbon is concerned when the release and binding of carbon are in balance. It must also be remembered that more peat is growing all the time, albeit slowly," Korhola adds. ■



nutrients and humus.

In 2000, Vapo sold approximately 610 000 cubic metres of bedding, absorption and compost peat. This is enough to bind

more diffuse phosphor and nitrogen loading than the load released into watercourses as a result of peat production by Vapo Oy Energia. ■

Environmental Review

Vapo Timber Oy's sawmills granted right of use of PEFC trademark

In December 2000 Vapo Timber Oy and its subsidiary Forssan Saha Oy were granted a timber chain of origin certificate and thereby at the beginning of 2001 received the right of use to the international PEFC (Pan European Forest Certification) trademark. The certificate was granted by SFS, the Finnish Standards Association, and the right of use of the PEFC trademark by the Finnish Forest Certification Council.

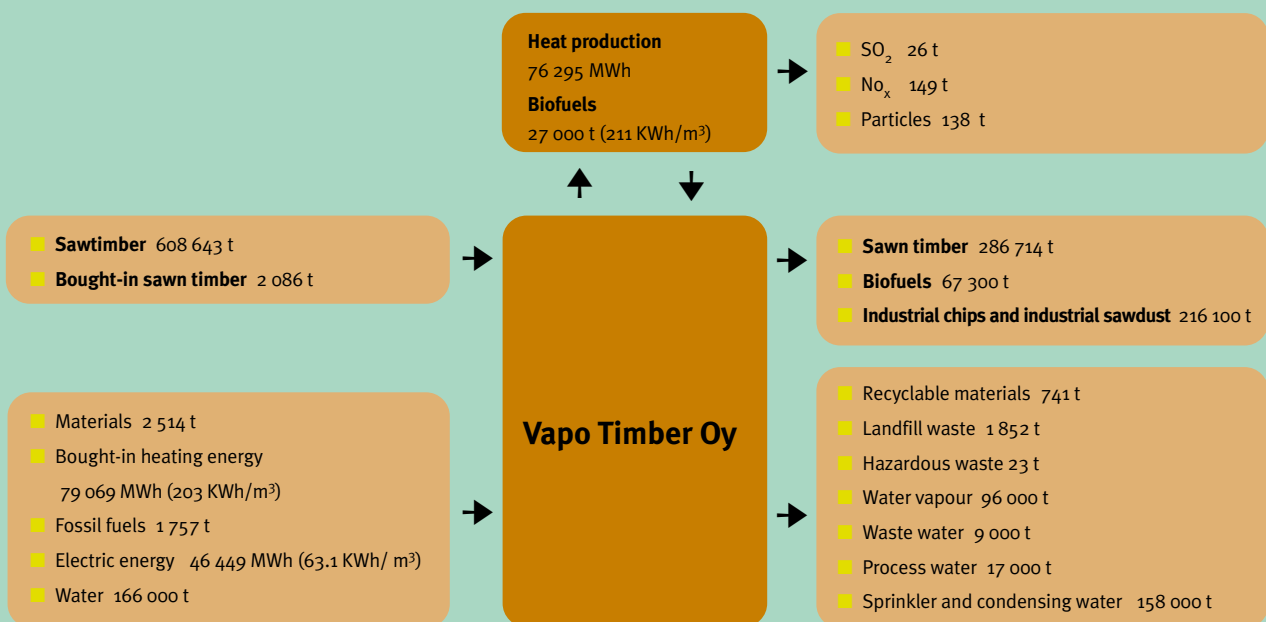
All Vapo Timber Oy's sawmills are entitled to label their products with the PEFC environment mark to show that the timber they use comes from certified sustainably managed forests. These forests are managed taking into account natural diversity and the methods respect ecologically, economically and socially sustainable forestry.

The PEFC trademark is part of the Pan European Forest Certification Scheme created by private forest owners in partnership with industry and other forest owners. The scheme also incorporates contractors', employees' and clerical



organizations. FFCS, the Finnish national forestry certification system, has been involved in the PEFC scheme from the mid-1990s. At the end of 2000, 95 per cent, or approximately 22 million hectares of Finland's forests were certified. ■

ENVIRONMENTAL IMPACTS OF SAWN TIMBER PRODUCTION BY VAPO TIMBER OY



In 2000, Vapo Timber Oy applied a model analysis to conduct its fourth survey of material flows at its sawmills and the impacts of these. A summary of the findings is given in the above diagram, in which the

principal material flows are analysed as tonnes of dry material. The findings are used in identifying the environmental impacts of the company's sawn timber production and in setting new environmental targets.

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Report of the Board of Directors

OPERATING ENVIRONMENT AND BUSINESS ACTIVITIES

ENERGY BUSINESS

Overall energy consumption in Finland in 2000 totalled 358 TWh, which was a decrease of 2% on 1999. Indigenous energy sources accounted for 28% of the total energy consumed, a decrease of 1% on 1999.

Fuel peat usage decreased rapidly in Finland during the first half of the year. Total consumption of fuel peat was 16 TWh, which is a decrease of over 3 TWh from the previous year. Peat represented 5% of the total energy consumed and 16% of indigenous energy sources, and it generated 5% of the electricity and 18% of the district heating produced in Finland. Consumption of wood-based fuels remained at the same level as in 1999 and represented 20% of all energy sources.

Usage of different fuels and forms of energy was driven by abundant supplies of low-priced electricity, which combined with warm weather to decrease peat utilization in the current energy taxation situation.

Biofuel deliveries by Vapo Oy totalled 14.3 TWh, which is a decrease of almost 20% from the previous year. Deliveries to customers in Sweden accounted for 1.7 TWh of the total. Fuel peat deliveries in Finland decreased by more than 20% and sales of wood-based fuels and usage of these fuels within the Group showed an increase of some 40%. In Finland the turnover generated by fuel peat was less than 50% of the overall turnover of the energy business.

Vapo Oy Energia increased its share of decentralized heating and electricity production in local power plants. A total of 1 TWh of heating and electricity was produced at power plants operated by Vapo or its subsidiaries, which was 21% more than in 1999.

The weather during the summer was not favourable from the peat production point of view, and the summer was particularly rainy in Sweden and the peat production areas of northern Finland. Vapo Oy produced a total of 10 million cubic metres of peat in Finland.

In Sweden, biofuel deliveries by Vapo Oy's sub-group Råsjö Torv AB totalled 1.7 TWh, which is equal to the company's production capacity. This Swedish company, which was acquired at the beginning of the year under review, increased the Vapo Group's turnover by FIM 239 million.

ENVIRONMENTAL BUSINESS

As in the previous year, the situation in the markets was one of wait-and-see, and no new decisions to build composting plants

were made. Nevertheless, at the end of the year Vapo Oy Biotech had a good order book, with orders totalling FIM 73 million. During the year construction work on the Himanka tunnel composting plant was completed and the plant was ready to be handed over to the customer. A project to supply a plant in Joutseno was on-going at the end of the year.

The most significant development project concerned the production and utilization of recovered fuels. Due to combustion problems relating to recovered fuels, the solution that has been applied utilizes gasification technology developed by Vapo Oy Biotech in conjunction with Pohjolan Voima Oy. A second important project was the construction of a Waste Management Research Unit at the Mustankorkea Waste Processing Centre.

Vapo Oy Biotech's main products were tunnel composting plants, operating services for these plants, and biofilters.

TIMBER BUSINESS

Timber demand and utilization remained at high levels in the most important market areas during the first half of 2000, but there was a corresponding increase in sawn timber supplies. This caused large fluctuations in sales and prevented price rises. At the end of the year there was a downturn in both demand and prices. Total Finnish exports of sawn timber amounted to 8.5 million cubic metres, which is the same as the figure for 1999.

Supplies of timber remained good throughout the year, but the price of saw logs set new record highs due to the large volumes required. Warm weather during the autumn contributed to the rise in prices, as it prevented the felling of stands marked for cutting during the winter.

Deliveries of sawn timber and value-added products by Vapo Timber Oy's sawmills set a new record of 728 000 cubic metres. Of this total, 533 500 cubic metres was exported. This figure includes exports via Anaika Components Ltd Oy. Production of sawn timber reached 737 000 cubic metres, even though production was cut back at the end of the year after warm autumn weather hindered raw material transportation.

GROWING MEDIA BUSINESS

Throughout Europe the growing media business suffered as a result of excessive production and tough price competition in the gardening and growing sectors. In Finland and Sweden demand for hobby gardening products continued to grow.

Sales of hobby gardening products by Kekkilä Oyj grew by 18% in Finland and 6% in Sweden. By contrast, exports of professional grower products decreased in all market areas.

Kekkilä Oyj's business operations and turnover were expanded by Hasselfors Garden AB, which was acquired from the Råsjö Torv group at the beginning of the period.

TURNOVER

The Vapo Group's turnover grew by over 14% from the previous year to FIM 2 263 million (FIM 1 981 million in 1999). Turnover was divided between the various businesses as follows: energy business FIM 962 million (FIM 881 million), timber business FIM 922 million (FIM 835 million), growing media business FIM 313 million (FIM 203 million), environmental business FIM 45 million (FIM 38 million) and other activities FIM 21 million. Of total turnover, exports accounted for FIM 620 million.

OPERATING PROFIT

The Vapo Group's operating profit was FIM 188 million, which represents 8.3% of turnover. In the previous year the Group's operating profit was FIM 154 million or 7.8% of turnover. The consolidated operating profit figures for the separate companies were: Vapo Oy FIM 92 million, the Vapo Timber group FIM 54 million, the Kekkilä group FIM 17 million and the Råsjö Torv group FIM 13 million.

The Group's planned depreciation for the accounting period amounted to FIM 148 million, or FIM 28 million more than in the previous year.

PROFITABILITY AND FINANCING

The Group's profit after financial items was FIM 161 million. Net interest expenses for the period totalled 1.1% of turnover or FIM 25 million. The equivalent figures for the previous year were 0.5% and FIM 10 million. Financial expenses were increased by external financing required for expansion of the business operations and by the rise in interest rates. The Group's interest-bearing liabilities were FIM 795 million at the end of the accounting period. The Group's profit before appropriations to reserves and taxes was FIM 195 million and taxes for the period amounted to FIM 67 million. The Group's liquidity position was good throughout the period. The equity ratio averaged 54% during the period.

INVESTMENTS

The most significant investment was the acquisition of the Swedish-based Råsjö Torv group. This raised the total

investments in the Group to FIM 346 million. The investments were divided between the Group companies as follows:

Vapo Oy FIM 134 million, Vapo Timber group FIM 29 million, Kekkilä group FIM 50 million, Råsjö Torv group FIM 61 million, Voimavasu Oy FIM 64 million and Forssan Energia Oy FIM 5 million. An increase of FIM 26 million in goodwill has been entered in the consolidated accounts in respect of the acquisition of the Swedish company.

GROUP STRUCTURE

Active sub-groups (with percentage shareholding) owned by the Parent Company, Vapo Oy, as at 31 December 2000:

- Vapo Timber group (100%), parent company Vapo Timber Oy and wholly-owned subsidiaries Forssan Saha Oy and Vapo Timber Import Oy
- Kekkilä group (59.2%), parent company Kekkilä Oyj and subsidiaries Hasselfors Garden AB (100%), Stenrøgel Mosebrug A/S (100%), VapoGro Ltd (99.5%), and Langham Oü (100%), and the latter's wholly-owned subsidiary Niibi Turvas Oü
- Råsjö Torv group (100%), parent company Råsjö Torv AB and subsidiary Svenska Torv AB (100%) and sub-group Mellansvenska Biobrånslé group (100%), parent company Mellansvenska Biobrånslé AB and the latter's wholly-owned subsidiaries Mebio Torvprodukter AB and Sandviken Avesta Torv AB.

Active subsidiary and associated companies of Vapo Oy:

- Forssan Energia Oy (100%)
- Keski-Pohjanmaan Komposti Oy (49.9%)
- Lieksan Lämpö Oy (100%)
- Mustankorkea Oy (55%)
- Mäntän Energia Oy (50%)
- Suo Oy (100%)
- Vapo Energi AB (100%)
- Vapon Tuulivoima Oy (90%)
- Voimavasu Oy (50%)

At the beginning of 2001 Vapo Oy acquired KP-Multa Oy; Mebio Torvprodukter AB, a horticultural peat company which belonged to the Råsjö Torv AB group, was sold to Kekkilä Oyj's subsidiary Hasselfors Garden AB, and Vapo Energi AB, which was previously in the direct ownership of Vapo Oy, was sold to Råsjö Torv AB. At the beginning of 2001 Kekkilä Oyj sold 49% of the shares in VapoGro Ltd to Avoncrop Ltd and 2% to VapoGro Ltd's operative management.

RESEARCH AND DEVELOPMENT

The main areas of research and development were efforts to improve the competitiveness and quality of wood-based fuels and to study the co-combustion of peat and wood. Construction of a unique full-scale Waste Management Research Unit was completed at the Mustankorkea Waste Processing Centre in Jyväskylä, and this enabled new applications to be studied. During the year under review an extensive project was also launched to study the gasification of recovered fuels. New applications for peat in agriculture and landscaping were studied in cooperation with various other organizations.

Expenditure on research and development in the Vapo Group totalled FIM 22 million in the accounting period (FIM 26 million). This figure does not include work undertaken in Sweden. An average of 22 people were employed full-time in research and development. In addition the Group collaborated with different universities and research institutes. Vapo Timber Oy is a shareholder in Wood Focus Oy, which is a centralized resource for research and development in the mechanical forest industry in Finland.

The results of the Group's research work were presented at bioenergy events in Finland and abroad.

ENVIRONMENTAL REVIEW

Environmental issues were the subject of extensive international debate during 2000. Important issues from Vapo's point of view were the report on the effects of peat on the climate, which was prepared by an international team of scientists for the Ministry of Trade and Industry, as well as a number of EU directives that are in preparation and the CEN standardization process for solid biofuels and recovered fuels.

The main emphasis in environmental protection work was on matters relating to permits for peat production sites, environmental impact assessments, after-use management of sites removed from peat production, and the entry into force of new environmental protection legislation. Research and development relating to environmental issues remained at an intense level and was undertaken in collaboration with different research institutes and universities.

On the date of Vapo's 60th Anniversary, 26 January 2000, the Vapo Oy Foundation granted funds for biofuel research and support for the establishment of a professorship in environmental technology at the University of Jyväskylä. The Foundation was set up in 1999 with the purpose of providing support for research, development and training relating to indigenous, renewable

natural resources, environmental solutions and sustainable development.

Total expenditure on environmental protection in the Vapo Group amounted to FIM 42.5 million, and 33 people were employed full-time in this field.

OUTLOOK FOR 2001

No significant changes are expected in the energy markets during the year. Fuel peat usage appears to have stopped falling and will probably start to rise slightly as new plants are taken into use.

In the electricity markets price levels are still low as a result of excess capacity. However, there are signs that the situation is returning to normal. The level of industrial production will probably remain the same, which means that during 2001 the requirement for biofuels in the heating markets will depend on the weather. A significant factor affecting peat usage, especially in electricity generation, is energy taxation, which in its present form has not yet taken into consideration the fact that fuel peat is an indigenous renewable biomass fuel.

There will probably be a slight upturn in deliveries of fuel peat by Vapo Oy Energia. Growth in sales of environmental peat is expected to continue. The increase in heating and electricity production will continue, when the power and heating plants that were constructed and upgraded during 2000 are taken into full use. The competitiveness of the energy business will improve as a result of the measures launched in 2000 to streamline basic operations. The peat production target for 2001 is 20% lower than in the previous year.

In the environmental business sector strong growth is expected during the current transition period in environmental legislation, which will last until 2005. This business operation's main products are still tunnel composting plants and plant operating services. The objective is to start export sales during 2001. Work will be continued to develop recovered and sludge fuels, and the gasification concept for their use, and it is intended that this concept will be commercialized during 2001.

In the sawn timber industry consumption and demand are expected to remain at a good level in the main markets during 2001, with the exception of Germany, where it is anticipated that demand will fall. In Finland the prospects for the early part of the year are less favourable than the expectations for the general market, and the situation may begin to improve during the second quarter at the earliest. In spite of unsatisfactory profitability, the production and supply of sawn timber will remain at high levels, which will also keep saw log prices high.

Vapo Timber Oy's sales and production targets are somewhat higher than in the previous year. Two factors – the abundant supply of sawn timber and increasing costs – represent potential threats to the profitability of the timber business.

In Kekkilä Oyj's area of activities, growth in the hobby sector is expected to continue in both Finland and Sweden. In the professional grower sector there will again be tough price competition in the European markets during the current year. As a result of the uncertain market situation, there is greater uncertainty than before about the financial performance forecast for the year. The objective for this business activity in the current year is to improve profitability in all areas of operations and achieve a higher operating profit than in the previous year.

EXPANSION OF VAPO OY'S OWNERSHIP BASE

During 2000 the Finnish State launched a bidding process to expand Vapo Oy's ownership base and to seek a Finnish strategic minority shareholder for the Company. As a result of this process, a preliminary agreement was made in November, according to which one third of the shares in Vapo Oy will be sold to Metsäliitto Osuuskunta. The EU and Finnish competition authorities have now given their approval for the share sale on condition that Vapo and Metsäliitto dispose of part of their wood fuel operations to a new operator which must be found for this sector. ■

Vapo Oy's Board of Directors

**Raimo Rantala, Paula Nybergh,
Aarno Heinonen, Esko Muhonen (Chairman),
Mauri Jaakonaho, Juha Tuominen and
Kari Poikolainen (Secretary).**



Administration of Vapo Oy, 31.12.2000

SUPERVISORY BOARD

Chairman

Markku Koski, Farmer

Vice Chairman

Aarne Heikkilä, Executive Director

Members

Terttu Kangasharju, R & D Engineer (until 12.4.2000)

Juha Karpio, MP

Katri Komi, MP

Reijo Laitinen, MP

Christel Liljeström, Farmer

Erkki Pulliainen, MP

Leena Rauhala, MP (from 12.4.2000)

Taisto Turunen, Chief Director

Jan Vapaavuori, Managing Director,

Track and Field Finland Oy

STAFF REPRESENTATIVES ON SUPERVISORY BOARD

(1.7.1998–30.6.2000)

Erkki Flink,

sawmill workers

Jorma Koivistoinen,

peat industry workers

Ilpo Vuorela,

salaried office personnel

STAFF REPRESENTATIVES ON SUPERVISORY BOARD

(1.7.2000–30.6.2002)

Eetu Karjalainen,

forestry and sawmill workers

Teuvo Penttinen,

peat industry workers

Terho Turunen,

salaried office personnel

DEPUTY STAFF REPRESENTATIVES ON SUPERVISORY BOARD

(1.7.1998–30.6.2000)

Hannu Laukkanen,

salaried office personnel

Markku Salonen,

sawmill workers

Heikki Törmä,

peat industry workers

DEPUTY STAFF REPRESENTATIVES ON SUPERVISORY BOARD

(1.7.2000–30.6.2002)

Paavo Kivimäki,

salaried office personnel

Kauko Korhonen,

peat industry workers (until 26.11.2000)

Kalevi Siivikko,

forestry and sawmill workers

Timo Talasoja,

peat industry workers (from 27.11.2000)

BOARD OF DIRECTORS

Chairman

Esko Muhonen, Managing Director, Vapo Oy

Vice Chairman

Aarno Heinonen, VP, Finance and Administration,

Sanoma-WSOY Oyj (from 26.4.2000, before which

Board member)

Members

Mauri Jaakonaho, Senior Vice President, Finance and

Administration, Metso Automation Oy

Paula Nybergh, Deputy Director General, Ministry

of Trade and Industry (from 26.4.2000)

Raimo Rantala, Controller, Vapo Oy

Juha Tuominen, Managing Director, Vapo Timber Oy

(Vice Chairman until 26.4.2000)

AUDITORS

Tuokko Deloitte & Touche Oy, Certified Public

Accountants, Yrjö Tuokko, CPA

BUSINESS ACTIVITY MANAGEMENT CHANGES

Juhani Hakkarainen was appointed Director, Energy

Business, with effect from 1.7.2000. His predecessor was

Seppo Sänkiaho. Juhani Hakkarainen was previously

Director of Vapo Oy Energia's Eastern Finland Unit.

Income Statement

FIM 1000	NOTES	GROUP		PARENT COMPANY	
		1.1.–31.12.2000	1.1.–31.12.1999	1.1.–31.12.2000	1.1.–31.12.1999
TURNOVER	1	2 262 891	1 980 539	744 735	817 349
INCREASE/DECREASE IN INVENTORIES OF FINISHED GOODS AND WORK IN PROGRESS		+5 035	+42 811	-13 386	+42 298
PRODUCTION FOR OWN USE		7 012	26 150	3 759	20 406
SHARE OF ASSOCIATED COMPANY PROFIT		729	188		
OTHER OPERATING INCOME		32 778	13 434	22 162	9 000
MATERIALS AND SERVICES					
RAW MATERIALS AND CONSUMABLES:					
PURCHASES DURING THE PERIOD		837 462	645 706	89 578	82 879
DECREASE/INCREASE IN INVENTORIES		-10 762	+26 327	-7 092	-4 721
EXTERNAL CHARGES		287 032	587 898	158 573	386 801
MATERIALS AND SERVICES, TOTAL		1 113 732	1 259 931	241 059	464 959
SALARIES, WAGES AND SOCIAL EXPENSES	2				
SALARIES, WAGES AND REMUNERATION		217 558	184 401	74 142	75 370
SOCIAL EXPENSES					
PENSION EXPENSES		36 437	34 002	13 240	13 807
OTHER SOCIAL EXPENSES		36 056	26 099	9 306	9 875
SALARIES, WAGES AND SOCIAL EXPENSES, TOTAL		290 051	244 502	96 688	99 052
DEPRECIATION AND WRITE-DOWNS	3				
PLANNED DEPRECIATION		137 072	113 137	69 789	74 486
AMORTIZATION OF GOODWILL ON CONSOLIDATION		11 172	7 530		
DEPRECIATION AND WRITE-DOWNS, TOTAL		148 244	120 667	69 789	74 486
OTHER OPERATING EXPENSES	5	568 122	284 057	257 355	156 734
EXPENSES, TOTAL		2 120 149	1 909 157	664 891	795 231
OPERATING PROFIT		188 296	153 965	92 379	93 822
FINANCIAL INCOME AND EXPENSES:	6				
INCOME FROM HOLDINGS IN GROUP COMPANIES				28 047	28 502
INCOME FROM HOLDINGS IN ASSOCIATED COMPANIES					347
INCOME FROM OTHER INVESTMENTS HELD AS NON-CURRENT ASSETS		2 692	1 061	2 599	927
INTEREST AND FINANCIAL INCOME					
FROM GROUP COMPANIES				6 811	3 391
FROM OTHER SOURCES		10 897	8 440	8 443	7 363
EXCHANGE RATE DIFFERENCES		-4 543	-6 952	-609	544
INTEREST AND OTHER FINANCIAL EXPENSES					
PAID TO GROUP COMPANIES				-1 500	-1 215
PAID TO OTHER PARTIES		-35 975	-18 479	-26 832	-12 194
FINANCIAL INCOME AND EXPENSES, TOTAL		-26 929	-15 930	16 959	27 665
PROFIT BEFORE EXTRAORDINARY ITEMS		161 367	138 035	109 338	121 487
EXTRAORDINARY ITEMS	7				
EXTRAORDINARY INCOME		33 924		33 924	
PROFIT BEFORE APPROPRIATIONS AND TAXES		195 291	138 035	143 262	121 487
APPROPRIATIONS					
CHANGE IN DEPRECIATION DIFFERENCE	4			+28 550	+30 937
INCOME TAXES	8	-70 475	-47 602	-48 046	-43 260
CHANGE IN DEFERRED TAX LIABILITY		3 103	5 005		
NET PROFIT BEFORE MINORITY INTEREST		127 919	95 438	123 766	109 164
MINORITY INTEREST		-4 641	-5 758		
NET PROFIT		123 278	89 680	123 766	109 164

Balance Sheet

FIM 1000	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
ASSETS				
NON-CURRENT ASSETS				
	NOTES 9			
INTANGIBLE ASSETS				
INTANGIBLE RIGHTS	14 499	12 984	11 280	9 215
GOODWILL			3 127	4 170
GOODWILL ON CONSOLIDATION	82 744	85 152		
OTHER CAPITALIZED EXPENDITURE	9 451	8 542	2 826	3 311
ADVANCES PAID	2 543	585	818	246
	109 237	107 263	18 051	16 942
TANGIBLE ASSETS				
LAND AND WATER AREAS	142 993	134 060	118 509	111 845
BUILDINGS AND STRUCTURES	229 659	195 732	57 512	59 858
MACHINERY AND EQUIPMENT	566 365	501 495	192 510	238 575
PREPARATION OF PEAT RESERVES AND OTHER TANGIBLE ASSETS	630 053	552 211	439 549	417 809
ADVANCES PAID AND CONSTRUCTION IN PROGRESS	30 154	68 510	8 916	19 283
	1 599 224	1 452 008	816 996	847 370
INVESTMENTS				
HOLDINGS IN GROUP COMPANIES			459 955	340 368
SHARES AND HOLDINGS IN ASSOCIATED COMPANIES	7 542	8 185	4 919	4 919
OTHER SHARES AND HOLDINGS	23 061	22 257	18 494	17 682
	30 603	30 442	483 368	362 969
CURRENT ASSETS				
INVENTORIES				
RAW MATERIALS AND CONSUMABLES	77 874	61 940	22 685	15 594
WORK IN PROGRESS	1 707	523	1 707	523
FINISHED GOODS	495 639	393 986	320 812	301 456
ADVANCES PAID	22 685	10 491	73	16
	597 905	466 940	345 277	317 589
RECEIVABLES				
10				
LONG-TERM				
RECEIVABLES FROM GROUP COMPANIES			86 278	54 239
LOANS RECEIVABLE	1 996	830	1 996	830
OTHER RECEIVABLES	3 054			
	5 050	830	88 274	55 069
CURRENT				
ACCOUNTS RECEIVABLE	284 097	277 137	107 741	131 871
RECEIVABLES FROM GROUP COMPANIES			81 104	27 767
RECEIVABLES FROM ASSOCIATED COMPANIES	11 969	4 249	7 157	4 249
LOANS RECEIVABLE	551	301	479	250
OTHER RECEIVABLES	5 502	2 795	376	48
PREPAID EXPENSES AND ACCRUED INCOME	38 203	63 986	9 374	37 279
	340 322	348 468	206 231	201 464
INVESTMENTS				
OTHER INVESTMENTS	110 618	45 958	110 618	45 958
CASH ON HAND AND BANK BALANCES				
	75 360	139 407	32 737	117 545
TOTAL ASSETS	2 868 319	2 591 316	2 101 552	1 964 906

Balance Sheet

FIM 1000	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
SHAREHOLDERS' EQUITY AND LIABILITIES				
	NOTES			
SHAREHOLDERS' EQUITY	11			
SHARE CAPITAL	300 000	300 000	300 000	300 000
ORDINARY RESERVE	127	130		
CONTINGENCY RESERVE	179 030	179 030	178 945	178 945
TRANSFERRED FROM VOLUNTARY RESERVES AND DEPRECIATION DIFFERENCE		319 495		
RETAINED EARNINGS	564 684	523 366	405 974	353 910
TRANSLATION DIFFERENCE	-2 560	209		
PROFIT FOR THE PERIOD	123 278	89 680	123 766	109 164
SHAREHOLDERS' EQUITY, TOTAL	<u>1 471 710</u>	<u>1 411 910</u>	<u>1 008 685</u>	<u>942 019</u>
MINORITY INTEREST	41 120	40 149		
APPROPRIATIONS				
DEPRECIATION DIFFERENCE			296 817	325 366
PROVISIONS	12			
OTHER PROVISIONS	41 771	23 166	20 955	21 438
LIABILITIES	13			
LONG-TERM				
LOANS FROM FINANCIAL INSTITUTIONS	566 756	434 647	378 321	296 793
PENSION FUND LOANS	65 037	79 048	60 506	74 080
DEFERRED TAX LIABILITY	135 883	126 222		
CONTRACT DEPOSITS AND OTHER LIABILITIES	47 813	47 768	5 444	5 989
	<u>815 489</u>	<u>687 685</u>	<u>444 271</u>	<u>376 862</u>
CURRENT				
LOANS FROM FINANCIAL INSTITUTIONS	98 798	52 280	67 325	32 461
PENSION FUND LOANS	14 011	14 028	13 574	13 574
ADVANCES RECEIVED	62 136	73 455	52 096	72 958
ACCOUNTS PAYABLE	154 454	119 868	57 596	43 335
LIABILITIES TO GROUP COMPANIES			38 260	15 949
LIABILITIES TO ASSOCIATED COMPANIES	1 178	5 687	1 178	5 687
OTHER CURRENT LIABILITIES	84 009	90 940	68 513	75 668
ACCRUED LIABILITIES	83 643	72 148	32 282	39 589
	<u>498 229</u>	<u>428 406</u>	<u>330 824</u>	<u>299 221</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	<u>2 868 319</u>	<u>2 591 316</u>	<u>2 101 552</u>	<u>1 964 906</u>

Cash Flow Statement

FIM 1000	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
CASH FLOW FROM OPERATING ACTIVITIES				
PROFIT BEFORE EXTRAORDINARY ITEMS	161 367	138 035	109 338	121 487
ADJUSTMENTS:				
PLANNED DEPRECIATION	148 244	120 667	69 789	74 486
UNREALIZED EXCHANGE GAINS AND LOSSES				-904
OTHER INCOME AND EXPENSES NOT INVOLVING CASH FLOW	3 797	10	-483	-30
FINANCIAL INCOME AND EXPENSES	26 929	15 929	-16 959	-26 761
OTHER ADJUSTMENTS	-14 736	-2 463	-14 338	-877
CASH FLOW BEFORE CHANGE IN WORKING CAPITAL	325 601	272 178	147 347	167 401
CHANGE IN WORKING CAPITAL:				
DECREASE (+) / INCREASE (-)				
IN CURRENT NON-INTEREST BEARING RECEIVABLES	3 391	-39 192	40 909	-2 577
INCREASE (-) / DECREASE (+) IN INVENTORIES	-97 040	-23 322	6 237	-46 793
INCREASE (+) / DECREASE (-)				
IN CURRENT NON-INTEREST BEARING LIABILITIES	46 905	-46 930	-2 334	-35 006
CASH FLOW FROM OPERATING ACTIVITIES BEFORE FINANCIAL ITEMS AND TAXES	278 857	162 734	192 159	83 025
INTEREST AND OTHER FINANCIAL EXPENSES PAID	-43 060	-24 767	-29 053	-12 593
INTEREST RECEIVED	10 414	11 141	14 235	13 463
DIRECT TAXES PAID	-62 357	-48 979	-42 488	-46 994
CASH FLOW FROM OPERATING ACTIVITIES (A)	183 854	100 129	134 853	36 901
CASH FLOW FROM INVESTING ACTIVITIES				
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	-315 012	-510 441	-81 636	-106 565
PROCEEDS FROM DISPOSAL OF TANGIBLE AND INTANGIBLE ASSETS	46 152	23 747	43 961	15 253
OTHER INVESTMENTS	-3 670	-4 967	-124 150	-203 264
REPAYMENTS OF LOANS RECEIVABLE				3 364
PROCEEDS FROM DISPOSAL OF OTHER INVESTMENTS	11 819	686	12 821	4 077
DIVIDENDS RECEIVED	2 692	1 311	30 646	29 776
CASH FLOW FROM INVESTING ACTIVITIES (B)	-258 019	-489 664	-118 358	-257 359
CASH FLOW FROM FINANCING ACTIVITIES				
LONG-TERM LOANS ISSUED	-5 236	-886	-54 565	-26 475
REPAYMENTS OF LONG-TERM LOANS RECEIVABLE	786	192	17 650	19 558
CURRENT LOANS ISSUED	-22		-46 586	-2 092
REPAYMENTS OF CURRENT LOANS RECEIVABLE		169		
INCREASES IN CURRENT LOANS		70 068	1 929	45 254
REPAYMENTS OF CURRENT LOANS	-21 338			
INCREASES IN LONG-TERM LOANS	223 720	388 202	148 853	241 606
REPAYMENTS OF LONG-TERM LOANS	-62 200	-63 515	-46 824	-51 510
DIVIDENDS PAID AND OTHER DISTRIBUTIONS OF PROFIT	-60 932	-76 497	-57 100	-75 000
CASH FLOW FROM FINANCING ACTIVITIES (C)	74 778	317 733	-36 643	151 341
DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	613	-71 802	-20 148	-69 117
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	185 365	257 167	163 503	232 620
CASH AND CASH EQUIVALENTS AT END OF PERIOD	185 978	185 365	143 355	163 503

Accounting Principles

EXTENT OF CONSOLIDATION

The consolidated financial statements include the Parent Company, Vapo Oy, and all active companies in which the Parent Company either owns more than 50% of the voting rights or otherwise exercises control. In the cash flow statement, entries relating to subsidiaries acquired or divested have been shown as net total amounts. Associated companies are those in which the Parent Company owns a 20–50% holding.

PRINCIPLES OF CONSOLIDATION

The acquisition method of consolidation has been adopted. Inter-company transactions, receivables and liabilities, internal margins and distribution of profit within the Group have been eliminated. Minority interest has been disclosed separately from the Group's net profit and shareholders' equity in the consolidated accounts. Corporation tax credits received by subsidiary companies have been set off against the tax charge for the period in the consolidated accounts.

The results of associated companies are accounted for in the consolidated financial statements using the equity method.

In the consolidated financial statements the depreciation difference and voluntary reserves have been separated into shareholders' equity and deferred tax liabilities, and that part of the change in depreciation difference and voluntary reserves which has an effect on income is explained in the notes to the accounts.

FOREIGN CURRENCY ITEMS AND HEDGING ARRANGEMENTS

In translating the accounts of overseas subsidiaries into Finnish Marks, income statements have been translated at the average rate of exchange for the accounting period and balance sheets at the Bank of Finland's average rate of exchange at the balance sheet date. Translation differences arising on the elimination of shareholders' equity in subsidiaries have been entered as shareholders' equity.

Foreign currency denominated receivables and liabilities have been translated to Finnish Marks at the Bank of Finland's average rate of exchange at the balance sheet date. Receivables and liabilities in the currencies of the Euro zone have been translated

at the conversion rates fixed on December 31, 1998. The exchange rate differences arising have been entered in the income statement. As an exception to this principle, unrealized exchange rate differences relating to loans issued to Vapo Energi AB and Råsjö Torv AB have been shown in the balance sheet.

Forward contracts and options used as hedges against currency risks have been stated at the appropriate rate on the balance sheet date. The interest component has been apportioned over the term of the contract, and exchange rate differences arising on contracts to hedge liabilities or receivables have been entered as exchange rate differences in the income statement.

INVENTORIES

From the beginning of 2000 the cost of inventory also includes an appropriate proportion of the variable indirect costs of acquisition and manufacture. In earlier years inventories were valued at direct cost. Figures for previous periods have not been adjusted for comparability with the figures for 2000. The change in the basis of inventory valuation is shown as other extraordinary income.

Inventories include peat reserves that have been processed ready for sale. Unprocessed peat reserves are included in fixed assets and depreciated according to utilization.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at original cost less depreciation. Revaluations included in the balance sheet values in earlier periods were written off in 2000. Planned depreciation is charged on a straight-line basis against the original cost of the asset. In each case the straight-line depreciation rate is based on the useful life of the asset:

- intangible rights 5–10 years
- buildings and structures 20–40 years
- machinery and equipment 3–15 years
- peat reserves – according to utilization
- other tangible assets 10–40 years
- other capitalized expenditure 4–10 years
- goodwill on consolidation 5–12 years

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
1 TURNOVER BY BUSINESS ACTIVITY				
- ENERGY	961 547	881 485	697 813	784 986
- GROWING MEDIA AND FERTILIZERS	313 547	203 431		
- SAWMILLS	921 612	834 803		
- ENVIRONMENTAL BUSINESS ACTIVITIES	44 849	38 239	22 787	7 550
- OTHER ACTIVITIES	21 336	22 581	24 135	24 813
	<u>2 262 891</u>	<u>1 980 539</u>	<u>744 735</u>	<u>817 349</u>
TURNOVER BY MARKET AREA				
- FINLAND	1 354 855	1 327 265	728 674	806 335
- OTHER NORDIC COUNTRIES	325 549	82 085	11 478	9 693
- OTHER EUROPEAN COUNTRIES	475 532	465 410	311	958
- OTHER MARKETS	106 955	105 779	4 272	363
	<u>2 262 891</u>	<u>1 980 539</u>	<u>744 735</u>	<u>817 349</u>
2 SALARIES, WAGES AND SOCIAL EXPENSES				
SALARIES AND WAGES	217 558	184 401	74 142	75 370
PENSION EXPENSES	36 437	34 002	13 240	13 807
OTHER STATUTORY SOCIAL EXPENSES	31 124	21 509	7 632	7 440
VOLUNTARY SOCIAL EXPENSES	4 932	4 590	1 674	2 435
	<u>290 051</u>	<u>244 502</u>	<u>96 688</u>	<u>99 052</u>
SALARIES AND REMUNERATION PAID TO SENIOR MANAGEMENT				
MANAGING DIRECTORS	6 584	4 034		
SUPERVISORY BOARD	437	372	437	372
BOARD OF DIRECTORS	471	232	150	126
NUMBER OF EMPLOYEES				
WAGE-EARNING EMPLOYEES, AVERAGE	744	675	290	200
SALARIED EMPLOYEES, AVERAGE	545	487	178	298
EMPLOYEES, AVERAGE	<u>1 289</u>	<u>1 162</u>	<u>468</u>	<u>498</u>
3 PLANNED DEPRECIATION				
INTANGIBLE RIGHTS	2 650	2 101	1 853	1 156
GOODWILL			1 043	1 042
GOODWILL ON CONSOLIDATION	11 172	7 530		
OTHER CAPITALIZED EXPENDITURE	2 469	5 114	771	749
LAND AND WATER AREAS		1 817		1 817
BUILDINGS AND STRUCTURES	15 532	12 685	4 732	4 596
MACHINERY AND EQUIPMENT	83 040	64 112	41 227	41 787
OTHER TANGIBLE ASSETS	33 381	27 308	20 163	23 339
TOTAL	<u>148 244</u>	<u>120 667</u>	<u>69 789</u>	<u>74 486</u>
4 CHANGE IN DEPRECIATION DIFFERENCE				
BUILDINGS AND STRUCTURES			-1 603	-1 670
MACHINERY AND EQUIPMENT			-22 228	-14 137
OTHER TANGIBLE ASSETS			-4 719	-15 130
TOTAL			<u>-28 550</u>	<u>-30 937</u>
5 CHANGE IN PROVISIONS				
CHANGE IN PROVISIONS	<u>3 154</u>	<u>198</u>	<u>-483</u>	<u>-30</u>

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
6 TOTAL DIVIDEND INCOME, INTEREST INCOME AND INTEREST EXPENSE				
DIVIDEND INCOME FROM GROUP COMPANIES			22 415	20 521
CORPORATION TAX CREDITS			5 632	7 981
DIVIDEND INCOME FROM ASSOCIATED COMPANIES				250
CORPORATION TAX CREDITS				97
INCOME FROM HOLDINGS IN OTHER COMPANIES	2 692	1 061	2 599	927
INTEREST INCOME	10 894	8 415	15 254	10 754
INTEREST EXPENSES	35 496	17 318	27 899	13 303
7 EXTRAORDINARY INCOME				
CHANGE IN BASIS FOR DETERMINING INVENTORY COST	33 924		33 924	
8 INCOME TAXES				
FOR FINANCIAL PERIOD	69 922	44 855	47 551	40 678
FOR EARLIER PERIODS	553	2 747	495	2 582
TOTAL	70 475	47 602	48 046	43 260
9 FIXED ASSETS BY CATEGORY				
INTANGIBLE RIGHTS				
INITIAL COST 1 JAN	30 052	27 714	22 434	22 622
ADDITIONS	4 199	4 150	3 938	2 019
DISPOSALS	-573	-1 812	-560	-2 207
INITIAL COST 31 DEC	33 678	30 052	25 812	22 434
ACCUMULATED DEPRECIATION 1 JAN	-17 068	-16 663	-13 219	-14 253
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	539	1 696	540	2 190
DEPRECIATION FOR PERIOD	-2 650	-2 101	-1 853	-1 156
ACCUMULATED DEPRECIATION 31 DEC	-19 179	-17 068	-14 532	-13 219
BOOK VALUE 31 DEC	14 499	12 984	11 280	9 215
GOODWILL				
INITIAL COST 1 JAN			5 212	0
ADDITIONS				5 212
INITIAL COST 31 DEC			5 212	5 212
ACCUMULATED DEPRECIATION 1 JAN			-1 042	0
DEPRECIATION FOR PERIOD			-1 043	-1 042
ACCUMULATED DEPRECIATION 31 DEC			-2 085	-1 042
BOOK VALUE 31 DEC			3 127	4 170
GOODWILL ON CONSOLIDATION				
INITIAL COST 1 JAN	98 551	19 661		
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	335			
ADDITIONS	8 745	80 689		
TRANSFERS BETWEEN CATEGORIES		-1 799		
INITIAL COST 31 DEC	107 631	98 551		

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
ACCUMULATED DEPRECIATION 1 JAN	-13 399	-6 286		
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN	-335			
EXCHANGE RATE DIFFERENCES	19			
DEPRECIATION FOR PERIOD	-11 172	-7 530		
ACCUMULATED DEPRECIATION RELATING TO TRANSFERS		417		
ACCUMULATED DEPRECIATION 31 DEC	-24 887	-13 399		
BOOK VALUE 31 DEC	82 744	85 152		
OTHER CAPITALIZED EXPENDITURE				
INITIAL COST 1 JAN	34 928	34 519	22 429	22 122
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	1 268	1 461		
ADDITIONS	2 176	3 190	286	307
DISPOSALS		-4 242		
INITIAL COST 31 DEC	38 372	34 928	22 715	22 429
ACCUMULATED DEPRECIATION 1 JAN	-26 386	-24 585	-19 118	-18 369
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN	-66	-775		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS		4 088		
DEPRECIATION FOR PERIOD	-2 469	-5 114	-771	-749
ACCUMULATED DEPRECIATION 31 DEC	-28 921	-26 386	-19 889	-19 118
BOOK VALUE 31 DEC	9 451	8 542	2 826	3 311
LAND AND WATER AREAS				
INITIAL COST 1 JAN	131 816	94 085	112 101	78 946
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	3 028	3 560		
ADDITIONS	9 402	21 749	7 624	21 749
DISPOSALS	-997	-2 161	-960	-2 161
TRANSFER FROM OTHER TANGIBLE ASSETS		14 583		13 567
INITIAL COST 31 DEC	143 249	131 816	118 765	112 101
ACCUMULATED DEPRECIATION 1 JAN	-256	0	-256	0
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS		1 561		1 561
DEPRECIATION FOR PERIOD		-1 817		-1 817
ACCUMULATED DEPRECIATION 31 DEC	-256	-256	-256	-256
REVALUATIONS		2 500		
BOOK VALUE 31 DEC	142 993	134 060	118 509	111 845
BUILDINGS AND STRUCTURES				
INITIAL COST 1 JAN	296 934	247 217	110 720	108 031
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	25 411	29 374		
EXCHANGE RATE DIFFERENCES	-21	21		
ADDITIONS	35 244	23 201	3 538	6 000
DISPOSALS	-3 255	-3 311	-3 066	-3 311
TRANSFERS BETWEEN CATEGORIES		432		
INITIAL COST 31 DEC	354 313	296 934	111 192	110 720
ACCUMULATED DEPRECIATION 1 JAN	-102 602	-85 030	-50 862	-48 301
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN	-8 625	-6 838		
EXCHANGE RATE DIFFERENCES	51	-4		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	2 054	1 955	1 914	2 035
DEPRECIATION FOR PERIOD	-15 532	-12 685	-4 732	-4 596
ACCUMULATED DEPRECIATION 31 DEC	-124 654	-102 602	-53 680	-50 862
REVALUATIONS		1 400		
BOOK VALUE 31 DEC	229 659	195 732	57 512	59 858

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
MACHINERY AND EQUIPMENT				
INITIAL COST 1 JAN	995 902	804 504	570 854	552 520
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	127 251	105 353		
EXCHANGE RATE DIFFERENCES	-149	979		
ADDITIONS	144 449	112 004	34 053	36 819
DISPOSALS	-83 796	-26 874	-76 196	-18 485
TRANSFERS BETWEEN CATEGORIES	-19 791	-64		
INITIAL COST 31 DEC	1 163 866	995 902	528 711	570 854
ACCUMULATED DEPRECIATION 1 JAN	-494 407	-397 857	-332 279	-297 806
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN	-83 515	-39 859		
EXCHANGE RATE DIFFERENCES	517	-466		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	62 944	7 887	37 305	7 314
DEPRECIATION FOR PERIOD	-83 040	-64 112	-41 227	-41 787
ACCUMULATED DEPRECIATION 31 DEC	-597 501	-494 407	-336 201	-332 279
BOOK VALUE 31 DEC	566 365	501 495	192 510	238 575
MACHINERY AND EQUIPMENT, SHARE OF BOOK VALUE 31 DEC	442 051	351 976	119 153	136 146
PREPARATION OF PEAT RESERVES AND OTHER TANGIBLE ASSETS				
INITIAL COST 1 JAN	859 214	722 264	687 837	673 471
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN	86 709	97 232		
EXCHANGE RATE DIFFERENCES	-235	753		
ADDITIONS	85 585	53 204	41 989	28 602
DISPOSALS	-325	-669	-265	-669
TRANSFERS BETWEEN CATEGORIES	19 551	-13 570		-13 567
INITIAL COST 31 DEC	1 050 499	859 214	729 561	687 837
ACCUMULATED DEPRECIATION 1 JAN	-307 003	-259 315	-270 028	-247 287
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN	-60 953	-20 869		
EXCHANGE RATE DIFFERENCES	147	-109		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	-19 256	598	179	598
DEPRECIATION FOR PERIOD	-33 381	-27 308	-20 163	-23 339
ACCUMULATED DEPRECIATION 31 DEC	-420 446	-307 003	-290 012	-270 028
BOOK VALUE 31 DEC	630 053	552 211	439 549	417 809
HOLDINGS IN GROUP COMPANIES				
INITIAL COST 1 JAN			340 368	144 068
ADDITIONS			120 481	201 142
DISPOSALS			-894	-4 842
INITIAL COST 31 DEC			459 955	340 368
SHARES IN ASSOCIATED COMPANIES				
INITIAL COST 1 JAN	8 185	3 328	4 919	1 000
ADDITIONS	733	4 857		3 919
DISPOSALS	-1 376			
BOOK VALUE 31 DEC	7 542	8 185	4 919	4 919
OTHER SHARES AND HOLDINGS				
INITIAL COST 1 JAN	22 257	20 475	17 682	17 535
ASSETS OF ACQUIRED SUBSIDIARY 1 JUL		362		
ADDITIONS	1 251	2 106	1 250	622
DISPOSALS	-447	-686	-438	-475
BOOK VALUE 31 DEC	23 061	22 257	18 494	17 682

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
GROUP COMPANIES				
	SHAREHOLDING	SHAREHOLDING	SHAREHOLDING	SHAREHOLDING
BIOFILTER OY, HELSINKI	100 %	100 %	100 %	100 %
BIOLAPPI OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
FORSSAN ENERGIA OY, FORSSA	100 %	100 %	100 %	100 %
FORSSAN SAHA OY, FORSSA	100 %	100 %	0 %	0 %
HASSELFORS GARDEN AB, SWEDEN	100 %		0 %	
KEKKILÄ OYJ, EURAJOKI	59 %	60 %	59 %	60 %
KIINTEISTÖ OY HYRYLÄN NURMIKKO, TUUSULA	100 %	100 %	0 %	0 %
LANGHAM OÜ, ESTONIA	100 %	100 %	0 %	0 %
LIEKSAN LÄMPÖ OY, LIEKSA	100 %	100 %	100 %	100 %
MEBIO TORVPRODUKTER AB, SWEDEN	100 %		0 %	
MELLANSVENSKA BIOBRÄNSLE AB, SWEDEN	100 %		0 %	
MUSTANKORKEA OY, JYVÄSKYLÄ	55 %	55 %	55 %	55 %
NAISTENLAHDEN TURVE OY, TAMPERE	100 %		100 %	
NIIBI TURVAS OÜ, ESTONIA	100 %	100 %	0 %	0 %
RÄSJÖ TORV AB, SWEDEN	100 %		100 %	
SANDVIKEN AVESTA TORV AB, SWEDEN	100 %		0 %	
STENRØGEL MOSEBRUG AS, DENMARK	100 %	100 %	0 %	0 %
Suo OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
SVENSKA TORV AB, SWEDEN	100 %		0 %	
VAM VAPO WASTECH LTD OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
VAPO ENERGI AB, SWEDEN	100 %	100 %	100 %	100 %
VAPOGRO LTD, UK	99 %	99 %	0 %	0 %
VAPON TUULIVOIMA OY, JYVÄSKYLÄ	90 %	90 %	90 %	90 %
VAPO TIMBER IMPORT OY, JYVÄSKYLÄ	100 %	100 %	0 %	0 %
VAPO TIMBER OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
VOIMAVASU OY, JYVÄSKYLÄ	50 %	50 %	50 %	50 %
ASSOCIATED COMPANIES				
ANAICA COMPONENTS LTD OY, LIEKSA	40 %	40 %	0 %	0 %
KESKI-POHJANMAAN KOMPOSTI OY, HIMANKA	50 %	50 %	50 %	50 %
MÄNTÄN ENERGIA OY, MÄNTTÄ	50 %	50 %	50 %	50 %
10 RECEIVABLES FROM GROUP COMPANIES				
LONG-TERM LOANS RECEIVABLE			86 278	54 239
ACCOUNTS RECEIVABLE			9 344	5 111
LOANS RECEIVABLE			71 059	22 565
PREPAID EXPENSES AND ACCRUED INCOME			701	91
TOTAL			<u>167 382</u>	<u>82 006</u>
RECEIVABLES FROM ASSOCIATED COMPANIES				
ACCOUNTS RECEIVABLE	<u>11 969</u>	<u>4 249</u>	<u>7 157</u>	<u>4 249</u>
MATERIAL ITEMS INCLUDED IN PREPAID EXPENSES AND ACCRUED INCOME				
INDIRECT TAXES	14 555	34 969		16 640
TAXES	170	5 667		5 638
COMPENSATION CLAIMS	1 400	7 225		7 225
SUBSIDIES	5 981	2 631	3 106	1 600
SOCIAL SECURITY	3 500	1 041	1 739	1 041
ENERGY CHARGES PENDING INVOICING	1 550	1 179		
VALUATION ITEMS	1 571		1 571	
OTHER PREPAID EXPENSES AND ACCRUED INCOME	9 476	11 274	2 958	5 135
TOTAL	<u>38 203</u>	<u>63 986</u>	<u>9 374</u>	<u>37 279</u>

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
11 SHAREHOLDERS' EQUITY				
SHARE CAPITAL 1 JAN AND 31 DEC	300 000	300 000	300 000	300 000
ORDINARY RESERVE 1 JAN	130	118		
EXCHANGE RATE DIFFERENCE	-3	12		
ORDINARY RESERVE 31 DEC	<u>127</u>	<u>130</u>		
TRANSLATION DIFFERENCE 1 JAN	104	31		
CHANGE IN TRANSLATION DIFFERENCE	-612	73		
TRANSLATION DIFFERENCE 31 DEC	<u>-508</u>	<u>104</u>		
RESTRICTED EQUITY, TOTAL	<u>299 619</u>	<u>300 234</u>	<u>300 000</u>	<u>300 000</u>
CONTINGENCY RESERVE 1 JAN AND 31 DEC	<u>179 030</u>	<u>179 030</u>	<u>178 945</u>	<u>178 945</u>
OTHER NON-RESTRICTED EQUITY 1 JAN	932 646	918 411	463 074	428 910
DISTRIBUTION OF DIVIDENDS	-58 043	-75 000	-57 000	-75 000
CHANGE IN NON-RESTRICTED EQUITY RESERVED FOR USE OF BOARD OF DIRECTORS	-100		-100	
CHANGE IN TRANSLATION DIFFERENCE RELATING TO SHAREHOLDERS' EQUITY OF SUBSIDIARY COMPANIES	-2 295	-445		
REVALUATIONS WRITTEN OFF	-2 308			
CHANGE IN MINORITY INTEREST	-117			
PROFIT FOR THE FINANCIAL PERIOD	123 278	89 680	123 766	109 164
OTHER NON-RESTRICTED EQUITY 31 DEC	<u>993 061</u>	<u>932 646</u>	<u>529 740</u>	<u>463 074</u>
NON-RESTRICTED EQUITY, TOTAL	<u>1 172 091</u>	<u>1 111 676</u>	<u>708 685</u>	<u>642 019</u>
BREAKDOWN OF DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES				
VOLUNTARY RESERVES AND DEPRECIATION DIFFERENCE				
SHOWN AS SHAREHOLDERS' EQUITY	307 215	319 495		
CHANGE IN MINORITY INTEREST	<u>-64</u>			
VOLUNTARY RESERVES AND DEPRECIATION DIFFERENCE				
SHOWN AS SHAREHOLDERS' EQUITY 31 DEC	307 151			
CHANGE IN DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES				
SHOWN AS PROFIT FOR FINANCIAL PERIOD	-23 678	-12 280		
	<u>283 473</u>	<u>307 215</u>		
DEFERRED TAX LIABILITY				
INCLUDED IN MINORITY INTEREST	135 883	126 222		
DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES, TOTAL	<u>3 584</u>	<u>3 048</u>		
DISTRIBUTABLE NON-RESTRICTED GROUP EQUITY				
NON-RESTRICTED EQUITY PER CONSOLIDATED BALANCE SHEET	1 172 091	1 111 676	708 685	642 019
RESERVED FOR USE OF BOARD OF DIRECTORS	-200	-300	-200	-300
DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES SHOWN AS SHAREHOLDERS' EQUITY	-283 473	-307 215		
SHARE OF ASSOCIATED COMPANY PROFITS	<u>-729</u>	<u>-2 517</u>		
DISTRIBUTABLE NON-RESTRICTED GROUP EQUITY	<u>887 689</u>	<u>801 644</u>	<u>708 485</u>	<u>641 719</u>

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
12 PROVISIONS				
PROVISION FOR EXPENDITURE ON ENVIRONMENTAL WORK AT SITES RELEASED FROM PEAT PRODUCTION	36 533	21 038	20 445	21 038
GUARANTEE PROVISION	510	400	510	400
PROVISION FOR CLOSURE OF LANDFILL SITES	4 728	1 728		
	<u>41 771</u>	<u>23 166</u>	<u>20 955</u>	<u>21 438</u>
DEFERRED TAX ASSET INCLUDED IN PROVISIONS	11 953	6 486	6 077	6 003
13 LIABILITIES DUE AFTER MORE THAN FIVE YEARS				
LOANS FROM FINANCIAL INSTITUTIONS	278 184	175 135	166 374	111 137
PENSION FUND LOANS	14 177	25 559	11 119	22 239
OTHER LONG-TERM LIABILITIES	1 401	1 718	1 401	1 718
TOTAL	<u>293 762</u>	<u>202 412</u>	<u>178 894</u>	<u>135 094</u>
CONTRACT DEPOSITS AND OTHER LIABILITIES				
CONTRACT DEPOSITS	43 610	43 179	1 400	1 400
OTHER LONG-TERM LIABILITIES	4 203	4 588	4 044	4 588
TOTAL	<u>47 813</u>	<u>47 767</u>	<u>5 444</u>	<u>5 988</u>
LIABILITIES TO GROUP COMPANIES				
ACCOUNTS PAYABLE			780	1 587
OTHER CURRENT LIABILITIES			37 338	14 277
ACCRUED LIABILITIES			142	85
TOTAL			<u>38 260</u>	<u>15 949</u>
CURRENT LIABILITIES TO ASSOCIATED COMPANIES				
ADVANCES RECEIVED	676	2 791	676	2 791
ACCRUED LIABILITIES	502	2 896	502	2 896
TOTAL	<u>1 178</u>	<u>5 687</u>	<u>1 178</u>	<u>5 687</u>
MATERIAL ITEMS INCLUDED IN ACCRUED LIABILITIES				
ACCRUALS RELATING TO SALARIES, WAGES AND SOCIAL EXPENSES	41 369	37 970	13 734	14 168
VALUE ADDED TAX ON ADVANCE INVOICES	4 440	7 504	4 440	7 504
INTEREST	5 135	5 146	4 290	4 473
TAXES	6 312	5 005	2 496	2 577
VALUATION ITEMS	610	2 087		
PEAT CONTRACTORS' PAYMENTS	1 899	2 487	1 899	2 487
FINAL PAYMENTS IN RESPECT OF POWER PLANT ACQUISITION	3 414			
REAL-ESTATE RELATED EXPENSES	1 569	3 285	1 569	3 285
OTHER ACCRUED LIABILITIES	18 895	8 664	3 854	5 095
TOTAL	<u>83 643</u>	<u>72 148</u>	<u>32 282</u>	<u>39 589</u>
GUARANTEES GIVEN				
DEBTS SECURED BY MORTGAGES				
LOANS FROM FINANCIAL INSTITUTIONS	142 595	82 529		
PENSION FUND LOANS	2 408	2 526		
OTHER DEBTS	1 500		1 500	
OVERDRAFT COMMITMENTS	27 424	20 000		3 934
TOTAL	<u>173 927</u>	<u>105 055</u>	<u>1 500</u>	<u>3 934</u>
MORTGAGES GIVEN AS SECURITY FOR DEBT, TOTAL	<u>238 724</u>	<u>161 305</u>	<u>7 000</u>	<u>5 000</u>

Notes to the Accounts

Calculation of financial ratios

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2000	1999	2000	1999
OTHER GUARANTEES GIVEN FOR CORPORATE COMMITMENTS				
ASSETS MORTGAGED	1 000	1 000		
ASSETS PLEDGED	1 347			
TOTAL	2 347	1 000		
DEBTS SECURED BY PLEDGED ASSETS				
OVERDRAFT FACILITY				
BOOK VALUE OF SHARES USED AS SECURITY	1 878	1 878	1 878	1 878
SHARES USED AS SECURITY, TOTAL	1 878	1 878	1 878	1 878
CONTINGENT LIABILITIES AND COMMITMENTS				
PENSION COMMITMENTS				
VAPO OY'S MANAGING DIRECTOR AND THOSE MEMBERS OF THE BOARD OF DIRECTORS WHO ARE VAPO EMPLOYEES HAVE THE OPTION OF RETIRING ON A FULL PENSION AT THE AGE OF 60-62 YEARS.				
PAYMENTS DUE ON LEASING CONTRACTS				
DURING THE CURRENT PERIOD	6 822	3 970	1 151	353
DURING LATER PERIODS	42 076	61 278	908	488
TOTAL	48 898	65 248	2 059	841
CONTINGENT LIABILITIES FOR GROUP COMPANIES				
GUARANTEES	52 057	49 890	107 145	115 474
OTHER CONTINGENT LIABILITIES	14 495	20 406	14 495	20 406
TOTAL	66 552	70 296	121 640	135 880
OTHER GUARANTEES FOR CORPORATE COMMITMENTS				
GUARANTEES	2 063	2 677	2 360	4 040
OTHER CONTINGENT LIABILITIES				
RENT COMMITMENTS	157			
TIMBER PURCHASE CONTRACTS	60 808	44 128		
OPEN FORWARD CONTRACTS	50 604	44 997		
TOTAL	111 569	89 125		
FINANCIAL ASSESSMENTS ARE STILL ON-GOING IN RESPECT OF THE HAND-OVER OF A COMPOSTING PLANT SUPPLIED BY VAPO OY BIOTECH TO THE HELSINKI METROPOLITAN AREA COUNCIL.				

Calculation of financial ratios

RETURN ON CAPITAL INVESTED (ROI)% = 100 x	$\frac{\text{PROFIT BEFORE EXTRAORDINARY ITEMS + INTEREST AND OTHER FINANCIAL EXPENSES}}{\text{AVERAGE CAPITAL INVESTED}}$
RETURN ON EQUITY (ROE)% = 100 x	$\frac{\text{PROFIT BEFORE EXTRAORDINARY ITEMS - TAXES}}{\text{AVERAGE OF (SHAREHOLDERS' EQUITY + RESERVES + MINORITY INTEREST)}}$
EQUITY RATIO(%) = 100 x	$\frac{\text{SHAREHOLDERS' EQUITY + RESERVES + MINORITY INTEREST}}{\text{BALANCE SHEET TOTAL - ADVANCES RECEIVED}}$
EARNINGS / SHARE =	$\frac{\text{PROFIT BEFORE EXTRAORDINARY ITEMS - TAXES - MINORITY INTEREST}}{\text{AVERAGE NUMBER OF SHARES}}$
SHAREHOLDERS' EQUITY / SHARE =	$\frac{\text{SHAREHOLDERS' EQUITY}}{\text{NUMBER OF SHARES AT END OF PERIOD}}$
DIVIDEND / SHARE (FIM) =	$\frac{\text{DIVIDEND FOR PERIOD}}{\text{NUMBER OF SHARES AT END OF PERIOD}}$
DIVIDEND / EARNINGS (%) = 100 x	$\frac{\text{DIVIDEND / SHARE}}{\text{EARNINGS / SHARE}}$

Proposal for the Distribution of Profits

The Group's non-restricted shareholders' equity is FIM 1 172 million. According to the consolidated balance sheet, distributable funds represent FIM 888 million of this total. The Parent Company's non-restricted shareholders' equity is FIM 709 million, of which profit for the financial period is FIM 124 million.

The Board of Directors proposes that the profit for the period as shown in the financial statements be utilized as follows:

- a dividend of FIM 63 million or 21% of the registered share capital be paid
- a total of FIM 61 million be transferred to the retained earnings account.

Jyväskylä, 20 March 2001

Esko Muhonen

Chairman, Managing Director

Aarno Heinonen, Mauri Jaakonaho

Paula Nybergh, Raimo Rantala, Juha Tuominen

Statement of the Supervisory Board

The Supervisory Board has examined Vapo Oy's Financial Statements, Consolidated Financial Statements and Auditors' Report for 2000, and has found that these require no comment on the part of the Supervisory Board.

The Supervisory Board recommends the adoption of the Parent Company Income Statement and Balance Sheet and of the Consolidated Income Statement and Balance Sheet and supports the proposal of the Board of Directors as regards the distribution of profits.

The Company's articles of association stipulate that all the members of the Supervisory Board are elected each year at the Annual General Meeting.

Jyväskylä, 28 March 2001

Markku Koski

Chairman

Aarne Heikkilä, Juha Karpio, Katri Komi, Reijo Laitinen

Christel Liljeström, Erkki Pulliainen, Leena Rauhala, Taisto

Turunen, Jan Vapaavuori

Auditors' Report

To the shareholders of Vapo Oy

We have audited the accounting, the financial statements and the corporate governance of Vapo Oy for the period 1 January to 31 December 2000. The financial statements, which include the report of the Board of Directors, Parent Company and consolidated income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Supervisory Board, the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

In our opinion

- the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements,
- the financial statements give a true and fair view, as defined in the Accounting Act, of both the Parent Company's and the Group's result of operations as well as of the financial position,
- the financial statements, with the consolidated financial statements, can be adopted,
- the members of the Supervisory Board, the Board of Directors and the Managing Director of the Parent Company can be discharged from liability for the period audited by us, and
- the proposal by the Board of Directors regarding the distribution of the profit for the accounting period is in compliance with the Companies Act.

Jyväskylä, 20 March 2001

TUOKKO DELOITTE & TOUCHE OY

Certified Public Accountants

Yrjö Tuokko, CPA

Vapo Group Management Principles

APPLICABLE REGULATIONS

The administration of Vapo Group is conducted in accordance with the Finnish Companies Act, other applicable legislation, the articles of association, and instructions issued by Vapo's shareholder. These regulations are complemented by the principles described below.

GROUP STRUCTURE

Vapo Group consists of the Parent Company, Vapo Oy, and the sub-groups, subsidiaries and associated companies that it owns.

Group administration and Group operations are the responsibility of Vapo Oy's Annual General Meeting, Supervisory Board, Board of Directors, and Managing Director.

In the management system the Group's operations are divided into four businesses: the energy, timber, growing media and environmental businesses. The energy and environmental businesses operate in conjunction with the Parent Company Vapo Oy under the operating names Vapo Oy Energia and Vapo Oy Biotech, respectively. The timber business forms its own sub-group, of which Vapo Timber Oy is the parent company. The growing media business also forms its own sub-group, of which Kekkilä Oyj is the parent company. The other subsidiary and associated companies are grouped under the businesses that are responsible for directing their operations.

The sawn timber operation is managed by the Board of Directors of Vapo Timber Oy, the growing media operation by the Board of Directors of Kekkilä Oyj, the energy operation by its Executive Board and the environmental business operation by its Executive Management Group. The Managing Director of the Parent Company, Vapo Oy, acts as Chairman of the various management bodies in all the business operations.

SUPERVISORY BOARD

The articles of association stipulate that the Supervisory Board comprises a minimum of 8 and a maximum of 10 members, each of whom is elected for a one-year term by the Annual General Meeting. In addition 3 representatives selected by employee groups attend the Supervisory Board's meetings. The Supervisory Board meets 6–7 times per year.

The Supervisory Board's tasks are to:

- supervise the company's administration by the Board of Directors and Managing Director, and issue a statement on the Financial Statements and Auditors' Report
- decide on issues involving a significant contraction or expansion of the Company's activities
- provide instructions for the Board of Directors in matters that

have far-reaching consequences and are important as issues of principle

- select the Board of Directors, its Chairman and Vice Chairman, and determine the remuneration for the members of the Board of Directors
- select the Company's Managing Director and, if required, the Deputy Managing Director
- call the Annual General Meeting

BOARD OF DIRECTORS

The articles of association stipulate that the Board of Directors comprises a minimum of 4 and a maximum of 8 members, each of whom is selected for a one-year term. The Board of Directors meets an average of 8 times per year.

The Board of Directors is responsible for the administration of the Group and for the appropriate management and organization of the business operations in compliance with relevant legislation, the Company's articles of association, and instructions provided by the Annual General Meeting and Supervisory Board.

The main tasks of the Board of Directors include:

- strategic management of the Company
- supervision and direction of the business operations
- confirmation of strategic plans
- confirmation of operating plans and budgets
- confirmation of Financial Statements and Interim Report
- decisions on investments
- confirmation of the Company's values, and operating methods and principles
- confirmation of supervision systems

MANAGING DIRECTOR AND EXECUTIVE MANAGEMENT GROUP

The role of the Managing Director is to manage the Group's business operations and administration in accordance with the Companies Act and instructions provided by the Board of Directors. In managing the Group, the Managing Director is assisted by the Group's Executive Management Group, which consists of:

- | | |
|-------------|--------------------------------------------------------------------------|
| – Chairman | Managing Director |
| – Secretary | Managing Director's Secretary |
| – Members | Business Directors (4) |
| | Director of Administration, who also acts as the Company's legal counsel |
| | Director of Human Resources Development |
| | Controller |
| | R & D Director |

The Executive Management Group meets on average twice each month.

Vapo Group Management Principles

SUPERVISION SYSTEM

The Companies Act stipulates that the Board of Directors is responsible for ensuring that supervision of the Company's accounting and financial control is organized in an appropriate manner. It is the Managing Director's task to ensure that the Company's accounting complies with the law and that the financial control function is organized in a reliable manner. Group management is responsible for ensuring that relevant legislation and the decisions of the Company's administrative bodies are complied with in the Group's day-to-day operations.

Financial supervision in the Vapo Group is conducted by means of an operational reporting system. This includes monitoring of financial performance on a monthly basis, budgeting and multi-year strategic planning.

The internal auditing function, which reports to the Company's Managing Director, ensures that the Group operates in compliance with relevant legislation, instructions that have been issued, and the Company's operating principles.

The articles of association stipulate that Vapo Oy has one auditor and, unless an auditing company is selected as auditor, that it additionally has one deputy auditor. The auditor's term of office is one accounting period. The auditors selected for subsidiary companies report their findings to the Parent Company audit.

Profit centres operating under the various businesses in Vapo's organization are also covered by the auditing work.

The auditors report their observations to the Board of Directors at least twice a year. In addition the auditors issue audit visit memoranda describing their observations during visits.

BONUS AND INCENTIVE SYSTEMS

Vapo Group operates an annual bonus and incentive system which covers all employees and is designed to support the achievement of the Group's goals. The criteria used in determining the size of the bonus are confirmed annually by the Board of Directors on the recommendation of the Managing Director. The bonus system is flexible, and the weighting assigned to different factors can be adjusted in line with the Company's goals, according to prevailing circumstances and needs. There is no personnel fund system in operation at Vapo Oy. ■

Vapo Oy Board of Directors

Esko Muhonen, LL.M.

Age: 59

Position: Managing Director, Vapo Oy

Member of Board of Directors: since 1988.

Chairman since 24.5.1989.

Juha Tuominen, M.Sc. (Eng)

Age: 59

Position: Managing Director, Vapo Timber Oy

Member of Board of Directors: since 1991.

Vice Chairman 24.4.1991–26.4.2000

Aarno Heinonen, M.Sc. (Econ)

Age: 57

Position: VP, Finance and Administration, Sanoma-WSOY Oyj

Member of Board of Directors: since 1994.

Vice Chairman since 26.4.2000

Mauri Jaakonaho, M.Sc. (Econ)

Age: 54

Position: Senior Vice President, Finance and Administration, Metso Automation

Member of Board of Directors: since 1994

Paula Nybergh, Lic. Tech.

Age: 52

Position: Deputy Director General, Ministry of Trade and Industry

Member of Board of Directors: since 2000

Raimo Rantala, M.Sc. (Econ)

Age: 49

Position: Controller, Vapo Oy

Member of Board of Directors: since 1984

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TRANSLATION

Peter Gregory, Andrew Lightfoot and Tony Melville

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Working with nature



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