



A N N U A L R E P O R T 2 0 0 1



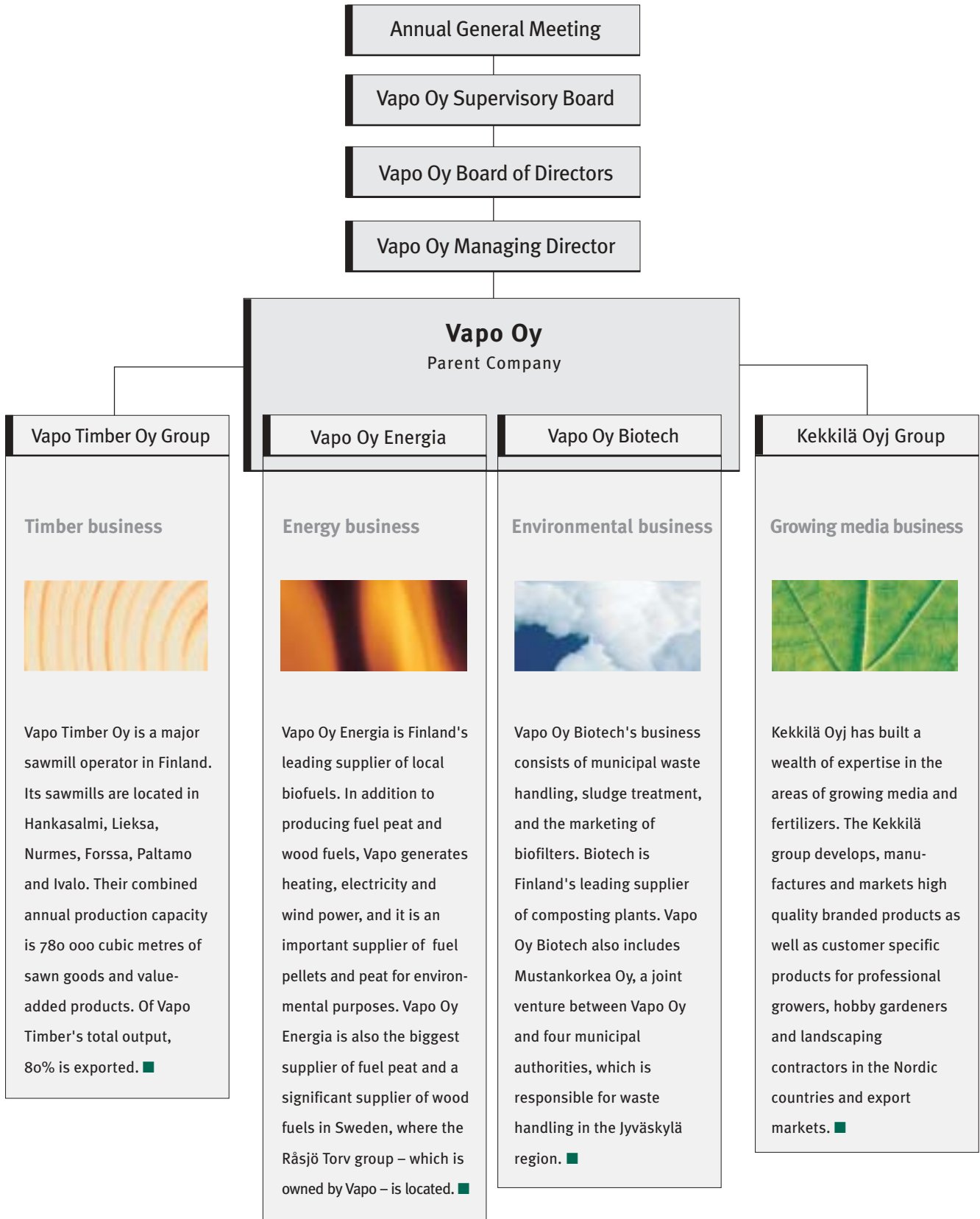
A N N U A L R E P O R T 2 0 0 1

The businesses that make up the Vapo Group supply a range of products and services that meet important human needs. Vapo's 1 200 dedicated and professional employees utilize renewable natural resources to produce peat for fuel, horticultural and environmental uses, and wood-based fuels, heating, electricity, wind power, environmental services, plant fertilizers and construction materials. ■

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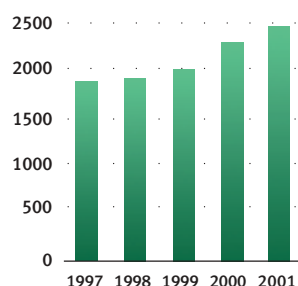
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Group Organization and Businesses

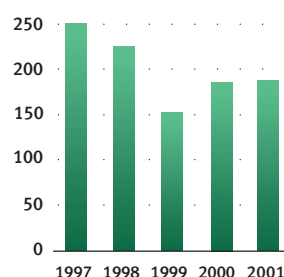


Vapo Group Key Figures and Operating Locations

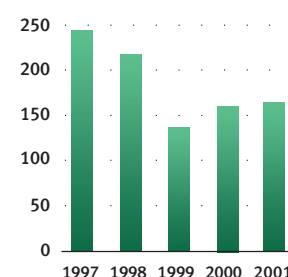
TURNOVER, MFIM



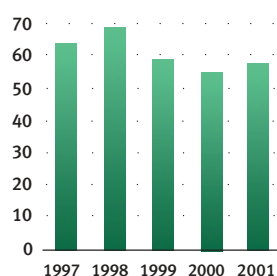
OPERATING PROFIT, MFIM



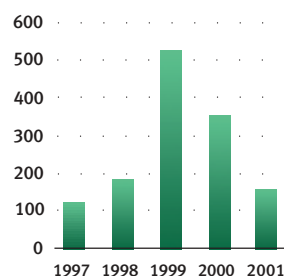
PROFIT BEFORE EXTRAORDINARY ITEMS, MFIM



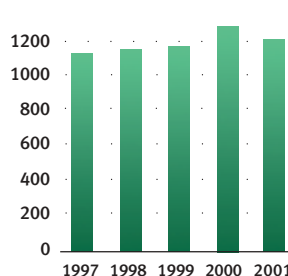
EQUITY RATIO, %



GROSS INVESTMENTS, MFIM



PERSONNEL



FIM MILLION	1997	1998	1999	2000	2001
TURNOVER	1 861	1 879	1 981	2 263	2 452
GROWTH %	13.1	0.9	5.4	14.3	8.3
OPERATING PROFIT	253	226	154	188	187
% OF TURNOVER	13.6	12.0	7.8	8.3	7.6
NET FINANCIAL ITEMS	-9	-6	-16	-27	-22
PROFIT BEFORE EXTRAORDINARY ITEMS	245	219	138	161	165
% OF TURNOVER	13.2	11.7	7.0	7.1	6.7
TAXES	76	62	43	67	54
PROFIT FOR FINANCIAL PERIOD	168	159	90	123	108
DIVIDENDS DISTRIBUTED	57	75	57	63	60
BALANCE SHEET TOTAL	2 239	2 215	2 591	2 868	2 799
INTEREST-BEARING LIABILITIES	387	299	654	795	736
RETURN ON CAPITAL EMPLOYED (ROCE)%	15.6	13.7	8.4	9.0	8.7
RETURN ON EQUITY (ROE)%	13.4	11.4	6.6	7.0	7.2
CURRENT RATIO	2.37	2.73	2.3	2.3	2.7
EQUITY RATIO %	62.1	67.3	57.7	53.9	56.2
GROSS INVESTMENTS	120	180	523	346	155
% OF TURNOVER	6.5	9.5	26.4	15.3	6.3
AVERAGE PERSONNEL	1 119	1 150	1 162	1 289	1 209
PER-SHARE DATA					
NUMBER OF SHARES	30 000	30 000	30 000	30 000	30 000
EARNINGS / SHARE, FIM	5 612.87	5 290.21	2 989.32	3 306.40	3 590.43
SHAREHOLDERS' EQUITY / SHARE, FIM	43 199.14	46 586.35	47 063.66	49 057.00	50 566.39
DIVIDEND / SHARE, FIM	1 900.00	2 500.00	1 900.00	2 100.00	2 000.00
DIVIDEND AS % OF EARNINGS	33.9	47.3	63.6	63.5	55.7

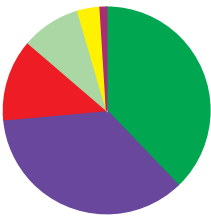
Figures adjusted to eliminate internal transactions

· **TURNOVER BY BUSINESS ACTIVITY 2001, %**



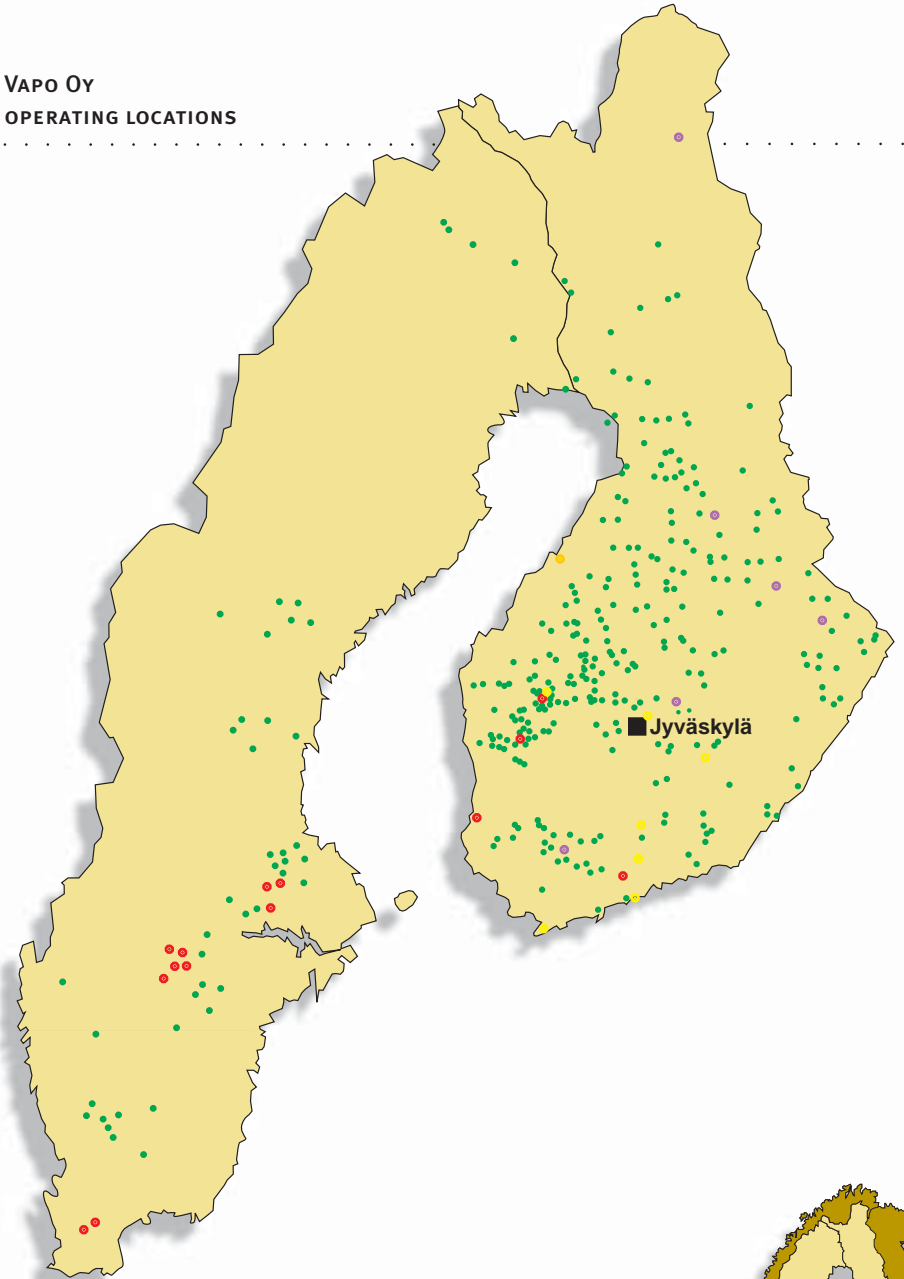
- VAPO OY ENERGIA 49.4%
- VAPO TIMBER OY 35.7%
- KEKKILÄ OYJ 11%
- VAPO OY BIOTECH AND OTHERS 3.9%

· **TURNOVER BY MAIN PRODUCTS 2001, %**

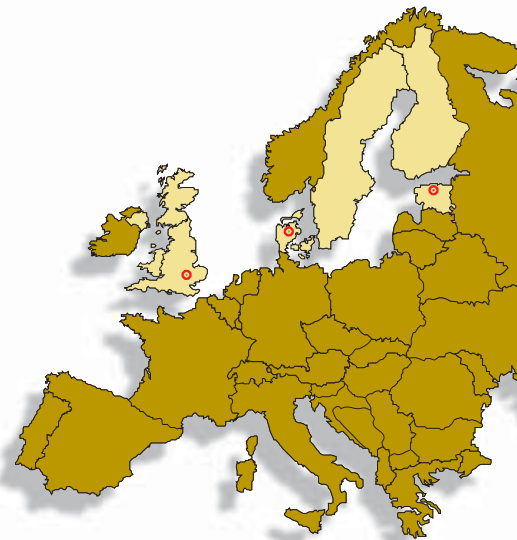


- FUEL PEAT AND OTHER BIOFUELS 37.8%
- SAWMILL PRODUCTS 35.7%
- GROWING MEDIA 12.7%
- HEATING AND ELECTRICITY 9.2%
- ENVIRONMENTAL PRODUCTS 3.5%
- OTHER PRODUCTS 1.1%

· **VAPO OY OPERATING LOCATIONS**



- 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, ESTONIA
VAPOGRO LTD, UK



Managing Director's Survey



A year of mixed results

MANAGING DIRECTOR
MATTI HILLI

In financial terms, 2001 was a year of mixed results for Vapo Oy: the energy and environmental businesses significantly improved their results, while the results of the timber and growing media businesses deteriorated.

The improved result reported by the energy business was significant for Vapo Group. It was achieved through efficient operations in favourable market conditions. In the last three years Vapo Oy Energia has found itself facing a new market situation. The results for the year under review show that the business has adapted well. Sales grew rapidly. A significant wood fuel business is being created alongside the peat activities. The use of wood to produce energy is still not sufficiently profitable and requires substantial further development. The heat and electricity production activities clearly exceeded the 2001 profit targets.

Vapo Timber Oy's result was not satisfactory. For the first time in its history Vapo Timber reported a loss. The sawn

timber business faces sharp fluctuations in market conditions. Production volumes in the industry did not adapt to the level of demand in the markets. Vapo Timber Oy cut its production towards the end of the year. A marked reduction in inventory levels represented the only way to maintain a positive cash flow. The mechanical forest industry did not react in terms of production, and profitability throughout the industry collapsed. In relative terms Vapo Timber Oy's result was reasonable as a result of the production cut-backs.

Kekkilä Oyj continued to put significant effort into the development of the Kekkilä and Hasselfors brands. In the hobby gardening activity sales grew at a greater rate than the industry average. The other two business areas – professional growers and landscaping – were clearly disappointing, with considerable decreases in both sales volumes and, particularly, profitability. Kekkilä's profit was half the figure reported in the previous year.

Vapo Oy Biotech grew rapidly and its profitability improved. Biotech is Finland's market leading supplier of composting plants. We believe that as waste management develops there will be demand for integrated systems for handling biowaste and dry waste. Together with our partners we are involved in a major development effort in this field.

The use of biofuels and utilization of wastes represent Vapo's fastest growing business areas. We believe we can succeed through customer-oriented business operations. Our employees, who have the professionalism and skills to maintain our profit potential even in the face of changing market conditions, form the basis for all Vapo's operations.

Within Vapo's administration system the roles of Chairman of the Board of Directors and Managing Director were separated. A sound system of corporate governance was created for the Company, based on the operative

independence of the businesses and clear responsibility on the part of their Boards of Directors and Executive Boards. In addition to these administrative changes, a process of change in the business area management structures was launched with the aim of enhancing and focusing customer service in all of Vapo's business activities.

Alongside our own employees, our contractors, and their sub-contractors and employees, all contribute to the work needed to maintain Vapo's uncompromising standards of operational quality and reliability as a supplier. I would like to express my warmest thanks to all those who in 2001 helped to ensure that our customers can continue to rely on Vapo. ■

Vapo Oy Energia



Fuel peat consumption picks up



2001 was a period of rapid developments for Vapo Oy Energia. Deliveries increased in all business areas, a new business model was introduced, and a conscious decision was made to concentrate on and develop local energy sources. The principle is: **Local Energy – Close at Hand.**

DIRECTOR,
ENERGY BUSINESS
JUHANI HAKKARAINEN

Vapo Oy Energia's turnover in 2001 was FIM 1 212 million excluding intra-group sales. This was 26 per cent more than in 2000. Turnover was boosted in particular by higher sales of fuel peat in Finland and Sweden.

Activities within the business were clarified during the year by concentrating operations into four areas: power plant fuels, single location boiler fuels (pellets), energy activities and other products.

In October, certification was obtained for Vapo Oy Energia's environmental system, which covers the sales, production and supplies of biofuels and environmental fuel products. Together with the quality system, which was certified in 1997, the environmental system constitutes Vapo Oy Energia's management system. During the year, work also

began on drawing up quality, environmental and safety systems for power and heating plants.

POWER PLANT FUELS

In 2001, Vapo Oy Energia delivered 22 TWh of peat and wood fuels (15.7 TWh in 2000). This was 40 per cent more than the previous year.

The increased demand for fuel peat resulted in particular from higher exchange power contract prices at the beginning of the year, which made it possible to produce electricity in condensing power plants from fuel peat. In heat production, peat consumption was boosted by new power and heating plants, increased energy needs at existing plants and the

ENERGY BUSINESS = VAPO OY ENERGIA. IT COMPRISES PART OF THE PARENT COMPANY, VAPO OY, AND CERTAIN OF ITS SUBSIDIARIES.

	2001	2000
TURNOVER MFIM	1 212	962
PERSONNEL	455	515
BIOFUELS SUPPLIED TWH	22.3	15.8
HEAT SUPPLIED TWH	0.95	0.85
ELECTRICITY SUPPLIED TWH	0.3	0.3
ENVIRONMENTAL PEAT SUPPLIED, MILLION M³	1.32	1.25

downturn in the forest industry, which reduced the supply of wood fuels on the market.

The changed business model, which is the result of Vapo Oy Energia's new customer-focused organization, was largely implemented in 2001. This brought cost savings and flexibility, which made it possible to react to the rapidly changed market situation during the year.

Vapo Oy Energia developed a partnership system with peat-producing contractors, which opens up the possibility of long-term co-operation. Development and trials of the system will continue in 2002.

A pricing system – ET 2002 – was set up for fuel peat pricing. The system was announced at the end of the year and can be viewed and used by customers on Vapo's internet site.

Overall peat production in Finland was in line with targets, although the production season was poorer than average owing to the repeated rainfall and short sunny spells. Vapo Oy Energia produced a total of 18.1 million cubic metres of peat (11.5 million m³ in 2000), of which milled fuel peat accounted for 14.1, sod peat 2.0 and environmental peat 2.0 million cubic metres.

For the purposes of applying for an environmental permit under the Environmental Protection Act, notification had to be made to the authorities during 2001 of peatlands in production under the advance notification principle in the former Water Act. Preparing these notifications entailed a significant workload for Vapo Oy Energia's Land Management Unit. Another matter that preoccupied the unit was post-production use for areas released from peat production.

The outlook for 2002 is promising. In heat production, the large swings in the oil price have left customers with an unsure impression of the price trend, increasing the desire for domestic fuels with a stable price outlook. Demand will be increased by the coming on stream of new solid fuel plants during the year.

In the electricity market the objective is to secure a stable position. One factor causing uncertainty is that the viability of producing electricity in condensing power plants from fuel peat depends crucially on the water supply in the Nordic countries. Energy taxation and emissions trading will also affect the competitive position.

POWER PLANT FUELS IN SWEDEN

In Sweden, demand for fuel peat and wood fuels grew. As in Finland, this was attributable to more expensive oil-fired and

WOOD PELLETS
MANUFACTURED AT
VAPO'S ILOMANTSI
PELLET PLANT.



Vapo Oy Energia

electrical heating, which improved the competitiveness of peat and wood fuels.

The turnover in 2001 of the Råsjö Group, which operates in Sweden, was SEK 286.2 million and the operating profit was SEK 27.4 million. Turnover increased by SEK 58.5 million from the previous year and operating profit by SEK 10.9 million. Profits were depressed by the poorer than average quality of the peat produced in summer 2000.

The Råsjö Torv Group supplied 1.7 TWh of fuel peat (1.2 TWh in 2000) and 0.2 TWh of wood fuels (0.2 TWh in 2000). Råsjö Torv produced 2.2 million cubic metres of peat (1.3 million m³ in 2000). Of this amount, milled peat fuel peat accounted for 0.5, sod peat 1.1 and environmental peat 0.6 million cubic metres. Overall peat production exceeded targets owing to the favourable production weather in the early summer.

PELLETS

In 2001 Vapo Oy Energia supplied a total of 54 000 tonnes of wood pellets in Finland. This was an approximately threefold increase over the previous year.

At the end of the year Vapo was supplying pellets to over 40 large single heating installations, 10 of which were Vapo's own heating plants. Sales to private homes and farms were via the Agrimarket chain of stores. Exports were started to Denmark and the Netherlands.

The high oil price in the beginning of the year increased demand for pellets in single-location heating installations. Growth was assisted by the arrival on the market of equipment of different sizes designed for pellet combustion.

Demand was satisfied with the introduction of two new pellet pressing lines at the Ilomantsi pellet plant in the beginning of the year and agreements with five contract manufacturers for pellet production and marketing. Along with the expansion of production, work began on the construction of a quality monitoring system for pellet production together with VTT, the Technical Research Centre of Finland.

The production and usage trials conducted during the year showed peat pellets to be a genuine alternative to wood pellets for single-location heating installations and heating

plants. Apart from peat, the feasibility of pelleting reed canary grass was also studied.

In Sweden, demand for pellets held up well all year and increased as winter approached. Mellansvenska Biobränsle AB (Mebio), a subsidiary group of Råsjö Torv AB, produced 35 000 tonnes of pellets at its Främlingshem pellet plant near Gävle. Results were ahead of target.

Demand for pellets will continue to grow in 2002. Increased emphasis on environmental values and an unstable oil price will expand the market in Finland and elsewhere in Europe.

ENERGY

Heat production and deliveries by Vapo Oy Energia and its subsidiaries in 2001 totalled 0.95 TWh (0.85 TWh in 2000). Electricity production totalled 0.16 TWh (0.12 TWh) and total sales of electricity were 0.3 TWh (0.3 TWh). Deliveries increased by 23 per cent.

The investments made in 2000 came fully on stream, which increased sales. Demand for district heating was increased by the weather, which was colder than the previous year, and new customers, who were encouraged to switch to





PIPES AT THE
SALO POWER PLANT OF
VOIMAVASU OY

district heating by intensive marketing efforts, the high oil price and the rise in electricity prices.

The largest investment in 2001 was the extension of Forssan Energia Oy's district heating network to Jokioinen, where MTT Agrifood Research was a new customer. Another significant investment was the purchase from Asko of the electricity supply network at the Finlayson industrial area in Forssa. These investments are making for a more efficient and integrated grid in Forssa.

In order to clarify electricity sales and transmission activities, electricity procurement and sales by Vapo Oy were consolidated in Forssan Energia Oy. As part of this, the electricity grid of the Lieksa power plant was transferred to Forssan Energia.

At the end of 2001, Vapo and its subsidiaries had operational responsibility for a total of 26 power or heating plants. Seven of these were wind turbine plants. Vapo Oy Energia concluded new heat production agreements with Muuramen Lämpö Oy, colleges in Kauhava and Vuokatti, and MTT. By the end of the year

Vapo Oy Energia had 13 supply contracts for pellet heating.

Industry and municipalities clarified their ownership strategies last year, and many are outsourcing their energy production. Evaluation of several projects began last year, and more outsourcing projects can be expected

in 2002. Given this, it is to be expected that the growth in energy activities will continue in 2002.

WIND POWER

In 2001, a total of 8.8 GWh of electricity were produced for customers and for Vapo's own use at the seven wind turbines at Vapo's Kuivaniemi wind park. A total of 69.9 GWh of electricity were produced in Finland from wind power, which is approximately 0.1 per cent of total consumption in Finland. The number of wind turbines owned by Vapo rose to seven with the purchase of a 500 kW wind turbine at the wind park from Kuiva-Turve Oy.

In 2001 Vapo joined the Renewable Energy Certificate System pilot project. The project will run until the end of 2002 and will investigate the feasibility of a certificate system for creating markets for renewable energy.

Essentially, the idea behind the system is that the environmental characteristics of electricity produced from renewable energy are certified and sold separately from the electricity itself. A portion of the wind power produced at Vapo's Kuivaniemi wind park forms part of this project.

OTHER PEAT

Sales of Vapo Oy Energia's other products grew slightly above target. The most important of these are environmental peats, of which Vapo Oy Energia supplied 1.32 million cubic metres in Finland (1.25 million m³ in 2000). Sales of litter peat in particular grew strongly.

Sales of litter peat bales also increased and reached the targeted level of demand. Composting peat retained its position, but demand for absorbent peat declined since the largest user group, transition period agricultural holdings, are gradually going out of business.

Sales of potting composts remained at the high level reached the previous year. A new product launch was composting loam, sales of which got off to a good start. Composting loam has proved to be a good material, for example in road and street landscaping.

Sales of environmental peats are expected to grow further in 2002. ■

Vapo Oy Biotech



Utilization of dry waste advances to the commercialization stage

Vapo Oy Biotech's sales almost doubled in 2001. The utilization of dry waste advanced to the commercialization stage and, thanks to the Environmental Technology Pilot Plant, tunnel composting technology became more efficient than before.



**DIRECTOR,
ENVIRONMENTAL BUSINESS
KARI MUTKA**

Activity picked up in Vapo Oy Biotech's business areas after two years of wait-and-see. This was to be expected since EU directives in force and the corresponding government decisions stipulate that from the beginning of 2005 untreated organic material may no longer be disposed of in landfill sites and that the utilization rate of waste must be 70 per cent.

At the beginning of the year, the Himanka tunnel composting plant was inaugurated and at the end of the year the Joutseno plant, which on completion became Finland's largest composting plant. The tunnel composting plant at Ämmässuo in Espoo was handed over to YTV in October. Vapo Oy Biotech's market-leading position in the sector was further strengthened by the agreement in September to build a composting plant in Turku. At the end of the financial year several tenders were ongoing or being initiated for biowaste and dry waste treatment plants.

Service and maintenance contracts became a more important operational area, and at year-end six service contracts for tunnel composting plants had been concluded.

In Sweden, the first composting plant projects advanced to the tendering stage, but the outcome will only be known in 2002. Municipalities were still mainly preoccupied with providing dry waste treatment because combustible waste fractions may no longer be disposed of in landfill sites after 2002.

In Finland, the processing of dry waste is advancing to the commercial stage. During the financial year, Vantaan Energia Oy began to study the feasibility of siting a gasification and gas purification plant developed by Vapo Oy Biotech and Powest Oy, a subsidiary of Pohjolan Voima Oy, alongside the Martinlaakso power plant. Initial planning of the gasification plant has started and an environmental impact assessment of



RECOVERED FUEL
 PRODUCED FROM
 DRY WASTE.

the plant was completed in December 2001.

The plan is that an investment decision will be able to be made in autumn 2002. Vapo Oy Biotech and Powest Oy are responsible for the technical and financial planning of the plant and will also build it if it goes ahead.

Vapo Oy Biotech's turnover in 2001 reached a new record. Turnover amounted to FIM 84.8 million, which was FIM 39.9 million more than the previous year. Turnover increased in all business sub-sectors.

The turnover of Mustankorkea Oy, a waste handling subsidiary in the Jyväskylä region, in 2001 was FIM 28.9 million (FIM 22.5 million in 2000). Turnover was boosted by an increase in contaminated land improvement and a greater than anticipated increase in waste levels.

During the year, post-treatment work continued at the Palokka landfill site and was completed at the Mörkökorpi site. The composting field at the Mustankorkea waste processing centre was extended and a gas collection system and a new weighing station were taken into use. It was decided to extend the tunnel composting plant by adding two tunnels for treating biowaste and a maturation area. Keuruu and Multia municipalities were new customers, and both started transporting biowaste to the Mustankorkea waste processing centre during the year.

Challenges in the years ahead include post treatment work at the current Mustankorkea landfill site, construction of a new final disposal area and a dry waste processing plant and enlargement of the gas collection system. Despite the investments and preparations for the environmental obligations in the years ahead, services were provided at a price level below the national average.

	2001	2000
TURNOVER, MFIM	84.8	44.9
ORDER BOOK AT YEAR-END, MFIM	50.8	73.0
PERSONNEL	30	28
COMPOSTING PLANTS SUPPLIED	11	10

The Environmental Technology Pilot Plant at the Mustankorkea waste processing centre in Jyväskylä was operational for its first full year. At the plant, Vapo studied bio-mechanical dry waste processing, tunnel composting technology and biothermal drying of forest industry sludge. During the year a new composting process was developed - Wastech® recycling composting, which is considerably more efficient than previous methods.

During 2001 a lot of work was done to prepare for future legislation with an impact on waste management. The report of the Finnish national waste plan evaluation working group was completed in June. The national version of the directive on the incineration of waste, which came into force in spring 2000, is being prepared and will be completed during 2002.

A directive on biological waste and a directive on sludge and animal waste were under preparation by the European Union. Both require more efficient and hygienic waste treatment which does not harm the environment.

The combined effect of the legislation in preparation will be tighter provisions governing waste management and will also mean big changes in waste management. Together with the waste management objectives already in place, this will require the construction of several composting and recovered fuel manufacturing plants. Projects are likely to grow in size and total waste processing solutions will come on to the market. ■



COMPOST PRODUCED IN A
 TUNNEL COMPOSTING PLANT.

Vapo Timber Oy



Deliveries of sawn goods remained at last year's level

The volume of sawn goods delivered by the Vapo Timber group in 2001 was on a par with the peak year of 2000. However, the decrease in prices caused by the over-supply of sawn goods and the fall-off in demand had a negative effect on profitability with the consequence that operating profit for the year as whole fell to nil.

MANAGING DIRECTOR
JUHA TUOMINEN

2001 was a poor year for the sawn goods industry. The decline in demand and prices which began at the end of 2000 continued throughout the early part of the year. In the autumn the fall in prices finally came to a halt and towards year's end the prices of whitewood experienced a slight rise. There was no corresponding rise in the price of redwood.

In 2001 Finland's sawn goods industry recorded export sales of 8.2 million cubic metres, which was approximately 2.5 per cent less than the previous year. Based on customs statistics the cumulative FOB price of sawn goods delivered was 5.4 per cent lower than in 2000.

Wood was in shorter supply than in the year before, falling roughly 7 million cubic metres short of the purchasing target. Efforts were made to cover the shortfall with imported wood, but stocks came down, however, by 6 million cubic metres. This shrinkage affected stocks of large timber in particular. The fall in supply was influenced for its part by the

downward trend in the price of logs, which did not compensate to any significant degree for the depressed price level of sawn goods.

The Vapo Timber group's six sawmills delivered almost exactly the same quantity of sawn goods and further processed products as the year before, 727 100 cubic metres (727 600 m³ in 2001). Budgeted deliveries, however, could not be achieved. Production amounted to 701 300 cubic metres, which was just under 5 per cent less than the previous year. Production was affected by the limits on production introduced in the second half of the year in order to bring down stocks.

543 500 cubic metres of sawn goods were exported, which was 1.9 per cent up on the previous year. The figure includes sawn goods exported via the group's associated company Anaika Components Ltd Oy. Exports once again accounted for a firmly established 80 per cent of total deliveries.

BOARD OF VAPO TIMBER OY FROM 18.12.2001

MATTI HILLI, CHAIRMAN

RAIMO RANTALA, JUHA TUOMINEN, JUHANI HAKKARAINEN, KARI POIKOLAINEN

	2001	2000
TURNOVER FIM MILLION	880.4	927.3
OPERATING PROFIT FIM MILLION	-0.3	54,2
INVESTMENTS FIM MILLION	21.4	30,4
PERSONNEL	435	429
SAWN GOODS AND FURTHER PROCESSED PRODUCTS DELIVERED, M³	727 100	727 600

Of the key export countries the United Kingdom and Holland recorded an increase in deliveries. The biggest disappointment was experienced in Germany, exports to which fell for the second year in succession. Deliveries to France, Denmark and Italy also declined. Losses in the chief market areas were offset by an increase in deliveries to the countries of North Africa and via associated company Anaika Components to Japan. In the Finnish market deliveries decreased slightly.

In 2001 the turnover of the Vapo Timber group came to FIM 880 million, which was FIM 47 million down on the previous year. The group recorded an operating loss of FIM 0.3 million, which contrasted with a profit of FIM 54 million the year before.

Efforts to improve the group's sawmills proceeded in accordance with plans. Investments for the year totalled FIM 21.4 million. The most important single investments were the increase in drying capacity at Nurmes and reorganization of the sawing line at Hankasalmi. Development work at the company's sawmills will continue in 2002. The largest investment will be modernization of the sawing line and dimensioning line at Kevätniemi, a decision on which was taken in 2001.

Forssan Saha Oy, which previously operated as a subsidiary, was incorporated into Vapo Timber Oy on the last day of 2001. This was essentially an administrative measure aimed at streamlining the structure of the Vapo Timber group. The merger will have no effect on Forssan Saha's operations.

Construction of operating systems at the various sawmills continued. At Nurmes certification was obtained for the quality section and at Hankasalmi sawmill work began on a

vocational health and safety system. At the beginning of the year Vapo Timber Oy's sawmills acquired usage rights for the international PEFC logo. The sawmills can henceforth 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.

Prospects for the sawn goods industry in the early part of 2002 are still uninspiring. Demand for sawn goods, as well as consumption, are forecast to remain at a depressed level in Europe, but deliveries to other market areas may go some way towards offsetting this situation. An increase in sales prices is expected in the second half of the year.

Vapo Timber Oy's sales target is higher than for 2001. Production for 2002 will mirror the trend in sales and the share of value-added products will increase. ■

THE SAWING
LINE AT
HANKASALMI
SAWMILL



Kekkilä Oyj



Kekkilä brand strengthened

The results of systematic efforts to strengthen the Kekkilä brand were clearly visible in 2001. The Top of Mind market research survey conducted annually in Finland revealed that Kekkilä's gardening products for the very first time were the best known.

MANAGING DIRECTOR
MATTI MATTILA

In 2001 the Kekkilä group went through an organizational reform, in the course of which the group's businesses as well as operational activities in the different countries were combined. The new group organization brings together the development of hobby gardening and professional grower business functions and harmonizes ways of operating in production, financial administration and product development.

Management, reporting and budgeting is conducted in accordance with three business areas: hobby gardening products, products for professional growers and landscaping. Operational activities are the responsibility of the country organizations.

In the hobby gardening market the strengthening of the Kekkilä brand was clearly felt, even though the cold spring of 2001 was poor in general for the gardening sector. In Finland

and Sweden the forecast growth did not materialize and the markets remained at the level of the previous year. Sales of Kekkilä's hobby gardening products grew, however, by a total of seven per cent and sales of Kekkilä-brand products by almost 20 per cent.

In Sweden Hasselfors Garden AB's sales showed an increase of seven per cent and with a market share of approximately 30 per cent it was the leading supplier of hobby gardening products. During the course of the year the foundations were laid for reinforcement of the Hasselfors brand in Sweden.

In the professional grower market Kekkilä continued what have proven to be profitable investments in selected customer segments: vegetable growing, the cultivation of pot plants, as well as seedling production and nursery

BOARD OF KEKKILÄ OYJ

RAIMO RANTALA, CHAIRMAN

ANTTI ERKAMA, JUHANI HAKKARAINEN, MATTI HILLI, RISTO WAHLBERG

	2001	2000
TURNOVER FIM MILLION	269.6	273.8
OPERATING PROFIT FIM MILLION	8.2	19.8
PERSONNEL	225	232

stocks. In Europe, however, the gardening sector suffered from over-production and the tough price competition resulting from it, which pushed down the prices of growing media.

The market situation had an adverse effect on sales of Kekkilä's professional grower products and on sales profitability in Europe. In Finland sales remained at the level of the year before. Kekkilä's strength lay in the opportunity to provide its professional grower customers with an all-inclusive service covering advice, growing media and nutrients.

The volume of deliveries of landscaping materials in the greater Helsinki area declined from the high level of the previous two years. The reason was above all the shrinking of the market as a whole, but also a decrease in market share.

The turnover of the Kekkilä group in 2001 was FIM 269.6 million, which was 1.5 per cent down on the year before. Operating profit amounted to FIM 8.2 million, a drop of FIM 11.5 million on the previous year. The growth targets set for sales were not achieved. The investments made over the last two years in the order-delivery chain have not yet produced their full benefits. The group's equity ratio and liquidity remained at good levels.

In 2001 the Kekkilä group invested a total FIM 27.3 million. The biggest single investment was the construction of a horticultural peat processing plant in Estonia. The plant, located in Niibi in the vicinity of Haapsalu, was completed in May. In Estonia investments aimed at expanding peat production sites were also continued.



A CUCUMBER SEEDLING IN A
KEKKILÄ GROWING MEDIUM

Kekkilä Oyj became the first Finnish producer of growing media to possess a certified quality and environmental system. Certification for the system, which covers the group's Finnish operations, was awarded on 28.9.2001. The system's quality section conforms to ISO 9001 and the environmental section to ISO 14001.

Kekkilä Oyj's managing director changed on 1.9.2001, when Matti Mattila took over the position from Matti Hilli. Matti Mattila made the move from Kemira Agro Oy to take up the appointment. Matti Hilli assumed the post of managing director of the whole Vapo group.

In 2002 the growth trend in the hobby gardening market will continue in the Nordic countries. Further efforts will be made to strengthen the Kekkilä and Hasselfors brands. In the professional grower market the price competition resulting from over-production will remain tough throughout 2002 as well. The aim is to further sharpen Kekkilä's business concepts according to customer

segment and increase cooperation with distributors. Where landscaping is concerned the target is to strengthen our market position.

It is our firm belief that Kekkilä's profitability will improve in 2002 through sales, marketing and better operational efficiency. We will also seek to maximize the group's internal synergy benefits and continue investments in making production capacity more efficient, in raw materials as well as in achieving further improvement in the group's logistics. ■

Research and Development



Pyrolysis oil plant completed

The most substantial research project in the Vapo Group in 2001 was a pilot-scale pyrolysis oil plant constructed together with Fortum. The plant opens the way for a wide-ranging research programme. Vapo's Environmental Technology Pilot Plant was completed at the end of 2000 and was available for research use for its first whole year.

R & D DIRECTOR
TIMO NYRÖNEN

The joint Vapo and Fortum pyrolysis oil plant was completed in December at Fortum's refinery site in Porvoo. It will be taken into use during 2002. The plant will improve the stability and homogeneity of pyrolysis oil to make it a safe and economic alternative to light fuel oil in existing plants. The pyrolysis oil plant is around one tenth of the size of a commercial-scale plant and will enable a full-scale plant to be designed.

The areas of research at Vapo's Environmental Technology Pilot Plant were biothermal drying of forest industry sludge to produce fuel, refinements to tunnel composting and quality improvement of recovered fuel by biomechanical

treatment. The University of Jyväskylä also launched its own research activities at the plant.

Biomechanical treatment of recovered fuel produced excellent results. Tests showed that the moisture in recovered fuel decreases and its heating value and hygiene increase considerably when the traditional mechanical production method is supplemented by a biological stage in a tunnel reactor.

Development of gasification and gas purification technology for recovered and sludge fuels continued in partnership with Powest Oy, a subsidiary of Pohjolan Voima Oy, and VTT Energy. In the autumn, VTT Energy took into

service a new 1 MW gasification unit, one of the functions of which is the study of gas purification. The tests conducted showed that gas purification works. Further research will look into the long-term feasibility of the purification method.

The Peat 2000 programme started in 1999 was completed in 2001. The aim of the programme was to improve the competitive position of peat and to take better consideration of environmental aspects in peat production. The results began to be transposed into practice during the year, and this will continue in 2002.

Part of the programme was the development of a 3D program to visualize the life cycle of a bog. The program shows how a bog taken into peat production appears at each stage of production and after production has ceased. This is expected to be of particular benefit in the planning of post-production use. A first version of the program has been produced, and a final version is planned to be available in 2002.

Together with the Geological Survey of Finland (GTK), Vapo perfected a method whereby geophysical aerial measurements can be used to determine the thickness of the peat layer based on the moisture content and other factors. The method will make it possible to reduce significantly the amount of work on the ground when peat production is started in new areas.

During 2001 Vapo participated in the preparation of the EU directive on the incineration of waste and the directive on large combustion plants. Vapo's Research Department was also involved in the CEN/TC 355 working group, developing European standards for solid biofuels, and the CEN/BT/TF 118 working group, working on the creation of a standard for solid recovered fuels.

The Research Department's laboratory produced data and analyses for all units in the Vapo Group. As in previous years, most of the work consisted of analyses relating to quality control of peat, wood fuels and compound fuels.

Wood pellet analyses increased compared to the previous year, and at the same time a quality control system was developed for pellet production. In a new area, analyses were started on biomechanically treated recovered fuel samples. An ICP device acquired at the start of the year made analyses of composts and growing media faster and more reliable.

The ISO 9001 quality system that has been in use at the laboratory for several years was certified in April. The system covers all of the laboratory's operations.

As in earlier years, the laboratory took part in national and international joint projects. Work on developing CEN standards for solid biofuels and solid recovered fuels continued from the previous year. The laboratory also took part 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. ■

TABLETS MADE FROM DIFFERENT FUELS FOR THE PURPOSES OF DETERMINING THERMAL VALUE



Environmental Review



Effects of European Union decisions and proposals in practice

Much attention was devoted to environmental matters in the European Union in 2001. Decisions and proposals relating to climate issues, the definition of the status of peat, waste incineration and waste management affected Vapo Oy's management and priorities in environmental matters. Environmental communications became an ever more important area of focus.

· PIRKKO SELIN,
· ENVIRONMENTAL
· MANAGER
· VAPO OY ENERGIA

The climate was a constant subject of discussion in the European Union (EU) in 2001. The climate strategy submitted by the Finnish Government to Parliament was also a factor here. Vapo was involved in the debate, studying land use in bogs and the properties of peat and participating in research work in the field. Vapo also temporarily engaged the services of an expert to add to its knowledge and influence in Brussels since several matters concerning the Group's activities were on the agenda during the year. The European Parliament's Committee on Agriculture visited Satamakeidas in Honkajoki in November.

Climate-related issues were the subject of frequent negotiations with customers, authorities and other interest groups, both in Finland and internationally. Questions raised included the definition of peat, the role of the combined use of wood and peat and the sufficiency of natural resources. Topical issues included waste incineration and the outlook for waste management and the implications of these for Vapo's activities.

Other important matters dealt with by the EU included the directive on large combustion plants adopted at the end of the year, the EU's environmental programme, the role of local



ENVIRONMENTAL
MANAGEMENT INCLUDES
ONGOING ENHANCEMENTS
IN PURIFICATION METHODS.

energy production and usage in maintaining security of energy supply and international CEN standards for solid biofuels and recovered fuels.

Day-to-day work was affected by the protection of biodiversity, the sufficiency of natural resources and extensive efforts to control impacts. Monitoring the implementation of the water framework directive and provincial planning and the obligations stipulated in these, the increased number of environmental permit applications and advances in post-production use of cut-away areas were also reflected in Vapo's operations.

Vapo Oy is committed to making continual improvements in managing environmental matters and observing the principles of sustainable development. These objectives were implemented in the businesses by setting targets for staff training, environmental programmes and principles and management systems. Vapo's activities were also guided by its customers' environmental values and responsibility for obligations to the community.

The employment effect of environmental protection activities at Vapo was 43 work years. The

work was performed in a number of units together with environmental experts across organizational boundaries. The Land Management Unit concentrated on land use and permit-related matters in the energy business. External consultants and research institutes were also used for environmental impact assessments and monitoring. The Vapo Group expended a total of FIM 41.8 million on environmental protection (FIM 42.5 million in 2000), mostly in the energy business.

Development work centred on the use of cut-away areas, climate-related matters and more extensive supervision of environmental impacts. In this connection, Vapo drew up common guidelines for environmental impact assessment with the Association of Finnish Peat Industries and participated in drafting a document on the use of peat resources with the International Peat Society (IPS). A joint project with Metla, the Forest Research Institute, studied cultivation of wood for energy in cut-away areas, as well as quality criteria, afforestation methods and fertilization requirements.

Vapo improved the information flow to customers by means of an environmental council composed of customers and interest groups, auditing of management systems and by evaluating indicators and impacts. A strategic local energy document entitled "Local Energy – Close at Hand" was also produced for customers and interest groups. ■

Environmental Review

Environmental permit applications

In 2001 Vapo Oy initiated nine environmental permit applications, four of which concerned revisions to the conditions of an existing permit, two were resubmitted applications, two concerned new production areas and one was a permit application for an existing production area. No environmental impact assessments were initiated in 2001. The environmental permit authorities issued a decision on five new permits and a revision of the conditions of two existing permits, where a permit was also granted for extension of the production area. At the end of 2001 Vapo had been granted a total of 111 water drainage or environmental permits.

At the end of 2001 Vapo had a total of 44 other permits relating to environmental impacts. The company had 19 permits concerning the operation of power plants, 15 permits concerning waste treatment and composting and 10 other permits.

The Implementing Act on Environmental Protection Legislation and the Environmental Protection Statute obliged operators to notify the regional environment centres by 28 February 2001 of those peat production areas whose water drainage has not required permits to be applied for under section 10 of the Water Act. The peat production areas were entered into the environmental protection data system pending a decision on whether a permit is required under the new legislation.

Vapo Oy made a total of 287 notifications to the regional environment centres. By the end of 2001, one third of the regional environment centres had processed the notifications completely, one third almost completely and one third had not

begun their evaluation of whether a permit is required. By the end of the year a decision on the need for a permit had been made for around half the production areas notified. The necessary environmental permits for these active production areas will largely be applied for between 2002–2004. This will entail several dozen environmental permit applications each year. ■

VAPO OY: APPLICATIONS FOR PEAT PRODUCTION PERMITS, DECISIONS ISSUED AND EIA PROCEDURES.

YEAR	1995	1996	1997	1998	1999	2000	2001
SUBMITTED TO ENVIRONMENTAL PERMIT AUTHORITY	15	13	6	11	17	12	9
DECISION FROM ENVIRONMENTAL PERMIT AUTHORITY	16	12	17	13	19	17	9
DECISION FROM VAASA ADMINISTRATIVE COURT	10	13	5	7	9	20	8
DECISION FROM SUPREME ADMINISTRATIVE COURT	1	1	1	5	–	1	7
DECISION FROM BORDER RIVER COMMISSION							1
EIA PROCEDURES INITIATED	–	–	2	2	4	6	–
EIA PROCEDURES COMPLETED	–	–	1	3	2	1	6

In Brief

Environmental Award presented to Sirpa Rahikainen. The Board of Directors of Vapo Oy presented its Environmental Award for 2001 to Sirpa Rahikainen, who works as a planner in the Kuopio team of Vapo Oy Energia's Land Management Unit. The award was made for outstanding efforts in environmental communications. Alongside her regular duties, Rahikainen has participated in producing Vapo Oy Energia's "Local Energy – Close at Hand" brochure and slide series and in creating other material.

Voimavasu cleaning up the water in Kantvik. Vapo Oy's subsidiary Voimavasu Oy, which produces energy for the

Finnish sugar industry, also purifies the drinking and waste water in Kantvik. The purification plants used by Voimavasu purify over one million cubic metres of drinking water and around 400 000 cubic metres of waste water a year.

Voimavasu purifies drinking water for Finnsugar's sugar refinery, Mildola Oy's vegetable oil mill, the municipality of Kirkkonummi, Gyproc Oy and Nokia Oy. The waste water treatment plant treats waste water for Finnsugar, Mildola Oy and the Kantvik area of the municipality of Kirkkonummi.

Quality and environmental system for Mustankorkea waste treatment centre. In 2001, work began on a quality and environmental system for Mustankorkea Oy, which processes waste for the Jyväskylä region and several other municipalities in central Finland. The system covers all

QUALITY AND ENVIRONMENTAL SYSTEMS IN THE VAPO GROUP

AREA	SYSTEM	STANDARD	COMPLETION	CERTIFIED
Research Department / laboratory	Quality	ISO9001	1995	2001
Vapo Oy Energia	Quality	ISO9002 ISO9001:2000*	1996 under preparation	1997
	Environment	ISO14001	2001	2001
Power plants	Quality	ISO9001:2000	under preparation	
	Environment	ISO14001	under preparation	
Vapo Oy Biotech	Quality	ISO9001 ISO9001:2000*	1997 under preparation	
	Environment	ISO14001	under preparation	
Mustankorkea Oy	Quality	ISO9001:2000	under preparation	
	Environment	ISO14001	under preparation	
Vapo Timber Oy	Timber chain-of-custody management	SMS1003-1	2000	2000
Hankasalmi sawmill	Quality	ISO9002 ISO9001:2000*	1993 2001	1993 2002
	Environment	ISO14001	1998	1998
	Occupational health and work safety	OHSAS18001	2001	2002
Kevätniemi sawmill	Quality	ISO9002 ISO9001:2000*	1992 2001	1992 2001
	Environment	ISO14001	1998	1998
	Occupational health and work safety	BS8800	1999	2000
Kevätniemi timber procurement	Quality	ISO9002 ISO9001:2000*	1998 under preparation	1998
	Environment	ISO14001	1998	1998
Nurmes sawmill	Quality	ISO9001:2000	2001	2001
	Environment	ISO14001	1999	1999
Forssa sawmill	Quality	ISO9002	2000	2000
	Environment	ISO14001	2000	2000
Kekkilä Oyj (Finnish operations)	Quality	ISO9001:2000	2000	2001
	Environment	ISO14001	2000	2001
Hasselfors Garden AB	Quality	ISO9001	1998	1998

* System conforming to the new standard replaces the one previously in use.

operations of the Mustankorkea waste treatment centre. The system is being constructed alongside the quality and environmental system being developed for Vapo Oy Biotech.

Reed canary grass – the new energy plant. For years now, Vapo Oy, the Technical Research Centre of Finland (VTT) and MTT Agrifood Research Finland have been developing a chain of use for reed canary grass from seed production to harvesting machines and storage. The energy content and combustion characteristics of reed canary grass have also been studied. In 2001 Vapo Oy Energia cultivated reed canary grass on 310 hectares (108 ha in 1999, 209 ha in 2000) of peatland released from production.

Reed canary grass, *Phalaris arundinacea*, is a perennial and regenerating grass that can be cultivated in fields or cut-away

areas. To provide energy, the dried grass is collected and shredded to make a fuel that can be incinerated together with wood and peat in the same boiler.

Various uses for cut-away areas studied. In 2001 a total of 1 514 hectares of cut-away areas were released from peat production (424 ha in 2000) – substantially more than the previous year. At year-end cut-away areas released from production totalled 12 125 hectares (10 877 ha).

Further research was conducted into afforestation techniques, fertilization requirements and the characteristics of the subsoil in Vapo Oy's own cut-away areas. Cut-away areas were increasingly used to cultivate grass, and wood for energy. The suitability of cut-away areas for cultivating medicinal herbs for industrial usage was studied as a possible new form of use. ■

Environmental Review

Environmental expenditure exceeds FIM 40 million

In 2001 environmental expenditure by Vapo Oy in Finland totalled FIM 41.8 million (FIM 42.5 million in 2000). Of this, investments accounted for FIM 9.6 million.

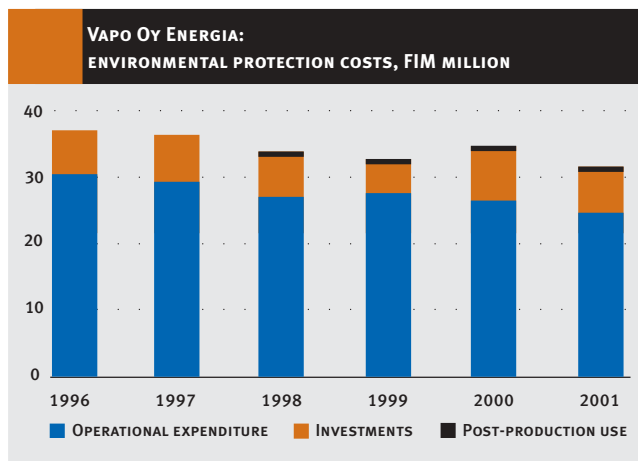
The majority of Vapo's environmental costs resulted from increased requirements for permit obligations, after-use and environmental protection in the energy business. Vapo Oy Energia spent FIM 31.8 million on environmental protection in Finland (FIM 34.8 million). Of this, environmental investments accounted for FIM 6.5 million (FIM 7.8 million). Environmental protection costs were 3.6 per cent of turnover (3.6 %)

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. In addition to research and development costs, FIM 0.4 million was spent on the costs of re-use of areas released from peat production (FIM 0.5 million). Preparatory work on the refurbishment of the former Rahke sawmill cost FIM 0.3 million. Environmental costs incurred by Råsjö Torv AB in Sweden totalled FIM 1.1 million (FIM 1.1 million) and the waste management and water purification environmental costs incurred by Voimavasu Oy were FIM 0.7 million.

The environmental protection costs of Vapo Oy Biotech and Mustankorkea Oy were FIM 6.2 million (FIM 1.5 million). This figure includes the costs of environmental obligations and the associated equipment and activities.

Vapo Timber Oy spent FIM 1.3 million on environmental protection (FIM 1.2 million), representing 0.14 per cent (0.13%) of turnover. 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 0.25 million (FIM 0.5 million) on environmental protection. This represents 0.15 per cent of turnover (0.36%). Costs resulted from waste management and actions related to environmental system targets. ■



Watercourse load varies according to weather conditions

The watercourse load from peat production by Vapo Oy Energia decreased slightly from the previous year. The main reason was the amount of rain, since variations in rainfall directly affect the amount of water running off from peat production areas and thus the watercourse load.

There were large regional variations in rainfall in 2001. There was least rainfall in the eastern parts of northern Finland, where the annual precipitation was 400–500 millimetres. In other parts of the country, precipitation was 550–700 millimetres, which is close to normal. There was plentiful rainfall in June, July, September and October.

The watercourse load in peat production areas was measured by means of the findings of compulsory inspections. There were more monitoring points than the previous year: 128 load inspection sites (109 in 2000), 575 watercourse inspection points and 40 inspection points monitored all year round, making a total of 743 inspection

points. A total of 2 206 load inspection samples and 2 665 watercourse inspection samples were taken. 48 537 analyses were performed on these. Discharge measurements were largely made using automatic, continuous equipment.

Water quality was analysed in accredited hydrological laboratories. Consultants used the inspection results to calculate the suspended solid, nitrogen and phosphorus load from Vapo Oy Energia's peat production areas.

Sedimentation ponds and bed pipe barriers provide treatment of run-off water at all peat production sites. In addition, more sophisticated water treatment methods are used at 50 per cent of production areas to remove dissolved nutrients and humus. Further control dams were constructed in 2001 and the use of reed canary grass fields and overflow fields in water treatment was extended. The Pinko small-scale overland flow field was also investigated

Cut-away areas released from production suitable for cultivation of medicinal herbs

A new use is being found for uncontaminated cut-away areas released from peat production in the cultivation of medicinal herbs that grow naturally in peatlands. A joint ecological production research project between Vapo Oy and MTT Agrifood Research Finland that began in 2000 is studying the suitability of cut-away areas for the purpose and correct and economical cultivation methods. The research forms part of a broader research project entitled "Possibilities for cultivating Chinese and threatened medicinal herbs in Finland" funded by the Ministry of Agriculture and Forestry.

There is increased interest in cultivating medicinal herbs growing in peatlands because worldwide consumption and demand are growing, but in many European countries the plants are threatened. Cultivation of medicinal herbs could offer increased yields and faster picking times, whilst preserving wild strains.

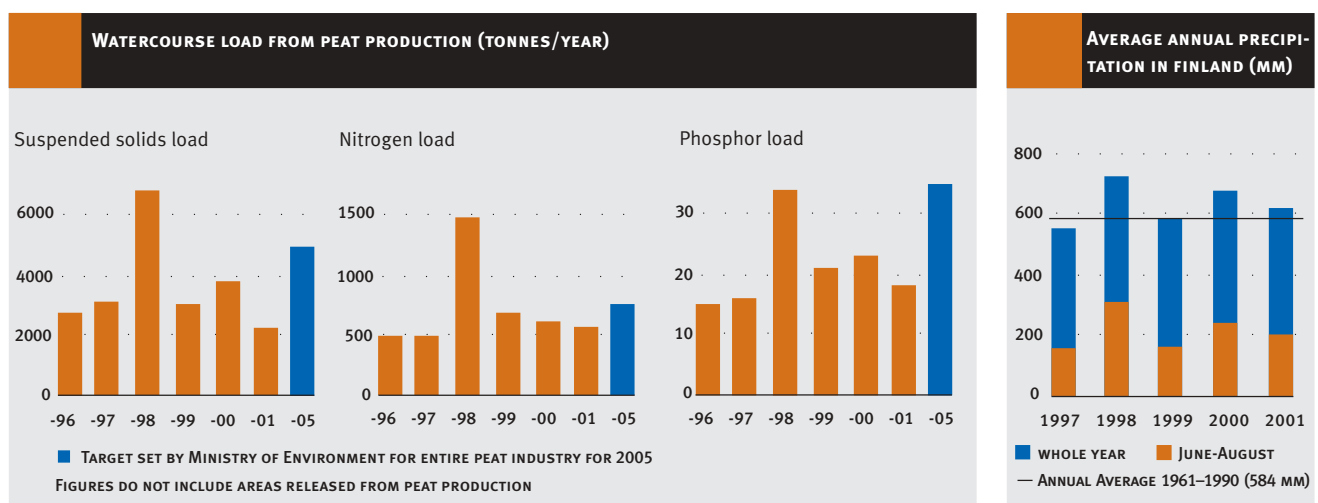
Cultivation tests, mainly conducted at Pakinsuo in Juva, have shown during the first two years that, given the right conditions, perennial medicinal herbs that are classified as threatened elsewhere, including sweet flag, sundew, bog myrtle and bogbean, can be cultivated in cut-away areas.

Promising results have also been obtained from cultivation trials of nectar-bearing plants started in 2001. Bertalan Galambosi, the senior researcher at MTT heading the project, says that successful cultivation requires some effort and that not all sites are suitable.

"First of all it is essential that the amount of water doesn't vary too much. The cut-away area must not dry up too much and must not be covered by water for long periods. On the other hand, cut-away fields are so arid and acid that for good results it is essential to lime and fertilize the ground, especially when cultivating annual nectar-bearing plants. For establishing and growing perennial medicinal herbs, it helps to let the cut-away field rest before cultivation and allow some natural undergrowth to form."

Galambosi points out that cut-away fields provide familiar surroundings for these plants and that they thrive there if given proper growing conditions.

"Now we have seen that the plants thrive in cut-away fields. We will start to gain information on yields from summer 2002 when the medicinal herbs reach the harvesting stage." ■



and refined for the purposes of watercourse protection in peat production.

Sales of litter peat, absorbent and compost peat amounted to approximately 645 000 cubic metres (610 000 in 2000). The

absorption capacity of litter peat makes it possible to bind over three times the amount of nitrogen and considerably more phosphor than that found to be caused by peat production in last year's inspection results. ■

Environmental Review

Timber procurement is based on the principles of sustainable forestry

In 2001 Vapo Timber Oy purchased 1.8 million cubic metres of timber. Part of the timber was purchased directly from private forest owners and part was supplied by other forestry industry companies and Metsähallitus, the Forest and Park Service. Some timber was also imported from Russia.

Timber procurement is based on the principles of sustainable forestry: Vapo Timber Oy strives to safeguard forest diversity, establish the origin of the roundwood and employ harvesting methods that cause as few changes as possible to the natural state of the forest. The company's sawmills do not accept raw material that originates from a protected area or an area set aside for conservation purposes.

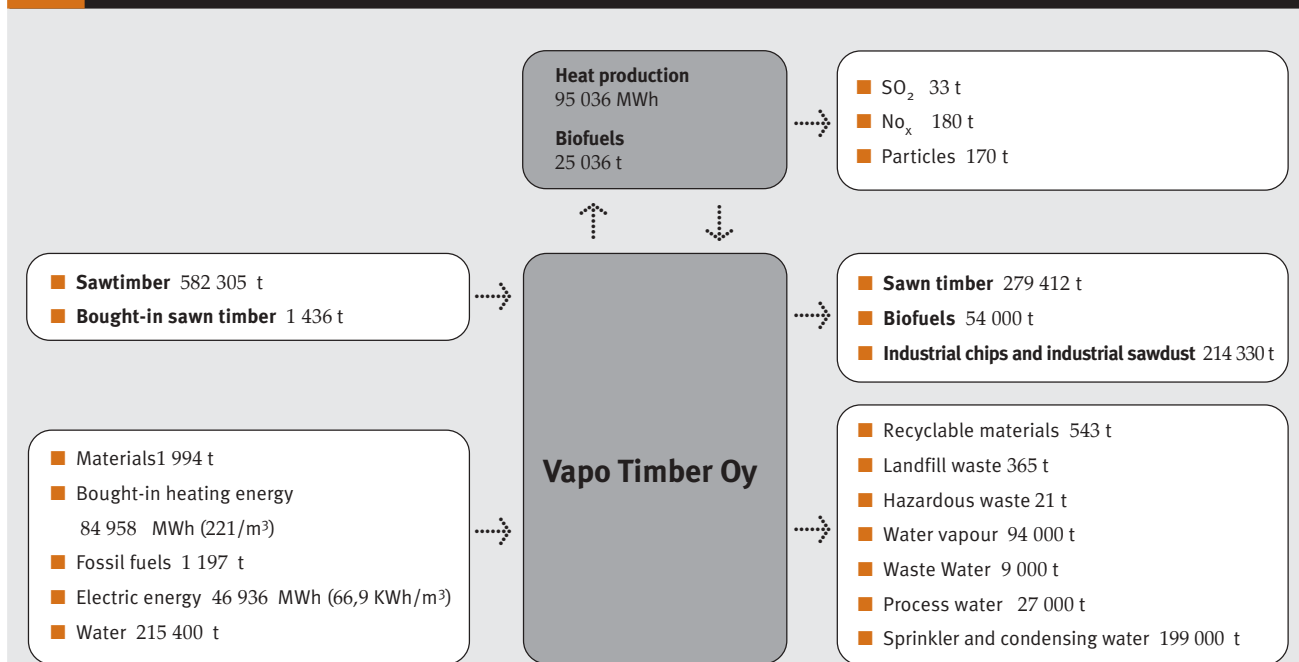
In December 2000 Vapo Timber Oy was awarded a chain-of-custody certificate, and thereby acquired the right to use the international PEFC (Pan European Forest Certification) trademark in the beginning of 2001. This means that Vapo

Timber Oy's sawmills are entitled to use the PEFC logo on their products.

The trademark indicates that the raw material originates from forests that are managed with respect for natural diversity and in accordance with ecologically, economically and socially sustainable forestry. The Finnish forest certification system comprises a total of 21.9 million hectares, or 95 per cent of Finland's forests.

Vapo Timber Oy's timber procurement is also guided by the sawmills' and timber procurement organizations' certified quality and environmental systems, which also cover the procurement of imported timber. The systems stipulate how felling and transportation are to be performed, how to respect natural forest diversity and also provide guidelines for monitoring the origin of timber and dealing with waste, fuels and lubricants. Outside timber suppliers are also required to respect the same principles. ■

ENVIRONMENTAL IMPACTS OF SAWN TIMBER PRODUCTION BY VAPO TIMBER OY



In 2001, Vapo Timber Oy applied a model analysis to conduct its fifth 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

In 2001 overall energy consumption increased by 3% from the previous year. Overall consumption totalled 376 TWh, while the corresponding figure in the previous year was 365 TWh. Electricity represented 154 TWh (41%) and heating 53 TWh (14%) of the total.

Indigenous energy sources accounted for 29.3% of the total energy consumed. Usage of fuel peat grew rapidly. Total consumption of fuel peat was 21.9 TWh, which was an increase of over 4.7 TWh from the previous year. Peat represented 5.8% of the total energy consumed and 19.9% of indigenous energy sources, and it generated 6.9% of the electricity and 18% of the district heating produced in Finland. Consumption of wood-based fuels decreased and represented 19.7% of all energy sources.

Fuel peat usage was increased by growth in electricity generation in Finland. This was a consequence of a decrease in the supply of Nordic electricity as water reserves had returned to their normal levels.

Biofuel deliveries by Vapo Oy Energia totalled 22.3 TWh, which is an increase of around 40% from the previous year. Deliveries to customers in Sweden accounted for 2.1 TWh of the total. Fuel peat sales in Finland increased by more than 44% and sales of wood-based fuels by 17%. The trend in usage of wood pellets was especially favourable, even though overall volumes are still small. Towards the end of the year the raw material for wood-based fuels started to be in short supply, as sawmills produced less by-products due to cut-backs in sawn timber production.

Vapo Oy Energia's decentralized production of heating and electricity totalled 1.2 TWh, which was 20% more than in 2000.

The weather during the summer was mainly normal from the point of view of peat production, and a total of 18.1 million cubic metres of peat was produced.

ENVIRONMENTAL BUSINESS

At the end of the year the largest composting plant built in Finland was handed over to the customer, Etelä-Karjalan Jätehuolto Oy. Overall the situation in the markets was still one of wait-and-see, even though the transition periods for the relevant legislation are approaching their deadlines.

Work to develop the production and utilization of recovered fuels was continued. A special area of focus was the

application of gasification technology in the usage of recovered fuels. The development work has been done in conjunction with Pohjolan Voima Oy and VTT. At the end of the year a gasification pilot plant was taken into use at Otaniemi near Helsinki.

The Environmental Technology Pilot Plant, which will be used in work to develop the composting process and other aspects of waste management, was completed in Jyväskylä. The plant will be operated jointly by Vapo Oy Biotech and the University of Jyväskylä.

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

TIMBER BUSINESS

The markets for sawn timber started to deteriorate at the end of 2000, and the strong downward trend remained in place during the first part of 2001. The markets were seen to pick up slightly after the summer holidays, but they turned down again during the autumn. It was not until the very end of the year that prices could be seen to stabilize and begin to rise cautiously.

Total Finnish exports of sawn timber amounted to 8.2 million cubic metres, which is 2.5% less than in 2000. Supplies of raw timber remained adequate throughout the year, but the price of saw logs was too high in relation to the industry's ability to pay.

Deliveries of sawn timber and value-added products by Vapo Timber Oy's sawmills totalled 727 100 cubic metres. Of this, 543 500 cubic metres was exported. This figure includes exports via the joint venture company Anaika Components Ltd Oy. Production of sawn timber totalled 701 300 cubic metres. Production was cut back at the end of the year due to market factors.

GROWING MEDIA BUSINESS

Throughout Europe the growing media business continued to suffer as a result of excessive production and tough price competition in the gardening and growing sectors. Spring came late and the weather was cold, and this also reduced the volume of business.

In Finland and Sweden comparable sales of hobby gardening products increased by 7% from the previous year. By contrast, exports of professional grower products decreased in all market areas.

The Kekkilä group's business operations and turnover were expanded by the acquisition during the period of Mebio

Torvprodukter AB. This company was made a subsidiary of Hasselfors Garden AB.

TURNOVER

The Vapo Group's turnover grew by over 8% from the previous year to FIM 2 452 million (FIM 2 263 million in 2000). Turnover was divided between the various businesses as follows: energy business FIM 1 212 million (FIM 962 million), timber business FIM 875 million (FIM 922 million), growing media business FIM 269 million (FIM 313 million), environmental business FIM 85 million (FIM 45 million) and other activities FIM 11 million. Of total turnover, exports accounted for FIM 857 million.

OPERATING PROFIT

The Vapo Group's operating profit was FIM 187 million, which represents 7.6% of turnover. In the previous year the Group's operating profit was FIM 188 million or 8.3% of turnover. The consolidated operating results for the separate companies were: Vapo Oy FIM 144 million, the Vapo Timber group FIM -0.3 million, the Kekkilä group FIM 8.6 million and the Råsjö Torv group FIM 15 million.

The Group's planned depreciation for the accounting period amounted to FIM 158 million, or FIM 10 million more than in the previous year.

PROFITABILITY AND FINANCING

The Group's profit after financial items was FIM 165 million. Net interest expenses for the period totalled 1.2% of turnover or FIM 29 million. The equivalent figures for the previous year were 1.1% and FIM 25 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 736 million at the end of the accounting period.

The Group's profit before appropriations to reserves and taxes was FIM 165 million and taxes for the period amounted to FIM 54 million. The Group's liquidity position was good throughout the period. The equity ratio averaged 56% during the period.

INVESTMENTS

Total investments in the Group amounted to FIM 155 million. The investments were divided between the businesses as follows: energy business FIM 73 million, timber business

FIM 21 million, environmental business FIM 22 million, growing media business FIM 27 million, and other investments FIM 12 million.

GROUP STRUCTURE

Active sub-groups (with percentage shareholding) owned by the Parent Company, Vapo Oy, as at 31 December 2001:

- Vapo Timber group (100%), parent company Vapo Timber Oy and its wholly-owned subsidiaries Karel Timber Oy and Vapo Timber Import Oy
- Kekkilä group (59.2%), parent company Kekkilä Oyj and its sub-group Hasselfors Garden AB (100%) and the latter's subsidiary Mebio Torvprodukter AB, Stenrøgel Mosebrug A/S (100%), VapoGro Ltd (49%)
- Råsjö Torv group, parent company Råsjö Torv AB and its subsidiaries Svenska Torv AB (100%) and Vapo Energi AB (100%) and sub-group Mellansvenska Biobränsle AB (100%), and its wholly-owned subsidiary Sandviken-Avesta Torv AB.

Active subsidiary and associated companies of Vapo Oy:

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

RESEARCH AND DEVELOPMENT

The largest research and development project during the year was the construction of a pilot pyrolysis oil production plant in collaboration with Fortum. Trials to be conducted at the plant will provide the planning basis for construction of the first commercial-scale plant in Finland.

A second major project concerning the gasification of solid waste was undertaken in conjunction with Pohjolan Voima Oy. This project made good technical progress and has also led to plans for the construction of a commercial plant.

The Peat 2000 research programme conducted in cooperation with VTT Energy and other partners was completed. This work has made possible the 3D visualization

of peat bogs. Using the program it is possible to create a visualization of the life cycle of a peat bog and compare different alternatives for after-use and other life cycle stages.

The Environmental Technology Pilot Plant has been in full use. New data to optimize the composting process has been produced and taken into use at new plants.

Expenditure on research and development in the Vapo Group totalled FIM 24.9 million in the accounting period (FIM 22 million). This figure does not include work undertaken outside Finland. An average of 22 people were employed full-time in research and development. In addition to Vapo's own R&D activities, work was also done in collaboration 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

Implementation and monitoring work relating to European Union initiatives represented a prominent aspect of the Group's environmental management efforts during 2001. Vapo personnel and outside consultants were involved in work to comply with permit obligations specified in environmental protection legislation. The application of the EU's Water Policy Framework Directive in Finland was monitored in conjunction with different interest groups. Environmental impact assessments and the public debate on biodiversity affected peat and timber procurement activities.

Interpretation of the Directive on the Incineration of Waste and the consequent introduction of more rigorous environmental requirements for both waste handling and composting directed the activities of both Vapo Oy Biotech and the energy business. Vapo enhanced its own waste handling expertise by opening the Environmental Technology Pilot Plant in Jyväskylä and by playing an active part with interest groups in waste management development work.

The Energy Supply Strategy issued by the European Commission noted the risks that will be faced if the share of imported energy becomes too great. In this context it was stated that extensive development of local energy production and utilization is important throughout Europe. This theme strengthened the dialogue and cooperation between Vapo and its customers concerning Vapo Oy's role as a producer and supplier of local energy.

Climate issues and potential obligations under the Kyoto agreement remained prominent throughout the year. Progress was monitored in a number of working groups and also through the provision of finance for related research. Two

new topics which appeared towards the end of the year were emissions trading and green certificates for energy.

Progress was made in practical work to build quality and environmental systems, and in the continuous improvement associated with these systems. This work involved impact monitoring, training, and the monitoring and development of internal indicators.

Environmental management provided around 43 person-years of employment. In 2001 total expenditure on environmental protection amounted to FIM 41.8 million (FIM 42.5 million). The majority of this represents environmental protection expenses within the energy business. The activities are decentralized, with Group administration, the Research Department and the various businesses working together on both development and practical work.

OUTLOOK FOR 2002

In addition to temperature, the central factors affecting Vapo's fuel markets are the industrial capacity utilization rate and the supply of Nordic hydroelectric power. The price of electricity has returned to normal and it is expected that industrial capacity utilization, which drives demand, will turn up during the second half of the year. In the markets for heating fuel the annual requirement for biofuels depends completely on the weather. Overall, it appears that utilization of fuel peat has turned up and with new power plants starting up consumption is expected to continue growing.

Sales of wood-based fuels and peat for environmental purposes are expected to continue growing. Heating and electricity production will also continue to increase, when newly constructed and upgraded power and heating plants are taken into full-scale use. Vapo Oy Energia's competitiveness will be enhanced by the internal efficiency boosting measures which were completed in 2001. The peat production target for 2002 has been increased by more than 10% from the previous year due to the good level of demand.

The environmental business is expected to grow rapidly during the current transition period in environmental legislation, which runs until 2005. Tunnel composting plants and plant operating services still represent the main products in this activity. The objective is to start export sales. Work to develop the gasification concept for using recovered and sludge fuels will be continued, and it is intended that construction of the first plant will be started at the end of the year.

In the sawn timber industry consumption and demand in the main markets are expected to be of the same order as in 2001. The low prices for sawn goods are expected to correct themselves during the spring and at the end of the year. In spite of unsatisfactory profitability, the supply of sawn timber will remain at high levels. It is predicted that supplies of raw material will match the demand.

Vapo Timber Oy's sales and production targets are somewhat higher than in the previous year. Profitability will continue to be depressed by the abundant supply of sawn timber and increasing costs.

In Kekkilä Oyj's area of activities, the growth trend in the hobby gardening sector is expected to continue in the Nordic countries. Work to strengthen the Kekkilä and Hasselfors brands will be continued. In the professional grower markets the current year will see continued intense price competition in Europe due to overproduction. Kekkilä will further focus its business activity concepts by customer segment and improve collaboration with distributors. In the landscaping sector the objective is to achieve a stronger market position.

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 2000. According to the preliminary agreement, one third of the shares in Vapo Oy were to be sold to Metsäliitto

Osuuskunta, such that Vapo would have been jointly controlled by the State and Metsäliitto. The EU and Finnish competition authorities gave their approval for the sale of Vapo's shares on condition that Vapo and Metsäliitto dispose of part of their wood fuel activities to a new operator which was to be found for the sector. It was not possible to meet the conditions imposed by the competition authorities.

The Ministry of Trade and Industry and Metsäliitto Osuuskunta have negotiated a new preliminary agreement which was approved by the Finnish Government's Ministerial Committee for Economic Policy on March 19, 2002. The share sale no longer includes the type of joint control arrangement which would require it to be notified to the European Commission or the Finnish competition authorities. According to the agreement that was reached, the State – which currently owns 100% of Vapo – will sell 33.34% of the shares to Metsäliitto for consideration of EUR 89.1 million or FIM 530 million. If the State decides in future to sell more of its Vapo shares, Metsäliitto will have a pre-emptive right to acquire the shares at market value. The Government has Parliament's authorization to reduce the State's holding in Vapo to 50.1%. ■

VAPO OY'S BOARD OF DIRECTORS AT A MEETING ON FEBRUARY 5, 2002.
(L TO R) MATTI VÄISTÖ (CHAIRMAN OF THE SUPERVISORY BOARD), MAURI JAAKONAHO, RAIMO RANTALA, MATTI HILLI, TAISTO TURUNEN (CHAIRMAN OF THE BOARD OF DIRECTORS), KARI POIKOLAINEN (SECRETARY OF THE BOARD OF DIRECTORS), AARNO HEINONEN AND EEVA HELLSTRÖM.



Administration of Vapo Oy, 31.12.2001

SUPERVISORY BOARD

Chairman

Markku Koski, Farmer (until 28.5.2001)
Matti Väistö, MP (from 28.5.2001)

Vice Chairman

Aarne Heikkilä, Executive Director

Members

Juha Karpio, MP
Katri Komi, MP
Reijo Laitinen, MP
Christel Liljeström, Farmer
Erkki Pulliainen, MP
Leena Rauhala, MP
Petri Salo, MP (from 28.5.2001)
Taisto Turunen, Chief Director (until 28.5.2001)
Jan Vapaavuori, Managing Director (until 28.5.2001)

STAFF REPRESENTATIVES ON SUPERVISORY BOARD

Eetu Karjalainen, forestry and sawmill workers
Teuvo Penttinen, peat industry workers
Terho Turunen, salaried office personnel

DEPUTY STAFF REPRESENTATIVES ON SUPERVISORY BOARD

Paavo Kivimäki, salaried office personnel
Kalevi Siivikko, forestry and sawmill workers
Timo Talasoja, peat industry workers

BOARD OF DIRECTORS

Chairman

Esko Muhonen, Managing Director,
Vapo Oy (until 5.6.2001)
Taisto Turunen, Chief Director (from 5.6.2001)

Vice Chairman

Aarno Heinonen,
VP, Finance and Administration,
Sanoma-WSOY Oyj

Members

Eeva Hellström, Director, Forest Forum for
Decision-Makers (from 5.6.2001)
Matti Hilli, Managing Director, Vapo Oy
(from 5.6.2001)
Mauri Jaakonaho, Senior Vice President,
Finance and Administration,
Metso Automation Oy
Paula Nybergh,
Deputy Director General, Ministry
of Trade and Industry (until 5.6.2001)
Raimo Rantala, Director of Finance, Vapo Oy
Juha Tuominen, Managing Director,
Vapo Timber Oy (until 5.6.2001)

AUDITORS

Until 26.11.2001: Tuokko Deloitte & Touche Oy,
Certified Public Accountants, Yrjö Tuokko, CPA.
From 26.11.2001: Yrjö Tuokko, CPA, and deputy
auditor Rauno Saarimäki, CPA.

BUSINESS ACTIVITY MANAGEMENT CHANGES

Matti Hilli, Managing Director, Kekkilä Oyj, took
up his position as Managing Director of Vapo Oy
on 1.6.2001. Matti Mattila, M.Sc., was appointed
Director of the growing media business and
Managing Director of Kekkilä Oyj with effect
from 1.9.2001.

Income Statement

FIM 1000	NOTES	GROUP		PARENT COMPANY	
		1.1.-31.12.2001	1.1.-31.12.2000	1.1.-31.12.2001	1.1.-31.12.2000
TURNOVER	1	2 451 616	2 262 891	960 484	744 735
DECREASE/INCREASE IN INVENTORIES OF					
FINISHED GOODS AND WORK IN PROGRESS		-40 270	+5 035	-25 789	-13 386
PRODUCTION FOR OWN USE		18 692	7 012	14 973	3 759
SHARE OF ASSOCIATED COMPANY RESULTS		-1 790	729		
OTHER OPERATING INCOME		14 028	32 778	12 345	22 162
MATERIALS AND SERVICES					
RAW MATERIALS AND CONSUMABLES:					
PURCHASES DURING THE PERIOD		807 065	837 462	83 440	89 578
INCREASE / DECREASE IN INVENTORIES		-914	-10 762	+4 056	-7 092
EXTERNAL CHARGES		371 733	287 032	235 095	158 573
MATERIALS AND SERVICES, TOTAL		1 177 884	1 113 732	322 591	241 059
SALARIES, WAGES AND SOCIAL EXPENSES					
SALARIES, WAGES AND REMUNERATION	2	216 714	217 558	77 000	74 142
SOCIAL EXPENSES					
PENSION EXPENSES		35 370	36 437	12 073	13 240
OTHER SOCIAL EXPENSES		38 346	36 056	14 099	9 306
SALARIES, WAGES AND SOCIAL EXPENSES, TOTAL		290 430	290 051	103 172	96 688
DEPRECIATION AND WRITE-DOWNS					
PLANNED DEPRECIATION	3	146 596	137 072	73 223	69 789
AMORTIZATION OF GOODWILL ON CONSOLIDATION		11 365	11 172		
DEPRECIATION AND WRITE-DOWNS, TOTAL		157 961	148 244	73 223	69 789
OTHER OPERATING EXPENSES					
EXPENSES, TOTAL	5	2 255 622	2 120 149	818 053	664 891
OPERATING PROFIT		186 654	188 296	143 960	92 379
FINANCIAL INCOME AND EXPENSES:					
INCOME FROM HOLDINGS IN GROUP COMPANIES	6			36 282	28 047
INCOME FROM OTHER INVESTMENTS HELD AS NON-CURRENT ASSETS		5 846	2 692	5 772	2 599
INTEREST AND FINANCIAL INCOME					
FROM GROUP COMPANIES				8 893	6 811
FROM OTHER SOURCES		11 362	10 897	8 817	8 443
EXCHANGE RATE DIFFERENCES		1 244	-4 543	-469	-609
INTEREST AND OTHER FINANCIAL EXPENSES					
PAID TO GROUP COMPANIES				-1 555	-1 500
PAID TO OTHER PARTIES		-40 512	-35 975	-28 862	-26 832
FINANCIAL INCOME AND EXPENSES, TOTAL		-22 060	-26 929	28 878	16 959
PROFIT BEFORE EXTRAORDINARY ITEMS		164 594	161 367	172 838	109 338
EXTRAORDINARY ITEMS					
EXTRAORDINARY INCOME	7		33 924	330	33 924
EXTRAORDINARY EXPENSES				-2 863	
			33 924	-2 533	33 924
PROFIT BEFORE APPROPRIATIONS AND TAXES		164 594	195 291	170 305	143 262
APPROPRIATIONS					
CHANGE IN DEPRECIATION DIFFERENCE	4			+23 568	+28 550
INCOME TAXES	8	-61 330	-70 475	-55 161	-48 046
CHANGE IN DEFERRED TAX LIABILITY		7 195	3 103		
NET PROFIT BEFORE MINORITY INTEREST		110 459	127 919	138 712	123 766
MINORITY INTEREST					
NET PROFIT		-2 746	-4 641		
		107 713	123 278	138 712	123 766

Balance Sheet

FIM 1000	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
ASSETS				
	NOTES			
NON-CURRENT ASSETS	9			
INTANGIBLE ASSETS				
INTANGIBLE RIGHTS	16 299	14 499	13 185	11 280
GOODWILL	1 360		3 445	3 127
GOODWILL ON CONSOLIDATION	71 370	82 744		
OTHER CAPITALIZED EXPENDITURE	9 925	9 451	2 063	2 826
ADVANCES PAID	580	2 543	572	818
	99 534	109 237	19 265	18 051
TANGIBLE ASSETS				
LAND AND WATER AREAS	141 852	142 993	118 435	118 509
BUILDINGS AND STRUCTURES	230 631	229 659	57 876	57 512
MACHINERY AND EQUIPMENT	546 454	566 365	173 751	192 510
PREPARATION OF PEAT RESERVES AND OTHER TANGIBLE ASSETS	631 897	630 053	429 733	439 549
ADVANCES PAID AND CONSTRUCTION IN PROGRESS	29 957	30 154	13 112	8 916
	1 580 791	1 599 224	792 907	816 996
INVESTMENTS				
HOLDINGS IN GROUP COMPANIES			447 196	459 955
SHARES AND HOLDINGS IN ASSOCIATED COMPANIES	10 138	7 542	4 919	4 919
OTHER SHARES AND HOLDINGS	21 510	23 061	18 392	18 494
	31 648	30 603	470 507	483 368
CURRENT ASSETS				
INVENTORIES				
RAW MATERIALS AND CONSUMABLES	72 875	77 874	18 629	22 685
WORK IN PROGRESS	99	1 707		1 707
FINISHED GOODS	457 521	495 639	296 729	320 812
ADVANCES PAID	8 429	22 685		73
	538 924	597 905	315 358	345 277
RECEIVABLES 10				
LONG-TERM				
RECEIVABLES FROM GROUP COMPANIES			61 887	86 278
RECEIVABLES FROM ASSOCIATED COMPANIES	2 675			
LOANS RECEIVABLE	756	1 996	756	1 996
OTHER RECEIVABLES	2 410	3 054		
	5 841	5 050	62 643	88 274
CURRENT				
ACCOUNTS RECEIVABLE	350 397	284 097	132 543	107 741
RECEIVABLES FROM GROUP COMPANIES			139 165	81 104
RECEIVABLES FROM ASSOCIATED COMPANIES	5 779	11 969	4 358	7 157
LOANS RECEIVABLE	260	551	159	479
OTHER RECEIVABLES	22 182	5 502	249	376
PREPAID EXPENSES AND ACCRUED INCOME	29 887	38 203	14 120	9 374
	408 505	340 322	290 594	206 231
INVESTMENTS				
OTHER INVESTMENTS	88 010	110 618	82 589	110 618
CASH ON HAND AND BANK BALANCES				
	45 295	75 360	28 555	32 737
TOTAL ASSETS	2 798 548	2 868 319	2 062 418	2 101 552

Balance Sheet

FIM 1000	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
SHAREHOLDERS' EQUITY AND LIABILITIES				
	NOTES			
SHAREHOLDERS' EQUITY	11			
SHARE CAPITAL	300 000	300 000	300 000	300 000
ORDINARY RESERVE		127		
CONTINGENCY RESERVE	178 945	179 030	178 945	178 945
TRANSFERRED FROM VOLUNTARY RESERVES				
AND DEPRECIATION DIFFERENCE	283 697	307 151		
RETAINED EARNINGS	657 240	564 684	466 740	405 974
TRANSLATION DIFFERENCE	-10 603	-2 560		
PROFIT FOR THE PERIOD	107 713	123 278	138 712	123 766
SHAREHOLDERS' EQUITY, TOTAL	1 516 992	1 471 710	1 084 397	1 008 685
MINORITY INTEREST	44 668	41 120		
APPROPRIATIONS				
DEPRECIATION DIFFERENCE			273 249	296 817
PROVISIONS	12			
OTHER PROVISIONS	46 921	41 771	22 795	20 955
LIABILITIES	13			
LONG-TERM				
LOANS FROM FINANCIAL INSTITUTIONS	566 000	566 756	384 274	378 321
PENSION FUND LOANS	51 011	65 037	46 932	60 506
DEFERRED TAX LIABILITY	128 491	135 883		
CONTRACT DEPOSITS AND OTHER LIABILITIES	48 498	47 813	4 595	5 444
	794 000	815 489	435 801	444 271
CURRENT				
LOANS FROM FINANCIAL INSTITUTIONS	101 628	98 798	80 260	67 325
PENSION FUND LOANS	14 024	14 011	13 574	13 574
ADVANCES RECEIVED	20 114	62 136	18 705	52 096
ACCOUNTS PAYABLE	140 911	154 454	50 634	57 596
LIABILITIES TO GROUP COMPANIES			26 890	38 260
LIABILITIES TO ASSOCIATED COMPANIES	1 125	1 178	1 125	1 178
OTHER CURRENT LIABILITIES	39 056	84 009	21 818	68 513
ACCRUED LIABILITIES	79 109	83 643	33 170	32 282
	395 967	498 229	246 176	330 824
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	2 798 548	2 868 319	2 062 418	2 101 552

Cash Flow Statement

FIM 1000	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
CASH FLOW FROM OPERATING ACTIVITIES				
PROFIT BEFORE EXTRAORDINARY ITEMS	164 594	161 367	172 838	109 338
ADJUSTMENTS:				
PLANNED DEPRECIATION	157 961	148 244	73 223	69 789
OTHER INCOME AND EXPENSES NOT INVOLVING CASH FLOW	6 940	3 797	1 840	-483
FINANCIAL INCOME AND EXPENSES	22 060	26 929	-28 878	-16 959
OTHER ADJUSTMENTS	-8 668	-14 736	-8 484	-14 338
CASH FLOW BEFORE CHANGE IN WORKING CAPITAL	342 887	325 601	210 539	147 347
CHANGE IN WORKING CAPITAL:				
DECREASE (+) / INCREASE (-) IN				
CURRENT NON-INTEREST BEARING RECEIVABLES	-68 679	3 391	-29 442	40 909
INCREASE (-) / DECREASE (+) IN INVENTORIES	58 981	-97 040	29 918	6 237
INCREASE (+) / DECREASE (-) IN				
CURRENT NON-INTEREST BEARING LIABILITIES	-51 636	46 905	-36 197	-2 334
CASH FLOW FROM OPERATING ACTIVITIES BEFORE FINANCIAL ITEMS AND TAXES	281 553	278 857	174 818	192 159
INTEREST AND OTHER FINANCIAL EXPENSES PAID	-43 178	-43 060	-32 211	-29 053
INTEREST RECEIVED	12 984	10 414	18 140	14 235
DIRECT TAXES PAID	-63 820	-62 357	-54 394	-42 488
CASH FLOW FROM OPERATING ACTIVITIES (A)	187 539	183 854	106 353	134 853
CASH FLOW FROM INVESTING ACTIVITIES				
INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS	-141 966	-315 012	-55 265	-81 636
PROCEEDS FROM DISPOSAL OF TANGIBLE AND INTANGIBLE ASSETS	18 410	46 152	13 684	43 961
OTHER INVESTMENTS	-160	-3 670	-997	-124 150
PROCEEDS FROM DISPOSAL OF OTHER INVESTMENTS	3 760	11 819	4 983	12 821
DIVIDENDS RECEIVED	5 847	2 692	42 054	30 646
CASH FLOW FROM INVESTING ACTIVITIES (B)	-114 109	-258 019	4 459	-118 358
CASH FLOW FROM FINANCING ACTIVITIES				
LONG-TERM LOANS ISSUED	-2 675	-5 236		-54 565
REPAYMENTS OF LONG-TERM LOANS RECEIVABLE	2 205	786	22 834	17 650
CURRENT LOANS ISSUED	-29	-22	-52 611	-46 586
INCREASES IN CURRENT LOANS				1 929
REPAYMENTS OF CURRENT LOANS	-48 738	-21 338	-55 575	
INCREASES IN LONG-TERM LOANS	116 766	223 720	89 340	148 853
REPAYMENTS OF LONG-TERM LOANS	-127 967	-62 200	-84 571	-46 824
DIVIDENDS PAID AND OTHER DISTRIBUTIONS OF PROFIT	-65 665	-60 932	-63 000	-57 100
CASH FLOW FROM FINANCING ACTIVITIES (C)	-126 103	74 778	-143 583	-36 643
DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	-52 673	613	-32 771	-20 148
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	185 978	185 365	143 355	163 503
CASH AND CASH EQUIVALENTS AT END OF PERIOD	133 305	185 978	110 584	143 355
CASH AND CASH EQUIVALENTS IN DISSOLVED AND MERGED COMPANIES			560	

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 a subsidiary divested to become an associated company 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 purchase method of consolidation has been adopted. Inter-company transactions, receivables and liabilities, internal profits 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

The cost of inventory also includes an appropriate proportion of the variable indirect costs of acquisition and manufacture. 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	
	2001	2000	2001	2000
1 TURNOVER BY BUSINESS				
- ENERGY	1 212 230	961 547	893 060	697 813
- GROWING MEDIA AND FERTILIZERS	268 715	313 547		
- SAWMILLS	874 580	921 612		
- ENVIRONMENTAL BUSINESS ACTIVITIES	84 740	44 849	53 775	22 787
- OTHER ACTIVITIES	11 351	21 336	13 649	24 135
	<u>2 451 616</u>	<u>2 262 891</u>	<u>960 484</u>	<u>744 735</u>
TURNOVER BY MARKET AREA				
- FINLAND	1 594 331	1 354 855	942 151	728 674
- OTHER NORDIC COUNTRIES	339 641	325 549	14 273	11 478
- OTHER EUROPEAN COUNTRIES	370 481	475 532	3 939	311
- OTHER MARKETS	147 163	106 955	121	4 272
	<u>2 451 616</u>	<u>2 262 891</u>	<u>960 484</u>	<u>744 735</u>
2 SALARIES, WAGES AND SOCIAL EXPENSES				
SALARIES AND WAGES	216 714	217 558	77 000	74 142
PENSION EXPENSES	35 370	36 437	12 073	13 240
OTHER STATUTORY SOCIAL EXPENSES	30 878	31 124	9 923	7 632
VOLUNTARY SOCIAL EXPENSES	7 468	4 932	4 176	1 674
	<u>290 430</u>	<u>290 051</u>	<u>103 172</u>	<u>96 688</u>
SALARIES AND REMUNERATION PAID TO SENIOR MANAGEMENT				
MANAGING DIRECTORS	6 007	6 584		
SUPERVISORY BOARD	386	437	386	437
BOARD OF DIRECTORS	581	471	252	150
NUMBER OF EMPLOYEES				
WAGE-EARNING EMPLOYEES, AVERAGE	704	744	146	178
SALARIED EMPLOYEES, AVERAGE	505	545	256	290
EMPLOYEES, AVERAGE	<u>1 209</u>	<u>1 289</u>	<u>402</u>	<u>468</u>
3 PLANNED DEPRECIATION				
INTANGIBLE RIGHTS	3 195	2 650	2 396	1 853
GOODWILL	340		1 382	1 043
GOODWILL ON CONSOLIDATION	11 365	11 172		
OTHER CAPITALIZED EXPENDITURE	2 740	2 469	763	771
LAND AND WATER AREAS	97			
BUILDINGS AND STRUCTURES	16 631	15 532	4 818	4 732
MACHINERY AND EQUIPMENT	80 573	83 040	36 019	41 227
OTHER TANGIBLE ASSETS	43 020	33 381	27 845	20 163
TOTAL	<u>157 961</u>	<u>148 244</u>	<u>73 223</u>	<u>69 789</u>
4 CHANGE IN DEPRECIATION DIFFERENCE				
BUILDINGS AND STRUCTURES			-1 507	-1 603
MACHINERY AND EQUIPMENT			-15 113	-22 228
OTHER TANGIBLE ASSETS			-6 948	-4 719
TOTAL			<u>-23 568</u>	<u>-28 550</u>
5 CHANGE IN PROVISIONS				
CHANGE IN PROVISIONS	<u>5 150</u>	<u>3 154</u>	<u>1 840</u>	<u>-483</u>

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
6	TOTAL DIVIDEND INCOME, INTEREST INCOME AND INTEREST EXPENSE			
			26 928	22 415
			9 354	5 632
	5 846	2 692	5 772	2 599
	11 362	10 894	17 710	15 254
	39 902	35 496	30 089	27 899
7	EXTRAORDINARY INCOME			
		33 924		33 924
			330	
	EXTRAORDINARY EXPENSES			
			604	
			2 259	
8	INCOME TAXES			
	61 330	69 922	55 161	47 551
		553		495
	<u>61 330</u>	<u>70 475</u>	<u>55 161</u>	<u>48 046</u>
9	FIXED ASSETS BY CATEGORY			
	INTANGIBLE RIGHTS			
	33 678	30 052	25 812	22 434
	5 017	4 199	4 324	3 938
	-520	-573	-474	-560
	<u>38 175</u>	<u>33 678</u>	<u>29 662</u>	<u>25 812</u>
	-19 179	-17 069	-14 532	-13 219
	498	540	451	540
	-3 195	-2 650	-2 396	-1 853
	<u>-21 876</u>	<u>-19 179</u>	<u>-16 477</u>	<u>-14 532</u>
	<u>16 299</u>	<u>14 499</u>	<u>13 185</u>	<u>11 280</u>
	GOODWILL			
	0		5 212	5 212
	1 700		1 700	0
	<u>1 700</u>		<u>6 912</u>	<u>5 212</u>
	0		-2 085	-1 042
	-340		-1 382	-1 043
	<u>-340</u>		<u>-3 467</u>	<u>-2 085</u>
	<u>1 360</u>		<u>3 445</u>	<u>3 127</u>
	GOODWILL ON CONSOLIDATION			
	107 296	98 551		
	-109	8 745		
	77			
	<u>107 264</u>	<u>107 296</u>		

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
ACCUMULATED DEPRECIATION 1 JAN	-24 552	-13 399		
EXCHANGE RATE DIFFERENCES	23	19		
DEPRECIATION FOR PERIOD	-11 365	-11 172		
ACCUMULATED DEPRECIATION 31 DEC	-35 894	-24 552		
BOOK VALUE 31 DEC	71 370	82 744		
OTHER CAPITALIZED EXPENDITURE				
ACQUISITION COST 1 JAN	38 372	34 928	22 715	22 429
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN		1 268		
ADDITIONS	5 177	2 176		286
DISPOSALS	-2 196			
ACQUISITION COST 31 DEC	41 353	38 372	22 715	22 715
ACCUMULATED DEPRECIATION 1 JAN	-28 921	-26 386	-19 889	-19 118
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN		-66		
EXCHANGE RATE DIFFERENCES	-9			
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	242			
DEPRECIATION FOR PERIOD	-2 740	-2 469	-763	-771
ACCUMULATED DEPRECIATION 31 DEC	-31 428	-28 921	-20 652	-19 889
BOOK VALUE 31 DEC	9 925	9 451	2 063	2 826
LAND AND WATER AREAS				
ACQUISITION COST 1 JAN	143 249	131 816	118 765	112 101
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN		3 028		
EXCHANGE RATE DIFFERENCES	-237			
ADDITIONS	2 930	9 402	3 342	7 624
DISPOSALS	-3 737	-997	-3 416	-960
ACQUISITION COST 31 DEC	142 205	143 249	118 691	118 765
ACCUMULATED DEPRECIATION 1 JAN	-256	-256	-256	-256
DEPRECIATION FOR PERIOD	-97			
ACCUMULATED DEPRECIATION 31 DEC	-353	-256	-256	-256
BOOK VALUE 31 DEC	141 852	142 993	118 435	118 509
BUILDINGS AND STRUCTURES				
ACQUISITION COST 1 JAN	354 313	296 934	111 192	110 720
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN		25 411		
EXCHANGE RATE DIFFERENCES	-1 326	-21		
ADDITIONS	18 667	35 244	5 399	3 538
DISPOSALS	-1 466	-3 255	-1 466	-3 066
ACQUISITION COST 31 DEC	370 188	354 313	115 125	111 192
ACCUMULATED DEPRECIATION 1 JAN	-124 654	-102 602	-53 680	-50 862
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN		-8 625		
EXCHANGE RATE DIFFERENCES	479	51		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	1 249	2 054	1 249	1 914
DEPRECIATION FOR PERIOD	-16 631	-15 532	-4 818	-4 732
ACCUMULATED DEPRECIATION 31 DEC	-139 557	-124 654	-57 249	-53 680
BOOK VALUE 31 DEC	230 631	229 659	57 876	57 512

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
MACHINERY AND EQUIPMENT				
ACQUISITION COST 1 JAN	1 163 866	995 902	528 711	570 854
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN		127 251		
EXCHANGE RATE DIFFERENCES	-6 754	-149		
ADDITIONS	71 312	144 449	20 816	34 053
DISPOSALS	-31 889	-83 796	-24 437	-76 196
ASSETS OF DIVESTED SUBSIDIARY 1 JAN	-6 102			
TRANSFERS BETWEEN CATEGORIES		-19 791		
ACQUISITION COST 31 DEC	1 190 433	1 163 866	525 090	528 711
ACCUMULATED DEPRECIATION 1 JAN	-597 501	-494 407	-336 201	-332 278
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN		-83 515		
EXCHANGE RATE DIFFERENCES	4 777	517		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	26 670	62 944	20 881	37 304
ACCUMULATED DEPRECIATION IN DIVESTED SUBSIDIARY 1 JAN	2 648			
DEPRECIATION FOR PERIOD	-80 573	-83 040	-36 019	-41 227
ACCUMULATED DEPRECIATION 31 DEC	-643 979	-597 501	-351 339	-336 201
BOOK VALUE 31 DEC	546 454	566 365	173 751	192 510
MACHINERY AND EQUIPMENT, SHARE OF BOOK VALUE 31 DEC	486 212	351 976	139 240	136 146
PREPARATION OF PEAT RESERVES AND OTHER TANGIBLE ASSETS				
ACQUISITION COST 1 JAN	1 050 499	859 214	729 561	687 837
ASSETS OF ACQUIRED SUBSIDIARY 1 JAN		86 709		
EXCHANGE RATE DIFFERENCES	-5 102	-235		
ADDITIONS	47 318	85 585	18 066	41 989
DISPOSALS	-812	-325	-126	-265
TRANSFERS BETWEEN CATEGORIES		19 551		
ACQUISITION COST 31 DEC	1 091 903	1 050 499	747 501	729 561
ACCUMULATED DEPRECIATION 1 JAN	-420 446	-307 003	-290 012	-270 028
ACCUMULATED DEPRECIATION IN ACQUIRED SUBSIDIARY 1 JAN		-60 953		
EXCHANGE RATE DIFFERENCES	3 288	147		
ACCUMULATED DEPRECIATION RELATING TO DISPOSALS AND TRANSFERS	172	-19 256	89	179
DEPRECIATION FOR PERIOD	-43 020	-33 381	-27 845	-20 163
ACCUMULATED DEPRECIATION 31 DEC	-460 006	-420 446	-317 768	-290 012
BOOK VALUE 31 DEC	631 897	630 053	429 733	439 549
HOLDINGS IN GROUP COMPANIES				
ACQUISITION COST 1 JAN			459 955	340 368
ADDITIONS			838	120 481
DISPOSALS			-13 597	-894
ACQUISITION COST 31 DEC			447 196	459 955
SHARES IN ASSOCIATED COMPANIES				
ACQUISITION COST 1 JAN	7 542	8 185	4 919	4 919
ADDITIONS	4 391	733		
DISPOSALS	-1 795	-1 376		
BOOK VALUE 31 DEC	10 138	7 542	4 919	4 919
OTHER SHARES AND HOLDINGS				
ACQUISITION COST 1 JAN	23 061	22 257	18 494	17 682
ADDITIONS	160	1 251	159	1 250
DISPOSALS	-1 711	-447	-261	-438
BOOK VALUE 31 DEC	21 510	23 061	18 392	18 494

Notes to the Accounts

FIM 1000	GROUP		PARENT COMPANY	
NOTE NUMBER	2001	2000	2001	2000
GROUP COMPANIES	SHAREHOLDING	SHAREHOLDING	SHAREHOLDING	SHAREHOLDING
VAPO TIMBER OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
FORSSAN SAHA OY, FORSSA		100 %	0 %	0 %
VAPO TIMBER IMPORT OY, JYVÄSKYLÄ	100 %	100 %	0 %	0 %
KAREL TIMBER OY, JYVÄSKYLÄ	100 %	0 %	0 %	0 %
KEKKILÄ OYJ, EURAJOKI	59 %	59 %	59 %	59 %
KIINTEISTÖ OY HYRYLÄN NURMIKKO, TUUSULA	100 %	100 %	0 %	0 %
STENRØGEL MOSEBRUG AS, DENMARK	100 %	100 %	0 %	0 %
LANGHAM OÜ, ESTONIA	100 %	100 %	0 %	0 %
HASSELFORS GARDEN AB, SWEDEN	100 %	100 %	0 %	0 %
FORSSAN ENERGIA OY, FORSSA	100 %	100 %	100 %	100 %
VOIMAVASU OY, JYVÄSKYLÄ	50 %	50 %	50 %	50 %
VAPON TUULIVOIMA OY, JYVÄSKYLÄ	90 %	90 %	90 %	90 %
LIEKSAN LÄMPÖ OY, LIEKSA	100 %	100 %	100 %	100 %
MUSTANKORKEA OY, JYVÄSKYLÄ	55 %	55 %	55 %	55 %
VAM VAPO WASTECH LTD OY, JYVÄSKYLÄ		100 %		100 %
VAPO ENERGI AB, SWEDEN	100 %	100 %	0 %	100 %
RÅSJÖ TORV AB, SWEDEN	100 %	100 %	100 %	100 %
SVENSKA TORV AB, SWEDEN	100 %	100 %	0 %	0 %
MELLANSVENSKA BIOBRÄNSLE AB, SWEDEN	100 %	100 %	0 %	0 %
MEBIO TORVPRODUKTER AB, SWEDEN	100 %	100 %	0 %	0 %
SANDVIKEN AVESTA TORV AB, SWEDEN	100 %	100 %	0 %	0 %
SUO OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
BIOFILTER OY, HELSINKI		100 %		100 %
BIOLAPPI OY, JYVÄSKYLÄ	100 %	100 %	100 %	100 %
NAISTENLAHDEN TURVE OY, TAMPERE		100 %		100 %
KP-MULTA OY, LAHTI	100 %	0 %	100 %	0 %
ASSOCIATED COMPANIES				
MÄNTÄN ENERGIA OY, MÄNTTÄ	50 %	50 %	50 %	50 %
KESKI-POHJANMAAN KOMPOSTI OY, HIMANKA	50 %	50 %	50 %	50 %
ANAICA COMPONENTS LTD OY, LIEKSA	40 %	40 %	0 %	0 %
VAPOGRO LTD, UK	49 %	99 %	0 %	0 %
10 RECEIVABLES FROM GROUP COMPANIES				
LONG-TERM LOANS RECEIVABLE			61 887	86 278
ACCOUNTS RECEIVABLE			8 667	9 344
LOANS RECEIVABLE			126 706	71 059
PREPAID EXPENSES AND ACCRUED INCOME			3 792	701
TOTAL			201 052	167 382
RECEIVABLES FROM ASSOCIATED COMPANIES				
LONG-TERM LOANS RECEIVABLE	2 675			
ACCOUNTS RECEIVABLE	5 718	11 969	4 358	7 157
PREPAID EXPENSES AND ACCRUED INCOME	61			
TOTAL	8 454	11 969	4 358	7 157
MATERIAL ITEMS INCLUDED IN PREPAID EXPENSES AND ACCRUED INCOME				
INDIRECT TAXES	4 032	14 555		
TAXES	352	170		
COMPENSATION CLAIMS		1 400		
SUBSIDIES	3 031	5 981	1 904	3 106
SOCIAL SECURITY	3 206	3 500	1 556	1 739
SALES PENDING INVOICING	8 448	1 550	6 832	
VALUATION ITEMS	1 589	1 571	1 589	1 571
OTHER PREPAID EXPENSES AND ACCRUED INCOME	9 229	9 476	2 239	2 958
TOTAL	29 887	38 203	14 120	9 374

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
11 SHAREHOLDERS' EQUITY				
SHARE CAPITAL 1 JAN AND 31 DEC	300 000	300 000	300 000	300 000
ORDINARY RESERVE 1 JAN	127	130		
TRANSFERS TO RETAINED EARNINGS	-127			
EXCHANGE RATE DIFFERENCE		-3		
ORDINARY RESERVE 31 DEC	0	127		
RESTRICTED EQUITY, TOTAL	300 000	300 127	300 000	300 000
TRANSLATION DIFFERENCES RELATING TO ACQUISITION COST	-6 997	-2 580		
TRANSLATION DIFFERENCES RELATING TO RETAINED EARNINGS	-3 583	410		
TRANSLATION DIFFERENCE RELATING TO PROFITS AND LOSSES	-23	-390		
TRANSLATION DIFFERENCE 31 DEC	-10 603	-2 560		
CONTINGENCY RESERVE 1 JAN	179 030	179 030		
TRANSFERS TO RETAINED EARNINGS	-85			
CONTINGENCY RESERVE 31 DEC	178 945	179 030	178 945	178 945
OTHER NON-RESTRICTED EQUITY 1 JAN	993 061	932 646	529 740	463 074
DISTRIBUTION OF DIVIDENDS	-63 000	-58 043	-63 000	-57 000
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	-3 905	-2 295		
TRANSFERS FROM RESERVES	211			
SHAREHOLDERS' EQUITY OF VAPOGRO	5 346			
REVALUATIONS WRITTEN OFF		-2 308		
CHANGE IN MINORITY INTEREST		-117		
PROFIT FOR THE FINANCIAL PERIOD	107 713	123 278	138 712	123 766
OTHER NON-RESTRICTED EQUITY 31 DEC	1 039 426	993 061	605 452	529 740
NON-RESTRICTED EQUITY, TOTAL	1 218 371	1 172 091	784 397	708 685
BREAKDOWN OF DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES				
VOLUNTARY RESERVES AND DEPRECIATION DIFFERENCE	283 697	307 151		
CHANGE IN TRANSLATION DIFFERENCE	-213			
CHANGE IN DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES SHOWN AS PROFIT FOR FINANCIAL PERIOD	-17 712	-23 454		
	265 772	283 697		
DEFERRED TAX LIABILITY	128 491	135 884		
INCLUDED IN MINORITY INTEREST	3 328	3 359		
DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES, TOTAL	397 591	422 940		
DISTRIBUTABLE NON-RESTRICTED GROUP EQUITY				
NON-RESTRICTED EQUITY PER CONSOLIDATED BALANCE SHEET	1 218 371	1 172 091	784 397	708 685
RESERVED FOR USE OF BOARD OF DIRECTORS		-200		-200
DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES SHOWN AS SHAREHOLDERS' EQUITY	-265 772	-283 697		
SHARE OF ASSOCIATED COMPANY PROFITS		-729		
DISTRIBUTABLE NON-RESTRICTED GROUP EQUITY	952 599	887 465	784 397	708 485

Notes to the Accounts

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
12 PROVISIONS				
PROVISION FOR EXPENDITURE ON ENVIRONMENTAL WORK				
AT SITES RELEASED FROM PEAT PRODUCTION	36 191	36 533	20 065	20 445
GUARANTEE PROVISION	2 730	510	2 730	510
PROVISION FOR CLOSURE OF LANDFILL SITES	8 000	4 728		
	<u>46 921</u>	<u>41 771</u>	<u>22 795</u>	<u>20 955</u>
DEFERRED TAX ASSET INCLUDED				
IN PROVISIONS	13 446	11 953	6 611	6 077
13 LIABILITIES DUE AFTER MORE THAN FIVE YEARS				
LOANS FROM FINANCIAL INSTITUTIONS				
	302 814	278 184	186 076	166 374
PENSION FUND LOANS	2 525	14 177		11 119
OTHER LONG-TERM LIABILITIES	1 133	1 401	1 133	1 401
TOTAL	<u>306 472</u>	<u>293 762</u>	<u>187 209</u>	<u>178 894</u>
CONTRACT DEPOSITS AND OTHER LIABILITIES				
CONTRACT DEPOSITS	45 304	43 610	1 400	1 400
OTHER LONG-TERM LIABILITIES	3 194	4 203	3 195	4 044
TOTAL	<u>48 498</u>	<u>47 813</u>	<u>4 595</u>	<u>5 444</u>
LIABILITIES TO GROUP COMPANIES				
ACCOUNTS PAYABLE			1 455	780
OTHER CURRENT LIABILITIES			25 029	37 338
ACCRUED LIABILITIES			406	142
TOTAL			<u>26 890</u>	<u>38 260</u>
LIABILITIES TO ASSOCIATED COMPANIES				
ADVANCES RECEIVED	644	676	644	676
ACCRUED LIABILITIES	481	502	481	502
TOTAL	<u>1 125</u>	<u>1 178</u>	<u>1 125</u>	<u>1 178</u>
MATERIAL ITEMS INCLUDED IN ACCRUED LIABILITIES				
ACCRUALS RELATING TO SALARIES, WAGES AND SOCIAL EXPENSES	46 218	41 369	16 776	13 734
INDIRECT TAXES	1 949	4 440		4 440
INTEREST	3 071	5 135	2 971	4 290
TAXES	4 395	6 312	3 278	2 496
VALUATION ITEMS		610		
PEAT CONTRACTORS' PAYMENTS	980	1 899	980	1 899
FINAL PAYMENTS IN RESPECT OF INVESTMENTS	7 941	3 414	6 861	
REAL-ESTATE RELATED EXPENSES	723	1 569	723	1 569
OTHER ACCRUED LIABILITIES	13 832	18 895	1 581	3 854
TOTAL	<u>79 109</u>	<u>83 643</u>	<u>33 170</u>	<u>32 282</u>
GUARANTEES GIVEN				
DEBTS SECURED BY MORTGAGES				
LOANS FROM FINANCIAL INSTITUTIONS	135 855	142 595		
PENSION FUND LOANS	2 023	2 408		
OTHER DEBTS	1 442	1 500	1 442	1 500
OVERDRAFT COMMITMENTS	13 457	27 424		
TOTAL	<u>152 777</u>	<u>173 927</u>	<u>1 442</u>	<u>1 500</u>
MORTGAGES GIVEN AS SECURITY FOR DEBT, TOTAL	<u>218 127</u>	<u>238 724</u>	<u>5 000</u>	<u>7 000</u>

Notes to the Accounts, Calculation of Financial Ratios

FIM 1000 NOTE NUMBER	GROUP		PARENT COMPANY	
	2001	2000	2001	2000
OTHER GUARANTEES GIVEN FOR CORPORATE COMMITMENTS				
ASSETS MORTGAGED	1 000	1 000		
ASSETS PLEDGED	10	1 347		
TOTAL	1 010	2 347		
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	8 410	6 822	2 291	1 151
DURING LATER PERIODS	41 596	42 076	2 377	908
TOTAL	50 006	48 898	4 668	2 059
CONTINGENT LIABILITIES FOR GROUP COMPANIES				
GUARANTEES	47 193	52 057	81 810	107 145
OTHER CONTINGENT LIABILITIES	13 921	14 495	13 921	14 495
TOTAL	61 114	66 552	95 731	121 640
CONTINGENT LIABILITIES FOR ASSOCIATED COMPANIES				
GUARANTEES	4 886			
OTHER CONTINGENT LIABILITIES	580			
TOTAL	5 466			
OTHER GUARANTEES FOR CORPORATE COMMITMENTS				
GUARANTEES	740	2 063	898	2 360
OTHER CONTINGENT LIABILITIES				
RENT COMMITMENTS	157	157		
TIMBER PURCHASE CONTRACTS	48 618	60 808		
OPEN FORWARD CONTRACTS	14 441	50 604		
TOTAL	63 216	111 569		

Calculation of Financial Ratios

Return on capital employed (ROCE) %	= 100 x	$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Average capital employed}}$
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	$\frac{\text{Shareholders' equity + minority interest}}{\text{Balance sheet total - advances received}}$
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 Statement of the Supervisory Board Auditors' Report

Proposal for the Distribution of Profits Auditors' Report

The Group's non-restricted shareholders' equity is FIM 1 218 million. According to the consolidated balance sheet, distributable funds represent FIM 953 million of this total. The Parent Company's non-restricted shareholders' equity is FIM 784 million, of which profit for the financial period is FIM 139 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 60 million or 20% of the registered share capital be paid.
- A total of FIM 79 million be transferred to the retained earnings account.

Jyväskylä, 20 March 2002

Taisto Turunen
Chairman

Aarno Heinonen, Eeva Hellström, Matti Hilli
Mauri Jaakonaho, Raimo Rantala

Statement of the Supervisory Board

The Supervisory Board has examined Vapo Oy's financial statements, consolidated financial statements and auditors' report for 2001, 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.

Helsinki, 3 April 2002

Matti Väistö
Chairman

Aarne Heikkilä, Juha Karpio, Katri Komi,
Reijo Laitinen, Christel Liljeström, Erkki Pulliainen,
Leena Rauhala, Petri Salo

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 2001. 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 and the Board of Directors, as well as 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 2002

Yrjö Tuokko, CPA

Management Principles

GENERAL

In the management of Vapo Group, the objective is to apply systems that are simple, straightforward and clear, as specified in Vapo's Corporate Governance document.

The Group is arranged into business areas and groups which are supervised by the Group's management and are responsible for their own financial performance. The four businesses are Vapo Oy Energia, Vapo Timber Oy, Kekkilä Oyj and Vapo Oy Biotech.

CORPORATE ADMINISTRATION

Vapo Oy has a Supervisory Board which 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.

Vapo Oy's Board of Directors comprises a minimum of 4 and a maximum of 8 members, each of whom is elected for a one-year term by the Supervisory Board. The Chairman is selected by the Supervisory Board.

Vapo Oy's Managing Director is appointed by the Supervisory Board.

The incorporated businesses have their own Boards of Directors, while the other businesses have Executive Boards. In each case the Board of Directors or Executive Board is chaired by Vapo Oy's Managing Director, and the other members – who number a maximum of four – are selected by Vapo Oy's Board of Directors. The day-to-day administration of the businesses is the responsibility of the Business Director, who in the case of the incorporated businesses is the Managing Director.

The Boards of Directors of companies subordinate to the businesses and of other Group companies are appointed by Vapo Oy's Board of Directors.

ADMINISTRATIVE FUNCTIONS

Supervisory Board

Vapo Oy's Supervisory Board operates in accordance with the Finnish Companies Act and Vapo's articles of association, and its function is to supervise the Company's administration by the Board of Directors and the Managing Director and to issue a statement to the Annual General Meeting on the Financial Statements and Auditors' Report. It decides on issues involving a significant contraction or expansion of the Company's activities and provides instructions for the Board of Directors in matters that have far-reaching consequences and are important as issues of principle. The Supervisory Board selects the Board of Directors, and the Chairman and Vice Chairman for the

Board's term of office. It also selects the Company's Managing Director and calls the Annual General Meeting.

Vapo Oy's Board of Directors

Vapo Oy's Board of Directors is responsible for the management and supervision of Vapo Group in accordance with Chapter 8 of the Finnish Companies Act, the articles of association, and shareholder instructions.

The Board of Directors decides on the central operating principles to be followed in the Group and on matters which, by reference to the scale of the Group, are large and important, or which are outside the scope of the Group's normal business activities, or which the Board of Directors separately determines should be considered and decided on by it. The Board of Directors determines and approves the operating areas and main functions of the businesses, and it approves the Group's long-term objectives and the main strategies to achieve those objectives. The Board of Directors approves the annual budgets of the businesses, as well as their investment plans, business plans and other short-term objectives that it regards as necessary. The Board of Directors meets as required, but at least six times each year.

Vapo Oy's Managing Director

The Managing Director is responsible for the day-to-day management of the Company and Group in accordance with the articles of association, the Companies Act and instructions issued by the Board of Directors. The Managing Director prepares and presents Group strategies and operating plans to the Board of Directors, which approves their content. The Managing Director regularly informs both the Board of Directors and the Supervisory Board about the Company's operations and its financial position. The Managing Director acts as Chairman of the Boards of Directors and Executive Boards of the businesses, and as Chairman of Vapo Group's Executive Management Group.

Boards of Directors and Executive Boards of Vapo's businesses

Vapo Timber Oy and Kekkilä Oyj each have a Board of Directors, Vapo Oy Energia and Vapo Oy Biotech each have an Executive Board.

Each Board of Directors or Executive Board supervises and directs the activities of the business in question, which are managed by the Business Director in line with Group principles within the operating areas specified by Vapo Oy's Board of Directors. The Board of Directors or Executive Board prepares the strategy of the business for approval by Vapo Oy's Board of Directors and decides on those investments and acquisitions that are not sufficiently large or fundamentally

Management Principles

important to require the final approval of Vapo Oy's Board of Directors. The management of the businesses includes securing the continuity of the business activities by preparing and implementing a programme of training for potential key personnel. Meetings of the Boards of Directors or Executive Boards are called by the Chairman and are held at least once every two months.

Vapo Group Executive Management Group

Vapo Oy's Managing Director, Business Directors, and those Group Administration Directors appointed by Vapo Oy's Board of Directors, form Vapo Group's Executive Management Group, which meets at least once each month. The task of the Executive Management Group is to actively promote collaboration between the businesses, agree common principles in the Group management, and to assist Vapo Oy's Managing Director to prepare for meetings of Vapo Oy's Board of Directors.

Employee representatives in business unit management groups 1.1.2000–31.12.2001

VAPO OY ENERGIA

Western Finland

Tapio Kamppi
(Pentti Yli-Peltola)
Maija Kirvesoja (until 2.11.2001)
(Heimo Pihlajamäki)

Eastern Finland

Toivo Karhapää
(Jorma Heiskanen)
Ritva Kokko (until 8.12.2001)
(Matti Hanhinen)

Northern Finland

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

Forssan Energia Oy

Ari Simola (until 24.4.2001)
(member of Board of Directors)
Antero Koskenoja (from 25.4.2001)
(member of Board of Directors)

VAPO TIMBER OY

Hankasalmi

Pekka Häkkinen
Henrik Leppävuori

Kevätniemi

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

Nurmes

Eetu Karjalainen
(Jarmo Naacka)

Paltamo

Tuomo Rautiainen

Peuravuono

Kalevi Siivikko

Forssan Saha Oy

Markku Salonen

KEKKILÄ OYJ

Teuvo Kaunismäki
Osmo Sahimäki

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

Supervisors

Jari Alkkimäki, 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

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
(Timo Talasoja)

Sawmill workers

Juhani Nevalainen
(Esko Leinonen)
Erkki Flink
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Forestry workers

Hannu Turpeinen
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Heikki Miettinen
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Forestry workers

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Sawmill supervisors

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Senior salaried personnel

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