MANAGEMENT REPORT 1.1. - 31.12.2023

General

ESL Shipping Oy is part of the Aspo Plc group and is a wholly owned subsidiary of Aspo Plc. ESL Shipping Oy is the parent company of ESL Shipping Group. The business of the shipping company's handy size vessels is handled by ESL Shipping Oy, and the business of the smaller coaster vessels is completely handled by the shipping company's Swedish subsidiary AtoBatC Shipping AB.

ESL Shipping is the leading dry bulk sea transport company operating in the Baltic Sea area. The year 2023 was the company's seventy-fourth year of operation. ESL Shipping's operations are mainly based on long-term customer contracts and established customer relationships. At the end of the review period, the shipping company's fleet consisted of 43 vessels with a total capacity of 443,000 deadweight tons (dwt). Of these, 24 were wholly owned (77% of the tonnage), two were minority owned (2%) and the remaining 17 vessels (21%) were time chartered.

ESL Shipping's competitive edge is based on its pioneering role and ability to responsibly and energy efficiently secure product and raw material transportation for industries and energy production year-round, even in difficult conditions. The shipping company loads and unloads large ocean liners at sea as a special service.

Main events

Year 2023 was characterized by a challenging business environment. In various core customer segments, the business activity has been declining, pulling down especially spot volumes and rates, and the cost inflation and interest rates have been high. Despite all this, ESL Shipping delivered solid financial performance in 2023. The partnership-based strategy proved its strength within this adverse business environment.

The newbuilding project of ESL Shipping's Swedish subsidiary AtoBatC Shipping AB at the Chowgule & Company Private Limited shipyard in India proceeded as planned during the year. The first vessel in the series, Electramar, was delivered in December and carried project cargo from India to Scandinavia on her home voyage. The second vessel, Stellamar, was launched on October 1st and was delivered in April 2024. Every other vessel in the series of twelve Green Coaster electric hybrid vessels is sold to a company founded by a group of investors. Stellamar is the first vessel to be sold further.

In April 2023 Aspo announced that it initiated a program to accelerate ESL Shipping's green transition through a program assessing three alternative measures, including a launch of a new investment pool of fossil-free vessels, a possible equity injection in ESL Shipping by a minority shareholder, and the sales of the shipping company's two supramax vessels. As the first result of this assessment, Aspo signed in November an agreement with OP Finland Infrastructure LP regarding an equity investment into ESL Shipping. The transaction required a notification to the competition authorities and the approval of the financial institutions for the change of control. The transaction has been completed in the first quarter of 2024.

Financial position and result

ESL Shipping Group's net sales decreased by 23.0% from the comparison period and were 189.0 (245.4) million euro. The comparable operating profit halved to 17.7 (38.2) million euro, and the comparable operating profit rate was 9.4% (15.6%). Items affecting comparability amounted to EUR -0.6 (0.8) million and mainly consisted of advisory costs related to strategic projects.

In the fiscal year, a total of 5,600,000 euro in dividends for the fiscal year 2022 have been distributed.

Net sales and profit

	2023	2022	2021
Net sales (1.000€)	189 029	245 416	191 444
Operating profit (1.000€)	17 679	38 202	26 795
Operating profit -%	9,4	15,6	14,0
Equity ratio -%	25,0	24,0	14,8
Return on equity -%	19,0	79,2	98,0

Personnel

Year	2023	2022	2021
Personnel on avarage	296	298	291
Wages and salaries (1000€)	15 507	16 830	16 039

ESL Shipping Group employed an average of 296 people during the financial period, of which 59 were white-collar workers. Excellent results were achieved in the personnel satisfaction survey conducted in 2023 for both sea and shore personnel. The results of the customer satisfaction survey were also good. Valuable feedback was received from both studies for the further development of the operation.

Sustainability and safety

The long-term development of sustainability and maintaining a high level of safety are central to the shipping company's operations. Considering environmental responsibility and safety issues is a vital part of ESL's operations. The company invests in long-term development, which combines high-level know-how and awareness of the environmental impact of one's own operations. Operations are supported by the audited ISM and ISPS systems of safety management and the audited ISO 14001 environmental management system.

Central to ESL Shipping's sustainability goals are the minimization of emissions into the air and sea, providing a safe and motivating work environment for personnel, and constantly developing good governance. The company's goal is to halve the carbon dioxide emissions per transport performance by the end of the decade. Together with the key customer, the measures implemented included optimizing the speed of the vessels using the Virtual Arrival method. With the help of this method, emissions have been reduced by an average of 24% on voyages that have used it. The ballast handling system has been installed in all vessels of the shipping company.

In handling environmental issues, Aspo's group companies follow Aspo's responsibility policy, the central principle of which is continuous improvement of operations. In 2018, Aspo Plc joined the Global Compact initiative, the principles of which are followed throughout the Aspo Group.

ESL Shipping publishes its own sustainability report annually. The shipping company's goal is to be among the most responsible companies in its industry.

At the end of 2023, ESL Shipping committed to the emission reduction goal according to the Science Based Targets Initiative. Accordingly, the company's carbon dioxide emissions must reach the so-called net zero by 2040. The company's previous target schedule for reaching this goal was 2050.

Research and development activities

The shipping company's development projects have focused on the further development of the enterprise control system for vessel operations and the development of business analytics reporting systems derived from it, the design of new environmentally efficient vessel types, the continuous improvement of energy efficiency and occupational safety, and other environmental protection. ESL Shipping is involved in several projects in which the production of new types of environmentally friendly and even completely fossil-free fuels is explored and prepared. The costs incurred from these have been included in business expenses or capitalized in the balance sheet as part of the purchase price of the commodity. The company intends to be a pioneer in the future by offering its customers the most efficient and environmentally friendly transport solutions.

Events after the financial year

On February 8, 2024, Aspo announced that Varma Mutual Pension Insurance Company has agreed to co-invest EUR 15 million alongside OP Finland Infrastructure LP in Aspo's subsidiary ESL Shipping. As a result, the combined investment into ESL Shipping managed by OP Finland Infrastructure LP rises to total of EUR 45 million at the closing of the transaction. The combined EUR 45 million investment managed by OP Finland Infrastructure LP was made against issuance of new shares in ESL Shipping with an agreed pre-money equity valuation of EUR 165 million, corresponding to a 21.43% ownership stake in ESL Shipping.

On March 18, ESL Shipping has signed a memorandum of agreement, according to which it will sell its two supramax-class vessels to companies belonging to the Turkish shipping and logistics group HGF Denizcilik Limited Sirket. The sale of the vessels is part of a program announced in April 2023 to support and accelerate ESL Shipping's low-carbon growth strategy.
The sale price is $37.1 million and the payment will be made entirely in cash. Taking into account the vessels' net worth and sales costs, the loss on sales is estimated to be around 7 million euro. The write-down has been recognized in the 2023 financial statements of ESL Shipping Oy. The vessels are expected to be handed over between April and May 2024.

After the sale of the supramax vessels, ESL Shipping continues to focus on handysize and coaster class vessels and develops its partnership strategy with current and future customers. In 2023, the operating profit of the supramax vessels was 1.6 million euro (2022: 5.7).
To the extent possible, the crew of the supramax vessels will be provided employed on ESL Shipping´s other vessels.

Future prospects and risks

Geopolitical tensions and related attacks against commercial shipping in Red Sea together with natural phenomena caused limitations to Panama Canal capacity are disturbing global supply chains. At the same time, more shipping capacity is needed to perform the same transport tasks due to an increase in distance travelled.

The industrial activity on ESL Shipping's main markets in the Northern Baltic Sea, Scandinavia and Continental Europe are expected to continue on a low-cycle level. Despite that the demand of the steel industry from long term partnership industries, which is important to the shipping company, is expected to remain at good volume level. Forest industry is expected to be slowly recovering from the bottom of the cycle and overall volumes are expected to increase modestly.

Full year financial performance is expected to be strong despite that at the early part of the year the prevailing most severe winter ice conditions in ten years will affect result negatively. Also, the announced industrial actions in Finland are expected to cause supply chain disruptions. The new green coasters to be added to the fleet during 2024 will support the positive profit development of ESL Shipping.

The main part of the company's transport capacity is secured by long-term contracts. The effect of rising energy prices on ESL Shipping's costs is effectively compensated by fuel clauses in long-term transport contracts. The work to further improve customer and personnel satisfaction, sustainability and occupational safety continues.

The shipping company's investments in energy-efficient vessels will strengthen its competitiveness and market position in the future. ESL Shipping continues the development work of a completely fossil-free, green transition marine transport ecosystem and vessels designed for this, together with its main customers. The shipping company is involved in projects whose purpose is to use renewable electricity to produce green hydrogen and from it fossil-free fuel suitable for the shipping company's vessels.

ESL Shipping's currency and interest rate risks are hedged with hedging instruments if necessary. However, hedging instruments have not been used in 2023. The company's financial risk management goals and procedures are described in more detail in ESL Shipping's consolidated financial statements. Marine fuel price risks are hedged with fuel clauses in customer contracts.

Share capital

At the end of the financial year, ESL Shipping Oy's share capital was 1,513,691.34 euro and the total number of shares was 1,800,000. The company has one share series and all shares have the same right to dividends and the company's assets.

Group relations and structural arrangements

The wholly owned subsidiaries of ESL Shipping Oy are Oy Bomanship Ab, Bothnia Bulk AB and Atobatc Shipping AB. ESL Shipping Oy and Oy Bomanship Ab together fully own ESL Shipping Russia LLC, whose operations have been closed down.

Atobatc Shipping AB fully owns Norra Skeppnings Gruppen AB and AtoBatC Shipping Cyprus Limited.

Atobatc Shipping AB also fully owns its Finnish subsidiary Oy AtoBatC Shipping Ab and a 49% minority share in the German KG MS Auriga and a 49% minority share in the German KG MS Norma.

Related party loans and liabilities

ESL Shipping's acquisition of financing and liquidity management are managed centrally in the Aspo Group. ESL Shipping Group's long-term loans from the parent company totaled EUR 70.5 million at the time of the financial statements.

Board of Directors and CEO

The chairman of the company's board has been Rolf Jansson. The other board members include Ulla Tapaninen and Kimmo Nordström.

The company's CEO has been Matti-Mikael Koskinen.

Audit

During the accounting period, the auditing firm Deloitte Oy was responsible for the company's audit, and KHT Aleksi Martamo has served as the principal auditor.

The board's presentation on the use of profits

ESL Shipping Oy's distributable assets are 35,377,568.35 euro, of which the profit for the financial year is 607,089.83 euro. The board of directors proposes to the annual general meeting that no dividend be distributed.

There have been no changes in the company's financial condition since the end of the financial year.