ASPO Plc
Financial statement release
February 13, 2020 at 10:00 a.m.

ASPO GROUP FINANCIAL STATEMENT RELEASE, JANUARY 1 TO DECEMBER 31, 2019

Aspo Group's full-year 2019: Net sales growing and net cash from operating activities was very strong

(Figures from the corresponding period in 2018 are presented in brackets.)

January–December 2019

- Aspo's net sales increased and were EUR 587.7 (540.9) million.
- Operating profit increased and was EUR 21.1 (20.6) million.
- Profit for the period increased and stood at EUR 16.1 (14.2) million.
- Earnings per share increased to EUR 0.47 (0.42).
- The operating profit of ESL Shipping was EUR 14.6 (15.1) million, Leipurin EUR 3.0 (3.3) million and Telko EUR 8.0 (7.4) million.
- Net cash from operating activities was EUR 52.5 (20.3) million.

The adoption of IFRS 16 – Leases at the beginning of 2019 has an impact on the comparability of Aspo's key figures and financial statements calculations. Furthermore, the administrative court's decision issued in April 2019 to reduce the tax increase imposed on Telko in 2015 increased the financial income, in particular, and improved the earnings per share by EUR 0.05. Figures for 2018 include an impairment loss of EUR 4.8 million recognized on Kauko's goodwill in December. The impact of the impairment loss on earnings per share in 2018 was approximately EUR 0.16.

October–December 2019

- Aspo's net sales decreased and were EUR 147.0 (156.6) million.
- Operating profit increased and was EUR 5.4 (2.6) million.
- Profit for the period increased and stood at EUR 3.7 (0.8) million.
- Earnings per share increased to EUR 0.10 (0.02).
- The operating profit of ESL Shipping was EUR 4.4 (4.2) million, Leipurin EUR 1.1 (0.8) million and Telko EUR 0.9 (-1.0) million.
- Net cash from operating activities was EUR 18.9 (12.7) million.

Proposal of the Board of Directors for the payment of dividends

The Board of Directors proposes that EUR 0.45 (0.44) per share is distributed in dividends for the 2019 financial year, and that the dividend is paid in two installments. Furthermore, the Board of Directors proposes that the first installment of EUR 0.22 per share is paid in April and the second installment of EUR 0.23 per share is paid in November.

More information about the proposed payment of dividends is available under "Dividend proposal."

Aspo's guidance for 2020

Aspo's operating profit in 2020 will be higher than in 2019 (EUR 21.1 million).

General outlook for 2020

General political uncertainty in the markets remains high. The increase in industrial production is expected to continue to slow down or turn to a decrease in the main market areas of Aspo's business operations. Raw material prices are expected to remain at the current level. The national economy and industrial production are growing moderately in Russia, an important market area for Aspo, while international sanctions and their possible increase maintain uncertainties regarding the development of the economy in Russia and other CIS countries. General political risks are still on a high level and this may have rapid effects on the operating environment or decrease free trade, also affecting the operating conditions of customers of Aspo's businesses. Economic conditions are expected to remain unchanged in Aspo's businesses, even though there is a risk of rapid change.

KEY FIGURES

	10-12/2019	10-12/2018	Change,%	**1-12/2019**	1-12/2018	Change,%
Net sales, MEUR	**147.0**	156.6	-6.1	**587.7**	540.9	8.7
Operating profit, MEUR *)	**5.4**	2.6	107.7	**21.1**	20.6	2.4
Operating profit, %	**3.7**	1.7		**3.6**	3.8	
Profit before taxes, MEUR ***)	**4.5**	1.5	200.0	**18.2**	16.4	11.0
Profit for the period, MEUR	**3.7**	0.8	362.5	**16.1**	14.2	13.4
Earnings per share, EUR **)	**0.10**	0.02	400.0	**0.47**	0.42	11.9
Net cash from operating activities, MEUR	**18.9**	12.7	48.8	**52.5**	20.3	158.6
Equity per share, EUR				**3.92**	3.75	
Return on equity, % (ROE)				**13.5**	12.4	
Equity ratio, %				**30.1**	29.5	
Gearing, %				**162.2**	154.4	
ESL Shipping, operating profit, MEUR	**4.4**	4.2	4.8	**14.6**	15.1	-3.3
Leipurin, operating profit, MEUR	**1.1**	0.8	37.5	**3.0**	3.3	-9.1
Telko, operating profit, MEUR *)	**0.9**	-1.0	190.0	**8.0**	7.4	8.1

Aspo has changed its segment reporting so that Kauko is reported as part of the Telko segment starting from January 1, 2019.
*) Figures for 2018 include an impairment loss of EUR 4.8 million recognized on Kauko's goodwill in December.
**) Figures for 2018 include an impairment loss recognized on Kauko's goodwill which reduced earnings per share approximately EUR 0.16.
***) Figures for 2019 include a profit of EUR 1.6 million related to the decision by the administrative court in April 2, 2019, to reduce the EUR 1.7 million tax increase imposed in 2015 by the Finnish Customs to approximately EUR 60,000.

AKI OJANEN, CEO OF ASPO GROUP, COMMENTS ON FULL-YEAR 2019 AND THE FOURTH QUARTER:

"Our expectations for 2019 were exceptionally high in terms of increase in both net sales and operating profit. As the year went on, we were, however, forced to lower our guidance due to operational challenges faced by Telko and weakening market conditions in ESL Shipping's business. In 2019, our net sales were at a record high of EUR 588 million and our operating profit improved slightly to EUR 21.1 million. Net cash from operating activities developed very positively, reaching a new record of EUR 52.5 million in 2019, of which the positive effect of the adoption of the IFRS 16 standard was approximately EUR 14 million. Strong net cash from operating activities is in a key position in increasing our distributed dividends, reducing our indebtedness and carrying out future investments.

Aspo's businesses have analyzed the external and internal factors that have slowed the increase in our operating profit, and corrective actions have been taken. We believe that these corrections help us to increase our results to the level enabled by Aspo's current structure.

In 2019, unexpected industrial stoppages and lower transportation volumes in the steel industry, in particular, had a negative impact on the profitability of our shipping company's operations and on Aspo's total results. On the other hand, positive factors were the development of the results of AtoB@C, a shipping company acquired in Sweden, particularly during the final quarter. I am also very satisfied with the operational efficiency and low energy consumption of our LNG-fueled vessels. Unfortunately, other shipping company operations suffered from the exceptionally steep decline in transportation volumes in the steel and energy industries, due to which part of the fleet was kept at port during the final quarter. Considering how challenging the market situation was, ESL Shipping's operating profit for the final quarter can be regarded as a good achievement.

Telko reached an unusually low operating profit during the final quarter. This was primarily a result of the actions taken by the company's new management that aim to improve the efficiency of the working capital by optimizing the stock levels and to reduce price and currency risks. The aim of these actions is to ensure that Telko's profitability improves in 2020.

Leipurin's operations developed positively during the final quarter of 2019. The net sales and profitability of bakery operations improved, with development being particularly strong in eastern markets, as bakery operations continued to grow and the operating profit rate of entire Leipurin business in eastern markets climbed over 11%.

Although 2019 did not meet our expectations in terms of operating profit, I firmly believe in Aspo's long-term profitability and the effectiveness of our strategy. Major investments have been made in recent years, and in the near future we will focus on improving our profitability in all our business operations."

ASPO GROUP

NET SALES

Net sales by segment

	10-12/2019 MEUR	10-12/2018 MEUR	Change %	**1-12/2019 MEUR**	1-12/2018 MEUR	Change %
ESL Shipping	**45.3**	46.4	-2.4	**175.0**	120.1	45.7
Leipurin	**31.9**	31.6	0.9	**115.7**	121.0	-4.4
Telko	**69.8**	78.6	-11.2	**297.0**	299.8	-0.9
Other operations	**0.0**	0.0	-	**0.0**	0.0	-
Total	**147.0**	156.6	-6.1	**587.7**	540.9	8.7

Aspo has changed its segment reporting so that Kauko is reported as part of the Telko segment. starting from January 1, 2019. There are no considerable inter-segment net sales.

Net sales by market area

	10-12/2019 MEUR	10-12/2018 MEUR	Change %	**1-12/2019 MEUR**	1-12/2018 MEUR	Change %
Finland	**48.4**	53.7	-9.9	**195.1**	175.7	11.0
Scandinavia	**21.0**	20.1	4.5	**84.8**	62.0	36.8
Baltic countries	**15.1**	14.8	2.0	**57.9**	60.6	-4.5
Russia, other CIS countries + Ukraine	**42.8**	47.5	-9.9	**171.2**	171.9	-0.4
Other countries	**19.7**	20.5	-3.9	**78.7**	70.7	11.3
Total	**147.0**	156.6	-6.1	**587.7**	540.9	8.7

ESL Shipping's acquisition of AtoB@C in 2018 increased net sales, especially in Scandinavia and Finland. Finland has become Aspo's largest market area. Net sales in the market area of Russia, other CIS countries and Ukraine decreased in all business segments during the final quarter of 2019. This decrease in net sales resulted particularly from the decrease in the general price level of Telko's products, which was also reflected in lower net sales in Finland. In 2019, the full-year net sales in eastern markets remained at the comparative period's level.

EARNINGS

Operating profit by segment

	10-12/2019 MEUR	10-12/2018 MEUR	Change %	**1-12/2019 MEUR**	1-12/2018 MEUR	Change %
ESL Shipping	**4.4**	4.2	4.8	**14.6**	15.1	-3.3
Leipurin	**1.1**	0.8	37.5	**3.0**	3.3	-9.1
Telko *)	**0.9**	-1.0	190.0	**8.0**	7.4	8.1
Other operations	**-1.0**	-1.4	28.6	**-4.5**	-5.2	13.5
Total *)	**5.4**	2.6	107.7	**21.1**	20.6	2.4

Aspo has changed its segment reporting so that Kauko is reported as part of the Telko segment starting from January 1, 2019.
*) Figures for 2018 include an impairment loss of EUR 4.8 million recognized on Kauko's goodwill in December.

The adoption of IFRS 16 – Leases on January 1, 2019, improved the Group's operating profit as, for example, the proportion of interest previously recognized in lease expenses is now recognized in financial items.

Earnings per share

In January–December 2019, earnings per share were EUR 0.47 (0.42). Equity per share was EUR 3.92 (3.75).

The administrative court's decision issued on April 2, 2019, to reduce the EUR 1.7 million tax increase imposed on Telko in 2015 to approximately EUR 60,000 improved earnings per share in 2019 by approximately EUR 0.05. Figures for 2018 include an impairment loss recognized on Kauko's goodwill, which reduced earnings per share by approximately EUR 0.16.

FINANCIAL TARGETS

Aspo's objective is to reach an operating profit of 6%, average return on equity of over 20%, and gearing of up to 130% with its current structure. Aspo aims to reach these financial targets in 2023. Following the adoption of IFRS 16, Aspo changed its long-term financial target for the gearing ratio to up to 130% on April 29, 2019. Aspo's earlier financial target for gearing was up to 100%. The target for the operating profit was changed in at the Aspo Capital Markets Day in November 2019. Aspo's previous target was an operating profit of 7%. The changed target is based on the operating model of AtoB@C, a shipping company acquired by ESL Shipping in 2018, through which a large part of ESL Shipping's fleet is leased and not owned. The higher percentage of leased vessels reduces ESL Shipping's operating profit rate.

The operating profit rate for January–December 2019 was 3.6% (3.8), return on equity was 13.5% (12.4), and gearing was 162.2% (154.4). The comparability of gearing is affected by the adoption of IFRS 16 – Leases referred to above, as it increased the company's gearing by some 30 percentage points at the date of transition.

OUTLOOK FOR 2020

Global economic growth is expected to continue to slow down. Economic growth in Russia and in the entire eastern market area will continue, but on a more moderate level. Political risks and international sanctions imposed on Russia have maintained risk levels in the market area, which is why it remains challenging to forecast future development. The risk of increasing obstacles to international free trade has increased or remained and negative development may also be rapid, which may affect the international freight rates, customer companies, Aspo's principals, or the operating prerequisites of Aspo's businesses. Growth in Finnish export volumes has decelerated. In addition, the labor market situation has become more unstable in Finland. The increase in industrial production is expected to slow down in the main market areas of Aspo's businesses in Northern Europe. Economic conditions will remain unchanged in Aspo's businesses, although there is a risk of rapid changes.

The prices of production raw materials important to Aspo have decreased. In general, prices are expected to remain low or increase in 2020. Dry bulk freight rates in sea transportation, important to ESL Shipping, fell steeply at the beginning of 2020, and it is difficult to forecast future price development.

ASPO'S BUSINESS OPERATIONS

ESL SHIPPING

ESL Shipping is the leading dry bulk cargo company in the Baltic Sea region. At the end of the review period, the shipping company's fleet consisted of 51 vessels with a total capacity of 468,000 dwt. Of the vessels, 24 are wholly-owned (75% of the fleet), two are minority-owned (2%) and the remaining 24 are time-chartered (23%). ESL Shipping's competitive edge is based on its ability to secure product and raw material transportation for industries and energy production year-round, even in difficult weather conditions. The shipping company loads and unloads large ocean liners at sea as a special service.

	10-12/2019	10-12/2018	Change,%	1-12/2019	1-12/2018	Change,%
Net sales, MEUR	**45.3**	46.4	-2.4	**175.0**	120.1	45.7
Operating profit, MEUR *)	**4.4**	4.2	4.8	**14.6**	15.1	-3.3
Operating profit, %	**9.7**	9.1		**8.3**	12.6	

*) Operating profit for 2018 includes EUR 0.9 million in transaction costs related to the acquisition made in August.

ESL Shipping's operating profit during the fourth quarter increased to EUR 4.4 (4.2) million, regardless of the unusually steep decline in transportation volumes in the steel industry and strikes that hindered operations during the final quarter. Net sales decreased by 2% from the comparative period and stood at EUR 45.3 (46.4) million. The operating profit rate during the quarter improved to 9.7% (9.1). The shipping company's cost efficiency improved from the comparative period, particularly regarding the technical maintenance of vessels and operating personnel. During the final quarter, the cargo volume carried by ESL Shipping decreased slightly to 4.0 (4.5) million tonnes. In addition to the steel industry, transportation volumes also decreased in the energy industry from the comparative period.

During the final quarter, the shipping company's vessels primarily operated in contract traffic in the Baltic Sea and in Northern Europe, and also performed loading and unloading operations at sea. Due to the difficult market situation in the steel industry, one of the two pusher systems was exceptionally kept at port in December. Supramax vessels operated in the Canadian Arctic and afterwards in international traffic. The results of these vessels were poor, reducing the shipping company's relative profitability. General international dry bulk freight rates decreased considerably in the largest vessel categories towards the end of the review period.

ESL Shipping's operations in the Baltic Sea and the North Sea are primarily based on long-term customer agreements and established customer relationships. As contractual transportation volumes were significantly lower than what was previously estimated for the quarter, the shipping company's vessels were forced to operate more than expected in weaker spot markets.
In the larger vessel category of more than 10,000 dwt, operations succeeded fairly well considering the low volumes during the quarter. The operating profit level was also as expected in the smaller vessel category of less than 10,000 dwt. Loading and unloading operations for large ocean liners at sea were much busier during the quarter than during the comparative period.

The energy efficiency of the new LNG-fueled vessels improved the operating profit during the final quarter, together with the good results of AtoB@C, which developed positively from the comparative period and meet the expectations set for the business acquisition. The ending customer agreements of AtoB@C were renewed and contract traffic was expanded, particularly in industrial markets in Sweden.

In the vessel categories of AtoB@C, raw material and product transportation volumes in the forest industry were as planned during the fourth quarter. Raw mineral and fertilizer transportation volumes developed positively from the comparative period. In the smaller vessel category, balance improved in contract traffic.

The cranes of the new LNG-fueled vessels have operated normally. The deployment of crane automation has been delayed significantly due to previous extensive warranty repairs. In 2019, ESL Shipping purchased m/s Alppila in accordance with the terms and conditions of the leasing agreement signed in 2011. The transfer of the vessel under ESL Shipping's ownership improves the company's profitability.

The net sales of ESL Shipping in January–December increased from the previous year by 46% to EUR 175.0 (120.1) million, primarily as a result of the acquisition of AtoB@C. The weak first half of the year and the difficult market climate in the steel industry during the last part of the year reduced the operating profit by 3% to EUR 14.6 (15.1) million. In 2019, the cargo volume carried by ESL Shipping amounted to 15.9 (13.4) million tonnes.

ESL Shipping has taken steps to restructure its Swedish shipping companies into a single company. As a result, the operations of AtoB@C switched to the Swedish tonnage tax system from the beginning of 2020.

Outlook for ESL Shipping for 2020

The global market prices of dry bulk cargo at the beginning of 2020 were as low as at the beginning of the comparative period. Stricter global sulfur regulations on ship fuels entered into force at the beginning of the year, potentially leading to higher fluctuations in price levels and occasional shortages in the availability of fuel that is compliant with the new regulations. However, vessels equipped with a sulfur scrubber can continue to use high-sulfur fuel. The final determination of differences in prices of different fuels may have a particular impact on the competitiveness and profitability of the shipping company's Supramax vessels which primarily operate over longer distances. High fluctuations in prices may have a short-term impact on profitability, even though the fuel price risk is controlled profitability through fuel clauses in transportation agreements. All ESL Shipping's vessels are fueled by environmentally friendly low-sulfur oil or nearly sulfur-free liquefied natural gas, which significantly reduces carbon dioxide emissions.

Economic growth is slow in the shipping company's primary market areas. However, the general outlook for industrial sectors important to ESL Shipping has brightened from the situation at the end of last year, and previous restrictions in industrial production have been dissolved. Most of the shipping company's transportation capacity has been secured in the Baltic Sea and Northern Europe through long-term agreements. Production in the steel industry in Northern Europe is expected to settle at a satisfactory level, and estimated transportation volume for 2020 is higher than the realized volume of 2019. The general transportation volume estimates of contractual partners are at a satisfactory level in the most important customer segments. Transportation volumes in the energy industry will most likely decrease as a result of the exceptionally warm weather in Northern Europe. The transportation of iron pellets from Russia to Central Europe via Finland using ESL Shipping's vessels has restarted. Markets continue to show signs of general uncertainty in demand and price levels. However, positive or negative measures directed at international free trade and increasing political risks have an impact on global material flows. The general development of cargo markets in 2020 will have the highest impact on the financial performance of the shipping company's largest Supramax vessels. The cargo volumes of large vessels returned to a historically low level at the beginning of 2020.

During spring, Finland may face large-scale strikes that may have a significant impact on the operations of ESL Shipping's customer companies and their supply chains. These potential strikes may also affect the availability of ship fuels in Finland.

Demand for loading and unloading operations for large ocean liners at sea, a segment important to the shipping company, is expected to remain at least satisfactory. Contractual transportation volumes in the shipping company's smaller vessel category are expected to be good and contractual coverage is expected to be better than in the previous year. In the smaller vessel category, the price level of renewed and new time-chartering agreements is lower than last year overall, which improves the shipping company's profitability.

ESL Shipping is actively investigating different opportunities to have a broader presence in growing markets in the Russian Arctic. The shipping company will also continue its development activities to offer the most effective and environmentally friendliest future transportation solutions in the markets, as well as in the smaller vessel category of AtoB@C. At the same time, ESL Shipping is investigating opportunities to use different new solutions related to the ownership and financing of vessels, used broadly in international shipping company operations, to speed up its operational development.

ESL Shipping has improved the efficiency of its operations by deploying a new ERP system. The new system covers all vessel operations and combines cargo operations in Finland and Sweden into a single data system. The shipping company will strengthen its sales resources to reach its strategic goals and has appointed a new commercial director who will take over the post at the beginning of March.

In 2020, three larger vessel units will be docked as planned during the second quarter and one of the two pusher systems will be docked completely during the third quarter. At least two smaller vessels will be docked during the third quarter. During these scheduled dockages, new ballast water treatment systems that meet new environmental regulations will be installed in the vessels. The pusher unit kept at port returned to operations during January.

LEIPURIN

Leipurin provides solutions particularly for bakery customers and chain customers in the foodservice business, and partly to other food industries and the retail trade. Leipurin's business operations are divided into three areas: the bakery business, the machinery business and the latest addition, the foodservice business. The solutions offered by the bakery business include, among other things, product range development, recipes, raw materials and training. As part of its machinery business, Leipurin designs, delivers and maintains production lines for the baking industry, baking units and other machinery and equipment required in the food industry. In the foodservice business, Leipurin's range includes procurement and logistics services, as well as branded concepts. Leipurin uses leading international producers and manufacturers as its raw material and machinery supply partners. Leipurin operates in Finland, Russia, the Baltic countries, Ukraine, Kazakhstan and Belarus.

	10-12/2019	10-12/2018	Change,%	**1-12/2019**	1-12/2018	Change,%
Net sales, MEUR	**31.9**	31.6	0.9	**115.7**	121.0	-4.4
Operating profit, MEUR	**1.1**	0.8	37.5	**3.0**	3.3	-9.1
Operating profit, %	**3.4**	2.5		**2.6**	2.7	

Leipurin's operating profit during the fourth quarter improved from the comparative period by 38% to EUR 1.1 (0.8) million. The operating profit increased as a result of the improved efficiency of operative functions in the bakery business and profitable growth in eastern markets. The machinery business produced a loss and fell considerably short of the comparative period's operating profit. During the final quarter, the machinery business was restructured and the efficiency of functions was improved to lower fixed costs. The net sales of Leipurin increased from the comparative period to EUR 31.9 (31.6) million. The operating profit rate during the fourth quarter was 3.4% (2.5). Net sales in the market area of Russia, other CIS countries and Ukraine decreased by approximately 6% to EUR 11.1 (11.8) million due to poor machinery sales, while the operating profit rate improved to approximately 11% (10).

The net sales of the bakery business, comprising more than 80% of Leipurin's total net sales, increased slightly during the fourth quarter and operating profit improved significantly as a result of actions taken to improve efficiency and the development of the supply chain. In eastern markets, the net sales of the bakery business grew by 6% in the fourth quarter, amounting to EUR 9.6 (9.1) million. Growth was particularly brisk in Ukraine and Belarus. The operating profit rate of the bakery business in the market area of Russia, other CIS countries and Ukraine was approximately 12% (9). In western markets, the net sales of the bakery business decreased as a result of the discontinued operations in Poland, whereas profitability increased considerably from the comparative period through improved operational efficiency. Net sales increased particularly in Lithuania and Estonia. In Finland, net sales were at the comparative period's level, regardless of the negative impact of bakery customers that discontinued their operations, and profitability increased through more effective operating practices.

During the fourth quarter, there were no significant changes in consumer confidence from the comparative period in Leipurin's primary market areas. In Finland, food inflation was at the comparative period's level, while the food inflation rate decelerated from the comparative period in Russia. The prices of raw materials important to Leipurin showed variation from one raw material group to the next, with the variation between different raw material groups being significant regarding the market prices of seasonal products. Overall, market prices were slightly higher than during the comparative period.

The new foodservice business, which has so far been primarily concentrated in Finnish markets, represented approximately 4% of Leipurin's total net sales in the fourth quarter. The new Baker's Story bakery café concept based on a licensing model was launched during the fourth quarter. The first Baker's Story was opened in Tampere together with a local bakery entrepreneur, and activities to increase business operations continued.

The machinery business produced a significant loss and fell considerably short of the comparative period's operating profit. A strong cyclical nature is typical of the machinery business due to the timing of project deliveries. During the fourth quarter, the net sales of the machinery business increased by roughly 4%. The machinery business was restructured and, among others, cooperation negotiations were held in Leipurin's own machine production, as a result of which the employment contracts of six people were terminated. Furthermore, the efficiency of the management structure of the machinery business was simplified.

The consumer market trends important for Leipurin's business opportunities, i.e., the increasing popularity of out-of-home eating, eating snacks and the consumption of pastries, continued. The market for industrially packed bread continues to decrease in the west, whereas the market for in-store bakeries and baking units has continued to increase. This presents challenges in the operations of industrial and artisanal bakeries. In Russia, the market for in-store bakeries and the increased consumption of pastries have evened out, while bread consumption is still slowly decreasing, and the consumption of less expensive types of bread has increased due to consumers' weakened purchasing power.

Leipurin's operating profit in January–December decreased to EUR 3.0 (3.3) million. The operating profit of the bakery business increased by approximately EUR 1.4 million as a result of the improved operational efficiency and growth in eastern markets, while the operating profit of the machinery business decreased by EUR 1.6 million from the peak level during the comparative period and was negative. Net sales decreased from the comparative period and stood at EUR 115.7 (121.0) million. Net sales decreased particularly in the machinery business. The operating profit rate for January–December was 2.6% (2.7). Net sales in the market area of Russia, other CIS countries and Ukraine increased by approximately 4% to EUR 37.9 (36.3) million, and the operating profit rate was approximately 9% (8).

Outlook for Leipurin for 2020

The market situation is expected to remain challenging in Leipurin's key markets. The development of Leipurin's main customer categories, i.e., bakeries and foodservice chains, continues to vary from one customer to the next. Fluctuation in the market prices of raw material groups important to Leipurin is expected to continue, while market prices of seasonal products of 2019 are expected to increase overall. The market position of Leipurin is expected to remain strong in the industrial baking sector in Finland, Russia and the Baltic region. Continuously improved customer experiences, effective operating practices, growth projects in eastern markets, increasing Baker's Story operations and returning the machinery business back to a profit-making track are focus points in operations in 2020.

In Russia, consumer confidence is low, and international sanctions and their possible increase have added to the uncertainties regarding the development of the country's economy. The development of local production has intensified competition over prices in eastern markets. Leipurin will continue to develop its own production and external procurement of bakery raw materials in the area in order to better respond to any changes in demand. Leipurin's goal is to maintain its high profitability in the region, strengthen its market position, and look for growth in the bread and pastry sectors, as well as in-store bakeries.

The foodservice market is a new area of growth for Leipurin. Leipurin will continue to invest in the foodservice market, particularly in Finland and more extensively in the western markets, where Leipurin is responding, for example, to the growing demand for cafeteria chains and bakery cafés. The development of Leipurin's foodservice range aims to create new business models and services, such as the Baker's Story licensing concept, which will help Leipurin and its customers to succeed in the growing foodservice market.

In the machinery business, bakeries and the food industry are expected to maintain their current equipment investment level in Finland. In the Baltic countries, equipment investments are expected to decrease in the near future. No significant changes are expected in investment levels in Russia. In Leipurin's own machine production, sales will be expanded to new export markets and the efficiency of operations will be improved by further modifying processes and operating practices. The changes in principals taken place in principal machinery operations during 2019 are expected to have a negative impact on principal machinery operations especially in Russia. In machinery operations, the high fluctuation in net sales and profitability will continue due to the nature of the operations. At the end of the review period, the order book was reasonable for the first half of 2020, partly as a result of the postponement of significant machine deliveries planned for the final quarter of 2019 in Russia to the second quarter of 2020. The cost efficiency of Leipurin's own machine production has been improved, and focusing more on the product range for the food industry's chilling and freezing solutions will significantly increase the market potential.

TELKO

Telko is a leading expert in and supplier of plastic raw materials, industrial chemicals and lubricants. Kauko, reported as part of the Telko segment, is a specialist in demanding mobile knowledge work environments. Telko's operations are based on representing the best international principals, the expertise of personnel and a long-standing customer relationships. The Telko segment has companies in Finland, the Baltic countries, Scandinavia, Poland, Romania, Russia, Belarus, Ukraine, Kazakhstan, Uzbekistan, Azerbaijan, China and Germany.

	10-12/2019	10-12/2018	Change,%	1-12/2019	1-12/2018	Change,%
Net sales, MEUR	**69.8**	78.6	-11.2	**297.0**	299.8	-0.9
Operating profit, MEUR *)	**0.9**	-1.0	190.0	**8.0**	7.4	8.1
Operating profit, %	**1.3**	-1.3		**2.7**	2.5	

Aspo has changed its segment reporting so that Kauko is reported as part of the Telko segment starting from January 1, 2019. Kauko's share of Telko segment's net sales in Q4 was EUR 5.9 million (9.1) and in full-year 2019 EUR 26.7 million (33.6).
*) Figures for 2018 include an impairment loss of EUR 4.8 million recognized on Kauko's goodwill in December.

Telko's operating environment decreased in all market areas as a result of decelerated economic growth. The deceleration of economic growth and increased uncertainties were reflected, for example, in a decrease in the prices of raw materials sold by Telko, intensifying price competition and more cautious purchases by customers.

In volume plastics, the prices of plastic raw materials fell by 3% from the previous quarter and were roughly 10% lower than during the comparative period. The price development of technical plastics varied from one product group to the next, while being clearly lower than during the comparative period. The average prices of chemicals decreased by roughly 2% from the previous quarter, being approximately 15% lower than during the comparative period.

The net sales of the Telko segment decreased by 11% during the fourth quarter to EUR 69.8 (78.6) million. The sales volume decreased by 1% from the comparative period. The Telko segment's net sales in eastern markets, i.e., Russia, other CIS countries and Ukraine, decreased by 8% to EUR 31.6 (34.4) million. In western markets, net sales stood at EUR 35.7 (42.3) million.

The net sales of the plastic business decreased by 5% to EUR 35.4 (37.3) million. Net sales of the chemical business decreased by 11% to EUR 28.5 (32.2) million. Net sales of Kauko decreased by 35% to EUR 5.9 (9.1) million. The operating profit of the Telko segment during the fourth quarter stood at EUR 0.9 (-1.0) million and the operating profit rate was 1.3% (-1.3). The impairment loss of EUR 4.8 million recognized on Kauko's goodwill is included in the comparative period figures.

According to its strategy, Telko took action to dissolve its low-margin and slowly circulating stocks. The impact of these actions on operating profit was approximately EUR -0.9 million. Lowering volumes, continuing decreases in raw material prices and changes in exchange rates, with a combined impact of approximately EUR -0.9 million, also attributed to the decrease in operating profit. Net cash from operating activities improved considerably.

In 2019, net sales of the Telko segment fell by 1% to EUR 297.0 (299.8) million. Operating profit stood at EUR 8.0 (7.4) million. The operating profit rate was 2.7% (2.5). In 2019, the Telko segment's net sales in eastern markets, i.e., Russia, other CIS countries and Ukraine, increased by 3% to EUR 132.8 (128.5) million. The Telko segment's net sales in western markets totaled EUR 155.8 (161.7) million. Net sales of the plastic business increased by 3% to EUR 152.2 (147.7) million. Net sales of the chemical business remained unchanged at EUR 118.1 (118.5) million. Net sales of Kauko decreased by 21% to EUR 26.7 (33.6) million.

Telko's managing director Kalle Kettunen resigned on May 20, 2019, and Telko's Board of Directors appointed the company's CFO Tomi Tanninen the acting managing director. Starting from October 28, Mikko Pasanen (M.Sc. Econ.) was appointed Telko's new managing director, and Tanninen resumed his previous position as the CFO.

Outlook for Telko for 2020

In 2020, Telko will continue the previously started actions aimed at improving the efficiency of working capital and the level of profitability. Telko seeks growth in its current geographic areas from technical higher added value products. At the same time, Telko will continue to develop its customer relationships and product portfolio to secure its prerequisites for growth. Telko's Green Portfolio business is expected to grow and become commercially significant in the future.

Uncertainties in international trade and economy will continue. The general economic trend is expected to remain weak, and demand for technical products is not expected to pick up. The exceptionally long negative price development of volume plastics is expected to even out and prices of chemicals are expected to remain unchanged. Strong changes in the price of crude oil may cause rapid price fluctuations.

Demand in eastern markets, an area important to Telko, is expected to remain unchanged or decrease. Growth in Russian markets is expected to decelerate. Operations in Ukraine are important to Telko, and political and economic problems in the country may affect demand in the area. In Finland, strikes that threaten the sector may, if materialized, have a significant impact on sales volume in Finland and have a negative impact on results.

OTHER OPERATIONS

Other operations include Aspo Group's administration, the financial and ICT service center, and a small number of other functions not covered by business units.

	10-12/2019	10-12/2018	Change,%	**1-12/2019**	1-12/2018	Change,%
Net sales, MEUR	**0.0**	0.0	0.0	**0.0**	0.0	0.0
Operating profit, MEUR	**-1.0**	-1.4	28.6	**-4.5**	-5.2	13.5

The operating result of other operations was better than during the comparative period when overlapping facility costs and the higher use of external services had a negative impact on the result.

FINANCING

The Group's cash and cash equivalents stood at EUR 23.7 million at the end of the review period (12/2018: EUR 19.3 million). The consolidated balance sheet included a total of EUR 221.7 million in interest-bearing liabilities (12/2018: EUR 199.4 million). Interest-bearing liabilities on the consolidated balance sheet increased compared with the 2018 financial statements as a result of the adoption of IFRS 16 – Leases. The average interest rate of liabilities, excluding lease liabilities, was 1.4% at the end of the review period (12/2018: 1.6%). Non-interest-bearing liabilities totaled EUR 66.2 million (12/2018: EUR 83.7 million).

Aspo Group's gearing was 162.2% (12/2018: 154.4%) and its equity ratio was 30.1% (12/2018: 29.5%). Both gearing and the equity ratio improved from the previous quarter. Following the adoption of IFRS 16 at the beginning of 2019, gearing increased by approximately 30 percentage points and the equity ratio decreased compared to the 2018 financial statements.

The Group's net cash from operating activities from January–December increased from the comparative period to EUR 52.5 (20.3) million. The positive impact of IFRS 16 on net cash from operating activities and free cash flow was EUR 14 million. During the review period, the change in working capital was EUR 9.3 (-10.7) million. The improved efficiency of stock management had a positive impact on working capital. Net cash from investing activities totaled EUR -7.3 (-55.1) million. The Group's free cash flow was EUR 45.2 (-34.8) million.

The amount of committed revolving credit facilities signed between Aspo and its main financing banks was EUR 40 million at the end of the review period. The revolving credit facilities remained fully unused at the end of the review period. EUR 21 million of Aspo's EUR 80 million commercial paper program were in use. In 2019, a total of approximately EUR 35 million in financing agreements fell due. During 2020, a revolving credit facility of EUR 20 million and a term loan EUR 25 million will fall due.

In May, Aspo signed a term loan facility agreement of EUR 15 million with a three-year loan period. In addition, Aspo signed a revolving credit facility agreement in June of EUR 20 million, with a maturity of three years. Both credit agreements were used to replace similar earlier credit agreements.

In September 2019, Aspo Plc participated in a EUR 40 million group bond guaranteed by Garantia Insurance Company with a loan unit of EUR 15 million. The loan has a maturity of five years and a fixed annual coupon rate of 0.75%. In addition to the coupon rate, Aspo will pay an annual guarantee provision to Garantia. The proceeds from the loan unit will be used to cover the Group's general financing needs.

On May 27, 2016, Aspo issued a hybrid bond of EUR 25 million. The fixed coupon rate of the bond is 6.75% per annum. The bond has no maturity, but the company may exercise an early redemption option after four years of its issuance, i.e., in May 2020 at the earliest.

Aspo has hedged its interest rate risk by means of interest rate swaps. Their fair value on December 31, 2019 was EUR -0.1 million (12/2018: EUR -0.2 million). The financial instruments are on level 2 of the fair value hierarchy.

Keijo Keränen (M.Sc. Econ.) has been appointed Aspo's Group Treasurer and member of the Executive Committee, starting from March 1, 2020. Keränen succeeds Harri Seppälä, who announced he would step down from his position of Group Treasurer in the spring of 2020.

INVESTMENTS

The Group's investments during the fourth quarter mainly consisted of annual maintenance investments. In 2019, the redemption of m/s Alppila by ESL Shipping in August was the most significant single investment.

Investments by segment, acquisitions excluded

	10-12/2019 MEUR	10-12/2018 MEUR	Change %	**1-12/2019 MEUR**	1-12/2018 MEUR	Change %
ESL Shipping	**0.4**	3.4	-88.2	**18.6**	41.9	-55.6
Leipurin	**0.1**	0.1	0.0	**0.5**	0.5	0.0
Telko	**0.2**	0.3	-33.3	**0.7**	0.7	0.0
Other operations	**0.0**	0.0	-	**0.1**	0.1	0.0
Total	**0.7**	3.8	-81.6	**19.9**	43.2	-53.9

PERSONNEL

Personnel by segment, period-end

	12/2019	12/2018	Change,%
ESL Shipping	**277**	276	0,4
Leipurin	**297**	323	-8,0
Telko	**330**	334	-1,2
Other operations	**27**	25	8,0
Total	**931**	958	-2,8

At the end of the review period, Aspo Group had 931 (958) employees.

Rewarding

Aspo Group applies a profit bonus system, which was adopted in 2013. The profit bonus system applied to Finnish personnel is linked with the personnel fund so that the bonus can be invested in the personnel fund or withdrawn in cash. The long-term goal of the funding system is that the personnel will become a significant shareholder group in the company. All persons working at Aspo Group's Finnish companies are members of the personnel fund.

Share-based incentive plans 2018–2020

The Board of Directors of Aspo Plc approved three new share-based incentive plans in April 2018 for the Group's key employees. The aim of the new plans is to combine the objectives of the shareholders and key employees in order to increase the value of the company in the long term, to retain the key employees in the company, and to offer them competitive reward plans based on earnings and accumulating the company's shares.

Share-based incentive plan 2018–2020

The share-based incentive plan 2018–2020 includes three earnings periods: calendar years 2018, 2019 and 2020. The Board of Directors of the company will define the plan's performance criteria and required performance levels for each criterion at the beginning of each earnings period. The potential reward of the plan from the earnings period 2019 will be based on the Group's earnings per share (EPS).

The share-based incentive plan is directed at 15 people, including the members of the Group Executive Committee during the earnings period 2019. The potential reward from the earnings period 2019 will be paid partly in the company's shares and partly in cash in 2020. The rewards to be paid on the basis of the share-based incentive plan 2018–2020 correspond to the value of a maximum total of 500,000 Aspo Plc shares, also including the proportion to be paid in cash.

The reward from the earnings period 2018 was based on the Group's earnings per share (EPS). In March 2019, on the basis of the 2018 earnings period, employees included in the plan received 7,711 treasury shares as a share-based reward, as well as cash equaling the value of the shares, at most, in order to pay taxes.

Executive Committee share-based incentive plan 2018–2020

The Executive Committee share-based incentive plan 2018–2020 includes one earnings period: calendar years 2018–2020. The potential reward of the plan from the earnings period 2018–2020 will be based on the Group's operating profit (EBIT), and the reward payment requires exceptional performance.

The potential reward from the earnings period 2018–2020 will be paid partly in the company's shares and partly in cash in 2021. The rewards to be paid on the basis of the earnings period 2018–2020 correspond to the value of a maximum total of 200,000 Aspo Plc shares, inclusive of the proportion to be paid in cash.

Restricted share-based incentive plan 2018

The reward from the restricted share-based incentive plan will be based on the participant's valid employment or service and the continuation of employment during the vesting period. The reward will be paid partly in the company's shares and partly in cash after the end of a 12–36 month vesting period. The restricted share-based incentive plan is intended solely for individual key employees by a special resolution of the Board of Directors. Rewards to be paid on the basis of the restricted share-based incentive plan 2018 correspond to the value of a maximum total of 100,000 Aspo Plc shares, including the proportion to be paid in cash. No participants were within the scope of the plan in 2018–2019.

RESEARCH AND DEVELOPMENT

Aspo Group's R&D focuses, according to the nature of each segment, on developing operations, procedures and products as part of the customer-specific operations, which means that the development inputs are included in normal operational costs and are not itemized.

SUSTAINABILITY

Aspo believes that socially, financially and environmentally sustainable operations comprise a prerequisite for value creation in the long term. A responsibly led, growing company can create jobs, tax revenue and wellbeing. Aspo Group's CEO is in charge of the management of Aspo's sustainability. The CEO reports to the company's Board of Directors in accordance with the risk management policy. Aspo's Code of Conduct lays down a shared set of rules for sustainable operations in all the Group's subsidiaries. Aspo's Board of Directors approved the revised Code of Conduct in December 2019.

Since 2018, Aspo has been a member of the UN's Global Compact initiative. Now, the Group's operations are steered by the ten Global Compact principles related to human rights, working life principles, the environment and the prevention of corruption. In 2019, Aspo also became a member of Finnish Business & Society (FIBS) and aims to actively develop its sustainability at a group and subsidiary level.

Aspo acts as a good corporate citizen in all of its operating countries. Being a good corporate citizen is part of social responsibility and means, for example, that Aspo always pays its taxes in the country in which it has made its profit. Aspo treats its employees and stakeholders in a just and equal manner in all countries where it operates. Key aspects of corporate responsibility in the fields in which the businesses Aspo owns operate are reductions in energy consumption and the volume of waste, the wellbeing of employees and safe working conditions, equality and good governance.

Aspo's sustainability report will be included in Aspo's Year 2019 publication.

RISKS AND RISK MANAGEMENT

Decreases in global trade as a result of decelerated growth in the global economy and increased uncertainties in economic development have reduced exports and the investment outlook. The decrease in global purchasing manager indices has stopped, while the situation continues to deteriorate in key production countries in the EU, such as Germany. These changes have affected industrial production in the Eurozone and can be seen in increased risks in Aspo's market areas, even though Finnish exports are showing signs of growth, particularly in terms of exports outside the EU. Despite growing uncertainties, economic growth has continued in the Eurozone, albeit slowly. However, the continuous, while decelerating, increase in employment and continuously rising salaries support economic stability in the Eurozone. Political tension and resulting risks have increased, but they are not expected to have any impact on Aspo's business operations in the short term. The trade war between the USA and China, including the resulting import duties, which limit international free trade and has already decelerated economic growth in China, have not directly affected Aspo's operations. Aspo does not have any business operations that are or would also be affected directly by Brexit or its implementation, but there may be an indirect impact through the principals or customers of Aspo's businesses.

Following the financial crisis, the global economy has grown simultaneously in all Aspo's market areas, albeit at different rates in different areas, while, however, being largely slow in speed. In the Eurozone, growth has slowed down due to growing political tension related to trade. In addition, Brexit increases uncertainty. The Russian GDP increased by roughly 1% and industrial production by approximately 2%, meaning that both have increased more slowly as a result of decelerated growth in the global economy. The Russian ruble has become stronger, partly as a result of elevated oil prices. Russia's foreign exchange reserves and oil assets have increased as the economy has returned to normal. In logistics chains, the dry bulk freight rates of sea transportation increased steeply during the first half, only to turn into a decline at the beginning of September, ending up at the April level at the end of the year.

Financial risks in all Aspo's businesses are slowly increasing, even though the markets are relatively stable. However, any unexpected changes in international politics and trade policies, combined with rapid changes in exchange rates or commodities markets, may have an impact on demand for and competitiveness of the products of Aspo's businesses. In Russia, increased real salaries and decelerated inflation supported increases in private consumption. As there have been no structural economic reforms in Russia, economic growth is only expected to be moderate, primarily resulting from government-steered investment projects. The price of oil has a significant impact on the Russian economy.

Strategic risks

Political and financial risks have grown globally, which may have a rapid impact on Aspo's operating environment. Free trade has already decreased, and these changes may also have an impact in the long term. The economic and political situation in Aspo's market areas may have made it more difficult to make structural changes as part of Aspo's strategy. The situation may continue unchanged, but, as the economic and political pressure varies, it may change rapidly. An unfavorable turn in the situation may lead to Aspo being unable to achieve its financial targets in the time it has set for it.

The Russian economy has stabilized, and inflation has decelerated, while economic growth is slow. The long-term deterioration in consumption demand has affected trade in general and, after a brief upswing, the natural increase in purchasing power fluctuated, strengthening towards the end of the review period. No signs of weakening have been seen in the financial markets and payment transactions of Russia, but they involve risks that are reflected, for example, in the Russian banking sector.

The Ukrainian economy is still in a weak state and the macroeconomy is showing signs of weakening in nearly all sectors, apart from construction. Inflation has slowed down but is still relatively high. The increase in purchasing power, combined with a favorable development in salaries, has increased consumption demand. The central bank's reference rate is still high, although it was lowered considerably at the end of the year.

The promotion of local production has further increased the volume of raw materials and items produced in Russia in industrial production, despite the decrease in quality. This may further reduce the position of imported raw materials in the value chain and lower the margin level, but, correspondingly, an increase in import volumes may increase demand for foreign raw materials and reduce related risks for Aspo.

Economic sanctions, their increase or other obstacles arising from the economic or political situation in Russia may, in part, reduce transportation volumes originating from Russia and the demand for unloading services for large ocean liners at sea. Protectionist actions may decrease sea transportation in the Russian arctic if Russia sets stricter regulations on internal transportation, for example, regarding the transportation of energy products. In Finland and the rest of Europe, social pressures to reduce the use of fossil energy sources in energy production are constantly increasing, which has already reduced coal transport volumes and will continue to reduce them in the future. Correspondingly, the transport volumes of replacement energy products will increase. Due to this change, it is difficult to estimate future transportation volumes. Fluctuations in international freight indices, their extended low level and the previous global increase in the number of vessels, particularly in large size categories, have increased uncertainty over the long-term profitability of shipping companies.
Strategic risks may be caused by the deterioration of the global economic situation, the political atmosphere, protectionism and the outlook and production choices of industrial customers. Decisions regarding energy production structures affected by environmental policy and other political choices cause changes in industry and energy production that will decrease the use of fossil fuels and increase the use of alternative forms of energy. The flow of goods in the Baltic Sea may change as a result of steel production, cost structures, changes in the customer structure, such as centralization, or other reasons. Lower demand for metal products in global markets may cause changes in demand for sea freights in the future as well. These changes may have negative consequences on operations as the need for transportation decreases, but they can also be seen as significant opportunities. As a result of low cargo prices in international shipping, competition over cargoes may also become fiercer in the Baltic Sea. Mild, ice-free winters may also increase competition. ESL Shipping received two new, low-emission vessels with better fuel economy for this region and customer base. These will also be able to operate in ice conditions. The shipping company also completed an acquisition in 2018 that significantly improved its competitiveness.

Strategic risks are influenced by long-term changes in cargo prices, the building of new vessels and the removal of others from the markets, investment trends, and changes in trade structures, especially in western markets. In eastern markets, risks are increased by such factors as political instability, social structures or the lack of reaction to the difficulties encountered by business operations. The accumulation and discharge of investments may cause long-term changes in the competitive situation and customer behavior. Trade between eastern and western markets may suffer from restrictions on free trade, as a result of which there may be a decrease in the sales of goods and services.

Rapid changes in economic structures may cause risks due to changes in the customer or principal structure or technologies, and due to unused opportunities that require a quick response. Changes in demand as a result of various megatrends may cause changes in the product and service ranges of Aspo's subsidiaries, due to which it may be difficult to replace their current products. Disruptive changes may be very rapid. Aspo's strategic risks are evened out by the distribution of business operations over three segments, its engagement in business operations in a broad geographical area, and its ability to react quickly to changing situations.

In addition to western markets, Aspo operates in areas where economic trends or the political atmosphere may turn rapidly positive or negative, which could significantly change the prevailing operating conditions.

Operational risks

Economic uncertainty in Aspo's operating environment increased during the review period from the comparative period. As a result, operational risks have also increased. These include risks related to supply chains, goods and services, and persons. Selections made by principals regarding their distribution networks may have a positive or negative impact on the representation of Aspo's subsidiaries and, therefore, on their financial results. The threat of different kinds of misuse from outside the Group has increased further as a result of the development and increased activity of electronic media.

For a long time, the focus of Aspo's growth has been on emerging market areas, where risks decelerating growth are affected by factors such as exchange rate fluctuations and interest rates, the level of and changes in the global market prices of raw materials, industrial and commercial investments, customer liquidity, changes in legislation and import regulations, and inactivity, bias or corruption among public authorities.

Economic growth and, alternatively, any decrease in production may have an impact on demand for raw materials. Political instability makes commercial activities more difficult and, if the situation prolongs, it may also decelerate the growth of Aspo's businesses. Consumer behavior and confidence are also reflected in risks associated with B-to-B customers and their risk levels. The growth opportunities presented by emerging markets are encouraging interest among competitors in starting or expanding business operations in these areas. The challenging emerging markets and their escalated situations have also caused competitors to withdraw from these markets, which has created new potential for Aspo's businesses and has increased their market shares.

Hedging against exchange rate changes is not possible in all conditions or, in particular, at all times. Changes in exchange rates may reduce profit and equity on the balance sheet as a result of translation differences. Then again, changes in exchange rates may also strengthen results and the balance sheet. As changes in credit loss risks are diversified across businesses and customers, Aspo's businesses have not been subjected to any significant credit losses related to their customers, even though credit loss risks have increased, and provisions are made for them in accordance with principles of IFRS 9 standard.

The technical products or applications deployed by Aspo's businesses may break or malfunction, due to which the increase in profit based on these products or applications may slow down or be delayed. Sales margins may be reduced and financial claims related to deliveries may emerge if Aspo's products are not suited for the customers' production processes or do not have the correct technical properties.

Operational risks have also increased as a result of cybercrime, malware and the increased number of fraud attempts. If realized, these risks may mean financial losses for Aspo. Aspo has appropriate information security and internal training arrangements, but individual cases may occur due to the decentralized structure of operations. Any deviations in internal processes may result in losses, for example, in the form of taxes or official fees.

The quantity and probability of the Group's loss risks are regularly assessed. Bidding processes are arranged for general insurance policies and the amounts insured are regularly updated. The amounts insured are sufficient in view of the scope of Aspo's operations, but insurance companies may restrict the validity of insurance policies as a result of risks increasing for various reasons, such as in conflict areas.

Internal control and risk management

One of the responsibilities of Aspo's Audit Committee is to monitor the efficiency of the Group's internal control, internal audits, and risk management systems. The Audit Committee monitors the risk management process and instructs necessary measures to prevent strategic risks in particular. In accordance with the internal control principles approved by the Board of Directors, risk management is part of Aspo's internal control, and its task is to ensure the implementation of the Group's strategy, development of financial results, shareholder value, dividend payment ability, and continuity in business operations. The operational management of each business is responsible for risk management. The management is responsible for specifying sufficient measures and their implementation, and for monitoring and ensuring that the measures are implemented as part of day-to-day operational management. Aspo's CFO, who reports to the Group CEO, is in charge of risk management.

Aspo Group's financing and financial risk management are centralized in the parent company, in accordance with the treasury policy approved by the Board of Directors. A more detailed account of the risk management policy and the most significant risks has been published on the company's website. More detailed information about financing risks can be found in the notes to the financial statements.

SHARE CAPITAL AND SHARES

Aspo Plc's share capital on December 31, 2019 was EUR 17,691,729.57, and the total number of shares was 31,419,779, of which the company held 296,650 shares, i.e. 0.9% of the share capital.

Aspo Plc has one share series. Each share entitles the shareholder to one vote at the shareholders' meeting. Aspo's share is quoted on Nasdaq Helsinki Oy's Mid Cap segment under industrial products and services.

During January–December, a total of 2,453,714 Aspo Plc shares with a market value of EUR 20.1 million were traded on Nasdaq Helsinki, in other words, 7.8% of all shares changed hands. During the review period, the share price reached a high of EUR 9.42 and a low of EUR 7.52. The average price was EUR 8.20 and the closing price at end of the review period was EUR 7.62. At the end of the review period, the market value, excluding treasury shares, was EUR 237.2 million.

At the end of the review period, the company had 10,260 shareholders. A total of 1,217,033 shares, or 3.9% of the share capital, were nominee registered or held by non-domestic shareholders.

DIVIDEND PROPOSAL

Aspo's goal is to annually increase the amount of dividends. Starting from 2017, Aspo has adopted a twice-a-year distribution policy.

The Board of Directors proposes that EUR 0.45 (0.44) per share is paid in dividends for the 2019 financial year and that no dividend is paid for treasury shares held by Aspo Plc. On December 31, 2019, the parent company's distributable assets totaled EUR 44,009,796.24, with the profit for the financial year being EUR 15,456,798.52. There are a total of 31,123,129 shares entitling to dividends on the publication date of this financial statement release.

The dividend will be paid in two installments. The first installment of EUR 0.22 per share will be paid to shareholders who are registered in the shareholders' register maintained by Euroclear Finland Ltd on the record date of April 9, 2020. The Board of Directors proposes that the dividend be paid on April 20, 2020. The second installment of EUR 0.23 per share will be paid in November 2020 to shareholders who are registered in the shareholders' register maintained by Euroclear Finland Ltd on the record date. At its meeting scheduled to be held on October 29, 2020, the Board of Directors will decide on the record and payment dates of the second installment, in accordance with the rules of the Finnish book-entry securities system. According to the current system, the dividend record date would be November 2, 2020 and the payment date would be November 9, 2020.

Before the Board of Directors implements the decision made at the Annual Shareholders' Meeting, it must assess, as required in the Finnish Limited Liability Companies Act, whether the company's liquidity and/or financial position has changed after the decision was made at the Annual Shareholders' Meeting so that the prerequisites for the distribution of dividends stipulated in the Limited Liability Companies Act are no longer fulfilled. The fulfillment of the prerequisites stipulated in the Limited Liability Companies Act is a requirement for the implementation of the decision made at the Annual Shareholders' Meeting.

BOARD OF DIRECTORS AND AUDITORS

Mammu Kaario, Mikael Laine, Gustav Nyberg, Salla Pöyry, Risto Salo and Tatu Vehmas were re-elected to the Board of Directors at Aspo Plc's Annual Shareholders' Meeting. At the Board's organizing meeting held after the Annual Shareholders' Meeting, Gustav Nyberg was elected Chairman of the Board and Mammu Kaario Vice Chairman. At the meeting, the Board decided to establish a Remuneration Committee and appointed Gustav Nyberg the Chairman of the committee, and Risto Salo and Tatu Vehmas ordinary members. At the meeting, the Board also decided to appoint Mammu Kaario the Chairman of the Audit Committee, and Mikael Laine and Salla Pöyry ordinary members.

In 2019, the Board of Directors arranged 9 meetings. The participation rate was 98%.

eMBA Aki Ojanen has acted as the CEO of the company.

The authorized public accountant firm Ernst & Young Oy has been the company's auditor. Toni Halonen, APA, has acted as the auditor in charge.

DECISIONS AT THE SHAREHOLDERS' MEETING

Dividend

The Annual Shareholders' Meeting of Aspo Plc on April 9, 2019, approved the payment of a dividend of EUR 0.44 per share in accordance with the Board of Directors' proposal.

The dividend was paid in two installments. The payment date for the first installment of EUR 0.22 per share was April 18, 2019 and the payment date for the second installment of EUR 0.22 per share was November 7, 2019.

Board authorizations

<u>Authorization of the Board of Directors to decide on the acquisition of treasury shares</u>

The Annual Shareholders' Meeting on April 9, 2019 authorized the Board of Directors to decide on the acquisition of no more than 500,000 treasury shares using the unrestricted equity of the company, representing about 1.6% of all the shares in the company. The authorization includes the right to accept treasury shares as a pledge. The authorization is valid until the Annual Shareholders' Meeting in 2020 but not more than 18 months from the approval at the Shareholders' Meeting. The authorization was not exercised during the financial year.

Authorization of the Board of Directors to decide on a share issue of treasury shares

The Annual Shareholders' Meeting on April 9, 2019 authorized the Board of Directors to decide on a share issue, through one or several lots, to be executed by conveying treasury shares. An aggregate maximum amount of 900,000 shares may be conveyed based on the authorization. The authorization is valid until the Annual Shareholders' Meeting in 2020 but not more than 18 months from the approval at the Shareholders' Meeting. The authorization was not exercised during the financial year.

Authorization of the Board of Directors to decide on a share issue of new shares

The Annual General Meeting on April 9, 2019 authorized the Board of Directors to decide on a share issue of new shares against payment. The authorization includes the right of the Board of Directors to decide on all of the other terms and conditions of the conveyance and thus also includes the right to decide on a directed share issue, in deviation from the shareholders' pre-emptive right, if a compelling financial reason exists for the company to do so. The total number of new shares to be offered for subscription may not exceed 1,500,000. The authorization is valid until the Annual Shareholders' Meeting in 2020 but not more than 18 months from the approval at the Shareholders' Meeting. The authorization was not exercised during the financial year.

In March 2019, Aspo Plc granted 7,711 treasury shares to employees included in the earnings period 2018 of the share-based incentive plan 2018-2020. The transfer was based on the share issue authorization of the Annual Shareholders' Meeting held on April 10, 2018. The shares were transferred according to the terms of the share-based incentive plan without compensation.

PROPOSALS OF THE SHAREHOLDERS' NOMINATION BOARD FOR THE SHAREHOLDERS' MEETING

The shareholders' Nomination Board consists of the representatives of the four largest shareholders. According to the list of shareholders as of August 30, 2019, the following representatives of the largest shareholders were members of the Nomination Board which prepared proposals for the 2020 AGM: Roberto Lencioni, Chairman (Vehmas family); Veronica Timgren (Nyberg family, including Oy Havsudden Ab); Annika Ekman (Ilmarinen Mutual Pension Insurance Company); and Reima Rytsölä (Varma Mutual Pension Insurance Company).

In addition, Gustav Nyberg, chairman of Aspo's Board of Directors, has acted as an expert member of the Nomination Board.

The Nomination Board of Aspo Plc's shareholders proposes to the Annual General Meeting of Aspo Plc to be held on April 7, 2020 that the Board of Directors will have six members.

Members of the Board

The Nomination Board proposes that Mammu Kaario, Mikael Laine, Gustav Nyberg, Salla Pöyry and Tatu Vehmas, current members of the company's Board of Directors, be re-elected as members of the Board and Heikki Westerlund be elected as the new member of the Board for the term closing at the end of the Annual Shareholders' Meeting 2021.

Remuneration paid to the members of the Board

The Nomination Board proposes that the compensation of the Board members remain unchanged and Board members receive the following monthly remuneration:

- EUR 2,700 per month for members of the Board of Directors
- EUR 4,050 per month for the Vice Chairman
- EUR 5,400 per month for the Chairman

In addition, the Nomination Board proposes that the meeting fees paid to members and chairs of the Audit Committee and Remuneration Committee remain unchanged. The Nomination Board proposes that a meeting fee of EUR 700 per meeting be paid to members of the committees and a meeting fee of EUR 1,050 per meeting be paid to chairs of the committees. If the chair of a committee is also the Chairman or the Vice Chairman of the Board of Directors, the Nomination Board proposes that the fee paid to the chair of the committee be the same as that paid to members of the committee. Board members having a full-time position in an Aspo Group company are not paid a fee.

Rules of procedure of the Nomination Board

The Nomination Board proposes that section 4 of the rules of procedure be amended as follows. Section “preparing proposals for remuneration paid to members of the Board of Directors presented to the Annual Shareholders’ Meeting” is proposed to be amended as follows: “preparing proposals for the remuneration policy regarding the Board of Directors and other remuneration paid to members of the Board of Directors presented to the Annual Shareholders’ Meeting”.

LEGAL PROCEEDINGS

No legal proceedings in progress.

Helsinki, February 13, 2020

ASPO PLC

Board of Directors

ASPO GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	10-12/2019 MEUR	%	10-12/2018 MEUR	%
Net sales	147.0	100.0	156.6	100.0
Other operating income	0.5	0.3	1.2	0.8
Share of profits accounted for using the equity method	0.0	0.0	-0.1	-0.1
Materials and services	-96.3	-65.5	-104.4	-66.7
Employee benefit expenses	-10.5	-7.1	-11.3	-7.2
Depreciation, amortization and impairment losses	-4.0	-2.7	-8.1	-5.2
Depreciation, right-of-use assets	-3.3	-2.2		
Other operating expenses	-28.0	-19.0	-31.3	-20.0
Operating profit	5.4	3.7	2.6	1.7
Interest expenses on lease liabilities	-0.1	-0.1		
Financial income and expenses, other	-0.8	-0.5	-1.1	-0.7
Profit before taxes	4.5	3.1	1.5	1.0
Income taxes	-0.8	-0.5	-0.7	-0.4
Profit for the period	3.7	2.5	0.8	0.5
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods:				
Translation differences	0.1		-0.3	
Cash flow hedges	0.0		-0.1	
Income tax on other comprehensive income	0.0		0.0	
Other comprehensive income for the period, net of taxes	0.1		-0.4	
Total comprehensive income	3.8		0.4	
Profit attributable to shareholders	3.7		0.8	
Total comprehensive income attributable to shareholders	3.8		0.4	
Earnings per share, EUR	0.10		0.02	
Diluted earnings per share, EUR	0.10		0.02	

	1-12/2019 MEUR	%	1-12/2018 MEUR	%
Net sales	587.7	100.0	540.9	100.0
Other operating income	0.9	0.2	4.1	0.8
Share of profits accounted for using the equity method	0.0	0.0	-0.1	0.0
Materials and services	-389.1	-66.2	-382.2	-70.7
Employee benefit expenses	-45.1	-7.7	-43.2	-8.0
Depreciation, amortization and impairment losses	-14.9	-2.5	-16.5	-3.1
Depreciation, right-of-use assets	-13.7	-2.3		
Other operating expenses	-104.7	-17.8	-82.4	-15.2
Operating profit	21.1	3.6	20.6	3.8
Interest expenses on lease liabilities	-0.7	-0.1		
Financial income and expenses, other	-2.2	-0.4	-4.2	-0.8
Profit before taxes	18.2	3.1	16.4	3.0
Income taxes	-2.1	-0.4	-2.2	-0.4
Profit for the period	16.1	2.7	14.2	2.6
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods:				
Translation differences	4.4		-1.9	
Cash flow hedges	0.0		2.5	
Income tax on other comprehensive income	0.0		-0.1	
Other comprehensive income for the period, net of taxes	4.4		0.5	
Total comprehensive income	20.5		14.7	
Profit attributable to shareholders	16.1		14.2	
Total comprehensive income attributable to shareholders	20.5		14.7	
Earnings per share, EUR	0.47		0.42	
Diluted earnings per share, EUR	0.47		0.42	

ASPO GROUP CONSOLIDATED BALANCE SHEET

	12/2019 MEUR	12/2018 MEUR	Change %
Assets			
Intangible assets	7.9	8.9	-11.2
Goodwill	43.3	43.0	0.7
Tangible assets	180.2	175.1	2.9
Right-of-use assets	21.5		
Investments accounted for using the equity method	1.4	1.5	-6.7
Other non-current assets	0.6	2.8	-78.6
Total non-current assets	254.9	231.3	10.2
Inventories	55.9	71.3	-21.6
Accounts receivable and other receivables	75.4	77.8	-3.1
Cash and cash equivalents	23.7	19.3	22.8
Total current assets	155.0	168.4	-8.0
Total assets	409.9	399.7	2.6
Equity and liabilities			
Share capital	17.7	17.7	0.0
Other equity	104.3	98.9	5.5
Total equity	122.0	116.6	4.6
Loans and overdraft facilities	141.7	170.9	-17.1
Lease liabilities	8.8		
Other liabilities	4.9	7.4	-33.8
Total non-current liabilities	155.4	178.3	-12.8
Loans and overdraft facilities	58.2	28.5	104.2
Lease liabilities	13.0		
Accounts payable and other liabilities	61.3	76.3	-19.7
Total current liabilities	132.5	104.8	26.4
Total equity and liabilities	409.9	399.7	2.6

ASPO GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

A = Share Capital
B = Share Premium
C = Fair Value Reserve
D = Other Reserves
E = Treasury Shares
F = Translation Differences
G = Retained Earnings
H = Total

MEUR	A	B	C	D	E	F	G	H
Equity January 1, 2019	17.7	4.3	-0.1	41.4	-1.7	-23.5	78.5	116.6
Impact of IFRS 16							0.0	0.0
Adjusted equity January 1, 2019							78.6	116.7
Comprehensive income:								
Profit for the period							16.1	16.1
Translation differences						4.4		4.4
Cash flow hedges*								0.0
Total comprehensive income						4.4	16.1	20.5
Transactions with owners:								
Dividend payment							-13.7	-13.7
Interest on hybrid instrument							-1.7	-1.7
Share-based incentive plan							0.2	0.2
Total transactions with owners							-15.2	-15.2
Equity December 31, 2019	17.7	4.3	-0.1	41.4	-1.7	-19.1	79.5	122.0
Equity January 1, 2018	17.7	4.3	-2.5	37.0	-2.1	-21.6	79.5	112.3
Impact of IFRS 2 amendment							0.6	0.6
Adjusted equity January 1, 2018	17.7	4.3	-2.5	37.0	-2.1	-21.6	80.1	112.9
Comprehensive income:								
Profit for the period							14.2	14.2
Translation differences						-1.9		-1.9
Cash flow hedges*			2.4					2.4
Total comprehensive income			2.4			-1.9	14.2	14.7
Transactions with owners:								
Dividend payment							-13.3	-13.3
Interest on hybrid instrument							-1.7	-1.7
Share-based incentive plan					0.4		-0.8	-0.4
Share issue				4.4				4.4
Total transactions with owners				4.4	0.4		-15.8	-11.0
Equity December 31, 2018	17.7	4.3	-0.1	41.4	-1.7	-23.5	78.5	116.6

*net of taxes

ASPO GROUP CONSOLIDATED CASH FLOW STATEMENT

	1-12/2019 MEUR	1-12/2018 MEUR
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit *)	21.1	20.6
Adjustments to operating profit	28.1	15.9
Change in working capital	9.3	-10.7
Interest paid	-5.0	-3.7
Interest received	1.7	0.5
Income taxes paid	-2.7	-2.3
Net cash from operating activities	52.5	20.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-5.4	-43.1
Proceeds from sale of tangible assets	0.2	0.4
Acquisition of businesses, net of cash	-2.5	-12.5
Divestment of businesses, net of cash	0.3	0.1
Dividends received	0.1	
Net cash from investing activities	-7.3	-55.1
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in current loans	0.7	17.3
Proceeds from non-current loans	30.0	58.0
Repayments of non-current loans	-29.5	-25.4
Payments of lease liabilities *)	-27.7	
Hybrid instrument, interests	-1.7	-1.7
Dividends distributed	-13.7	-13.3
Net cash from financing activities	-41.9	34.9
Change in cash and cash equivalents	3.3	0.1
Cash and cash equivalents January 1	19.3	19.9
Translation differences	1.1	-0.7
Cash and cash equivalents at period-end	23.7	19.3

*) Cash flows relating to lease contracts have to material extent been transferred from cash flows from operating activities to cash flows from financing activities starting from 1.1.2019 as a result of the adoption of IFRS 16 standard. This improved the cash flows from operating activities by approximately EUR 14 million.

ASPO GROUP DISAGGREGATION OF NET SALES

Net sales by market area

	10-12/2019	10-12/2018	1-12/2019	1-12/2018
ESL Shipping	MEUR	MEUR	MEUR	MEUR
Finland	20.0	21.3	79.6	48.3
Scandinavia	12.1	11.6	46.9	28.7
Baltic countries	3.0	1.4	8.1	6.3
Russia, other CIS countries + Ukraine	0.1	1.3	0.5	7.1
Other countries	10.1	10.8	39.9	29.7
Total	45.3	46.4	175.0	120.1
Leipurin				
Finland	11.8	11.1	43.9	45.5
Scandinavia	0.3	0.0	0.7	0.3
Baltic countries	8.1	8.1	31.5	33.5
Russia, other CIS countries + Ukraine	11.1	11.8	37.9	36.3
Other countries	0.6	0.6	1.7	5.4
Total	31.9	31.6	115.7	121.0
Telko				
Finland	16.6	21.3	71.6	81.9
Scandinavia	8.6	8.5	37.2	33.0
Baltic countries	4.0	5.3	18.3	20.8
Russia, other CIS countries + Ukraine	31.6	34.4	132.8	128.5
Other countries	9.0	9.1	37.1	35.6
Total	69.8	78.6	297.0	299.8
Total				
Finland	48.4	53.7	195.1	175.7
Scandinavia	21.0	20.1	84.8	62.0
Baltic countries	15.1	14.8	57.9	60.6
Russia, other CIS countries + Ukraine	42.8	47.5	171.2	171.9
Other countries	19.7	20.5	78.7	70.7
Total	147.0	156.6	587.7	540.9

Net sales by timing of recognition

	10-12/2019	10-12/2018	1-12/2019	1-12/2018
ESL Shipping	MEUR	MEUR	MEUR	MEUR
At a point in time	1.6		1.6	
Over time	43.7	46.4	173.4	120.1
Total	45.3	46.4	175.0	120.1
Leipurin				
At a point in time	30.6	30.5	111.5	112.7
Over time	1.3	1.1	4.2	8.3
Total	31.9	31.6	115.7	121.0
Telko				
At a point in time	69.6	78.4	296.1	298.9
Over time	0.2	0.2	0.9	0.9
Total	69.8	78.6	297.0	299.8
Total				
At a point in time	101.8	108.9	409.2	411.6
Over time	45.2	47.7	178.5	129.3
Total	147.0	156.6	587.7	540.9

Net sales by product category

	10-12/2019	10-12/2018	1-12/2019	1-12/2018
ESL Shipping	MEUR	MEUR	MEUR	MEUR
Total	45.3	46.4	175.0	120.1
Leipurin				
Raw materials	26.9	26.8	100.4	100.3
Machinery	5.0	4.8	15.3	20.7
Total	31.9	31.6	115.7	121.0
Telko				
Plastics	35.4	37.3	152.2	147.7
Chemicals	28.5	32.2	118.1	118.5
Kauko	5.9	9.1	26.7	33.6
Total	69.8	78.6	297.0	299.8
Total	147.0	156.6	587.7	540.9

ASPO GROUP ASSETS AND LIABILITIES BY SEGMENT

Segments' assets, MEUR	12/2019	12/2018
ESL Shipping	222.7	206.8
Leipurin	65.5	58.9
Telko	94.2	109.2
Unallocated items	27.5	24.8
Total	409.9	399.7

Segments' liabilities, MEUR	12/2019	12/2018
ESL Shipping	26.4	17.3
Leipurin	20.2	14.2
Telko	32.2	41.8
Unallocated items	209.0	209.8
Total	287.8	283.1

ASPO GROUP CONTINGENT LIABILITIES

	12/2019 MEUR	12/2018 MEUR
Collateral for own debt:		
Mortgages given	129,0	155,8
Guarantees	21,9	32
Operating lease commitments*	-	48,1
Other commitments*	26,5	0,3
Derivative contracts, fair values, net		
-Interest rate swaps	-0,1	-0,2

* Other commitments 2019 consists mainly of commitments relating to temporary maritime personnel of time-chartered vessels. In 2018 these commitments were reported as part of Operating lease commitments. The change in presentation is due to the adoption of IFRS 16 Leases standard.

ACCOUNTING PRINCIPLES

Aspo Plc’s financial statement release has been prepared in accordance with the principles of IAS 34 – Interim Financial Reporting. As of January 1, 2019, Aspo applies certain new or amended IFRS standards and IFRIC interpretations as described in the 2018 consolidated financial statements. In other respects, the same accounting principles have been applied as in the consolidated financial statements of December 31, 2018. The information in this report is unaudited.

Aspo Plc applies the guidance on alternative key figures issued by the European Securities and Market Authority (ESMA). In addition to IFRS figures, the company releases other commonly used key figures which are mainly derived from the statement of comprehensive income and balance sheet. According to the management, key figures clarify the view drawn by the statement of comprehensive income and balance sheet of Aspo's financial performance and financial position. The calculation principles of key figures are explained on page 48 of the Aspo's Year 2018 publication.

Adoption of new or amended standards:

The Group has applied the IFRS 16 – Leases standard starting from January 1, 2019. Under IFRS 16, all leases are recognized on the lessee's balance sheet, and the classification between operating and finance leases according to IAS 17 is no longer valid. In accordance with the new standard, all assets related to lease agreements (right-of-use assets) and future lease payment obligations (lease liabilities) are recognized on the balance sheet. The only exceptions are short-term leases and leases for which the underlying asset is of a low value. The accounting treatment for lessors remains largely in line with IAS 17.

Aspo Group acts mainly as a lessee. The Group has customary business-related leases, such as contracts related to office and warehouse premises, as well as transportation vehicles and cars. Part of the office technology is also leased.

<u>Transition</u>

Aspo has chosen a simplified method of transition to IFRS 16. Aspo recognized on the opening balance sheet of January 1, 2019 the right-of-use assets which consisted of the lease liabilities, and prepayments related to these leases recognized on the balance sheet at the time of transition.

The liabilities and assets of contracts previously classified as finance leases under IAS 17 were included, at the time of transition on January 1, 2019 in the lease liabilities and right-of-use-assets in accordance with IFRS 16. Financial leases that were subject to exemptions as short-term or low value or related to intangible assets were derecognized and the difference was recognized in equity. The difference recognized in equity was not material.

Aspo applied the following practical expedients in the adoption of IFRS 16:

- Leases with a lease term less than 12 months remaining at the date of transition on January 1, 2019 were accounted for as short-term leases and not recognized on the balance sheet. The selection was made by class of underlying asset, and was applied to all other classes except cars, which were recognized on the balance sheet even if their remaining lease term would have been less than 12 months at the time of transition.
- The lease liability and the right-of-use-asset were not recognized on the balance sheet in respect of leases relating to low value assets. Aspo uses a threshold of EUR 5,000 for low value assets.
- The leasing expenses of the two above-mentioned practical expedients are recognized in other operating expenses on a straight-line basis over the lease term.
- Lease agreements with reasonably similar characteristics were subject to one predetermined discount rate. The criteria used to determine the discount rate were the class of underlying asset, the geographic location, the currency, the maturity of the risk-free interest rate and the lessee's credit risk premium. At the time of the transition, the weighted average of interest on incremental borrowing was 2.33%.
- In case of leases in which the lease term included extension options or termination options, current knowledge was used in the determination of the lease term.
- The initial direct costs were not included in the right-of-use asset at the time of transition in January 1, 2019.

Management judgements
Aspo complies with IFRS 16 guidance for determining the lease term. In case of lease agreements where the lease term is defined to be valid until further notice, the expected lease term is based on management judgement. The financial impact of the sanctions included in the leases, such as those related to the early termination of the contract, has also been taken into account in determining the expected lease term.

For the contracts with a lease term defined to be valid until further notice, the most significant impact relates to vessels leased. If a vessel is leased for approximately a year, the lease term used to calculate the lease liability is 13 months (ongoing month + the next 12 months). As a significant part of the fleet is leased, it is likely that, at the end of the lease term, the same or a similar vessel will be leased again. In case this does not apply, the agreement will be treated as a fixed-term lease contract. The procedure has been designed to give investors a better understanding of the obligations associated with the lease liability and the significance of the right-of-use asset on the balance sheet.

According to the standard guidance, the option to extend or terminate the lease is taken into account in determining the lease term. The period covered by an option to extend the lease is included into the lease term if it is reasonably certain that the option will be exercised and, and correspondingly, if it is reasonably certain that the option to terminate the lease is not exercised, the remaining period is included in the lease term

When the agreement includes a lease component and a non-lease component, Aspo separates the non-lease components, such as maintenance, services, or crew, based on either the stand-alone prices given in the lease agreement or by using estimates.

Impact of the adoption of IFRS 16

The adoption of the standard has a significant impact on the balance sheet of Aspo Group and key figures derived from it, as well as the structure of the income statement and cash flow statement. The Group's interest-bearing liabilities and non-current assets recognized on the balance sheet according to the standard are significantly higher than when applying IAS 17. With regard to key figures, the adoption has the most significant impact on gearing, which increased by approximately 30 percentage points. Expenses previously recognized as leases in the statement of comprehensive income are reversed, depreciation expense is recognized from right-of-use asset items, and interest included in leases is recognized in financial expenses. In the cash flow statement, the transfer of payments of lease liabilities to cash flows from financing activities increases cash flows from operating activities, while the total cash flows remain unchanged.

The impact of the adoption of IFRS 16 on Aspo Group's opening balance sheet on January 1, 2019 is presented in the table below. The value of the right-of-use asset items recognized on the opening balance sheet was approximately EUR 38.5 million, the value of leases paid in advance was approximately EUR 0.9 million and the amount of lease liabilities was approximately EUR 37.6 million. The expedients permitted by the standard regarding intangible assets and items of a low value reduced the number of financial leasing items recognized in accordance with IAS 17 by EUR 1.2 million. Non-current lease liabilities accounted for EUR 10.4 million and current lease liabilities made up EUR 27.2 million of the total lease liabilities on the opening balance sheet.

Impact of the adoption of IFRS 16 standard on the opening balance sheet

	Dec 31, 2018 MEUR	Addition of right-of-use assets MEUR	Changes resulting from finance leases recognized under IAS 17 *) MEUR	Jan 1, 2019 MEUR
Assets				
Intangible assets	8.9		-1.2	7.7
Goodwill	43.0			43.0
Tangible assets	175.1		0.0	175.1
Right-of-use assets		38.5		38.5
Investments accounted for using the equity method	1.5			1.5
Other non-current assets	2.8			2.8
Total non-current assets	231.3	38.5	-1.2	268.6
Inventories	71.3			71.3
Accounts receivable and other receivables	77.8	-0.9		76.9
Cash and cash equivalents	19.3			19.3
Total current assets	168.4	-0.9		167.5
Total assets	399.7	37.6	-1.2	436.1
Equity and liabilities				
Share capital	17.7			17.7
Other equity	98.9		0.0	98.9
Total equity	116.6		0.0	116.7
Loans and overdraft facilities	170.9		-0.7	170.2
Non-current lease liabilities		10.4		10.4
Other liabilities	7.4			7.4
Total non-current liabilities	178.3	10.4	-0.7	188.0
Loans and overdraft facilities	28.5		-0.5	28.0
Current lease liabilities		27.2		27.2
Accounts payable and other liabilities	76.3			76.3
Total current liabilities	104.8	27.2	-0.5	131.5
Total equity and liabilities	399.7	37.6	-1.2	436.1

*) Changes to intangible asset and low value item finance leases under IAS 17 due to the adoption of IFRS 16.

In August, ESL Shipping purchased m/s Alppila, which was previously leased. Right-of-use asset items do not include any other significant redemption options.

At the end of the review period, the most significant right-of-use asset items were vessels (EUR 10.3 million) and office and warehouse premises (EUR 9.1 million). Depreciation on the right-of-use asset items was EUR 13.7 million, of which depreciation on vessels accounted for EUR 9.8 million and depreciation on office and warehouse premises for EUR 2.8 million. Leases related to the right-of-use asset items were EUR 15.0 million, of which interest made up EUR 0.7 million. The amount of variable leases or the amount of leases related to short-term or low value assets are not significant within Aspo Group. Aspo has no significant lease agreements as a lessor.

Right-of-use assets by classes

	Land and buildings MEUR	Vessels MEUR	Other right-of-use assets MEUR	Total MEUR
Opening balance January 1, 2019	10.2	26.6	1.7	38.5
Translation differences	0.2			0.2
Additions	2.1	8.7	1.5	12.3
Disposals	-0.7	-15.8	-0.3	-16.8
Accumulated depreciations of disposals	0.1	0.6	0.3	1.0
Depreciations	-2.8	-9.8	-1.1	-13.7
Carrying amount December 31, 2019	9.1	10.3	2.1	21.5

SEGMENT REPORTING

Aspo Group's reporting segments are ESL Shipping, Leipurin and Telko. Other operations consist of Aspo Group's administration, the financial and ICT service center, and a small number of other functions not covered by business units. From the beginning of 2019, Kauko has been reported as part of the Telko segment.

The Group reports its net sales on the basis of the following geographical division: Finland; Scandinavia; the Baltic countries; Russia, other CIS countries and Ukraine; and other countries.

PRESS AND ANALYST CONFERENCE

A press and analyst conference will be arranged today, February 13, 2020, at 2:00 p.m. in Hotel Kämp's Symposion conference room, Pohjoisesplanadi 29, 00100 Helsinki.

ANNUAL SHAREHOLDERS' MEETING

The Aspo Plc Annual Shareholders' Meeting is scheduled to be held on Tuesday April 7, 2020 at 10:00 a.m. in Helsinki.

FINANCIAL INFORMATION IN 2020

Aspo's financial statements 2019 will be published on March 13, 2020 at the latest in Finnish and in English. The financial statements and annual report can be read and ordered on the company's website at www.aspo.fi.

In 2020, Aspo Plc will publish two interim reports and a half year financial report:
- interim report for January–March 2020 on Tuesday May 5, 2020
- half year financial report for January–June 2020 on Wednesday August 12, 2020
- interim report for January–September 2020 on Thursday October 29, 2020

Helsinki, February 13, 2020

ASPO PLC

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Aspo is a conglomerate that owns and develops businesses in Northern Europe and growth markets focusing on demanding B-to-B customers. The aim of our strong corporate brands – ESL Shipping, Leipurin, Telko and Kauko – is to be the market leaders in their sectors. They are responsible for their own operations, customer relationships and the development of these. Together they generate Aspo's goodwill. Aspo's Group structure and business operations are developed persistently without any predefined schedules.