Aspo Plc
Interim report
October 29, 2020 at 10 a.m.

ASPO GROUP INTERIM REPORT, JANUARY 1 TO SEPTEMBER 30, 2020

Aspo Q3: Telko segment's record high results balanced the challenging quarter, outlook for shipping business improved

July–September 2020
Figures from the corresponding period in 2019 are presented in brackets.

- Aspo's net sales decreased and were EUR 118.4 (148.0) million.
- Operating profit decreased from the comparative period and was EUR 3.6 (6.7) million.
- Profit for the period decreased and was EUR 2.0 (4.9) million.
- Earnings per share decreased and were EUR 0.05 (0.15).
- The operating profit of ESL Shipping was EUR -0.1 (4.4) million, Leipurin EUR 0.3 (0.8) million and Telko EUR 4.2 (2.4) million.
- Net cash from operating activities was EUR 9.4 (19.0) million.

January–September 2020

- Aspo's net sales decreased and were EUR 367.2 (440.7) million.
- Operating profit decreased and was EUR 11.7 (15.7) million.
- Profit for the period decreased and was EUR 7.3 (12.4) million.*
- Earnings per share decreased and were EUR 0.20 (0.37).*
- The operating profit of ESL Shipping was EUR 2.8 (10.2) million, Leipurin EUR 1.2 (1.9) million and Telko EUR 10.8 (7.1) million.
- Net cash from operating activities improved and was EUR 39.9 (33.6) million.

* The administrative court's decision made in 2019 to reduce the tax increase imposed on Telko in 2015 increased financial income in particular and improved earnings per share for 2019 by approximately five cents.

Aspo specifies its guidance for 2020

New guidance: Aspo's operating profit will be EUR 14–16 million (21.1) in 2020.
Previous guidance: Aspo's operating profit will be EUR 12–16 million (21.1) in 2020.

Key figures

	7-9/2020	7-9/2019	1-9/2020	1-9/2019	1-12/2019
Net sales, MEUR	118.4	148.0	367.2	440.7	587.7
Operating profit, MEUR	3.6	6.7	11.7	15.7	21.1
Operating profit, %	3.0	4.5	3.2	3.6	3.6
ESL Shipping, operating profit, MEUR	-0.1	4.4	2.8	10.2	14,6
Leipurin, operating profit, MEUR	0.3	0.8	1.2	1.9	3,0
Telko, operating profit, MEUR	4.2	2.4	10.8	7.1	8,0
Earnings per share (EPS), EUR	0.05	0.15	0.20	0.37	0.47
Profit before taxes, MEUR	2.5	5.4	8.4	13.7	18.2
Profit for the period, MEUR	2.0	4.9	7.3	12.4	16.1
Net cash from operating activities, MEUR	9.4	19.0	39.9	33.6	52.5
Free cash flow, MEUR	6.1	17.0	34.5	26.7	45.2
Return on equity (ROE), %			8.3	14.0	13.5
Equity ratio, %			29.0	28.3	30.1
Gearing, %			163.0	173.7	162.2
Equity per share, EUR			3.56	3.82	3.92

Aki Ojanen, CEO of Aspo Group, comments on the third quarter:

Given the prevailing market situation, Aspo Group’s third quarter results exceeded our expectations, thanks in particular to our strong performance in September. Telko segment achieved the best quarter in its history, as both Telko and Kauko, reported as part of the segment, significantly improved their operating profit. In September, we estimated that ESL Shipping would produce a loss during the third quarter. However, industrial demand picked up towards the end of the review period, driving ESL Shipping’s results close to zero. Leipurin has defended its operating profit level well in bakery raw materials. Currently, it seems that the most significant negative effects resulting from the coronavirus pandemic on the Group’s businesses are starting to be behind us.

Overall, 2020 has been very unusual and challenging. The negative impact caused by the pandemic on our businesses were the highest between April and August, when demand for raw materials and transportation in our customer companies decreased unusually fast. The decrease in net sales was historically steep until the end of the third quarter. In September, however, there were signs of a rapid market recovery, especially in the operating environments of Telko and ESL Shipping. We reacted rapidly and determinedly to this spring’s market changes, and our businesses were able to serve their customers without any interruptions and to protect their financial performance. However, it is obvious that, due to these exceptional circumstances, we will fall clearly short of our profit-making potential. This will especially be reflected in ESL Shipping’s results.

We provided a new financial guidance for 2020 in mid-September when the strength of the positive turnaround was still challenging to assess. As the outlook for the rest of the year has clarified, we raise the lower limit of our guidance, and now our financial guidance is as follows: Aspo’s operating profit will be EUR 14–16 million in 2020.

We are actively making preparations for the time following the coronavirus crisis, with the aim of strengthening our market positions and growing profitably. After the end of the review period, Telko announced a business acquisition, with which it strengthens its position in strategically important lubricant operations of a high profit margin in Sweden and Norway.

Throughout the pandemic, I have been satisfied with our ability to react rapidly to the weaker market situation and adapt our operations to changes in demand. Our free cash flow has remained strong, which also supports Aspo's strategic development and solid dividend distribution.

ASPO GROUP

Aspo is a conglomerate that owns, leads and develops its businesses in Northern Europe and growth markets. Aspo's value comes from its wholly owned independent businesses, which specialize in demanding B-to-B customers. Aspo develops its group structure and businesses in the long term and believes that social responsibility as well as financially and environmentally sustainable business is a requirement for producing long-term value.

Aspo's businesses – ESL Shipping, Leipurin, Telko and Kauko – are strong business brands in the trade and logistics sectors, and they are looking for the leading position in their respective markets. They are responsible for their own operations and customer relationships, as well as for developing these. Kauko is reported as part of Telko segment.

With its current structure, Aspo is looking for an operating profit rate of 6%, return on equity (ROE) of more than 20% on average and gearing of at most 130%. Aspo aims to reach the financial targets set in 2023.

Net sales by market area

	1-9/2020 MEUR	Share %	1-9/2019 MEUR	Share %	Change %
Finland	129.8	35.3	146.7	33.3	-12 %
Scandinavia	56.2	15.3	63.8	14.5	-12 %
Baltic countries	34.0	9.3	42.8	9.7	-21 %
Russia, other CIS countries and Ukraine	103.9	28.3	128.4	29.1	-19 %
Other countries	43.3	11.8	59.0	13.4	-27 %
Total	367.2	100.0	440.7	100.0	-17 %

The Group's main market areas are Finland and eastern markets (Russia, other CIS countries and Ukraine).

Operating environment

The operating environment has been historically challenging. Compared with changes in the macro economy related to regular annual cycles or with business challenges in international trade, the coronavirus situation has had a significant and rapid impact on the operating environment. The impact of restrictions resulting from the pandemic have strongly reduced demand for both goods and services. Fluctuations in oil prices are affecting the production of raw materials and the prices of finished and semi-finished goods. Furthermore, slower and partially empty supply chains are having an impact on demand for logistics services. At this stage, it is still difficult to assess how the operating environment will recover as long as the restrictions on movement and financial activities are in place.

Results and financial position

The negative impact of the coronavirus pandemic on Aspo's results persisted during the third quarter. Lower demand for raw materials and transportation services and the negative development of raw material prices have reduced net sales, while sales margins have improved and profitability has remained at a satisfactory level. The decrease in inventories and receivables and the increase in operating profit have increased cash flow during the year.

Regarding Aspo's long-term financial targets set for 2023, the operating profit rate decreased to 3.2% (3.6%), with the target being 6%. Return on equity decreased to 8.3% (14.0%), as results decreased from the comparative period relative to equity. The target is to have an average ROE of more than 20%.

Cash flow and financing

The Group's net cash flow from operating activities in January–September increased from the comparative period to EUR 39.9 (33.6) million. The effect of the change in working capital on the cash flow was EUR 11.4 (0.0) million, with Telko's improved inventory management having a particularly positive impact on its improvement. Free cash flow during the third quarter was EUR 6.1 (17.0) million. As a result of low investments, the Group's free cash flow increased to EUR 34.5 (26.7) million in January–September.

	9/2020	**9/2019**	**12/2019**
	MEUR	MEUR	MEUR
Interest-bearing liabilities	210.0	224.7	221.7
Cash and cash equivalents	28.5	18.3	23.7
Net interest-bearing debt	181.5	206.4	198.0

The Group's interest-bearing liabilities decreased to EUR 210.0 million. Net interest-bearing debt decreased to EUR 181.5 million and gearing was 163.0% (12/2019: 162.2%, 9/2019: 173.7%). The Group's equity ratio at the end of the review period was 29.0% (12/2019: 30.1%, 9/2019: 28.3%).
Net financial expenses totaled EUR -3.3 (-2.0) million in January–September. The adjustment of EUR 1.4 million related to Telko's taxation from 2015 increased financial income during the comparative period. The average interest rate of interest-bearing liabilities, excluding lease liabilities, was 1.6% (1.6%).
The Group's liquidity position remained strong. Cash and cash equivalents were EUR 28.5 million at the end of the review period. Committed revolving credit facilities, totaling EUR 55.0 million, were fully unused, as in comparative periods. EUR 17 million of Aspo's EUR 80 million commercial paper program was in use (12/2019: EUR 21 million, 9/2019: EUR 19 million).

After the end of the review period, the Board of Directors decided about the second distribution of dividend, EUR 0.11 per share, in accordance with the decision of the Annual Shareholders' Meeting. Following the payment of the second distribution of the dividend, Aspo has distributed a total of EUR 0.22 per share, or EUR 6.9 million, in dividends in 2020.

Short-term risks and uncertainties in business operations

The coronavirus pandemic and the measures taken to prevent coronavirus from spreading, both of which affect consumers, trade, industries and social structures, comprise the most significant short-term risk for Aspo's businesses and demand for their products and services. Lockdowns imposed in many countries, uncertainties over the duration of the pandemic, as well as new and recurrent infected areas, the ongoing trade tensions and geopolitical uncertainties have an impact on the production decisions and logistics arrangements of Aspo's largest customers. Disturbances in supply chains resulting from the pandemic present a risk to Aspo's businesses. Lower demand for transportation services and restrictions on movement have a general impact on the income of shipping companies, which may also reduce Aspo's results and cash flows. There may be corresponding effects in Aspo's all business segments, as customers' production cuts potentially reduce demand, even though the pandemic has had less impact on Aspo's results than what was initially expected.

Restrictions on movement may affect the shipping company's operations and decelerate deliveries in other business segments. Aspo's results and balance structure may weaken as a result of slower financial activities, fluctuations in exchange rates and any restrictions on financing. The pandemic may have far-reaching consequences and a long-term impact on the operating environment, which may present a strategic risk to Aspo.

Geopolitical tensions and trade sanctions also present significant challenges in the demand environment. Pricing pressures arising from the prevailing competitive situation continue to be a risk.

Guidance for 2020

Aspo's operating profit will be EUR 14–16 million (21.1) in 2020.

On April 9, 2020, Aspo withdrew its original guidance for 2020 because, as a result of the impact of the coronavirus pandemic, the company considered that making well-founded estimates and issuing a guidance on the basis of these was not possible at the time. Due to improved visibility, Aspo provided guidance for 2020 on September 14, 2020: Aspo's operating profit will be EUR 12–16 million (21.1) in 2020. As the outlook for the rest of the year has clarified, the company raised the lower level of its guidance, and now Aspo's financial guidance is as follows: Aspo's operating profit will be EUR 14–16 million in 2020.

ASPO'S BUSINESSES

ESL Shipping

ESL Shipping is the leading dry bulk cargo company in the Baltic Sea region. ESL Shipping's operations are mainly based on long-term customer contracts and established customer relationships. At the end of the review period, the shipping company's fleet consisted of 48 vessels with a total capacity of 454,000 deadweight tonnage (dwt). Of these, 24 were wholly owned (77% of the tonnage), two were minority owned (2%) and the remaining 22 vessels (21%) were time chartered. 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 conditions. The shipping company loads and unloads large ocean liners at sea as a special service.

	7-9/2020	7-9/2019	Change,%	1-9/2020	1-9/2019	Change,%
Net sales, MEUR	31.6	43.4	-27.2	107.2	129.7	-17.3
Operating profit, MEUR	-0.1	4.4	-102.3	2.8	10.2	-72.5
Operating profit, %	-0.3	10.1		2.6	7.9	

This year, ESL Shipping has suffered significantly from production capacity cuts in the heavy industry resulting from the coronavirus pandemic. These have had a significant impact on transportation volumes in international traffic at the beginning of the year and especially on the shipping company's main market areas in Europe since March.

During the third quarter of 2020, net sales of ESL Shipping decreased by 27% from the comparative period and were EUR 31.6 (43.4) million. The operating result was negative at EUR -0.1 (4.4) million.

ESL Shipping's transportation volumes decreased significantly during the third quarter to 3.1 (4.2) million tons. Nearly two thirds of the decrease in transportation volumes resulted from production adaptations and maintenance stoppages in the steel industry in Northern Europe, with the rest being evenly divided between nearly all other customer segments. ESL Shipping has reacted to lower volumes, for example, by laying up some of its vessels of the larger category (more than 10,000 dwt) and by terminating some leasing agreements in the smaller vessel category during the year.

Transportation volumes in larger vessel categories started to increase towards the end of the review period, driven especially by the recovery of raw material transportation for the steel industry, with the total transportation volume of these vessels already exceeding the previous quarter's volumes. Transportation volumes in smaller vessel categories decreased significantly from the comparative period, for example, due to production stoppages in the forest and steel industries.

Two of the three laid-up vessels were returned to traffic at the end of the review period after transportation volumes and cargo markets started to recover. During the third quarter, international cargo levels for larger vessels improved, driven especially by demand for raw materials in China. Demand for loading and unloading services at sea was satisfactory, balancing otherwise low transportation volumes in contract traffic. During the third quarter, one larger vessel and three smaller vessels were docked at a time when demand was at its lowest.

It has been vital to take care of the health and safety of the shipping company's personnel under these exceptional circumstances. ESL Shipping has succeeded in maintaining its normal service ability and in keeping the supply chains of its customers uninterrupted in the highly exceptional operating conditions, in which crew changes, maintenance and spare parts deliveries cannot be carried out normally due to travel restrictions and the lack of flight connections. Any crew members infected with coronavirus have been quarantined so that coronavirus cases did not have any impact on vessel traffic during the review period. Special arrangements have increased operating costs.

ESL Shipping's net sales in January–September decreased significantly from the comparative period to EUR 107.2 (129.7) million due to lower demand resulting from the coronavirus pandemic. Especially due to the low results during the third quarter, the operating profit remained at EUR 2.8 (10.2) million.

Outlook 2020 for ESL Shipping

The coronavirus pandemic continues to have a significant impact on operations in the company's main market areas. Any new measures and movement restrictions that would put a rein on societal activities may have a negative impact on demand shown by main customers. Travel restrictions and the lack of flight connections present additional challenges, particularly in crew changes and maintenance arrangements. If the exceptional circumstances persist, there may be delays in vessel traffic and additional costs.

The final quarter of 2020 is expected to be clearly profitable as a result of ending production stoppages among main customers and growing transportation volumes. The production capacity of the company's steel industry customers in Northern Europe is expected to return to a level higher than during the summer period. Transportation in the energy industry will start to recover normally when the heating period begins, increasing bioenergy transportation in the Baltic Sea, for example. The shipping company expects transportation volumes to increase in several customer segments during the fourth quarter.

ESL Shipping will adapt its operations to meet the demand for transportation by leasing more vessels in the smaller vessel category or by laying up larger vessels.

ESL Shipping is investigating different opportunities to have a presence, broader than at present, in markets in the Russian Arctic. As announced earlier, the shipping company will also continue its development activities to offer the most effective and the eco-friendliest dry bulk cargo transportation services in the future.

During the final quarter of 2020, one or two vessel units will be docked. During these scheduled dockages, new ballast water treatment systems that meet new environmental regulations will be installed in the vessels.

Leipurin

Leipurin is a wholesaler specializing in bakery, food industry and foodservice solutions. Leipurin's business operations are divided into three areas: the bakery business, the machinery business and the foodservice business. The solutions offered by the bakery business comprise raw materials, recipes, product range development and training for bakeries and other food industries. 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. The machinery business also includes Vulganus Oy, a manufacturer specializing in freezing and cooling machines. In the foodservice business, Leipurin's product and service range consists of raw materials and service concepts, such as procurement and logistics services. 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.

	7-9/2020	**7-9/2019**	**Change,%**	**1-9/2020**	**1-9/2019**	**Change,%**
Net sales, MEUR	24.3	29.9	-18.7	74.4	83.8	-11.2
Operating profit, MEUR	0.3	0.8	-62.5	1.2	1.9	-36.8
Operating profit, %	1.2	2.7		1.6	2.3	

During the third quarter, restrictions imposed due to the coronavirus pandemic were lifted in all operating countries. The return to schools and workplaces in August and September drove consumer demand close to normal levels in retail, and the restaurant and cafeteria sector started its slow recovery. Among Leipurin's customers, the impact of the pandemic continued to show great variation from one customer segment to the next. Sales of artisanal bakeries recovered to a healthy level in Finland and the Baltic region. In Russia and other eastern countries, consumer demand shifted from premium products to products of lower prices in bakery categories.

Leipurin's net sales decreased to EUR 24.3 (29.9) million during the third quarter. The operating profit also decreased from the comparative period to EUR 0.3 (0.8) million. The operating profit rate during the third quarter was 1.2% (2.7%). Net sales in the market area of Russia, other CIS countries and Ukraine decreased by approximately 21% to EUR 7.5 (9.5) million, and the operating profit rate in the market area was roughly 8% (8%).

During the quarter, Leipurin carried out adaptation measures to cut costs. Leipurin maintained its good operating capacity, and there were no significant disruptions in the supply chain.

Heli Arantola, D.Sc. (Econ.), started as Leipurin's new managing director on August 17, 2020. Leipurin's goal is to strengthen and modernize its operations as consumer behavior, distribution structures and responsibility requirements are changing in the industry. Costs associated with the change of the managing director were recognized during the quarter.

Net sales of the bakery business, comprising approximately 90% of Leipurin's total net sales, decreased by roughly 11% during the third quarter due to the coronavirus pandemic and resulting restrictions, as well as the decrease in the value of the Russian ruble. The decrease in sales also reduced the operating profit. In eastern markets, net sales of the bakery business decreased by 18% during the third quarter, amounting to EUR 7.2 (8.7) million. The operating profit rate of the bakery business in the market area of Russia, other CIS countries and Ukraine was approximately 7% (9%). In Russia, raw material costs grew moderately with regard to imports and local purchases. Instead, raw material costs denominated in euro increased strongly due to the decrease in the value of the Russian ruble, and it was not possible to transfer this change wholly to customer prices.

Small bakeries, in particular, and bakeries that manufacture frozen bakery products and other products for the foodservice sector suffered significantly from restriction measures. However, the situation started to return to normal when restrictions were lifted in June. The foodservice sector continues to suffer from remote working recommendations and restrictions on opening hours and customer capacity, which online and take away sales have not fully compensated.

Net sales of the machinery business fell steeply. A strong cyclical nature is typical of the machinery business due to the timing of project deliveries. Leipurin's own machine production continued to improve the efficiency of its operations.

In Finland, the foodservice business accounted for roughly 4% of Leipurin's total net sales during the third quarter. Net sales returned closer to the previous year's level, being EUR 1.0 (1.1) million.

Leipurin's sales recovered slowly from the second quarter's slump. Due to changes resulting from the coronavirus pandemic, Leipurin's net sales and operating profit in January–September decreased from the comparative period. Net sales stood at EUR 74.4 (83.8) million and operating profit at EUR 1.2 (1.9) million. The operating profit rate for January–September was 1.6% (2.3%). Net sales in the market area of Russia, other CIS countries and Ukraine decreased by approximately 12% to EUR 23.6 (26.8) million, and the operating profit rate was approximately 7% (7%).

Outlook 2020 for Leipurin

The harvesting of main raw materials is partly still in progress. The first indicators of market price levels predict a 3–5% increase in costs for the following period.

During the third quarter, the general situation involving Leipurin's customers and markets improved when restrictions related to the coronavirus pandemic were lifted in all operating countries. It is still too early to assess the long-term impact of the coronavirus pandemic on Leipurin's customers and markets. However, the situation involving Leipurin's customers and markets is expected to improve further if restrictions continue to be lifted. Leipurin is actively monitoring the development of demand and profitability and is prepared to improve the efficiency of its operations and reduce expenses, if necessary.

In the machinery business, the order book for the latter half of 2020 is weak, although some sales projects are in progress. The schedule of significant machine deliveries in Russia, planned for the first half of the year, has been postponed again due to reasons independent of the company, and it is possible that the deliveries will be postponed to next year. Leipurin will continue to improve the efficiency of its machinery business and cut related costs, for example, by discontinuing its principal machine sales and maintenance in Russia during the final quarter of 2020.

In eastern markets, Leipurin will continue to develop its production and portfolio of bakery raw materials in accordance with the new market situation to better respond to any changes in demand.

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 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.

	7-9/2020	7-9/2019	Change,%	1-9/2020	1-9/2019	Change,%
Net sales, MEUR	62.5	74.7	-16.3	185.6	227.2	-18.3
Operating profit, MEUR	4.2	2.4	75.0	10.8	7.1	52.1
Operating profit, %	6.7	3.2		5.8	3.1	

The global coronavirus pandemic and related restrictions continued to have a significant impact on Telko's operating environment during the third quarter. Customers' production restrictions reduced demand for raw material, particularly in eastern markets. However, the decrease in sales volumes stopped and turned to a slight increase towards the end of the period. The strong fluctuation in demand has presented challenges in the availability of individual products.

The prices of plastic raw materials increased slightly from the previous quarter, but were still roughly 10% lower than in the comparative period. Prices were also relatively low considering the long-term average. In chemicals, the prices of oil-based products were very low, whereas the prices of lubricants remained stable.

Net sales of the Telko segment decreased by 16% during the third quarter to EUR 62.5 (74.7) million. In western markets, net sales decreased by 5% to EUR 34.2 (35.9) million. Net sales in the market area of Russia, other CIS countries and Ukraine decreased by 28% to EUR 26.3 (36.5) million.

During the third quarter, net sales of the Telko business decreased by 20% from the comparative period. Net sales decreased in all product areas and markets. The proportion of higher added value products and more capital-efficient operations increased clearly. The Telko business is divided into three parts. Net sales of the plastics business decreased by 20% to EUR 30.0 (37.4) million. Net sales of the chemicals business decreased by 22% to EUR 18.8 (24.2) million. Net sales of the lubricants business, including automotive chemicals, decreased by 14% to EUR 6.1 (7.1) million. However, net sales of Kauko, reported as part of the Telko segment, increased by 27% to EUR 7.6 (6.0) million.

The operating profit of the Telko segment increased significantly during the third quarter to EUR 4.2 (2.4) million. The operating profit rate improved to 6.7% (3.2%). The operating profit of the Telko business was historically high during the third quarter at EUR 3.5 (2.5) million. Kauko's operating profit also improved and was EUR 0.7 (-0.1) million. Kauko's net sales and operating profit increased driven by IT solutions delivered to customers in the public sector and high-quality protective equipment delivered to the central government.

Telko has determinedly fulfilled its strategic goals and modernized its management system, despite the challenging market situation. In its operations, the company has focused on higher added value products and partly discontinued capital-binding operations with a low profit margin. During the third quarter, Telko continued to improve the efficiency of working capital management and improved its profitability. Cost adaptations carried out during the year had a positive impact on results during the third quarter.

The Telko segment's net sales decreased by 18% in January–September to EUR 185.6 (227.2) million. Operating profit stood at EUR 10.8 (7.1) million. The operating profit rate was 5.8% (3.1%). The Telko segment's net sales in eastern markets, i.e., Russia, other CIS countries and Ukraine, decreased in January–September by 24% to EUR 77.0 (101.2) million. In western markets, net sales decreased by 19% to EUR 102.1 (126.0) million.

Net sales of the plastics business decreased by 22% to EUR 91.1 (116.8) million. Net sales of the chemicals business decreased by 16% to EUR 57.7 (68.6) million. Net sales of the lubricants business decreased by 13% to EUR 18.3 (21.0) million.

The impact of Kauko, reported as part of the Telko segment, on net sales in January–September was EUR 18.5 (20.8) million, and EUR 1.4 (0.0) million on operating profit. Net sales decreased particularly due to the divestment of energy operations at the end of 2019, while profitability increased as a result of discontinued loss-producing operations in 2019 and higher sales to the healthcare sector.

Outlook 2020 for Telko

Telko's future outlook is still associated with considerable uncertainties. Any deterioration in the coronavirus pandemic and the issuance of resulting restrictions may have a negative impact on the operating conditions of Telko's customer companies.

Net sales during the final quarter of 2020 are still expected to be significantly lower than in the corresponding period last year. Following the internal measures carried out at Telko, the cost-efficiency has improved and the increase in the proportion of higher added value products will improve relative profitability. In addition to normal seasonal variation, the development of customer orders will have an impact on Telko's future outlook, although it is difficult to assess the magnitude and schedule of this impact.

Kauko is expected to improve its results during the fourth quarter compared with the comparative period, driven by a higher demand for IT solutions in public sector and protective equipment deliveries.

After the review period on October 1, 2020, Telko strengthened its position in lubricant markets in Sweden and Norway by acquiring all shares in Swedish ILS Nordic AB and its subsidiary Autolubes Nordic AB. The acquisition will increase Telko's net sales in 2021 by approximately EUR 10 million and improve Telko's relative profitability. Aspo announced the transaction in a stock exchange release on October 1, 2020.

Telko has continued to revise its strategy in accordance with the changed situation. The implementation of the revised strategy and the integration of ILS Nordic AB into the Group are expected to generate additional costs during the final quarter.

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.

The operating result of other operations during the third quarter stood at EUR -0.8 (-0.9) million.

COMPANY INFORMATION

Share capital and shares

Aspo Plc's registered share capital on September 30, 2020 was EUR 17,691,729.57, and the total number of shares was 31,419,779, of which the company held 161,650 shares, i.e. 0.5% 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 Ltd's Mid Cap segment under industrial products and services.

During January–September 2020, a total of 3,456,121 Aspo Plc shares, with a market value of EUR 22.6 million, were traded on Nasdaq Helsinki. In other words, 11% of the shares changed hands. During the review period, the share price reached a high of EUR 8.56 and a low of EUR 5.50. The average price was EUR 6.53 and the closing price at end of the review period was EUR 6.12. At the end of the review period, the market value, less treasury shares, was EUR 191.3 million.

The number of Aspo Plc shareholders was 10,644 at end of the review period. A total of 1,258,150 shares, or 4.0% of the share capital, were nominee-registered or held by non-domestic shareholders.

Rewarding

On June 18, 2020, Aspo Plc's Board of Directors decided on a new share-based incentive plan for the Group's key personnel. The reward from the Restricted Share Plan 2020 is based on the participant's valid employment or service and continuation of employment during the vesting period of 36 months, and is paid in company shares and a cash contribution not exceeding the value of the shares. The rewards payable under the plan correspond to a maximum total value of 340,000 Aspo Plc shares including the proportion to be paid in cash.

The cash proportion to be paid in addition to the company's shares is intended to cover taxes and tax-like payments arising from the remuneration to the key personnel, in addition to which no other cash contributions are paid to the key personnel. If a key person resigns during the vesting period, he or she must, as a general rule, return the shares issued as a reward to the company free of charge. The shares paid as a reward may not be transferred during the vesting period, which ends three years after the transfer of the shares to the key employee. The Restricted Share Plan 2020 is directed to approximately 10 people, including the members of the Group Executive Committee.

Decisions of the Annual Shareholders' Meeting

Dividend

Aspo Plc's Annual Shareholders' Meeting held on 4 May, 2020 decided, as proposed by the Board of Directors, that EUR 0.11 per share will be paid in dividends for the 2019 financial year, and that no dividend will be paid for shares held by Aspo Plc. The payment date was May 13, 2020.

In addition, the Annual Shareholders' Meeting decided to authorize the Board of Directors to decide on the distribution of dividends of at most EUR 0.11 per share in one or more installments at a later date. The authorization remains valid until the next Annual Shareholders' Meeting.

After the review period on October 1, 2020, Aspo Plc's Board of Directors decided about the second distribution of dividends, EUR 0.11 per share, on the basis of the decision made at the Annual Shareholders' Meeting on May 4, 2020. The payment date was October 12, 2020.

Board of Directors and the auditor

Mammu Kaario, Mikael Laine, Gustav Nyberg, Salla Pöyry and Tatu Vehmas were re-elected to the Board of Directors, and Heikki Westerlund was elected as a new member. At the Board's organizing meeting held after the Annual Shareholders' Meeting, Gustav Nyberg was elected as Chairman of the Board and Mammu Kaario as Vice Chairman. In addition, the Board decided to elect Gustav Nyberg as Chairman of the Remuneration Committee and Salla Pöyry and Tatu Vehmas as its members, Mammu Kaario as Chairman of the Audit Committee, and Mikael Laine, Tatu Vehmas and Heikki Westerlund as its members.

The Authorized Public Accountant firm Deloitte Oy was elected as the company's auditor. Deloitte Oy has announced that Jukka Vattulainen, APA, will act as the auditor in charge. The auditor's fee will be paid in accordance with an accepted invoice.

Board authorizations

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

The Annual Shareholders' Meeting on May 4, 2020 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 2021 but not more than 18 months from the approval at the Annual Shareholders' Meeting.

<u>Authorization of the Board of Directors to decide on a share issue of treasury shares</u>

The Annual Shareholders' Meeting on May 4, 2020 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 2021 but not more than 18 months from the approval at the Annual Shareholders' Meeting.

Based on the share issue authorization given by the Annual Shareholders' Meeting, Aspo Plc transferred a total of 130,000 treasury shares on June 29, 2020 and 5,000 treasury shares on August 14, 2020 to participants in the restricted share-based incentive plan 2020. The shares were transferred gratuitously in accordance with the terms and conditions of the share-based incentive plan. After the transfers, Aspo Plc holds 161,650 treasury shares.

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

The Annual General Meeting on May 4, 2020 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 2021 but not more than 18 months from the approval at the Annual Shareholders' Meeting.

FINANCIAL INFORMATION

Aspo Group's condensed consolidated statement of comprehensive income

	7-9/2020 MEUR	7-9/2019 MEUR	1-9/2020 MEUR	1-9/2019 MEUR	1-12/2019 MEUR
Net sales	**118.4**	**148.0**	**367.2**	**440.7**	**587.7**
Other operating income	0.2	0.2	0.4	0.4	0.9
Share of profits accounted for using the equity method	-0.1	0.0	-0.1	0.0	0.0
Materials and services	-76.6	-98.0	-234.1	-292.8	-389.1
Employee benefit expenses	-10.2	-11.3	-32.0	-34.6	-45.1
Depreciation, amortization and impairment losses	-3.9	-3.8	-11.8	-10.9	-14.9
Depreciation, right-of-use assets	-3.2	-3.5	-9.8	-10.4	-13.7
Other operating expenses	-21.0	-24.9	-68.1	-76.7	-104.7
Operating profit	**3.6**	**6.7**	**11.7**	**15.7**	**21.1**
Financial income and expenses	-1.1	-1.3	-3.3	-2.0	-2.9
Profit before taxes	**2.5**	**5.4**	**8.4**	**13.7**	**18.2**
Income taxes	-0.5	-0.5	-1.1	-1.3	-2.1
Profit	**2.0**	**4.9**	**7.3**	**12.4**	**16.1**
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
Translation differences	-3.5	1.8	-7.5	4.3	4.4
Other comprehensive income for the period, net of taxes	-3.5	1.8	-7.5	4.3	4.4
Total comprehensive income	**-1.5**	**6.7**	**-0.2**	**16.7**	**20.5**
Profit attributable to shareholders	2.0	4.9	7.3	12.4	16.1
Total comprehensive income attributable to shareholders	-1.5	6.7	-0.2	16.7	20.5
Basic earnings per share, EUR	0.05	0.15	0.20	0.37	0.47
Diluted earnings per share, EUR	0.05	0.15	0.20	0.37	0.47

Aspo Group's condensed consolidated balance sheet

Assets	9/2020 MEUR	9/2019 MEUR	12/2019 MEUR
Intangible assets	7.7	7.9	7.9
Goodwill	43.3	43.3	43.3
Tangible assets	174.0	183.5	180.2
Right-of-use assets	18.4	21.7	21.5
Investments accounted for using the equity method	1.3	1.4	1.4
Other non-current assets	0.6	3.0	0.6
Total non-current assets	245.3	260.8	254.9
Inventories	43.8	63.8	55.9
Accounts receivable and other receivables	71.4	82.8	75.4
Cash and cash equivalents	28.5	18.3	23.7
Total current assets	143.7	164.9	155.0
Total assets	**389.0**	**425.7**	**409.9**
Equity and liabilities			
Share capital and premium	22.0	22.0	22.0
Other equity	89.4	96.8	100.1
Total equity	111.4	118.8	122.1
Loans and overdraft facilities	164.8	175.4	141.7
Lease liabilities	6.6	9.0	8.8
Other liabilities	4.3	7.0	4.9
Total non-current liabilities	175.7	191.4	155.4
Loans and overdraft facilities	26.3	27.5	58.2
Lease liabilities	12.2	12.9	13.0
Accounts payable and other liabilities	63.4	75.1	61.2
Total current liabilities	101.9	115.5	132.4
Total equity and liabilities	**389.0**	**425.7**	**409.9**

Aspo Group's condensed consolidated cash flow statement

	1-9/2020 MEUR	1-9/2019 MEUR	1-12/2019 MEUR
CASH FLOWS FROM/USED IN OPERATING ACTIVITIES			
Operating profit	11.7	15.7	21.1
Adjustments to operating profit	21.2	21.6	28.1
Change in working capital	11.4	0.0	9.3
Interest and other financial expenses paid	-2.6	-3.7	-5.0
Interest and other financial income received	0.6	1.6	1.7
Income taxes paid	-2.4	-1.6	-2.7
Net cash from operating activities	**39.9**	**33.6**	**52.5**
CASH FLOWS FROM/USED IN INVESTING ACTIVITIES			
Investments in tangible and intangible assets	-5.7	-4.7	-5.4
Proceeds from sale of tangible assets	0.2	0.2	0.2
Acquisition of businesses		-2.5	-2.5
Divestment of businesses		0.1	0.3
Dividends received	0.1		0.1
Net cash used in investing activities	**-5.4**	**-6.9**	**-7.3**
CASH FLOWS FROM/USED IN FINANCING ACTIVITIES			
Change in current loans	-6.0	-0.7	0.7
Proceeds from non-current loans	0.1	30.0	30.0
Repayments of non-current loans	-1.9	-24.8	-29.5
Payments of lease liabilities	-9.7	-24.4	-27.7
Hybrid bond repayment	-25.0		
Proceeds from Hybrid bond issue	20.0		
Hybrid bond, interest paid	-1.6	-1.7	-1.7
Hybrid bond, transaction costs paid	-0.3		
Dividends distributed	-3.4	-6.8	-13.7
Net cash used in financing activities	**-27.8**	**-28.4**	**-41.9**
Change in cash and cash equivalents	**6.7**	**-1.7**	**3.3**
Cash and cash equivalents January 1	23.7	19.3	19.3
Translation differences	-1.9	0.7	1.1
Cash and cash equivalents at period-end	**28.5**	**18.3**	**23.7**

* The payment of the lease liability in 2019 was significantly higher in the comparative period due to the purchase of *m/s Alppila* by ESL Shipping in August 2019 in accordance with the terms and conditions of the lease agreement.

Aspo Group consolidated statement of changes in equity

MEUR	Share capital and premium	Other Reserves	Hybrid bond	Translation Differences	Retained Earnings	Total
Equity January 1, 2020	**22.0**	**16.4**	**25.0**	**-19.2**	**77.8**	**122.1**
Comprehensive income:						
Profit for the period					7.3	7.3
Translation differences				-7.5		-7.5
Cash flow hedging		0.1				0.1
Total comprehensive income		0.1		-7.5	7.3	-0.2
Transactions with owners:						
Dividend distribution					-3.4	-3.4
Hybrid bond			-5.0			-5.0
Hybrid bond interest and transacion costs					-1.5	-1.5
Share-based incentive plan					-0.6	-0.6
Total transactions with owners			-5.0		-5.5	-10.5
Equity September 30, 2020	**22.0**	**16.5**	**20.0**	**-26.7**	**79.6**	**111.4**
Equity January 1, 2019	**22.0**	**16.3**	**25.0**	**-23.5**	**76.8**	**116.6**
Impact of IFRS 16					0.0	0.0
Adjusted equity January 1, 2019	22.0	16.3	25.0	-23.5	76.9	116.7
Comprehensive income:						
Profit for the period					12.4	12.4
Translation differences				4.3		4.3
Total comprehensive income				4.3	12.4	16.7
Transactions with owners:						
Dividend distribution					-13.7	-13.7
Interest on hybrid bond					-1.3	-1.3
Share-based incentive plan					0.5	0.5
Total transactions with owners					-14.5	-14.5
Equity September 30, 2019	**22.0**	**16.3**	**25.0**	**-19.2**	**74.7**	**118.8**

Accounting principles

Aspo Plc's interim report has been prepared in accordance with the principles of IAS 34 Interim Financial Reporting. As of January 1, 2020, Aspo applies certain new or amended IFRS standards and IFRIC interpretations as described in the 2019 consolidated financial statements. In addition, the temporary changes described below and caused by the coronavirus pandemic have been made to the valuation of accounts receivable and inventories. In other respects, the same accounting principles have been applied as in the consolidated financial statements of December 31, 2019. The information in this interim report is unaudited.

The coronavirus pandemic affects the inventory turnover and the payment schedules of accounts receivable. It is assumed that the exceptional circumstances may cause slow-moving inventories to slow even further. Considering accounts receivable, Aspo needs to prepare for situations where customers require more time for payments or may even lose their ability to pay.

The following temporary changes have been made to accounting principles, applied starting from March 31, 2020:

- ⇨ A 100% allowance for obsolescence will apply to slow-moving inventories of more than 18 months (previously 12 months).
- ⇨ If required, the bad debt allowance for accounts receivable will focus more on the counterparty risk, instead of using the statistical model as required in IFRS 9. This principle is in line with the statement issued by the European Securities and Market Authority (ESMA) on March 25, 2020.

These changes have not been applied retroactively.

Aspo Plc applies the guidance on alternative key figures issued by 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 56 of the Aspo's Year 2019 publication.

Personnel

At the end of the review period, Aspo Group had 867 employees (931 at the end of 2019).

Net sales and segment information

Aspo Group's reporting segments are ESL Shipping, Leipurin and Telko. Kauko is reported as part of Telko segment.

Aspo Group disaggregation of net sales

Net sales by business area

	7-9/2020 MEUR	7-9/2019 MEUR	1-9/2020 MEUR	1-9/2019 MEUR	1-12/2019 MEUR
ESL Shipping					
ESL Shipping	31.6	43.4	107.2	129.7	175.0
	31.6	43.4	107.2	129.7	175.0
Leipurin					
Bakery business	21.9	24.5	64.0	70.0	95.3
Machinery business	1.4	4.3	8.0	10.3	15.3
Foodservice business	1.0	1.1	2.4	3.5	5.1
	24.3	29.9	74.4	83.8	115.7
Telko					
Plastics business	30.0	37.4	91.1	116.8	152.2
Chemicals business	18.8	24.2	57.7	68.6	90.1
Lubricants business	6.1	7.1	18.3	21.0	28.0
Kauko	7.6	6.0	18.5	20.8	26.7
	62.5	74.7	185.6	227.2	297.0
Total	118.4	148.0	367.2	440.7	587.7

Net sales by timing of revenue recognition

	7-9/2020 MEUR	7-9/2019 MEUR	1-9/2020 MEUR	1-9/2019 MEUR	1-12/2019 MEUR
ESL Shipping					
At a point in time	0.7	0.1	1.6	0.1	1.6
Over time	30.9	43.3	105.6	129.6	173.4
	31.6	43.4	107.2	129.7	175.0
Leipurin					
At a point in time	23.8	28.7	70.9	80.9	111.5
Over time	0.5	1.2	3.5	2.9	4.2
	24.3	29.9	74.4	83.8	115.7
Telko					
At a point in time	62.3	74.4	185.1	226.5	296.1
Over time	0.2	0.3	0.5	0.7	0.9
	62.5	74.7	185.6	227.2	297.0
Total					
At a point in time	87.0	103.1	257.8	307.4	409.2
Over time	31.4	44.9	109.4	133.3	178.5
	118.4	148.0	367.2	440.7	587.7

Net sales by market area

	7-9/2020 MEUR	7-9/2019 MEUR	1-9/2020 MEUR	1-9/2019 MEUR	1-12/2019 MEUR
ESL Shipping					
Finland	13.8	18.4	50.6	59.6	79.6
Scandinavia	9.0	12.6	29.9	34.8	46.9
Baltic countries	0.9	2.1	1.2	5.1	8.1
Russia, other CIS countries and Ukraine	1.0	0.0	3.2	0.4	0.5
Other countries	6.9	10.3	22.3	29.8	39.9
	31.6	43.4	107.2	129.7	175.0
Leipurin					
Finland	9.2	11.4	29.1	32.1	43.9
Scandinavia	0.0	0.1	0.0	0.4	0.7
Baltic countries	7.3	8.5	20.5	23.4	31.5
Russia, other CIS countries and Ukraine	7.5	9.5	23.6	26.8	37.9
Other countries	0.3	0.4	1.2	1.1	1.7
	24.3	29.9	74.4	83.8	115.7
Telko					
Finland	17.7	16.1	50.1	55.0	71.6
Scandinavia	8.3	9.1	26.3	28.6	37.2
Baltic countries	4.0	4.2	12.4	14.3	18.3
Russia, other CIS countries and Ukraine	26.3	36.5	77.0	101.2	132.8
Other countries	6.2	8.8	19.8	28.1	37.1
	62.5	74.7	185.6	227.2	297.0
Total					
Finland	40.7	45.9	129.8	146.7	195.1
Scandinavia	17.3	21.8	56.2	63.8	84.8
Baltic countries	12.2	14.8	34.1	42.8	57.9
Russia, other CIS countries and Ukraine	34.8	46.0	103.8	128.4	171.2
Other countries	13.4	19.5	43.3	59.0	78.7
	118.4	148.0	367.2	440.7	587.7

Reconciliation of segment profit to the group's profit before taxes

1-9/2020

MEUR	ESL Shipping	Leipurin	Telko	Unallocated items	Group total
Operating profit	2.8	1.2	10.8	-3.1	11.7
Net financial expenses					-3.3
Profit before taxes					8.4

1-9/2019

MEUR	ESL Shipping	Leipurin	Telko	Unallocated items	Group total
Operating profit	10.2	1.9	7.1	-3.5	15.7
Net financial expenses					-2.0
Profit before taxes					13.7

Investments by segment

MEUR		ESL Shipping	Leipurin	Telko	Unallocated items	Group total
Investments	1-9/2020	5.4	0.0	0.3	0.0	5,7
Investments	1-9/2019	18.2	0.4	0.5	0.1	19,2

Segment assets and liabilities

MEUR	ESL Shipping	Leipurin	Telko	Unallocated items	Group total
Segment assets Jan 1, 2020	222.7	65.5	94.2	27.5	409.9
Segment assets Sep, 2020	212.3	60.1	84.2	32.4	389.0
Segment liabilities Jan 1, 2020	26.4	20.2	32.2	209.0	287.8
Segment liabilities Sep 30, 2020	23.5	18.1	36.6	199.5	277.7

Helsinki, October 29, 2020

Aspo Plc

Board of Directors

PRESS AND ANALYST CONFERENCE

A press and analyst conference will be arranged today on Thursday, October 29, 2020 at 2 p.m. at Hotel Kämp's Symposion conference room, Pohjoisesplanadi 29, 00100 Helsinki.

The press conference can also be followed by a live webcast at https://aspo.videosync.fi/2020-q3-results, or by calling +358 9 817 103 10 (31225694#) 5 to 10 minutes before the beginning of the press conference. The recording of the event will be available on the company's website later on the same day.

Helsinki, October 29, 2020

Aspo Plc

Aki Ojanen	Arto Meitsalo
CEO	CFO

For more information, please contact:
Aki Ojanen, CEO, +358 400 106 592. aki.ojanen@aspo.com

DISTRIBUTION:
Nasdaq Helsinki
Key media
www.aspo.com

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.