# Foundation laid for sustainable growth

Capital Markets Day 2019

**Aki Ojanen**
Aspo Plc
CEO

# Aki Ojanen
CEO

CEO since 2009

Aspo holdings: 47,377 shares

# Guidance for 2019 – Aspo's operating profit will be higher than in 2018 (20.6 M€)

**The guidance was altered on November 20, 2019**

**The earlier guidance for operating profit in 2019 was EUR 24–30 million**

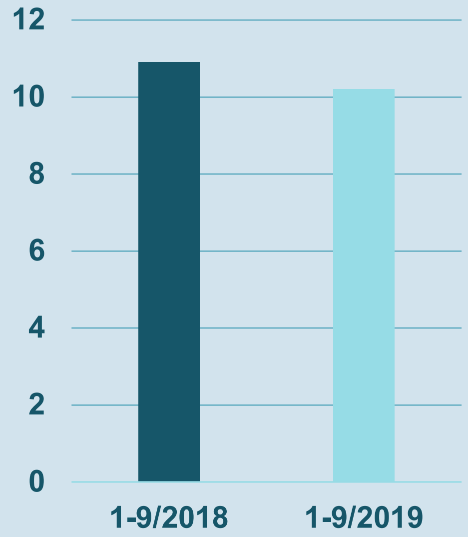
**Based on estimated results for Q4**

- Significantly lower than estimated transportation volumes in the steel industry impacting the shipping business
- Considerable decline in demand among industrial customers in Telko's western markets

# Profitability development in the three main reporting segments, comparable figures Jan–Sep 2019

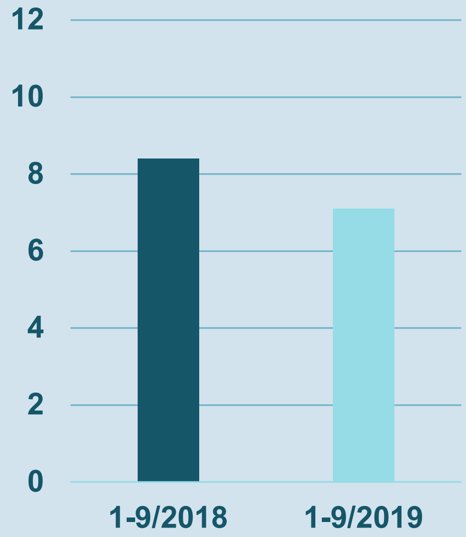
## ESL Shipping

Operating profit: 10.2 M€ (-6.4%)
Operating profit rate: 7.9%



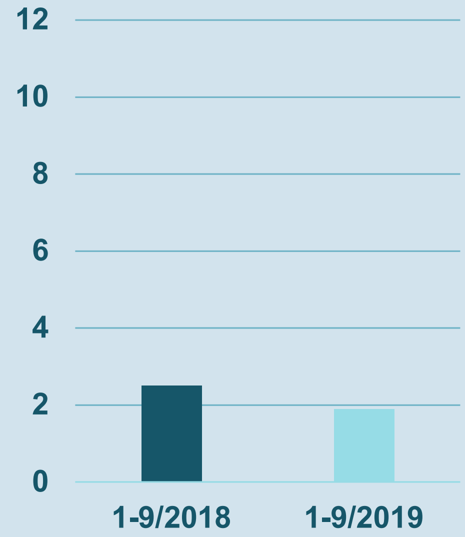

## Telko

Operating profit: 7.1 M€ (-15.5%)
Operating profit rate: 3.1%




## Leipurin

Operating profit: 1.9 M€ (-24.0%)
Operating profit rate: 2.3%




*Figures in parentheses refer to changes from 1–9/2018*

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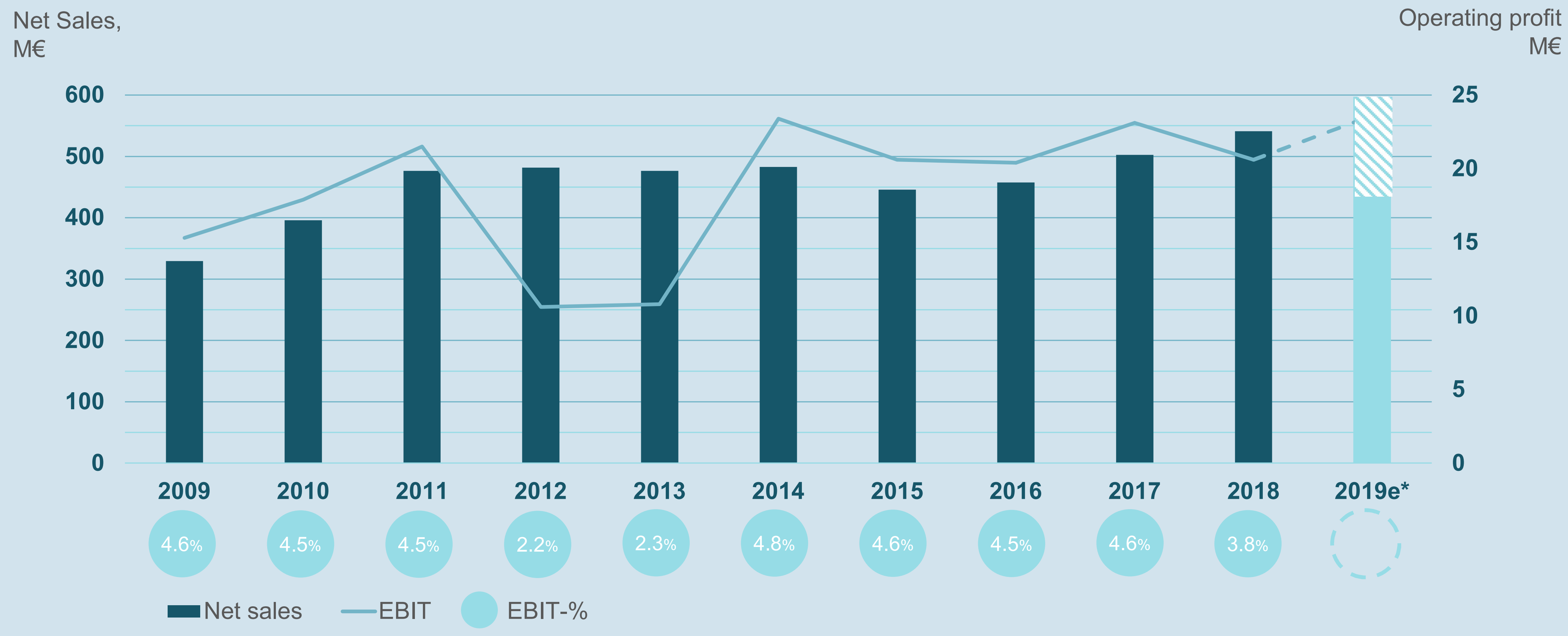
# Group net sales growth over the cycle


** Consensus estimate for 2019 updated on 31 October 2019, provided by Valuatum*

*** Sources: 2009-2018: World Bank, 2019 estimates: Bank of Finland, IMF and European Commission*

# Group net sales and operating profit development




* Consensus estimate for 2019 updated on 31 October 2019, provided by Valuatum

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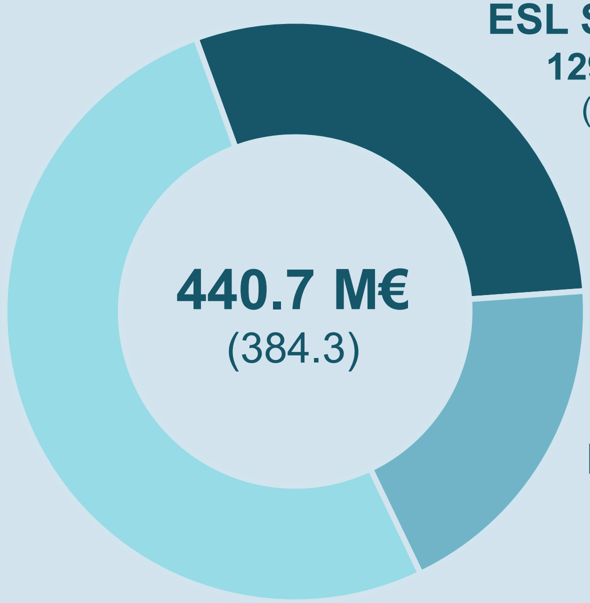
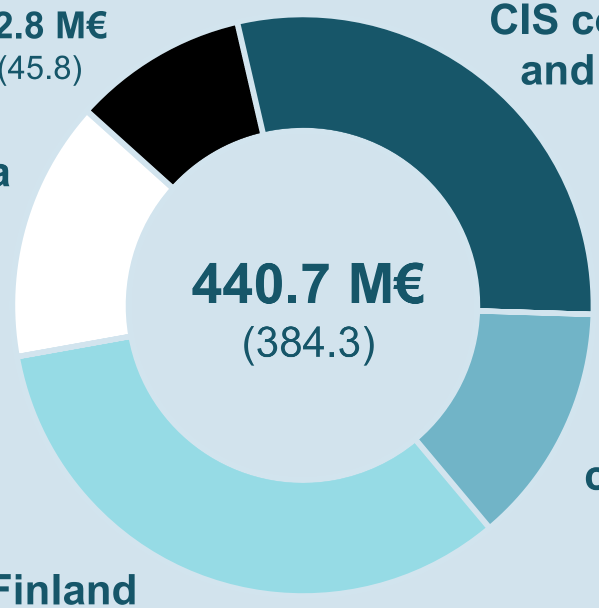
# Advantages of a conglomerate: Diversified revenue streams

## Net sales per reporting segment, 1–9/2019




## Net sales per market area, 1–9/2019




*Figures in parentheses 1–9/2018*

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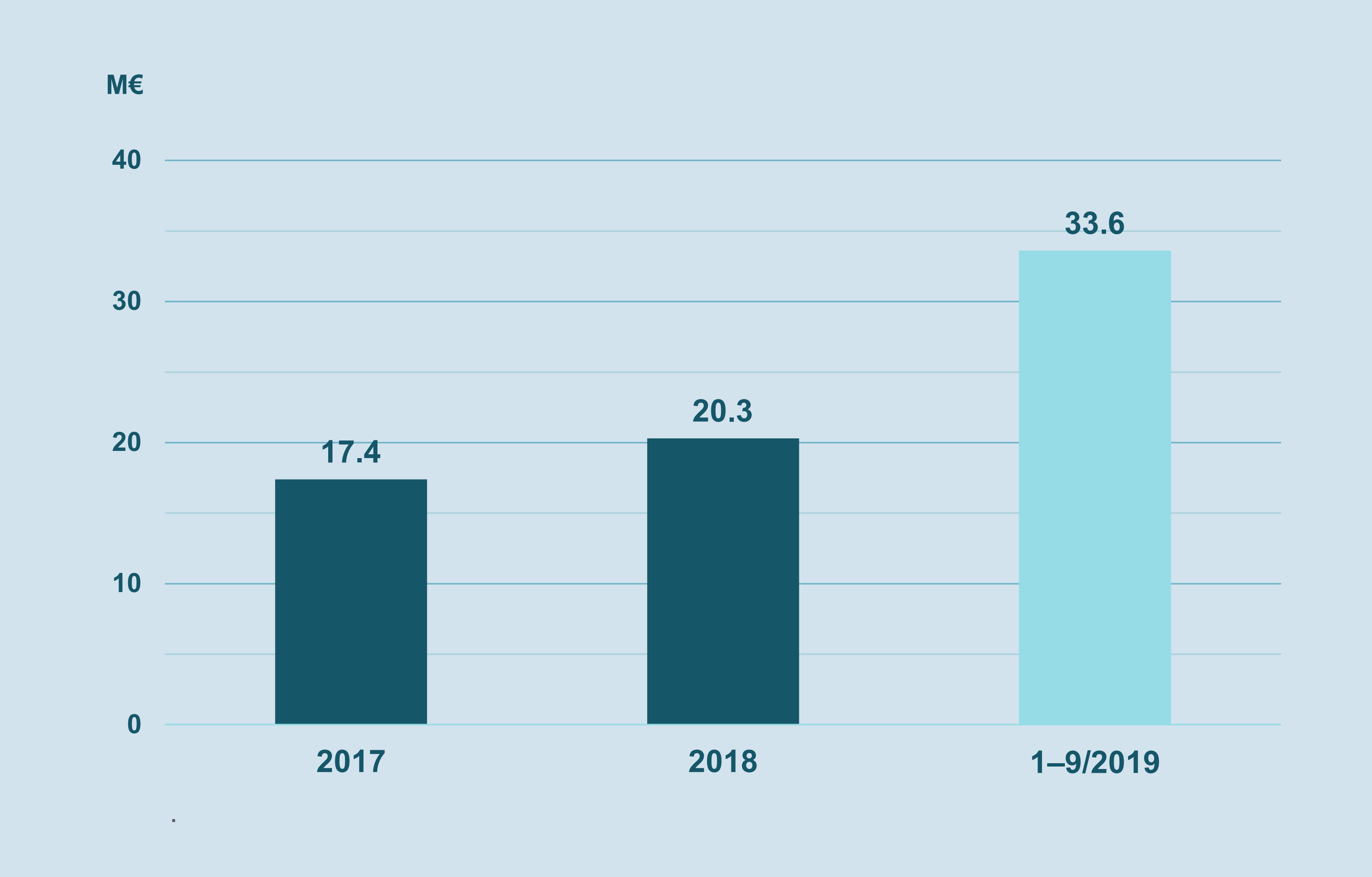
# Net cash from operating activities

Net cash from operating activities was EUR 33.6 (7.6) million in 2019

Adoption of IFRS 16 increased the Group's net cash from operating activities by approximately EUR 11 million



# The largest economies by purchasing power parity-adjusted GDP in USD

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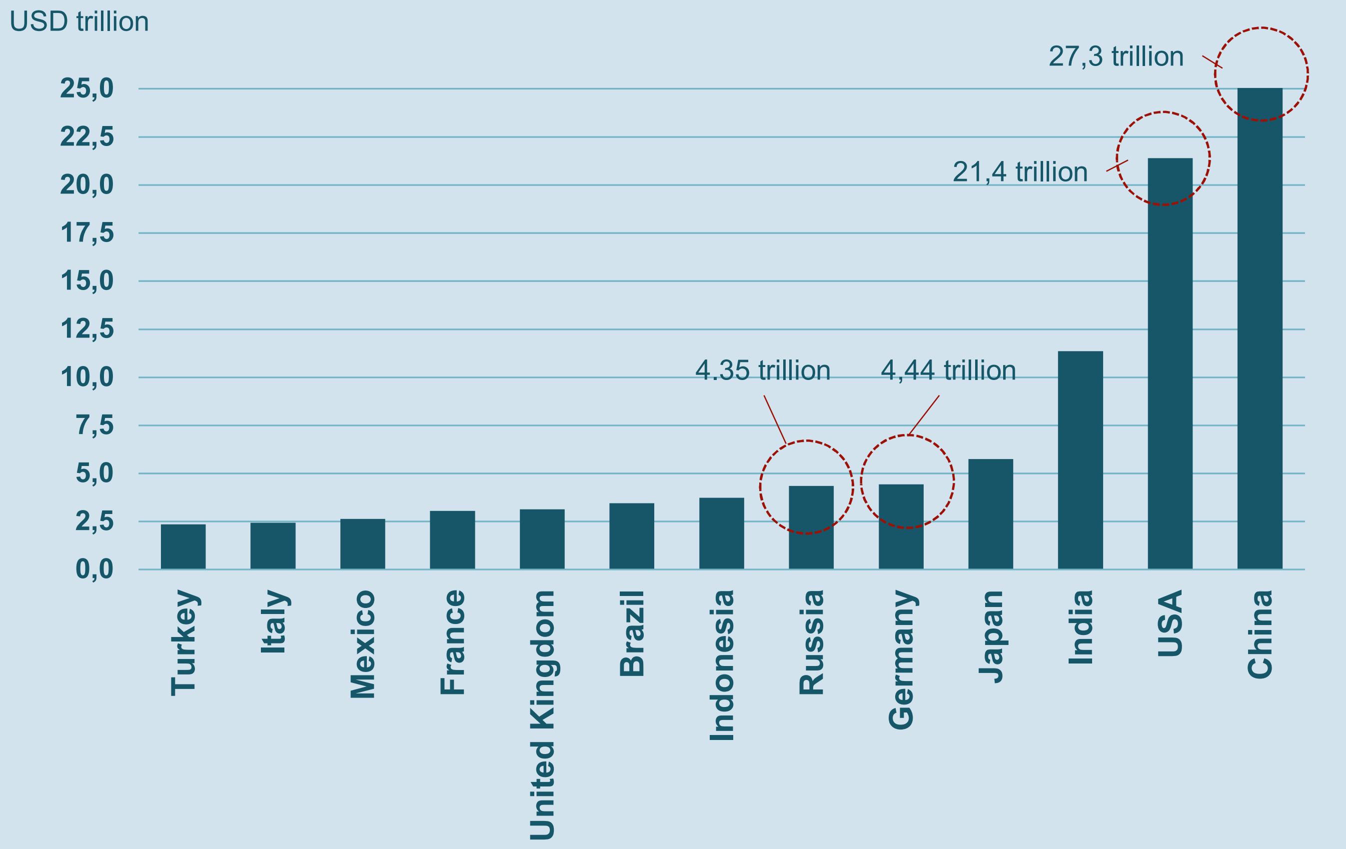
Russia's purchasing power parity-adjusted GDP in USD **is one of the world's largest** and nearly as large as Germany's.

*Source: IMF estimates for 2019*



# Improving conditions to do successful business in emerging markets

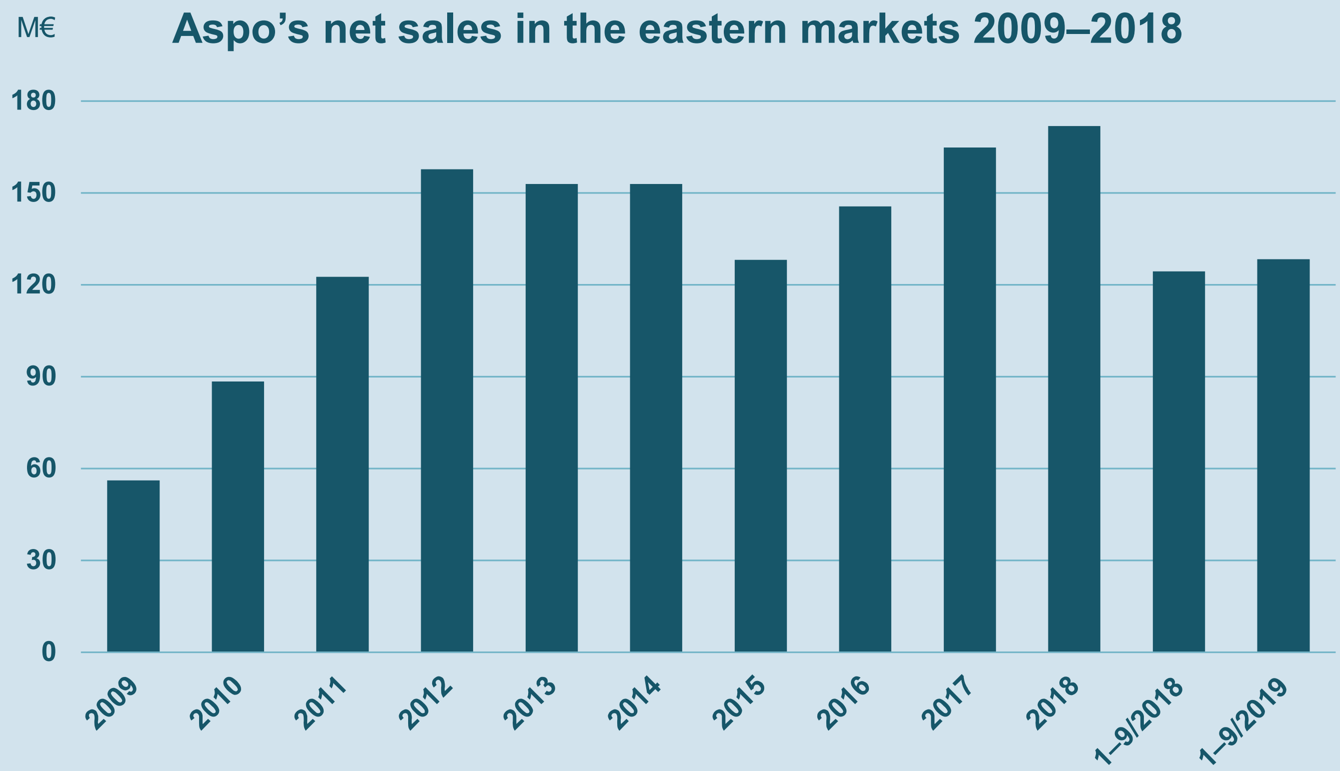
Russia has improved its ranking the most when comparing the conditions for doing business in countries on emerging markets from 2012 to 2019.

*Source:*
*Doing Business 2019 report, World bank*

# Controlled growth in Russia, other CIS countries and Ukraine

Euro-denominated net sales have grown in the eastern markets since 2015 – **4% Growth during 2018**

The economies in Russia and the eastern market area are expected to continue growing moderately in 2020



# Ensuring responsible business operations within the group – actions in 2018

**Formal commitment to the UN Global Compact and its reporting requirements**

**100% of the personnel completed the Code of Conduct training**

**Development of the Group level sustainability reporting**

**Additional actions during 2018:**
A Supplier Code of Conduct was formulated to all partners
Supply chain sustainability audits were carried out

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# Socially, financially and environmentally responsible operations are a prerequisite for value creation.

| | | |
|---|---|---|
| Environmental sustainability | Social responsibility | Anti-corruption |

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# Aspo's key objective is to expand and internationalize medium-sized companies specializing in demanding B-to-B customers

Enabling larger investments

Strategic guidance

Enabling structural arrangements

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# Aspo's goal is to annually increase the amount of dividends – paid out twice a year

**10,150**
Shareholders in total

**96%**
Domestic shareholdings

**53%**
Of shares held by private investors

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# Aspo dividend yield during 2014–2018 was on average 5.5%

Helsinki Stock Exchange dividend yield 2014–2018 on average 3.6%

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# Best performing Finnish stocks during last 20 years

| | 20-year total return*, % | Corresponding annual return, % |
|---|---|---|
| 1. Kone B | 8 874.3 | 25.2 |
| 2. Marimekko | 5 523.5 | 22.3 |
| 3. Olvi A | 3 145.1 | 19.0 |
| **4. Aspo** | **2 997.8** | **18.7** |
| 5. Cramo | 2 109.7 | 16.7 |
| 6. Ponsse | 2 037.6 | 16.5 |
| 7. Kesko B | 1 948.4 | 16.3 |
| 8. Fortum | 1 901.6 | 16.2 |
| 9. Sampo A | 1 881.3 | 16.1 |
| 10. Wärtsilä | 1 601.4 | 15.2 |

** Dividends reinvested   Source: Kauppalehti 20 November 2019, Factset*

# Telko

## Raw material solutions for the industry

Aspo has changed its segment reporting so that Kauko is reported as part of the Telko segment starting from January 1, 2019.

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# Telko 1–9/2019

Net sales 1–9/2019

**227.2 M€**

(221.2 M€)

Operating profit 1–9/2019

**7.1 M€**

(8.4 M€)

In January–September, net sales of plastic business increased by 6% and net sales of chemical business by 4%

Telko is a distributor holding inventory – 1–9/2019 changes in raw material prices and exchange rates negatively affected sales margins from stocked raw materials

Mikko Pasanen appointed Managing Director of Telko

# STRATEGY

## DISTRIBUTION INDUSTRY CHANGE FORCES

Shift in global economic power

Digital revolution and technological breakthroughs

Global resources scarcity and climate change

Distribution Industry Global Growth

Continued Distribution Industry Consolidation

## VISION

The Preferred Partner in Distribution Solutions

## MISSION

We Bridge Industrial Customers and Principals in a Sustainable Way

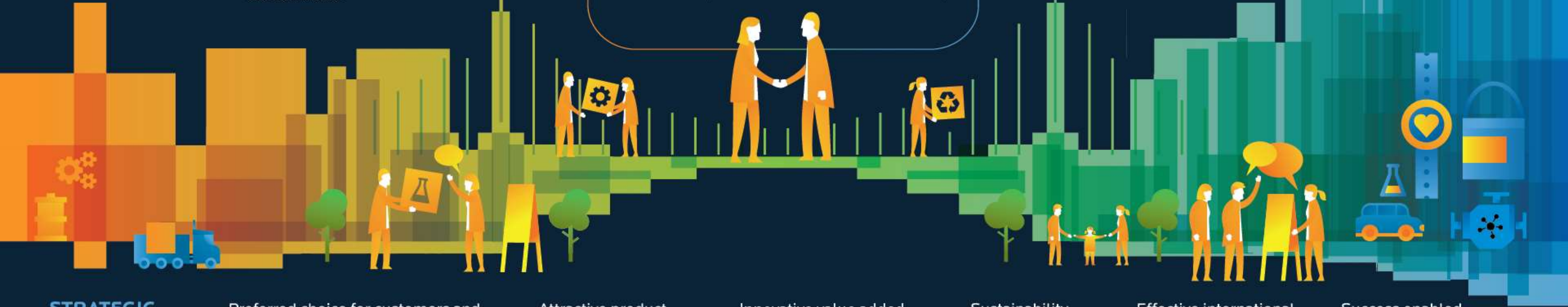
## TELKO VALUES

Success by People

Partnership

Responsibility

Development



## STRATEGIC OBJECTIVES

- Preferred choice for customers and principals in selected geographical markets and industries.
- Attractive product portfolio
- Innovative value added services including digital solutions
- Sustainability forerunner
- Effective international operating model
- Success enabled by the best people

## MUST WIN BATTLES

- Achieve targeted organic growth
- Grow with focused acquisitions
- Build and commercialize new value added services
- Unify operating model to improve efficiency
- Develop people competences and engagement

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# Bridging over 400 principals and 7,000 customers in a sustainable way

**PLASTICS**

eurotec, HEXPOL TPE, DOW, GCR GROUP, EMS EMS-GRIVORY, TOTAL, سابك sabic, LOTTE, LG, KOLON, ExxonMobil

**CHEMICALS**

Kraton, lyondellbasell, Castrol, Nouryon, TRONOX, OXEA, BASF The Chemical Company, sasol reaching new frontiers

TELKO

**Strong demand for value-added services and eco-friendly products**

- Telko's solution-based distribution of specialty products (SD)
- Services based on expertise of the supply chain & technical know-how
- Continued investments in marketing and procurement of greener alternatives – steadily growing interest among customers

**PLASTICS**

- Packaging, E & E (Electronics & Equipment) and automotive industries
- Consumer goods

**GREEN PRODUCT PORTFOLIO**

Bio-based and biodegradable alternatives

**CHEMICALS & LUBRICANTS**

- Paints and coatings
- Construction
- Engineering works
- Printing
- Packaging
- Chemical industries

**LIFE SCIENCE**

- Food / Feed
- Personal care
- Pharma

# Growth despite challenging market conditions – profitability being addressed

## Market outlook

- Sales of chemicals and other technical raw materials decreased 8.3% in Q3/2019* year-on-year
- Outlook for 2019 clearly weaker compared to 2018 – major variation between companies
- Demand for technical products is expected to decrease
- Price development of volume plastics to even out

** Source: Teknisen kaupan liitto ry*

## West and east development

- Large share of lower margin distribution business in the East, especially in Russia & Ukraine
- Unfavorable development in raw material prices and local currencies during 2019

| 1–9/2019 (change from 1–9/2016)** | Net sales | Operating profit |
|---|---|---|
| **WEST** | **101.8 M€** (+9.2%) | **4.9 M€** (-3.3%) |
| **EAST** | **104.6 M€** (+27.2%) | **2.2 M€** (-14.8%) |

*** Non-reported figures: East includes e.g. China and is not limited to Russia, CIS countries and Ukraine. Excluding Kauko.*

# Following through the Telko strategy – key issues going forward

Accelerating overall growth and profitability by increasing the share of solutions-based distribution (SD) sales

Improving profitability especially on the eastern markets – sales focus shift from volume to value

Efficiency improvement measures to be taken

Systematic implementation of clear portfolio and supplier strategy – stronger resilience to exchange rate and material price fluctuations

## Telko aims to reach

# Net sales 300 M€
# Operating profit rate 6%

## in 2023

# Leipurin

From bread and recipes to a comprehensive selection

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# Leipurin 1–9/2019

Net sales 1–9/2019

**83.8 M€**

(89.4 M€)

Operating profit 1–9/2019

**1.9 M€**

(2.5 M€)

Postponed project deliveries and changes in the principal base will negatively affect the volumes, net sales and operating profit development of the machinery business in the medium-term

Operations in Poland discontinued

Market for in-store bakeries and baking units grow, especially in Russia where Leipurin aims to grow its market position

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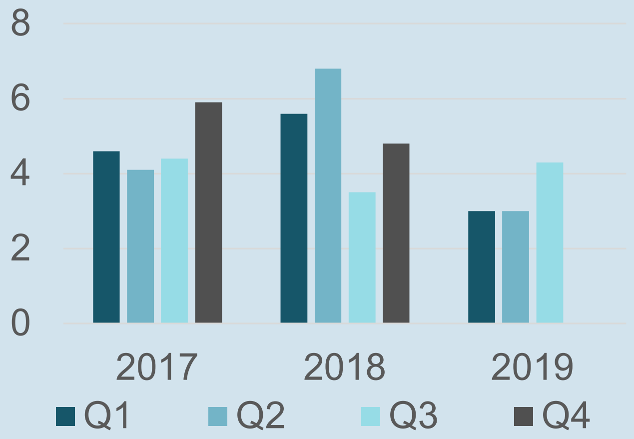
# Leipurin business segments – Machinery and Raw materials

## Machinery

Complete production lines and accompanying services for the baking and food industries

- Strong cyclical nature typical due to timing of deliveries

**Machinery sales, M€**




## Raw materials

Product range development, recipes, raw materials and training

| 1–9/2019 (change from 1–9/2016)* | Net sales | Operating profit |
|---|---|---|
| **WEST** | **49.4 M€** (-9.7%) | **1.7 M€** (-26.1)% |
| **EAST** | **24.1 M€** (+27.5%) | **2.1 M€** (+75.0%) |

** Non-reported figures, operating profit non-IFRS compliant, excluding administrative expenses*

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# Leipurin focuses on expanding and developing its Foodservice business

## Leipurin franchising model for cafe chain customers

Growing demand for cafeteria chains and bakery cafés especially in the West

Leipurin offering helps its foodservice customers succeed with

- Branding concepts
- Assortment development
- Holistic supply chain solutions


**Value for customers:**
Differentiation with a customer specific assortment and concept

**Share of net sales**
1–9/2019
**4%**
(3%)

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# BAKER'S STORY



30
Capital Markets Day
26 November 2019
Leipurin aims to reach
Net sales 140 M€
Operating profit rate 5%
In 2023

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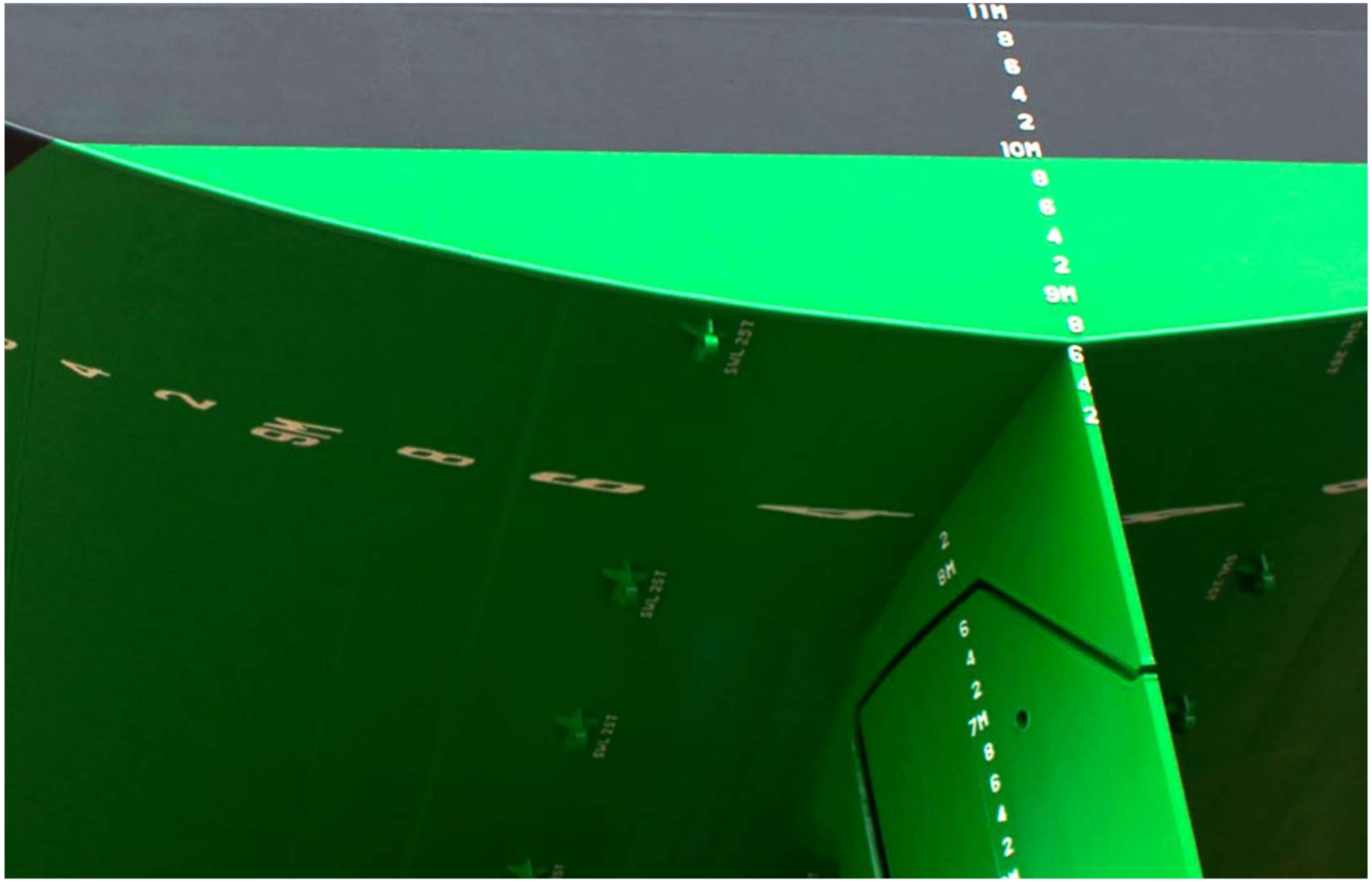
# Shipping business

**29% of Aspo’s sales**
1–9/2019

**65% of Aspo’s operating profit**
1–9/19

**Investments approx. 100 M€ in last 4 years**

including acquisition of M/S Alppila (2019) and AtoB@C plus two LNG vessels (2018)




# ESL SHIPPING

Aspo Capital Markets Day
26 November 2019

**Matti-Mikael Koskinen**
Managing Director
ESL Shipping Ltd

# WHERE WE ARE TODAY

ESL – The leading carrier of dry bulk cargoes in the Baltic Sea region

### Net sales grew 76% to 129.7 M€ in 1–9/19

Growth mainly from AtoB@C and LNG vessels

### Cargo volumes carried 1–9/19

11.8 million tons, 29.7% increase from comparable period in 2018

### Shipping routes

Mostly in the Baltic and North Sea region

Supramax vessels also in arctic regions of Canada and Russia

### Operating profit decreased 6.4% to 10.2 M€ in 1–9/19

Positive contribution of LNG vessels despite crane problems in Q1

Supramaxes returned to being profitable in Q3

### 51 vessels

24 fully owned, representing 75% of the total capacity

### Main clients

Nordic steel industry, forest industry and energy sector

# STEEL INDUSTRY TRANSPORTATION VOLUMES

Demand in ESL's freight classes currently at lower than expected level


Transportation volumes significantly lower than earlier forecasted in Q4

Production curtailment in steel industry

Decreased efficiency

By the resulting suboptimal capacity utilization

# EFFECTS OF STRIKES ON ESL

Finnish shipping industry not a party in current labour conflict, but is indirectly involved due to support strikes

### Strike scope limits currently

Raw material shipments to one of ESL's main customers out of scope

Traffic outside Finland out of scope

### Actions to alleviate strike effect

Vessel traffic has been temporarily redirected to minimize effect, however resulting in decrease of operational efficiency

### Stevedore strikes to begin 28 November

Affecting ships under all flags*

### Impact on ESL

Moderate impact in the first week

Only one or two vessels possibly affected later in the week

### Prolonged strike impact

Some ships will likely remain in port

Vessels under Finnish flag covered with strike insurances

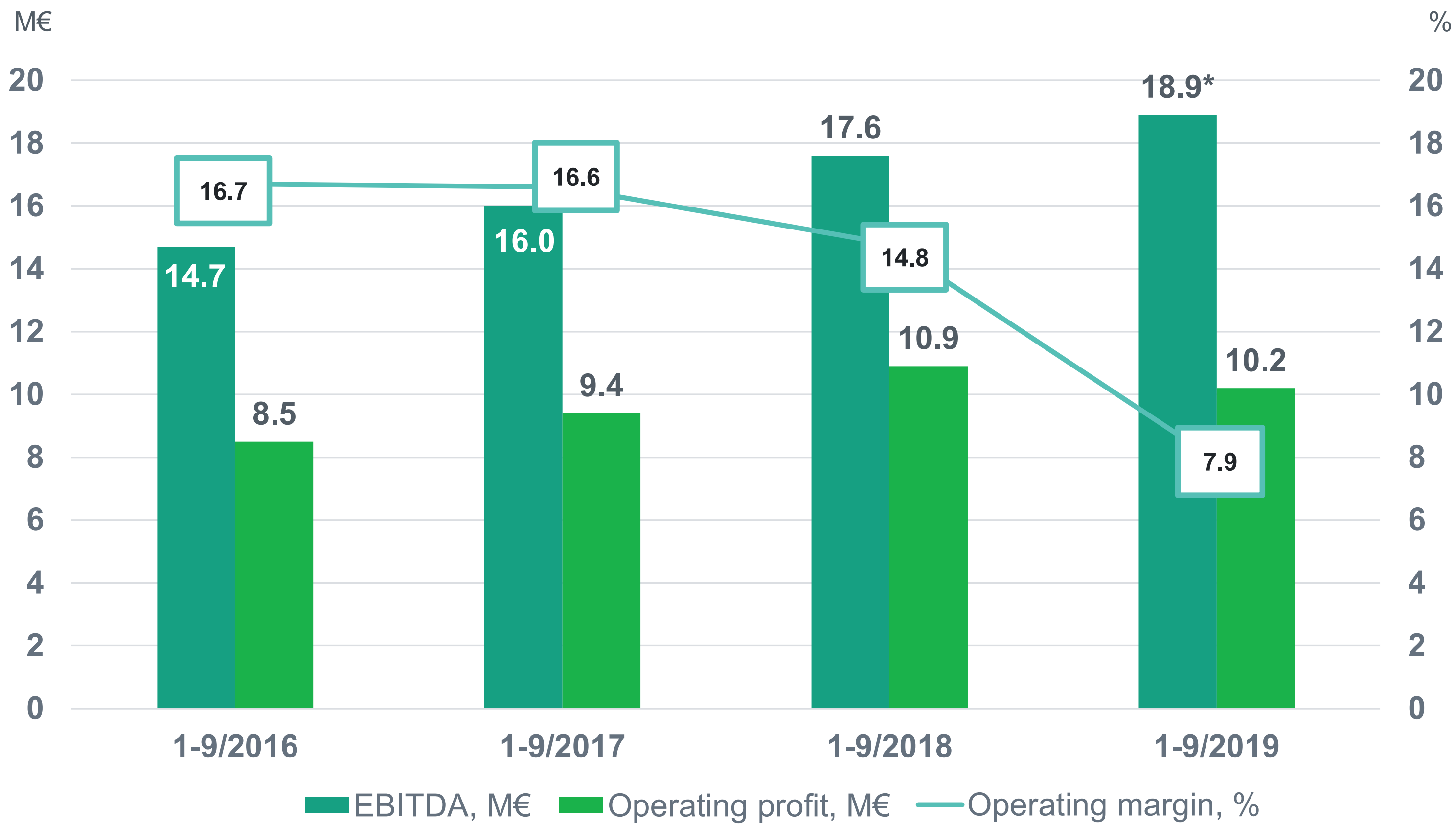
### Industrial union strike to begin 9 December

Likely affecting steel industry raw material shipments



** AtoB@C fleet has no ships under Finnish flag*

# ESL PROFITABILITY DEVELOPMENT




ESL Shipping

*Comparable figure, excluding IFRS16 impact of 8.9 M€

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# OUR STRENGTHS

Keys to success despite challenging markets

| | | |
|---|---|---|
| Strong niche player — with deep understanding of customers' flow of goods | Integrated offering — including in-house know-how in design and engineering | Vessels tailored for customers' ports |
| Northern know-how and special expertise — in the Baltic Sea and the Arctic | Long-term customer agreements — built on trust, historic benefits and performance | Self-loading and -unloading ESL vessels |

# OUR VALUE PROPOSITION

Reliable, safe and flexible deliveries regardless weather and ice conditions as sustainable as possible

# NEW TECHNOLOGIES FOR GREENER SHIPPING

Investments made to ensure superior competitiveness
– reduced fuel costs and $CO_2$ emissions

***2018*** – 25.000 dwt at 10 tons LNG*/day
= 28 tons $CO_2$ emissions/day at sea


***1975*** – 23.000 dwt at 40 tons hfo**/day
= 128 tons $CO_2$ emissions/day at sea


** Liquefied natural gas* *** Heavy fuel oil*

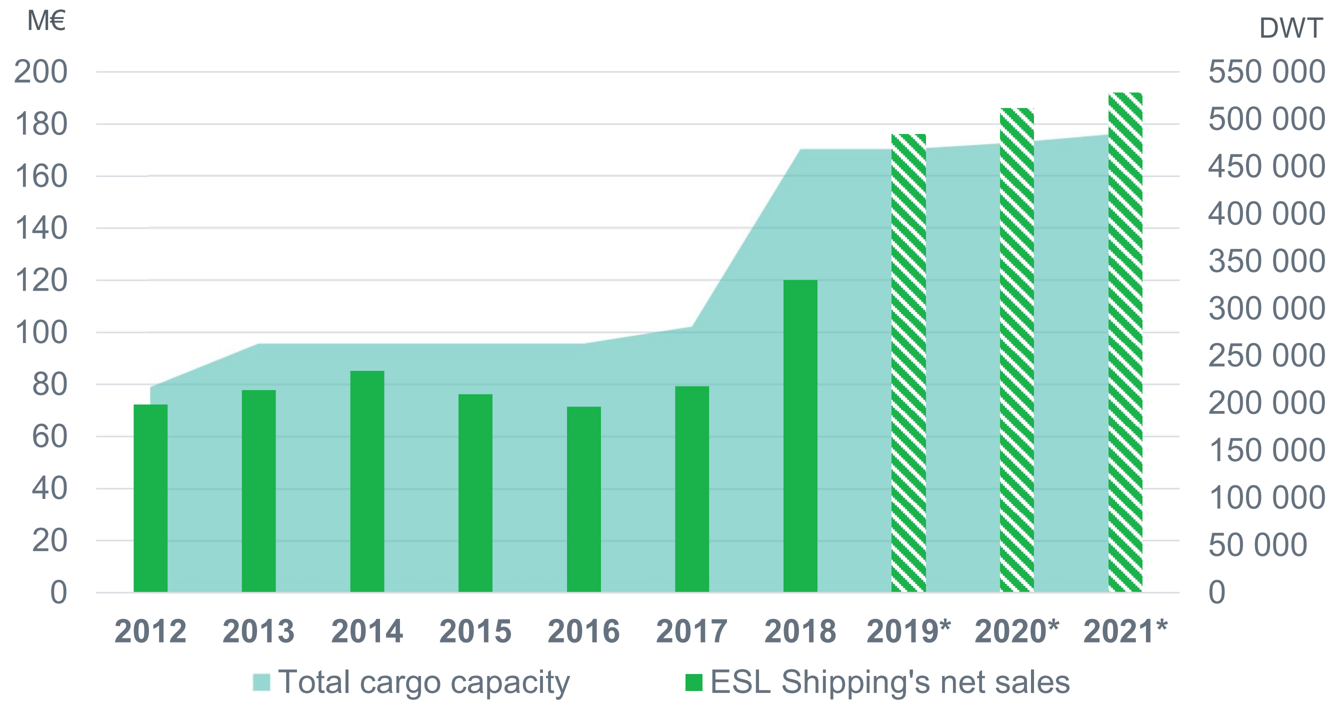
# AtoB@C SUCCESSFULLY INTEGRATED

Platform for future growth in new cargo types

| | | |
|---|---|---|
| Business successfully integrated, but full potential still to be realized | Accelerated entry to a market with new customers and cargo types | Strategically important platform for future growth |
| Acquisition value approx. 30 M€<br>Currently 35 smaller dry cargo vessels in size of 3,000-5,000 tons, 7 vessels owned | AtoB@C focus on forest industry raw materials and products, steel industry products, fertilizers, recycled materials, biofuels and minerals | Action taken to transfer AtoB@C operations to the Swedish tonnage system from the beginning of 2020 to improve tax efficiency |

# GROWING WITH NEW CUSTOMER AND CARGO TYPES

The investment and acquisition greatly increase the capacity and revenue




Successful diversification into new customer, cargo and vessel types – well in line with how demand is expected to change

The last 12 months have provided a good experience base for further growth



** Consensus estimates 31 October 2019 for net sales, provided by Valuatum capacity figures current management estimates*

# CURRENT ESL FLEET

| Class | No of vessels | Current utilization | Expected long-term demand |
|---|---|---|---|
| **56,000 DWT Supramax** | | | |
| equals > ~ 3,000* | X 2 | Profitable, but below expectations | Slightly improving from a weak level |
| **26,000 DWT LNG Handysize** | | | |
| equals > ~ 1,400* | X 2 | Good - as expected but full potential still to be reached | Continued good demand |
| **20,000 DWT Handysize** | | | |
| equals > ~ 1,100* | X 3 | Reasonable, but lower than expected | Reasonable |
| **13,000 DWT** | | | |
| equals > ~ 700* | X 10** | Reasonable, but slightly lower than expected | Reasonable |
| **Smaller vessels** | | | |
| equals > ~ 250* | X 34 | Good, but full potential still to be reached | At a healthy level |

ESL Shipping

** Assumption of typical truck with 12 m³ capacity weighing approximately 18 tons*

*** includes a number of pushers and barges*

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# TRANSPORTATION VOLUMES IN THE MAIN CARGO CLASSES

**Transportation demand outlook next 12m**

Steel industry

Forest industry

Coal

Biofuels

Loading and unloading at sea

## ESL aims to reach

# Net sales 200 M€
# Operating profit rate 12%

## in 2023

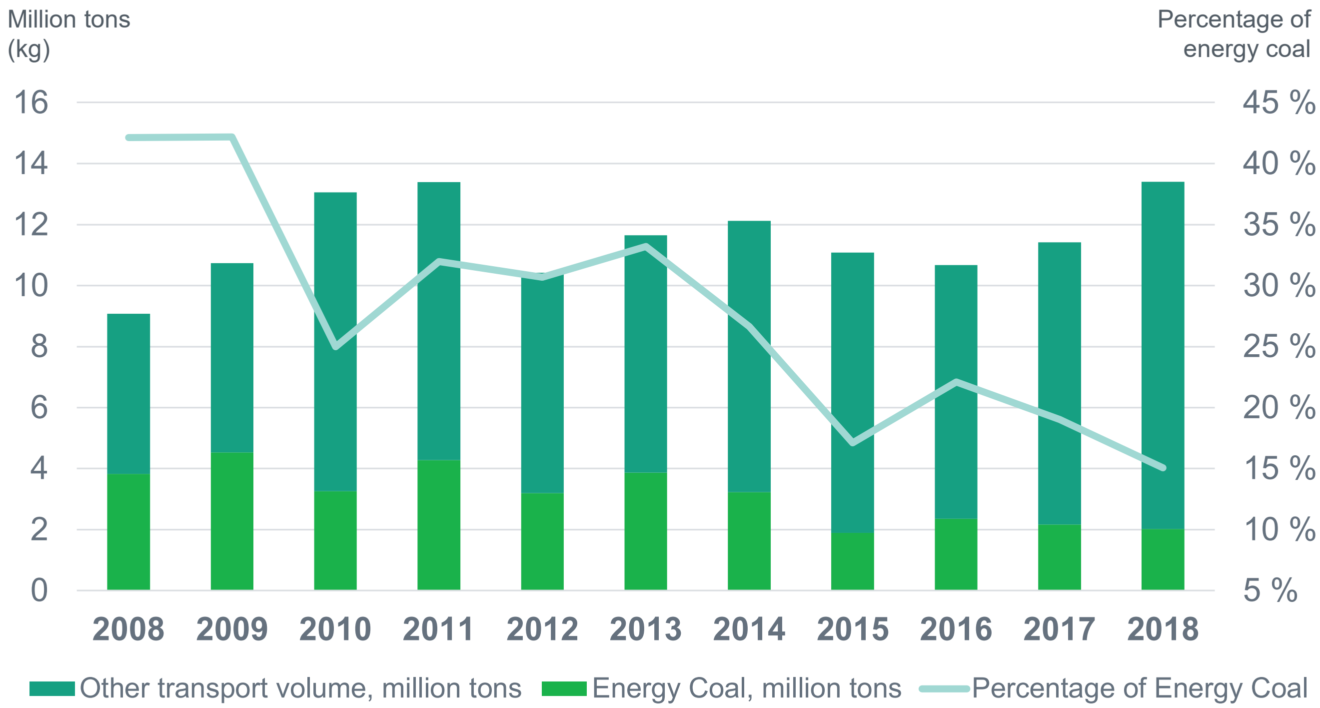
# OUR VISION

To be the most  sustainable marine logistics partner for selected industries in northern Europe and arctic areas

# STRATEGIC DRIVERS – SUSTAINABILITY AND NEW TECHNOLOGIES

| | | |
|---|---|---|
| Fossil free society | Carbon free steelmaking | Wood based products |
| Circular economy | Biofuels | Fossil free energy production |

# DECREASING DEMAND FOR ENERGY COAL TRANSPORTS




Energy coal used to be an important profitability driver for ESL. Shipping

The decrease in energy coal transport demand has not negatively impacted ESL Shipping's profitability

# TRANSITION FROM COAL TO BIOFUELS

Lower energy intensity means more m3 for the same energy content

# LONG-TERM TRANSPORTATION VOLUME ESTIMATES

**Transportation demand outlook***

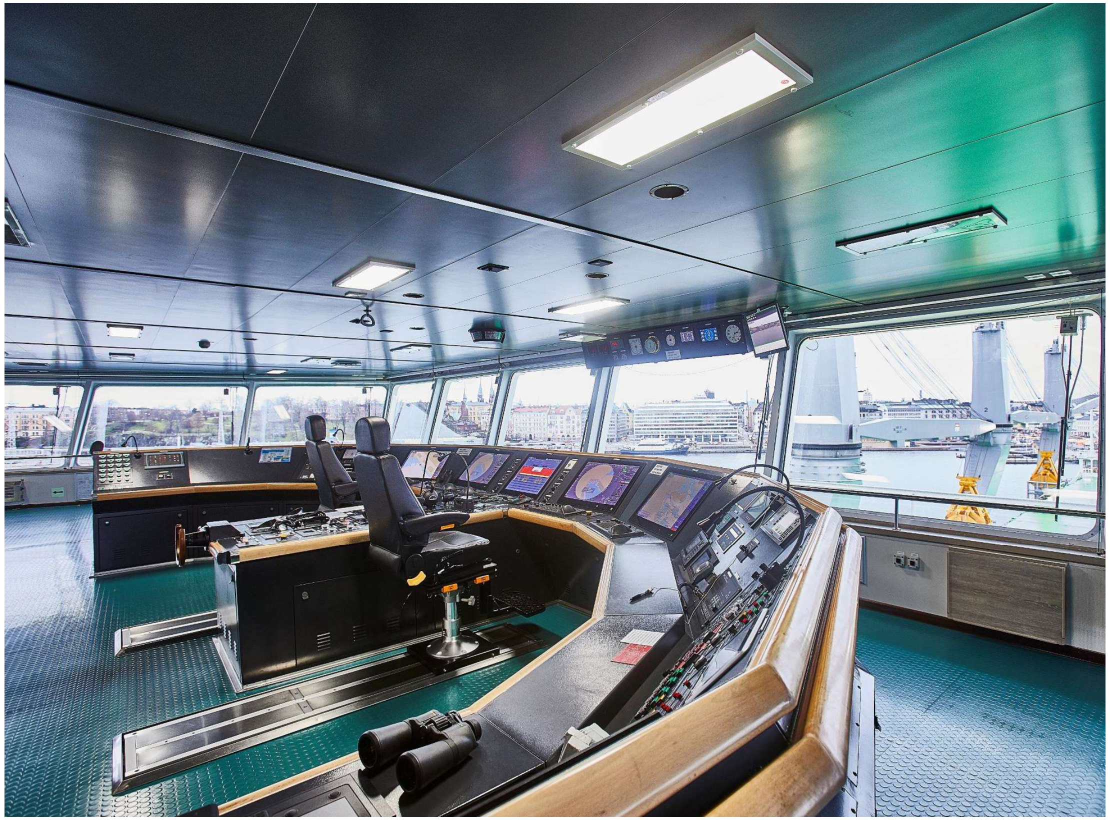
| | |
|---|---|
| Forest industry | ↑ ++ |
| Project cargos | ↑ + |
| Fertilizers | ↑ |
| Arctic area freight operations (incl. Russia) | ↑ + |

## Energy Sector

| | |
|---|---|
| Dry biomass (woodchips and pellets) + accompanying services | ↑ + |
| Coal | ↘ |

## Steel Industry

| | |
|---|---|
| Scrap metals for steel industry | ↑ + |
| Limestone | → |
| Iron ore | ↘ |





* *Management estimates*

# POSSIBLE FUTURE GROWTH INVESTMENT OPTION

In order to meet the estimated future demand and to fulfil sustainability value proposition


Capacity growth in smaller vessel class with the most environmentally friendly ships available

New environmentally superior coasters

Different types of ownership and financing alternatives reviewed

# SUMMARY

## AtoB@C

Successfully integrated, yet full potential still to be realized

A platform for future growth

## Growth target 2023

Net sales 200 M€

## Growth beyond 2023

ESL ready for planning new growth investments

## LNG vessels

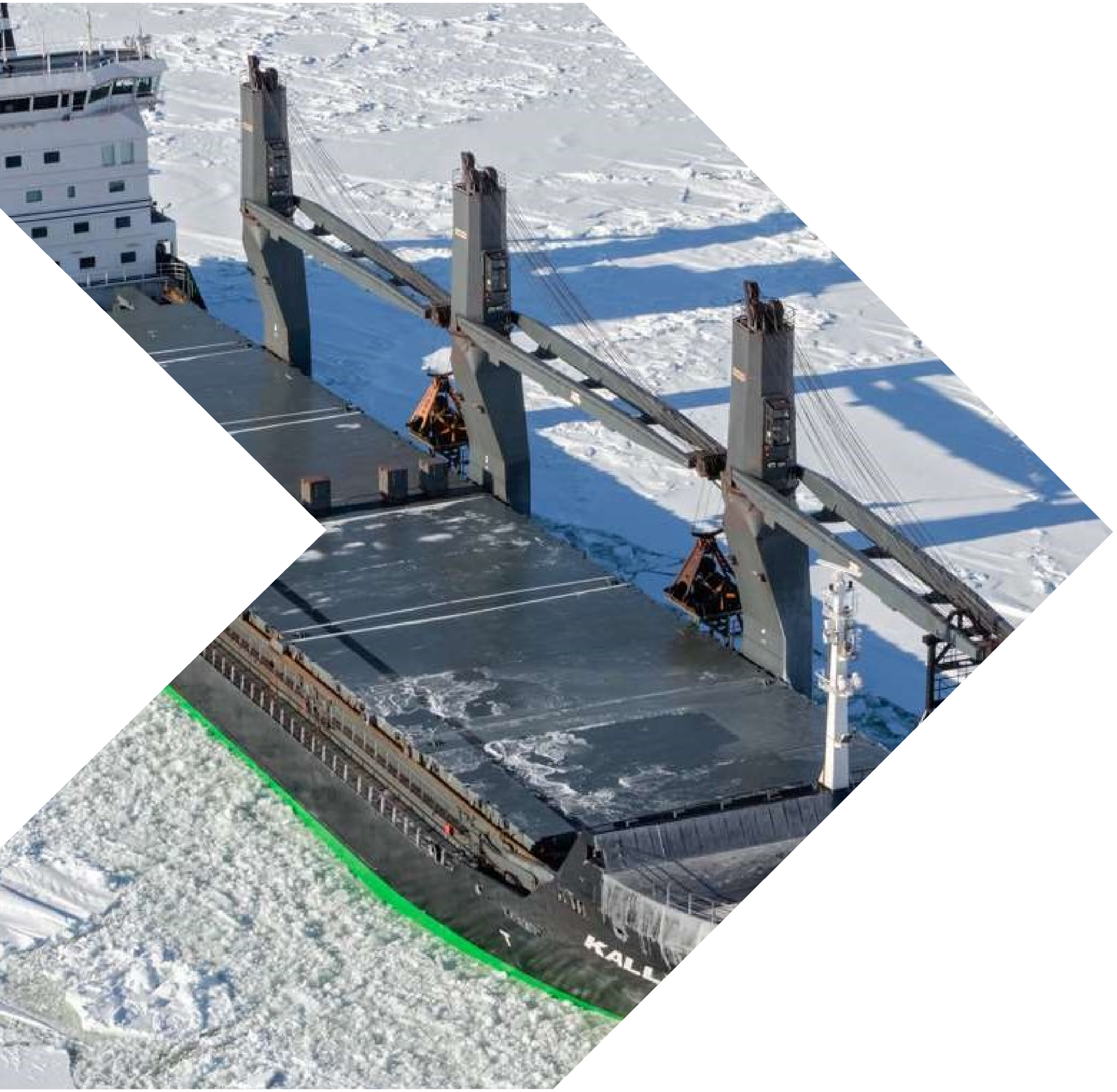
New technology have significant positive effects on profitability and emissions

## Profitability target 2023

Operating profit rate 12%

## Market transformation

ESL well prepared for changing markets




# THANK YOU

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# Aspo's financial targets 2023

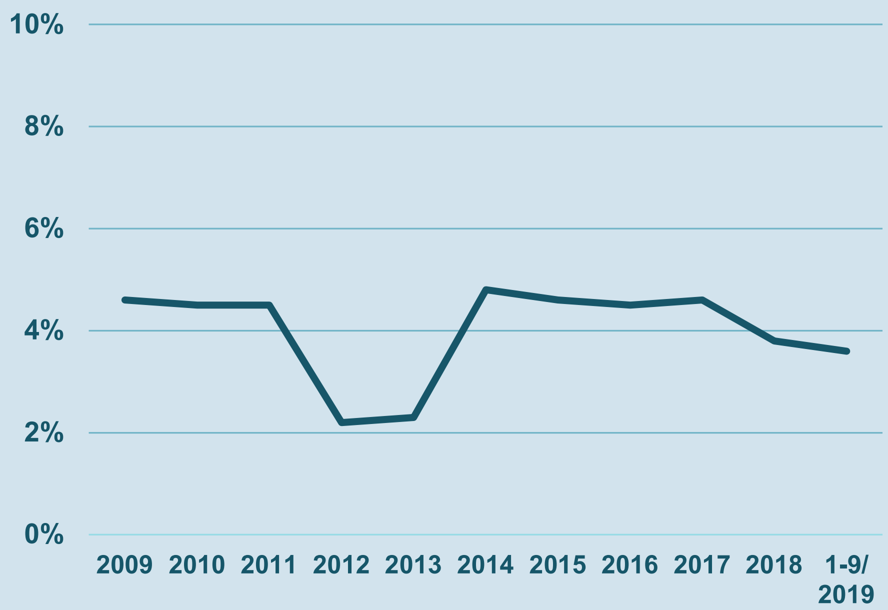
**Operating profit rate**
**6.0%**
With current structure

**ROE on average over**
**20%**

**Gearing at most**
**130%**

# Operating profit rate target 6%*

## Operating profit rate currently (1–9/2019): 3.6%



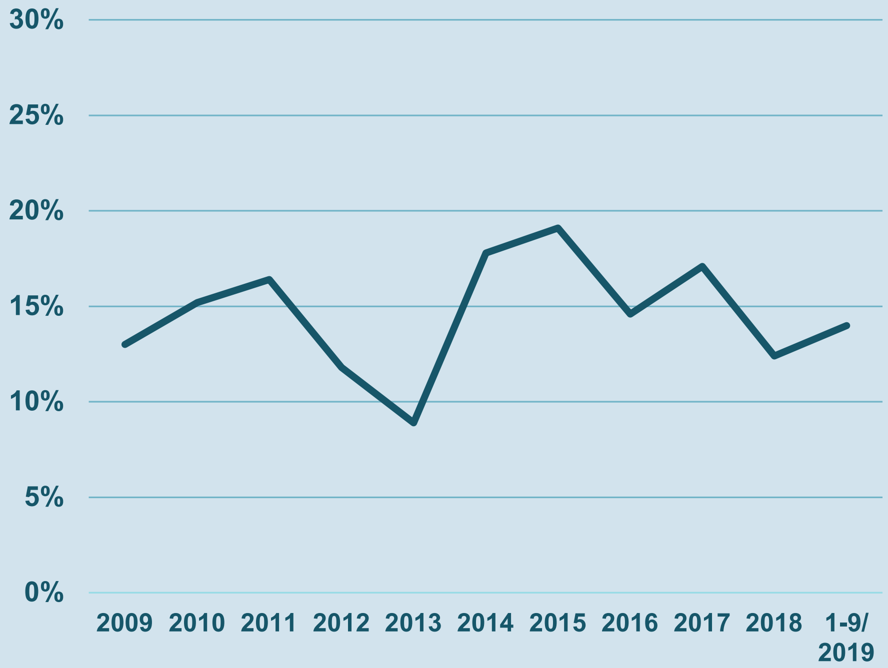

** Changed from previous target of 7.0%*

## Factors affecting Aspo's operating profit rate

- Proportion of lower-margin time chartered vessels grew with the AtoB@C acquisition
- The new operating profit rate target reflects the current vessel ownership mix
- Telko to reach full earnings potential with systematically implemented strategy

# Return on equity target 20%

## ROE currently (1–9/2019): 14.0%




## Factors affecting Aspo’s ROE

- 2019 weaker than expected and burdened with exceptions
- Sustainability value proposition supports creation of competitive advantages and lower operating costs
- Low cost of debt and high gearing capacity support ROE

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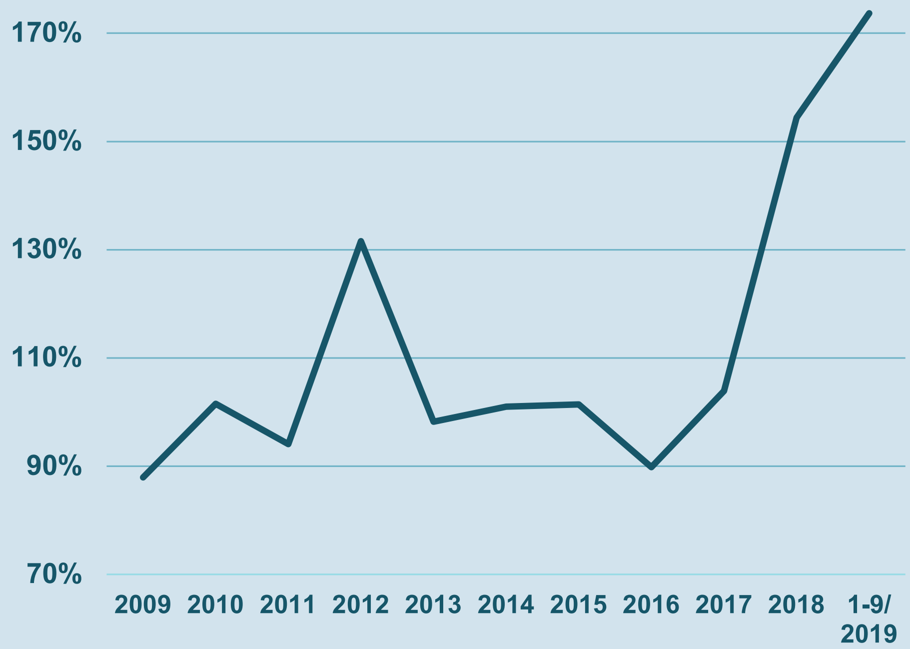
# Gearing target 130% at most*

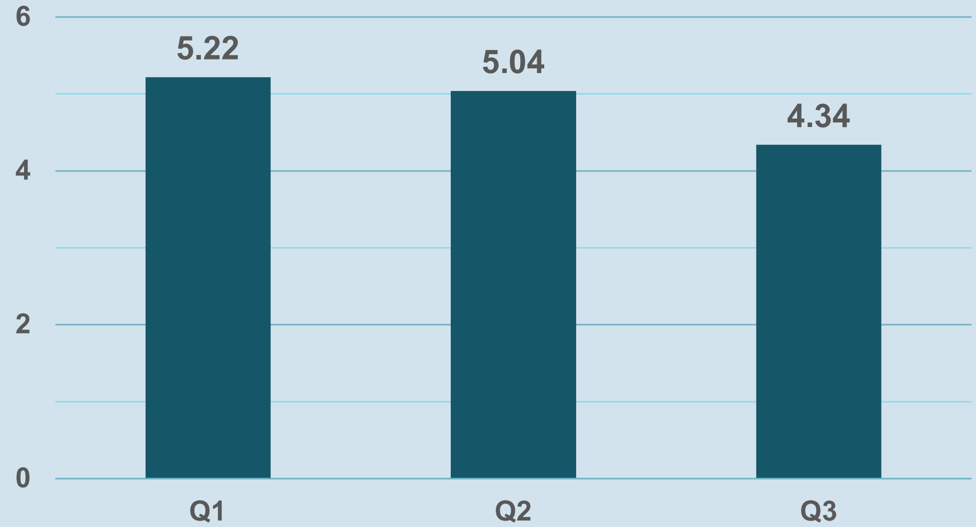
## Gearing currently (1–9/2019): 173.7% due to investments and IFRS 16




** Changed from previous target of 100% on 29 April 2019*

## Gearing and debt service ability improved in 2019

Interest bearing
net debt / EBITDA
(12m rolling)



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# Foundation laid for sustainable growth

LNG vessels

AtoB@C

Organic growth in the east

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# Guidance for 2019: Operating profit will be higher than in 2018 (20.6 M€)

## Thank you!