



# GASUM GROUP FINANCIAL STATEMENTS BULLETIN

January 1 to December 31,  
2016

Cleanly with natural energy gases

USE



TRANSMISSION AND DISTRIBUTION



PRODUCTION, SOURCING AND SALES



# PURPOSEFUL STEPS TAKEN TO EXPAND THE NORDIC GAS MARKET

## KEY DATA FOR 2016

- Revenue €843 million (2015: €915 million)
- Operating profit €125 million (2015: €126 million)
- Sales of Natural Gas business 23.8 TWh (2015: 25.9 TWh)
- Sales of Biogas business 233.9 GWh (2015: 179.3 GWh)
- Sales of LNG business 5.8 TWh (2015: 5.7 TWh)



## GASUM CEO JOHANNA LAMMINEN COMMENTS ON 2016:

In 2016 we took purposeful steps to advance our strategy, and the Gasum Group's financial performance had a positive trend.

Natural gas plays an important role in the transition towards a carbon-neutral society. Gas has maintained a significant position in Finnish energy use. The annual consumption of natural gas in Finland (24 TWh) in 2016 corresponded roughly to the amount of energy generated by four nuclear power stations. The position of gas is also acknowledged in Finland's newly-adopted National Energy and Climate Strategy, which provides steering towards ambitious energy and climate targets.

Our Nordic position as a significant player in liquefied natural gas (LNG) was strengthened as the Risavika LNG production plant was acquired by our subsidiary Skangas. In addition to this, we diversified the Finnish energy market with LNG as Finland's first LNG import terminal was opened in Pori in August 2016. Progress in our strategy was also made as planned in biogas production and supply as we acquired both Biovakka and Biotehdas in early 2016. We are now even better able to offer biogas for transport and industrial use while at the same time promoting the realization of the circular economy.

## GASUM GROUP

Group communications

## FOR FURTHER INFORMATION

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## GASUM IN BRIEF

The energy company Gasum is a Finnish gas sector (natural gas and biogas) expert that is building a bridge to a carbon-neutral society on land and at sea. Gasum contributes to the creation of a sustainable energy economy by increasing the supply of biogas, developing the Nordic gas ecosystem and ensuring the price competitiveness of gas. Gasum imports natural gas to Finland, produces and upgrades biogas in Finland and Sweden, and transmits and delivers these for energy production, industry, homes, and land and maritime transport. Gasum is the leading processor of biodegradable waste and supplier of biogas in the Nordic countries. The Gasum subsidiary Skangas is the leading Nordic expert in liquefied natural gas (LNG) that will continue to strengthen the position and infrastructure of LNG and the utilization of new gas solutions in Finland, Sweden and Norway. The Gasum Group has around 400 employees in Finland, Norway and Sweden.

**Cleanly with natural energy gases - [www.gasum.com](http://www.gasum.com)**

## OPERATING ENVIRONMENT

The energy and climate policy operating environment developed favorably for Gasum in 2016. The global Paris Agreement on climate change was adopted in December, and important energy policies were also outlined nationally as well as at the European Union level. The contents of the European Commission's summer and winter packages on energy issues included proposals of key significance for lower-emissions transport as well as renewable energy that provide strong support to Gasum's business. In Finland the Government published the new National Energy and Climate Strategy, which acknowledges the important role played by gas during the period of transition towards a carbon-free energy system. The strategy underlines the central role of biogas in particular as a transport fuel, with the aim being for Finland to have at least 50,000 gas-fueled vehicles by 2030.

According to a recent scenario presented by the World Energy Council (WEC), global energy demand growth is set to take a downturn before 2030. As regards final energy consumption, however, a major increase is anticipated in electricity demand, and this increase will largely be covered by renewable energy. Fossil fuel usage could on the whole fall significantly, but the use of natural gas – a low-emission fuel compared with other fossil fuels – is expected to continue to increase at a steady rate at the global level.

The production volumes of LNG are increasing, particularly in the USA and Australia. This is forecast to improve access to LNG and reduce market price volatility. In October, a decision was made by the International Maritime Organization (IMO) to reduce global ship sulfur emissions by capping the sulfur content of marine fuels sold worldwide at 0.50% by 2020. The current global limit is 3.5%. In addition, the IMO decided to designate the Baltic Sea and the North Sea as Nitrogen Oxide Emission Control Areas (NECA) from 2021 onwards. Both decisions provide significant support to Gasum's targets concerning LNG business development.

In Finland the competitiveness of natural gas has for a long time been reduced by Finnish energy taxation and the low market prices of oil and coal, which have steered towards as switch to their use in combined heat and power (CHP) production in particular. This has resulted in the use of gas in CHP mainly as a peak balancing fuel especially during cold spells. With tax rates on fossil fuels being raised further, demand will be steered gradually towards renewable fuels. According to Finnish and international climate targets, the amount of renewable energy will increase very significantly in the coming years. For Gasum this will, above all, increase the demand for biogas and liquefied biogas.

## BUSINESS DEVELOPMENT IN 2016

The price of natural gas fell from 2015 and reached the lowest point in summer 2016. The natural gas energy charge exclusive of tax in June 2016 was at its lowest around 16% below that seen in December 2015. The average price of natural gas in 2016 was around 22% lower than in 2015. The price of natural gas in Finland is linked to the world market prices of coal and oil.

The volume of natural gas sold in 2016 in the natural gas transmission network area was 24.0 TWh (2015: 26.0 TWh). The low price of electricity in the Nordic electricity market and inexpensive coal have reduced the use of gas in combined heat and power (CHP) production. Increased

taxation on natural gas from the start of 2016 further reduced the competitiveness of gas against coal in particular.

Annual natural gas secondary market trading on the Gas Exchange totaled 1,354 GWh (2015: 992 GWh), corresponding to around 5% of the total volume of natural gas consumption in Finland.

Gasum is the Finnish transmission network operator under the Natural Gas Market Act and obliged to maintain and develop the network. The Energy Authority's new four-year regulatory period concerning reasonable rate of return began in 2016. In the previous regulatory period, which ended in 2015, the rate of return on natural gas transmission was below the permitted level.

The security of natural gas supply has been excellent and also remained at an excellent level in 2016.

The working group on the reform the Finnish Natural Gas Market Act completed its work at the end of 2015 and published its report in January 2016. The bill for the new act is still under preparation, and the relevant Government legislative proposal is expected in spring 2017.

The year 2016 was a period of business development for the LNG business unit. The total amount of LNG delivered in 2016 was 384,990 tonnes or 5.8 TWh (2015: 376,600 or 5.7 TWh), up 2.2% year-on-year.

Skangas AS acquired the Risavika LNG production plant from the Lyse Group on April 16, 2016. The transaction reinforced the LNG business unit's position in the LNG value chain and as a significant player in the Nordic countries.

The sales of the LNG business unit were also boosted by the commissioning of Finland's first LNG terminal in Tahkoluoto, Pori, in August 2016 as LNG deliveries to industrial and shipping customers began as planned in Finland in early autumn. The LNG business unit entered into several new agreements on the supply of LNG in the Nordic countries for industrial as well as maritime transport customers.

Skangas is a shareholder in the Manga LNG import terminal under construction in Tornio, Finland. Construction progressed as planned, and the terminal is due for commissioning in spring 2018.

In the Biogas business, strong growth continued during the year. Production capacity was increased considerably by the acquisition of the biogas plants of Biotehdas and Biovakka that took place in Q1. Gasum processes biodegradable waste and produces biogas at a total of 7 biogas plants in Finland. The newly acquired biogas production facilities improve Gasum's opportunities to offer biogas to industrial and transport customers particularly in areas outside the gas pipeline network. Gasum also made an investment decision to double the capacity of the Oulu biogas plant. The expansion project is part of the company's strategic objective to achieve growth in the renewable biogas market.

Around 80 GWh of biogas was injected into the gas network in 2016. Gasum's biogas production at plants outside the pipeline network in Finland totaled around 118 GWh in 2016. The amount of biodegradable waste processed in 2016 by Gasum in Finland was around 260,000 tonnes.

Biogas use also increased in transport where biogas accounted for around 54% of the gas sold at Gasum's filling stations. In response to growing demand for road fuel gas, Gasum has launched an investment program for 35 new filling stations. The implementation of the first four LNG fueling stations intended specifically for heavy-duty road vehicles began in 2016 with the opening of the LNG/LCNG filling stations

for heavy-duty vehicles in Turku and Helsinki. The project was granted €2.65 million in support by the European Commission.

Gasum Technical Services has provided strong support for Gasum's other business functions. Technical Services participated in the preparations for the commissioning of the Pori LNG import terminal and has taken care of transmission network and biogas facilities maintenance and upkeep as planned.

#### REVENUE AND FINANCIAL DEVELOPMENT

The Gasum Group's revenue for January 1 to December 31, 2016 totaled €843.4 million (2015: €915.5 million).

The drop in revenue was affected above all by the decrease in the sales prices of natural gas as well as LNG.

Operating profit was €124.8 million (2015: €126.4 million) and operating profit margin 14.8% (2015: 13.8%). The operating profit figure for the previous year included the non-recurring gains on the sale of the local gas distribution network.

During the period under review, the LNG business unit accounted for €162.4 million (2015: €202.3 million) and the Biogas business unit for €23.6 million (2015: €8.9 million).

The Gasum Group's return on equity in 2015 was 17.0% (2015: 19.8%) and equity ratio 40.5% (2015: 39.4%).

#### BALANCE SHEET, FINANCING AND CASH FLOW

The Group's balance sheet total at December 31, 2016 came to €1,459.5 million (2015: €1,425.5 million). The increase was due to business acquisitions. Prior to the completion of the Risavika production plant acquisition, the plant was consolidated into the Gasum Group as a structured entity. Deconsolidation took place in conjunction with the closing of the acquisition, and the plant is consolidated as a subsidiary as from the date of acquisition. The acquisition of the Risavika production plant and the deconsolidation of the previous structured entity did not have a significant impact on the Group's balance sheet.

The Group's borrowings from financial institutions totaled €497.3 million (December 31, 2015: €314.0 million), of which €448.7 million were non-current borrowings from financial institutions and €48.7 million were current. Gasum's financing was renewed during the first quarter of the year.

Reported under inventories in the Group and parent company's balance sheet is a prepayment of €98.0 million as required under a Take-or-Pay gas contract (2015: €149.2 million). These payments accrued over a period when Gasum's natural gas procurement from Gazprom Export at times failed to reach the minimum contracted annual quantity under the long-term supply contract between the parties. Gasum used some of the gas paid for in advance in the 2016 reporting period and anticipates to use up the remaining prepaid volumes in the coming years.

#### CAPITAL EXPENDITURE

The Gasum Group's capital expenditure on intangible and tangible assets in 2016 totaled €51.3 million (2015: €45.6 million). Most of this was to do with the Pori LNG terminal, which was opened for commercial use in September 2016. Other capital expenditure was made on the construction of new filling stations and the construction of a biogas plant in Riihimäki, Finland. The most significant business investments were made in the Risavika LNG production plant in Norway and the acquisition of the Biotehdas and Biovakka companies in Finland.

#### QUALITY, THE ENVIRONMENT AND SAFETY AND SECURITY

Gasum adheres to a single integrated management system (IMS) that covers the certified quality (ISO 9001), environmental (ISO 14001), energy (ISO 50001), and occupational health and safety (OHSAS 18001) management systems as well as sustainability schemes. The IMS is applied to all Gasum Group companies and operations as well as the products and services sold by the Group. System conformity is evaluated annually through internal audits as well as audits conducted by an external organization. Skangas has a separate certified quality system.

The integration of the new biogas plant functions into the Gasum IMS began with the expansion of the sustainability scheme for biogas sold for road fuel use to also cover the Riihimäki biogas plant. The Energy Authority's decision on the matter was received in November 2016. In addition, the biogas plant functions of Gasum Biotehdas Oy were developed for compliance with the quality system in accordance with ISO 9001 and integrated into the Gasum IMS. The quality system of the Biogas business was audited by an external organization in December 2016.

Any significant environmental impacts of Gasum's operations arise from gas methane emissions. Thanks to the new biogas plants, Gasum's operations also have considerable positive environmental impacts. Gasum is a major promoter of the circular economy, recycler of waste and forerunner in nutrient recycling.

To improve health and safety at work, several measures supporting and activating Gasum's safety-first culture were implemented during the year. There were a total of 17 accidents at work, of which only 7 resulted in at least one day off work.

#### RESEARCH AND DEVELOPMENT PROJECTS

The long-term goal of Gasum's research and development (R&D) is to promote the transition to a carbon-neutral society. The implementation of Gasum's strategy calls for strong R&D operations.

In 2016 Gasum supported R&D into renewable gas through international and Finnish cutting-edge research projects. Development work also takes place in partner networks with customers and feedstock suppliers. R&D seeks to serve business functions by directing supply at the renewable energy market. Investments in R&D can also be seen in recruitments to increase competencies in fields such as renewable gas production.

In all 16 grants, amounting to a total of €108,000, were issued in 2016 from the Gasum Gas Fund administered by the Finnish Foundation for Technology Promotion.

#### PERSONNEL

The number of the Gasum Group's employees increased mainly due to the acquisitions completed in 2016. The Gasum Group had 375 employees at the end of 2016 (2015: 310). The average number of the Group's employees in 2016 was 370 (2015: 319).

In 2016 the Gasum Group had in place a profit bonus scheme covering the entire personnel, while a performance bonus system applied to key persons and a long-term reward system to senior executives. The reward systems comply with the guidelines issued by the Ownership Steering Department in the Prime Minister's Office.

## OWNERSHIP STRUCTURE AND SHARES

The State of Finland acquired 100% shareholding in Gasum on January 15, 2016. According to Finnish Government's ownership steering policy published on May 13, 2016, the State must maintain a majority holding (at least 50.1%) in Gasum.

The company's dividend policy specifies that the company seeks to pay out 30–40% of the Group's profit in dividends.

## CORPORATE STRUCTURE AND GOVERNANCE

The Gasum Group parent company is Gasum Ltd, which owns 100% of the following subsidiaries operating in Finland: Gasum Tekniikka Oy, Gas Exchange Ltd as well as the Biovakka and Biotehdas companies.

In addition, Gasum Ltd owns 51% of the Norwegian Skangas AS, which owns 100% of the following subsidiaries: Skangas Terminal AB (Sweden), Skangas Ltd (Finland), Skangas LNG Production AS (Norway), Skangas Terminal Gävle AB (Sweden) and Skangas Business Services AB (Sweden).

In December 2016 Gasum Ltd gave up its 34% stake in the Lithuanian UAB Get Baltic.

A decision was made by the Gasum Annual General Meeting on February 26, 2016 to abolish the Supervisory Board of the company. The meeting also appointed a new Board of Directors to replace the previous internal Board.

Appointed as the Chairman of Gasum Ltd's Board of Directors on March 1, 2016 was Juha Rantanen, former Chairman of the Supervisory Board. The other members of the Board comprise Charlotte Loid, Päivi Pesola, Timo Koponen and Jarmo Väisänen.

Appointed by the Annual General Meeting, authorized public accountants PricewaterhouseCoopers Oy acted as the Gasum Group's auditors, with Pasi Karppinen APA as the principal auditor.

## RISKS AND RISK MANAGEMENT

Gasum's most important business risks are to do with the energy market and developments in the prices and mutual competitiveness of fuels and electricity. In addition, there are risks relating to issues such as business regulation, energy taxation, the functioning of the transmission system, safety and security, environmental impacts, and access to natural gas.

Gasum has protected itself against fuel and particularly oil price fluctuation by developing its own sales pricing to reflect the pricing in its natural gas supply contract.

The competitiveness of natural gas is impaired by changes in fuel taxation and energy subsidies. Changes in natural gas market regulation may result in negative impacts on the company's financial position or opportunities to achieve the objectives set for natural gas market development.

According to the Group Treasury Policy, the Group's Treasury unit is responsible for the Group's financial risk

management. The unit reports monthly on the Group's financing situation and changes in risk position to the Board of Directors. The most significant financial market risks relating to Gasum's business are the currency, interest rate and counterparty risks.

Gasum is prepared for natural gas supply disruptions with reserve fuel arrangements.

## EVENTS OCCURRING AFTER THE REPORTING PERIOD

At the beginning of 2017 the acquisition of Swedish Biogas International was completed by Gasum Ltd, which resulted in 100% of the shares of Swedish Biogas International AB and the companies owned by it being transferred to Gasum. The transaction was closed on January 2, 2017, making Gasum the biggest producer of biogas in the Nordic countries.

On February 7, 2017 Gasum Ltd sold its Finnish heat business and local distribution network gas sales to Auris Kaasunjakelu Oy. The transaction is anticipated to be completed during February. Giving up local distribution network gas sales will clarify Gasum's position in the Finnish gas market, which will undergo changes following the coming reform of the Natural Gas Market Act.

Merger plans according to which Gasum Biovakka Oy will merge with its parent company, Gasum Biovakka Suomi Oy, which in turn will merge with Gasum Ltd, were signed on September 1, 2016. The executions of these mergers were registered on January 1, 2017.

The limited partnerships of the Biotehdas companies (Kuopion Biotehdas Ky, Oulun Biotehdas Ky, Riihimäen Biotehdas Ky and Honkajoen Biotehdas Ky) were turned into limited liability companies. The changes in company type were registered on January 1, 2017, and the final accounts of the limited partnerships were submitted on that date. Gasum Ltd was the general partner of all of the limited partnerships, and there were no silent partners. The companies are 100% owned by Gasum Ltd.

## FUTURE OUTLOOK

Gas plays an important role in the journey towards a carbon-free energy system. The Gasum Group is currently investing in the development of the Nordic LNG market, production of renewable biogas, and gas transport infrastructure.

Gasum's investments in the Nordic gas ecosystem together with the energy and climate policy targets adopted will enable the company's growth. The significance of gas particularly as an industrial, marine and road transport fuel is increasing.

Gasum will continue purposeful strategy implementation and the development of the Nordic gas ecosystem.

## Key financial indicators

	2016	2015
Operating profit (%)	14.8%	13.8%
Equity ratio	40.5%	39.4%
Return on equity (%)	17.0%	19.8%

## Consolidated statement of income - unaudited

€ thousand

	1.1.-31.12.2016	1.1.-31.12.2015
<b>Revenue</b>	<b>843,357</b>	<b>915,456</b>
Other operating income	33,732	113,859
Materials and services	-612,147	-762,989
Personnel expenses	-34,059	-27,854
Depreciations and amortization	-51,129	-53,710
Other operating expenses	-54,951	-58,385
<b>Operating profit</b>	<b>124,804</b>	<b>126,376</b>
Finance income	16,718	6,683
Finance expenses	-15,096	-24,653
Finance items - net	1,621	-17,970
Share of result from investments accounted for using the equity method	-949	25
<b>Profit for the period</b>	<b>125,476</b>	<b>108,431</b>
Current income tax expense (income)	-18,952	199
Change in deferred taxes	-8,338	-7,552
<b>Profit for the period</b>	<b>98,186</b>	<b>101,078</b>
<b>Profit for the period attributable to:</b>		
Owners of the parent	101,520	107,031
Non-controlling interests	-3,334	-5,953

## Consolidated statement of comprehensive income - unaudited

€ thousand

	1.1.-31.12.2016	1.1.-31.12.2015
<b>Profit for the period</b>	<b>98,186</b>	<b>101,078</b>
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefits	-273	594
Items that may be reclassified subsequently to profit and loss		
Translation differences	1,829	0
<b>Total comprehensive income for the period</b>	<b>99,743</b>	<b>101,672</b>
<b>Total comprehensive income for the period attributable to:</b>		
Owners of the parent	103,077	107,625
Non-controlling interests	-3,334	-5,953

# Consolidated balance sheet - unaudited

€ thousand

	31.12.2016	31.12.2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	221,423	212,022
Tangible assets	927,343	868,807
Equity-accounted investments	10,398	12,928
Available-for-sale investments	69	69
Derivative financial instruments	13	870
Deferred tax assets	0	8,798
Other non-current assets	6,059	6,529
<b>Total non-current assets</b>	<b>1,165,305</b>	<b>1,110,023</b>
<b>Current assets</b>		
Inventories	112,556	168,874
Derivative financial instruments	2,660	5,536
Trade and other receivables	155,557	133,936
Cash and cash equivalents	23,425	7,178
<b>Total current assets</b>	<b>294,198</b>	<b>315,524</b>
<b>Total assets</b>	<b>1,459,502</b>	<b>1,425,547</b>

# Consolidated balance sheet - unaudited

€ thousand

	31.12.2016	31.12.2015
<b>EQUITY AND LIABILITIES</b>		
Share capital	178,279	178,279
Retained earnings	266,029	229,273
Profit (loss) for the period	101,520	107,031
Translation differences	1,829	0
<b>Total equity attributable to owners of the parent</b>	<b>547,657</b>	<b>514,583</b>
<b>Non-controlling interest</b>	<b>44,050</b>	<b>47,384</b>
<b>Total equity</b>	<b>591,708</b>	<b>561,967</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Loans	448,654	272,880
Other non-current liabilities	115,973	339,205
Derivative financial instruments	4,257	6,561
Deferred tax liabilities	96,829	62,807
Provisions	9,441	4,192
Post-employment benefits	7,486	7,353
<b>Total non-current liabilities</b>	<b>682,640</b>	<b>692,998</b>
<b>Current liabilities</b>		
Loans	48,694	41,112
Derivative financial instruments	1,479	14,655
Trade and other current liabilities	120,655	114,785
Current income tax liabilities	14,327	31
<b>Total current liabilities</b>	<b>185,155</b>	<b>170,582</b>
<b>Total liabilities</b>	<b>867,795</b>	<b>863,580</b>
<b>Total equity and liabilities</b>	<b>1,459,502</b>	<b>1,425,547</b>

# Consolidated statement of cash flows - unaudited

€ thousand

	1.1.–31.12.2016	1.1.–31.12.2015
<b>Cash flows from operating activities</b>		
Profit before taxes	125,476	108,431
Adjustments		
Depreciation and amortization	51,129	53,710
Finance items - net	-1,621	17,970
Unrealized gains/losses on financial instruments	-19,495	-2,723
Other non-cash items	5,141	-97,428
Change in working capital	30,855	-147,013
<b>Cash inflow from operating activities before financial items and taxes</b>	<b>191,486</b>	<b>-67,053</b>
Interest paid and finance costs arising from operations	-15,333	-16,953
Received financial income	753	455
Income taxes paid	-164	-5,610
Cash flow from financial items and taxes	-14,744	-22,108
<b>Net cash flows from operating activities</b>	<b>176,741</b>	<b>-89,161</b>
<b>Cash flows from investing activities</b>		
Investments in tangible assets	-47,123	-47,480
Investments in intangible assets	-1,005	-2,103
Investment grants received	9,702	15,042
Proceeds from sale of property, plant and equipment	1,403	58
Business acquisitions and disposals	-99,041	124,961
<b>Net cash flows from investing activities</b>	<b>-136,065</b>	<b>90,478</b>
<b>Cash flows from financing activities</b>		
Proceeds from non-current borrowings	470,000	55,706
Repayments of non-current borrowings	-418,704	-67,400
Proceeds from current borrowings	106,258	112,009
Repayments of current borrowings	-109,144	-173,305
Increase/decrease of finance lease liabilities	-1,182	-1,532
Increase/decrease in liability of structured entity	0	-6,498
Dividends paid	-70,002	0
Increase/decrease of non-current receivables	-1,656	4,433
<b>Net cash flows from financing activities</b>	<b>-24,430</b>	<b>-76,587</b>
<b>Net decrease/increase in cash and cash equivalents</b>	<b>16,246</b>	<b>-75,271</b>
Cash and cash equivalents at the beginning of the period (Dec 31)	7,178	82,449
Cash and cash equivalents at the end of the period	23,425	7,178

# Formulas for key financial indicators

$$\text{Equity ratio} = \frac{\text{Shareholder' equity}}{\text{Balance sheet total - advances received}}$$

$$\text{Return on equity} = \frac{\text{Profit for the period}}{\text{Total equity (average for the period)}}$$

$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Revenue}}$$

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