

## Latvenergo Group Unaudited Results 6 months 2020

Investor Conference Webinar Presentation

7 September 2020

Transcript

**Moderator:** Ladies and Gentlemen, good afternoon! Welcome to Latvenergo Investor Conference webinar. Today with us we have Latvenergo CFO Guntars Baļčūns.

As always, we will start the webinar with a company's presentation which will be followed by a questions and answers session. You are kindly invited to participate by typing in your question in the questions box, which can be found in the settings panel zone.

Mr. Baļčūns, the floor is all yours!

**Guntars Baļčūns:** Good afternoon everyone and welcome to another *Latvenergo* webinar to discuss the results of the first six months of 2020 this time. My name is Guntars Baļčūns, and I am the CFO of Latvenergo AS.

First of all, I am going to cover basic background on the Group. Then I will talk in more detail about Group's financial results and main current events. This will be followed by a question and answer session.

### *Latvenergo Group profile I*

So, let's start with basic background on the Group.

*Latvenergo* is a state owned leading Baltic power supply provider, and we have more than 80 years of experience in energy sector.

With our green asset portfolio, we are one of the most environmentally friendly electricity producers in the European Union and a leader in green energy generation in the Baltics. Our energy generation portfolio mainly consists of low-cost hydropower plants (HPPs) and highly efficient combined heat and power plants (CHPPs). In the first half year of 2020, the share of electricity generated from renewable energy sources represented 71%.

One of the largest Group's segments is electricity distribution. So, a significant part of Latvenergo group's EBITDA, namely 30%, is provided from regulated activities.

Latvenergo operates in Latvia, Lithuania and Estonia. In the first six months of 2020, 31% of retail sales were in Lithuania and Estonia. At the end of June, we had more than 740 thousand electricity customers. The majority or 95% of them are households. And the Group's market share in Baltics were 23%.

This year - on August 7 - the international credit rating agency *Moody's* renewed the Latvenergo AS credit analysis and maintained the credit rating of Latvenergo AS at investment grade - Baa2/stable. The rating is at this level for five years in a row.

## ***Latvenergo Group profile II***

Latvenergo Group is vertically integrated utility, that comprises of the parent company Latvenergo AS and five subsidiaries. Latvenergo Group' operations are divided into three operating segments: generation and trade, distribution and lease of transmission system assets.

In accordance with the decision of Cabinet of Ministers of the Republic of Latvia, transmission segment was separated from Latvenergo Group on June 10. So, results of the transmission segment are reported as discontinuing operations.

Transmission segment was the Group's smallest business segment in terms of revenue and EBITDA. In 2019, it made up 4% of the Group's revenue and 14% of EBITDA. The ownership unbundling of transmission assets did not affect the credit rating of Latvenergo AS.

### ***Solid financial performance and strong capital structure***

And now let's take a look at the financial performance and capital structure of Latvenergo Group.

Group's financial performance has been very solid. Over the past 2 years, Latvenergo Group's revenue was on average 840 million euros, meanwhile, the Group's EBITDA, excluding CHPP's compensation, was on average 210 million euros.

As well, the results of 2020 are very good despite the negative effect of COVID-19. Latvenergo Group's revenue in the first half of 2020 was 393 million euros, but EBITDA was 161 million euros – that is up by 27% compared to first half of 2019.

In 2018 and 2019, EBITDA was negatively affected by lower electricity output at Daugava HPPs as water inflow was lower than long-term average. However, in the first half of 2020, water inflow started to normalize, and it was closer to long-term average water inflow.

As we see in this slide, Latvenergo Group has also strong capital structure, limiting potential financial risks. Capital structure ratios are better than in industry and are better than set in the Strategy for 2017-2022.

### ***Financials***

Before I start presenting the financial results of Latvenergo in detail, let me first highlight some of the key market factors and events that affected our business performance in the first six-month period of 2020.

### ***Market overview***

In the first half year of 2020, electricity prices in the Nordics and the Baltics were significantly lower compared to the respective period a year ago due to the normalization of the Nordic hydrobalance and lower demand for electricity due to warmer weather and COVID-19. The electricity spot price in Latvia was 39% lower than in the respective period a year ago and was 28.24 euros per MWh.

Meanwhile, there has been a significant decline also in the price of natural gas. The natural gas prices at the GASPOOL and TTF trading platforms were on average 52% lower than in the first half year of 2019.

The spread of COVID-19 and warmer weather at the beginning of the year have impacted also electricity consumption. Electricity consumption in Latvia decreased by 3.7% compared to the first half year of 2019.

However, the impact of COVID-19 on the energy sector in the Baltics has not been as negative as in the other sectors and other regions. Additionally, I would like to mention, that the data of

July show that electricity consumption in Latvia has almost returned to the level of 2019. The decrease in electricity consumption in July was just 0.3%.

### ***Revenue and profitability***

And now, let's continue with the financial results of Latvenergo Group for the first half year of 2020.

The Group's revenue in the first half of 2020 reached 393 million euros, which was 39 million euros less than in the respective period a year ago. This was mainly affected by lower distribution segment revenue and lower heat and electricity sales volume.

Meanwhile, the Groups EBITDA increased by 27%, reaching 162 million euros. This was mainly affected by higher electricity output at the Daugava HPPs and lower electricity purchase prices. Group's profit for the first half year of 2020 was 86.8 million euros.

### ***Generation and trade I***

Let's take a closer look at each segment.

Generation and trade is the largest segment. It makes up 66% of the Group's EBITDA and it comprises of electricity and thermal energy generation, electricity and natural gas trade in the Baltics and administration of mandatory procurement in Latvia.

Segment's revenue was negatively impacted by lower heat sales due to warmer weather conditions and by lower electricity sales due to decrease in electricity consumption in the Baltics by 4.3%. However, the segment's EBITDA was positively impacted by higher electricity output at the Daugava HPPs and lower electricity purchase prices.

### ***Generation and trade II***

In the first half year of 2020, Latvenergo group was the largest electricity producer in the Baltics, producing 2,6 TWh of electricity, which is 35% of the total amount of electricity generated in the Baltics. 1.8 TWh was generated at the Daugava HPPs and – 0.7 TWh at the combined heat and power plants. Electricity output at the Daugava HPPs increased by 58%. Such a significant increase is based on the fact, that in 2019, there was an atypically low inflow in the River Daugava.

Electricity generation at our power plants corresponds to 83% of electricity sold to retail customers. So, our generation and trade portfolio is quite balanced.

### ***Generation and trade III***

In the first half year of 2020, we sold 3.1 TWh of electricity to customers in the Baltics and our market share in the Baltics was 23%. 1/3 of it was sold in Lithuania and Estonia.

Main focus for retail operations is to increase revenues from customer by adding new products/services. A novelty in the segment this time is the launch of natural gas trade for households in Lithuania. We are glad to see the positive dynamics in gas sales. Our gas sales to retail customers are by 58% higher than in the first half year of 2019, reaching 227 GWh. Sales of other retail products such as solar panels and *Elektrum Insured* continued to develop, as did the e-shop.

238 new contracts were signed for the installation of solar panels in the Baltics, ensuring 82% growth compared to the first half year of 2019. 76% of panels are installed for customers in Lithuania and Estonia. Also, the number of *Elektrum Insured* customers continued to increase, reaching almost 80 thousand at the end of June 2020.

A year ago, first *Elektrum* electric vehicle charging stations were launched, and we are currently working to create the largest electric car charging network in Latvia by 2021.

### ***Distribution***

If we look at the distribution segment. Sadales tīkls is the largest distribution system operator in Latvia. Sadales tīkls provides electricity distribution services in Latvia. This segment is regulated, and distribution system tariffs are approved by the Public Utilities Commission.

Segment's revenue and EBITDA has decreased, reaching 147 million euros and 49 million euros respectively. The decrease was impacted by a 5% lower amount of distributed electricity due to warmer weather and COVID-19 and by the reduced electricity distribution service tariff.

The decrease in distribution tariffs was ensured by the operational efficiency improvement programme implemented by Sadales tīkls AS, which comprises process reviews, decreasing the number of employees and transportation units, and optimizing the number of technical and support real estate bases.

In the first half year of 2020, investments in distribution remained at the same level as a year earlier and comprised approximately 42 million euros. The distribution segment's asset value is almost 1.7 billion euros at the end of June 2020.

### ***Transmission***

In accordance with the decision of Cabinet of Ministers of the Republic of Latvia, Latvijas elektriskie tīkli was separated from Latvenergo Group on 10 June 2020. This was executed by reducing the share capital of Latvenergo AS by 222,7 million euros.

The shares of Latvijas elektriskie tīkli AS were transferred to the Ministry of Economics and after that they were invested in the share capital of Augstsprieguma tīkls.

To minimize negative impact of separation of Latvijas elektriskie tīkli from Latvenergo group, on July 16, the share capital of Latvenergo AS was increased by 178.1 million euros by investing retained earnings in the share capital.

### ***Investments***

The following slide summarizes our investment figures. In the first half year of 2020, the total amount of investment comprised 93.2 million euros, which was 6% less than in the respective period a year ago. The decrease was due to lower investments in transmission system assets. The amount invested in power network assets represented 76% of total investment and almost 29 million euros of this was invested in transmission system assets.

Currently, our largest investment project is the Daugava HPPs reconstruction programme, which involves reconstruction of 11 hydropower units. At the end of June 2020, we've invested more than 178 million euros in this project and 6 reconstructed hydropower units have been put into operation within the programme.

### ***Funding***

Let's turn to the funding part.

Total borrowings at the end of June 2020 were almost 750 million euros consisting of well diversified sources of borrowings. Portfolio is spread out almost evenly between international investment banks and commercial banks with bonds representing 13% of total debt.

As you can see in the right-side graph, Latvenergo Group has a very balanced debt repayment schedule. Repayment term of green bonds of 100 million euros is scheduled in 2022.

During the reporting period all the financial covenants set in Latvenergo Group borrowing documentation were met, and liquidity reserves were sufficient to implement the planned investment programme and fulfil the commitments according to the debt repayment schedule and pay out dividends.

### ***Current Events***

Now let's turn to current events.

### ***Supervisory Board of Latvenergo AS***

Most of you probably have noticed that in June changes in the governance bodies of Latvenergo AS took place.

On 10 June 2020, the Shareholder's Meeting of Latvenergo AS appointed a new Supervisory Board of Latvenergo AS for a five-year term. The candidates were selected in a publicly announced selection procedure led by a Nomination Committee set up by the Ministry of Economics.

The new Supervisory Board comprises of five independent professionals. The composition of the Supervisory Board is balanced, the members have necessary competences, skills, experience and understanding of Latvenergo Group, as well as good reputation and experience in supervision positions.

### ***Audit Committee of Latvenergo AS***

Along with the election of the Supervisory Board of Latvenergo AS, in the Audit Committee was appointed Toms Siliņš and Gundars Ruža and existing three independent Audit Committee members – Torben Pedersen, Svens Dinsdorfs, Marita Salgrāve- were re-elected for a three-year term.

I would like to note, that the composition of the Audit Committee fully complies with the requirements stipulated in the Financial Instrument Market Law.

### ***New bond issue***

The last topic in current event section is our new bond issue.

On 28 April this year the Financial and Capital Market Commission has registered the Base Prospectus of the Third Programme for the Issuance of Notes of Latvenergo AS and has permitted Latvenergo AS to make a public offering of notes.

The total amount of the programme in nominal value is 200 million euro with a maturity up to 10 years. Several tranches of notes can be issued under the programme, and final terms of each separate tranche, including the issue date, amount and maturity will be established shortly before each issue.

The first tranche we plan to issue later this year and that issuance would be labelled as green bonds under updated green bond framework.

The updated green bond framework in all material respects is similar to the previous Latvenergo AS green bond framework approved in 2015.

The assessment of the updated green bond framework was carried out by the independent research center CICERO Shades of Green, assigning the highest category shading – Dark green.

That indicates the compliance of the planned projects with long-term environmental protection and climate change mitigation objectives, as well as good governance and transparency.

CICERO positively assesses the planned distribution of proceeds from bonds among various projects, that is up to 50% of proceeds are planned to be allocated for reconstruction of hydropower plants, up to 50% for improvement of the distribution network and up to 1% is planned to be invested in biological diversity preservation projects.

Arrangers of the programme are Luminor Bank AS and Swedbank AB.

Before we start with the question and answer session, I would like to highlight the main points.

### ***Summary***

Latvenergo is a state owned leading Baltic power supply provider with more than 740 thousand customers in the Baltics. In the first six months of 2020, 3.1 TWh of electricity were sold to Baltic retail customers and Group's market share accounted for 23% of the Baltic electricity market.

A significant part of the Group's revenue is generated from regulated activities in the distribution segment, ensuring predictable and stable revenue. In the first six months of 2020, 30% of EBITDA comprised by regulated distribution network activities.

We are one of the most environmentally friendly electricity producers in the European Union. In the first half of 2020, we generated 2,6 TWh of electricity and 71% of it was green electricity. Also, our combined heat and power plants are highly efficient, easily adaptable to the market situation and fit well in the Baltic electricity market.

Latvenergo Group has strong capital structure that is better than the industry average. As of 30 June 2020, the Group's net debt to EBITDA ratio was 2.1 and net debt to equity was 30%.

Despite the various negative circumstances that have affected our operations in the first half year of 2020, the financial results are good. Group's revenue reached 393 million euros, EBITDA - 162 million euros, while Group's profit for the first half year of 2020 was 86.8 million euros.

Thank you for listening and now let's proceed to the question and answer session.

**Moderator:** Thank you for your presentation, Guntars. Let's proceed with the questions received from the audience. A kind reminder to those who haven't submitted their questions, you can do it in the questions box in the settings panel zone.

Currently we have received a question – *what explains natural gas sales being higher compared to last year?*

**Guntars Baļčūns:** Thank you for the question. There are several reasons. One of that is that we have started gas trade in Lithuania for household customers, as well as we have increased the number of customers in Latvia. If we look at the number of customers, last year as of 30 June 2019 it was 2300 customers, but now we have 9600 customers, so it is almost 4 times increase.

**Moderator:** Thank you. The next question is – *what would be the impact of the second wave of COVID on companies sales?*

**Guntars Baļčūns:** Thank you for the question. It is really hard to predict what could be the impact of second wave of COVID. At this moment I could mention several figures what the impact of the COVID first wave was. So, we saw that electricity consumption in Latvia decreased in those months when there was state of emergency declared in Latvia, in these months electricity decrease was by 4%. That could be also in case of the second wave.

**Moderator:** Thank you. It looks that all question are answered. I would like to remind that recording of the webinar will be available on Nasdaq Baltic YouTube channel and also in company's announcements.

Mr.Baļčūns, thank you for the presentation and the answers given! Participants, thank you for joining! See you next time!

**Guntars Baļčūns:** Thank you! Good-buy!

