

## Latvenergo Group Unaudited Results 6 months of 2019

Investor Conference Webinar Presentation

5 September 2019

Transcript

**Moderator:** Ladies and Gentlemen, good afternoon! Welcome to Latvenergo Investor Conference webinar. Today we are hosted by Latvenergo CFO Guntars Baļčūns.

As always, we will start the webinar with a presentation after which we will hold a questions and answers session. Please use the questions box in the webinar admin panel to type in your questions to the company.

Mr. Baļčūns, I invite you to start the presentation!

**Guntars Baļčūns:** Good afternoon everyone, and welcome to Latvenergo webinar for the first half of 2019. My name is Guntars Baļčūns, and I am the CFO of Latvenergo AS. As usual, I will first go through the presentation, and after that, I will be happy to answer your questions.

### *Latvenergo Group Profile*

First, a short introduction to Latvenergo Group. Latvenergo is a vertically integrated company that operates in all three Baltic countries. Latvenergo Group is comprised of the parent company Latvenergo AS and seven subsidiaries. It is wholly owned by the Republic of Latvia. Moody's credit rating for Latvenergo AS has been stable for several years - since 2015, and it is at the Baa2 level with a stable future outlook.

Our energy generation portfolio consists of hydropower plants (HPPs) and highly efficient combined heat and power plants (CHPPs), as well we own transmission and distribution assets. We are one of the leading energy suppliers in the Baltics and one of the most environmentally friendly electricity producers in the European Union.

As we know, Latvenergo Group's operations and performance are influenced by various global and regional factors, which we will discuss in more detail in Market overview.

### *Market overview*

The dry period in Europe, which began last year, continued throughout the first half of 2019 and this resulted in lower water levels at Scandinavian hydro power reservoirs and lower output of hydroelectricity. Also higher CO2 emission allowance prices had an impact on electricity prices in the Nord Pool region. The average price of CO2 emission allowances in the first half of 2019 reached 24.3 euros per tonne, which is almost twice as high as a year ago. Such high carbon prices have made coal and shale oil stations less competitive. However, electricity prices started to stabilize in the second quarter thanks to the normalization of the Nordic hydrobalance.

Nord Pool system price increased by 6% compared to the last year's first 6 months. However, if we look more closely at the price range in the Scandinavian region and Baltics, we see that the price in the Baltics has risen more than in Scandinavia, especially in Estonia. The average electricity price in Latvia increased by 6% and was 46.07 euros per MWh, however in Estonia the price increase was by 8%.

Since the launch of NordBalt interconnection between Sweden and Lithuania at the beginning of 2016, consumers in the Baltics benefit from the price convergence to the Nordic electricity market price level year by year. However, this June shows unusually large price spread between Baltic and Scandinavian regions. This is explained by the fact that electricity output at oil shale plants in Estonia fell significantly due to high emission allowance prices and in such limited electricity production conditions led to price increase in Estonia and Baltics.

Since the beginning of the year, there has been a significant decline in the price of natural gas due to the relatively warm and short winter and higher level of gas reserves in Europe. In the first half of 2019, the natural gas prices at the GASPOOL and TTF trading platforms were on average 19% lower than a year earlier. Such situation was favourable to us, given that natural gas is used as fuel in the Latvenergo AS CHPPs.

### ***Revenue and Profitability***

Let's continue with the financial results of Latvenergo Group for the first half of 2019.

The Group's revenue in the first half of 2019 remained at the same level as a year earlier and it was 451.6 million euros meanwhile EBITDA decreased by 22% to 147.0 million euros. The Group's financial results were negatively impacted mainly by one large factor, namely, the lower electricity generation at the Daugavas HPP's by 836 GWh. Such a decrease in hydropower production at current electricity market prices in Latvia has impacted our results by approximately 39 million euros in the first half of 2019, which essentially explains the decrease of EBITDA.

Let's take a closer look at each segment.

### ***Generation and Trade***

Generation and trade is the largest segment by revenue. It makes up 40% of the Group's EBITDA.

As well generation and trade segment's results were impacted by lower electricity output at the Daugava HPPs. I must highlight that this year it is very untypical when it comes to hydropower production. The amount of power generated at the Daugava HPPs was by 42% or 836 GWh lower than last year. This was impacted by almost twice lower water inflow in the Daugava River.

However, in response to the market situation, we increased the volume of electricity generated at our CHPPs by 6%. In such market conditions in the Baltics, when there are limited electricity generation capacities, our CHPP's played a significant role in ensuring limited electricity price increase.

In the first half of 2019, the electricity generated at Latvenergo Group's plants decreased by 24% and comprised around 2.4 TWh, from which 1.1 TWh was generated at the Daugava HPPs and – 1.2 TWh at the CHPP's.

Even though our thermal energy generation decreased by 21%, our CHPPs were efficiently used and the amount of electricity generated was 6% higher than last year.

In the first half of 2019, we sold 3.4 TWh of electricity to customers in the Baltic countries. I am glad that Elektrum brand is recognized and Elektrum products are chosen by more and more customers outside Latvia. The number of customers outside Latvia reaches 35 thousand to whom approximately 1/3 of retailed electricity was supplied.

In terms of diversification of our product offering and revenue streams, the range of new products and services that Latvenergo offers to customers is increasing from quarter to quarter and we are pleased that our offerings are appreciated by customers. During the first half of the year, we substantially increased our gas market share by selling 143 GWh of natural gas which is almost a triple amount of the relevant period last year. The number of solar panels contracted reached

more than 130 with substantial growth, especially in Lithuania. In the first half of 2019, solar panels were installed for 66 customers in the Baltics with a total capacity of 530 kW.

As of May 2019, in addition to Elektrum Solar and Smart House products, the Elektrum e-shop also offers LED bulbs and electric scooters. Also, the number of Elektrum Insured customers continued to increase, reaching more than 53 thousand at the end of the reporting period.

#### *Poll question*

Now, let's take a little break from the presentation. I would like to turn to the audience and ask you a question. *Are you considering to buy an electric car/ hybrid within the next 5 years?* Please select your answer by clicking on the screen.

Meanwhile, I am pleased to announce that we have a novelty in our product range. We have started to provide electric car charging service, expanding our operations. A week ago, in Riga and Jurmala cities we opened the first three modern Elektrum charging stations. There is no doubt that more and more electric vehicles will be used, so this is one of the directions we see developing our business.

Let's see the results. Thank you for your answers. I am glad to see that more and more electric vehicles will be used, so there will be a demand also for electric charging services. That's good thing for us.

Let's continue with the distribution segment.

#### ***Distribution***

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

In the first half of 2019, the distribution segment is Latvenergo Group's largest segment by EBITDA and asset value and the second largest by revenue. It makes up 42% of the Group's EBITDA. In the first half of 2019, there was a slight decrease in distributed electricity, which was mainly caused by the weather conditions and higher average air temperature, however revenue did not change significantly compared to the respective period a year ago and reached almost 161 million euros. Meanwhile EBITDA increased by 4%, reaching 62 million euros. Investments in distribution assets increased by 4% and comprised approximately 42 million euros, which is about the same as a year ago.

The results were positively impacted by performed activities within the Group's efficiency programme which was launched in 2017. The efficiency programme includes digitalization, process reviews, installation of smart meters, decrease of transportation units, and optimization of the number of workplace and real estate bases. Considering the expected cost reduction from the efficiency programme, possible changes in distribution system service tariffs are being evaluated.

#### ***Transmission***

And now let's take a look at the transmission segment. This segment conducts the lease of transmission system assets to the transmission system operator Augstsprieguma tīkls AS. This segment is regulated and payments for the lease of transmission system assets are calculated in accordance with the methodology approved by the Public Utilities Commission. As it is fully regulated business, then also financial results of this segment are stable.

The transmission segment makes 14% of the Group's EBITDA. In terms of financial performance, this segment's revenue and EBITDA did not change significantly and EBITDA was 20.3 million euros. In the first half of 2019, investments in this segment reached 38.5 million euros, which is approximately the same amount as in the respective period a year ago. The largest

investment was made in the energy infrastructure project Kurzeme Ring and the third power transmission interconnection between Estonia and Latvia.

### ***Investments***

In terms of investments, our capital expenditures increased by 3%, reaching 99.6 million euros. Approximately 82% of investments was made in the power network assets.

Here you can see our main investment projects in progress. In the first half of 2019, the largest investments were made in the Kurzeme Ring project. This is an energy infrastructure project aimed at the reconstruction of a transmission network in the western part of Latvia. The construction of the project is proceeding successfully, and it is scheduled for completion at the end of this year. The total planned project costs are approximately 230 million euros and the project is co-financed by the EU funding and also congestion management revenues.

Construction of the third power transmission interconnection between Estonia and Latvia project was started this year. In the first half of 2019, 11.6 million euros were invested in this project. The project is scheduled for completion by 2020.

Meanwhile, the Daugava HPPs reconstruction programme involves reconstruction of 11 hydropower units. So far, we've invested 158 million euros in this project and 5 reconstructed hydropower units have been put into operation within the programme.

### ***Funding***

Let's turn to the funding part. Total borrowings as of the end of June reach almost 800 million euros. In late 2018, Latvenergo attracted loans from several commercial banks for a total amount of 240 million euro with a repayment term of 7 and 10 years. Currently Latvenergo debt portfolio is spread out almost evenly between international investment banks and commercial banks – each of them representing around 40% of total debt.

17% of Latvenergo debt portfolio is bonds, including 100 MEUR green bonds with Moody's Green Bond Assessment grade GB1- excellent.

Latvenergo Group has a very balanced debt repayment schedule and diversified sources of financing. All the financial covenants set in Latvenergo Group loan agreements were met, and liquidity reserves were sufficient to implement the planned investment programme, and also to fulfil the commitments according to the debt repayment schedule.

### ***Current Events***

Now let's turn to current events.

### ***Supervisory Board***

Most of you should have noticed that recently we released several announcements on changes in the governance bodies of Latvenergo AS. On June 19 the Shareholders' Meeting of Latvenergo AS released the Supervisory Board of Latvenergo AS, which had been in office since its election in December 2016. On the same day, a new Supervisory Board of Latvenergo AS was elected. However, in early July members of the newly elected Board filed resignations.

Currently, the Ministry of Economics is organizing a selection process for five Supervisory Board members of Latvenergo AS - applications deadline was on August 30. It is nice to see that there are 79 candidates that have applied for the position of Supervisory Board member.

Until the appointment of the new Supervisory Board, the issues within the competence of the Supervisory Board are tackled by the Shareholders' Meeting of Latvenergo AS.

## *Audit Committee*

Regarding the Audit Committee I would comment, that the Audit Committee currently consists of three members - Torben Pedersen, Svens Dinsdorfs and Marita Salgrāve. All of them are independent members of the Audit Committee and have served on the Audit Committee of Latvenergo AS for several years. The Audit Committee was re-elected on June 19 this year for a term of 3 years.

As the Audit Committee currently is composed of 3 members, the requirement stipulated in the Financial Instrument Market Law on the minimum number of Audit Committee members is fulfilled. The Audit Committee will be supplemented by members of the Supervisory Board after the election of the Supervisory Board.

## *Summary*

Now I would like to turn to the summary, so I will summarize the main aspects of 6 months 2019 results.

During the first 6 months of 2019, we supplied 3,508 GWh of electricity and natural gas to retail customers in the Baltics, which is 4% more than in the respective period a year ago.

In terms of diversification of our product offering and revenue streams, we successfully continued operations on the natural gas market by selling 143 GWh of natural gas which is almost a triple amount of the relevant period last year. Also, the retail activities of other products and services in the Baltics, such as Elektrum Solar, Smart House, Elektrum Insured and Elektrum e-shop continued. Most recently we expanded our product services with electric car charging stations. We see here a rapid development in the market, this is a good opportunity for our business development.

Total amount of investments increased by 3% and was 99.6 million euros. To ensure high-quality power network service, a significant amount is invested in the modernization of the power network. The amount invested in power network assets represented 82% of total investment.

Overall, I'm satisfied with the Group's results, considering the unfavourable market situation, lower water inflow in the Daugava River. The Group's EBITDA in the first half of 2019 was 147 million euros and the profit was 54 million euros. The largest impact on the results was caused by the lower electricity generation at the Daugavas HPP's, where monetary impact on EBITDA and profit is estimated at about 39 million euros.

That's all I have for now. Let's turn to the question and answer session.

**Moderator:** Thank you for the presentation. Before we start, reminder to webinar participants – if you do have any questions yourself to be asked to the company, you are more than welcome to type them in the questions box in the admin panel zone.

So, we have received two questions in advance. Let's start with the first one - *how Latvenergo was impacted by the changes in its Supervisory Board?*

**Guntars Baļčūns:** Thank you for the question. As I mentioned in my presentation until the appointment of the new Supervisory Board, the issues within the competence of the Supervisory Board are considered at the Shareholders' Meeting of Latvenergo AS, thus ensuring that Latvenergo operations are not disrupted.

**Moderator:** Thank you. Second question is the following – *how successful is Elektrum e-shop? Is there an interest about it?*

**Guntars Baļčūns:** Thank you for this question. The Latvenergo e-shop was launched 4 months ago to offer products that support household energy efficiency, comfort and sustainability. Preliminary results show that 225,000 unique users have already visited it and purchases have been made for 100,000 euros. Such results are in line with our expectations. In the coming years we plan to develop e-

shop business, namely, improve the functionality, expand operations throughout the Baltics and add new categories and products to the assortment.

**Moderator:**

Thank you. All questions are answered and before we finish the webinar, I shortly remind you that this webinar has been recorded and recording will also be available soon on Nasdaq Baltic youtube channel and also in Latvenergo's announcements.

Mr.Baļčūns, thank you for guiding us through Latvenergo financials and corporate news!  
Participants - thank you for joining!

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

