

## Latvenergo Group Unaudited Results 2020

Investor Conference Webinar Presentation

4 March 2021

Transcript

**Moderator:** Dear Ladies and Gentlemen, good afternoon and warm 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 on the right side.

Mr. Baļčūns, the floor is all yours!

**Guntars Baļčūns:** Good afternoon everyone and welcome to Latvenergo webinar to discuss the results of the year 2020. My name is Guntars Baļčūns, and I am the CFO and currently also acting as the Chairman of the Latvenergo AS Management Board.

As usual, I will start the presentation with Group Profile. Then I will talk in more detail about Group's financial results and at the end, about main current events. This will be followed by a question and answer session.

### *Latvenergo Group Profile I*

So, let's start with Group profile.

Latvenergo is leader in green energy generation in the Baltics. Our energy generation portfolio consists of low-cost hydropower plants (HPPs) and highly efficient combined heat and power plants (CHPPs). In year 2020, the share of electricity generated from renewable energy sources represented 60%.

We are one of the leading electricity suppliers in Baltics, with aggregate sales of around 6.4 TWh and an overall market share of around 23%. One third of the electricity was sold in Lithuania and Estonia.

Approximately 40% of the Group's EBITDA is comprised by the regulated activities, providing cash flow predictability. Most of it is made up of distribution segment.

Latvenergo is state owned company and company's credit rating is Baa2 with a stable outlook.

### *Latvenergo Group Profile II*

Latvenergo Group divides its operations into two operating segments: generation and trade and distribution. Until June 2020, Latvenergo also owned the electricity transmission grid assets and leased these assets to transmission system operator. Transmission assets were separated from Latvenergo group. The separation of LET was carried out by reducing the share capital of Latvenergo AS. Results of the transmission segment are reported as discontinuing operations.

### *Financials*

Before I start presenting the financial results, let me first highlight some of the key market factors and events that affected our business performance.

## ***Market overview***

In 2020, electricity prices in the Nordics and the Baltics were lower compared to the previous year due to the normalization of the Nordic hydrobalance and lower demand for electricity.

The electricity spot price in Latvia has decreased by 26%, but it was still higher than in Sweden and Finland. The existing interconnection capacities did not lead to a sufficient price convergence between the Baltic and Nordic regions.

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 35% lower than in the year 2019.

The spread of COVID-19 and warmer weather had a negative impact on electricity consumption. Electricity consumption in Latvia decreased by 2.2%.

## ***Key financial figures 2020***

The following slide summarizes our key financial figures for the year 2020. More detailed information will be provided in the following slides.

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

So, let's start with the financial results of Latvenergo Group.

The Group's revenue in the year 2020 reached 774 million euros, meanwhile, the Group's EBITDA increased by 14%, reaching 279 million euros. Group's profit for the year 2020 reached almost 116 million euros.

Let's take a closer look at each segment.

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

Generation and trade is the largest segment. It makes up 57% of the Group's EBITDA.

Segment's revenue was negatively impacted by lower energy sales mainly due to lower electricity market prices, lower electricity consumption and a 13% decrease in electricity generation. In addition, due to warmer weather conditions also heat sales were lower by 14 million euros.

The segment's EBITDA was positively impacted by lower electricity purchase prices and higher electricity output at the Daugava HPPs.

As you can see in slide, in 2019 and as well in 2018, electricity output at Daugava HPPs was lower than long-term average, however, in 2020, water inflow was closer to average water inflow.

### ***Generation***

In 2020, Latvenergo Group was the largest electricity producer and the largest green electricity producer in the Baltics, producing 4.2 TWh of electricity, which is 29% of the total amount of electricity generated in the Baltics and it corresponds to 66% of electricity sold to retail customers.

Most of it or 2,5 TWh was generated at the Daugava HPPs. Electricity output at the Daugava HPPs increased by 23% due higher water inflow. The amount generated at CHPPs reached 1.7 TWh, which was 39% less than in the year 2019.

### ***Trade***

In 2020, we sold 6.4 TWh of electricity to customers in the Baltics and our retail electricity market share was 23%.

We are glad to see the positive dynamics in gas market. Our natural gas sales to retail customers were by 70% higher than in the year 2019, reaching more than 500 GWh.

We have launched electricity sales for Lithuanian households and we have already concluded more than 13 thousand contracts.

The year was particularly successful also in the sale of solar panels – more than 600 contracts were concluded for the installation of solar panels in the Baltics - the number of concluded contracts has almost doubled if we compare to 2019. To extend the solar business, we have started construction of solar parks in Lithuania and Estonia with total installed capacity of 1.75 MW.

Also, the number of *Elektrum Insured* customers continued to increase, reaching almost 100 thousand at the end of the year 2020.

As well in 2020, we have expanded the network of electric vehicle charging stations to 36 charging points and more than 8,000 charges at *Elektrum* charging stations were made.

So, we have quite a lot of good news that shows the growth of the retail activities.

### ***Distribution***

And now let's take a closer look at the distribution segment. The distribution segment is Latvenergo Group's largest segment by asset value. The distribution segment's asset value is 1.8 billion euros. It makes up 38% of the Group's EBITDA.

This segment provides electricity distribution services in Latvia for more than 800 thousand customers. This segment is regulated, and distribution system tariffs are approved by the Public Utilities Commission.

Segment's revenue and EBITDA have decreased, reaching 296 million euros and 106 million euros respectively. The decrease was impacted by a lower amount of distributed electricity and by the reduced electricity distribution service tariff by 5.5% from the 1-st January 2020.

The decrease in distribution tariffs was ensured by the operational efficiency programme, which comprises of process reviews and optimization activities.

At the same time, Sadales tīkls has continued to improve service quality. We are glad that the European Association of Distribution System Operators recognized the company as an example of good practice for customer service solutions in Europe and this is confirmed by improved customer satisfaction.

### ***Transmission***

In accordance with the decision of Cabinet of Ministers of the Republic of Latvia, Latvijas elektriskie tīkli (LET) was separated from Latvenergo Group on 10 June 2020. The separation of LET was carried out by reducing the share capital of Latvenergo AS.

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 AS.

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.

To minimize negative impact of separation of LET from Latvenergo Group, on 16 July 2020, the share capital of Latvenergo AS was increased by 178.1 million euros by investing retained earnings.

### ***Investments***

In 2020, the total amount of investment comprised 169 million euros, which was 26% less than in the year 2019. The decrease was due to lower investments in transmission system assets.

The largest part of investments were made in network assets. The investments in distribution assets are mainly made to reconstruct the distribution network and to improve the resilience of network.

Most generation-related capital spending is dedicated to the upgrade of our Daugava HPPs. Reconstruction programme involves reconstruction of 11 hydropower units to ensure functionality and to improve efficiency of the hydropower units. At the end of the year 2020, we've invested about 185 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 2020 were 743.2 million euros consisting of well diversified sources of borrowings. Latvenergo debt portfolio is spread out almost evenly between international investment banks and commercial banks – each of them representing 45% and 41% of total debt respectively.

100 million euros or 14% of Latvenergo debt portfolio is green bonds, which repayment term is scheduled in 2022.

As you can see in the right-side graph, Latvenergo Group has a balanced debt repayment schedule.

Latvenergo Group has very strong capital structure, limiting potential financial risks. All the financial covenants set in Latvenergo Group borrowing documentation 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.

#### ***Management Board of Latvenergo AS***

In the fourth quarter of 2020, there were changes in the Management Board of Latvenergo. Chairman of the Management Board Āris Žīgurs and Member of the Management Board Uldis Bariss resigned from the company. Taking into account the respective changes I was appointed as acting Chairman of the Management Board. Currently the Management Board consists of four members – Guntars Baļčūns, Kaspars Cikmačs, Arnis Kurgs and Uldis Mucinieks, of which the last two are appointed as temporary Members until the establishment of the permanent composition of the Management Board.

Chairman of the Management Board of Latvenergo AS and two Members of the Management Board responsible for generation and commercial activities will be selected through the competition, which was announced on February 8.

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

In the last quarter of 2020, there were also changes in the Audit Committee of Latvenergo AS. Marita Salgrāve resigned as the Member of the Audit Committee of Latvenergo AS.

A competition was organized for selection of a new Member of the Audit Committee, in the result of which Ilvija Grūba was elected as a new Member of the Audit Committee. Ilvija Grūba has extensive experience in compliance control, as she has held different positions in AstraZeneca since 2012. Currently, Mrs.Grūba is a Compliance Assurance Lead at AstraZeneca and supervises Europe, Canada, Russia and Eurasia.

Currently the Audit Committee consists of five independent members, which are elected for a three year term.

### *Award for best investor relations*

And now the last topic.

On 3 February this year Latvenergo received the award for the best investor relations among all bond issuers on the Nasdaq Baltic regulated markets. This significant award confirmed for us, our clients and partners good corporate governance, well-thought-out investor relations, and responsible and successful business of Latvenergo Group.

When granting the award, the stock exchange has especially appreciated the sustainability reports prepared by Latvenergo Group, informative and investor-friendly website, as well as timely disclosure of information.

This was the second time Latvenergo received this award, previously we received it in 2017, when such an award was first presented to bond issuers.

We would like to thank Nasdaq for this amazing award.

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

### *Summary*

In 2020, Latvenergo group was the largest electricity producer and the largest green electricity producer in the Baltics, producing 4.1 TWh of electricity of which 60% was generated from renewable resources. Also, our CHPPs are highly efficient and fit well in the Baltic electricity market.

Latvenergo has a broad customer base consisting of more than 740 thousand electricity customers in the Baltics. In 2020, 6.4 TWh of electricity were sold to Baltic retail customers, Group's market share in Baltics was 23%.

A significant part, namely 40%, of the Group's EBITDA is generated from regulated activities, ensuring predictable and stable revenue. Most of it is made up of distribution segment.

In 2020, investments amounted to 169 million euros. Significant amounts have been invested in network assets. The largest investment project is the Daugava HPP reconstruction programme.

Despite the various negative factors, the financial results in 2020 are very good. Group's revenue reached 774 million euros, EBITDA - 279 million euros, while Group's profit for the year 2020 was almost 116 million euros.

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

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

So the question we have received – *what has impacted increase in natural gas sales in 2020 and what are the expectations for year 2021?*

**Guntars Baļčūns:** Thank you for the question. The increase of natural gas sales in 2020 we have observed in all three Baltic countries. I would to stress two segments which were the most successful. One is household segment in Latvia and the other one is business customer segment in Lithuania. Regarding 2021 I also hope we will have good results, but let's see.

**Moderator:** Thank you. The next question – *do you plan any new regular or green bond issues in 2021?*

**Guntars Baļčūns:** Thank you for the question. Yes, we plan to issue green bonds this year. Total amount of the program is 200 million euros, however no specific decisions are made yet. It highly depends on the situation in the market and our liquidity position.

- Moderator:** Thank you. The next question - *when do you expect to have a permanent Management Board membership sorted out?*
- Guntars Baļčūns:** Thank you for the question. I would like to stress that competition has been started already and I guess it could finalize in summer.
- Moderator:** Thank you. All questions for now are answered. Recording of the webinar will be available on Nasdaq Baltic YouTube channel and in company's announcements.
- Mr.Baļčūns, thank you for the presentation and for answers given! Participants, thank you for joining! Until next time!
- Guntars Baļčūns:** Thank you! Good-buy!