

Latvenergo Group Unaudited Results 12 months 2021

Investor Conference Webinar Presentation

7 March 2022

Transcript

Moderator: Ladies and Gentlemen, good afternoon! We are happy you could join us for Latvenergo Investor webinar. Today we are hosted by Latvenergo AS Member of the Management Board and CFO Guntars Baļčūns, who will introduce us with Group's key activities and financial results of the last year.

After the presentation we will have a Q&A session. To submit your questions to the company please use the chat window. The session is being recorded and recording will be available shortly. Now I would like to hand over to Guntars who will proceed with the presentation.

Guntars Baļčūns: Good afternoon and thanks for joining us today to discuss the results of Latvenergo of 2021.

Latvenergo Group Profile

I will start with Group profile, then I will talk about the Group's financial results and current events.

Thanks to our environmentally friendly energy generation portfolio, which consists of low-cost hydropower plants (HPPs) and highly efficient combined heat and power plants (CHPPs), Latvenergo is the largest green electricity producer in the Baltics. In 2021, 2.7 TWh of electricity was generated from renewable energy sources, that represents almost 60% of total electricity generated.

Latvenergo Group divides operations into two main operating segments: generation and trade and distribution. Half of the Group's EBITDA is generated from regulated activities, ensuring cash flow stability and predictability - and most of it is made up of distribution segment.

Main focus for our trade activities is to take advantage of broad customer base. At the end of 2021 we had 755 thousand customers.

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

Financials

Now, before turning to a more detailed overview of our financial results, let me first highlight the key market factors that affected our financial performance.

Market overview

In 2021, with the global economy recovery from the Covid-19 pandemic, demand for main energy resources such as crude oil, natural gas and coals has grown rapidly. The growing demand for energy resources and electricity together with the rise in CO2 prices and lower wind power output in the region led to record-high electricity prices. As a result, in Europe the electricity prices were at their highest levels ever.

As you can see in the graph, in the second half of 2021, the increase in electricity prices in Latvia marked new historical records for the average monthly price, reaching 207 EUR per MWh in December. The average electricity spot price in Latvia for 2021 was more than 2.5 times higher than a year ago.

Sharp electricity price increase we was also in whole Europe. In Germany, electricity price was 3 times higher, in France and in Great Britain almost three and a half times higher than a year ago.

At the same time, the average natural gas price at TTF trading platform was almost 5 times higher, reaching 115 EUR per MWh in December. Meanwhile, the average price of CO2 emission allowances was more than 2 times higher than a year ago, and it hit 80 EUR per tonne in December.

Regarding to energy price forecasts in the coming periods, it is assumed that price uncertainty will persist in 2022 as the Russian invasion of Ukraine may further escalate energy prices.

However, given this situation, on 24 February the Government of the Republic of Latvia ordered *Latvenergo* to replenish gas reserves for the national security purposes. *Latvenergo* procured approximately 2 TWh of natural gas from Norway, the USA and Qatar. The concluded agreements envisage natural gas supply to Klaipeda Terminal and injection of gas into Inčukalns underground gas storage in April and May. The purchased amount of gas will ensure the production of electricity and heat at the planned production regime of our CHPP's in 2022, at the same time envisaging gas reserves in the event of a possible energy crisis.

Key financial figures 2021

The following slide summarizes our key financial figures for 2021. More detailed information will be provided in the following slides.

Revenue and profitability

So, let's start with the financial results of Latvenergo Group for 2021.

Due to higher electricity prices and greater amount of sold electricity and heat, the Group's revenue in 2021 increased by 38%, reaching 1.1 billion EUR. Meanwhile, the Group's EBITDA decreased by 28%, reaching 199 million EUR, and the main reason for this is due to electricity price increase and also due to gas price increase. Group's profit for the year 2021 reached 72 million EUR and it is also decrease if we compare to 2020.

Let's take a closer look at each segment.

Generation and Trade

Generation and trade was the largest segment by revenue in 2021, accounting for about 70% of the total revenue. Segment's revenue was positively impacted by higher electricity market prices in the Baltics and greater amount of electricity and heat sold to customers.

Meanwhile, the segment's EBITDA accounted for 40% of the total, and it was negatively impacted by higher electricity prices and higher price of other energy resources such as natural gas and CO2 emission allowances.

Generation

In 2021, Latvenergo group was the largest green electricity producer in the Baltics, producing 4.5 TWh of electricity, which is 29% of the total amount of electricity generated in the Baltics.

In 2021, we sold 6.7 TWh of electricity to our customers in the Baltics. Two thirds of the electricity sold to customers was generated at our plants. The remaining part was bought on the market at a higher price than fixed in our customer agreements, which had a negative impact on the Generation and Trade segment's EBITDA.

2.6 TWh of electricity was generated at the Daugava HPPs. The amount generated at CHPPs reached 1.9 TWh. The relatively larger amount of power generated at our CHPPs was impacted by unusually low output in 2020, when there were warm weather conditions and low electricity prices.

Trade

In 2021, we sold 6.7 TWh of electricity to customers in the Baltics and our retail electricity market share was 23%. Our natural gas sales to retail customers reached 1 TWh.

Our main target in trade is to strengthen the position of *Elektrum* as the most valuable energy trader in the Baltics. Therefore, one of the steps towards it in 2021, was the acquisition of shares in three micro-network service companies in Estonia and the takeover of 20 thousand customer portfolio in Estonia from the Finnish company *Imatra Elekter*.

Customer interest in solar panels continues to grow. The total solar panel capacity installed to Latvenergo Group's retail customers in the Baltics reached almost 11 MW. Latvenergo is one of the leading providers of this service in the Baltics.

Our expectations for electromobility in 2021 were also met. In 2021, our customers charged 160 MWh by making more than 8,500 charges at *Elektrum* charging stations.

Considering the strategic goals of the Group and our customer requirements, we will continue to develop *Elektrum* charging stations' network.

Distribution

Now let's take a closer look at the distribution segment. In 2021, the distribution segment was Latvenergo Group's largest segment by asset value and EBITDA. The distribution segment's asset value is 1.8 billion EUR and it makes up 53% of the Group's EBITDA.

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

Segment's revenue increased, reaching 304 million EUR. Meanwhile EBITDA remained at the same level as a year ago, reaching 106 million EUR. Financial results were positively impacted by 3% higher distributed electricity and the reduction of operating costs, which was facilitated by the efficiency improvement programme. However, it was offset by higher electricity loss costs due to higher electricity prices.

Investments

In 2021, the total amount of investment comprised 127 million EUR, which was by a quarter less than a year ago. The decrease was impacted by the unbundling of transmission system assets on 10 June 2020.

Funding

Total borrowings at the end of 2021 were almost 795 million EUR consisting of well diversified sources of borrowings. The largest part of debt or 45% is borrowed from commercial banks,

followed by international investment banks with 36% and green bonds representing 19% of total debt.

In May last year 50 million EUR 7-year Latvenergo green bonds were issued under the 200 million EUR bond programme. Further issues are planned this year.

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 EUR issued in 2015-2016 is scheduled this year.

During the reporting period all the financial covenants were met.

Now let's turn to the current events.

Management Board

Let me start with the first topic on recent changes in the Management Board.

As we already have informed as of 3 January this year the Management Board of Latvenergo AS operates in a new full composition.

Mārtiņš Čakste has been appointed as the Chairman of the Management Board. Mārtiņš Čakste holds a Doctor's degree in business administration from Riga Technical University and he has extensive experience in senior management positions.

Dmitrijs Juskovecs and Harijs Teteris have been appointed as the Members of the Management Board.

Dmitrijs Juskovecs holds a Master's degree in Business Administration from the American Graduate School of International Management. During last 20 years, he has held leading positions in leading pharmaceutical and technology companies in Latvia and Europe. Dmitrijs Juskovecs acts as the Chief Commercial Officer.

Harijs Teteris holds a Professional MBA in Management of Enterprises and Organizations from Riga Business School and has gained extensive experience in power companies. Harijs Teteris acts as the Chief Operating Officer.

Strategy: Regional electricity supply

The second topic in Current events section today is newly developed strategy for 2022-2026, which we have been working on throughout the past year.

Let me start with a basic description of the situation, which is essential for the development of the new strategy.

When we look at regional electricity demand and supply, we see the structural energy deficit. In the graph you can see the disbalance between energy supplied (energy consumed) and energy generated is almost 40%.

This clearly shows that there is a room and necessity for new installed capacity to generate extra 15-25 TWh of electricity in the Baltics.

Strategy: Strategic vision

Green Deal is a policy initiative with the broadest set of strategies and policies, covering all sectors of the economy, with the main goal of reducing greenhouse gas emissions and achieving European climate neutrality by 2050.

Latvenergo approaches the Green Deal as an opportunity by increasing our electricity generation capacity, by broadening electrification, especially in the transport sector and by developing two-way distribution network.

Strategy: Operational objectives

In this slide you can see the objectives set out in the Latvenergo Group strategy and the main targets to be achieved in the strategy period.

For *Generation* main objective is to grow and diversify generation portfolio by focusing on wind and solar. By 2026 our target is to increase our generation capacity by 600 MW, but until 2030 by 2300 MW. It is to be achieved implementing M&A and green field projects.

Objective for *Trade* is to strengthen Elektrum's position as the most valuable energy trader in the Baltics by focusing on customer portfolio growth, revenue diversification and the development of innovative and sustainable products and services in the energy sector that meet customer needs.

As to electromobility objective, we have gained experience with electric car charging networks in Latvia, and it allows us to start developing e-charging network also in Estonia and Lithuania. We are set to build or acquire 1500 electric car charging points in the Baltics by 2026.

For distribution segment the key objective is to establish two-way distribution network that can accumulate development of microgeneration and electromobility charging network. As well, it is planned to improve the quality and reliability of electricity supply showed by SAIFI and SAIDI indicators and by digitalization and efficiency activities to outpace inflation.

Strategy: Sustainability

The Group's business and activities are aligned with sustainable development goals. In the strategy we have set objectives that drive the UN SDGs, with a particular focus on three goals - 7 Affordable and clean energy, 9 Industry, innovation and infrastructure, 13 Climate action.

Overall, our target is to achieve climate neutrality by 2050. However, till 2026 our target is to save or prevent CO2 emissions by 2.6 million t and till 2030 by 17.8 million t.

CO2 emission savings we are planning to reach through each of the four operational objectives set in the strategy. Of course, the largest part of CO2 savings we expect to achieve by developing solar and wind farms. But it is not all, in addition to that, we are planning to reduce CO2 emissions by building electric car charging network and by electrification of our car fleet, by providing microgeneration, electrification and energy efficiency products to our customers, by digitalization of our service/process and also by developing two-way distribution network that can accumulate microgeneration and e-charging network.

So, we definitely see, that sustainability is an integral part of the Latvenergo Group's strategy.

In terms of current events topics, that is all for today.

Summary

Here we have summarized our main conclusions. Thank you and let's proceed with questions.

Moderator:

Thank you for the presentation. Let's start with a Q&A. Reminder, that if any of the participants have any questions please type them in the chat box that you see in the admin panel zone. Meanwhile, let's start with the first one - *is there a new issue of Latvenergo green bonds planned?*

Guntars Baļčūns:

At the moment we plan to issue this year, but specific timeframe is not set yet. Definitely we will look at the market conditions.

Moderator: Thank you. *What proportion of sales are with fixed price contracts, and what has been the impact of electricity price fluctuations?*

Guntars Baļčūns: Thank you also for this question. If we look at the mass segment (for households and small business customers) then ~ 80-85% of volumes are from fixed price products and ~15% are with variable NP price products. Here is important to mention that contract of fixed price for the most of mass segment customers is open-ended and also there is clause in the contract that allows us to change the price notifying customer 30 days before.

However, if we look at business customers, last year we had ~85% customers (in terms of volumes) with fixed price contracts. Now, we can see that volumes of fixed price contracts have dropped to ~70% of total volumes. For the most part of business customers there is included clause in the contract which allows us to terminate the contract before end date paying termination fee to customer. This termination possibility is also from the customer side.

So, we have quite a large part of fixed contracts in our portfolio at the moment.

Moderator: Thank you. Now let's turn to the questions submitted online during the presentation. *How have the management board changes affected company? What are the main goals of new management board members?*

Guntars Baļčūns: Thank you for this question. We have quite recently developed Latvenergo Group strategy and we have had quite detailed discussions with new Members of the Management Board about the newly developed strategy. Overall, we as a team see that the objectives set in the strategy are correct and should not be changed and this growth strategy should be implemented.

Moderator: Thank you. *How has the Russia's invasion in Ukraine affected the company? What has been done to mitigate negative effects?*

Guntars Baļčūns: Thank you also for this question. Definitely Russia's invasion impacts our performance and mainly the impact comes from energy prices changes. At the moment we see that energy prices have increased quite sharply during the last 2 weeks. One of the mitigating activities we have implemented is procurement of gas of 2 TWh. This is very important that we start to fulfill Incukalns gas storage as quickly as it is possible. The gas supply is scheduled for April and May.

Moderator: Thank you. I do not see any other questions. So, let me remind you that we have recorded this session and the recording of the webinar will soon be available online, therefore please follow Latvenergo announcements to stay up to date with company's news.

Guntars, thank you for your time! Participants, thank you for joining today!

Guntars Baļčūns: Thank you and see you next time!