

Latvenergo Group Unaudited Results 1H 2021

Investor Conference Webinar Presentation

8 September 2021

Transcript

Moderator: Dear Ladies and Gentlemen, good afternoon and warm welcome to Latvenergo Investor Conference webinar. Today with us we have Latvenergo Group Treasurer Jānis Irbe.

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 and even encouraged to participate by typing your question in the questions box, which can be found in the settings panel zone.

Mr. Irbe, the floor is all yours!

Jānis Irbe: Good afternoon and thanks for joining us today to discuss the results of Latvenergo of the first 6 months of 2021. My name is Jānis Irbe and I am Group Treasurer of Latvenergo.

Latvenergo Group Profile

Before we start to discuss the Group's financial results, I would like to begin with an overview of Latvenergo Group.

Latvenergo is the largest electricity producer and a leader in green energy generation in the Baltics. Thanks to our environmentally friendly energy generation portfolio, which consists of low-cost hydropower plants and highly efficient combined heat and power plants, 1,9 TWh of electricity was generated from renewable energy sources, that represents 67% of total electricity generated in the first 6 months of 2021.

Latvenergo Group has two main operating segments: generation and trade and distribution. Significant part, namely 40%, of the Group's EBITDA is generated from regulated activities, ensuring cash flow predictability and stability - and most of it is made up of distribution segment.

Main focus for our trade business is to take advantage of broad customer base. At the end of the reporting period our electricity customer portfolio was about 740 thousand. The share of electricity sold outside Latvia was 40%.

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

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

With the global economy recovery from the Covid-19 pandemic, energy resource demand is rising. Therefore, not only electricity but also other energy resource markets are experiencing significant price increase.

In the first 6 months of 2021, the existing interconnection capacities lead to a decent price convergence between the Baltic and Nordic regions. The electricity spot price in Latvia increased by 91% compared to the respective period a year ago.

As of 30 June 2021, the average natural gas price at the GASPOOL and TTF trading platforms reached 35 EUR per MWh, which was 6 times higher than a year ago, and the average price of CO2 emission allowances increased more than 2 times. Currently natural gas price is above 50 EUR per MWh and price of CO2 emission allowances exceeds 60 EUR per tonne.

Key financial figures 1H 2021

The following slide summarizes our key financial figures for the first 6 months of 2021. More detailed information will be provided in the following slides.

Revenue and profitability

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

Due to higher electricity prices and greater amount of sold electricity and heat, the Group's revenue in the first 6 months of 2021 increased by 14%, reaching 448 million euros. Meanwhile, the Group's EBITDA decreased by 10%, reaching 145 million euros. The Group's EBITDA was negatively affected by higher electricity purchase prices. Group's profit for the first 6 months of 2021 reached 57 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 positively impacted by higher electricity market prices and greater amount of sold electricity and heat due to higher demand. Meanwhile, the segment's EBITDA was negatively impacted by higher electricity purchase prices and higher price of other energy resources such as natural gas and CO2 emission allowances.

Generation

In the first 6 months of 2021, Latvenergo Group was the largest electricity producer and the largest green electricity producer in the Baltics, producing 2.8 TWh of electricity, which is 36% of the total amount of electricity generated in the Baltics. The majority or 67% of electricity was generated from renewable energy sources. 84% of the electricity sold to customers was generated at our plants.

Most of electricity or 1,9 TWh was generated at the Daugava HPPs. The amount generated at combined heat and power plants reached 0,9 TWh, which was 29% more than in the respective period a year ago. The relatively larger amount of power generated at our combined heat and power plants was impacted by unusually low output last year, when there were warm weather conditions and low electricity prices.

Trade

In the reporting period we sold 3.4 TWh of electricity to customers in the Baltics and our retail electricity market share was 24%.

Our natural gas sales to retail customers reached 0.5 TWh.

In June the Group's company Elektrum Eesti acquired shares in three micro-network service companies in Estonia, and in August it took over 20,000 customer portfolio in Estonia from the Finnish company Imatra Elekter, thus significantly increasing Latvenergo's competitiveness in the Estonian electricity and related products and services market.

Our activities in the field of solar energy continue to be successful. The total installed solar panel capacity provided to Latvenergo Group's retail customers in the Baltics now reaches more than 8 MW; thus, Latvenergo is one of the leading providers of this service in the Baltics.

We are also pleased with the results in the field of electromobility. In the first 6 months of 2021, customers of the mobile application Elektrum made about 3,100 charges at public charging stations, comprising more than 50 MWh.

We hope to continue to operate and develop our retail activities just as successfully.

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 of 1.8 billion euros. It makes up 39% 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 increased, reaching 152 million euros and 56 million EUR respectively. Financial results were impacted by 2% higher distributed electricity due to colder weather and the reduction of operating costs, which was facilitated by the efficiency improvement programme.

Investments

In the first 6 months of 2021, the total amount of investment comprised 58 million euros, which was 38% less than in the respective period a year ago. The decrease was determined by the unbundling of transmission system assets on 10 June 2020.

The largest part of investments was 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 June, we've invested more than 190 million euros in this project. 7 reconstructed hydropower units have been put into operation within the programme. And we are proceeding with a gradual overhaul of 4 Daugava HPPs' hydropower units.

Funding

Let's turn to the funding part.

Total borrowings at the end of 1H 2021 were 750 million euros consisting of diversified sources of borrowings. Latvenergo debt portfolio is spread out almost evenly between international investment banks and commercial banks – each of them representing approximately 40% of total debt.

The remaining part of 20% or 150 million euros of Latvenergo debt portfolio is green bonds. 100 million eur of these bonds were issued in 2015-2016 with repayment scheduled in 2022. Other 50 million EUR green bonds were issued in May this year as part of our 200 million EUR bond programme. We appreciate very much high interest of Baltic and international investors in our green bond issue as a result of which we were able to reach for us record low yield to maturity of 0.543% and spread over mid-swaps of 0.65%.

Latvenergo Group has also a balanced debt repayment schedule and 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 the current events.

Group's developments

Continuing expansion in the Baltic market and in order to ensure the development and availability of innovative electricity services in the market, Latvenergo Group subsidiary Elektrum Eesti has acquired three microgrid service companies in Estonia. These microgrid companies owned independent substations with their own customer base and electricity distribution of around 100 GWh per year. With this acquisition, Elektrum Eesti intends not only to continue their operations, but mainly to use them as a basis for the development of new products and services.

And the second recent activity in the Estonian market is the acquisition of 20,000 Imatra Elekter electricity customers in August with average electricity supply of 190 GWh per year. Thus, the Group has significantly increased the number of customers in Estonia.

Sustainability I

The second topic in Current events section today is sustainability.

Quite often we have been reached by our cooperation partners in order to provide some information on our position and activities in the field of sustainability. Considering that broad interest, today we will start and in the next webinars we will continue to present – how we see it and what we do for it.

Let me start with a general fact - we as a company acknowledge the importance of sustainability and this direction has been a deliberate choice for us for a long time. Therefore, we very much welcome EU green goals and activities.

As to the goals, Latvenergo Group in its operation is committed to processes, products and services that contribute to the United Nations Sustainable Development Goals 2030. In assessing the potential to contribute to the achievement of SDGs, the Group prioritizes the following three goals:

- SDG 7 - ensure access to affordable, reliable, sustainable and modern energy for all;
- SDG 9 - build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation;
- SDG 13 - take urgent action to combat climate change and its impacts.

Three main focuses are indicated on the right side of this slide.

The Group also contributes to the achievement of other SDGs, including through implementation of activities within the Corporate Social Responsibility directions as set out in CSR policy:

- Science and Education
- Raising Public Awareness of Electrical Safety
- Environmental Protection
- Culture and Energy Heritage
- Social Support and Responsibility towards Employees

I should also mention that currently Latvenergo Group strategy for the next period is in the development process and will be finished by the end of this year. The strategy is developed closely with EU activities in sustainability field and will clearly show our ambition and direction we are keen to proceed.

Sustainability II

Today I would like to give you a closer insight in some of our sustainability activities.

Let me start with our core business activity, which is green generation.

Latvenergo has a high share of electricity produced from renewables. This has developed historically as well as thanks to purposeful and timely investments. As I already mentioned in today's presentation, in 1H 2021 this share presented 67% of Latvenergo electricity output, making us the greenest electricity producer in the Baltics.

To continue moving towards green energy production, we maintain and improve efficiency of existing hydro plants by starting Daugava HPP reconstruction programme already in 2012. We are also developing new power generation capacities from wind and solar energy. In March we completed our first solar energy park in Lithuania and some projects are currently in progress. Our power generation portfolio also includes two upgraded and efficient combined heat and power plants which use natural gas – the most environmentally friendly type of fossil fuel. Thanks to our successfully balanced energy production portfolio, CO₂ emissions are significantly lower than European average.

The second activity I would like to give insight today is a field of electromobility.

We are pleased that we are helping to create the future infrastructure in the big cities of Latvia as charging stations are one of the preconditions for the number of electric cars in Latvia to continue to grow. Our practical experience in the use of electric cars shows that in Latvia it has completely changed during the last 5 years and the main aspect of the changes is the availability and speed of charging, which allows free movement between cities throughout Latvia.

By purposefully expanding the network of charging stations throughout Latvia, in August this year Elektrum EV charging stations were opened in 4 more Latvian cities. Thus, we are approaching the goal of opening more than 80 charging ports by the end of 2021 and becoming the largest commercial electric car charging network in Latvia. Currently, the service is available in 9 Latvian cities with 67 charging ports, some of which are installed together with cooperation partners.

Sustainability III

Let me tell you also about one of our Corporate Social Responsibility directions, which is Science and Education.

In order to facilitate the development of Science and Education in the field of energy, we are implementing three main tasks:

- promoting young people's interest in exact science-related subjects and engineering professions;
- supporting young people's excellence in the field of exact sciences; as well as
- supplementing the teaching materials for schoolteachers.

I would like to mention three most engaging projects in this direction:

Physics portal FIZMIX – which is developed for young people. Physics teachers can also use it to share their creative teaching methods. Physics Teachers' Day webinar was organised in November 2020, which was attended by 280 teachers;

Knowledge contest FIZMIX Experiments - 26th FIZMIX Eksperiments contest was organized in 2021. Due to the pandemic situation, the finals of the competition were organised remotely for the second time. Participants had to perform various tasks and practical experiments.

Physics labs equipment – competition for Latvenergo support for the establishment of excellent physics labs was announced on 16 August and is open until 8 September. The winners of each region - one primary school and one secondary school / gymnasium or a total of 10 Latvian schools will have the opportunity to receive a prize - the necessary equipment for a modern physics lab in a value of 21 000 EUR each.

So, in terms of sustainability topic, that is all for today, we will continue in the next webinar.

Moderator: Thank you for the presentation. Let's proceed with the questions and answers session, but before a kind reminder to those who haven't yet submitted their questions, that you are welcome to do it in the questions box in the settings panel zone.

In the questions and answers session also Group's Business Planning and Control Director Imants Iesalnieks will join.

So, let's start with the first question already received – *what are expected trends in electricity prices on the market??*

Imants Iesalnieks: Thank you for the question. The price forecasts are always a little bit tricky question, but at least markets indicate that the relatively high price level will remain in the coming months.

Moderator: Thank you, Imants. The next question – *what is EV charging networks capacity and availability if compared to the situation in Europe?*

Jānis Irbe: I think the answer to this question we will prepare and send to the person who asked.

Moderator: Thank you. All questions for now are answered. Recording of the webinar will be available on Nasdaq Baltic YouTube channel and also in company's announcements.

Gentlemen, thank you for the presentation and for answers given! Participants, thank you for joining! Until next time!

Jānis Irbe: Thank you!