

# **Eesti Energia Unaudited Financial Results for Q2 2019**

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Transcription**

## **Andri Avila**

Dear investors and partners, my name is Andri Avila, CFO of Eesti Energia. I am glad to welcome you to our regular conference call to discuss Eesti Energia's second quarter 2019 financial results. I hope you have had a chance to download the quarterly report and the investor presentation from our web site.

Starting from slide number 3, Eesti Energia's sales revenues increased by 13% in the second quarter of 2019 reaching 210 million euros. EBITDA in the same period increased by 19% to 63 million euros. Growth in revenues and EBITDA was driven by good performance in the electricity and oil segments, as was the case in the previous quarter. Operating cash flow amounted to 23 million euros, up by 13 million euros. The Group's capital expenditure in the second quarter amounted to 45 million euros which is 5% lower than a year ago. We will be reviewing the financials in more detail in the upcoming slides.

Now, turning to next slide and before we move to the financial results of the business segments, let's cover the developments of our main commodity markets. On slide 4 it can be seen that Q2 2019 electricity prices were at the same level as a year ago. In the second quarter the average price of Nord Pool Estonia was 42.7 euros per MWh which is slightly higher than in Q2 last year. Electricity price spread between Estonia and Finland in the second quarter of this year increased by 5.2 euros per MWh as a result of which electricity prices in Estonia were on average 5.3 euros per MWh higher than in Finland, on levels last seen in 2012. The price spread was caused by the congestion of Finnish-Estonian connections. The electricity price in Latvia was 1.4 euros per MWh higher than in Estonia.

The Clean Dark Spread, a metric we use to show the margin available to Eesti Energia's Narva Power Plants after oil shale and CO2 costs, was -0.2 euros per MWh. Despite the fact that in this year's Q2 this average figure was in the negative territory, our Narva power plants managed to achieve 30% higher electricity sales price compared to the average Nord Pool price for the Estonian region during the quarter. To point out, the same figure was 8% in Q1 this year and 4% in Q2 last year. The increased difference is the result of the efforts of

our engineers who have raised the level of operating flexibility of our Narva Power Plants to match the market volatility. Although the average sales price of electricity produced by our Narva Power Plants has risen compared to the average electricity market price, the increased CO<sub>2</sub> prices did not allow us to produce as much electricity as last year in the same period.

Continuing to next slide with oil markets, we can see that during second quarter on a yearly comparison basis oil prices moved in different directions, as was the case in the first quarter of this year. The average price of Brent crude oil decreased nearly 9% year-over-year, while the price of 1% Sulphur content fuel oil, which is the main reference product for our oil products, increased by 6% to 359 euros per ton. This can be explained by storing activities from market participants in relation to tighter marine fuel Sulphur caps that will be in place from the start of next year.

Moving to slide number 6, let's start the review of Eesti Energia's financial results in more detail. As in the previous quarter, strong results of the electricity and shale oil segments pushed the total Group sales revenues 13% and EBITDA 19% higher. The distribution segment showed declining revenues and profits due to tariff cuts in the beginning of this year.

On slides 8 and 9, let's look at the results of the electricity segment in more detail. Eesti Energia's average electricity sales price increased by nearly 28% in the second quarter reaching 55.1 euros per MWh. Despite higher electricity prices and sales revenue, production volumes declined. Looking at the electricity sales volumes in more detail, the picture is mixed – while retail sales saw 5% increase, our wholesale electricity sales declined more than 2/3 due to lower electricity production quantities at our Narva power plant. Our electricity generation fell nearly 1 TWh compared to last year's second quarter to the level of 1.2 TWh. The reason here is the increased CO<sub>2</sub> price that has risen more than the electricity price. As a result of this our Narva Power Plants are currently producing less electricity than last year. In the second quarter there were also additional adjustment works in Auvere power plant that are carried out during the guarantee period and this also effected electricity generation volumes. The production of electricity from renewable and alternative sources was 365 GWh in the second quarter, 33% of total electricity produced, up from a ratio of 25%

in the first quarter of this year. As a reminder, we would like to point out that our renewables electricity production, higher electricity market price comes directly through to EBITDA as the majority of the assets are in Estonia and have a feed-in-premium subsidy scheme where the state subsidy is an extra on top of the electricity sales price.

Turning to slide number 9, the EBITDA of the electricity segment grew by 82% from last year's 17.6 to 32 million euros. With regards to margin impact, higher sales price had the biggest impact here with nearly 25 million euros, and this was sufficient to cover the increased cost structure which mainly came from higher CO2 prices. Lower electricity production and sales volumes, as pointed out in the previous slide, had a negative effect on EBITDA. As the electricity generation volumes have come down, we have also managed to keep the costs at our oil shale electricity production units under control. Large-scale Energy Production, containing the whole value chain from mining oil shale to producing electricity, managed to cut fixed costs by 5.3 million euros compared to last year's second quarter. Fixed costs at the renewables have increased due to the acquisition of Nelja Energia, the acquisition took place in November last year so we will see this impact throughout this year's results eventually levelling off in Q4. Also Customer Services are continuing their expansion to new home markets, mainly Sweden, Finland, Poland, and this has led to increased costs. As was the case in Q1 this year, gain on derivate instruments had a positive effect on EBITDA, where as change in the value of derivatives had a negative impact.

Overall, looking at this year's second quarter EBITDA growth of 14.4 million euros compared to last year's figure, we can say that 10 million euros came from our renewables operations and the remaining EBITDA increase of 4.4 million euros from oil shale electricity production and retail sales operations.

Next let's look at the results of the distribution segment, which start on slide 11. Distribution volumes during the second quarter of this year were basically on the same level as last year. Sales revenue of the distribution operations decreased 7% on a yearly basis to 50.5 million euros. As in the first quarter of this year, the reason here is that the distribution tariffs were lowered in the beginning of this year on average by 8.4%. As a result of this the sales revenue

and the average distribution sales price have decreased, but to a lesser extent. Network losses were basically on the same level as a year ago, at 4.1% from the electricity entering the distribution network. The average duration of unplanned interruptions has come down to 18 minutes as this year's second quarter weather was less windy and stormy.

On slide 12 it can be seen that EBITDA of the distribution segment declined due to lower tariffs. As distributed volumes were just marginally lower, the volume impact was small. Fixed costs were basically on the same level as last year. The return on fixed assets of distribution business has declined from last year's trailing 12 month figure of 6% to 4.2% this year as the lower tariffs are having their impact. On a positive note we would like to point out the improvement in the reduction of planned SAIDI similar to the first quarter of this year, this is due to the lower volume of maintenance and network upgrade works.

Now we will continue with the shale oil segment on slide 14. Eesti Energia's average shale oil sales price, excluding the impact of hedges, rose by 5.5% from last year's second quarter figures. As the case has been in the previous quarters, the average shale oil sales price including hedges has been lower, but still showing an increase of 5.7%. Sales volume of shale oil increased 12% to 113 thousand tons, and we also produced 3.7% more oil during the quarter than last year thanks to higher operational reliability of our oil production facilities, mainly the new Enefit 280 plant. As a reminder, in Q1 this year, we made a quarterly all time production record with 125 thousand tonnes of oil. Year to date we have produced 218 tons of oil, which is also all time record for the first 6 months of the year. These record volumes have come thanks to our Enefit 280 oil production facility which has managed to exceed its projected capacity on a regular basis this year.

Turning to shale oil's EBITDA on the next slide, we saw a nearly 44% improvement as a result of which the EBITDA of shale oil operations amounted to 10 million euros. Main contributing factors here were the higher average sales price, and also higher sales volumes. Fixed costs grew compared to last year's levels. Most of the increase in costs was payroll linked, as the mining payroll costs attributable to oil operations grew. Due to the reason that we have

locked our oil sales price on the financial markets at lower price levels than current market prices, we see the negative impact from hedged positions that are pulling the shale oil's EBITDA lower.

On slide 16, let's cover the last part, the contribution of other products and services of Eesti Energia Group. Sales of other products and services grew nearly 18% to 18 million euros in Q2 2019. The main factor here is the sale of pellets, as this is a business that we acquired together with the Nelja Energia in November 2018. Sales revenue of heat declined by half a million euros in the second quarter of this year and this also pulled the EBITDA of heating business lower. In the second quarter of last year, we received 1.7 million euros worth of liquidated damages related to the delayed delivery of the the Auvere power plant. Now that the power plant has been completed, there are no liquidated damages anymore. Other changes in EBITDA, which totalled a loss of 1.8 million euros, are made up mostly from operations of Enefit Solutions, pellet operations, and mining products which had a positive effect compared to last year's second quarter. Sales of gas products, R'n'D unit and scrap metal sales had a negative effect from last year's levels.

Now, moving on to slide 17 where we show the development of Eesti Energia's Q2 2019 cash flows from EBITDA to operating cash flow. The Group's EBITDA was 63 million euros in the second quarter, while operating cash flows were 40.1 million euros lower. The largest difference between EBITDA and operating cash flows were caused by changes in working capital where the major contributing factor was the increase in the inventories of oil shale and pellets. We also saw a decrease in the account payables as we have moved from winter periods to summer periods where the overall electricity consumption is lower, but this in turn is offset by a decrease in account receivables. Also there were payments related to the collateral requirements of hedged positions, mainly related to oil hedges. In the second quarter this year we also paid income tax of 7.4 million euros linked to already made dividend payments to the owner, the state of Estonia.

Next let's continue to slide 18 where operating cash flows in the second quarter of this year are compared to last year's figures. Operating cash flows in the second quarter of this year were in total 13.3 million euros stronger amounting

to nearly 23 million euros. The positive impact from CO2 related items was largely offset by changes in the working capital, where compared to last year the larger inventories in oil shale and pellets had their effect. The positive impact of CO2 comes from the fact that last year in the second quarter we made some CO2 allowance purchases, whereas this year there were no such items. Derivative instruments had a positive effect compared to last year, as did the higher EBITDA.

Moving on to slide 19, let's take a look at Eesti Energia's capex during the second quarter of this year. Capital expenditure has fallen by 5% on a yearly basis, amounting to 45 million euros. The major factors in the decreased capex are the Auvere power plant related payments and capitalized interest, which were last year, but not anymore. Investments into electricity networks and also maintenance capex have slightly risen. In June we announced that Enefit Green, a fully owned subsidiary of Eesti Energia that focuses on renewable operations, has acquired 20 solar park projects in Poland with a capacity of 19.2MW. The total cost of the acquisition is 17.3 million euros, from which 7.3 million euros was paid during the last quarter. As was the case in the first quarter, we additionally invested 1.3 million euros to the wood shredding complex which will be completed by the end of this year. As a result of this investment we will have better capability to use waste wood in our power plants' cogeneration unit.

Turning to slide 20 we have provided an overview of the group's liquidity position. The net cash flows during the quarter were negative as the cash balance of the group declined by 48 million euros from the first quarter of this year. During the second quarter Enefit Green paid back 9.3 million euros of loan principal according to the payment schedule of its loan agreements. Also, we paid dividends in the amount of 28.5 million euros. This is half of the dividends payable this year. The second half of the dividends will be paid by the end of the year. At the end of Q2 2019 the undrawn liquidity loans amounted to 300 million euros.

On slide 21 let's have a look at the group's leverage ratios and repayment profile. As a result of the renewable acquisition which closed in November last year, Eesti Energia's net debt to EBITDA ratio is higher than a year ago, but

has declined from a high of 3.7 times at the end of last year to 3.4 times by the end of this quarter being in accordance with Eesti Energia's long term financial policy target of 3.5 times net debt EBITDA. Eesti Energia's credit ratings are unchanged at BBB flat from S&P and Baa3 from Moody's.

Finally on slide 22, we will provide you with an outlook of Eesti Energia for the rest of 2019. Compared to the first quarter of this year, there are no changes in the expectations. It is the management's expectation that sales revenues will grow in 2019, whereas EBITDA we expect to remain on the same level due to increased price of emission allowances. Investments are expected to be higher as investments in the renewables sector will be bigger.

To conclude today's presentation, the second quarter of 2019 can be characterised by increasing market prices of electricity, CO2 and oil which we managed to carry through to our EBITDA line. The group's sales revenues from electricity and shale oil segments performed well while the distribution segment posted declines both in revenues and EBITDA due to tariff cuts that took place in the beginning of this year. Net profit declined by 5.3 million euros compared to last year's second quarter, as the amortisation cost has been higher due to the acceptance of Auvere power plant. We are now ready to take any questions.

Thank you for listening and we will be speaking again during our Q3 presentation at the end of October. Thank you.