# Eesti Energia Q1 Results 2015 Conference Call

Speaker:
Andri Avila, CFO

Andri Avila: Dear investors and partners, my name is Andri Avila. I am CFO of Eesti Energia. It's my great pleasure to welcome you on the earnings call to summarise the results for the first quarter of 2015. Hopefully you have managed to download the presentation from our investor relations website and let us now turn to the presentation.

We will start from slide three. Here we present a snapshot of the first quarter results that we will cover in more detail further on. Eesti Energia results in the first quarter of 2015 were characterised by 2.9% lower sales revenues of €219.8 million and 5.3% higher EBITDA of €87.8 million. Operating cash flow was almost three times higher than last year at €162.6 million whereas the capital expenditure was 29% lower than in the first quarter of 2014 at €52.4 million.

Before looking at the results in detail let's turn to the overview of the main markets affecting our sales and profitability.

On slide four we present the overview of the power markets that influence our power generation profitability. Average price in Nord Pool Spot Estonia price area was €32.5 per MWh in the first quarter of 2015 which is €3.3 per MWh or 9.3% lower than in the previous year. Estonian power price remained marginally above Finnish as the average spread between price areas reduced in the first quarter to €0.4 per MWh, which is €0.2 per MWh less compared to last year.

Nord Pool Spot Latvian area prices remained above Estonian prices but the spread decreased by €2 per MWh to €4.6 per MWh due to seasonally larger hydro power generation from Latvia which this year appeared already in March. Our reported measure of Eesti Energia power generation competitiveness Clean Dark Spread available in Nord Pool Spot Estonia electricity price decreased to €7.9 per MWh due to higher $CO_2$ costs and lower electricity price and hence the electricity markets remain challenging with Nord Pool Spot Estonia price reaching its historic low of €30.3 per MWh in March 2015.

Slide number five presents the dynamics in another market that drives Eesti Energia results, affecting our shale oil sales and profitability. Average price of Brent crude oil remained 39.8% below last year's level in the first quarter of 2015, trading on average at €48 per barrel. Similarly, the price for 1% fuel oil, our shale oil reference product, traded 43.8% lower than last year at €250.5 per tonne on average in the first quarter of 2015.

On a positive note, after the rapid fall of oil price in the fourth quarter of 2014 the first quarter saw a slight recovery in oil prices. For instance, 1% fuel oil price increased by 24% compared to the end of the year and the same trend has continued in April.

Slide six presents the breakdown of sales and EBITDA between our main products as well as the year on year change. In the first quarter of 2015 Eesti Energia sales revenue was 2.9% lower at roughly €220 million. Sales revenues were lower for most products, with the only positive development from shale oil. In terms of EBITDA the results were negatively impacted by lower profit from electricity, while improved performance in power distribution, shale oil and other products allowed to increase group EBITDA by 5.3% to €88 million.

Let me now analyse sales and profitability of each product in turn. Slide number eight presents the revenue dynamics of electricity sales, which accounts for almost half of group revenues. Drop in the power market prices also had an impact on our average electricity sales price which decreased by 12.7% to €43.5 per MWh. Electricity sales volume decreased by 1.7% to 2.2 TWh, mainly due to lower sales in Latvian and Lithuanian retail markets, while sales in the wholesale market were 13.3% higher than in the first quarter of 2014.

In combination these two factors reduced revenues earned from electricity sales substantially in the first quarter of 2015 with the sales revenues 12.8% lower at €100 million. In terms of future sales we have hedged 5.1 TWh of the remaining nine months of 2015, power sales with an average price of €40.4 per MWh. As for 2016, power sales hedged against price risk amounted to 3.1 TWh with an average price of €38 per MWh.

Slide nine presents an overview of Eesti Energia performance in the Baltic retail market. In the first quarter of 2015 our market share in Estonia increased to 62% with gains primarily in the corporate segment. Latvian and Lithuanian market share was lower year on year but our renewed ability to offer fixed-price agreements in Latvian and Lithuanian markets from February 2015 is expected to improve our market share in the future. Altogether our Baltic market share was 0.7% lower compared to last year, reaching 26%.

On slide ten we show how EBITDA from electricity product which amounts to 32% of total group EBITDA changed in the first quarter of 2015. Altogether EBITDA from electricity decreased by 37.6% to €28 million on the back of a number of negative influences. The largest influencing factors were reduced power sales margin which was mainly driven by lower sales prices and lower revenue from hedging instruments, €7.5 million lower compared to last year due to lower hedging prices and amounts.

The market situation has not improved since the end of the quarter, hence we expect the profitability of electricity to remain under pressure for the whole year of 2015. We will review our costs and generation portfolio with a very critical eye to achieve as positive results as the current challenging market prices permit.

Slide 12 presents the revenue dynamics of electricity distribution which amounts for about 30% of group revenues. While distribution volume was broadly unchanged in the first quarter of 2015 the sales revenue reduced by 2% to €66.6 million due to lower average distribution tariff. Distribution tariff reduction was introduced in April 2014 to reflect the lower transmission tariff charged by Elering. On a positive note, network losses of 5.3% were considerably lower than in the same period of last year. While sales revenues were lower the profitability was not negatively impacted, as we will show on the next slide.

As can be seen on slide number 13, EBITDA of electricity distribution improved by 11.1% in the first quarter of 2015 to €24.2 million. This improvement was mainly on the back of better distribution margin as distribution loss expenses were substantially lower by €1.1 million due to lower loss amounts and wholesale power prices, while in Q1 the stronger wind conditions had an impact on the network reliability and the service quality indicator, SAIDI (unplanned), increasing the latter from 20.3 to 30.8. It did not however have a major impact on profitability.

On slide 15 we show the performance of shale oil product, which makes up 11% of group sales but has much larger impact on profitability. Volume of shale oil produced and sold increased considerably in the first quarter of 2015 as the new Enefit280 oil plant performance continued to improve. In total shale oil sales reached 70,000 tonnes in the first quarter, which is twice as much as a year ago.

On the flip side, the average price earned for the product decreased by 7% to €359 per tonne. After considering the positive impact from financial hedges. All in all the shale oil sales revenue increased by 87.2% in the first quarter of 2015 to €25 million. While we put the Enefit280 oil plant offline for a month during Q2 2015 for further modifications it is expected to result in even higher capacity usage thereafter.

As you can see on slide 16 shale oil EBITDA more than doubled in the first quarter of 2015 to €20.9 million, having a positive impact on the group's results. While lower margin due to lower sales price and higher variable costs put pressure on EBITDA it was balanced by higher sales volume, a positive impact of €13.1 million, and gains on derivative instruments which had a positive impact of €8.9 million.

On slide 17 we look at the main influencing matters for the group performance from other products and services. Group sales revenues from other products reduced by 7.4% to €28.4 million, mainly negatively impacted by lower mining product sales revenues by €6.8 million as the contract for external oil shale sales was terminated.

On the other hand, sales of natural gas have been commenced as a new product which has added €5.8 million to the group's sales. As for EBITDA the largest positive influence originated from the sales of surplus $CO_2$ allowances which had a positive influence of €9.5 million. We had built up a significant surplus physical $CO_2$ position which we substituted against a future position for 2016. This helped to balance the €2.8 million negative impact from our lower oil shale sales. Altogether EBITDA from other operations and services reached €14.7 million for the first quarter of 2015.

On slide 18 we have established how the EBITDA of €87.8 million earned in the first quarter of 2015 has translated into operating cash flow of €162.6 million for the quarter. The main influencing factor is the sale of surplus $CO_2$ allowances which alongside with $CO_2$-related factors improved operating cash flow by €64.6 million.

Reduction in receivables, mainly in electricity sales, improved operating cash flow by a further €16.3 million. EBITDA included also a €5.3 million impact from derivative instruments which did not influence operating cash flow.

On slide 19 we show the factors behind operating cash flow increasing substantially in the first quarter of 2015 compared to a year ago. While EBITDA also reached €4.4 million higher than last year, the main positive factor was from the surplus $CO_2$ allowances sales in the first quarter of 2015. As in the same period last year we had instead purchased $CO_2$ allowances then the combined positive impact on operating cash flow is €94.4 million. Derivative instruments had a €4.7 million negative impact compared to last year while in Q1 2015 there was no income tax payable, unlike €5.5 million paid in the first quarter of 2014.

On slide 20 we present the reduction of capital expenditure in the first quarter of 2015 by 29% to €52 million as the investment programme draws to a close. The main investments were directed to improving the distribution network which amounted to €16.5 million, where the roll-out of smart meters continued. A further €7 million was invested into New Auvere 300 MW power plant which is undergoing commissioning and which is expected to be finalised by November 2015. Maintenance investments reached €10.3 million, related primarily to mining subsidiary and investments in power generation.

Slide 21 provides an overview of the group liquidity position as of the first quarter of 2015. Operating cash flow of €162.6 million exceeded the investment cash flow of €55.6 million, which had a positive impact on group liquidity. Altogether the group liquidity position improved to €206.5 million as at the end of the first quarter, which is complemented by €250 million of undrawn facilities.

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On slide 22 you can see the group maturity profile and the key leverage ratios followed. Positive results in the first quarter of 2015 allowed the group to reduce leverage to the level of 2.3 times net debt EBITDA. The maturity profile of the debt portfolio currently remains favourable with the main maturities approaching in 2018 and 2020.

Eesti Energia also retains a strong BBB rating from both rating agencies, a BBB+ from S&P and Baa2 from Moody's, both with stable outlooks. This creates a good platform for any new debt financing or refinancing transactions in the future.

On slide 23 we present the renewed group outlook for 2015. Given the continued weak power markets we have downgraded our revenue outlook, expecting it to decline slightly in 2015 compared to slight growth expected previously. As for EBITDA we now expect a decline compared to €312 million achieved in 2014.

To summarise, the first quarter results were characterised by challenging power markets. Our electricity sales revenue decline was balanced by oil revenue increase with the group sales revenue declining 3% to €220 million. Group EBITDA increased by 5% to €88 million but this was mainly due to the sale of surplus $CO_2$ allowances. 2015 will be a challenging year, as evidenced by our reduced outlook but we continue to work very seriously to achieve the best possible outcome.

This concludes the main body of the presentation. There are additional slides in the appendix that discuss our production and sales data, commodity markets as well as closed positions. If you have any questions whatsoever please do not hesitate to ask. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press * followed by 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * followed by 2. If you are using speaker equipment today please lift the handset before making your selections. Anyone who has a question may press * followed by 1 at this time.

Ladies and gentlemen, you may now use your opportunity to ask questions. To do so please press the * followed by 1. We're waiting for questions. As one reminder, you have the opportunity to ask. To do so please press the * followed by 1. Okay, Mr Avila, I'd like to pass the call back to you as there are no questions from the phone lines.

Andri Avila Okay, then thank you for listening and we will hear again after three months. Thank you.