Dear investors and dear partners. My name is Andri Avila, I am the Chief Financial Officer of Eesti Energia. Thank you for joining our conference call introducing Eesti Energia’s full year 2016 financial results. You can download the presentation which we will go through from our website.

Let’s start with slide 3 where you can see a summary overview of Eesti Energia’s 2016 financial results. Despite of a difficult start that we had last year, the second part of 2016 was much stronger for the company and we finished the year with the highest EBITDA that Eesti Energia has ever had. Our sales revenues amounted to 742 mln EUR, which is a 4% decline from 2015 but EBITDA increased by 23% and amounted to 327 mln EUR. In particular, the fourth quarter was very strong. It must be noted that our EBITDA includes some one-off items, such as income from liquidated damages of 69 mln EUR related to the Auvere power plant that will be paid by GE but even without this effect it was a solid year. Investments amounted to 141 million EUR, a low level compared to the past several years.

Before we go into more detail on the various business segments, let’s have a quick look at the markets. On slide 4 you can see that the past year was characterised by higher Nord Pool electricity prices in our area. The Estonian price amounted on average to 33.1 EUR/MWh in 2016 which is 6.3% higher than in 2015. The price spread between Finland and Estonia remained at a very low level and we also saw a substantial decline in Estonia-Latvia price difference related to the Nord Balt cable coming online. Our clean dark spread improved substantially in 2016 to around 9 EUR per MWh, both because of lower market price of CO2 and lower oil shale costs but as mentioned, also due to higher electricity prices. In the fourth quarter our clean dark spread was at the highest level since the third quarter of 2014 which enabled us to substantially grow our electricity production quantities.

On slide 5 it can be seen that in contrast to power price, oil prices were on average lower in 2016 compared to the year before. The price of 1% sulphur content fuel oil was down by 17% and amounted to 195 EUR per tonne. As a positive, the prices bottomed in the first quarter of 2016 and have recovered substantially since then. Additionally, we saw narrowing of the crack spread between Brent and fuel oil due to increased demand for fuel oil and improved export opportunities.

Moving on to slide 6, let’s look at the breakdown of our sales revenues and EBITDA by business segment. Eesti Energia’s sales revenues declined by 4.5% last year and amounted to 742 million euros. The negative effect resulted mainly from the shale oil segment and to a smaller extent also from electricity revenues whereas the distribution segment showed a positive contribution. In terms of EBITDA, we saw growth of 23% which brings the total annual result to 327 million euros. This includes some one off items, most importantly the liquidated damages payable to us by GE which are captured in the “other” segment. But as you can see, also electricity EBITDA increased year-on-year. Conversely, shale oil EBITDA declined substantially in 2016 compared to the year before.

Next let’s look at each of the business segments in greater detail. On slide 8 you can see that our electricity sales volumes grew by 16% year-on-year and reached 9 TWh. Improved prices enabled us produce and sell more, especially on the wholesale market. Additionally, the competitiveness of our assets benefitted from tax changes in the second half of the year and also from lower cost of CO2. Looking at average sales prices, you can see that while Nord Pool Estonia average electricity price increased, our average sales price declined by 6 EUR per MWh in the past year. Majority of this is explained by the fact that our revenues from hedge positions declined in 2016 compared to 2015. All in all, the growth of sales quantities and lower sales prices balanced each other out so our electricity sales revenue declined by 2% in 2016. When talking about hedges, we resumed our hedging programme in 2016 and currently have 4.7 TWh hedged against electricity price risk for 2017 at an average price of 35.4 EUR/MWh, and 0.9 TWh hedged for 2018 at an average price of 33.6 EUR/MWh.

On slide 9 let’s look at our retail market shares. Eesti Energia’s combined market share in the Baltics totalled 26% in 2016, which is 0.6 percentage points lower compared to 2015. The drop is related to the Estonian market due to losing clients in our large corporates segment which has been outlined also in previous quarterly calls. In Latvia and Lithuania we had slight growth of market share in 2016.

On slide 10 you can see that Eesti Energia’s EBITDA from electricity grew by 16% last year and amounted to 118 million EUR. Especially the fourth quarter was very strong with EBITDA of 52 million EUR from electricity. You can see that margin development was slightly negative in 2016. As outlined in the previous slides, our average sales revenue per MWh of electricity sold decreased in the last year. This was balanced by decline in average variable costs, so all in all the contribution from margins amounted to -5.3 million EUR. Electricity sales volumes grew substantially in 2016 so this had a large positive impact to electricity EBITDA. Decline in fixed costs also had a positive impact as we have been working hard on controlling payroll costs as well as optimising maintenance and repair costs. Compared to 2015, our hedge positions were smaller so gains from derivatives were also lower. Other items of +25 million EUR mainly includes gain from revaluation of certain derivative positions which are not part of hedge accounting. So all in all, EBITDA from electricity contributed 118 million EUR to the group total.

Moving next to the distribution segment on slide 12, it can be seen that distribution volumes grew by 4% in 2016 as a result of favourable economic environment and relatively low average temperatures in 2016. Additionally, we have been successful at reducing unmetered consumption owing to installation of smart meters to all distribution
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clients in Estonia. Average distribution price was flat so revenues from distribution segment also grew by 4% and reached 253 million euros.

On slide 13 it can be seen that the positive volume impact also carried over to EBITDA where we saw a 7% increase compared to 2015. The increase was primarily due to higher sales volumes although lower fixed costs also had a small effect. EBITDA from the distribution segment totalled 113 million euros which is the best result of our distribution segment so far.

Moving to slide 15, let’s look at the results from our third large business segment, which is shale oil. Shale oil sales volume was down by 4% year-on-year, as we chose to produce less in the first half of the year when market prices for oil were low. However, in the later part of the year there have been no more such cutbacks and we even achieved highest production volume ever in September. Eesti Energia’s average shale oil sales price decreased by 32% to 222 EUR per tonne. The positions to hedge the price risk of fuel oil were much lower in 2016 compared to the year before which explains the largest part of this movement. On the positive side, the discount of our sales price compared to the market price of standard fuel oil decreased so the average sales price excluding the gain on derivatives actually increased in 2016, despite a decrease in the market price of benchmark fuel oil at the same time. Similarly to electricity we also started hedging oil price risk again, so at the end of the year we had 287 thousand tonnes hedged for 2017 at an average price of 237 euros per tonne, and 180 thousand tonnes of oil hedged for 2018 at an average price of 253 euros per tonne.

Shale oil EBITDA declined by 40 million euros in 2016. Contribution from margins was slightly positive as our sales price excluding hedge positions saw a slight increase and variable costs were also lower compared to the year before. Similarly, declining fixed costs had a positive impact while lower sales quantities had a small negative contribution to EBITDA development. By far, the largest driver behind lower EBITDA was lower gain on derivatives. Other changes, mainly contribution from certain derivative positions, also had a negative effect. In total, out EBITDA from the shale oil segment amounted to 8 million euros in 2016 and 9 million euros in the fourth quarter.

On slide 17 we have summarised the rest of the products and services. These include sales of heat and gas and certain industrial technological solutions. Sales revenue from gas declined as the sales volume was larger compared to 2015 but average price of gas decreased due to indexing of oil price. This slide also details the one-off items. The largest item to note here is the 69 million euros positive impact from the Avure penalty payment which was recorded in our fourth quarter EBITDA. GE has agreed to pay us such penalty payment to compensate for the delay in completing the Avure power plant and covers the period from November 2015 until the end of 2016. Further penalty amounts will be calculated based on agreed principles until GE hands over the power plant to Eesti Energia. The retroactive cut in resources taxes and environmental fees also improved EBITDA by around 14 million euros and it was recorded in the second quarter. In 2015 there was an 8 million euros positive impact from sale of surplus CO2. All in all, the contribution to EBITDA from such other products and services as well as one-off items amounted to 89 million euros in 2016.

Moving further to slide 18, let’s also look at the development of our operating cash flow compared to EBITDA. While our annual EBITDA totalled 327 million euros, Eesti Energia’s operating cash flow was lower at 200 million euros due to a number of items. The largest single factor behind this is related to the penalty payment from GE. While we signed the settlement with GE in the fourth quarter of 2016, the actual payment of the penalty covering the first calculation period from November 2015 to November 2016 will be made by GE under an agreed payment schedule by July 2017. Accordingly the benefit from this penalty payment will be realised in cash flow gradually in the first half of this year whereas the impact to EBITDA was accounted for in 2016. Additionally, we made interest payments in the amount of 30 million and tax payments in the amount of 15 million, which do not affect EBITDA but are taken into account for calculating operating cash flow. Effects from derivative positions such as collateral payments in relation to our hedging programme had a negative impact of 14 million euros. Historically, we have provided bank guarantees as collateral but due to change in regulations we have now started giving cash collaterals instead. CO2 related items had a positive effect of 5 million euros as we could use some of the old surplus allowances instead of buying the full amount.

On slide 19 we have included an overview of how our operating cash flow in 2016 compares with the result from 2015. It can be seen that while EBITDA increased by 62 million euros in 2016, this same trend was not immediately reflected in the cash flow. A large part of the explanation is and it was already discussed in the previous slide, that we will get the penalty payment from GE related to Avure power plant only in 2017 while it was included in EBITDA in 2016. The impact from CO2 related items was also more negative this year.

Specifically, in 2015 there was extraordinary cash inflow from the sale of surplus CO2 allowances. In contrast, in 2016 we had to purchase additional allowances to cover our emissions. This is to be expected as the allocation of free CO2 allowances is declining. We had a positive effect from lower interest payments as a result of the debt refinancing transaction undertaken in 2015. Comparative impact from the income tax is a negative 15 million euros as we did not pay any income tax in 2015. All in all, we arrive at operating cash flow of 200 million euros in 2016.

Lets now move to slide 20 where you can see that Eesti Energia’s total investments amounted to 141 million euros in 2016, down substantially year-on-year. The majority of the investments went into the distribution network. Other maintenance investments declined and made up 22 million euros. Aside Avure, there were no other major development projects ongoing last year. As you may know from previous quarters, an upgrade to the power plant’s...
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filters is required for it to comply with emissions requirements at full capacity but meanwhile it continues working at smaller loads. GE has undertaken to complete the works this year and has agreed to pay liquidated damages to Eesti Energia during the time that the plant does not operate at contractually agreed capacity.

On slide 21 we have provided an overview of our liquidity profile. You can see that in 2016 we generated more cash from operations than we needed for financing the investments and making the debt repayments so Eesti Energia’s liquid assets grew and reached 223 million euros as at the end of the year. In addition to this, there are undrawn loan facilities in place that also support our liquidity.

On slide 22 we provide information on our financial ratios and debt maturity profile. Eesti Energia’s net debt has been declining for a couple of years and it stood at 717 million euros as at the end of the year which is the lowest level since 2012. Eesti Energia’s financial leverage decreased in 2016 but the net debt to EBITDA ratio has declined even more, to 2.2 times because it was impacted by both lower net debt and a high level of EBITDA. Eesti Energia’s financial policy remains at maximum 3.5 times net debt to EBITDA. The group’s credit ratings remain at BBB from S&P and Baa3 from Moody’s. There have been no changes to our debt repayment schedule recently, you can still notice that the larger maturities coming up are related to outstanding Eurobonds.

Turning to slide 23, we can provide an outlook for the year 2017. We expect reasonable prices for both oil as well as electricity to persist. If we adjust the 2016 EBITDA for the liquidated damages related to the Auvere power plant and the one-off effect from the reduction of resource taxes, Eesti Energia’s 2017 EBITDA should remain at a similar level as last year. Regarding capex, we estimate that it will be larger than 2016 year mostly due to development investments. We have budgeted that the final payment for the Auvere power plant will take place in 2017 and also that investments into the Tootsi wind farm will start. Dividends are forecast at a level of 47 million euros. The final amount will be confirmed by the shareholder in a few months.

Finally, to sum up our presentation today, year 2016 had a weak start but turned out with record high EBITDA in the end. Part of the result was related to one-off items but even leaving those out we were glad to see that market prices moved back to much more comfortable levels in the second half of the year which enabled us to grow our production and sales quantities. Especially the electricity side had a very strong fourth quarter. In contrast to a high level of EBITDA our investments declined to a low level of 141 million euros. Eesti Energia’s financial ratios were at very reasonable levels at the end of the year.

We are now ready to take questions.

Operator: 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 touch-tone 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 selection. Anyone who has a question may press * followed by 1 at this time. One moment for the first question please.

Operator: Ladies and gentlemen, if you would like to ask a question please press * followed by 1 on your telephone.

Operator: There are no questions at this time. I hand back to Mr Avila for closing comments.

Andri Avila Thank you for listening our 2016 results call and as you have no more questions then talk to you again in two months when we introduce our first quarter results of 2017. Thank you.