

Eesti Energia Audited Financial Results for 2017

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Transcription

Andri Avila Dear investors, my name is Andri Avila, I am the CFO of Eesti Energia. Let's take now a look at the results of 2017 of Eesti Energia. Hopefully you have managed to download the presentation from our website.

Let's start with slide 3 where an overview of Eesti Energia's 2017 results is shown. Sales revenues of the group increased by 2% to 754 million euros while EBITDA declined by 19% to 264 million euros. We will go into more detail on each of these results later on in the presentation but briefly summarising, the growth in sales revenues was primarily driven by shale oil sales. The decline in EBITDA was mainly explained by the reduction of liquidated damages that Eesti Energia receives related to the Auvere power plant. These damages from GE were accounted both in 2016 and 2017 but the amount was higher in 2016. Eesti Energia's operating cash flow amounted to 269 million euros in 2017, up by 34% from the year before. Capital expenditure was almost flat compared to 2016, totalling 144 million euros.

On the following slide 4, let's look at price developments in our major Nord Pool electricity markets. There was not much movement in the annual average market price in Estonia or Finland. The average price in the Nord Pool Estonia price area equalled 33.2 euros per MWh, up by just 0.5% compared to 2016. The price differential between Estonia and Finland declined from an already low level to just 3 cents per MWh. In Latvia and in Lithuania in the south, electricity prices declined last year but the Latvian and Lithuanian prices still remain higher than power prices in Estonia or Finland. The price spreads have however substantially declined since the introduction of the NordBalt power cable between Lithuania and Sweden. Eesti Energia's clean dark spread against the Estonian power price increased to 9 euros per MWh in 2017. While the price of CO2 increased in comparison to 2016, lower cost of oil shale and higher power price

implied a growth in the spread for Eesti Energia's generating units.

Whereas electricity prices remained more or less unchanged last year, oil prices were much more favourable for producers in 2017 compared to 2016. The average price of Brent oil increased by 25% while the price of 1% sulphur content fuel oil grew by 39% year-on-year in euro terms. 1% sulphur content fuel oil is the reference product for the oil that Eesti Energia produces. The spread between Brent and fuel oil was relatively tight in the first half of 2017 but widened somewhat towards the end of the year.

Next let's turn to slide 6 for a more detailed analysis of Eesti Energia's financial results. The group's sales revenues grew by 2% mainly on the account of higher revenues from shale oil. Revenues from electricity were also slightly higher than in 2016. The result of the distribution segment declined as new lower tariffs took effect from the second half of the year. In terms of EBITDA, higher oil price and higher revenues also translated into higher EBITDA from the shale oil segment. EBITDA from electricity declined by 20 million euros but the largest factor behind the EBITDA decline compared to 2016 is the other segment where we had some large positive irregular contributions in 2016 but these were not repeated to the same extent in 2017.

Next let's look at each of the business segments in greater detail. On slide 8 it can be seen that Eesti Energia's average electricity sales price dropped by 3% in 2017 to 39 euros per MWh. This price also includes a small gain from hedge positions which impacted the price by 1.1 euros per MWh. Electricity sales volume increased by 5% to 9.4 TWh, owing to higher wholesale volumes. As a result of the price and volume impact, electricity sales revenue grew by approximately 1%. It is probably worth explaining that the reported sales volume and sales revenue does not include the result from Auvere power plant to the full extent. Auvere power plant has not yet been accepted from the

contractor so part of its revenues and costs are capitalised in the balance sheet. Specifically, the plant produced 1.4 TWh of electricity last year out of which 0.8 TWh was capitalised. The liquidated damages that Eesti Energia receives from GE are reflected in the other segment. The slide also displays the hedge positions that the group had as at the end of December for its electricity sales.

On slide 9 the factors driving the electricity EBITDA can be seen. There was no single reason behind the decline in EBITDA compared to 2016. Lower margins had a negative impact of 10 million euros, which encompasses both a reduction in average revenue as well as a positive effect from lower variable costs. Higher volumes and gain from derivatives had a positive impact. Fixed costs were higher in 2017, however the result was due to adjustments in maintenance schedules and a higher number of maintenance works undertaken in 2017 compared to 2016. The 15 million euro negative effect from other changes mainly related to a change in the accounting for derivative instruments. Whereas in 2016 there was a gain from certain derivatives valued through profit and loss statement, there was no such gain in 2017. All in all, EBITDA from the electricity segment totalled 98 million euros.

Next let's cover the distribution segment, starting with slide 11. As has already been discussed in our quarterly reports, distribution tariffs were decreased in the second half of 2017. To clarify, there were in fact two reductions of tariffs. First, a 6.7% decrease in July and later an additional 2.3% decline that took effect in November. The second 2.3% decrease was due to a reduction in a corresponding decrease in the transmission system operator's tariffs and is a pass-through item for our distribution business. The average distribution sales price declined by 4% which is less than the average decrease in the tariff because the impact was not yet effective for the full year. Higher distribution volumes compensated partly for lower prices so the segment's revenues

declined by 2% to 247 million euros. Network losses totalled 4.7% which is higher than in 2016 but we expect the increase to be temporary.

On slide 12 it can be seen that the reduction in the tariffs also had an impact on the EBITDA of the distribution segment. Higher distribution volumes had a positive effect but in total the segment EBITDA declined by 5% and amounted to 107 million euros.

Now moving on to slide 14, let's look at the results of the shale oil business. The positive oil price backdrop compared to 2016 meant that the segment's results improved substantially. Both Eesti Energia's shale oil production and sales increased by more than 20% in annual comparison. In 2016 production had been briefly affected by low market prices whereas there was no such impact in 2017. The group's shale oil production totalled 395 thousand tonnes. The production volume of the newer Enefit 280 plant amounted to 186 thousand tonnes which is 46% more than a year before on the back of improved operational parameters. The average shale oil sales price increased by 5% to 233 euros per tonne. The group had entered into hedge positions that moderated the positive impact of the general market price increase. There are hedge positions in place also for 2018 and for 2019 and the quantities and hedge prices can be seen on this slide.

Shale oil EBITDA also increased and amounted to 24 million euros in 2017. Margins improved on the back of better market prices and lower cost of oil shale. Volumes also had a positive effect on EBITDA. Hedge positions partly held back the positive momentum as hedge price levels were lower than final average market price. There was also a slight negative effect from higher fixed costs. In total, 2017 can be considered a nice bounce back for the shale oil business.

On slide 16 we summarise the revenues and EBITDA from the rest of the products and services as well as certain transactions of more one-off nature. EBITDA of these other items totalled 87 million euros in 2016 but only 35 million euros in 2017. There are three major items that explain this decrease. Firstly, in 2016 there was a one-off positive effect of 14 million euros from the retroactive reduction of resource charges but there was no such event in 2017. Secondly, there was the impact from liquidated damages related to the Auvere power plant. We received liquidated damages from General Electric both in 2016 as well as in 2017, but the amount was larger in 2016 by 38 million euros. And finally, in the first quarter of 2017 there was a positive impact from the Jordan electricity project which contributed around 9 million euros to the 2017 result. These are the major factors that explain the result of this other segment.

Next let's discuss the developments in the Group cash flow last year. On slide 17 it can be seen that Eesti Energia's operating cash flow exceeded EBITDA by 5 million euros in 2017. The largest component behind this result is the payments of liquidated damages that Eesti Energia received from General Electric. A large share of these liquidated damages were included in EBITDA already in 2016 but the actual payments happened in 2017 so a positive effect of 58 million euros appears in last year's working capital. The impact from CO2 related items contributed -38 million euros as we purchased more allowances than needed for 2017 emissions. Cash flow related to derivative instruments contributed a positive of 30 million euros while interest paid amounted to 27 million euros in 2017. The profit from the financial close of the Jordan project was recorded in investment cash flow so it appears as a negative item when analysing operating cash flow. All in all, operating cash flow equalled 269 million euros in 2017, which exceeds EBITDA and can be considered a very solid result.

On the next slide let's also have a quick look at what contributed to the growth in Eesti Energia's operating cash flow in 2017 compared to 2016. Working capital movements had a positive impact of 124 million euros out of which 80 million euros is made up of Auvere liquidated damages. Reduction in other types of receivables also had a positive contribution to working capital. The impact from CO2 related items totalled 43 million euros due to a larger quantity of CO2 allowance purchased in 2017. Derivative instruments had a negative contribution to operating cash flow in 2016 but a positive impact in 2017 and the total difference was 44 million euros. In 2017 there were no income tax payments as opposed to 2016 so that's another positive effect to cash flow. In total, operating cash flow increased by 68 million euros in 2017 despite a 63 million reduction in EBITDA in the equivalent period.

Let's also look at investment cash flows on slide 19. Eesti Energia's capex amounted to 144 million euros in 2017 which is just a 2% increase compared to the year before. The largest share of the investment amount was taken up by the distribution network where we continued improving the reliability of the grid. Other maintenance investments increased to 28 million euros. When talking about development projects, around 10 million euros were invested in a project to increase the capability of burning retort gas in one of the power blocks. The total cost of the project is expected to be around 15 million euros. Regarding Auvere, the additional filters have now been installed by General Electric and the plant has passed the majority of the tests that are needed for acceptance. There are however still some milestones that need to be passed before the plant is transferred by GE to Eesti Energia. This is currently expected to happen in the second quarter of 2018.

Starting with slide 20 let's also have a quick view at Eesti Energia's liquidity and funding. You can see that as a result of

healthy operating cash flow and moderate investments, the balance of cash and cash equivalents increased to 299 million euros by the end of the year. The liquidity level has turned out to be somewhat higher than expected as some of the capex including final payments for Auvere and the Tootsi wind farm project have been delayed but on the other hand this means that we are well prepared for the upcoming bond repayment later this year. In addition to existing cash, there are revolving credit facilities in place with SEB and OP Bank, should any unexpected liquidity needs arise.

With regards to funding and leverage metrics on slide 21, the Group's net debt to EBITDA ratio stood at 2.2 as at the end of the year, which is unchanged from 2016. While the group's EBITDA has declined, there has also been a corresponding decline in the level of net debt. Eesti Energia's credit ratings stand at BBB flat from S&P with negative outlook and Baa3 from Moody's with stable outlook. We have a eurobond maturing this year but our base case is that there is no refinancing required and we will be able to redeem it out of our existing cash.

Finally, let's also look at the outlook for 2018. It is estimated that in 2018 the group's sales revenues will grow by more than 5% while EBITDA will decline by more than 5%. Excluding the one-off positive effects in 2017 such as the liquidated damages from Auvere and the Jordan project, EBITDA is expected to remain at the same level as in 2017. Investments are forecasted to grow in 2018 as some of the maintenance investments have been postponed to this year and we have also budgeted higher capex for developments, including final payments for Auvere. It should also be noted that once we accept Auvere power plant from the contractor the costs and revenues will no longer be capitalised and will fully run through the income statement. This implies about 55 to 60 million euros increase of costs.

To sum up, 2017 was a year which was characterised by a slight increase in revenues. EBITDA declined but the reason was primarily positive one-off effects in 2016 which pushed up the baseline for the comparison. Investments were flat as payments for some development projects were delayed and this also supported Eesti Energia's liquidity and leverage profile. We are now to take any 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 selections. Anyone who has a question may press * followed by 1 at this time. And one moment for the first question please.

Operator And there are no questions.

Andri Avila If there are no questions then I conclude this presentation and the next time we are going to present results is for the first quarter of 2018 at the end of April. Thank you.