

# **Eesti Energia Unaudited Financial Results for Q3 2022**

**3 November 2022  
Transcription**

### Introduction by Danel Freiberg

Ladies and gentlemen, thank you for standing by. My name is Danel Freiberg, Head of Investor Relations and Treasury of Eesti Energia. Welcome and thank you for joining Eesti Energia 2022 3rd quarter financial results investor conference call. Throughout today's recorded presentation, all participants will be in a listen only mode. Should you have any questions, you may write them in the chat, or after the presentation we are available for a question and answer session.

We will be also showing the slides on the screen as we go along. The report together with the presentation are available at our website.

Unfortunately our CFO was not able to join us today, so the investor call shall be covered from my side.

### Slide 3

Starting from slide number 3 we have provided an overview of selected operational metrics. The picture is pretty similar to the second quarter with the same trends of high energy prices continuing to shape the markets and the operations of the group. Sales volumes of the retail business from outside of Estonia continue to increase and now make up 61% of volumes. This is in line with Group's strategy and up from 55% a year ago. Distribution volumes decreased 8.6%. While electricity production saw significant increase in production from non-renewable assets which are the dispatchable oil shale-based hybrid power plants. There was a slight decrease of renewable production due to unfavorable wind conditions. The increase in the usage of the dispatchable oil shale based hybrid power plants comes as direct consequence of a tense power market situation where gas prices have pushed electricity prices north of 200 euros per MWh on a constant basis. Eesti Energia as the holder of reserve power supply assets in Estonia, needed to operate older asset base during the quarter as a direct consequence of the high electricity price environment providing electricity not only to Estonia, but also to the Nord Pool region. The older asset base consists of PC, Pulverized Combustion, units that have been modernized but still are less flexible on the intake fuel and have higher CO2 intensity figures compared to the more modern and flexible CFB units. Those older PC units have been kept for the sake of reserve security of supply, and saw utilization in the third quarter, pushing up non-renewable electricity production and CO2 figures. In the normal circumstances of the power market those assets would not be used, but today every MWh of electricity produced from other sources than gas is highly welcomed on the market as most likely it is cheaper.

### Slide 4

Now turning to next slide, number 4, a brief overview of main financial figures has been provided with significant increases in all fronts, except operating cash flow. Again, trends are similar as seen in the second quarter of this year. The high electricity price environment continues to support the ongoing operations while the Group continues to develop its asset base through investments to renewable energy, distribution network, and chemical Industry transition through the construction of a new Enefit280 production facility. Investments of the group continue to increase and were just shy of a hundred- and twenty-five-million-euro mark. These investments help to increase the energy independence and generation of affordable and environmentally friendly electricity in the region.

Quarterly operating cash flow decrease by 167.6 million euros on annual terms that was mainly negatively affected by CO2 impact in the amount of 145.9 million euros and derivative instruments in the amount of 138.7 million euros.

In the first quarter of this year, we introduced a new definition of adjusted EBITDA which in the 2nd quarter was nearly 12 million euros lower than the reported EBITDA at 92 million euros due to non-monetary revaluation of long-term PPA contracts. The effects in the third quarter were higher, with difference between reported and adjusted EBITDA at 101 million euros. The streaked area on the EBITDA graph shows the impact from this specific item. We provided more detail into the accounting specifics of the topic in the first quarter investor call, so those who wish may find the recording and the transcript from our investor webpage.

### Slide 5

To cover the markets, please turn to slide number 5. Let's start with the electricity market, where the high price environment has increased further. The most talked about factor for the high power prices is gas which due to 200 euros per MWh market prices during the third quarter took the gas fired power plant variable cost to around 400 euros per MWh. As in most parts of Europe, gas power units are used for peak electricity production also in Latvia and Lithuania. Therefore, gas is the major reason for high electricity prices in the region due to lack of alternative electricity production facilities. Secondly, the stoppage of electricity inflows from Russia to the Nord Pool region. Earlier periods have seen significant electricity inflows to the Nord Pool area from Russia through Finland and Lithuania via Kaliningrad. Thirdly, an important factor on the significant price spreads between different countries are the interconnection capacities. During the quarter there were significant limitations on the Estonian-Latvian border connections while the two Estlink cables between Estonia and Finland were operational, however congested most of the time.

The dark blue dotted line on the graph, the Clean dark spread of Eesti Energia's dispatchable hybrid power units grew significantly due to higher electricity prices, while CO2 prices at 60-100 euros per ton and higher oil shale costs have taken away nearly 35% of the high electricity price benefit. In the second quarter we also pointed out that the effect of added solar capacities in Estonia did not alleviate prices as was expected due to significant maintenances of base load power production units in the Nordics, and also for our units. In addition, as Latvia and Lithuania are in a larger deficit of electricity than Estonia without dispatchable reserve supply assets, the surplus electricity in one region is transported to the deficit area and this pushes the prices higher also for the surplus areas.

### Slide 6

Moving on to slide 6 we have provided an overview of the oil markets. Oil market prices have decreased and are at a similar level as in the first quarter, with Brent and fuel oil moving in similar fashion. From what we see, there are currently 2 main factors shaping the global oil market. On the one side we have Russia's military assault on Ukraine with Europe's intention to lower energy dependence on Russia, and at the same time there still seems to be globally insufficient supply due to limited spare production capacities.

### Slide 7

But now, turning to slide number 7, let's start the financial overview of Group's results. As mentioned, the picture is similar to the second quarter, both sales and EBITDA profit of the Group increasing with electricity segment being the main driver due to high electricity market prices. DSO segment's profitability was held back by the same reason of higher electricity market price, as this affects the purchase costs of network losses. The associated higher electricity purchase costs are not yet reflected in the current regulated tariff to full extent. Shale oil segment's revenues were stable due to hedges made from lower price levels a year ago despite 5,5% higher quarterly sales volumes. Shale oil EBITDA was affected by increased variable costs which kept the shale oil segment in the negative EBITDA territory. Natural gas

sales revenue more than doubled and increased by over 19 million euros. The EBITDA change of 43 million euros largely comes from change in value of unrealized derivatives. The Other products and services segment benefitted from pellet sale revenues by 7 million euros and other sales in the amount of 17 million euros. Also, there were additional profits of nearly 6 million euros from the provision of frequency reserve services.

#### Slide 9

As usual, let's start the coverage with the electricity segment. So please turn to slide number 9. Sales revenues of the electricity segment rose by nearly three times from 186 to 513 million euros mainly due to high price environment, but also thanks to 12% higher sales volumes with retail sales increasing by 14%. Retail volumes have increased in all markets except Estonia which had a small decrease of ca 2%. Latvia's volumes increasing the most at 38% in annual comparison. Other markets have all seen at least 10% increases in volumes. On the electricity production side, volume was 23% higher than a year ago in the third quarter due to utilization of reserve security of supply assets. Group's renewable electricity generation in total fell by ca 16%, with wind energy production decreased on annual comparison by slightly more than 25% due to unfavorable wind conditions. Besides lower wind energy production, electricity generation from waste wood and biomass which fell by ca 11% due to tense biomass market situation, as the availability of the resource at reasonable price levels is a challenge. In addition, the utilization of older reserve security of supply assets implies also less power generation from waste wood as these units are less flexible on the Intake fuel mix compared to the more modern CFB units

#### Slide 10

Moving to the next slide, number 10, electricity EBITDA development is shown. The solid dark blue column is the reported EBITDA, with the streaked column showing the impact from revaluation of PPA contracts. The first red column, „margin impact“, was ca 5 million euros negative, but inside the column there are significant movements in both directions detailed in the first bullet on the graph. The fixed costs were impacted mainly by higher payroll costs. The biggest positive effects came from realized hedging impacts which are in the column of „Gain on derivatives“ as average sales price including derivatives was higher than without hedging impacts due to production related hedges. Large positive impact came from high electricity prices for the production units, while electricity purchases for the retail portfolio at market terms for market-based contracts increase the cost side. Also, higher CO2 costs for the flexible hybrid power units effect the variable cost negatively. All in all, the electricity segment's result was very strong with adjusted EBITDA over 66 million euros, and the reported figure over 100 millions higher.

#### Slide 12

Moving onto the distribution segment's performance, please turn to slide number 12. Distribution sales volumes decreased annually by 8,6%, with the added solar capacities, warm autumn weather and lower consumption due to high electricity prices being the main culprits. The exact impact from added solar capacities, which now stand at 645MW vs 405MW at the end of last quarter and 385MW at the end of last year, can be derived but there is no exact figure. The reason is that the lower consumption of the consumers due to installed solar capacities does not show up in the metering data received by the DSO, because the system is built up on net consumption or production numbers. Therefore, for most of consumers lower quantities can be seen but what are the effects from lower inherent consumption or self-produced quantities, is unclear.

Turning attention to sales revenues, the increase can be traced back to the average tariff. This year there have been 3 tariff increases so far, and a fourth one will come in December with an additional 2% rise compared to the current tariff levels. In Estonia there are no set regulatory periods, therefore the DSO can submit an application to the Competition Authority for a new tariff basically at any time. All four tariff changes are tied to higher electricity purchase costs as a direct result of higher network loss costs. One tariff increase also included the impact from the rise in the Transmission System Operator's tariff. On the bright side, the reliability of the network has been better from last year with network losses and interruption durations both improving.

### Slide 13

Turning to next slide, the overview of distribution EBITDA has been provided where the picture once again is very similar to second quarter results. Largest negative impact in annual comparison came from costs related to network losses with lower volumes and fixed costs also decreasing profits.

### Slide 15

Next, let's move on to shale oil operations on slide 15. Production quantities increased by nearly 23% from last year's levels as there were fewer planned maintenances this year. Shale oil sales volume was about on the same level as production during the quarter, with year-on-year 5,5% rise in sales volumes. Sales revenue of the segment continues to be held back by hedges done from lower market prices from last year. On the bright side we are seeing good demand for our liquid fuel products portrayed by the premium received when comparing the average shale oil sales price to market price of heavy fuel oil.

### Slide 16

Moving onto next slide, the columns that pop out are „margin impact“, and „gain on derivatives“. „Margin impact“ column includes the market price effect without hedges and also the negative effect from variable costs. „Gain on derivatives“ column includes hedging impacts for the quarterly sales quantities, while the „Other“ column includes the change in the value of unrealized gain of derivative instrument in annual comparison. A year ago, there were negative impacts to the market value of hedges that are no longer affecting the PNL Statement due implementation of Hedge Accounting framework from the beginning of this year.

### Slide 18

Next, let's move on to natural gas operations on slide 18. Gas sales volumes decreased by 32.7% from last year's levels due to lower demand caused by high market prices. Despite the lower sales volume, revenue from sales increased by 160.4% and reached 31.6 million euros which is a result of significantly higher gas prices of 162.0 euros per MW/h a 286.7% increase compared to last year's quarter.

### Slide 19

Moving onto next slide, the overview of natural gas EBITDA has been provided. Largest positive impact in annual comparison came from unrealized derivatives over 43 million euros. This resulted in EBITDA increase of 43.4 million euros and increase of 141.8% compared to last year's quarter.

### Slide 20

Please turn to slide number 20 to cover Other products and services. The main reason for the higher sales revenues were pellet sales and other sales that comprise of other products and

services, materials, industrial equipment and impacts of one-off transactions and R&D costs. Heat EBITDA declined mostly due to increased CO2 emission costs and halts at Iru power plant due to maintenance, while a new revenue stream, frequency restoration reserve service, or FRR in short, ended up in 5,6 million euros contribution to revenues and EBITDA. This is a service offered by Group's dispatchable hybrid power plants to transmission system operators in Finland, and Estonia from the start of this year. The nature of the service is to offer TSOs additional capacities for keeping the electricity system's frequency in balance through ramping the production units up or down based on the necessity. Negative impact on EBITDA came from Auvere power plant compensation in the amount of 28 million euros for the availability guarantee for the period between July 2018 and August 2020.

### Slide 21

On next slide, number 21, we have provided a comparison of this year's third quarter EBITDA to Operating cash flows. EBITDA to operating cash flows were 236.1 million euros weaker mainly due to CO2 and derivative instrument impacts. CO2 impact comes from two places. Firstly, ca 113 million euros positive impact came from CO2 related non-cash provisions posted in the Income Statement while the actual purchase for cash happens usually in the end of the year. Secondly, ca 173 million euros of negative effect came from received mark-to-market moves that represent the market price movement of CO2 allowances at the commodity exchange due to Group's long position in CO2 instruments. Other hedging related derivative instruments also witnessed negative cash flows during the quarter. Most of this came from the electricity and gas instruments where forward price curves decreased and again the group paid relevant mark-to-market collaterals in cash. Third largest column on the graph is tied to the working capital changes where largest negative impacts came from increased short-term receivables and change in current assets.

### Slide 22

Moving onwards to slide number 22, we have compared third quarter operating cash flows from this year to last year. The main factors are the same as on the last slide, in addition the stronger EBITDA figure of nearly 130 million euros and change in current assets which is slightly positive. The CO2 column on this page is higher than on the last page due to significant price fluctuations and increase in CO2 positions. Interest paid increased by 0.8 million compared to Q3 2021 and income tax expense increased by 4.7 million compared to last year third quarter.

### Slide 23

Next, let's cover the investments. For this, please turn to slide 23. Investments during the quarter increased from 60 to 124 million euros mainly due to increased investments to the different development projects led by new renewable asset developments in Lithuania, Finland, Estonia, and also the Enefit-280 chemical plant. Distribution network remains one of the biggest recipient of investments where the significant share goes to improving connections that will enable to add more solar production units to the network. During the quarter the Group did not make any new final investment decisions. Previous commitment for 2025 was to add 600MW of new wind and solar capacity, and this still stands. With the update to the strategy, the Group has taken new ambition to increase Renewable capacity to nearly 1900MW by the end of 2026 from the current 457MW.

### Slide 24

Turning to slide number 24 an overview of the Group's liquidity position is provided. At the end of third quarter, Group's cash position amounted to nearly 380 million euros. In addition, the

group has access to 565 million euros of undisbursed loans. The liquidity position of the Group is expected to stay strong despite decrease expected in the fourth quarter of the year due to investments and working capital requirements which mainly relate to the CO2 allowances purchase currently forecasted for the month of December, but with possibility to postpone the purchase until next year's April. We would like to stress that the group is conscious of the liquidity buffers required considering the volatility of the energy markets and upcoming investment commitments.

### Slide 25

On slide 25, there is an overview of the group's leverage ratios and debt repayment profile. On the back of strong operating cash flows and EBITDA, and successful IPO of the minority listing in October last year, the net debt to EBITDA ratio of the Group has remained stable and is at a level of 1.0x. We expect the net debt to EBITDA ratio to increase by the end of the year due to investments and working capital requirements.

The group's credit ratings remain unchanged compared to previous investor call, BBB- from Standard and Poor's and Baa3 from Moody's. Eesti Energia's financial policy is aimed at maintaining investment grade credit rating and a net-debt to EBITDA long-term target of 3.5 times.

### Slide 26

Turning to the 2022 Outlook on slide 26, the Outlook is unchanged from the end of second quarter. Growth in Group's sales revenue is expected mostly from higher electricity market price and volumes. EBITDA is expected to increase as well, as power prices and volumes are supportive, and also a significant boost from Power Purchase Agreement revaluations realized in the first nine months of this year in the amount of nearly 195 million euros. Investments are expected to grow from the levels of 2021, with increase expected from renewable energy developments, larger distribution network investments and the construction of the new Enefit280 production facility.

### Slide 27

To conclude today's presentation, please turn to the last slide, number 27. Group's performance in the third quarter of 2022 resulted in a strong third quarter turnover, 126% higher than a year ago. EBITDA levels saw over three time increases on both reported and adjusted basis. Third quarter ended with a decent net profit of 128 million euros, with adjusted net profit 101 million euros lower at 27 million. Electricity segment has been the clear driver of the results due to extraordinarily high market prices. The strong financial performance enables to carry out investments with focus on affordable renewable energy solutions in line with the long-term strategy of the Group. Year to date investments are over two times higher, at 124 million euros.

Ladies and gentlemen, with this we conclude today's presentation, and we are now ready to take your questions. Anyone who wishes to ask a question, please use the "raise hand" feature or write a question to the chat.

### Closing Comments

Seems that there are no questions at this point. So, on behalf of Eesti Energia I would like to thank you for listening and see you again at the beginning of March when we present our 2022 annual results. Thank you