



# JSC Latvijas Gāze

*Results of the 1<sup>st</sup> Half 2019*

*- Webinar -*



Sebastian Gröblichhoff  
Vice-Chairman of the Board / CFO  
JSC Latvijas Gāze

*Riga, 22 August 2019*



# Agenda



- 1 **Latvijas Gāze group and shareholder structure**
- 2 **Key market developments during 1<sup>st</sup> Half 2019**
- 3 **Financial results 1<sup>st</sup> Half 2019**
- 4 **Outlook Full-Year 2019**
- 5 **Questions & Answers**



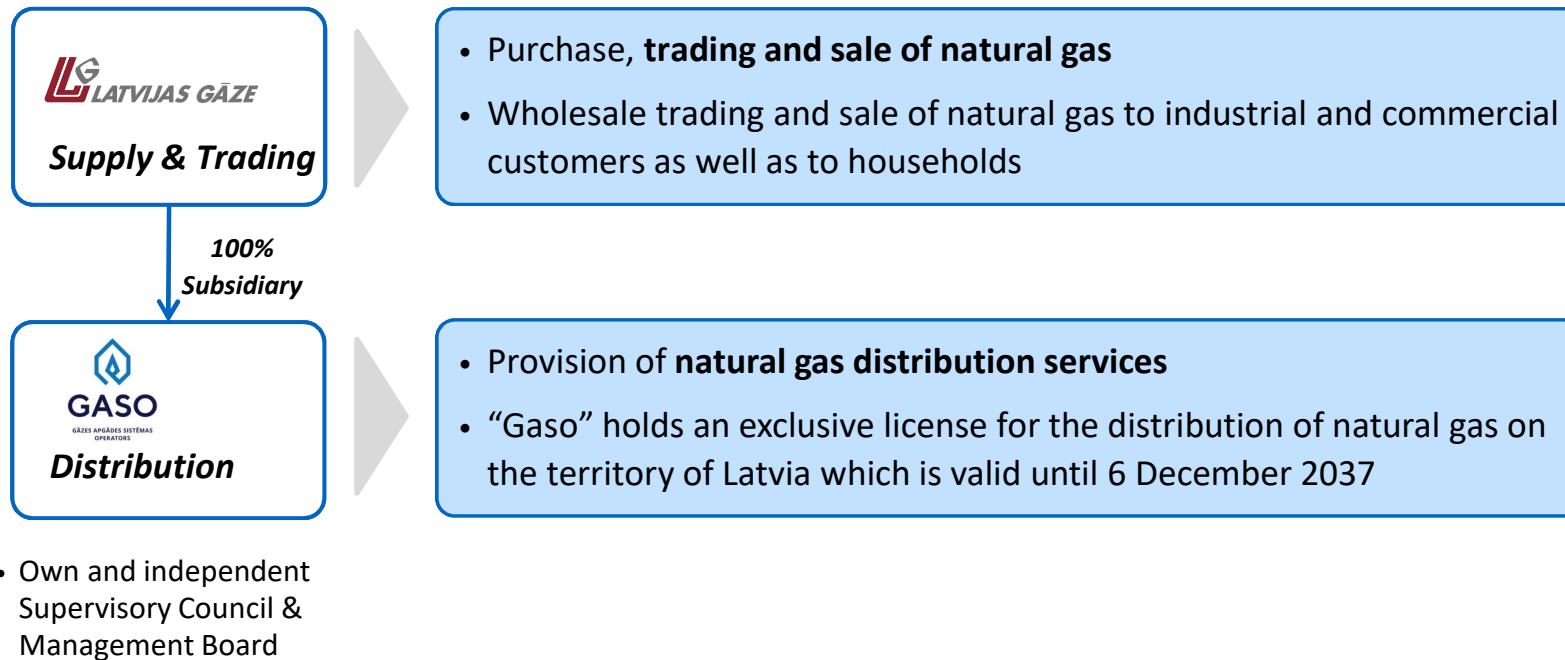
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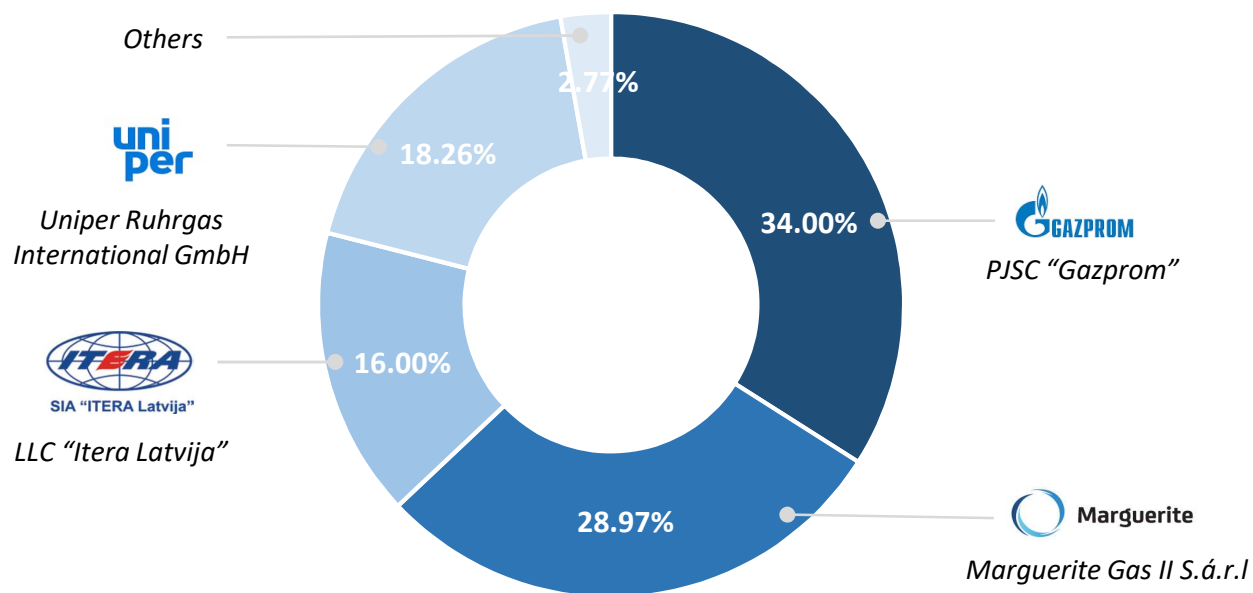
- 1** Latvijas Gāze group and shareholder structure
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# Latvijas Gāze group structure as of 30 June 2019



# Latvijas Gāze shareholders as of 30 June 2019



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1 Latvijas Gāze group and shareholder structure

**2 Key market developments during 1<sup>st</sup> Half 2019**

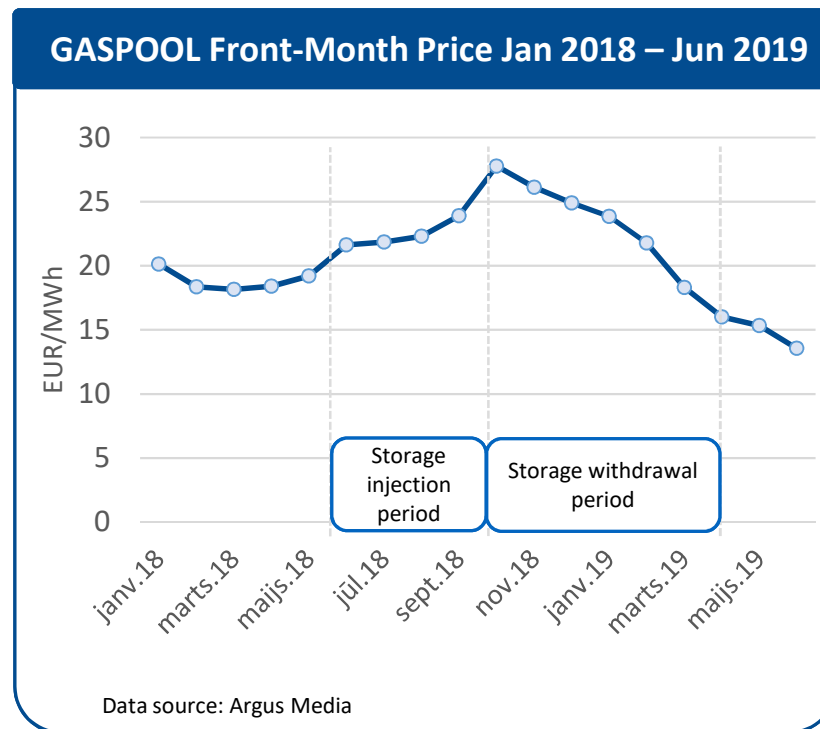
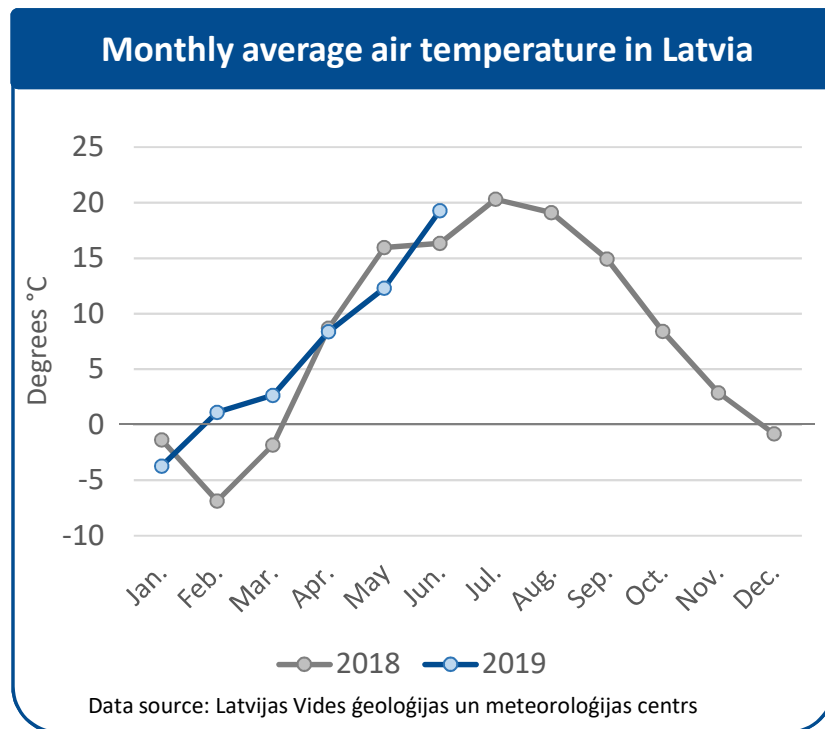
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# Above seasonal-normal temperatures and a collapse of market prices characterized the market environment during 1H 2019



- Average air temperature in Latvia during Jan – Jun 2019 was 1.5 degrees Celsius higher year-on-year
- European gas **hub prices dropped by more than 50%** between October 18 and June 19
- Apart from that, **hub prices exhibited a strong short-term volatility** (e.g. intraday volatility)



# Key developments on the global gas markets strongly affected regional market developments



## Global market developments

- **Mild winter** with above long-term seasonal temperatures across most parts of Europe
- European natural gas hub **prices collapsed**
- **High summer/winter spreads** triggered strong storage injection across Europe
- Worldwide discussions on measures against climate change and the transition to a carbon-free economy continued

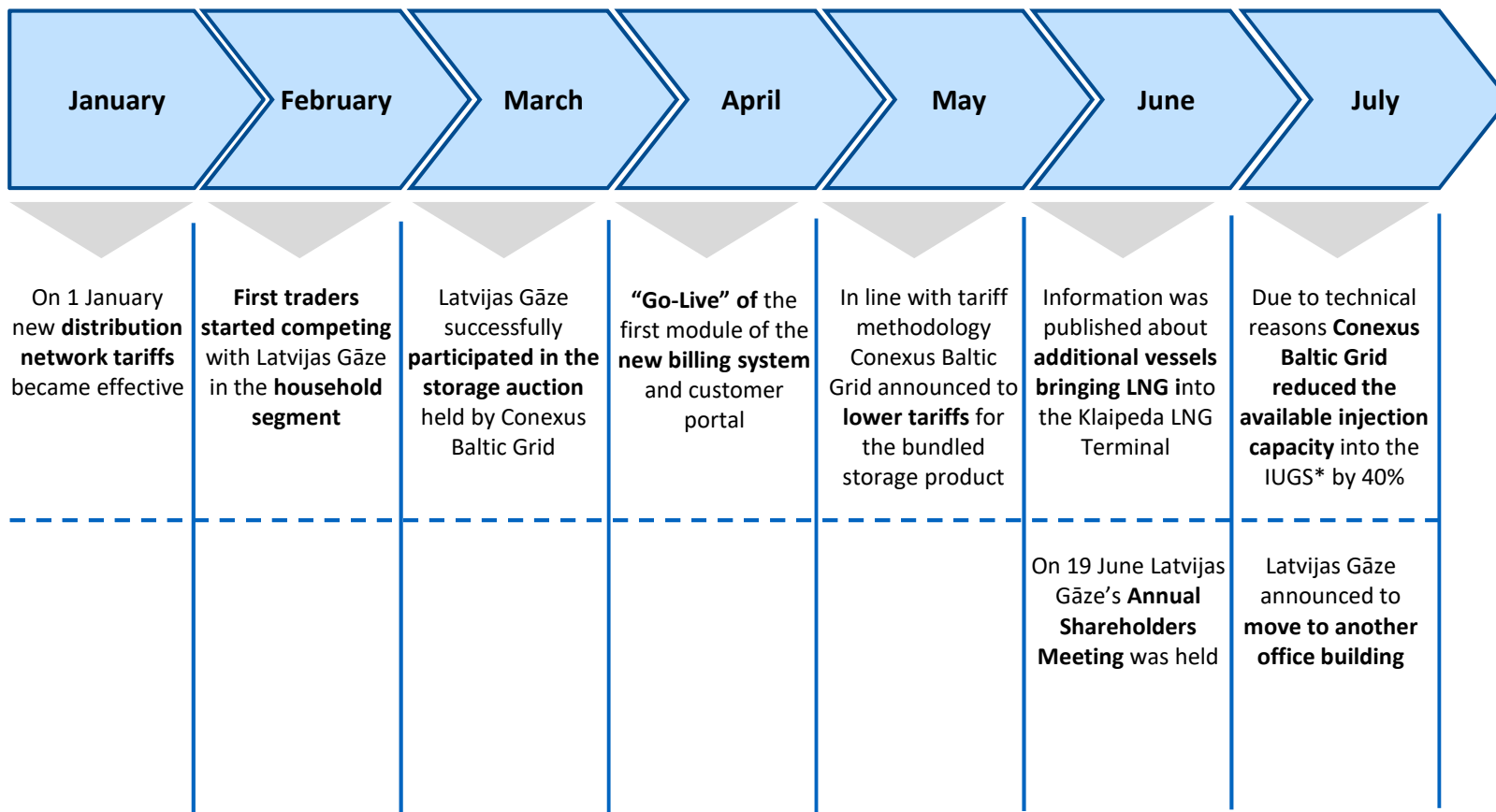
## Regional market developments

- Drop in global natural gas prices also exerted **strong downward pressure on natural gas prices** in the Baltic region
- Supplies to Klaipeda LNG Terminal were significantly up
- **Competition** in the Latvian and Baltic natural gas market **further increased**
- **Customers** with fixed prices **more frequently asked for price adjustments**
- Water levels in Daugava and price developments at the Nordic power exchange remained key drivers behind the use of natural gas in power generation





# Selected key events during the period January - July 2019 impacting the operations of Latvijas Gāze Group



\* Inčukalns Underground Gas Storage



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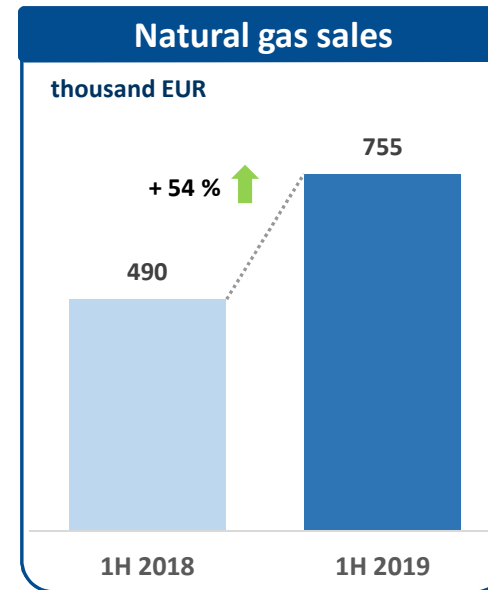
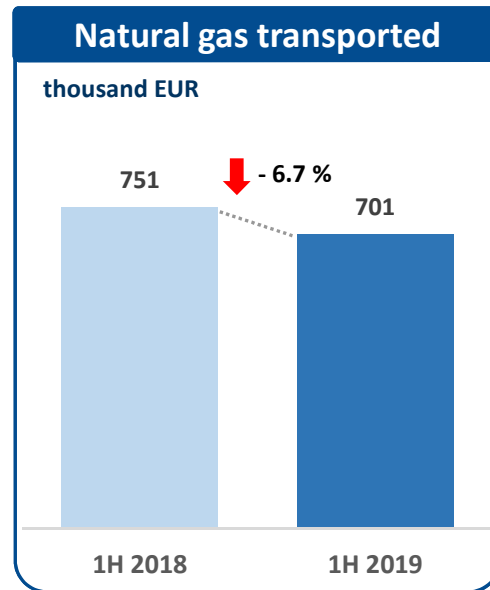
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# Despite the mild winter and lower gas demand in Latvia the Group's sales & trading segment managed to increase gas sales



### Distribution Segment

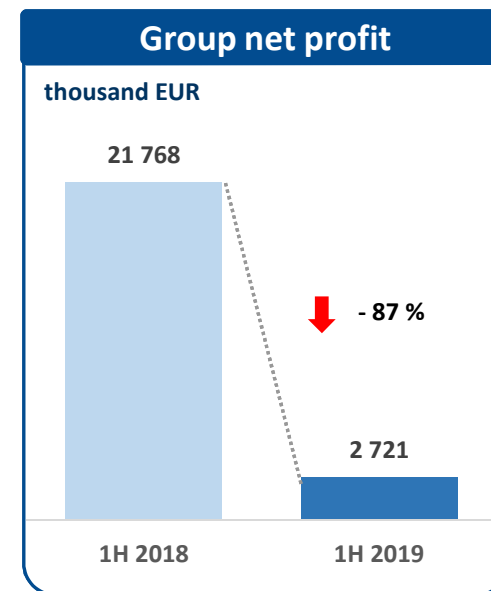
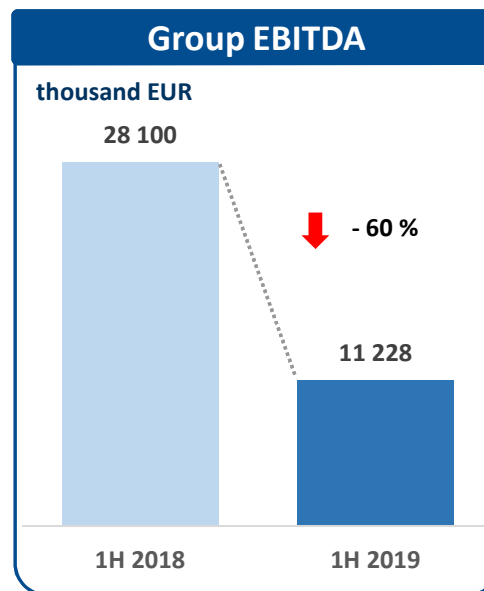
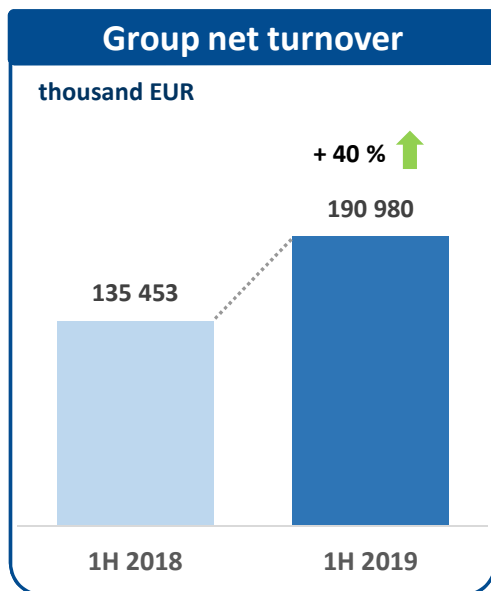
- Mild temperatures and the subsequent lower gas demand led to a year-on-year decrease in the amount of natural gas transported through the gas distribution network in Latvia

### Sales & Trading Segment

- Strong sales to newly acquired customers in Estonia and strong gas demand from the power generation segment during May and June were the key drivers behind the segment's growth in sales



# Despite a 40% increase in net turnover the Group's EBITDA and net profit in H1 2019 dropped significantly year-on-year



## Distribution Segment

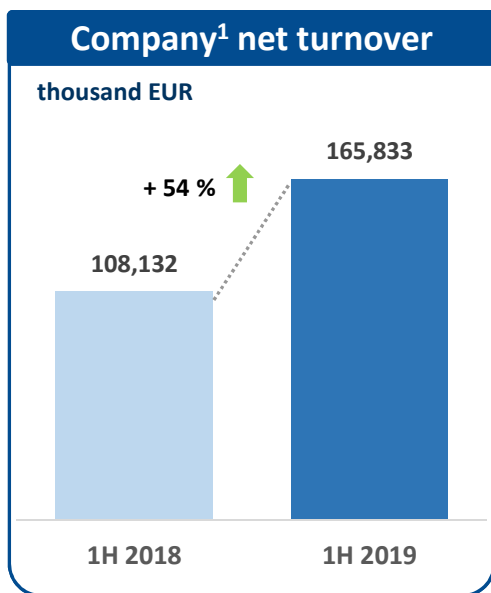
- The segment's assets had a worth of 263 million EUR and constituted 63% of the Group's total assets
- The segment's turnover year-on-year dropped by 12.4% to approx. 27 million EUR
- Net profit amounted to 6.8 million EUR for the first half of 2019, which was 33% lower than a year before

## Sales & Trading Segment

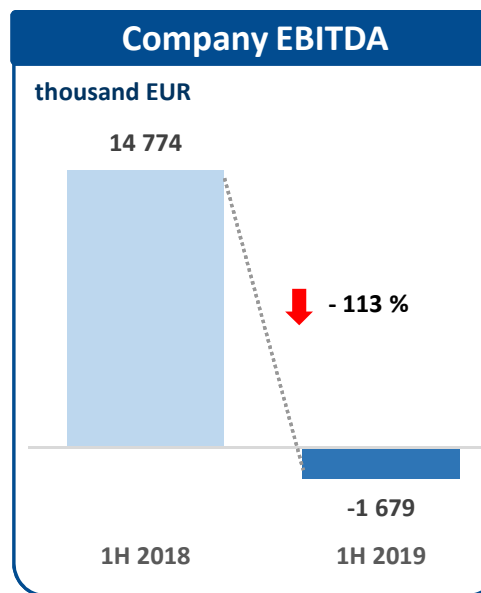
- The segment's assets had a worth of 153 million EUR mainly consisting of gas in storage and cash
- The segment's turnover amounted to approx. 164 million EUR and increased by 57% year-on-year
- Overall the segment closed the first six months of 2019 with a loss of 4.1 million EUR



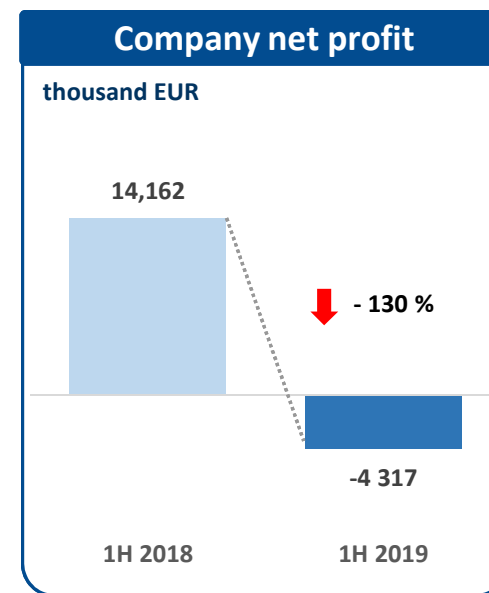
# Strong sales of Latvijas Gāze could not mitigate negative effects from a combination of unfavourable factors in 1H 2019



- Strong sales to the power generation segment and to customers in Estonia were the key drivers behind the growth in net turnover



- However, several unfavorable factors weighed heavily on the sales & trading segment's operations and resulted in negative earnings (EBITDA)

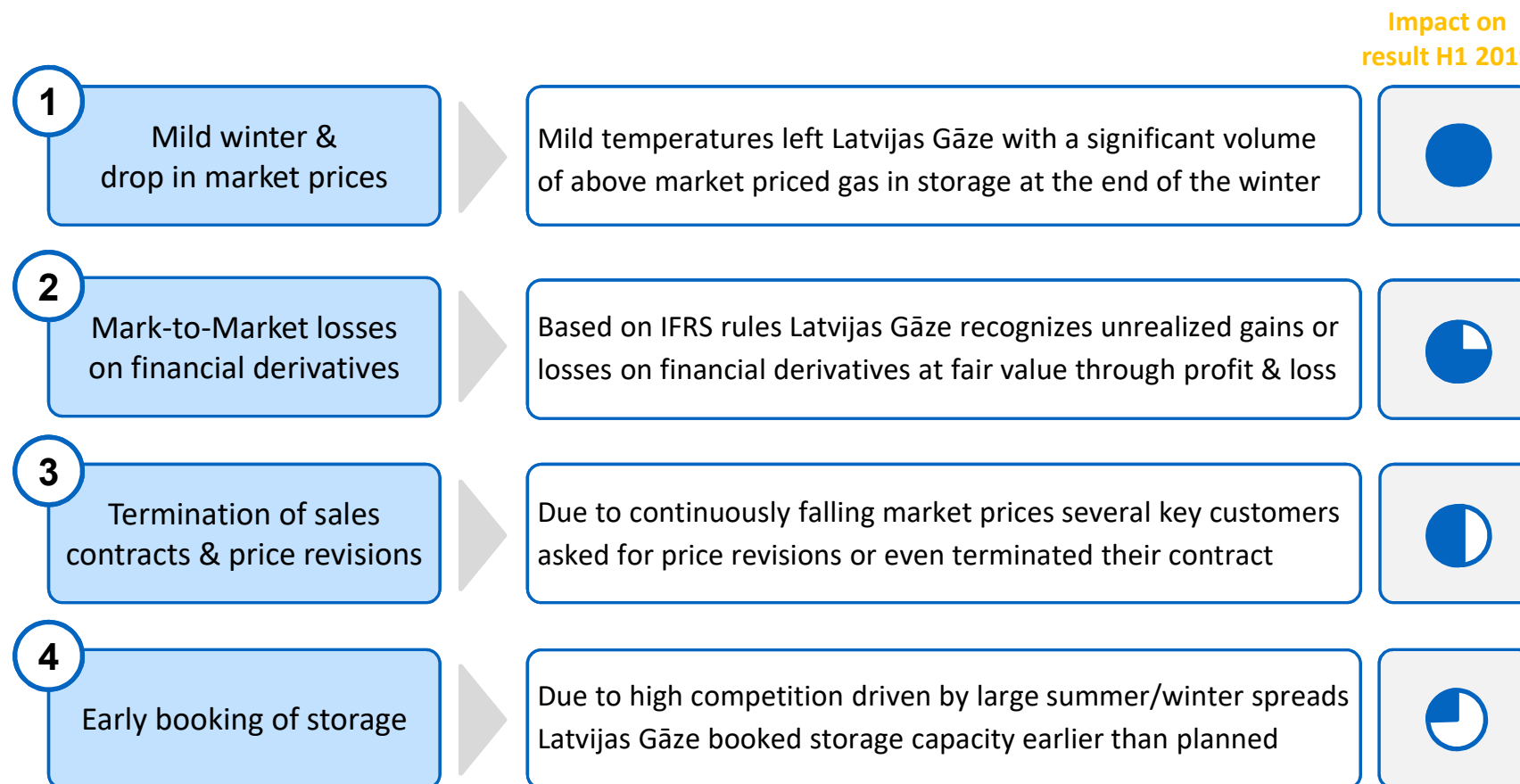


- Negative earnings and Corporate Income Taxes on dividends resulted in a loss of the sales & trading business for 1H 2019

<sup>1</sup> "Company" refers to Latvijas Gāze group's sales & trading business only



# A combination of several unfavourable factors resulted in an operating loss for 1H 2019



The impact of **2** and **4** on the FY 2019 result will be mitigated through respective income from physical deliveries in QIV and lower storage expenses in the second half of 2019.



# Despite the weak operational result in 1H 2019 Latvijas Gāze Group maintains a healthy Balance Sheet and liquidity position



Balance Sheet				
	Group	Group	Company <sup>1</sup>	Company <sup>1</sup>
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
<b>ASSETS</b>	<b>416,013</b>	<b>412,479</b>	<b>347,892</b>	<b>351,519</b>
Total non-current assets	242,817	245,135	199,550	198,729
Total current assets	173,196	167,344	148,342	152,790
<b>LIABILITIES &amp; EQUITY</b>	<b>416,013</b>	<b>412,479</b>	<b>347,892</b>	<b>351,519</b>
Equity	291,203	310,355	280,126	306,388
Non-current liabilities	47,855	50,089	125	125
Current liabilities	76,955	52,035	67,641	45,006

Selected Financial Ratios				
	Group	Group	Company <sup>1</sup>	Company <sup>1</sup>
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
<b>Debt-to-Equity Ratio<sup>2</sup></b>	<b>0.43</b>	<b>0.33</b>	<b>0.24</b>	<b>0.15</b>
<b>Current Ratio<sup>3</sup></b>	<b>2.25</b>	<b>3.22</b>	<b>2.19</b>	<b>3.39</b>

<sup>1</sup> Company refers to Latvijas Gāze group's sales & trading business only and, thus, does not include the results of the JSC "Gasol" which are consolidated on Group level

<sup>2</sup> Debt-to-Equity Ratio = Total Liabilities / Total Equity

<sup>3</sup> Current Ratio = Current Assets / Current Liabilities



# Latvijas Gāze invests into improving core business and customer processes and strives to bring down its operating costs



## Capital expenditures (“CAPEX”)

- Focus of investments in 2019 is on **IT systems & infrastructure**
- CAPEX strategy 2019/20 is geared towards improving the effectiveness and efficiency of core business and customer processes
- In total Latvijas Gāze **plans to spend approx. 2.4 million EUR** on IT systems & infrastructure in 2019
- Investment program is well on track

## Operating expenses (“OPEX”)

- Latvijas Gāze initiated an ambitious **cost savings program** to bring down OPEX
- Cost savings program strives to **decrease OPEX in 2019 by 15% year-on-year**
- After first six months 2019 cost savings **program is well on track**





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# Outlook Full-Year 2019



## Short-term market outlook

- Market prices expected to remain volatile
- Uncertainties around IUGS injection regime to continue during upcoming months
- Availability of attractively priced LNG to spur short-term supply competition in the Baltic region

## Outlook on Group FY 2019 result

- Latvijas Gāze **committed to improve the sales & trading result** during second half of 2019
- Mark-to market losses will be matched by income from physical supply contracts starting as of November
- However, **risk that further unfavorable developments hit the sales & trading bottom line** remains
- Despite the current situation in the sales & trading segment we **expect a positive FY 2019 result on group level**



## Financial Calendar / Upcoming Event



<b>09 Oct. 2019</b>	Extraordinary Shareholders Meeting
<b>27 Nov. 2019</b>	Publication of 9 months 2019 unaudited financial statements



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