



JSC “Latvijas Gāze” Webinar

Riga, 25 November 2021



AGENDA

1. Gas market

2. JSC “Latvijas Gāze” group results

2.1. Sales and trading segment results

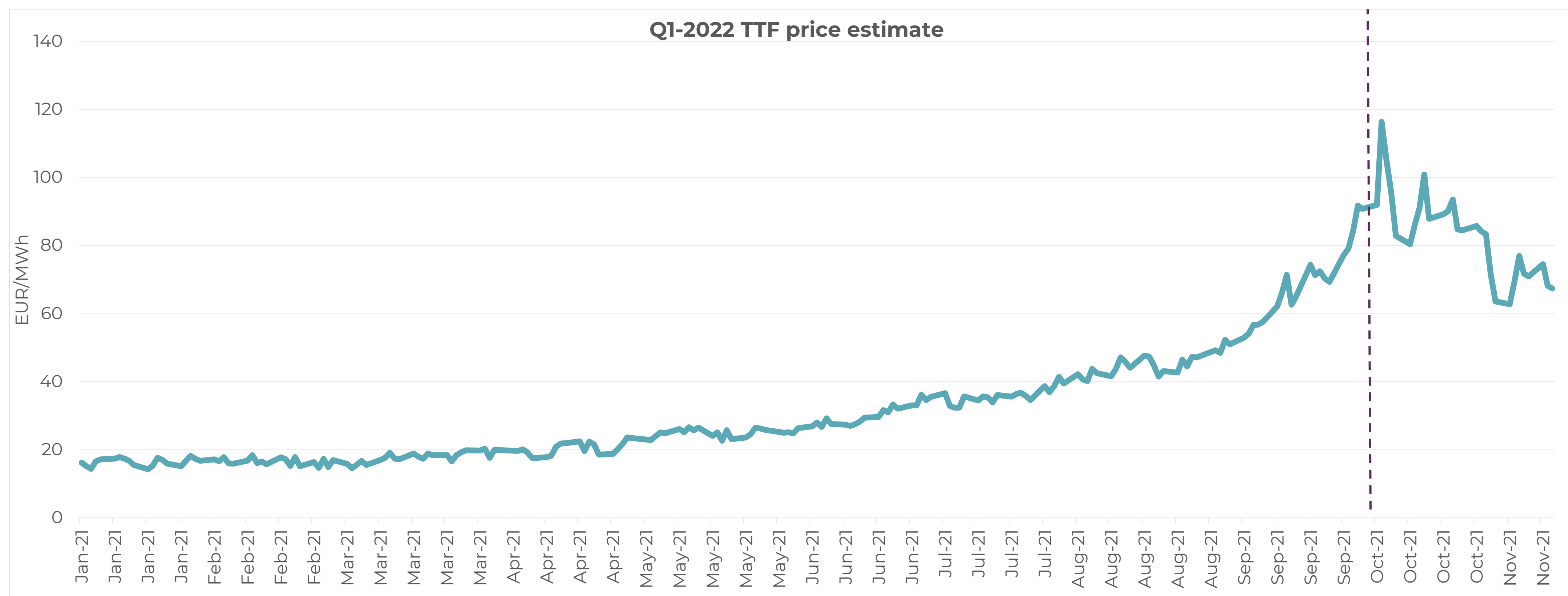
2.2. Distribution segment results

1. Gas market



Global gas market

New records, but price peak has probably passed



Global gas market

- Europe failed to bring natural gas inventories to five-year average level by start of winter season
- Unplanned maintenance on supply side
- Carbon Emission Allowances (EUA) futures supported natural gas price rally



Global energy resource deficit pushed some countries to procure gas and coal «at any cost» that lead to price spike

Although winter price 2021/2022 is still subject mainly to:

- Weather
- Demand destruction on the back of high price environment
- Geopolitical tension



Regional gas market

COMMODITIES ARE CYCLICAL IN NATURE

High gas prices

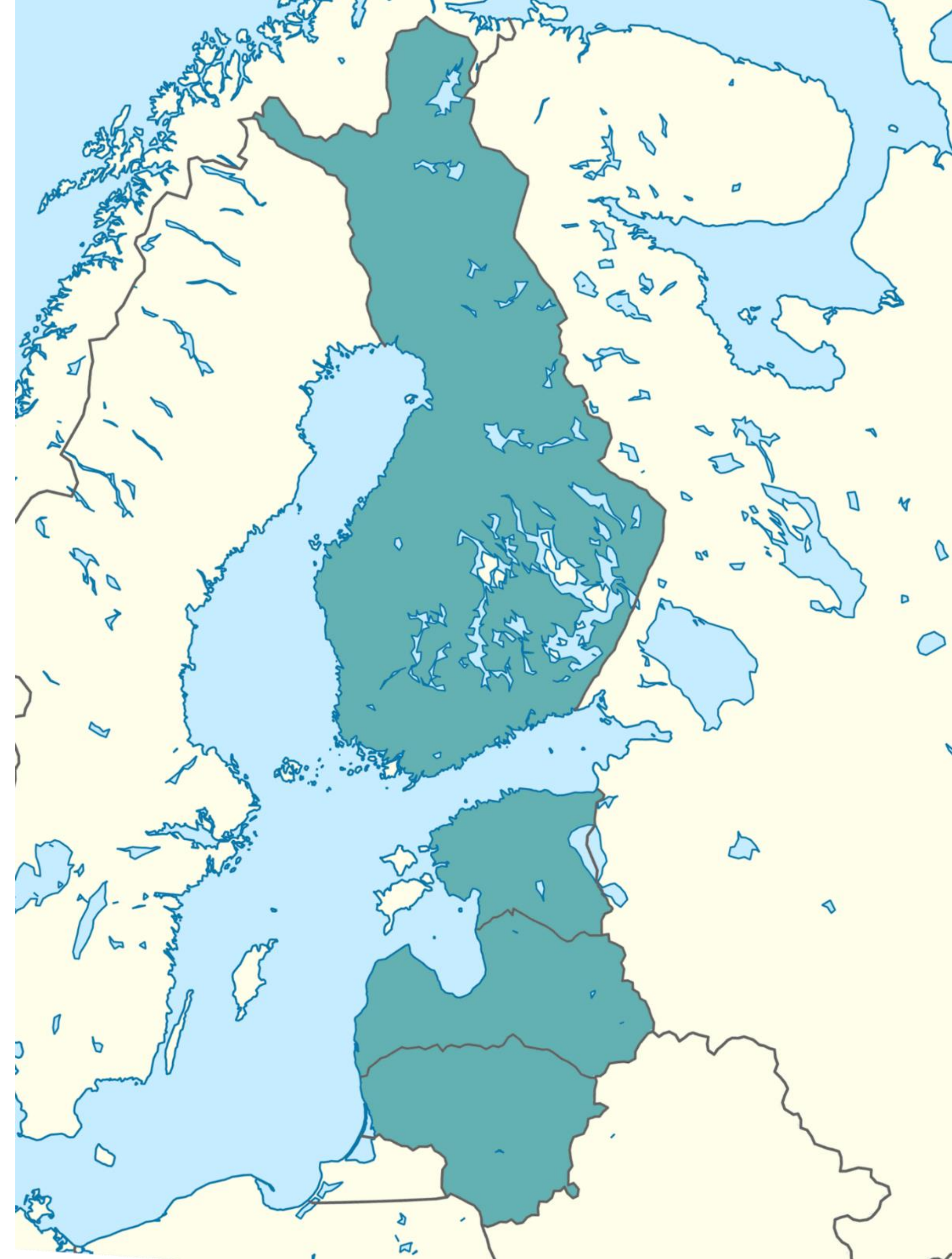
Increased gas price volatility

Thin margins

- In the medium term gas sales industry will be consolidated around big trading companies both in Europe and Baltics
- Market acknowledged that aggressive pricing in order to gain market share is not a sustainable strategy



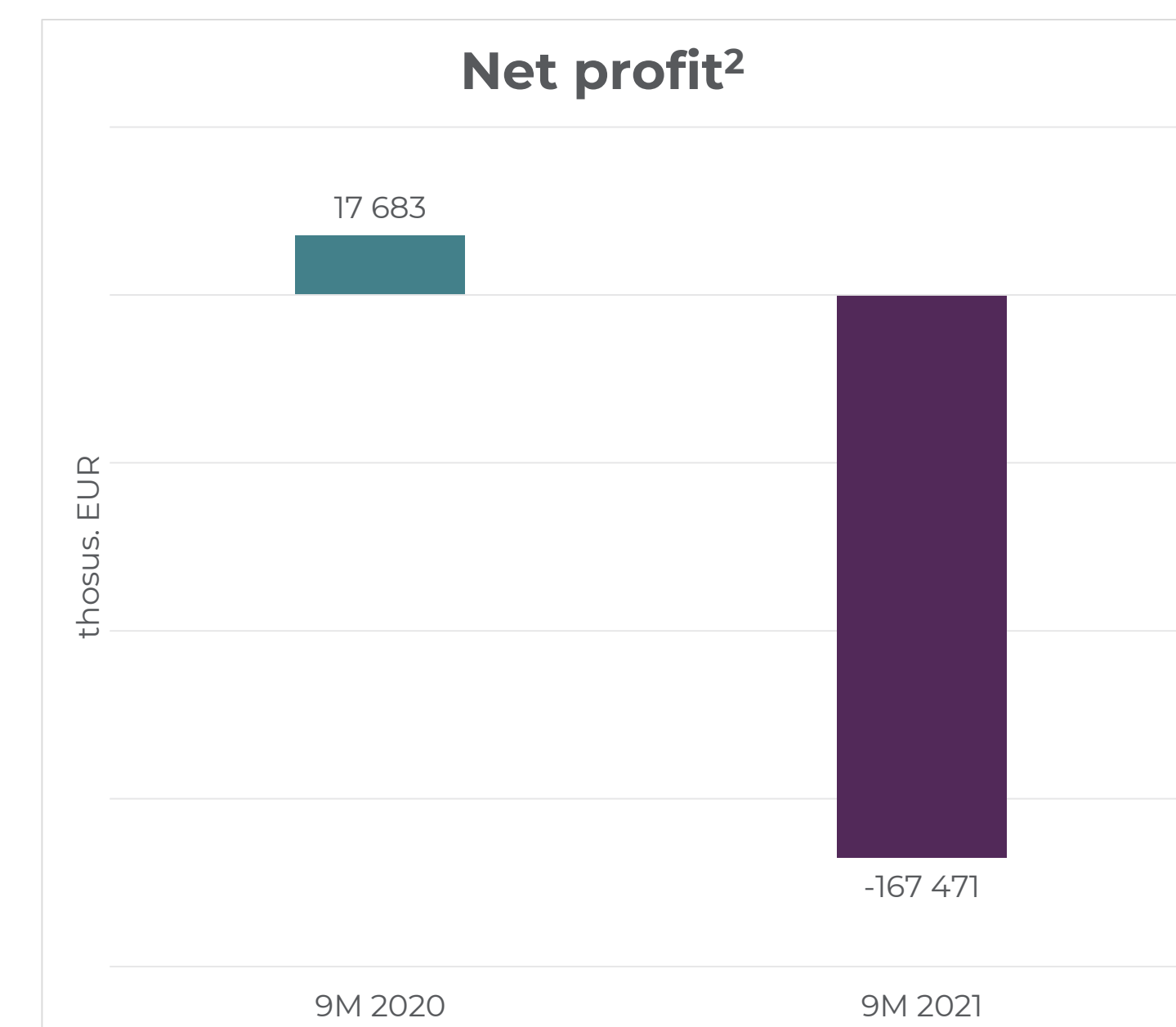
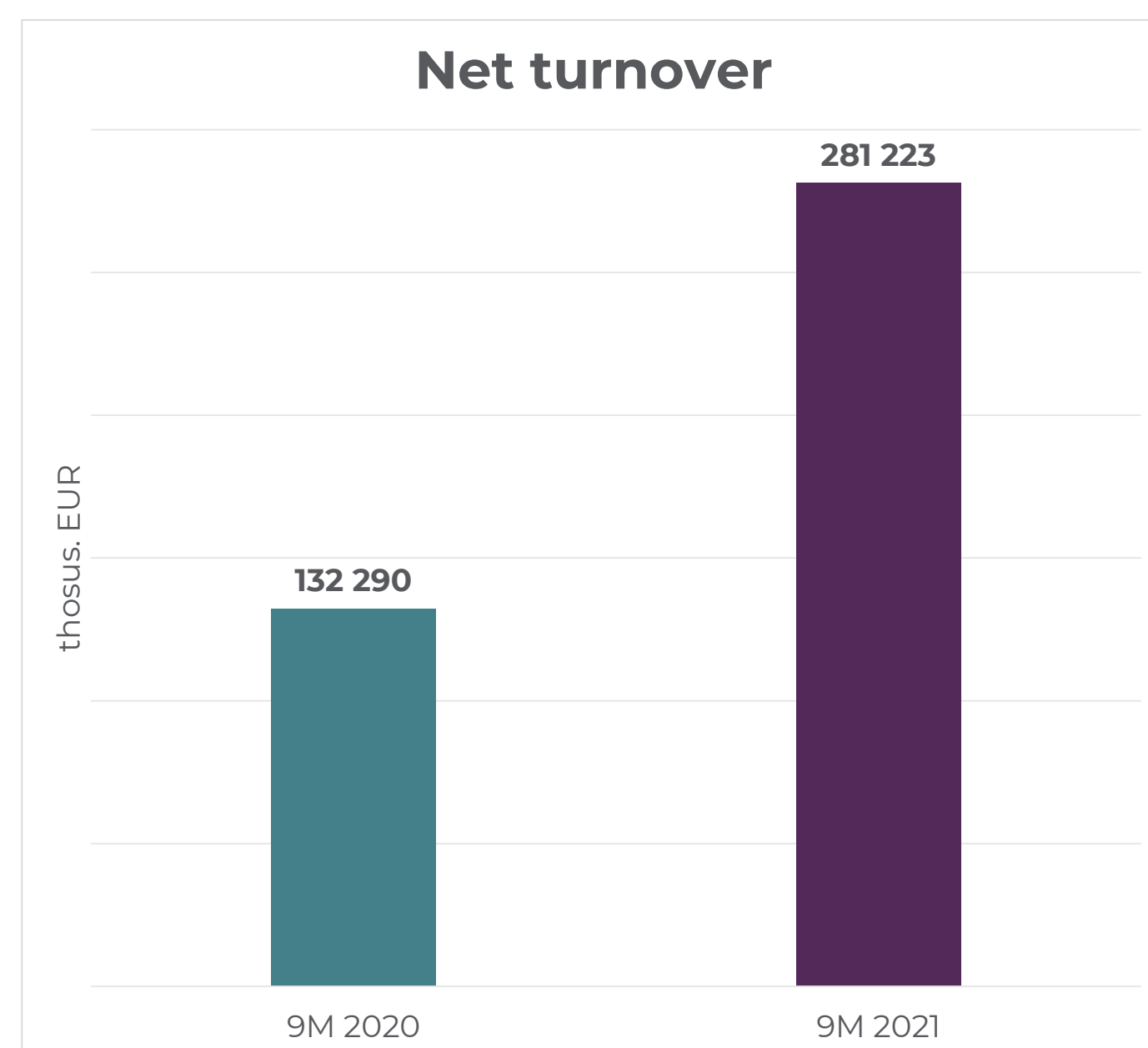
Expected reasonable margins on the back of lower commodity price in 2022



2. JSC “Latvijas Gāze” group results



Group`s key financial figures



- Higher sales price
- Higher sales volumes
- Higher utilization of distribution network

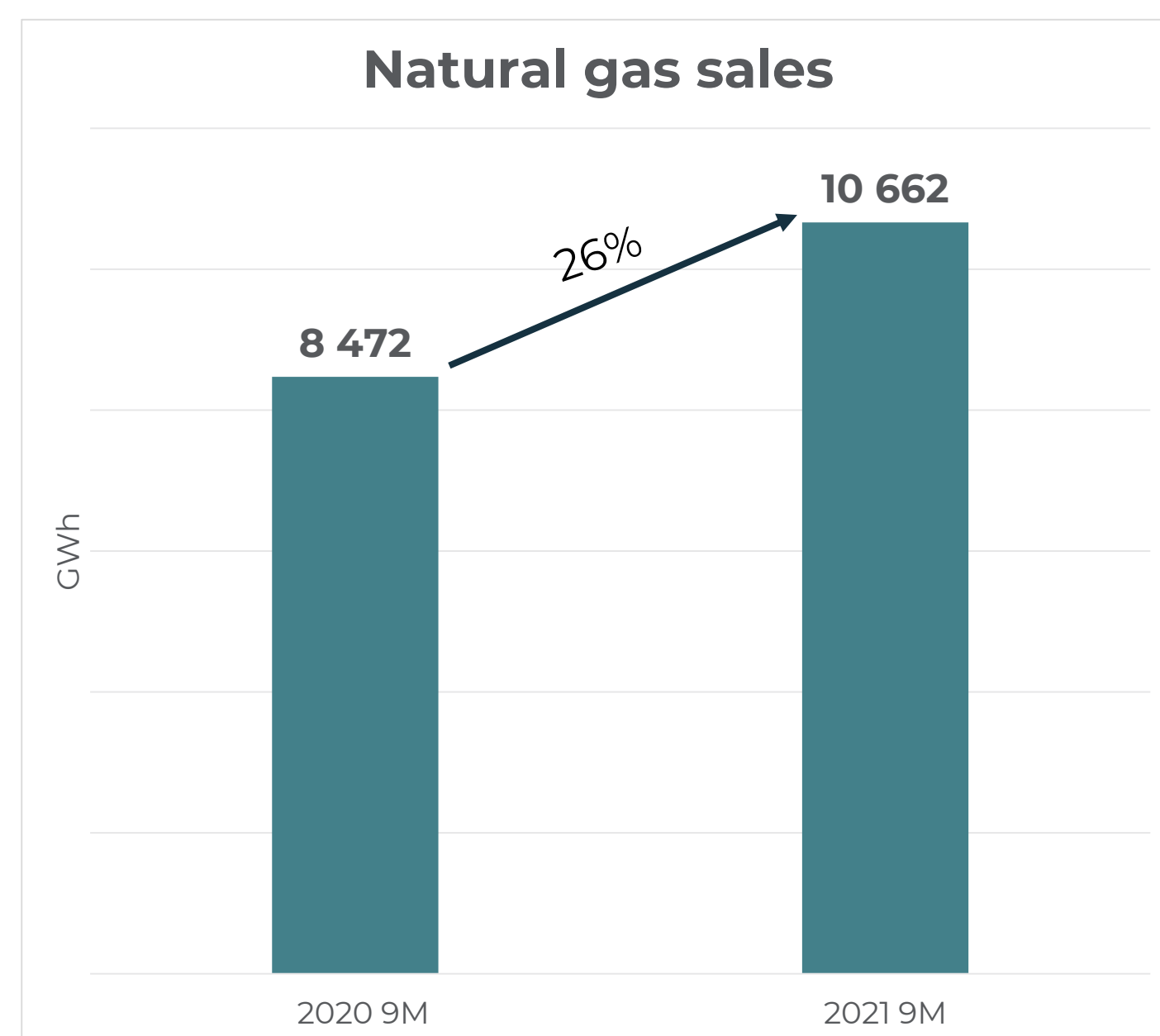
- Net profit is negatively impacted by marked-to-market loss of derivatives that are related to future period – winter season

¹Gross profit= Revenue from contracts with customers - Raw materials and consumables used
²JSC “Latvijas Gāze” measures derivatives at fair value and doesn’t implement hedge accounting

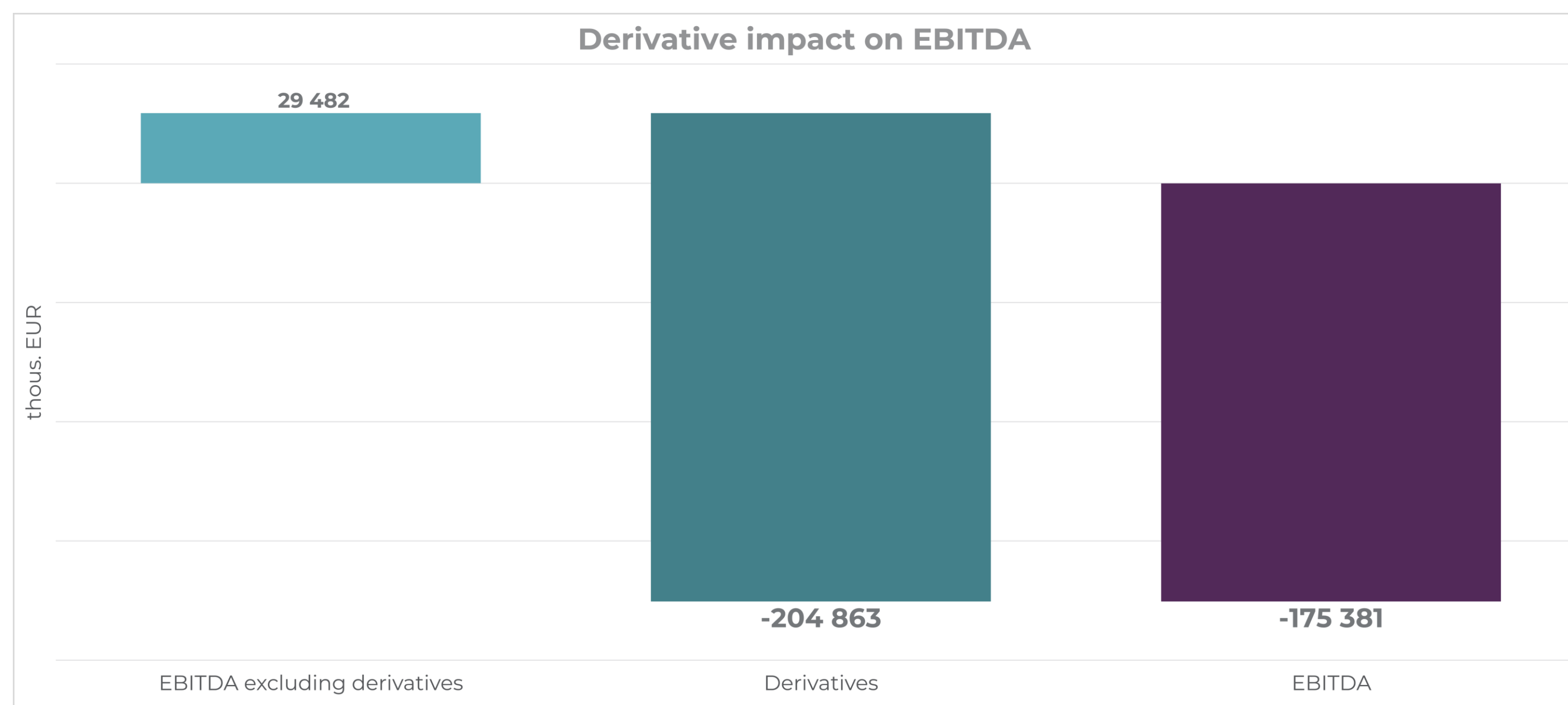


2.1 Sales and trading segment results

Sales and trading segment key figures



- Cold and prolonged winter increased gas consumption in the region



- EBITDA is impacted by marked-to-market loss of derivatives that are related to index-linked gas sales contracts in future periods
- The financial derivatives are accounted at fair value
- Negative impact from derivatives will be compensated by higher gross profit in future periods once underlying inventory will be sold.

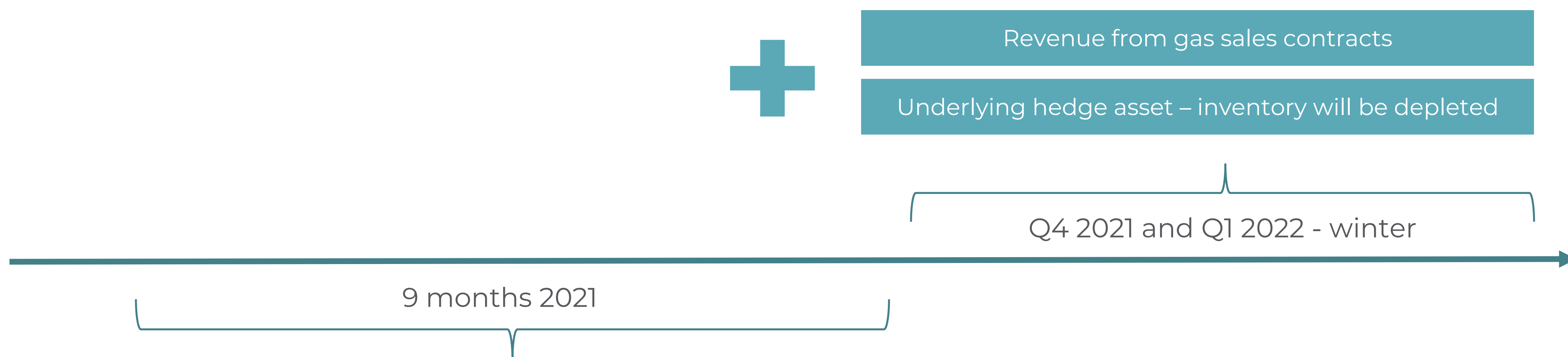
Sales and trading segment model

- Sales and trading segment classic model is to inject considerable amount of gas during summer season and sell it in winter.
- JSC “Latvijas Gāze” uses financial derivatives to manage market (natural gas price) risk.
- According to standard accounting policy, JSC “Latvijas Gāze” recognizes marked-to-market value of derivatives every month.



Sales and trading segment- Derivative impact

9 months result shows only part of equation (negative one)



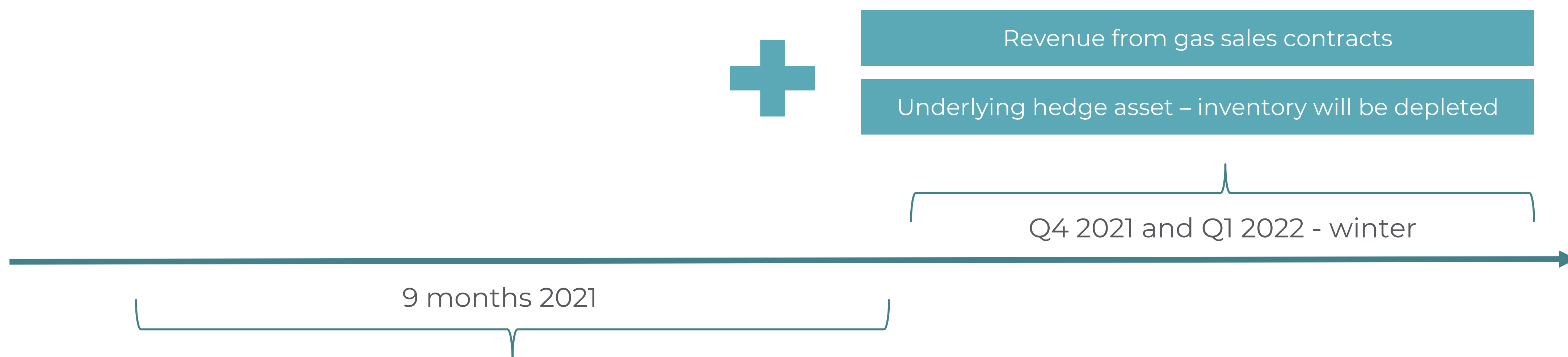
Derivative marked-to-market loss on the back of price spike

Natural gas sales contracts that were hedged will mostly be recognized in winter

In contrast to derivatives, inventory **is not** revaluated based on market price. Book value is based on purchase price.

Sales and trading segment- Derivative impact

9 months result shows only part of equation (negative one)



Derivative marked-to-market loss on the back of price spike

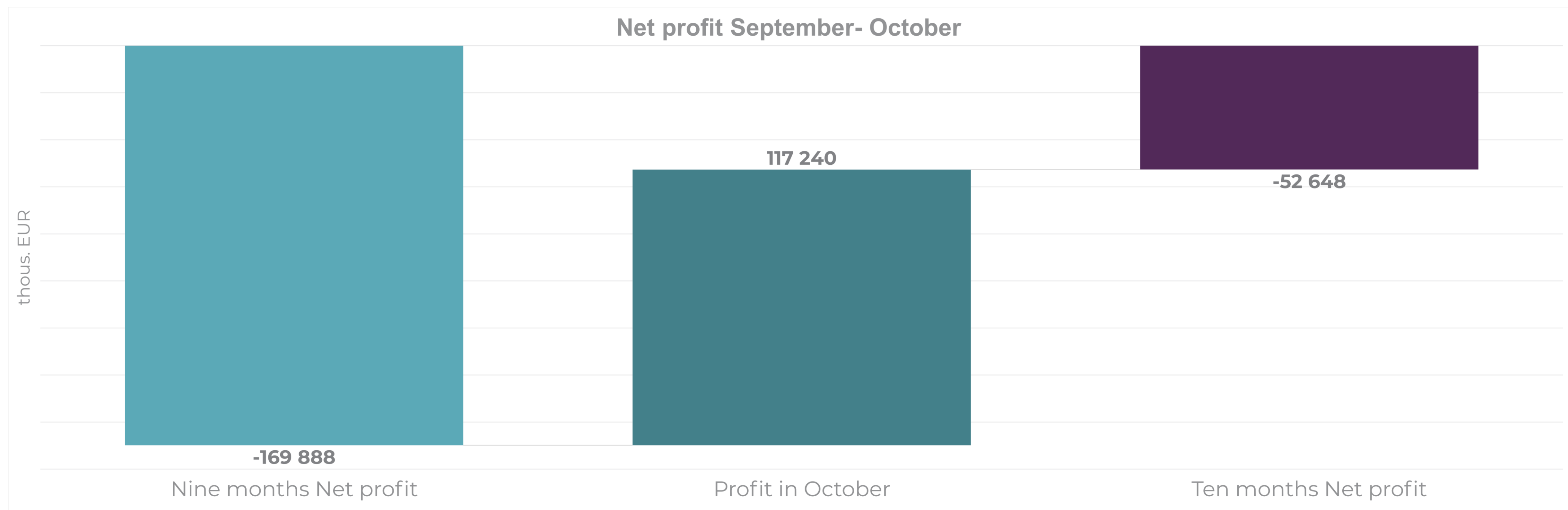
Natural gas sales contract that were hedged will mostly be recognized in winter

In contrast to derivatives inventory **is not** revaluated based on market price. Book value is based on purchase price.

As result of record price spike **revenue and cost recognition mismatch** has a significant impact on financial statement representation

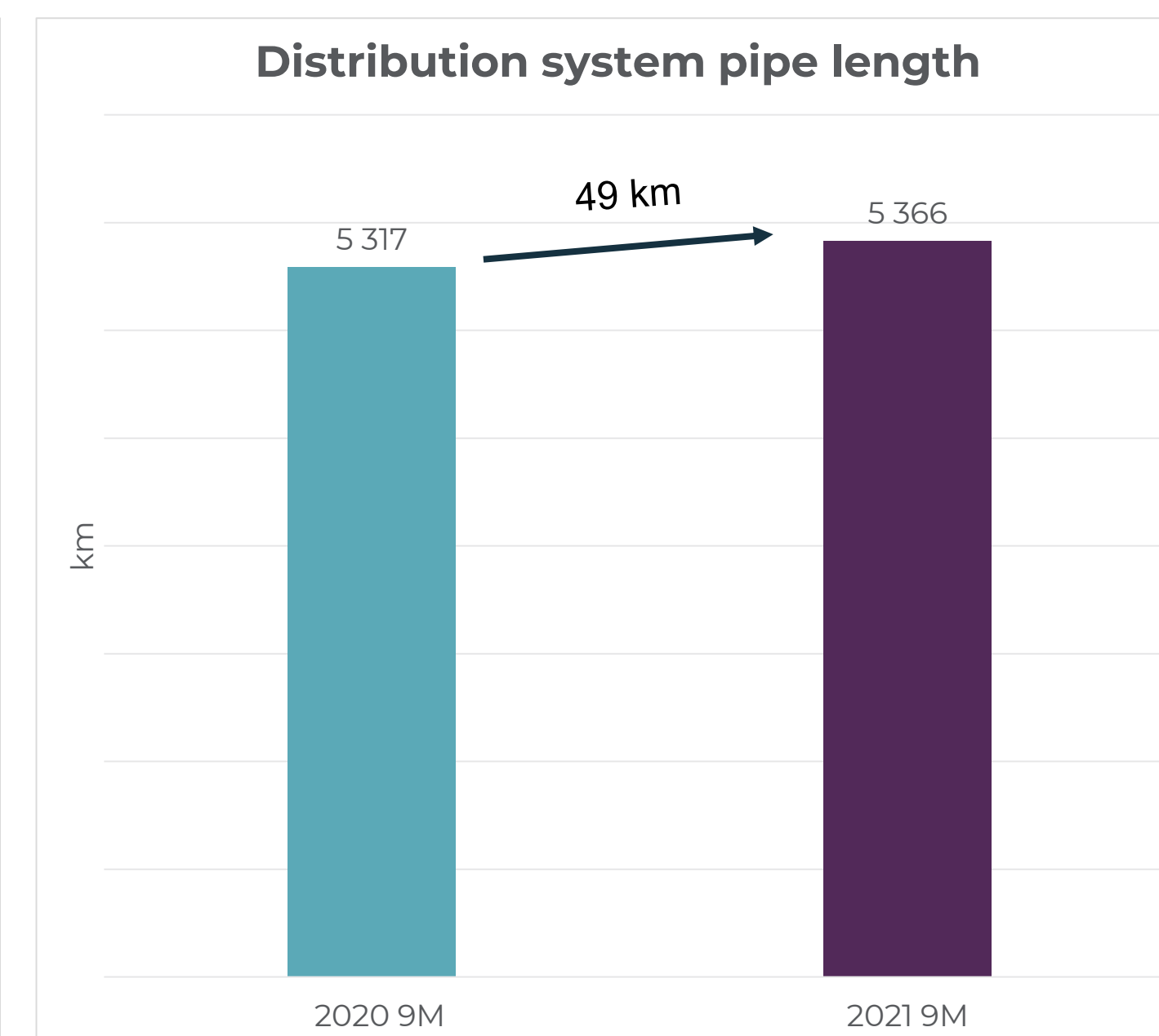
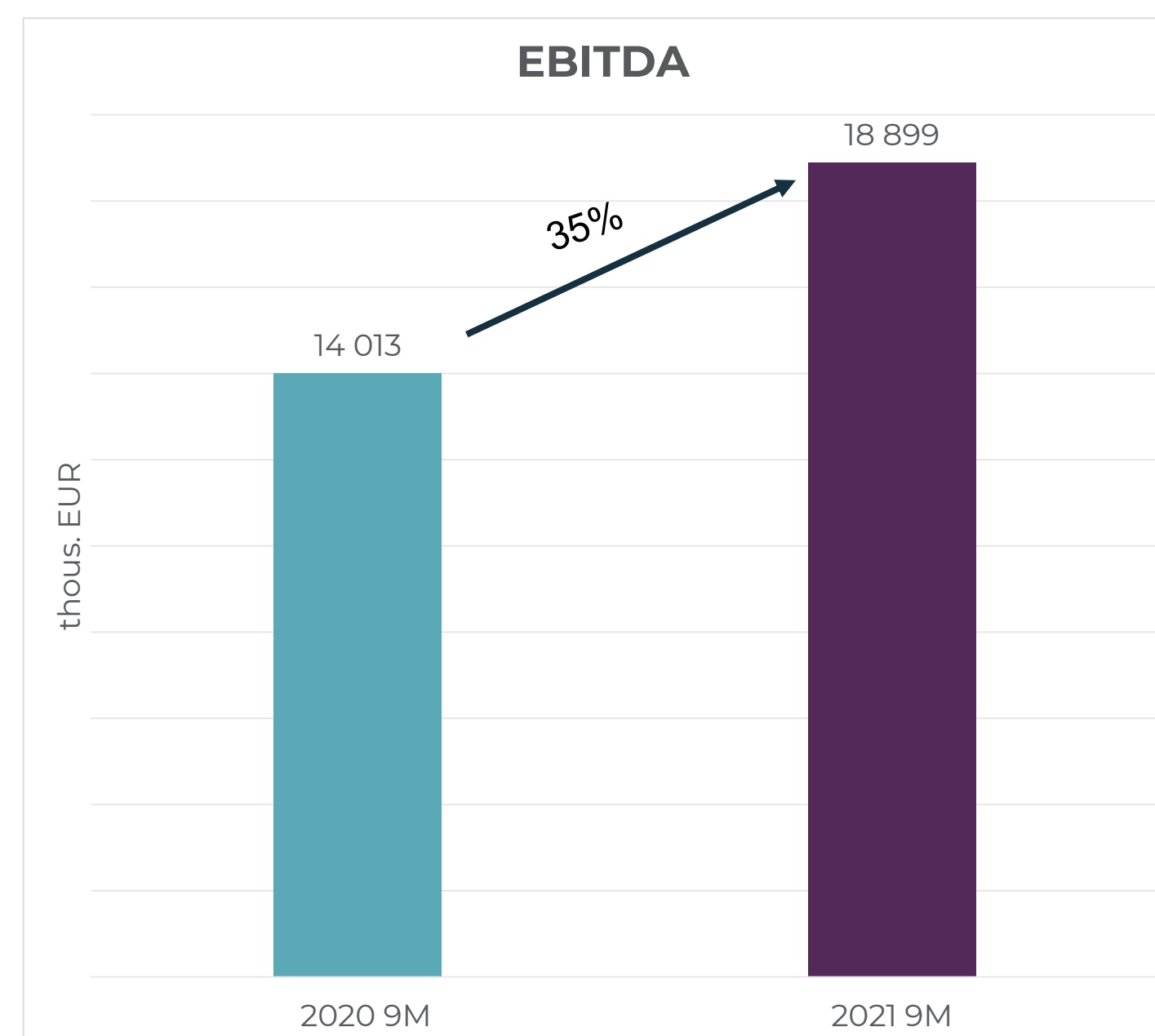
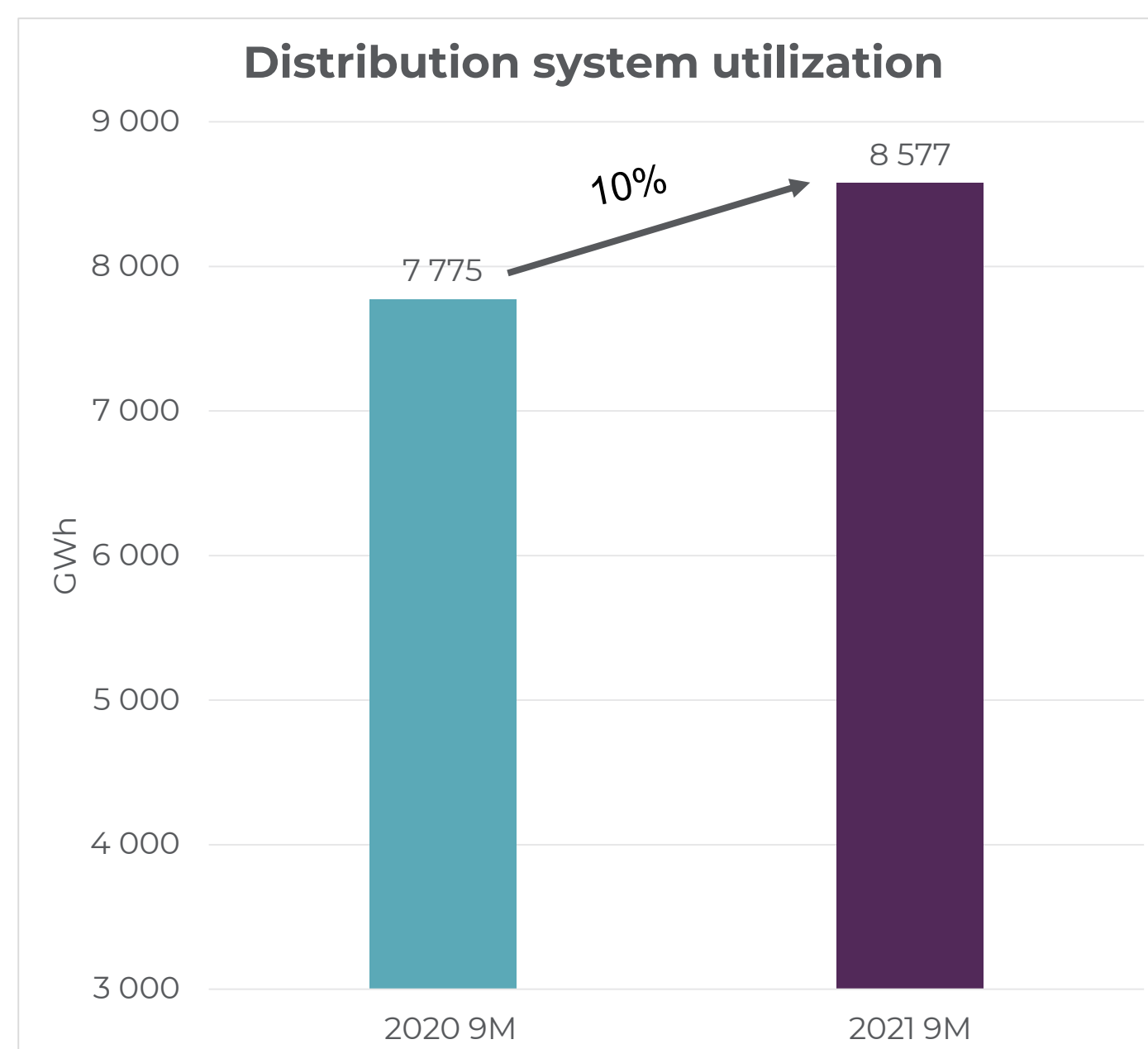
Company – future outlook

Negative result for 9 months will be balanced with company results by end of withdrawal season



2.2 Distribution segment results

Distribution segment key financial figures



- Distribution segment is regulated by the Public Utilities Commission
- Harsh and prolonged winter increased utilization of distribution network
- Continued to develop a safe and available natural gas distribution infrastructure, with major investments made in construction and reconstruction of gas pipelines



lg.lv



latvijasgaze.ee



latvijasgaze.fi

Aristida Briāna iela 6, Rīga, LV-1001

+371 67 869 866

