

East Renewable AB

Report for the third quarter of 2020



Lusya



Company profile

East Renewable AB (the “Company”) is a Swedish public limited company, based in Stockholm. The Company is a wholly owned subsidiary of the Norwegian wind power company NBT AS (www.nbtas.no) and the main activity for the Company is to hold the NBT Group’s investment in the 245.7 MW Syvash wind farm project near Lake Syvash in the Kherson region south in Ukraine. The Syvash wind farm is formally owned by Syvashenergoprom LLC (the “Project company”) and will be the largest wind farm in Ukraine and one of the largest onshore wind farms in Europe. When completed and put into full production the wind farm is expected to produce about 900 GWh annually.

The Syvash wind farm is a joint venture between the French renewable energy company Total Eren and the Saudi Arabian Al Gihaz Group that together controls 53.5 percent of the wind farm and NBT that controls 46.5 percent of the wind farm (through East Renewable AB).

The joint venture company East Renewable Ukraine AB controls all shares in Syvashnergoprom LLC indirectly through East Renewable Energy AB.

Status and main events in the third quarter of 2020

Construction of the Syvash project

Following the completed financing of the wind farm the EPC contractor commenced mobilization for construction. The first wind turbine was assembled on 18th November 2019, and as of October 06 2020 a total of 50 turbines have been assembled. 10 turbines were mechanically completed in 2019 and are qualified for the higher 0.094 EUR/KWh feed-in-tariff. All remaining turbines will be subject to the new feed-in-tariff. As of October 06, 2020, 20 wind turbines were fully commissioned and set to power. While the first power sales on Feed-in-Tariff are expected in end of November 2020, the power has already been sold on the balancing market since August 2020. The construction of the wind farm is behind the original schedule with the target completion date for 62 WTGs being in Q4 2020. WTG 55 burned on 19 May 2020 and this will be replaced in January 2021. All additional costs as result of the replacement will be covered by the insurance company. Based on the latest construction plan, the wind farm is expected to be constructed slightly above the original cost budget Further, the Company started amortisation of the loan and paid the first principal down payment in August. Both cost overrun and loan amortisation will be covered by the Liquidated Damages (LDs) paid by PowerChina. The total estimated amount of LDs is EUR 28.8 million.

The sponsors (Total Eren and NBT) are committed to high standards for health, safety and environmental issues. To date, there was one occurrence of time lost due to injury, which translates into <1 Lost Time Injury Frequency Rate per million hours worked compared with construction industry average of 2.6. The project has taken strict measures to mitigate the spreading of the COVID-19 virus on site and there are eight known cases on site as of October 13th. COVID-19 has affected the supply chain of the equipment and as well as people on site. Disruptions caused by COVID-19 have so far been mitigated to a large extent and there is limited delay to the COD of the project caused by the pandemic. We have experienced some environmental incidents, including oil spills, however none of the incidents have had any material impact on the environment.

In November 2019 an unexploded ordnance was found on site. A series of risk mitigation measures have been implemented and this has not had any significant impact on construction progress for the wind farm. We cannot rule out delays to the project caused by the current COVID-19 pandemic in the future.

[Feed-in-tariff regulations in Ukraine](#)

The Syvash Wind Farm will sell its electricity under a feed-in tariff regulated by law. Early 2020, the Ministry of Energy and Environmental Protection initiated the process of amending the feed-in tariff for renewable energy sources. On 21 June 2020, Ukrainian Parliament adopted Draft law No. 3658, which is aimed at implementing the key provisions mentioned in the MoU reached between Ukrainian authorities and several renewable power producers (NBT included). The law was later signed by President Zelenskyy and is thus in force. The implementation of Law No. 3658 is a significant positive milestone for the Ukrainian renewables market, as it provides clarity on the future direction of the market.

[Bond loan financing](#)

The Company's bond loan has a nominal interest of 13.5% per annum. The bond was listed on Oslo Stock Exchange on August 5, 2020. In the period from 21st May 2020 until the first listing date, the interest on the bond loan was increased to 16.5% per annum. From the date the bond loan was listed the interest decreased to 13.5% per annum. This has led to slightly increased financing cost for the second quarter of 2020.

Financial highlights

[Income statement](#)

East Renewable AB reports a net loss of EUR 8.983 million for per 30.09.2020. The main reason for the loss is financing costs related to the investments in the Syvash wind farm project. As the Company's main asset is the investment in East Renewable Ukraine AB, the Company it is not expected to report any profit before dividends can be up streamed from the Syvash wind farm. This is expected to happen in 2023.

The company has an agreement with its parent company to perform management services on behalf of the Company. The management services are invoiced on a yearly basis. No management service costs have been recognized in the income statement for 2020. In 2019 the total costs for the management services amounted to EUR 608 thousand (NOK 6 million).

The Company's bond loan has a nominal interest of 13.5% per annum from 5 of August. The bond matures on May 21, 2021.

[Balance sheet and cash position:](#)

The Company reports total assets of EUR 559 million a decrease from year-end 2019 with EUR 5 million. The decrease is mainly because of payment of interest. The main asset is the Company's investment in the Syvash wind farm that amounts to EUR 43.2 million.

In connection with the project financing of the Syvash wind farm the Company granted East Renewable Ukraine AB a loan of EUR 10 million that again is injected in the Swedish holding company (East Renewable Energy AB) as a "stand-by-equity" commitment for the Syvash project. The "stand-by-equity" can under certain conditions be used to fund cost overruns for the Syvash project. The "stand-by-equity" will be repaid following COD for the Syvash project less any funds applied for cost overruns for the project, if any.

The Company has further a long-term loan to its parent company of about EUR 2 million that was granted in connection with the separation of the Zophia wind farm projects in 2019. The loan is due for repayment 31st December 2021.

The Company reports a negative equity by the end of the reporting period. The board considers that the value of the Syvash project exceeds the book value of the investment of EUR 43.2 million. Applying the same valuation on the Company's investment in the Syvash project as Total Eren bought into the project for, yields an excess value of approximately EUR 25 million. This valuation fully restores the equity in the Company.

Stockholm, 23rd October 2020

Board of Directors and CEO

Statement of profit and loss

<i>(Amounts in EUR 1000)</i>	Q3 2020	Q2 2020	Q1 2020	Third quarter YTD	Full year 2019
Other revenues	-	-	-	-	11
Total operating revenues	-	-	-	-	11
Other operating expenses	73	(94)	(28)	(50)	(1 378)
Total operating expenses	73	(94)	(28)	(50)	(1 378)
Operating result	73	(94)	(28)	(50)	(1 367)
Financial expenses	(2 968)	(3 145)	(2 896)	(9 009)	(15 965)
Net foreign exchange gain/(loss)	21	(1)	56	75	2
Net financial items	(2 948)	(3 146)	(2 840)	(8 933)	(15 963)
Profit/(loss) before tax from continuing operations	(2 875)	(3 240)	(2 868)	(8 983)	(17 330)
Income tax expense	-	-	-	-	-
Profit/(loss) for the period from continuing operations	(2 875)	(3 240)	(2 868)	(8 983)	(17 330)
<i>Other comprehensive income</i>	-	-	-	-	-
Other comprehensive income for the period, net of tax	-	-	-	-	-
Total comprehensive income for the period, net of tax	(2 887)	(3 240)	(2 868)	(8 982)	(17 330)

Statement of financial position as of September 30, 2020.

<i>(Amounts in EUR 1000)</i>	30.09.2020	30.06.2020	31.03.2020	31 December 2019
ASSETS				
Investments in joint ventures	43 235	43 235	43 235	43 235
Other non-current receivables parent company	2 020	2 020	2 020	2 020
Total non-current assets	45 255	45 255	45 255	45 255
Short term receivables, joint venture companies	10 643	10 643	10 692	10 518
Cash and cash equivalents, restricted	-	(3)	5 023	5 038
Cash and cash equivalents	3	5	4	1
Current assets	10 646	10 645	15 719	15 557
Total assets	55 900	55 899	60 974	60 812
EQUITY AND LIABILITIES				
Share capital	55	55	55	55
Share premium	4 388	4 388	4 388	4 388
Total paid in equity	4 443	4 443	4 443	4 443
Accumulated losses	(27 176)	(24 302)	(21 064)	(18 195)
Total equity	(22 733)	(19 859)	(16 621)	(13 752)
Long term interest bearing debt	74 083	73 726	73 368	73 011
Total non-current liabilities	74 083	73 726	73 368	73 011
Trade payables	42	686	564	19
Short term liabilities, parent and other NBT group companies	541	-	-	417
Other current liabilities	3 968	1 347	3 662	1 116
Current liabilities	4 550	2 033	4 226	1 552
Total liabilities	78 633	75 758	77 594	74 563
Total liabilities and equity	55 900	55 899	60 973	60 812

Statement of cash flows

<i>(Amounts in EUR 1000)</i>	Q3 2020	Q2 2020	Q1 2020	Third quarter YTD	Full year 2019
Result before tax	(2 875)	(3 239)	(2 868)	(8 982)	(17 330)
Net foreign exchange effect	21	(1)	56	76	-
Change in working capital	(120)	132	(95)	(75)	1 818
Group contribution	-	-	-	-	-
Financial cost	2 976	3 137	2 896	9 009	15 932
Net cash flow from operating activities	1	28	(11)	27	420
Loan to joint ventures	-	-	-	-	(10 000)
Loan to parent company	-	-	-	-	(2 020)
Cash flow from acquisition a of subsidiaries and joint ventures	-	-	-	-	(36 509)
Cash flow from disposal of subsidiaries and joint ventures	-	-	-	-	1 375
Net cash flow from investing activities	-	-	-	-	(47 154)
Proceeds from share issue	-	-	-	-	4 439
Repayments of loans and borrowings	-	-	-	-	(70 000)
Proceeds from loans and borrowings	-	-	-	-	128 692
Repayment of interest	-	(5 063)	-	(5 063)	(11 358)
Net cash flow from financing activities	-	(5 063)	-	(5 063)	51 772
Net change in cash and cash equivalents	1	(5 034)	(11)	(5 035)	5 038
Cash and cash equivalents at the start of the period	2	5 027	5 038	5 038	1
Cash and cash equivalents at the end of the period	3	2	5 027	3	5 039
Restricted cash equivalents	-	(3)	5 023	-	5 032
Unrestricted cash equivalents	3	5	4	3	7
Sum	3	2	5 027	3	5 039

Statement of changes in equity

<i>(Amounts in EUR 1000)</i>	Share capital	Share premium	Accumulated losses	Total equity
Equity at 31 December 2018	5	-	(864)	(859)
Profit or loss for 2019	-	-	(17 330)	(17 330)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(17 330)	(17 330)
<i>Transaction with owners</i>				
Share issue 27 March 2019	45	-	-	45
Share issue 6 May 2019	5	4 390	-	4 393
FX change from SEK to EUR	-	(2)	-	(2)
Equity at 31 December 2019	55	4 388	(18 194)	(13 751)
Profit or loss for the period	-	-	(8 982)	(8 982)
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	(8 982)	(8 982)
<i>Transaction with owners</i>				
Equity at 30 September 2020	55	4 388	(27 176)	(22 733)

Notes to the interim financial statements

NOTE 1 – GENERAL INFORMATION

East Renewable AB is an unlisted Swedish public limited company. The Company has prepared its interim financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. RFR 2 states that in the annual report for the legal entity, the Company is to apply all EU-endorsed IFRS as far as possible within the framework of the Annual Accounts Act and with consideration given to the connection between accounting and taxation. The interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") no. 34 Interim Financial Reporting, with the exception that comparable figures for the first quarter of 2019 is not included. The reason for this being that the Company did not perform a financial closing at the end of the first quarter of 2019 and comparable figures for this quarter is not viewed to give further material information about the Company's performance, results and financial position for the first quarter of 2020.

The accounting policies applied by the Company in these interim financial statements are consistent with those applied in the audited financial statements for the year ended 31 December 2019. Please refer to note 2 (summary of key accounting principles) in the 2019 annual report for information on the Company's accounting policies.

The Company's ultimate parent NBT AS, a Company incorporated in Norway produced consolidated financial statements available for public use that comply with International Financial Reporting Standards as issued by the IASB. These consolidated financial statements can be obtained from NBT AS, Filipstad Brygge 1, N 0252 Oslo, Norway.

NOTE 2 – GOING CONCERN

The Company has an outstanding green bond loan of EUR 75 million that matures on 21st May 2021 with semi-annual interest payments due on 21st November 2020.

The funds for the financing of the interest payment due on 21st November 2020 has been planned to be the repayment of the stand-by-equity loan of EUR 10 million that the company has given to the Syvash project. The stand-by-equity loan has been injected to East Renewable Energy AB through East Renewable Ukraine AB and serves as "extra line" of security for the lenders to the Syvash project financing in the circumstances there would be cost overruns for the project. Our estimate is that this loan will be fully repaid. However, the timing of the repayment is subject to the finalization of the wind farm in addition to certain other conditions that need to be fulfilled before the security is repaid. Due to the uncertainties related to future construction progress of the Syvash wind farm caused by the covid-19 virus pandemic, there is a risk that the stand-by-equity loan will not be repaid to the Company prior to the due date of the interest payment on 21st November 2020. Should such an event occur the Company needs to postpone the interest payment or raise financing from other sources in order to pay the interest when due.

A fire occurred at WTG55 on 19 May. No one was hurt and the company expects to receive full insurance coverage for the incident. It is planned to be replaced with a new one in January 2021.

COVID 19 pandemic outbreak:

During first quarter 2020, the spread of the COVID-19 virus caused global disruption with negative consequences both for human health and economic activity. The main concern is the potential effect this may have on the Syvash project. The project has taken strict measures to mitigate the spreading of the COVID-19 virus on site and there are eight known cases on site to date. COVID-19 has affected the supply chain of the equipment and people to the site. Disruptions caused by COVID-19 have so far only caused minor delays to the first phase of the project. As the situation related to COVID-19 is developing we cannot rule out delays to the project caused by the COVID-19 outbreak. It is, however, not expected that this will have a material impact on the long-term value of the Syvah investment.

NOTE 3 – SHARES JOINT VENTURES

Subsidiaries	East Renewable Ukraine AB	Total
Joint ventures		
Transfer from subsidiaries	41 096	41 096
Share issue 4 April 2019	2 139	2 139
Total shares in joint ventures 30 June 2020	43 235	43 235