SKIRTA ADRESATUI

# Transcript
# Q1 2022 results earnings call

19 May 2022, 1:00 pm Vilnius / 11:00 am London

## Disclaimer

In the event of any discrepancy between the Lithuanian and the English versions of the document, the English version shall prevail.

## Corporate participants

Darius Maikštėnas, Chairman of the Board, CEO
Jonas Rimavičius, Member of the Management Board, CFO
Ainė Riffel-Grinkevičienė, Investor Relations Officer

## Presentation

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

[Slide No 1]

Good afternoon, everyone, and thank you for joining us. Welcome to Ignitis Group earnings call. Today, Ignitis Group CEO Darius Maikštėnas, together with CFO Jonas Rimavičius will present results for the first quarter of 2022. Meanwhile, I, Ainė Riffel-Grinkevičienė, Investor Relations Officer, will moderate Q&A session, which we will hold shortly after the management's presentation. With that, Darius Maikštėnas, please begin.

[Slide No 5]

**Darius Maikštėnas, Chair of the Management Board, CEO**

Hello everyone and thank you for joining us at our earnings call. Let me turn straight to our strategic highlights for Q1 2022.

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We continued delivering strong financial results, despite unprecedented energy sector dynamics. In Q1 our Adjusted EBITDA grew by 42.6% to EUR 111.4 million compared to the same period of last year. The increase was mainly driven by Green Generation segment performance, due to the launch of Pomerania wind farm in Poland and better results of our hydro portfolio performance. As a result, the segment's Adjusted EBITDA accounted for almost 2/3 of the Group's total result. Supported by better than expected Green Generation growth, we increased our 2022 Adjusted EBITDA guidance from EUR 290–335 to 330–360 million. As already mentioned, our result was driven by Green Generation and, to ensure this phase going forward, we continued working on its expansion. Since the end of 2021 we expanded our Green Generation pipeline by around 230 MW (out of which around 80 MW in Q1 2022) with greenfield projects, by securing land plots for onshore wind and solar projects in Lithuania and Poland. We continued constructing and developing our existing projects with no changes in key milestones. And, to have even faster growth, we strengthened renewables team by electing a new CEO, Thierry Aelens. His extensive experience in offshore wind development in key industry leading companies, I believe, will push us forward with projects development. To add, we expect forming the rest of Ignitis Renewables management team by the end of this year. Furthermore, we expect our Green Generation expansion to speed up even more as we witnessed significant changes in the renewables related legislation. First, to increase energy independence, the Lithuanian Ministry of Energy presented the energy "Breakthrough" package. Despite it is still pending approval in the Parliament, its goal is to speed up the development of renewables, mainly by easing the excess requirements and putting clarity on local communities' support. In addition, a significant milestone was achieved in Lithuanian offshore wind development front as legislation setting the development framework was approved. A final and the most important message I would like to address is the events currently happening in Ukraine. Let's be clear – we condemn Russia's unprovoked invasion of Ukraine. This goes against our values, and we have taken and will continue to take actions supporting Ukraine and its people as well as human rights and energy independence. On the latter, we are proud to say that Lithuania became the first EU member state swapping Russian natural gas. Even though natural gas supply is not the core business of the Group, we suspended natural gas purchases from Gazprom by replacing its supply with LNG cargoes. This, together with an increase in market prices, led to an increase in working capital needs. In order to ensure market demand and uninterrupted gas supply as well as to fund working capital needs, the Group concluded credit line agreements with banks, with a total limit of around EUR 400 million. Despite additional risk factors, proper actions have been taken to manage them and no significant changes in risk levels of key risks of the Group were recorded. The Group constantly monitors the situation and analyses the latest information and changes in external factors, and their impact on the Group. In the same manner, the Group also ensures uninterrupted supply of energy and business continuity.

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With that, let me now detail the developments of the Green Generation segment so far driving our results the most. As mentioned so far, we increased our renewables pipeline by 230 MW as a result of capacity additions to our greenfield development projects. To remind, we successfully started these early-stage development projects in 2021 by securing land plots for onshore wind and solar projects in Lithuania and Poland, and now our greenfield portfolio amounts to around 400 MW. It includes different projects, and we expect them on a project-on-project basis to launch during 2024–2026.

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We also continued constructing and developing our existing projects with no changes in key milestones. All our Green Generation projects are fully on track with a minor deviation in the interim milestone of Vilnius CHP's biomass unit. We still expect the project's COD to take place in Q2 2023, however, due to a global supply chain disruption and workforce shortage mainly affected by the Russia's invasion of Ukraine, generation of first energy has been rescheduled to Q1 2023.

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On the next slide you all can see the renewables growth potential in our home markets update. Accelerated by intense geopolitical situation, legislation changes supporting accelerated Green Generation expansion were captured in almost all our home market. To begin with Lithuania, as shortly mentioned before, two key legislation changes took place during this year. The first is a "Breakthrough" package introduced by the Lithuanian Ministry of Energy. Despite it is still pending approval in the Parliament, its goal is to speed up the development of renewables, mainly by easing the excess requirements for environmental impact assessment and sanitary protection zones and establishing a framework of a support scheme for local communities. The second is an approval of legislation setting general offshore wind development in Lithuania framework. On 31 March 2022 the Parliament of Lithuania adopted amendments to legislation foreseeing the start of the tender on 1 September 2023. The amendments, amongst other changes, also determined the winner selection method, support and grid connection models. Finally, the next milestones include passing resolutions on specific tender requirements (for example, experience and financial capability) by 1 July 2022 and an approval of tender rules by the national regulatory authority, or National Energy Regulatory Council, by 1 September 2022. To continue with the Baltic states, no recent major legislation changes speeding up renewables' capacity were captured in Estonia. However, there are a few undergoing discussions in Latvia regarding the ease of wind farm development requirements for projects with capacity higher than 50 MW and overall reduction of bureaucracy for the processes like obtaining environment impact assessment. Moving to the market with largest potential, that is Poland, a discussion over the ease of the one major constraint is taking place. Currently, in Poland it is forbidden to construct wind farms within 10 times height of the wind turbine away from residential properties, leaving almost no place in country to develop wind farms. This restriction is called 10H distance act, and, if eased, will be a major breakthrough for renewables development in the country.

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Now let's move on to each of the business segment performance over the first quarter of 2022. Regarding Green Generation performance: its growth was mainly driven by launch of Pomerania wind farm in Poland and better performance of operating hydro assets. As a result, its Adjusted EBITDA increased by around 270% compared to the first quarter of the last year and reached EUR 70,0 million. With regards to new installed capacities – portfolio increased by 95 MW, which also pushed green electricity generated levels by almost 60%. Lastly, our investments decreased by almost 20% as new projects have not yet reached heavy investment phase.

[Slide No 11]

Turning to Networks, YoY Adjusted EBITDA increased by 5.6% driven by the higher RAB value. Its financial result increased by 2.3%, which was driven by the introduction of an additional tariff component in the new regulatory period, which started this year. We also continued our investments in maintenance and expansion of the electricity grid, which were higher by 66% compared to the same period the last year. This increase was the result of higher number of new connections and upgrades. On the operational performance side, a decrease was captured in the distributed volumes, mainly influenced by the fall in distributed natural gas volumes as a result of warmer winter. However, we did not avoid extreme weather conditions and natural disasters, which, in turn, negatively affected our quality indicators SAIDI and SAIFI. Lastly, and in accordance with schedule, we successfully kicked offed the smart meter roll-out project. We received the first batch of them for testing in Q1 and plan to finalise the information system tests as well as to start installing the first batch of smart meters in Q2.

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Contrary to the growth in our core business segments, we captured worse results in Customers & Solutions, mainly due to negative electricity result due to ineffective proxy hedging and negative natural gas result driven by realized hedges, which were partially offset by temporary effect from natural gas inventory. As a result, this segments Adjusted EBITDA decreased by almost EUR 16 million compared to the first quarter of 2021. Also, extreme situation in commodities pricing as well as geopolitical environment led to net working capital increase by EUR 64.2 million, mainly due to higher natural gas inventory value and temporary regulatory differences as well as purchases of unscheduled LNG cargoes as we no longer acquire natural gas from Gazprom.

To point out, the amortisation mechanism of increased electricity and natural gas prices was just recently amended, leaving the government to reduce the burden on the customers directly from the state's budget from the second half of 2022. In addition, the government will take over the significant regulatory debt, thus, reducing the Group's net working capital and debt level.

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Let's now move on to the performance of our fourth business segment – Flexible Generation. There have been no major changes on its side except the decrease in merchant activities due to less favourable market conditions. It in turn also led to both, Adjusted EBITDA decrease by 38.0% and a significant drop of around 83% in volumes generated. Worth pointing out that, considering the current geopolitical uncertainty, natural gas reserve of 1.1 TWh has been acquired. However, there should be no material financial effect from this transaction as expenses are expected be covered by isolated regime services tariff. With this overview of our business segment development so far in 2022, I hand over the word to the Group's CFO Jonas Rimavičius.

**Jonas Rimavičius, Member of the Management Board, CFO**

[Slide No 15]

Thanks, Darius. We have delivered strong financial results in Q1 2022. Our Adjusted EBITDA grew by 42.6% YoY and reached EUR 111.4 million. Green Generation segment was the largest contributor to the growth and increased more than 3 times, adding additional EUR 51 million compared to the same period last year. The main drivers behind this growth were the launch of Pomerania WF in Poland and better hydro portfolio results, both driven by higher electricity market prices. It is worth noting that for Pomerania we managed to reschedule the full entry into CfD scheme and will be selling substantial proportion of electricity generated on a merchant basis for years 2022 and 2023. Moving on to the Networks segment, in Q1 2022, we had a minor increase in Adjusted EBITDA, mainly due to newly introduced additional tariff component. This component has offset lower electricity WACC and lower share of allowed return earned in Q1 due to temporary volume effect. For full-year numbers volume effect is not applicable, therefore, we will have higher growth for full-year numbers compared to what we see in Q1. In our smaller complementary business segments, we saw adjusted EBITDA decrease YoY. In Flexible Generation, the result decreased by EUR 3 million compared to last year due to lower commercial generation volumes affected by high natural gas prices. On the Customers and Solutions side, negative result was driven by electricity supply business, negatively impacted by ineffective proxy hedges, and natural gas supply business, negatively affected by customer consumption over-declaration in the end of 2021.

[Slide No 16]

As a result of an increase in our Adjusted EBITDA, all other return metrics have improved as well. Our adjusted ROCE increased to 8.7% and was 1.0 pp higher than last year. Adjusted net profit grew by 74.1% and reached EUR 61.1 million, while Adjusted ROE increased by 1.0 pp to 9.9%.

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Next, we increased our investments by almost 50% compared to last year. The total investments in Q1 2022 reached EUR 43.1 million, driven by the Networks segment, which accounted for three quarters of the total. However, we have not had significant investments in the Green Generation in Q1 because several large projects were completed last year, and new projects have not yet reached heavy investment phase. Going forward we expect Green Generation to dominate the investment mix.

[Slide No 18]

Now turning to net working capital and free cash flow situation. On the left side of the slide you can see that our net working capital has increased by almost EUR 200 million compared to the end of 2021. This was mainly driven by higher energy prices and us acquiring more LNG cargoes to secure gas supply to Lithuania and wider region as we have terminated gas purchases from Gazprom. This has, in turn, led to higher natural gas inventory which increased by EUR 237.9 million since the end of 2021, and increase in Customers & Solutions regulatory debt by almost EUR 95 million, due to the difference of energy prices included in regulated tariffs and the actual market prices. As a reminder, these differences do not have an impact on our adjusted profitability metrics but do have a meaningful impact for our working capital requirement. On the right side of the slide you can see that our free cash flow was negative EUR 140 million, which was caused by increase in net working capital, which we just covered.

[Slide No 19]

Looking at our leverage metrics, our net debt has marginally increased, driven by the increase in net working capital, which has been mostly offset by higher FFO and the receivable received from EPSO-G in relation to sold electricity transmission assets back in 2011. FFO/Net debt decreased from 30.5% to 29.7% but still remains substantially above 23% threshold required for 'BBB+' credit rating. Net debt to EBITDA has even improved from 2.9 to 2.7x. So, overall, despite substantial increase in net working capital, our leverage metrics remain healthy and makes us well positioned for delivering our growth targets.

[Slide No 21]

And finally, as a result of our strong Q1 performance, we updated our full year Adjusted EBITDA guidance. We now expect our 2022 Adjusted EBITDA to be in the range of EUR 330–360 million, up from previous EUR 290–335 million, which represents a 10% increase for the mid-point of the range. This revision is driven by significantly better performance of our Green Generation segment during the first quarter of the year. With that, I give the floor back to Darius Maikštėnas to conclude the presentation.

**Darius Maikštėnas, Chair of the Management Board, CEO**

[Slide No 22]

Thank you, Jonas. Let me now sum up the key highlights of the Group's performance in Q1 2022. Ignitis Group Adjusted EBITDA increased by 42.6% compared to the first quarter of 2021. The growth was driven by Green Generation segment due to the launch of Pomerania wind farm in Poland and better results of our operating hydro assets. As a result, Green Generation share of Adjusted EBITDA accounted for 2/3 of our business. These strong results led us to 2022 Adjusted EBITDA guidance update to a range of EUR 330–360 million. To keep up further growth, we added around 230 MW to our Green Generation projects portfolio, strengthened renewables management team. On top of that, we continued working on development projects and see no changes in their key milestones. Finally, we expect further growth to be supported by legislation changes across our home market. Thank you for listening, now we are open for your questions.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

So, this now concludes the results presentation and opens the floor to the Q&A session. Operator, handing other to you.

## Q&A

**Telecommunications operator**

Thank you, we will now begin the questions and answers session. If you wish to ask a question via audio, please press '*' and '1', and wait for your name to be announced. To cancel your request, please press the '#' key. Alternatively, please use the questions box available on the webcast page to submit your questions.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

As we are kindly waiting for questions submitted over the line, we will begin from the ones received in writing.

So, the first question was on GDRs: "What is the current split between Ignitis Group's ORS and GDRs, excluding the state-owned share?"

**Jonas Rimavičius, Member of the Management Board, CFO**

So, the current proportion of GDRs vs. shares is equal to 41.4% on the GDR side and 58.6% for the shares. By the way, you can find the split disclosed in our Q1 interim report.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

The next question is: "Is the European Bank for Reconstruction and Development (EBRD) still one of Ignitis Group's shareholders and has the number of shares it holds changed, if you can disclose such information?"

**Darius Maikštėnas, Chair of the Management Board, CEO**

We cannot comment on holdings of our shareholders apart the ones that are publicly disclosed. Based on publicly available information, EBRD continues to hold the same 4% stake in Ignitis Group.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, the next question is: "What is the situation in the Vilnius CHP's biomass unit? The latest information states that first energy will be generated only in Q1 2023. Will there be any further delays? Is there a risk of legal action from the state/municipality or other parties due to the delay? Also, by how much did the project costs increase? Have you received the EU CAPEX grant yet? Can the grant be cancelled due to the delay?"

**Darius Maikštėnas, Chair of the Management Board, CEO**

Thank you, regarding Vilnius CHP biomass unit's construction, there is no delay in the project's key milestone, which is the start of commercial activities as we expect it to take place in Q2 2023, as previously communicated, with only minor deviation, as mentioned, in an interim milestone of generation of first energy. Due to the global supply chain disruption and workforce shortage, mainly affected by Russia's invasion of Ukraine, first energy generation has been rescheduled to Q1 2023, from Q4 2022. Other than that, we continue construction works and just recently signed a contract with biomass boiler supplier and other companies responsible for its installation-related works. Having the set up required to finalise the construction works cost, we revised the construction budget, which, due to the changes and the environment of supply and construction markets, increased by around 10%.

On EU CAPEX grant, the grant was received, thus, having no risk behind it. And, finally, we do not foresee any further risks regarding the project's finalisation.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Darius. The next question is on dividend policy: "Are there any signs that indicate potential amendments of the Dividend Policy by increasing or decreasing dividends? Will you ensure the continuity of the Dividend Policy?"

**Jonas Rimavičius, Member of the Management Board, CFO**

Yes, so, we do not foresee any changes regarding our Dividend Policy. We remain strongly committed to our current Dividend Policy and it is illustrated by the fact that we kept our commitment and paid the dividends according to the policy both during the global pandemic and now during the Russia's war in Ukraine.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Our next question is: “Will Mažeikiai WF be launched on time? Have/By how much the project’s costs increased?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Ok, so, we don’t see any changes in Mažeikiai wind farm’s COD and, as communicated previously, we expect it to launch in Q1 2023. Regarding the project costsm, the project’s CAPEX has been fixed before making final investment decisions. So, there is no exposure to the project’s cost increasing.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Another question on Green Generation pipeline: “Why did the agreement with Sun Investment Group regarding the 170 MW solar park portfolio in Poland was terminated? Did you see no opportunities to develop them under PPAs or merchant environment by abandoning the auction idea? Will Ignitis Group experience any profit or loss after terminating the contract?”

**Jonas Rimavičius, Member of the Management Board, CFO**

So, the reason for terminating the contract was simply that, according to the initial agreement, the developer had to obtain CfD tariffs in the auction. They did not do that, therefore, one of the conditions was not met. What we did after that, we tried to negotiate the agreement based on, indeed, PPA or market terms. However, since no agreement regarding acceptable return level was reached, we decided to terminate the agreement. There were no financial losses to the Group, so, all the advance payments have been returned to the Group and, also, it is probably worth to note that this transaction illustrates our commitment to not only build the megawatts but also to earn our target returns while doing so.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is: “Is the 80 MW project in Poland on track? Will the project start generating energy in some capacity still this year?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Again, for this project, similarly to Mažeikiai, we do not foresee any changes and expect it to launch during 2022–2023, as disclosed previously.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

The next question is: “Is the 160 MW project in Latvia on track, any risks there? Also, does the project have no actual issues? As far as I’ve heard, projects in Latvia can be sold with incomplete legal framework. How do you scrutinize the projects you acquire and are there any insurances against any potential risks?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Ok, so, for Latvian onshore wind farm portfolio I, similarly, we don’t see any changes and expect it to launch during 2025–2027. In terms of risks, before acquiring the projects, we scrutinize them very thoroughly with both our internal teams as well as external advisors when we perform legal, technical, financial and tax due diligence procedures. However, naturally, these projects are still in the development phase, so, they are exposed to the risks typical to such projects.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is: “Any prospects and possible other green generation projects in Latvia? What is your opinion about the prospects in Latvia in general? For now, Latvia has very little installed total wind/solar generation and the legal framework has not been approved yet. What are the other obstacles restricting investments there? Is there enough transmission capacity in Latvia in their transmission network?”

**Darius Maikštėnas, Chair of the Management Board, CEO**

Latvia’s targets are around 2.5 GW of installed renewables capacity to be reached by 2030 compared to current capacity of 1.8 GW. However, geopolitical events forced Latvia, as well as other countries, to review their renewables’ targets and their achievement. Due to the lack in the latter, currently, there are undergoing discussions to ease wind farm development whose capacity exceeds 50 MW, basically reducing the bureaucracy in Latvia. We see it as a key step to have faster renewables development in the country, basically.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Darius. The next question is on the Lithuanian offshore project: “The first 700 MW offshore wind farm in Lithuania is listed as the future project of Ignitis Group, it is even listed as “under development” in the Group’s portfolio. Do you have plan B if you are unsuccessful in the tender? What is your assessed probability to win the project? Will you be able to maintain levered equity returns target at high single-digit/low double-digit?”

**Darius Maikštėnas, Chair of the Management Board, CEO**

Thank you, we feel confident on our competitive advantages in this project. Yes, we expect to ensure target returns. Currently, we are preparing for the auction, together with our partner Ocean Winds.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Darius. The next question is: “Are the greenfield solar/wind projects of Ignitis Group based in Lithuania (or maybe elsewhere)? How many there are and what is their capacity at the moment? Are there any locations left with sufficient network throughput in Lithuania for such new investments? Will you change your position and start acquiring later-stage projects?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Ok, so, currently, our greenfield portfolio is around 400 MW. It comprises both solar and onshore wind projects in Lithuania and Poland, with Lithuania accounting for a significant majority of it. In terms of grid capacities, we still see that grid capacity is available in Lithuania, but we started seeing limitations in some of the locations. However, when we target the development areas, we look for the ones with the largest available capacity. In terms of acquiring the projects, we do that as well. In our strategy we have defined that both the possibility to acquire as well as to develop projects by ourselves are two equally important streams and we are moving in parallel with both of them.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

We have one more question: “What is the Ignitis Group’s strategy when developing/acquiring new wind farms/solar parks? Will you sell electricity under PPAs or in the market? What is the planned proportion between these two options?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Yes, so, in terms of off-take from Green Generation, the majority of the projects in major part will be covered with internal PPA agreements, with minor part being sold in the market.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

The next question is: “Do you receive equipment for solar/wind projects on time? What is the increase in the costs of the equipment, and will the increase be reflected in the financial results of the projects that are currently under development?”

**Jonas Rimavičius, Member of the Management Board, CFO**

For our current projects, we do not see any foresee any delays in the deliveries. However, we cannot rule out the risks, especially for future projects, due to current market conditions because of geopolitical situation in the region and general supply chain issues. In terms of pricing levels and the impact on the financial results, we see the increase in CAPEX levels for new projects probably in the double-digit area. However, due to the higher electricity market prices, we do not see negative changes in project returns as CAPEX increase is offset by higher power prices in the market.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is on natural gas: “The gas reserve of Ignitis Group has heavily impacted the financial results. How much the capacity of the owned gas reserve changes over time? What is the current reserve capacity and where is it being held?”

**Darius Maikštėnas, Chair of the Management Board, CEO**

Natural gas inventory reserve is held in Latvia, in Inciukalns storage. Normally, it would store up to 1 TWh of natural gas during the year and empty it during the heating season. Taking in the current geopolitical situation, the natural gas inventory is held at a higher level of around 2 TWh.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Darius. The next question is: “How do you evaluate Ignitis Group’s credit rating and its future changes? On one hand, Ignitis Group has a large debt at the moment due to price amortisation. On the other – a large part of the accumulated arrears should be covered from the state’s budget. Do any of these factors can change the current credit rating?”

**Jonas Rimavičius, Member of the Management Board, CFO**

Yeah, so, regarding credit rating, as you’ve seen in the presentation, our main credit metric FFO to net debt is equal to 29.7%, which is still substantially above the 23% threshold required for BBB+ credit rating. In addition, the recent legislation changes on energy price amortisation, means that regulatory debts will be moved from our balance sheet to the state budget, which will have a positive impact for our leverage metrics. Therefore, in short, we do not expect changes in our credit rating.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

The next question is: "How much have been accumulated from the amortisation of the public electricity supply? How much have been accumulated from the gas supply and what part of it will be covered by the funds from the state's budget?"

**Jonas Rimavičius, Member of the Management Board, CFO**

Ok, so, the total from electricity and gas currently is around EUR 300 million, and, based on the legislation updates, the vast majority of these accumulated temporary differences or consumer debt will be moved to the state budget.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is: "Does the independent electricity and natural gas supply carries a loss for Ignitis or does it earn profit?"

**Jonas Rimavičius, Member of the Management Board, CFO**

So, we have independent supply activities in electricity and gas B2B and electricity B2C subsegments. All activities generated positive adjusted EBITDA, except for electricity B2B, which was negatively affected by mark-to-market of open positions from ineffective proxy hedging. However, the overall result is negative from independent supply activities as it is illustrated by negative Customers & Solutions' results.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

The next question is: "Does Ignitis Group plans to invest more into start-ups (e.g., H2PRO)? What is the situation with the currently made investments?"

**Darius Maikštėnas, Chair of the Management Board, CEO**

Thank you, we continue to exploit opportunities in promising start-ups through our smart energy fund, and 2021 was the year of records, the total investment assets' value grew by EUR 21.4 million up to EUR 25.3 million. To continue the growth, we are working on the establishment of the second Ignitis Innovation Fund.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Darius. The next question is: "Is the UK offshore wind farm project (Ignitis Group owns 5% stake in that) on track, any unexpected challenges?"

**Jonas Rimavičius, Member of the Management Board, CFO**

So, we don't see any changes in the communicated plans of Morray West and expect it to become operational in 2025, as previously communicated. On the other hand, we are also benefiting. On our side, as planned, we are sending people to Morray West to learn about offshore development and construction, so that we bring that knowledge back to Lithuania and be ready for building offshore here.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

We have another question: "Industry peers in general report that CAPEX inflation 5–10% in wind and 10–15% in solar is fully passed through to PPA prices. Could you please provide more flavour about: a) PPA price and dynamics, b) average PPA duration and dynamics, and c) share of electricity production sold to offtakers through PPAs.

**Jonas Rimavičius, Member of the Management Board, CFO**

Ok, so, in terms of CAPEX inflation, the numbers are more or less in the ballpark of what we are seeing. In terms of it being passed through PPA prices, indeed, that is currently the case. As I mentioned previously, high electricity market prices currently offset the negative impact of CAPEX increase. In terms of average PPA price and dynamics, it is probably fair to say that PPA prices have somewhat increased across the region. In terms of the actual levels of the prices, I wouldn't comment on that because it is different for each individual country, it also differs for each structure of PPAs, so I wouldn't comment on absolute levels. In terms of PPA duration, so, the market standard is 10 years, and, in terms of share of electricity sold to offtakers through PPAs, again, we see the majority of that covered through PPAs, in our case that is mainly internal PPAs, and the minor part is sold directly to the market.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is: “The current environment: surging power prices, increasing demand for PPAs, drive the energy independence in the EU and is very supportive for asset rotation. When one can reasonably expect news on asset rotation deals? What kind of premium over CAPEX one could reasonably expect to be captured?

**Jonas Rimavičius, Member of the Management Board, CFO**

Yes, so, indeed, it is true, the environment is very supportive for asset rotation. As previously communicated, we intend to kick off our asset rotation programme in 2022, and when we find binding contracts for asset rotation deals, we will communicate that to the market. In terms of premium over CAPEX to be captured, in short, there is a premium, the level of that we will share when we close the transaction.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, Jonas. The next question is: “Does Ignitis still want renewable projects with subsidies, or maybe persistently higher prices and did the EU independence push changed that view a bit?”

**Darius Maikštėnas, Chair of the Management Board, CEO**

So, subsidies are a good thing to have on renewable energy projects, it reduces the risk of the project. However, naturally, in the current environment, in the environment, which is more focused on energy independence, where we see higher power prices, subsidies are less relevant in the environment for most of the technologies.

**Ainė Riffel-Grinkevičienė, Investor Relations Officer**

Thank you, for the answer. As we have no further questions, we may close this presentation. So, again, thank you for all joining us today for our Q1 2022 earnings call. Should you have any questions, please don’t hesitate to contact our investor relations team. Thank you, for standing by.