Transcript

Full-year 2020 results and 2021-2024 Strategic Plan
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Corporate participants

Darius Maikštėnas, Chairman of the Board, CEO
Darius Kašauskas, Member of the Board, CFO
Dominykas Tučkus, Member of the Board, Infrastructure and Development director
Jonas Rimavičius, Head of Corporate finance
Ainė Riffel-Grinkevičienė, Investor Relations Officer

Presentation

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Good morning, Ladies and Gentlemen. Welcome and thank you all for joining us today at Ignitis Group full-year 2020 results as well as the Strategic Plan update. I'm Ainė Riffel-Grinkevičienė, Investor Relations Officer at Ignitis Group. Today, it's my pleasure to introduce that we are also hosted by Ignitis Group CEO Darius Maikštėnas, CFO Darius Kašauskas, Infrastructure and Development Director Dominykas Tučkus and Head of Corporate Finance Jonas Rimavičius. Right after the presentation we will address all your questions. However, you are able to send those through the box on your website screen or call directly to the numbers provided on the screen as well. Before the beginning the presentation, let me remind you that this presentation contains forward-looking statements, which are subject to risks, uncertainties and assumptions. You should not rely on these assumptions as well. And now, let me pass through the word to Darius Maikštėnas.

Darius Maikštėnas, Chairman of the Board, CEO

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Good morning again I am really glad presenting you a review of 2020. First of all, few words about Ignitis Group. We are largest energy Group in Baltic states, operating across Baltic states, Finland and Poland. We are very much committed to become CO2 neutral and our fundamentals are aligned with ESG principles. Our core businesses are Green generation and Networks. Also, we are engaged in Flexible Generation and Customer Solutions and businesses as a complementary services. Our core markets, as I mentioned, three Baltic states, Finland and Poland.

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Main highlights for 2020. First of all, it was very good year for Ignitis Group. Despite Covid-19 challenges, we delivered, we showed very solid financial performance. The growth of EBITDA was +12.2%. So we delivered our promise to our shareholders during IPO process that Ignitis Group is delivering resilient and growing revenues. We also strengthened our financial positions during the IPO process, followed by improved S&P credit rating to the stable outlook of triple B. And due to our new dividend policy we made a decision, the proposal to annual general meeting of shareholders to distribute dividends of EUR 85 million for 2020. We are continuously delivering on our strategy, installing new capacities of Green Generation, progress well on development of current assets and facilitating new project pipeline. Of course, other cornerstone of our strategy is ESG, so we are strengthening our corporate governance and sustainability measures. We improved our corporate governance by implementing two very well-known independent international Supervisory Board members. Also, we aligned long-term shareholder interests with our remuneration policy and attained ESG ratings from global rating agencies such as MSCI and Sustainalytics.

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We really exceeded our guidance for 2020 by around 10%. All four segments delivered the growth. The major cause of exceeding expectations and exceeding the guidance was related to production, to generation. We had much better results of Kruonis Pumped Storage Hydro plant, which was operated quite effectively and effectively utilised fluctuations in electricity market prices. Also, we got much better as expected results from our CCGT gas fired unit due to positive situation in the natural gas market. On top of that, Customers and Solutions also delivered small growth while in the guidance we were expecting small decline.

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Few words more about each of our segments, starting from the Networks. Very strong financial performance, growth of EBITDA 10.2%. We had a slightly lower level of investments. EUR 140 million over 2020. That was caused mainly by restrictions due to the Covid-19, which was limiting our field activities. Overall, strong performance on the quality of Network, we had deterioration of SAIDI/SAIFI indicators in electricity and that was caused due to the storm Laura on 12th and 13th of March last year which was the biggest storm in Lithuania history since 2005.

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On Green Generation, we are adding new capacities and we adding additional growth of EBITDA. EBITDA grew by 16.8%. Green Generation capacity grew by 20%. Investments was around EUR 197 million, slightly lower, comparing to the last year. That was mainly related to Vilnius CHP development.

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Few words about current assets under construction. So, we just announced that we completed construction of wind farm in Poland in Pomerania, 94 MW. So it's ready to be launched in first quarter as it was planned. The same, according to the plan, we are proceeding with Kaunas CHP plant, waste-to-energy unit final COD is first quarter this year, and biomass plant, unit COD is expected fourth quarter of next year. And we are proceeding with another wind farm, this one is in Lithuania, Mažeikiai, 63 MW of the capacity with expected COD in 2023.

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Another our assets, which are currently are under development: we are developing solar portfolio in Poland of 170 MW, CODs will be delivered during the year 2021, up to 2023. In parallel, we are engaged in the framework agreement, cooperation agreement with Ocean Winds to develop capacities and develop knowledge and develop, jointly develop offshore wind in Lithuania. This agreement has two parts. First part, we have minority stake in UK in Moray West offshore wind project, and the second phase: we are preparing to participate in auctions for Lithuanian offshore wind park development with the size of 700 MW in something around 2023. And the fourth one asset, which we announced that we are starting the project is Kaunas Pumped Storage hydro plant.

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We made a decision to develop it with the size of 110 MW. That was, become feasible and possible to start this project after recent announcement of expected ancillary services, which will be implemented after Lithuania will join Continental European networks due to synchronisation project, and we expect that this unit will have additional source of revenues, providing ancillary services for TSO. Since it will be new more than block of such kind, it will be possible to deliver not only upstream FRR services but also downstream services, and we expecting that the price for ancillary services in Baltic region will converge at that time with European levels, so be around 4.5-4.7 EUR/MW/hour range and total need for such kind upstream and downstream services in Baltics states we project to be around 700 MW for upstream and 700 MW for downstream, so this unit will compete effectively in this market and such, such model of, of hydro pump-storage plant will deliver us possibility to increase, the, the capacity around two times, since we will be able to bid for 110 MW for upstream and, in parallel, for 110 MW for downstream, so effectively we will have 220 MW of ancillary service unit proposition. On top of that, we will have additional upsell potential from providing other type of ancillary services and commercial services acting in the sport, SPOT market, as we do right now with current two blocks.

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Going to the Flexible Generation, it was really record year for Flexible Generation generation-wise and EBITDA-wise. Grow, growth, comparing to the last year was +31.8%. Additional generation possibilities appeared due to quite favourite conditions in the natural gas market and quite effective work of our asset optimisation unit.

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On the Customers and Solutions, we are continuing growth in Finland and in Poland. In total, retail sales volumes increased quite significantly, by 43%, from 13.4 TWh of electricity and gas up to 19.18 TWh. On other hand, during Covid crisis and during Covid period we had some negative effect of imperfect hedges. Those eliminated a little bit of additional revenues which we generated by new sales, so we have growth only 0,9% in EBITDA, but structurally, looking forward, since this year and next year we will have much lower impact of imperfect hedges. We can be optimistic on the EBITDA development in this segment as well. Also, in 2023 in Lithuania, in last year, in 2020 in Lithuania we have first phase of B2C market liberalisation. It will be finished until 2023. Currently, Customers and Solutions of Ignitis is acting very effectively in new customer acquisition competition. Something between 65% and 70% market share is the current achievement of Ignitis while acting as independent supplier to households in Lithuania.

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With that I would like to pass the word to Darius Kašauskas to talk about financial highlights.

Darius Kašauskas, Member of the Board, CFO

Thank you, Darius, I'm pleased to present financial highlights of Ignitis Group based on audited results for 2020. Glad to say, we had successfully completed 2020 and with strong financial profile, strong performance with Covid-19 in mind the last year has proven the resilience of our business, which is backed by well-diversified asset portfolio.

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Fast I will go through the KPIs related to profits and earnings. Adjusted EBITDA is our main KPI for financial performance. During 2020 we reached adjusted EBITDA almost EUR 292 million. There are five main components, five main drivers for this growth. First one, RAB growth is in the Networks segment, efficient use of Kruonis Pumped Storage hydro plant and Kaunas CHP start of operations. Then, better results of main units of Flexible Generation segment, expansion to Finnish gas supply market. Adjusted net profit grew almost 20%. Grow was driven by adjusted EBITDA, which was partly offset by higher income tax expenses and lower tax relief on deferred tax expenses.

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If we look at adjusted EBITDA bridge between 2019 and 2020, you can see that the grow was captured across all business segments. The largest share of adjusted EBITDA was generated by Networks segment. Increase was mainly due to growing value of regulated asset base due to continued investments into distribution network. Green generation increased by EUR 7 million. Increase was influenced by efficiency of Kruonis Pumped Storage hydro plant caused by effective utilisation of fluctuations in electricity market prices and Kaunas CHP start of operations. Flexible Generation increased by almost EUR 10 million. This was mainly caused by better results from CCGT commercial activities due to favourable market conditions for gas-fired power generation. Customer and solutions remained relatively stable despite expansion to Finland and better results in Latvia as well in Lithuania. Positive impact was offset by B2B electricity results due to negative impact of proxy hedge results. Other activities decreased by EUR 4 million. Decrease was mainly due to lower results of non-core businesses which are gradually being divested.

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As results of better performance, return indicators were improved too. Our return on capital employed reached 7%. Increase, compared to 2019, was mainly driven by higher adjusted EBITDA and lower write-offs, revaluation expenses and less impairment loses. Adjusted ROE reached 7.9% and was less by 10 basis points, comparing to the previous year and also net profit was offset by increase of capital during IPO.
[Slide No 19]

Moving towards investments Green Generation and Network accounted for the majority of investments. Total investments decreased by 23% compared to 2019. The largest share of investments was allocated to Green Generation. However, it was by EUR 57 million lower, comparing to 2019. And this was led by lower investments, lower investments in Vilnius CHP, investments declined due to construction schedule, Covid-caused delays and contract default. The decrease was partly offset by high investments in construction of Kaunas CHP and Pomerania wind farm. Networks investments were lower by EUR 38 million, compared to 2019. Decrease was mainly driven by lower investments in expansion of gas and electricity distribution networks due to Covid-19 as well as overall decrease in new customers' connection and upgrades' work fees.
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Over the last year the Group has significantly improved its financial capacity by strengthening equity capital base this led that net debt decreased by around EUR 370 million or about 38%, compared to last year. Net debt to adjusted EBITDA ratio decreased year-over-year from 3.7 to 2.1 times. This, this also affected by IPO proceeds and generated EUR 300 million from funds from operations. Overall, we now have even stronger balance sheet and funds available to support our growth projects while ensuring credit rating of triple B or above.
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Our free cash flow was increased to the level of 48 million euros, which was mainly due to higher EBITDA and as a result of higher FFO, lower than projected investments and positive change in networking capital. And lastly, from the earnings we generate, we promise we will distribute EUR 85 million of dividends for 2020, and this is in line with our updated divided policy. Dividends of EUR 42 million for the first half of 2020 was paid for prior to IPO and the remaining part of EUR 43 million for second half of 2020 is subject for approval of AGM on 25 of March.

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Moving to, on the outlook of 2021 we expect to see adjusted EBITDA growth in all business segments in 2021, compared to 2020 except flexible generation and other activities. Networks shall continue to increase due to our investments programme related to maintenance and expansion of electricity and gas distribution network. Green generation is also expected to be higher because full year of results of Kaunas CHP will be accounted this year. Also, as well Pomerania and Vilnius CHP waste-to-energy unit starting the operations in Q1 2021. And Flexible Generation segment is expected to decrease due to very powerful conditions which were last year and we do not foresee that such, the same situation in 2021. Customers and Solutions' results projected to increase due to increase in electricity B2B part, which is, in 2020 suffered due to, the Covid effect had negative impact and proxy hedge results. The other results are also forecasted to decrease due to our strategy to divest non-core activities. Overall, this will give us from 3% to 6% higher adjusted EBITDA for the full year 2021, compared to last year. And in summary, our financial performance in last year shows the resilience of our business during Covid times, and in 2021 it should be further supported by the continuing growth of our investment's projects. With this I hand back to Darius Maikštėnas to sum up our achievements for 2020.

[Slide No 24]

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Darius. So really, last year was year of growth across all business segments. We are also demonstrating very high level of resilience to the Covid. Our guidance was exceeded by 10% mainly due to larger amounts of Green and Flexible Generation. We improved our leverage metrics following the IPO. We are really well progressing with Green Generation pipeline expected to continue on the same pace in 2021, mainly with the Green Generation; and delivering on our IPO promises on sustainability, governance and dividends.

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Now I would like to continue our presentation with our Strategic Plan, which was approved for 2021–2024.

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We are very much committed to our four key strategic priorities. First of all, creating sustainable future without coal and nuclear exposure with clear plan to becoming CO2 neutral and being ESG principles driven. Also, our strategic priorities ensure our flexibility and resilience of energy system and enable transition to, and evolution to new, more than ecosystem, of, of new generation energy in the region. Also, the core priority how we deliver is, this is, first of all, growing renewables, meeting regional and national energy commitments and also we are capturing growth opportunities while developing innovative solutions and making our customers' life more easier, simple and energy smart.

[Slide No 27]

ESG and sustainability is at our core of our strategy, therefore, we, one of main topics for us is transition to CO2 neutrality. Also, our commitments and contribution to UN sustainable development goals. We will continuously improve our governance frameworks and processes, seeking for the best global practices in this area, and we are very much committed to our accountability seeking to disclose the Group progress by using globally recognised standards and formats suited to broad range of our stakeholder needs. And of course, we will continuously measure our progress using international benchmarks such as ESG ratings of MSCI and Sustainalytics.

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On strategic plan, main focus of our investments is in Green Generation and Networks. Both of these areas expected to be invested in the range of 45% to 50%. The rest of allocation is dedicated to Flexible Generation and Customers and Solutions.

[Slide No 30]

Overall, during this period we will invest EUR 1.7–2 billion and up to 90% of all investments will be SDGs - related.

[Slide No 31]

Now I will pass the floor to Dominykas Tučkus to talk more about our Green Generation plans.

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah, so before that I think Jonas will cover Green Generation and I will cover the rest of the business plans.

Jonas Rimavičius, Head of Corporate Finance

[Slide No 32]

Thanks, Darius. So, I will start with the reminder that there are plenty of Green Generation growth opportunities in our target markets. As you can see in the map on the right, we are expected to see around

24 GW of capacity additions by 2030 across our region. And there are, there are multiple reasons why this growth will come. So firstly, there's a structural electricity deficit in Lithuania. Currently, we generate only around one third of our needs. The remaining two thirds are imported, and new generation is critical to fix that. Secondly, Poland is still very much dependent on coal generation, which accounts for around 80% in Polish generation mix. So again, this coal needs to be phased-out and will be replaced with renewables. Thirdly, there's a similar situation in Estonia with, with phasing-out oil shale, which currently accounts for 60% of Estonian generation. And again, this is likely to be replaced with renewables over the years. And finally, all three Baltic countries and Poland have introduced renewables-focused climate strategies, which support the extensive renewables build-out over the region.

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And this is already clearly visible from the approved and planned auctions between 2021 and 2024 across the region. There's already more than 10 GW of such auctions, and this can easily go above 15 GW if Poland continues auctioning at the same pace as it is approved for 2021. And on top of that, you know, it's clear that subsidy-free onshore wind is already here and we are approaching the same situation with solar. So, effectively that means that projects which will start construction during 2021 and 2024 might even exceed the 10 GW or 15 GW, which I mentioned previously.

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We, ourselves' target reach between 1.8 GW and 2 GW of installed Green Generation capacity by 2024, on our way to target 4 GW by 2030. We are well on our way to this target. We are progressing well with, with all of our projects under construction and under development, as Darius already mentioned, Pomerania and Vilnius CHP waste-to-energy unit is due to be launched this month. Vilnius CHP biomass unit is shuffled and is planned to be, to reach COD in the end of 2022. And Mažeikiai wind farm is on track to reach 2023 scheduled COD. We are also working closely with our partners to develop up to 170 MW of solar PV in Poland. And all-in-all, this leaves us with around 300 to 500 MW gap to reach 1.8 to 2 GW target by 2024, which we think is very achievable. Post 2024, we are already working on preparing for offshore wind in Lithuania and started procurement planning for Kruonis Pumped Storage Plant extension, expansion.

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Over the next four years we plan to invest up to EUR 1 billion in our Green Generation segment, and we will do that by keeping disciplined investment policy. In other words, we are going to grow, but we will not grow for the growth's sake. We will only invest if we meet our target return criteria and we target high single-digit/low double-digit returns on levered equity basis. In terms of the entry stage, we primarily focus on green field and early-to-late development phases. We also aim to partner with strategic investors to adopt new technologies and, or enter the new markets, similarly, as we already did for offshore with Ocean Winds and for waste-to-energy with Fortum. And finally, we are planning to use asset rotation programme, which means that we intend to sell up to 49% stake in each individual project in order to both capture premium and to recycle capital for future growth.

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And the last very important thing to point out in the Green Generation segment is our synergies with our Customers and Solutions business, and in addition to the, to the capabilities to, to balance, hedge and predict renewable production. There is also, our Customers and Solutions business have a large supply portfolio, which is more than 10 times bigger than our generation portfolio. Effectively, this 5 TWh gap can be filled with new emerging renewables' capacities without increasing the overall exposure to the electricity prices on the Group level. To illustrate what it means, it means that those 5 TWh can be translated into around 1.5 GW of wind capacity. So, this is a big competitive advantage of Ignitis Group and we obviously intend to utilise it in order to reach our strategic targets. And with this I pass the word to Dominykas, to present the Networks segment.

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

[Slide No 38]

Thank you, Jonas. So, our Networks segment is the largest network of electricity, natural gas distribution in the Baltic states. We are covering more than 99% of Lithuanian market for distributed energy. The business model is based on regulated allowed revenues, which comprises, basically out of pretty standard formula. So, return on investments, plus depreciation and amortisation, and then we are compensated also for some pass-through items, such as OPEX, technological losses and temporary regulatory differences, which occur annually. The return on investments is, one of the key components is WACC and the currently applied WACC of 5% for electricity and close to 4% for gas is applied in 2021 while in the forthcoming regulatory period the regulator has already announced some changes in the methodology, and, as a result of which, we expect WACC to be, for electricity to be between 4 and 4.5%. The new regulatory period for electricity will start in 2022.

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We are planning to invest into our networks and to grow our regulated asset base. In the period until 2024 we expect to invest between EUR 800 million and EUR 900 million, of which almost half would go into maintenance CAPEX, so to increase the resilience of our networks and the quality of services that we provide, and the rest will go into growth CAPEX, so, new connections and connections' upgrades as well as special project, the roll-out of smart meters. In the period of 10 years for 2020 to 2029 the overall investment is expected to be around EUR 1.9 billion, of which 60% would go into maintenance and the rest would go into growth CAPEX.

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Our average CAPEX in Networks, excluding Covid effects, in the long-run should be around EUR 170 euros annually, and in the period until 2024, we have special strategic project of smart meter roll-out, which will increase CAPEX in the period.

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Our focus in Networks is on efficiency and digitisation of our network. So, in terms of efficiency, our key target is to improve the quality of services that provide and to improve our SAIFI indicator by more than 10% in the period until 2024. In terms of digitisation, we expect to roll out our smart meters and to cover 90% of our consumption in distribution network by 2024.

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Now I will pass on to Flexible Generation.

[Slide No 43]

Now I will pass on to Flexible Generation. So, we operate the fleet of more than 1,000 MW and we are providing several types of ancillary services, and we expect to provide these services until 2024, so both tertiary reserve capacity and isolated regime services are expected to be provided until 2024. On top of that we are also using our fleet for merchant generation and 2020 was exceptionally good year due to very favourable market conditions. However, going forward, we expect the margins in merchant generation to be a bit lower due to increasing gas prices and emission allowances. Going forward we expect to employ our fleet for new types of services provided to the TSO after 2024.

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In Customers and Solutions segment we expect to grow to roughly 22 TWh by 2024. We are focusing in B2B market on our home markets, so increasing the market share and our busines in Lithuania, Latvia, Estonia, Finland and Poland, and we expect to expand further using the new opportunities in Poland and Finland with new infrastructure coming online. In B2C segment in Lithuania we expect to retain the leading market position with the undergoing deregulation process of electricity retail market. Generally, our focus in Customers and Solutions segments is to exploit synergies with Green Generation segment, with offtake and PPA arrangements between our Customers and Solutions segment and the Green Generation growth. And we expect to scale further our innovative solutions, which have been already introduced or being introduced in Lithuanian market.

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And with this I pass the word to Darius to cover the financials.

Darius Kašauskas, Member of the Board, CFO

[Slide No 47]

Thank you, Dominykas. So, over the strategic plan period we expect to grow by around 5% to 8% annually, having main driver of this goal – Green Generation segment. Adjusted EBITDA is expected EUR 352–390 million in 2024. Average adjusted return on capital employed during this period is expected to be around 5.5% to 6.5%. Revised WACC in the next electricity DSO, next electricity DSO regulatory period is key driver for the lower targeted level of returns for period 2020, 2021–2024.

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Having strong financial credit to, to, to fund our growth. Over the next four years we keep sound leverage metrics. Net debt to adjusted EBITDA is expected to be lower four times during this period. FFO to net debt is expected to remain above 23% during the same period. And we are committed to solid investment-grade rating in the long-term period. And other the next strategic period 2021–2024 we expect to keep even triple B plus rating of our current credit rating from S&P.

[Slide No 49]

To grow our business, we are committed to deliver dividends in line with our business grow. Following the IPO, we have reviewed our dividend policy and it is now based on fixed starting level of 85 million euros, declared for 2020, and a minimum annual growth of 3% going forward. We also have flexibility to distribute excess cash if it’s available. And with this, I give back the floor to Darius Maikštėnas.

Darius Maikštėnas, Chairman of the Board, CEO

[Slide No 50]

Thank you, Darius. So, overall, summarizing strategic plan for 2024 and comparing to the last one, we will keep the same level of investments during four years investing between EUR 1.7 and 2 billion. Green Generation capacity will grow up to 25%, up to 1.8 GW to 2.2 GW of Green Generation, and we are providing adjusted EBITDA guideline, which we expect to be in 2024 between EUR 350 and 390 million of.

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Financial performance and financial indicators are very important, but since we are having very core commitment to sustainable growth and sustainable development.

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We are putting very strong efforts and measuring the goals, and setting the goals much beyond just financials and, therefore, we are measuring ourselves on international ESG ratings, mainly Sustainalytics and MSCI. During this period, until 2024, we will aim to improve those ratings. Sustainalytics, currently we have ‘medium’ risk category and we will try to approach ‘low’ category, and we are also aiming to improve our MSCI ESG rating from A to double A.

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In each of ESG dimensions, starting from environment, I mentioned, we will have comprehensive plan of activities and goals. In environment, we will continue to develop our Green Generation capacities. Also, will roll out, further on, our EV charging network, which we expect to be tripled during this period. And also, we will align our greenhouse gas emissions’ management plan with SBTis. We will continue our developments and our efforts, of course, on energy efficiency as well as air, land and water quality measures.

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On the social dimension, we will remain very much committed to occupational health and safety commitments towards our employees. Also, we will do much more work and will try much more to engage with the local communities, since while implementing more and more renewable energy generation projects we are coming close, closer to those. We will try to keep quite high employee engagement and satisfaction level because we are, really believe that this is peoples’ business and really qualified and motivated people are creating sustainable business and sustainable future for the next generations. And also, we see an area for improvement and area of focus to improve employee diversity. Especially, we have to work more on the gender balance in engineering and IT. We started quite a lot of initiatives in this field, and we will continue with those, and also leadership pipeline and gender equality on this dimension, it will be our continuous focus as well.

[Slide No 55]

On corporate governance dimension, this period will focus much more towards our value chain, to, to making measures to, to expand our Code of Ethics principles towards our supply chain partners. We will continue our very strong focus on transparency and anti-corruption measures, and also we will develop and will maintain a lot of sustainability governance new instruments and deep accountability and reporting in this important area.

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Summarizing our strategic KPIs for this period, our key focus is growing renewables, so here we are reaching up to 2 GW of installed Green Generation capacity. We will work further on to improve resilience of our networks, improving, especially, SAIFI indicator. And we will have huge roll out of smart metering and other network digitalisation initiatives, to make distribution network much smarter and much more efficient. We will maintain our strong position in flexible energy ecosystem and we will scale our retail sales across the region, reaching around 22 TWh of electricity and gas. We will continue our developments to become CO_2 neutral. We will maintain all necessary and always improving measures towards safety at work, monitoring and continuing with, especially, TRIR indicator and aiming for zero fatal incidents. We will, aiming to maintain employee NPS – very high level, which we currently already have, and we will try, as I was talking before, will roll out measure to improve our ESG indicators in MSCI and ESG, to improve at least on or both of them. And we will invest into the growth of up to 2 billion euros.

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That will create from Eur 350 up to 390 million of EBITDA in 2024. We will maintain return on capital employed in the range of average between 5.5 and 6.5%, we will keep sound leverage, below four times of EBITDA, triple B plus investment-grade rating and we will have continuously growing stream of dividends.

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So summarizing, we will, we are reiterated commitment to create sustainable future, we will invest up to EUR 2 billion green energy regional transition, creating EBITDA from EUR 350 to EUR 390 million, with very disciplined financial policy, sound leverage metrics while maintaining solid investment-grade rating and growing dividends.

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With that we are ready for your questions.

Q&A

Ainė Riffel-Grinkevičienė, Investor Relations Officer

So, thank you very much for the presentation and we shall start our questions part. So we have more than 15 questions and the first one is “Great presentation about future of the company, however, I would like to ask about investment in your employees. You mentioned that your employees are driving sustainable business of Ignitis. How do you invest in them and improve their qualification for future years? Also, what is the attrition rate at Ignitis?”

Darius Maikštėnas, Chairman of the Board, CEO

Thank you for the question, we are continuously improving and investing into our employees’ development and well-being, and really strong indicator showing the situation is our recent improvement in employee NPS rating, which reached the levels beyond 50%. I cannot right now indicate attrition rate, but it’s quite healthy one over different segments. Also, very important to notice that we are not, we have quite extensive internal and external education programmes to employees, we promote horizontal career initiatives across our Group, and also, last but not least, we are aiming and we are proposing for EGM to update our Group remuneration policy, which will make possible to all employees also to participate in option schemes as well.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. The next question is “what is expected negative financial effect on EBITDA level due to potentially decreased regulated return on equity on networks?”

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, maybe Jonas, can you comment on that?

Jonas Rimavičius, Head of Corporate Finance

Yes, sure. So, I mean the sensitivity here is that 1% decline in WACC is roughly, you know, since we have EUR 1.6 billion, or EUR 1.7 billion in regulated asset base, so it’s around Eur 16 million. So, since the decline is a bit, expected decline is around or a bit less than 1%, this is the rough estimate.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. The next question is “Thank you for the presentation, could you please provide some guidance on your total investments level planned for 2021, either on Group level, or by segment?”

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Darius, could you take it?

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Shall I repeat the question? So I will repeat once again. “Could you please provide some guidance on your total investments level planned for 2021, either on Group level, or by segment?”

Darius Kašauskas, Member of the Board, CFO

Maybe Jonas can?

Jonas Rimavičius, Head of Corporate Finance

Yeah, I can take this one. So, since we, in the strategic plan, we disclosed that we will invest between EUR 1.7 and EUR 2 billion, so dividing that by four would be a rough estimate on what plan for 2021.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. The next question is "What are your expectations for staff cost and how are you dealing with Covid-19 challenges in terms of working from home?"

Darius Maikštėnas, Chairman of the Board, CEO

So, in terms of Covid-19, we managed to deal with Covid situation quite effectively. Just in March, starting with the first wave of Covid we managed quite effectively to move all office workers to work remotely. We have quite extensive system of monitoring and helping employees to cope with the safety measures, and, actually, the eNPS of employees during this Covid crisis, waves, improved quite significantly. We see strong engagement and strong productivity even during those times. So no big shakeups related to Covid situation on the employee side.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. The next question is "Hello, I would like to ask, what about gas industry? If in this segment are also planned to invest, for example, smart meters for gas or other new technologies?"

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, so on infrastructure side, we do not have plans to invest into smart metering, in our DSO of natural gas. The main investments will be dedicated mainly maintenance of the network and occasional connection of large B2B customers.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, for answering that. The nest question is "Could you say any estimation on probably reduced WACC in networks for electricity in terms of EBITDA? And also, how do you see, smart meters will help to the Group, like, in terms of growth or efficiency? Thanks."

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, so, I will start with smart meters. Smart meters will have several effects for the Group and the customers. As the network will become much more digital, so we will have much more information on the network efficiency that will help company to make investments and maintenance more efficient, first of all. Also, it will help our customers to save on electricity consumption, employing more sophisticated methods of energy savings. And on WACC, Jonas, maybe you could comment more?

Jonas Rimavičius, Head of Corporate Finance

Yeah, so just to repeat, roughly, you know, EUR 15 or EUR 16 million is the impact of, on adjusted EBITDA from 1% WACC decrease.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius and Jonas. The next question is from Igor Kuzmin from Morgan Stanley "When may the regulator release the regulatory electricity WACC and RAB for the new regulatory period?"

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Dominykas, could you?

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah, so, the methodology for WACC has already been released by the regulator and the exact estimates of WACC to be applied in the new regulatory period is usually released in the second half of the year, prior to the start of application of the, of the new WACC. For the regulated asset base, the regulator is still in discussions, internal discussions and procurement of the consultant who would be helping the regulator to establish the exact methodology for the new regulatory period. But we would also expect to see more clarity probably in the second half of the, of this year.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. Igor had one more question. "Was any of Ignitis solar capacity selected as part of the end of 2020 renewables' auction in Poland?"

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Well the, the capacity of 170 MW or up to 170 MW is still in progress, working progress and they are basically going through various stages of development. Worth noting that 170 MW is basically split into many small projects, and in 2020 they have not yet reached the maturity where they would be selected for auctioning. But we expect this to come in the next auctions.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. The next question is "Thank you for the presentation. Could you please explain adjusted EBITDA and net income are adjusted to what in comparison with reported both EBITDA and net income? Thank you."

Darius Maikštėnas, Chairman of the Board, CEO

Jonas, could you?

Jonas Rimavičius, Head of Corporate Finance

Yup, so, we have that in the, in the appendix, so for adjusted EBITDA, right so we are adjusting it for, first of all, for temporary regulatory differences, meaning that we eliminate the result, which is related either to the past or to the future. So, we are showing purely this year's result. The second adjustment is fluctuations in, in derivative products, which is not, again, related to the current year. The third item is the cash effect of new connection points and upgrades, which effectively means that because of IFRS we need to recognise revenues from connecting the customer throughout the lifetime of the connection. However, the cash is being received in the present period, so adjust for that, and others are smaller one-off items, such as unusual gains and losses. So, that's about it for adjusted EBITDA and then for the net profit, so we, we apply all the same adjustments as for EBITDA and then, on top of that, we are eliminating one-offs, which are below EBITDA level, as well as revaluation of emission allowances, which is, again, non-cash related temporary movement. And, finally, there's an adjustment for, for income tax impact of all the other adjustments. So, that's, that's the way we do the adjustments. The overall goal is to, to normalise and show the, the result of the particular period.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas, for answering the question. The next question is on dividends "According to dividend policy, Ignitis should pay 80% of the net profit as dividends, but proposal for the year 2020 is only for 25% of net profit. Why so big difference comparing to dividend policy?"

Darius Maikštėnas, Chairman of the Board, CEO

So, again, we, before entering IPO, we approved new dividend policy to be quite simple and having quite strong visibility for future dividend flow, and the current and only one effective dividend policy is EUR 85 million dividend payment for 2020, with at least 3% growth annually. So, this is the only one valid dividend policy, which is applied to Ignitis Group.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. The next question is "What is your view on the recent announcement by regulator to cancel previously planned auctions for renewable energy projects?"

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Jonas, could you elaborate?

Jonas Rimavičius, Head of Corporate Finance

Yeah, so, I mean, this, the view is that, effectively, as we mentioned in the presentation that, we are seeing that onshore wind is already possible on the subsidies-free scenario. The same is approaching for solar, therefore, this change of plans does not have any impact on our plans.

Darius Maikštėnas, Chairman of the Board, CEO

And on top of that I could add that the situation in Ignitis Group where we have about 6 TWh of supply portfolio, which is not matched by production, help us in this respect also to be quite confident while implementing additional Green Generation capacities in the region.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius and Jonas. Another question is "Is the 30-year EBITDA assumption for Pomerania wind farm, announced after the yearly results, already accounted for in the outlook for 2021, published in the financial report of the year?"

Darius Maikštėnas, Chairman of the Board, CEO

Jonas, could you?

Jonas Rimavičius, Head of Corporate Finance

The short answer is yes.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

We have one more question with regards Pomerania. "Your forecast Pomerania project to create EUR 440 million EBITDA within the next 30 years. What is expected return on equity of this project?"

Jonas Rimavičius, Head of Corporate Finance

Yeah, so in, in terms of expected return on equity, this is in line with our target returns, which are between high single-digit to low double-digit on the levered equity bases, and, actually, it's towards higher end of that.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. The next question is "Do you have plans to expand beyond current markets during 2021–2024 period?"

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, main focus in this period will remain Baltic states, Finland and Poland. Having said that, if we will see some very attractive growth opportunities, we will seriously evaluate those.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. The next question is with regards to the investments "What are priority areas for the short and long-term period investments?"

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, again, investment priority areas we quite clearly indicated in our strategic plan. We are focusing to expand our Green Generation capacities quite significantly. And also, we are maintaining investment into networks: first of all, increasing resilience of those networks due to really changing environment conditions, due to the climate change, we need to improve that resilience, and also digitalisation of the networks. So those two core investment priorities are for the period, the rest are related to innovations and new services in Customers and Solutions segment ands some maintenance CAPEX on, on Flexible Generation.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering the question. The next is regards with Flexible Generation assets "What you expect for CCGT margin volumes in 2021? What level of regulated electricity WACC is assumed behind the 2024 EBITDA range of EUR 350 to EUR 390 million.

Darius Maikštėnas, Chairman of the Board, CEO

Ok, Dominykas, could you elaborate on CCGT?

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah so, on CCGT probably 2020 was most successful year in the last five years for merchant generation, and going forward probably, in terms of volumes, we might see significant production, continue seeing significant production, however, margins might be lower due to increasing gas prices and emission allowances.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you.

Jonas Rimavičius, Head of Corporate Finance

And in terms of WACC included in the guidance, it's in line with the, with, Dominykas mentioned during the presentation, between four and four and a half per cent.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas, Dominykas. The next question is on Customers and Solutions segment. "Could you please elaborate on the LNG designated supply role situation at the moment?"

Darius Maikštėnas, Chairman of the Board, CEO

So, currently, we are in the talks with the supplier, and since discussions and talks not finished yet, we cannot provide any additional information on this topic.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. The next question is “Are there any plans to be involved in offshore wind in Poland?”

Darius Maikštėnas, Chairman of the Board, CEO

Any new plans, if will be significant, we will announce using common practices to all shareholders at once.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering that. The next question is “Having smart meters in itself is not necessarily lead to lower energy consumption. They require increased energy literacy from consumers. Could you maybe comment on what role you see Ignitis playing educating consumers on energy efficiency possibilities?”

Darius Maikštėnas, Chairman of the Board, CEO

So, Ignitis really sees quite significant role in promoting and educating society on energy efficiency measures and possibilities, going beyond just B2B, which was currently prime focus, and as smart meters will be rolled out nationally that focus will expand to the households as well. Of course, a part of it will be taken by, some measures will be taken by DSO, our ESO operation, and also energy suppliers, our Customers and Solutions segments will implement additional applications, products and propositions to make energy saving easier and smart.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering the question. The next question is “Could you comment once again on leverage metrics and free cash flow and dividends?”

Darius Kašauskas, Member of the Board, CFO

Thank you, for question. Net debt to adjusted EBITDA, you can jump to our presentation slides, last year after IPO we, after IPO process, will received, our net debt decreased, so from 3.7 times at the end of the last year, at the end of 2019, decreased to 2.1 times at the end of 2020. This was impacted by issue of share capital, and also another important driver was our funds from operations, which amounted to EUR 313 million.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering the question. One more “What power gas and carbon prices are assumed as part of 2021 EBITDA guidance?”

Darius Maikštėnas, Chairman of the Board, CEO

Dominykas, would you elaborate?

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Well, we cannot point out the exact prices, but you can look up the prices in the, in future curves for all the, for all of these commodities, so we are just applying standard methodology, which would be applicable by most of utilities.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. Our nest question is “Some economist say that one of the main objectives of Ignitis

Group should be maximise efficiency of electricity, gas consumption in the country. What kind of measures, if any, Ignitis Group plans to use in order to achieve such goals?”

Darius Maikštėnas, Chairman of the Board, CEO

So, our major efficiency source from our operations, how we can contribute to the Group, are going through digitalisation of the network, which gives additional possibilities to businesses and consumers to apply smart technologies to optimise the energy usage. Also, our Customers and Solutions also providing a lot of energy-saving, green energy propositions, promoting as well electric vehicle infrastructure and, and other products, which are, in the long-run will make a lot of savings for the society.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for the answer. Our next question is “What are the plans to investments in solar energy development?”

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Jonas?

Jonas Rimavičius, Head of Corporate Finance

Yeah, so, solar is part of our target technologies in Green Generation, so part of the up, up to 1 billion of CAPEX, which is dedicated for Green Generation during 2021–2024, will be, will be invested in solar, of course, we still see when there’s a major, major space where we will invest over the coming years.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. The next question is “You are proposing for shareholders meeting to approve own shares buyback reserve of EUR 23 million. Please give the guidance on this buyback, including pricing, terms, market.”

Darius Maikštėnas, Chairman of the Board, CEO

Thank you, Jonas, maybe you can?

Jonas Rimavičius, Head of Corporate Finance

Yeah, I mean, so, so the decision to form the reserve is in no way related to, to any actual buyback at this stage. It’s just the, an opt, keeping the optionality for us because the reserve can be only formed at the AGM. So, in order for us to have this flexibility, we are creating it, but there are no details and no fact that we will be using it.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas, for answering the question. We have a new question. “Could you please provide your expectations for Ignitis offshore wind project? Do you expect to meet the targeted returns, with or without subsidies, and how much is the technology more expensive versus onshore? Thank you.”

Darius Maikštėnas, Chairman of the Board, CEO

Dominykas.

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah, so, generally speaking, yes, we do not invest if we don't meet our, our target returns, so we would make a decision to invest only in case that we are confident that we would meet our target returns. Then, when it comes to, to, to the type of support mechanism, the government has announced last autumn about potential CfD mechanism to be in place. And yes, if this would be auctioned, we would take part in it.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas, for answering that. Our next question is “Hello, thank you for the presentation. The question is how do you see evolving electric car trend could affect financial performance of the Group within five–seven years from now? Do you see how company can benefit from this trend, and, if yes, what actions do you plan to take in that way?

Darius Maikštėnas, Chairman of the Board, CEO

Thank you. So, we really believe in electric vehicle future, so, therefore, started to develop and we rolled out public charging stations starting already for two years and we will continue to expand this network during the strategic period, we aim to triple amount of public stations and expand the network. Having said that, significant impact to the financial performance of the Group we cannot expect in such a range of time since, due to the fact that total Customers and Solutions contributions to the EBITDA is around 4%, so it will be relevant, but not the major factor for overall financial performance for the Group.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. We have the next question on the shareholder distribution. “Are there any shareholders having more than 5% stake in the company?”

Darius Maikštėnas, Chairman of the Board, CEO

The answer is no.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for the straightforward answer. The next question is on Kruonis PSHP financing and returns.

Darius Maikštėnas, Chairman of the Board, CEO

Ok, Dominykas, maybe you can talk a bit more about Kruonis.

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah, it was covered quite extensively during the presentation, but generally speaking we are planning to tap into the ancillary service market, which is expected to be launched in 2025. So, it is aligned with the synchronisation project of Lithuania with Continental European networks, and this January the three TSOs of the Baltic states also announced the expected volumes of ancillary services, so frequency restoration reserve capacities and the, basically have been announced and this is the market that are targeting. We are planning to finance it with the, with the usual structure applicable in such projects with both debt and equity and we expect the project to meet our usual return criteria.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas, for answering the question. The next one is also on Flexible Generation. “Do you have any plans to develop Flexible Generation for balancing usage, for example, from prosumers? What would be the largest regulatory and technical challenges?

Darius Maikštėnas, Chairman of the Board, CEO

Dominykas, maybe you can expand on that?

Dominykas Tučkus, Member of the Board, Infrastructure and Development Director

Yeah, this is, this has been already discussed in many countries, the usage of, of basically customer base for balancing services and this would become more possible with actually smart meter roll out. So with the, with the smart meter, we would be able to see the usage at any point of time by specific groups of consumers and consumers could benefit, actually, from, from this development, but I should probably say also that this is a bit longer target, so probably coming in after, more likely, after 2025.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas, for answering the question. Our final question is "Do you intend to abandon internal purchasing between Group companies to avoid conflicts of interests?"

Darius Maikštėnas, Chairman of the Board, CEO

So we do not have internal conflict of interests, we have Shared Service Centre, in which we have concentrated some common functions, like centralised procurement or accounting or legal services, so, therefore, we will continue to maintain this model, which is typical for international groups, business groups who try to, to gain the synergies and efficiencies while maintaining common functions and common services in common shared service.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering the question. This now concludes our presentation. Please be reminded that the records of the presentation, as well, the presentation deck, you will find at Ignitis Group website. Ladies and Gentlemen, thank you once again for joining us and have a pleasant day.