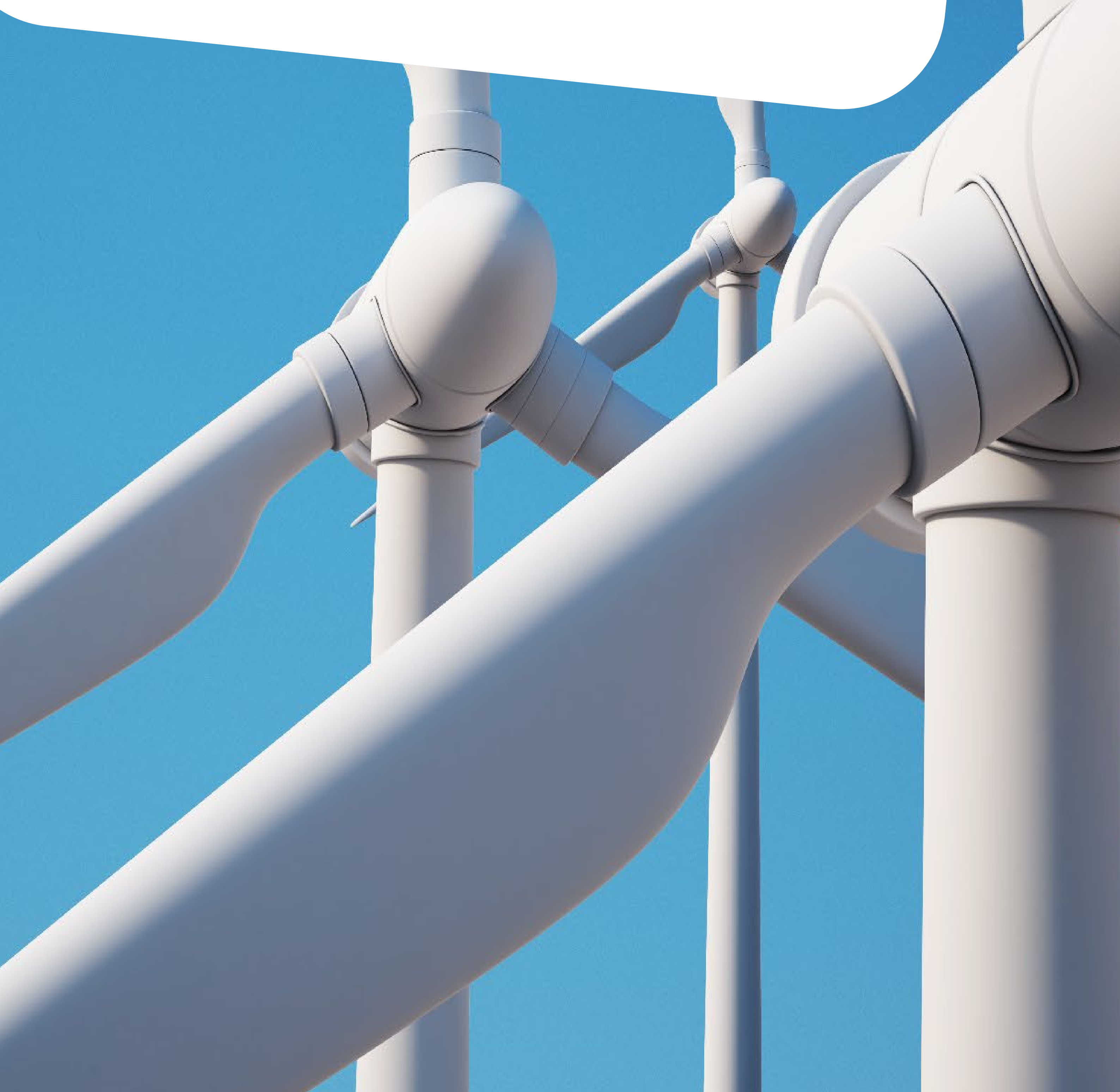
ignitis group

# Transcript

# 3M 2023 results, Strategy update and Strategic plan 2023–2026

23 May 2023, 1 pm Vilnius / 11 am London



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## Corporate participants

Darius Maikštėnas, Chairman of the Board, CEO
Jonas Rimavičius, Member of the Management Board, CFO
Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

## Presentation

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

[Slide No 1]

Good afternoon, ladies and gentlemen, and welcome all to Ignitis Group earnings call. Thank you for joining us today. Today, in addition to the first quarter of 2023 results, our management, Darius Maikštėnas, CEO and Jonas Rimavičius, CFO, will introduce you with the updated strategy as well as the strategic plan for the next four-year period.

I, Ainė Riffel-Grinkevičienė, Head of Investor Relations, will moderate a Q&A session afterwards. From this point, I hand over the floor to the speakers.

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

[Slide No 5]

During reporting period, we delivered strong results despite lower power prices. Our year-over-year Adjusted EBITDA grew by 34.6% and reached EUR 149.9 million. Strong result was mainly driven by Reserve Capacities, previously named Flexible Generation, segment performance as we managed to utilize an option to earn market premium by fixing a positive forward clean spark spread. Worth noting that we have changed the segment's name from Flexible Generation to Reserve Capacities to better represent the segment activities. Our Green Generation segment remained the largest contributor to Adjusted EBITDA, accounting for around 46.7% of the total Group's results. That is a flat year-over-year Adjusted EBITDA despite lower power prices. Following the strong first three months of 2023 performance, we reiterate our full-year Adjusted EBITDA guidance of EUR 430–480 million.

Next, we made substantial progress on our Green Generation Portfolio development. Since the beginning of the year, we increased our Green Generation Portfolio by 0.2 GW to 5.3 GW as a result of greenfield projects capacity additions. Also, our Secured capacity grew from 1.6 GW to 1.7 GW, which was mainly a result of a FID made in our 110 MW Kruonis PSHP expansion project. In addition, significant milestones we achieved in other Green Generation Projects, which I will detail later in the presentation.

[Slide No 6]

Moving further, we want to separately highlight progress on our sustainability initiatives.

Our commitment is evident in the reduction of greenhouse gas emissions. This aligns with our long-term goals of minimizing carbon environmental impact. Our year-over-year greenhouse gas emissions decreased by 11%. During the reporting period, decrease was recorded across all three scopes compared to the same period last year. This was primarily driven by two key factors: lower retail natural gas sales and lower generation in Elektrėnai Complex and Kruonis PSHP.

In addition, fewer days of favorable conditions for the generation in Kruonis PSHP was the main reason for the decrease in net electricity generation. Proportionately, lower electricity generation in CCGT led to a slight increase in green share of electricity generation to 95%.

While transitioning to cleaner energy sources, employee well-being and safety remain our top priority. We take concrete steps to strengthen our occupational health and safety culture within the group and with contractors. Our year-over-year total recordable injury rate for employees improved to 1.52.

Overall, our long-term focus on sustainability was reflected in the improvement of our ESG risk rating. In April, 'Sustainalytics' improved our ESG risk rating from medium to low ESG risk level. This places Group in the top 12% among the peers in managing the most significant ESG risks.

[Slide No 7]

Operational performance-wise, we demonstrated a progress across all our business segments.

In Green Generation, which is our core segment, we have increased our portfolio capacity by 200 MW to 5.3 GW and reached significant milestones in the projects we develop. Our 110 MW Kruonis PSHP expansion project reached a construction phase, we began a hot test in Vilnius CHP biomass units. In addition, Mažeikiai wind farm supplied the first power to the grid and Jonava solar project in Lithuania reached an advancement development stage. On the wind offshore front, Moray West offshore wind project has reached financial close and we are currently participating in the Lithuanian offshore wind spring tender, which started on 30 March 2023, for the first 700 MW project with our partner, Ocean Winds.

Moving to our second-largest, Networks segment. We successfully continued the smart meter rollout, during the first quarter of 2023 the total number of installed smart meters reached around 340,000 and currently exceed 400,000.

Next, in our Reserve Capacities segment, at the start of 2023, 519 MW of Elektrėnai Complex capacity, which was previously reserved for tertiary power reserve services, was allocated to isolated regime services. After reporting period, the electricity generators of the segment contributed to the success of a unique test organized by Lithuanian TSO, during which the Lithuanian electricity systems the system operated completely independently. For the first time, units 7, 8 and CCGT of Elektrėnai Complex operated simultaneously and together with Kruonis PSHP and Kaunas HPP, which are part of Green Generation segment, supplied electricity to the customers and generated electricity to cover more than 65%
of national electricity demand.

And lastly, in our Customers & Solutions, we have launched the EV charging expansion in Latvia and Estonia to ensure the coverage of EV network across all three Baltic states and continued to maintain a leading position in B2C electricity independent supply activities, which are undergoing deregulation phase.

[Slide No 8]

Let me now move on to more depth coverage of our Green Generation Portfolio development. Since the beginning of 2023, our Green Generation Portfolio grew by 0.2 GW to 5.3 GW as the result of greenfield capacity additions. Also, our Secured capacity increased by 0.1 GW to 1.7 GW as the result of FID made in our Kruonis PSHP expansion project and Tauragė solar project in Lithuania reaching construction phase.

In terms of our Portfolio split by technology, the largest share continues to conclude onshore wind and solar projects. Regarding the geography, the largest share of projects is settled in Lithuania, followed by Latvia and Poland. Finally, 4.2 GW out of our Portfolio concludes generation assets, and 1.1 GW provides flexibility.

[Slide No 9]

Looking at the project-by-project basis, the implementation of Portfolio is progressing as planned, with no significant changes since Q4 2022. In addition, it might be worth mentioning that after securing a grid connection, 252 MW, Jonava solar project in Lithuania reached an advanced development stage. However, as a result of regulatory changes causing later-than-expected obtainment of the permit for the development of electricity generation capacity, the project expected COD is postponed from 2025 to 2026.

For now, I conclude the overview of our business performance and pass the word to Jonas to cover the financials.

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

Thank you, Darius.

[Slide No 10]

We have delivered strong financial results in the first three months of 2023. Our Adjusted EBITDA grew by 34.6% and reached EUR 149.9 million. The main driver behind the growth was the Reserve Capacities segment, where we utilized an option to earn additional return in the market on top of the regulated return by fixing positive forward clean spark spread.

Regarding the other business segments, Customers & Solutions Adjusted EBITDA turned positive due to higher natural gas results in B2B segment. Networks result grew by 8%, mainly due to higher RAB and Green Generation remained flat year-over-year despite lower power prices. It also remained the largest contributor to Adjusted EBITDA, accounting for 46.7% of the Group's total.

[Slide No 11]

In terms of other return metrics, both adjusted net profit and return on capital employed were higher, driven by growth in Adjusted EBITDA. Adjusted net profit grew by 45.2% and reached EUR 88.7 million. Adjusted return on capital employed increased from 8.8% to 12.1%, which remains well above our targeted levels of 6.5% to 7.5%.

[Slide No 12]

Next, in the first three months of 2023, we invested almost two times more than during the same period last year, as our Investments reached EUR 120.8 million.

The main drivers behind the growth were higher investments in electricity network, driven by higher contractor fees and higher volume of work performed as well as the smart meter rollout, which we launched in July last year.

We also made significant investments in the Green Generation segment, mainly in onshore wind farms in Lithuania and Poland as well as Vilnius CHP biomass unit.
[Slide No 13]

Moving to our net working capital and free cash flow figures, lower level of inventory and the lower energy prices resulted in reduced net working capital. It has decreased by 29% since the end of 2022 and reached EUR 314.8 million. As a result of net working capital improvement and Adjusted EBITDA growth, our free cash flow has turned positive and reached EUR 208 million in Q1 of 2023.

[Slide No 14]

Regarding the leverage metrics, since the end of 2022, our net debt decreased by 22.7% and stood at EUR 762.9 million at the end of March 2023. FFO to net debt improved from 49.1% to 76.1%, well above 23% threshold required by S&P for BBB+ credit rating and net debt to Adjusted EBITDA has decreased from 2.1 to 1.5 times and remains substantially below 5 times threshold of our strategic plan.

[Slide No 15]

The extreme situation in the energy markets last year caused significant increase in our net working capital levels, which increased above EUR 1 billion. Since then, due to decrease in energy prices, recovered temporary regulatory differences, and decline in inventory levels, our net working capital declined to EUR 314.8 million. As a result, our liquidity reserve increased substantially to EUR 1.27 billion.

[Slide No 16]

As Ignitis Group, we fully support the aims of EU Taxonomy regulation. All of our main KPIs remain largely taxonomy aligned. In the first quarter of 2023, 59.4% of our Adjusted EBITDA, 92.1% of taxonomy CAPEX, 63.4% of taxonomy OPEX, and 20.5% of revenue were taxonomy aligned.

[Slide No 18]

Finally, our guidance for 2023. As a result of strong performance during the first three months of 2023, we reiterate our full-year Adjusted EBITDA guidance and expect it to be in the range of EUR 430–480 million. Directional guidance of our segments remains unchanged except for Reserve Capacities segment, which delivered strong results during the Q1 and therefore, we changed the directional guidance from stable to higher.

With that, I pass the word back to Darius to conclude our Q1 results presentation.

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

Thank you, Jonas.

[Slide No 19]

Let me highlight the key takeaways of Ignitis Group performance in the first three months of 2023.

Ignitis Group Adjusted EBITDA grew by 34.6% year-over-year and reached EUR 149.9 million. The result was led by Reserve Capacities segment performance. Despite flat Green Generation segment result, it remained the largest contributor to Adjusted EBITDA and accounted for almost half of Group's total result.

Regarding the strategic performance of the Group, since the beginning of 2023, our Green Generation Portfolio increased by 0.2 GW to 5.3 GW and Secured capacity grew by 0.1 GW to 1.7 GW.

Also, continued focus on sustainability matters was reflected in the upgrade of 'Sustainalytics' ESG risk rating from medium to low, placing Ignitis in the top 12% among utility peers.

And lastly, in terms of full-year 2023 performance, we reiterate our Adjusted EBITDA guidance and expect it to be in the range of EUR 430–480 million.

For now, let's move on to Strategy update and Strategic plan 2023–2026 part.

[Slide No 20]

Our updated strategy sets more ambitious targets and defines priorities to strengthen our contribution to the Europe's decarbonization and energy security in our region. We also present our four-year strategic plan for the year 2023–2026 period.

Let me begin with an overview of Ignitis Group business model.

[Slide No 23]

While exploiting our renewables-focused integrated utility business model, we target to deliver 4–5 GW of Green Generation capacity by the end of 2030 and reach net zero emissions by 2040–2050.

To deliver renewables capacity build-out targets, we set our focus on offshore wind, onshore hybrid, power to X, and storage technologies. We will utilize our integrated business model or, to be more specific, the largest customer portfolio, the largest energy storage facility, the largest network and energy hub.

Geographic-wise, we continue to be active in Baltic States, Poland, and Finland.

[Slide No 24]

It is important to highlight that we are leveraging our integrated business model, which we will utilize as a backbone for strategic focus achievement.

It means that, firstly, we will focus to deliver 4–5 GW of installed green and flexible capacities by 2030. Secondly, to enable green generation buildout, we will utilize customers and solutions segment to further expand customer portfolio, which is currently the largest in Baltics with 1.4 million customers base.

In terms of the remaining business segments, Reserve Capacities is foreseen to be mainly operating as system reserve and the largest energy hub in the Baltics with a strategic focus on contributing to the security of the energy system. In the Networks segment, we will continue to focus on expanding a resilient and efficient grid to enable electrification.

[Slide No 25]

Finally, we continue to apply sustainability initiatives across Ignitis Group on a daily basis. And this is evidenced by the numerous ESG rankings awarded to the group, which places us among utility leaders. To demonstrate our continuous commitment even further, we are speeding up our path to net zero emissions and target now to reach it by 2040-2050.

With Ignitis Group business model wrap up, let me now move on to the context or what are the main factors driving our strategy.
[Slide No 27]

First, the global climate changes and united efforts to limit global temperature increase. Second, the main five sources of today's global greenhouse gas emissions, which are manufacturing, electricity, agriculture, transportation, and buildings. Third, EU response, common targets, and climate actions for Europe decarbonization.

[Slide No 28]

In addition, growing carbon prices, phase-out of conventional plants, the need to ensure energy security and independence, growing demand for electricity, green generation capacity targets, and growing power-to-X capacities are among the key factors supporting and driving our strategy.

[Slide No 29]

Lastly, the coming changes in energy flows or demand and supply in Europe is of importance of us. This is because together with energy market and capacity development, the Baltic states and Nordic countries will become substantial suppliers of both electricity and hydrogen for the Central Europe, including Germany. And that will support us as well as enable Ignitis Group for even further growth.

[Slide No 30]
Next, the most important part of our strategy update, our purpose.

[Slide No 31]

We set our purpose, which is to create a 100% green and secure energy ecosystem for current and future generations. We will fulfil it by leading the regional transition into climate-neutral, secure, and independent energy ecosystem and contributing to Europcar carbonization by facilitating renewable energy flows from Northern to Central Europe.

Furthermore, by leading regional transition in Lithuania and the Baltics, we target to become one of the first 100% green energy systems in Europe. Important to note, our enabler role in facilitating green and secure energy ecosystem.

There are multiple interdependent parties involved in generation, consumption, transformation, and transportation of clean energy, including industry, transport, and heating.

[Slide No 32]

To fulfil our purpose, we set out our priorities. The first is green – we increase our low carbon capacities. The second – flexible, we create a flexible system that can operate on 100% green energy in short, medium, and long term. The third – integrated, we utilized the integrated business model to enable green and flexible generation build out. The fourth – sustainable, we maximize sustainable value.

With the definition of Ignitis Group purpose, let us now deep dive into our business segments. Jonas, passing the word to you.

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

Thank you, Darius. I will cover our Green Generation business segments.

[Slide No 35]

We see significant opportunities in our home markets with 41 GW of new green generation capacity additions expected by 2030 across Baltics and Poland.

There are several reasons why this growth will come.

In Lithuania, currently, only one-third of electricity consumption is covered by national generation and the country has a clear target of reaching 100%.

In Poland, transition from coal generation needs to happen. Currently, coal represents more than 70% of Polish generation mix.

In Estonia, energy system is still largely dependent on oil shale from which the country targets to phase out. Another factor affecting all Baltic countries is the termination of electricity imports from Russia and Belarus and finally, REPowerEU amplifies all of the above trends.

[Slide No 36]

Now, let's turn to our own targets. We have increased our 2030 green generation target from 4 GW to 4–5 GW and we have also set a mid-term target of 2.2–2.4 GW by the end of 2026. So essentially, we will double our installed capacity by 2026, and increase it four times by 2030.

[Slide No 37]

As you have already seen in our Q1 results presentation, our Green Generation Portfolio currently consists of 5.3 GW, out of which, 1.7 GW or around one-third is Secured capacity.

Technology-wise, the largest part, with 40% share, is onshore wind. Geography-wise, the largest market accounting for two-thirds of portfolio is Lithuania. And also, important to note that out of 5.3 GW, a significant part, or 1.1 GW, is flexibility capacity.

[Slide No 38]

When working towards our installed capacity targets, we focus on technologies that can deliver 100% green and secure energy ecosystem and in order to deliver that, we need to combine green generation and green flexibility solutions. On the generation side, these are offshore wind and hybrid onshore technologies. On the flexibility side, these are batteries, pumped-storage hydro, and P2X technologies.

I will now briefly cover each of these, starting with offshore wind.

[Slide No 39]

We set a target to secure two offshore wind projects in the Baltics, one project in Lithuania with COD until 2030 and the second in our home markets with COD post 2030.

Regarding the auction pipeline, we will have two offshore wind tenders taking place in Lithuania, each 700 MW. One is currently in progress, and the other will happen in Q3 this year.

We also expect to see a seabed lease tender in Estonia this year for around 7 GW. And in 2026, a joint Latvian-Estonian auction for 1 GW project.

The long-term offshore wind potential of our region exceeds 60 GW, which makes the Baltics one of the most attractive regions for offshore wind developments.

[Slide No 40]

The second technology which we will focus on for generation is onshore hybrid. It ensures a higher utilization of available grid capacities and a more stable generation profile. So simply put, it makes a lot of sense to combine wind and solar in our region, as generation time overlap between the two technologies is minimal.

On the flexibility side, for the short-term storage solutions, we will focus on batteries. They enable integration of renewables by facilitating demand management, helping to improve grid reliability, and limiting output curtailment.

[Slide No 41]

For the medium-term flexibility solutions, we will focus on pumped-storage hydro. Our Kruonis pump storage hydro plant, with 900 MW of flexibility capacity, is one of the largest energy storage facilities in Europe. And we have just made the final investment decision to expand it to more than 1 GW. After the expansion, this 1 GW plant will be able to run at full load for 10 hours and provide a massive 10 GW hours of storage capacity.

[Slide No 42]

Finally, for long-term flexibility solutions, we will focus on power to X, meaning hydrogen and e-fuels. In the first stage of our plan, we will implement a hydrogen production and e-fuel conversion pilot project. If successful, in the second stage, we will launch industrial-scale hydrogen and e-fuel production capacities.

[Slide No 43]

Strategic partnerships are an important part of our strategy. When we adopt new technologies or enter new markets, we aim to partner with someone who has more experience than we do in that area. As an illustration of this approach, our partnership with Fortum, a leading waste energy player, to build Kaunas CHP waste to energy plant, which was a new technology for us at that point.

And currently, we are doing the same for offshore wind by partnering with the leading player in the industry, Ocean Winds, to participate in the first 700 MW offshore wind tender in Lithuania. We will continue forming strategic partnerships for new technologies and new markets going forward.

[Slide No 44]

Moving on to our operating model. Essentially, we aim to create value in every single step of green generation project, starting from greenfield development stage, then construction, then structuring power offtake agreements, financing, performing asset rotation, then hybridizing the assets and combining it with storage solutions, and finally, operating the assets.

Next, I will highlight several aspects of our operating model.

[Slide No 45]

Firstly, offtake capabilities. This is one of our key differentiators positioning us very strongly among the competition. Our current power supply portfolio is seven times larger than amounts that we generate with our assets. This means that we can build around 3 GW of new green generation capacities and simply sell the electricity that they generate to our existing customer base.

[Slide No 46]

The second aspect of our operating model worth highlighting is asset rotation. Our asset rotation program means that we intend to sell up to 49% in each individual green generation project in order to recycle capital to enable further growth and capture value premium by selling de-risked assets.

[Slide No 47]

Finally, our return targets. On unlevered basis, we aim to earn 100 to 350 basis points above our WACC. And on a levered basis, we target to earn high single-digit, low double-digit returns.

With this, I pass the word to Darius to cover our remaining business segments.

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

Thank you, Jonas.

[Slide No 48]

Let me begin with Cstomers & Solutions business segment. Its key role is utilizing and further expanding customer portfolio to enable green generation build-out and speeding up the transition from gas to power.

[Slide No 49]

We target to utilize it and further expand customer portfolio, which is currently the largest in Baltics, to ensure a green generation buildout through internal power purchase agreements. For that, we aim to expand our electricity supply portfolio from 10.5 to 10.9 TWh in 2026. Therefore, cumulative average growth rate of around 8–9% during 2022–2026.

[Slide No 50]

Additionally, we set a target to build a leading EV public charging network in the Baltics. Ignitis Group aims to install more than 3,000 charging points by the end of 2026 and gain around 50% of the market share. One of the key advantages of such expansion is to enable it as a significant offtake in the future.

[Slide No 51]

Another important milestone, decision to speed up the transition from gas to power by proactively promoting customers to replace it, we aim to optimize our retail gas supply portfolio to 5 TWh in 2026 and have committed to reduce it further by securing supply levels required for security of the energy system during the energy transition period in Lithuania.

[Slide No 52]

Moving to Reserve Capacities segment, which key role is contributing to security of the energy system.

[Slide No 53]

This segment primarily provides ancillary services with a load factor of around 3% the last year by securing high availability of around 98% of assets. Additionally, it has an upside potential from having an option to generate electricity in the market during a lower renewables generation or positive clean spark spread periods.

[Slide No 55]

Our last business segment, Networks, has the largest distribution grid in the Baltics and operates under a natural monopoly with the regulatory framework, providing more than 6% return on our investments.

[Slide No 56]

In distribution grid, we are planning to invest from EUR 0.9–1.1 billion over 2023–2026 period.

A substantial amount of investments will be directed to ensure a resilient electricity network to enable electrification whereof around 54% of total investments over 2023–2026 period will be allocated for electricity network expansion.

[Slide No 57]

Regarding strategic priorities of this business unit, we have three. The first, resilient and efficient electricity distribution. We aim to reduce interruptions per customer, technological losses, as well as to increase network efficiency and automation.

The second strategic priority includes electricity network expansion and energy market facilitation. We aim to facilitate the energy markets development, including transport electrification, EV charging, and energy efficiency. It also includes industrial and heating electrification through electricity network expansion, new connections, new capacity expansions, and smart meter rollout.

Lastly, the third strategic priority includes end-to-end customer experience improvement through standardized solutions and channels reflecting customer needs.

[Slide No 59]

With that, let me now to summarize strategic priorities by business segment.

First, our Green Generation segment will focus on delivering 4–5 GW of installed green and flexible capacities by 2030 with a focus on offshore wind, onshore hybrid, P2X, and storage.

Then our Customers & Solutions segment's strategic priorities will include utilizing and further expanding customer portfolio to enable green generation build-out, as well as building a leading EV public charging network in the Baltics, and speeding up the transition from gas to electricity.

Regarding Reserve Capacities segment, we will continue contributing to security of the energy system.

Networks segment focus will be placed on resilient and efficient electricity distribution, electricity network expansion, and energy market facilitation. Furthermore, it will prioritize end-to-end customer experience.

Overall, our focus will continue to be on our home market, the Baltic states, Poland, and Finland. However, we will continue to explore opportunities in other EU markets undergoing energy transition. That being said, it all should enable us to create a 100% green and secure energy ecosystem for current and future generations.

[Slide No 61]

We continue to align our business goals with fundamental ESG principles and strategic priorities on decarbonization, safety, employee experience, diversity, and sustainable value creation.

[Slide No 62]

To reach net zero emissions target by 2040–2050, we plan to halve its greenhouse gas emissions by 2030 and reduce them by 27% by 2026 compared to 2020. We anticipate significant reductions in emissions in both Scope 1 and Scope 3 compared to the baseline for 2020.

[Slide No 64]

Finally, let me now move to most important asset, our people, which are altogether contribute to our strategy. Ignitis Group is a diverse organization with energy-smart people united by a common purpose. On a day-to-day basis, we stick to our values, responsibility, partnership, openness, and growth.

[Slide No 65]

Our people contribute to Ignitis Group purpose and strategic priorities by building a diverse team of energy-smart people and putting priorities of attracting and retaining top talent, building critical skills and competencies, as well as having a human-centric approach.

With that again, I give the floor to Jonas to cover our financial targets.

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

Thank you, Darius.

[Slide No 67]

Over the next four years, we plan to invest between EUR 2.2–2.8 billion. The majority of our investments, or 55%, will be allocated to Green Generation in order to achieve 2.2–2.4 GW installed Green Generation capacity target by 2026.

Another significant part of our investments, around 40%, will be dedicated to our Networks, which will increase the resilience and enable electrification. As a result, by the end of 2026, our regulated asset base will increase by 40-50% to EUR 1.8–1.9 billion. Sustainability-wise between 85–90% of our investments are expected to be taxonomy aligned.

[Slide No 68]

Regarding our target returns, our Adjusted EBITDA is expected to reach between EUR 470-550 million in 2026, mainly driven by the Green Generation growth. The sustainable share, as defined by EU taxonomy, is expected to account for more than 75% of total results.

Finally, we target our adjusted return on capital employed to be at the level of 6.5–7.5% during 2023–2026.

[Slide No 69]

Despite our heavy investment program, we continue our commitment to a solid investment-grade credit rating of BBB or above over 2023–2026 period. In addition to that, we also target to keep our net debt to Adjusted EBITDA below 5 times.

[Slide No 70]

Finally, in terms of shareholder returns, we will continue to grow our dividends by at least 3% every year, which represents an implied dividend yield of between 6.3–6.9% over the 2023–2026 period.

[Slide No 71]

Our newest strategic plan shows an increased ambition in all areas. In terms of green generation capacity targets, we raised our previous target by 10%. In terms of investments, we plan to invest 40% more and in terms of EBITDA, we expect to earn 30% more.

With this, I pass the word back to Darius to conclude the strategy presentation.

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

Thank you, Jonas. Let me now sum up the key points of our strategy update and strategic plan for 2023–2026.

[Slide No 73]

We set our purpose to create a 100% green and secure energy ecosystem for current and future generations. To do that, we will exploit our renewable-focused integrated business model and pursue purpose-driven priorities: green, flexible, integrated, and sustainable.

Regarding our strategic growth, we target to reach 4–5 GW of Green Generation capacity by the end of 2030 and 2.2–2.4 GW by the end of 2026. By 2040–2050, we also set to become CO2 neutral.

To ensure these goals, we will invest EUR 2.2–2.8 billion over next four-year period while maintaining BBB or higher credit rate. This should translate into EUR 470–550 million Adjusted EBITDA in 2026 and 6.3–6.9% implied dividend yield over the period of 2023–2026.

[Slide No 74]

Let me highlight why Ignitis Group is positioned to succeed.

We are a renewables-focused Group targeting to expand our renewables portfolio four times, from 1.2 GW to 4–5 GW by the end of 2030. To fulfil that goal, we will leverage our integrated business model, as we are positioned to benefit from the largest customer portfolio, energy storage facility, network, and energy hub in the Baltics.

Our strategy is also supported by our leading position in the market, which is the fastest growing region in EU in terms of GDP growth, which is twice the EU average, and expected renewable capacity growth of around three times compared to 1.8 times in the EU. Despite our ambitious growth strategy, we follow financial discipline, supported by strong financial profile and BBB+ credit rating.

Next, we are placed among the top-rated European utilities according to multiple ESG ratings and committed to net zero emissions by 2040–2050. Lastly, our business plan offer an attractive blend of yield and growth with an implied dividend yield of around 6–7% and historical Adjusted EBITDA growth of around 7–11%.

With that, thank you for patiently listening to us today.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

This now concludes our presentation, and we are open for your questions. Operator, handing over to you.

**Telecommunications operator**

Thank you. (Operator Instructions)

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you. To begin with, our first question is, Vilnius CHP is undergoing hot testing. When will the tests be completed and the commercial operations start?

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

Hot tests in Vilnius CHP biomass unit are still undergoing and will continue until COD. And regarding the commence of full commercial operations, our target to begin it during the heating season of this year, that remains unchanged.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you. Our next question is, after Vilnius CHP starts for commercial operations, 49% of its shares will have to be sold under the EU grant rules. How long will it take to complete the sale? What method will be used to achieve this: auction, non-public negotiations, et cetera? Does the sale rule include the waste to energy unit?

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

Based on the requirements of EU CAPEX grant received for the project, we will need to initiate a sale of 49% of the whole asset in six months following the completion of the project. The sale of 49% will be based on standard M&A process, ensuring the best result. And then, yes, as we will be selling the shares of the company, it will include both biomass and waste to energy units.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Jonas. Our next question is, did Ignitis Group submit its bid in the ongoing offshore wind auction? Do you know if the auction will take place? That is, are there at least two participants?

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

Regarding the current spring tender, which started on 30 March, we participate in it together with our partner, Ocean Winds. And regarding whether the tender will take place, we will know it only after the announcement of the results by the regulator.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Darius. One more question. From the beginning of 2023, Pomerania wind farm should have started selling 100% of the electricity it generates through CfD. Is this actually happening? Did you consider continuing to sell the generated electricity in the market or through PPAs? Because despite the downward trend, the electricity prices in Poland are still higher compared, for example, to the Baltics.

Another part of the question also includes, additionally, if 100% of generated electricity is actually sold through CfDs, as the CfD price is known, could you estimate the negative effect of transitioning to CfD in this year compared to the last year, considering that the generated volume would be the same?

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

So you're right. Since December 2022, Pomerania wind farm sells 100% of electricity generated under the CfD regime at the level of around 62 EUR/MWh. The reason of selling electricity generated under CfD is the introduction of price cap in Poland at around EUR 65 EUR/MWh. As a result, higher electricity prices in the market would not have impact to Pomerania wind farm results, because all the excess gain would have to be paid back to the regulator.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Our next question, Ignitis Group is rapidly developing its green generation capacities. It will probably require additional capital to complete all the projects. Are you considering a separate IPO of Ignitis renewables to attract capital? Markets value standalone green generation companies more than integrated utilities.

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

Well, at this moment, we do not see a need for additional equity capital. And regarding valuations of integrated versus standalone green generation companies, my personal view is that it is just a matter of time until markets realize the upsides which lie within an integrated utility model.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Jonas. Our next question, can the decrease in electricity prices in the market make you change your green energy strategy and abandon some of the planned investments?

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

So first of all, just to make it clear, we do not see electricity prices returning to pre-war levels, which means that they will remain elevated. Secondly, we closely monitor the expected return levels of each of our projects. And naturally, if they don't meet our return criteria, we don't do the investment.

So can it happen that some of the projects in our portfolio will not reach final investment decision? Yes, this is true in any price environment. Does it have an impact of our long-term targets? No, it doesn't.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Jonas. The following question, can you please give more detailed information about positive Q1 Reserve capacities result? Is it coming from selling emissions permits? Should it be considered as a one-time event?

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

Yes. So in short, our Reserve Capacities segment business model is that it is one part is the regulated return, which covers most of the expenses and then the second bit is indeed with optionality to earn an additional return in the market.

So what we did in Q1, or to be precise, end of last year, we fixed the certain spread between electricity and gas prices, which allowed us to fix additional return in the market on top of the regulated return. Going forward, probably, this was on the larger side of the scale. But going forward, it remains part of the business to earn these additional returns in the market.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Our next question, in the last month, we sourced some financing agreements with top banks, like Citi or MUFG. At the same time, group's cash and equivalents balance is already at a higher level, near EUR1 billion. Should such financing be considered as preparation and making ties with top banks for financing later bigger green generation projects?

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

Yes. So the experience last year showed us that, indeed, we need to keep a higher financial liquidity reserve than previously thought. So these new agreements with Citi and MUFG are driven by the business need. One more thing to have in mind is that in our financing targets, we intend to have a mix of local players as well as international players and institutional ones.

So what we are doing here is indeed that. And as a side benefit of it, as you are correctly pointed out, these banks will be able to better familiarize with the local market and hence be able to participate in our Green Generation project financing when the time comes.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

The following question, in Poland's solar portfolio, there is already installed 8 MW of 40 MW intended. Does those 8 MW already produce electricity?

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

So there are two things to keep in mind. So the short answer is yes, they produce electricity. However, because of the agreement with the developer, the taking over of these projects happen in batches. So currently, we haven't yet reached the first batch which we would take over. So we do not yet own these capacities.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Our next question, when parks availability went down significantly from 99.1% to 93.7% in Q1, what was the cause? Should this improve in later quarters?

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

Yes. So I will start with the last part. It should improve in later quarters. Generally, we expect our availability to be between 97% and 98%. However, in Q1, we had an incident at one of our wind farms, hence we had a temporarily lower result. That issue is fixed right now, so we don't expect the same to happen in later quarters of the year.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Next question, given the relatively large bond maturity wall in 2027–2030, have you given thought to whether you will refinance these maturities or pay them down? How likely is it that any future bond issuances will include an ESG component?

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

However, the final decisions will be made when the time comes.

In terms of whether it will be plain vanilla bonds, green bonds, or ESG bonds, it will again depend on the timing. However, irrespective of the choice of an instrument, absolute majority or close to 90% of our investments are in line with the EU taxonomy, which means that we will have an option to choose between all three types.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

The next question , thank you for the good work being done. I have a question with regards to the Networks return on investment WACC component. With higher interest rates, will the WACC be adjusted? If so, then when and how large do you see the uptick? Current Lithuanian government 10-year bond yield stands at around 4.5%.

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

Yes. So we have started the discussions with the regulator on this topic, and I think it's clear and the regulator, being reasonable, sees it as well that something needs to be done with WACC. I would not speculate when it could be changed, but I think it is clear that the WACC will be increased. And according to the formula, which includes both risk-free rate, cost of equity, and other parameters included in WACC, it mathematically will be higher in the upcoming years.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Jonas. Our next question, what was the level of technological losses in electricity network in 2022? New target is less than 5%.

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

Yes. So probably, we will not give a precise answer right now, but it was around 5%, probably slightly higher than that. So the intention is to decrease it below 5%.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you. The following question, as Ignitis Group is going to expand energy storage, battery, and power-to-X solutions, could you please uncover some expectations for installed storage capacity for each of them till 2030?

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

Currently, we do not provide the specifics of particular capacities. But as we announced, we will start in P2X with the pilot and later on, we are planning to install industry-scale capacity, which will be very significant in the region.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you, Darius. Our next question, EBITDA target below 5%, more than modest. Please prove if you think it is ambitious.

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

So when speaking about EBITDA growth rate, we need to have in mind what is the base year of that growth. And the base year in current case is the year 2022, which was an unusual year, record-high year, due to turbulences in the market. So if to look at a more representative result of normal times which we had in 2021, the growth is substantially bigger. So yes, we do think it's ambitious. Just you need to keep in mind the comparison year.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you for answering that. Our next question, hello, thank you for the presentation. Can you please comment on the group working capital trends that you expect going forward. Can we view the net working capital level achieved in the end of March this year of EUR 315 million as already optimal?

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

Yes. So going forward, we expect to continue optimizing net working capital levels. Obviously, it depends on the external conditions as well. But I would say that a net working capital level at around EUR 300 million is something which we can live with. Ideally, it would be below that, but this is already a level which we can operate with.

**Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations**

Thank you for answering our last question. As we have no further, let me conclude the earnings call. So again, thank you very much for joining us today. Should you have any questions, please contact IR team.

And now, enjoy the rest of your day.