# Transcript.

# Investor presentation: 3M 2024 results & Strategic Plan 2024–2027

15 May 2024, 1 pm Vilnius / 11 am London

# Earnings call transcript

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## Disclaimer

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

## Corporate participants

Darius Maikštėnas, Chair of the Management 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 and welcome to Ignitis Group's earnings call. I'm Ainė Riffel-Grinkevičienė, Head of Investor Relations, and will moderate the call today. During this presentation, the CEO and CFO of Ignitis Group will review the results of the first quarter of this year and will present strategic plans for the next four-year period of 2024–2027. This will be followed by a Q&A session. Before we begin, I would like to remind that today's presentation contains forward-looking statements that are subject to risks and uncertainties. These statements are based on the management's current views, expectations and assumptions, and actual results may differ materially from those expressed or implied. With that, I would like to hand over to the speakers.

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

[Slide No 5]

Good afternoon, everyone. We started 2024 with strong results. First, on our strategic performance, we increased our Green Capacities portfolio by 0.3 GW up to 7.4 GW. Grew Installed Capacity by 0.1 GW to 1.4 GW and achieved significant milestones in the development of our Portfolio.

Second, on our sustainability initiatives, we reduced Scope 2 emissions, continued to improve the safety metrics, and maintained high employee satisfaction.

And finally, on our financial performance, our Adjusted EBITDA grew by 21.2% year-over-year and reached EUR 181.7 million. We increased investments by 73.4% to EUR 209.5 million. And we reiterate our Adjusted EBITDA and Investment guidance for 2024.

Let me now take you through each of the highlights in more detail.

[Slide No 6]

In the first quarter of 2024, we increased our Portfolio by 0.3 GW, from 7.1 GW to 7.4 GW. This is a result of greenfield capacity additions as we secured land for the development of hybrid projects, so to say we will develop wind farms close to our Latvian solar projects. We also increased our Installed Capacity to 1.4 GW as Silesia WF I in Poland has reached COD in March, and our Secured Capacity stood at 2.9 GW.

In terms of the breakdown of our Green Capacities portfolio, it continues to be dominated by wind projects with a share of 4.6 GW. Most of the projects are being developed in Lithuania, accounting for 4.2 GW, and yet the generation part represents the largest part of our portfolio with a capacity of 6.3 GW.

[Slide No 7]

Now, to our project delivery by technology.

First, we continue to make significant progress in the development of offshore wind. At Lithuanian offshore wind farm, we have successfully completed the first geophysical and geotechnical campaigns, initiated an environmental impact assessment, and started taking wind and meteorological measurements in the Baltic Sea. We are also proud to have built up an experienced team, which now consists of more than 50 experts with extensive offshore wind development experience gained globally. In addition, we submitted a bid in the tender for the second 700 MW Lithuanian offshore wind project. However, due to the limited number of participants, the tender did not convene but is expected to take place in due course, following a review of the tender conditions.

On the onshore wind front, as already mentioned, our 50 MW Silesia wind farm in Poland has reached COD. In addition, the first wind turbines have been delivered at Kelmė, the largest 300 MW wind farm we are developing in the Baltics. We expect the wind farm to become operational in 2025.

And finally, we added new technology to our Portfolio after the reporting period as we secured grid capacity for the first early development BESS projects with a capacity of up to 190 MW in Lithuania.

[Slide No 8]

Next, our progress towards sustainability. Firstly, on GHG emissions, our market based total emissions increased by 12.5% year-over-year due to the increase of out-of-scope emissions as a result of Vilnius CHP biomass unit's operations. Despite that, we reduced our Scope 2 emissions by 60.4% due to the use of renewable energy guarantees of origin for the share of Kruonis PSHP electricity consumption and the share of electricity distribution network losses.

Second, we increased Electricity Generated by 39.0%, mainly due to the generation of new assets, such as Mažeikiai WF, Silesia WF I, and Vilnius CHP biomass unit. The growth was further supported by Elektrėnai Complex, where all three units were operational simultaneously in commercial mode for the first time ever due to severely cold weather in the Scandinavian countries and decreased electricity production capacities in the region. This, in turn, resulted in the Green Share of Generation decrease by 15.7%, down to 79.9%

Finally, we improved our employee total recordable injury rate to 0.99 as the number of safety incidents decreased from 3 to 2. Also, no incidents occurred between contractors.

And, lastly, we maintained very high employee overall experience rate at 65.5%.
For now, I conclude the overview of our strategic performance and pass the word to Jonas to cover the financials.

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

[Slide No 9]

Thank you, Darius. Let me start with the financial highlights of Q1 2024. We have again delivered a strong set of results. Adjusted EBITDA grew by 21.2% year-over-year, with growth across all business segments, except Reserve Capacities. Green Capacities segment remains the largest contributor to the Group's Adjusted EBITDA, representing 42.4% of the total.

Adjusted Net Profit increased by 26.9% and reached EUR 112.6 million.

We have continued our extensive Investments program and our Investments increased by 73.4% year-over-year and reached EUR 209.5 million. This reflects our progress in Green Capacities segment, where our Investments have tripled.

Return on Capital Employed decreased by 1.0 p.p. to 11.1%, mainly as it takes a few years until capital invested starts generating EBITDA.

Our leverage metrics remained strong, with FFO/Net Debt at 28.9%, and Net Debt/Adjusted EBITDA at 2.49 times.

Finally, in line with our Dividend Policy, we paid a dividend of 64.3 cents per share for the second half of 2023, which is 3% higher than last year.

[Slide No 10]

Now let's take a closer look at each of our KPIs. Starting with Adjusted EBITDA, it has increased by EUR 31.8 million year-over-year, from EUR 149.9 million to EUR 181.7 million.

Green Capacities EBITDA grew by EUR 7.1 million, mainly due to the launch of new assets, and higher captured electricity prices, due to the flexibility of our assets. Networks EBITDA grew by EUR 16.8 million, mainly due to higher RAB as a result of continued Investments into our electricity network, and higher regulatory WACC which reflects higher interest rate environment. Customers and Solutions EBITDA grew by EUR 16.5 million, driven by lower loss in electricity B2C business and better results in Latvia and Poland.

The growth in the three mentioned segments was partly offset by decline in Reserve Capacities segment.

[Slide No 11]

Next, let's deep dive into the EBITDA of each segment, starting with Green Capacities. Its EBITDA increased by 10% year-over-year, from EUR 70.0 million to EUR 77.1 million and it continues to remain the largest contributor to the Group's Adjusted EBITDA, accounting for 42% of the total. The main drivers behind growth were, firstly, the launch of new assets – Mažeikiai WF and Vilnius CHP biomass unit in Lithuania and Silesia WF I in Poland; and, secondly, higher captured electricity prices, mainly due to flexibility of our assets. However, the growth was offset by two factors. OPEX increase, as a result of continued expansion, and lower volumes generated in existing assets, mainly driven by Kruonis Pumped Storage Plant.

[Slide No 12]

Moving on to the Networks segment, its Adjusted EBITDA grew by 35% and amounted to EUR 65.5 million. The increase was mainly due to higher Regulated Asset Base, which increased by 11%, from EUR 1.4 billion to EUR 1.6 billion as a result of continued investments into electricity network; and higher WACC set by the regulator, which increased from 4.1% in 2023 to 5.1% in 2024, reflecting the higher interest rate environment. Worth noting that the result also includes temporary volume effect, which will level off over the year.

[Slide No 13]

Next, in Reserve Capacities segment, we delivered strong performance both in Q1 of 2024 and 2023 as we utilised the optionality to earn additional return in the market on top of the regulated return. However, due to extraordinary market conditions in 2023, EBITDA decreased from EUR 28.6 million to EUR 20.0 million.

[Slide No 14]

Lastly, Customers & Solutions' Adjusted EBITDA increased by EUR 16.5 million year-over-year and reached EUR 17.4 million, driven by several factors. Firstly, lower loss in electricity B2C business, and, secondly, better results in Latvia and Poland.

[Slide No 15]

Next, our Investments, they have increased by 73% year-over-year, and the key driver behind that was our accelerated investments in Green Capacities, which we tripled to EUR 138.9 million, mainly because of the construction of new onshore wind farm projects in Lithuania, Kelmė WF I & II. Green Capacities segment accounted for two thirds of the Group's total Investments. Networks' investments, on the other hand, have decreased by EUR 7.9 million, driven by lower number of new connections and upgrades in electricity network.

[Slide No 16]

Turning to our Net Working Capital figures, it has decreased by 17.6% since the end of 2023, down to EUR 144.4 million at the end of Q1 2024. The main drivers for lower net working capital, were a decrease in inventory, mainly in Customers & Solutions, due to the decrease in value natural gas in storage, mainly due to lower volumes stored, and the second factor was lower trade receivables due to lower energy prices and lower volumes sold.

[Slide No 17]

Adding it all together, our Free Cash Flow metric was positive EUR 5 million, with EBITDA and the positive change in Net Working Capital offsetting the Investments.

[Slide No 18]

Regarding our leverage metrics, our Net Debt decreased by 2.3% and stood at EUR 1.3 billion at the end of Q1 2024. FFO/Net Debt remained at a solid level of 28.9%, which is well above 23% threshold of S&P credit ratings agency required for 'BBB+' credit rating; and Net Debt/Adjusted EBITDA has improved slightly, from 2.7 times to 2.5 times.

[Slide No 20]

Finally, our guidance for 2024, following our Q1 performance, which was in line with our expectations, we reiterate our full-year 2024 Adjusted EBITDA guidance of EUR 440 million to EUR 470 million and Investments guidance of EUR 850 million to EUR 1 billion.

Directional guidance for Adjusted EBITDA by segment also remains unchanged.

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

[Slide No 21]

Thank you, Jonas. Before moving on to our next 4-year strategic plan, I would like to summarise the strong performance we have delivered in Q1 2024.

On our strategic performance, we increased our Green Capacities portfolio by 0.3 GW to 7.4 GW. And grew Installed Capacity by 0.1 GW to 1.4 GW. Next, on our sustainability initiatives, we reduced Scope 2 emissions, continued to improve the safety metrics, and maintained high employee satisfaction.

And finally, on our financial performance, our Adjusted EBITDA grew by 21.2% year-over-year and reached EUR 181.7 million. We increased investments by 73.4% up to EUR 209.5 million. And we reiterate our full-year 2024 Adjusted EBITDA guidance of EUR 440–470 million and Investments guidance of EUR 850–1,000 million.

Now, let us move on to the presentation of our Strategic Plan for 2024–2027 period.

[Slide No 24]

In 2023, we updated our strategy and defined our purpose to create a 100% green and secure energy ecosystem for current and future generations. We continue to stick to our purpose.

[Slide No 25]

We fulfil our purpose by contributing to Europe's decarbonisation as well as energy security in our region. Both are driven by external factors and are in full alignment with our strategy and strategic plans.

First, on the decarbonisation agenda. It is supported by the EU's action and climate related targets set to reduce greenhouse gas emissions by 55% in 2030, by 90% in 2040 and reach net zero emissions by 2050.

Second, on our regional energy security, it became of crucial importance since the beginning of energy crisis and drives for the change to replace natural gas with renewable sources of energy, and to increase energy self-sufficiency. Because of that it is forecasted that renewables capacity will increase 2.6 times by 2050. Both, decarbonisation, and energy security, has two common denominators – energy flexibility and grid – needed to enable the energy transition.

Regarding green flexibility, it is forecasted that European battery capacity will increase almost 10 times by 2050, and power-to-X capacity will be fully utilised by 2050.

Let me note, that with this strategic plan update we updated our Green Generation segment's name to Green Capacities, as it concludes both green generation and green flexibility technologies and better represents the essence of green energy transformation.

To enable this energy transformation, growing investment in power grids is needed. Investments need to more than triple, compared to the historical levels for a successful integration of large renewable sources and to be able to transport power over long distances from offshore, while considering the electrification of transport, industrial and heating sectors, increasing connection requests, and aging Europe's distribution grids.

To sum up, our strategy is aligned with both enablers – we are developing green flexibility technologies and continue to invest into the power grid, which is well integrated in our business model.

[Slide No 26]

By utilising our integrated business model, we are maximising our full potential. This is our backbone for strategy execution. It means that, first, we will focus on delivering 4–5 GW of installed green generation and green flexibility capacities by 2030. Second, we will expand the resilient and efficient network that enables the electrification. Third, to enable the Green Capacities build-out, we will utilise and further expand our customer portfolio, which is currently the largest in the Baltics with 1.4 million customer base in our Customers and Solutions segment. And finally, Reserve Capacities is foreseen to be mainly operating as a system reserve with a strategic focus on contributing to the security of the energy system.

With forces behind the change and our business model wrapped up, let us now deep dive into strategic priorities of our business segments. Jonas, passing the word to you.

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

[Slide No 29]

Thank you, Darius. I will cover our Green Capacities business segment. As previously, we have two main targets – one for the medium term and one for the long term. In the medium term, by 2027, we expect to double our installed Green Capacities and to reach between 2.4–2.6 GW. And in the long term, by 2030, we plan to double it again and reach 4–5 GW. So overall, no major changes to our previously published strategic plan.

[Slide No 30]

While working towards our Green Capacities targets, we focus on technologies that can deliver 100% green and secure energy ecosystem. And to deliver that, we combine green generation and green flexibility technologies. In terms of green generation technologies, we focus on onshore and offshore wind.
And in terms of green flexibility technologies, we focus on battery storage, hydro pumped-storage, and power-to-X technologies.

Worth mentioning that part of our complementary assets such as hydro, biomass and waste to energy plants, provide both generation and flexibility solutions.

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

[Slide No 31]

Offshore wind is one of our focus green generation technologies. Our target is to build at least 2 offshore wind projects in the Baltics, one project in Lithuania with COD around 2030 and at least one

more project in the Baltics with COD post 2030. We currently have two projects in our portfolio, one in Lithuania, and one in Estonia.
Lithuanian 700 MW project has seabed and grid connection secured and is in the active development phase. Estonian project is between 1–1,5 GW and it has seabed secured, and is in the early development phase.

In terms of the long-term offshore wind potential in the Baltics – it is massive. There are ~8GW of auctions expected during 2024–2027, while long-term potential is more than 30 GW.

[Slide No 32]

Moving onto onshore wind, which is another focus green generation technology for us. We target to reach more than 700 MW of onshore wind installed capacity by 2027. Our current total installed capacity stands at around 300 MW and capacity under construction is around 400 MW.

The conditions in the Baltics and Poland are very much favourable for onshore wind development as there are no natural barriers, such as mountains, that can block wind, and it has low population density, especially in the Baltics.

In terms of market potential – there is plenty, we expect to see onshore wind installed capacity increasing almost three times in the Baltics, and almost two times in Poland by 2030, with mor than 10 GW of new capacities coming online.

[Slide No 33]

Next, solar, hydro, biomass and waste-to-energy are our complementary technologies. We will use solar technology where it adds value either by creating a more stable generation profile, or better utilising the existing grid infrastructure. We target 400 MW of installed solar capacity by 2027, and currently we have around 300 MW of it under construction.

In terms of other complementary technologies in our portfolio – hydro, biomass and waste-to-energy, we are very happy to have these assets in our portfolio, as they provide both green baseload generation and green flexibility solutions. Meaning, that they are able to capture prices which are above average market prices.

Total installed or soon to be installed capacity of these technologies is around 250 MW of electrical capacity and 350 MW of heat capacity.

[Slide No 34]

Now, moving on from green generation to green flexibility technologies. First of all, hydro pumped storage. The asset which we already have in our portfolio is Kruonis Pumped-Storage Hydro Plant which has 900 MW of green flexibility capacity is one of the largest energy storage facilities in Europe. On top of that, we are currently building additional 110 MW of even more flexible capacity, which will be launched in 2026. After the expansion, this 1 GW plant will be able to run at full load for around 10 hours and provide a massive 10 GWh of storage capacity.

[Slide No 35]

Next, our two other focus technologies on the green flexibility side – batteries, for the short-term flexibility, and P2X for the long-term flexibility. We target to implement our first utility-scale batteries by 2027. And on the P2X side, we plan to launch a green hydrogen production and e-fuel conversion pilot project, and, if successful, in the 2nd stage we will launch utility scale hydrogen and e-fuel production capacities. Next, I would like to highlight one of the key elements of our operating model.

[Slide No 36]

Which is power offtake capabilities. This is one of our key differentiators, positioning us very strongly among the competition. Our current power supply portfolio is 6 times larger than our generation portfolio. Currently, we generate only around 1 TWh, and supply more than 6 TWh. This enables us to build around 2.5 GW of new green generation capacities, and simply sell the electricity that they generate to our existing customer base.

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

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

[Slide No 38]

Thank you, Jonas. Let me begin with the Networks segment. Networks has the largest distribution grid in the Baltics and operates under natural monopoly, with a regulatory framework providing more than 5% return on investment.

[Slide No 39]

We see the grids as one of a key element of the energy transition and, therefore, our focus is on three priorities.

The first – resilient and efficient electricity distribution. We aim to increase network resilience, automation, and efficiency.

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

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

[Slide No 41]

Next, Customers & Solutions business segment. It has the key role of utilising and further expanding our customer portfolio to enable the Green Capacities build-out.

We target to utilise it and further expand the customer portfolio, which is currently the largest in the Baltics, to ensure the Green Capacities build-out through internal power purchase agreements and to grow the share of green electricity supplied to our customers.

Additionally, we are building a leading EV charging network in the Baltics, which will become a significant offtaker of green electricity in the future. We are expanding in the Baltics across public, commercial, and home charging segments and developing a public EV fast-charging network.

And finally, we are optimising our natural gas supply portfolio and proactively promoting customers to move from gas to power. As a result, our electricity supply portfolio is expected to increase to 9.0–11.0 TWh by 2027 with CAGR reaching around 8–13% during 2023–2027.

[Slide No 43]

Finally, let me now move on to our Reserve Capacities segment, whose key role is contributing to the security of the energy system. This segment primarily provides ancillary services with a load factor of just 3% in the last year by ensuring high availability of around 98%.

Additionally, it has an upside potential from having an option to generate electricity in the market during low renewables generation or positive clean spark spread periods.

Another upside potential is participation in market tenders/capacity auctions for provision of ancillary services to other countries.

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

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

[Slide No 45]

Thanks, Darius. Over the next four years, we plan to invest between EUR 3.0–4.0 billion. Most of our investments, or ~60%, will be allocated to Green Capacities segment to achieve the 2.4–2.6 GW installed capacity target by 2027.

Another significant part of our investments, around 35%, will be dedicated to our Networks segment, which will increase the electricity network resilience and enable the electrification of other sectors, at the same time increasing our regulated asset base by 50% to more than EUR 2.0 billion.

Sustainability-wise, more than 85–90% of our Investments are expected to be aligned with the EU Taxonomy.

[Slide No 46]

Now let's look a bit closer to our Green Capacities investments, where we will invest, as mentioned, 60% of the total Group investments, or EUR 1.8–2.4 billion.

Out of this amount, 44% will go to assets which we plan to launch during the 2024–2027 period. 53% will go to assets, which will be launched post 2027. And, finally, 3% will go into maintenance. Technology wise, the largest share will go to our focus technologies – onshore and offshore wind, 56% and 18% respectively. And geography-wise, ~50% of the investments will go to Lithuania.

[Slide No 47]

Moving on to our Networks investments. To this segment we will dedicate around 35% of the total Group's investments, which is equivalent to between EUR 1.1–1.3 billion over the 2024–2027 period. 56% of this amount will be allocated to electricity network expansion, 39% – to electricity network maintenance and 5% to the gas network.

[Slide No 48]

Next, our target returns, which all these investments are expected to generate. Firstly, in terms IRR–WACC spread, we target at least 100 basis points in non-regulated activities and 0 or more basis points in regulated activities.

Secondly, our Adjusted EBITDA is expected to reach between EUR 550–650 million in 2027, which represents up to 8% annual growth rate over the strategic period, mainly driven by the Green Capacities and Networks.

Finally, we target our Adjusted Return on Capital Employed to be at the level of 6.5–7.5% in the 2024–2027 period.

[Slide No 49]

Despite our sizeable investment program, we are continuing our commitment to a solid investment-grade credit rating of 'BBB' or above over the 2024–2027 period.

In addition to that, we also target to keep our Net Debt/Adjusted EBITDA below 5 times.

[Slide No 50]

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 7.3–8.0% over the 2024–2027 period.

With this, I pass the word back to Darius.

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

[Slide No 52]

Thank you, Jonas. Let me now to move onto the most important asset – our people, which all together contribute to our strategy execution. We are organically building our entire renewables branch from scratch. Our renewables organisation is expected to grow 3.5 times over the four years.

Ignitis Group is a diverse organisation with energy smart people united by a common purpose. Together we innovate, grow and act with a sense of purpose to create a 100% green and secure energy ecosystem for current and future generations.

[Slide No 54]

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

[Slide No 55]

Our decarbonisation pathway is aligned with our business ambitions. As a result of growing installed green generation and flexibility capacities, we will reduce the carbon intensity of our scope 1 & 2 greenhouse gas emissions by at least 20 to 40%, compared to 2023.

We also anticipate to further increase the share of green electricity supplied to more than 30% by 2027 by actively encouraging our customers to use green electricity as well as expanding our electricity supply portfolio within our home markets.

And finally, we aim to reducing our absolute scope 3 greenhouse gas emissions from natural gas supply by encouraging customers to transition from gas to electricity.

We will execute on these priorities to reach our net zero emissions target.

[Slide No 57]

Let me know sum up the key points of our Strategic Plan for 2024–2027. Our purpose is 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 the purpose-driven priorities: green, flexible, integrated, and sustainable.

Regarding our strategic goals, we target to reach 4–5 GW of Installed Green Capacities by the end of 2030 and 2.4–2.6 GW by the end of 2027. By 2027, we will reduce our carbon intensity of scopes 1 & 2 greenhouse gas emissions to 215–289 g CO2-eq/kWh. By 2040–2050 we will reach net zero emissions. To ensure these goals we will invest EUR 3.0–4.0 billion over the next 4-year period while maintaining 'BBB' or higher credit rating. This should translate into EUR 550–650 million Adjusted EBITDA in 2027 and 7.3–8.0% implied dividend yield over the period of 2024–2027.

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

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

[Slide No 58]

This concludes our presentation and opens the floor for questions. To start with the first question: "Congrats on mind-bending results. I am honestly running out of superlatives. By my account, Q1 Adjusted EBITDA of EUR 182 million is roughly 40% of the Group's planned Adjusted EBITDA for the year. If the midpoint of EUR 440–470 [million is used], what prevents Ignitis Group from upping its guidance for the year?"

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

Yes, so, you are right, Q1 results are very strong, indeed. Probably, towards the upper end of the guidance. However, there are several factors why we are not upgrading the guidance. So, first of them is the seasonality. So, Q1 is usually a stronger quarter for us, so that's one thing. And the second thing is that we had some better performance in Reserve Capacities and in Customers & Solutions, which we don't expect to continue throughout the year. And we also had a temporary effect in the Networks segment, due to higher share of volumes being distributed in Q1, and this effect will level off over the year as well. Those are the reasons why we are not upgrading the guidance.

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

The next question is: "In Ignitis Group's Strategic Plan 2024–2027, an estimated CAPEX of EUR 3.0–4.0 billion represents an increase of around EUR 1 billion compared to the previous strategic period. Could you please indicate which factors contributed the most to the increase? Timing of capacity expansion, more expensive CAPEX, else?"

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

So, regarding the CAPEX, again, there are multiple aspects to this. First of all, regarding the Green Capacities side, it includes the year 2027, which is already the first year where we will start to see more significant offshore investments. So that's one factor. The second factor is the change in the mix between onshore wind and solar, which we now see that we will do more megawatts on the wind side and less on solar. And the third factor is, actually, on the Networks segment, where we also see an increase in investments, as the network is critical for successful energy transition. And due to the improvements in the regulatory framework, which took place at the end of last year, now it allows us to actually accommodate all those investments needed to the network without breaching healthy leverage levels.

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

Next question: "In Ignitis Group's Strategic Plan 2023–2026, Ignitis Group targeted an EBITDA of EUR 470–520 million for 2026. Now Ignitis Group aims to achieve an Adjusted EBITDA of EUR 550–620 million in 2027. Could you please indicate if the previous target for 2026 is still in place?"

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

So, the way we approach these strategic plans, we are not updating the old ones, so the relevant guidance is only the year 2027 numbers, which is the fresh one.

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

The next question: "Is asset rotation still a viable option? If some assets get eventually farmed down, what premium over CAPEX can Ignitis Group reasonably earn on average?"

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

So, to answer the first part, yes, the asset rotation is part of our strategy, it's part of our funding strategy. So, it's done for two reasons. One is to recycle capital, so get back the capital from the assets which are built to reinvest it into new assets. And the second part of the target is to earn that additional premium over CAPEX. How big that premium CAPEX can be, we will see once we complete the transactions.

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

The following question: "Could you please elaborate on CAPEX prices for wind off/onshore and solar? What are the averages now and what dynamics have been observed lately? Any signs of easing, getting cheaper?"

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

So, I mean since last year we are not seeing any significant movements in CAPEX/MW. They have stabilised, we are seeing solar at EUR 0.5–0.6 million/MW, while for onshore wind, it's around EUR 1.5 million. For offshore wind, since we haven't done any contracting yet, it's yet to be seen.

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

Next question: "What power price assumptions are factored in for long-term guidance?"

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

Regarding the long-term power price assumptions, so it, naturally, differs across different geographies, but to give you very rough guidance, it's around EUR 80–90.

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

The following question: "Can you enlighten us more on Lithuania's second offshore wind project? Why did you choose to participate in it? When should we expect the next auction? Should Ignitis Group participate with a partner?"

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

The decision to participate in the second tender was driven by the change in the project's implementation schedule as the project was set to be implemented in 8 years, around 2032, so potentially not coincide with the implementation of the first 700 MW of Lithuanian offshore wind farm. This made it financially feasible to fully implement both projects in the event of successful tender. As, currently, we do not know when the tender will be launched, we do not discuss our participation in that tender. After the conditions will be clear, we will make a decision and announce it.

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

The following question: "Battery projects. Do you already see a possibility to operate purely on market conditions, without subsidy?"

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

You are right, we made the first step of making reservations of grid capacities for large-scale battery systems. While doing so, we still not expect to operate those entirely on the market condition, as it will require some level of subsidies.

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

One more question: "Both Silesia II and Tauragė solar project are already built. When should we expect first electricity produced there?"

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

Yes, so, both projects are currently nearing the completion. We are finalising the testing procedures and working with the grid operators both on Lithuanian and Polish side to finally connect them, and, hopefully, next quarter we will start seeing generation, or even this quarter, from both of them.

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

The following question: "Moray West is nearing its finish. When should it produce the first electricity? What are the plans for this project? Should Ignitis Group sell it after COD?"

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

Regarding Moray West, it's scheduled to become operational in 2025. In terms of our approach to the project, we don't plan to be a long-term investor in that project. For us, the participation was due to the need to learn about offshore projects and to see how they are developed and built. So, once it's completed, we don't see too much rationale in staying in that project and if the opportunity comes up, we would consider exiting.

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

The following question: "It seems that you're ramping up investments into green generation pretty fast. How do you consider, in the current economic environment, green generation investments do look more lucrative than two years ago? Or somehow your sentiment has changed about it?"

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

The short answer is there's no changes in our sentiment. We think green generation and green flexibility investments are attractive. Of course, it very much depends on a case-by-case basis. So, we look at each project separately, and we invest only if we meet our target return criteria.

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

Next question: "On inflation side, how do see inflation of CAPEX in green generation contracts with partners? Is it going down or stays at the same level of Q1 2023?"

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

We covered the levels which we are seeing for the CAPEX numbers, but in general, we see inflation stabilising, and CAPEX metrics remaining stable compared to the end of last year.

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

The following question: "The second question on capital allocation. We are all aware of the Dividend Policy. However, have there been any discussions with the majority shareholder about the potential payout expanding to shareholders? It is clear that the current priority is CAPEX, but I am more thinking on beyond 2027. Could we expect the dividend growth more than 3% per annum?

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

Currently, we are very much committed to the existing dividend policy of growing by at least 3% annually. Going forward, we will see, but in general, we are striving for a right balance between investments, dividends and credit rating, which means that we can sustain that 3% dividend growth. Above that, we would need to look when the time comes.

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

One more question: "Could you explain, how to reconcile Adjusted EBITDA to IFRS EBITDA for this quarter? What is it adjusted for, exactly? Thanks."

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

So, our adjustment is very straight forward. We do only one adjustment, which is for temporary regulatory differences. And it means that, in the beginning of the year, the regulator sets tariffs for several regulated activities, which means that we can collect a certain amount of money during the year from regulated activities. If we overcollect that amount, we need to return it in future periods or if we undercollect, we get compensated in the future periods. So, what we do in our Adjusted EBITDA, we eliminate those overcollections or undercollections, so that we show just the results that we are allowed to collect.

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

Next question: "Vilnius biomass unit, it is nearing the full COD. After the COD, Ignitis Group will have to sell part of it to outside investors. Do you already have plans when that should be done?"

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

So, the sell-down of Vilnius CHP is very clearly defined in the European Commission support requirements and it says that we need to initiate the sales procedure within 6 months from the launch of the asset, and that's what we intend to do.

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

One more question: "Asset rotation programme, it is already a long time after it was announced but we don't see any projects sold. Why? Is it because of not favourable market conditions or there is no need for freeing capital? Should we see first projects sold this year?"

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

So, in short, there was no need for additional capital for us in the previous years, so when that need arises and the conditions in the market are right, we will proceed with the programme.

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

The following question: "Thank you, for a good call. Do you see an increase or decrease in LCOE levels for onshore wind and solar projects?"

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

So, in line with the CAPEX development and rather stable power prices since the end of last year, the LCOE levels are also relatively stable, so there hasn't been too much movement on that front.

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

The following question: "Ignitis Group's credit rate is 'BBB+'. Do you still see it to be capable of holding it in the expected high CAPEX?"

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

So, reiterating our strategic plan commitments, so we are committed to a solid investment-grade rating of 'BBB' and above. So, what this implies is that we have a one notch headroom for credit rating, and we are giving that commitment to keep it at that level over the next four-year strategic period.

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

Next question: "What is the capture price discount to market price for existing onshore wind and solar projects due to cannibalisation and what do you expect in the coming years?"

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

So, in terms of captured price discount, again, it's difficult to generalise because it depends on the geography, it depends on the technology and even within the technology, for instance, for solar, depending on the panels which you choose, it can be quite different. But to give you very high-level numbers, so, currently we see between 5–10% capture rate discounts. In the future we expect them to grow and to reach 15–20%. Naturally, the offshore wind will have the lowest capture rate discount because it's closest to baseload, and solar will have the biggest capture rate discount, maybe even above the numbers which I mentioned, due to the fact that it generates power only in the short period of time during the year.

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

Next question: "In the presentation you highlighted that solar is a complementary capacity and also commented that you will focus more on wind capacity in the coming years. Could you elaborate more on this and why don't you see solar at the same priority as wind? Is it the return profile that doesn't look appealing?"

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

So, again, it slightly depends on case-by-case basis, but you are right, wind is naturally a very well suited technology for our region because we have very good wind resources here in the Baltics and Poland, which cannot be said about solar. Solar generates roughly only 12% of the time and it's concentrated in the summer period, which is actually a lower demand period for the region, which means that there is certain saturation point, which we are nearing, and the solar business case will become challenging and is already challenging in most cases.

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

And the last question received: "Thank you for the comprehensive presentation of Q1 results and strategy plan. Regarding the investments into Networks, you plan to invest during the next four-year period around EUR 1.2 billion, and around 60% of this amount will go to RAB and 40% to maintenance. Do you have any guidance for investments beyond 2027? Will it increase or decrease, will it change real CAPEX and maintenance CAPEX shares in total CAPEX amount?"

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

So, actually, in the Networks business, we are also publishing 10-year investment plan. The latest one is currently in the process of being updated, but it's fair to assume that investments into Networks will remain at these higher levels, and that the split will remain also relatively similar. And that is due to the fact that networks are critical to the energy transition, and if we don't upgrade our networks, we will not be able to deliver the transition.

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

Thank you, that concludes today's earnings call. Thank you for joining us. If you have any questions, please do contact the IR team. Thank you, again, and have a great rest of the day.