Transcript
First nine months 2020 earnings call
17 November 2020, 1:00 p.m. EET
Good morning, Ladies and Gentlemen. Thank you for joining us today and welcome to the Ignitis Group results call for the first nine months of 2020. My name is Ainė Riffel-Grinkevičienė and I’m Investor Relations Officer of the Group. Today I will moderate this call. Before we proceed with the presentation, let me introduce that today we are hosted by Ignitis Group CEO Darius Maikštėnas together with CFO Darius Kašauskas who will run through the highlights, results and outlook for 2020 and then open up for questions. On the line we also have Infrastructure and Development director Dominykas Tučkus and Head of Corporate Finance Jonas Rimavičius. We received a couple of questions in advance and encourage you to use the question box on the right side of the screen to send in questions during the presentation. So, with that, I am very pleased to pass the word to Darius Maikštėnas.

Darius Maikštėnas, Chairman of the Board, CEO

Good morning everybody and thank you for joining this earnings call. 2020 has been a good year for Ignitis Group so far. Despite the COVID-19 related challenges our business has performed well. As one of the largest utilities and renewable energy companies in the Baltics region we have a large portfolio of mostly regulated and contracted activities. These activities proved very resilient even during Covid times. And at the same time in nine months of 2020 we delivered growth across both Networks and Green Generation activities. But the most important milestone this year was of course our IPO. This was the largest ever IPO in the Baltics and we raised 450 million euros of primary capital. After IPO, we are now listed in Nasdaq Vilnius and London stock exchanges. The Lithuanian Government remains our largest shareholder and we value their continued support for our strategy. At the same time, we welcomed a large number substantial part of both institutional and retail investors. Thank you for supporting our strategy. We see the IPO as the beginning of our journey together and we look forward to a long and profitable relationship. Let’s now move to the reporting period highlights.

We continued to deliver a solid financial and operational performance. We have separated this into key topics.

First, our resilient financial performance. We strengthened our financial position by raising capital through the IPO. As the result, the outlook of our credit rating of BBB+ has been improved from negative to stable. We also updated our dividend policy to ensure predictable and growing returns for our shareholders. We’re starting at 85 million euros for 2020. After that we plan to grow the dividend by at least 3% per year. Finally, we delivered a 6% growth of Adjusted EBITDA. The growth came from combination of expansion in Networks, successful Kruonis PSHP activities in Green generation segment, the start of gas exports to Finland in our Customers & Solutions business, and stronger commercial activities in Flexible Generation segment. Overall, this shows the resilience of our business.

Secondly, we also reached a number of important milestones in delivering our Green Generation growth strategy. In August, we started operations of Kaunas CHP. This is one of the most modern power plants in Europe in terms of green energy generation technologies. Construction of Vilnius CHP is also making progress and reached 80% of completion. We also continue construction works of Pomerania and Mažeikiai wind farms. In September, we announced two landmark deals. First, we signed the largest ever solar deal in the region to develop up to 170 MW of solar in Poland. Secondly, we signed a partnership with Ocean Winds - one of the largest off-shore wind developers in the world. We teamed up to develop an off-shore wind farm in Lithuania and also acquired a 5% minority stake in the Morrey West wind farm project in Scotland. Both of these deals will contribute to growing our Green Generation portfolio.

Finally, we further improved in ESG. To show our commitment to ESG, we obtained ESG rating from Sustainalytics. The rate is at 26.5, which is much better than average for the utility sector. We also appointed...
two additional independent supervisory board members. 5 out of 7 members are now independent and 4 of them are women. The new board members are respected international senior executives and they bring very relevant experience in the renewable energy sector from industry leaders such as Siemens, E.ON and Orsted. So overall, we made a good progress in 2020 and we set a strong basis for further growth in the future. Let me now give you some more details about our business segments.

All of our segments delivered performance in line with our expectations. This proves the overall resilience of the portfolio. Over the first nine months of 2020, we saw growth in Networks, Flexible Generation and Customers & Solutions. And in Green Generation we continued to work on our projects under construction and fill up our project pipeline. I will now go through each of the segments one-by-one.

The Networks business is the main electricity and gas network operating in Lithuania and it is fully regulated business. The key highlight for the segment in 2020 so far, is the approval of electricity and natural gas distribution price caps for 2021 by the National Energy Regulatory Council. In August, we adopted an updated 10-year investment plan of 1.9 billion euros. The plan for 2020 and 2029 defines two main directions: increasing network reliability and efficiency, and improving the customer experience. With regards to key metrics in Networks segment, we increased Adjusted EBITDA by 8.9%, which was driven by increase in RAB. Compared to the first nine months of 2019, investments decreased by almost 55 million euros or around 39%. This was caused by decrease in contract work fees of new customer connections and network upgrades (around 23.7 million euros) as well as lower investments in expanding the electricity distribution network. Other important parameters in this segment are RAB and WACC. Our total RAB continued to increase and rose by around 15% comparing to 2019. The WACC of electricity distribution increased from 5.28% in 2020 to 5.34% for 2021. The RAB of electricity has been set to 1,414 million euros for the beginning of 2021, compared to 1,401 million euros as at 1 January 2020. And the WACC of gas distribution increased from 3.84% in 2020 to 3.90% for 2021. The RAB of gas amounted to 227 million euros as at 1 January 2020 and it has been set to 249 million euros for the beginning of 2021. Finally, our technical performance KPIs. In gas, our SAIDI improved, SAIFI remained stable and in electricity our performance was generally OK, but was impacted by storm Laura that occurred in March. Overall, solid performance in Networks and proof that the business is very resilient, even in Covid times. Let’s now move to Green Generation.

Ignitis Group is a regional leader in Green Generation. Today, we have a total Green Generation capacity of 1.5GW, including projects under construction and development. We also have a tangible pipeline to further increase the size of our portfolio. Currently, we operate onshore wind, hydro, waste-to-energy assets. In August, we completed the Kaunas CHP. We also continued construction of Vilnius CHP. 80% of construction has now been completed and we are on track to complete waste-to-energy unit in Q1 next year. However, we had to terminate contract with biomass contractor Rafaco due to their liquidation. As a result, completion of biomass unit might be delayed by around one year. We also entered into final stage of the 93 MW Pomerania wind farm construction. 28 out of 29 turbines have now been erected and the farm will start its operations in Q1 2021. At the same time, we started construction works for 63 MW wind farm Mažeikiai in Lithuania. The project is due to start its operation in 2023. Lastly, we further increased our Green Generation portfolio by 170 MW through the acquisition of our first solar PV development project in Poland. This will gradually start operating between 2021 and 2023. In terms of financials, Green Generation Adjusted EBITDA slightly decreased compared to the first 9 months of 2020 to 33.3 million euros. This change was mainly driven by reduced performance of Kaunas HPP due to the lower water level in Nemunas river and lower captured electricity prices and increased SG&A expense of Vilnius CHP project, as the launch of plant is approaching. The decrease was partly offset by better result of Kruonis PSHP due to the successful utilisation of differences between peak and off peak electricity prices. Investments in Green Generation segment mainly grew due to the construction of Kaunas and Vilnius CHPs, and the Pomerania wind farm in Poland.

As I mentioned in the introduction, we made great progress in our Green Generation strategy with two large development deals - one for solar and one for offshore wind. The first large deal this year includes the acquisition of up to 170 MW Polish solar development projects. These first projects should start operations in 2021 and we expect to complete the whole portfolio by 2023. This is the largest portfolio of Solar projects in Poland and we will deliver long-term predictable revenues as the projects will be supported by contract of difference support scheme. The second, and so far the largest deal is the offshore wind partnership with Ocean Winds. This is a framework agreement with two stages. In the first stage, Ignitis Group will acquire 5% stake of the offshore Moray West wind farm in Scotland. The second stage will focus on jointly developing a 700 MW Lithuanian offshore wind farm in Lithuania. We expect the auction for this take place in 2023. This partnership is important milestone for our group as it will give us access to offshore wind capabilities and is a continuation of the partnering strategy we also used for the CHPs.
Here is a short snap-shot of our Green Generation Portfolio. Our Green Generation is well balanced across the technologies. Currently are operating wind, hydro, waste-to-energy and biomass assets in Lithuania, and one wind-farm in Estonia. In addition, we have multiple technologies under construction or under development. This includes two wind farms, one in Poland and one in Lithuania, the second big waste-to-energy and biomass CHP in Lithuania, and solar parks portfolio in Poland.

Our group strategy clearly states that we want to expand our Green Generation portfolios even further. By 2023, we have a target to reach 1.6-1.8 GW green generation capacity and by 2030 to reach 4 GW. Today, we have about 1.5 GW of renewable electricity generation secured. With the pipeline of development projects we are working on, we are confident that we will achieve our 2023 target. Beyond that, we are working on a number of new on-shore wind farm and solar projects and also the offshore projects as I just mentioned. This will get us about halfway to our 2030 target, so we’re well on track.

Flexible Generation is the third largest segment, contributing 11% to the Ignitis Group adjusted EBITDA. The goal of this segment is to ensure the stability of country’s electricity system and to contribute to successful synchronization of Baltic States with the network system of Continental Europe. Currently we are preparing to compete in capacity provision auctions. We own and operate the 1,055 MW gas fired Elektrėnai complex. This is the largest electricity generation facility in Lithuania. In 2020, after winning the auction announced by Lithuanian TSO, we provided tertiary active power reserve and isolated system services. The segment’s adjusted EBITDA for the first nine months of 2020 was around 25% higher comparing to the previous year. There were to main drivers for this substantial increase. First, increased commercial generation activity by the CCGT as a result of favourable gas and emission allowance prices. And the second, provision of tertiary reserve service by Elektrėnai Complex and on an on-going basis since the beginning of the year.

Our fourth segment is Customers & Solutions which focuses on energy supply and trading. This segment also includes the delivery of Energy Smart solutions for both businesses and households. A key highlight during the last quarter was the implementation of deregulation of Lithuanian retail market. We expect that B2C energy supply to be deregulated by 2023. This is not expected to have a material effect on our financials, as we expect to keep a high market share in the country. This is supported by around 70% of households choosing Ignitis Group as their electricity providers. Moving towards operational performance, overall electricity sales were lower than the last year. Mostly as a result of lower wholesale volumes as we had a smaller trading portfolio in the Polish market, comparing to the same period in 2019. Electricity sales in retail market increased by almost 21%, 5 TWh compared to the nine months of 2019. This increase was mainly caused by higher B2B sales in Lithuania. At the same time, total gas volumes sold increased by more than 60%. This was mainly influenced by the entry into Finnish gas market and higher gas sales in Latvian market.

Last but not least, let me finish with our ESG Agenda. As you know, this is something we’re very focused on and it is guiding the way we operating our business. Therefore, we put sustainability at the core of our strategy, and this is now recognised by ESG rating agency Sustainalytics. They assessed Ignitis Group risk rating as medium, which is well ahead of our utility peers. We target to further improve on this by applying best market practices. We understand that the energy of the future is inseparable from decarbonisation. As a result, we became the first company from the Baltic States and Poland to join the “Business Ambition for 1.5°C” initiative of United Nations and other international organisations. In this way, we are committed to reduce net carbon dioxide emissions to zero by 2050. In addition, we support many of the major global initiatives, including Sustainable Development supported by United Nations. While contributing to all their goals, our strategy is primarily focused on Clean Energy, Decent Work and Economic Growth, Innovation, Responsible Consumption and Production, and of course Climate Action. We do not forget our employees. Their health and safety are our top priority, whether they work in the field, in the office or at home. Today, 2/3 of our employees are working from home to keep them and their families safe. Finally, we are focused on strengthening our corporate governance and transparency. This is reflected by us receiving a NASDAQ award for the best bond issuer investor relations and the appointment of two additional independent supervisory board members. With this, I will now hand over the word to Ignitis Group CFO Darius Kašauskas.

Darius Kašauskas, Member of the Board, CFO

Thank you Darius, and good morning from me, too. I will start on slide 18, where I will go through the KPIs related to profits and returns. Adjusted EBITDA is our main KPI for financial performance. During the first 9 months of 2020, we reached Adjusted EBITDA of 199 million euros. This is an increase of 6.1% compared to the same period in 2019. There are four main drivers of this growth. First, regulated asset base growth in
Networks segment. Second, more efficient utilization of fluctuations in electricity prices by Kruonis pumped hydro storage plan in the Green generation segment. Third, better results from the main production units in Flexible generation segment. And fourth driver, increasing gas sales from exports to Finland. Adjusted net profit grew by more than 8% compared to the previous period. This was mainly driven by the Adjusted EBITDA increase, which was partly offset by higher financial expenses mainly due to additional bonds in 2020 and higher Income tax expenses due to higher profit before tax and lower tax relief on deferred tax expenses. And finally, our ROE reached 8.4%. It would have been higher, but as this is a LTM measure the LTM value was slightly impacted by impairment expenses and write-offs of non-current assets in Q4 2019.

If we look at the Adjusted EBITDA bridge between the first 9 months of 2019 and the same period in 2020, you can see the segment performance Darius mentioned earlier. The largest share of Adjusted EBITDA was generated by Networks segment. Networks grew by almost 12 million euros. The increase was driven by growing value of regulated asset base, due to continued investments into the distribution network. Flexible Generation increased by 4.2 million euros. The increase was mostly driven by 3.7 million euros from higher CCGT commercial activities. Customers & Solutions increased by 3.0 million euros. The growth was mainly driven by the new gas exports to Finland result, higher B2B gas results due to the increased sales volumes and better hedging activity. The growth was negatively impacted by lower B2B electricity results due to negative impact of proxy hedge results and reduced electricity consumption of hedged volumes by our B2B customers because of COVID-19. Green Generation decreased by 1 million euros. This was mainly influenced by a lower result from Kaunas hydro power plant due to lower water level in Nemunas river and lower captured electricity prices. It was also affected by the increase in SG&A expenses related to the development of Vilnius CHP. The decrease was partly off-set by better result of Kruonis which was mainly caused by effective utilisation of fluctuations in electricity prices and the differences between peak and off-peak prices. Result from other activities decreased by 6.5 million euros, mainly due to lower results of non-core businesses which are gradually being divested.

Moving on towards the investments. Investments decreased by almost 15% compared to the first nine months of 2019. During the first 9 months of 2020, the largest share of investments was allocated to Green Generation projects. Compared to the same period in 2019, Green Generation investments increased by 7.8 million euros or 4.5%. This was led by final works in Kaunas CHP, and the construction works in Pomerania wind farm. The increase was partly offset by a delay in the construction of Vilnius CHP due to COVID which led to lower investments in the period. The second largest proportion of investments was captured by Networks segment. Total investments in our regulated assets amounted to almost 86 million euros. Compared to the previous period this is a decrease of 54 million euros or almost 39%. This was driven by lower investments in expansion of electricity distribution network due to a decrease in new customers connection and less contract work fees for upgrades. And secondly, decrease in electricity network maintenance due to the postponement of some 2020 reconstruction works. Let me now conclude our 9 month performance with an overview of our net debt at the end of the period.

Overall, net debt increased slightly by 60 million euros or 6.2%. The Net Debt to Adjusted EBITDA ratio increased year-over-year from 3.7 times to 3.8 times at the end of September. During the reporting period, IPO proceeds are not yet incorporated, therefore it would further mark a decrease in Net debt by 450 million euros and the improvement in Net Debt to Adjusted EBITDA to the level of 2.1 times. During the period, we generated 208 million euros in FFO, funds from operations. The increase in net debt was mainly the result of investments and dividends paid being higher than our FFO. The primary proceeds of IPO in October have further strengthened our balance sheet and improved our credit rating. As Darius said earlier, S&P recently improved our rating outlook from BBB+ negative to BBB+ Stable. Overall, we now have an even stronger balance sheet and funds available to support growth investments while ensuring a credit rating of BBB or above.

Moving on the outlook for 2020. We expect to see EBITDA growth in all business segments in 2020 compared to 2019, except Customers & Solutions. Networks will continue to increase due to our on-going investment program related to the maintenance and expansion of our the electricity and gas distribution networks. Green Generation will also be higher than last year due to the start of operations of Kaunas CHP in Q3 2020. Flexible Generation is expected to perform better thanks to the commercial activities of CCGT which we did not have in 2019. The Customers & Solutions segment is expected to decrease due to the negative results from B2B electricity proxy hedging. However, this impact is expected to be partly off-set by increase of gas supply activities in Finland. The Other results is also forecasted to decrease due to our strategy to divest non-core activities and higher parent company and support services overhead. Overall, this will give us a 2 to 3% higher Adjusted EBITDA for the full year 2020 compared to 2019. In summary, our financial performance to-date and the outlook for 2020 are very much in line with our expectations. And they appear also in line with the expectations of research analysts. And it shows the resilience of our business during COVID times, as well as the continued growth from our investment projects.
And we will continue on the same path to deliver attractive returns for shareholders. And by that, we will now open up for questions.

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

Dear colleagues, thank you for the presentation. Now we shall proceed with the questions part.

**Q&A**

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

To start with, several questions were received in advance. One of them asked to comment on the outlook for regulated returns in 2021 and 2022 for the new regulatory period.

**Dominykas Tučkus, Member of the Board, Infrastructure and Development director**

Yes, so I will take this. The regulated returns have been already approved for 2021. The WACC of electricity distribution increased from 5.28% in 2020 to 5.34% in 2021. The WACC of gas distribution increased from 3.84% to 3.90% in 2021. So, this combined with tariff components results in average increase in distribution tariffs of around 4.7% in 2021. With regards new regulatory period for the electricity starting in 2022, our view did not change, and we expect WACC to be between 4% and 5%. The regulator is currently conducting public consultation with respect to WACC methodology for the next regulatory period.

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

Thank you, Dominykas. The second question we received is as following - what level of dividends should we expect to be paid for the year 2020?

**Darius Kašauskas, Member of the Board, CFO**

Ok, I will answer. According to our dividend policy, for the year 2020 we will be declaring 85 million euros of dividends. 42 million euros already have been paid for the first half of the 2020. Therefore, for the second half of 2020, it is planned to pay out remaining part, which is equal to 43 million euros.

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

Thank you, Darius. The next question sounds as following - dividend policy defines the minimum level of 3 percent growth. From the results it is clear that the profit growth is higher than 3 percent. Should we expect the growth of dividends to be aligned with the business growth? What criteria you consider for such decision making?

**Darius Kašauskas, Member of the Board, CFO**

Thank you for questions. Based on our dividend policy, 3% is a minimum level of our annual dividend growth. Therefore, we have flexibility to distribute excess cash through dividends. Decisions on the size of dividends will be made based on growth of the business, financial strength of the Group, and investment opportunities available.

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

Thank you, Darius. The next question is - what level of growth are you expecting for the regulated asset base? Would it be correct to assume yearly growth beyond 6 percent?

**Dominykas Tučkus, Member of the Board, Infrastructure and Development director**

So, the regulated asset base growth estimate will become more clear when the new regulatory period is approved next year and currently we are not in a position to provide precise guidance. However, it is reasonable to expect that over the long term RAB growth should be equal to our CAPEX less depreciation and amortisation.
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Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. The next question is - would you consider to rotate Green Generation assets in order to release capital for further investments either in Networks or renewable projects?

Jonas Rimavičius, Head of Corporate finance

Yes. So, we do intend to execute asset rotation strategy in our Green Generation business not in networks and for green generation we expect to both enchase returns and to recycle capital for funding our capex program. One of the assets which we will need to rotate is Vilnius CHP, but we will also be looking at all our Green Generation portfolio assets and consider asset rotation up to 49%.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you Jonas for the answer. The next question is - would you consider TE3 using for balancing? Maybe it would be worth to convert this unit to OCGT?

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

Yes, so given well developed infrastructure for gas and electricity networks at TE3 facilities, the site would be suitable for any further conventional power generation development and technologies such as OCGT or CHP or CCGT would all of them would be considerable. The decisions would be taken in case it becomes a viable option to serve the ancillary services market in the Baltics. Worth noting that the facilities in Elektrėnai are equally suitable to such developments.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. There is one more question - when do you expect Vilnius CHP to be fully operational at the latest?

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

Yes, so I will start with a short description of the project. So, basically, Vilnius CHP is composed out of two units - waste to energy and biomass. And waste to energy unit contributes more than half or expected to contribute more than half of EBITDA once operational. And it is worth noting that waste to energy unit is on track with its schedule and budget. While talking about the biomass unit site, it is experiencing some delays and the expectation is that the delay could result into one year from the initially expected completion at the end of 2021. So, currently more than 70% of this unit is completed, and a guarantee has been called from the previous contractor.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. The next question is on the share price development - how do you think, why such a big drop in stock price, any reasons for that?

Darius Maikštėnas, Chairman of the Board, CEO

There are of course plenty of factors involved in the share trading that affect share price in the short term. We think that our share price has plenty of room to grow and we believe that the fair value is higher than the current price level. We expect over time, when we deliver on our strategy, the market will realise that.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you for the answer. The next question is - Smart-Energy Fund was founded back in 2017. How much has it invested as of this date? What is the actual return to this date?

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

Yes, so the level of investments of Smart-Energy Fund are not material at the Group level. The Fund has invested already a bit less than 5 million euros since it was started and overall we see the contribution of the Fund not only in financial terms but also as an enabler for innovative solutions that could be used in practise.
Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. We received one more question - how likely is that Ignitis will incur higher costs and burden from LNG terminal in Klaipėda?

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

Well, at this stage it is difficult to say, as no decisions have been taken yet. But of course, we are working on minimising any potential impact, if any.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. We received on more question. What net profit adjustment is possible in 2021 due to excess profit in regulated business in 2019?

Jonas Rimavičius, Head of Corporate finance

So, in general we don’t foresee significant adjustments for net profit in relation to temporary regulatory differences in 2021. However, based on current estimates the combined impact on Networks and Customers & Solutions could reach somewhere between minus 10 to 20 million euros. However, you know these numbers of course might change depending on the actual market developments during 2021, because temporary regulatory differences depend both on the past deviations and as well on the current year deviations.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you for the answer. We have one more question. What is the EBITDA this year from generation of electricity at Elektrėnai power plant?

Jonas Rimavičius, Head of Corporate finance

So Elektrėnai Complex result is fully reflected by flexible generation segment result and which you as saw in the presentation generated 21.2 million euros in nine months of 2020.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. We received further questions. The next one is – how do plan to fund your 2020-2023 investment pipeline?

Darius Kašauskas, Member of the Board, CFO

Thank you for the question. We see three main sources: IPO proceeds, debt financing (both project and corporate loans), and potentially asset rotation.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius. We have one more question - can you please repeat what's the level of RAB set for 2021? Does it already reflect the capex decline in Networks in 2020?

Darius Kašauskas, Member of the Board, CFO

Total RAB for Networks business included in 2021 tariffs is 1.66 billion and 2020 it was 1.63 billion. And for the second part, it does reflect the capex decline in the Networks.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you for answering and adding Jonas. Currently, we are waiting for more questions. We received further questions on EBITDA guidance – hi, can you comment on your financial year EBITDA guidance?

Darius Kašauskas, Member of the Board, CFO

Ok, thank you for question. I just can repeat what was presented in presentation. We expect to see EBITDA growth in all business segments in 2020 compared to 2019, except Customers & Solutions. So, Networks will
continue to increase due to our on-going investment program related to maintenance and expansion of the electricity and gas distribution networks. Green Generation will also be higher than last year due to the start of operations of Kaunas CHP in Q3 2020. Flexible Generation is expected to perform better thanks to the commercial activities of CCGT which we did not have in 2019. The Customers & Solutions segment is expected to decrease due to the negative results from B2B electricity proxy hedging. However, this impact is expected to be partly off-set by increase of gas supply activities in Finland. And the Other results is also forecasted to decrease due to our strategy to divest non-core.

Ainė Rifėlė-Grinkevičienė, Investor Relations Officer

Thank you. We received two more questions. So, the first one is - do you expect Networks capex to return back to 2019 levels in 2021?

Darius Kašauskas, Member of the Board, CFO

Thank you for question. We did not provide exact guidance for 2021 for capex, but we expect capex level will be higher in 2020.

Ainė Rifėlė-Grinkevičienė, Investor Relations Officer

Thank you. One more question with regards dividends - what % of dividends you prepare in 2021?

Jonas Rimavičius, Head of Corporate finance

In terms of dividends for 2021, it’s too early to say and you know it will depend on the number of things which were already mentioned by Darius, and we can only refer back to our dividend policy where we state that annual growth will be not less than 3%.

Ainė Rifėlė-Grinkevičienė, Investor Relations Officer

Thank you. We are waiting for more questions. We have one more question and it sounds like this - it implies a slower EBITDA growth in 4q? Why?

Jonas Rimavičius, Head of Corporate finance

Yes, so if I understand the message correctly, so the Q4 growth year over year is indeed expected to be lower and its simply because last year in Q4 of 2019 we had extraordinary good results for our Customers & Solutions business and we don’t expect that to repeat this year. So, that’s why, you know it seems like a lower growth for Q4.

Ainė Rifėlė-Grinkevičienė, Investor Relations Officer

Thank you for commenting on that. One more question - thank you for the interesting presentation. Investors are looking forward to hearing details on how Ignitis are prepared to defend investors interests in the Government upcoming decision on liquid gas terminal costs (losses) transfer to Ignitis. Would be nice to hear some assurances. Thank you

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

Yes, so worth noting that no decisions have been taken yet. Naturally, we are analysing situation from the legal perspective, financial perspective and other perspectives. And once the situation becomes more clear we will communicate that to all the interested counterparties.

Ainė Rifėlė-Grinkevičienė, Investor Relations Officer

Thank you, Dominykas. We have one more question. In Networks, the new EBITDA guidance for 2021 - does it account for the recently announced gas and electricity price caps? What EBITDA can be expected in the segment in 2021?

Jonas Rimavičius, Head of Corporate finance

So, just to make it clear, we did not provide guidance for Networks in 2021. That will be done together with the annual results. But yes, the basis for the expected results in 2021 is indeed the recently set tariffs.
Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you. We have one more question. Will lower investments in Networks in 2020 9 months have negative impact on RAB growth?

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

Yeah, to some extent, yes it will affect our historical regulated asset base growth.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you Dominykas. We have one more question. What kind of EBITDA contribution should we expect from the Kaunas CHP in the Q4 high season?

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

Yes, Kaunas CHP plant is already operational and Kaunas CHP plant will be one of the main contributors to the Green Generation growth in the Q4 of this year. And we cannot provide a precise number on the EBITDA contribution.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you. There is one more question. It would be helpful to know what components of revenues from contract customers goes where in segmental revenues?

Jonas Rimavičius, Head of Corporate finance

Yes, so maybe a general comment on the split of revenues between different segments. So they are split in a quite straightforward manner. So, revenue share which is related to the Networks component goes to Networks segment and the part which is related with customers and especially the commodity bit of electricity or gas goes into the revenues of Customers & Solutions business.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you. We have a few more questions. Will the company disclose the price paid for the 170 MW of solar capacity?

Jonas Rimavičius, Head of Corporate finance

So, currently we do not disclose that but is important to note that the price you know the main component of the price will only be paid after the projects are successfully awarded tariffs in the auctions.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Jonas. And there is a final question on ESG - do you have a strategic roadmap to further improve your current ESG score?

Darius Maikštėnas, Chairman of the Board, CEO

Sure, since ESG is at our core of the strategy and operations, we are working further to improve our ESG score even though we already outperform our utility peers.

Ainė Riffel-Grinkevičienė, Investor Relations Officer

Thank you, Darius, for answering that. This now concludes our earnings call.

Dear all, thank you for the questions. Should you have any further, please do not hesitate to contact us. Also, please be informed that the record of the call will be available in the Nasdaq Baltic Youtube channel and our company’s website. Again, thank you for joining us today. I wish you a good day and hope to meet you soon in other earning calls or events of Ignitis Group. Take care.