

Rating object

Ignitis Group UAB
Long-Term Local Currency Senior Unsecured Issues Ignitis Group UAB

Rating incl. outlook / watch

BBB+ / stable
BBB+ / stable

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Ignitis Group UAB	16.12.2020	16.12.2020	Until withdrawal of the rating
Long-Term Local Currency Senior Unsecured Issues Ignitis Group UAB	16.12.2020	16.12.2020	Until withdrawal of the rating

There occurred no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has confirmed the rating of the unsolicited corporate issuer rating of Ignitis Group UAB (hereinafter Ignitis, the Group, or the Company) and their unsolicited corporate issue rating of long-term local currency senior unsecured notes at **BBB+** with **stable outlook**.

The current rating (**BBB+**, **stable outlook**) attests a highly satisfactory level of creditworthiness to Ignitis Group UAB, representing a low-to-medium default risk for the Company.

Ignitis is of strategic importance for the Republic of Lithuania as its electricity and gas distribution grid operator and as one of the Countries most important domestic energy suppliers. The Group benefits from a stable and supportive regulatory framework, generating around half of its revenues in a regulated environment, thus bringing solid and predictable cash flows. Given the fact that the Republic of Lithuania owns 100% of the Company's shares, and based on our rating methodology for government-related companies, we assume that the Lithuanian government would be willing to support the Company in meeting any extraordinary financial shortfalls. For this reason, and based on the direct correlation between the country's GDP growth and its energy consumption, the rating of Ignitis Group UAB is linked to the sovereign rating of the Republic of Lithuania (CRA rating A+ / negative as of 20 November 2020). Any change in the sovereign rating could have an impact on the corporate rating of Ignitis.

At the same time, the share of the Group's commercial activities, with their intrinsically elevated market, price and climate volatility risks, has been on the increase in recent years. The Group's strategy focuses, among others, on strengthening its generating capacity and on its commercial activities, and envisages - from today's perspective - sizeable capital expenditure. Additionally, the Group aims to achieve 50% of its revenues abroad in the future, which is associated with country and integration risks, among others. The further increase in riskier commercial activities, together with the Group's investment plans, could lead to a deterioration of the Group's financials, putting a strain on our rating assessment.

From January until October 2020, the Group generated revenues of EUR 967.5m, 8.8% more compared to the corresponding period of 2019 (EUR 889.6m). The Group's revenue increased primarily due to higher revenue in the networks segment resulting from price of power distribution service, which is comprised of power transmission, distribution and public service obligations (PSO) components.

Despite a resilient economic environment in its home market, the COVID-19 pandemic could impact Group's activities. To mitigate these risks, Ignitis has established a COVID-19 pandemic-related management team which constantly monitors the situation and analyses the latest information, as well as changes in external factors and their impact on the Group's business continuity. Given the uncertainties regarding the economic impact of the COVID-19 pandemic, the impact on the full year 2020 for the Ignitis Group remains to be seen.

The Group's adjusted EBITDA indicator in first ten months of 2020 was equal to EUR 225.1m, 6.3% more compared to the same period of 2019 (EUR 211.7m). The increase was driven by a better result in the networks segment due to the growing value of regulated assets, as a result of investments in the renewal of distribution networks, a better result in the CCGT unit in the Elektrėnai complex of flexible generation segment, and efficient use of Kruonis PSHP in the green generation segment.

Primary key rating drivers:

- + Strategic importance for the country
- + Government-related company, 100% state-owned
- + Transparent and supportive regulatory framework

- + Monopoly status as a distribution network operator
- + Earnings differentiation
- + Good access to financial markets

- Growing share of high-risk business
- High capital intensity
- Exposure to price and demand fluctuations on the energy markets
- Dependency on weather and other exogenous conditions
- Dependency on energy imports
- Geopolitical risks
- Single significant geographical segment

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Ignitis Group UAB we have not identified any ESG factor with significant influence.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

In our best-case scenario for one year, we assume a rating of A-. Taking into consideration the Group's investment plans for the coming years, we do not expect any improvements in Ignitis Group's financials.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. This could be the case if the Group's financials deteriorate following a decline in its earnings capacity due to unfavorable developments in its trading or generating business activities, or following a substantial increase in debt due to cost overruns and/or significant delays in construction work. Another factor could be the downgrade of the sovereign rating of the Republic of Lithuania.

Analysts / Person approving (PAC):

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Ignitis Group UAB	Initial rating	20.08.2019	26.08.2019	withdrawal of the rating	BBB+ / stable
LT LC Senior Unsecured Issues Issued by Ignitis Group UAB	Initial rating	20.08.2019	26.08.2019	withdrawal of the rating	BBB+ / stable

Status of solicitation and information basis:

The present rating is an **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Government-related Companies	1.0	19.04.2017	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Government-Related%20Companies.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

Regulatory requirements:

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In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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