



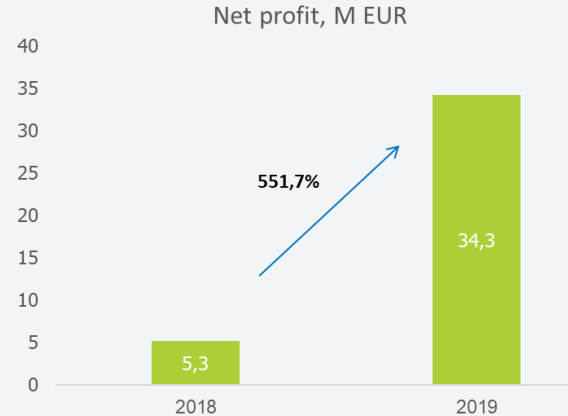
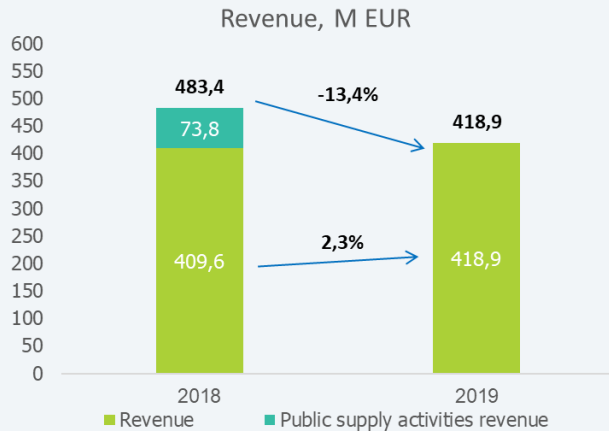
eso

# AB “Energijos skirstymo operatorius” financial and performance results of 2019

2020-02-28

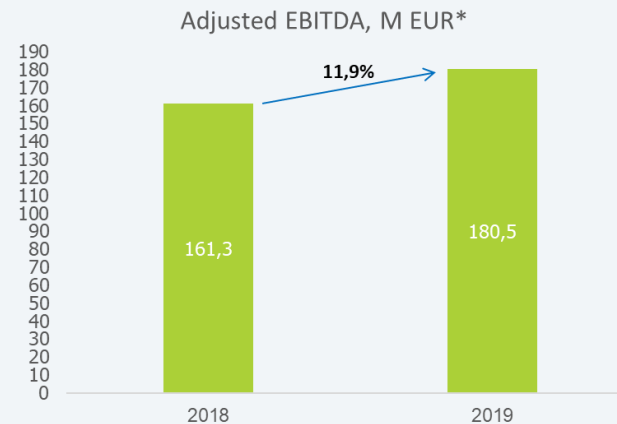
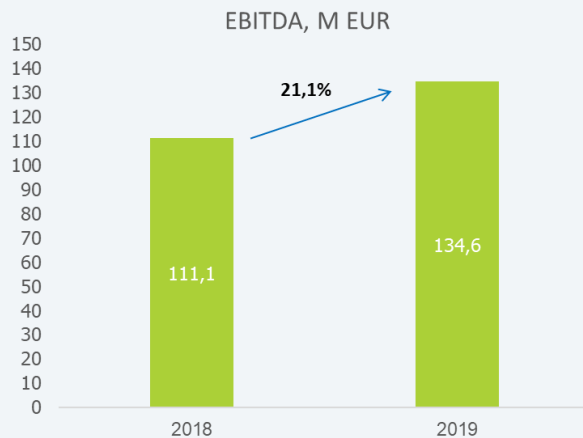


# Main financial ratios



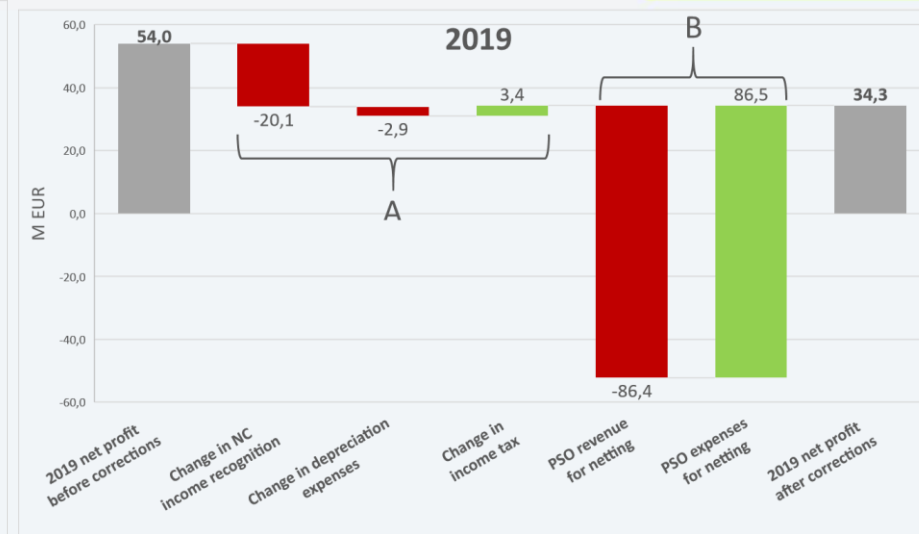
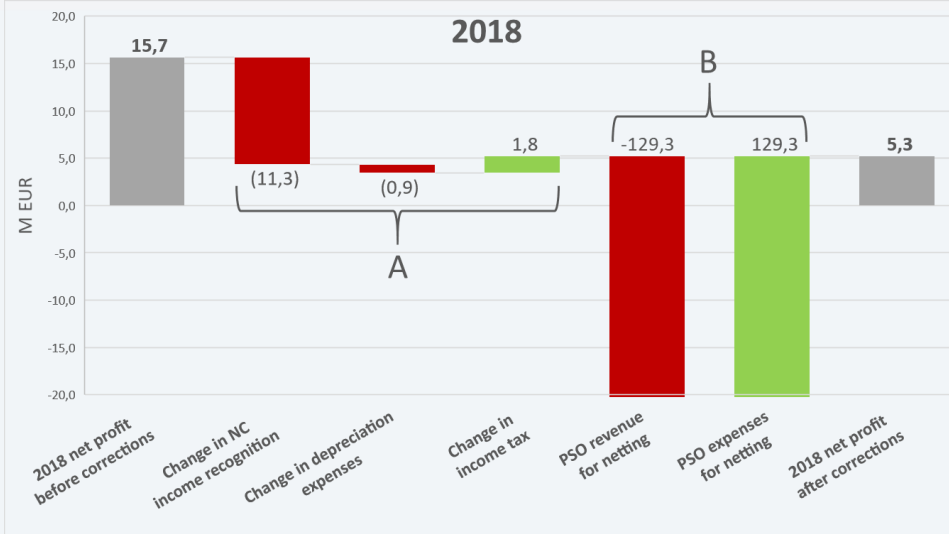
After elimination of the impact of public supply activities revenue would be 2,3 % higher compared to the same period of 2018.

**The main reason of EBITDA and net profit increase in 2019** – as from 1 October 2018, discontinued the public electricity supply activity. Decline in 2018 net profit was caused by a higher electricity purchase price and a one-off result of revaluation of the Company's non-current assets.



\*The adjusted EBITDA is calculated by adding the impact of the recalculation of regulated activities revenue generated in prior periods (as established by respective resolutions of the Commission) and by eliminating the difference that arose during the reporting period between the return on investments permitted by the Commission and the return of investments calculated by the management. The management estimates that the adjusted EBITDA indicator more accurately reflects the Company's performance and allows to better compare results between the periods, as it presents the actual amount of revenue earned by the Company during the reporting period, as well as by eliminating the differences arising between the return on investments permitted by the Commission and the actual return on investments of prior periods which might have both a positive and negative effect on the results of the reporting period. The adjusted EBITDA indicator is not calculated using data presented in the financial statements.

# 2018-2019 changes in net profit (IFRS 15)

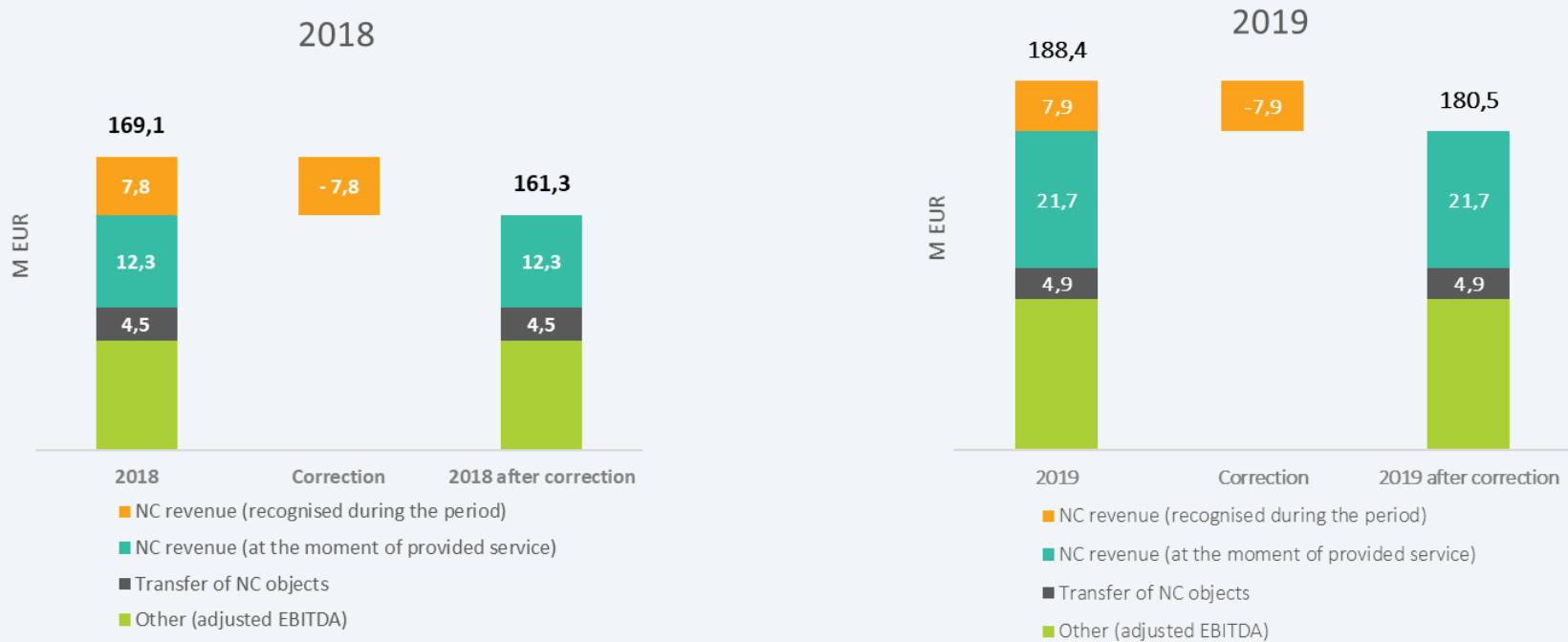


**A. Taking into account international best practice** and seeking a better comparison of the Company's results with its peers within the industry, **The Company changed the accounting treatment of new customers (NC) connection fees by deferring all gas and electricity fees over the useful lives of the related assets.** Following corrections were made:

- Correction of electricity grid connection fee income: deferral of connection fees initially recognised at the point-in-time during the period of 1 October 2018 till 31 December 2018. Also accounting for related deferred tax change;
- Correction of gas grid connection fee income: deferral of connection fees initially recognised at the point-in-time during the period of 1 January 2018 till 31 December 2018. Also accounting for related deferred tax change;
- Accounting for over-the-time connection fee income related to a and b corrections. Also accounting for related deferred tax change.

**B. Accounting method of revenue recognition of Public Service Obligation (PSO) services** was changed by treating the Company as an Agent in relation to the PSO services. Netting of PSO revenue against expenses was done.

# 2018-2019 changes in adjusted EBITDA (IFRS 15)

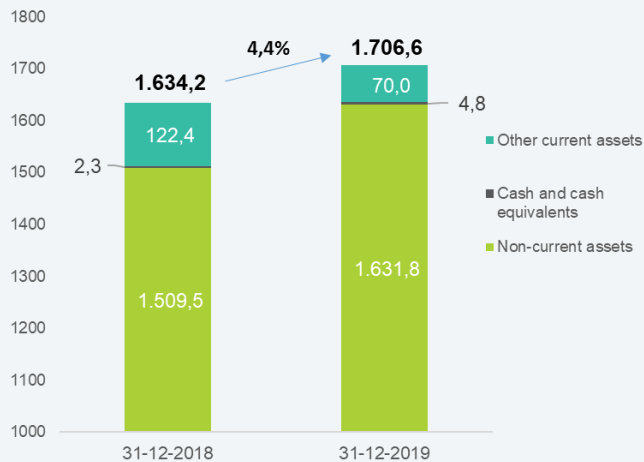


Revenue recognition treatment principals of the new customers connection fees were changed in electricity and natural gas segments by deferring all gas and electricity new clients fees over the useful lives of the related assets (which represents the best management estimate for customer relationship period). This change in accounting treatment is accounted for retrospectively and comparative information is restated.

Accordingly, calculation methodology for the alternative performance measure – adjusted EBITDA was changed in order to show the revenue by eliminating deferred income of the new customers and taking into account the net income effect of the new customers for the current year (cash flow).

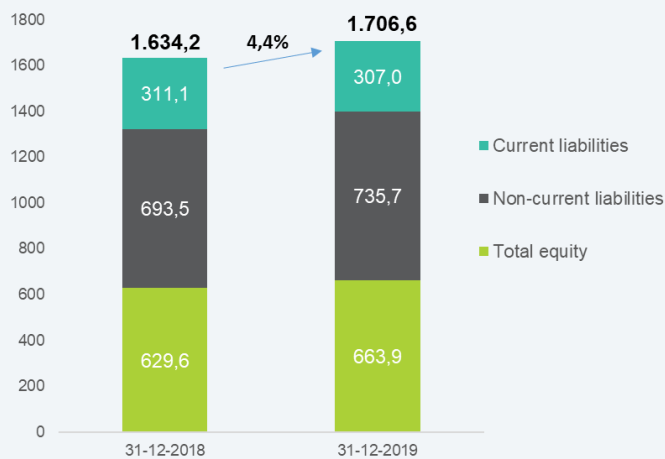
# Assets, equity and liabilities

Total assets, M EUR

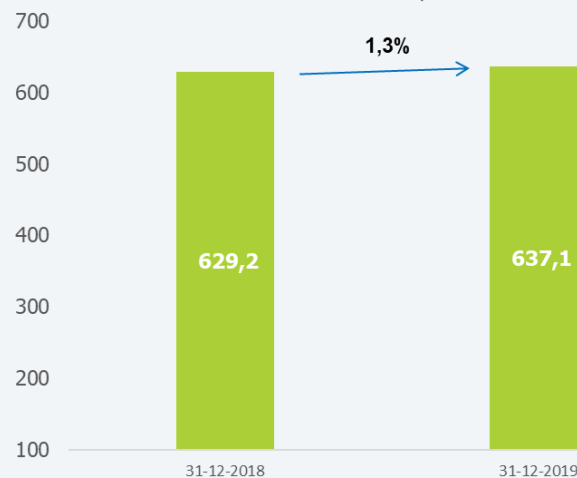


Non-current assets accounted for 95,6 % of the Company's assets. During the reported period non-current assets increased by 8,1 % due to made investments that were higher than depreciation value.

Equity and liabilities, M EUR

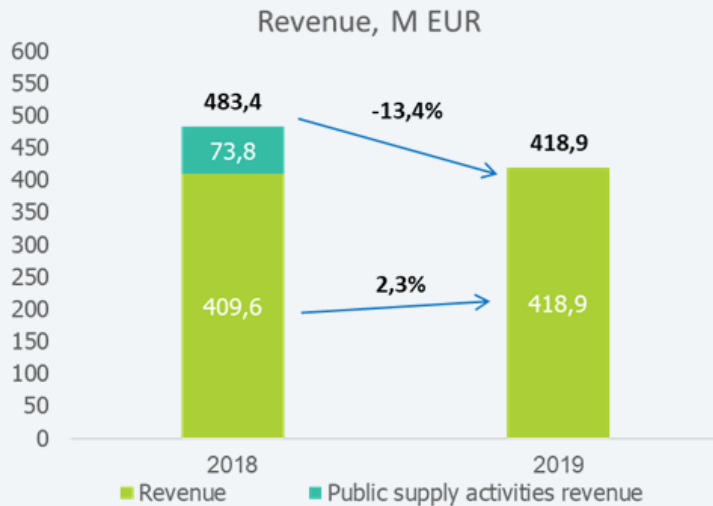


Net financial debt, M EUR



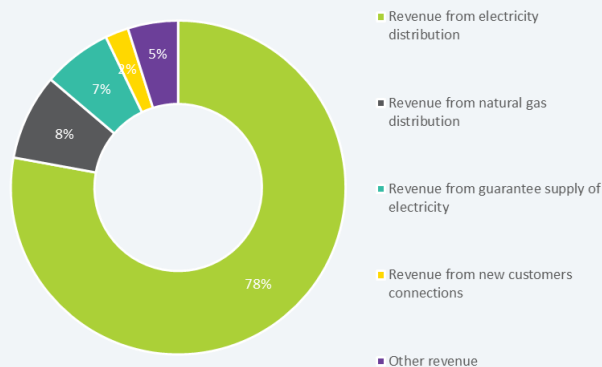
In order to keep the Company's debt level stabilised due to the high demand for connecting new customers, the Company allocated less funds for network renewal projects as envisaged in the 10-year investment plan that was approved and made public in July, 2019.

# Revenue



ESO's revenue in 2019 reached EUR 418,9 million, which is a decrease of 13,4 % compared 2018. Without a business segment of public electricity supply, revenue for 2019 would be 2,3 % higher compared to 2018.

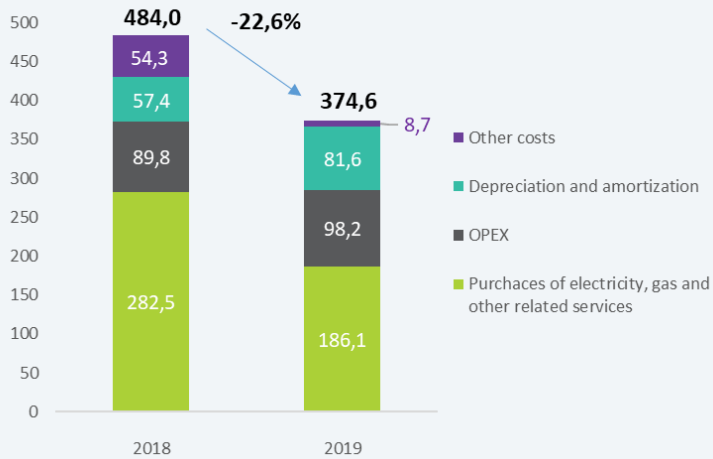
ESO revenue structure



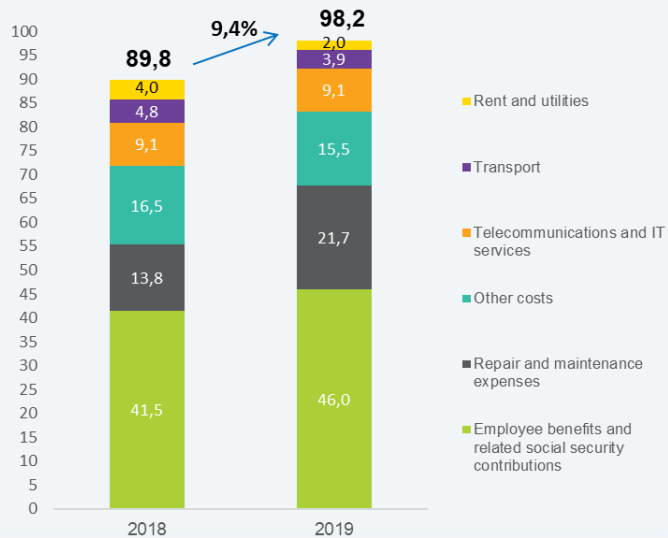
Revenue from electricity distribution is the main source of the Company's revenue. In 2019 distribution revenue comprised 78 %.

# Costs

Cost, M EUR



OPEX, M EUR

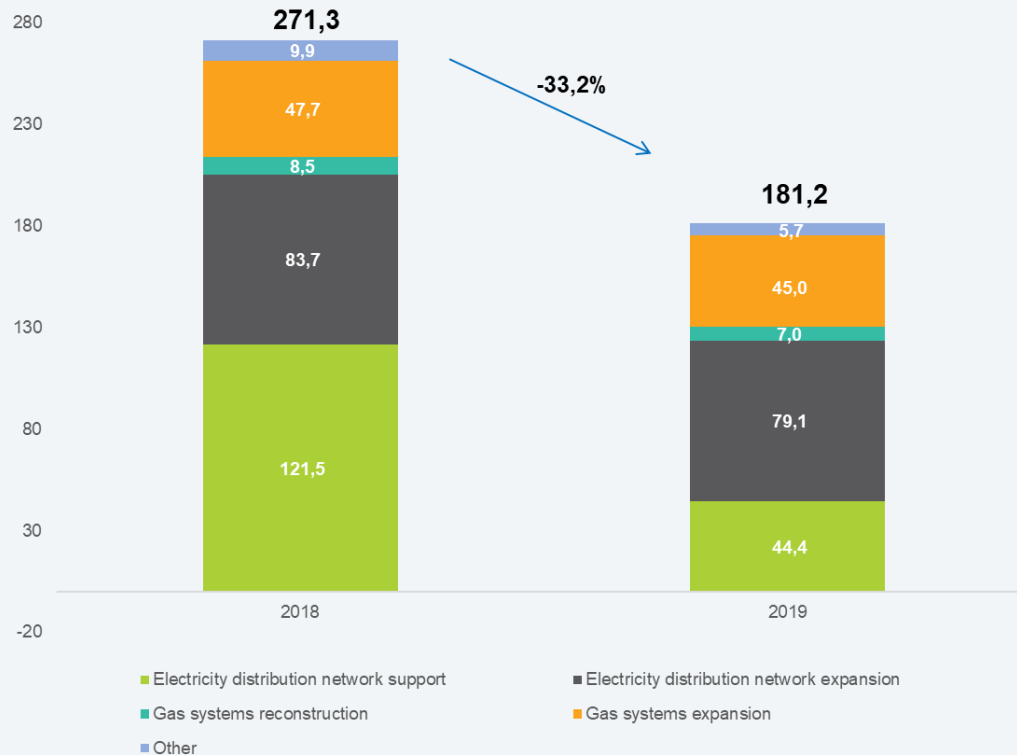


In 2019 purchases of electricity, natural gas and related services made up EUR 186,1 million and decreased by 34,1 % compared to 2018. Without a business segment of public electricity supply, purchases of electricity, natural gas and related services in 2019 would be 3,2 % higher compared to 2018 (EUR 180,3 million).

Depreciation expenses were higher due to the increase in the non-current assets (increase in capitalization) and treatment of International Financial Reporting Standard (IFRS) 16 from January 1, 2019 (leases are recognized as an asset of the Company).

In 2019 operating expenses amounted to EUR 98,2 million - increased by 9,4 % compared to 2018. The major increase was observed in repair and maintenance costs, because of the lower volume of investments in the reconstruction of the grid.

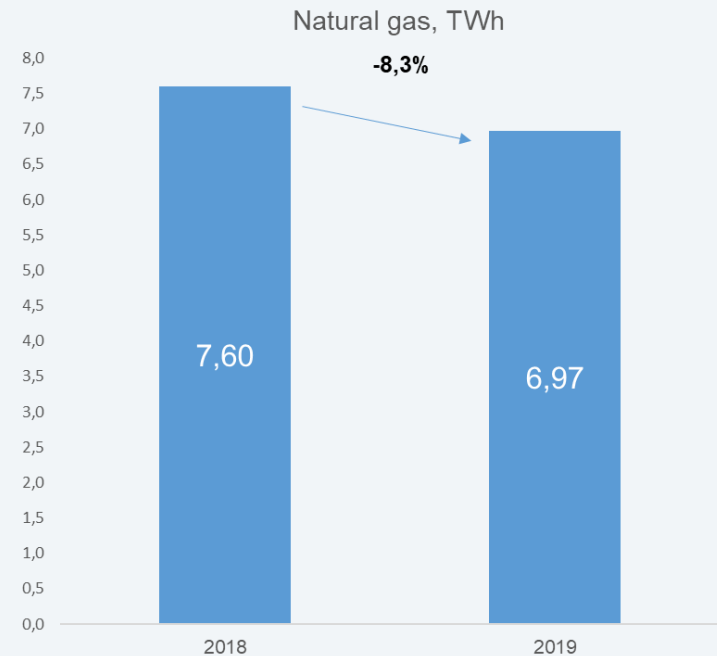
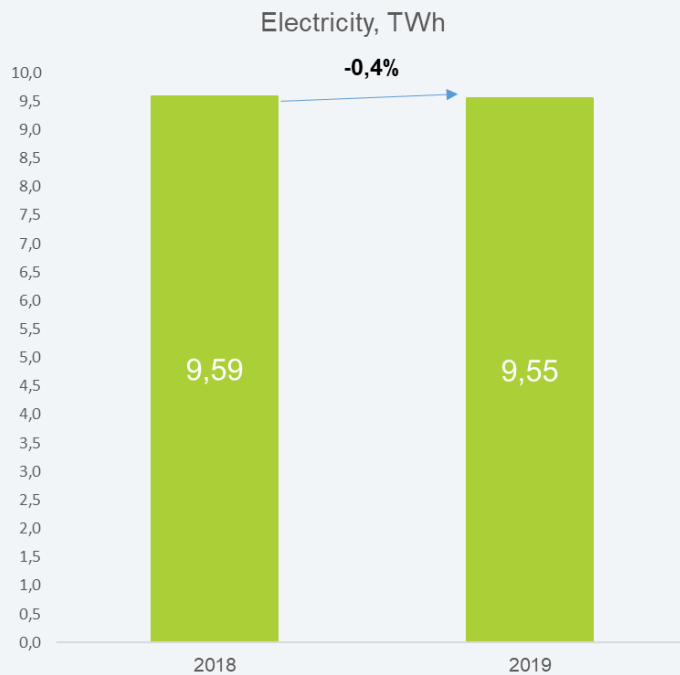
# Investment, M EUR



In 2019 ESO's investments in the electricity and gas distribution networks amounted to EUR 181,2 million, which is 33,2 % less than in 2018 when they were equal to EUR 271,3 million. ESO's investment in the expansion of the electricity distribution network was EUR 79,1 million and was 5,5 % less than in 2018. In order not to significantly increase the Company's debt level due to the high demand for connecting new customers, the Company allocated less funds for network renewal projects as envisaged in the 10-year investment plan that was approved and made public in July, 2019.



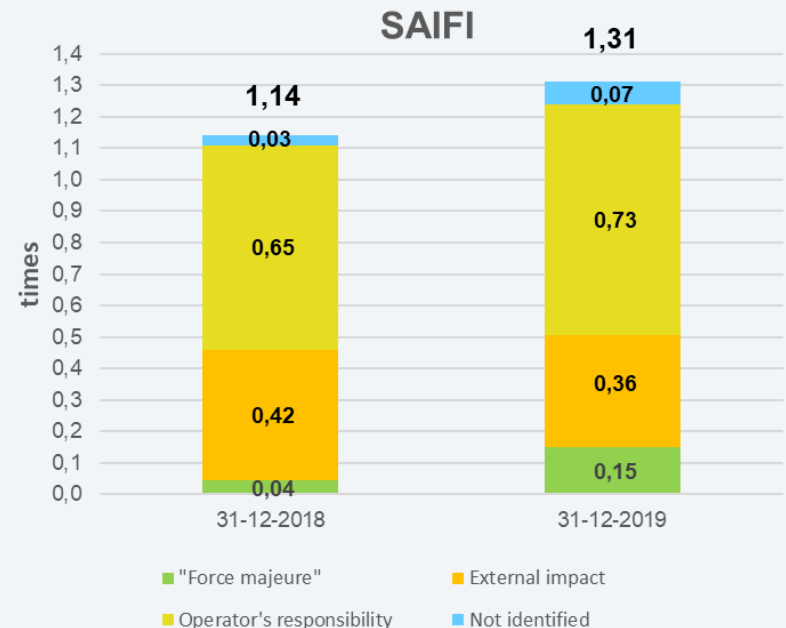
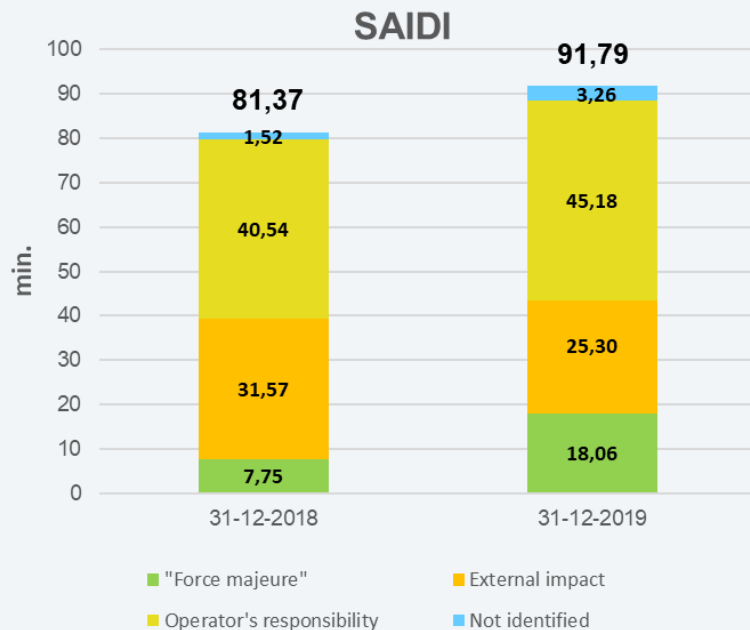
# Distributed volumes



In 2019 the volume of electricity distributed decreased by 0,4 % compared to 2018 due to the lower electricity consumption in the industry sector.

Gas distribution volumes decreased by 8,3 % in 2019 mostly due to higher average weather temperature, particularly in February, March and December, compared to the same period in 2018.

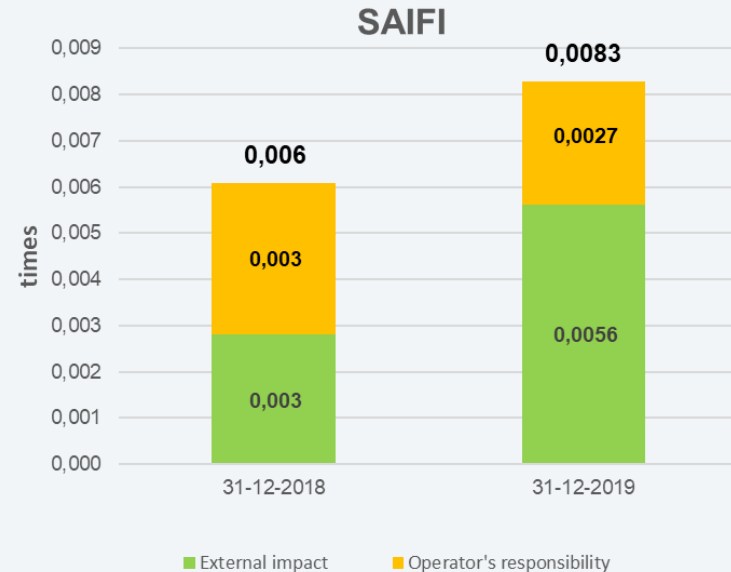
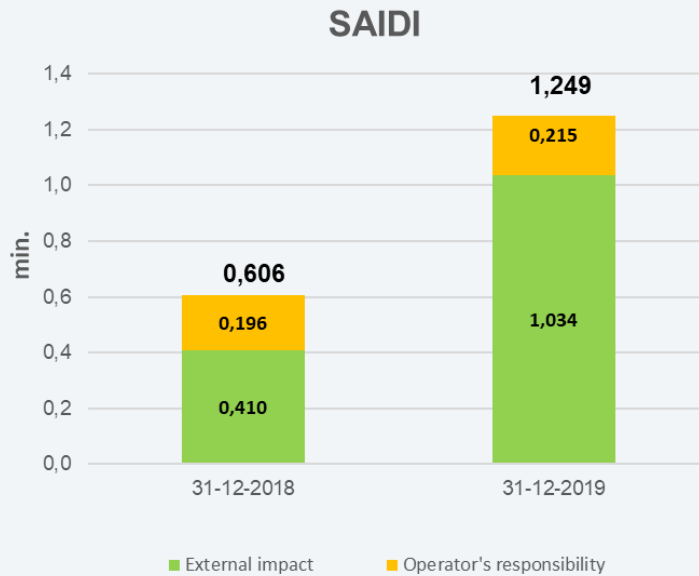
# Electricity quality indices



In 2019, the system average interruption duration index (SAIDI) per customer increased by 10,4 minutes. Such a significant worsening of the indicator was mainly affected by considerably larger extent of force majeure network failure volumes.

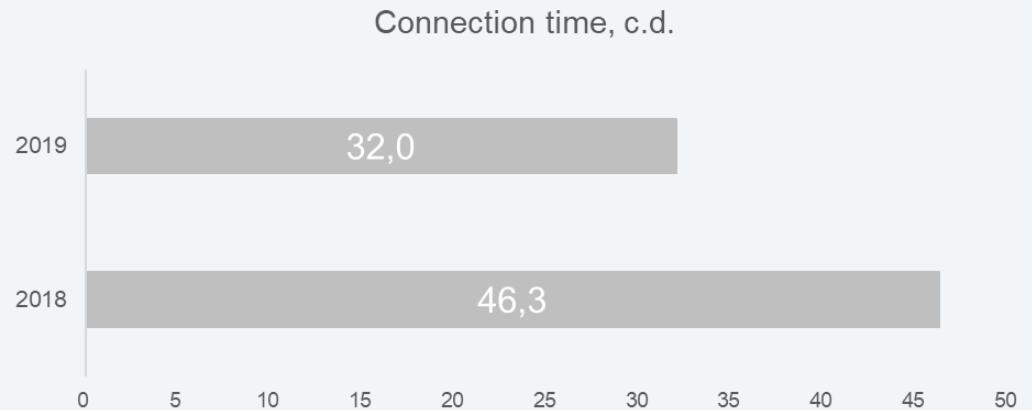
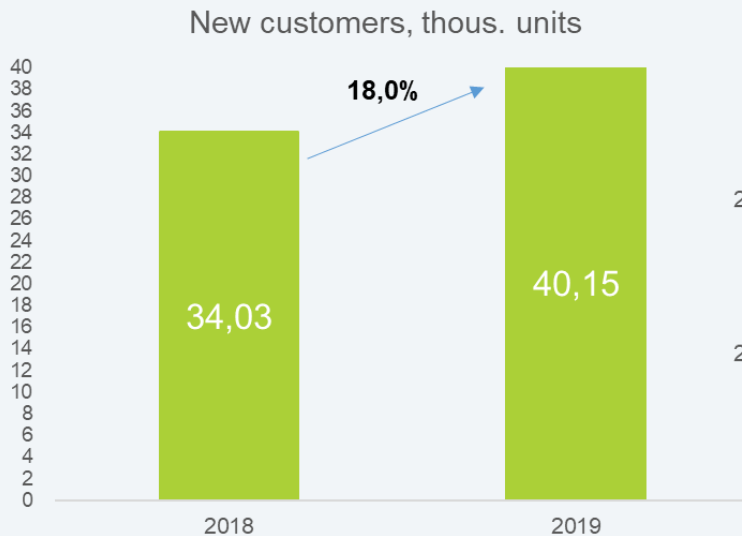
In 2019, the system average interruption frequency index (SAIFI) per customer, including force majeure, was 0,17 times larger than in 2018. The negative change of this indicator was caused by unfavourable weather conditions in 2019 which caused overhead line failures in medium voltage network and supply disruptions due to fallen trees.

# Natural gas quality indices



In 2019, The System Average Interruption Duration Index (SAIDI with force majeure) for the gas network per customer reached 1.25 minutes which is 0.62 minute more compared to the same period in 2018 (in 2018 SAIDI was 0.61 minutes). In 2019, The System Average Interruption Frequency Index (SAIFI), including force majeure, per customer, reached 0.008 times (in 2018 – 0.006 times). The main reason of deteriorating ratios is supply disruptions for a larger number of customers (3,4 thousand customers) due to natural gas pipeline damage cases done by third parties comparing with the same period of 2018 (1,6 thousand customers), although the number of damages increased insignificantly.

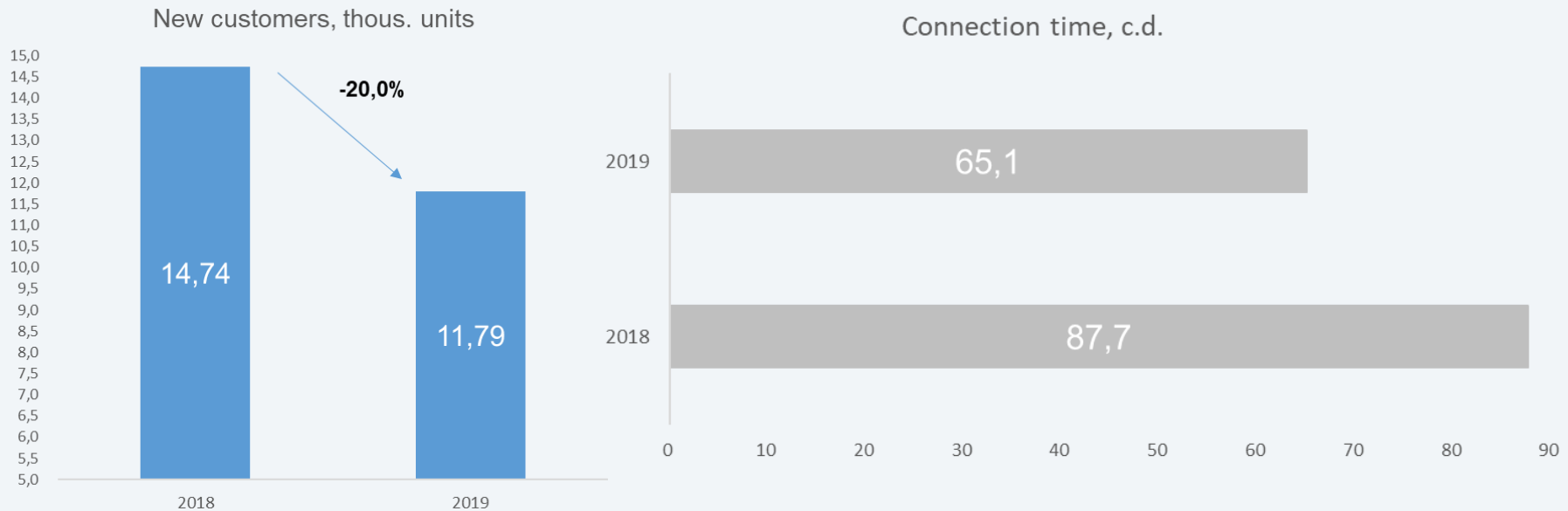
# Connection of new customers - ELECTRICITY



In 2019 ESO connected about 18 % more new customers to the electricity distribution network than in 2018 due to lower volume of clients requests to connect to the electricity grid.

Connection time decreased by 14,3 calendar day.

# Connection of new customers – NATURAL GAS

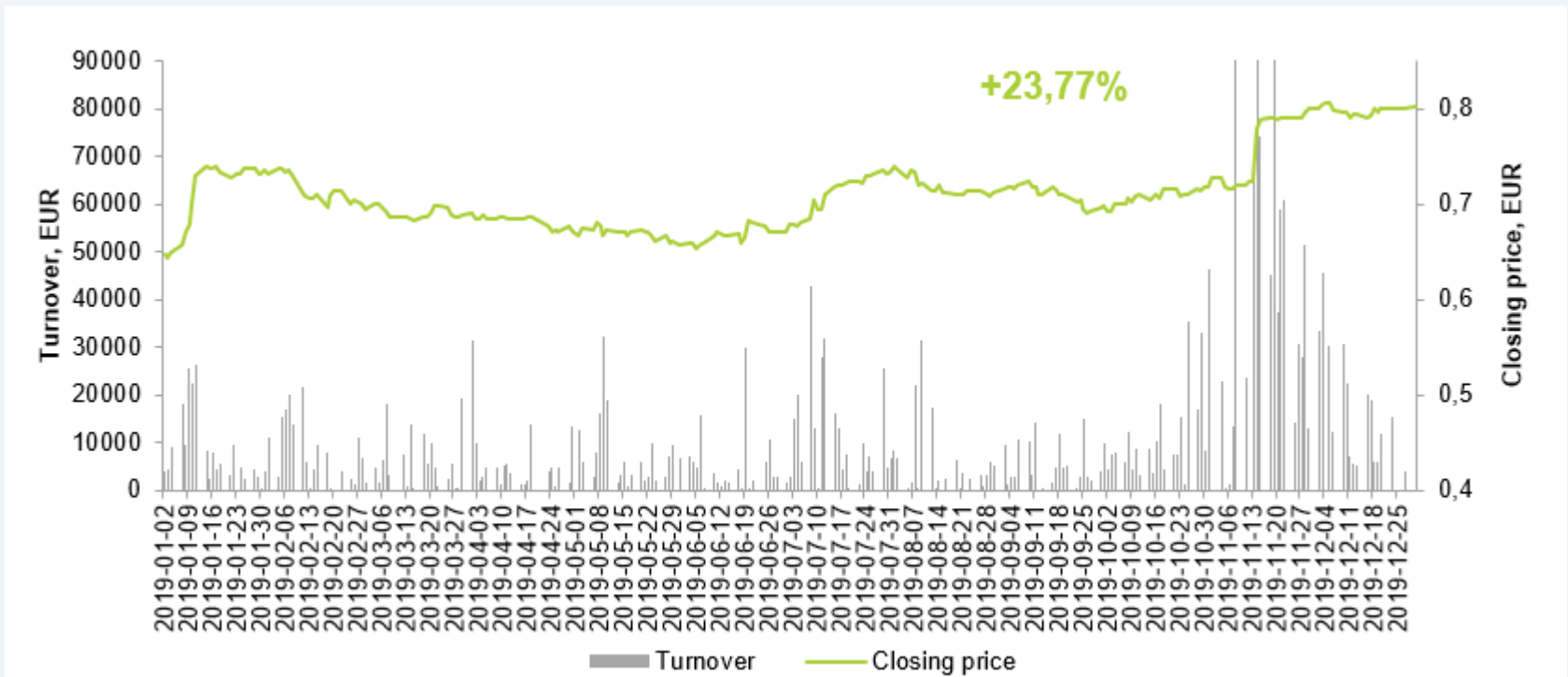


In 2019 ESO connected 20 % less new customers to the natural gas distribution network than in 2018 due to lower volume of clients requests to connect to the natural gas grid.

Connection time decreased by 22,6 calendar days.

# Share price and shareholders

Main shareholder was „Ignitis grupė“, UAB holding 94.98% of shares, with the rest floating.



ESO – the second largest company by market capitalization on NASDAQ Baltic Exchange (717,49 M EUR). The weighted average price during the reporting period was EUR 0,733.



**eso**

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