

## **Annual consolidated financial statements for the year 2020**

### **MANAGEMENT BOARD'S REPORT ON FINANCIAL POSITION AND ANALYSIS OF BUSINESS RESULTS**

According to revised financial statements, HEP Group (Hrvatska elektroprivreda d.d. and its dependent companies) recorded the consolidated net profit of HRK 1.463.8 billion in 2020, an increase by HRK 61.1 million compared to 2019.

Operating profit of HRK 2,158.8 million was recorded, an increase by HRK 464.5 million. Financial activities recorded loss of HRK 344.4 million compared to HRK 24.0 million in profit earned in 2019.

The business operations of HEP Group were affected by the epidemiological measures implemented to prevent the spread of the new coronavirus (COVID-19), which lead to stopping a portion of economic activities and subsequently to reducing electricity demand by business customers and changing the structure of demand.

Total electricity demand in Croatia of 15,384 GWh was characterized by 45 GWh less billed electricity for household customers and by 889 GWh less billed electricity for businesses.

Compared to 2019, the total sale by HEP Group suppliers in Croatia decreased by 1.0 TWh (6.8%) reaching 13,904 GWh (90.4% of the market). The sale by HEP Opskrba (supply) decreased by 820 GWh to 7,823 GWh as well as its market share from 53% to 50.9%. The sale by HEP Elektra was reduced by 191 GWh to 6,081 GWh, but its market share increased from 38.4% to 39.5%.

The year 2020 was characterized by reduced water flows in the first eight months as well as the above-average hydrology in the last quarter. All in all, hydro power plants generated 5.3 TWh (29% of required demand), which is by 511 GWh less than in 2019 (8.7%).

Due to reduced supply of customers in Croatia and the region, the purchase of electricity on the market was also reduced by 2.1 TWh (25.5%) compared to 2019, which resulted in lower operating costs. The total of 6,151 GWh was procured off-system, of which 1,189 GWh from incentivized RES and cogeneration purchases, and 4,963 GWh from imports and purchase from traders and producers in Croatia. Thermal power plant production accounted for 4,073 GWh of electricity, an increase by 364 GWh. Krško nuclear power plant supplied 3,020 GWh, which accounted for 16.2% of available HEP Group electricity, ie 254 GWh more compared to 2019 as no regular 18-month period overhaul was conducted. HEP's Korlat Windfarm generated 52 GWh. Solar and biopower plants generated 26 GWh.

HEP Group recorded the operating income of HRK 14,372.6 million, which was a decrease by HRK 1,142.7 million (7.4%) compared to 2019 primarily as the result of income decrease from the sale of electricity by HRK 1,040.1 m (8.3%) due to reduced income generated abroad and domestically. Also, income from the export of electricity surpluses also decreased as a result of reduced export volume and lower prices of exported electricity. Income from the supply of customers in the region was also lower. Income from the sale of electricity in Croatia was reduced due to a 5.7% lower demand.

Income from the sale of heat energy of HRK 674.1 million increased by HRK 19.0 million (2.9%) as a result of increased demand by 5.3% due to colder weather in the last quarter.

Income from gas wholesale amounted to HRK 475.6 million, which was a decrease by HRK 496.2 million (51.1%) compared to 2019 as a result of a lower gas sale volume by 46% (due to less suppliers as of 1 April compared to the year before).

Income from the sale of gas to retail customers amounted to HRK 435.6 million, which is an increase by HRK 54.8 million (14.4%). Income from gas sale significantly increased as a result of the collection of value adjusted receivables from the domestic customer for gas supply in 2018.

The operating expenses recorded in the amount of HRK 12,213.8 million decreased by HRK 1,607.1 m (11.6%) compared to 2019. The cost of electricity procurement decreased by HRK 1,114.3 million (31.8%) as a result of reduced electricity purchase for the supply of customers and trade and lower prices of imported electricity. The cost of energy fuel decreased by HRK 190.2 million (11.2%) compared to 2019, primarily due to lower coal and natural gas prices.

The purchase value of sold gas was HRK 788.3 million i.e. by HRK 538.6 million (40.64%) less than in 2019 primarily due to a decreased volume of gas purchase for wholesale.

In 2020, the loss from financial activities was recorded in the amount of HRK 344.4 million, which is an increase by HRK 368.5 million as a result of generated expenses due to the changes in the fair value of the cross-currency swap for issued bonds in the amount of HRK 215.9 million compared to the income generated from said changes in 2019 of HRK 226.7 million.

HEP Group's liquidity was satisfactory. Favourable leverage ratios under signed contracts were agreed as well as all other performance indicators. Trade liabilities were settled within due periods solely from regular operating cash flows.

The Shareholders Assembly of HEP d.d. adopted a decision on dividend payout for 2019 of HRK 664.4 million (accounting for 60% of profit after taxes of the parent company in 2019 – HRK 1,107.3 million). On 31 August 2020, the payment in the state budget was made.

HEP Group continued to be one of the biggest investors in Croatia in 2020 with its investments of HRK 4.3 billion. Said investments include the HRK 920.6 m investment by LNG Hrvatska d.o.o.

The major part of HEP Group investments in 2020 includes renewable energy projects in line with the European Green Plan and the energy transition of the Republic of Croatia towards the low carbon society. In 2020 all 18 wind turbines of 58 MW VE Korlat windfarm, the first new wind power plant in Croatia to produce electricity without incentives, were mounted and its trial run commenced.

In September 2020, the 3.5 MW solar power plant on the island of Vis was put into operation. The next phase includes the installation of 1MW/1.44 MWh battery storage next to the plant pursuant to the concluded contract.

The construction of several solar power plants, with total capacity of 23 MW and estimated annual production of 32 GWh in the overall value of HRK 170 million, commenced in 2020. Said solar power plants shall become operational during 2021.

HEP signed agreements with 11 municipalities and towns on developing solar power plant projects from the location/building permit stage, total capacity 120 MW. Additional 60 megawatts was secured, after the public call, by acquiring developing projects, while 100 megawatts represents the total potential solar power plant capacity which HEP started to develop autonomously on several other locations. In total, HEP had 36 RES projects (wind, sun, small hydro) in various development stages in late 2020, with total installed capacity of plants under construction amounting to 90 MW and 500 MW in development. Fourty additional RES projects were in preparatory stage.

The construction development of Hydropower System Senj 2 (HPS Kosinj/HPP Senj2) continued in 2020. With its total capacity increase of 412 MW and the HRK 3.5 billion investment, this is HEP's biggest project from Croatia's independence. After adopting the investment decision for HPS Kosinj in 2019, the first construction works commenced in 2020 including the supporting facilities on the access road from Studenci to Sklope hydro power plant, and the residential building for housing some residents of the area within the project scope. During this year, the delivery of the overall project will intensify by commencing the works on hydro-technical facilities.

The construction of the 150 MWe/114 MWh combined cogeneration unit in EI-TO Zagreb CCGT continued. This is the HRK 886 million worth investment. This unit is expected to become operational with the start of the 2022 heating season. It is expected that, along with its high 90% efficiency, it will aslo achieve more than 25% gas savings, reduce CO<sub>2</sub> emission by about 150,000 tonnes per year, and significantly reduce sulphur and nitrogen oxide and particle emissions. In terms of gas cogeneration, the preparation of project documentation for the issuance of the location permit for the new unit in Osijek continued, and the construction of the facility on the TPP Rijeka site is also being considered.

Within HEP's eMobility programme, co-funded by EU grants, until end 2020 more than 200 EV charging stations were put into operation as well as more than 40 charging station for the needs of the company's own fleet. The Smart Grid Implementation Pilot Project is currently underway. Total value of this project is HRK 230 million, of which HRK 150 million is funded by the EU. Having signed the agreement on the purchase of energy efficient transformers in July 2020, HEP DSO started the operational implementation of the project which will end in late 2022. Intense investment activities focusing on low carbon renewable energy projects will continue in the following period. Some of these projects will be EU funded, including the projects which preparation was carried out in 2020 ie the HRK 556 million revitalization of the hot-water network in Zagreb and the HRK 78 million replacement of the connecting hot water pipeline from Osijek District Heating Plant to TE-TO Osijek CCGT.