

## **Annual consolidated financial statements for the year 2019**

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

According to audited financial reports consolidated net profit of HEP Group (Hrvatska elektroprivreda d.d. together with its affiliated companies) in 2019 was HRK 1,402.6 m, which is HRK 37.9 m more than in 2018.

Dry season marked the first part of 2019 (especially in January, March and April) as well as increased inflow in November and October. Eventually hydro power plants generated 5.8 TWh, which is at the same level of generation in average hydrological conditions, and it is a decrease by 1.1 TWh in comparison to 2018. Regarding the structure of electricity sources the share of hydro power plants amounts to 28.3%.

The total electricity consumption in Croatia was 16,322 GWh, along with an increase of 8 GWh of calculated electricity to household customers, and a decrease of 83 GWh to commercial customers.

The total sale of HEP Group's suppliers in the Republic of Croatia increased by 312 GWh (2.1%) in comparison to 2018, and it totals at 14,915 GWh (91.4% of the market). The sale of HEP Opskrba totalled at 8,643 GWh, marking an increase of 323 GWh and the market share rose from 50.8% to 53.0%, when compared to 2018. The sale of HEP Elektra was 6,272 GWh, which is a decrease by 10 GWh, whereas its market share rose from 38.3% to 38.4%.

In average hydrological conditions, and along with the simultaneous increased supply of customers in Croatia and the region, electricity procurement at the market rose by 1,276 GWh (18.3%) in comparison to 2018. Furthermore, there was a 502 GWh (15.7%) increase in generation in thermal power plants, both of which affected the increase of operating expenses. Off-system procurement totalled at 8,258 GWh, 1,844 GWh of which refer to the repurchase of electricity from renewable sources and cogenerations in incentive system, and 6,414 GWh of which refer to import and

procurement from traders and producers in the Republic of Croatia. Thermal power plants generated 3,709 GWh of electricity. Nuclear power plant Krško delivered 2,766 GWh, which represents 13.3% of HEP Group's available electricity. Regular overhaul, conducted every 18 months, was completed in October 2019.

Operating income amounts to HRK 15,515.2 m, marking an increase of HRK 316.9 m (2.1%) as compared to 2018, primarily resulting from the increase of income from the sale of electricity by HRK 727.1 m (6.2%). The increase of income was affected by the increase of HEP's share in the sale to commercial customers and the increase of average selling price to commercial category of HEP Elektra and HEP Opskrba, due to the rise of market prices. Simultaneously, in line with the decision adopted by HERA, tariff items for electricity transmission and distribution were lowered for commercial customers as at 1 January 2019.

Income from heat energy sale amounted to HRK 655.2 m, marking a decrease of HRK 9.3 m (1.4%), as a consequence of 2.2% lower consumption, along with 0.8% higher selling price.

The income from the sale of gas at the wholesale market totalled at HRK 971.9 m, which is an increase of HRK 36.2 m (3.9%) in comparison to the year before. It was affected by the increase of the selling price as of 1 April 2019. The income from the sale of gas to end customers amounted to HRK 380.7 m, marking a decrease of HRK 606.3 m (61.4%), due to the sale of gas to domestic customer in 2018, which HEP did not supply in 2019.

Operating expenses amount to HRK 13,820.9 m, which is an increase of HRK 281.1 m (2.1%) in comparison to 2018. The costs of electricity procurement rose by HRK 677.7 m (23.9%), due to higher procurement at the market for customer supply and for trading. The costs of energy fuel are HRK 4.2 m (0.2%) lower than in 2018, primarily as a result of lower prices of coal and natural gas.

Acquisition price of sold gas totals at HRK 1,327.0 m and is by HRK 634.7 m (32.4%) lower than the year before, primarily due to gas procurement for sale to domestic industrial customer in 2018.

HEP Group's liquidity was satisfactory, so favourable debt indicators on contracted loans were achieved, as well as all other business indicators. Liabilities to the suppliers were settled within maturity date, exclusively from regular business income.

HEP's net debt as at 31 December 2019 totalled at HRK 571.5 m, marking a decrease of HRK 544.6 m, as a result of the increase of cash position.

At the end of November 2019, Standard and Poor's rating agency upgraded the stand-alone credit rating of Hrvatska elektroprivreda from bb onto bb+, thus confirming its overall credit rating (BB+). The report stated that HEP improved its management regarding the exposure to extremely variable hydrological conditions and fluctuation of energy fuel prices. Rating agency Moody's confirmed the long-term credit rating of HEP (Ba2) in 2019, and upgraded its credit rating outlook from stable to positive.

As at 4 July 2019 the Assembly of HEP d.d. adopted a decision on the payment of dividend for 2018 amounting to HRK 212.4 m (representing 60% of after-tax income of the parent company HEP d.d. for 2018 – HRK 354.0 m). As at 16 July HEP paid the dividend into the national budget.

HEP Group was one of the biggest investors in Croatia in 2019 as well, with the investments of HRK 3,386.6 m, including HRK 262.3 m of investment into NPP Krško. In line with the decision of the Croatian government, HEP increased the equity of LNG Croatia d.o.o. in the amount of HRK 216.1 m. The investment was financed from own means, owing to good liquidity, as a result of a good business year. The business year 2019 in HEP Group was marked by the beginning of a cycle of significant investments into renewable energy sources. As part of the renewable scenario, 2019 marked the first acquisition of an operational solar power plant. It was the solar power plant Kaštelir in Istria, which is the first non-integrated solar power plant in HEP's system. The construction of HEP's first windfarm, WF Korlat (58 MW) started, and it is going to be the first new wind farm in Croatia to generate electricity without an agreement with the Croatian Energy Market Operator (HROTE) on guaranteed purchase at incentive price. A solar power plant on the island of Vis was also in construction during 2019, and the construction of solar power plants Cres and Vrlika is in preparation. A series of other solar power plants' projects has started or

continued, some of which have been developed in cooperation with local government units.

The projects of big conventional power plants were also developed during 2019. By the end of the year main works on the construction of a highly-effective combined-cycle cogeneration block in CHP Zagreb (150 MWe, 114 MWt) started. Also, by preparing project documentation and obtaining permits, the project development of upgrading the Senj Hydropower system continued, with more than 400 MW of power increase.

Apart from business activities aiming at the increase of capacity and generation from low-carbon energy sources, as part of renewable scenario, the implementation of measures and development of projects of energy efficiency increase was intensified. At the end of the year a grant agreement from EU funds was signed for the project of exchange of connecting hot water pipe in Osijek, and the European Commission granted the aid of EUR 57 m for the project of revitalization of hot water network of the city of Zagreb.

Regarding other activities, gas business has become increasingly emphasised. In line with the decision of the Croatian government in February 2019, HEP d.d. increased the equity of LNG Hrvatska d.o.o. responsible for the construction of the terminal for liquefied natural gas, which started in April that year. As a new supply route, LNG terminal shall increase the safety of supply for HEP and all Croatia. In 2019 HEP d.d. continued to perform the activity of supplier at a wholesale gas market, and pursuant to the decision of HERA, that obligation shall last until 31 March 2021. A significant step forward for the development of gas business is a takeover of the company for distribution and supply of gas, Plin VTC from Virovitica.