

Annual unconsolidated financial statements for the year 2018

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

According to audited annual financial reports, the net profit of Hrvatska elektroprivreda d.d. in 2018 amounted to HRK 354.0 mn, whereas the achieved net profit in 2017 totalled at HRK 364.0 mn.

Operating income in 2018 is HRK 8,691.3 mn, marking an increase of HRK 957.7 mn (12.4%) in comparison to 2017, primarily due to the income from gas sale to Croatian customers and at the Croatian market, amounting to HRK 657.6 mn.

Income from electricity sale totals at HRK 6,612.6 mn, which is an increase of HRK 373.9 mn. The reasons for the increase are a rise in sale, an increase of electricity sale price to Croatian customers and the increase of income from electricity sale for covering losses in transmission and distribution network as a result of sale price increase.

4.5% percent less gas was sold in 2018 to suppliers under the obligation of public gas supply, so the achieved income from gas sales at the wholesale market decreased by HRK 28.2 mn, and totals at HRK 935.7 mn. In line with the Decision of the Croatian government and with Gas Market Act, HEP d.d. performed the activity of a supplier at a wholesale gas market in the period from 1 April 2014 to 31 July 2018. Since HERA didn't receive any bids on the repeated tender for determining the supplier at the wholesale gas market, it determined HEP d.d. as the supplier for the period between 1 August 2018 and 31 March 2019.

Operating expenses amount to HRK 8,575.5 mn, marking an increase of HRK 978.1 mn (12.9%) in comparison to the year before, which is mostly the result of an increase of gas procurement costs for the sale to Croatian customers and at the Croatian market as well as of the cost of acquisition value of sold gas in gas wholesale, which has increased due to a higher average acquisition price of sold gas by 16.9%, whereas the sale decreased due to warmer weather during the heating season. In addition, the increase of overall operating expenses was affected by higher costs of electricity procurement by HEP Proizvodnja d.o.o. as well as by higher costs of electricity procurement from renewable energy sources in incentive system, whereby costs of electricity procurement at the market were reduced as a result of favourable hydrology in 2018.

Financial activities resulted in a positive result totalling at HRK 283.3 mn. Financial income amounts to HRK 722.5 mn, marking a decrease by HRK 367.7 mn in comparison to the year before. The biggest part of financial income, HRK 340.2 mn refers to the transfer of achieved profit of affiliated companies from 2017, which is by HRK 399.8 mn lower than in the previous year. Unrealized gain per market-to-market value amounts to HRK 190.2 mn.

Financial expenses amount to HRK 439.3 and are by HRK 494.8 mn lower than in the year before, mostly due to unrealized loss per market-to-market value, which in 2017 totalled at HRK 569.2 mn, and in 2018 financial income was achieved on that basis. Because of correcting the share value in the amount of HRK 190.2 mn, financial expenses rose by HRK 138.1 mn. Financial expensed decreased by the amount of interest rates, because bonds issued in 2012 were paid in 2017.

Standard and Poor's rating agency confirmed the stand-alone rating of Hrvatska elektroprivreda (HEP) in 2018 at bb, as well as its overall corporate credit rating at BB, and it upgraded the credit rating outlook from stable onto positive. Moody's rating agency confirmed in March 2018 the long-term credit rating of Hrvatska elektroprivreda at Ba2 as well as its stable credit rating outlook. At the end of March 2019, Standard & Poor's upgraded HEP's credit rating onto BB+ along with a stable credit rating outlook. Due to the methodology and criteria used by the agency upon evaluating HEP, this increase ensued after the upgrade of sovereign rating of the Republic of Croatia.

During 2018 all due obligations were paid in due time and investments were financed from own means and by a long-term loan for financing the project of a combined cogeneration power plant located in EL-TO Zagreb. There were no new short-term debts in 2018, so as at 31 December 2018 the company had no liabilities for short-term loans. HEP d.d. contracted several mid-term frameworks, ensuring mid-term financial reserve as well as good and stable sources of financing working capital.

Liabilities for loans and issued bonds total at HRK 3,889.9 mn, marking a decrease by HRK 370.3 mn, which is a result of decreasing current maturity of long-term loans by HRK 293.2 mn, liabilities for long-term loans by HRK 41.7 mn and liabilities for issued bonds by HRK 35.5 mn. A long-term part in the total loan debt totals at HRK 3,777.8 mn and makes up 97.1% of the total amount of loans and bonds.

The investment of HRK 84.4 mn was realized in 2018 through investments in the preparation of construction and construction of new energy facilities as well as procurement and construction of computer and communication infrastructure. Investing investment of Hrvatska elektroprivreda d.d. decreased by 23.7% in comparison to the year before.