

Annual unconsolidated financial statements for the year 2020

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

According to revised annual financial statements, in 2020 Hrvatska elektroprivreda d.d. recorded the net profit of HRK 1,401.0 million, which is by HRK 293.7 million more than HRK 1,107.3 million of 2019 net profit.

Operating income of HRK 8,396.9 million in 2020 represents a decrease of HRK 918.4 million compared to 2019 (9.9%), primarily as a result of a 10.7% decline of income from the sale of electricity on the market and to related companies.

Income from the sale of electricity of HRK 6,822.6 million decreased by HRK 819.9 million compared to the year before as a result of decreased sales to domestic business customers, decreased sales abroad, and decreased income from the sale of electricity for covering losses in the transmission and distribution network.

Pursuant to the Gas Market Act and decisions adopted by the Croatian Energy Regulatory Agency (HERA), HEP d.d. carries out the business activity of a gas wholesale market supplier. This activity includes the sale of gas to the suppliers under a public service obligation to supply household customers who have opted for HEP d.d. Pursuant to HERA's decision from 28 October 2019, HEP d.d. carried out said activity until 31 March 2021. The volume of sold gas to suppliers under the gas supply public service obligation in 2020 decreased by 46.0%, which along with a 10.7% lower average selling price resulted in a reduced income from the sale of wholesale gas by HRK 496.2 million to HRK 475.6 million. Said decrease in terms of sale was primarily the effect of a decreased number of suppliers under a public service obligation who opted to procure gas from HEP d.d. after 31 March 2020.

Operating expenses amounted to HRK 7,423.2 million, which is a decrease by HRK 1,356.8 million (15.5%) compared to 2019 due to decreased cost of electricity purchase on the market. These costs of HRK 2,490.0 million account for 33.5% of operating expenses and represent a decrease of HRK 667.7 million as a result of lower electricity demand due to coronavirus pandemic and a decline of economic activities. In addition, the fall of total operating expenses was also the result of lower costs of electricity purchase from incentivized renewable energy sources which decreased by HRK 162.3 million as a result of reduced mandatory purchase of produced incentivized electricity from 70% to 40%. The cost of gas procurement for wholesale also decreased and amounted to HRK 594.5 million as a result of a lower sale volume and reduced gas storage and transportation costs.

Financial activities recorded positive result of HRK 561.5 million. Financial income of HRK 1,037.2 million was generated, which is a 13.9% decrease compared to the year before. The biggest share of financial income ie HRK 804.7 million is the result of transferring profit earned by related companies in 2019, which experienced a decrease by HRK 23.6 million compared to the year before.

Financial expenses of HRK 475.7 million decreased by HRK 35.9 million compared to the year before. Unrealised losses from financial assets account for its major share in the amount of HRK 215.9 million.

In late October 2020, Standard & Poor's upgraded the company's rating outlook from stable to positive while affirming its stand-alone credit profile (bb+) as well as its long-term credit rating (BB+).

In its report, S&P stated that HEP continued to achieve exceptional financial results during the times of COVID-19 pandemic.

In November 2020, Moody's upgraded HEP's long-term credit rating from Ba2 to Ba1 with stable outlook as well as HEP's stand-alone credit profile to ba1. In its report, Moody's stated that said upgrade reflected the expectation of HEP retaining its strong financial profile in line with its good financial performance during last several years, and of retaining strong credit ratios in the future.

During 2020, investments were funded by company own sources and long-term facilities for financing the construction of the high-efficiency combined-cycle unit in EL-TO Zagreb CCPP. No new short-term debt was recorded in 2020. Thus, as of 31 December 2020, the company had zero liabilities towards short-term loans. HEP d.d. has agreed several medium-term frameworks, which has secured medium-term financial reserves as well as quality and stable working capital sources.

Loan and issued bonds-related liabilities amounted to a total of HRK 4,034.7 million, which is an increase by HRK 297.5 million. Said increase is a result of increased liabilities under long-term loans by HRK 301.0 million as well as increased current maturity of long-term loans by HRK 17.6 million, while the liabilities under issued bonds decreased by HRK 21.0 million. The long-term portion in the amount of HRK 3,980.9 million accounts for 99% of the overall loan and bond amount. Company own bonds were redeemed on several occasions during 2020 on the secondary market in the total amount of HRK 76.2 million, thus reducing the total corporate bond book value by said redemption amount as of 31 December 2020.

On 27 August 2020, 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.

The investments of HRK 546.1 million were made in 2020. This included the preparation and construction of new energy facilities, and the procurement and construction of ITC infrastructure. Compared to 2019, the investments made by Hrvatska elektroprivreda d.d. in 2020 increased by 186.3 percent.