

## **Annual unconsolidated financial statements for the year 2021**

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

The business of HEP d.d. during 2021 displayed a high level of stability, despite extremely complex, even crisis circumstances. The consequences of negative events, which marked 2020, such as Covid-19 pandemic and two earthquakes could be felt in the following year as well. The decrease of income as a result of receivables' write-off to the customers in the area struck by the earthquake, as well as the increase of expenses, primarily variable generation costs, due to an unexpectedly high increase of the price of fuels in Q4 2021, significantly affected the reduction of operating income.

In such difficult business conditions, continuous effort to improve the management of risk and total financial position still brought good business results. According to audited financial reports Hrvatska elektroprivreda d.d. achieved consolidated net profit of HRK 1,060.1 million, marking a decrease of HRK 341.0 million in comparison to 2020, when achieved net profit totalled at HRK 1,401.0 million.

Operating income in 2021 amounts to HRK 9,041.0 million, which marks an increase of HRK 644.1 million in comparison to the year before (7.7%). It is a result of income from electricity sale at the market and in affiliated companies, which rose by 20.4%.

Income from electricity sale totals at HRK 8,216.2 million, marking an increase by HRK 1,393.7 million in comparison to the year before, as a result of a higher export of surpluses as a consequence of higher generation by hydro power plants and higher prices at a foreign market, higher sale to commercial customers and higher income from electricity sale to cover losses in the distribution grid.

In line with the Gas Market Act and the Decisions of the Croatian Energy Regulatory Agency (HERA) HEP d.d. performed the activity of supplier at the wholesale gas market until 31 March 2021. This activity referred to the sale of gas to suppliers under public service obligation to supply household customers. In 2021 this income amounted to HRK 19.5 million, whereas in 2020 it was HRK 475.6 million, which was HRK 456.1 million more.

Operating expenses amount to HRK 8,994.4 million, marking an increase of HRK 1,571.2 million (21.2%) in comparison to the year before, as a result of higher costs of electricity procurement at the market. The share of these expenses in operating expenses is 38.4%, they total at HRK 3,457.3 million and are higher by HRK 967.3 million, as a result of higher import due to higher demand for electricity and higher electricity procurement price. Apart from that, the costs of electricity procurement for HEP Proizvodnja d.d. increased, as a result of higher costs of energy fuels, which is primarily a consequence of higher coal and natural gas prices. Due to the cessation of performing the activity of supplier at the wholesale gas market after 31 March 2022 and a smaller number of suppliers under the obligation of public service which

chose to procure gas from HEP d.d. after 31 March 2020, these costs were significantly lower, by HRK 516.7 million and they amount to HRK 77.8 million.

A positive result in the amount of HRK 1,062.7 million was achieved from financial activities. Financial income amounts to HRK 1,338.2 million, marking an increase by 29% in comparison to the year before. The biggest part of financial income, HRK 850.5 million refers to the transfer of achieved profit of affiliated companies from 2020, which increased by HRK 46.1 million in comparison to the year before.

Financial expenses total at HRK 275.5 million, marking a decrease of HRK 200.1 million in comparison to the year before. The biggest part goes on interest rates (63.8%) and exchange rate differences (34.1%).

Standard and Poor's rating agency upgraded HEP's credit rating at the beginning of October 2021 from BB+ to BBB-. Thus, credit rating grade was equal to the sovereign rating of the Republic of Croatia and it returned to investment level. In its report, the Agency stated that rating upgrade reflects HEP's success in a more effective management of exposure to volatile fuel prices.

In January 2022 Moody's rating agency confirmed long-term credit rating grade of Hrvatska elektroprivreda d.d. from November 2020, from Ba2 to Ba1, with a stable credit rating outlook, and HEP's independent rating grade to Ba1. In its report, the Agency stated that the increase reflected the expectations HEP would maintain a strong financial profile, following achieved results in the several past years and that it would maintain strong credit indicators in the forthcoming years.

During 2021 investments were financed from own means and long-term loans for financing the project of combined cogeneration power plant at the location of EL-TO Zagreb. There were no new short-term loans and as at 31 December 2021 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 4,294.4 million and increased by HRK 259.6 million, which is a result of the increase of liabilities for long-term loans by HRK 290.3 million and due maturity for long-term loans by HRK 22.2 million. The majority of liabilities for loans and issued bonds – 80.2% refer to due maturity of bonds issued in 2015 amounting to HRK 3,444.8 million. The bonds were primarily used to redeem bonds issued in 2012 and to finance business activities. In 2021 own bonds were redeemed at a secondary market in the total amount of HRK 54.7 million, so the total book value of corporate bond as at 31 December 2021 was reduced by the redemption made.

As at 21 August 2021 the Assembly of HEP d.d. adopted a decision on the payment of dividend for 2020 in the amount of HRK 840.6 million (representing 60% of after-tax profit of the parent company HEP d.d., HRK 664.4 million was paid for 2019).

The investment of HRK 382.8 million was realized through the investment in construction preparation and construction of new energy facilities as well as procurement and construction of computer and communication infrastructure.