

## **Consolidated financial statements for the first half of the 2020**

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

According to unaudited financial reports consolidated net profit of HEP Group (Hrvatska elektroprivreda d.d. with its affiliated companies) in the first half of 2020 was HRK 959.6 m, which is an increase of HRK 100.3 m in comparison to the first half of the previous year.

At the beginning of the year the existence of the new corona virus (COVID-19) was confirmed, so in order to prevent it from further spreading, epidemiological measures were conducted in March 2020. They resulted in the cessation of a part of economic activities and consequently consumption decrease in the business category as well as changes in the consumption structure.

The total electricity consumption by customers in Croatia amounted to 7,428 GWh, marking a decrease of 606 GWh (7.5%), in comparison to the consumption in the same period last year, along with lower billed electricity to the customers from the business category by 577 GWh, and those from the household category by 28 GWh.

The total sale by HEP Group's suppliers fell by 563 GWh (7.7%), in comparison to the same period in 2019, and in the first six months this year HEP Group achieved a 91.1% market share, which was 91.3% in the same period last year. The sale of HEP Opskrba was lower by 457 GWh (10.9%), 469 GWh of which marked a decrease in sale to the business category, whereas sale to the household category increased by 12 GWh. The sale of HEP Elektra, which supplies households within universal service and customers from the business category within guaranteed supply, decreased by 106 GWh, whereby the sale to the business category fell by 77 GWh and to the households by 29 GWh.

Unfavourable hydrology marked the first half of 2020 in comparison to the same period last year, with a 28.1% share in the structure of electricity sources. Hydro power plants generated 2,461 GWh, which is a decrease of 468 GWh, when compared to the first half of 2019.

As a result of lower consumption, electricity procurement at the market also decreased by 1,168 GWh (27.2%), generation of thermal power plants fell by 7 GWh (0.4%), affecting the reduction of operating expenses. The total of 3,119 GWh was procured, 629 GWh of which refers to the purchase of electricity from renewable sources and cogenerations in the incentive system, and 2,490 GWh of which refers to the import and procurement from traders and producers in Croatia as well as to the procurement for covering losses in the transmission network. Thermal power plants generated 1,652 GWh of electricity. The delivery from nuclear power plant Krško amounted to 1,513 GWh, representing 17.3% of disposable electricity of HEP Group.

Operating income amounted to HRK 7,139.7 m, marking a decrease of HRK 705.4 m (9.0%) in comparison to the same period last year. Income from the sale of electricity was HRK 5,489.5 m, and when compared to the same period last year it decreased by HRK 769.6 m (12.3%), as a result of decreased electricity sale to the customers in Croatia due to lower consumption. The income from the sale of heat energy decreased by HRK 9.9 m, while the income from gas sale decreased by HRK 66.8 m.

All other operating income increased by HRK 140.9 m.

In the first half of 2020 operating expenses totalled at HRK 5,950.1 m, which is a decrease of HRK 862.4 m (12.7%). The costs of electricity procurement amounted to HRK 1,164.5 m, marking a decrease of HRK 601.8 m (34.1%) in comparison to the same period last year. The decrease in expenses is a result of lower import expenses, resulting from lower imported volumes and the lower price of imported electricity. At the same time, the purchase of electricity in the incentive system decreased, due to lower mandatory purchase volume as of 1 January 2020. The cost of energy fuel in the first half of this year totalled at HRK 729.6 m, which is a decrease of HRK 165.4 m (18.5%), as a result of less amounts used and the prices of coal and wooden biomass, along with a lower gas price. The cost of gas procurement for sale at the wholesale market and for market supply was lowered by HRK 159.3 m (20.3%).

All other operating expenses increased by HRK 64.2 m.

The investments were realized in the amount of HRK 1.25 bn, encompassing exchanges, reconstructions and revitalizations of existing energy facilities, as well as construction and construction preparation of new energy facilities and the connection of customers.

Receivables from customers amounted to HRK 1,899.5 m, which is a total decrease of HRK 270.3 m in comparison to the beginning of the year, primarily due to lower receivables from gas customers.

HEP Group's liquidity was satisfactory and liabilities towards suppliers were settled in due time, exclusively from regular cash inflow from operating activities. HEP Group's net debt as at 30 June 2020 amounted to HRK 147.9 m, which is a decrease of HRK 423.5 m, in comparison to the beginning of the year, as a result of increased cash level by HRK 675.2 m. Total indebtedness for loans and bonds increased by HRK 251.7 m.

Hrvatska elektroprivreda d.d. paid HRK 664.4 m from its profit for 2019 on 31 August 2020 in favour of the State budget in line with the Decision of the Croatian Government on the amount, manner and deadlines for payments made by companies of strategic and special interest for the Croatian Republic.