

Unconsolidated 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 semi-annual financial reports the net profit of Hrvatska elektroprivreda d.d. (HEP d.d.) in the first half of 2020 was HRK 1,213.3 m, whereby its net profit in the same period of 2019 totalled at HRK 1,257.7 m.

Operations in the first term were affected by conducted epidemiological measures with an aim of preventing the expansion of new corona virus (COVID-19), which led to the cessation of a part of economic activities and consequently to the decrease of electricity consumption in Croatia and at the markets of neighbouring countries. The decrease of economic activities all over Europe caused the fall of electricity, gas and coal prices.

Operating income in the first half of 2020 was HRK 4,395.2 m, and in the same period of 2019 it was HRK 4,870.6 m, marking a decrease of HRK 475.4 m or 9.8%.

The income from the sale of electricity at the market and of affiliated companies amounted to HRK 3,175.1 m, amounting to 72% of operating income. When compared to the same period of the previous year, they are by HRK 666.6 m lower, as a result of lower sale and lower average sales price at the foreign market.

The income from the sale of gas at the wholesale market decreased in comparison to the same period the previous year by HRK 110.4 m, as a result of lower gas sale and lower gas sales price. The sale of gas marked a 22.5% decrease, in comparison to the previous year resulting from a smaller number of suppliers, to which HEP d.d. sells gas for household supply. As at 1 April 2020 there were 9 suppliers with which HEP d.d. contracted gas supply, whereas in 2019 and by 31 March 2020 there were 32 suppliers.

All other operating income totalled at HRK 767.9 m, which is an increase of HRK 301.5 m, mostly due to higher income from collected written-off receivables and income from the sale of CO₂ emission units.

Operating expenses amounted to HRK 3,934.8 m, which is a decrease by HRK 495.6 m (11.2%), when compared to the same period the previous year, as a result of lower costs of electricity procurement at the market due to decreased import by 34.9%, along with a 14.5% lower average price. Also, the costs of procuring electricity from renewable energy sources in the incentive system for the customers of HEP Opskrba d.o.o. decreased, as a result of reducing the mandatory purchase volumes of produced incentivized electricity. Due to lower sales and lower average procurement price of sold gas, the costs of procuring gas for the wholesale market also decreased.

All other operating expenses increased by HRK 92.8 m, mostly due to higher expenses of CO₂ emission units sale, which rose as a result of a higher procurement price.

The net profit of HRK 843.4 m was achieved from financial activities. Financial income amounted to HRK 1,022.1 m and in comparison to the first half of 2019 it is by HRK 5.0 m lower. The biggest part of financial income refers to the income from the share in profit of affiliated companies – 78.7%. Financial expenses totalled at HRK 178.6 m, marking an increase of 61%, when compared to the first half of 2019, as a result of higher exchange rate differences.

During the first half of 2020, due liabilities were settled in due time and own means were used to finance investments, EBRD and EIB loans as well as EU funds. HEP d.d. contracted several mid-term frameworks with banks, used to ensure mid-term financial reserve and good and stable sources of financing working capital.

Liabilities for issued bonds and long-term loans including current maturity, amounted to HRK 3,987.9 m and increased by 6.7% in comparison to the beginning of the year, as a result of increasing liabilities for long-term loans.

The investment of HRK 342.1 m was achieved in the first half of 2020, through construction and construction preparation of energy facilities, construction of computer and communication infrastructure as well as the realization of e-mobility project. Investments of HEP d.d. in comparison to the same period the previous year is significantly higher, due to the construction of new energy facilities, new replacement combined cogeneration unit in Elektrana toplana Zagreb (CHP plant) and several solar power plant projects.

As at 31 August 2020 Hrvatska elektroprivreda d.d. paid HRK 664.4 m from its profit for 2019 into 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.