

## **Consolidated financial statements for the first half of the 2016**

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

According to unaudited financial reports in the period January – June, 2016, HEP Group recorded consolidated **net profit of** HRK 1,345.0 mn, which is at the level of results for the same period last year.

Favourable hydrological conditions which marked 2015, continued, although a bit lower, in the first half 2016. This has enabled a significant generation of electricity in hydro power plants with a 36.5%-share in the structure of electricity sources. Recorded generation in hydro power plants was 3.5 TWh, which is 0.1 TWh less in comparison with the first half 2015. Due to growth of the sale of electrical energy on the international market and bit lower hydrology, import of electricity rose by 0.6 TWh, as well as an increase of 0.3 TWh in the generation of thermal power plants.

**Operating income** amounts to HRK 7,174.4 mn and they are by HRK 32.9 mn (0.5%) higher than in the same period last year, primarily due to HRK 164.4 mn of income achieved for the sale of electrical energy on the international market. At the same time income from the sale of gas on the wholesale market decreased by HRK 142.2 mn due to decrease in the sale of gas to suppliers and decrease in selling price of gas., Warm weather conditions in February and March, which were above average, led to decrease in the sale of heat energy by HRK 7.5 mn., while income from the sale of gas on the retail market decreased by HRK 33.5 mn due to lower selling price.

All other operating income was higher because of the increase in income from abolishing provisions and income from paid written-off receivables.

In the period January – June 2016 recorded **operating expenses** amounted to HRK 5,421.4 mn, marking a decrease by HRK 208.3 mn (3.7%), which was primarily influenced by fuel prices which were decreased by 218.0 mn due to lower prices of the gas and coal, termination in usage of heavy fuel oil and lower expenses of the gas wholesale by HRK 103.2 mn due to lower purchasing gas price and decrease in sales.. Electricity procurement costs increased by HRK 175.5 mn due to higher purchase of electricity for trading and lower generation from hydro power plants.

All other operating costs decreased because of lower costs of buying CO2 emission units, lower costs of value adjustment of trade receivables, staff costs and purchasing costs of gas for retail market.

Trade receivables amount to HRK 1.54 bn and they are by HRK 303.0 mn lower in comparison with the beginning of the year, i.e. by 16.4% due to lower trade receivables on the gas wholesale market.

Group's liquidity was satisfactory and all liabilities towards suppliers were paid in due time. Supplier invoices in the period between January and June, 2016 were paid solely from regular operational cash inflow. As at 30 June, 2016 the total debt amounts HRK 5.41 bn, this represents 4.1% decrease in comparison with the beginning of the year.

In the period between January and June, 2016 achieved investments amounted to HRK 806.2 mn, which includes replacements, reconstructions, revitalizations of existing energy facilities, construction and preparation of construction of new energy facilities as well as connection of customers.