

Unconsolidated 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, Hrvatska elektroprivreda d.d. recorded **net profit** in the amount of HRK 1,218.3 mn, while recorded net profit for the same period in 2015 amounted to HRK 942.7 mn. Increase in net profit resulted from higher financial income and lower operating expenses.

Operating income in 2016 amounted to HRK 4,099.1 mn and is lower by 1.9% in comparison to the same period last year. Due to unusually high temperatures in winter period, lower sales of gas on the wholesale market were recorded, resulting in a decrease in revenues from gas sales for HRK 171.2 mn. In addition to lower sales of gas, decrease in operating income was influenced by decrease in the selling price of gas based on Government decision. Revenues from electricity sales increased by HRK 276.0 mn due to higher electricity sales on the international markets.

Operating expenses amounted to HRK 3,347.7 mn, which is a decrease of HRK 272.7 mn (7.5%) when compared to the same period last year, due to lower fees for electricity generation resulting from lower production in the HEP Group's power plants. In addition, the cost of gas purchase for the wholesale market decreased by HRK 103.2 mn, due to lower sales of gas and reduced purchase gas price in line with the Government decision.

Net profit of HRK 617.9 mn was recorded from financial operations. **Financial income** amounted to HRK 834.2 mn with majority relating to income from the share in profits of associated companies.

Financial expenses amounted to HRK 216.3 mn and consist of interest on loans and issued bonds and foreign exchange losses.

Company's liquidity was satisfactory and all liabilities towards suppliers were paid in due time. All investments were financed out of regular operational cash inflow and long term loan for financing cogeneration biomass facilities.

As at 30 June, 2016 the total debt under loans and issued bonds, including its current portion, amounted to HRK 5,396.4 mn, which represents 4.0% decrease in comparison with the beginning of the year, due to regular repayments under contracted debt.

In the period between January and June, 2016 achieved investments amounted to HRK 174.7 mn, which includes investments in construction of energy facilities and cogeneration biomass facilities, and procurement and construction of ICT infrastructure. When compared to the same period last year, company's investments increased by 72.5%.