

## **Consolidated financial statements for the first half of the 2017**

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

According to revised financial statements, HEP Group recorded consolidated net profit of HRK 1,355.0 million in the first half 2017, retaining the results recorded in the same period the year before.

The increase of economic activities, colder winter and high temperatures early in the summer affected a higher electricity demand in Croatia. Due to colder winter months, the sale of heat and gas increased, while the rise of gas sale was impacted by the expansion of gas supply as a result of acquiring customers outside the area covered by HEP Group's distribution network in East Slavonia. In addition, HEP Group also increased the number of customers and the sale of electricity in Slovenia.

The first half 2017 was marked by unfavourable hydrology conditions resulting in 2.4 TWh of electricity produced in hydro facilities, which was by 1.1 TWh (32%) less compared to H1 2016. Due to unfavourable hydrology and increased electricity demand domestically and abroad, electricity purchased under market terms increased for 590 GWh (20%) as well as thermal power plants generation which increased for 387 GWh (24%) which resulted in increased operating costs. The total purchase of electricity outside the system amounted 3,567 GWh, whereof purchase of renewable energy sources and cogeneration amounted 929 GWh and import and purchase from traders and producers in Republic of Croatia amounted to 2,638 GWh. Electricity generated from TPP amounted 2.0 TWh. Total delivered electricity from NPP Krško amounted 1,473 GWh representing 15.4% of total available electricity of HEP Group. The wholesale price of electricity and the price of coal were higher compared to H1 2016 while the price of natural gas decreased.

Operating income of HRK 7,847.6 m increased compared to the same period the year before by HRK 673.3 m (9.4%). Income from the sale of electricity rose by HRK 224.2 m as a result of increased sale of RES incentivised HEP producers, higher wholesale selling price of electricity, as well as of increased demand by regional customers. Despite the increased volume of gas sold, both on the wholesale market and to end-customers, income from the sale of gas decreased in total by HRK 81.5 m. Income from the sale of heat was lowered by HRK 1.6 million.

All other operating income increased as a result of earning income from cancelling asset impairment by HRK 508.2 m, increased income from customer network connection services, and income for investments within HEP Group.

In H1 2017, operating expenses amounted HRK 5,996.5 m representing an increase of HRK 575.1 m (10.6%). In light of increased electricity and heat generation in thermal power plants and significantly higher prices of coal, the energy fuel costs rose by HRK 244.0 million. The cost of electricity purchase / increased for HRK 249.8 m as a result of a higher volume of

purchased electricity as well as higher prices of imported electricity. At the same time, the cost of gas purchased for wholesale purposes decreased due to lower purchase prices.

Other operating costs increased as a result of increased costs of the value adjustment of trade receivables, amortization, cost of staff, cost of CO<sub>2</sub> and gas procurement for end-customer supply. Fees paid towards the use of water as well as water and water domain concessions decreased as a result of lower hydro generation.

Investments amounted HRK 833.1 million including replacements, reconstructions, revitalizations of the existing energy facilities, the construction and construction preparation of new energy facilities and customer connections.

Trade receivables amounted to HRK 1.68 bn, representing decrease of HRK 271.0 m (13.9%) compared to early 2017, primarily as a result of decreasing receivables from wholesale gas customers.

As the Group liquidity was satisfactory, trade liabilities were paid within due periods solely from regular operating cash flows. As of 30 June 2017, Group's total net debt was HRK 2,511.9 million i.e. 11.6% more compared to early 2017.

At its session held on 8 June 2017, the Shareholders Assembly of Hrvatska elektroprivreda d.d. passed a decision on paying out HRK 794.3 million from the 2016 profit in favour of the State Budget. The amount of HRK 600 million was paid in early July, while the remaining amount of HRK 194.3 million will be paid until the end of 2017, bearing in mind the retention of HEP's adequate liquidity.