

Unconsolidated 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 unrevised financial statements, Hrvatska elektroprivreda d.d. recorded net profit of HRK 755.4 million in H1 2017 compared to HRK 1,218.3 m recorded net profit in the same period 2016. The reduced earning is the result of increased operating costs and decreased income from sale.

Operating income of HRK 3,865.0 m in H1 2017 was reduced by 5.7% compared to the same period 2016. Income from the sale of electricity was reduced by HRK 114.7 million due to lower selling prices in Croatia. Despite the 11.8% increase in sale of gas, the recorded income from the sale of gas on wholesale market decreased compared to the same period the year before by HRK 74.3 million as a result of lower selling price set by the Croatian Government.

Operating expenses of HRK 3,701.1 million increased by HRK 353.4 million (10.6%) compared to the same period the year before as a result of the increased cost of electricity procurement due to a lower volume of electricity generated by HEP Group's HPPs as well as due to increased prices of electricity sold on the market. The procurement / purchase cost of wholesale gas dropped by HRK 41.2 million as a result of a lower procurement price as per the Government decision.

Net profit of HRK 549.2 million was earned from the **financial activities**. Financial income of HRK 1,020.2 million represented a 22.4% increase compared to H1 2016. Income from the share in profits of affiliated companies accounted for the major part of financial income. Financial expenses of HRK 471.0 million increased by 117.7% compared to H1 2016 as a result of higher costs for swap transactions. Swap transaction costs for issued bonds and negative exchange currency rates accounted for the major part of financial expenses.

During H1 2017, all due obligations were paid in due time. Investments were financed by own funds and by a long-term loan for funding the construction of wood chip biomass-fired cogeneration facilities. HEP d.d. has concluded several mid-term frameworks, under which mid-term financial reserves as well as quality and stable working capital funding sources have been ensured. Liabilities towards issued bonds and long-term loans, including due debt, amounted to HRK 4,935.8 million, which was by 6.1% less compared to early this year as a result of a regular repayment of long-term loans and securities-related liabilities.

In H1 2017, HRK 37.7 m of investments was made through the construction of energy and wood biomass cogeneration facilities as well as the procurement and building of the IT infrastructure, which was by 78.4% less than in the same period the year before as a result of more intensified construction works on wood biomass cogeneration facilities in 2016.