

## **Consolidated financial statements for the first half of the 2018**

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

According to revised financial statements, in the first half 2018 HEP Group (Hrvatska elektroprivreda d.d. and its dependent companies) recorded consolidated net profit of HRK 1,172.7 million, which is by HRK 182.3 million less than in the first half the year before.

Total electricity demand in Croatia increased by 2.4% compared to demand in the same period the year before amounting to 8,072 GWh. A slightly lower demand (0.7%) was recorded by household customers, while it increased by 4.5% in the commercial category.

Total sale by HEP Group suppliers increased by 478 GWh (7.2%) compared to the same period 2017, of which an increase by 511 GWh (13.7%) in the sale to commercial customers and a decrease of sale by 33 GWh (1.2%) to household customers was recorded.

The first half 2018 was characterized by favourable hydrology which facilitated significant hydro generation of electricity accounting for 44.0% in the structure of electricity sources. Hydro generation amounted to 4,420 GWh, an increase by 2,022 GWh compared to the first half 2017.

In light of favourable hydrology, electricity procurement from market sellers decreased by 551 GWh (15.2%) as did thermal production by 689 GWh (33.8%), which resulted in reduced operating costs. A total of 3,071 GWh was procured off-system, of which 1,226 GWh for the repurchase of electricity from renewable sources and cogeneration in the system of incentives, and 1,845 GWh for import and procurement from traders and producers in Croatia. Production by thermal power plants amounted to 1,349 GWh of electricity. Krško Nuclear Power Plant supplied 1,235 GWh accounting for 12.3% of HEP Group's available electricity. The wholesale price of electricity and the price of natural gas increased compared to first half 2017 while the price of coal decreased.

Operating income of HRK 7,572.9 m decreased compared to the same period the year before by HRK 274.8 m (3.5%). Income from the sale of electricity increased by HRK 123.6 m as the result of increased demand as well as of HEP's increased share in the sale to commercial category, and the rise of the average selling price for commercial customers supplied by HEP Opskrba. Income from the sale of gas increased by HRK 286.2 m as the result of income from the sale of gas to Petrokemija d.o.o. and the trade at power exchanges, which did not exist in the same period the year before. Income from the sale of heat decreased by HRK 13.2 m due to decreased demand in winter months.

All other operating income decreased by HRK 671.4 m primarily as the result of income generated in the first half 2017 from cancelling asset impairment by HRK 508.2 million.

In the first half 2018, operating expenses of HRK 6,192.0 m were recorded which was an increase by HRK 195.4 m (3.3%). In light of favourable hydrology and lower prices of coal, the cost of electricity and heat production decreased by HRK 347.2 m compared to the same period the year before. The cost of electricity procurement was reduced by HRK 29.1 million as the result of less procured volume of electricity on the market.

Other operating costs increased in light of an increase in the adjustment of value of trade receivables, increased depreciation costs, higher water use charges as well as water and water resources concessions due to increased hydro generation, maintenance costs and CO<sub>2</sub> emission units, while the cost of billable services, material and staff decreased as the effect of downsizing.

Investments of HRK 597.1 m were made including replacements, reconstructions, revitalizations of existing energy facilities, construction and construction preparation of new energy facilities and consumer connections.

Trade receivables of HRK 2.17 billion increased by HRK 84.7 million compared to early 2018 primarily as a result of increased trade receivables from electricity customers.

As the Group liquidity was satisfactory, trade liabilities were paid within due periods, solely from regular cash flows from operations. As of 30 June 2018, HEP Group's net debt was HRK 1,105.1 million, which is a decrease by HRK 1,148.0 m compared to early 2018 primarily due to increased cash position by HRK 891.4 million and repaid long-term loans.

On 5 June 2018, the General Assembly of Hrvatska elektroprivreda adopted a decision on making a payment of HRK 218.4 million from the 2017 profit into the State Budget. Said payment was carried out in late July.