

Unconsolidated 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 unrevised semiannual financial statements, Hrvatska elektroprivreda d.d. recorded net profit of HRK 723.2 million in H1 2018 compared to HRK 774.0 m of recorded net profit in the same period 2017. The reduced earning is the result of decreased profit from financial activities.

Operating income of HRK 4,359.7 m in H1 2018 was increased by 12.8% or by HRK 495.3 m compared to the same period 2017. Income from the sale of electricity increased by HRK 265.9 million due to growing consumption and higher average selling price for commercial customers of HEP Opskrba (HEP Supply). Income from gas sales on the market of HRK 316.9 m was recorded (it was zero in 2017), while the recorded income from the wholesale gas sale decreased compared to the same period the year before by HRK 30.6 million as a result of 7.0% lower sales volume.

Operating expenses of HRK 3,969.5 million increased by HRK 268.5 million (7.3%) compared to the same period the year before as a result of the increased gas procurement cost intended for market sale (it was zero in 2017), higher costs of electricity procurement within HEP Group due to increased hydro generation, and increased purchase cost of electricity from RES within the system of incentives for HEP Opskrba customers. The cost of electricity purchase on the market was lower due to lower import volume. The procurement cost of wholesale gas dropped by HRK 29.9 million as a result of 7.0% lower sales volume.

Net profit of HRK 416.9 million was earned from the **financial activities**. Financial income of HRK 550.5 million represented a 46.1% decrease compared to H1 2017. Income from the share in profits of affiliated companies accounted for the major part of financial income – 61.8%. Financial expenses of HRK 133.6 million decreased by 71.6% compared to H1 2017 as a result of lower costs for swap transactions.

During H1 2018, all due liabilities were settled within maturity periods. Investments were financed by own and EU funds. HEP d.d. and the banks have entered into 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 4,005.3 million, which was by 6.0% less compared to early this year as a result of a regular repayment of long-term loans.

In H1 2018, HRK 34.2 m of **investments** was made in the completion of the construction of two wood biomass cogeneration facilities, the construction preparation of new energy facilities, and the procurement and building of IT infrastructure.