

Consolidated financial statements for the first half of the 2019

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

According to unrevised financial statements, in the first half 2019 HEP Group (Hrvatska elektroprivreda d.d. with its dependent companies) recorded consolidated net profit of HRK 859.3 million, a decrease by HRK 313.4 m compared to the same period the year before.

Compared to the same period last year, the first half 2019 was characterized by unfavourable hydrology accounting for 28.2% in the structure of electricity sources. Hydro generation amounted to 2,929 GWh, which was by 1,496 GWh less than in the first half 2018.

Total electricity demand of the Croatian customers amounted to 8,034 GWh, which was by 39 GWh (0.5%) less compared to the demand in the same period the year before along with 22 GWh less billed electricity to business customers and 17 GWh less to household customers.

Total sale by HEP Group suppliers increased by 211 GWh (3.0%) compared to the same period in 2018 accounting for 91.3% market share in the first six months 2019 compared to 88.2% in the same period 2018. HEP Opskrba (Supply) increased its sale by 190 GWh (4.8%), of which 173 GWh more was sold to business customers. HEP Elektra, which supplies households within the universal service and business customers within the guaranteed service, increased its sale by 21 GWh overall, of which 22 GWh less was sold to households and 43 GWh more to business customers.

Due to unfavourable hydrology, electricity procurement on the market and thermal power plant generation increased by 1,167 GWh (37.8%) and 310 GWh (23.0%) respectively, which resulted increased operating costs. A total of 4,258 GWh was procured off-system, of which 956 GWh was purchased from incentivized renewable sources and cogeneration, and 3,302 GWh from import, traders and producers in Croatia. Thermal power plant generation accounted for 1,659 GWh of produced electricity. Krško nuclear power plant supplied 1,504 GWh, which accounted for 14.5% of available electricity of HEP Group.

Operating income was HRK 7,845.2 m, an increase by HRK 272.3 m (3.6%) compared to the same period the year before. Income from the sale of electricity increased by HRK 451.1 million as a result of HEP's increased share in the sale to business customers along with a rise of the average selling price to business customers of HEP Opskrba (supply) and HEP Elektra and due to increased sale abroad at higher prices of exported electricity. Income from the sale of heat energy and wholesale gas increased by HRK 5.7 million and HRK 15.7 million, respectively. Income from the sale of gas to gas customers decreased by HRK 293.1 million as a result of supplying gas to a domestic industry customer in the previous year due to which the cost of gas procurement also decreased.

All other operating income increased by HRK 92.8 million.

In the first half 2019, operating expenses amounted to HRK 6,812.5 m, an increase by HRK 620.5 m (10.0%). As a result of the higher production of thermal power plants and a bigger consumption of gas, coal and wood biomass along with a higher price of gas, the cost of electricity and heat

production increased by HRK 156.2 m compared to the same period the year before. The cost of electricity procurement rose by HRK 573.8 m as a result of bigger imported volumes at a higher price of imported electricity. At the same time, the purchased volumes of incentivized electricity reduced due to a reduced percentage of mandatory purchase as of 1 January 2019.

All other operating expenses rose by HRK 84.5 million.

Investments were carried out in the amount of HRK 868.3 m, including replacements, reconstructions, revitalizations of existing energy facilities, the construction and construction preparation of new energy facilities, and customer connections.

Trade receivables of HRK 2.17 billion decreased by HRK 25.8 million compared to early 2019, primarily as a result of reduced gas receivables, while electricity receivables amount increased both in Croatia and abroad.

The liquidity of HEP Group was satisfactory. Trade liabilities were settled within due periods solely from regular operating cash flows. As of 20 June 2019, net debt of HEP Group amounted to HRK 767.4 million, a decrease by HRK 173.6 million compared to early 2019 as a result of increased cash volume by HRK 82.4 m and made payments, which led to a decrease of the total loan and bond-related debt by HRK 91.2 million.

On 4 July 2019, the Shareholders Assembly of Hrvatska elektroprivreda d.d. made a decision on making the payment of HRK 212.4 million from the 2018 profit in favour of the State Budget. Said payment was made on 16 July.