

Unconsolidated 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 semiannual financial statements, Hrvatska elektroprivreda d.d. recorded net profit of HRK 1,209.6 million in H1 2019 compared to HRK 723.2 m of recorded net profit in the same period 2018.

Operating income of HRK 4,870.6 m in H1 2019 was increased by 11.7% or by HRK 510.8 m compared to the same period 2018. Income from the sale of electricity increased by HRK 632.0 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 were lower by HRK 316.2 m compared to the same period last year, due to stopping of supply to the industrial customers. Recorded income from the wholesale gas sale increased compared to the same period the year before by HRK 22.8 million as a result of 9.7% higher price which was implemented on April 1 2019.

Operating expenses of HRK 4,430.4 million increased by HRK 460.9 million (11.6%) compared to the same period the year before as a result of the increased costs of electricity procurement by HRK 695.3 m due increased procurement on the market with rising electricity purchase prices as a result of unfavorable hydrology and increased sale of electricity to the end customers. Moreover, due to the higher average purchase price by 9.1%, the cost of gas procurement for the wholesale market increased by HRK 66.3 million.

All other operating expenses increased by HRK 86.7 million, largely due to higher costs of selling CO₂ emission units increased due to higher purchase price.

Net profit of HRK 916.0 million was earned from the **financial activities**. Financial income of HRK 1,027 million represented a 86.6% increase compared to H1 2018. Income from the share in profits of affiliated companies accounted for the major part of financial income – 80.7%. Financial expenses of HRK 111.1 million decreased by 16.9% compared to H1 2018 as a result of lower costs for swap transactions.

General Assembly of the Hrvatska elektroprivreda d.d. on July 4, 2019 made a decision to pay HRK 212.4 million from the profit for the 2018 in favor of the State Budget, and the payment was made on July 16, 2019.

During H1 2019, all due liabilities were settled within maturity periods. Investments were financed by own funds, EBRD and EIB Credit 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 3,776.0 million, which was by 2.9% less compared to early this year as a result of purchase of own bonds and regular repayment of long-term loans.

In H1 2019, HRK 55.4 m of **investments** was made through investments in the construction and preparation of construction of energy facilities and the construction of ICT infrastructure.