

Consolidated financial statements for the first half of the 2022

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

According to the unaudited financial statements, in the first half of 2022 HEP Group (Hrvatska elektroprivreda d.d. and its affiliated companies) generated consolidated net loss in the amount of HRK 1,136.4 million.

Total electricity demand in Croatia was 8,293 GWh, which is 306 GWh (3.8%) more than the consumption in the same period the year before with 299 GWh and 7 GWh more electricity billed to business and household customers, respectively.

Total sales of HEP Group suppliers increased by 522 GWh (7.4%) compared to the same period in 2021, accounting for 91.8% market share compared to 88.8% in H1 2021. The sale by HEP Opskrba increased by 206 GWh (5.3%), of which 192 GWh was sold to business customers, and 13 GWh to households. The sale by HEP Elektra, which supplies households as part of the universal service and business customers within the guaranteed supply, increased by a total of 316 GWh, of which 306 GWh was sold to business customers and 10 GWh to households.

The first half of 2022 was marked by extremely unfavourable hydrological circumstances characterized by a reduced energy value of the inflow accounting for a 27% share of hydro production in the structure of electricity sources. Hydropower plants produced 2,570 GWh, which is by 1,601 GWh less than in H1 2021.

Thermal power plants produced 2,152 GWh of electricity (23% of HEP Group's available electricity), which was 494 GWh (30%) more than in the first half of 2021. Krško nuclear power plant supplied 1,486 GWh, which accounted for 16% of HEP Group's available electricity. A total of 3,283 GWh was procured, of which the off-take of electricity from renewable sources and high-efficiency cogeneration in the incentive system accounted for 929 GWh, while import and procurement from traders and producers in the Republic of Croatia and the procurement for covering losses in the transmission network accounted for 2,354 GWh.

Operating income of HRK 9,907.4 million increased by HRK 2,398.9 million (31.9%) compared to the same period last year. Income from the sale of electricity amounted to HRK 8,354.8 million, an increase by HRK 2,214.6 million (36.1%) compared to the same period last year due to increased demand by business customers at higher electricity prices and increased electricity prices for household customers as well as fees for the use of the transmission and distribution network from 1 April 2022. Income from the sale of heat energy increased by HRK 0.3 million, as well as income from the sale of gas by HRK 72.7 million due to a rise in the average selling price to business customers, higher demand as a result of the expansion to other distribution areas and assuming the role of a guaranteed supplier from 1 April 2022.

All other operating income increased by HRK 111.3 million.

Unfavourable hydrology at higher prices of imported electricity, natural gas and coal impacted the rise of operating costs, which amounted to HRK 11,399.4 million in the first half of 2022, ie by HRK 5,381.2 million (89.4%) more than in H1 2021. Electricity procurement costs amounted to HRK 3,865.9 million, an increase by HRK 2,603.3 million (206.2%) compared to the same period last year primarily due to a 255% price increase of imported electricity and the increase in the mandatory off-take of total electricity produced in the incentive system from 40% to 60%. The cost of energy fuel in H1 2022 amounted to HRK 2,454.0 million, an increase by HRK 1,721.4 million (235.0%) due to higher prices and the use of natural gas and coal. The cost of gas purchase for market supply increased by HRK 348.2 million (229.7%) as a result of an increased volume of procured gas at a higher average gas procurement price.

All other operating expenses increased by HRK 708.2 million.

Investments in the amount of HRK 1.01 billion were made, including replacements, reconstructions, revitalization of existing energy facilities, construction and construction preparation of new energy facilities, and consumer connections.

Trade receivables amounted to HRK 2,876.4 million, which was by HRK 447.1 million more than at the beginning of 2022, primarily due to increased receivables from electricity customers.

The liquidity of HEP Group was satisfactory, and trade liabilities were settled within the due date.