HRVATSKA ELEKTROPRIVREDA d.d.

Zagreb, 19 November 2015

The overview of the issuance terms of the new bonds of Hrvatska elektroprivreda

Last month, Hrvatska elektroprivreda issued new USD 550 m 7-year corporate bonds. The issuance pricing terms were set on 19 October 2015 under the currently valid market circumstances. The bonds have been listed on the Luxembourg stock exchange regulated market. Joint lead arrangers and issuance underwriters were Banca IMI/PBZ, Morgan Stanley and UniCredit/Zagrebačka banka.

The overall process of refinancing the 2012 bonds by the new bond issue consisted of the following three activities:

1. **The repurchase of the existing ('old') bonds**

   The existing ('old') USD 500 million bonds with a 5-year maturity and a 6.00% agreed coupon or 6.53% to EUR following the set currency swap, were issued in 2012. Then existing market conditions did not allow a lower price of debt. However, as soon as the opportunity arose (the current environment of the historically lowest interest rates on the capital market), HEP has decided to refinance its debt at a lower rate, thus decreasing the overall cost of financing. To achieve significant savings through the refinancing process, it was necessary for the Company to repurchase the highest possible percentage of the existing bonds. Therefore, bond holders were offered a 1.5 % basis point premium, which had stimulated numerous investors into an early sale of the 2012 bonds resulting in a high rate of the early repurchase of 83.37%.

2. **New bond issuance**

   In the course of the old bond repurchase, the Company and Lead Arrangers actively embarked on the new issue related marketing activities (so-called roadshow). It is important to mention that there was no new corporate issue in Central and Eastern Europe since March 2015, and that it was of utmost importance to conduct said marketing activities with high quality and adequately approach potential investors as well as to correctly set the issuance moment. More than 50 meetings in Europe and the USA were held during 5 days, which resulted in the four times bigger demand than offered (the subscription exceeded USD 2,180 billion in comparison with the USD 550 million new issue).

3. ***USD/EUR Cross Currency Swap***

   The US dollar was selected for the issuance currency under market terms and the possibilities of achieving more favourable price of debt. Following the issuance, the Company decided to swap the USD bonds into EUR by conducting a simple currency swap, which has additionally reduced the currency risk and the price of debt.

Benefits achieved by the transaction:

- **Net positive financial** effect of the transaction amounted to **EUR 17.2 million,** resulting from **decreased financing costs, the repurchase of the existing bonds and the positive effect of terminating the existing currency risk hedging lines.**
  - Following the **conducted currency swap transaction,** the EUR issue **coupon** decreased from **6.53% to 4.85%**
  - **The spread was reduced** from over **2%** (200 basis points) to **1.20%** (120 basis points) for the new issue.

- **Avoiding to refinance** in the circumstances under which the **bond related debt is seen as a short-term debt** (12 months before maturity date)
- **The positioning of HEP as a stable and respectable player on the international capital market** which will be reflected in the potentially better terms of any new issue
- **Eliminating the obligation of the coupon rate increase** in case of **the downgraded credit rating** (one of the conditions set under the old 2012 bond issuance).

The overview of achieved terms for the HEP's new bond issuance:

	New bond matures in 2022
Issue size	USD 550 m
Maturity	7 years
Form	RegS/144A
Effective coupon (yield) for the USD issue	5.875% (6.125%)
Effective coupon (yield) for the EUR issue	**4.851% (5.09%)**
Yield spread premium (USD)	**~120 basis points**
Yield spread premium (EUR)	~110 basis points
Principal maturity	Bullet repayment (2022)