

## **Annual unconsolidated financial statements for the year 2015**

### **MANAGEMENT BOARD'S REPORT ABOUT FINANCIAL POSITION AND ANALYSIS OF BUSINESS RESULTS – REPORT OF THE MANAGEMENT**

According to revised financial reports, in 2015 Hrvatska elektroprivreda d.d. achieved a net profit of HRK 1,624.3mn, while in 2014 achieved net profit of HRK 1,209.1mn.

**Operating income** of HRK 8,392.7mn shows a 9.6% decline compared to 2014 due to the decrease in revenue from electricity sale by HRK 1,816.2mn. This is a consequence of the change in business relations with HEP-Operator distribucijskog sustava ltd. which resulted in Hrvatska elektroprivreda d.d. not recording the revenues of HRK 1,642.2mn from electricity distribution in 2015. In addition, reasons for lower revenues can also be found in decrease of the sale to universal service customers and guaranteed supply as well as the discount in the tariff prices since July 2015. Revenues from electricity sales by HEP Opskrba ltd increased because of growth in consumption from commercial customers.

In line with the decision of the Croatian Government, Hrvatska elektroprivreda d.d. was defined as the sole supplier on the wholesale gas market from 1 April 2014 to 31 March 2017 and during that period it will sell gas under regulated conditions to the public service gas suppliers for households category. The income achieved from this activity amounted to HRK 1,465.5mn.

**Operating expenses** declined for HRK 1,265.2mn (15.1%) compared to 2014 and they amounted to HRK 7,114.7mn. Decrease in operational expenses is a consequence of the change in business relations with HEP- Operator distribucijskog sustava ltd. Moreover, lower generation in HEP Group's power plants resulted with reduced electricity generation fee. Following lower generation in hydro power plants and higher electricity procurement for trading outside the Croatian energy system, international electricity procurement was increased by HRK 657.2mn.

Net profit of HRK 523.0mn was achieved from **financial activities**. Financial income was HRK 1,124.2mn and its majority is the revenue from profit share of affiliated companies. Financial expenses amount to HRK 601.1mn and are made up of interests for loans and issued bonds, exchange rate differences and costs of repurchasing bonds issued in 2012.

During 2015 all liabilities were paid at their maturity. Additionally own funds were used to finance investments except for construction of biomass-fired power plants that is financed with previously contracted long-term loan.

In 2015 there was no new short-term debt, so as at 31 December 2015 the company has no liabilities under short-term debt. To ensure business stability and secure quality sources of finance for general corporate purposes, several mid-term framework loans are still available from previous years. During 2015 they have been used mostly for issuance of bank guarantees.

In October 2015 the second bond issuance totalling at USD 550mn was successfully realized. The transaction included three processes, repurchase of bonds issued in 2012, issuance of new bonds and contracting cross currency swap to decrease the exposure to dollar's currency risk.

Bond issuance resulted in the increase of liabilities for issued bonds and long-term debt (including current portion) by HRK 676.6mn and they amount to HRK 5,623.9mn. The liabilities for long-term loans were lowered by HRK 319.3mn. Bond issuance increased the share of long-term debt in the total debt from last year's 89.7% onto 91.5%, while prolonging the average maturity of finance sources along with the decrease of average weighted cost of financing in 2015.

In 2015 HRK 211.7mn of investment was realized through investing into the development of new energy facilities, construction of forest biomass-fired cogeneration plants and proceedings and equipment of computer-communication infrastructure. Compared to previous year investments made by Hrvatska elektroprivreda d.d. in 2015 increased by 84.9%.