

## Annual unconsolidated financial statements for the year 2017

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

According to revised annual financial reports, in 2017 Hrvatska elektroprivreda d.d. (HEP d.d.) achieved a net profit of HRK 364.0mn, whereas achieved net profit in 2016 totalled at HRK 1,328.8mn.

**Operating income** in 2017 amounted to HRK 7,733.6mn marking a decrease of 1.7%, in comparison to 2016 as a result of lower revenue from sale of gas on wholesale market. The sale of gas for public service suppliers for household customers in 2017 totalled at 6,200 GWh, which is a decrease of 110 GWh when compared to the year before. Moreover, due to the lower sale price, total achieved income from wholesale of gas was lower by 135.5mn, amounting to HRK 1,100.3mn. In accordance with the Gas Market Act of February 2018, Hrvatska elektroprivreda d.d. was defined as the supplier on the wholesale gas market until 31 July 2018 until the Croatian Energy Regulatory Agency (HERA) is obligated to conduct a public tender and determine the supplier on the wholesale gas market for the period from 1 August 2018 to 31 March 2021.

The revenue from electricity sale is HRK 6,238.7mn, which is a increase of HRK 99.1mn, as a result of higher revenue from electricity sale in the foreign market by HRK 246.0mn (27.5%) and amounted to HRK 1,139.7mn, including the sales of electricity to affiliated companies to supply foreign customers. Mentioned increase is a result of increased activity on the international market. Revenue from electricity sales for covering losses in distribution and transmission network is lower by HRK 134.4mn, moreover income from electricity supply in Croatia, as a result of lower sales price due to market adjustments, is lower by HRK 76.2mn.

**Operating expenses** amounted to HRK 7,597.5mn, which is an increase of HRK 594.8mn (8.5%) when compared to the year before as a result of higher costs of electricity purchases on the market by HRK 621.0mn compared to the last year, due to the higher procurement of electricity by 837 GWh at a higher average purchase price. The costs of electricity purchases from affiliated companies decreased by HRK 165.3 million due to lower electricity generation in HEP's power plants. Also, the cost of gas sold decreased by HRK 119.4 million. Other operating expenses have been increased due to write-offs and adjustments to long-term

intangible assets because of the uncertainty in the realization of investments in Plomin C and HPP Ombla.

Net profit of HRK 156.3mn was achieved from **financial activities**. Financial income amounted to HRK 1,090.3mn, which is an increase of 11.9% when compared to the year before. Most part of the financial income, HRK 740.1mn refers to the transfer of achieved profit of affiliated companies from 2016, which is by HRK 125.8mn higher compared to year before. Apart from that, income from foreign exchange rates on clearing debt was increased and amounted to HRK 108.3mn. Financial expenses totalled at HRK 934.0mn, which is an increase of 599.9mn when compared to the year before, mostly as a result of unrealized loss at fair value of the cross-currency swap in the amount of HRK 569.2 mn.

In 2017, Standard & Poor's rating agency confirmed the stand-alone credit rating of Hrvatska elektroprivreda (bb) as well as HEP's overall credit rating (BB), which levelled HEP's overall credit rating with the sovereign rating of the Republic of Croatia. In March 2017 Moody's rating agency confirmed HEP's long-term credit rating (Ba2) and changed the credit rating outlook from negative to stable.

During 2017, all due obligations were paid on time. Investments were financed from own funds and existing long-term loan was used to finance the construction of forest biomass-fired cogeneration plants. In 2017 there was no new short-term debt, so as of 31 December 2017 the company had no liabilities for short-term loans. HEP d.d. contracted several mid-term frameworks, used to ensure mid-term financial reserve and to ensure good and stable sources of financing working capital.

Liabilities for loans and issued bonds amounted to HRK 4,260.2mn and decreased by HRK 996.0mn compared to year before, due to a decrease in the current maturity of long-term loans and bonds by HRK 590.1mn, decrease in long-term liabilities by HRK 395.6mn as well as liabilities for issued bonds by HRK 10.3mn. At the end of 2017, HEP fully repaid bonds, issued in 2007 and 2012, in total amount of HRK 586.6mn. Long-term debt, in amount of HRK 3,854.9mn, makes 90.5% of total debt, while current portion of long-term debt, in amount of HRK 405.2mn, makes 9.5%.

In 2017 HRK 114.8.1mn of investment was realized through investing into the development of new energy facilities, construction of forest biomass-fired cogeneration plants and procurement and development of computer-communication infrastructure. Compared to previous year investments made by Hrvatska elektroprivreda d.d. decreased by 68.1%.