



HRVATSKA ELEKTROPRIVREDA

The 1H 2018 results conference call
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Presenter:

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OPERATOR: This is Conference #.....

Operator: Good afternoon and welcome to today's First Half 2018 Financial Results Investor Call. If you wish to ask a question during today's call, you will need to press star and 1 on your keypad. I must advise you that this conference is being recorded today on _____.

I will now hand over to Ivan Dodig to introduce your call. Please go ahead, Ivan.

Ivan Dodig:

Thank you. Ladies and gentlemen, it is a pleasure to welcome you all to HEP's first half 2018 financial results presentation. Today, we will take you through the highlights of our business and financial performance in the first six months of 2018 using presentation materials. As we informed you in our Investor Call Invitation, the presentation materials are available on our corporate website under the 'Investor Relations' section both in English and Croatian, and we hope you have them in front of you. We estimate that the presentation will last up to 20 minutes, after which we will gladly answer questions you might have.

Before we start, let me draw your attention to the harbour statement on slide 3 of our presentation. Now, allow me to introduce our Head of investor relations Ivana Sučić Funko, who will outline our company's performance in the period ending June 30th 2018.

Ivana Sučić Funko:

Hello, everyone. Thank you for joining us today. It is a pleasure to be here with you this afternoon and to inform you about our performance in the first half of 2018.

On **slides 4 and 5** we prepared key facts on the operational and financial performance for the reporting period, which we shall discuss later on, therefore I would like to start the presentation

from [slide 6](#) and the Electricity Market in Croatia. Compared to the same period last year, total electricity demand in Croatia in the first half of 2018 is slightly higher, but HEP's market share rose by 7.2% due to increase in the sale to commercial customers.

Let's now turn to slide 8 from where we will discuss operations results. The upper left hand side chart shows generation performance of power plants. Due to excellent hydrological conditions, generation from hydro power plants took significant part in the structure of electricity generation with more than 63%.

As you can see from the chart in the bottom left hand side, HEP in first half of 2018 operated a large and diversified generation mix with 4.536 MWe of installed capacities. Generation is largely based on hydro and nuclear power with limited CO2 footprint and a reduced exposure to commodity prices.

Moving to slide 9 you can see that generation from hydro power plants in first half of 2018 was 84% higher than the year before. As already mentioned, first half of 2018 had excellent hydrological conditions.

On the next slide 10, you can see that thermal power plants generation, in first half of 2018 was 34% lower compared to same period last year. Although, as you can see from the upper right hand side chart, 5% of thermal installed capacities are those that run on crude oil, when optimising generation portfolio balance, thermal power plants generating electricity were those that run on gas and hard coal. Crude oil-fired capacities serve only as reserve capacities due to uncompetitive prices. Thermal power plants fired by hard coal provide a stable base load source of electricity, while gas-fired power plants are all CCGT capacities producing heat as well and used for thermal and heat supply, which is seen from the bottom left hand side chart.

Moving to slide 11, the upper left hand side chart shows the Croatian transmission system transfer volumes in the first half of 2018. Furthermore, when we talk about transmission network losses, they are around very competitive 2%. They do vary during the season due to a series of factors, such as: system load, temperature, hydrology, topology of the network itself etc., but overall they are at competitive levels compared to surrounding transmission systems.

As to distribution, HEP DSO is a sole distributor of electricity in Croatia. As it is seen from the bottom charts, in the first half of 2018, total distribution volume was more than 8 TWh which is slightly higher than year before. Distribution network losses were lower when compared to the same period the year before, at competitive 7.5%.

Total network losses comprise technical and commercial losses where technical losses are related to network performance while commercial losses derive from the unauthorised usage and inefficiency of network management. Distribution network losses are decreasing over time due to investments into the modernisation and reconstruction of distribution network, while some time ago, they were around 10%.

On the slide 12, in the top left hand corner chart, you can see that HEP's electricity market share is 88% in the first half of 2018. HEP Elektra supplies customers under public service obligation (universal service and guaranteed supply) while HEP Supply supplies all other customers opting for a market supplier. HEP Supply is the largest market supplier in Croatia among 16 others, having supplied 85% of commercial customers in Croatian market. HEP supply due to competitive prices increased its market share for more than 11% compared to the same period last year.

Moreover, HEP continued its regional presence, especially in Slovenia where HEP holds 11.1% market share in commercial sale.

In the segment of gas business, HEP Group provides retail gas distribution and gas supply through its subsidiary HEP Gas. This subsidiary is the second largest gas supplier, out of 55 gas suppliers in Croatia by volume sold to end-customers and in the same time the second largest gas distributor out of 35 gas distributors in Croatia.

Furthermore, since 2018, HEP started supplying new customer which is one of the biggest Croatian fertilizer producer, with natural gas.

Starting from slide 14, we'll discuss the first half of 2018 financial performance in more details.

As you can see, in the reporting period operating income amounted to almost 7.6 billion Kuna, which was a decrease of 3.5% compared to the same period last year. Income from the sale of electricity increased by HRK 123.6 million as the result of increased demand as well as of HEP's increased share in the sale to commercial category, and the rise of the average selling price for commercial customers supplied by HEP Opskrba.

Income from the sale of gas increased by HRK 286.2 million as the result of income from the sale of gas to Petrokemija and the trade at power exchanges, which did not exist in the same period the year before.

Income from the sale of heat decreased by HRK 13.2 m due to decreased demand in winter months.

All other operating income decreased by HRK 671.4 m primarily as the result of income generated in the first half 2017 from cancelling asset impairment by HRK 508.2 million.

Let's now turn to slide 15, in the top left hand corner chart, you can see that in the first half of 2018 operating expenses amounting to 6.2 billion Kuna, were 3% higher compared to previous period. In light of favourable hydrology and lower prices of coal, the cost of electricity and heat production decreased by HRK 347.2 m compared to the same period the year before.

The cost of electricity procurement was reduced by HRK 29.1 million as the result of less procured volume of electricity on the market.

Other operating costs increased in light of an increase in the adjustment of value of trade receivables, increased depreciation costs, higher water use charges as well as concessions chargers for water and water resources due to increased hydro generation, maintenance costs and CO₂ emission units, while material and staff decreased as the effect of downsizing.

Now turn your attention to the top right hand corner. Two figures stand out: the 356 million kunas rise in gas costs which is an effect of supplying new customers and rise of the gas price. The other figure that stands out is 239 million kunas of other cost which is a result of costs connected with water charges.

In the first half of 2018 the structure of revenues and expenses remained relatively stable compared to the previous period.

This brings us to slide 16. The liquidity position in the first half of 2018 remained strong and stable with cash position at the half year end of almost 3 billion Kuna or 400 million euros. Additionally we have a liquidity reserve in undrawn bank lines under short term financing sources in the total value of 1 billion Kuna.

Let us move on the slide 17, in the top left hand corner chart, you can see that the Company continuous to be relatively low leveraged with net debt to EBITDA ratio of 0.5 at the end of period.

Although debt currency structure presents 100% of debt exposed to EUR, by Croatian National Bank providing foreign exchange policy where HRK is strongly related to EUR, the actual risk, as we consider is relatively limited.

When speaking about ratings, Standard and Poor's as well as Moody's are well familiar with HEP providing credit rating for a long period. The Company's current rating is Ba2 from Moody's and BB from S&P. Moreover S&P, few days ago updated HEP's outlook to positive from stable.

Ivan Dodig: This brings us to the end of our presentation. Ivana, thank you very much. May I please kindly ask the operator to open call for questions?

Q&A's session:

Operator: Thank you. And as a reminder, if you do wish to ask a question, you can press star and 1 on your keypad and wait for your name to be announced. Star and 1 on your keypad for any question.

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Operator: We've got no more questions on the phone lines. Please continue.

Ivan Dodig: If there are no further questions, I would like to once again, thank all the participants for your attention and wish everybody a nice day.

We will now end this conference call, and would like to instruct you to refer to our web site where you'll find contact details for any further inquiries.

On behalf of HEP Team, best regards from Zagreb!