



HRVATSKA ELEKTROPRIVREDA

The 1H 2019 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 2019 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 Ivana Sučić Funko to introduce your call. Please go ahead, Ivana.

Ivana Sučić Funko:

Thank you. Ladies and gentlemen, it is a pleasure to welcome you all to HEP's first half 2019 financial results presentation. Today, we will take you through the highlights of our business and financial performance in the first six months of 2019 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 Finance Director Ms Alina Kosek, who will outline our company's performance in the period ending June 30th 2019.

Alina Kosek:

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 2019.

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 2019 was slightly higher, but HEP's market share rose by 3% due to 5% increase in the sale to commercial customers.

From slide 8 we will discuss operations results. The upper left hand side chart shows generation performance of power plants. Although in the first half 2019, generation from HPP was 34% lower compared to the same period last year, hydrological conditions were still good, taking significant part in the structure of electricity generation with more than 48%.

As you can see from the chart in the bottom left hand side, HEP in first half of 2019 operated a large and diversified generation mix with more than 4 thousand 7 hundred MW (4.775 MWe) of installed capacities. Generation is largely based on hydro and nuclear power (73% in 1H 2019) 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 the first half of 2019 was 34% lower than in the compared period. Although, hydrological conditions are not so good as year before impact on HEP's EBITDA is not significant.

On the next slide 10, you can see that thermal power plants generation, was in the first half of 2019 23% higher compared to same period last year, because of lower hydrology in the stated period. Due to higher generation in TPP, fuel consumption was higher too: 3% higher consumption of gas, 37% of coal and 40% higher consumption of wood.

Moving to slide 11, the upper left hand side chart shows the Croatian transmission system transfer volumes in the first half of 2019. 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 2019, total distribution volume was more than 8 TWh which is slightly higher than year before. Distribution network losses were higher in the first half 2019 compared to same period year before, but still around competitive 8%. Insignificant increase in distribution network losses is due to specific temperature volatility during May and June 2019 compared to same months year before.

On the slide 12, in the top left hand corner chart, you can see that HEP's electricity market share is 91% in the first half of 2019. 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 91% of commercial customers in Croatian market.

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.

Starting from slide 14, we'll discuss the first half of 2019 financial performance in more details.

As you can see, in the reporting period operating income amounted to more than 7.8 billion Kuna, which was an increase of 7% compared to the same period last year. Income from the sale of electricity increased by 451 (4 hundred fifty one) million kuna as the result of increased share in the sale to commercial category, and the rise of sale to customers outside of Croatia.

Income from the sale of gas decreased by HRK 293 million as the result of cessation / discontinuation of natural gas supply to one of the biggest Croatian fertilizer producer.

Income from the sale of heat increased by HRK 6m due to increased demand in winter months.

All other operating income increased by HRK 93 million, mostly due to income from reversal of long-term provisions for legal disputes and revenue from assets funded from connection fees, which is all specified in more details in the note 6 of consolidated financial statements for the first half of 2019.

Let's now turn to slide 15, in the top left hand corner chart, you can see that in the first half of 2019 operating expenses amounting to 6.8 billion Kuna, were 10% higher compared to previous period. In light of unfavourable hydrology and higher production of thermal power plants the cost of electricity and heat production increased by HRK 156.2 million compared to the same period the year before.

The cost of electricity procurement rose by HRK 573.8 m as a result of higher imported volumes at a higher price of imported electricity. At the same time, the purchased volumes of incentivized electricity reduced due to a reduced percentage of mandatory purchase as of 1 January 2019.

All other operating expenses rose by HRK 84.5 million

Now turn your attention to the top right hand corner. Two figures stand out: the 574 million kunas increase in electricity purchase cost, which we have already explained and 356 million kunas decrease in cost of gas sold which is mainly result of discontinuing of supply for a specific industrial customers.

In the first half of 2019 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 2019 remained strong and stable with cash position at the half year end of more than 3 billion Kuna or 400 million euros. Additionally liquidity reserve in undrawn bank lines under short term financing sources amount 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 0.4 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.

Ivana Sučić Funko: This brings us to the end of our presentation. Alina, 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.

Ivana Sučić Funko: 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!