



**HEP**

# Investor Presentation

October 2015

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# Presenters

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Mr. Perica Jukić, M.Sc.  
Chairman of the Management Board  
Hrvatska Elektroprivreda d.d.

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Member of the Management Board, Head of Finance  
Hrvatska Elektroprivreda d.d.

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# Agenda

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- 1. Company and Market Overview**
- 2. Key Investment Considerations**
- 3. Financial Performance**
- 4. Transaction Overview**
- 5. Q&A**

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## Company and Market Overview



# HEP Group at a Glance

## Vertically Integrated Power Utility Company with Strong Presence Across Energy Value Chain



### Generation

#### Electricity

- **4,232 MWe** of installed capacity
- 26 hydro PPs (2,214 MWe)
- 8 thermal PPs (1,670 MWe)<sup>1</sup>
- 1 nuclear PP<sup>2</sup> (348 MWe)

#### Heat

- **1,755 MWth** of installed capacity in 4 TPPs and **382 MWth** in district boiler rooms
- Partially regulated

### Transmission

- HOPS, Croatian electricity transmission system operator
- Upon Croatia's accession to the EU, HEP opted for ITO<sup>3</sup> model of unbundling of the Group's transmission operations from the generation and supply
- Regulated activity with transmission tariffs approved by the Croatian Energy Regulatory Agency - HERA

### Distribution

- The sole distributor of electricity to > 2.3 mn customers
- The largest distributor of thermal energy in the country
- Gas distributor in the retail market
- Regulated activity with distribution tariffs approved by HERA

### Supply

- Sale of electricity, gas and thermal energy in Croatia
- Sole provider of public supply services to tariff customers
- 85.1% of electricity sold in Croatia in H1 2015
- HEP-ODS supplies tariff customers and HEP-Supply supplies c. 74.6% of non-tariff customers that have opted for a market supplier
- In April 2014 HEP was chosen as a sole supplier to the Croatian wholesale gas market for a 3-year period
- Certain tariff rates approved by HERA

### Trading & Other

- Trading in electricity and gas in Croatia and abroad
- Trading platform responsible for optimisation of power plant operation and intermediation in the domestic and international markets
- Other businesses specialise in renewable energy sources, energy efficiency, environmental protection and other





**Integrated business model – operating across the entire market spectrum**

**HEP primarily relies on low-cost hydro and nuclear power plants for electricity generation**

**Leading position in Croatia with a natural advantage of enhanced creditworthiness (100% state-owned)**

# Croatian Electricity Market

## HEP Leading Across the Market Spectrum

Generation	Transmission	Distribution	Supply
 <p>HEP-Generation accounts for c. 84% of domestic electricity generation and c. 92% of installed capacity (2014YE)</p> <p>Privately owned power plants (wind and other renewables)</p> <p>Import</p>	 <p>Croatian Transmission System Operator (HOPS)<sup>1</sup></p>	 <p>HEP-Distribution system operator (HEP-ODS)</p> <p>Sole distributor in Croatia</p>	 <p>HEP-Supply (Unregulated Supply), HEP-ODS (Regulated Supply): Supply c. 85.1% of all electricity sold in Croatia (H1 2015)</p> <p>22 market suppliers<sup>2</sup>: RWE, Gen-I, Proenergy Other small privately owned entities</p>

### Regulatory Framework

 <p>Independent and non-profit public institution responsible for regulatory issues in the energy sector, incl. control over tariffs</p>	 <p>Under supervision of HERA, organises the electricity and gas market as a public service</p>
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# Croatian Energy Development Strategy

## HEP as Pillar of Strategy Execution

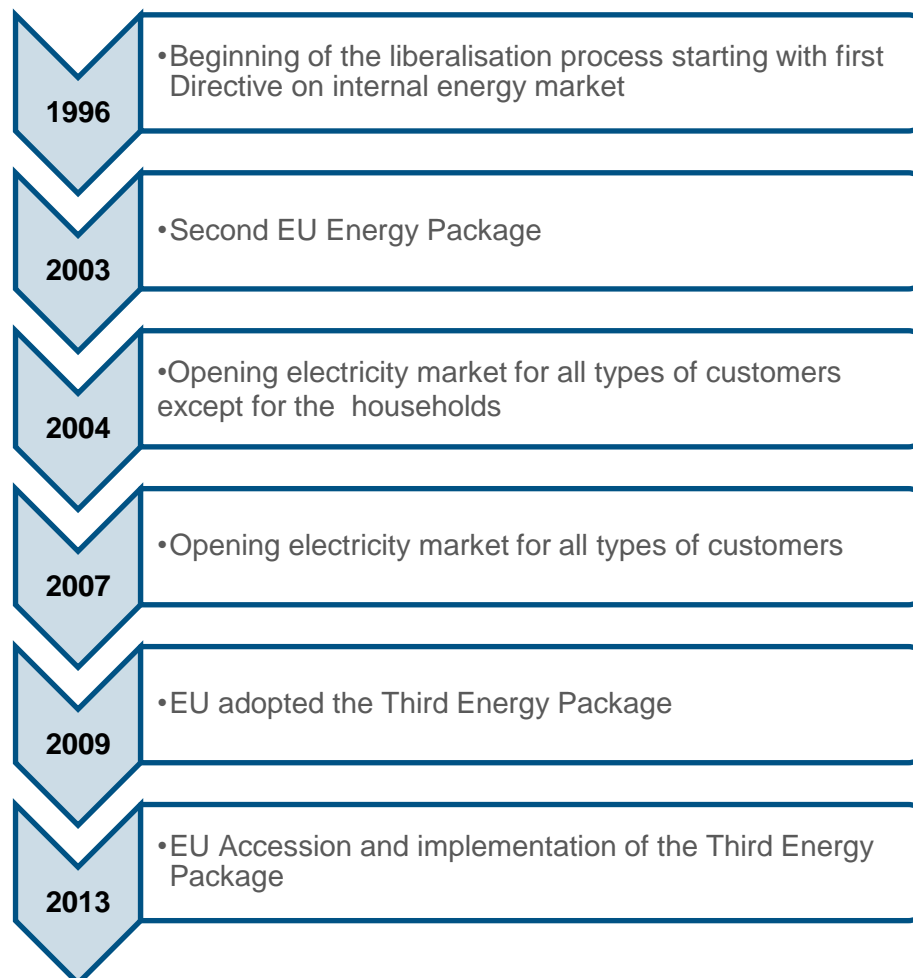
### Key goals by 2020

- Security of energy supply, the establishment of a competitive energy sector and sustainable development of the energy sector
- Maintain the share of generation from large hydro power and renewable energy sources in total electricity consumption at its present level (35%) up to 2020
- Natural gas-fired and coal-fired power plants of total capacity of at least 1,200 MWe each to be built by 2020 and thermal power plants of total capacity of at least 2,400 MWe

### HEP's mission to meet Croatian energy strategy

- Provide top quality public services by providing secure supply of electricity, heat energy and natural gas to customers
- Apply sustainable development concept in all business activities and ensure long-term competitive advantage
- Revitalise existing generating capacities by implementing new technologies and increasing capacity
- Optimise the utilisation rate of the existing locations by modernising/upgrading new capacities
- Balance generation portfolio by repurposing the existing capacities into peak load generating plants and by constructing 'band' and 'peak load' power plants

### Legal framework



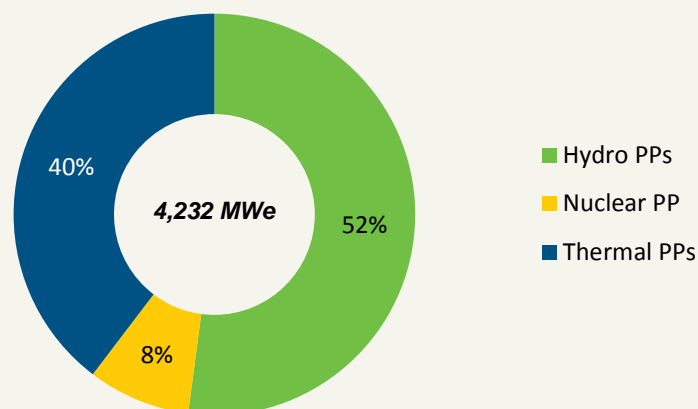
Source: The Energy Development Strategy of the Republic of Croatia (OG130/2009)



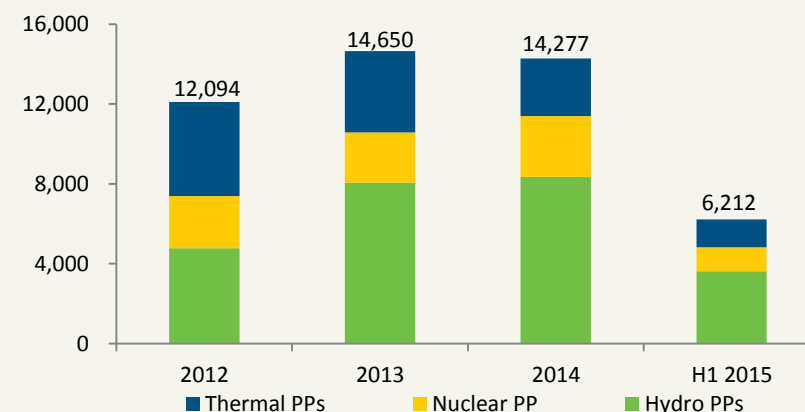
# Low Cost Based Portfolio

## Driving Financial Performance

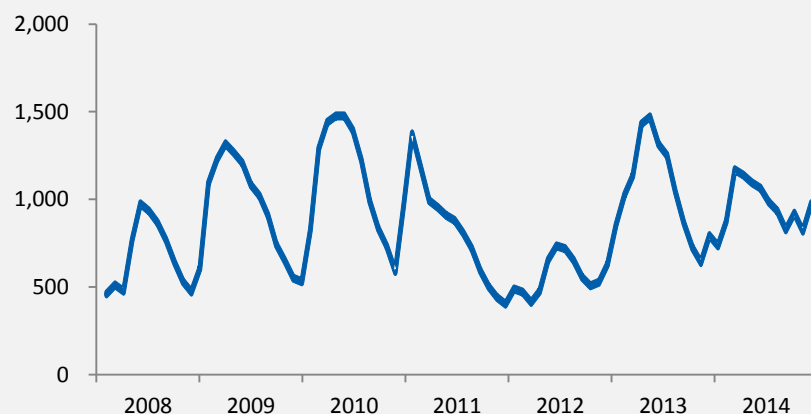
### Electricity - installed capacity, H1 2015



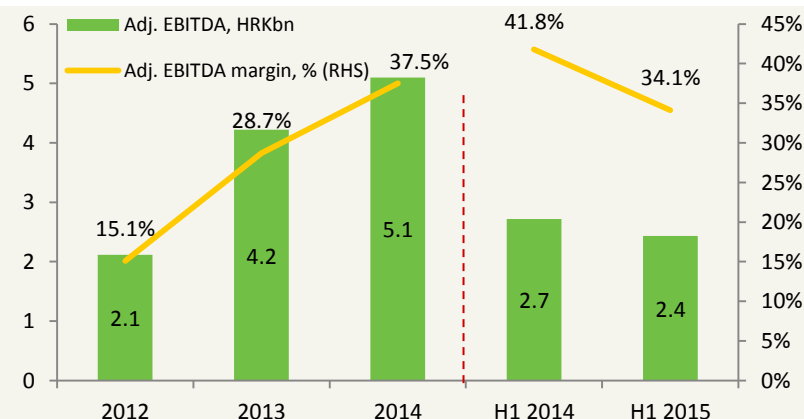
### Electricity generation mix, GWh



### Accumulation levels for the hydro PPs, GWh



### Adj. EBITDA<sup>1</sup> and adj. EBITDA margin<sup>2</sup>



Source: HEP



<sup>1</sup> Adjusted EBITDA consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets

<sup>2</sup> Adjusted EBITDA Margin consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets, divided by total operating income, expressed as a percentage

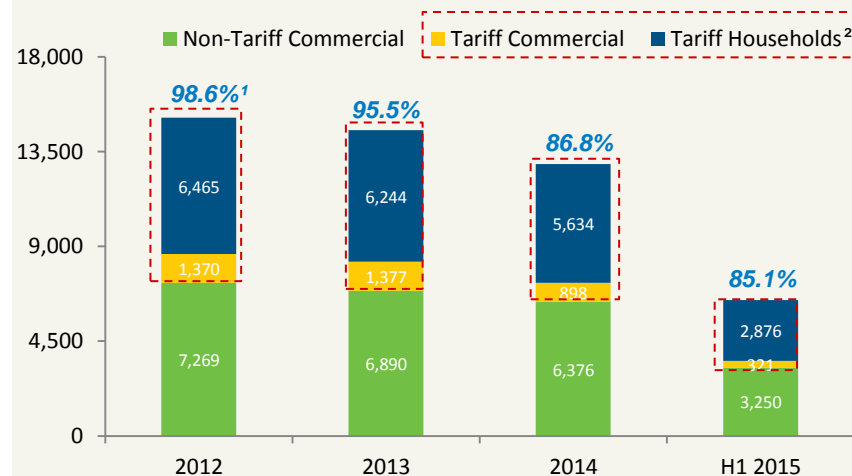
# Key Customers

## Strong and Long Established Relationship with Customers

### Commercial customers

- Commercial customers include commercial and industrial entities
- Commercial customers who choose a market supplier (offering non-tariff based rates) typically pay lower rates than the tariff rates under the regulated public supply system, but they may be more exposed to price fluctuations in market rates
- 2013 was marked with an emergence of alternative suppliers among commercial customers and their entrance in the residential sector during mid-2013
- In 2015 HEP entered into Slovenian electricity supply market

### Electricity sold by customer category, GWh



### Households

- Households who choose a market supplier (offering non-tariff based rates) typically pay lower rates than the tariff rates under the regulated public supply system, but they may be more exposed to price fluctuations in market rates
- Vast majority (98.4% as of H1 2015) of households remain with and are supplied through the public supply system by HEP at fixed tariff rates set by HERA

### Market snapshot

- Customers supplied through the public system – tariff customers
- Customers supplied by market supplier – non-tariff customers
- In the medium to long-term, further increase in competition is expected
- Group's main competitors – Gen-I, RWE, Proenergy

# Generation

## Favourable and Diversified Generation Mix

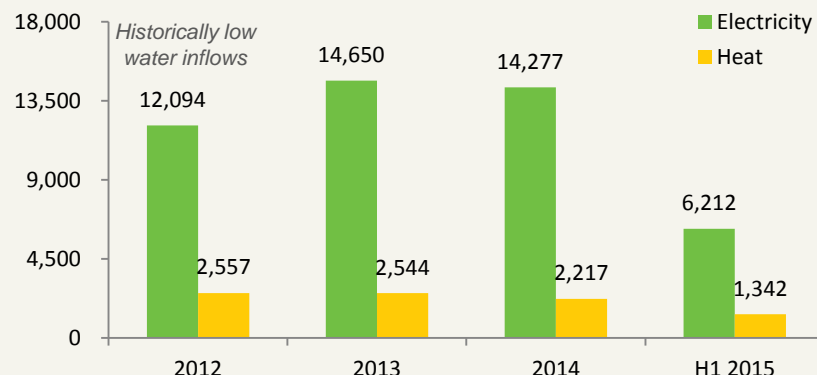
### Electricity

- Large and diversified portfolio of assets with installed capacity of 4,232 MWe
- 26 hydro PPs with total installed capacity of 2,214 MWe (HEP does not hold registered ownership title with respect to certain properties, incl. real estate connected to 17 out of 26 of the hydro PPs, which it currently operates in Croatia)<sup>1</sup>
- 8 thermal PPs with total installed capacity of 1,670 MWe
- 50% ownership in Krško nuclear PP (696 MWe of installed capacity)<sup>2</sup>, together with GenE, and HEP has 50% of the output
- In May 2015 the Group assumed a 50% share in TE Plomin II from RWE, and currently holds the 100% share in TE Plomin II
- Limited CO2 footprint and reduced commodity exposure to own power generation, with generation largely based on hydro and nuclear power

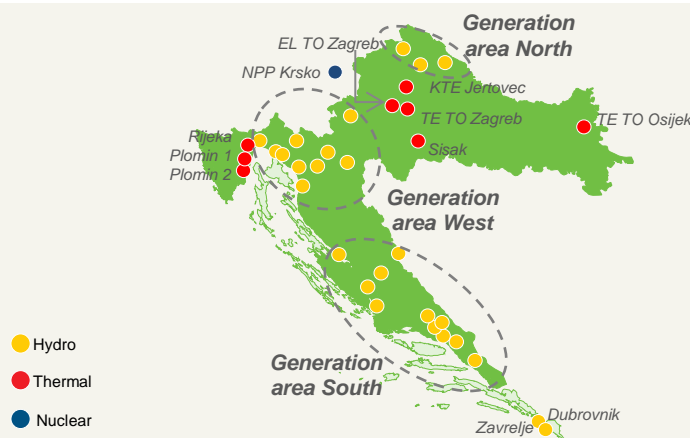
### Thermal energy (Heat)

- Actively engaged in heat generation via 4 TPPs in Croatia with 1,755 MWth of installed capacity and 382 MWth of installed capacity in 29 district boiler rooms
- Generated as a by-product of electricity generation at Group's thermal power plants and district boiler rooms
- Distributed to continental cities of Zagreb, Osijek, Sisak, Zaprešić, Velika Gorica and Samobor

### Power generation, GWh



### HEP's power plant portfolio



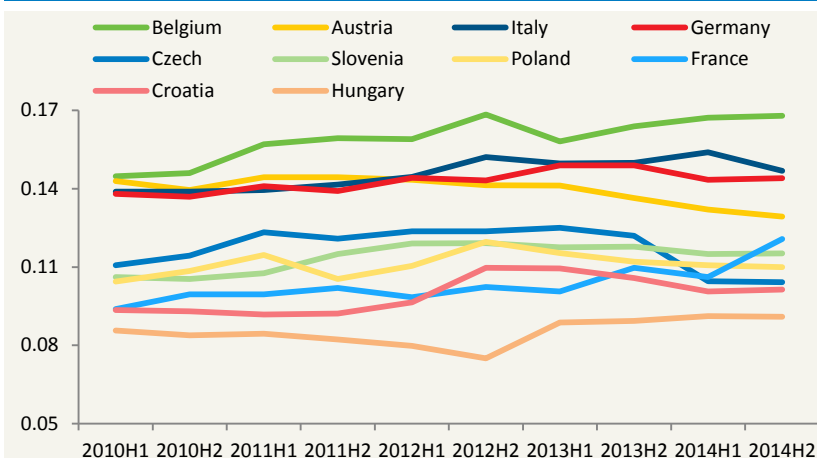
# Transmission, Distribution and Sale

## Sole Owner and Operator of Electricity T&D Networks in Croatia

### Transmission of electricity

- In April 2013 the Company opted for the ITO<sup>1</sup> model of unbundling - the Group's transmission operator HOPS was restructured to ensure its legal, financial, accounting, IT and managerial independence from the Group's generation and supply activities<sup>2</sup>
- Regulated monopoly with transmission tariffs approved by HERA; last tariff change in 2012
- Croatian transmission network also connected to the neighbouring systems of Serbia, B&H, Slovenia and Hungary

### Energy prices for domestic consumers, EUR/kWh<sup>3</sup>



### Distribution and Sale

#### Electricity

- Sole distributor of electricity to more than 2.3 million customers - Regulated monopoly
- Operates 135,784 kilometres of high, medium and low voltage electricity distribution lines (as of 31 December 2014)
- Largest out of 22 registered suppliers (3 market suppliers are part of the Group) of electricity in Croatia in terms of volume of electricity sold<sup>4</sup>

#### Thermal energy (Heat)

- Largest of 19 distributors of heat with c. 124,000 customers, covering approx. 80% of the total market by the number of customers in Croatia in 2014<sup>4</sup>
- Loss making due to low regulated tariff rates and increased operating costs
- Focus on making the district heating business economically viable

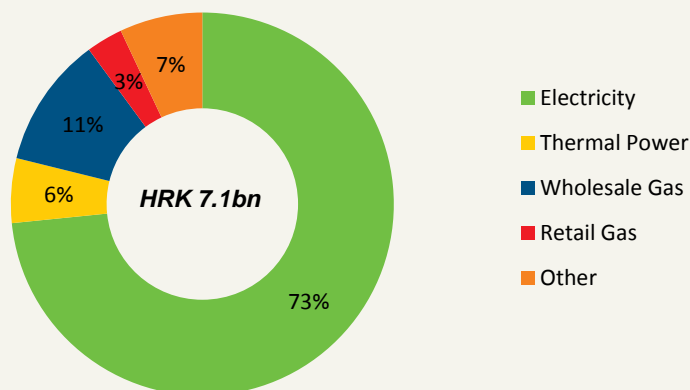
#### Gas

- Wholesale market – in 2014 HEP distributed approx. 3,022 million GWh of gas
- Tariffs are set by the Croatian Government on the recommendation of HERA
- Retail market - second largest gas supplier in Croatia by volume sold to end-consumers<sup>5</sup>
- Gas sales prices to non-regulated customers are set by the Group, and prices to regulated customers are set by HERA

# Other Group Activities

## Diversified Business

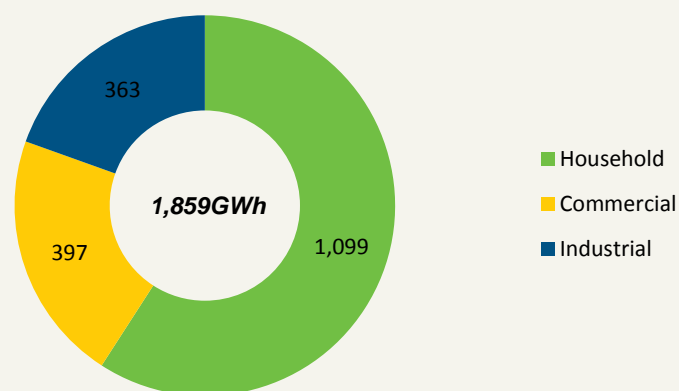
### Total operating income split, H1 2015



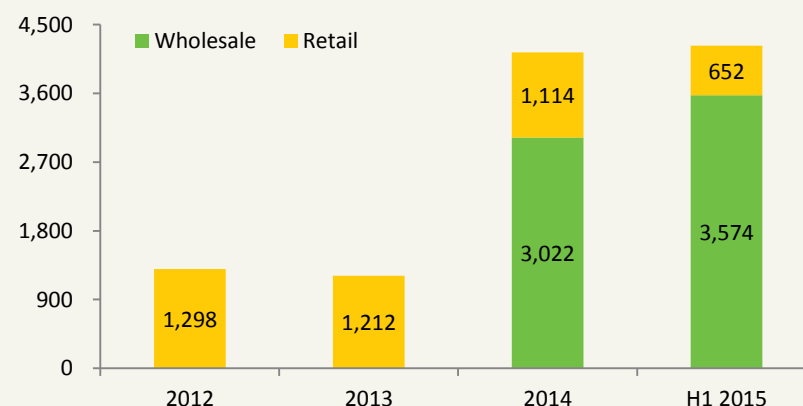
### Other businesses

- Electricity accounts for the majority of HEP's revenues
- HEP's new business line - wholesale gas sales - now constitutes more than 10% of the operating income
- Other businesses include trading in electricity and gas in domestic and international markets, preparation, construction and use of renewable energy sources (including wind, biofuel, small hydro and geothermal water)

### Distribution and sale of thermal energy<sup>1</sup>, GWh



### Distribution and sale of gas, GWh



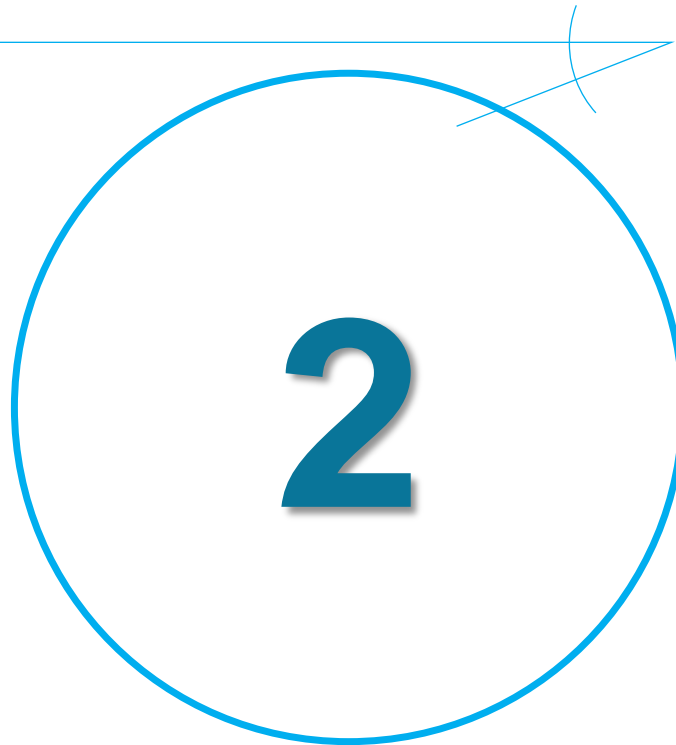
Source: HEP

<sup>1</sup>As of 31 December 2014



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## Key Investment Considerations



# Investment Highlights

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1

*Vertically integrated power utility company with economies of scale*

2

*Leading position in Croatian energy market benefitting from state ownership and support*

3

*Stable and predictable revenue stream*

4

*Favourable and diversified power generation mix with access to low-cost generation facilities*

# 1 Vertically Integrated Power Utility with Economies of Scale

Leading power generation, transmission, distribution and supply company in Croatia



Generation



Transmission & Distribution



Supply

- Integrated business model
- Operating across the entire electricity market spectrum from generation to end consumer supply
- Operating in heat generation, supply and distribution, as well as gas distribution and supply
- The Group is able to take advantage of a range of economies of scale, such as cost savings associated with purchasing of goods and services, and technology and cost savings associated with marketing

## 2 Leading Position in Croatian Electricity, Gas and Thermal Energy Markets

### Leading position in the energy sector

- HEP continues to hold a leading position in the market
- Accounts for c. 84% of domestic electricity generation and c. 92% of installed capacity as at 31 December 2014
- Supplies c. 85.1% of all electricity sold in Croatia as at 1H 2015
- The largest distributor of thermal energy – covers c. 80% of the district heating market
- Sole supplier on the wholesale gas market<sup>1</sup> and second largest supplier on the retail gas market (among >50 suppliers)
- To compete effectively HEP offers new products and energy services to its customers

### Strong government support given HEP's pivotal role in delivering Croatian Energy Strategy

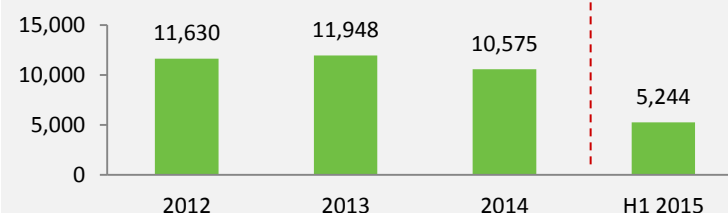
- Energy sector is a strategic priority for the Croatian Government
- The Government's Energy Development Strategy is focused on the development and renovation of the generation, transmission and distribution grids, with significant investment capital allocated to these programmes
- Such development capabilities expected to further benefit HEP, strengthen its position in the Croatian energy market and potentially increase the Group's presence in neighbouring countries
- Strong Government support through ownership commitment

### 3 Stable and Predictable Revenue

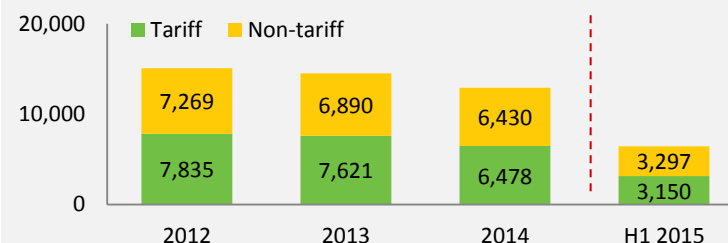
#### Predominantly Regulated Business Activities...

- Transmission, distribution and public supply of electricity and the distribution of thermal energy and gas, are regulated activities
- HERA sets the tariff rates for transmission and distribution of electricity based on approved costs plus approved capital rate of return
- 50.2% of the Group's electricity sold to end consumers was sold under the public supply system as at 31 December 2014
- 71.2% of Group's revenues from electricity sales coming from regulated tariff rates as at 31 December 2014
- Sole distributor of electricity within public supply services to the tariff customers in Croatia
- All electricity Market Suppliers must use the Group's transmission and distribution networks

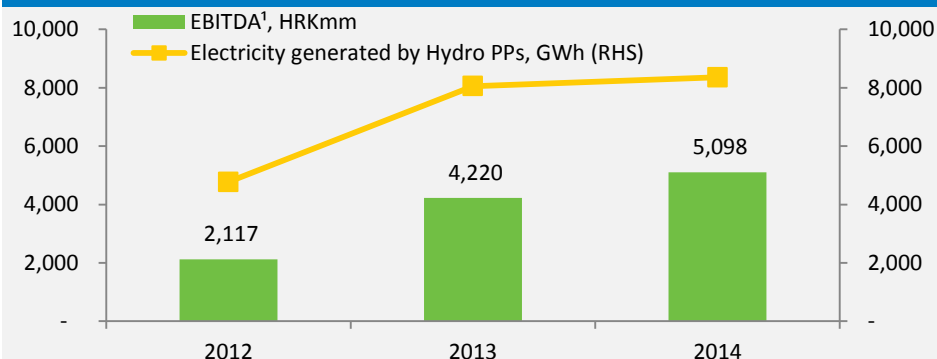
#### Revenue from electricity sales, HRK mn



#### Electricity sold by customer category, GWh



#### ...Resilient to challenging hydrological conditions in 2012



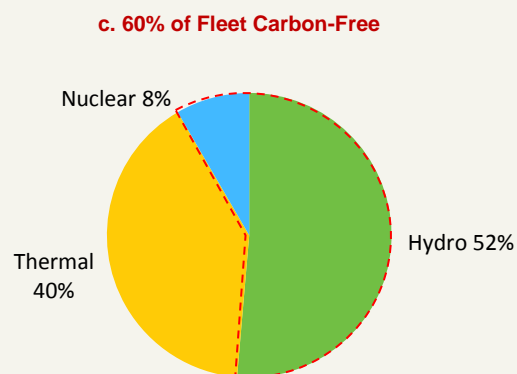
- In 2011 and 2012, Croatia experienced long periods of drought and historically low water inflows
- In these extremely challenging hydrological and macro conditions, HEP demonstrated a solid EBITDA floor of HRK 2.1 bn

Source: HEP, 2012-2014 IFRS and 1H 2015 IFRS financial statements



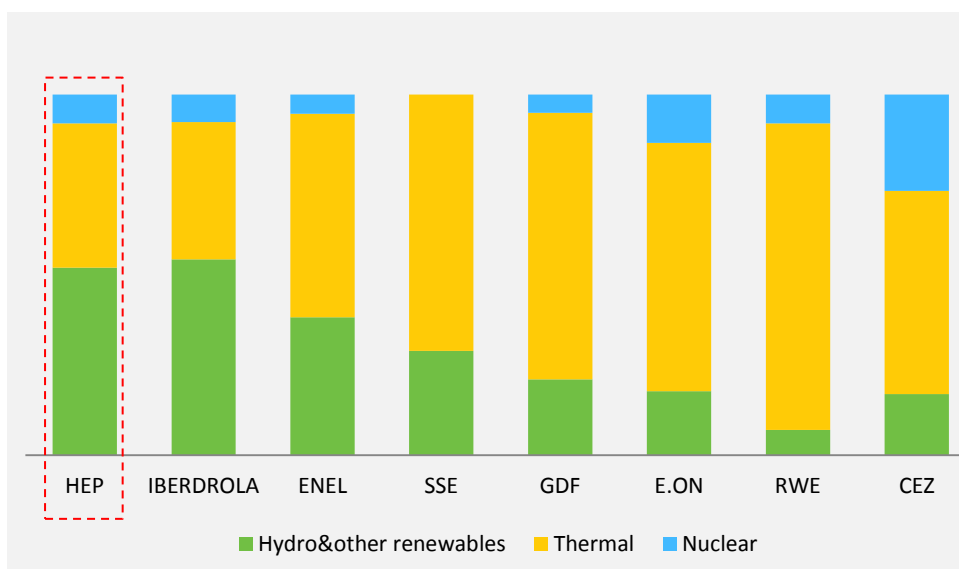
## 4 Favourable and Diversified Power Generation Mix with Access to Low Cost Generation Facilities

### Flexible carbon-light generation fleet



**2014 installed capacity: 4.2 GW**

### Fuel mix of European electricity generators<sup>1</sup>



- Group is not solely reliant on any one form of electricity generation
- Cost competitive generation mix - hydro power plants and nuclear power plant provide low cost electricity generation
- Oil-fired thermal power plants used primarily to meet high electricity demand during adverse weather conditions
- Not reliant on any one fuel type with respect to the thermal power plants, operating a combination of oil, coal, natural gas and fuel oil fired thermal power plants
- Reduced exposure to commodity prices - can minimise costs, reduce price volatility and prevent supply disruptions

# HEP Strategy

Emphasis on Increasing Generation Capacity and Improving Profitability to Maintain Security of Supply and Become Self Sufficient in Energy Generation

Strategic initiative / priority	Action plan
<b>1</b> Improve operating efficiencies and cost structure	<ul style="list-style-type: none"> <li>Reduction of maintenance and overhead costs, organisational restructuring</li> <li>Increase level of centralisation of overlapping activities</li> <li>More flexible structure - decentralisation of market activities such as trading and sales<sup>1</sup></li> </ul>
<b>2</b> Construct new generation facilities and expand generation capacity of existing assets	<ul style="list-style-type: none"> <li>Invest in new projects approx. HRK 5 bn in the next 5-6 y:               <ul style="list-style-type: none"> <li>3 TPP Plants &gt; to replace older</li> <li>2 HPP Plants</li> </ul> </li> <li>Invest ~ HRK 2.1 bn in existing facilities (predominantly HPP capacity) until 2022</li> </ul> <p><i>Diversification of supply 1800MW capacity increase</i></p>
<b>3</b> Improve customer service experience and introduce new services	<ul style="list-style-type: none"> <li>Further develop electronic billing, online payment options, call centres</li> <li>Implement new business processes</li> </ul>
<b>4</b> Expand business operations into regional markets	<ul style="list-style-type: none"> <li>In 2015 the Group entered Slovenian electricity supply market</li> <li>Increase presence in neighbouring countries – wholesale &amp; retail electricity markets as well as wholesale gas markets</li> </ul>
<b>5</b> Improve and expand distribution and transmission network	<ul style="list-style-type: none"> <li>Further reduction of network losses (through HOPS and HEP-ODS):               <ul style="list-style-type: none"> <li>Transmission network &gt; invest ca. HRK 3.9 bn (next 5y)</li> <li>Distribution network &gt; invest ca. HRK 4.9 bn (next 5y)</li> </ul> </li> </ul>
<b>6</b> Expand use of renewable energy sources	<ul style="list-style-type: none"> <li>Build small hydro PPs (up to 10 MW), wind farms, biomass fuelled PPs</li> <li>Build photovoltaic and solar/thermal power collection systems on all existing facilities</li> <li>Acquisition of renewable energy projects for approx. HRK 620 m in next 5y</li> </ul>

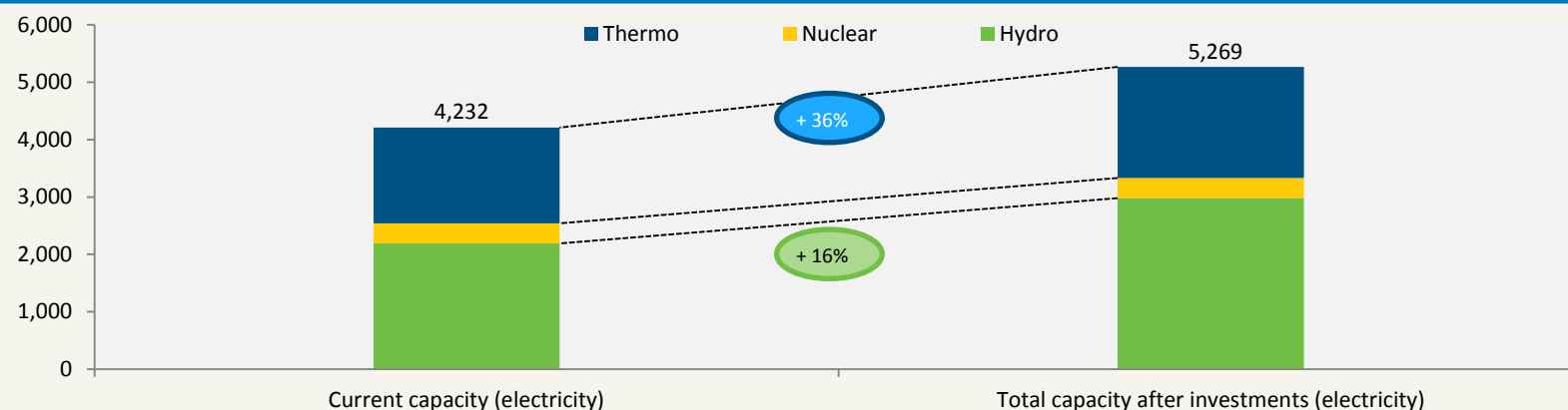
Source: HEP

# Strong Investment Program

## A Number of Planned New Capacities and Revitalisations

	Expected Increase in Installed Capacity	Expected Amount of Investment (HRK bn)	Planned Construction
Revitalisation of 12 HPPs and one TPP	144 MW	2.1	Until 2022
<b>Thermal Power Plants (TPPs)</b>			
Construction of EL-TO Zagreb (CCCGT)	130 MWe	0.8	Completed by the end of 2020
Construction of KKE Osijek (CCCGT)	500 MWe	2.4	Completed by the end of 2020
<b>Biomass Power Plants</b>			
BE TO Sisak	3 MWe, 11 MWt	0.144	Completed by the end of 2017
BE TO Osijek	3 MWe, 11 MWt	0.123	Completed by the end of 2017
<b>Hydro Power Plants (HPPs)</b>			
HPP Dubrovnik II <sup>1</sup>	152 MW	0.7	Commence in 2018
HPP Kosinj/Senj	410 MW	3.2	Commence in 2022
<b>Modernisation of distribution network</b>	—	4.9	Completed by the end of 2020
<b>Modernisation of transmission network</b>	—	3.9	Completed by the end of 2020
<b>Total</b>	<b>1,342 MW</b>	<b>18.3</b>	—
TPP Plomin C <sup>2</sup>	500 MW	6.5	Completed by the end of 2021

### Expected add-on to installed generation capacity, MW



Source: HEP



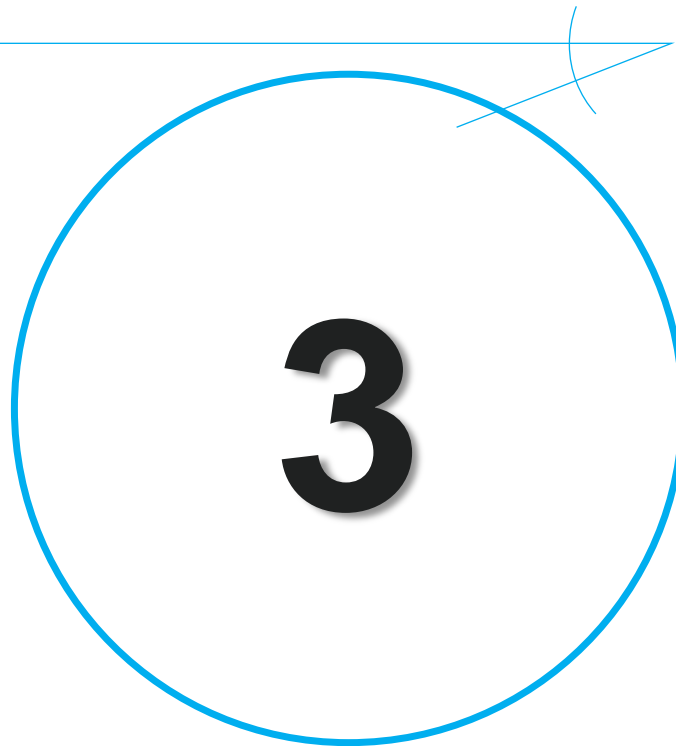
<sup>1</sup>Joint venture (50%/50%), expected amount of investment represents HEP's share (50%), which corresponds to the part of expected installed capacity allocated to HEP, i.e. to 152 MW

<sup>2</sup>Joint venture (50%/50%), the amount of investment represents the price of the EPC required to construct the plant with the installed capacity of 500 MW. HEP's share of investment will depend on the adopted business model which will be determined further to the negotiations with a strategic partner

Key projects the Company will focus on

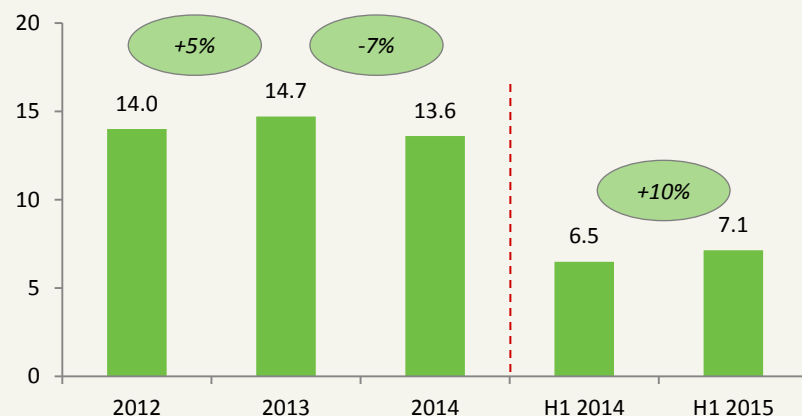
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## Financial Performance

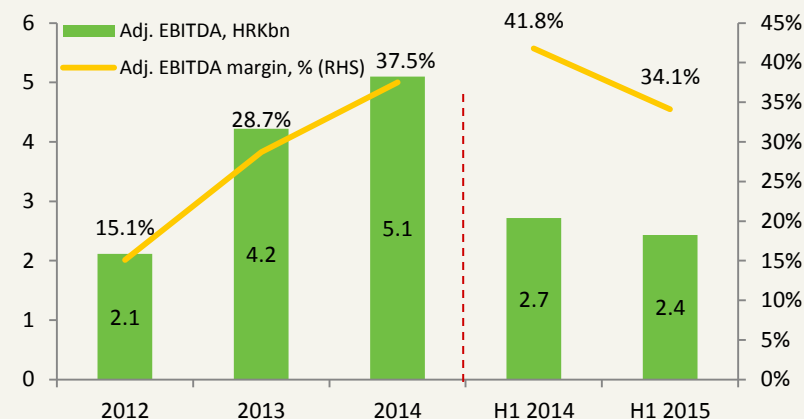


# Historical Financial Performance

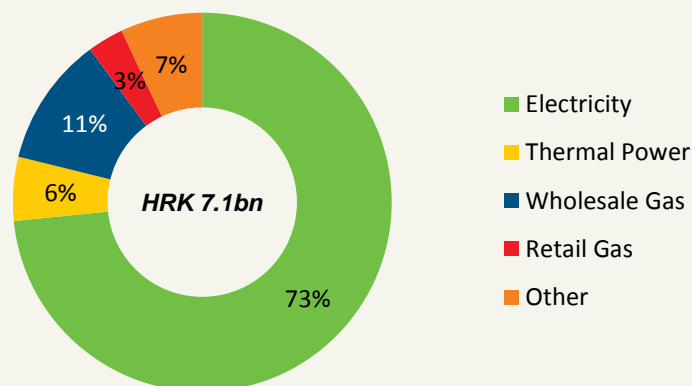
## Total operating income, HRK bn



## Adj. EBITDA<sup>1</sup> and adj. EBITDA margin<sup>2</sup>



## Total operating income split, H1 2015



## Comments

- In 2014 revenue fell due to a decrease in electricity sales in Croatia as result of HEP's declining market share, lower market prices and reduced electricity consumption following a milder winter in Croatia
- Due to favourable hydrology conditions during 2013 and 2014, the need for market procured electricity decreased which resulted in lower costs of electricity purchase and decreased production from thermal power plants which use expensive energy fuel for production

Source: HEP, 2012-2014 IFRS and 1H 2015 IFRS financial statements

<sup>1</sup> Adjusted EBITDA consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets

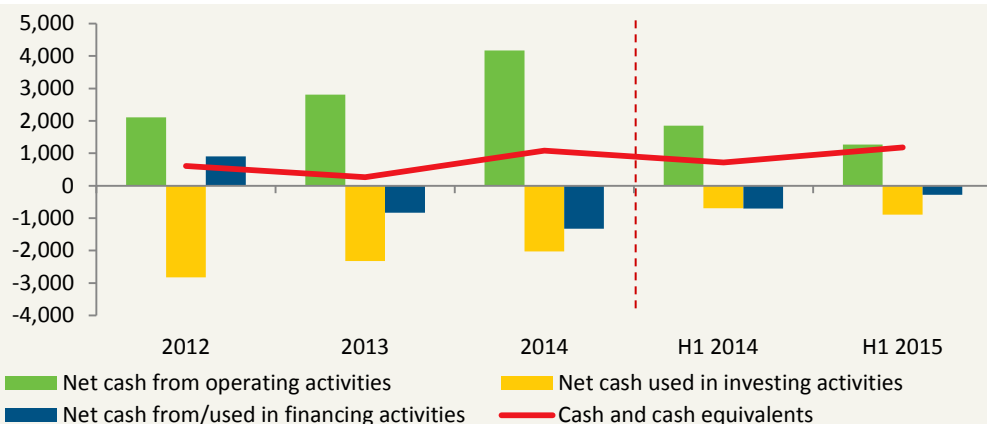
<sup>2</sup> Adjusted EBITDA Margin consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets, divided by total operating income, expressed as a percentage



# Strong Liquidity Position

HRK mn	2012	2013	2014	H1 2014	H1 2015
Total operating income	14,024.6	14,709.2	13,599.2	6,493.3	7,143.9
% growth		4.88%	(7.55%)		10.02%
Adjusted EBITDA <sup>1</sup>	2,117.5	4,219.6	5,097.6	2,716.4	2,434.0
Adjusted EBITDA margin <sup>2</sup> %	15.10%	28.70%	37.50%	41.83%	34.07%
Operating cash flow before movements in working capital	2,503.1	4,227.1	5,579.8	2,757.0	2,445.5
Interest paid	(306.5)	(378.4)	(404.2)	(149.2)	(150.9)
Corporate income tax expense	33.98	(364.95)	(465.02)	(427.40)	(506.70)
<b>Net cash from operating activities</b>	<b>2,112.6</b>	<b>2,804.8</b>	<b>4,173.7</b>	<b>1,853.3</b>	<b>1,287.9</b>
<b>Net cash used in investing activities</b>	<b>(2,823.5)</b>	<b>(2,318.3)</b>	<b>(2,029.7)</b>	<b>(692.3)</b>	<b>(894.3)</b>
Dividend paid to the owner	-	-	(284.9)	-	-
<b>Net cash from/(used in) financing activities</b>	<b>908.9</b>	<b>(830.6)</b>	<b>(1325.0)</b>	<b>(708.7)</b>	<b>(296.8)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>198.0</b>	<b>(344.2)</b>	<b>819.1</b>	<b>452.3</b>	<b>96.7</b>

## Cash flow position, HRK mn



## Comments

- The Group's principal sources of liquidity are cash flow from its current operations and proceeds of maturing financial assets together with borrowings from third parties
- H1 2015 Adjusted EBITDA decreased compared to H1 2014 primarily due to an increase in electricity purchase cost (lower generation by HPPs due to lower water inflows and increased purchase of electricity from renewable energy sources)
- Paid dividends in 2014 to the owner, while no dividend was paid in 2013 and 2012
- H1 2015 increase in net cash used in investing activities primarily attributable to a 25.8% increase in expenditure for property, plant and equipment as part of HEP's investment plan for 2015
- As of 30 June 2015 HEP did not have any amounts outstanding under its short term financing facilities, and HRK 1,323.6 mn was available for drawing

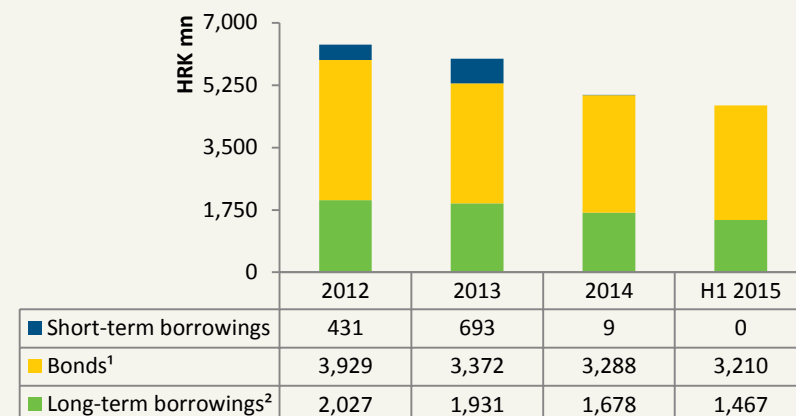
Source: HEP, 2012-2014 IFRS and 1H 2015 IFRS financial statements

<sup>1</sup> Adjusted EBITDA consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets

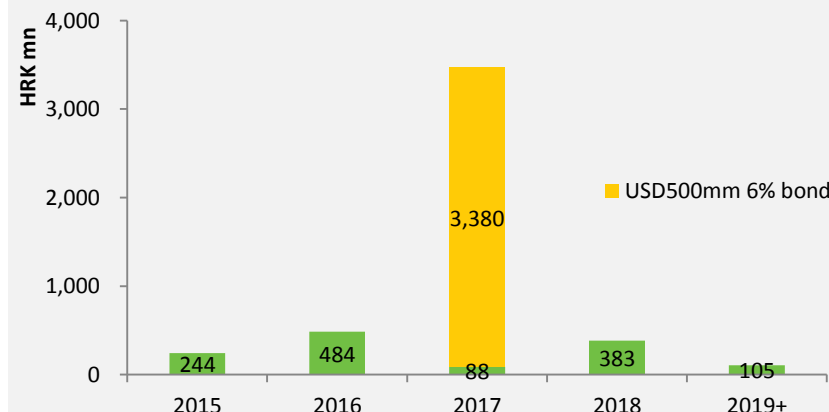
<sup>2</sup> Adjusted EBITDA Margin consists of profit/(loss) for the period excluding financial expense, financial income, corporate income tax expense, depreciation and amortisation and impairment of long lived assets, divided by total operating income, expressed as a percentage

# Proactive Debt Management

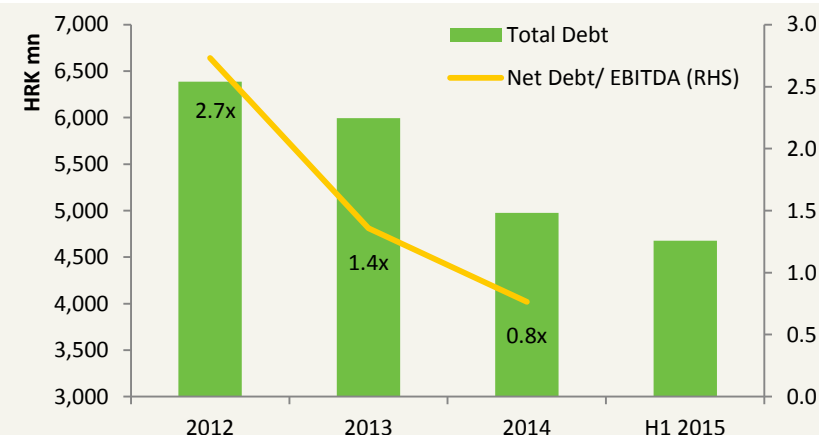
## Debt composition



## Debt maturity profile<sup>3</sup>, H1 2015



## Total debt<sup>4</sup> and net debt<sup>5</sup>/EBITDA development



## Comments

- HEP will use part of the net proceeds from the bond issue to buy back a proportion of the outstanding 2017 notes, which will optimise debt maturity profile
- Financial strategy is to extend the maturity profile, provide additional stability to the capital structure, reduce reliance on short-term borrowings and diversify funding sources
- Relatively low leveraged structure historically supported the Group's key financial metrics and investment needs

Source: HEP, 2012-2014 IFRS and 1H 2015 IFRS financial statements

<sup>1</sup> Calculated as liabilities under issued bonds+current portion of long term bonds

<sup>2</sup> Calculated as long term loan liabilities + current portion of long term loans

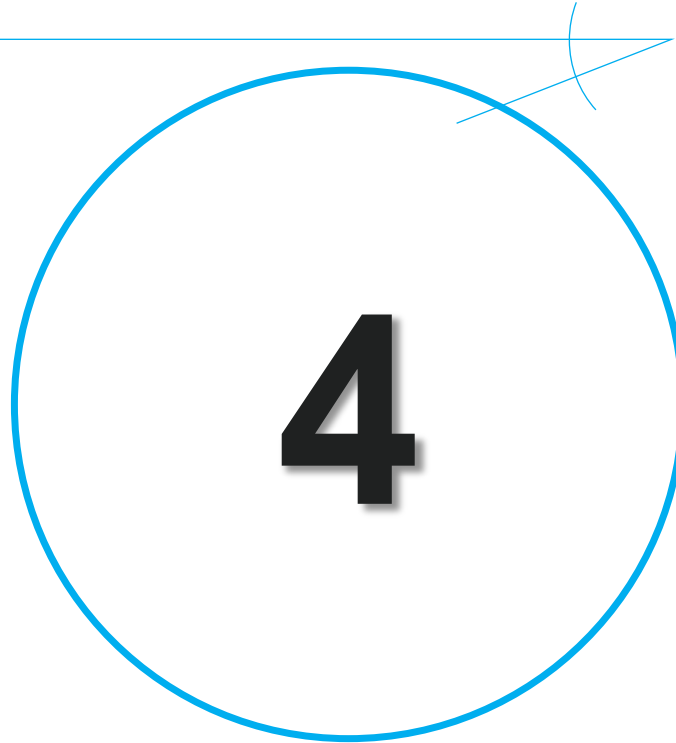
<sup>3</sup> Loans, issued bonds and current portion of long term borrowings

<sup>4</sup> Calculated as long term borrowings+bonds issued+current portion of long term bonds issued+current portion of long term borrowings+short term borrowings

<sup>5</sup> Calculated as long term borrowings+bonds issued+current portion of long term bonds issued+current portion of long term borrowings+short term borrowings-cash and cash equivalents

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## Transaction Overview



## Eurobond Transaction Summary

<b>Issuer</b>	Hrvatska Elektroprivreda d.d.
<b>Issue</b>	Senior Unsecured Notes
<b>Tenor</b>	[●] years
<b>Optional redemption</b>	Taxation Reasons <sup>1</sup> , Change of Control, Ownership Unbundling Event <sup>1</sup>
<b>Change of Control</b>	Put option at 101%, if ownership stake of the State falls below 50%+1 share or if the state ceases to control HEP
<b>Governing law</b>	English law
<b>Listing</b>	Luxembourg stock exchange
<b>Ratings</b>	Moody's Ba2, Standard & Poor's BB-
<b>Covenants</b>	Standard Eurobond covenants (pari passu, negative pledge)
<b>Use of proceeds</b>	Finance the purchase of a portion of the outstanding USD500mm 2017 notes and general corporate purposes
<b>Distribution</b>	Regulation S / 144A
<b>Format</b>	Registered Global Certificates
<b>Joint Bookrunners</b>	Banca IMI/Privredna Banka Zagreb, Morgan Stanley (B&D), UniCredit/Zagrebačka banka

## Tender Offer Summary

<b>Offeror</b>	Hrvatska Elektroprivreda d.d.
<b>Issuer</b>	Hrvatska Elektroprivreda d.d.
<b>Notes</b>	USD500mm 6% Senior Unsecured Notes due November 2017
<b>Target Amount</b>	Any and all
<b>Tender Price</b>	\$1,063.75
<b>Dealer Managers</b>	Banca IMI/Privredna Banka Zagreb, Morgan Stanley, UniCredit/Zagrebačka banka

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Q&A

