PRESENTATION TO INVESTORS WITH AUDITED FINANCIAL RESULTS FOR 2012

June 2013

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1. **Company overview**
2. 2012 Financial performance
3. Recent developments
4. Appendices

Management Board

Tomislav Šerić
President of Management Board

Ivan Matasić
Member of Management Board in charge of finance

Perica Jukić
Member of Management Board in charge of development and investment

Krunoslava Grgić Bolješić
Member of Management Board in charge of business development

Zvonko Ercegovac
Member of Management Board in charge of production

HEP

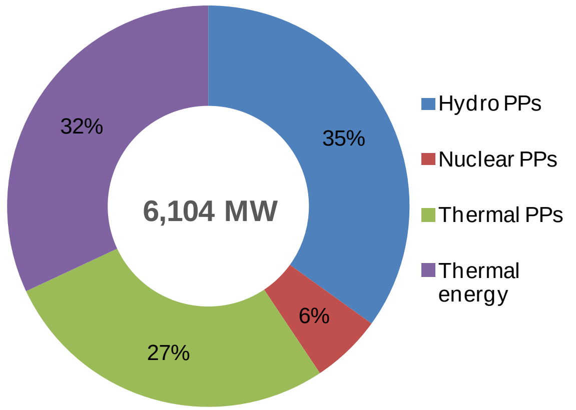
HEP Group at a glance

Operating across the entire market spectrum

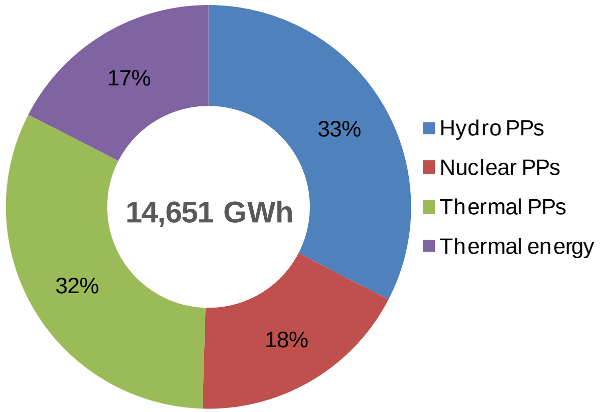
Generation	Transmission	Distribution	Supply	Trading & Other
Electricity • **4,153 MW** of installed capacity • 26 hydro PP (2,133 MW) • 8 thermal PP[1] (1,672 MW) • 1 nuclear PP[2] (348 MW) **Thermal energy** • **1,569 MW** of installed capacity in 4 TPPs and **382 MW** in district boiler rooms • Partially regulated	• Croatian electricity transmission network owner and operator • Fully regulated, with transmission tariffs approved by the HERA • 7.6 TWh cross-border exchange in 2012 (balance) • ITO[3] expected to be in full implementation by July 1st 2013	• Distribution of electricity to > 2.3 mn customers • 100% of electricity distribution[4] in Croatia • Regulated activity • Distribution of thermal energy in Zagreb, Osijek, Sisak, Zaprešić, Velika Gorica and Samobor • Distribution of gas in Osijek, Požega, Virovitica	• Sale of electricity, gas and thermal energy in Croatia • 98.6% of electricity sold in Croatia in 2012 • In 2008, power market liberalisation reforms were adopted • Non-tariff Commercial customers	• Trading platform responsible for optimisation of power plant operation • Other businesses specialise in renewable energy sources, energy efficiency, environmental protection and other

Integrated business model - strong presence in all parts of the energy value chain
Dominant position in Croatia with a natural advantage of enhanced creditworthiness (100% state-owned)

Installed capacity, MW (Dec 31, 2012)



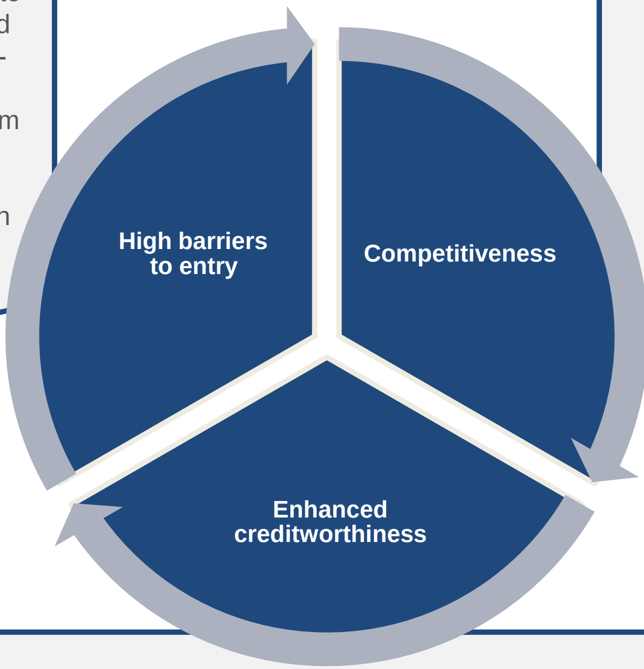
Power generation, GWh (Dec 31, 2012)



Source: HEP, as of 31 December 2012 (if not otherwise stated)
[1] Plomin II co-owned with RWE
[2] Co-owned with GenE (total NPP installed capacity 696MW)
[3] Independent transmission operator
[4] In terms of the number of metering points

Dominant position in Croatian energy market benefitting from state ownership and support

- Vertical integration enables HEP to control the supply value chain and provide competitive prices to end-users
- Regulatory framework/tariff system
- Operates all hydro and thermal plants in Croatia
- Significant ongoing investments in infrastructure



- Competitiveness key for long term value creation
- Strong and long established relationships with clients
- Strong loyalty from its customer base

- Access to state guarantees
- Cheaper and more available credit
- Energy sector considered one of Croatian Government's strategic priorities
- Enables HEP to grow and further develop its business

HEP

Generation
Favourable and diversified generation mix

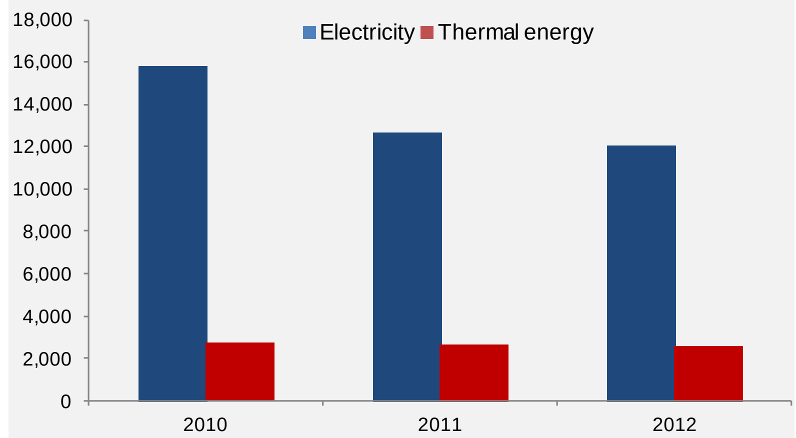
Electricity

- Large and diversified portfolio of assets with installed capacity of 4,153 MW
- 26 hydropower plants with total installed capacity of 2,133 MW
- 8 thermal power plants with total installed capacity of 1,672 MW (including Plomin II)
- 50% ownership in Krsko nuclear power plant (696 MW of installed capacity[1]), together with GenE
- 50% ownership in Plomin II thermal power plant (192 MW of installed capacity), together with RWE
- Limited CO_2 footprint and reduced exposure to commodity prices, with generation largely based on hydro and nuclear power
- Latest tariff increase in May 2012

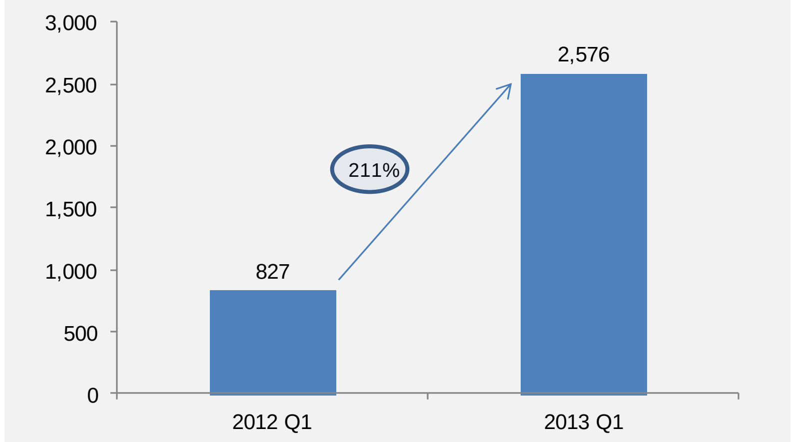
Thermal energy

- Actively engaged in thermal energy generation via 4 TPPs in Croatia with 1,569 MW of installed capacity and 382 MW of installed capacity in district boiler rooms
- Generated as a by-product of electricity generation at Group's thermal power plants and district boiler rooms
- Distributed to cities of Zagreb, Osijek, Sisak, Zaprešić, Velika Gorica and Samobor

Power generation, GWh



Generation from HPP 2012 Q1 vs. 2013 Q1, GWh



[1] Of which 50% is allocated to HEP
Source: HEP

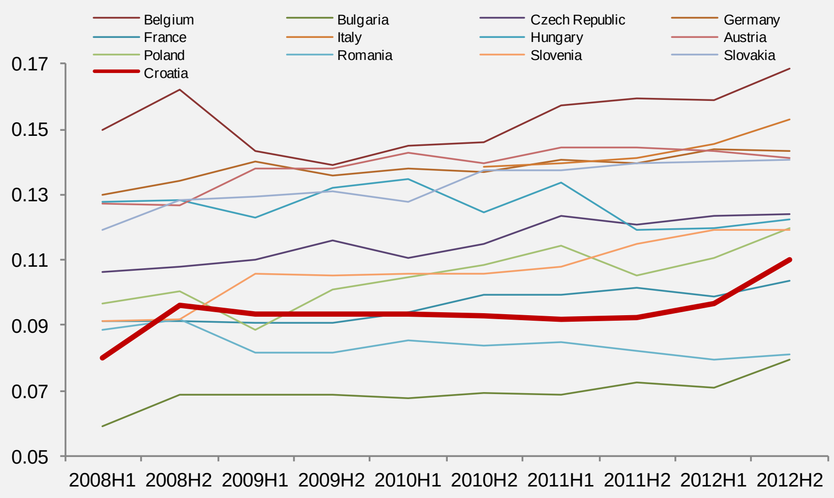
Transmission & Distribution

Sole owner and operator of electricity T&D networks in Croatia

Transmission of electricity

- Fully regulated activity with transmission tariffs approved by HERA[1]; last tariff increase in May 2012
- All suppliers must use Group's transmission network
- Group provides high quality service, minimising transmission costs and guaranteeing reliability and security
- Stable and predictable revenue stream
- Connected to the neighbouring systems of Serbia, Bosnia and Herzegovina, Slovenia and Hungary

Energy prices for domestic consumers, EUR/kWh[2]



Distribution and Sale

Electricity

- More than 2.3 million customers in Croatia as of 31 Dec. 2012, covering approx. 57,000 km^2 area
- The largest[3] out of 13 registered suppliers of electricity in Croatia in terms of volume of electricity sold (98.6% market share in 2012)
- Commercial customers – choose a market supplier and pay lower rates than the tariff rates
- Households – virtually all supplied through the public supply system at fixed tariff rates
- Latest tariff increase as of May 2012 (by 18.9%)

Thermal energy

- The largest of 17 distributors of heat with more than 123,000 customers covering approx. 84% of the district heating market in Croatia (2011 HERA report)
- Latest tariff increase as of Dec. 2012 (by 36.8%)

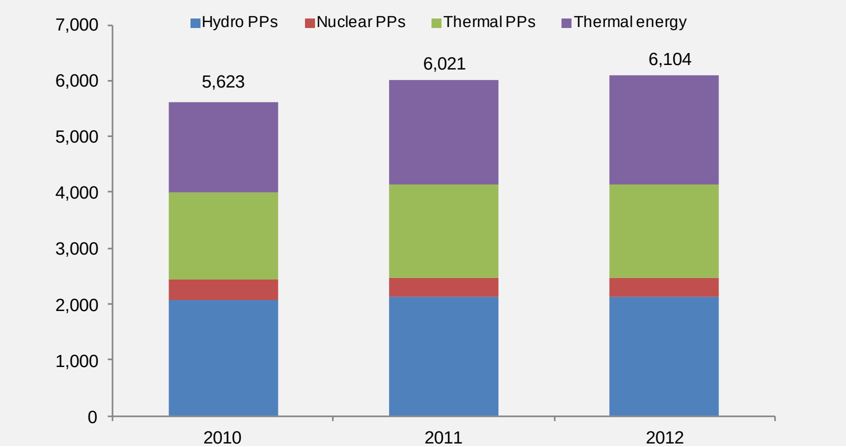
Gas

- 73,206 customers as of 31 December 2012
- Second largest[3] of more than 40 suppliers of gas in Croatia in terms of volume sold to end-consumers
- Regulated activity
- Latest tariff increase as of May 2012 (by 20%)

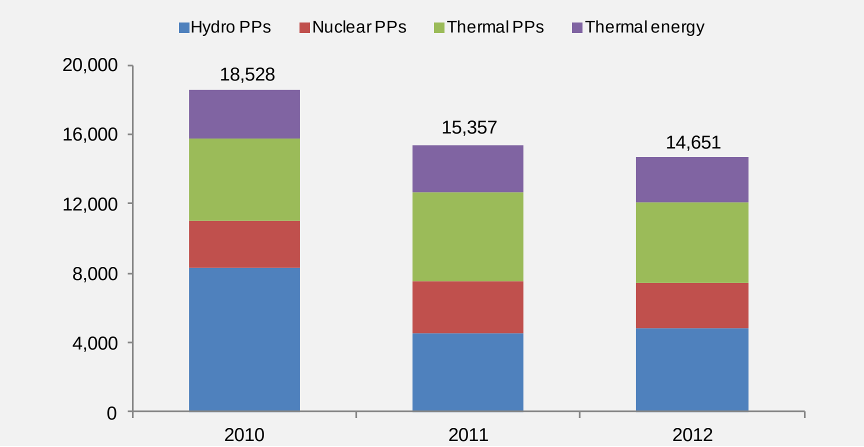
[1] Croatian Regulatory Agency for Energy - Article 11, paragraph 1, item 10 of the Act on the Regulation of Energy Activities (Official gazette NN 120/2012) and Article 29 of The Energy Act (Official gazette NN 120/2012).
[2] Source: Eurostat, as of April 2013
[3] Source: HEP, as of 31 Dec 2012

HEP Group today
Low cost based portfolio

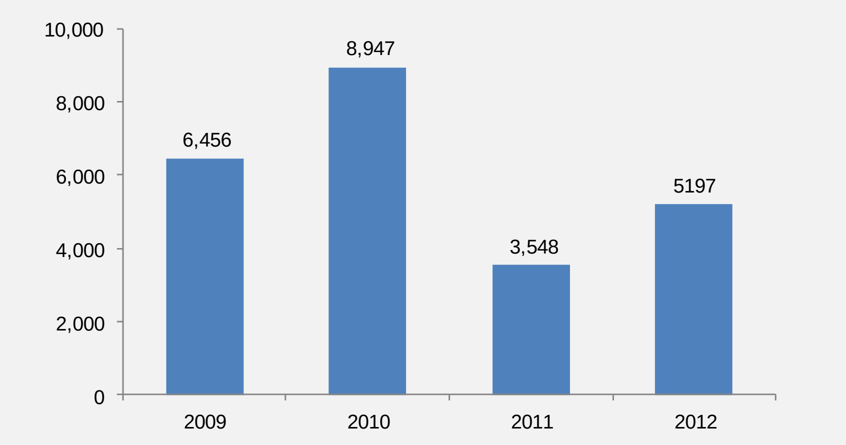
Installed capacity, MW



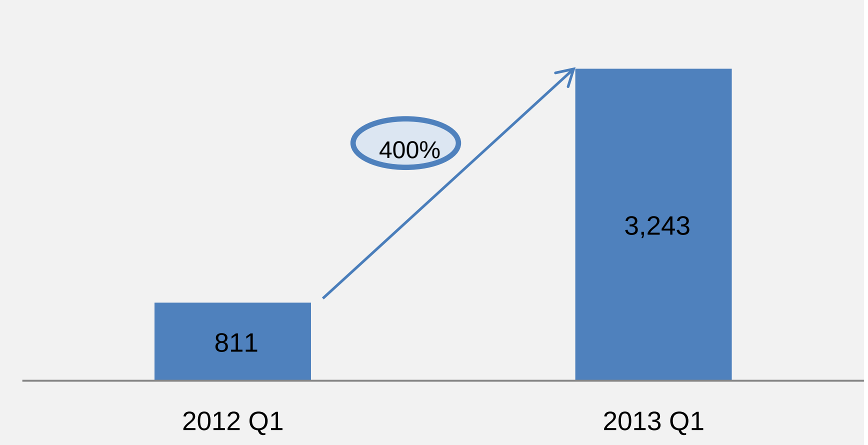
Generation mix, GWh



Energy value of water inflows 2009-2012, GWh



Energy value of water inflows 2012 Q1–2013 Q1, GWh



Source:HEP

Strategy

Emphasis on improving profitability and increasing generation capacity to become self sufficient in energy generation and maintain security of supply

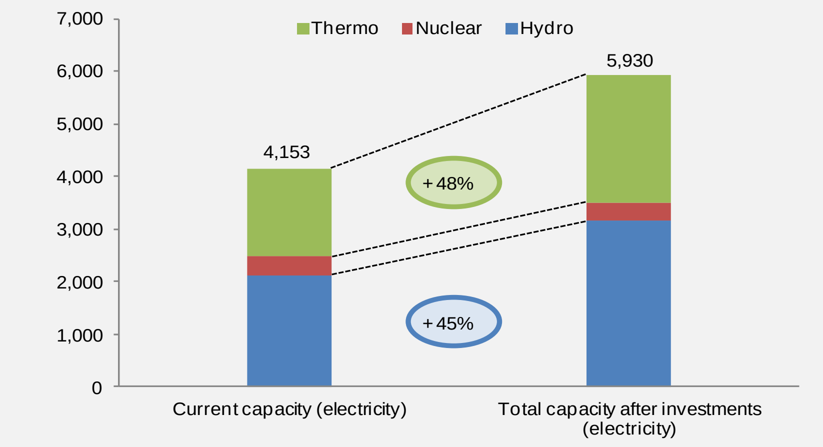
	Strategic initiatives	Action plan
1	Build new generation facilities and expand generation capacity of existing assets	• Invest in generation facilities to add approximately 1,7GW of capacity • Construction underway of a natural gas combined-cycle cogenerating unit at Sisak thermal PP (operational early 2014) • Preparations are curretly underway for HPP Ombla and TPP Plomin III • Investments in refurbishment/revitalisation of existing assets to add approx. 155MW of capacity
2	Improve and expand distribution and transmission network	• Invest in transmission and distribution network to upgrade existing facilities and expand network to accomodate for consumtion increase and market liberalisation • Reduce network losses, ensure reliable and safe operation and adequate levels of availability of interconnector capacity, connect new customers
3	Improve operating efficiencies and cost structure	• Centralise and standardise public procurement and purchasing • Reduce existing workforce and improve staff training and education • Outsource non-key operations and improve IT network • Renew hot water and steam networks and construct heating systems
4	Expand use of renewable energy sources	• Build small hydro PPs, wind farms, biomass fuelled PPs • Build photovoltaic and solar/thermal power collection systems on all existing facilities
5	Improve customer service experience and introduce new services	• Actively engage with customer base and focus on bringing new products to the market • E-billing/online payment • ESCM model

Strong investment push

Government to reinvest all profits into the Group's business

Project	Type	Increase in capacity, MW	Capex (HRK mn)
Ombla	New hydro PP	68	936
Dubrovnik II	New hydro PP	304	388
Lika and Gacka	Two new hydro PPs	380	1,254
River Sava	New multipurpose hydro generation system	120	709
Plomin III	New thermal PP	500	950
Sisak thermal PP	Natural gas combined-cycle cogenerating unit	250	-[1]
Total new generation			**4,237 (22%)**
Various hydro PPs	Modernisation of existing facilities	155	4,055 (21%)
Transmission network	Modernisation and expansion		2,576 (14%)
Distribution network	Modernisation and expansion		5,352 (28%)
Other companies	Modernisation and expansion		2,843 (15%)
Total		**1,777**	**19,063**

Add-on to installed generation capacity, MW



Comments on capital projects in progress

TPP Plomin III

- HEP is about to send an RfP to qualified bidders; Strategic partner will be selected based on the technical-economic criteria

HPP Ombla

- Completion and public presentation of the BMP[2]
- Additional environment influence study to be prepared
- Organisation and preparation for the access roads construction works – preparatory works
- Preparation of tender documents for the HPP tendering procedure

Source: HEP

[1] Funds have already been secured for this project

[2] Bio diversity management plan

1. Company overview
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2012 Financial performace – summary

- **2012 was characterised by extremely unfavourable hydrological conditions with significantly reduced water inflows, started in 2011 and lasted until the last quarter of 2012**

- **Total operating income amounted to HRK 14,019.6 million (increase of 931.6 million or 7.1% compared to 2011)**

  increase result of:

  - Revenues from electricity sales grew by HRK 860.4 million (8.0% YoY growth), due to:
    - Increase of prices of regulated activities as of 01 May 2012
    - Application of new methodology of calculation of price for eligible customers of HEP Opskrba d.o.o. as of 01 August 2012
    - Larger sales (electricity export) in the foreign market

  - Revenues from thermal power sales increased by 0.5% (by HRK 3.1 million) compared to 2011
    - thermal energy price increase has been approved on 13 December 2012 with full impact to materialize in 2013

  - Revenues from gas sales increased by 3.9% (by HRK 14.8 million) compared to 2011, as a result of approved increase in selling price of gas and introduction of fixed monthly fee since 1 May 2012

  - Other operating income recorded increase of 3.9% YoY (HRK 53.3 million), primarily due to:
    - Increase in income from network connection services and
    - Income from the inter-compensation mechanism of OPS

2012 Financial performace – summary *contd*

- **Total operating expenses increased by over HRK 1,000 million (7.97% YoY growth) reaching HRK 13,626.1 million, primarily as a result of:**
  - 930 GWh more electric energy was purchased compared to 2011
  - Increase in the average prices of natural gas (31%) and fuel oil (23%) compared to 2011
  - Variability of generation costs
  - Reservations for severance payouts in the amount of HRK 250 million

- **HEP Group 2012 consolidated profit of HRK 71.2 million**

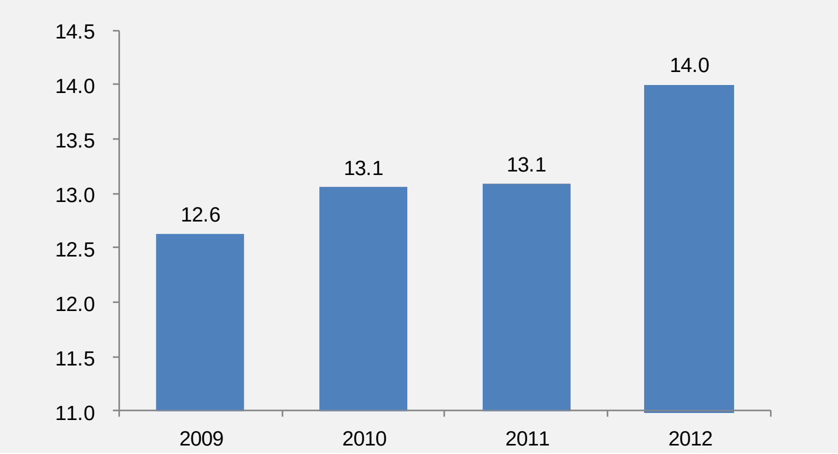
- After successful issue of Eurobonds in November, 2012 HEP Group liquidity has been stabilized
  - Bond proceeds were used to finance capital expenditures in 2012, as well as for repayment and prepayment of long term loans with the goal of extending the debt maturity and repaying of loans with unfavourable financial covenants

- In 2012 a total of HRK 2.6 billion was invested in replacements, reconstruction, refurbishment and renewal of existing power facilities as well as in the construction and preparation for construction of new power facilities and expanding end users connections

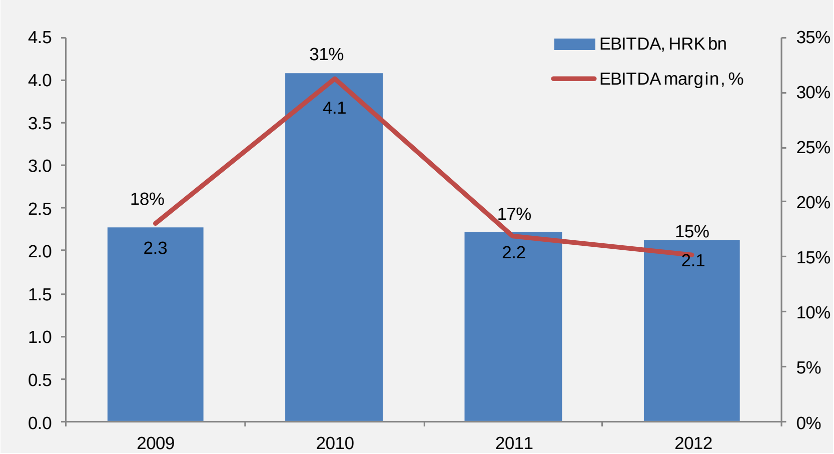
Positive revenue momentum

Effects of 2012 price increases beginning to show results

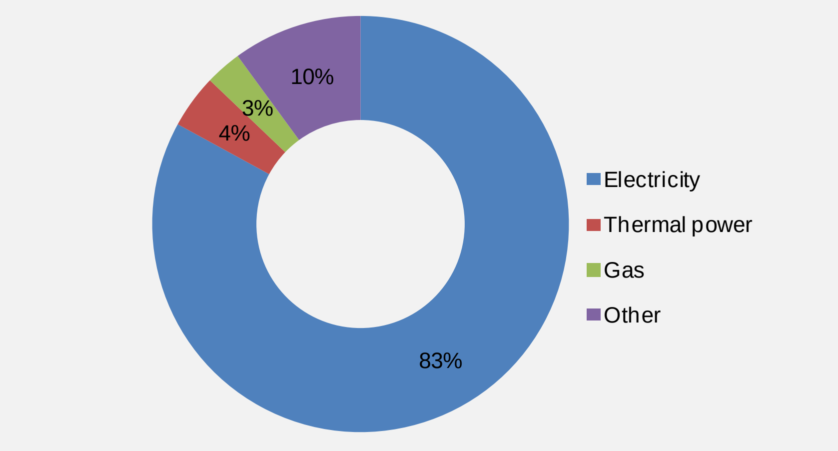
Consolidated total operating income, HRK bn



Cons. adj. EBITDA[1] and adj. EBITDA margin[2]



Total operating income split (December 31st 2012)



Comments

- Increased revenues in 2012 resulted from rise in regulated prices in May and December 2012, although full effect will be seen in 2013
- Operating expenses increased primarily as a result of increased electricity imports and higher fuel costs, due to prolonged dry period since 2011 that has resulted in decreased electricity generation by hydro power plants
- 2012 EBITDA overall in line with 2011 level

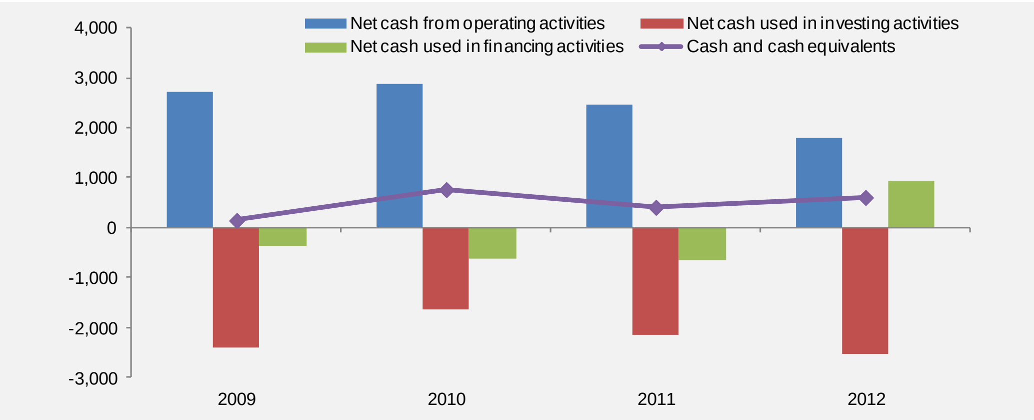
Source: HEP

[1] Adjusted EBITDA consists of profit/(loss) for the year excluding financial expense, financial income, income tax (expense)/income depreciation and amortisation
[2] Adjusted EBITDA margin consists of profit/(loss) for the year excluding financial expense, financial income, income tax (expense)/income depreciation and amortisation, divided by total operating income, expressed as a percentage

Cash flow profile and liquidity position

HRK mn	2009	2010	2011	2012
Revenues	12.629,8	13.056,9	13.087,0	14.019,6
% growth		*3,4%*	*0,2%*	*7,1%*
EBITDA	2.273,8	4.080,8	2.215,9	2.127,7
% margin	*18,0%*	*31,3%*	*16,9%*	*15,2%*
Net cash from operating activities before changes in working capital	2.994,8	4.635,5	2.564,8	2.261,8
Interest paid	(321,1)	(304,5)	(236,9)	(306,5)
Income taxes refunded/(paid)	(126,5)	(161,1)	(600,9)	(34,0)
Changes in working capital	162,6	(1.281,9)	732,4	(200,1)
Net cash from operating activities	**2.709,8**	**2.887,9**	**2.465,5**	**1.789,1**
Net cash used in investing activities	**(2.396,1)**	**(1.658,6)**	**(2.151,5)**	**(2.524,5)**
Dividend paid to the owner	0,0	0,0	(493,4)	0,0
Net cash used in financing activities	**(364,1)**	**(611,0)**	**(669,0)**	**933,3**
Net (decrease)/increase in cash and cash equivalents	**(50,4)**	**618,3**	**(355,0)**	**197,9**
Cash and cash equivalents at the beginning of the year	194,2	143,8	762,2	407,1
Cash and cash equivalents	143,8	762,2	407,2	605

Cash flow position, HRK mn



Comments

- Historically low hydrology in 2011 and 2012 led to increased purchase and import of electricity on the market at higher prices
- Investments in 2012 grew by 22% YoY (in line with Government's objective to initiate a new investment cycle in energy sector), but kept at revaluated and optimized level of HRK 2.6 billion
- No dividend payout to owner as in 2011 - in line with usual no dividend policy, whereby all profits to be reinvested
- Group to extend all existing short term credit lines and make them medium term

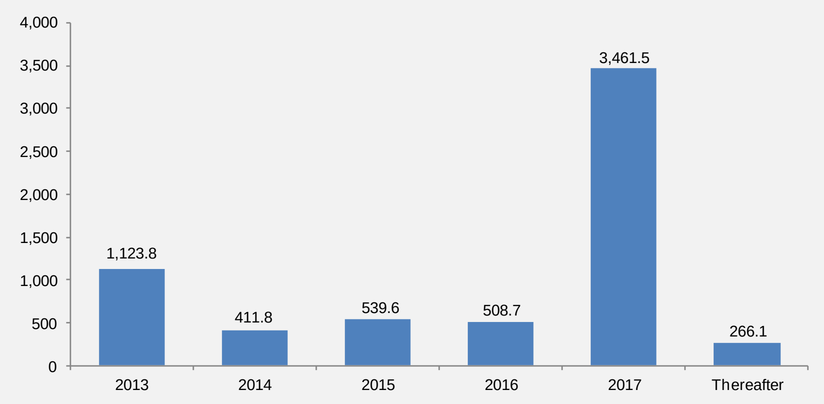
Source: HEP

HEP

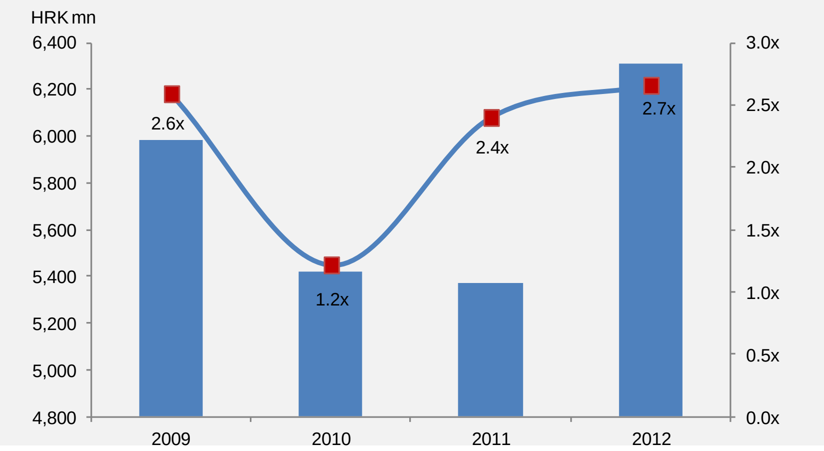
[1] *Adjusted EBITDA consists of profit/(loss) for the year excluding financial expense, financial income, income tax (expense)/income depreciation and amortisation*
[2] *Adjusted EBITDA margin consists of profit/(loss) for the year excluding financial expense, financial income, income tax (expense)/income depreciation and amortisation, divided by total operating income, expressed as a percentage*

A continued proactive management of debt position

Debt maturity profile, HRK mn (31 December 2012)



Total debt and net debt/EBITDA development



Comments

- Successful 2012 Eurobond issue resulted with:
  - Reduced reliance on short term borrowings and extension of debt maturity profile,
  - Stabilization of HEP's financial risk profile
  - Additional stability to the capital structure
  - Diversification of funding sources
  - Improvement in HEP's outlook from negative to stable by S&P
  - Compliance with agreed financial covenants under existing loans at year end
- Bond proceeds used as per terms and conditions of the Notes:
  - **EUR 163 mn** for repayment/prepayment of long term debt
  - **EUR 230 mn** for financing capital expenditures and other general corporate purposes (prepayment of short term debt)
- **Bond matures in 2017**
- An increase in net debt/EBITDA at the end of 2012 primarily due to lower profitability driven by increased operating costs (high electricity imports and increased generation by thermal power plants due to historically low water inflows during most of the 2012)
- Going forward, Company aims to maintain leverage at prudent, pre-2012 levels

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HEP Group restructuring

Recent developments

Corporate Optimization

- HEP Group corporate restructuring process in progress:
  - In line with Management Board Program for 2012-2016;
  - Expected benefits (lower operating costs, better efficiency, reduce work force);
  - Undergoing restructuring of HEP Transmission, in line with the 3rd Energy Package;
  - HEP intensified all activities for transmission separation under the ITO model to meet deadline (July 2013)
- Due to ongoing reorganization process, number of employees was reduced from 13,762 (as of 31 December 2011) to 12,882 (as of 31 March 2013)
  - HEP made reservations of 250 mn HRK for severance payouts in 2013
- Optimization process to continue during 2013

Transmission Unbundling according to the EU legislation

- On April 9th 2013 the Assembly of HEP d.d. reached the decision on unbundling of the Transmission System Operator according to the ITO model and EU energy regulations
- In coordination with the restructuring teams of HEP group, the activities required for the successful unbundling and certification of Transmission System Operator are being performed, as follows:
  - a) Preparation of documentation that shall be an integral part of the Request for Certification, which should be prepared by the end of June 2013;
  - b) Transfer of assets that form the transmission network in the ownership of HEP TSO and registration of modifications of the Statement on Establishment are underway and should be completed during June 2013
- The new Transmission System Operator shall be named – Croatian Transmission System Operator d.o.o. (HOPS d.o.o.)

Corporate ratings and recent achievements

Recent developments

Update on rating

- Despite **Standard&Poor's** downgrade of Croatia's Sovereign credit rating in December 2012, HEP's rating was not affected and remained **BB-/stable**. This was achieved by HEP Group's strengthened financial position and liquidity
- On 24 May 2013 Standard&Poor published HEP's Ratings Summary, confirming BB- rating, with stable outlook
    - Annual review meeting with Standard&Poor's expected to take place in coming months
- On 15 May 2013 **Moody's** confirmed HEP's **Ba2 rating** and concluded the review for downgrade initiated on 1 February 2013

Selected recent achievements

- **March 2013 -** hydro power plants generated electricity exceeding 1 TWh what is the highest ever recorded generation during month of March in the history of HEP
    - In light of such circumstances, the record share of own generation in covering total electricity consumption in Croatia was recorded on 1st of April 2013
- **April 2013** - HEP issued complete documentation for submitting binding offers to short listed qualified bidders in the process of selecting a strategic partner in the construction and operation of Plomin III Thermal Power Plant
    - The procedure for selecting a strategic partner will be conducted by HEP according to the International Negotiating Process pursuant to the EU Procurement Directive. Offers will be evaluated based on defined technical and economic criteria
- **May 2013** - HEP Supply received the Green Economy Award

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Appendices

Balance Sheet

ASSETS	31 December 2011	31 December 2012	YoY change
	HRK'000	HRK'000	
Non-current assets			
Property, plant and equipment	24.390.612	24.409.429	18.817
Capital work in progress	3.092.220	3.915.002	822.782
Intangible assets	57.647	73.968	16.321
Investment property	234.760	233.917	-843
Prepayments for property, plant and equipment	427.039	372.318	-54.721
Investment in NPP Krško	1.754.419	1.754.419	0.00
Long-term loan receivables and deposits	719	514	-205
Assets held for sale and other investments	120.915	129.452	8.537
Other non-current assets	107.152	67.219	-39.933
Deferred tax assets	178.903	238.469	59.566
	30.364.386	**31.194.707**	**830.321**
Current assets			
Inventories	1.063.520	981.641	-81.879
Trade receivables	1.496.236	1.873.245	377.009
Other short-term receivables	415.105	243.614	-171.491
Cash and cash equivalents	407.123	605.024	197.901
	3.381.984	**3.703.524**	**321.540**
TOTAL ASSETS	**33.746.370**	**34.898.231**	**1.151.861**

Appendices

Balance Sheet

	31 December 2011	31 December 2012	YoY change
	HRK’000	HRK’000	HRK’000
CAPITAL AND LIABILITIES			
Share capital	19.792.159	19.792.159	0.00
Capital reserves	(438.957)	6.046	445.003
(Accumulated loss)/ retained earnings	5.851	(356.648)	-362.499
Equity attributable to equity holder	**19.359.053**	**19.441.557**	**82.504**
Non-controlling interest	62.847	47.283	-15.564
Total equity	**19.421.900**	**19.488.840**	**66.940**
Long-term borrowings	2.534.489	1.839.630	-694.859
Long-term liabilities to the state	30.466	27.544	-2.922
Long-term provisions	778.629	661.411	-117.218
Bonds issued	965.202	3.335.608	2.370.406
Other long-term liabilities	5.143.989	4.911.633	-232.356
Deferred tax liabilities		1.511	
Total non-current liabilities	**9.452.775**	**10.777.337**	**1.324.562**
Trade payables	2.427.184	2.492.498	65.314
Current portion of long-term bonds issued	93.380	593.380	500.000
Current portion of long-term borrowings	1.174.713	132.084	-1.042.629
Short-term borrowings	603.163	410.843	-192.320
Taxes payable	40.755	74.116	33.361
Interest payable	23.191	45.574	22.383
Liabilities to employees	127.934	140.568	12.634
Other short-term payables	381.375	742.991	361.616
Total current liabilities	**4.871.695**	**4.632.054**	**-239.641**
TOTAL CAPITAL AND LIABILITIES	**33.746.370**	**34.898.231**	**1.151.861**

Appendices

Profit & Loss Account

	31 December 2011	31 December 2012	Change in %
	HRK'000	HRK'000	
Revenue from electricity sales	10.769.900	11.630.275	7.99%
Revenue from thermal power sales	582.352	585.485	0.54%
Revenue from gas sales	381.177	395.956	3.88%
Other operating income	1.354.570	1.407.862	3.93%
Total operating income	**13.087.999**	**14.019.578**	**7.12%**
Electricity purchase cost	(3.259.984)	(3.793.038)	16.35%
Fuel costs	(2.917.739)	(3.319.512)	13.77%
Staff cost	(1.890.228)	(1.863.235)	-1.43%
Depreciation and amortization expense	(1.749.518)	(1.734.157)	-0.88%
Other operating expenses	(2.803.164)	(2.916.120)	4.03%
Total operating expenses	**(12.620.633)**	**(13.626.062)**	**7.97%**
Profit from operations	**467.366**	**393.516**	**-15.80%**
Financial revenue	57.718	67.929	17.69%
Financial costs	(428.989)	(352.908)	-17.73%
Net financial expense	**(371.271)**	**(284.979)**	**-23.24%**
Profit before tax	96.095	108.537	**12.95%**
Income tax expense	(88.281)	(37.335)	-57.71%
(Loss) / profit from operations	**7.814**	**71.202**	**811.21%**

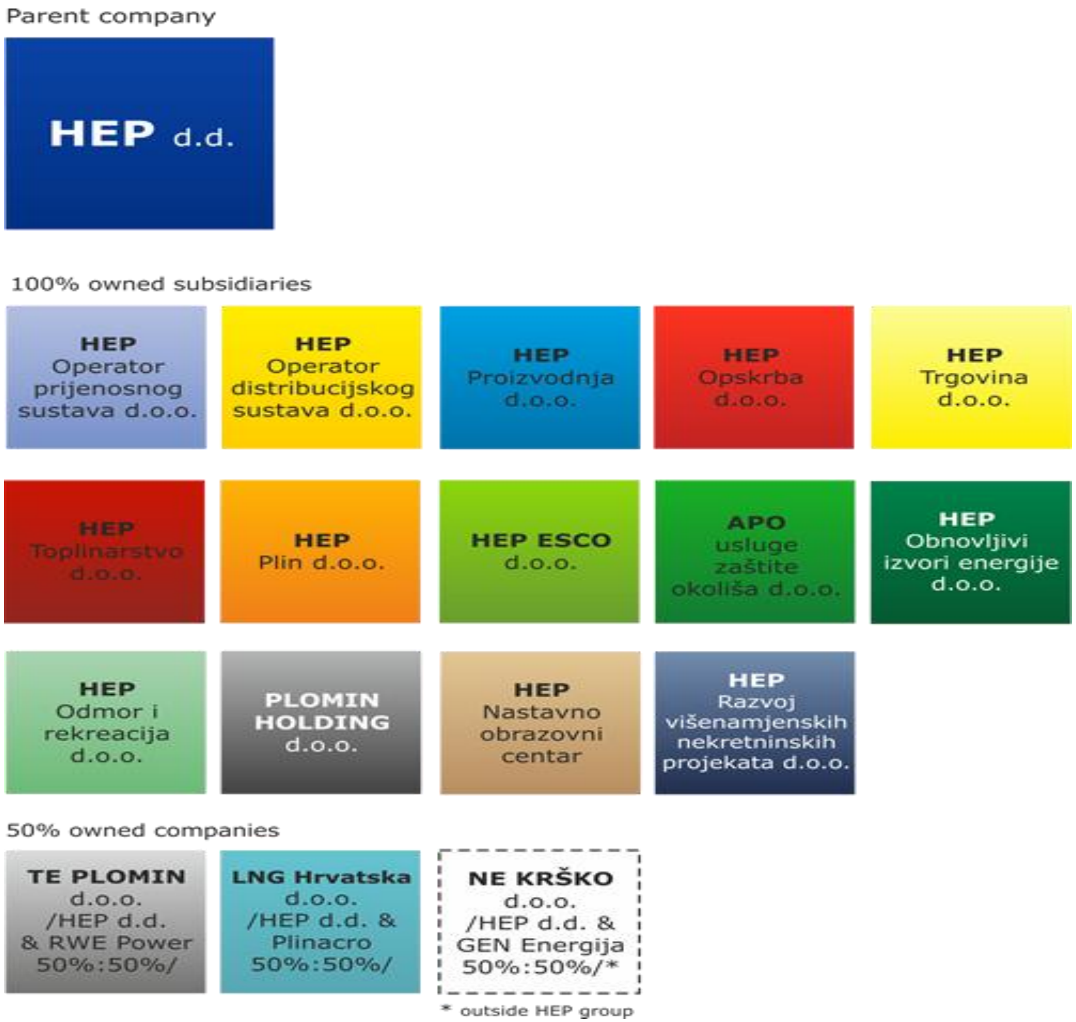
Appendices

Cash Flow

	31 December 2011 HRK'000	31 December 2012 HRK'000	Change in %
Net cash from operating activities	**2.465.500**	**1.789.103**	**-27.43%**
Net cash used in investing activities	**(2.151.521)**	**(2.524.509)**	**17.34%**
Net cash used in financing activities	**(669.013)**	**933.307**	**239.50%**
Net decrease in cash and cash equivalents	**(355.034)**	**197.901**	**155.74%**
Cash and cash equivalents at the beginning of the year	**762.157**	**407.123**	**-46.58%**
Cash and cash equivalents at the end of the year	**407.123**	**605.024**	**48.61%**

Appendices

Operating across the entire market spectrum



- Hrvatska Elektroprivreda is a **holding company** with a number of **daughter companies**
- HEP d.d. **functions as HEP Group's parent company corporate manager**
- Within the HEP Group there is a **clear division** (managerial, accounting, legal) of companies which perform regulated activities (transmission and distribution) from non-regulated ones (generation and supply)
- Unbundling of Transmission Subsidiary as per ITO (Independent Transmission Operator) model is currently underway

Appendices

Contacts

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