



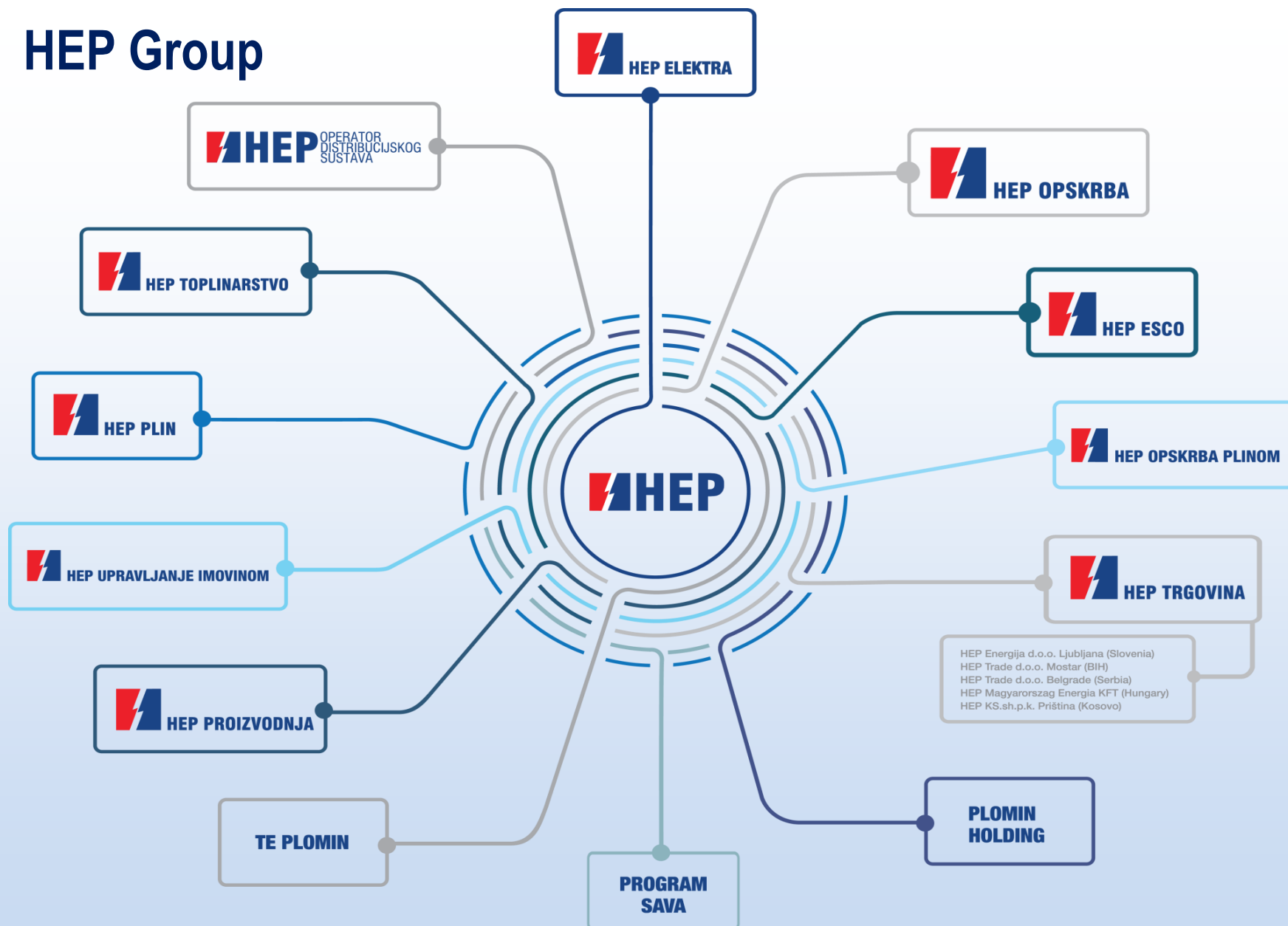
HRVATSKA ELEKTROPRIVREDA

More than electricity

Presentation on Half Year Financial Statements
as of June 30, 2016



HEP Group



1HY 2016 Overview

Macroeconomic

- According to the first estimate the quarterly GDP for the second quarter of 2016 increased in the real terms by 2.8% as compared to the same quarter of 2015

- Growth of investing activities

- Deficit reduction

Generation performance compared to 1HY 2015

- **HPP** – 3% lower
- **TPP** – 16% higher
- **Nuclear** – 27% higher
- **Thermal energy** – 6% lower
- **Total** – 7% higher

Sale (GWh)

- **Electricity** – 21% higher
- **Heat energy** – 6% lower
- **Gas wholesale** – 6% lower
- **Gas retail** – 3% higher

CAPEX

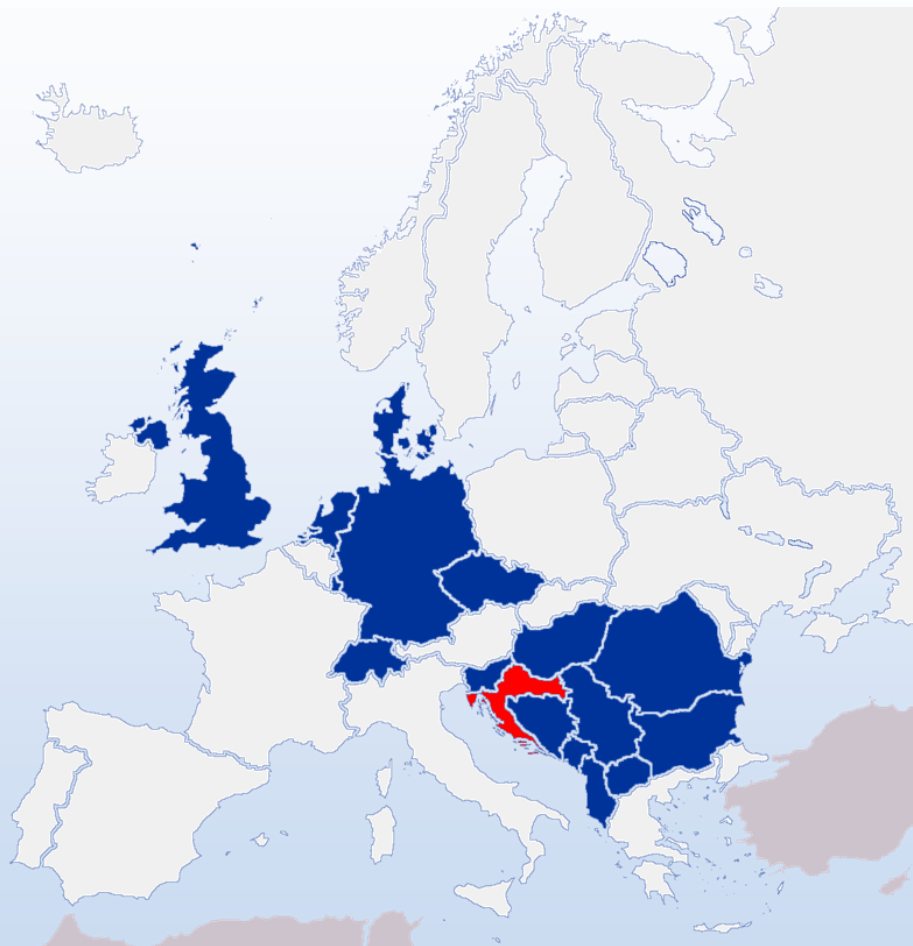
- As of June 30th > **HRK 800 mn invested**
- Capex plan for 2016 > **HRK 2,5 bn**

Financial overview compared to 1HY 2015

- **EBITDA** – 8% higher
- **Income** – slightly higher
- **Expenses** – 4% lower
- **Total asset** – 7% higher

News

- HERA (with EC consent) made resolution on giving HOPS certificate for being independent transmission operator
- CROPEX¹ nominated as independent operator of power exchange for *intraday* and *day ahead* trading
- Finalisation of BE-TO² Osijek and BE-TO Sisak – Testing period during November 2016
- 22 Electrical charge points for vehicle across Croatia
- HRK 500 mn invested during summer for improvement of distribution network on coast line
- Acquisition of 12% market in Slovenia and entering other regional markets (Bosnia and Herzegovina, Serbia, Kosovo)
- HEP's income derives from more than 15 countries



HEP Group at a Glance



Generation

Electricity

- **4,232 MWe** of installed capacity
- 26 hydro PPs (2,214 MWe)
- 8 thermal PPs (1,670 MWe)
- 1 nuclear PP¹ (348 MWe)

Heat

- **1,755 MWth** of installed capacity in 4 TPPs and **335 MWth** in district boiler rooms
- Partially regulated



Transmission

- HOPS, Croatian electricity transmission system operator
- Upon Croatia's accession to the EU, HEP opted for ITO³ 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
- Regulated and Unregulated Supply
- 85% of electricity sold in Croatia in 1H2016
- 12% of market share (commercial customers) in Slovenia
- Entering Bosnia & Herzegovina market
- 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

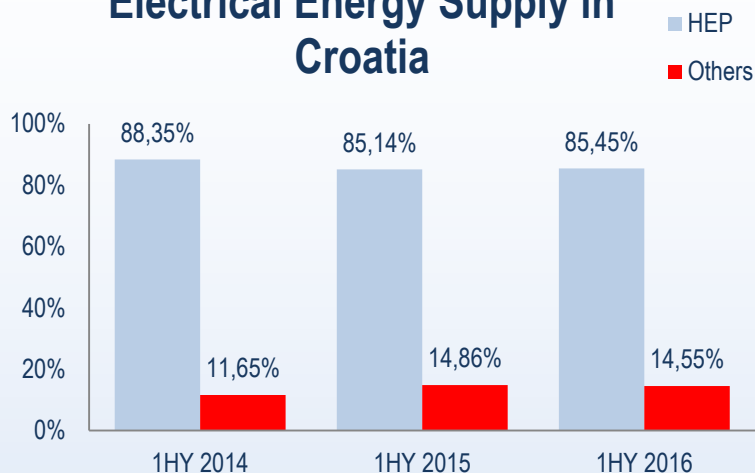
- Trading in electricity, gas and CO2 emissions in Croatia and abroad
- Trading platform responsible for optimisation of power plant operation and intermediation in the domestic and international markets
- Other businesses specialise in renewable energy sources, energy efficiency, environmental protection and other

MARKET OVERVIEW

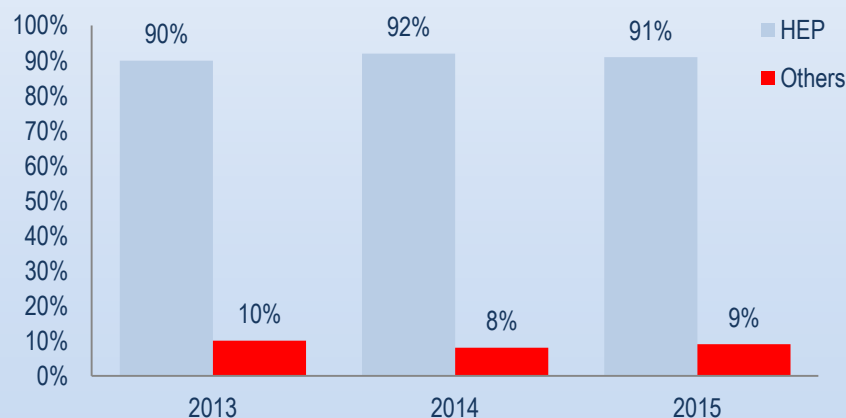


Market Leader in Power Supply

Electrical Energy Supply in Croatia



Sale of Thermal Power in Croatia



Electricity

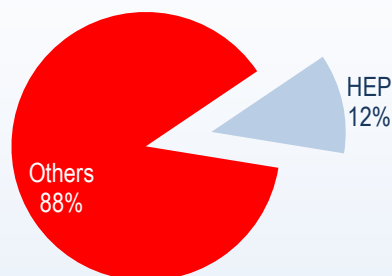
- Supplies 85.4% of all electricity sold in Croatia as at 30 June 2016 among 20 other suppliers
- Largest out of 20 registered suppliers (3 market suppliers are part of the HEP Group) of electricity in Croatia in terms of volume of electricity sold
- Sole distributor of electricity to more than 2.3 million customers - Regulated monopoly
- Operates 136,733 kilometers of high, medium and low voltage electricity distribution lines

Thermal energy (Heat)

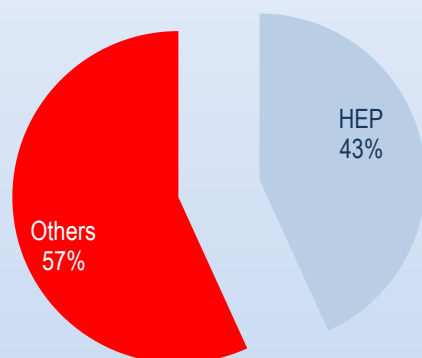
- Largest out of 19 distributors of heat with c. >124,000 customers, covering approx. 90% of the total market by the number of customers in Croatia
- Loss making due to low regulated tariff rates and increased operating costs
- Focus on making the district heating business economically viable

Gas Market Overview

Gas Retail in Croatia



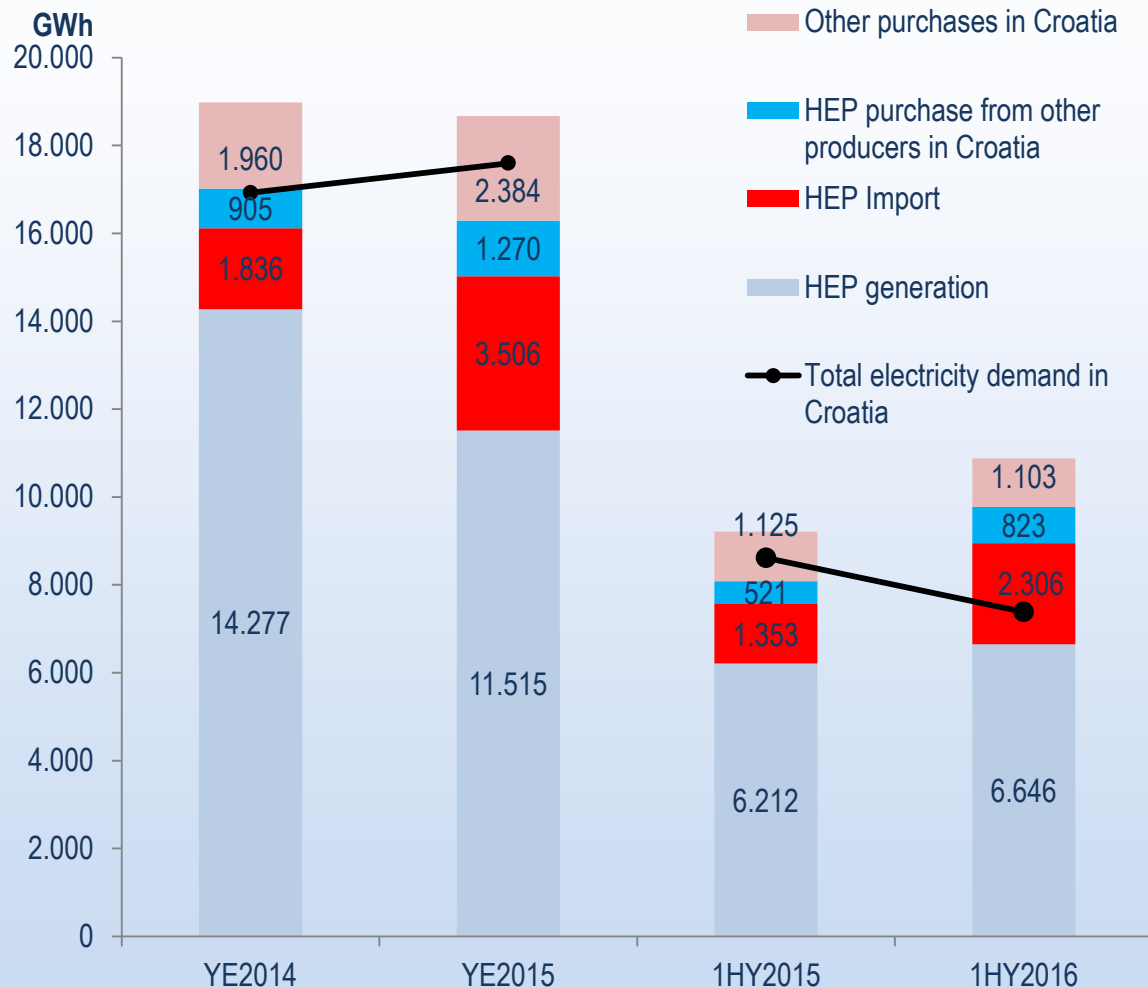
Gas Wholesale in Croatia



Gas

- Retail market - second largest gas supplier in Croatia by volume sold to end-consumers among 56 suppliers
- Tariffs are set by the Croatian Government on the recommendation of HERA
- Gas sales prices to non-regulated customers are set by HEP, and prices to regulated customers are set by HERA
- Liberalization of gas retail market in April 2017
- On wholesale market HEP d.d. is sole supplier of gas for all other suppliers in Croatia
- 43% of total gas delivered in Croatia is from HEP group

Electricity Market in Croatia



Total electricity demand

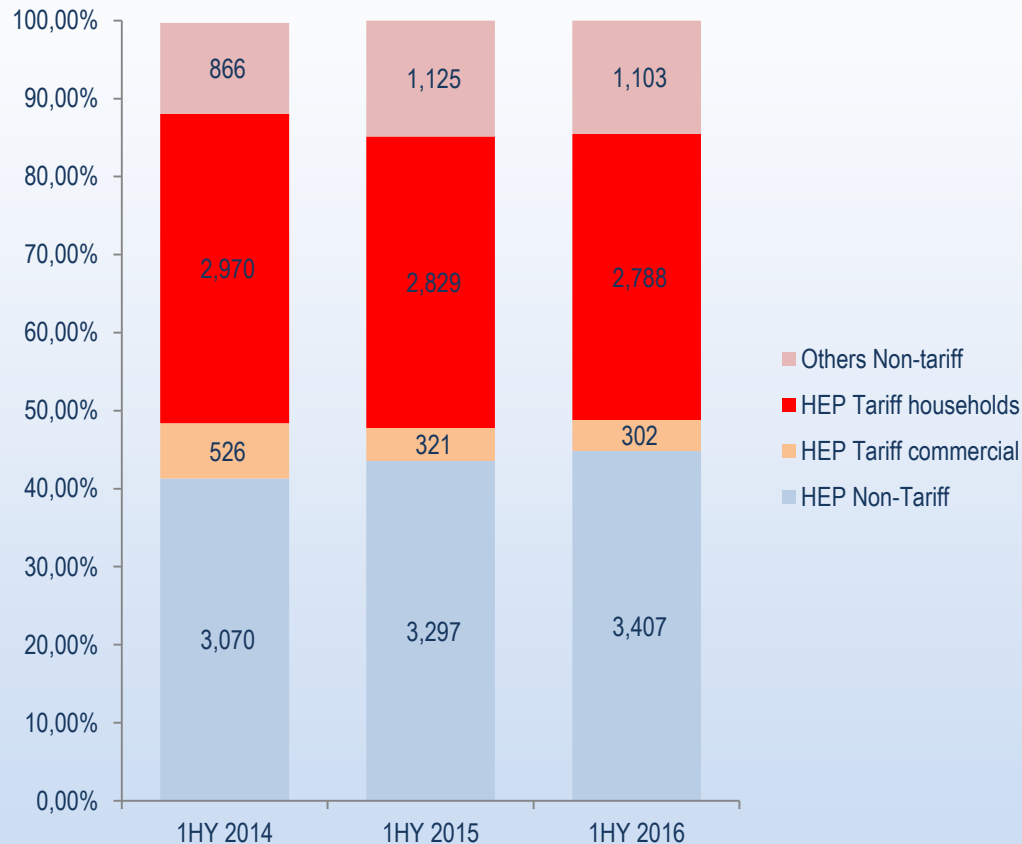
- YE 2014: 16,923 GWh
- YE 2015: 17,596 GWh
- 1HY 2015: 8,613 GWh
- 1HY 2016: 7,384 GWh

Generation

- Surplus is exported
- Generation structure:
 - Hydro PP 3,5 TWh
 - Thermal PP 1,6 TWh
 - Nuclear PP 1,5 TWh
- Other purchases in Croatia refers mostly to other suppliers outside HEP Group

Market Overview

Electricity sold by customer category, GWh

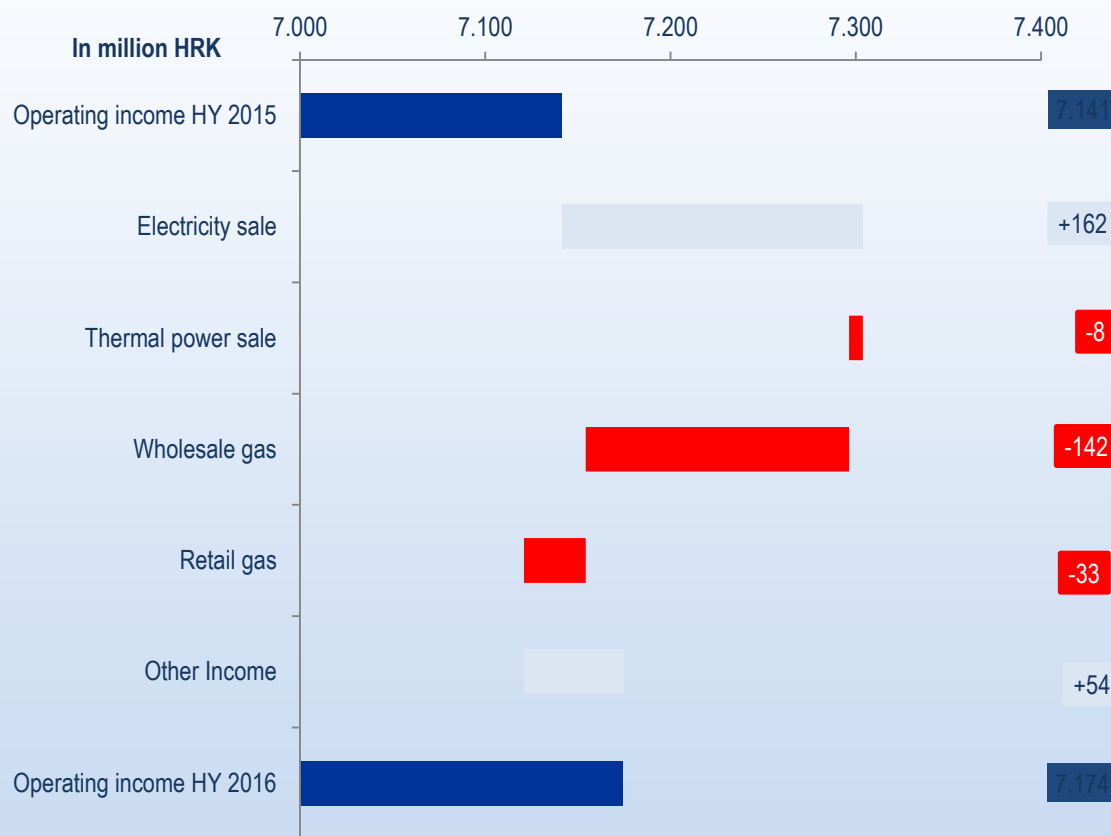


- Commercial customers include commercial and industrial entities
- Commercial customers who choose a market supplier (offering non-tariff based rates) typically pay lower rates than the tariff rates under the regulated public supply system, but they may be more exposed to price fluctuations in market rates
- 2013 was marked with an emergence of alternative suppliers among commercial customers and their entrance in the residential sector during mid-2013
- 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 (98.3% as of 31.12.2015) of households remain with and are supplied through the public supply system by HEP at fixed tariff rates set by HERA

FINANCIAL RESULTS

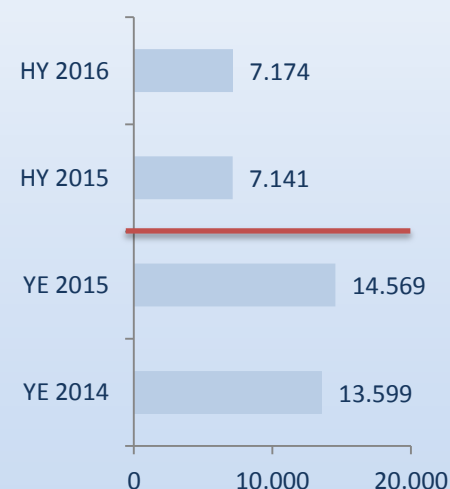
Development of Operating Income in 1HY 2016

Operating income 1HY 2015 vs 1HY 2016

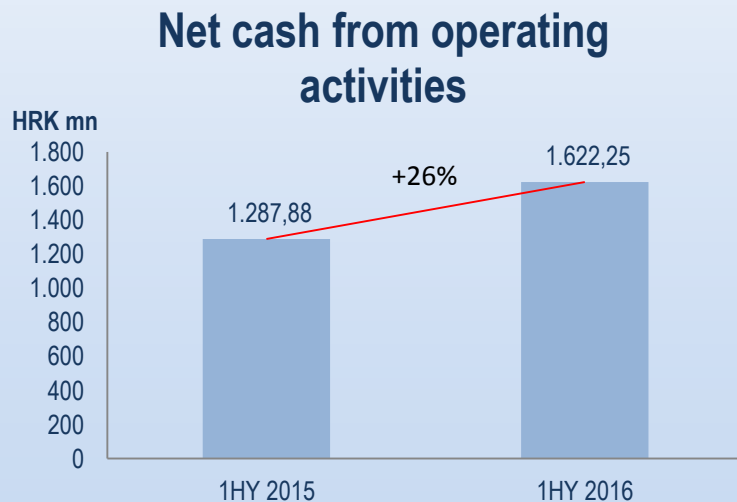
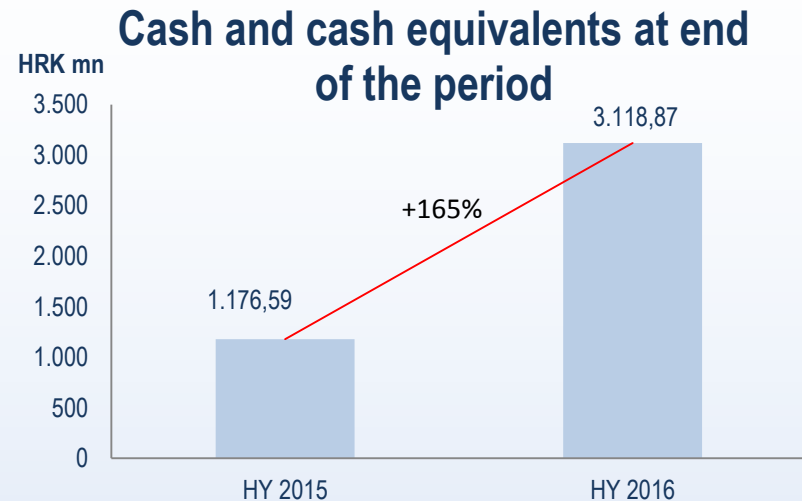
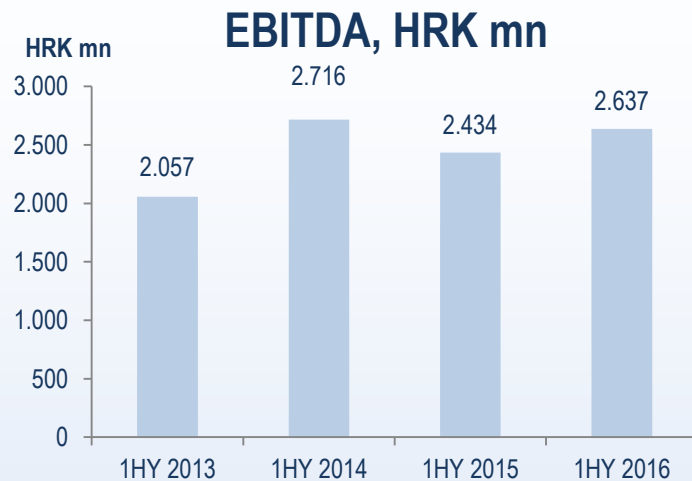


- **Electricity:** Growth due higher international sale
- **Thermal:** Warmer winter
- **Wholesale gas:** Decrease in sale and price
- **Retail gas:** Lower selling price
- **Other:** Abolishing provisions and income from paid written-off receivables

Total Operating income (HRKmn)



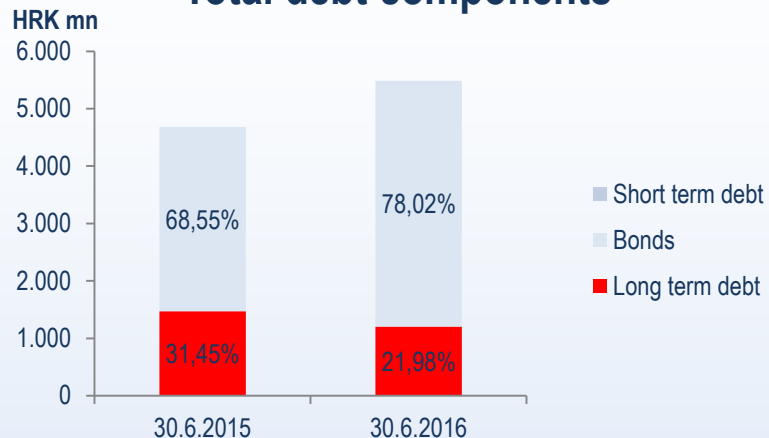
Financial Performance 1HY 2016



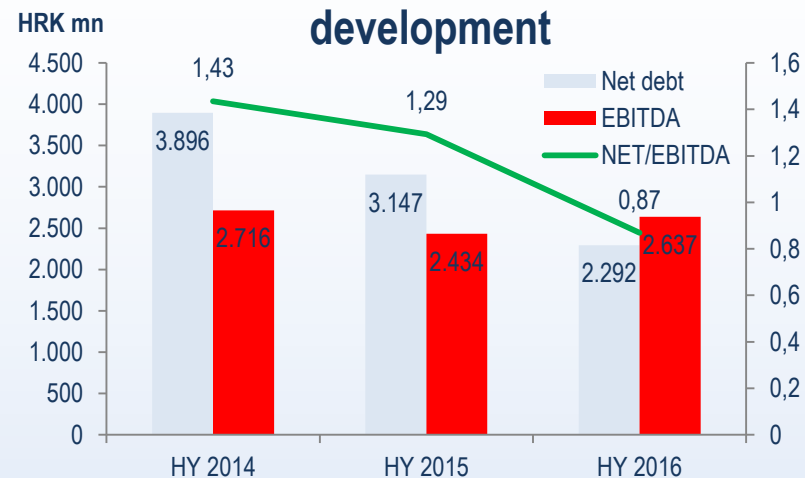
- EBITDA increased compared to 1HY 2015 primarily due to an increase in electricity sale and reduction of operating costs
- HEP Group's principal sources of liquidity are cash flow from its current operations and proceeds of maturing financial assets together with borrowings from third parties
- Strong liquidity position

Total Group Debt

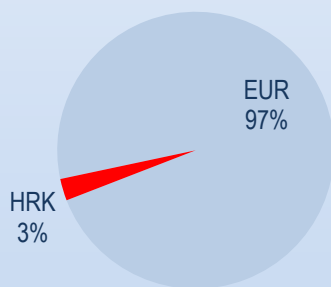
Total debt components



Total debt and net debt/EBITDA development



Currency structure of debt as of June 30, 2016



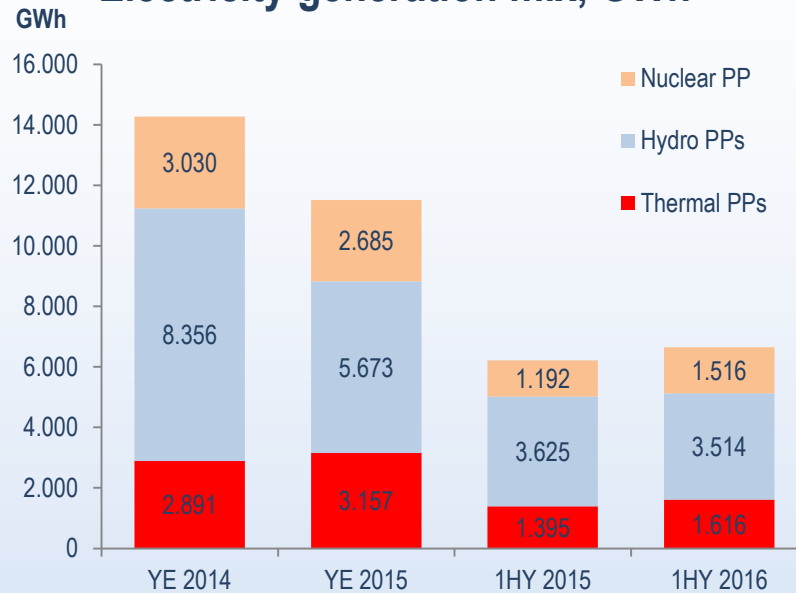
Debt maturity profile



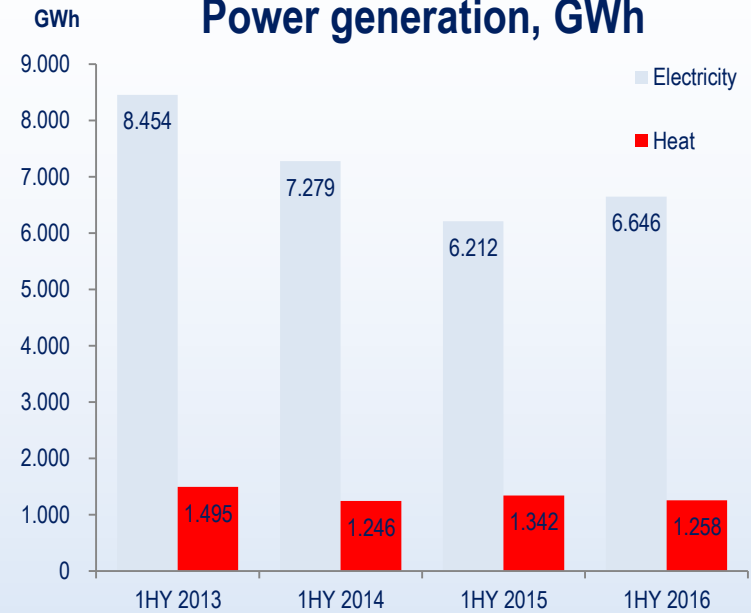
GENERATION

Generation

Electricity generation mix, GWh



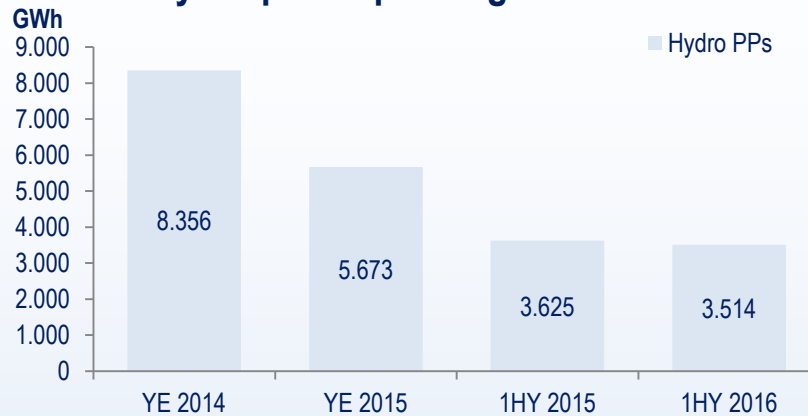
Power generation, GWh



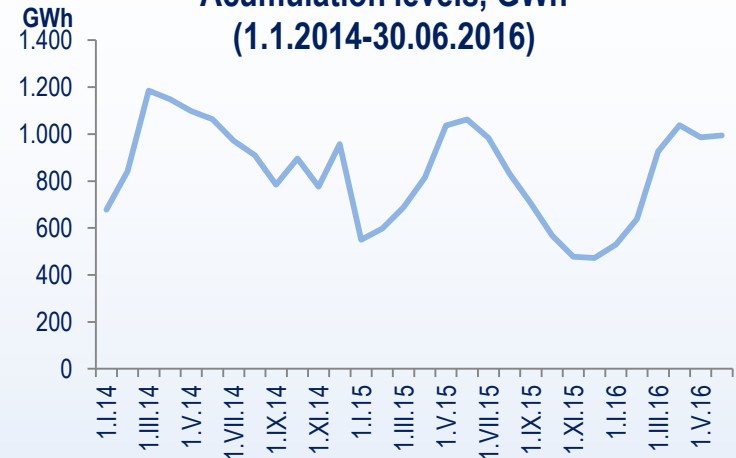
- Group has diversified generation portfolio
- Cost competitive generation mix - hydro power plants and nuclear power plant provide low cost electricity generation
- Oil-fired thermal power plants used primarily to meet high electricity demand during adverse weather conditions
- Not reliant on single 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 minimize costs, reduce price volatility and prevent supply disruptions

Hydro Energy

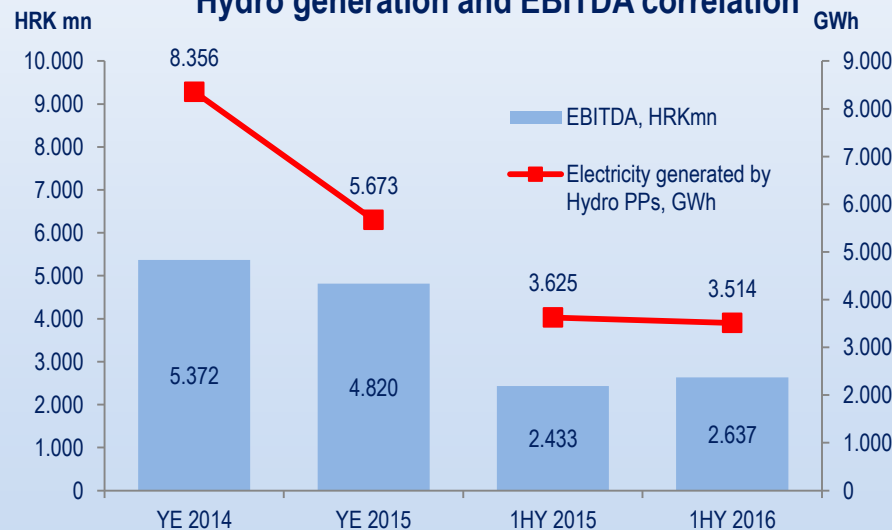
Hydro power plants generation



Acumulation levels, GWh (1.1.2014-30.06.2016)



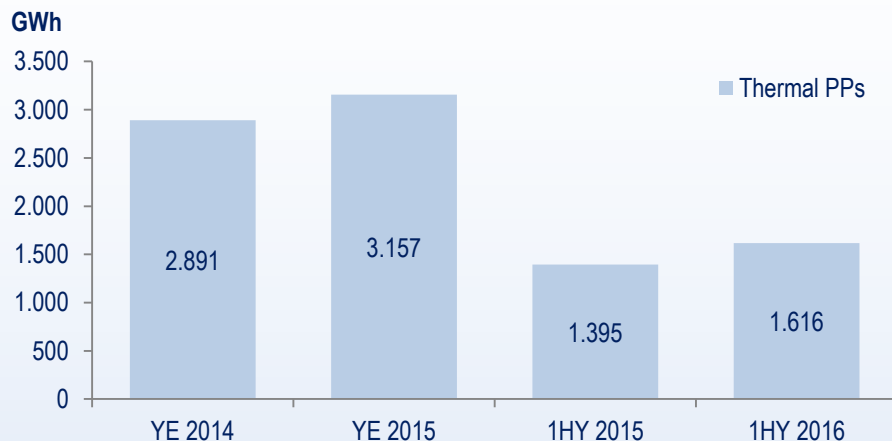
Hydro generation and EBITDA correlation



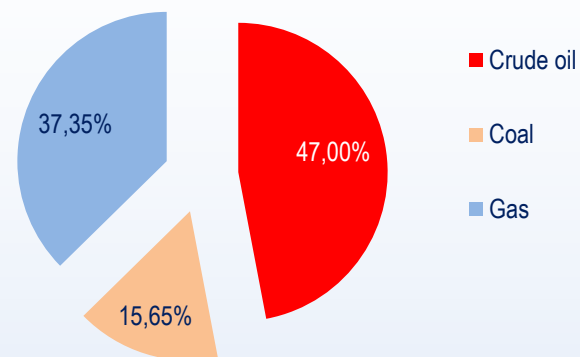
- 26 hydro PPs with total installed capacity of 2,214 MWe
- Favorable hydrological conditions which marked 2015, continued, although a bit lower, in the first half 2016
- This has enabled a significant generation of electricity in hydro power plants with a 53%-share in the structure of electricity sources
- Recorded generation in hydro power plants was 3.5 TWh, which is 0.1 TWh less in comparison with the first half 2015

Thermal Energy

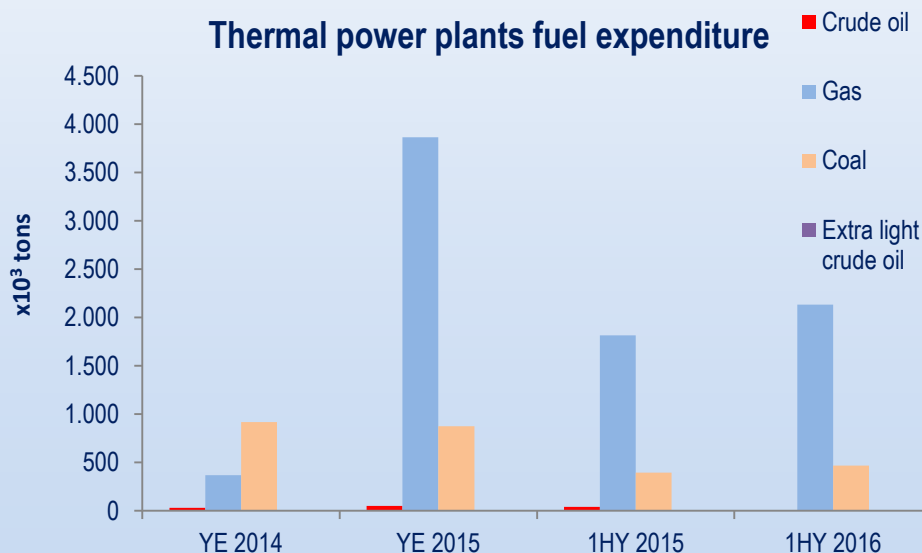
Thermal power plants generation



Thermal power plants by fuel type



Thermal power plants fuel expenditure



- 8 thermal power plants with total installed capacity of 1,670 MWe
- In May 2015 the Group assumed a 50% share in TPP Plomin II from RWE, and currently holds the 100% share in TPP Plomin II
- Limited CO₂ footprint and reduced commodity exposure to own power generation, with generation largely based on hydro and nuclear power

Notes

Disclaimer

This presentation may contain forward-looking statements based on current assumptions and forecasts made by HEP Group Management and other information currently available to HEP. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. HEP Group does not intend, and does not assume any liability whatsoever, to update these forward-looking statements or to conform them to future events or developments.

Investor Relations Contact

IR@hep.hr

