HRVATSKA ELEKTROPRIVREDA
More than electricity

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

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

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

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1. Croatian Power Exchange is a company established to provide a central location for trading electricity to their market participants in a safe, reliable and transparent way, equally owned by CROATIAN ENERGY MARKET OPERATOR Ltd. and Croatian Transmission System Operator Ltd.
2. BE-TO – Biomass Power Plant
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 PP (348 MWe)

Transmission

- HOPS, Croatian electricity transmission system operator
- Upon Croatia’s accession to the EU, HEP opted for ITO 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

Source: HEP

3 Co-owned with GenE (total NPP installed capacity 696 MWe)
4 Independent transmission operator, the unbundling process of HOPS has been completed and the company obtained required approval and certification from HERA in February 2016
Market Leader in Power Supply

Electrical Energy Supply in Croatia

- 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

Sale of Thermal Power in Croatia

- 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

- HEP: 12%
- Others: 88%

Gas Wholesale in Croatia

- HEP: 43%
- Others: 57%

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

- **Electricity**: Growth due to 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

### Operating income 1HY 2015 vs 1HY 2016

<table>
<thead>
<tr>
<th>Category</th>
<th>HY 15</th>
<th>HY 16</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>7.141</td>
<td>7.174</td>
<td>+0.033</td>
</tr>
<tr>
<td>Electricity sale</td>
<td></td>
<td></td>
<td>+0.162</td>
</tr>
<tr>
<td>Thermal power sale</td>
<td></td>
<td></td>
<td>-0.008</td>
</tr>
<tr>
<td>Wholesale gas</td>
<td></td>
<td></td>
<td>-0.142</td>
</tr>
<tr>
<td>Retail gas</td>
<td></td>
<td></td>
<td>-0.033</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
<td>+0.054</td>
</tr>
</tbody>
</table>

### Total Operating income (HRKmn)

- **HY 2016**: 7.174 HRKmn
- **HY 2015**: 7.141 HRKmn
- **YE 2015**: 14.569 HRKmn
- **YE 2014**: 13.599 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.

### EBITDA, HRK mn

<table>
<thead>
<tr>
<th></th>
<th>1HY 2013</th>
<th>1HY 2014</th>
<th>1HY 2015</th>
<th>1HY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA, HRK mn</td>
<td>2.057</td>
<td>2.716</td>
<td>2.434</td>
<td>2.637</td>
</tr>
</tbody>
</table>

### Net cash from operating activities

<table>
<thead>
<tr>
<th></th>
<th>1HY 2015</th>
<th>1HY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRK mn</td>
<td>1.287,88</td>
<td>1.622,25</td>
</tr>
<tr>
<td>+26%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Cash and cash equivalents at end of the period

<table>
<thead>
<tr>
<th></th>
<th>HY 2015</th>
<th>HY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRK mn</td>
<td>1.176,59</td>
<td>3.118,87</td>
</tr>
<tr>
<td>+165%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Total Group Debt

Total debt components

<table>
<thead>
<tr>
<th>Date</th>
<th>Short term debt</th>
<th>Bonds</th>
<th>Long term debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.6.2015</td>
<td>68.55%</td>
<td>31.45%</td>
<td>0</td>
</tr>
<tr>
<td>30.6.2016</td>
<td>78.02%</td>
<td>21.98%</td>
<td>0</td>
</tr>
</tbody>
</table>

Currency structure of debt as of June 30, 2016

- EUR: 97%
- HRK: 3%

Total debt and net debt/EBITDA development

<table>
<thead>
<tr>
<th>Period</th>
<th>Net debt</th>
<th>EBITDA</th>
<th>NET/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY 2014</td>
<td>3.896</td>
<td>1.43</td>
<td>2.718</td>
</tr>
<tr>
<td>HY 2015</td>
<td>3.147</td>
<td>1.29</td>
<td>2.434</td>
</tr>
<tr>
<td>HY 2016</td>
<td>2.292</td>
<td>0.87</td>
<td>2.637</td>
</tr>
</tbody>
</table>

Debt maturity profile

- Bonds
- Long term debt

- 2016: 269 HRK mn
- 2017: 416 HRK mn
- 2018: 437 HRK mn
- 2019: 84 HRK mn
- 2020: 3 HRK mn
- 2021: 3.707 HRK mn
- 2022: 3.707 HRK mn
• 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

<table>
<thead>
<tr>
<th>Year</th>
<th>GWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>YE 2014</td>
<td>8.356</td>
</tr>
<tr>
<td>YE 2015</td>
<td>5.673</td>
</tr>
<tr>
<td>1HY 2015</td>
<td>3.625</td>
</tr>
<tr>
<td>1HY 2016</td>
<td>3.514</td>
</tr>
</tbody>
</table>

Acumulation levels, GWh
(1.1.2014-30.06.2016)

Hydro generation and EBITDA correlation

<table>
<thead>
<tr>
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<th>HRK mn</th>
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</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th>Year</th>
<th>GWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>YE 2014</td>
<td>2.891</td>
</tr>
<tr>
<td>YE 2015</td>
<td>3.157</td>
</tr>
<tr>
<td>1HY 2015</td>
<td>1.395</td>
</tr>
<tr>
<td>1HY 2016</td>
<td>1.616</td>
</tr>
</tbody>
</table>

**Thermal power plants by fuel type**

- Crude oil: 37.35%
- Coal: 15.65%
- Gas: 47.00%

**Thermal power plants fuel expenditure**

- Crude oil
- Gas
- Coal
- Extra light crude oil

- 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
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.

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