



# Hrvatska elektroprivreda

More than electricity

Consolidated Financial Statements  
YE 2016



# Contents

## **2016 Key highlights**

Financial results

Operations results

Capital expenditure

Q&A



# Safe Harbor Statement

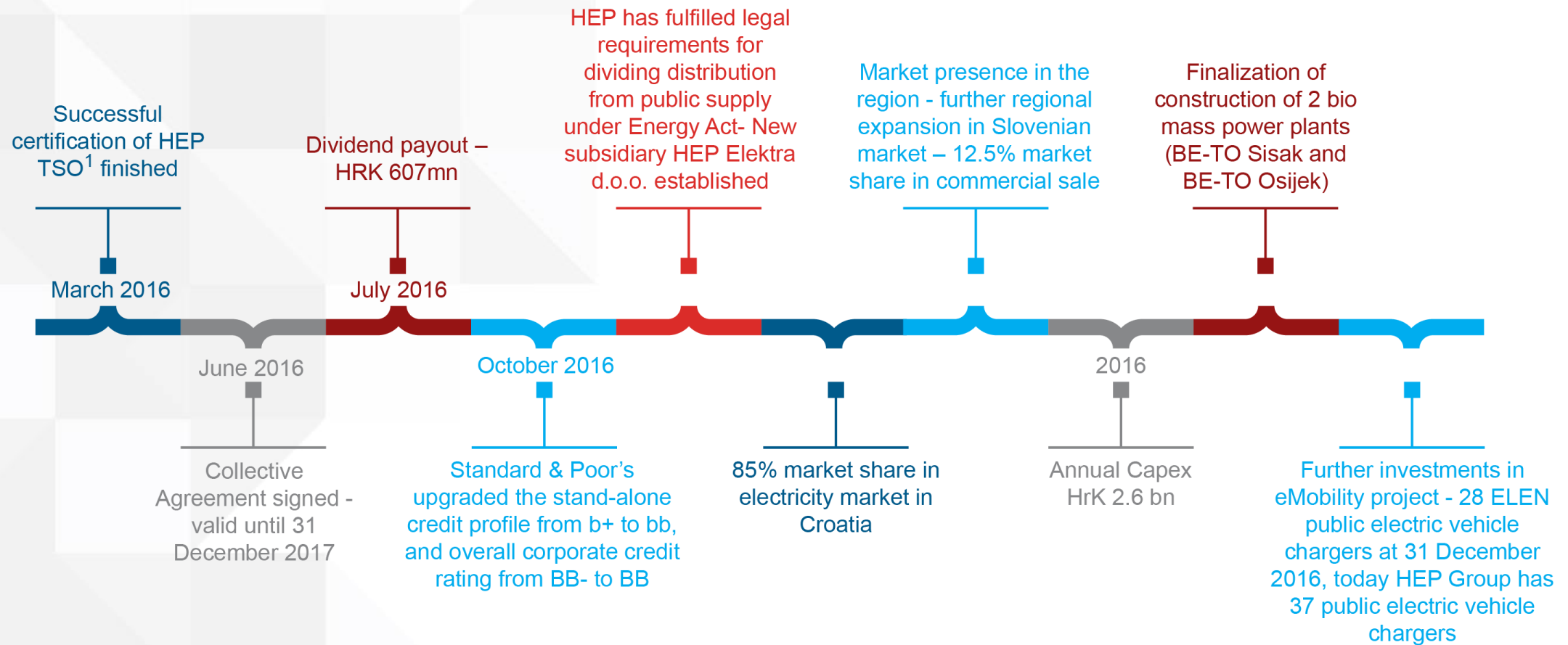


This Presentation contains certain forward-looking statements that reflect HEP's current views with respect to future events and financial and operational performance, including but not limited to risks specific to HEP's business and the implementation of strategic initiatives, as well as other statements relating to HEP's future business development and economic performance. Forward-looking statements are statements in this Presentation that do not relate to historical facts and events. The words "will", "believes", "assumes", "intends", "estimates", "expects", "may", "plans", "seeks", "approximately", "aims", "projects", "anticipates" or similar expressions regarding indications or prognoses of future developments or trends, which are not statements based on historical facts, constitute forward-looking information. While these forward-looking statements represent HEP's judgments and future expectations concerning the development of its business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from HEP's expectations. In light of these risks, uncertainties and assumptions, it is possible that the future events referred to in this Presentation may not occur. Because these forward-looking statements involve known and unknown risks and uncertainties, the outcome could differ materially from those set out in the forward-looking statements as a result of:

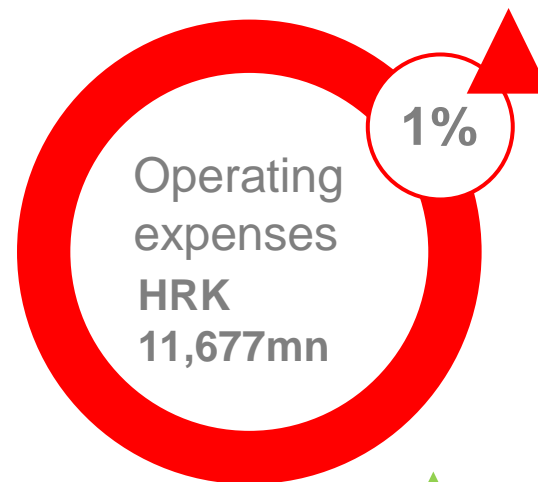
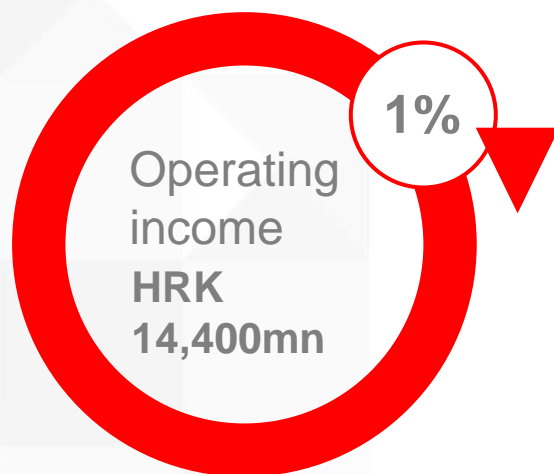
- absence of the ownership title with respect to certain properties, including real estate connected to 17 out of 26 of the hydro power plants which the Group currently operates in the Republic of Croatia;
- HEP's ability to maintain and increase market share for its products and services and control expenses;
- changes in the competitive environment and competitive pressures;
- any declines in property values and asset quality;
- any decline in the availability of financing at acceptable prices;
- changes in general economic and business conditions;
- changes and fluctuations in interest rates, share prices and exchange rates;
- political, governmental, legislative and regulatory changes or changes in political or social conditions;
- changes in HEP's credit ratings;
- changes in economic conditions in the countries in which the Group operates;
- the extent and nature of future developments in the lending market and in other market segments that have been affected by the global financial crisis and the European sovereign debt crisis;
- other market and macro-economic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the global financial crisis or the European sovereign debt crisis;
- changes in internal risk control;
- limitations in the effectiveness of HEP's internal risk management processes, of its risk measurement, control and modelling systems, and of financial models generally;
- developments relating to HEP's access to capital and funding;
- changes in the financial position or creditworthiness of HEP's customers, obligors and counterparties, and developments in the markets in which they operate;
- management changes and changes to the structure of HEP's business group;
- the occurrence of operational failures, such as fraud, unauthorized trading and systems failures;
- technological developments; and
- the impact of all such future developments on positions held by HEP.

Additional factors that could cause HEP's actual business, results of operations or financial condition to differ from the forward-looking statements include, but are not limited to, the other factors that HEP has indicated in other parts of this Presentation which could materially adversely affect its business and financial performance. The forward-looking statements included in this Presentation speak only as of the date of this Presentation. HEP undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise

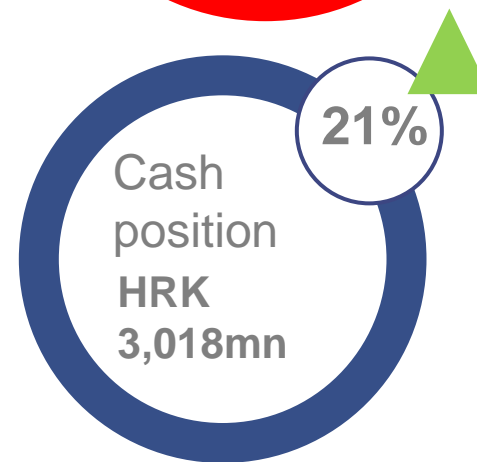
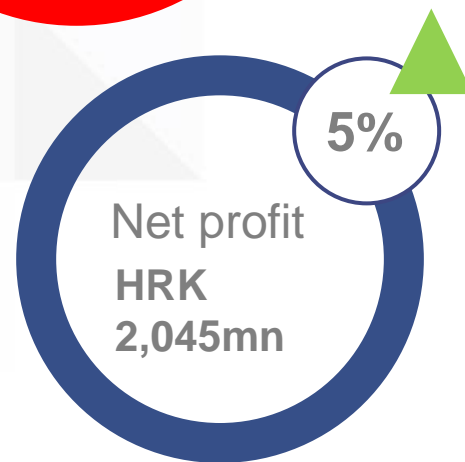
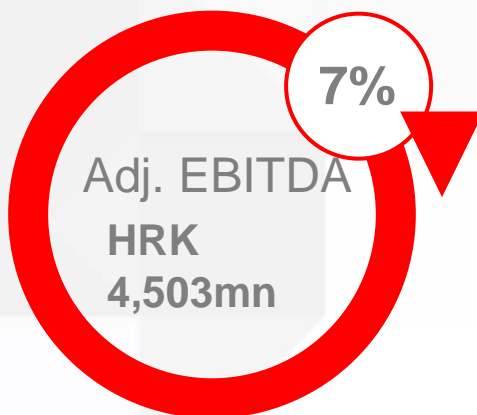
# Key Highlights



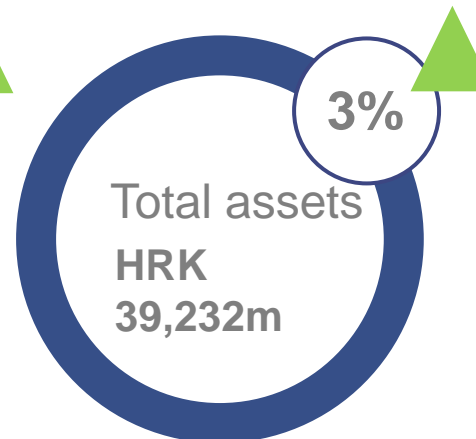
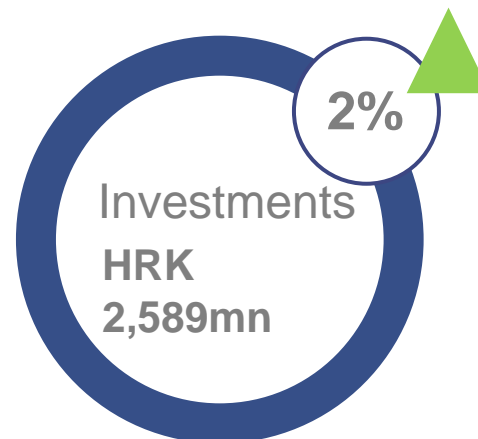
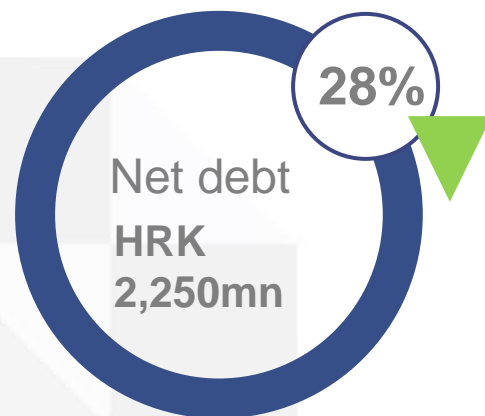
# Key Facts



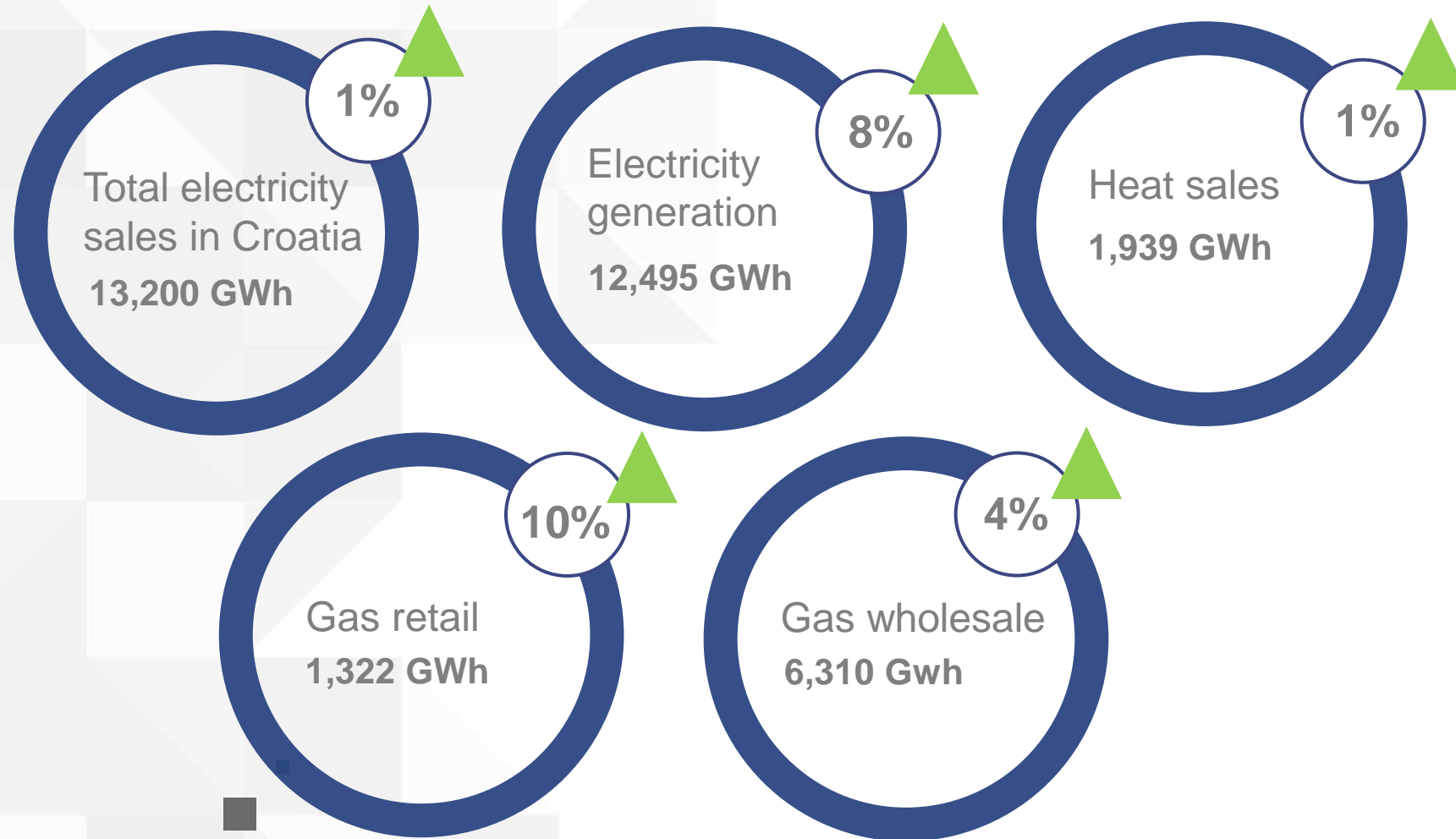
Number of employees  
2016: 11,832  
2015: 11,935



% Compared to FY 2015



# Key Facts



HEP Group 85 % electricity market share in Croatia

Regional presence- 12.5% commercial customers in Slovenian market

# Contents

2016 Key highlights

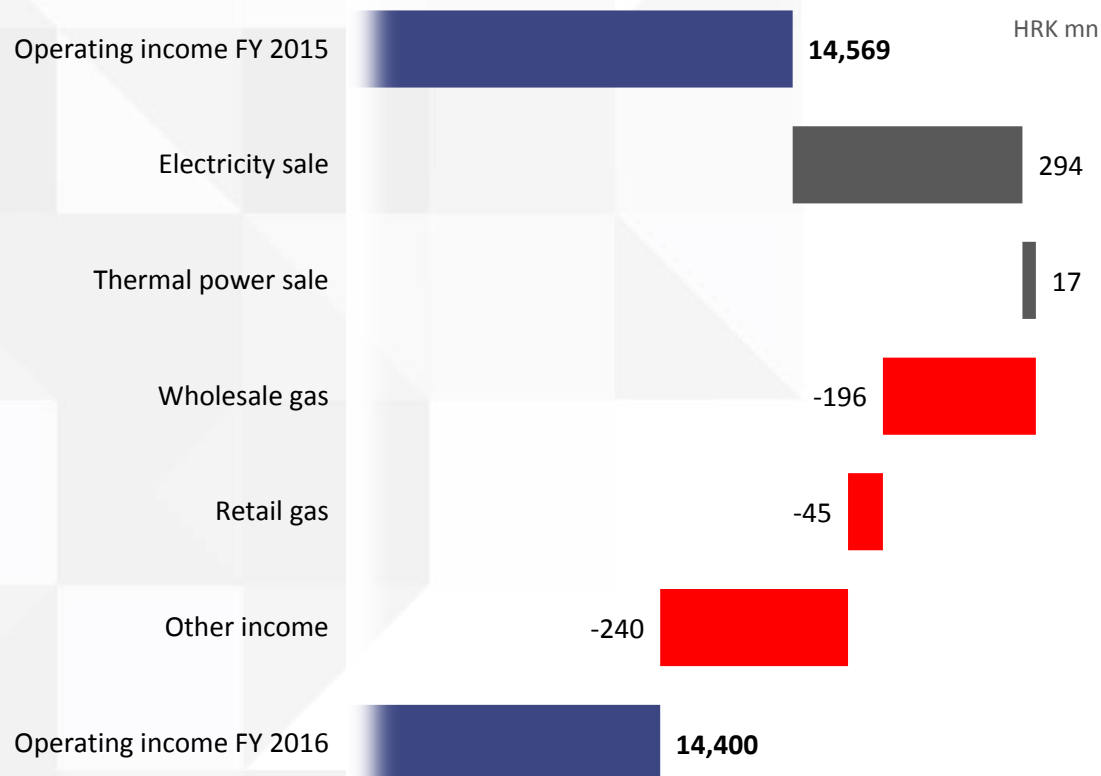
**Financial results**

Operations results

Capital expenditure

Q&A

# Development of Operating Income<sup>1</sup>

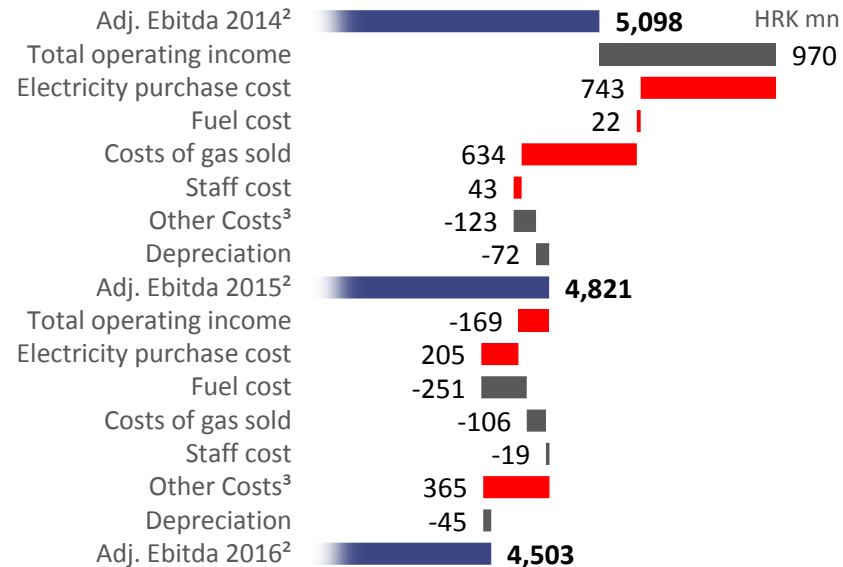
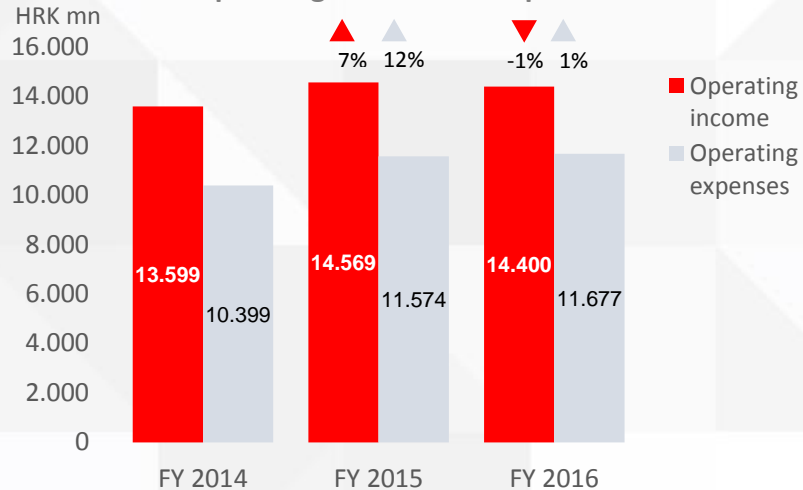


- Revenue from electricity sale increased by HRK **294mn (3%)**, which is a result of an increase in:
  - Foreign market revenue by HRK **364mn**
  - Revenue from HEP's producers in the incentive system of generation from renewable energy sources by HRK **125mn**
  - **36mn** commercial revenue increase in Croatia
- **2.5%** thermal power sales revenue increase due to **2%** higher average price and **0.6%** consumption increase
- Sale of gas on wholesale market revenue decreased **15%** due to lower sale price
- Sale of gas to customers revenue decreased **11%** due to lower sale price- the sale increased **9%**
- Other operating income decreased **14%**

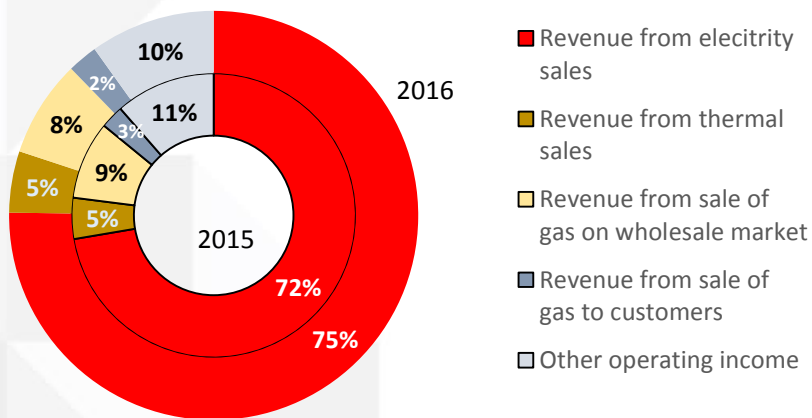


# Financial Performance FY 2016

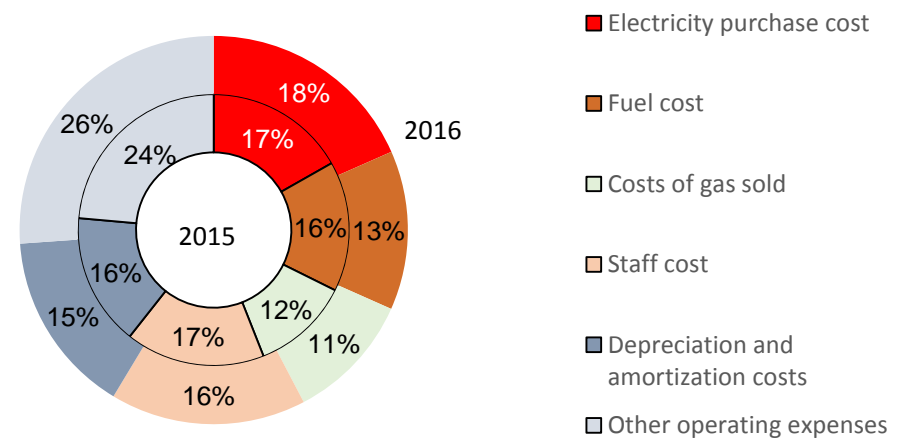
Operating income and expenses<sup>1</sup>



Total operating income split FY 2016 vs 2015<sup>1</sup>



Total operating expenses split FY 2016 vs 2015<sup>1</sup>

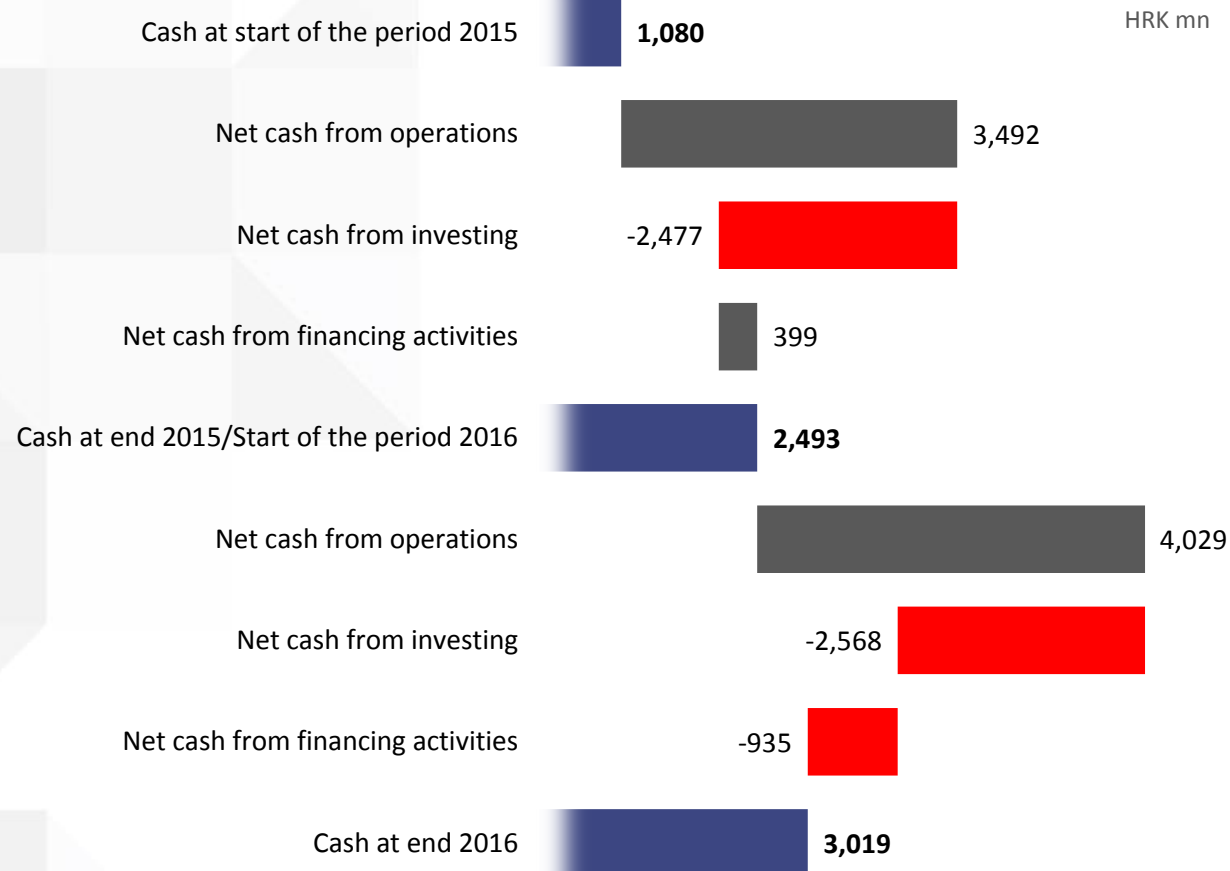


<sup>1</sup> Audited Consolidated Financial Statements for 2016, available at [www.hep.hr](http://www.hep.hr)

<sup>2</sup> Adjusted EBITDA consists of operating profit/(loss) and depreciation and amortization for the period excluding financial expense, financial income, corporate income tax expense

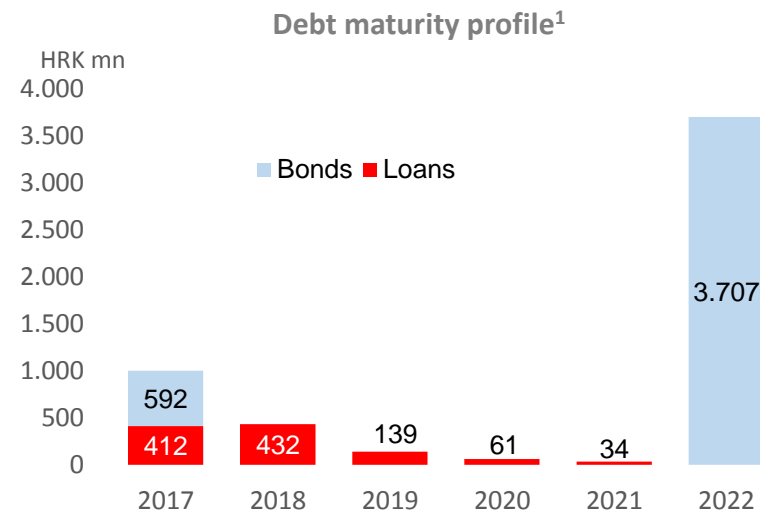
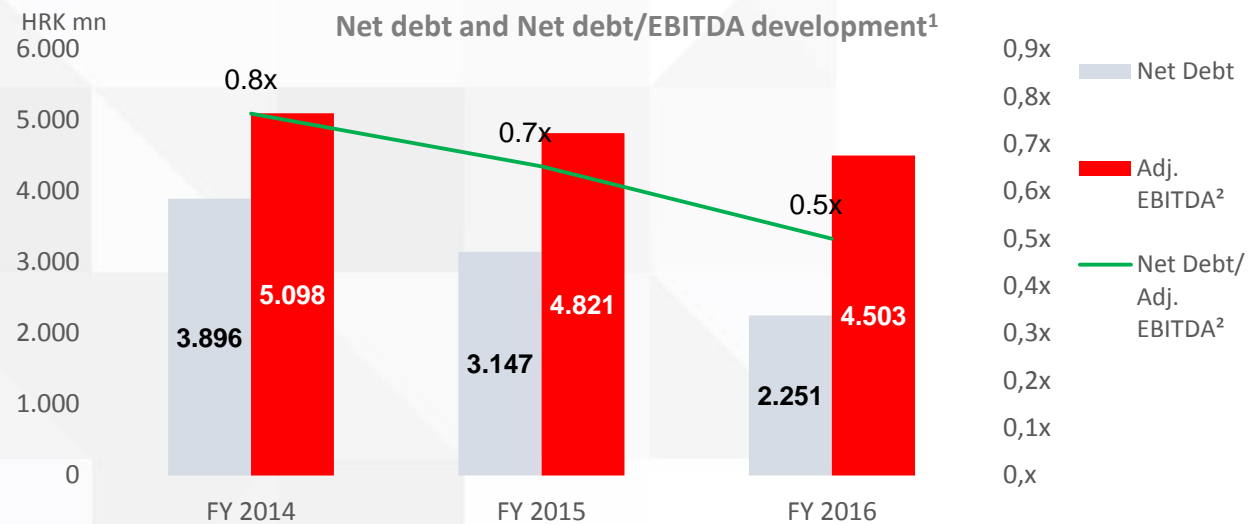
<sup>3</sup> Includes depreciation and amortization

# Cash flow<sup>1</sup>

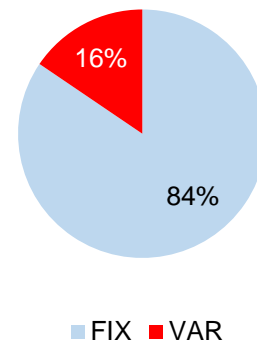
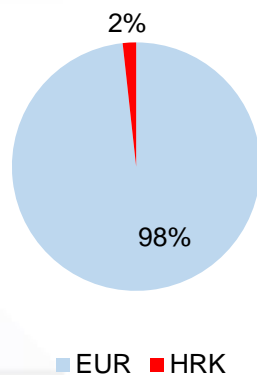
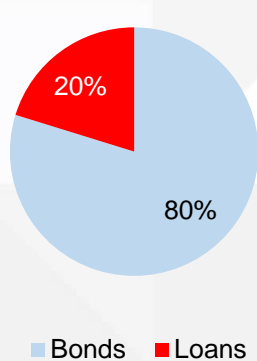


- Strong liquidity position
- Additional liquidity HRK 1,4 billion under short term financing sources with local banks
- Dividend payout – HRK 607mn

# HEP Group Debt



**Debt structure as of YE 2016<sup>1</sup>**



- No short term debt since YE 2014
- Experienced issuer on domestic and international capital market (first Croatian Tender Offer and Liability Management Transaction in 2015)
- 2 out of 3 bonds maturing in 2017 (Outstanding amount: HRK 93.03mn, EUR 65.3mn)

<sup>1</sup> Audited Consolidated Financial Statements for 2016, available at [www.hep.hr](http://www.hep.hr)

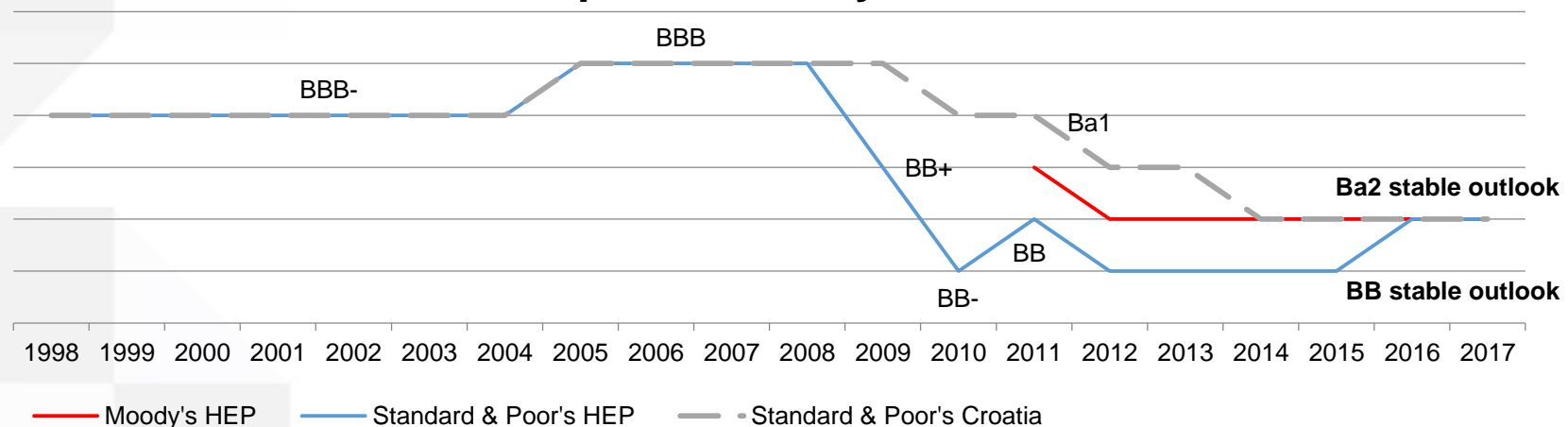
<sup>2</sup> Adjusted EBITDA consists of operating profit/(loss) and depreciation and amortization for the period excluding financial expense, financial income, corporate income tax expense

# Credit Rating Evolution

| Credit Rating Agency | Issue date       | Rating              |
|----------------------|------------------|---------------------|
| Standard & Poor's    | 21 December 2016 | BB/Stable – SACP bb |
| Moody's              | 14 March 2017    | Ba2/Stable outlook  |

- Corporate credit rating capped with sovereign rating level
- During October 2016 S&P upgraded the stand-alone credit profile of HEP from b+ to bb and HEP's overall corporate credit rating from BB- to BB
- In December 2016 S&P revised its outlook on the Republic of Croatia to stable from negative and revised its outlook on HEP to stable from negative
- In March 2017 Moody's confirmed long-term Ba2 corporate rating and revised its outlook to stable

## Credit profile history overview



# Contents

2016 Key highlights

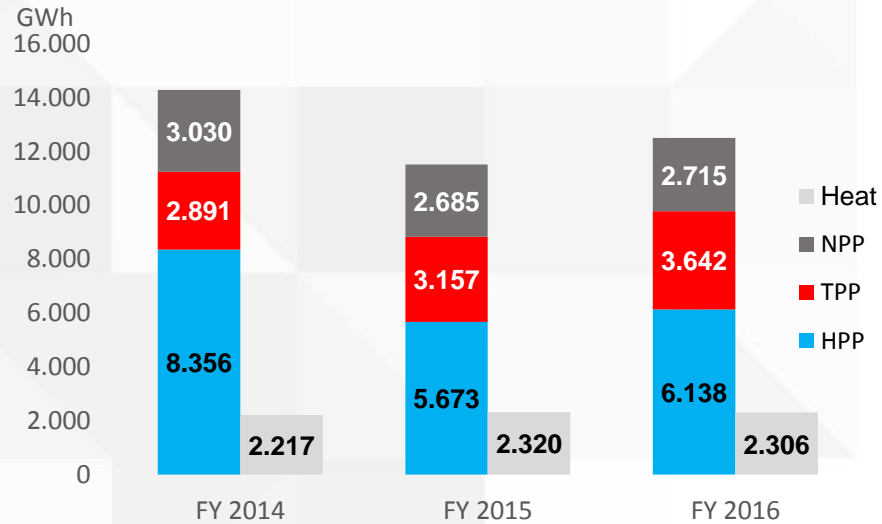
Financial results

**Operations results**

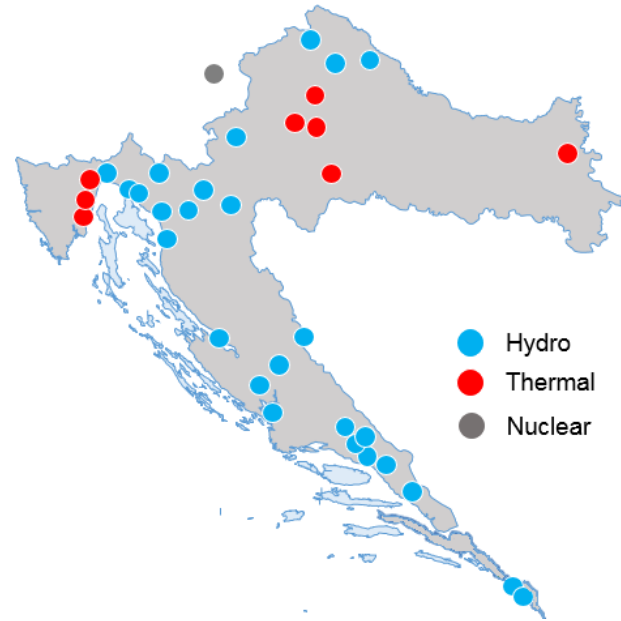
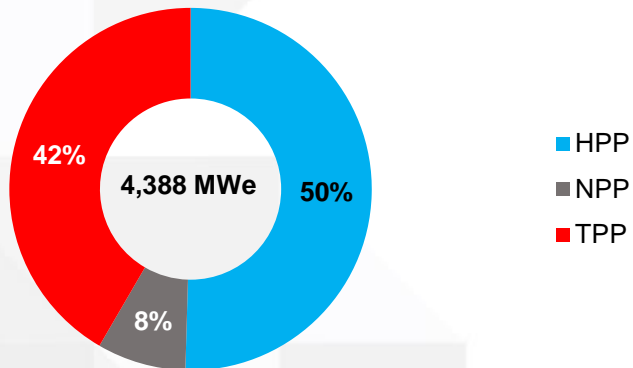
Capital expenditure

Q&A

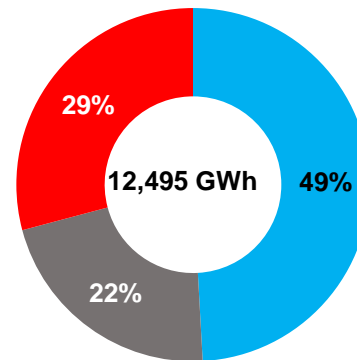
# Power Generation in 2016



Electricity - installed capacity 2016<sup>1</sup>

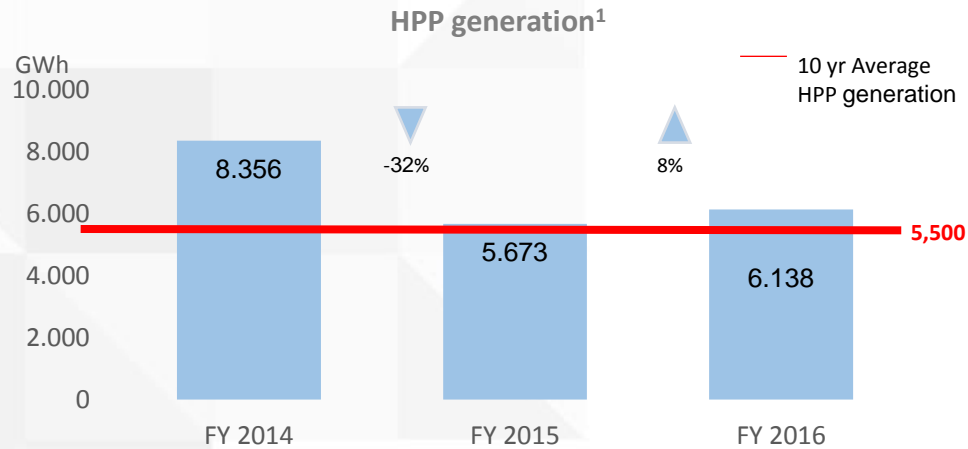


Electricity generation in 2016<sup>1</sup>

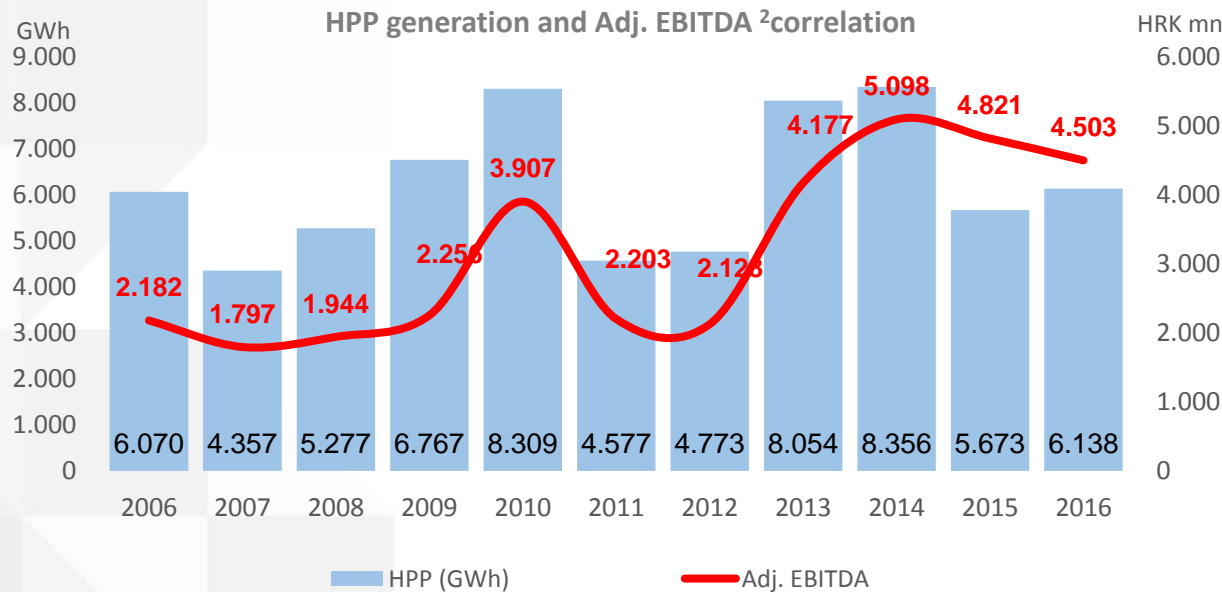
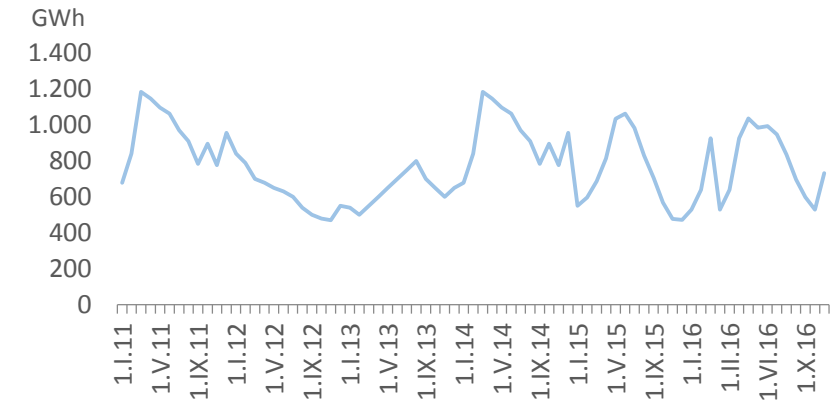


- Compared to year before HPP generation was **8%** higher
- TPP generated **15%** more while NPP generation was **1 %** higher compared to year before
- Generation of heat energy was lower **1%**

# Electricity Generation from HPP

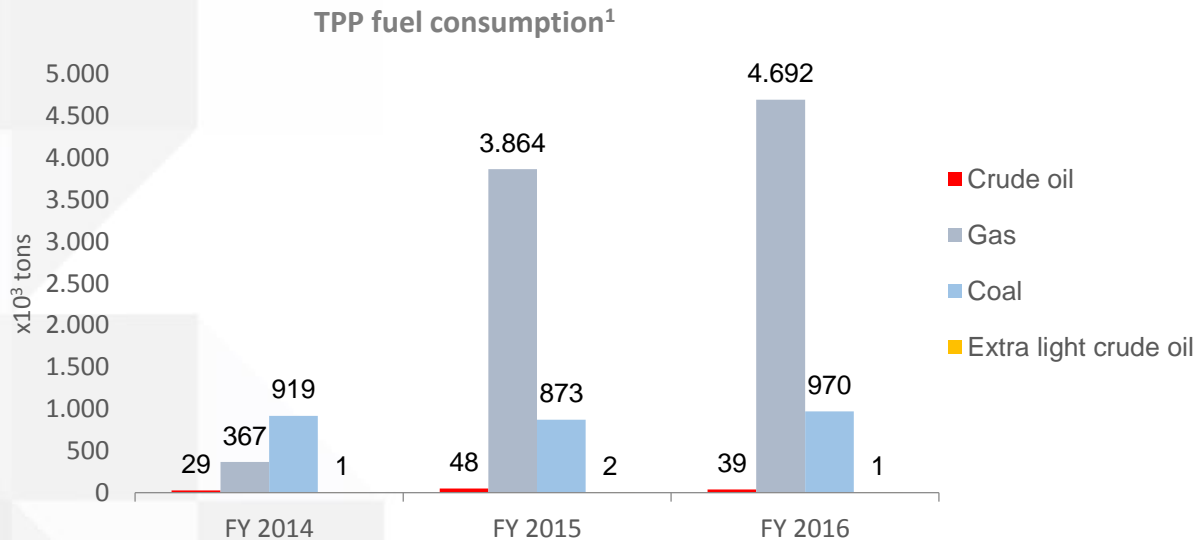
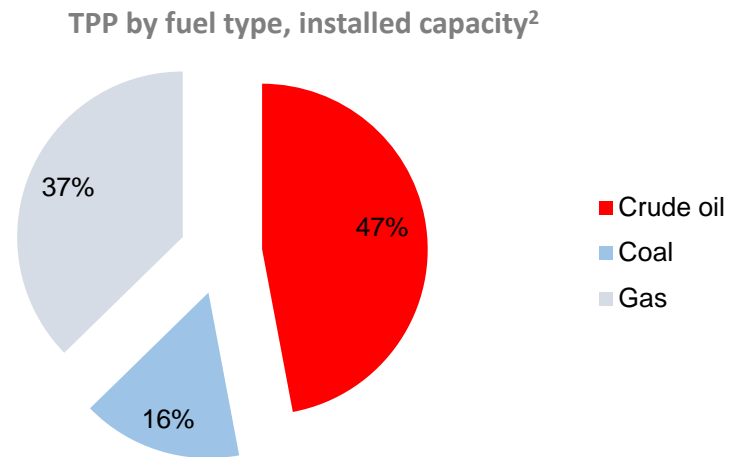
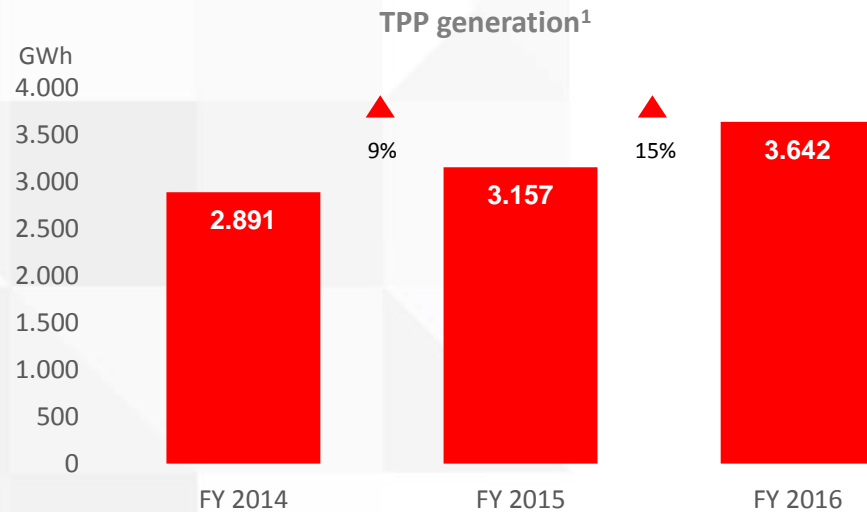


**Accumulation levels, GWh<sup>1</sup>**  
(1.1.2011-31.12.2016)



- 26 HPP operated, 2,207 MWe total installed capacity
- Stable hydrological conditions- **8%** higher hydro power generation: 50%-share in the structure of electricity sources

# Electricity Generation from TPP

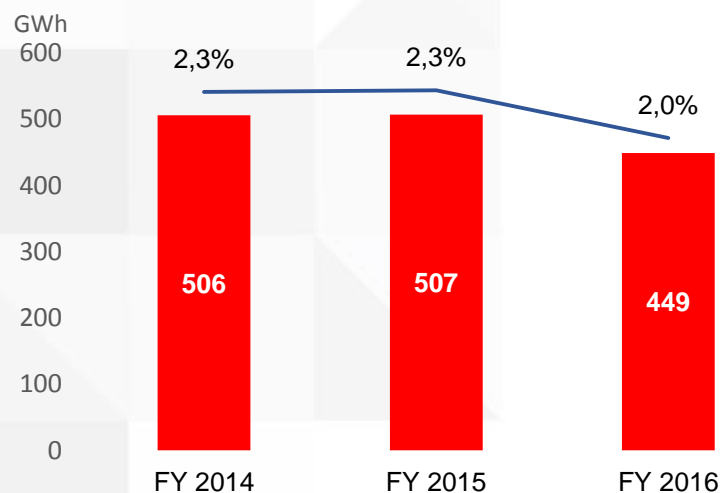


- 8 TPP with total installed capacity of 1,896 MWe<sup>2</sup>
- In May 2015 the Group assumed a 50% share in TPP Plomin II from RWE, and currently holds the 100% share in TPP Plomin II- process of merging with HEP Generation
- All cogeneration plants obtained environmental permits



# Transmission

Transmission network losses<sup>1</sup>



% of total  
2,5%

Losses in network

% of total amount

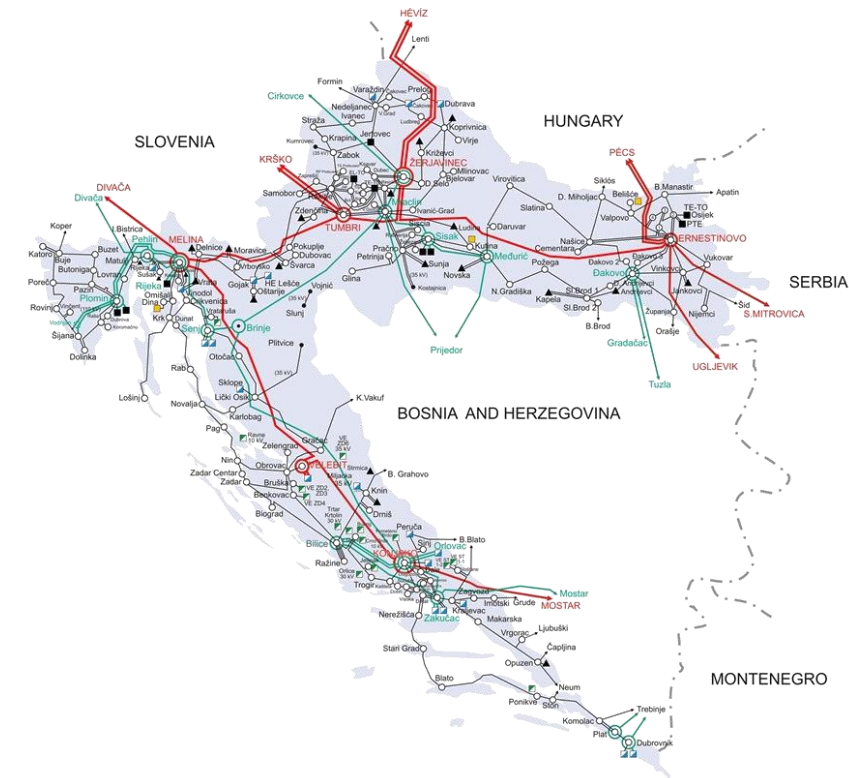
2,0%

1,5%

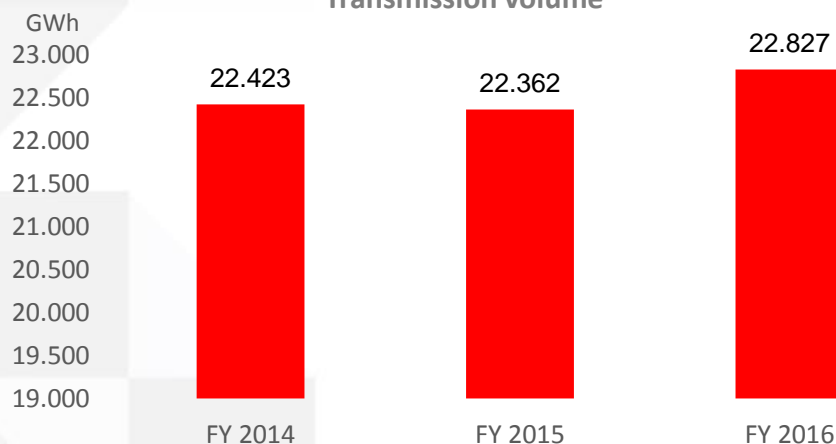
1,0%

0,5%

0,0%

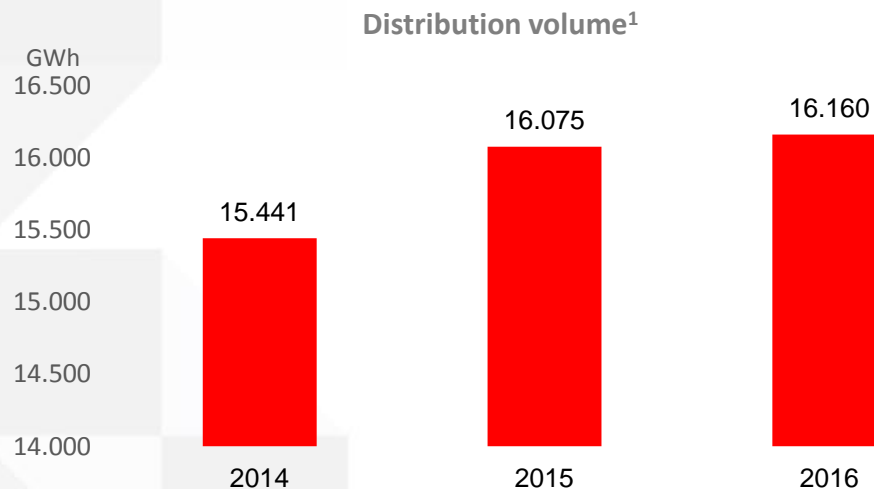
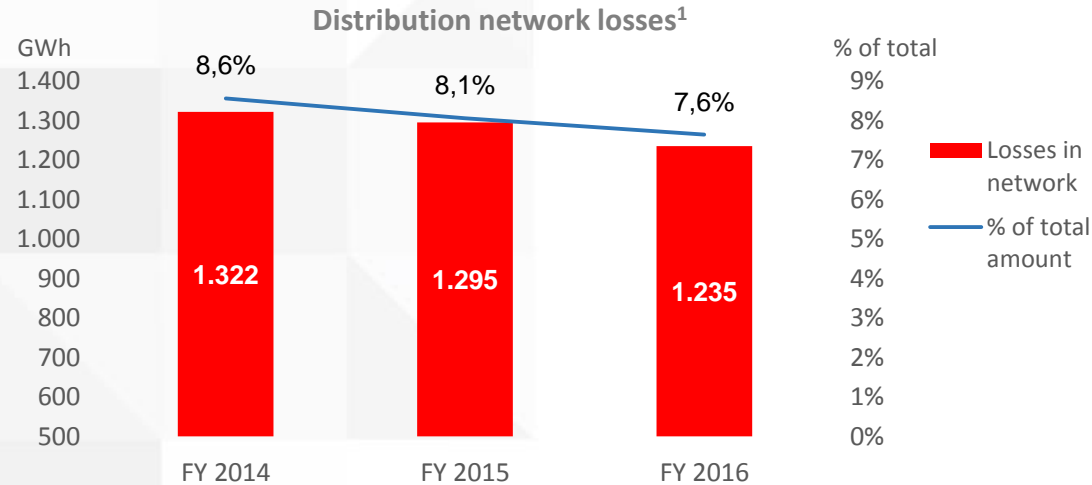


Transmission volume<sup>1</sup>



- Certified TSO under ITO model
- HEP TSO – Co-owner of CROPEX with HROTE

# Distribution



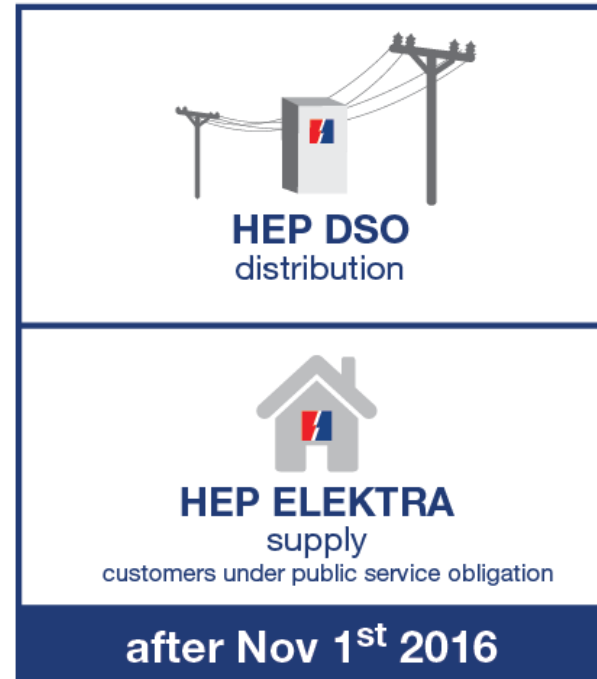
<sup>1</sup>HEP Group internal data

<sup>2</sup>as of YE 2016

- Total distribution network in 2016 was 141.345,7 km<sup>2</sup>
- Until November 2016 HEP DSO performing a dual role – of a distribution system operator and the supplier
- Sole distributor of electricity - regulated monopoly
- HEP DSO continues to carry out meterings, consumption billing, metering point maintenance, and other field activities
- All customers supplied by HEP DSO to-date will continue to use the supply service under the same conditions as before under supply of HEP Elektra
- In 2016, the restructuring project has continued - expected to bring significant savings in operational expenses and better organization in largest company within HEP Group

# Separation of Distribution and Supply in HEP DSO

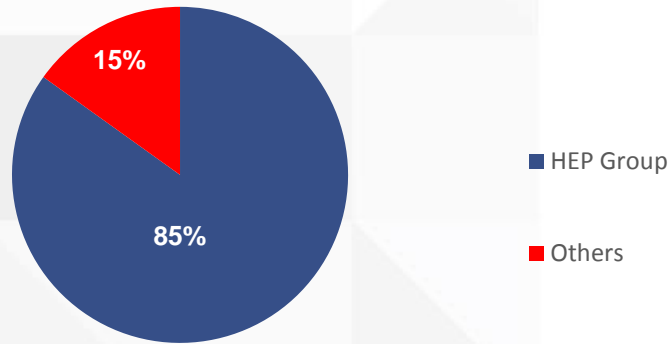
November 1, 2016



- Separation of the network and supply business activities
- HEP Group met the obligation set under the Amendment Act of the Electricity Market Act

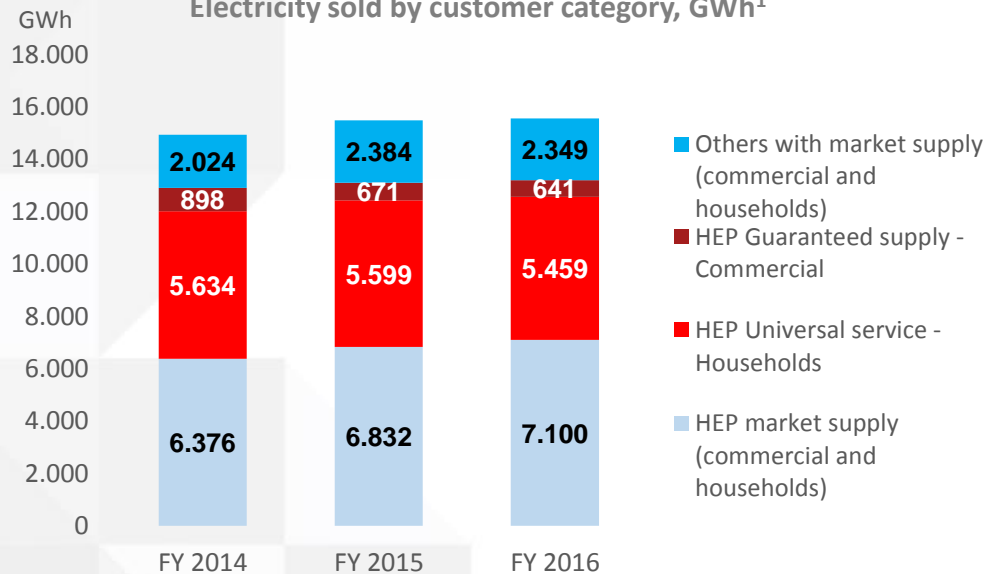
# Electricity Supply

Electricity consumption in 2016 per supplier<sup>1</sup>

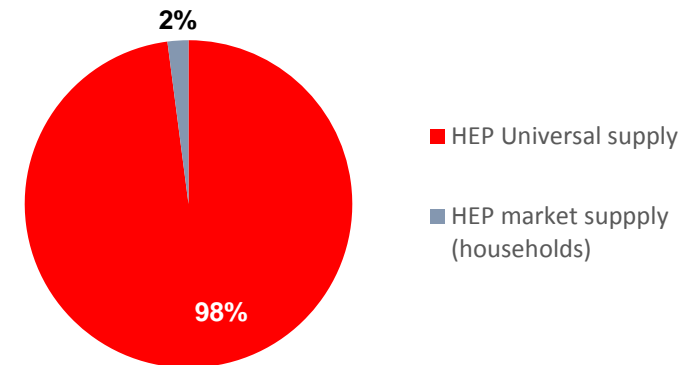


- HEP Group supplies **85 %** of all electricity sold in Croatia
- HEP Elektra supplies customers under public service obligation (universal service and guaranteed supply) while HEP-Supply supplies all other customers that have opted for a market supplier
- HEP- Supply is the largest non-tariff supplier among 16 others<sup>2</sup> in Croatia
- HEP- Supply supplies c. **74%** of commercial customers in Croatian market<sup>2</sup>
- In 2016 HEP- Supply expanded its presence in the region- holds **12.5%** of commercial customers in Slovenian market

Electricity sold by customer category, GWh<sup>1</sup>



HEP's households consumers by category in 2016  
(Total GWh sale)<sup>1</sup>



# Electricity Market in Croatia<sup>1</sup>

GWh  
25.000

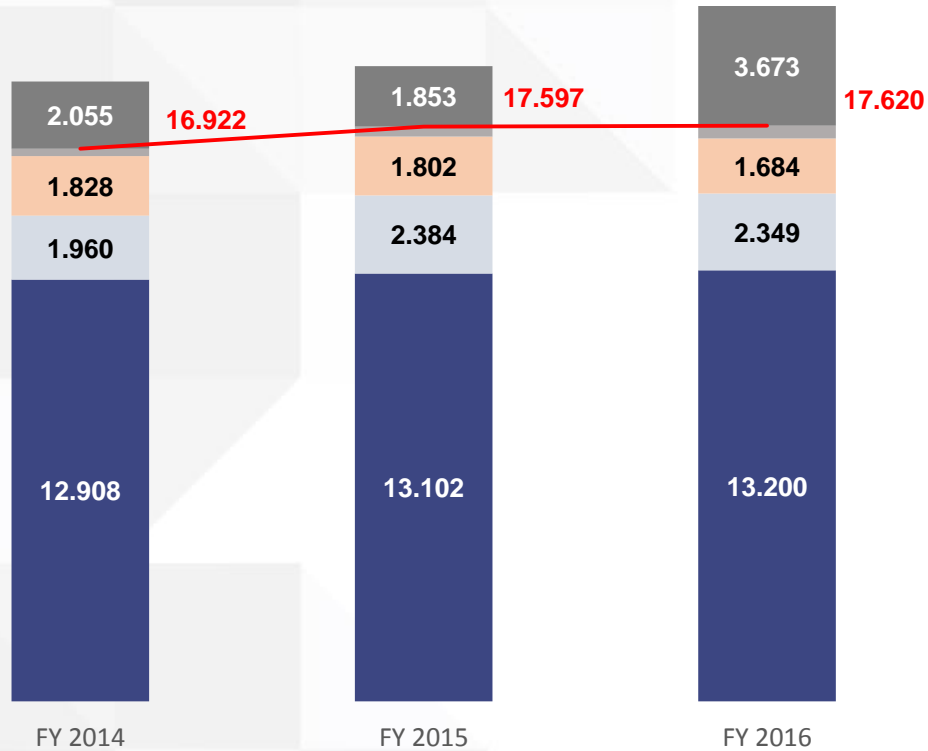
20.000

15.000

10.000

5.000

0



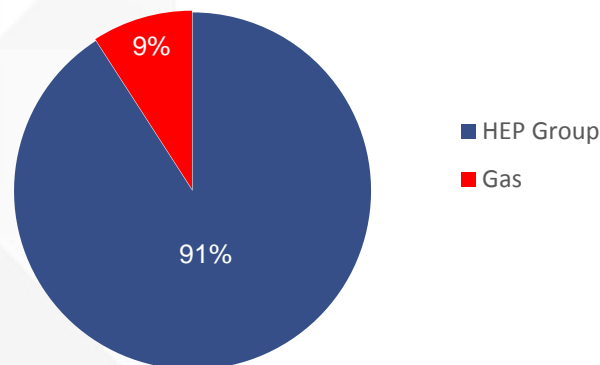
- Total electricity demand in Croatia for 2016 was 1.5 % higher than in 2015
- 0,75% higher electricity sale compared to 2015

■ HEP sale abroad  
■ HEP usage for transmission  
■ Losses on transmission and distribution  
■ Sale - others  
■ HEP sale  
— Total electricity demand in Croatia

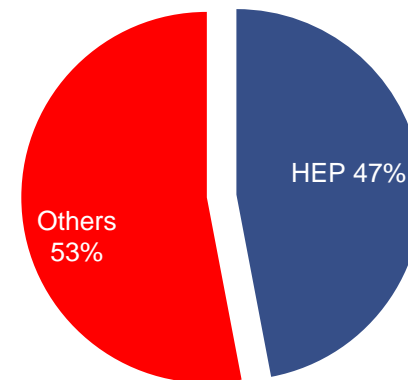
# Gas

- HEP - sole wholesale gas supplier under regulated terms to public service suppliers for household customers
- Ensures a reliable and safe gas supply in Croatia- market maker obligations on the balancing energy market
- Deregulation of gas price for public service supply (households) postponed until April 1, 2018
- 47% of total gas delivered in Croatia is from HEP Group
- 60% of SBU (Standard bundled unit) of Underground Gas Storage allocated to HEP Group until April 1, 2022

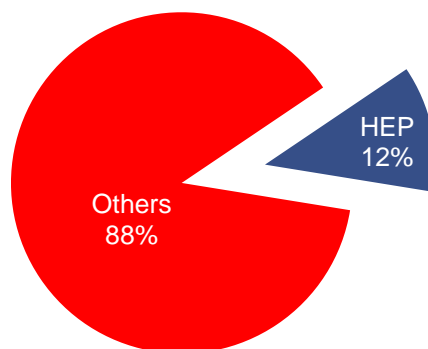
Segment revenue share



Gas Wholesale in Croatia<sup>1</sup>



Gas Retail in Croatia<sup>4</sup>



- Gas market liberalized in 2008 for all customers
- HEP Gas - second largest gas supplier<sup>2</sup> (out of 55 suppliers<sup>3</sup>) in Croatia by volume sold to end-consumers
- HEP Gas - second largest gas distributor<sup>2</sup> (out of 35 distributors<sup>3</sup>) in Croatia
- Gas sale prices to non-regulated customers are set by suppliers and prices to regulated customers are set by Government of Republic of Croatia

<sup>1</sup>HEP Group internal data

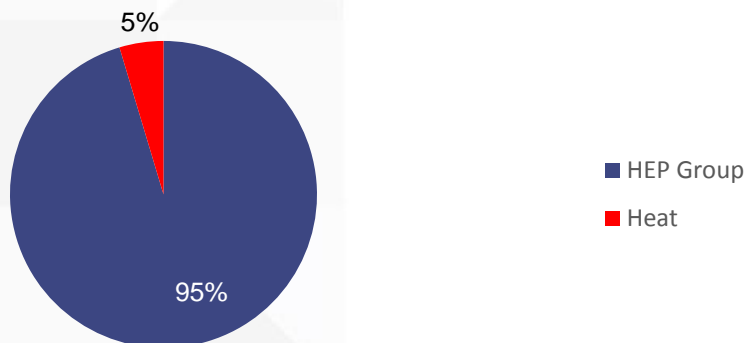
<sup>2</sup>Annual Energy Report, Ministry of Environment and Energy

<sup>3</sup>[www.hera.hr](http://www.hera.hr)

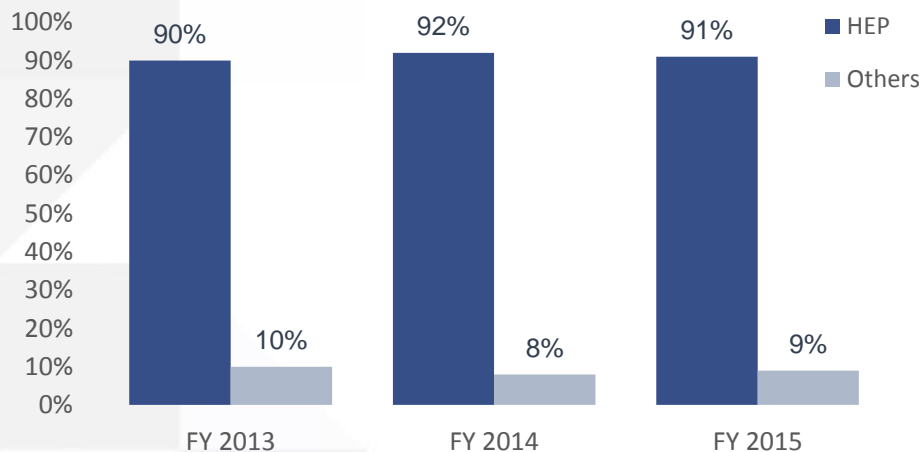
<sup>4</sup>as of YE 2015

# Thermal and Heat Energy

Segment revenue share



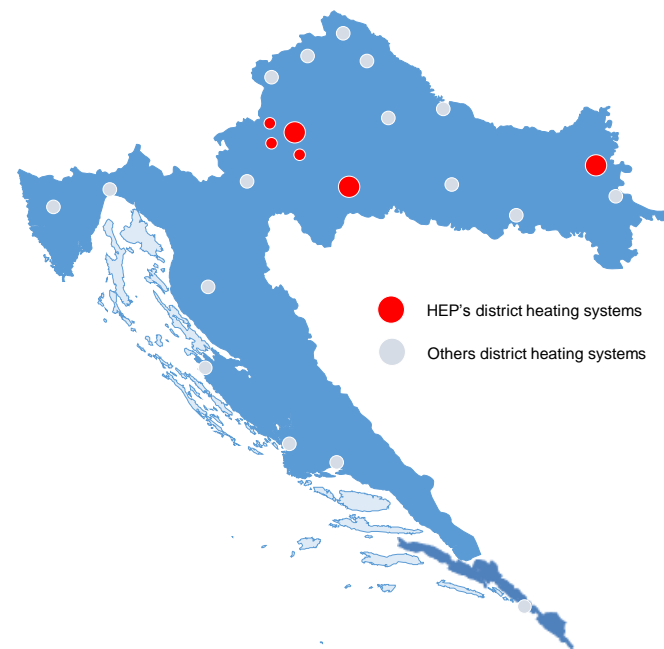
Sale of Thermal and Heat energy (MWh) in Croatia<sup>1</sup>



<sup>1</sup>HEP Group internal data, as of YE2015

<sup>2</sup>[www.hera.hr](http://www.hera.hr)

- Largest out of 19<sup>2</sup> distributors of heat with c. 126,000 customers, covering c. 91% of the total market by the number of customers in Croatia
- Focus on making the district heating business economically viable



# Other operations

- HEP ESCO: Established in 2003 as implementation agency for energy efficiency program
- Core business: Development, implementation and financing of ESCO projects – EE projects repaid from savings
- More than 90 modernized objects:
- More than 60 EE projects (heating, lighting, building envelope in schools, kindergartens, hospitals and office buildings)
- EE public lighting in 10 cities
- More than 25 energy certificates
- 12 thermal solar and photovoltaic projects
- Cross-selling – HEP-Supply

- HEP-trade performs the following activities:

- The purchase of electricity and reservation of cross-border transmission capacities
- Gas sales and reservation of the transport system capacity
- Optimization of HEP power plants operation in order to secure the required amount of electricity for HEP customers under the most favorable conditions
- Trading with emission units and green certificates
- Concluding an electricity purchase contract with producers outside the HEP Group
- Trading (spot and futures) performed on energy exchanges (BSP Southpool, HUPX, EPEX, EEX, CROPEX, SEEPEX, CEGH), bilaterally and via broker platforms (TFS, Spectron)

## Volume traded (GWh)

|          | 2014  | 2015  | 2016  |
|----------|-------|-------|-------|
| Croatia  | 4,356 | 6,174 | 8,634 |
| Slovenia | 473   | 116   | 435   |
| Serbia   | 30    | 139   | 111   |
| BiH      | 3     | 5     | 1,228 |
| Kosovo   | 25    | 96    | 29    |



# Content

2016 Key highlights

Financial results

Operations results

**Capital expenditure**

Q&A

# Capital expenditure 2016

HRK mn

3.000

2.500

2.000

1.500

1.000

500

0

2014

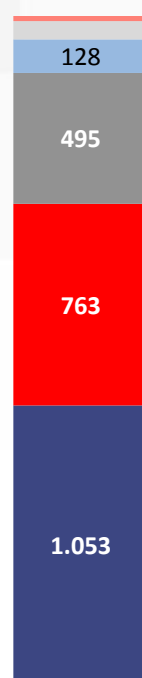
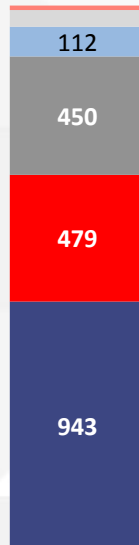
2015

2016

▲  
23%

▲  
2%

- Gas
- Heat
- Other
- Transmission network
- Power plants
- Distribution network



- Total investments realized in 2016 HRK **2,589.1mn** :
  - Reconstruction and revitalization (HRK **784.7mn**)
  - Construction and preparation of construction of new energy facilities (HRK **444.1mn**)
  - Investments into connecting customers (HRK **409.0mn**)
- Construction of BE-TO Osijek and BE-TO Sisak completed, testing period in 2017
- Investments into modernization and revitalization of distribution network
- Other investments into revitalization of district heating network
- Average annual capex HRK **2.0-2.5bn**
- Further investment in smart meters
- KKE EL-TO Zagreb- Reconstruction of Block A, prequalification tender for EPC Contract



# Contents

2016 Key highlights

Financial results

Operations results

Capital expenditure

**Q&A**



# Q&A



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