



Hrvatska elektroprivreda

More than electricity

Consolidated Financial Statements
YE 2017



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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

Moody's confirmed long term credit rating of HEP (Ba2)- improved credit outlook from negative to stable

March 2017

Resolution on HRK 794.3 mil. dividend pay-out

June 2017

Restructuring program of HEP DSO completed

2017

Finalization of 2 bio mass cogeneration plants (BE-TO Osijek i BE-TO Sisak)

End 2017

HRK 980 mil. for loans and bond repayments

2017

April 2017

Wholesale gas business activates continued

November 2017

Standard & Poor's confirmed HEP's credit rating (BB/stable)

December 2017

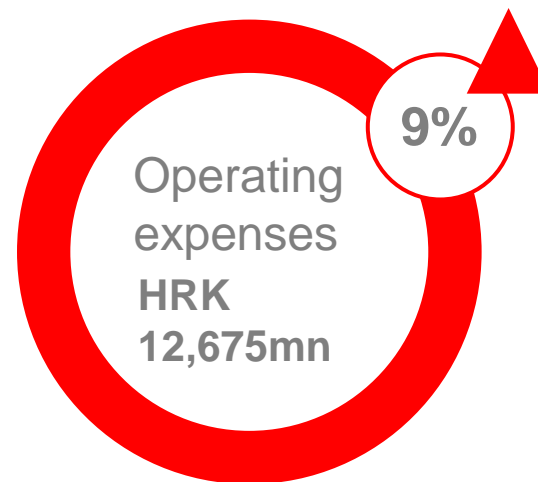
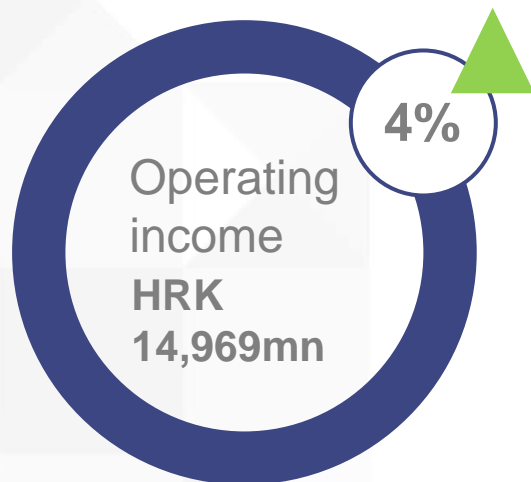
Collective Bargaining Agreement signed – valid until 31 December 2019

End of 2017

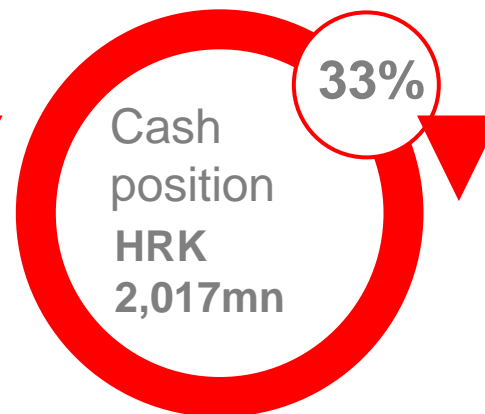
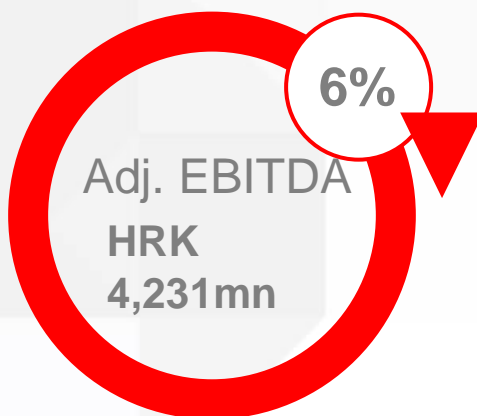
New Supervisory and Management Board appointed

Stable market share of 85% in Croatia- further regional expansion in neighbouring countries-12.5% market share in commercial sales in Slovenia

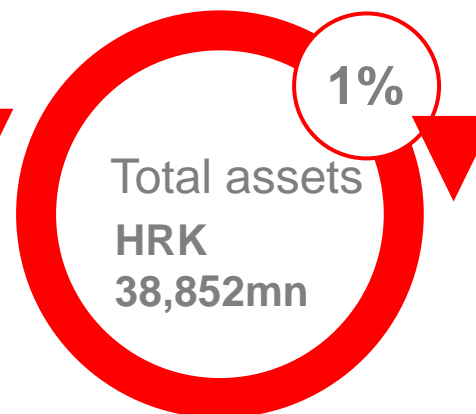
Key Facts



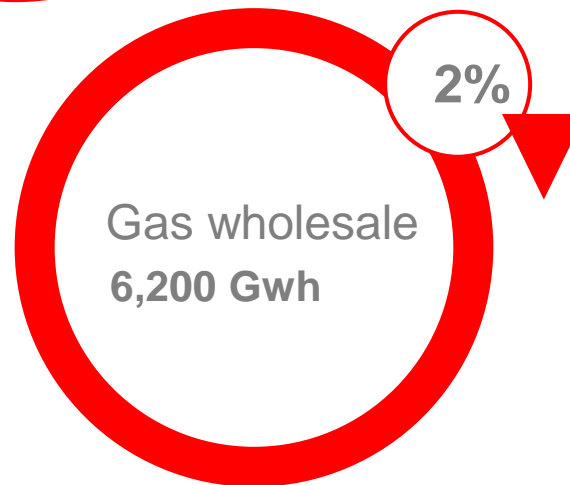
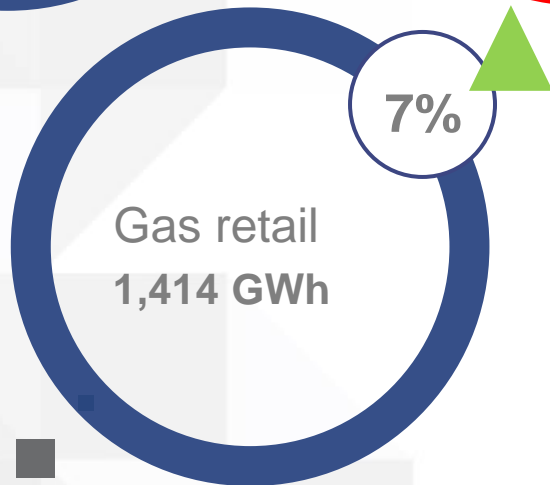
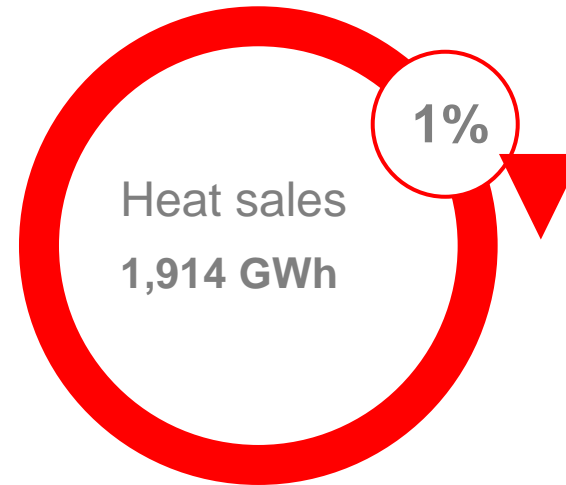
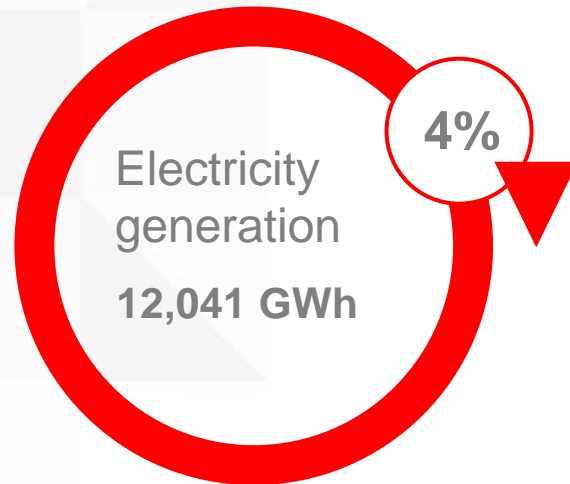
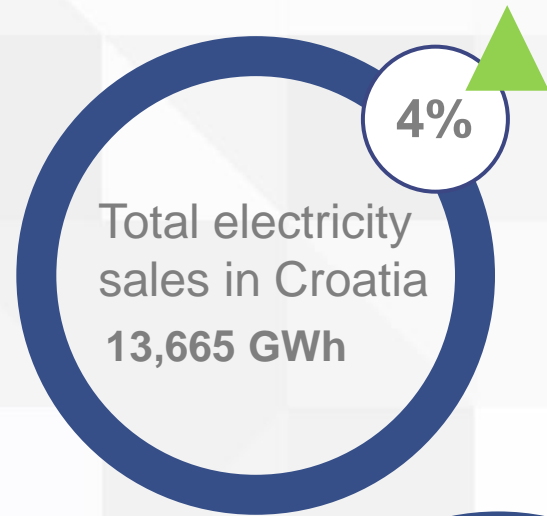
Number of employees
2017: 11,894
2016: 11,832



% Compared to FY 2016



Key Facts



■ HEP Group 85 % electricity market share in Croatia

■ Regional presence- 12.5% commercial customers in Slovenian market

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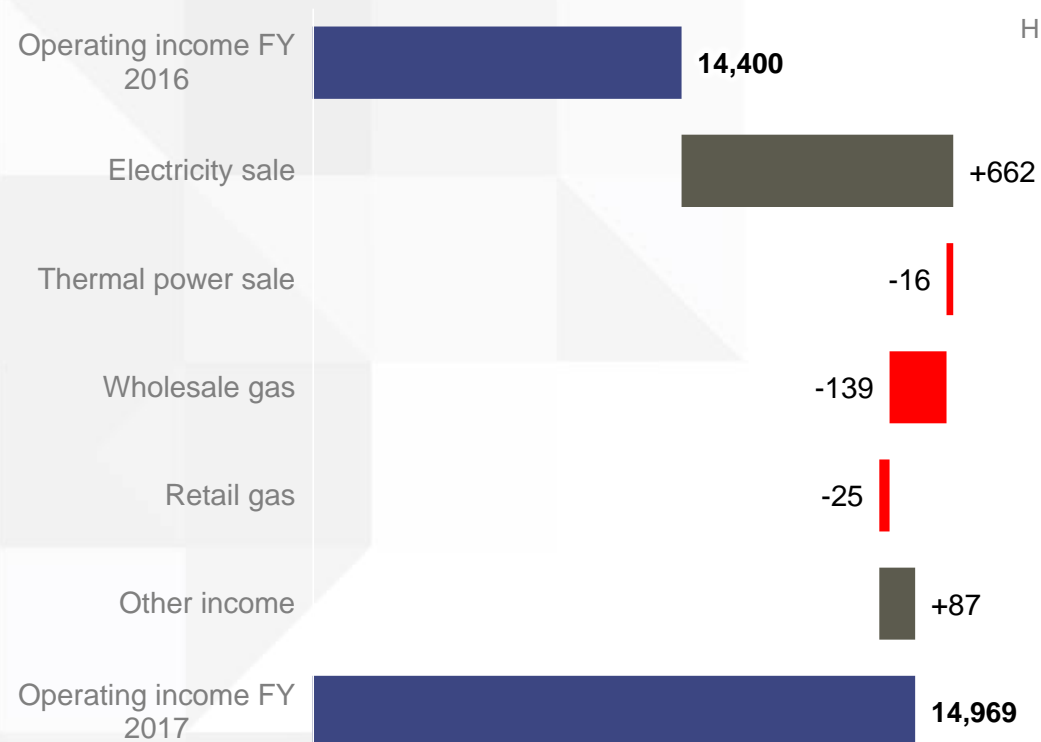
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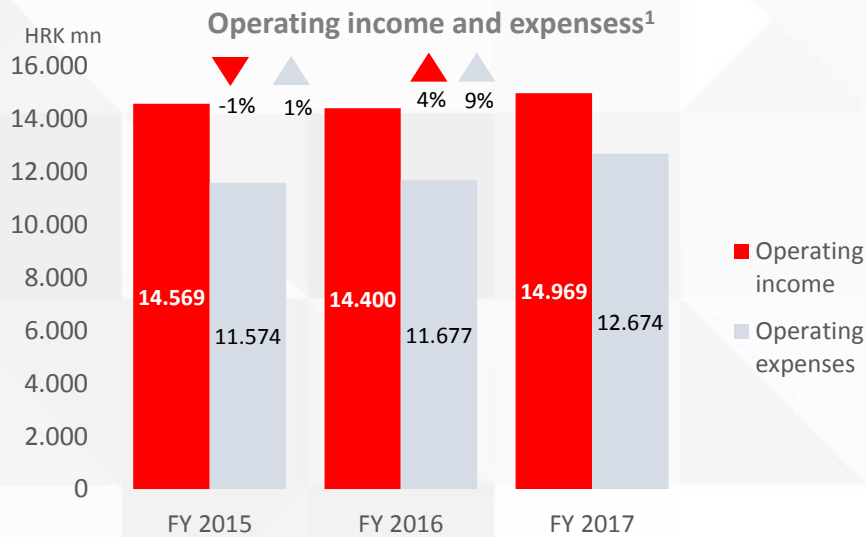
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Development of Operating Income¹

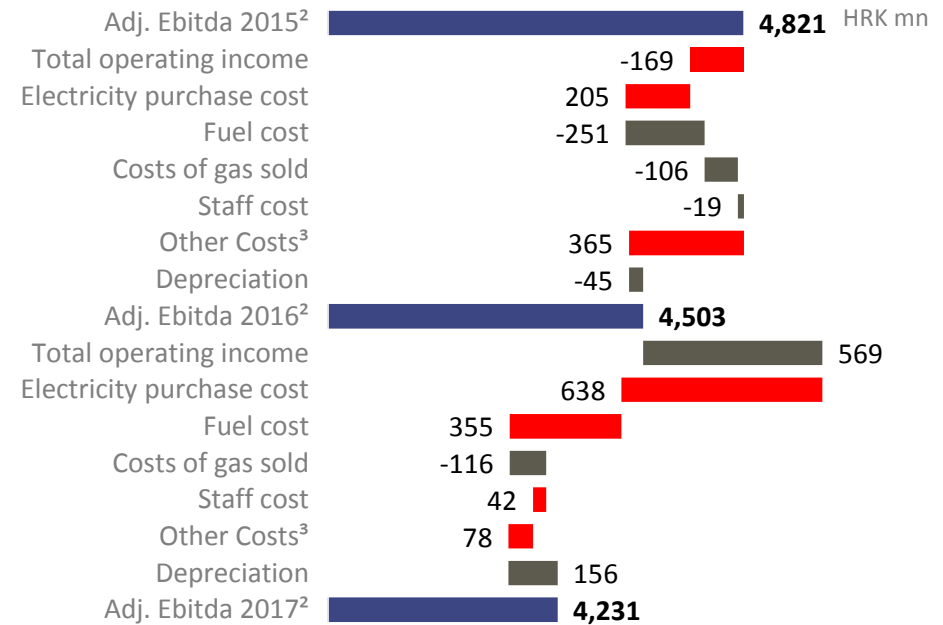
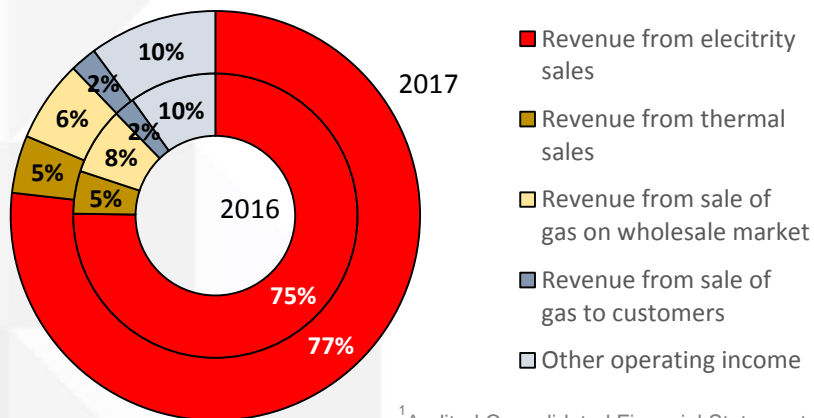


- Revenue from electricity sales increased by HRK **662mn (6%)**, which is a result of an increase in:
 - Revenue growth in Croatia by HRK **366mn**
 - Revenue from HEP's producers in the incentive system of generation from renewable energy sources by HRK **162mn**
 - Foreign market revenue by HRK **106mn**
- **2.3%** thermal power sales revenue decrease due to **1%** consumption decrease
- Sale of gas on wholesale market revenue fell **12.6%** due to **1.7%** lower sales but also changes in sales price
- Sale of gas to customers revenue went down **7.6%** due to lower sales price- the sales increased **7%**
- Other operating income increased **5.7%**

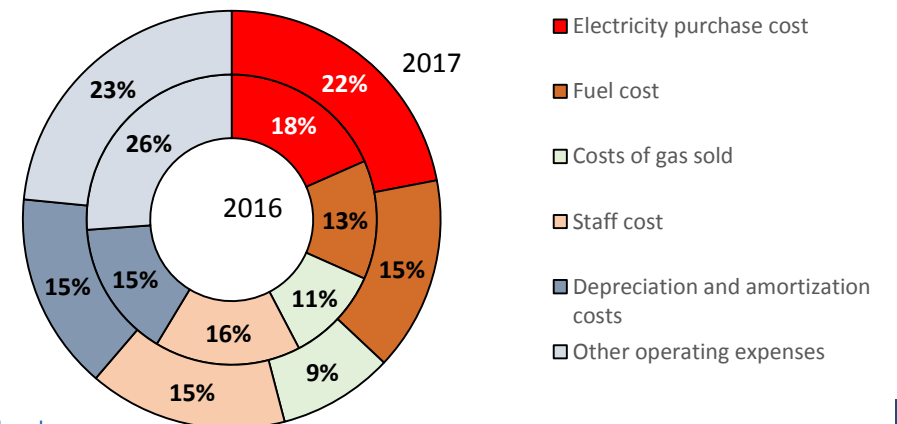
Financial Performance FY 2017



Total operating income split FY 2017 vs 2016¹



Total operating expenses split FY 2017 vs 2016¹

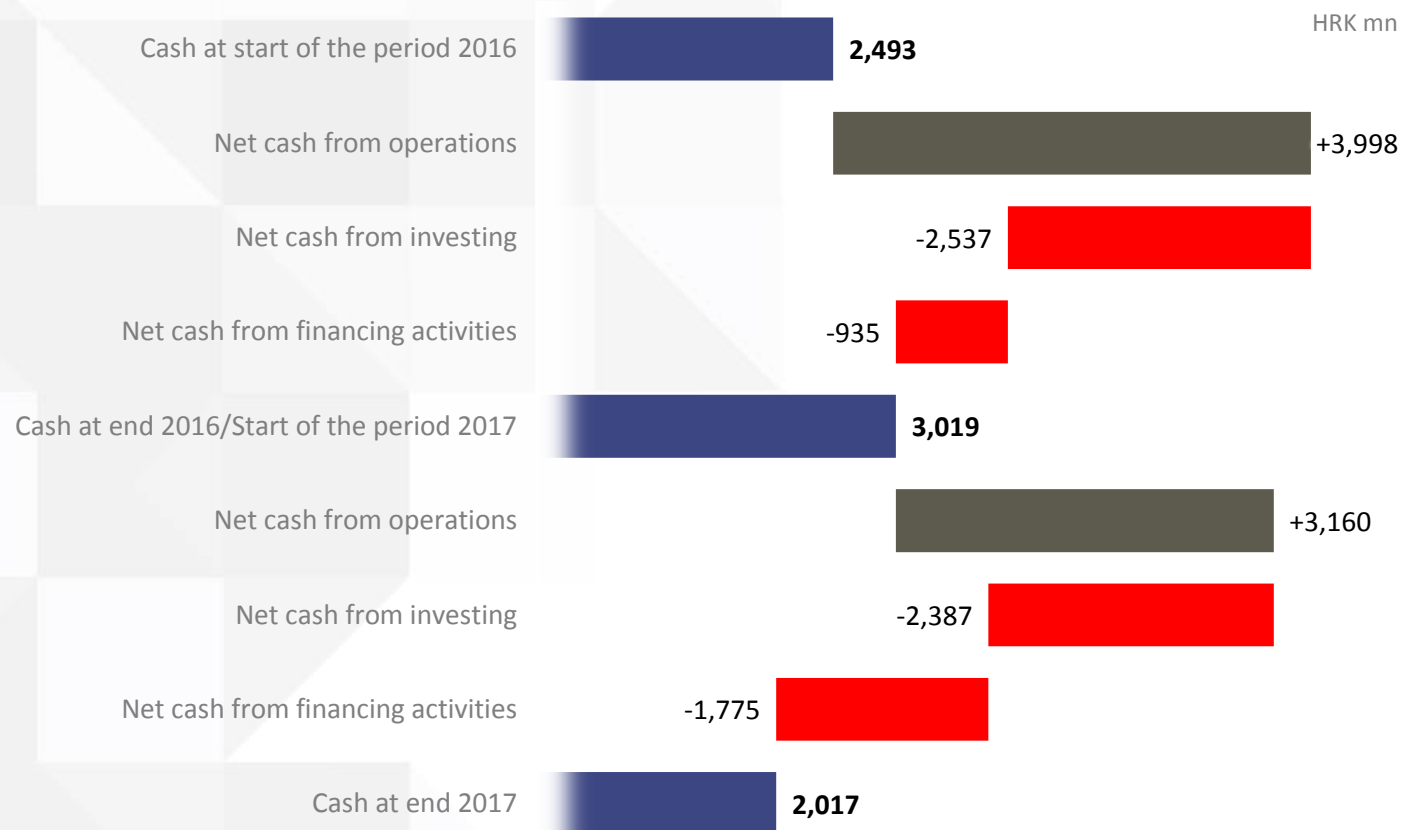


¹ Audited Consolidated Financial Statements for 2017, available at www.hep.hr

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

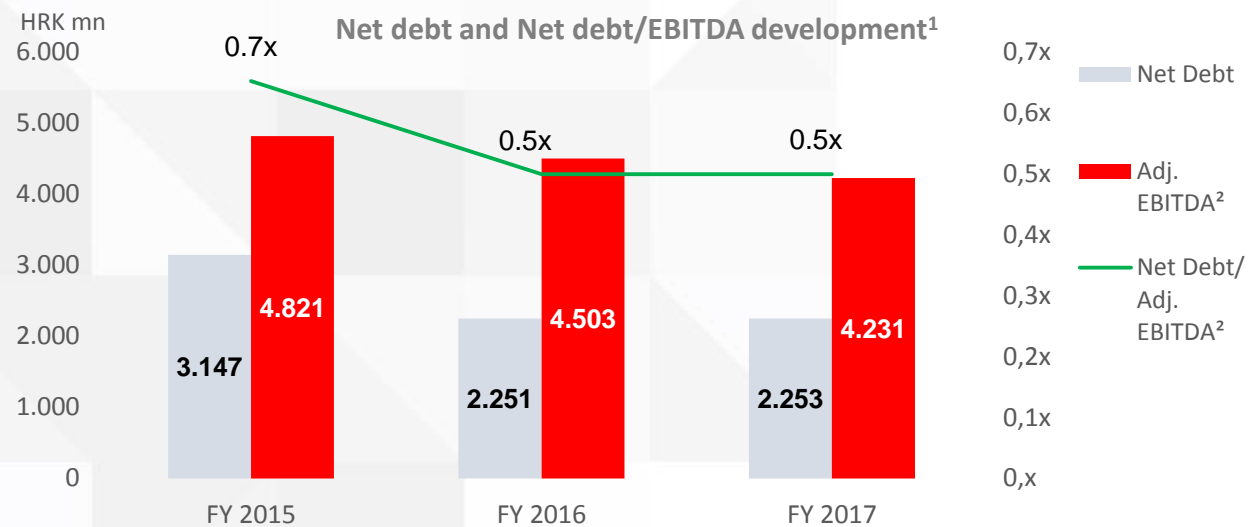
³ Includes depreciation and amortization

Cash flow¹

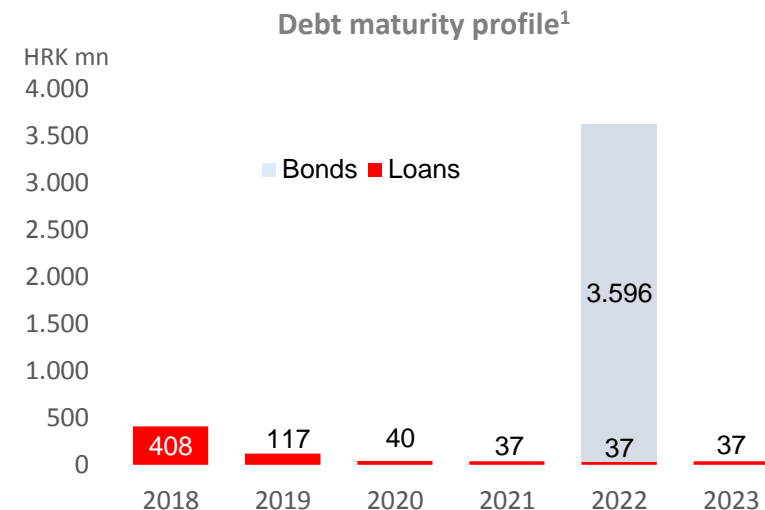
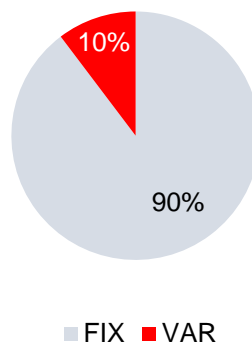
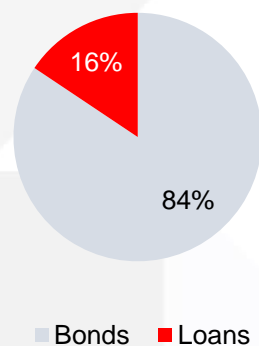


- Strong liquidity position
- Additional liquidity HRK 1,4 billion under short term financing sources with local banks
- Dividend payout – HRK 794mn
- 2 out of 3 bonds repaid in 2017 (Total amount: HRK 590.1mn)

HEP Group Debt



Debt structure as of YE 2017¹



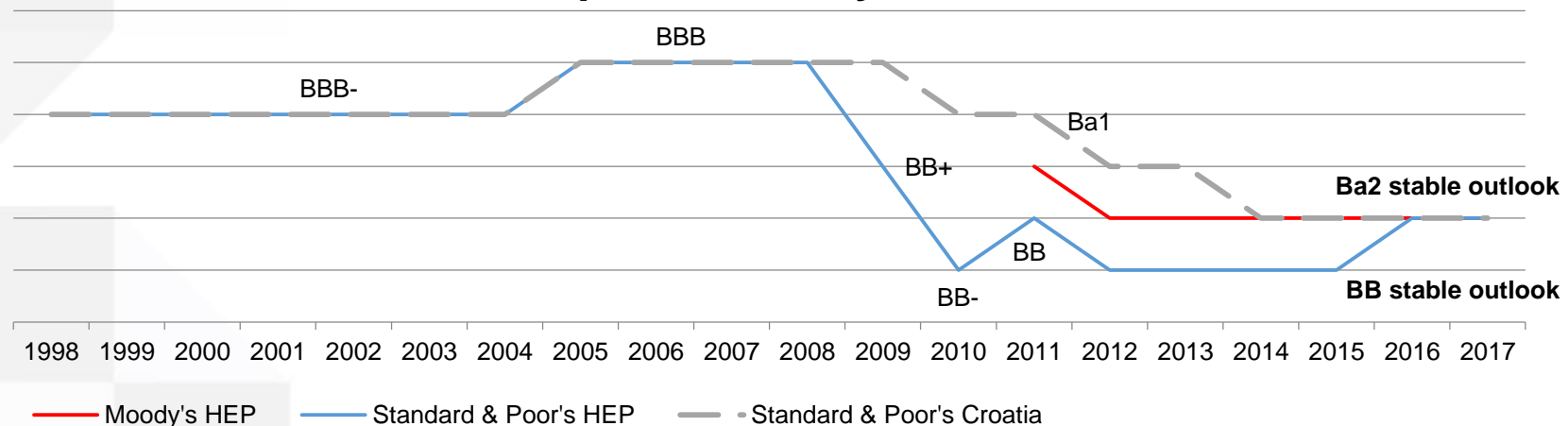
- No short term debt since YE 2014
- Experienced issuer on domestic and international capital market (first Croatian Tender Offer and Liability Management Transaction in 2015)
- Whole debt in EUR

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
- In March 2017 Moody's confirmed long-term Ba2 corporate rating and revised its outlook to stable
- During 2017 S&P confirmed the stand-alone credit profile of HEP bb and HEP's overall corporate credit rating BB

Credit profile history overview



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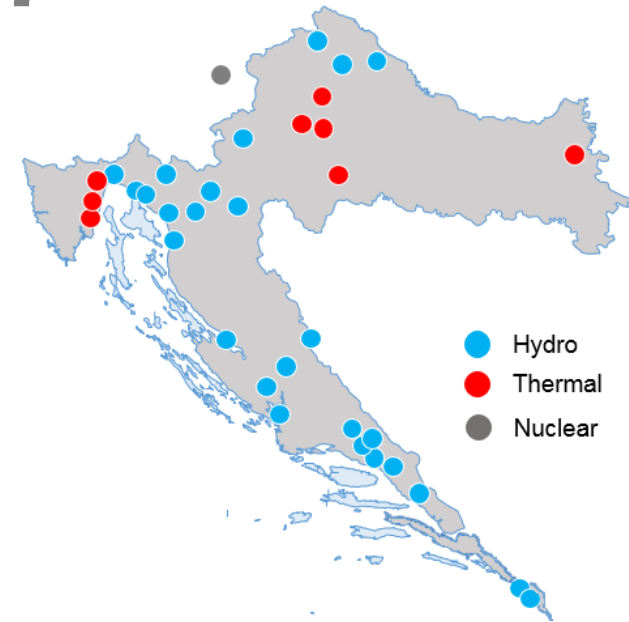
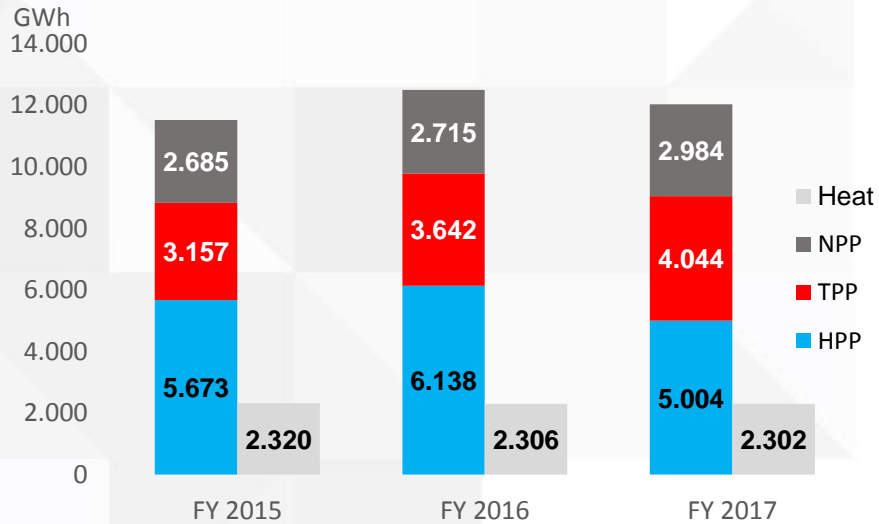
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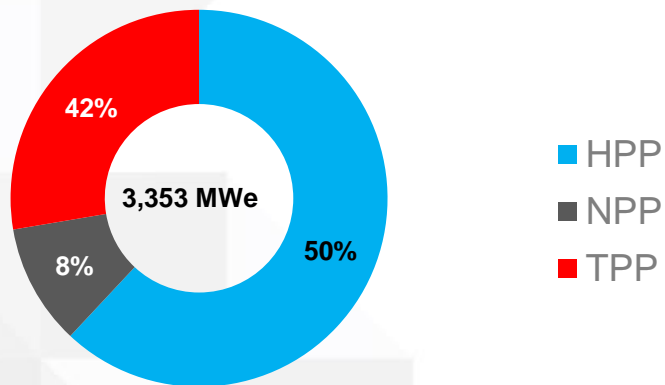
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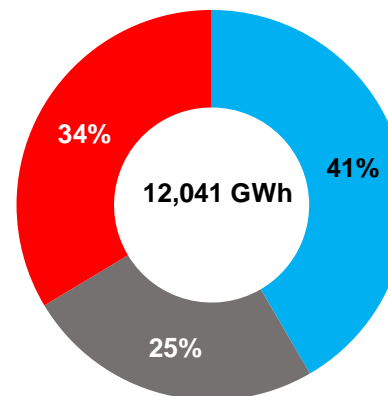
Power Generation in 2017



Electricity - installed capacity 2017¹

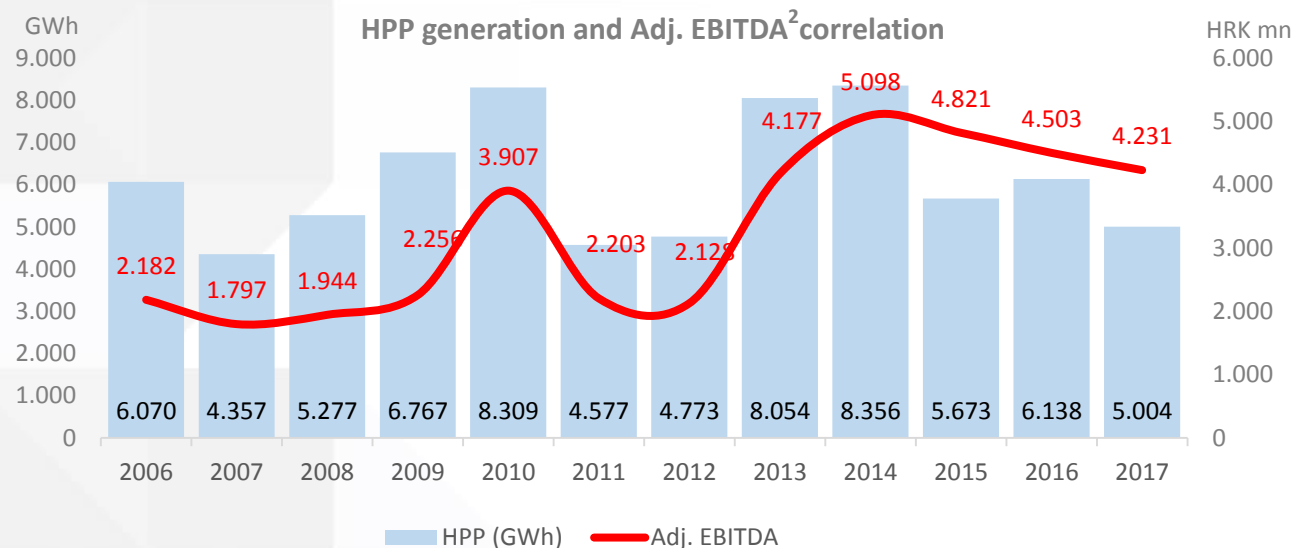
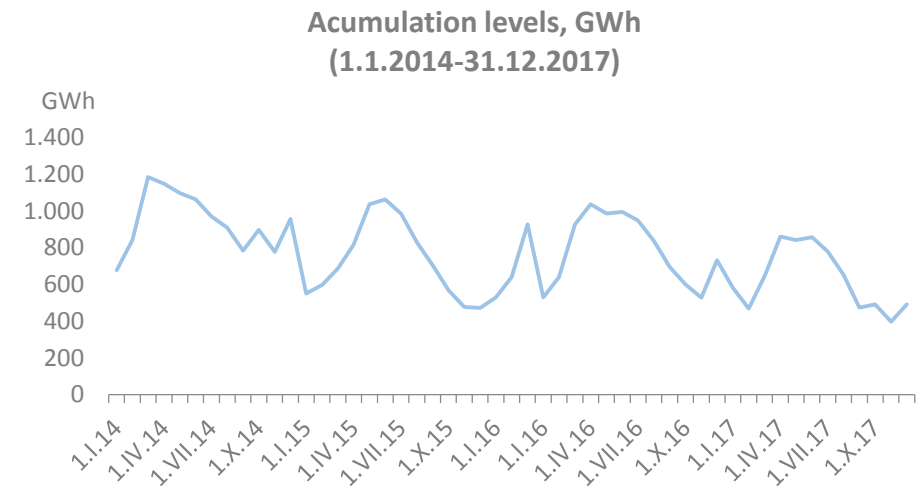
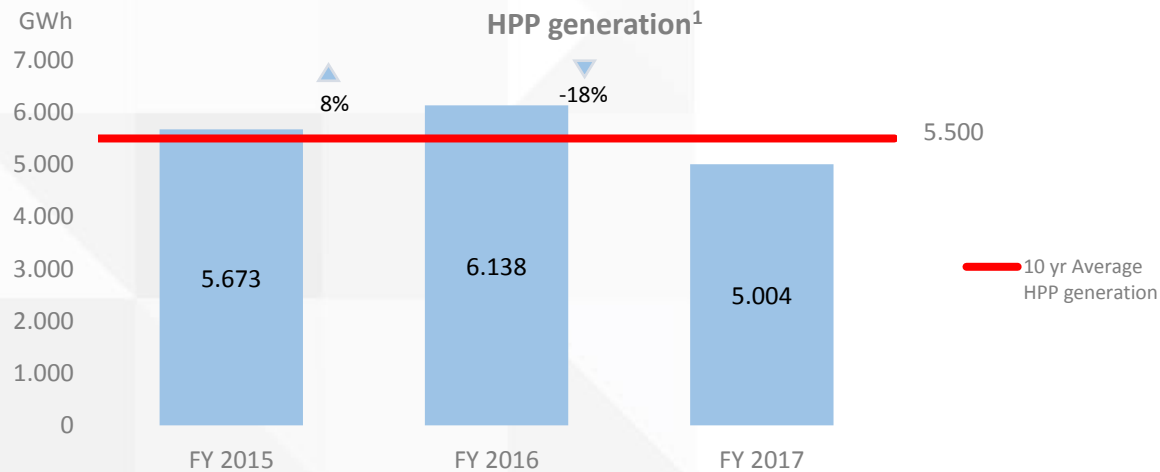


Electricity generation in 2017



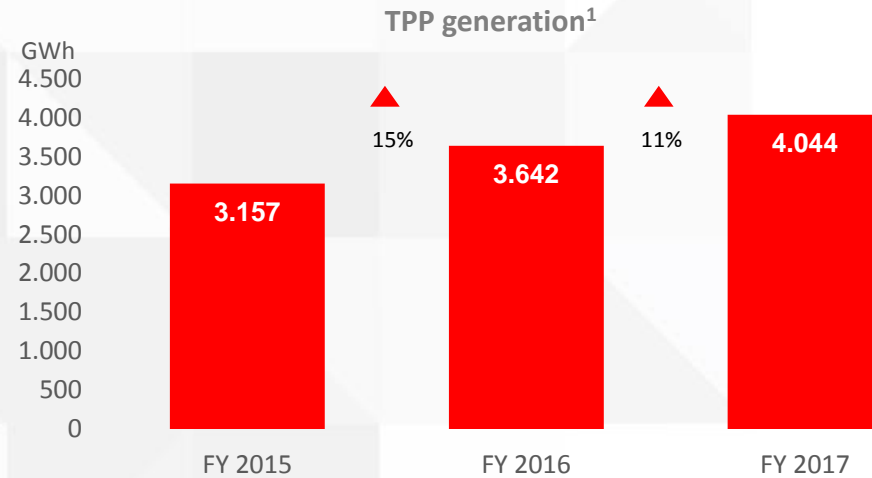
- Compared to year before HPP generation was 18% lower
- TPP generated 11% more while NPP generation was 10% higher compared to year before
- Generation of heat energy was equal to the last year

Electricity Generation from HPP

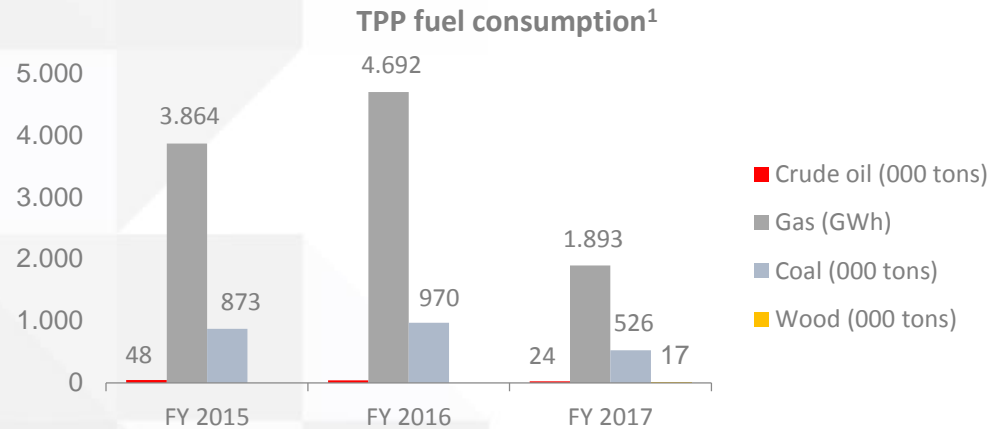
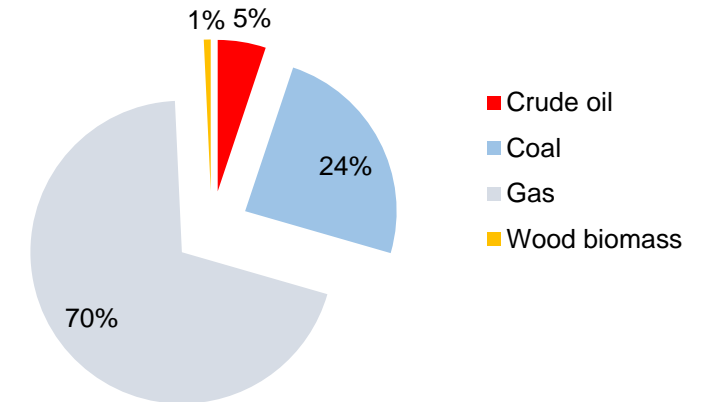


- 26 HPP operated, 2,077 MWe total installed capacity
- Poor hydrological conditions-18% lower hydro power generation: 40%-share in the structure of electricity sources

Electricity Generation from TPP



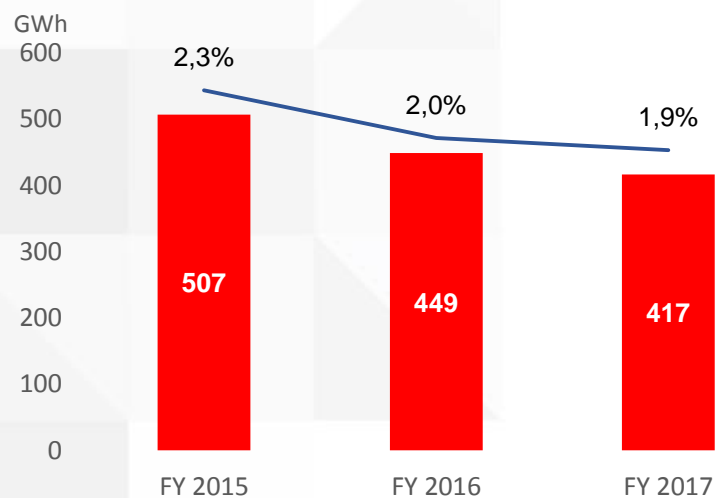
TPP by fuel type, installed capacity²



- 9 TPP with total installed capacity of 927 MWe²
- During 2017 BE-TO Sisak and BE-TO Osijek started with testing phase

Transmission

Transmission network losses¹



% of total
2,5%

■ Losses in network

— % of total amount

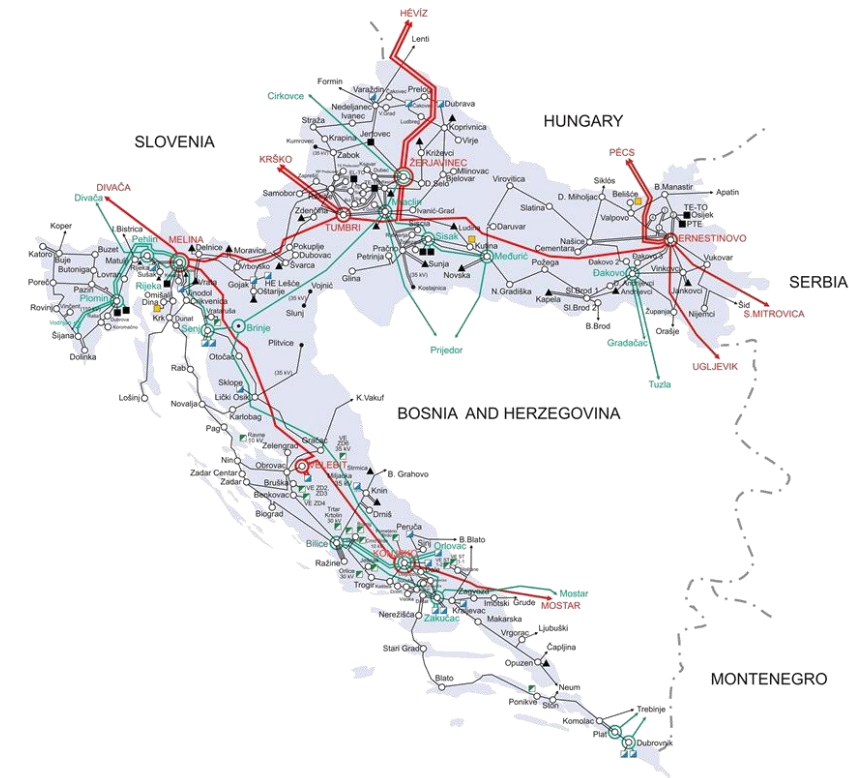
2,0%

1,5%

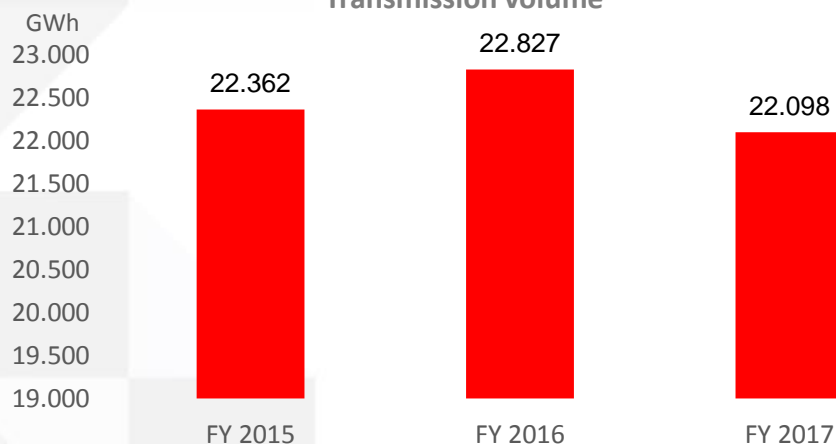
1,0%

0,5%

0,0%

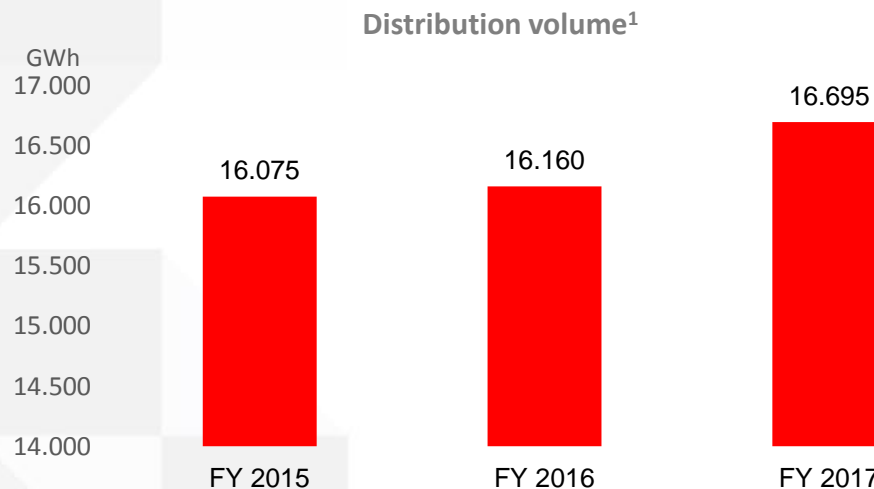
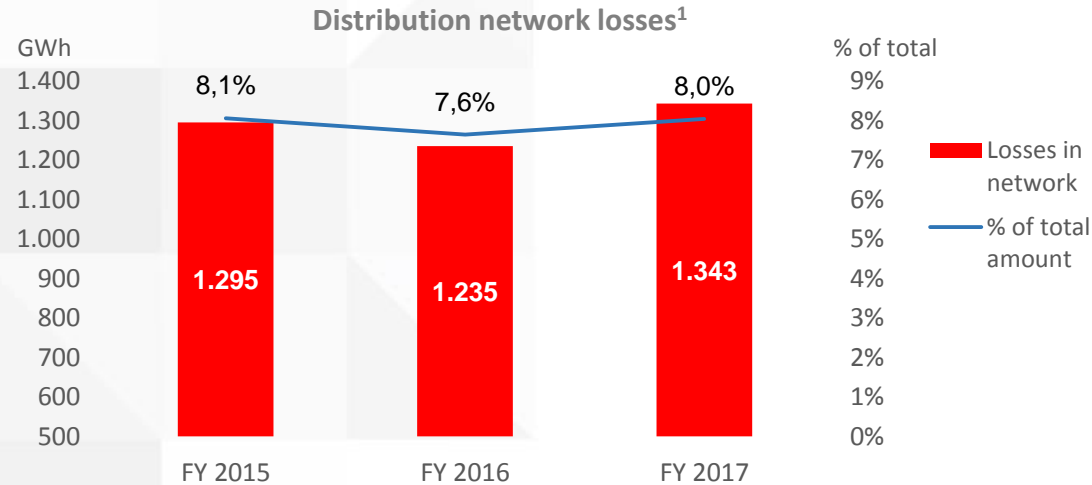


Transmission volume¹



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

Distribution



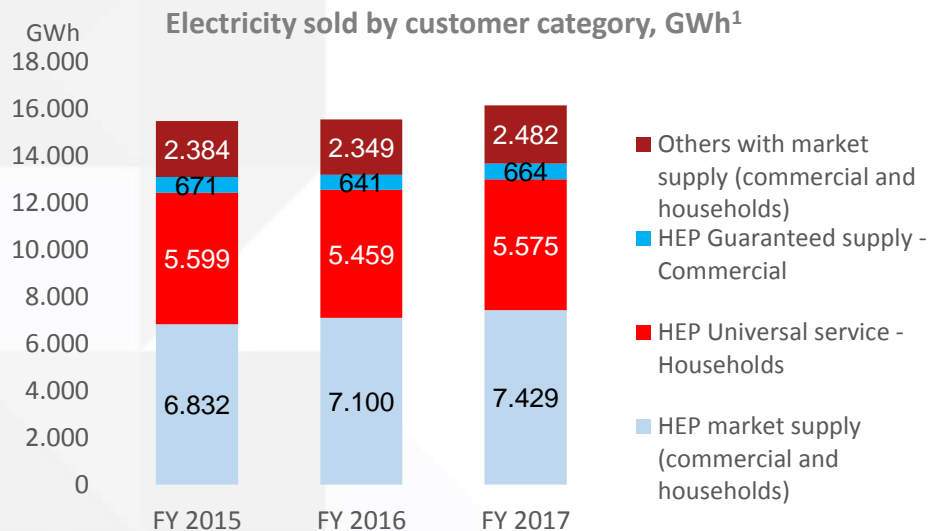
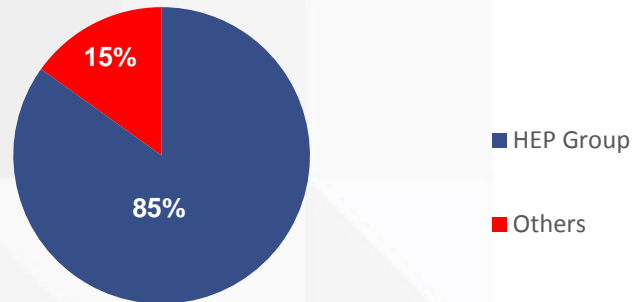
¹HEP Group internal data

²as of YE 2016

- Sole distributor of electricity – natural 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 2017, the restructuring project has continued - expected to bring significant savings in operational expenses and better organization in largest company within HEP Group

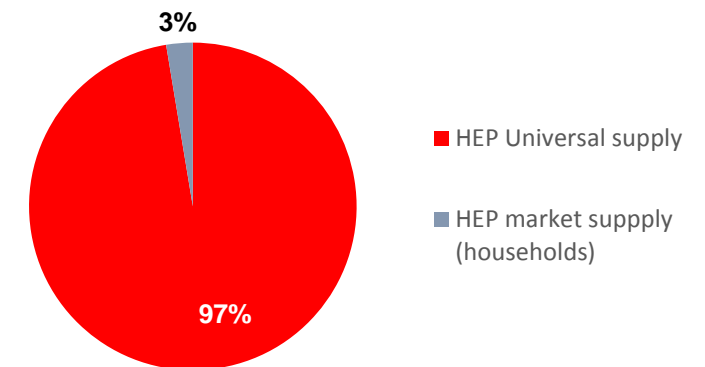
Electricity Supply

Electricity consumption in 2017 per supplier¹



- 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 others² in Croatia
- HEP- Supply supplies c. **74%** of commercial customers in Croatian market²
- In 2017 HEP- Supply continued its presence in the region and remained **12.5%** of commercial customers in Slovenian market

HEP's households consumers by category in 2017
(Total GWh sale)¹



Electricity Market in Croatia¹

GWh
25.000

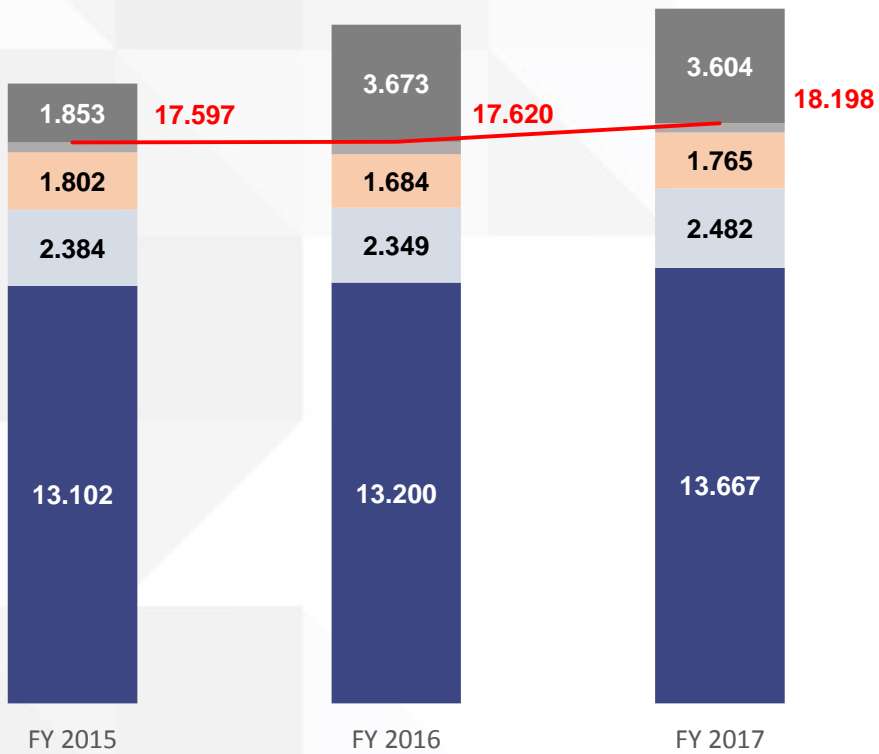
20.000

15.000

10.000

5.000

0



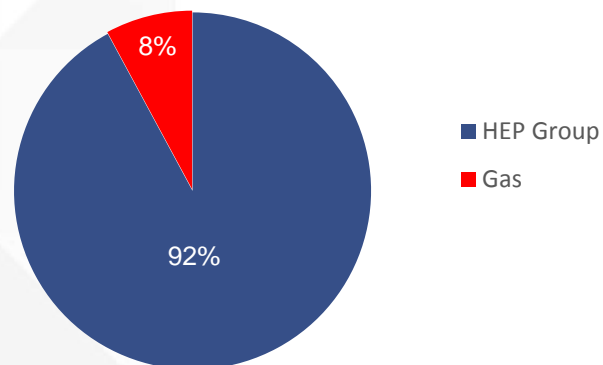
- HEP sale abroad
- HEP usage for transmission
- Losses on transmission and distribution
- Sale - others
- HEP sale
- Total electricity demand in Croatia

- Total electricity demand in Croatia for 2017 was 4% higher than in 2016
- 3,5% higher electricity sale compared to 2016

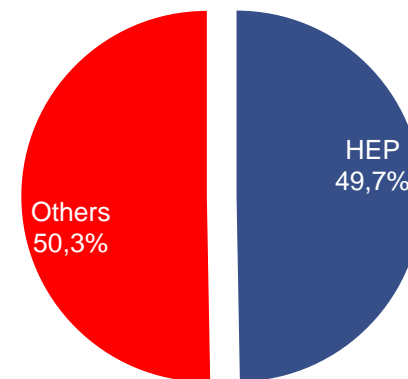
Gas

- HEP - sole wholesale gas supplier under regulated terms to public service suppliers for household customers until August 1, 2018
- Ensures a reliable and safe gas supply in Croatia- market maker obligations on the balancing energy market
- 50% 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

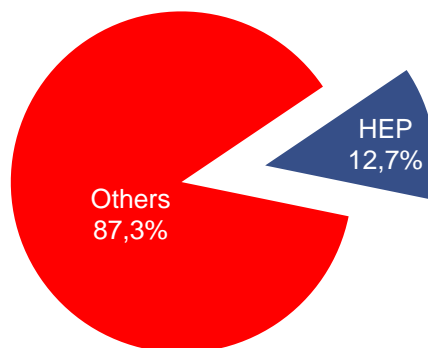
Segment revenue share



Gas Wholesale in Croatia¹



Gas Retail in Croatia⁴



- Gas market liberalized in 2008 for all customers
- HEP Gas - second largest gas supplier² (out of 54 suppliers³) in Croatia by volume sold to end-consumers
- HEP Gas - second largest gas distributor² (out of 35 distributors³) 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

¹HEP Group internal data

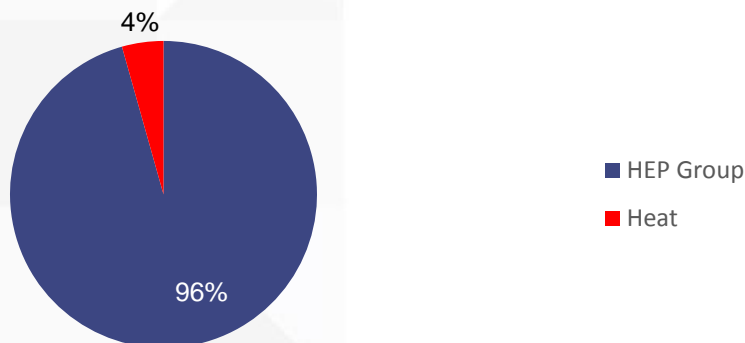
²Annual Energy Report, Ministry of Environment and Energy

³www.hera.hr

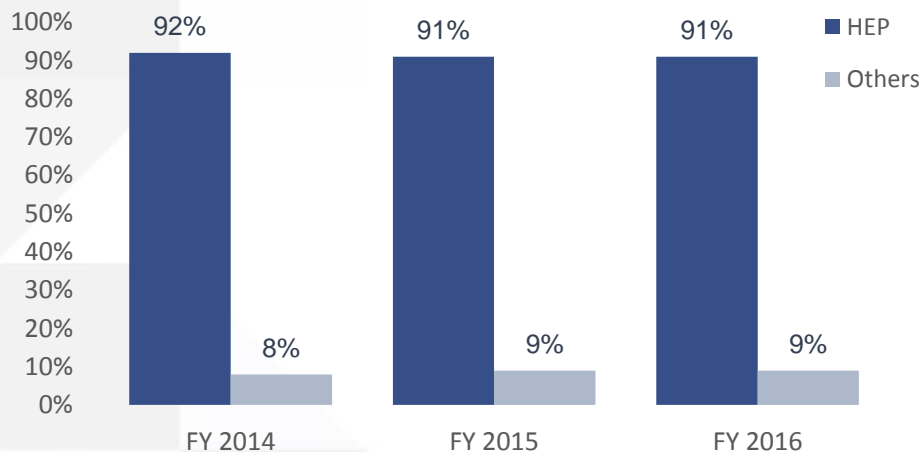
⁴as of YE 2017

Thermal and Heat Energy

Segment revenue share



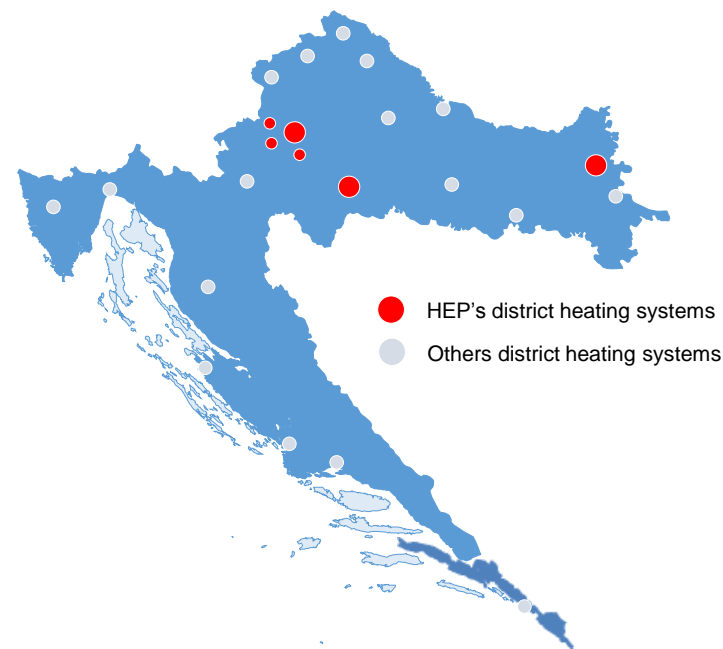
Sale of Thermal and Heat energy (MWh) in Croatia¹



¹HEP Group internal data, as of YE2016

²www.hera.hr

- Largest out of 21² distributors of heat with c. 126,000 customers, covering c. 81% 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)

| | 2015 | 2016 | 2017 |
|----------|-------|-------|-------|
| Croatia | 6,174 | 8,568 | 9,340 |
| Slovenia | 116 | 435 | 1,261 |
| Serbia | 139 | 111 | 106 |
| BiH | 5 | 1,228 | 241 |
| Kosovo | 96 | 29 | 60 |

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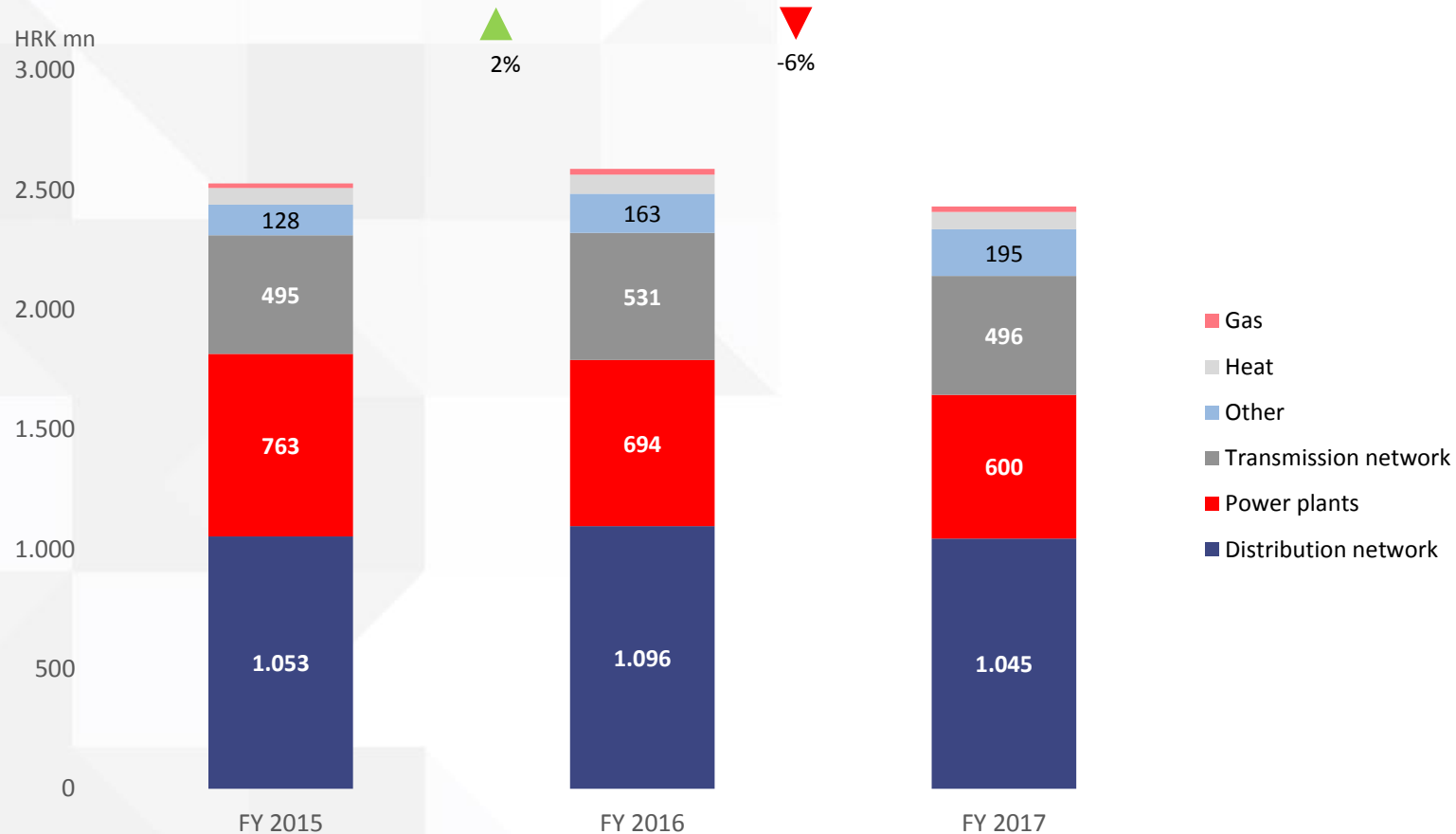
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Capital expenditure 2017



- Total investments realized in 2017 HRK **2,431.9mn** :
- 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

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Contacts for Institutional Investors & Financial Analysts – ir@hep.hr

Marko Ćosić
Board Member and
CFO

+385 1 632 28 31
marko.cosic@hep.hr

Alina Kosek
Finance and Treasury
Director


+385 1 632 22 07
alina.kosek@hep.hr

Ivana Sučić Funko
Head of Investor
Relations

+385 1 632 22 31
ivana.sucicfunko@hep.hr

Ivan Dodig
Investor Relations

+385 1 632 27 98
ivan.dodig@hep.hr





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Furthermore, in tables and charts, these rounded off figures may not add up exactly to the totals contained in the respective tables and charts.