



# Hrvatska elektroprivreda

More than electricity

Consolidated Financial Statements  
YE 2018



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## **2018 Key highlights**

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# Safe Harbor Statement

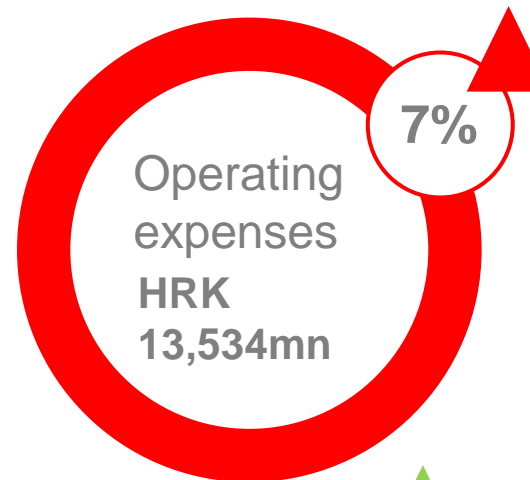
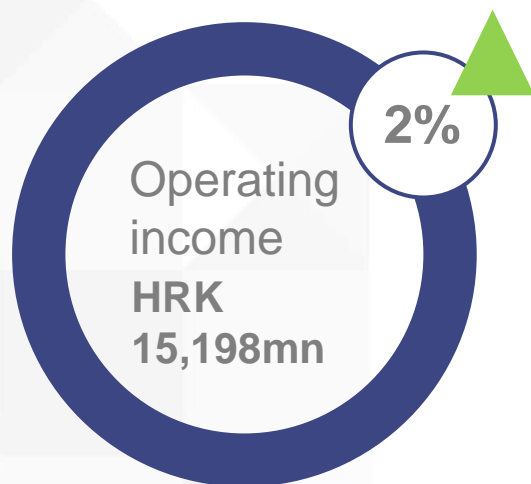


This Presentation contains certain forward-looking statements that reflect HEP's current views with respect to future events and financial and operational performance, including but not limited to risks specific to HEP's business and the implementation of strategic initiatives, as well as other statements 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:

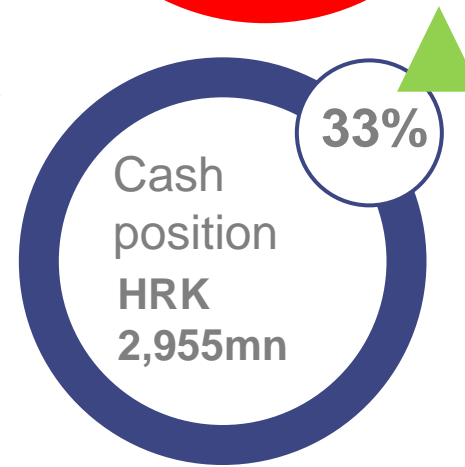
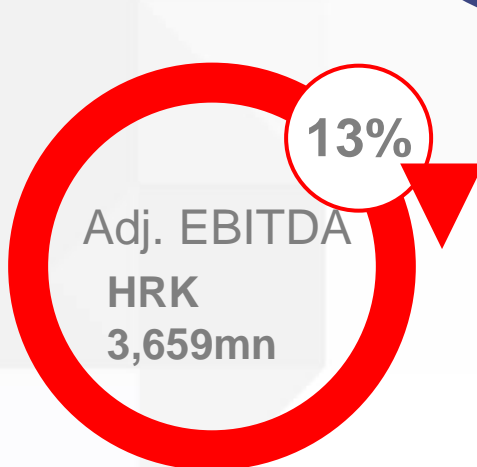
- absence of the ownership title with respect to certain properties, including real estate connected to 17 out of 26 of the hydro power plants which the Group currently operates in the Republic of Croatia;
- HEP's ability to maintain and increase market share for its products and services and control 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

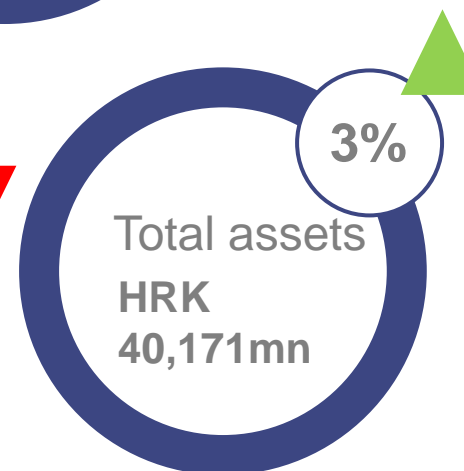
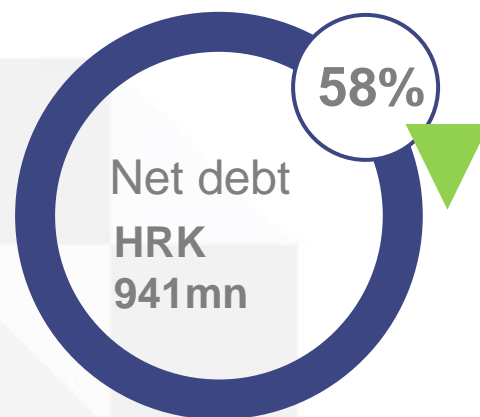
# Key Facts



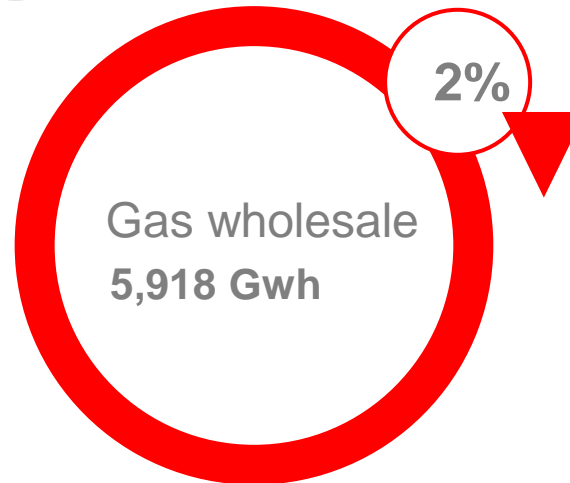
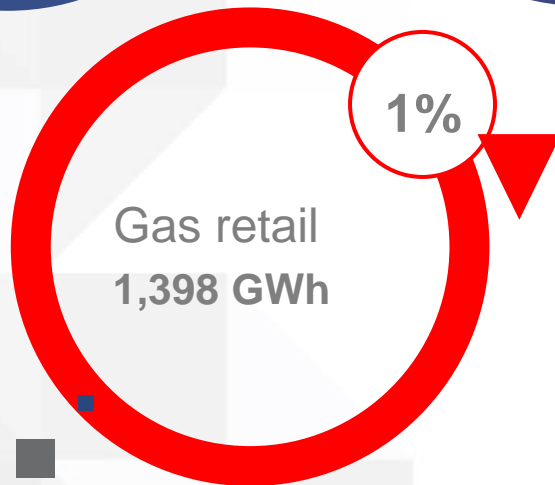
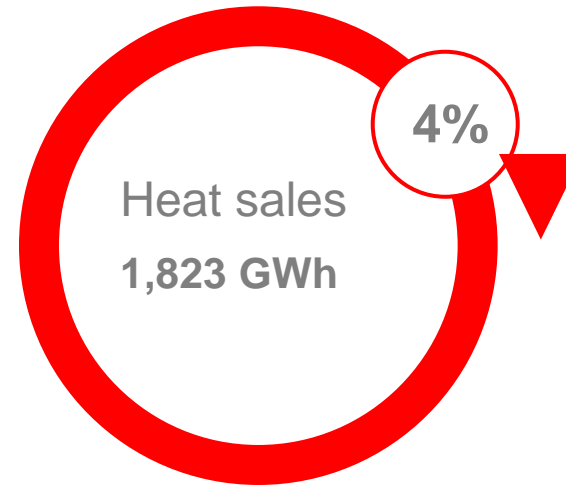
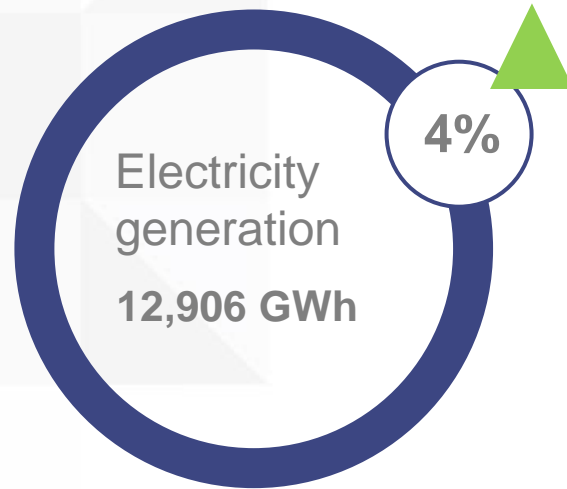
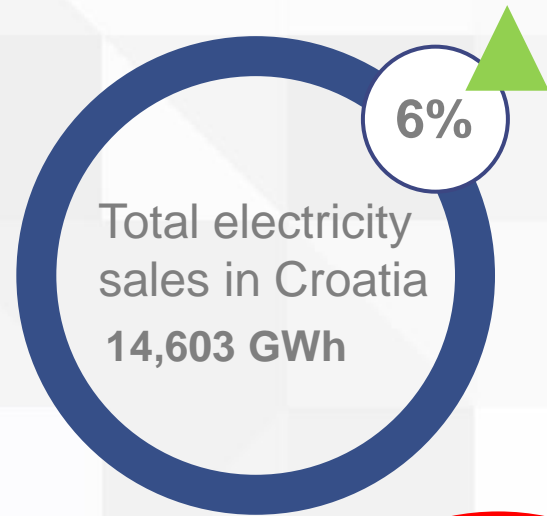
Number of employees  
2018: 11,011  
2017: 11,894



%  
Compared to FY 2017



# Key Facts



HEP Group 85 %  
electricity market  
share in Croatia

%  
Compared to FY 2017

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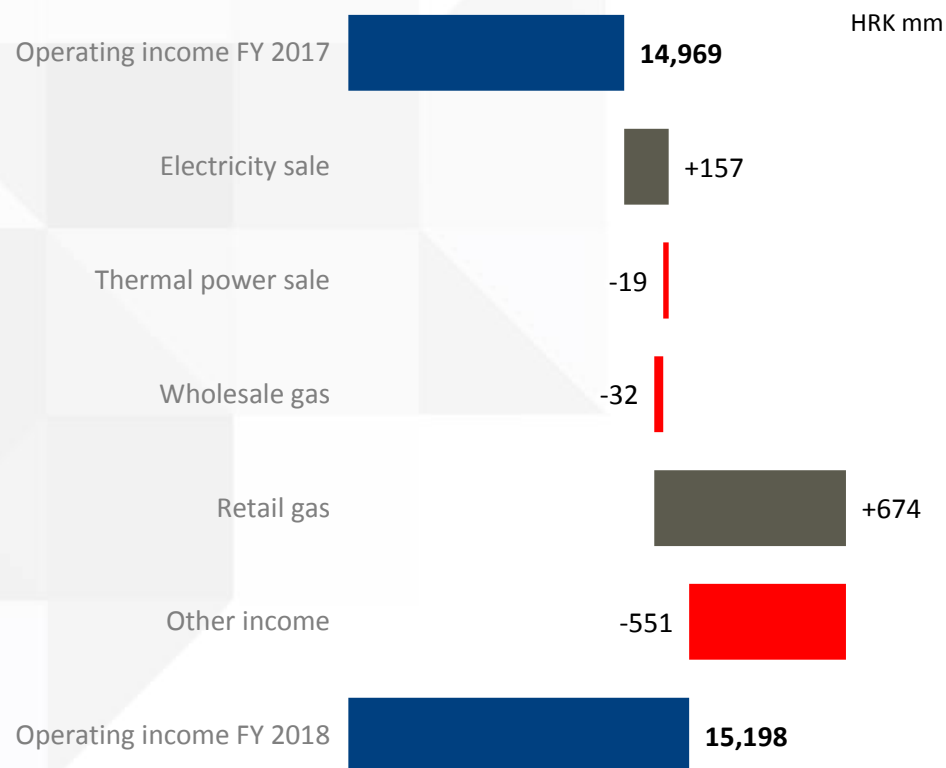
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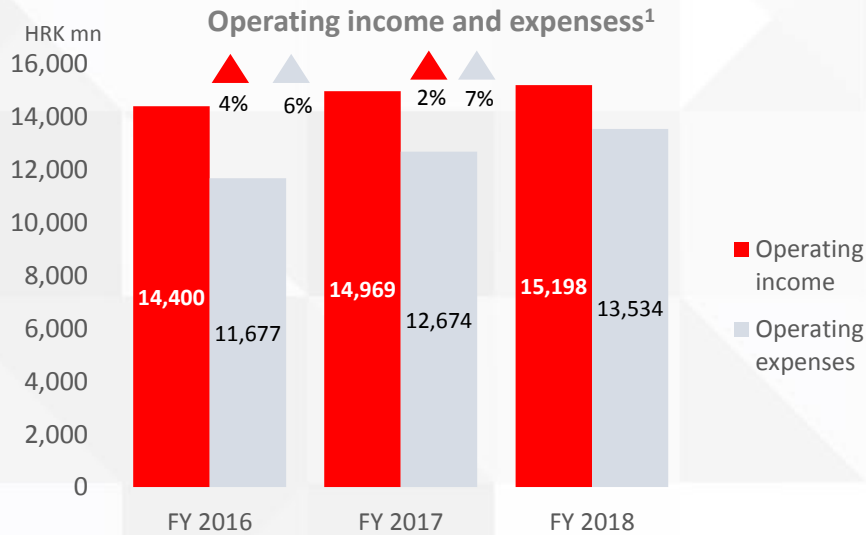
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# Development of Operating Income<sup>1</sup>

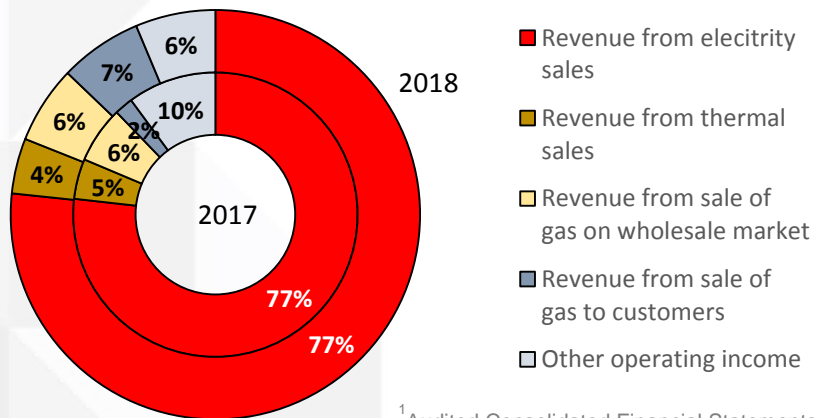


- Revenue from electricity sales increased by HRK **662mn (6%)**, which is a result of an increase in:
  - Revenue growth in Croatia by HRK **366mn**
  - Revenue from HEP's producers in the incentive system of generation from renewable energy sources by HRK **162mn**
  - Foreign market revenue by HRK **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 2018



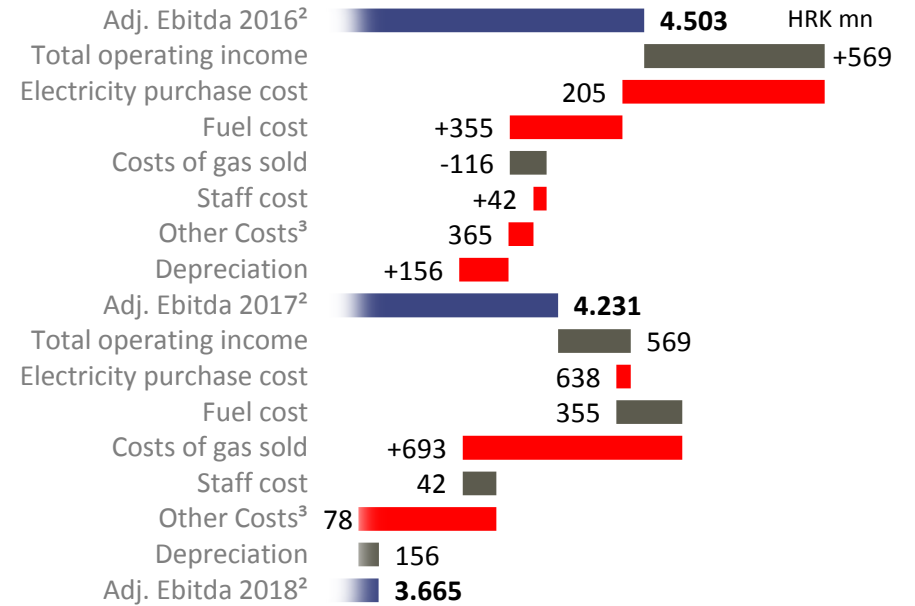
**Total operating income split FY 2018 vs 2017<sup>1</sup>**



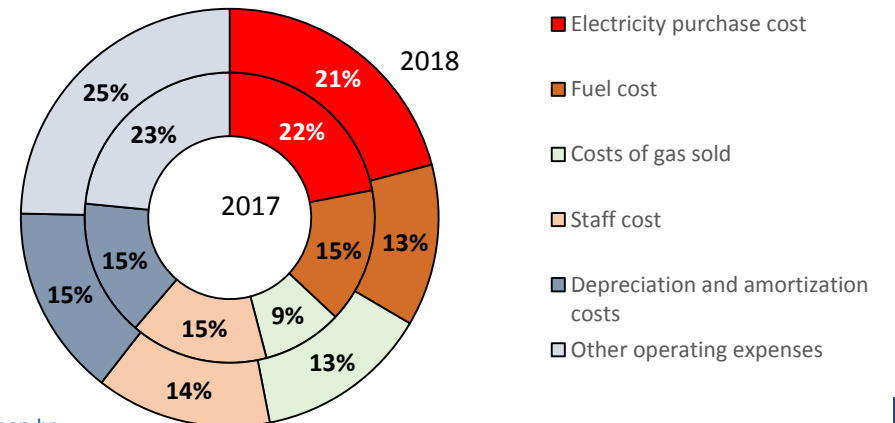
<sup>1</sup> Audited Consolidated Financial Statements for 2018, available at [www.hep.hr](http://www.hep.hr)

<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

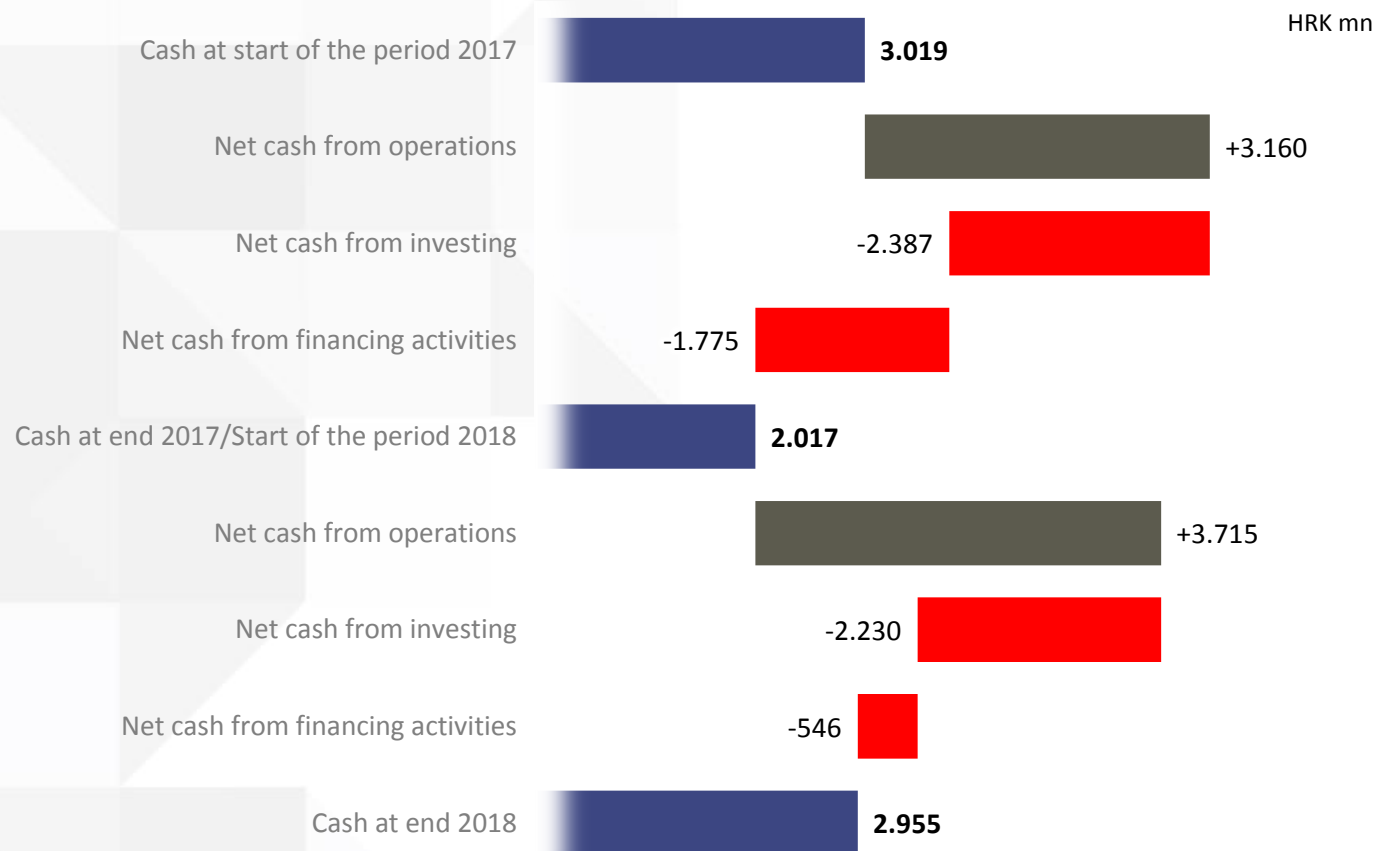


**Total operating expenses split FY 2018 vs 2017<sup>1</sup>**



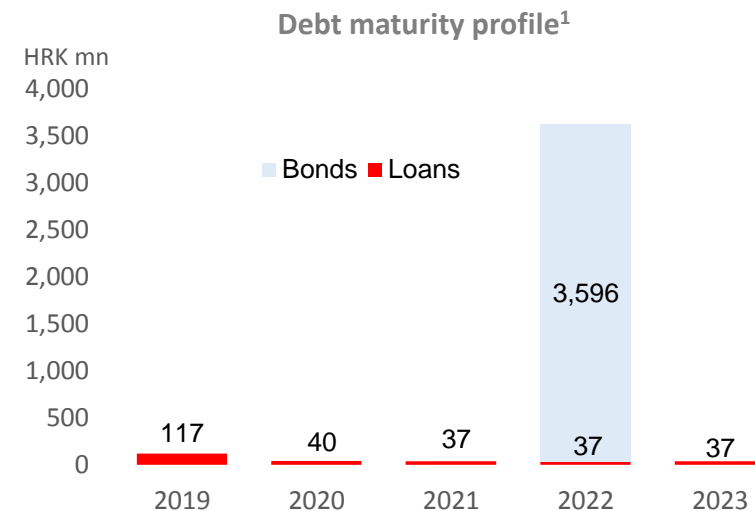
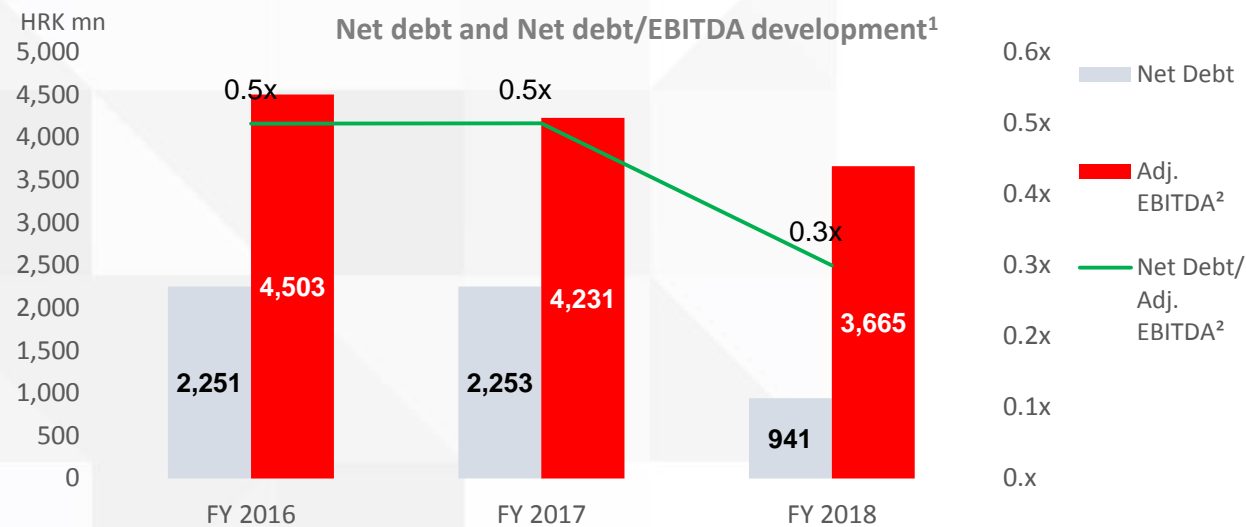


# Cash flow<sup>1</sup>

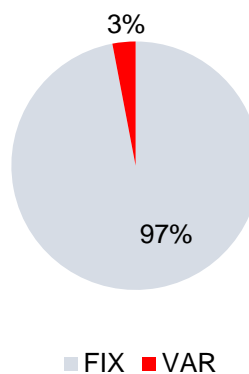
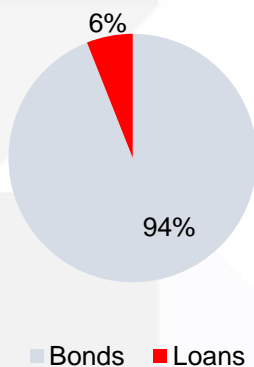


- Strong liquidity position
- Additional liquidity HRK 1 billion under short term financing sources with local banks
- Dividend payout – HRK 217.4mn

# HEP Group Debt



**Debt structure as of YE 2018<sup>1</sup>**



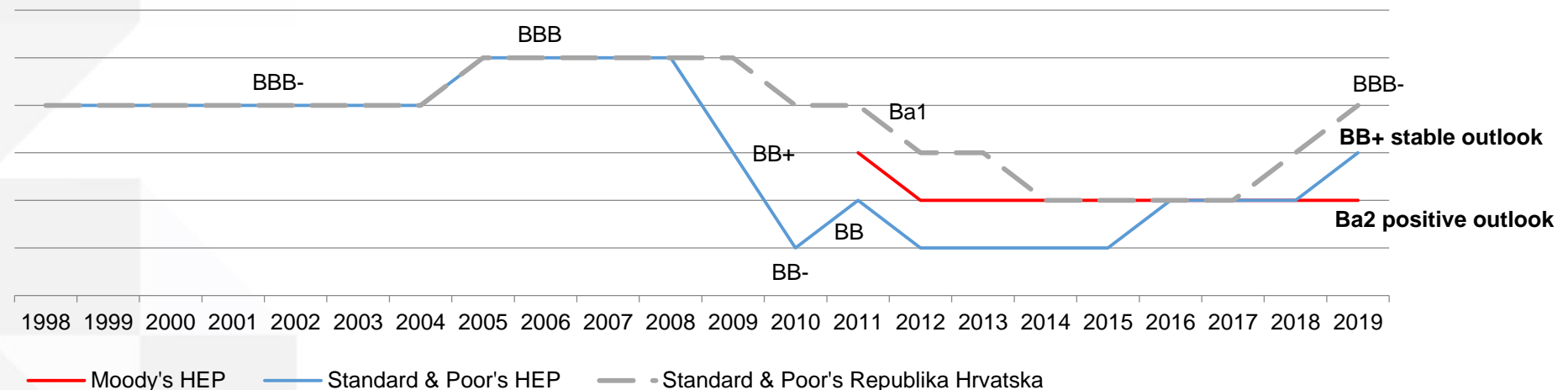
- No short term debt since YE 2014
- Experienced issuer on domestic and international capital market (first Croatian Tender Offer and Liability Management Transaction in 2015)
- Whole debt in EUR

# Credit Rating Evolution

Credit Rating Agency	Issue date	Rating
Standard & Poor's	26 March 2019	BB+/Stable – SACP bb
Moody's	30 April 2019	Ba2/Positive outlook

- Corporate credit rating capped with sovereign rating level
- At the end of April 2019, Moody's confirmed the long-term credit rating (Ba2) and increased the outlook from stable to positive
- In March 2019, Standard & Poor's (S&P) upgraded HEP's overall credit rating from BB to BB +.

## HEP Credit Profile





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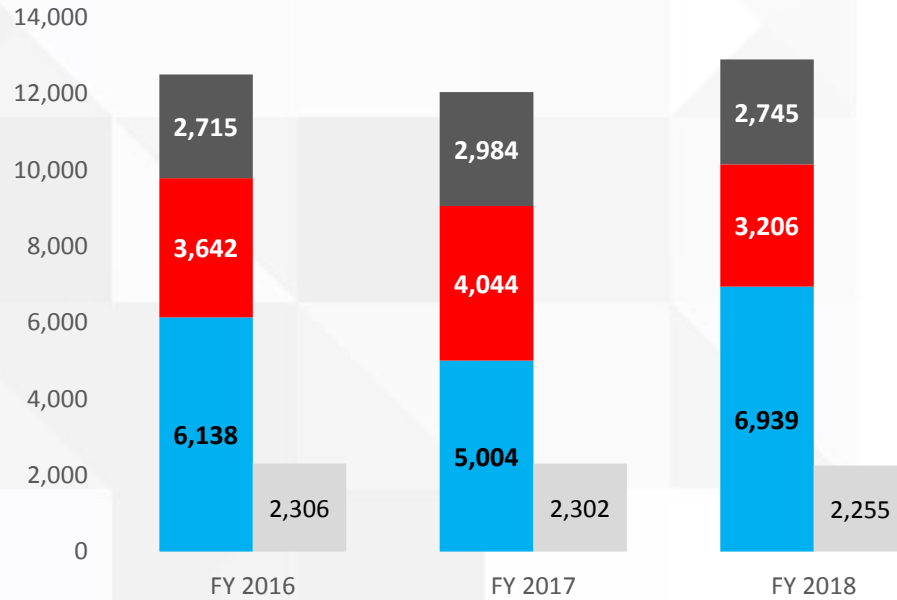
**Operations results**

Capital expenditure

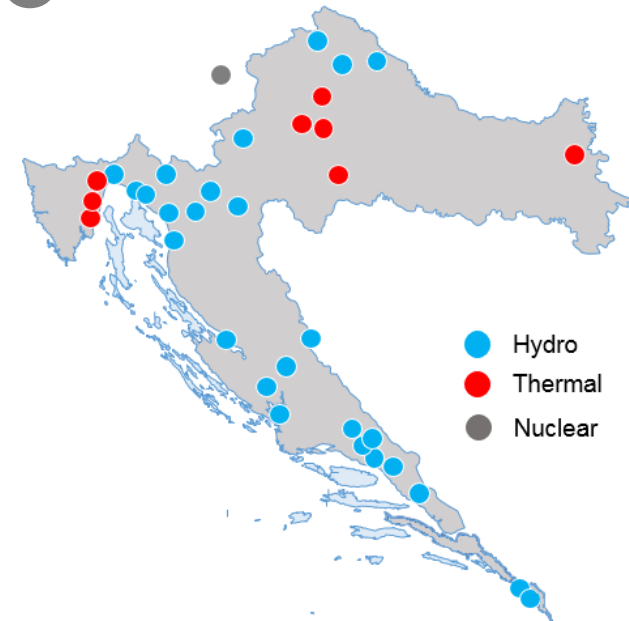
Q&A



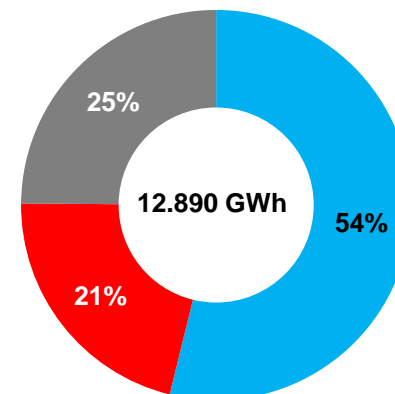
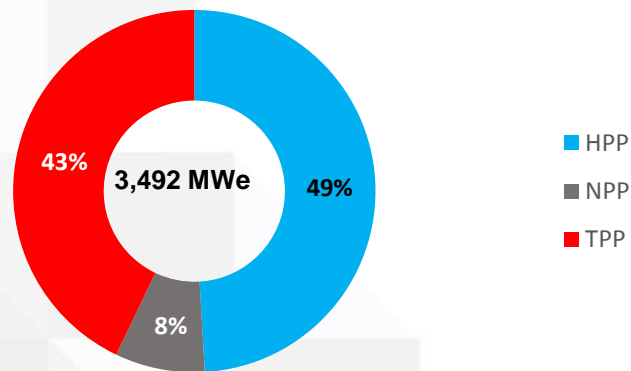
# Power Generation in 2018



Electricity - installed capacity 2018<sup>1</sup>

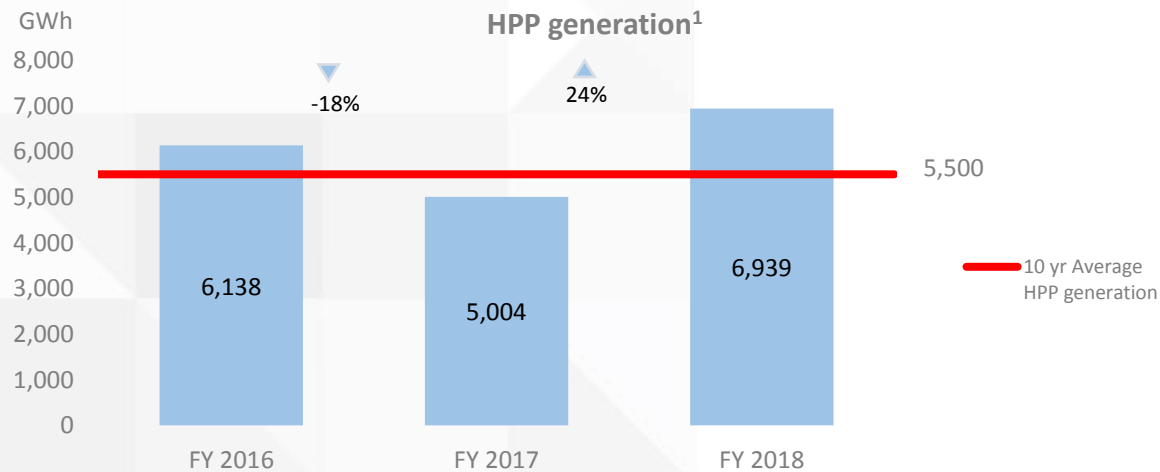


Electricity generation in 2018

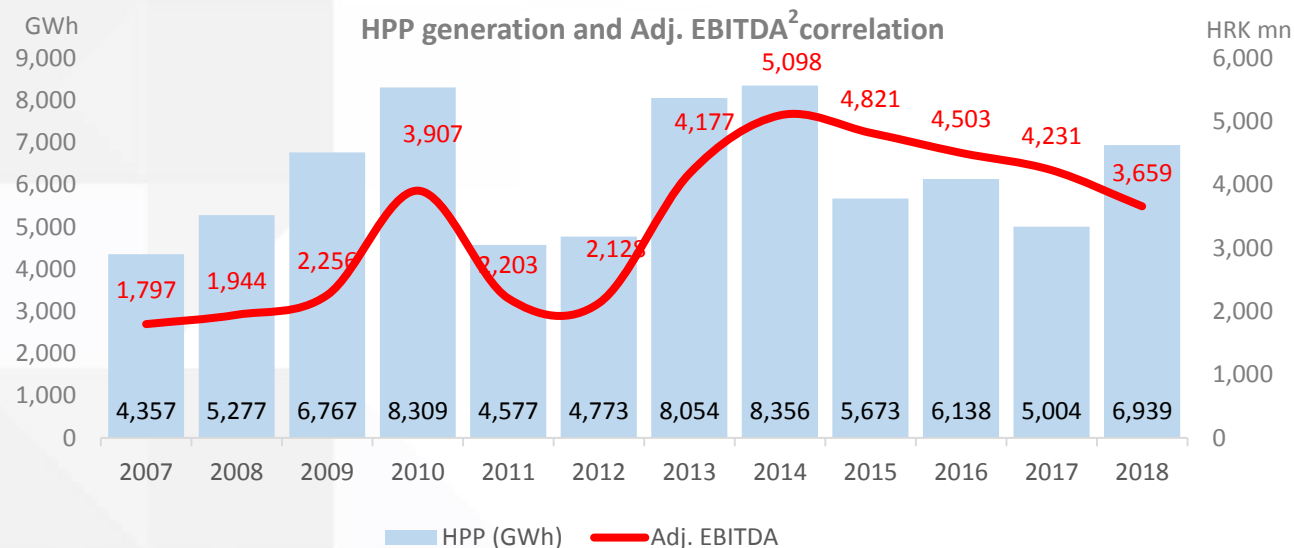
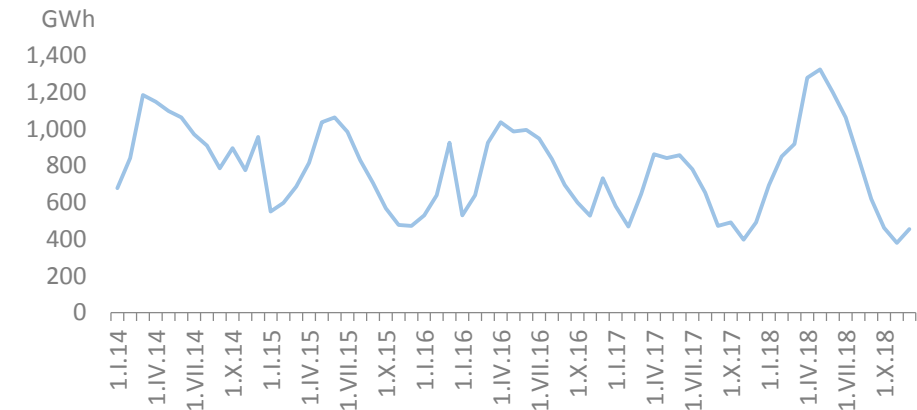


- Compared to year before HPP generation was 39% higher
- TPP generated 21% less while NPP generation was 8% lower compared to year before
- Generation of heat energy was lower for 2% compared to the last year

# Electricity Generation from HPP

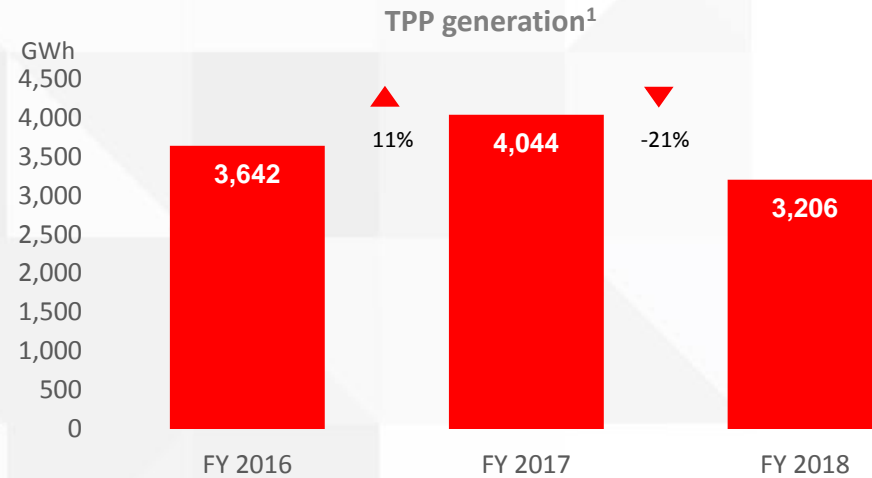


**Acumulation levels, GWh  
(1.1.2014-31.12.2018)**

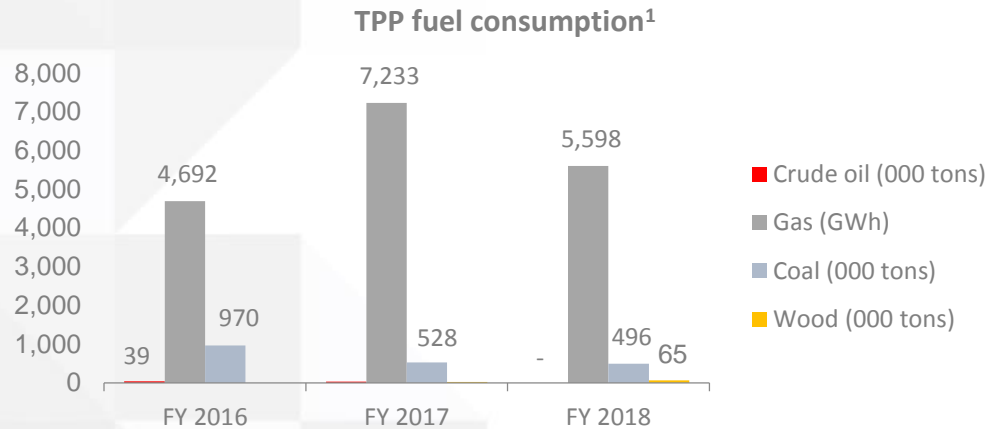
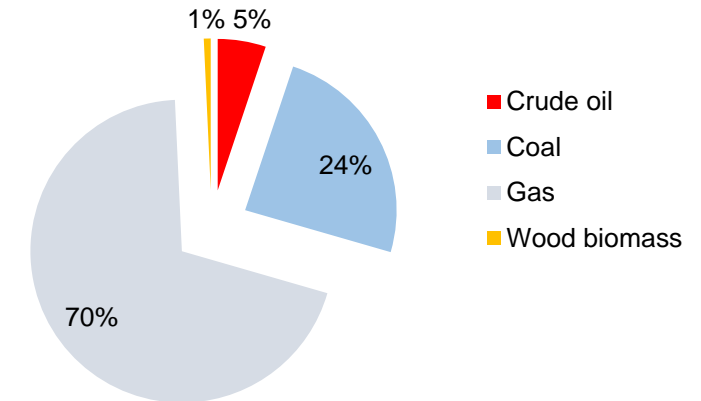


- 26 HPP operated, 2,195 MWe total installed capacity
- Excellent hydrological conditions - 39% higher hydro power generation: 54%-share in the structure of electricity sources

# Electricity Generation from TPP



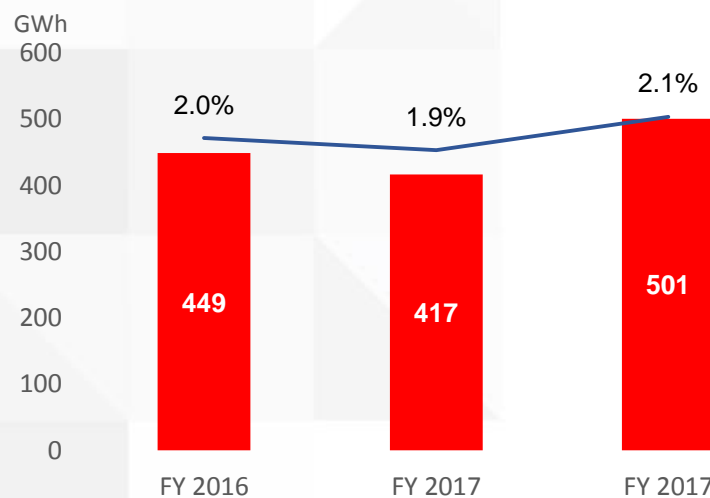
TPP by fuel type, installed capacity<sup>2</sup>



- 8 TPP with total installed capacity of 1,005 MWe<sup>2</sup>
- 2 Biomass thermal power plant with total installed capacity of 6 MWe<sup>2</sup>

# Transmission

Transmission network losses<sup>1</sup>



% of total

2.5%

■ Losses in network

■ % of total amount

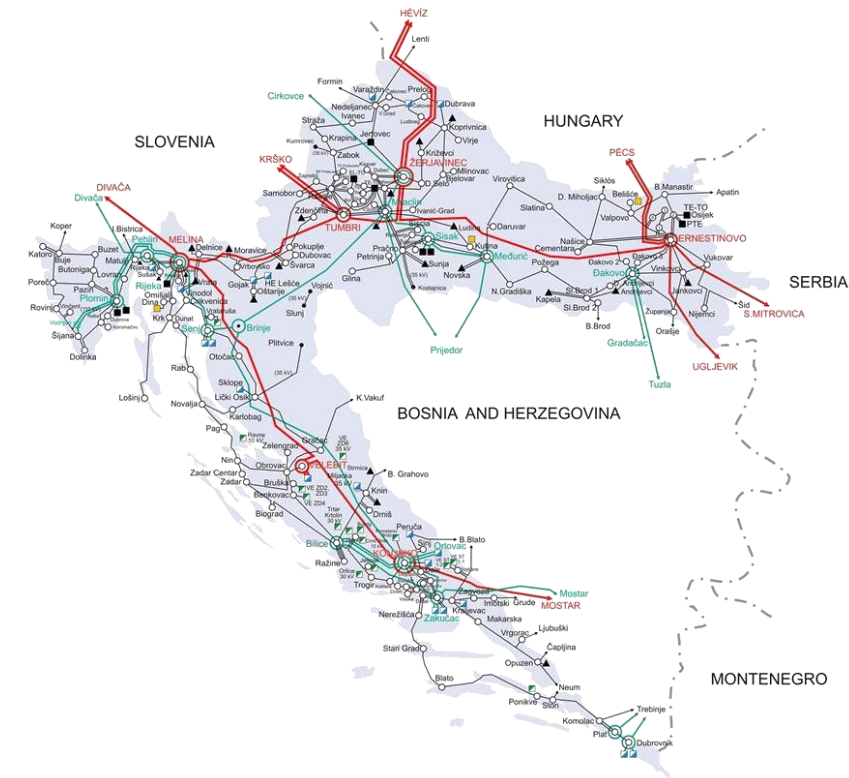
2.0%

1.5%

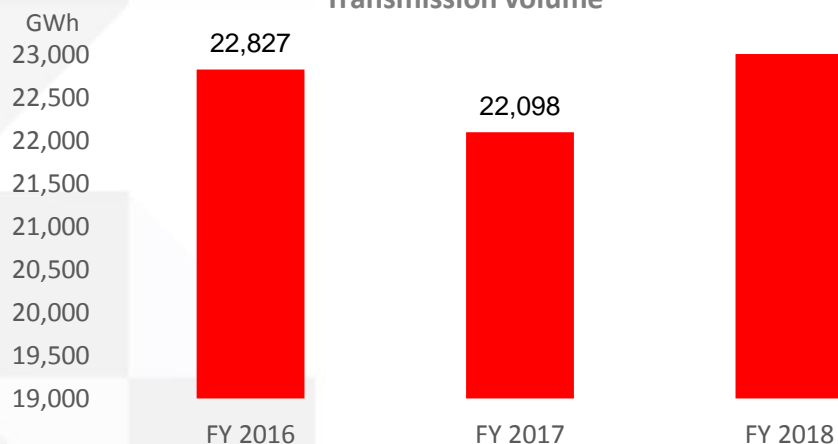
1.0%

0.5%

0.0%



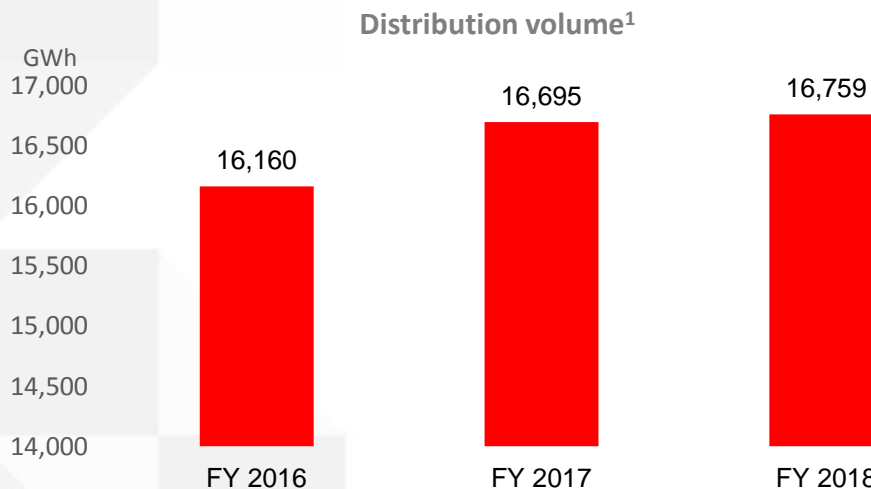
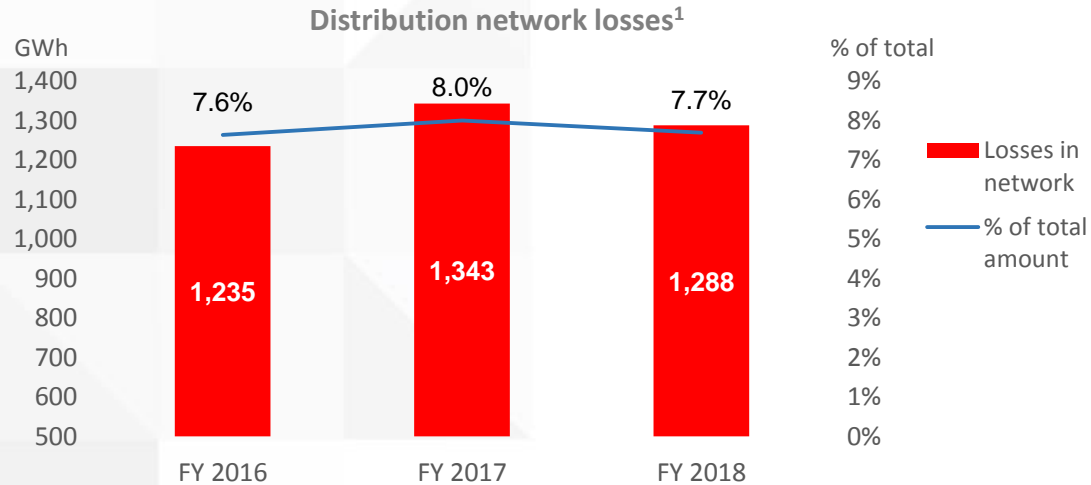
Transmission volume<sup>1</sup>



- 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 2018

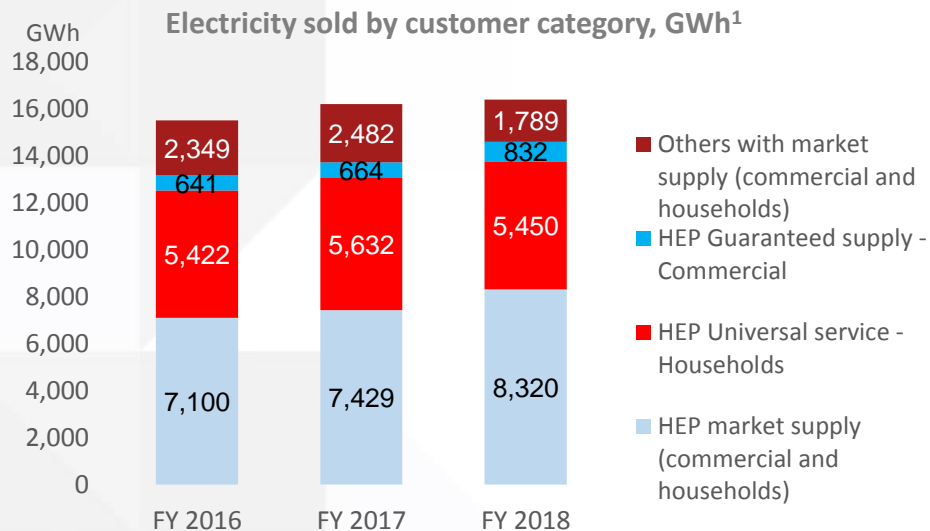
- Sole distributor of electricity – natural monopoly
- HEP DSO continues to carry out meterings, consumption billing, metering point maintenance, and other field activities

# Electricity Supply

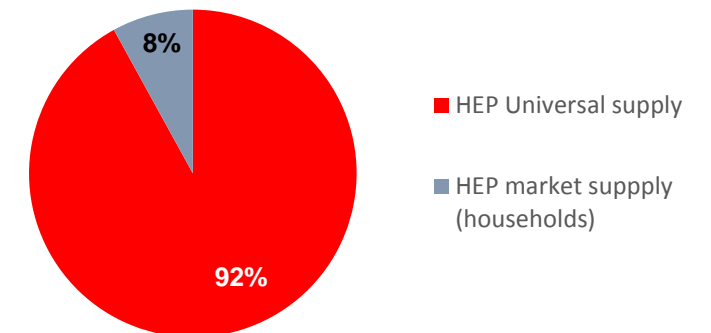
Electricity consumption in 2018 per supplier<sup>1</sup>



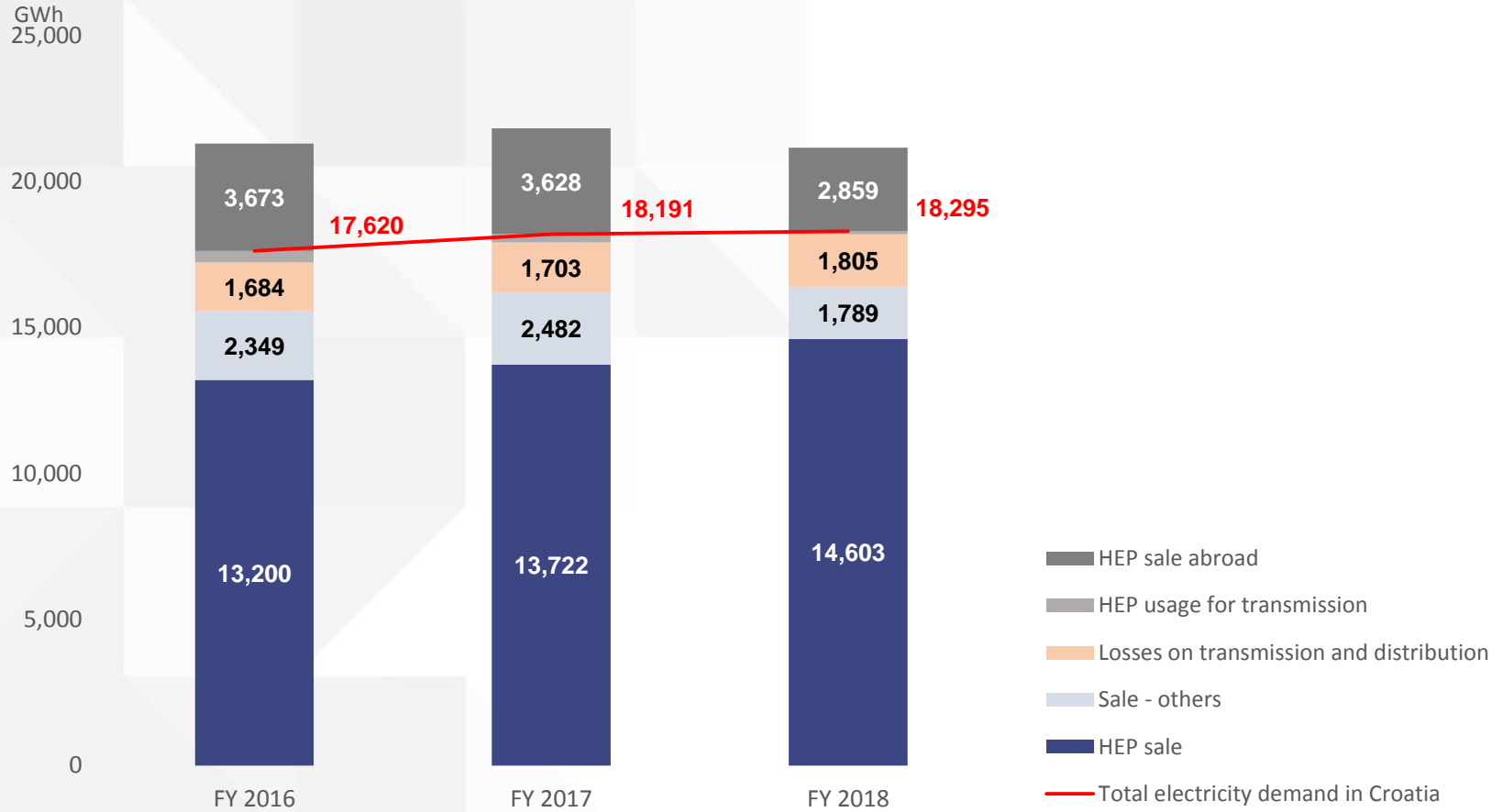
- HEP Group supplies **85 %** of all electricity sold in Croatia
- HEP Elektra supplies customers under public service obligation (universal service and guaranteed supply) while HEP-Supply supplies all other customers that have opted for a market supplier
- HEP- Supply is the largest non-tariff supplier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



HEP's households consumers by category in 2018  
(Total GWh sale)<sup>1</sup>



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

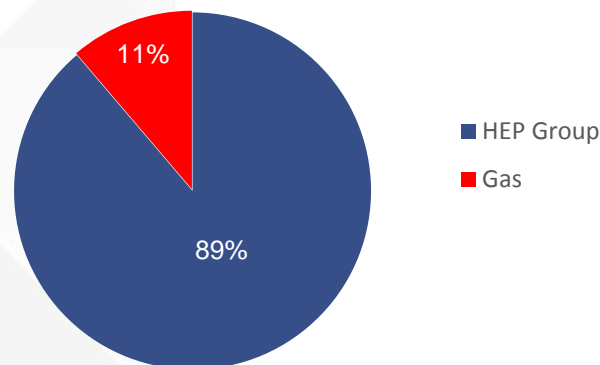


- Total electricity demand in Croatia for 2018 was 1% higher than in 2017
- 6,4% higher electricity sale compared to 2017

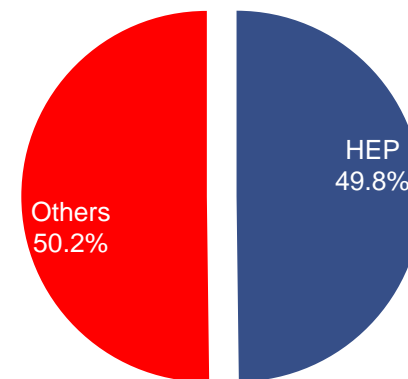
# Gas

- 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

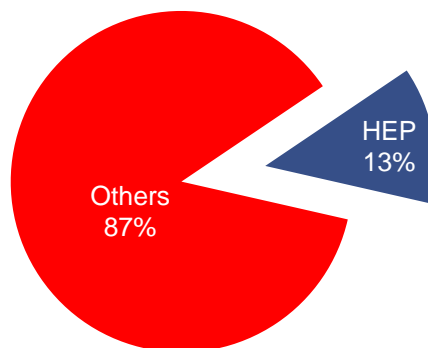
Segment revenue share



Gas Wholesale in 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 54 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

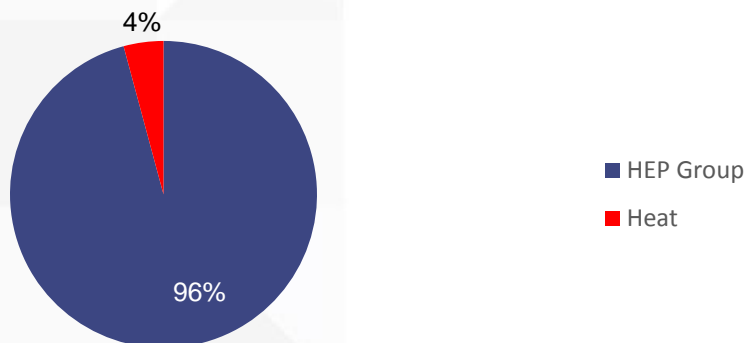
<sup>2</sup>Annual Energy Report, Ministry of Environment and Energy

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

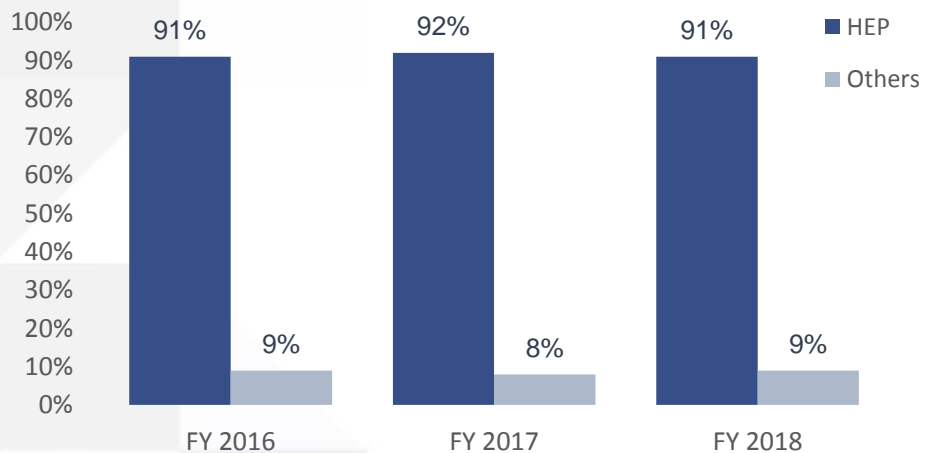
<sup>4</sup>as of YE 2018

# Thermal and Heat Energy

Segment revenue share



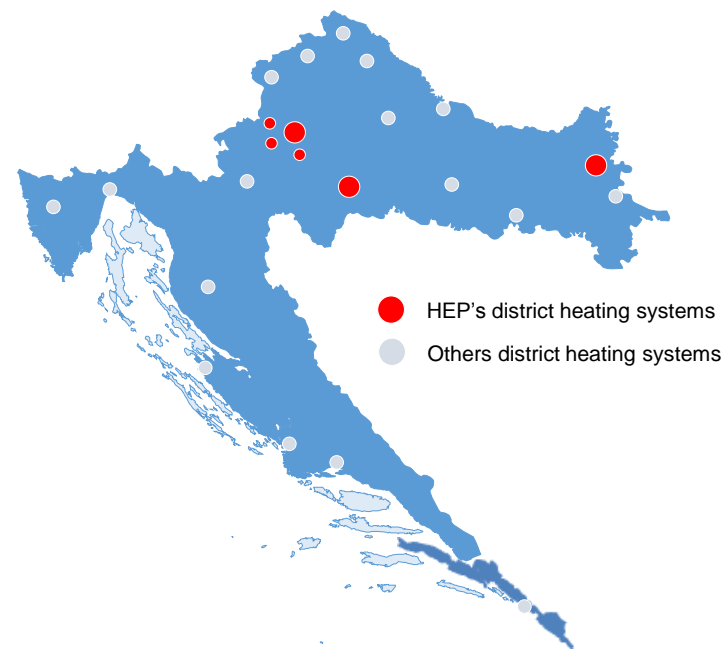
Sale of Thermal and Heat energy (MWh) in Croatia<sup>1</sup>



<sup>1</sup>HEP Group internal data, as of YE2018

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

- Largest out of 21<sup>2</sup> distributors of heat with c. 127,000 customers, covering c. 82% 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)

	2016	2017	2018
Croatia	8,568	9,342	7,355
Slovenia	435	1,262	1,545
Serbia	111	106	273
BiH	1,228	241	155
Kosovo	29	60	33

# Content

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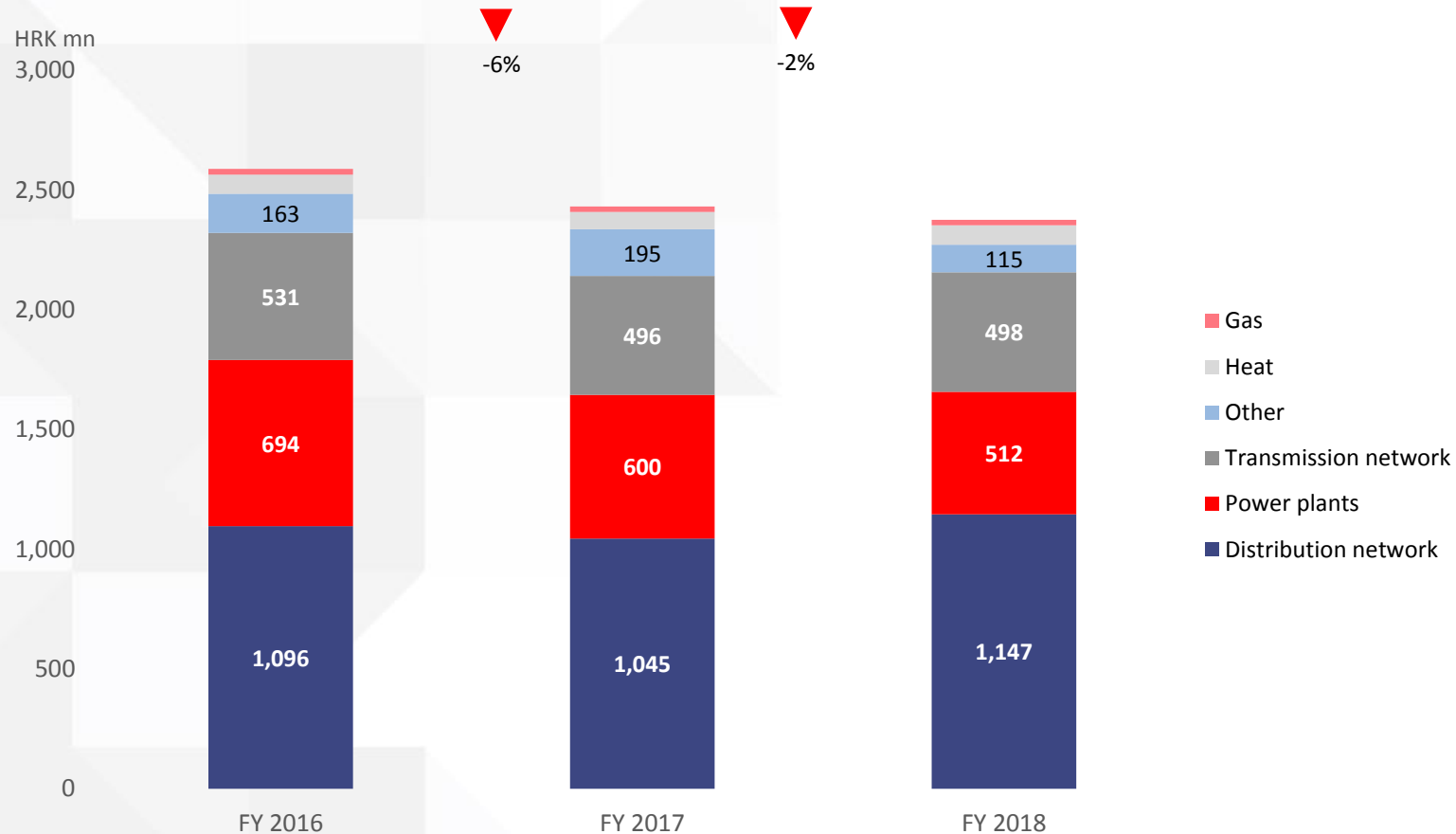
Financial results

Operations results

**Capital expenditure**

Q&A

# Capital expenditure 2018



- Total investments realized in 2018 HRK **2,376mn** :
- 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
- Further investment in renewables



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# Q&A



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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.