



Hrvatska elektroprivreda

More than electricity

Consolidated Financial Statements
YE 2019



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Safe Harbor Statement



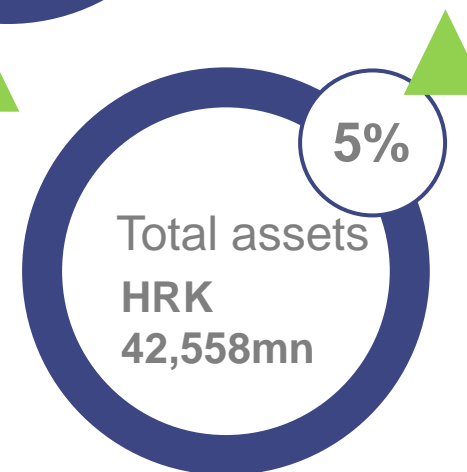
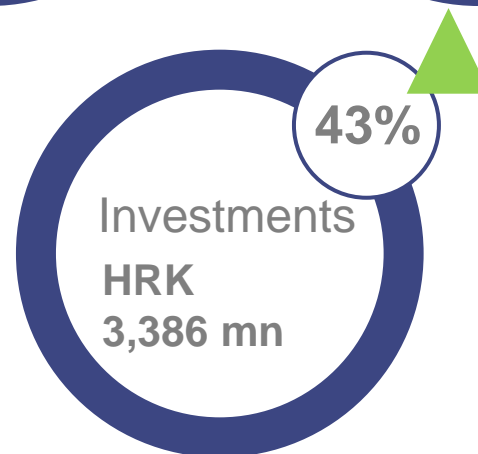
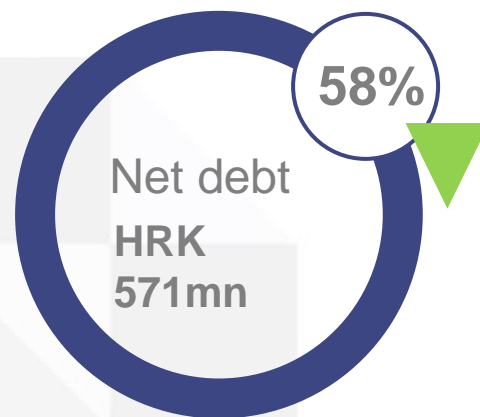
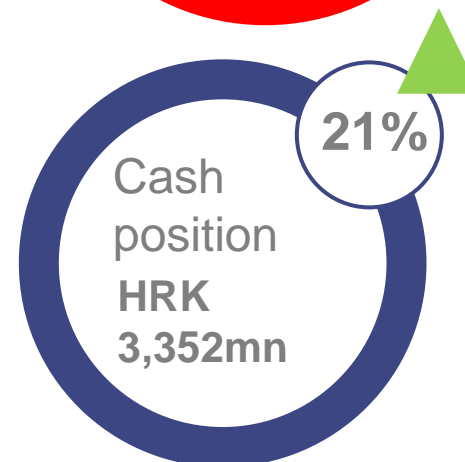
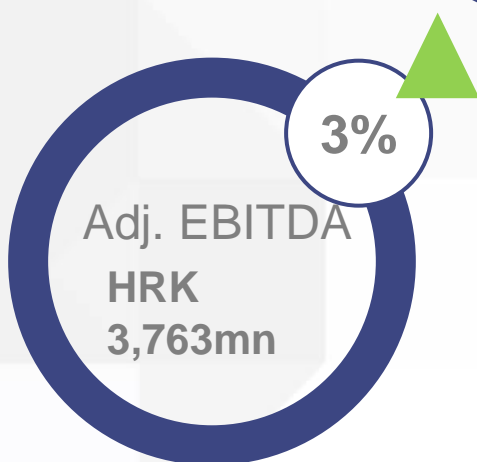
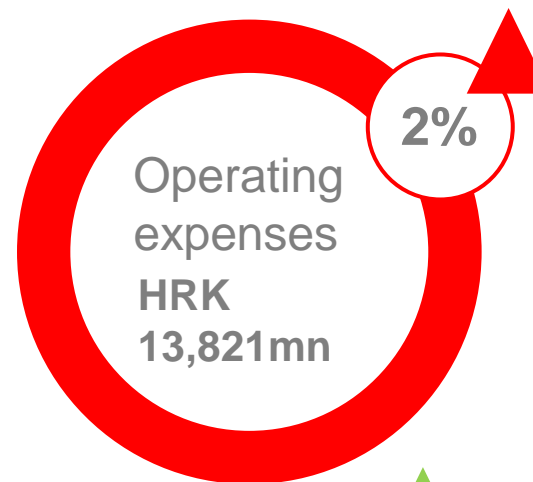
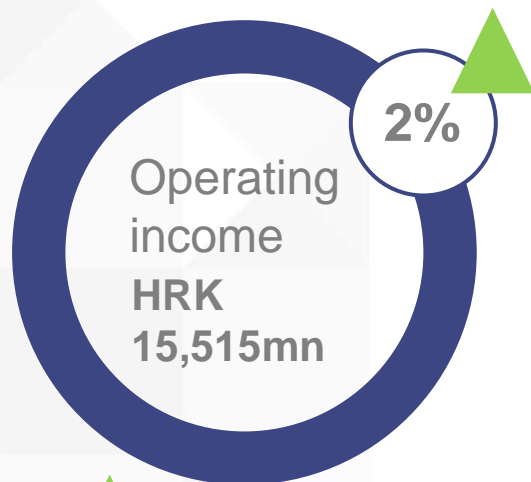
This Presentation contains certain forward-looking statements that reflect HEP's current views with respect to future events and financial and operational performance, including but not limited to risks specific to HEP's business and the implementation of strategic initiatives, as well as other statements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

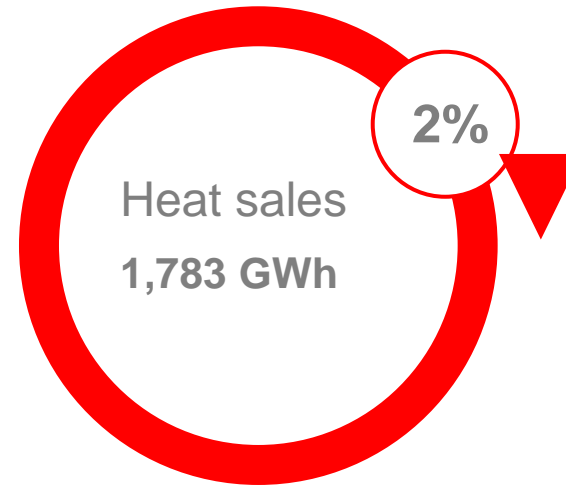
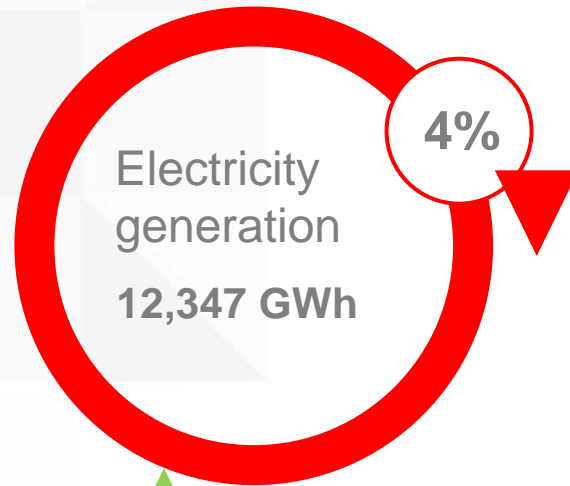
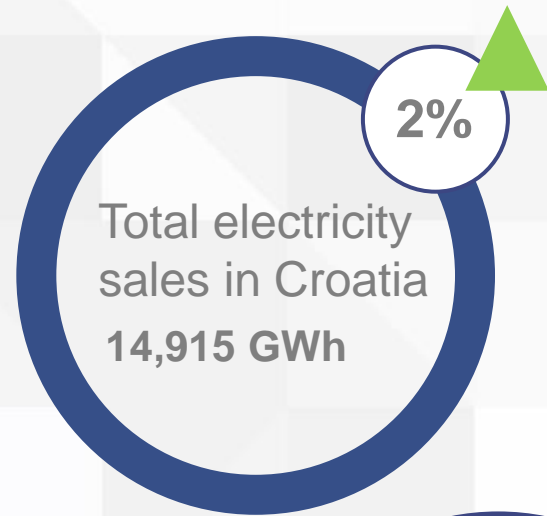


Number of employees
2019: 11,520
2018: 11,011

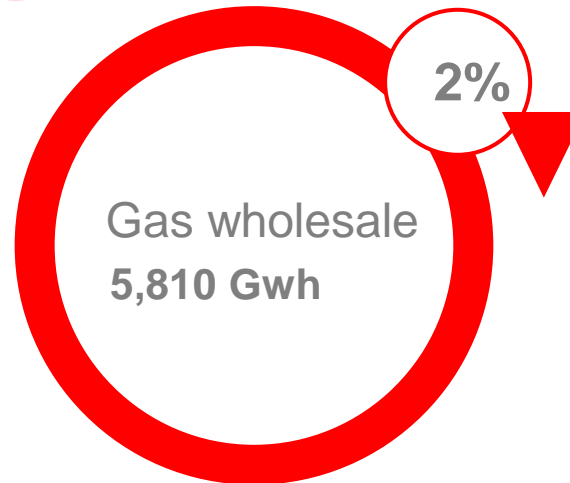
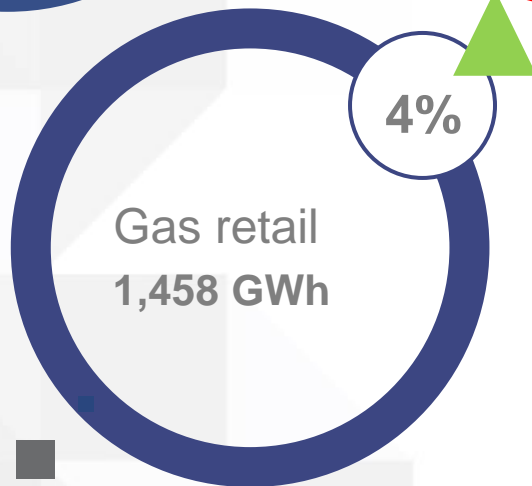


Compared to FY 2018

Key Facts

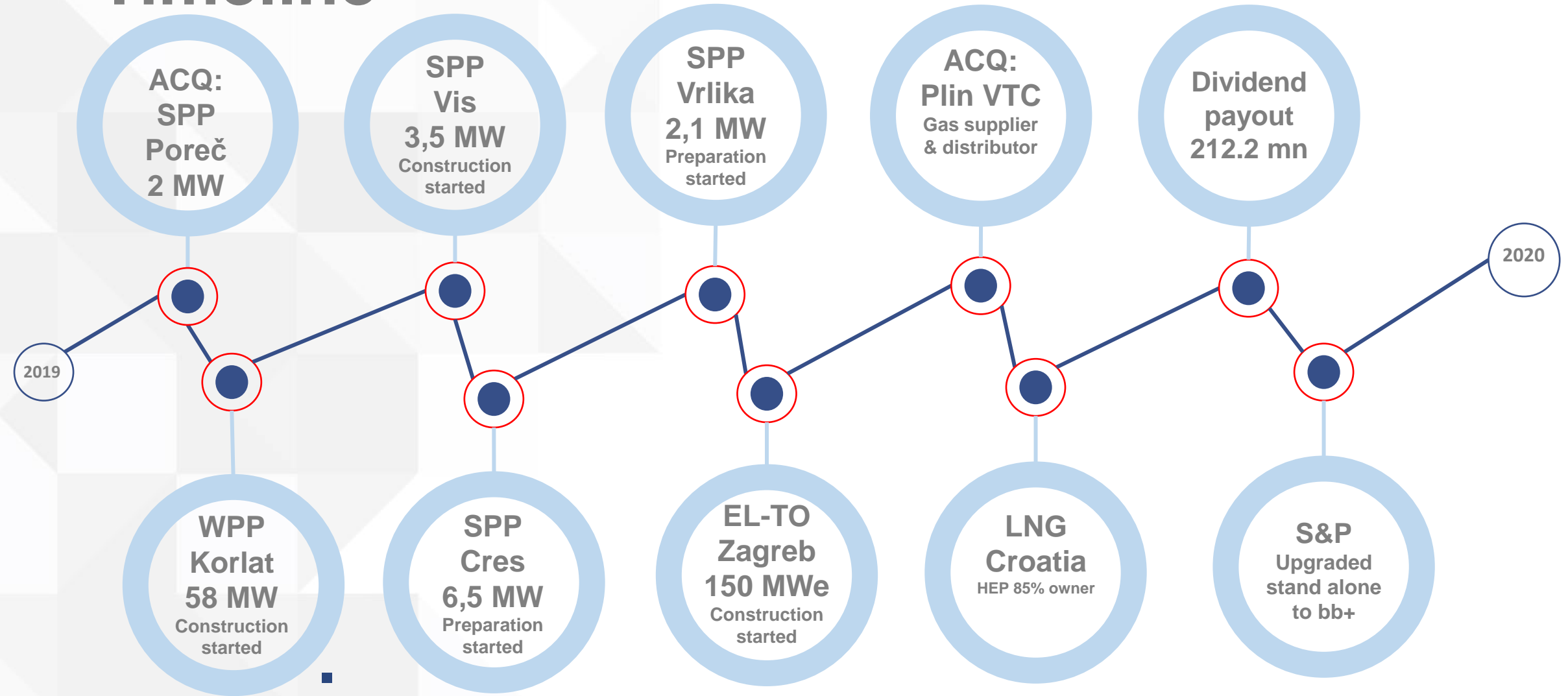


HEP Group 91 %
electricity market
share in Croatia



Compared to FY 2018

Timeline



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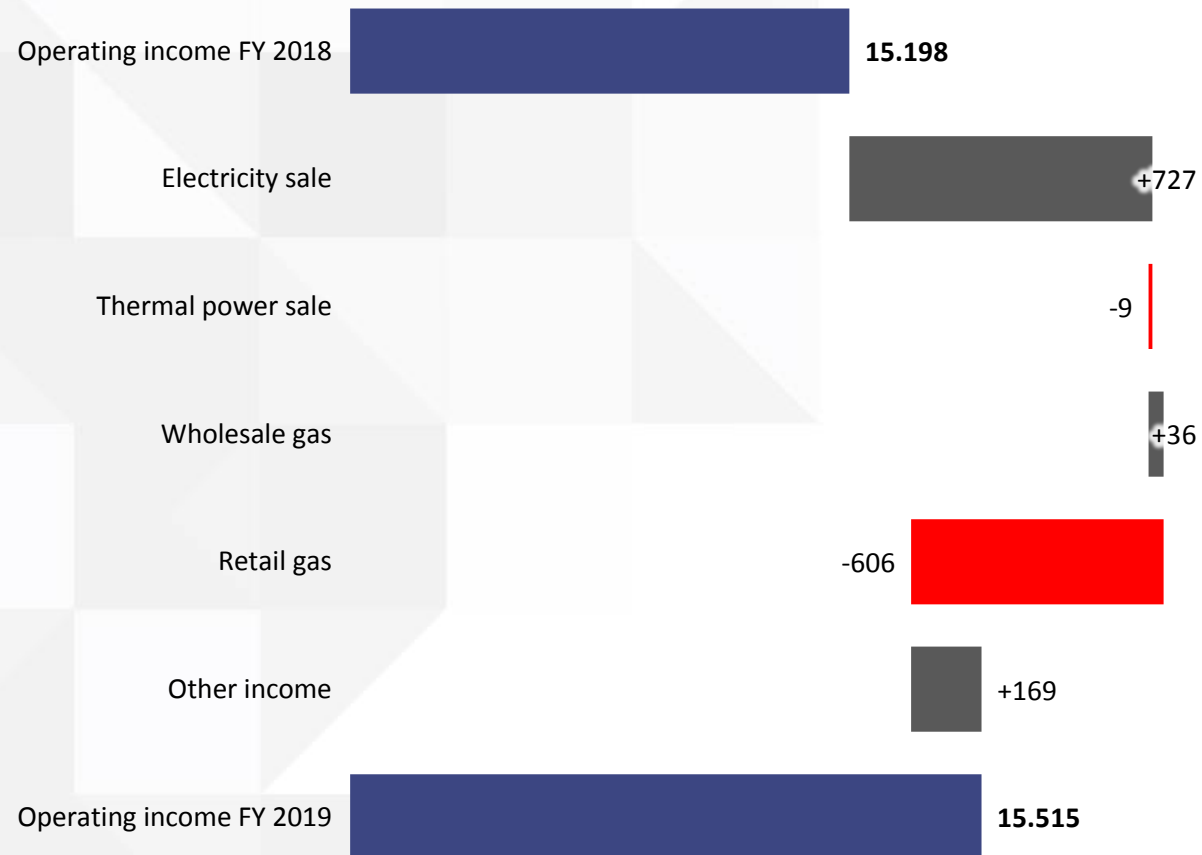
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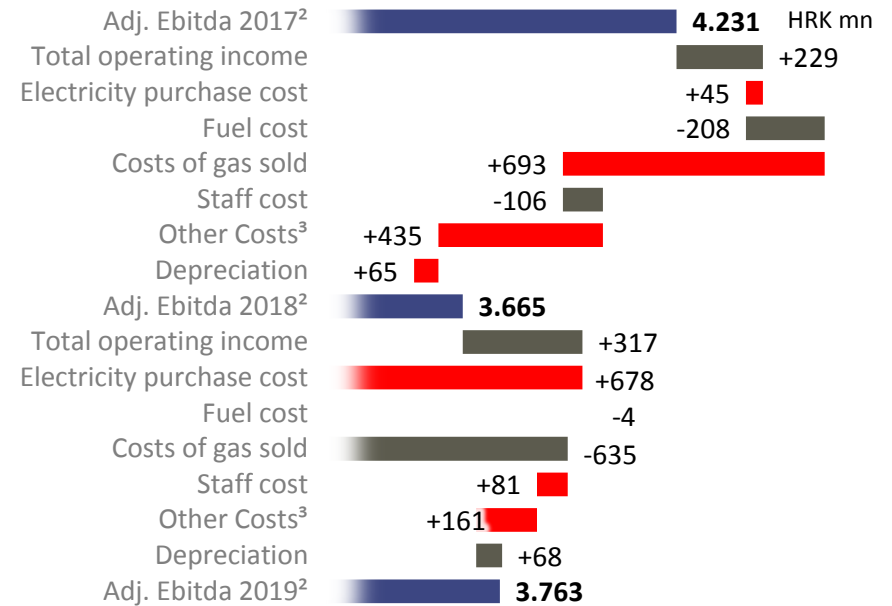
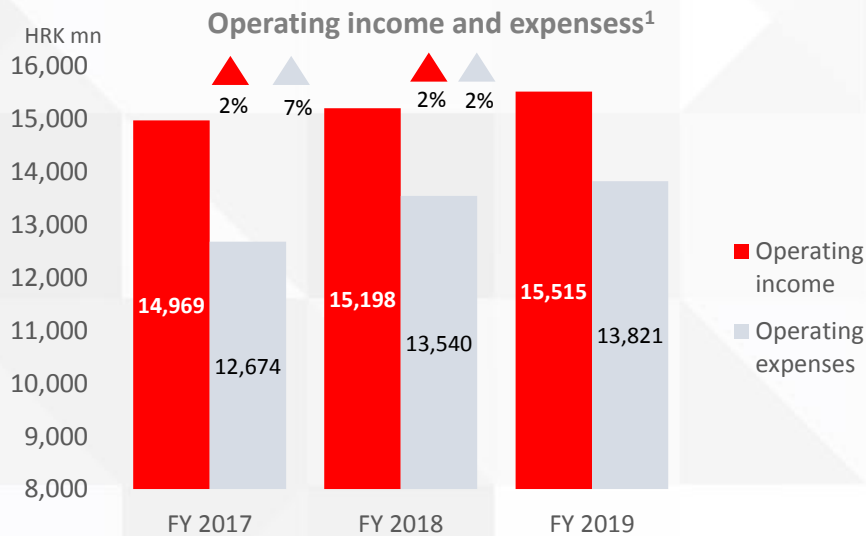
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Development of Operating Income¹

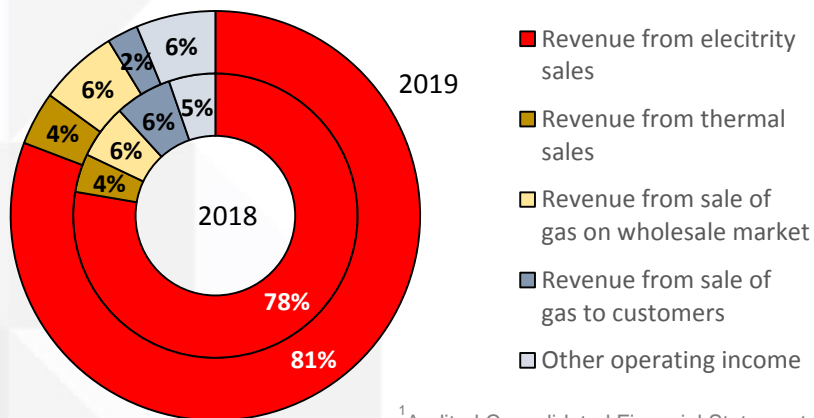


- Revenue from electricity sales increased by HRK **727mn (6%)**, which is a result of an increase in market share growth by 5%
- 1.4%** thermal power sales revenue decrease due to **2.2%** consumption decrease
- Sale of gas on wholesale market revenue rose by **3.9%** due to changes in sales price
- Sale of gas to customers revenue went down by **62%** due to cessation of supply to specific customer
- Other operating income increased **21%**

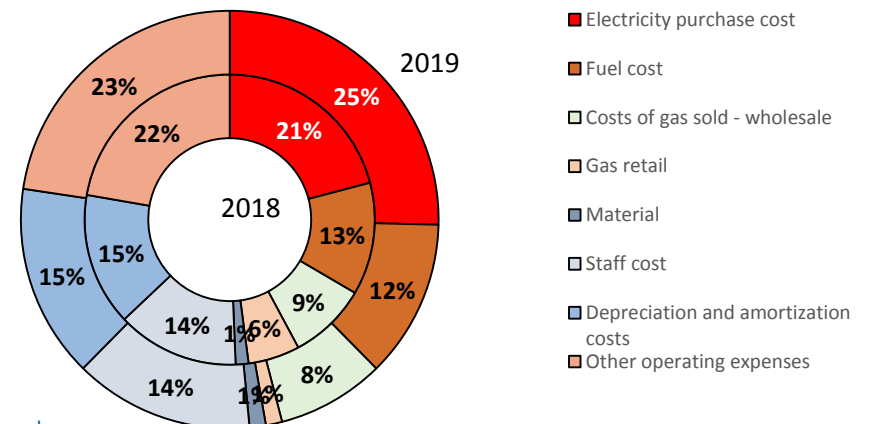
Financial Performance FY 2019



Total operating income split FY 2019 vs 2018¹



Total operating expenses split FY 2019 vs 2018¹

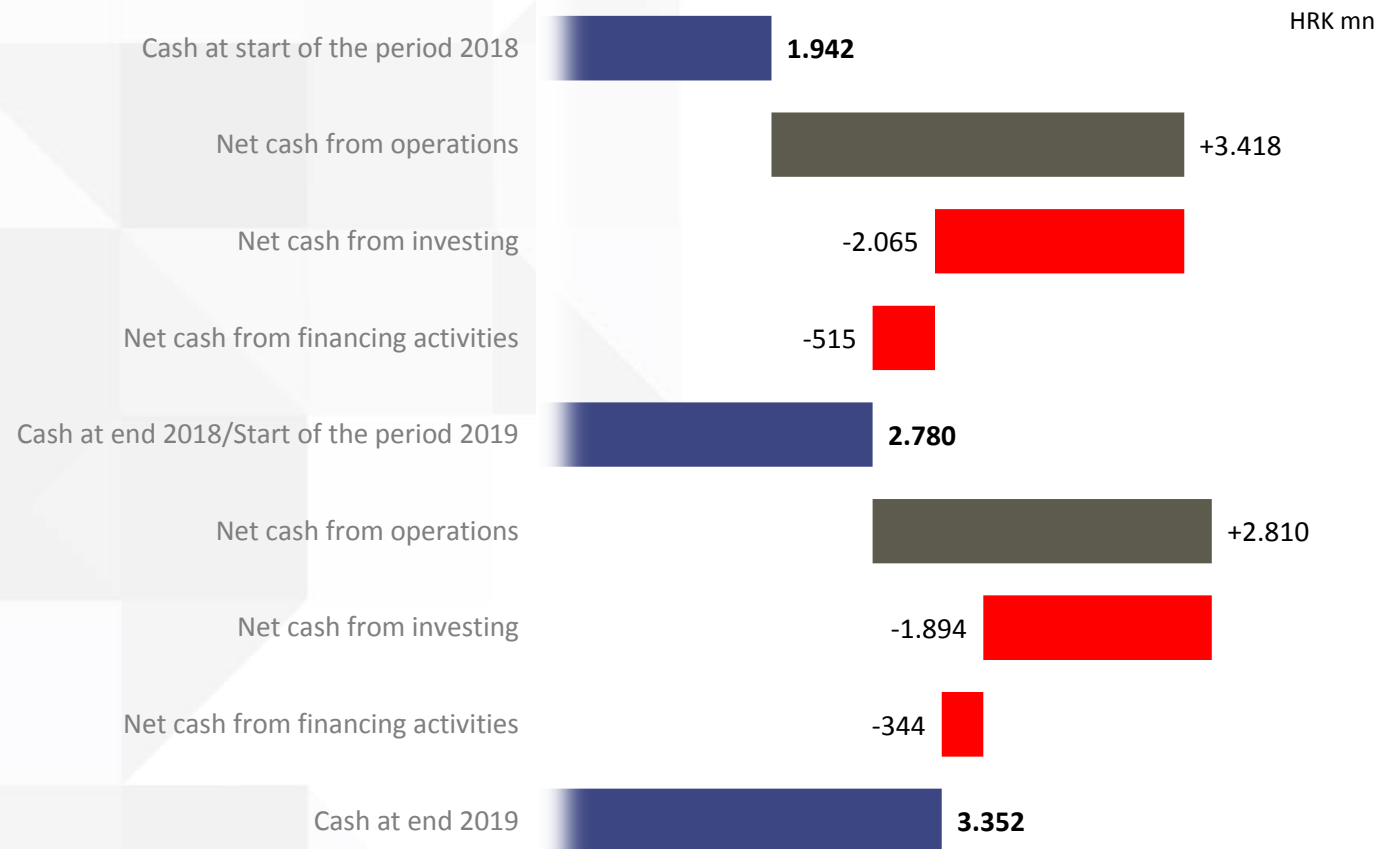


¹ Audited Consolidated Financial Statements for 2019, available at www.hep.hr

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

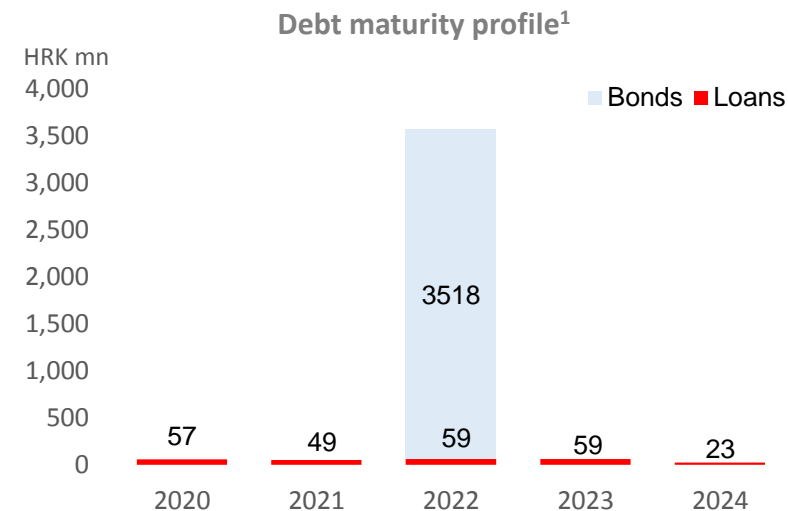
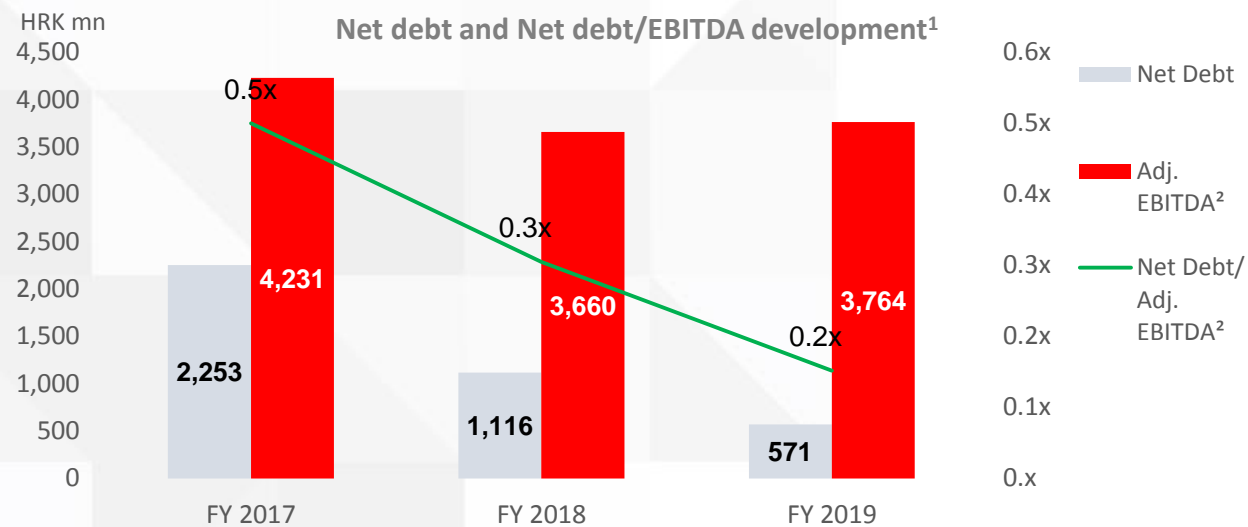
³ Includes depreciation and amortization

Cash flow¹

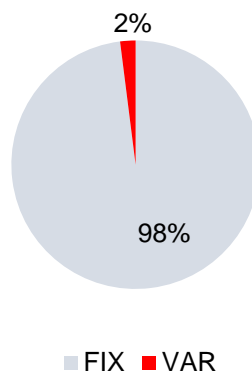
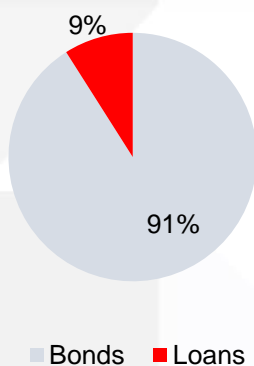


- Strong liquidity position
- Additional liquidity HRK 500mn under short term financing sources with local banks
- Dividend payout – HRK 212.4mn

HEP Group Debt



Debt structure as of YE 2018¹



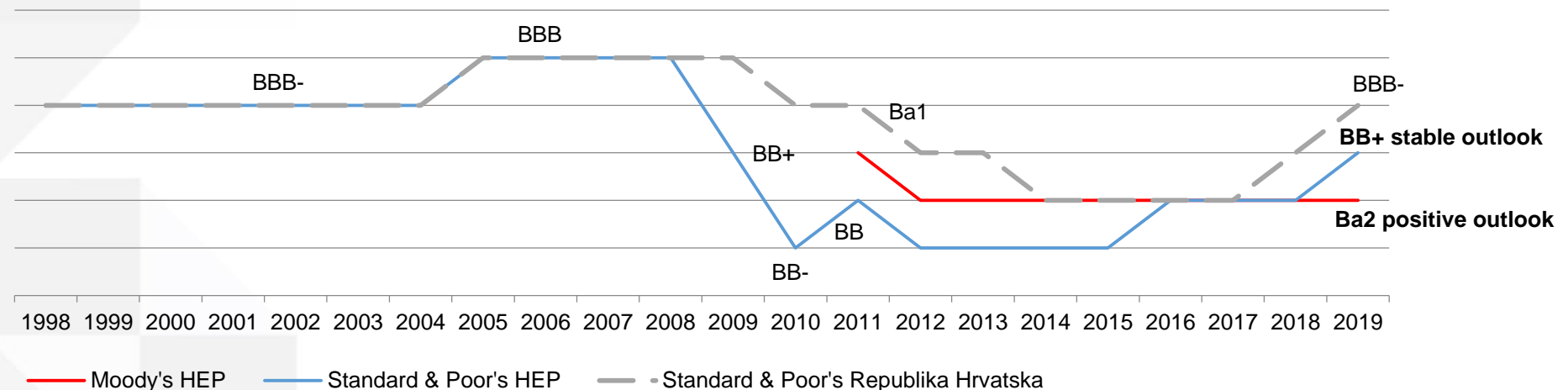
- Experienced issuer on domestic and international capital market (first Croatian Tender Offer and Liability Management Transaction in 2015)
- Whole debt in EUR

Credit Rating Evolution

Credit Rating Agency	Issue date	Rating
Standard & Poor's	26 November 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 November 2019, Standard & Poor's (S&P) upgraded HEP's stand-alone credit rating from bb to bb+ and confirmed overall rating BB+

HEP Credit Profile



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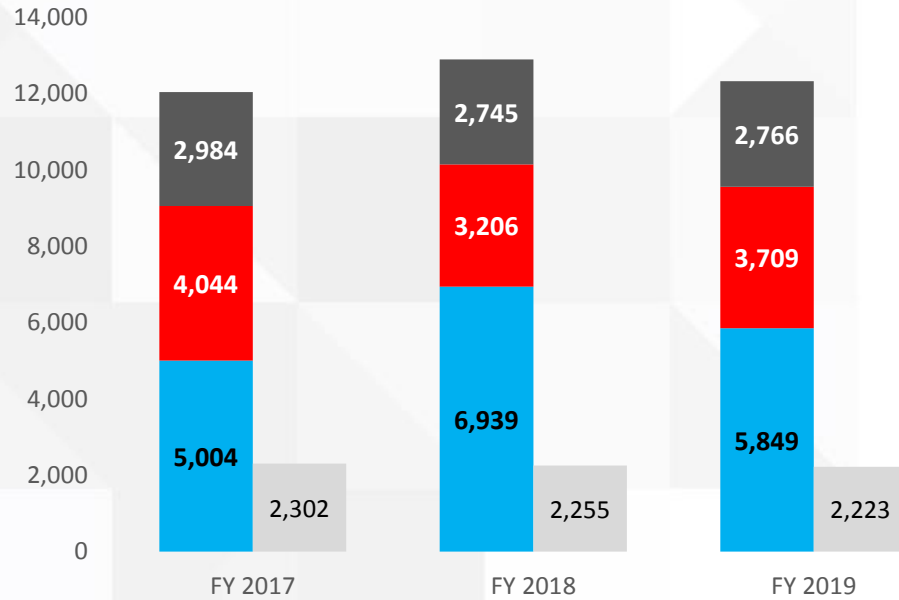
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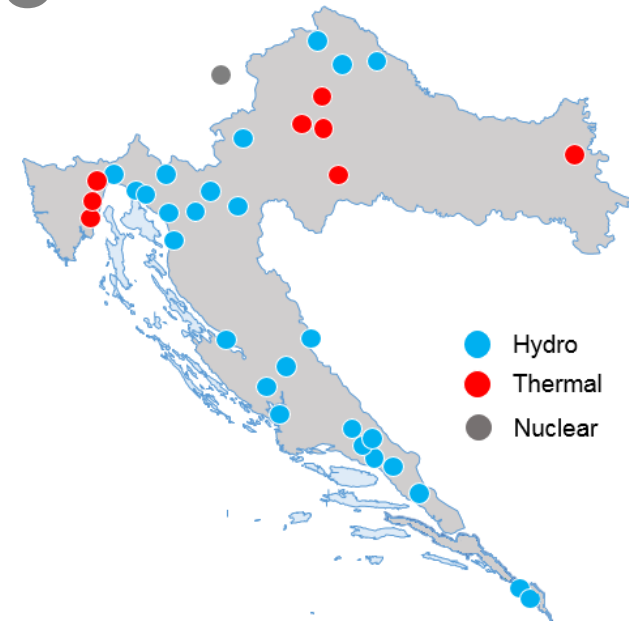
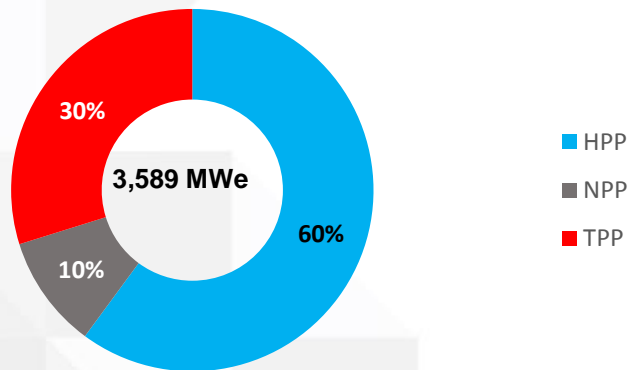
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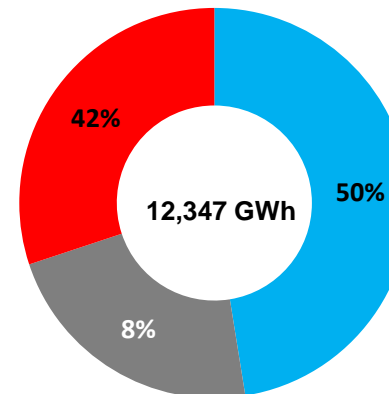
Power Generation in 2019



Electricity - installed capacity 2019¹

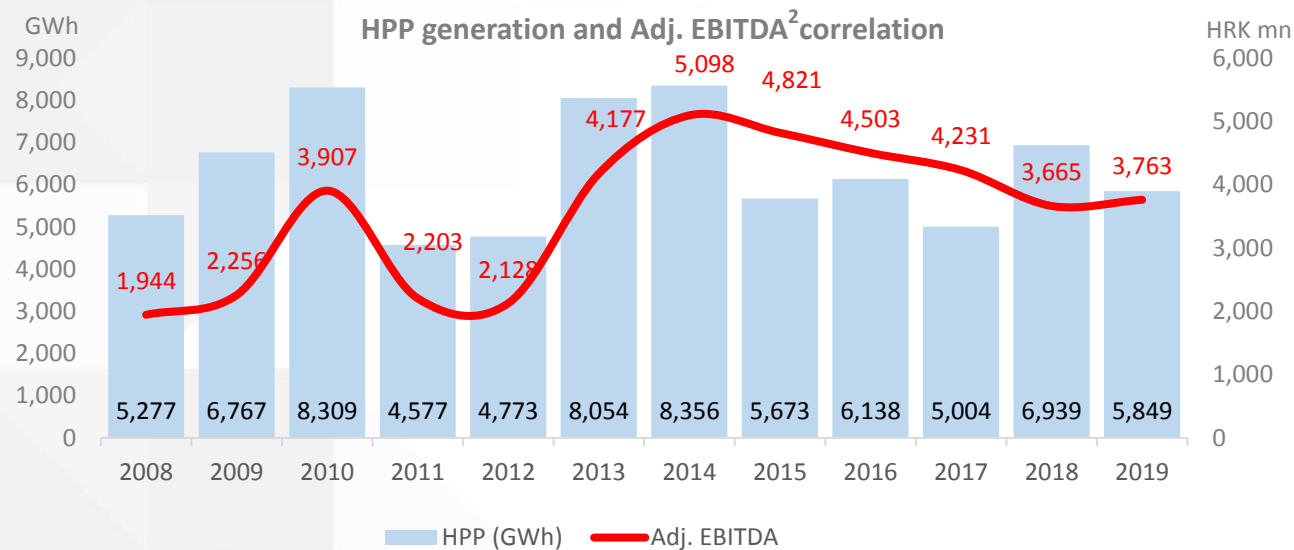
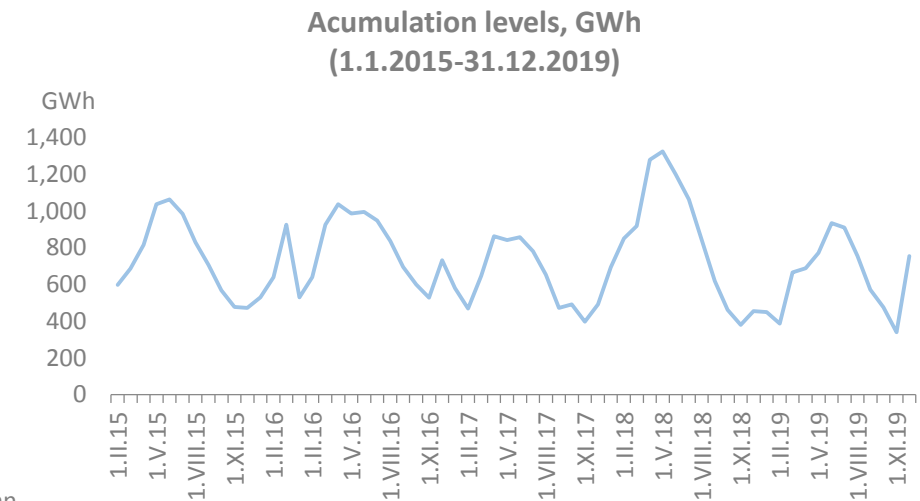
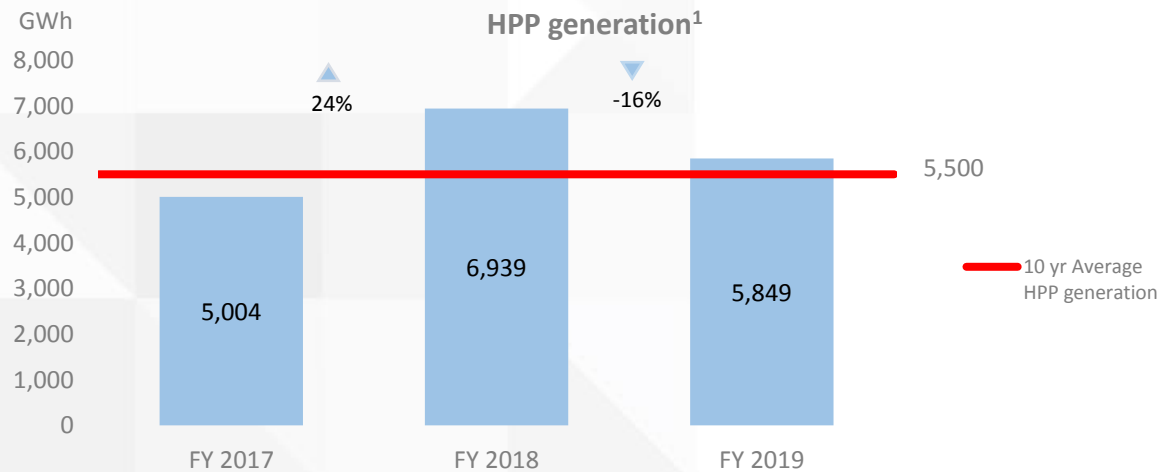


Electricity generation in 2019



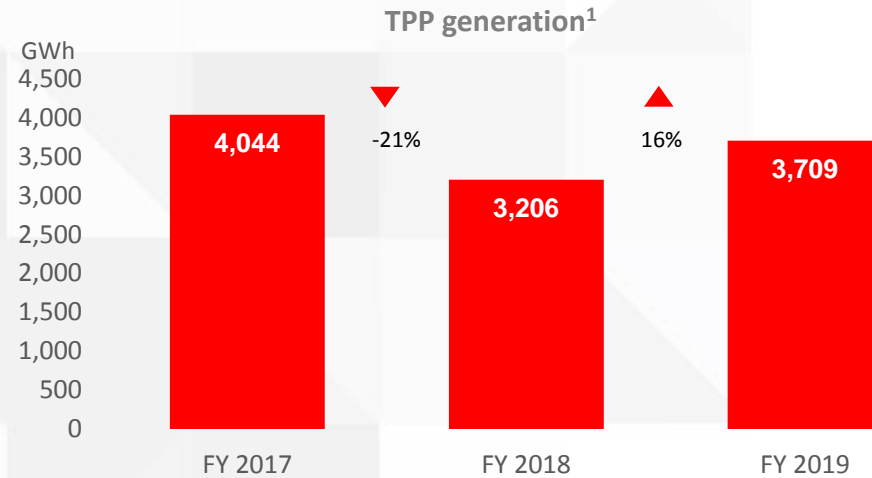
- Compared to year before HPP generation was 16% lower
- TPP generated 16% more while NPP generation was 1 % higher compared to year before
- Generation of heat energy was lower for 2% compared to the last year

Electricity Generation from HPP

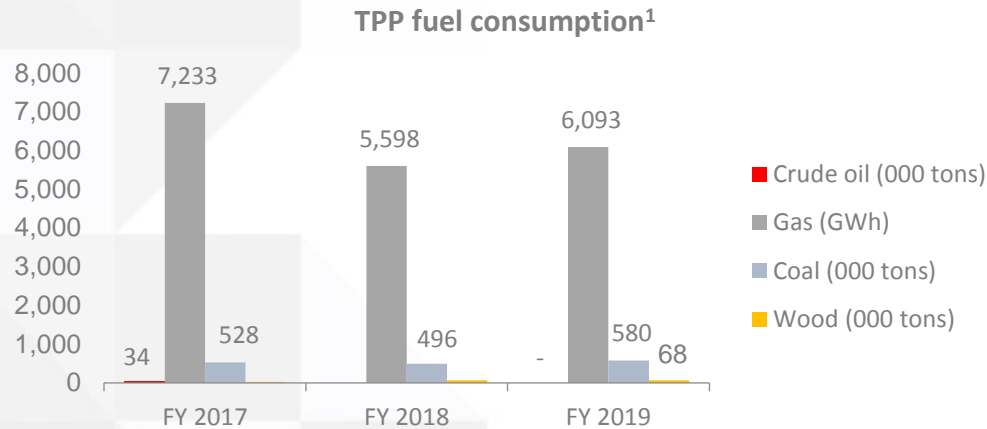
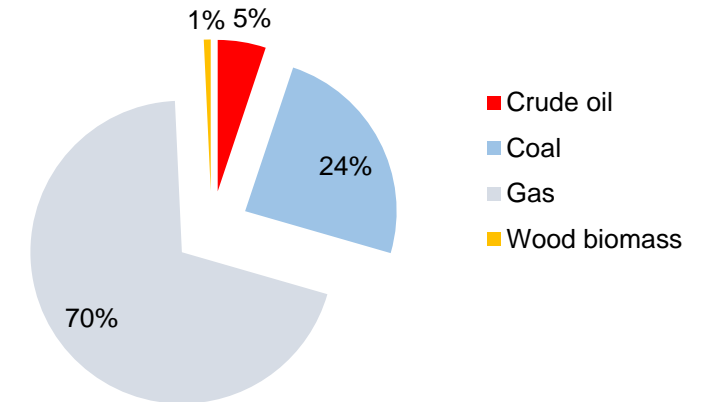


- 26 HPP operated, 2,100 MWe total installed capacity
- Poor hydrological conditions - 16% lower hydro power generation: 50%-share in the structure of electricity sources

Electricity Generation from TPP



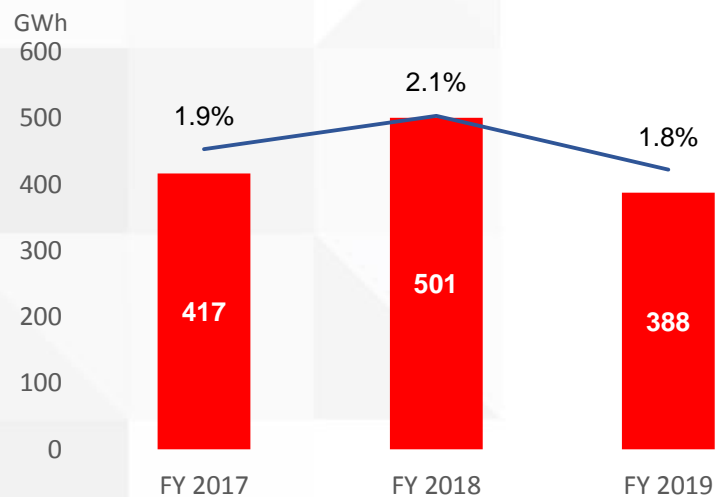
TPP by fuel type, installed capacity²



- 8 TPP with total installed capacity of 1,005 MWe²
- 2 Biomass thermal power plant with total installed capacity of 6 MWe²

Transmission

Transmission network losses¹



% of total
2.5%

Losses in network

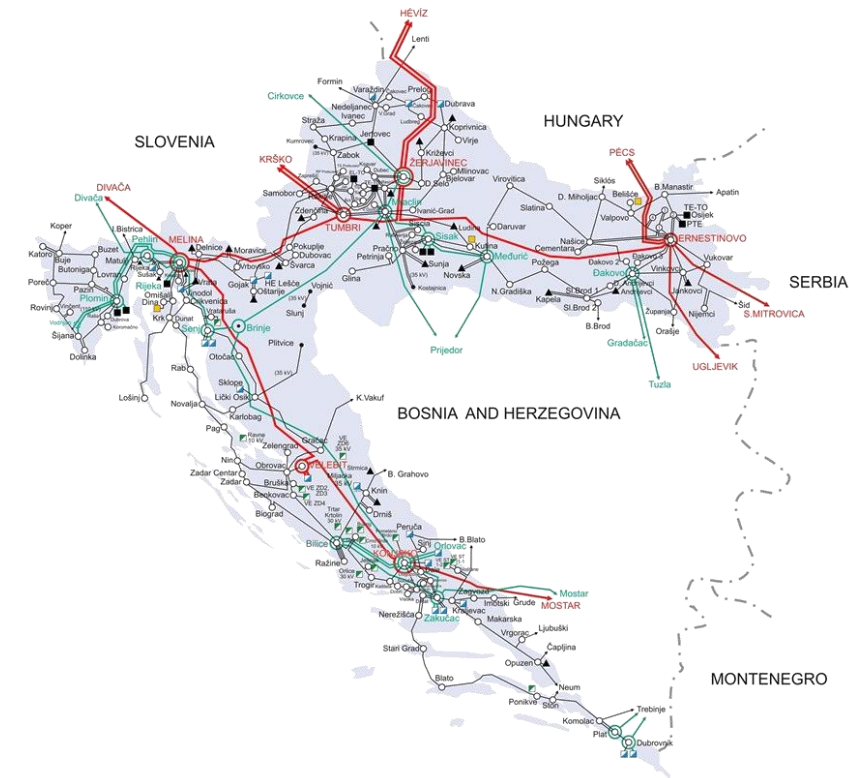
% of total amount

1.5%

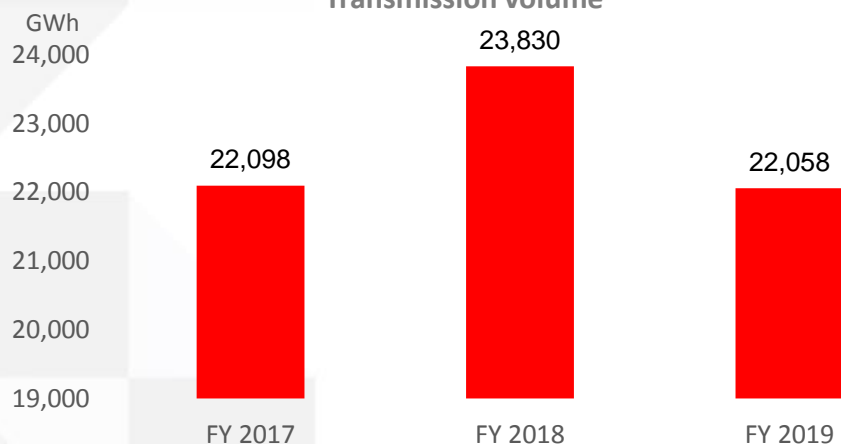
1.0%

0.5%

0.0%

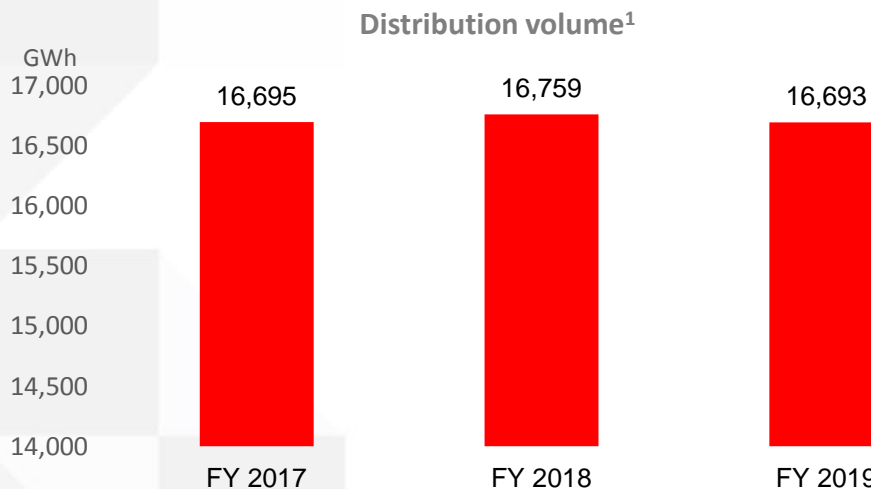
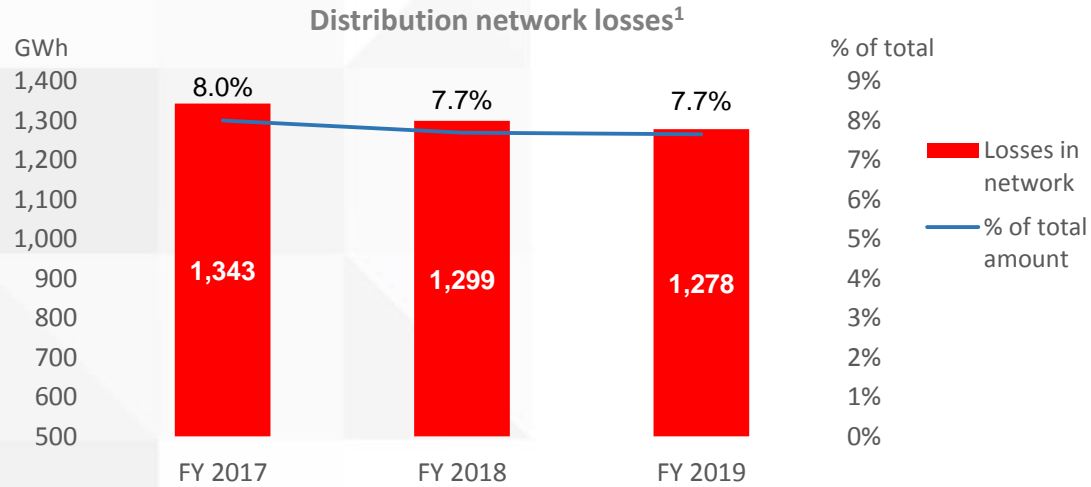


Transmission volume¹



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

Distribution



¹HEP Group internal data

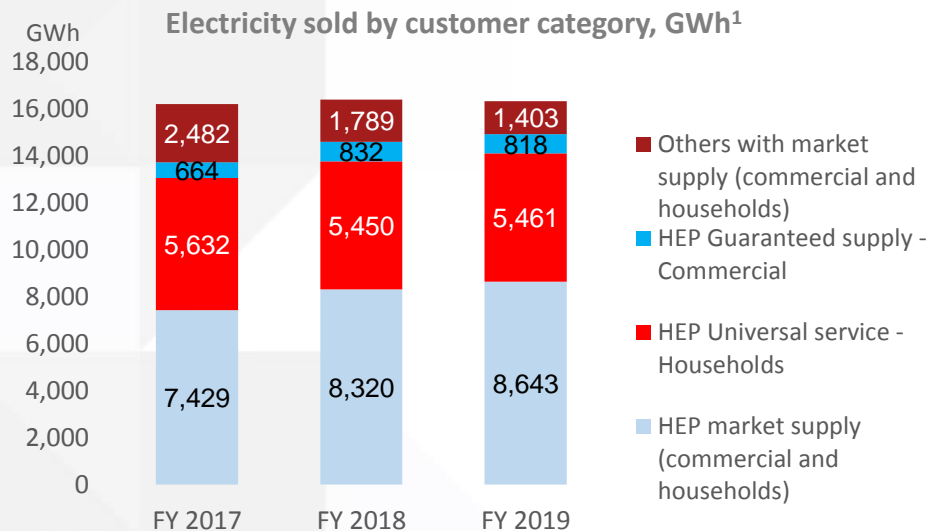
- Sole distributor of electricity – natural monopoly
- HEP DSO continues to carry out meterings, consumption billing, metering point maintenance, and other field activities

Electricity Supply

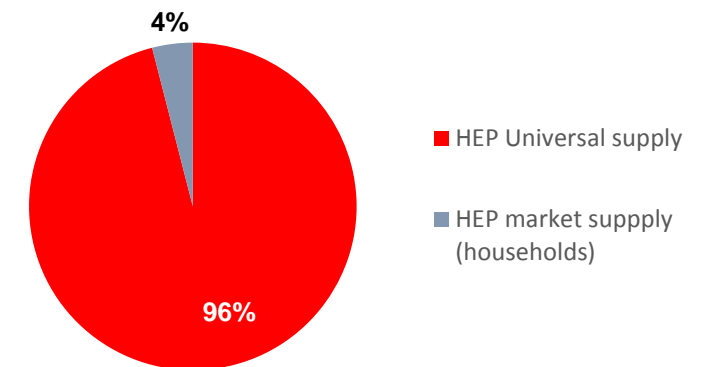
Electricity consumption in 2019 per supplier¹



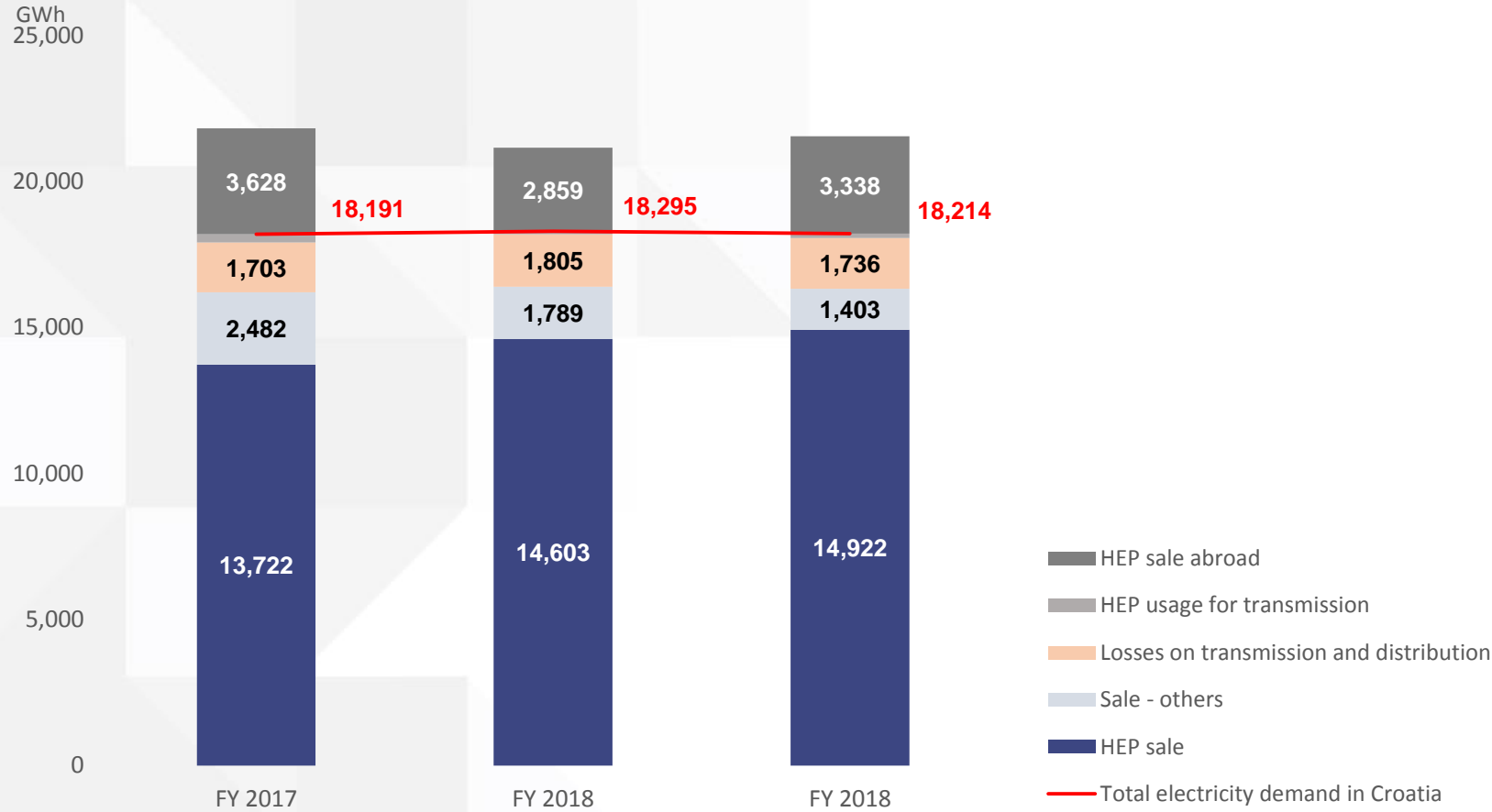
- HEP Group supplies **91 %** of all electricity sold in Croatia
- HEP Elektra supplies customers under public service obligation (universal service and guaranteed supply) while HEP-Supply supplies all other customers that have opted for a market supplier
- HEP- Supply is the largest non-tariff supplier among 16 others² in Croatia
- HEP- Supply supplies c. **90%** of commercial customers in Croatian market²



HEP's households consumers by category in 2019
(Total GWh sale)¹



Electricity Market in Croatia¹

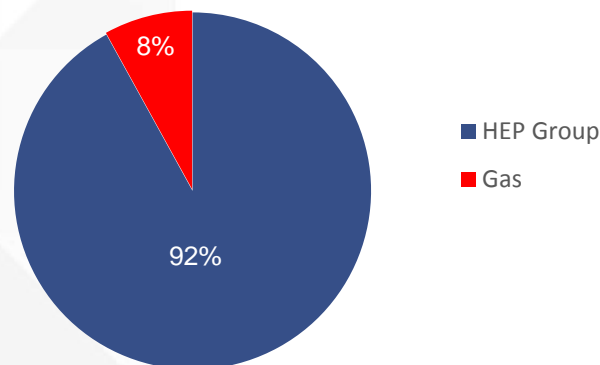


- Total electricity demand in Croatia for 2019 was 1% lower than in 2017
- 2% higher electricity sale compared to 2019

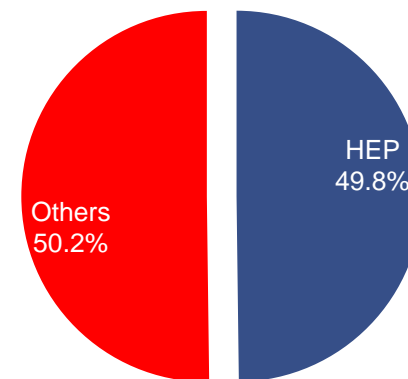
Gas

- 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

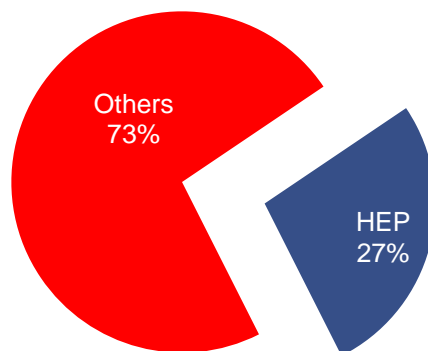
Segment revenue share



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

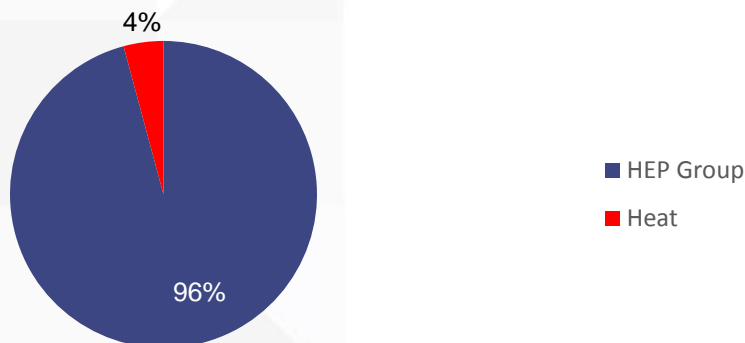
²Annual Energy Report, Ministry of Environment and Energy

³www.hera.hr

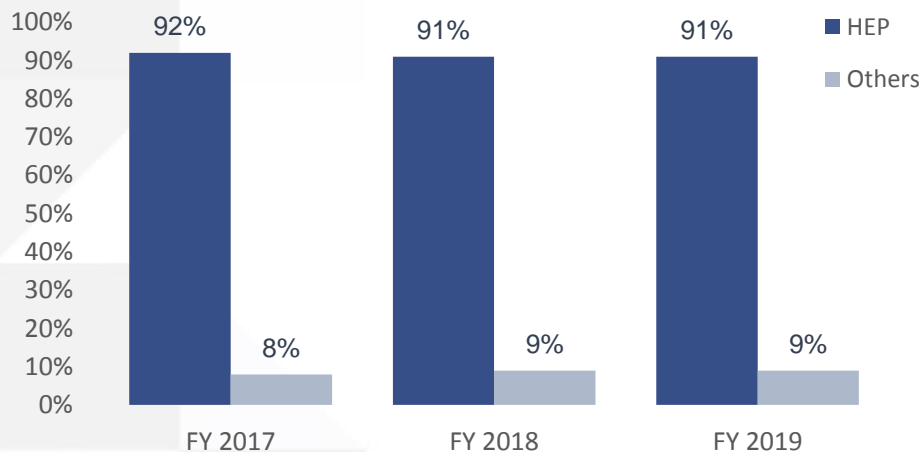
⁴as of YE 2019

Thermal and Heat Energy

Segment revenue share



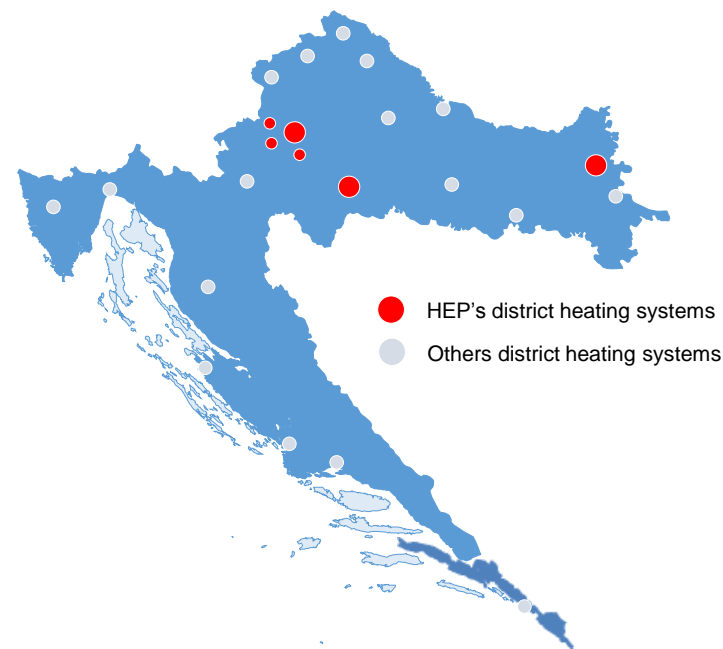
Sale of Thermal and Heat energy (MWh) in Croatia¹



¹HEP Group internal data, as of YE2019

²www.hera.hr

- Largest out of 21² 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



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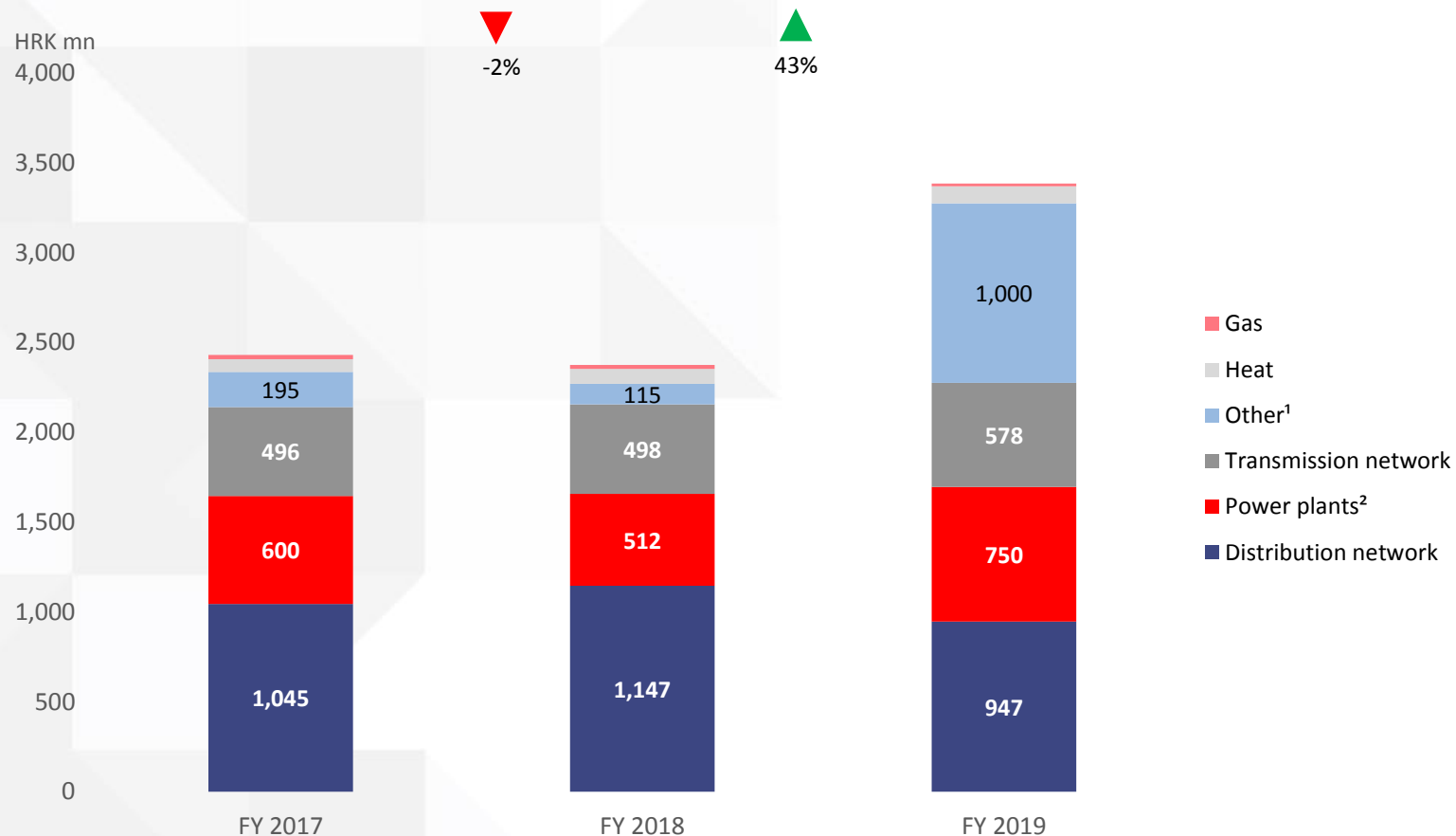
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Capital expenditure 2019



- Total investments realized in 2019 HRK **3,386mn** :
- 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

Strong investment cycle

▪ Acquisitions:

- Energetski park Korlat d.o.o., 58 MW wind farm, total investment more than HRK 500 mn
- Sunčana elektrana Poreč d.o.o., Solar power plant - 1 MW phase 1, 2 MW phase 2, total investment HRK 10 mn
- Plin VTC d.o.o., Gas distribution and supply company with 75 000 customers, total investment HRK 20 mn
- IE - Nekretnine d.d.

▪ Projects:

- HPP Zakučac - Replacement of complete equipment for production and auxiliary plants
- HPP Kosinj/Senj 2 - obtained decision for the impact of the project on the environment and a valid location permit
- EL-TO Zagreb – Block L – construction started
- sHPP¹ Otočac - request for obtaining a location permit
- SPP CRES - the location permit amended
- SPP VIS - construction of a non-integrated solar power plant began
- In the distribution, the construction, reconstruction, reinforcement of transformation or upgrade in several power facilities was completed
- In the heating industry, activities continued on the project of revitalization of the hot water network in Zagreb, Velika Gorica, Samobor and Osijek
- In the gas distribution business, the construction of the gas pipeline network in Osijek-Baranja County continued
- Based on the decision of the Government of the Republic of Croatia in February 2019, HEP d.d. has recapitalized the company LNG Croatia Ltd. responsible for the construction of a terminal for liquefied natural gas, which was started in April.

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