HRVATSKA ELEKTROPRIVREDA

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OPERATOR: This is Conference #.......

Operator: Good afternoon, and welcome to today's First Half 2017 Financial Results Investor Call. If you wish to ask a question during today's call, you will need to press star and 1 on your keypad. I must advise you that this conference is being recorded today on Monday, the [30th of October], 2017.

I will now hand over to Ivana to introduce your call. Please go ahead, Ivana.

Ivana Sučić Funko:

Thank you. Ladies and gentlemen, greeting from Zagreb. We are happy to welcome you to our conference call on the first half 2017 financial results. Today, we will take you through the highlights of our business and financial performance in the first six months of 2017 using presentation materials. As we informed you in our Investor Call Invitation, the presentation materials are available on our corporate website under the 'Investor Relations' section both in English and

Croatian, and we hope you have them in front of you. We estimate that the presentation will last up to 20 minutes, after which we will gladly answer questions you might have.

Before we start, let me draw your attention to the harbour statement on **slide 3** of our presentation. Now, allow me to introduce Ms Kosek, our finance director, who will outline our company's performance in the period ending June 30th 2017.

Alina Kosek:
Good afternoon, everyone. Thank you for participating today. It is a pleasure to be here together with colleagues from the Finance and Controlling Department, the EU and Regulatory Affairs Department and HEP Trade, to inform you about HEP's performance in the first half of 2017.

On **slides 4 and 5** we prepared key facts on the operational and financial performance for the reporting period, which we shall discuss later on, therefore I would like to start the presentation from **slide 6** and the Electricity Market in Croatia. Compared to the same period last year, total electricity demand in Croatia in the first half of 2017 grew by around 5%.

The reasons for higher electricity consumption lie behind a development and rise of economy activities, colder winter and high temperatures in early summer. Owing to HEP's higher sale of electricity (2%) as well as higher sale of electricity by others (12%), transmission and distribution network losses were also higher than in the same period last year.

On **slide 8** we can see that total electricity generation was by 32% lower when compared to the same period last year mainly owing to the 32% lower hydro generation due to unfavourable hydrological conditions.
Around 24% more electricity was generated in thermal power plants compared to the same period last year.
On the bottom right hand side, you can see a diversified structure of electricity generation portfolio, in which the share of electricity generated from thermal power plants accounts for 34% and from hydro power plants 41%.
The remaining 25% share refers to generation from the nuclear power plant Krško which was by about 3% lower, compared to the same period in 2016.

Let's move on to **slide 9** please. As already mentioned, unfavourable hydrological conditions resulted in lower Hydro Power Plant generation by more than 30%. Despite certain hydrological dependence due to a 40% - 50% share in installed capacities, the Company takes an effort to diminish such dependence by reasonably balancing energy and optimizing the system.
The left hand bottom side chart shows that adjusted EBITDA remained stable regardless of poor hydro generation.

Moving to slide 10, you can see that thermal power plant generation of 2TWh in the first half of 2017 was by 24% higher compared to the same period last year.
Although, as you can see from the upper right hand side chart, 47% of installed thermal capacities in the first half of 2017 are those that run on crude oil. When optimising generation portfolio balance, thermal power plants generating electricity were those running on gas and hard coal. Crude oil-fired capacities serve only as reserve capacities due to uncompetitive prices. Thermal power plants fired by hard coal provide a stable base load source of electricity, while gas-fired power plants are all CCGT capacities producing heat as well and used for thermal and heat supply, which is seen from the bottom left hand side chart.

Moving to slide 11, a couple of things regarding transmission and distribution activities need to be said.

When talking about transmission, let us say that the Croatian transmission system is one of the 5 best connected transmission system operators in Europe. The upper right hand side chart shows transmission network losses which were in the reporting period around 2%. They do vary during the season due to a series of factors, such as: system load, temperature, hydrology, topology of the network itself etc., but overall they are at competitive levels compared to surrounding transmission systems.

As to distribution, HEP DSO is a sole distributor of electricity in Croatia - a regulated monopole activity, performing after November 2016 the role of a distribution system operator responsible for managing, maintaining, construction and modernisation of distribution network securing long-term network stability to fulfil future requests regarding network access.

As it is seen from the bottom charts, in the first half of 2017, total distribution volume was more than 8 TWh which was by around 4% higher, and distribution network losses were slightly higher when compared to the same period the year before, but still at competitive 8%.

Total network losses comprise technical and commercial losses where technical losses are related to network performance while commercial losses derive from the unauthorised usage and inefficiency of network management. Distribution network losses are decreasing over time due to investments into the modernisation and reconstruction of distribution network, while some time ago, they were around 10%.

On slide 12, the upper left hand side chart shows that HEP's electricity market share in the first half of 2017 was 84%. We can say that the market share has been stabilised at around 84% - 85% after the customer outflow the Company faced during 2014.

HEP Elektra supplies customers under public service obligation (universal service and guaranteed supply) while HEP Supply supplies all other customers opting for a market supplier. Electricity sold by customer category is seen on the bottom left hand side chart.

In households supply, HEP's market share in the first half 2017 was around 92% out of which 89% is under universal service and 2% under market supply. These figures represent the trend reflecting households as more loyal customers valuing security and price stability compared to commercial customers who are more willing to accept open market prices, and therefore face price volatility.

HEP's market share in commercial supply in the reporting period was 79% out of which 6% was under universal supply and 73% under market supply. In total, around 93% of commercial sale in Croatia in the first half of 2017 was under market supply confirming the above mentioned.

In the first six months of 2017, regional expansion that began in 2016 continued, especially in Slovenia where HEP holds 12.5% market share in commercial sale, compensating thus for the loss of the market share in Croatia.

In the segment of gas business, HEP Group provides activities of gas distribution and gas supply on retail market through its subsidiary HEP Gas. This subsidiary is the second largest gas supplier, out of 55 gas suppliers in Croatia by volume sold to end-costumers and in the same time the second largest gas distributor out of 35 gas distributors in Croatia.

Furthermore, since April 1, 2014 HEP acts as a sole wholesale gas supplier under the regulated terms for public service suppliers of household customers providing reliable and safe gas supply in Croatia. HEP was also chosen as the balancing service provider for the current storage year (April 1, 2017 – March 31, 2018) in the tender procedure organized by transport system operator Plinacro.

Continuing to slide 14, we'll discuss the financial performance in the first half of 2017, starting with operating income evolution.

You can see that in the first half of 2017, operating income amounted to 7.8 billion Kuna, which was an increase of 9% (673 million Kuna), compared to year before. The revenue from electricity sale grew by 224 million Kuna (around 4%), which was a result of improvement in the foreign market revenue by 24 million Kuna (8.3%), an increase in revenue from HEP's producers in the incentive system of generation from renewable energy sources of 160 million Kuna.

The revenue from thermal power sales decreased by 2 million Kuna which was around a 0.4% fall compared to the same period last year due to a 1% lower average price and the consumption increase of 0.4%.

The revenue from the sale of gas on the wholesale market declined by 81 million Kuna (around 12%), when compared to the first half of 2016 due to the lower sale price.

The revenue from the sale of gas to customers decreased by 7 million Kuna (around 11%) despite a 22% growth in the sales volume, mainly as a result of a 21% lower average sale price.

All other operating income increased, because of the income from the reversal of impairment on assets by 508.2 million and higher income from the services of connecting customers to the network.

Next slide please (15).

As it was already mentioned on the previous slide, and as the upper left hand side chart shows, operating income was by 9% higher while operating expenses were higher by 11%, compared to the same period the year before.
As seen from the upper right hand side chart, higher operating expenses were influenced mainly by the 18% higher cost of electricity purchase and the 35% higher cost of fuel.
Cost of gas sold was 6% lower compared to the same period year before, whereas staff cost was 4% higher due to a higher number of employees and a higher amount for severance payments by 13 million Kuna.

In the first half of 2017, the structure of revenues, the same as for expenditures, remained relatively stable compared to the same period the year before.

Turning to slide 16, it can be seen that the Company retained its strong liquidity position at the end of the reporting period with the cash position of 3.2 billion Kuna.

Furthermore, there is around 1.4 billion Kuna of potential additional liquidity under short and midterm financing sources with domestic banks.

Also, the General Assembly made a resolution on the use of profit from 2016 in June under which a dividend pay-out amounted to 794 million Kuna.

On slide 17, in the upper left hand side chart, you can see that the Company continues to be relatively low leveraged with the net debt to EBITDA ratio of 0.6x at the end of the period. Moreover, the Company does not have any short term debt since end of 2014.

As it is seen from the upper right hand side chart, two outstanding bonds (one Eurobond and one domestic) mature by the end of 2017.

When speaking about ratings, Standard and Poor's as well as Moody's are well familiar with HEP providing credit rating for a long period. The Company's current rating is Ba2 from S&P and bb from Moody's.

Ivana Sučić Funko: This brings us to the end of our presentation. Ms Kosek, thank you very much. May I please kindly ask the operator to open call for questions?

Q&A's session:

Operator: Thank you. And as a reminder, if you do wish to ask a question, you can press star and 1 on your keypad and wait for your name to be announced. Star and 1 on your keypad for any question.

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We've got no questions on the phone lines. Please continue.

Ivana Sučić Funko: If there are no further questions, I would like to once again, thank all the participants for your attention and wish everybody a nice day.

We will now end this conference call, and would like to instruct you to refer to our web site where you'll find contact details for any further inquiries.

On behalf of HEP Team, best regards from Zagreb!