



**HRVATSKA ELEKTROPRIVREDA d.d. Zagreb**  
Condensed consolidated interim financial  
statements for the period ended  
30 June 2021

*This version of the interim financial statements is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the interim financial statements takes precedence over translation.*

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The Management Board of Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, and its subsidiaries (the "Group") is required to ensure that the condensed consolidated financial statements of the Group as at 30 June 2021 are prepared following International Accounting Standard 34 - Interim Financial Reporting, to provide a true and fair view of the financial position, results of operations, changes in equity and cash flows of the Group for that interim period.

The Management Board of Hrvatska elektroprivreda d.d. and its subsidiaries is responsible for the condensed consolidated financial statements, including related disclosures. That includes:

- designing, introducing and maintaining internal controls relevant to the preparation and presentation of interim financial information that is free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies;
- making reasonable accounting estimates for the given circumstances.

Management is responsible for keeping proper accounting records, which disclose, with reasonable accuracy at any time, the financial position, results of operations, changes in equity and cash flows of the Group, and their compliance with International Accounting Standard 34 - Interim Financial Reporting. Management is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Company on 16 September 2021:

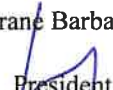
  
Marko Čosić  
Member

  
Nikola Rukavina  
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Petar Sprčić  
Member

  
Tomislav Šambić  
Member

  
Saša Dujmić  
Member

  
Franje Barbarić  
President

  
HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

## **Independent auditor's report on review of condensed interim financial information**

**To the shareholder of the company Hrvatska elektroprivreda d.d. and its subsidiaries:**

### ***Introduction***

We have reviewed the accompanying condensed consolidated financial statements for the period ended 30 June 2021 of the company Hrvatska elektroprivreda d.d., Zagreb (hereinafter: the Company) and its subsidiaries (hereinafter: the Group) which comprise the condensed consolidated Statement of financial position as at 30 June 2021, the condensed consolidated Statement of profit or loss, the condensed consolidated Statement of other comprehensive income, the condensed consolidated Statement of changes in equity and the condensed consolidated Statement of cash flows for the half-year period then ended, as well as notes to the condensed consolidated financial statements, which together form the condensed consolidated financial statements of the Group's interim period. The Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". It is our responsibility to express a conclusion on this condensed interim financial information based on our review.

### ***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The review of interim financial information consists of asking inquiries, primarily to persons responsible for financial and accounting issues, and applying analytical and other review procedures. A review is significantly less in scope than an audit performed in accordance with International Standards on Auditing and, consequently, does not allow us to obtain assurance to become aware of any significant issues that may be identified during the audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has drawn our attention which would cause us to believe that the Group's condensed consolidated financial statements for the period ended 30 June 2021, have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

**Independent auditor's report on review of condensed interim financial information (continued)*****Emphasis of matter***

As described in Note 22 to the condensed consolidated financial statements, as at 30 June 2021, there is a stated liability for clearing debt in the amount of HRK 757,679 thousand (31 December 2020 in the amount of HRK 739,447 thousand) relating to the payment from the letter of credit and based on the Agreement concluded between the Government of the Republic of Croatia and the Government of Russian Federation on 24 July 2006, and the Consent of the Ministry of Finance on the use of funds under the interbank agreement. Our conclusion has not been modified in relation to this issue.

We draw attention to Note 28 to the condensed consolidated financial statement, which emphasizes the need to initiate the procedure of registration of rights in the land register and harmonization with the provisions of the Act Amending the Water Act (Official Gazette No. 46/2018). Our conclusion has not been modified in relation to this issue.

Zagreb, 16 September 2021

BDO Croatia d.o.o.  
Radnička cesta 180  
10000 Zagreb

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Vedrana Stipić, Member of the  
Management Board

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Vedrana Stipić, Certified Auditor

Condensed consolidated Statement of profit or loss  
for the six-month period ended 30 June 2021

<i>in 000'HRK</i>	Note	For the six-month period ended	
		30 June 2021 <i>Unaudited</i>	30 June 2020 <i>Unaudited</i>
Sales revenues	4	6,965,758	6,547,593
Other operating income	6	542,788	592,133
<b>Total operating income</b>		<b>7,508,546</b>	<b>7,139,726</b>
Cost of material and energy	7	(2,319,633)	(2,594,066)
Employee costs		(1,054,356)	(1,005,364)
Depreciation and amortisation		(1,115,498)	(1,094,815)
Other operating expenses	8	(1,528,726)	(1,255,856)
<b>Total operating expenses</b>		<b>(6,018,213)</b>	<b>(5,950,101)</b>
<b>Operating profit</b>		<b>1,490,333</b>	<b>1,189,625</b>
Financial income	9	161,548	178,881
Financial expenses	9	(130,336)	(191,850)
<b>Net profit/(loss) from financial activities</b>		<b>31,212</b>	<b>(12,969)</b>
<b>Profit before tax</b>		<b>1,521,545</b>	<b>1,176,656</b>
Corporate income tax	10	(270,940)	(217,070)
<b>Profit for the current period</b>		<b>1,250,605</b>	<b>959,586</b>
<b>Attributable to:</b>			
Owners of parent		1,245,816	961,409
Non-controlling interest		4,789	(1,823)
		<b>1,250,605</b>	<b>959,586</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Company on 16 September 2021:

Marko Čosić  
Member

Nikola Rukavina  
Member

Petar Sprčić  
Member

Tomislav Šambić  
Member

Saša Dujmić  
Member

Frane Barbarić  
President

HRVATSKA ELEKTROPRIVREDA d.o.o.  
ZAGREB  
Ulica grada Vukovara 37

Condensed consolidated Statement of other comprehensive income  
for the six-month period ended 30 June 2021

<i>in 000'HRK</i>	For the six-month period ended	
	30 June 2021	30 June 2020.
	<i>Unaudited</i>	<i>Unaudited</i>
<b>Profit for the current period</b>	<b>1,250,605</b>	<b>959,586</b>
<b>Other comprehensive income</b>		
<i>Items that can be reclassified to profit or loss</i>	(11,206)	27,027
Exchange differences from foreign currency translations	(11,206)	27,027
<i>Items that will not be reclassified to profit or loss</i>	2,981	(27,760)
Changes in value of financial assets at fair value through other comprehensive income	2,981	(27,760)
<b>Other comprehensive profit/(loss), net</b>	<b>(8,225)</b>	<b>(733)</b>
<b>Total comprehensive profit for the current period, net</b>	<b>1,242,380</b>	<b>958,853</b>
<b>Total comprehensive profit attributable to</b>		
Owners of parent	1,237,591	960,676
Non-controlling interest	4,789	(1,823)

The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Company on 16 September 2021:


  
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HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

Condensed consolidated Statement of financial position  
as at 30 June 2021

<i>in 000'HRK</i>	Note	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant, equipment	11	34,661,492	34,660,768
Right-of-use assets		16,086	18,853
Investment property	11	354,509	342,607
Intangible assets	11	266,357	253,249
Goodwill	12	52,241	49,155
Investments calculated using the equity method		7,540	7,540
Financial assets at fair value through other comprehensive income	13	236,528	233,315
<i>Financial assets at amortised cost</i>			
Non-current loans		4,492	4,227
Other financial assets		91,501	69,863
Other non-current receivables		64,998	56,294
Deferred tax assets	10	841,877	879,620
<b>Total non-current assets</b>		<b>36,597,621</b>	<b>36,575,491</b>
<b>Current assets</b>			
Inventories	14	1,349,036	1,608,847
<i>Financial assets at amortised cost</i>			
Trade receivables	15	2,004,195	1,965,276
Other current assets	16	458,741	808,369
Financial assets at fair value through profit or loss	17	166,370	167,055
Cash and cash equivalents	18	4,494,154	3,514,428
<b>Total current assets</b>		<b>8,472,496</b>	<b>8,063,975</b>
<b>TOTAL ASSETS</b>		<b>45,070,117</b>	<b>44,639,466</b>



Condensed consolidated Statement of financial position (continued)  
as at 30 June 2021

<i>in 000'HRK</i>	Note	30 June 2021 <i>Unaudited</i>	31 Dec 2020 <i>Audited</i>
<b>EQUITY AND LIABILITIES</b>			
Share capital	19	19,792,159	19,792,159
Reserves		95,911	92,930
Retained earnings	19	7,726,362	6,491,752
<b>Equity attributable to owners of parent</b>		<b>27,614,432</b>	<b>26,376,841</b>
Non-controlling interest		40,965	36,176
<b>Total equity</b>		<b>27,655,397</b>	<b>26,413,017</b>
<i>Financial liabilities at amortised cost</i>			
Liabilities under issued bonds	21	3,453,340	3,497,668
Liabilities under long-term loans	20	672,625	654,755
Other long-term liabilities	22	7,386,577	7,511,190
Lease liabilities		9,023	12,140
Provisions		1,357,800	1,331,676
Deferred tax liabilities		18,261	17,767
<b>Total long-term liabilities</b>		<b>12,897,626</b>	<b>13,025,196</b>
<i>Financial liabilities at amortised cost</i>			
Trade payables	24	1,028,320	1,897,946
Current maturity of long-term loans		89,660	67,723
Liabilities under short-term loans		10,727	-
Current portion of lease liabilities		7,933	7,685
Liabilities for taxes and contributions		133,030	78,809
Corporate income tax liability		88,045	114,408
Liabilities to employees	23	162,175	168,518
Other short-term liabilities	25	2,997,204	2,866,164
<b>Total short-term liabilities</b>		<b>4,517,094</b>	<b>5,201,253</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>45,070,117</b>	<b>44,639,466</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Company on 16 September 2021:

Marko Čosić

Member

Nikola Rukavina

Member

Petar Sprčić

Member

Tomislav Šambić

Member

Saša Dujmić

Member

Frane Barbarić

President

HRVATSKA ELEKTROPRIVREDA d.d.  
ZAGREB 3.2  
Ulica grada Vukovara 37

Condensed consolidated Statement of changes in equity  
for the six-month period ended 30 June 2021

<i>in 000'HRK</i>	Share capital	Reserves	Retained earnings	Equity attributable to owners of parent	Non-controlling interest	Total equity
<b>Balance at 1 January 2020</b>	<b>19,792,159</b>	<b>109,283</b>	<b>5,671,268</b>	<b>25,572,710</b>	<b>37,545</b>	<b>25,610,255</b>
Profit for the year	-	-	961,409	961,409	(1,823)	959,586
Other comprehensive income	-	(27,760)	27,027	(733)	-	(733)
<i>Total comprehensive income</i>	-	(27,760)	988,436	960,676	(1,823)	958,853
<b>Balance at 30 June 2020, unaudited</b>	<b>19,792,159</b>	<b>81,523</b>	<b>6,659,704</b>	<b>26,533,386</b>	<b>35,722</b>	<b>26,569,108</b>
<b>Balance at 1 January 2021</b>	<b>19,792,159</b>	<b>92,930</b>	<b>6,491,752</b>	<b>26,376,841</b>	<b>36,176</b>	<b>26,413,017</b>
Profit for the year	-	-	1,245,816	1,245,816	4,789	1,250,605
Other comprehensive income	-	2,981	(11,206)	(8,225)	-	(8,225)
<i>Total comprehensive income</i>	-	2,981	1,234,610	1,237,591	4,789	1,242,380
<b>Balance at 30 June 2021, unaudited</b>	<b>19,792,159</b>	<b>95,911</b>	<b>7,726,362</b>	<b>27,614,432</b>	<b>40,965</b>	<b>27,655,397</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Company on 16 September 2021:

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Member

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President

HRVATSKA ELEKTROPRIVREDA d.d.  
ZAGREB 3.2  
Ulica grada Vukovara 37

Condensed consolidated Statement of cash flows  
for the six-month period ended 30 June 2021

<i>in 000'HRK</i>	<b>For the six-month period ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>Unaudited</i>	<i>Unaudited</i>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	1,521,545	1,176,656
Interest income	(863)	(10,044)
Interest expense	90,668	89,928
Net exchange rate differences	2,146	74,127
Fair value of investment property	(11,902)	113
Depreciation of property, plant and equipment, intangible assets and right-of-use assets	1,115,498	1,094,815
Expenses from the alienation of property	9,193	11,381
Value adjustment of property, plant and equipment, intangible assets	21,827	-
Value adjustment of receivables	39,786	(199,617)
Value adjustment of inventories	(11,355)	6,215
Increase/(Decrease) in provisions	26,124	42,735
Changes in fair value of the cross-currency swap	(124,039)	(127,160)
<i>Cash flow from operating activities before changes in working capital</i>	<i>2,678,628</i>	<i>2,159,149</i>
Decrease in trade receivables	(78,705)	469,910
Decrease in inventories	271,166	509,012
(Increase) / Decrease in other non-current assets	(29,593)	(20,143)
Decrease / (increase) in other current assets	350,313	66,000
(Decrease) in trade payables	(533,801)	(519,824)
Increase in other current liabilities	74,129	158,060
Increase / (Decrease) in other non-current liabilities	(30,392)	116,531
<b>Cash generated through operations</b>	<b>2,701,745</b>	<b>2,938,695</b>
Corporate income tax paid	(161,927)	(131,210)
Interest paid	(93,799)	(91,896)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>2,446,019</b>	<b>2,715,589</b>
<b>INVESTING ACTIVITIES</b>		
Payments for acquisition of subsidiaries, net of cash acquired	(4,316)	(68,899)
Interest receipts	11,150	23,752
Receipts from collection of loans	1,753	-
Payments for purchases of property, plant and equipment	(1,496,175)	(2,180,771)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(1,487,588)</b>	<b>(2,225,918)</b>

Condensed consolidated Statement of cash flows (continued)  
for the six-month period ended 30 June 2021

<i>in 000'HRK</i>	<b>For the six-month period ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>Unaudited</i>	<i>Unaudited</i>
<b>FINANCING ACTIVITIES</b>		
Receipts from non-current loans	70,692	283,898
Receipts from current loans	10,727	-
Expenditures for repayment of non-current loans	(27,060)	(19,879)
Expenses for redemption of bonds	(28,771)	(76,173)
Lease principal repayment expenses	(4,293)	(2,310)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>21,295</b>	<b>185,536</b>
<b>NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS</b>	<b>979,726</b>	<b>675,207</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>3,514,428</b>	<b>3,352,155</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	<b>4,494,154</b>	<b>4,027,362</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Company on 16 September 2021:

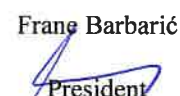
  
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Frane Barbarić  
President

HEVATSKA ELEKTROPRIVREDA d.d.  
ZAGREB  
Ulica grada Vukovara 37

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. The preparation of unaudited condensed consolidated financial statements for the half-year period ended 30 June 2021 requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements, as well as reported revenues and expenses during the reporting period. Estimates are based on information available at the date of preparation of the consolidated financial statements, and actual amounts may differ from those estimated. The estimates and assumptions from which the estimates are derived are continually revised. Changes in accounting estimates are recognized in the period in which the change affects the period if it affects only that period, or in future periods if it affects both current and future periods.

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), which are accepted in the European Union. The condensed consolidated financial statements for the half-year period have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (IAS 34). The condensed consolidated financial statements for the half-year period ending on 30 June 2021 have been prepared in accordance with the same accounting policies that were used for the annual consolidated financial statements for the year ended 31 December 2020. New and amended standards and interpretations issued by the International Accounting Standards Board that will be applied for the first time in the following annual financial statements have no significant impact on the Group, are not relevant to the Group's activities or are consistent with the Group's applicable accounting policies.

Certain information otherwise disclosed in the financial statements prepared in accordance with IFRSs adopted in the European Union is summarized or omitted in accordance with IAS 34. The condensed consolidated statement of financial position/consolidated balance sheet as at 30 June 2021 is derived from the audited consolidated financial statements as at 31 December 2020, but does not contain all items that are mandatory to be disclosed in accordance with IFRS adopted in the European Union. The Company's Management believes that the information presented in these condensed consolidated financial statements is adequate in the sense that it does not lead to erroneous conclusions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and investments in real estate that are measured at fair value. All amounts disclosed in the condensed consolidated financial statements are presented in thousands of Croatian kunas (HRK), unless otherwise stated. The Group keeps accounting records in the Croatian language, in HRK and in accordance with Croatian legal regulations and accounting principles and practices followed by companies in Croatia.

The condensed consolidated financial statements have been prepared on an accrual basis under the going concern assumption.

### *Adoption of new and amended International Financial Reporting Standards*

There are a number of standards, amendments to existing standards issued by the International Accounting Standards and Interpretations Committee and published by the International Financial Reporting Interpretations Committee that are effective for periods beginning after 31 December 2020 (the date on which the HEP Group will prepare its annual financial statements) and for which the HEP Group has decided not to make an earlier application. The Company's Management anticipates that the application of these standards, amendments and interpretations will not have a material impact on the HEP Group's financial statements in the period of their first application.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### *Use of estimates in preparing the condensed consolidated financial statements*

The preparation of condensed consolidated financial statements in accordance with International Accounting Standard 34 “Interim Financial Reporting” requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities. The estimates used in the preparation of these condensed consolidated financial statements relate to employee benefits, the amount of value adjustments to assets, the determination of the fair value of assets and liabilities and the estimated costs of removing assets. Future events are possible that will cause changes in the assumptions on the basis of which the estimates are given, and thus changes in the estimates themselves.

The effect of any change in estimate will be reflected in the consolidated financial statements when it can be determined. There were no changes in the use of estimates and critical judgments in the preparation of condensed consolidated financial statements compared to their use in the preparation of annual consolidated financial statements.

## **3. IMPACT OF COVID-19 ON GROUP'S OPERATIONS**

Since the beginning of the pandemic, the Group has been applying special measures to prevent the spread of coronavirus disease and protect the health of employees and business partners, in accordance with the decisions of the National Civil Protection Headquarters, and at the same time to ensure the health of employees and partners.

As the Group is a critical and strategic infrastructure system of the Republic of Croatia, and is one of the largest economic entities in Croatia with a large number of companies in the domestic market largely depending on it; maximum efforts have been made to ensure smooth operations in all business segments, primarily through regular production, transmission, distribution and supply of energy.

Since the beginning of the pandemic, the Group has been analysing energy consumption and modelling scenarios for the impact of the decline in total economic activity on consumption and revenues from the sale of energy from its product portfolio.

Despite the introduction of extraordinary measures of assistance to natural persons adopted by the Government of the Republic of Croatia, which relate, among other things, to the delay in the enforcement, trade receivables were mostly realized within the agreed deadlines and the adopted measures have not had a significant impact on business and financial position of the Group. The Group did not use State aid provided by the Government of the Republic of Croatia, since revenues did not decrease significantly despite the slowdown in economic activities.

Given that the duration of a pandemic is uncertain and it is impossible to predict what impacts it will have, both in domestic and foreign markets, it is not possible to fully assess all the negative impacts on the Group's operations at this time. Notwithstanding the above, the current level of indebtedness and secured level of liquidity of the Group, as well as a strong market position in all activities, show that the Group is prepared to face the challenges expected in the coming period.

The Group will continue to actively monitor economic trends and take all measures to protect the interests of all stakeholders while maintaining a stable financial position.

#### 4. SEGMENT INFORMATION

The Group's reporting segments are divided into the following: electricity (generation, transmission, distribution and sale of electricity), heating (production, distribution and sale of heat) and gas (distribution and sale of gas).

Profit or loss of each segment is the result of all revenues and expenses that are directly related to a particular segment. Information on financial income, i.e. expenses and income tax is not presented at the segment level, because the basis for segment presentation is operating profit.

<i>in 000'HRK</i>	Electricity		Heating		Gas		Group	
			Six-month period ended 30 June					
	2021	2020	2021	2020	2021	2020	2021	2020
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Income from core business	6,140,169	5,489,466	385,082	363,065	440,507	695,062	6,965,758	6,547,593
Other segment revenue	463,441	393,178	28,385	19,561	50,962	179,394	542,788	592,133
<b>Operating profit / loss</b>	<b>1,464,786</b>	<b>1,034,315</b>	<b>(79,259)</b>	<b>(43,569)</b>	<b>104,806</b>	<b>198,879</b>	<b>1,490,333</b>	<b>1,189,625</b>
Net financial income/(expense)							31,212	(12,969)
Corporate income tax							(270,940)	(217,070)
<b>Net profit</b>							<b>1,250,605</b>	<b>959,586</b>

The segment's assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities represent assets and liabilities that cannot reasonably be allocated to operating segments. Total unallocated assets include investments in the Krško Nuclear Power Plant (hereinafter: NPP Krško), part of property, plant and equipment and unallocated financial assets. Total unallocated liabilities include non-current and current loans and other miscellaneous liabilities.

#### 4. SEGMENT INFORMATION (continued)

<i>in 000'HRK</i>	Total segment assets		Total segment liabilities	
	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
Electricity	32,924,721	32,928,839	8,786,653	9,572,561
Heating	1,450,661	1,390,741	163,150	198,123
Gas	2,362,137	550,903	1,687,211	117,381
Unallocated	8,332,598	9,768,983	6,777,706	8,338,384
Total Group	<b>45,070,117</b>	<b>44,639,466</b>	<b>17,414,720</b>	<b>18,226,449</b>

#### Territorial analysis

The Group operates in Europe with countries that are members of the European Union and other countries that are not members of the European Union.

The following is a territorial analysis of the Group's revenues generated from active parts of operations from external electricity customers

<i>in 000'HRK</i>	Six-month period ended	
	30 June 2021	30 June 2020
	<i>Unaudited</i>	<i>Unaudited</i>
Croatia	5,468,535	5,183,662
EU member countries	638,760	257,206
Third countries	32,874	48,598
	<b>6,140,169</b>	<b>5,489,466</b>



## 5. SEASONAL FLUCTUATIONS IN OPERATIONS

Demand for electricity, heat and natural gas is characterized by fluctuations, which affect the overall results of the Group's operations, and which may be the result of weather conditions, economic circumstances and the activities of other suppliers outside the Group and prices they offer to customers.

Counter-pandemic measures had an impact on reducing the demand for electricity in the economy category, while the impact was significantly milder on demand for electricity in the household category as well as the demand for heat and natural gas.

Total operating expenses are affected by hydrological conditions, i.e. electricity production in hydropower plants; market prices of fuel for electricity and heat production; market prices for electricity supply and consumer needs for energy.

In the first half of 2021, revenues from the sale of electricity amounted to HRK 6,140,169 thousand, while in the same period last year they amounted to HRK 5,489,466 thousand. Revenues increased due to higher exports of surplus electricity, higher prices of exported electricity and higher income from electricity charged to household customers.

Electricity procurement costs amount to HRK 1,262,579 thousand, while in the period ended 30 June 2020 they amounted to HRK 1,164,519 thousand. The increase in costs is the result of higher purchase prices, while imported quantities are lower.

The cost of energy fuel in the first half of this year amounted to HRK 732,603 thousand, while in the same period last year it amounted to HRK 729,589 thousand, and it increased due to higher prices of natural gas and coal and more coal consumed.

## 6. OTHER OPERATING EXPENSES

<i>in 000'HRK</i>	Six-month period ended	
	30 June 2021	30 June 2020
	<i>Unaudited</i>	<i>Unaudited</i>
Income from assets funded from connection fees	199,478	192,464
Collected value-adjusted receivables (Note 15)	38,254	200,307
Revenues from external services	34,109	45,125
Default interest	12,996	11,284
Revenues from sales of materials	26,852	13,034
Income from cancellation of long-term provisions for severance pay and jubilee awards	100	1,989
Revenues from cancellation of long-term provisions for litigation	14,249	8,053
Revenues from cancellation of provisions for inventories of raw materials and spare parts	11,355	-
Income from cancellation of other provisions	4	3,803
Collected written-off receivables	1,063	-
Pre-bankruptcy receivables collected	731	1,186
Revenues based on legal expenses on lawsuits	5,230	2,903
Gains from the sale of tangible assets	566	569
Last year's over-calculated fees on CO2 emissions for electricity generation	29,019	21,501
Unrealized gains on fair valuation of tangible assets	6,201	-
Grant income	44,292	-
Proceeds from the deposit under the guarantee	12,070	-
Revenues from the use of own products	42,614	45,236
Other operating income NPP Krško	5,459	5,251
Other	58,146	39,428
	<b>542,788</b>	<b>592,133</b>

## 7. COST OF MATERIAL AND ENERGY

<i>in 000'HRK</i>	<b>Six-month period ended</b>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	<i>Unaudited</i>	<i>Unaudited</i>
Cost of electricity	1,262,579	1,164,519
Fuel cost	732,603	729,589
The cost of gas for sale on the wholesale market	77,778	522,277
Gas supply costs - market supply	151,613	104,671
Cost of purchased material	95,060	73,010
	<b>2,319,633</b>	<b>2,594,066</b>

The cost of purchasing gas for sale on the wholesale market is lower by HRK 444,499 thousand compared to 2020. This is due to the reduced number of customers compared to the previous period and the fact that the Company ceased to operate as a supplier in the wholesale gas market on 31 March 2021.

## 8. OTHER OPERATING EXPENSES

<i>in 000'HRK</i>	Six-month period ended	
	30 June 2021	30 June 2020
	<i>Unaudited</i>	<i>Unaudited</i>
Maintenance costs	253,432	236,211
Value adjustment of trade receivables (note 15)	62,566	47,838
Costs of external services and materials	269,119	281,004
Billable services and materials	77,276	58,929
Cost of CO2 emission units	220,031	159,528
Write-off of property, plant and equipment	32,090	13,107
Value adjustment of property, plant and equipment	21,827	-
Value adjustment of inventories	-	6,215
Employee cost compensation	51,388	52,124
Other material rights of employees	60,683	48,066
NPP Krško - decommissioning costs pursuant to Government decision	53,652	53,911
Contributions, taxes and fees to the state	51,417	46,315
Contributions and concessions for water	58,741	38,574
Fee for the use of power plant space	61,467	41,965
Fee for water purification and drainage	4,414	5,008
Cost of materials sold	18,901	9,233
Billing and collection costs	11,503	10,943
Provision for severance pay and jubilee awards	18,886	10,717
Litigation provisions	4,028	34,824
Provision for unused vacation days	14,887	18,067
Provision for decommissioning of thermal power plants	6,268	6,027
Provisions for energy savings /i/	17,555	14,132
Bank fees	7,585	9,055
Insurance premiums	7,651	4,593
Damages	2,706	6,658
Unwritten receivables written off	14,927	19,275
Write-off of receivables to electricity customers in earthquake-affected areas (note 15)	47,407	-
Maintenance and management of the FSRU ship	34,135	-
Other expenses	44,184	23,537
	<b>1,528,726</b>	<b>1,255,856</b>

### */i/ Provisions for energy savings*

The Energy Efficiency Act (OG 127/14, 116/18, 25/20, 41/21), the Ordinance on the system for monitoring, measuring and verifying energy savings (OG 33/20) and the Ordinance on the system of energy efficiency obligations (OG 41/19) prescribe the obligation to establish an energy-saving system and the manner of its implementation. Obligations arising from the above laws and regulations apply for the first time in 2019. The obligors of the energy-saving system in the HEP Group are the companies that supply electricity, heat and gas. Pursuant to legal provisions, and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent

Assets, the Group has reserved energy savings costs in its business books according to the best estimate in the amount of HRK 17,555 thousand (2020: HRK 14,132 thousand).

## 9. FINANCIAL INCOME AND EXPENSES

<i>in 000'HRK</i>	Six-month period ended	
	30 June 2021 <i>Unaudited</i>	30 June 2020 <i>Unaudited</i>
<b>Financial income</b>		
Positive exchange rate differences	36,350	23,429
Interest income	766	9,950
Change in fair value of cross-currency swap	124,039	127,160
Negative goodwill income	-	18,096
Other financial income	296	152
NPP Krško - interest	97	94
<b>Total financial income</b>	<b>161,548</b>	<b>178,881</b>
<b>Financial expenses</b>		
Negative exchange rate differences	(38,496)	(97,556)
Interest expense	(89,355)	(88,825)
Other financial expenses	(1,172)	(4,366)
NPP Krško - interest	(1,313)	(1,103)
<b>Total financial expenses</b>	<b>(130,336)</b>	<b>(191,850)</b>
<b>Net financial profit/(loss)</b>	<b>31,212</b>	<b>(12,969)</b>

## 10. CORPORATE INCOME TAX

Notes to the condensed consolidated financial statements of HEP Group (continued)  
for the six-month period ended 30 June 2021

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<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Current tax	(233,197)	(318,968)
Deferred tax recognized in profit or loss	(37,743)	(31,587)
<b>Corporate income tax</b>	<b>(270,940)</b>	<b>(350,555)</b>

Adjustments to deferred tax assets are as follows:

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Balance at 1 January	879,620	913,208
Abolition of deferred tax assets	(72,574)	(134,229)
Recognition of deferred tax assets	34,831	100,641
Balance at 30 June	<b>841,877</b>	<b>879,620</b>

Deferred tax assets arise from non-tax deductible provisions for jubilee awards and severance pay for retirement, value adjustments that are not tax deductible and other provisions.

## 11. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Ongoing investments as at 30 June 2021 amount to HRK 3,893,012 thousand (31 December 2020 HRK 3,666,811 thousand).

The increase in investments in assets is mostly related to the investments of HEP d.d. and HEP-ODS d.o.o.

In HEP d.d. the balance of investments in progress as at 30 June 2021 amounts to HRK 832,804 thousand, and as at 31 December 2020 it amounted to HRK 706,798 thousand. The increase is mostly related to the following investments: investments in HES Kosinj and HPP Senj in the amount of HRK 27,992 thousand, investments in EL-TO Zagreb replacement of block A in the amount of HRK 80,850 thousand, information technology HRK 7,389 thousand, EDM / ECM project 2,415 thousand.

HEP-ODS d.o.o. invested in the construction of connections and the creation of electricity conditions in the distribution network.

Investments in real estate as at 30 June 2021 amount to HRK 354,509 thousand (31 December 2020 HRK 342,607 thousand). The increase in investment in real estate is mostly related to investment in the reconstruction and adaptation of hospitality facilities.

Intangible assets as at 30 June 2021 amount to HRK 266,357 thousand (31 December 2020 HRK 253,249 thousand). The increase in intangible assets mainly relates to the acquisition of licenses for computer software and the renewal of existing ones.

## 12. GOODWILL

Goodwill was created by acquiring the companies Energetski park Korlat d.o.o., Plin VTC d.o.o., Sunčana elektrana Poreč d.o.o., PPD - Opskrba kućanstava d.o.o., Sunčana elektrana Vis d.o.o., Ornatus d.o.o. and Gradska plinara Krapina d.o.o. and is entirely allocated to these companies (see table below). Goodwill refers to the good market position of the mentioned companies and the expected synergy with HEP Group that will arise after the acquisition.

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
<b>Goodwill</b>		
Energetski park Korlat d.o.o.	31,083	31,083
Plin VTC d.o.o.	10,474	10,474
Sunčana elektrana Poreč d.o.o.	270	270
PPD – Opskrba kućanstava d.o.o.	2,432	2,432
Sunčana elektrana Vis d.o.o.	2,872	2,872
Ornatus d.o.o.	2,024	2,024
Gradska plinara Krapina d.o.o.	3,086	-
	<b>52,241</b>	<b>49,155</b>

### 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Changes in investments classified at fair value through other comprehensive income are shown as follows:

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
<b>Opening balance</b>	<b>233,315</b>	<b>255,007</b>
Fair valuation of investments through other comprehensive income (Janaf)	3,239	(21,592)
Fair valuation of investments through other comprehensive income and other	(26)	(100)
<b>Closing balance</b>	<b>236,528</b>	<b>233,315</b>

### 14. INVENTORIES

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Inventories of fuel and chemicals	106,552	122,939
Electrical and mechanical materials	558,473	435,836
Spare parts	204,361	224,707
Construction material	16,875	17,639
Wholesale gas supplies	(24,576)	34,256
CO2 emission units	400,442	668,336
Energy saving stocks in final consumption	28,499	13,070
Other inventories	55,528	50,804
Inventory of nuclear NPP Krško	155,698	198,221
Other material inventories NPP Krško	115,737	122,947
	<b>1,617,589</b>	<b>1,888,755</b>
Value adjustment of obsolete material and spare parts	(268,553)	(279,908)
	<b>1,349,036</b>	<b>1,608,847</b>



## 15. TRADE RECEIVABLES

<i>in 000'HRK</i>	30 June 2021 <i>Unaudited</i>	31 Dec 2020 <i>Audited</i>
Electricity - economy	1,539,965	1,404,205
Electricity - households	595,435	499,210
Electricity - abroad	104,812	185,418
Thermal energy, gas and services	496,422	567,978
Trade receivables NPP Krško	12,531	10,353
Other	47,528	50,824
	<b>2,796,693</b>	<b>2,717,988</b>
Expected credit losses	(792,498)	(752,712)
	<b>2,004,195</b>	<b>1,965,276</b>

The table below shows the age structure of receivables and the corresponding rate of expected credit loss for each age group.

<b>30 June 2021, Unaudited</b>	not yet due	up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	over 365 days	<b>Total</b>
Gross book value of trade receivables	1,334,746	311,733	135,568	75,198	104,933	28,244	806,271	<b>2,796,693</b>
<b>Expected credit losses</b>	(267)	(3,398)	(2,034)	(2,256)	(9,444)	(8,473)	(766,626)	<b>(792,498)</b>
<b>31 December 2020, Audited</b>	not yet due	up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	over 365 days	<b>Total</b>
Gross book value of trade receivables	1,422,394	288,717	104,923	54,209	56,826	32,941	757,978	<b>2,717,988</b>
<b>Expected credit losses</b>	(28,448)	(3,147)	(1,574)	(1,626)	(5,114)	(9,882)	(702,921)	<b>(752,712)</b>

## 15. TRADE RECEIVABLES (continued)

Changes in allowance for impairment were as follows:

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
<b>Balance at the beginning of period</b>	<b>752,712</b>	<b>1,083,983</b>
Change in expected credit losses	(31,933)	(69,168)
Write-off of receivables (note 8)	62,566	118,416
Write-off of trade receivables in earthquake-affected areas (note 8)	47,407	-
Reprogrammed receivables collected	-	(327,014)
Corrected receivables collected (note 6)	(38,254)	(53,505)
<b>Balance at the end of the period</b>	<b>792,498</b>	<b>752,712</b>

## 16. OTHER CURRENT RECEIVABLES

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Corporate income tax receivables	12,908	110,446
VAT receivables	43,275	97,011
Advances for working capital	95,839	305,186
Receivables from the state for employees	4,913	4,468
Deposits and time deposits for a period longer than 3 months	60,879	63,973
Deposits and time deposits for a period longer than 3 months NPP Krško	97,411	94,256
Receivables of HEP-ESCO d.o.o. from the beneficiaries of the energy efficiency project	3,868	9,318
Receivables for sold apartments	4,050	4,050
Receivables for invoiced RES - HROTE fee	22,367	25,511
Receivables for calculated income from the sale of electricity to households	7,712	38,340
Receivables from employees	2,385	2,806
Accrued interest receivables on purchased bonds	14,764	9,714
Receivables for customer card payments and standing orders	19,349	9,791
Claims for an agreed penalty	2,356	2,674
Other receivables NPP Krško	18,982	2,416
Other current receivables	47,683	28,409
	<b>458,741</b>	<b>808,369</b>

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Share in investment funds – foreign currency	65,126	66,012
Share in investment funds - HRK	101,244	101,043
	<b>166,370</b>	<b>167,055</b>

## 18. CASH AND CASH EQUIVALENTS

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Accounts in HRK	3,356,653	2,527,996
Foreign currency accounts	183,817	340,131
Allocated funds	30,458	76,508
Cash in hand-HRK	260	207
Deposits with a maturity of up to 90 days	152,939	106,609
Daily time deposits	763,517	371,851
Transaction and foreign currency account - NPP Krško	6,510	91,126
	<b>4,494,154</b>	<b>3,514,428</b>

## 19. SHARE CAPITAL

The share capital is denominated in Croatian kuna in the amount of HRK 19,792,159 thousand and consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800 each.

Retained earnings in the amount of HRK 7,726,362 thousand include profit reserves in the amount of HRK 543,072 thousand, retained earnings in the amount of HRK 5,937,474 thousand and current year profit attributed to the owner in the amount of HRK 1,245,816 thousand.

## 20. LIABILITIES UNDER LONG-TERM LOANS

<i>in 000'HRK</i>	Interest rates	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Loans from foreign banks	Fixed/Floating	588,209	540,015
Financial leasing (GP Krapina)	Fixed	114	-
Loans from participating interest companies		27,687	27,687
Loans NPP Krško		148,917	157,710
Loans GP Krapina		144	-
<b>Total non-current loan liabilities</b>		<b>765,071</b>	<b>725,412</b>
Cost allocation		(2,786)	(2,934)
<b>Total non-current loan liabilities</b>		<b>762,285</b>	<b>722,478</b>
Current maturity of non-current loans		(75,816)	(53,879)
Current maturity of financial leasing			
Current maturity of participating interest companies' loans		(13,844)	(13,844)
<b>Non-current portion</b>		<b>672,625</b>	<b>654,755</b>

The Group contracted loans with domestic and foreign banks with applicable floating and fixed interest rates, which in 2021 ranged from 0.44% to 2.47%.

Loans from domestic banks are secured by bills of exchange and promissory notes. As at 30 June 2021, the Group has no debt covered by the guarantee of the Republic of Croatia.

HEP-PLIN d.o.o., as a subsidiary of HEP d.d. concluded an Agreement on the purchase and sale of business shares in the company Gradska plinara Krapina d.o.o. on 31 March 2021, acquiring the 100% ownership of this company. On 30 June 2021 Gradska plinara Krapina d.o.o. has HRK 114 thousand of lease liabilities and HRK 144 thousand of loan liabilities.

On 30 June 2021. there is a loan of Privredna banka Zagreb d.d., approved to the company NPP Krško (Nuklearna elektrana Krško d.o.o.) and 50% of the value of the said loan was stated.

### New sources of financing

From 1 January 2020 to 30 June 2021, the Group used its own funds to finance the investment plan and regular operations.

### Loans in use

As at 30 June 2021, the Group has 2 (two) loans in use: from EBRD in the amount of EUR 87,000 thousand and from EIB in the amount of EUR 43,000 thousand. These loans are used to finance the EL-TO Zagreb project.

## 20. LIABILITIES UNBDER LONG-TERM LOANS (continued)

The Company started using loans in December 2018, and as of 30 June 2021, the balance of used funds amounts to EUR 44,790 thousand (EBRD) and EUR 21,541 thousand (EIB)

The loan funds can be used until 20 July 2021 and in accordance with the agreed project implementation dynamics.

The repayment plan for the principal of non-current loans maturing in the next five years:

	<i>(in 000'HRK)</i>
2021	51,751
2022	105,335
2023	95,271
2024	65,377
2025	66,320
after 2025	378,231
	<b>762,285</b>

Loans from domestic banks are secured by bills of exchange and promissory notes, while the EBRD loan of EUR 87,000 thousand and the EIB loan of EUR 43,000 thousand have contracted financial guarantees; financial indicators which the Group is obliged to meet at certain prescribed levels on an annual and semi-annual basis.

These indicators are net financial debt to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net borrowing to net tangible assets.

The main objective of the Group related to the risks posed by financial indicators is to protect the Group from possible breach of contractual obligations, i.e. premature maturities of contracted credit liabilities.

Contracted financial indicators are monitored and calculated for annual and interim financial statements.

The Group prepares preliminary calculations of financial indicators based on the projected statement of financial position and statement of profit or loss for the coming interim period and monitors their trend.

If the projections in the financial statements at the end of the financial year show the possibility of failing to meet the contracted value of a certain financial indicator, the Group is obliged to inform the bank about the possibility of breach of contract and promptly request the waiver from the bank.

In case the bank does not approve the waiver, the possible scenario is the early maturity of the debt, which poses a liquidity risk for the Group.

The Management Board believes that in case of failing to meet a certain indicator value, the Group may obtain a waiver from creditors, given that the payment of liabilities to financial institutions is a priority liability of the Group, and that the Group has never defaulted in payment of liabilities to financial institutions.

## 20. LIABILITIES UNBDER LONG-TERM LOANS (continued)

Due to all the above mentioned, the Management Board estimates that the possibility of premature maturity of loan liabilities arising from failing to meet a certain indicator value, as well as the Group's exposure to credit risk, liquidity risk and market risk that may arise as a result of this failure, is minimal.

As of 31 December 2020, the Company met all contracted financial indicators.

The total exposure based on contracted loan liabilities related to financial indicators amounts to EUR 66,331 thousand at 30 June 2021.

Loan liabilities in foreign currencies (in thousands) are as follows:

<b>Currency</b> <i>in 000'HRK</i>	<b>30 June 2021</b>	<b>31 Dec 2020</b>
EUR	99,445	92,575

For the purpose of securing liquidity reserves in the next medium-term period, the Group has concluded multi-purpose framework agreements with domestic banks, in the total amount of approximately HRK 1,000,000 thousand.

The Group may use the funds from these frameworks for short-term loans and the issuance of guarantees, letters of credit and letters of intent in accordance with the needs of the Group companies.

There was no need to conclude short-term loans from these medium-term multi-purpose frameworks in the period from 1 January 2020 to 30 June 2021; due to good liquidity.

As of 30 June 2021, the total amount of available funds from the short-term frameworks amounts to HRK 729,228 thousand.

## 21. LIABILITIES UNDER ISSUED BONDS

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Value of bonds abroad from 2015	3,645,962	3,593,024
Exchange rate difference	(22,166)	45,794
Discount value	3,720	7,144
	<b>3,627,516</b>	<b>3,645,962</b>
Cost allocation	(4,630)	(6,366)
<b>Bonds issued in 2015</b>	<b>3,622,886</b>	<b>3,639,596</b>
Value of repurchased bonds (1 January)	(141,928)	(64,482)
Investments in bonds	(28,771)	(76,172)
Exchange rate difference	1,153	(1,274)
	<b>(169,546)</b>	<b>(141,928)</b>
<b>Total liabilities under issued bonds</b>	<b>3,453,340</b>	<b>3,497,668</b>

## **21. LIABILITIES UNDER ISSUED BONDS (continued)**

### **Bonds issued abroad in 2015.**

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with a maturity of 7 years, a fixed interest rate of 5.875% per annum and an issue price of 98.594%.

Bonds issued in 2015 were mostly used for repurchase of 83.37% bonds issued in 2012 (i.e. repurchase of USD 416,852 thousand). The remaining amount of the issue was intended to finance the Company's business activities.

The bond is listed on the Luxembourg Stock Exchange and is actively traded with.

The fair value of bonds, less the repurchased amount of bonds with a nominal value of USD 25,615 thousand as at 30 June 2021 amounts to USD 561,301 thousand (equivalent to HRK 3,530,809 thousand).

#### *Investment in bonds*

The possibility of purchasing own bonds as defined in the 2015 Bond Prospectus, enables the Company or any of its subsidiaries to purchase bonds and any time. The bonds so purchased may be held or resold. Bonds purchased in the name and for the account of the Company may be cancelled, i.e. the principal may be reduced. In March 2021, the Company repurchased 0.83% of its own bonds issued in 2015, in the amount of USD 4,540 thousand.

### **Derivative financial instruments**

#### ***Cross-currency swap***

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the dollar exchange rate, the Company concluded cross-currency swap agreement, converting dollar liabilities on bonds issued abroad in 2015 into euro liabilities until their final maturity.

The purpose of the cross-currency swap agreement is to reduce currency risk. It was concluded upon credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Company's business results.

The annual interest rate paid by the Company is fixed and amounts to 4.851%.

The Company links the fair value of derivative financial instruments to the calculation of Mark to market value (MTM), based on official bank calculations for the reporting period.

The positive value of MTM is recorded as a receivable and financial income of the period, and the negative value of MTM is recorded as a liability and financial expense of the reporting period.

Upon the final maturity of derivative financial instruments, the receivables or liabilities in question will be eliminated against expenses or in favour of income.

As at 30 June 2021, the fair value of receivables in the negative amount of HRK -172,391 thousand was calculated using this method (31 December 2020, the value of related liabilities was HRK 296,430 thousand; Note 22).

## **22. OTHER LONG-TERM LIABILITIES**

Notes to the condensed consolidated financial statements of HEP Group (continued)  
for the six-month period ended 30 June 2021

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<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Deferred income for property financed by others	6,415,252	6,458,886
Long-term liabilities for assets financed from clearing debt	757,679	739,447
Derivative financial liabilities by swap transactions	172,391	296,430
Retained part of funds for EPC works	21,939	-
Liabilities to the state	4,806	5,714
Other long-term liabilities	14,510	10,713
	<b>7,386,577</b>	<b>7,511,190</b>

Deferred income refers to income for received property or property financed from the connection fee. Income from these assets is recognized simultaneously with the depreciation of the tangible assets which they relate to.

As at 30 June 2021, the Company has a stated liability for clearing debt in the amount of HRK 757,679 thousand (31 December 2020 in the amount of HRK 739,447 thousand) relating to the payment from the letter of credit and based on the Agreement concluded between the Government of the Republic of Croatia and the Government of Russian Federation on 24 July 2006, and the Consent of the Ministry of Finance on the use of funds under the interbank agreement

Since there is no other document that would regulate the relationship between the Company and the Ministry of Finance, related to the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

The Group retains payment of 5% of the total value of works under the Contract for the design, procurement and construction of the pier with auxiliary facilities and the high-pressure gas pipeline for the LNG Terminal until the expiration of the warranty period defined in the Contract.



## 23. LIABILITIES TO EMPLOYEES

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Liabilities for net salaries	96,216	95,671
Liabilities for contributions and taxes	40,213	40,028
Liabilities for severance pay	1,553	3,231
Salaries payable NPP Krško	8,997	13,907
Other	15,196	15,681
	<b>162,175</b>	<b>168,518</b>

## 24. TRADE PAYABLES

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Trade payables in the country	795,885	1,603,231
Trade payables abroad	50,830	105,411
Trade payables within EU	156,122	187,743
Trade payables - NPP Krško	25,483	1,561
	<b>1,028,320</b>	<b>1,897,946</b>

## 25. OTHER CURRENT LIABILITIES

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
Liabilities for received advances for connections	604,820	479,128
Liabilities for other advances received	226,173	272,157
Accrued expenses for unused annual leave	95,932	81,361
Interest liabilities	26,072	31,046
Liabilities for calculated solidarity compensation	13,982	14,884
Liabilities for renewable energy charges	127,670	126,502
Accrued costs for CO2 emissions	220,031	454,276
Other accrued expenses	17,833	69,889
Deferred income support - LNG Croatia	1,498,677	1,243,193
Energy savings	17,555	-
Liabilities for borrowed gas from common users of the LNG terminal	74,250	-
Liabilities of NPP Krško	21,406	42,134
Other liabilities	52,803	51,594
	<b>2,997,204</b>	<b>2,866,164</b>

## 26. RELATED PARTY TRANSACTIONS

The ultimate owner of the Company is the Republic of Croatia. Receivables and liabilities and income and expenses are shown in the following table:

<i>in 000'HRK</i>	<b>30 June 2021</b> <i>Unaudited</i>	<b>31 Dec 2020</b> <i>Audited</i>
<b>(i) NPP Krško d.o.o.</b>		
Liabilities for electricity	56,164	61,458

<i>in 000'HRK</i>	<b>Six-month period ended</b> <b>30 June 2021</b> <i>Unaudited</i>	<b>30 June 2020</b> <i>Unaudited</i>
Cost of electricity	325,703	371,104

### (ii) Compensation to the Management Board and executive directors within the Group:

<i>in 000'HRK</i>	<b>Six-month period ended</b> <b>30 June 2021</b> <i>Unaudited</i>	<b>30 June 2020</b> <i>Unaudited</i>
Gross salaries	17,959	15,845
Contributions to pension insurance	3,876	3,421
Other (benefits in kind)	1,448	1,047
	<b>23,283</b>	<b>20,313</b>

There were no other payments to the members of the Management Board other than the regular salary and benefits in kind.

**26. RELATED PARTY TRANSACTIONS (continued)**

<i>in 000'HRK</i>	<b>Income</b>		<b>Expenses</b>	
	<b>Six-month period ended 30 June</b>		<b>Six-month period ended 30 June</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>Companies that are majority owned by the State</b>				
Croatian Railways Group	53,637	49,511	29	8
Plinacro d.o.o.	1,515	1,498	53,690	43,866
Hrvatska pošta d.d.	10,223	10,771	22,519	14,694
Hrvatske šume d.d.	2,690	3,844	2,850	4,321
Jadrolinija d.o.o.	680	603	222	194
Narodne novine d.d.	1,057	1,009	1,198	3,007
Hrvatska radio televizija	6,128	6,215	1,208	830
Plovput d.d.	-	367	211	98
Croatia Airlines d.d.	360	319	13	-
Ministry of Defence	11,379	9,028	14	-
Ministry of Interior	14,028	12,877	1	-
Primary and secondary schools	26,572	22,118	-	4
Judicial institutions	3,996	3,588	7	-
Universities and colleges	13,490	12,290	346	586
Legislative bodies of the Republic of Croatia	10,375	10,969	2,034	1,876
Health facilities	67,557	66,427	244	476
HROTE	143,209	175,676	347,767	397,089
<b>TOTAL</b>	<b>366,896</b>	<b>387,110</b>	<b>432,353</b>	<b>467,049</b>

**26. RELATED PARTY TRANSACTIONS (continued)**

<i>in 000'HRK</i>	<b>Receivables</b>		<b>Liabilities</b>	
	<b>30 June 2021</b>	<b>31 Dec 2020</b>	<b>30 June 2021</b>	<b>31 Dec 2020</b>
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
<b>Companies that are majority owned by the State</b>				
Croatian Railways Group	23,879	29,309	2	7
Plinacro d.o.o.	546	569	8,143	7,552
Hrvatska pošta d.d.	648	3,342	7,793	12,228
Hrvatske šume d.o.o.	1,098	960	277	421
Jadrolinija d.o.o.	261	309	26	25
Narodne novine d.d.	529	562	220	506
Hrvatska radio televizija	1,553	2,023	61	21
Plovput d.d.	34	34	200	41
Croatia Airlines d.d.	59	81	3	36
Ministry of Defence	1,862	4,499		-
Ministry of Interior	3,846	3,460		-
Primary and secondary schools	9,386	11,035		-
Judicial institutions	562	1,062		-
Universities and colleges	3,296	4,215		-
Legislative bodies of the Republic of Croatia	1,638	3,092		-
Health facilities	60,051	55,625		-
HROTE d.o.o.	69,028	43,347	39,374	67,089
<b>TOTAL</b>	<b>178,276</b>	<b>163,524</b>	<b>56,099</b>	<b>87,926</b>

## 26. RELATED PARTY TRANSACTIONS (continued)

As at 30 June 2021, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
HEP-Plin d.o.o.	Croatia	100	Gas distribution and supply
HEP-ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Infrastructure development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP-NOC	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o. Mostar	BIH	100	Electricity trading
HEP Energija sh.p.k. Kosovo	Kosovo	100	Electricity trading
HEP Energija d.o.o. Beograd	R Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
Sunčana elektrana Poreč d.o.o.	Croatia	100	Production of electricity
Sunčana elektrana Vis d.o.o.	Croatia	100	Production of electricity
Ornatus d.o.o.	Croatia	100	Production of electricity
Gradska plinara Krapina d.o.o.	Croatia	100	Gas distribution and supply
LNG Hrvatska d.o.o.	Croatia	84.18	Liquefied natural gas business
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

## **26. RELATED PARTY TRANSACTIONS (continued)**

Most of these subsidiaries were established during reorganization and restructuring of the core business under the new energy laws that entered into force on 1 January 2002.

The company Hrvatski centar za čistiju proizvodnju started the liquidation procedure on 9 November 2017 and was liquidated on 7 March 2019.

In 2019, the following companies entered the consolidation of HEP Group for the first time: Plin VTC d.o.o. whose sole owner is the company HEP-Plin d.o.o. from April 2019, Energetski Park Korlat d.o.o. whose sole owner is HEP d.d. from April 2019, while the company Plomin Holding d.o.o. became the sole owner of Elektrana Sabadin d.o.o. in June 2019 (the company Elektrane Sabadin d.o.o. changed its name to Sunčana elektrana Poreč d.o.o.), IE-Nekretnine d.d. whose sole owner is HEP d.d. from July 2019. Furthermore, on 1 April 2019, the company HEP d.d. became the majority owner of the company LNG Hrvatska d.o.o., and acquired control over the subsidiary and from that date the company LNG Hrvatska d.o.o. is included in the consolidation of the Group. In previous periods investment in the company, LNG Hrvatska d.o.o. was recognized and subsequently measured using the equity method.

During 2020, the following companies entered the Group: Prvo Plinarsko Društvo - Distribucija plina d.o.o. and Prvo Plinarsko Društvo - Opskrba kućanstava d.o.o. whose sole owner is the company HEP-Plin d.o.o. from April 2020; Ornatus d.o.o. whose sole owner is the company Plomin Holding d.o.o. from August 2020 and Sunčana elektrana Vis d.o.o. whose sole owner is HEP d.d. from September 2020.

IE-Nekretnine d.d. was merged with HEP d.d. in June 2020. Companies Prvo Plinarsko Društvo - Distribucija plina d.o.o., Prvo Plinarsko Društvo - Opskrba kućanstava d.o.o. and Plin VTC d.o.o. were merged with HEP-Plin d.o.o. during July 2020.

In March 2021, the company Gradska plinara Krapina d.o.o. was acquired. The sole owner is the company HEP-Plin d.o.o. The Company was included in the consolidation of the HEP Group on 1 April 2021.

In June 2021, the company HEP-Plin acquired a 100% stake in the company Darkom distribucija plina d.o.o. The company will be involved in the consolidation of the HEP Group from 1 July 2021.

## **27. FAIR VALUE INDICATORS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION**

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and traded in active liquid markets is determined according to the quoted market price,
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from existing market transactions,
- The fair value of derivative instruments is calculated using listed prices. Where such prices are not available, discounted cash flow analysis is used, using the applicable yield curve for the life span of the non-derivative instruments

### *Fair value indicators recognized in the balance sheet/statement of financial position*

The table analyses financial instruments that, after initial recognition, have been reduced to fair value, classified into three groups in accordance with IFRS 13:

Tier 1 of available indicators - fair value indicators are derived from (unadjusted) prices quoted in active markets for identical assets and identical liabilities

Tier 2 of available indicators - fair value indicators are derived from data other than quoted prices from level 1, and relate to the observed asset or liability (i.e. their prices) or indirectly (derived from prices), and

Tier 3 of indicators - indicators derived by applying valuation methods in which data on assets or liabilities that are not based on available market data (unavailable input data) were used as input data.

The Group has decided that the measurement of the fair value of the cross-currency swap is linked to the value of "Mark To Market (MTM)" in accordance with the calculation of commercial banks. Positive MTM is recorded as a receivable and also forms the financial income of the reporting period; while the negative MTM is recorded as a liability and forms the financial expense for the period. Upon final maturity of the derivative financial instrument, the receivable or liability in question will be eliminated against Group's expenses or in favour of the Group's income.

## 27. FAIR VALUE INDICATORS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION (continued)

Fair value indicators in the statement of financial position/balance sheet:

<i>in 000'HRK</i>	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Total</b>
<b>30 June 2021, unaudited</b>				
Assets classified at fair value through other comprehensive income	236,528	-	-	<b>236,528</b>
Financial assets at fair value through profit or loss	166,370	-	-	<b>166,370</b>
Derivative financial liabilities	-	-	172,391	<b>172,391</b>
Investment property	-	354,509	-	<b>354,509</b>
<b>31 December 2020, audited</b>				
Assets classified at fair value through other comprehensive income	233,315	-	-	<b>233,315</b>
Financial assets at fair value through profit or loss	167,055	-	-	<b>167,055</b>
Derivative financial liabilities	-	-	296,430	<b>296,430</b>
Investment property	-	342,607	-	<b>342,607</b>

## 28. CONTINGENT LIABILITIES

### *The Water Act*

The Water Act, which entered into force on 1 January 2010, raised the issue of the legal status of the property, accumulation lakes and ancillary facilities (canals, embankments, etc.), which are used for the production of electricity from hydropower plants. These assets are defined as a public water resource in general use owned by the Republic of Croatia. HEP Group acquired these assets through their previous owners, uniting an extremely large number of plots, which were submerged by the construction of the dam and thus the accumulation was created. Several proceedings are underway for the registration of ownership of the Republic of Croatia on the said real estate. Some of them were carried out in favour of the Republic of Croatia, some were rejected and the rest is ongoing.

In May 2018, the Law on Amendments to the Water Act (OG 46/18) entered into force. According to this regulation, the Republic of Croatia establishes the construction rights in favour of HEP d.d. free of charge for a period of 99 years to build water structures for electricity production, which were built and invested in by HEP d.d. or its predecessors. An exemption is provided for parts of water structures consisting of reservoirs, inflow and outflow channels and tunnels. While the construction right period, HEP d.d. has the right to manage public property/land on which these facilities were built on behalf of the Republic of Croatia. The right of management includes, inter alia, the right to use the real estate in question.

In order to implement the provisions of the Law on Amendments to the Water Act (OG 46/18), HEP d.d. is obliged to initiate relevant procedures for registration of these rights in the land register and obtain an appropriate study which must be harmonized with Hrvatske vode and which will be the basis for issuing a tabular document for registration of construction rights over the buildings in question. The appropriate study will also be the basis for the correct classification of fixed assets between groups of intangible and tangible assets; which are currently classified in full amount as tangible assets.

All of the above could have an impact on the classification of assets within the groups of intangible and tangible assets and, accordingly, on the change in the useful life of the assets that consequently affects the present value of assets in the statement of financial position and depreciation expense in the statement of profit or loss. However, it is not expected that this will have a material impact on the financial statements as a whole.



## 29. BUSINESS COMBINATIONS

On 1 April 2021, the Group acquired a 100 percent stake and voting rights in the company Gradska plinara Krapina d.o.o. whereby the Group gained control and the said company became a subsidiary. The total acquisition fee amounts to HRK 4,400 thousand and relates to the items:

- 1) fair value of shares in acquired companies
- 2) other (money, receivables, shares)

The transaction had the following effects:

<i>in 000'HRK</i>	<b>Acquisition fee</b>	<b>Fair value of net assets</b>	<b>Goodwill</b>
Gradska plinara Krapina d.o.o.	4,400	1,314	3,086

The assets and liabilities recognized as a result of the acquisition are as follows:

<i>in 000'HRK</i>	<b>Gradska plinara Krapina d.o.o.</b>
Property, plant and equipment	15,290
Inventories	263
Trade receivables	10,756
Other receivables	326
Other assets	413
Cash and cash equivalents	84
Trade payables	7,770
Long-term liabilities and provisions	8,279
Liabilities to employees	207
Other current liabilities	9,562
Minority interests	-
Net assets	1,314
<b>Acquisition cost</b>	<b>4,400</b>
Goodwill	3,086

There are no material differences in accounting policies between the Group and the acquired companies.

Goodwill is the subject of a final valuation that will be completed during 2021, and currently contains unidentified intangible assets and expected synergies.

## 30. LIABILITIES BASED ON SHARE IN RESULT

On 25 August 2021, the General Assembly of the Company passed a decision on the payment of dividends for 2020 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 840,622 thousand, which will be paid in 2021.

### 31. EVENTS AFTER THE REPORTING DATE

In June 2021 HEP-Plin d.o.o. acquired a 100% stake in Darkom distribucija plina d.o.o. On 1 July 2021, the HEP Group acquires control and the said company becomes a subsidiary of the HEP Group.

### 32. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements for the six-month period ending on 30 June 2021 were adopted by the Management Board and approved for issue on 16 September 2021.

Signed on behalf of the Company on 16 September 2021:

  
Marko Čosić  
Member


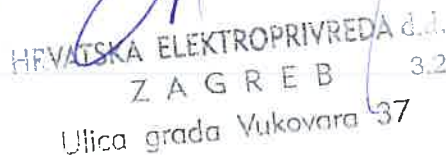
  
Nikola Rukavina  
Member

  
Petar Sprčić  
Member

  
Tomislav Šambić  
Member

  
Saša Dujmić  
Member

  
Frane Barbarić  
President

  
  
HRVATSKA ELEKTROPRIVREDA d.d.  
ZAGREB 3.2  
Ulica grada Vukovara 37