



HRVATSKA ELEKTROPRIVREDA d.d.
Condensed consolidated financial statements
for the period ended
30 June 2022

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The Management Board of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, and its subsidiaries ("the Group") is obliged to ensure that the condensed consolidated financial statements of the Group as of 30 June 2022 are prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting, so that they provide a true and objective presentation of the financial position, operating results, capital changes and cash flows of the Group for that interim period.

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

- design, introduction and maintenance of internal controls relevant to the preparation and presentation of interim financial information that are free from material misstatement, whether due to fraud or error;
- selection and application of appropriate accounting policies;
- making accounting estimates that are reasonable under the given circumstances

The Management Board is responsible for keeping correct accounting records, which will at any time reflect with acceptable accuracy the financial position, operating results, capital changes and cash flows of the Group, as well as their compliance with International Accounting Standard 34 - Interim Financial Reporting. The Management Board is also responsible for safeguarding the Group's assets, and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed on behalf of the Company on 28 September 2022:

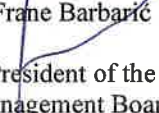
Petar Sprčić
Member of the
Management Board



Tomislav Šambrić
Member of the
Management Board



Frane Barbarić
President of the
Management Board




HRVATSKA ELEKTROPRIVREDA
ZAGREB
Ulica grada Vukovara 37

Independent Auditor's Report

To the owner of Hrvatska elektroprivreda d.d., Zagreb

Report on review of interim financial information

INTRODUCTION

We have reviewed the attached condensed consolidated financial statements for the period ended 30 June 2022 of the company Hrvatska elektroprivreda d.d., Zagreb (hereinafter: the Company) and subsidiaries (hereinafter: the Group), which make up the Condensed Consolidated Statement of Financial Position as of 30 June 2022, Condensed Consolidated Statement of Profit or Loss, Condensed Consolidated Statement of Other Comprehensive Income, Condensed Consolidated Statement of Changes in Equity and Condensed Consolidated Statement of Cash Flows for the six-month period then ended, as well as notes to the Condensed Consolidated Financial Statements, which together form the condensed interim consolidated financial statements of the Group.

The Company's Management Board 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 an opinion on these condensed interim financial information based on our review.

SCOPE OF REVIEW

We performed 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". Insight into interim financial information consists of asking questions, primarily to persons responsible for financial and accounting issues, and applying analytical and other insight procedures. The review is significantly less in scope than an audit performed in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we are aware of all significant matters that could be identified in the audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that would cause us to believe that the condensed consolidated financial statements of the Group for the period ended 30 June 2022 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

EMPHASIS OF MATTER

/i/ We draw attention to note 22 to the condensed consolidated financial statements, which describes the obligation for clearing debt in the amount of HRK 862,840 thousand (as of 31 December 2021, in the amount of HRK 800,216 thousand), which arose from payments from the letter of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation dated 24 July 2006 and the Agreement of the Ministry of Finance on the use of funds from the interbank agreement. Our conclusion is not modified on this issue.

/ii/ We draw attention to note 28 to the condensed consolidated financial statements, in which the need to initiate the procedure for registering rights in the land register and compliance with the provisions of the Act on Amendments to the Water Act (Official Gazette No. 46/2018) is highlighted. Our conclusion is not modified on this issue.

/iii/ We draw attention to note 3 to the condensed consolidated financial statements - Impact of the conflict in Ukraine on the Group's operations and note 30 /ii/ to the condensed consolidated financial statements - Events after the reporting date, which describes that the Government of the Republic of Croatia on 9 September 2022 passed the Decree on eliminating disruptions in the domestic energy market (OG 104/2022), and on 14 September 2022, the Decree amending and supplementing the Regulation on eliminating disruptions in the domestic market, which regulate special measures for electricity trade and gas trade, manner and price formation conditions for certain categories of electricity and thermal energy buyers, supervision over the application of prices determined by the Regulation, and special conditions for performing energy activities. The specified special measures are temporary and are prescribed for the period from 1 October 2022 to 31 March 2023, or 31 March 2024. Our conclusion has not been modified in connection with this issue.

/iv/ The audit of the Group's annual consolidated financial statements for the year ending 31 December 2021 was performed by two mutually independent auditing companies RSM Croatia d.o.o. Koprivnica and Grant Thornton revizija d.o.o., Zagreb, which in their Report of Independent Auditors dated 25 April 2022 expressed an unmodified opinion on these annual consolidated financial statements, while the review of financial information for the interim period ended on 30 June 2021 was performed by BDO Croatia d.o.o. which on 16 September 2021 stated in its conclusion that the condensed financial statements of the Group were prepared in all significant respects in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Zagreb, 28 September 2022



Daniela Šunjić, President of the
Management Board

PKF FACT revizija d.o.o.
ZAGREB, OIB: 66538066056

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Jeni Krstičević, Certified Auditor

Condensed Consolidated Statement of Profit or Loss

For the six-month period ending 30 June 2022

<i>in HRK '000</i>	Note	For the six-month period ended	
		30 June 2022	30 June 2021
		<i>Unaudited</i>	<i>Unaudited</i>
Sales revenue	4	9,253,372	6,965,758
Other operating income	6	654,048	542,788
Total operating income		9,907,420	7,508,546
Cost of material and energy procurement	7	(6,902,001)	(2,319,633)
Employee costs		(1,073,660)	(1,054,356)
Depreciation expense		(1,158,065)	(1,115,498)
Other operating expenses	8	(2,265,651)	(1,528,726)
Total operating expenses		(11,399,377)	(6,018,213)
Operating loss/profit		(1,491,957)	1,490,333
Financial income	9	346,508	161,548
Financial expenses	9	(236,926)	(130,336)
Net income from financial activities		109,582	31,212
Loss/Profit before tax		(1,382,375)	1,521,545
Profit tax	10	245,967	(270,940)
Loss/Profit of current period		(1,136,408)	1,250,605
Attributable to:			
The owner of the capital of the parent company		(1,143,409)	1,245,816
Non-controlling interests		7,001	4,789
		(1,136,408)	1,250,605

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

Condensed Consolidated Statement of Other Comprehensive Income

For the six-month period ending 30 June 2022

<i>in HRK '000</i>	For the six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Profit/Loss of the current period	(1,136,408)	1,250,605
Other comprehensive income		
<i>Items that can be reclassified to profit or loss</i>		
Exchange rate differences from the translation of foreign operations	3,010	(11,206)
	3,010	(11,206)
<i>Items that will not be reclassified to profit or loss</i>		
Changes in the value of financial assets at fair value through other comprehensive income	48,025	2,981
	48,025	2,981
Other comprehensive income / (loss), net	51,035	(8,225)
Total comprehensive loss/profit for the current period, net	(1,085,373)	1,242,380
Total comprehensive loss/profit attributable to:		
The owner of the capital of the parent company	(1,092,374)	1,237,591
Non-controlling interests	7,001	4,789

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2022

		30 June 2022	31 December 2021
<i>in HRK '000</i>	Note	<i>Unaudited</i>	<i>Audited</i>
ASSETS			
Fixed assets			
Property, plant and equipment	11	35,329,789	35,390,069
Right-of-use assets		19,767	17,473
Investment property	11	368,507	367,970
Intangible assets	11	287,207	301,562
Goodwill	12	69,906	69,906
Investments calculated using the equity method		8,040	8,040
Financial assets at fair value through other comprehensive income	13	333,134	276,465
<i>Financial assets measured at amortized cost</i>			
Long-term loans granted		4,020	4,343
Other financial assets		115,080	63,501
Other long-term receivables		55,206	50,922
Deferred tax assets	10	1,076,711	810,551
Total fixed assets		37,667,367	37,360,802
Current assets			
Inventories	14	1,846,603	1,584,320
<i>Financial assets measured at amortized cost</i>			
Trade receivables	15	2,876,354	2,429,221
Other short-term receivables	16	1,002,814	1,100,951
Financial assets at fair value through profit and loss	17	-	165,233
	18	5,938,911	4,265,828
Cash and cash equivalents		11,664,682	9,545,553
TOTAL ASSETS		49,332,049	46,906,355

Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2022

<i>in HRK '000</i>	Note	30 June 2022 <i>Unaudited</i>	31 December 2021 <i>Audited</i>
EQUITY AND LIABILITIES			
Share capital	19	19,792,159	19,792,159
Reserves		178,847	130,822
Retained earnings	19	5,528,594	6,668,993
Capital attributed to the owners of the parent company		25,499,600	26,591,974
Non-controlling interests		75,133	68,132
Total capital		25,574,733	26,660,106
Financial liabilities measured at amortized cost			
Liabilities for long-term loans	20	3,772,608	915,687
Other long-term liabilities	22	7,384,446	7,313,583
Lease liabilities		12,256	10,883
Long-term provisions		1,297,046	1,405,623
Deferred tax liability		33,000	24,355
Total long-term liabilities		12,499,356	9,670,131
Financial liabilities measured at amortized cost			
Trade payables	24	3,030,898	2,727,183
Current maturity of issued bonds	21	3,455,230	3,444,830
Current maturity of long-term loans		112,464	91,808
Liabilities for short-term loans		146,988	99,852
Short-term part of lease liabilities		8,561	7,554
Liabilities for taxes and contributions		119,628	175,901
Profit tax liability		14,653	60,751
Laibilities towards employees	23	167,748	177,275
Other short-term liabilities	25	4,201,790	3,790,964
Total short-term liabilities		11,257,960	10,576,118
TOTAL EQUITY AND LIABILITIES		49,332,049	46,906,355

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

Condensed Consolidated Statement of Changes in Equity

For the six-month period ending 30 June 2022

<i>in HRK '000</i>	Share capital	Reserves	Retained earnings	Capital attributed to the owners of the parent company	Non-controlling interests	Total equity
Balance on 1 January 2021	19,792,159	92,930	6,491,752	26,376,841	36,176	26,413,017
Profit of the current 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>	-	<i>2,981</i>	<i>1,234,610</i>	<i>1,237,591</i>	<i>4,789</i>	<i>1,242,380</i>
Balance as of 30 June 2021, unaudited	19,792,159	95,911	7,726,362	27,614,432	40,965	27,655,397
Balance on 1 January 2022	19,792,159	130,822	6,668,993	26,591,974	68,132	26,660,106
Current year loss	-	-	(1,143,409)	(1,143,409)	7,001	(1,136,408)
Other comprehensive income	-	48,025	3,010	51,035	-	51,035
<i>Total comprehensive income</i>	-	<i>48,025</i>	<i>(1,140,399)</i>	<i>(1,092,374)</i>	<i>7,001</i>	<i>(1,085,373)</i>
Balance on 30 June 2022, unaudited	19,792,159	178,847	5,528,594	25,499,600	75,133	25,574,733

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

Condensed Consolidated Statement of Changes in Equity

For the six-month period ending 30 June 2022

<i>in HRK '000</i>	For the six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
OPERATING ACTIVITIES		
Loss/Profit before tax	(1,382,375)	1,521,545
Interest income	(572)	(863)
Interest expense	98,559	90,668
Net foreign exchange differences	2,146	2,146
Fair valuation of investment property	(537)	(11,902)
Depreciation of property, plant and equipment, intangible assets and right-of-use assets	1,158,065	1,115,498
Expenditure from disposal of property	8,743	9,193
Value adjustment of property, plant and equipment and intangible assets	9,574	21,827
Value adjustment of receivables	12,917	39,786
Value adjustment of inventories	4,157	(11,355)
Increase/(Decrease) of provisions	(108,577)	26,124
Change in the fair value of the cross-currency swap	165,233	(124,039)
<i>Cash flow from operating activities before changes in working capital</i>	<i>(32,667)</i>	<i>2,678,628</i>
Decrease of trade receivables	(460,050)	(78,705)
Inventory reduction	(266,440)	271,166
(Increase)/Decrease in other fixed assets	(59,154)	(29,593)
Decrease/ (increase) in other current assets	98,137	350,313
(Decrease) of liabilities to suppliers	594,297	(533,801)
Increase in other short-term liabilities	464,053	74,129
Increase/(Decrease) in other long-term liabilities	98,919	(30,392)
Cash from operations	437,095	2,701,745
Paid income taxes	(196,952)	(161,927)
Interest paid	(98,599)	(93,799)
NET CASH FROM OPERATING ACTIVITIES	141,544	2,446,019
INVESTING ACTIVITIES		
Expenditures for the acquisition of subsidiaries, net of the money acquired	(11,134)	(4,316)
Interest income	12,245	11,150
Receipts from the collection of given loans	1,320	1,753
Expenditures for acquisition of property, plant and equipment	(1,392,329)	(1,496,175)
NET CASH FROM INVESTING ACTIVITIES	(1,389,898)	(1,487,588)

Condensed Consolidated Statement of Cash Flows (continued)

For the six-month period ending 30 June 2022

<i>in HRK '000</i>	For the six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
FINANCING ACTIVITIES		
Receipts from long-term loans	2,925,106	70,692
Receipts from short-term loans	47,136	10,727
Expenditures for repayment of long-term loans	(46,356)	(27,060)
Expenditures for the purchase of bonds	-	(28,771)
Expenses for repayment of the principal of leases	(4,449)	(4,293)
NET CASH FROM FINANCING ACTIVITIES	2,921,437	21,295
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	1,673,083	979,726
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4,265,828	3,514,428
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5,938,911	4,494,154

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

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 „Interim Financial Reporting“. The preparation of the unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2022 requires from Management Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the condensed consolidated interim financial statements, and actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods

The annual consolidated financial statements of Hrvatska Elektroprivreda d.d. and its subsidiaries (“the HEP Group”) are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by EU. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’ (‘IAS 34’). The condensed consolidated financial statements for the six-month period ended 30 June 2022 have been prepared under the same accounting policies as the consolidated financial statements for the year ended 31 December 2021. New and amended standards and interpretations issued by the International Accounting Standards Board that will be applied for the first time in the next annual financial statements do not have a significant impact on the Group or are not relevant to the Group's activities or are in accordance with the Group's current accounting policies.

Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS adopted by EU have been condensed or omitted as permitted by IAS 34. The condensed consolidated statement of financial position / condensed consolidated balance sheet as at 30 June 2022 was derived from audited annual consolidated financial statements as at 31 December 2021, but does not include all disclosures required by IFRS adopted by EU. However, the Company's management believes that disclosures are adequate to make the information presented not misleading

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed consolidated financial statements have been prepared according to the historical cost convention, with the exception of certain financial instruments and investment property that are measured at fair value. All amounts published in the condensed consolidated financial statements are presented in thousands of Croatian kuna (HRK), unless otherwise stated. The Group keeps accounting records in the Croatian language, in HRK and in accordance with Croatian laws and accounting principles and practices followed by companies in Croatia.

Condensed consolidated financial statements have been prepared on the accrual basis under the assumption of going concern.

Adoption of new and revised International Financial Reporting Standards

There are a number of standards, amendments and additions to existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee that are effective for periods beginning after 31 December 2021 (the date on which HEP Group will prepare its annual financial statements) for which the HEP Group decided not to apply earlier. The Company's management anticipates that the application of the above standards, amendments and interpretations will not have a materially significant impact on the financial statements of the HEP Group in the period of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparation of the condensed consolidated interim financial information

Preparation of the condensed consolidated interim financial statements in conformity 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 disclosure of contingent liabilities. Estimates used in preparation of these condensed consolidated interim financial statements relate to employee benefits, impairment of assets, and determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which could cause changes in the assumptions used for making these estimates, and thus changes in the estimates themselves

The effect of any changes in estimates will be recorded in the consolidated financial statements, when determinable. There were no changes in the use of estimates or critical judgments applied in preparation of these condensed consolidated interim financial statements with respect of those applied in preparation of the annual consolidated financial statements.

3. THE INFLUENCE OF THE CONFLICT IN UKRAINE ON THE COMPANY'S OPERATIONS

The start of Russian military activities on the territory of Ukraine in February 2022 and the introduction of sanctions by the European Union against Russia may consequently have a significant direct or indirect impact on the economy of the Republic of Croatia. Given that the HEP Group represents an infrastructure system of strategic importance for the Republic of Croatia, and is one of the largest economic entities in Croatia on which the operations of a large number of companies largely depend, it is extremely important in these crisis conditions to ensure regular operations and orderly production, distribution and full supply of energy sources.

Looking at the overall operations of HEP Group, the current conflict on the territory of Ukraine will not have a major impact on the continuation of the Group's operations in terms of the loss of its own assets or the assumption of new liabilities, since HEP Group does not have its own assets in that area and does not carry out significant commercial activities. The HEP Group has a good diversification in terms of purchasing routes for energy sources due to the use of alternative purchasing routes that are contracted to ensure the safe supply of electricity and gas to its own customers.

Since the beginning of the aforementioned conflict, the Group has been analysing the procurement and consumption of energy and modelling scenarios for the optimization of the procurement of energy sources in view of the increase in the prices of input parameters and a possible decline in overall economic activity and poorer collection of receivables. Thanks to the successful operations to date and the implemented optimization measures, the Group has a sufficient amount of cash resources that enable regular operations in the short term.

The Group will continue to actively monitor economic trends and take all measures to protect the interests of all stakeholders and maintain a stable financial position, especially in the context of the adopted Regulation described in note 30./ii/ to the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

4. SEGMENT INFORMATION

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

The profit or loss of each segment is the result of all income and expenses directly related to a specific segment. Information on financial income, i.e. expenses and profit tax is not shown at the segment level, because the basis is profit from operations.

	Electricity		Heating		Gas		Other		Group	
	Six-month period ended 30 June									
in HRK '000										
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Income from core activity	8,354,800	6,140,169	385,412	385082	513,160	440,507	-	-	9,253,372	6,965,758
Income of other segments	547,834	463,441	26,008	28,385	52,721	50,962	27,485	31,555	654,048	542,788
Profit/(loss) from operations	(756,673)	1,464,786	(574,415)	(79,259)	(104,312)	104,806	(56,557)	(37,726)	(1,491,957)	1,490,333
Net financial income									109,582	31,212
Profit tax									245,967	(270,940)
Loss/ (profit) of the current period									(1,136,408)	1,250,605

The segment's assets consist primarily of property, plant and equipment, receivables, cash and inventories. The segment's liabilities consist of trade payables and other liabilities. Assets and liabilities that do not belong to segments represent assets and liabilities that cannot be reasonably allocated to business segments. Total undistributed assets include the investment in the Krško Nuclear Power Plant (hereinafter: NPP Krško), part of property, plant and equipment and undistributed financial assets. Total unallocated liabilities include long-term loans, short-term loans and other miscellaneous liabilities.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

4. SEGMENT INFORMATION (continued)

<i>in HRK '000</i>	Total segment assets		Total segment liabilities	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
Electricity	34,288,084	33,383,387	10,988,602	10,629,845
Heating	1,480,118	1,418,359	234,673	202,421
Gas	2,424,422	642,970	1,630,835	112,112
Unallocated	11,139,425	11,461,639	10,903,206	9,301,871
Total Group	49,332,049	46,906,355	23,757,316	20,246,249

Territorial business analysis

The Group operates in Europe and does business with countries that are members of the European Union and other countries that are not members of the European Union (third countries).

The following is a territorial analysis of the revenues that the Group achieved from the active parts of the business from external customers of electricity:

<i>in HRK '000</i>	Six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Croatia	7,655,884	5,468,535
EU member states	660,535	638,760
Third countries	38,381	32,874
	8,354,800	6,140,169

5. SEASONAL FLUCTUATIONS

The demand for electricity and thermal energy and natural gas is characterized by fluctuations, which affect the overall results of the Group's operations, and may be the result of weather conditions, economic circumstances in which operations are carried out, and the activities of other suppliers outside the Group and the prices they offer to customers.

Total business expenses are affected by hydrological conditions, i.e. production of electricity in hydroelectric power plants, market prices of fuel for the production of electricity and thermal energy, market prices for the purchase of electricity and the consumer's need for energy.

In the first half of 2022, revenues from electricity sales amounted to HRK 8,354,800 thousand, while in the same period last year they amounted to HRK 6,140,169 thousand. Revenues have increased due to price increases for end customers with higher electricity consumption.

Electricity procurement costs amount to HRK 3,865,905 thousand, while in the period ending 30 June 2021, they amounted to HRK 1,262,579 thousand. The increase in costs is primarily the result of a higher purchase price. Also, larger quantities were procured from the Krško nuclear power plant, given that a regular overhaul was carried out in April 2021, and more electricity produced in the incentive system was purchased, as a result of the increase in mandatory purchase from 40% to 60%.

The cost of energy fuel in the first half of this year amounts to HRK 2,454,001 thousand, while in the same period last year it amounted to HRK 732,603 thousand, and it increased due to higher prices of natural gas and coal with higher consumption.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

6. OTHER OPERATING INCOME

<i>in HRK '000</i>	Six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Income from assets financed from the connection fee	202,227	199,478
Collected value adjusted receivables (note 15)	29,247	38,254
Income from external services	44,178	34,109
Default interest	13,584	12,996
Income from the sale of materials	19,635	26,852
Income from the cancellation of long-term provisions for severance pay and jubilee awards	109,542	100
Income from the cancellation of long-term provisions for litigation	6,345	14,249
Income from the cancellation of provisions for raw materials, materials and spare parts	-	11,355
Income from cancellation of other provisions	79	4
Collected written-off receivables	424	1,063
Collected receivables under bankruptcy	921	731
Revenues based on legal costs for lawsuits	3,803	5,230
Gains from the sale of tangible assets	2,336	566
Over-calculated compensation in the last year for CO2 emissions for electricity production	48,280	29,019
Unrealized gains from fair valuation of tangible assets	-	6,201
Income from grants	44,263	44,292
Income from guarantee deposits	-	12,070
Income from the use of own products	45,394	42,614
Other business income NPP Krško	10,438	5,459
Excise duties	23,932	24,217
Other	49,420	33,929
	654,048	542,788

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

Income from the cancellation of long-term provisions for severance pay and jubilee bonuses as of 30 June 2022 amounts to HRK 109,542 thousand (HRK 100 thousand as of 30 June 2021). The increase in income was due to the change in the discount rate, which on 30 June 2022 is 3.35% to 3.50%.

7. PURCHASING COST

<i>in HRK '000</i>	Six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Cost of electricity procurement	3,865,905	1,262,579
Fuel cost	2,454,001	732,603
Cost of gas procurement for sale on the wholesale market	-	77,778
Gas procurement costs - market supply	499,836	151,613
Cost of purchased material	82,259	95,060
	6,902,001	2,319,633

The period January-June 2022 was characterized by extremely unfavourable hydrological circumstances with a reduced energy value of the inflow, and the reduced production in hydroelectric power plants was replaced by higher production of thermal power plants and procurement of electricity outside the system. Considering the higher prices of imported electricity, natural gas and coal and the higher consumption of energy sources, the costs of production and procurement of electricity and thermal energy and procurement of gas are higher by HRK 4.58 billion (198%) compared to the same period of the previous year.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

8. OTHER OPERATING EXPENSES

<i>in HRK '000</i>	Six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Maintenance costs	321,000	287,567
Value adjustment of trade receivables (note 15)	71,240	62,566
Costs of external services and materials	268,790	269,119
Billable services and materials	127,348	77,276
Cost of CO2 emission units	946,605	220,031
Depreciation of property, plant and equipment	10,346	32,090
Value adjustment of property, plant and equipment	9,574	21,827
Value adjustment of inventory	4,157	-
Reimbursement of employee expenses	56,312	51,388
Other material rights of employees	69,258	60,683
NPP Krško - decommissioning costs by decision of the Government	53,898	53,652
Contributions, taxes and fees to the state	49,043	51,417
Contributions and water concessions	32,835	58,741
Fee for use of power plant space	47,240	61,467
Fee for water purification and drainage	4,943	4,414
Purchase value of the material sold	7,468	18,901
Calculation and collection costs	10,505	11,503
Provisions for severance pay and jubilee awards	-	18,886
Provisions for litigation	661	4,028
Provisions for unused vacations	13,396	14,887
Provisions for thermal power plant decommissioning	5,995	6,268
Provisions for energy savings	18,293	17,555
Bank fees	10,778	7,585
Insurance premiums	8,016	7,651
Compensation for damages	2,176	2,706
Unclaimed receivables written off	28,156	14,927
Write-off of receivables to electricity customers in earthquake affected areas (note 15)	17,910	47,407
Other costs	69,708	44,184
	2,265,651	1,528,726

The cost of CO2 emission units

In accordance with the current accounting policy for monitoring trading and recording the costs of CO2 emissions in the companies of the HEP Group, the companies obliged to purchase CO2 emission units calculate monthly the costs of CO2 emission units for the estimated amount of CO2 emission units based on the realized production of electricity and thermal energy in the month for which the calculation is carried out and based on:

- a) average prices of CO2 emission units in stock on the last day of the month for which the calculation is carried out for the quantities available in stock, or
- b) market prices on the last day of the month for which the calculation is carried out for the quantities of CO2 emission units that have not been acquired

In the period January-June 2021, the cost of CO2 emission units was HRK 220.0 million for a total of 1,099 thousand tons at a price of €26.54/t. The calculation was carried out according to the average price of the stock, given that in the specified period the total required quantity was available in stock.

In the period January-June 2022, the cost of CO2 emission units amounted to HRK 946.6 million for a total of 1,399 thousand tons at a price of €88.67/t. The calculation was carried out according to the average stock price for the available quantities and the market price on the last day of the month for which the calculation is carried out for the quantities of CO2 emission units that have not been purchased (spot price on the EEX stock exchange on 30 June 2022).

Provisions for energy savings

The Energy Efficiency Act (Official Gazette 127/14, 116/18, 25/20, 41/21), the Ordinance on the System for Monitoring, Measuring and Verification of Energy Savings (Official Gazette 33/20) and the Ordinance on the Energy Efficiency Obligation System (Official Gazette 41 /19) establish the obligation to set up a system to save energy and the method of its implementation. Obligations arising from the aforementioned laws and regulations were applied for the first time in 2019. The obliges of the energy saving system in the HEP group are companies that supply electricity, heat and gas. On the basis of legal provisions, and in accordance with IAS 37, the Group has established provisions for the costs of energy savings in its accounting books according to the best estimate in the amount of HRK 18,293 thousand (HRK 17,555 thousand in 2021).

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

9. FINANCIAL INCOME AND EXPENSES

<i>in HRK '000</i>	Six-month period ended	
	30 June 2022	30 June 2021
	<i>Unaudited</i>	<i>Unaudited</i>
Financial income		
Positive exchange rate differences	46,209	36,350
Interest income	525	766
Change in fair value of cross-currency swap	294,652	124,039
Income from negative goodwill	4,538	-
Other financial income	537	296
NPP Krško - interest	47	97
Total financial income	346,508	161,548
Financial expenses		
Negative exchange rate differences	(134,277)	(38,496)
Interest expense	(96,243)	(89,355)
Other financial expenses	(4,090)	(1,172)
NPP Krško - interest	(2,316)	(1,313)
Total financial expenses	(236,926)	(130,336)
Net financial profit/(loss)	109,582	31,212

10. PROFIT TAX

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Current tax	(20,193)	(156,740)
Deferred tax recognised in profit or loss	266,160	(69,068)
Profit tax	245,967	(225,808)

The adjustment of deferred tax assets is as follows:

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Balance on 1 January	810,551	879,620
Cancellation of deferred tax assets	(43,277)	(128,088)
Recognition of deferred tax assets	309,437	59,019
Balance on 30 June	1,076,711	810,551

Deferred tax assets were created from tax-unrecognized provisions for jubilee awards and severance pay for regular retirement, value adjustments that are not tax-recognized, other provisions and deferred tax assets for tax losses of companies.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

11. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Assets under construction amount to HRK 4,555,082 thousand on 30 June 2022 (on 31 December 2021, they amounted to HRK 3,980,759 thousand).

The most significant investments are in HEP d.d. and HEP-ODS d.o.o.

In HEP d.d. the balance of investments as of 30 June 2022 is HRK 1,102,741 thousand. The most significant investments relate to investments in EL-TO Zagreb, the replacement of block A with the new KKE block L in the total amount of HRK 619,349 thousand, the construction of HES Kosinj in the total amount of HRK 166,416 thousand, and the SAP EDM/ECM system upgrade project in the total amount of HRK 100,249 thousand.

In HEP-ODS d.o.o. the most significant investments are the construction of connections and the creation of power conditions on the distribution network.

On 30 June 2022, investment property amount to HRK 368,507 thousand (on 31 December 2021, they amounted to HRK 367,970 thousand).

On 30 June 2022, intangible assets amount to HRK 287,207 thousand (on 31 December 2021, HRK 301,562 thousand).

12. GOODWILL

Goodwill was created by the acquisition of 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., Gradska plinara Krapina d.o.o. and Darkom DP d.o.o. and it is fully allocated to these companies (see the 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 HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Goodwill		
Energetski park Korlat d.o.o.	45,625	45,625
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.	3,036	3,036
Darkom DP d.o.o.	3,173	3,173
	69,906	69,906

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Opening balance	276,465	233,315
Fair value of investment through other comprehensive income (Janaf)	56,680	43,184
Fair value of investment through other comprehensive income - other	(11)	(34)
Closing balance	333,134	276,465

14. INVENTORIES

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Fuel and chemical supplies	493,925	207,767
Electrical and mechanical equipment	588,670	620,587
Spare parts	210,684	209,111
Construction material	15,174	12,944
Gas supplies for wholesale	17,288	73,165
CO2 emission units	37,371	415,129
Energy savings in final consumption	31,700	28,499
Other inventories	52,661	65,638
Stockpiles of nuclear fuel NPP Krško	179,172	92,445
Other material inventories - NPP Krško	125,506	119,910
	2,111,635	1,845,195
Impairment of obsolete material and spare parts	(265,032)	(260,875)
	1,846,603	1,584,320

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

15. TRADE RECEIVABLES

in HRK '000

	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Electricity - economy	2,290,004	1,652,080
Electricity - households	578,895	535,610
Electricity - abroad	230,871	121,997
Thermal energy, gas and services	504,307	796,394
Accounts receivable NPP Krško	8,174	9,057
Other	63,455	100,915
	3,676,103	3,216,053
Expected credit losses	(799,749)	(786,832)
	2,876,354	2,429,221

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

30 June 2022, unaudited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	over 365 days	Total
Gross book value of trade receivables	2,222,728	356,789	126,778	68,153	90,094	87,873	723,688	3,676,103
Expected credit losses	(17,932)	(3,575)	(2,580)	(2,100)	(5,187)	(44,687)	(723,688)	(799,749)
31 December 2021, audited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	over 365 days	Total
Gross book value of trade receivables	1,824,798	337,019	113,331	53,915	58,406	41,210	787,374	3,216,053
Expected credit losses	(15,125)	(18,546)	(26,818)	(1,396)	(2,981)	(5,976)	(715,990)	(786,832)

15. TRADE RECEIVABLES (continued)

Changes in impairment allowances were as follows:

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Balance at the beginning of the period	786,832	752,712
Change in expected credit losses	(46,986)	(43,347)
Write-off of receivables (note 8)	71,240	154,339
Write-off of receivables from customers in earthquake-affected areas (note 8)	17,910	-
Corrected receivables collected (note 6)	(29,247)	(76,872)
Balance at the end of the period	799,749	786,832

16. OTHER CURRENT RECEIVABLES

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Receivables for profit tax	169,098	175,015
VAT receivables	64,926	165,602
Advances for working capital	5,383	310,644
Receivables from the state for employees	4,550	5,237
Deposits and term funds for a term longer than 3 months	86,194	87,387
Deposits and term funds for a term longer than 3 months - NPP Krško	45,187	82,726
Receivables of HEP-ESCO d.o.o. from the users of the energy efficiency project	17,838	17,256
Receivables for sold apartments	2,860	3,154
Receivables for customer card payments and standing orders	10,058	4,271
Receivables for invoiced remuneration OIE – HROTE	15,677	18,534
Deferred income from swap transactions for bonds issued in 2015	297,382	2,730
Receivables for borrowed gas to common users of the LNG terminal	193,248	166,596
Other receivables NPP Krško	60,413	4,262
Other short-term receivables	30,000	57,537
	1,002,814	1,100,951

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Share in investment funds - foreign currency	-	64,015
Share in investment funds - HRK	-	101,218
	-	165,233

18. CASH AND CASH EQUIVALENTS

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
HRK accounts	1,751,549	2,315,468
Foreign currency accounts	3,042,253	565,512
Allocated funds	34,114	34,850
Cash register - HRK	194	151
Deposits with a maturity of up to 90 days	534,678	717,299
Daily deposits	467,782	534,988
Transaction and foreign exchange account - NPP Krško	108,341	97,560
	5,938,911	4,265,828

19. SHARE CAPITAL

The share capital is expressed in Croatian kunas 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.

Retained profit in the amount of HRK 5,528,594 thousand includes profit reserves in the amount of HRK 667,510 thousand, retained profit in the amount of HRK 6,004,493 thousand and current year loss in the amount of HRK 1,143,409 thousand.

20. LIABILITIES FOR LONG-TERM LOANS

<i>in HRK '000</i>	Interest rates	30 June 2022 <i>Unaudited</i>	31 December 2021 <i>Audited</i>
Loans from domestic banks	Fixed	2,614,000	300,630
Loans from domestic banks (HOPS d.d.)	Fixed	77,230	-
Loans from foreign banks	Fixed/Floating	1,046,680	552,206
Loans NPP Krško		149,648	157,297
Loans HEP Plin d.o.o.		4	-
Total long-term loan liabilities		3,887,558	1,010,133
Allocation of fees by loans		(2,490)	(2,638)
Total long-term loan liabilities		3,885,068	1,007,495
Current maturity of long-term loans		(81,262)	(76,078)
Current maturity of long-term loans		(15,446)	-
Current maturity of the long-term loan NPP Krško		(15,752)	(15,730)
Current loan maturity (HEP Plin d.o.o.)		(4)	-
Total current maturities of long-term loans		(112,464)	(91,808)
The long-term portion		3,772,608	915,687

HEP-Plin d.o.o., as a subsidiary of HEP d.d., concluded the Agreement on the purchase and sale of business shares in the trading company Gradska plinara Krapina d.o.o. on 31 March 2021 and became the 100% owner of this company. In doing so, it assumed HRK 4,000 in loan liabilities.

On 30 June 2022 the loan of Privredna banka Zagreb d.d. was recorded. It was approved to the company NPP Krško (Nuklearna elektrana Krško d.o.o.) and 50% of the value of the said loan was shown.

On 30 June 2022, the loan of Erste&Steiermarkische banka d.d. was approved to the company HOPS d.d.

20. LIABILITIES FOR LONG-TERM LOANS (continued)**New sources of financing**

For the financing of the investment plan and regular operations in the period from 1 January to 30 June 2022, the Group used its own funds and loan funds.

On 31 May 2022, the Group concluded long-term loan agreements with OTP bank in the total amount of HRK 1,314,000 thousand, namely HRK 929,000 thousand with one-time repayment and HRK 385,000 thousand with amortizing repayment.

Company HOPS d.d. concluded a loan agreement with Erste&Steiermarkische bank in the amount of HRK 77,230 thousand in March 2022.

Loans in use

On 30 June 2022, HEP has 4 (four) loans in use from the development banks EBRD of EUR 87,000 thousand and EIB of EUR 43,000 thousand for financing the EL-TO Zagreb project and from domestic banks.

The use of loans from development banks started in December 2018, and on 30 June 2022, the balance of used long-term loans amounts to EUR 50,180 thousand from the EBRD and EUR 23,788 thousand from the EIB. At the end of 2021, HEP requested an extension of the deadline for using loan funds to finance the EL TO Zagreb project. The extension was approved until January 2023 in accordance with the new dynamics of project implementation.

The amount of funds at domestic banks available to the Group as of 30 June 2022 amounts to HRK 1,328,000 thousand.

A repayment plan for the principals of long-term loans due in the next five years:

	<i>(in HRK '000)</i>
2022	101,121
2023	100,976
2024	64,044
2025	64,044
2026	2,729,985
After 2026	824,902
	3,885,072

Loans from domestic banks are secured by promissory notes except for a loan from ZABA of HRK 1,314,000 thousand, a loan from Erste&Steiermarkische bank for HOPS d.d., EBRD loan of EUR 87,000 thousand and the EIB loan of EUR 43,000 thousand and EUR 63,000 thousand. For these loans financial guarantees were contracted in the form of financial indicators according to which the Group is obliged to meet certain prescribed levels of indicators on an annual/semi-annual basis. The indicators that are calculated for the needs of banks are as follows: net financial debt in relation to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net debt to net tangible assets.

The main goal of the Group related to the risks carried by financial indicators is to protect the Group from possible violations of contractual obligations, i.e. early maturities of contracted credit liabilities.

The agreed financial indicators are monitored and calculated on the basis of annual and interim financial statements.

The Group prepares preliminary calculations of financial indicators based on the projected balance sheet and profit and loss account in the coming medium-term period and monitors their trend.

20. LIABILITIES FOR LONG-TERM LOANS (continued)

If the projections of the financial position and the statement of comprehensive income at the end of the business year show the possibility of exceeding a particular financial indicator, the Group is obliged to inform the bank of the possibility of breach of contract and request a "waiver" from the bank in a timely manner.

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

The management believes that in case of exceeding a certain indicator, the Group can obtain a "waiver" from creditors, given that the payment of liabilities to financial institutions is a priority of the Group, and that the Group has never been late in default to financial institutions.

Due to all of the above, the Management Board estimates that the possibility of early maturity of loan liabilities as a result of exceeding financial indicators, as well as the Group's exposure to credit risk, liquidity risk and market risk that may arise as a result of exceeding financial indicators, is minimal.

As of 31 December 2021, the Group met all agreed financial indicators, and given the uncertainty/volatility in the energy market, in the second quarter of 2022, HEP requested from the banks the so-called "sleeping covenants" for the next 18 months, which means that banks will not require HEP to comply with the agreed levels of financial indicators during the specified period.

The total exposure of the Group based on contracted loan liabilities related to financial indicators on 30 June 2022 is HRK 2,368,856 thousand.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

The following is an overview of long-term loans expressed in foreign currencies (in thousands):

Currency <i>in HRK '000</i>	30 June 2022	31 December 2021
EUR	158,915	94,384

In order to ensure liquidity reserves in the upcoming medium-term period, the Group has concluded multi-purpose framework contracts with domestic banks, in the total amount of HRK 809,000 thousand.

The Group can use funds from the aforementioned frameworks for short-term loans and issuing guarantees, letters of credit, letters of intent in accordance with the needs of the Group's subsidiaries.

From the previously mentioned medium-term multi-purpose frameworks, in the period from 1 January to 30 June 2022 the Group had no need to conclude short-term loans due to good liquidity.

As of June 30, 2022, the total amount of funds available from the short-term framework is HRK 660,996 thousand.

In January, HOPS d.d. concluded Annex No. 1 of the agreement on insurance of monetary claims, which increased the factoring amount to HRK 100,000 thousand, of which HRK 3 thousand is available.

21. LIABILITIES UNDER ISSUED BONDS

<i>in HRK '000</i>	30 June 2022 <i>Unaudited</i>	31 December 2021 <i>Audited</i>
Value of bonds abroad from 2015	3,643,785	3,645,961
Exchange rate difference	5,300	(9,576)
Discount value	3,649	7,400
	3,652,734	3,643,785
Current maturity of bonds issued in 2015.	(3,652,734)	(3,643,785)
Bonds issued in 2015	-	-
Value of purchased bonds (1 January)	(196,062)	(141,928)
Investments in bonds	-	(54,676)
Exchange rate difference	(284)	542
	(196,346)	(196,062)
Current maturity of receivables from purchased bonds	196,346	196,062
Total liabilities for issued bonds	-	-

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

Current maturities	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Current maturity of bonds issued in 2015.	3,652,734	3,643,785
Current maturity of receivables from purchased bonds	(196,346)	(196,062)
Accrued expenses for bonds issued in 2015.	(1,158)	(2,893)
Total current maturity	3,455,230	3,444,830

Short-term loan liabilities	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
PBZ -HOPS d.d.-Revolving loan (6,7 mil €)	50,046	50,365
ESB-Factoring (HOPS d.d.)	96,942	49,487
Total short-term loan liabilities	146,988	99,852

21. LIABILITIES UNDER ISSUED BONDS (continued)

Bonds issued abroad in 2015

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

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

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

The fair value of the bonds, minus the redeemed amount of bonds with a nominal value of USD 29,615 thousand, amounts to USD 520,009 thousand as of June 30, 2022, (in the equivalent value of HRK 3,725,070 thousand).

Investments in bonds

The possibility of buying own bonds is defined in the Bond Prospectus from 2015, in which the Company or any of its subsidiaries can buy bonds at any time and the bonds thus purchased can be held or resold. Purchased bonds that were purchased in the name and for the account of the Company can be cancelled, i.e., the principal amount can be reduced for such purchased bonds. During 2022, until 30 June 2022, the Group did not redeem its own bonds issued in 2015.

Derivative financial instruments

Cross-currency exchange (swap)

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the USD exchange rate, the Company concluded cross-currency exchange agreements, which converted USD liabilities under bonds issued abroad in 2015 into EUR liabilities for the entire duration of the bonds, i.e. until their final maturity. .

The purpose of the cross currency swap agreement is to reduce the currency risk and the recommendations of credit agencies on the importance of strategic management of currency risks 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% according to the cross currency exchange agreement from 2015.

The Company associates the fair value of derivative financial instruments with the calculation of Mark to market value ("MTM"), according to the official calculations of banks, for the reporting period.

The positive value of "MTM" is recorded as a claim 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 the derivative financial instruments, the claims or liabilities in question will be cancelled at the expense of expenses or in favour of income.

As of 30 June 2022, using the above calculation method, the bonds issued in 2015 showed a positive fair value of receivables in the amount of HRK 297,382 thousand, which represent the majority of other long-term receivables (on 31 December 2021, the value of the liability in the amount of HRK 2,730 thousand).

22. OTHER LONG-TERM LIABILITIES*in HRK '000*

	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Deferred income for assets financed by others	6,485,917	6,473,115
Long-term liabilities for assets financed from clearing debt	862,840	800,215
Liabilities to the state	3,387	3,992
Other long-term liabilities	32,302	36,261
	7,384,446	7,313,583

Deferred income refers to revenues for assets received or assets financed from the connection fee. Income from this asset is recognized simultaneously with the depreciation of the tangible asset to which it relates.

As of 30 June 2022, the Group has a stated liability for clearing debt in the amount of HRK 862,840 thousand (31 December 2021: HRK 800,215 thousand), which refers to payment from the letter of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation from 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. Given that there is no other document that would regulate the relationship between the Group and the Ministry of Finance regarding the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

23. LIABILITIES TO EMPLOYEES

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Liabilities for net salaries	97,621	99,717
Liabilities for contributions and taxes	41,210	41,950
Retirement severance pay liabilities	2,391	7,488
Liabilities for salaries - NPP Krško	9,887	12,189
Other	16,639	15,931
	167,748	177,275

24. TRADE PAYABLES

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Trade payables – domestic	1,358,948	1,690,270
Trade payables – third countries	1,133,710	823,644
Trade payables – EU	493,644	181,499
Trade payables – NPP Krško	44,596	31,770
	3,030,898	2,727,183

25. OTHER SHORT-TERM LIABILITIES

<i>in HRK '000</i>	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>
Liabilities for received advances for connections	896,177	729,922
Liabilities for other advances received	401,784	243,882
Calculated costs of unused vacations	98,439	85,410
Interest liabilities	14,649	17,647
Liabilities for calculated joint compensation	13,738	15,635
Liabilities for fees for renewable sources	196,644	136,294
Calculated costs for CO2 emissions	936,014	810,011
Other accrued expenses	41,148	181,502
Deferred income from subsidies – LNG Croatia	1,405,396	1,449,659
Purchase of gas on the financial market (stock exchange)	-	3,108
Energy savings	18,292	-
Deferred income from the sale of electricity to households	32,434	46,231
Liabilities NPP Krško	81,175	36,095
Other liabilities	65,900	35,568
	4,201,790	3,790,964

26. RELATED PARTY TRANSACTIONS

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

<i>in HRK '000</i>	30 June 2022 <i>Unaudited</i>	31 December 2021 <i>Audited</i>
(i) NE Krško d.o.o.		
Liabilities for electricity	60,860	56,962

<i>in HRK '000</i>	Six-month period ended 30 June 2021 <i>Unaudited</i>	30 June 2021 <i>Unaudited</i>
Cost of electricity procurement	367,989	325,703

(ii) Fees to members of the Management Board and executive directors of Group companies:

<i>in HRK '000</i>	Six-month period ended 30 June 2022 <i>Unaudited</i>	30 June 2021 <i>Unaudited</i>
Gross salaries	17,704	17,959
Contributions for pension insurance	3,789	3,876
Other (in kind)	1,250	1,448
	22,743	23,283

There were no other payments to the members of the Management Board apart from the regular salary and receipts in kind.

26. RELATED PARTY TRANSACTIONS (continued)

<i>in HRK '000</i>	Income		Expenses	
	Six-month period ended 30 June		Six-month period ended 30 June	
	2022	2021	2022	2021
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Companies majority-owned by the Republic of Croatia				
Croatian Railways Group	76,019	53,637	198	29
Plinacro d.o.o.	2,547	1,515	57,363	53,690
Hrvatska pošta d.d.	8,164	10,223	19,616	22,519
Hrvatske šume d.d.	2,984	2,690	9,568	2,850
Jadrolinija d.o.o.	1,020	680	434	222
Narodne novine d.d.	1,511	1,057	1,053	1,198
Hrvatska radio televizija	8,170	6,128	866	1,208
Plovput d.d.	666	-	984	211
Croatia Airlines d.d.	549	360	35	13
Ministry of Defense	10,261	11,379	-	14
Ministry of Interior	15,931	14,028	-	1
Primary and secondary schools	40,161	26,572	2	-
Judicial institutions	4,050	3,996	12	7
Univesities and colleges	19,784	13,490	431	346
Legislative bodies	10,014	10,375	1,666	2,034
Health institutions	81,905	67,557	163	244
HROTE	293,566	143,209	423,873	347,767
Other	-	-	498	-
TOTAL	577,303	366,896	516,762	432,353

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the six-month period ending 30 June 2022

26. RELATED PARTY TRANSACTIONS (continued)

<i>in HRK '000</i>	Receivables		Liabilities	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
Companies majority-owned by the Republic of Croatia				
Croatian Railways Group	34,248	27,999	-	-
Plinacro d.o.o.	887	1,006	9,185	13,475
Hrvatska pošta d.d.	630	726	4,899	8,822
Hrvatske šume d.o.o.	1,077	1,001	1,274	3,005
Jadrolinija d.o.o.	241	231	29	37
Narodne novine d.d.	787	733	158	329
Hrvatska radio televizija	3,115	2,283	41	11
Plovput d.d.	211	126	16	32
Croatia Airlines d.d.	82	111	-	-
Ministry of Defense	768	1,691	-	-
Ministry of Interior	6,415	4,861	-	-
Primary and secondary schools	9,200	12,362	-	-
Judicial institutions	1,288	1,119	-	-
Univesities and colleges	5,867	4,645	-	-
Legislative bodies	1,414	3,023	-	-
Helath institutions	69,398	57,498	-	-
HROTE d.o.o.	78,612	82,649	61,351	80,383
TOTAL	214,240	202,064	76,953	106,094

26. RELATED PARTY TRANSACTIONS (continued)

On 30 June 2022, the Company owned the following subsidiaries:

Subsidiary	Country	Share (%)	Activity
HEP-Proizvodnja d.o.o.	Croatia	100	Production of electricity and heat
Hrvatski operator prijenosnog sustava d.d.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Distribution of electricity
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	Distribution and supply of gas
HEP-ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of the infrastructure of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Maintenance of hydropower plant equipment
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Vacation and recreation services
HEP-NOC	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and optimization of power plant operation
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	Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunication business
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydro technical 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
Peharda izgradnja d.o.o.	Croatia	100	Construction of residential and non-residential buildings
Pakrac plin d.o.o.	Croatia	100	Gas distribution
LNG Hrvatska d.o.o.	Croatia	75	Liquefied natural gas operations
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

26. RELATED PARTY TRANSACTIONS (continued)

Most of the above-mentioned subsidiaries were established within the framework of the reorganization and restructuring of the core business according to the new energy laws that entered into force on 1 January 2002.

The company Croatian Center for Cleaner Production started the liquidation procedure on 9 November 2017, and was liquidated on 7 March 2019..

During 2019, the following companies entered the consolidation of HEP Group for the first time: Plin VTC d.o.o. whose exclusive owner is HEP-Plin d.o.o. from April 2019; Energetski park Korlat d.o.o. whose exclusive 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 Elektrana Sabadin d.o.o. changed its name to Sunčana elektrana Poreč d.o.o.), IE-Nekretnine d.d. whose exclusive owner is HEP d.d. from July 2019. Furthermore, on 1 April 2019, HEP d.d. became the majority owner of the company LNG Hrvatska d.o.o., and 1 April 2019 is the date of acquisition of control over the subsidiary company, and from that date the company LNG Hrvatska d.o.o. is included in the consolidation of the Group. In previous periods investment in LNG Hrvatska d.o.o. were recognized and subsequently measured according to the equity method.

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

The company IE-Nekretnine d.d. was merged with the company 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.

During 2021, the following companies were acquired in the Group: GP Krapina d.o.o. whose exclusive owner is HEP Plin d.o.o. from March 2021 and Darkom DP d.o.o. whose exclusive owner is HEP Plin d.o.o. from June 2021. Company M Vizija d.o.o. was merged with SE Poreč d.o.o. in October 2021. In December 2021, the company LNG Hrvatska d.o.o. was recapitalized. by Plinacro d.o.o. by increasing the share capital of LNG Hrvatska d.o.o. for new business shares in rights and money. After implementing the recapitalization, Plinacro d.o.o. has business shares representing 25% of ownership and HEP d.d. 75% ownership.

Companies GP Krapina d.o.o. and Darkom DP d.o.o. were merged with HEP Plin d.o.o. in January 2022. In January 2022, the company Peharda izgradnja d.o.o. was acquired. Its exclusive owner is Plomin Holding d.o.o. In May 2022, the company Pakrac plin d.o.o. was acquired. Its sole owner is HEP Plin d.o.o.

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 on 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 quoted prices. Where such prices are not available, discounted cash flow analysis is used using the applicable yield curve for the life of the non-derivative instruments.

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

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

1st level of available indicators – fair value indicators are derived from (unadjusted) prices quoted on active markets for identical assets and identical liabilities

2nd level of available indicators – fair value indicators are derived from other data, not from quoted prices from level 1, and refer to the observed asset or liability (i.e. their prices) or indirectly (derived from prices) and

3rd level 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).

The Group made a decision that the measurement of the fair value of the currency swap is tied to the "Mark To Market" (MTM) value in accordance with the calculation of commercial banks. The positive value of "MTM" is recorded as a receivable and forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and forms the financial expense of the reporting period. Upon the final maturity of the derivative financial instrument, the receivable or liability in question will be cancelled at the expense of costs or in favor of the Group's income.

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

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

<i>in HRK '000</i>	Level 1	Level 2	Level 3	Total
30 June 2021, unaudited				
Financial assets at fair value through other comprehensive income	333,134	-	-	333,134
Financial assets at fair value through profit and loss	-	-	-	-
Derivative financial liabilities	-	-	-	-
Investments in property	-	368,507	-	368,507
31 December 2020, audited				
Financial assets at fair value through other comprehensive income	276,465	-	-	276,465
Financial assets at fair value through profit and loss	165,233	-	-	165,233
Derivative financial liabilities	-	-	-	-
Investments in property	-	367,970	-	367,970

28. CONTINGENT LIABILITIES*Water Act*

The Water Act, which entered into force on 1 January 2010, opened up the question of the legal status of the property; accumulation lakes and accompanying facilities (canals, embankments, etc.), which is used for the production of electricity from hydroelectric power plants. They are designated as public water resources in general use owned by the Republic of Croatia. The Group acquired the mentioned property by way of payment from their previous owners, by uniting an extremely large number of parcels, which were submerged during the construction of the dam and thus the accumulation was created. Several procedures are underway for the registration of the ownership of the Republic of Croatia on the listed properties, part of which has been carried out in favour of the Republic of Croatia, part of the request for registration of the ownership rights of the Republic of Croatia has been rejected by the competent courts, and one part is in the process of resolution.

In May 2018, the Law on Amendments to the Water Act (Official Gazette No. 46/18) entered into force, according to which the Republic of Croatia establishes the right to build for the constructed water structures for the production of electricity that it built and in which the Company invested, i.e. his ancestors, in favor of the Company, without compensation for a period of 99 years. An exception to the establishment of building rights is provided for parts of water structures that make up reservoirs, supply and drainage channels and tunnels. While the building right in question lasts, the Company gets the right to manage the public good/land on which the buildings for the production of electricity and reservoirs and supply and drainage channels and tunnels are built on behalf of the Republic of Croatia. The right of management includes, among other things, the right to use the property in question.

In order to implement the provisions of the Law on Amendments to the Water Act (Official Gazette No. 46/18), the Company is obliged to initiate the relevant procedures for the registration of the above-mentioned rights in the land registers and to obtain the appropriate subdivision plan, which must be harmonized with Croatian Waters and which will be the basis for issuance of a tabular document for the registration of building rights over the subject buildings. The appropriate subdivision work will also be the basis for the correct classification of long-term assets between the groups of intangible and tangible assets, which are currently recorded in the Group's business books in the total amount as tangible assets.

All of the above will possibly 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 a part of the asset, which consequently has an impact on the current value of the asset in the Statement of Financial Position and the depreciation expense in the Statement of Profit or Loss, but it is not expected to have a materially significant impact on the financial statements as a whole.

29. BUSINESS COMBINATIONS

On 28 January 2022, the Group acquired 100 percent of shares and voting rights in the company Peharda izgradnja d.o.o. by which the Group gained control and the mentioned company became a subsidiary. The total consideration for the acquisition is HRK 8,554 thousand. On 28 May 2022, the Group acquired 100 percent of the shares and voting rights in the company Pakrac plin d.o.o. by which the Group gained control and the mentioned company became a subsidiary. The total acquisition fee amounts to HRK 3,000 thousand and refers to the following items:

1) fair value of shares in acquired companies

2) other (money, receivables, shares)

The transaction had the following effects:

<i>In HRK '000</i>	Acquisition fee	Fair value of net assets	Goodwill
Peharda izgradnja d.o.o.	8,554	11,333	(2,779)
Pakrac plin d.o.o.	3,000	4,760	(1,760)

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

<i>In HRK '000</i>	Peharda izgradnja d.o.o.	Pakrac plin d.o.o.
Property, plant and equipment	10,365	3,828
Inventories	-	113
Trade receivables	15	683
Other receivables	96	19
Other assets	1,074	-
Cash and cash equivalents	103	317
Trade payables	71	117
Long-term liabilities and provisions	-	-
Liabilities to employees	-	55
Other short-term liabilities	249	28
Minority shares	-	-
Net assets	11,333	4,760
Acquisition cost	8,554	3,000
Goodwill	(2,779)	(1,760)

There are no materially significant differences in accounting policies between the Group and the acquired company.

30. EVENTS AFTER THE REPORTING DATE

/i/ The introduction of the euro as the official currency in the Republic of Croatia

The Group is conducting extensive preparations for the introduction of the euro as the official currency in the Republic of Croatia. It is estimated that the introduction of the euro will not have a significant impact on the Group's business results in 2022.

/ii/ On 9 September 2022, the Government of the Republic of Croatia adopted the Decree on Elimination of Disruptions in the Domestic Energy Market (Official Gazette 104/2022) and on 14 September 2022, the Decree on Amendments to the Decree on Elimination of Disruptions in the Domestic Market, which regulate special measures for electricity trade, the method and conditions of price formation for certain categories of electricity and thermal energy customers, supervision over the application of prices determined by the Decree, and special conditions for performing energy activities. The specified special measures are temporary and are prescribed for the period from 1 October 2022 to 31 March 2023..

Except for the abovementioned, there were no events after 30 June 2022 that would significantly affect the condensed interim financial statements, except for those described in Note 3, and which, consequently, should be published.

31. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements for the six-month period ending 30 June 2022 were adopted by the Management Board and approved for their issuance on 28 September 2022.

Signed on behalf of the Company on 28 September 2022:

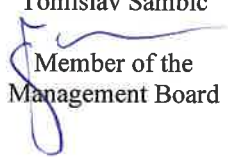
Petar Sprčić

Member of the
Management Board



Tomislav Šambić

Member of the
Management Board



Frane Barbarić

President of the
Management Board



HRVATSKA ELEKTROPRIVREDA
ZAGREB
Ulica grada Vukovara 37