



HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Annual Consolidated Financial Statements
and Independent Auditors' Report
for the year 2019

Contents

| | <i>Page</i> |
|--|-------------|
| Responsibility for the annual consolidated financial statements | 1 |
| Independent Auditors' Report | 2-8 |
| Consolidated Statement of profit or loss | 9 |
| Consolidated Statement of other comprehensive income | 10 |
| Consolidated Statement of financial position | 11-12 |
| Consolidated Statement of changes in equity | 13 |
| Consolidated Statement of cash flows | 14-15 |
| Notes to the consolidated financial statements | 16-85 |
| Standard annual financial statements as of and for the year ended 31 December 2019 | 86-98 |

Responsibility for the annual consolidated financial statements

The Management Board is responsible for ensuring that the annual consolidated financial statements of Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 (the “Company”) and its subsidiaries (the “Group”) for 2019 are prepared in accordance with International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union (“IFRS”), so as to provide a true and fair view of consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Group for that period.







Based on the conducted research, the Management Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management Board has prepared annual consolidated financial statements under the going concern assumption.

In preparing the annual consolidated financial statements, the Management Board is responsible for:

- selection and consistent application of appropriate accounting policies in accordance with applicable financial reporting standards;
- making reasonable and prudent judgments and estimates;
- preparation of annual consolidated financial statements with the assumption of going concern, unless the assumption is inappropriate.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Group, and their compliance with International Financial Reporting Standards, established by the European Commission and published in the Official Journal of the European Union. The Management Board is also responsible for safeguarding the assets of the Company and therefore for taking reasonable measures to prevent and detect fraud and other irregularities.

Signed on behalf of the Management Board:

| | | | | | |
|--|--|---|--|---|---|
|  Marko Čosić Member |  Nikola Rukavina Member |  Petar Sprčić Member |  Tomislav Šambić Member |  Saša Dujmić Member |  Franek Barbarić President |
|--|--|---|--|---|---|

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

HRVATSKA ELEKTROPRIVREDA d.d.
Ulica grada Vukovara 37
10000 Zagreb
Republic of Croatia

15 May 2020

INDEPENDENT AUDITORS' REPORT

To the shareholder of the company Hrvatska elektroprivreda d.d.

Audit report on the annual consolidated financial statements

Opinion

We performed an audit of the annual consolidated financial statements of Hrvatska elektroprivreda d.d. Zagreb, Ulica grada Vukovara 37 (the "Company") and its subsidiaries (the "Group"), for the year ended 31 December 2019, which include the Consolidated Statement of financial position as at 31 December 2019, the Consolidated Statement of profit and loss, Consolidated Statement of other comprehensive income, Consolidated Statement of changes in equity and Consolidated Statement of cash flows for the year then ended, and Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual consolidated financial statements present a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and the consolidated financial performance and consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under these standards are described in detail in our Independent Auditors' Report in the section *Auditor's responsibilities for the audit of the consolidated annual financial statements*. We are independent from the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Emphasis of matter

We draw attention to Note 30 to the Consolidated financial statements which describes the liability for clearing debt in the amount of HRK 800,982 thousand (31 December 2018 in the amount of HRK 779,214 thousand) arising from payments under letters of credit, based on the Agreement between The Government of the Republic of Croatia and the Government of the Russian Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. Our opinion has not been modified in this respect.

We draw your attention to Note 36 to the consolidated financial statements, 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 opinion has not been modified in this respect.

Other matters

We draw your attention to Note 36, to the consolidated financial statements, which, in accordance with point (b) of paragraph 8. of Article 21.a of the Labour Act, lists the website where the separate non-financial report of the Group will be published within the prescribed period. Our opinion has not been modified in this respect.

The audit of the annual financial statements of the Group for the year ended 31 December 2018 was performed by the auditing company BDO Croatia d.o.o., Zagreb, which in its Independent Auditors' Report dated 30 April 2019 expressed an unmodified opinion on these annual financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, have been of the utmost importance in our audit of the annual consolidated financial statements for the current period and include the identified significant risks of material misstatement due to error or fraud with the greatest impact on our audit strategy, resources and time spent by the engaged audit team. We have dealt with these matters in the context of our audit of financial statements as a whole and in the formation of our opinion about them, and we do not give a separate opinion on these issues.

We have determined that the matters below are key audit matters to be disclosed in our Independent Auditors' Report.

| A key audit matter | How we addressed the key audit matter |
|--|---|
| <p>Legal disputes and contingent liabilities</p> <p>Given that the Group is exposed to significant legal claims, we have turned our attention to this area. Any stated liability or disclosed contingent liability, or non-disclosure in the financial statements, is inherently uncertain and depends on several significant assumptions and judgments. These are potentially significant amounts for which the determination of the amounts to be disclosed in the consolidated financial statements is, if applicable, subject to subjective assessment. In addition, the Management Board assesses the future outcomes and amounts of contingent liabilities that may arise as a result of these legal disputes in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.</p> <p>Related disclosures in the accompanying annual consolidated financial statements</p> <p>See notes 2, 4 and 29 in the accompanying consolidated annual financial statements.</p> | <p>Our audit procedures related to this area included, but were not limited to:</p> <ul style="list-style-type: none"> - Receiving and analysing attorneys' responses to our written inquiries to attorneys and discussing specific issues with them; - Critical review of the used assumptions and estimates pertaining to the claims. This includes considering estimates of the probability of adverse outcomes of court proceedings and the accuracy of the calculation of the related amounts of required provisions in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets; - Assessment of the adequacy of the disclosure in the notes to the consolidated financial statements, considering sensitivity and possible prejudice in the disclosure of detailed information. |

Key audit matters (continued)

| A key audit matter | How we addressed the key audit matter |
|---|---|
| <p>Recognition of revenue from the sale of electricity to customers of universal service (household customers)</p> <p>Revenue from the sale of electricity is recognized based on the best estimate of the quantity of electricity delivered in accordance with IFRS 15 - Revenue from Contracts with Customers. Meter readings and actual calculation of electricity supplied to household customers are performed twice a year, which is why the Group recognizes revenues from sales of electricity to households based on the consumption of the previous billing period, which is adjusted for the value of total electricity produced and purchased by the distribution network. The total amount of energy produced and purchased is adjusted for losses in the distribution network calculated on the basis of logarithmic regression, which in 2019 amounted to 7.68%, while in 2018 it amounted to 7.75%. The application of the logarithmic regression model chosen by the Management Board as the most appropriate model for calculating losses on the distribution network resulted in the recognition of revenue in 2019 in the amount of HRK 2,534 thousand, while the liability for calculated revenue as at 31 December 2019 remained at HRK 3,716 thousand.</p> <p>We focused on this area as it includes significant estimates related to the recognition of revenue from the sale of electricity at the reporting date, and revenue recognition is one of the most significant financial information.</p> <p>Related disclosures in the accompanying annual consolidated financial statements</p> <p>See notes 2, 4, 5, 22 and 34 in the accompanying consolidated annual financial statements.</p> | <p>Our audit procedures related to this area included, but were not limited to:</p> <ul style="list-style-type: none"> - Gaining an understanding of the process of reading electricity consumption, estimating the future consumption that will be charged to households, and the model of estimating recognized revenues and the related calculation of losses in the distribution network; - Gaining an understanding of key management controls related to the estimation of electricity sales revenue; - Assessment of the reasonableness of key assumptions used in the estimation model including the quantities of electricity sold, the price and the associated losses in the distribution network; - Test of mathematical accuracy of the model for estimating revenues from electricity sales, calculated losses and deferred revenues; - Assistance of an IT expert who checked the consistency and reliability of information transfer, assessment of system reliability, including internally performed independent assessment of unaccounted revenues using data on quantities and prices obtained by the Group and comparison of the results with the Group's estimates; - Assessment of the adequacy of the Group's disclosures related to the recognition of revenues from the sale of electricity to customers of universal service (household customers). |

Other information in the Annual Report and the separate non-financial report

Management board is responsible for other information. Other information includes information included in the Annual Report, but does not include the annual consolidated financial statements and our Independent Auditors' Report, which we received before the date of this Independent Auditors' Report and a separate non-financial report that we expect to be made available after that date.

Our opinion on the annual consolidated financial statements does not include other information and we do not express any form of conclusion expressing assurance about them.

Other information in the Annual Report and the separate non-financial report (continued)

In relation to our audit of the annual consolidated financial statements, it is our responsibility to read other information and consider whether the other information is materially inconsistent with the annual consolidated financial statements or our audit findings or otherwise appear to be materially misstated. The non-financial report presents the non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act. If, based on the work we have done, we conclude that there is a material misstatement of this other information, we are required to report about that fact. In that sense, we have nothing to report.

When we read a separate non-financial report, if we conclude that there is a material misstatement in it, we are required to communicate the matter to those charged with governance of the Group.

The Management Board is responsible for compiling the Management Report of the Group as an integral part of the Annual Report of the Group. Regarding the Management Report and the Statement on the Application of the Corporate Governance Code, we also carried out the procedures required by the Croatian Accounting Act (the "Accounting Act"). These procedures include considering:

- whether the Group's Management Report has been prepared in accordance with Articles 21 and 24 of the Accounting Act;
- whether the specific information in the Statement on the Application of the Corporate Governance Code required under Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant parts of the Statement on the Application of the Corporate Governance Code") has been prepared in accordance with Article 22 of the Accounting Act.
- whether the Statement on the Application of the Corporate Governance Code includes disclosures in accordance with Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based on the procedures required to be performed as part of our audit of the annual consolidated financial statements and the above procedures, in our opinion:

- The information contained in the Group's Management Report and the relevant parts of the Statement of Application of the Corporate Governance Code for the financial year for which the consolidated financial statements have been prepared is consistent, in all material respects, with the Group's annual consolidated financial statements set out on pages 9 to 85 and the opinion as set out in the Opinion section above;
- The Management Report and the relevant parts of the Statement on the Application of the Corporate Governance Code have been prepared, in all relevant respects, in accordance with Articles 21, 22 and 24 of the Accounting Act;
- The statement on the Application of the Corporate Governance Code shall include the information required by Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Furthermore, taking into account the knowledge and understanding of the Group's operations and the environment in which it operates, which we acquired during our audit, we are required to report whether we have identified material misstatements in the Management Report and Corporate Governance Statement. In that sense, we have nothing to report.

Responsibilities of the Management board and those charged with governance for the annual financial statements

Management board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRSs, and for those internal controls that the Management board determines are necessary to enable the preparation of annual financial statements that are free from material misstatement due to fraud or error.

In preparing the annual financial statements, Management board is responsible for evaluation of the Company's ability to continue operations assuming going concern principle, disclosure, if applicable, issues related to going concern, and using accounting based on going concern principle, unless the Management board intends to liquidate the Company or discontinue its business or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process established by the Group.

Auditors' Responsibility for the audit of consolidated annual financial statements

Our goals are to obtain reasonable assurance about whether the annual financial statements, as a whole, are free from material misstatement as a result of fraud or error, and to issue an independent auditors' report that includes our opinion. Reasonable assurance is a higher level of assurance, but this is no guarantee that an audit performed in accordance with IAS will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered as important, if it can reasonably be expected that, individually or in aggregate, they affect the economic decisions of users made based on these annual financial statements.

As an integral part of the audit report in accordance with ISA, we make professional judgments and maintain professional scepticism throughout the audit process. In addition, we:

- design and perform audit procedures for the annual financial statements, due to fraud or error, in response to these risks and provide audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detecting a material misstatement of fraud is greater than the risk of error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or circumvention of internal controls.
- we acquire an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- we assess the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- we conclude on the appropriateness of the accounting basis used based on the going concern principle used by the Management Board and, based on the obtained audit evidence, we conclude on whether there is significant uncertainty regarding events or circumstances that may create significant doubts about the ability to continue operating for an indefinite period of time. If we conclude that there is significant uncertainty, in our independent auditors' report we are required to call our attention to related disclosures in the annual financial statements or, if these are inappropriate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent

auditors' report. However, future events or conditions may cause the Company to discontinue its operations on a going concern.

Auditors' Responsibility for the audit of consolidated annual financial statements (continued)

- we evaluate the overall presentation, structure and content of the annual consolidated financial statements, including disclosures, as well as whether the annual consolidated financial statements reflect the transactions and events which they are based on in a way that achieves a fair presentation.
- we obtain sufficient appropriate audit evidence about financial information from individuals or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for directing, overseeing and performing the group audit. We are solely responsible for expressing our opinion.

We communicate with those charged with governance, among other issues, the intended scope and timing of audit and important audit findings, including any significant deficiencies in internal controls identified during our audit.

We also make a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them any relationship and other matters that may reasonably be considered to affect our independence as well as, where applicable, on related safeguards.

Among the issues communicated to those charged with governance, we identify those issues that are the most important in auditing the annual financial statements of the current period and therefore present the key audit matters. We describe these matters in our Independent Auditors' Report, unless the law or regulation prevents the matters from being publicly disclosed, or when we decide, in extremely rare circumstances, that the matter should not be reported in our Independent Auditors' Report because the negative consequences of the disclosure could reasonably be expected to outweigh the benefits of public interest from such communication.

BDO Croatia d.o.o. and FACT Revizija d.o.o. are jointly responsible for performing the audit and for the audit opinion according to the requirements of the Audit Act, applicable in Croatia.

Statement on other legal requirements

On 26 September 2019 we were appointed by the General Assembly of the Company, based on the proposal of the Supervisory Board of the Company, to audit the annual consolidated financial statements for 2019.

At the date of this Independent Auditors' Report, BDO Croatia d.o.o. has been continuously engaged in performing statutory audits of the Group from the audit of the Group's annual consolidated financial statements for 2012 to the audit of the Group's annual financial statements for 2019 for a total of 8 years, while FACT revizija d.o.o. is engaged for legal audit of the Group's annual consolidated financial statements for 2019 which represents a one-year commitment.

Statement on other legal requirements (continued)

In the audit of the Company's annual consolidated financial statements for 2019 we determined the significance for the financial statements as a whole in the amount of HRK 218,000 thousand, which represents approximately 1.5% of the realized sales revenue for 2019 due to fluctuations in profit before tax in the current and previous periods.

Our audit opinion is consistent with the supplementary report for the Audit committee of the Company prepared in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

During the period between the starting date of the audited annual consolidated financial statements of the Group for 2019 and the date of this Independent Auditors' Report, we did not provide prohibited non-audit services to the Group and did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Group.

The Management Board is responsible for preparing the Group's annual consolidated financial statements for the year ended 31 December 2019 in the prescribed form pursuant to the Ordinance on the structure and content of annual financial statements (OG 95/16) and in accordance with other regulations governing the Group's operations. ("Standard Annual Consolidated Financial Statements") which are presented on pages 86 to 95. The financial information set out in the Group's standard annual consolidated financial statements is consistent with the information set out in the Group's annual consolidated financial statements set out on pages 9 to 85 on which we have expressed an opinion as set out in the Opinion section above.

The partners involved in the audit of the Group's annual consolidated financial statements for 2019 which results in this Independent Auditors' Report, are the certified auditor Ivan Štimac for BDO Croatia d.o.o and the certified auditor Jeni Krstičević for FACT Revizija d.o.o.

Zagreb,

15 May 2020

BDO Croatia d.o.o.
Trg J. F. Kennedy 6b
10000 Zagreb


Ivan Štimac, Certified auditor


Vedrana Stipić, Member of the
Management Board

BDO CROATIA
BDO Croatia d.o.o.
za pružanje revizorskih, konzalting
i računovodstvenih usluga
Zagreb, J. F. Kennedy 6/b

Zagreb,

15 May 2020

FACT Revizija d.o.o.
Zadarska 80
10000 Zagreb


Jeni Krstičević, Certified auditor


Daniela Šunjić, President of the
Management Board

FACT revizija d.o.o.
ZAGREB, OIB: 66538066056
2

Consolidated Statement of profit or loss

For the year ended 31 December 2019

| HRK '000 | Notes | 2019 | 2018 |
|---|----------|---------------------|---------------------|
| Income from sales | 5 | 14,542,406 | 14,394,741 |
| Other operating income | 6 | 972,837 | 803,559 |
| Total revenue | | 15,515,243 | 15,198,300 |
| Cost of procurement of materials and energy | 7 | (6,700,991) | (6,682,298) |
| Staff costs | 8 | (1,922,374) | (1,841,220) |
| Depreciation expense | 12,13,14 | (2,069,381) | (2,001,355) |
| Other operating expenses | 9 | (3,128,195) | (3,014,970) |
| Total operating costs | | (13,820,941) | (13,539,843) |
| Operating profit | | 1,694,302 | 1,658,457 |
| Financial revenues | 10 | 281,199 | 290,077 |
| Financial expenditures | 10 | (257,161) | (265,345) |
| Net profit from financial activities | | 24,038 | 24,732 |
| Pre-tax profit | | 1,718,340 | 1,683,189 |
| Income tax expense | 11 | (315,695) | (318,437) |
| Profit for the year | | 1,402,645 | 1,364,752 |
| Attributable comprehensive profit: | | | |
| To the owner of the parent capital | | 1,404,003 | 1,364,752 |
| Non-controlling interests | | (1,358) | - |

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

Signed on behalf of the Company on 15 May 2020:

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






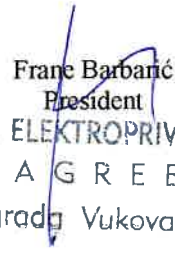
Consolidated Statement of other comprehensive income

For the year ended 31 December 2019

| HRK '000 | 2019 | 2018 |
|--|------------------|------------------|
| Profit for the year | 1,402,645 | 1,364,752 |
| Other comprehensive income | | |
| <i>Items that can be reclassified to profit or loss</i> | | |
| Exchange rate differences from foreign business translation | 1,019 | (18,645) |
| Provisions | (4,596) | - |
| | (3,577) | (18,645) |
| <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 (equity instruments) | 47,958 | (74,143) |
| | 47,958 | (74,143) |
| Other comprehensive income / (loss), net | 44,381 | (92,788) |
| Total comprehensive income for the current year net | 1,447,026 | 1,271,964 |
| Total comprehensive income attributable: | | |
| To the owner of the parent capital | 1,448,384 | 1,271,964 |
| Non-controlling interests | (1,358) | - |

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

Signed on behalf of the Company on 15 May 2020:

| | | | | | |
|--|--|---|--|---|--|
|  Marko Čosić Member |  Nikola Rukavina Member |  Petar Sprčić Member |  Tomislav Šambić Member |  Saša Dujnić Member |  Frane Barbarić President |
|--|--|---|--|---|--|

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

Consolidated Statement of financial position
For the year ended 31 December 2019

| <i>HRK '000</i> | Note | 31 Dec 2019 | 31 Dec 2018 |
|---|-------------|--------------------|--------------------|
| ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 12 | 32,580,210 | 31,263,575 |
| Assets with the right of use | 13 | 19,493 | - |
| Real estate investments | 15 | 330,738 | 303,726 |
| Goodwill | 14 | 59,444 | - |
| Intangible assets | 14 | 231,554 | 224,430 |
| Investments calculated using the equity method | 17 | 2,500 | 24,103 |
| Long-term loans given | 18 | 6,090 | 45,204 |
| Financial assets at fair value through other comprehensive income | 19 | 255,007 | 196,716 |
| Other financial assets | | 5,612 | 5,612 |
| Other long-term receivables | 20 | 1,782 | 15,738 |
| Deferred tax asset | 11 | 913,208 | 962,466 |
| Total fixed assets | | 34,405,638 | 33,041,570 |
| Current assets | | | |
| Supplies | 21 | 1,769,262 | 1,547,172 |
| Trade receivables | 22 | 2,169,815 | 2,200,632 |
| Other current receivables | 23 | 695,956 | 604,930 |
| Financial assets measured at fair value through profit or loss | 24 | 165,185 | 175,098 |
| Cash and cash equivalents | 25 | 3,352,155 | 2,780,227 |
| Total current assets | | 8,152,373 | 7,308,059 |
| TOTAL ASSETS | | 42,558,011 | 40,349,629 |






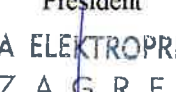
Consolidated Statement of Financial Position (continued)

For the year ended 31 December 2019

| HRK '000 | Note | 31 Dec 2019 | 31 Dec 2018 |
|--|------|-------------------|-------------------|
| CAPITAL AND LIABILITIES | | | |
| Share Capital | 26 | 19,792,159 | 19,792,159 |
| Provisions | | 109,283 | 65,921 |
| Retained earnings | 26 | 5,671,268 | 4,511,318 |
| Capital attributed to the owner of the parent | | 25,572,710 | 24,369,398 |
| Non-controlling interest | | 37,545 | - |
| Total capital | | 25,610,255 | 24,369,398 |
| Liabilities under issued bonds | 27 | 3,518,704 | 3,560,375 |
| Bank overdrafts and loans | 28 | 347,068 | 220,450 |
| Lease liabilities | | 14,281 | - |
| Long-term provision | 29 | 1,195,400 | 1,067,491 |
| Other long-term liabilities | 30 | 7,177,499 | 7,325,696 |
| Deferred tax liabilities | | 23,046 | 5,441 |
| Total long-term liabilities | | 12,275,998 | 12,179,453 |
| Trade payables | 31 | 2,241,425 | 2,051,676 |
| Current maturities of long-term loans | 28 | 57,856 | 115,479 |
| Short-term part of lease liabilities | | 5,846 | - |
| Liabilities for taxes and contributions | 32 | 102,093 | 160,849 |
| Income tax liability | | 53,129 | 62,461 |
| Liabilities to employees | 33 | 173,761 | 141,557 |
| Other current liabilities | 34 | 2,037,648 | 1,268,756 |
| Total short-term liabilities | | 4,671,758 | 3,800,778 |
| TOTAL CAPITAL AND LIABILITIES | | 42,558,011 | 40,349,629 |

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

Signed on behalf of the Company on 15 May 2020:

| | | | | | |
|---|---|---|---|--|---|
|  |  |  |  |  |  |
| Marko Čosić Member | Nikola Rukavina Member | Petar Sprčić Member | Tomislav Šambić Member | Saša Dujmić Member | Frane Barbarić President |

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







Consolidated Statement of changes in equity

For the year ended 31 December 2019

| <i>HRK '000</i> | Share Capital | Provisions | Retained gain / (transferred loss) | To the owner of the parent | Non-controlling interest | Total principal |
|---|-------------------|-----------------|---------------------------------------|----------------------------|--------------------------|--------------------|
| 1 January 2018 | 19,792,159 | 162,242 | 6,041,625 | 25,996,026 | - | 25,996,026 |
| Previous period adjustment - application of IFRS 9 | - | (22,178) | 27,046 | 4,868 | - | 4,868 |
| Previous period adjustment - application of IFRS 15 | - | - | (2,685,047) | (2,685,047) | - | (2,685,047) |
| Total adjustment of the previous period | - | (22,178) | (2,685,001) | (2,680,179) | - | (2,680,179) |
| 1 January 2018 | 19,792,159 | 140,064 | 3,383,624 | 23,315,847 | - | 23,315,847 |
| Profit for the year | - | - | 1,364,752 | 1,364,752 | - | 1,364,752 |
| Other comprehensive income | - | (74,143) | (18,645) | (92,788) | - | (92,788) |
| <i>Total comprehensive income</i> | - | <i>(74,143)</i> | <i>1,346,107</i> | <i>1,271,964</i> | - | <i>1,271,964</i> |
| Dividend payment to the owner | - | - | (218,413) | (218,413) | - | (218,413) |
| 31 December 2018 | 19,792,159 | 65,921 | 4,511,318 | 24,369,398 | - | 24,369,398 |
| Profit for the year | - | - | 1,404,003 | 1,404,003 | (1,358) | 1,402,645 |
| Other comprehensive income | - | 43,362 | 1,019 | 44,381 | - | 44,381 |
| <i>Total comprehensive income</i> | - | <i>43,362</i> | <i>1,405,022</i> | <i>1,448,384</i> | <i>(1,358)</i> | <i>1,447,026</i> |
| Uncontrolled share LNG Hrvatska d.o.o. | - | - | (32,686) | (32,686) | 38,903 | 6,217 |
| Dividend payment to the owner | - | - | (212,386) | (212,386) | - | (212,386) |
| 31 December 2019 | 19,792,159 | 109,283 | 5,671,268 | 25,572,710 | 37,545 | 25,610,255 |

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

Signed on behalf of the Company on 15 May 2020:

 Marko Čosić
Member
  Nikola Rukavina
Member
  Petar Sprčić
Member
  Tomislav Šambić
Member
  Saša Dujnić
Member
  Fran Barbačić
President

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

Consolidated statement of cash flows
For the year ended 31 December 2019

| HRK '000 | 2019 | 2018 |
|--|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Pre-tax profit | 1,718,340 | 1,683,189 |
| Net interest income | (14,186) | (9,417) |
| Interest expense | 180,227 | 190,812 |
| Net foreign exchange differences | 46,062 | (12,950) |
| Fair valuation of real estate investments | (27,012) | 1,904 |
| Depreciation of property, plant and equipment, intangible assets and property with rights of use | 2,069,381 | 2,001,355 |
| Expense from the alienation of property | 30,907 | 32,950 |
| Value adjustment of property, plant and equipment and intangible assets | 80,842 | 112,626 |
| Value adjustment of receivables | (104,407) | 352,750 |
| Value adjustment of inventories | 9,282 | 18,884 |
| Increase in provisions | 127,909 | 49,024 |
| <i>Cash flow from operating activities before changes in working capital</i> | <i>4,117,345</i> | <i>4,421,127</i> |
| Decrease / (Increase) in trade receivables | 137,748 | (472,382) |
| inventory increase | (231,064) | (308,764) |
| Decrease / (Increase) in other fixed assets | 81,067 | (8,042) |
| (Increase) / Decrease in other current assets | (82,423) | 330,240 |
| (Decrease) / Increase in trade payables | (911,952) | 408,643 |
| Increase in other short-term liabilities | 568,682 | 156,996 |
| (Reduction) of other long-term liabilities | (190,415) | (86,431) |
| Cash generated from operations | 3,488,988 | 4,441,387 |
| Paid income taxes | (297,646) | (441,054) |
| Interest paid | (183,710) | (181,253) |
| NET CASH FROM OPERATING ACTIVITIES | 3,007,632 | 3,819,080 |
| INVESTMENT ACTIVITIES | | |
| Expenses for acquisition of subsidiaries, net of acquired cash | 82,526 | - |
| Interest receipts | 42,956 | 41,791 |
| Expenditures for the purchase of real estate, plant and equipment | (2,360,521) | (2,376,070) |
| NET CASH FROM INVESTMENT ACTIVITIES | (2,235,039) | (2,334,279) |







Consolidated statement of cash flows (continued)

For the year ended 31 December 2019

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| FINANCIAL ACTIVITIES | | |
| Receipts from long-term loans | 183,423 | 76,207 |
| Expenditures for repayment of long - term loans | (115,929) | (404,220) |
| Lease principal repayment expenses | (6,252) | - |
| Expenses for repayment of issued bonds | (64,346) | - |
| Dividend payment expenses | (212,386) | (218,413) |
| Receipts from cash funds | 14,825 | 32,241 |
| Expenditures for money market funds | - | (132,232) |
| NET CASH FROM FINANCIAL ACTIVITIES | (200,665) | (646,417) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 571,928 | 838,384 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 2,780,227 | 1,941,843 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 3,352,155 | 2,780,227 |

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

Signed on behalf of the Company on 15 May 2020:

 Marko Čosić
Member
  Nikola Rukavina
Member
  Petar Sprčić
Member
  Tomislav Šambić
Member
  Saša Dujmić
Member
  Franje Barišić
President

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

The Hrvatska elektroprivreda Zagreb Group (hereinafter “the Group”) consists of the parent company Hrvatska elektroprivreda d.d., Zagreb (hereinafter “HEP d.d.” or “the Company”) and subsidiaries listed in Note 37.

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37. The core business of the Group is the production, transmission and distribution of electricity and the control of the electricity system. In addition to the above core activities, the Group is also engaged in the production and distribution of thermal energy through the central heating system in Zagreb, Osijek and Sisak, gas sales on the wholesale market, and gas distribution in Osijek-Baranja, Požega-Slavonia and Virovitica-Podravina counties.

The Group bases all its activities on the applicable laws, regulations and decisions of the Government of the Republic of Croatia.

As at 31 December 2019 the Group had 11,520 employees (2018:11,011) without the Krško doo Nuclear Power Plant. The number of employees in the Krško Nuclear Power Plant Ltd. is 628 employees (2018: 633).

The sole owner of the Company is the Republic of Croatia.

These consolidated financial statements are presented in Croatian kuna, which is also the Group's functional currency.

Laws on the regulation of energy activities

On 19 October 2012, the Croatian Parliament adopted the Energy Act and the Law on Regulation of Energy Activities and on 8 February 2013 the Electricity Market Act. The Gas Market Act was adopted on 22 February 2013, and the Heat Market Act on 21 June 2013. On 17 October 2014, the Croatian Parliament adopted the Energy Efficiency Act, on 10 September 2015 the Law on Renewable Energy Sources and Highly Effective Cogeneration, and on 18 September 2015, the Law on Amendments to the Electricity Market Act. On 17 February 2017, the Croatian Parliament adopted the Law on Amendments to the Gas Market Law. On 16 February 2018, the Croatian Parliament adopted the Gas Market Act and its entry into force annulled the validity of the Gas Market Act (OG 28/13, 14/14 and 16/17). On 23 August 2018, the Government of the Republic of Croatia adopted the Regulation on Amendments to the Heat Energy Market Act. On 13 July, the Croatian Parliament adopted the Law on Amendments to the Law on Regulation of Energy Activities. On 7 December 2018, the Croatian Parliament adopted the Law on Amendments to the Renewable Energy Sources Act and Highly Effective Cogeneration. On 14 December 2018, the Croatian Parliament adopted the Law on Amendments to the Energy Efficiency Act. On 12 September 2019, the Government of the Republic of Croatia adopted the Regulation on Amendments to the Heat Energy Market Act.

New laws and accompanying bylaws, harmonized with the guidelines and directives of the European Union, provide for further restructuring and harmonization of the Group's operations. Pursuant to the provisions of the Electricity Market Act and the Act on Amendments to the Electricity Market Act, the Company and its subsidiaries continue to perform electricity activities performed as public electricity services in the Republic of Croatia: electricity transmission, electricity distribution and electricity supply which is performed as a universal service and as a guaranteed service. Electricity generation, electricity supply and electricity trade are performed as market activities as defined by the laws governing energy activities and traded on the energy market. According to the Electricity Market Act, every customer has the right to freely choose a supplier, and household customers have the right to be supplied with electricity as a universal service. Customers which are not households, i.e. customers of the entrepreneurship category who have been left without a market supplier can use the guaranteed supply service.

Electricity supply is carried out according to the rules governing market relations, and energy entities are free to contract the quantity and price of delivered electricity. Electricity supply that is performed as a guaranteed service is performed as a public service under regulated conditions customers other than households, which, under certain conditions, remain without the supplier.

Electricity supply, which is performed as a universal service, is performed as a public service to household customers who have the right to such a supply and freely choose it or use it automatically. Part of the customers in the household category exercised the right to choose a supplier.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

1. GENERAL (continued)

The Company and its subsidiaries harmonize the organization of the Group in accordance with the amended laws and the deadlines prescribed by those laws.

In September 2015, the Croatian Energy Regulatory Agency ("HERA") adopted the Methodology for Determining the Amount of Tariff Items for Electricity Distribution and the Methodology for Determining the Amount of Tariff Items for Electricity Transmission, and in December 2015, the Decision on the Amount of Tariff Items for Distribution electricity and the Decision on the amount of tariff items for the transmission of electricity that apply from 1 January 2016. In December 2018 HERA adopted a Decision on the amount of tariff items for the distribution of electricity and a Decision on the amount of tariff items for the transmission of electricity, which apply from 1 January 2019.

Since the entry into force of the Act on Amendments to the Electricity Market Act, the decision on the amount of tariff items for electricity supply within the universal service was made by HEP Operator distribucijskog sustava d.o.o. and HEP ELEKTRA d.o.o. on 2 November 2016. In accordance with the provisions of the Electricity Market Act, on 17 December 2013, HERA adopted the Methodology for determining the amount of tariff items for the guaranteed electricity supply. From 1 July 2014, customers who are supplied with electricity in a guaranteed supply pay for the supply according to the amounts of tariff items in accordance with HERA's decisions on the amount of tariff items for a guaranteed electricity supply. In February 2019, HERA adopted the Methodology for Determining the Amount of Tariff Items for Guaranteed Electricity Supply, which entered into force on 1 March 2019. This Methodology prescribes different parameters for determining the amount of tariff items compared to the previous Methodology. Customers who are supplied with electricity in the guaranteed supply from 1 April 2019, pay for the supply according to the amounts of tariff items in accordance with HERA's decisions on the amount of tariff items for the guaranteed electricity supply that it brings on a quarterly basis.

General assembly

The General Assembly consists of members representing the interests of the sole shareholder - the Republic of Croatia:

| | | |
|----------------|--------|-------------------------------|
| Tomislav Ćorić | Member | Member since 15 February 2018 |
|----------------|--------|-------------------------------|

Supervisory Board

Members of the Supervisory Board in 2019

| | | |
|-----------------------|-----------|---------------------------------|
| Goran Granić | President | President since 18 January 2018 |
| Jelena Zrinski Berger | Member | Member since 18 January 2018 |
| Lukša Lulić | Member | Member since 9 November 2018 |
| Ivo Ivančić | Member | Member since 9 November 2018 |
| Meri Uvodić | Member | Member since 4 December 2018 |

Members of the Supervisory Board in 2018

| | | |
|-----------------------|-----------|--|
| Goran Granić | President | President since 18 January 2018 |
| Marko Primorac | Member | Member from 7 December 2017 to 25 July 2018 |
| Jelena Zrinski Berger | Member | Member since 18 January 2018 |
| Lukša Lulić | Member | Member since 9 November 2018 |
| Ivo Ivančić | Member | Member since 9 November 2018 |
| Dubravka Kolundžić | Member | Member from 1 June 2015 to 10 January 2018 |
| Višnja Komnenić | Member | Member from 11 January 2018 to 22 October 2018 |
| Meri Udović | Member | Member since 4 December 2018 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

1. GENERAL (continued)

Management Board

Management in 2019

| | | |
|-----------------|-----------|--------------------------------|
| Frane Barbarić | President | President since 1 January 2018 |
| Saša Dujmić | Member | Member since 4 December 2014 |
| Nikola Rukavina | Member | Member since 1 January 2018 |
| Marko Ćosić | Member | Member since 1 January 2018 |
| Petar Sprčić | Member | Member since 1 January 2018 |
| Tomislav Šambić | Member | Member since 1 January 2018 |

Management in 2018

| | | |
|-----------------|-----------|--------------------------------|
| Frane Barbarić | President | President since 1 January 2018 |
| Saša Dujmić | Member | Member since 4 December 2014 |
| Nikola Rukavina | Member | Member since 1 January 2018 |
| Marko Ćosić | Member | Member since 1 January 2018 |
| Petar Sprčić | Member | Member since 1 January 2018 |
| Tomislav Šambić | Member | Member since 1 January 2018 |

Basis of preparation

The consolidated financial statements for 2019 have been prepared in accordance with International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union (IFRSs). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and investments in real estate which are measured at fair value. All amounts disclosed in the consolidated financial statements are presented in thousands of Croatian kunas, 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 the practices followed by companies in Croatia.

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

Principles and methods of consolidation

The consolidated financial statements of the Company represent the sum of assets, liabilities, capital and reserves and the results of the Group's operations for the completed annual period. The consolidated financial statements consist of the financial statements of the Company and the entities it controls - its subsidiaries. Subsidiaries within the Group are listed in Note 37. The Company has control over an entity if, based on its participation in it, it is exposed to a variable return, i.e. it has rights to them and the ability to influence the return by its dominance in that entity. The company has a 100% share and voting rights in all subsidiaries and is their sole member and has the power to appoint management and can manage the financial and business decisions of the company. The inclusion of subsidiaries in the consolidation starts from the date on which the Company as a parent acquires control over that company and ends when the Company as a parent loses control over it.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All significant transactions and balances between the Group's member companies have been eliminated on consolidation. Non-controlling interests in the net assets of consolidated subsidiaries are presented in these consolidated financial statements separately from the Company's interests in them. Non-controlling interests include the amount of the interest at the date of the business combination and the interest in the changes in equity since the date of the business combination that belongs to the non-controlling interests. The gain or loss and any portion of other comprehensive income are attributed to shareholders of the parent and non-controlling interests, even if this results in a negative amount of non-controlling interest.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

1. GENERAL (continued)

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with shareholders in the group. The change in ownership interest results in adjusting the carrying amount of majority and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any compensation paid or received is recognized in a special reserve within equity attributable to owners.

If the Company loses control of a subsidiary, it derecognises related assets (including goodwill) and liabilities, non-controlling interest and other components of equity, and any realized gain or loss is recognized in profit or loss. Any remaining investment is recognized at fair value.

Business combinations

The Group uses the acquisition method for business combinations. The acquisition fee may include the following:

- Fair value of assets transferred
- Shares issued by the Group
- Fair value of potential consideration
- Fair value of the previous interest in the acquired company
- Liabilities to the owners of the acquired company

The assets and liabilities of the acquired company are valued at their fair values upon acquisition. Upon initial acquisition, the Group measures non-controlling interests at fair value or at a value equal to their proportional share in the acquired net assets.

Acquisition-related costs are recognized in the statement of profit or loss in the period in which they are incurred.

The difference between the acquisition fee and the fair value of the acquired net assets is recognized as goodwill if the acquisition fee is greater than the fair value of the acquired net assets or as a favourable purchase effect if the acquisition fee is less than the fair value of the acquired net assets. A favourable purchase is recognized in the consolidated statement of profit or loss in the period in which the company is acquired.

If the acquisition is carried out in stages, the value of the previous interest in the company is measured at fair value at the time of acquisition. The gain or loss arising from the measurement of a previous interest is recognized in the consolidated statement of profit or loss.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Adoption of new and amended standards and interpretations:

IFRS 16, Leases (issued on 13 January 2016 effective for annual periods beginning on or after 1 January 2019). The Group has decided to apply the standard from the date of its mandatory adoption on 1 January 2019 by applying a modified retroactive method, without revising the comparative information and by applying certain simplifications allowed by the standard. Assets with right to use are measured at the amount of the lease liability at the date of adoption of the standard (adjusted for early repayment or calculated lease expense).

In applying IFRS 16, for the first time, the Group used the following practical solutions permitted by the standard:

- applying a single discount rate to a portfolio of leases with relatively similar characteristics,
- reliance on previous assessments of the harmfulness of leases as an alternative to the impairment test - on 1 January 2019 there were no harmful contracts,
- presentation of operating leases whose remaining lease period on 1 January 2019 is less than 12 months as short-term leases,
- the exclusion of initial direct costs from the measurement of the right to use at the date of first application, and
- use of recent knowledge in determining the lease period if the contract contains the possibility of extending or terminating the lease.

The Group has also decided not to re-evaluate whether it is a lease on the date of first application. Instead, for contracts entered into before the transition date, the Group relied on its assessment based on the application of IAS 17 *Leases* and Interpretations (IFRIC) 4 in *Determining whether an agreement contains a lease*.

As at 1 January 2019 the weighted average marginal borrowing rate applied by the Group to lease liabilities was 4.51%.

The reconciliation of contractual obligations under operating leases with the recognized obligation is as follows:

| | 31 December 2018/ 1 January 2019 |
|---|-------------------------------------|
| HRK '000 | |
| Total future minimum lease payments for irrevocable * operating leases as at 31 December 2018 | - |
| - Finance lease liabilities recognized on 1 January 2019 | 17,752 |
| Total lease liabilities recognized on 1 January 2019 | 17,752 |
| Of which are: | |
| Short-term lease liabilities | 5,846 |
| Long-term lease liabilities | 11,906 |

* Irrevocable leases include those that can be revoked only: (a) in the event of an unforeseen event, (b) with the lessor's permission, (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) after the lessee has paid an additional amount on the basis of which it is certain at the beginning of the lease period that the lease will continue.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Adoption of new and amended standards and interpretations (continued):

The change in accounting policy affected the following items of the consolidated statement of financial position as at 1 January 2019:

| <i>HRK '000</i> | Note | Impact of the adoption of IFRS 16 |
|--|-------------|--|
| Increase in assets with the right of use | 13 | 17,752 |
| Increase in lease liabilities | | 17,752 |

| <i>HRK '000</i> | Note | 2019 |
|--|-------------|-------------|
| <i>Depreciation expense in assets with the right of use</i> | | |
| Real estate | 12 | (6,290) |
| Facilities | | - |
| Equipment | 12 | (820) |
| Interest expenses (included in financial expenses) | | (890) |
| Expenses related to short-term leases or leases of low-value assets (included in other operating expenses) | | (4,673) |

The following amended standards are effective from 1 January 2019 but did not have a significant impact on the Group:

- IFRIC 23 “Uncertainty Related to Income Tax Treatment” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Characteristics of negative fee overpayments - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 “Long-Term Interests in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019)
- Annual Improvements to IFRSs for the 2015-2017 Reporting Cycle - Amendments to IFRS 3, IFRS 11, and IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after January 1, 2019).
- Amendments to IAS 19 “Amendments, Limitations or Settlement of a Plan” (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *New standards and interpretations not yet adopted:*

Several new accounting standards and interpretations have been issued that are not mandatory for the reporting periods ending 31 December 2019 and have not been previously adopted by the Group:

Appendices to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised conceptual framework includes a new chapter on measurement; guidelines for reporting the financial result; improved definitions and guidelines - in particular the definition of an obligation; and clarifications in important areas, such as the role of governance, prudence, and measurement uncertainty in financial reporting.

Definition of materiality - Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of materiality and how it should be applied to encompass guidelines that have hitherto been contained elsewhere in IFRSs. Furthermore, the explanations along with the definition itself have been improved. Finally, the amendments ensure the consistency of the definition of materiality in all IFRSs. Information is material if it can reasonably be expected that its omission, misstatement or misrepresentation will affect the decisions made by the primary users of general purpose financial statements based on those financial statements that provide financial information about a particular reporting entity.

Reform of reference interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments resulted from the replacement of reference interest rates such as LIBOR and other interbank bid interest rates ("IBORs"). The amendments provide for the possibility of a temporary exemption from the application of certain hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under IFRS 9 and IAS 39 requires that future hedged cash flows be "highly probable". If these cash flows depend on the IBOR, the exemption provided for in the amendments requires the entity to apply the assumption that the interest rate on which the cash flows are based will not change as a result of the reform. IAS 39 and IFRS 9 require an estimate of expected future events for the application of hedge accounting. Although the cash flows to which IBOR interest rates apply and the interest rates that replace it are currently expected to be broadly equal, thus minimizing any inefficiencies, this may no longer be the case as the reform date approaches. According to the amendments, an entity may assume that the reference interest rate on which the cash flows of a hedged item, hedging instrument or hedged risk are based has not been affected by the reform of the IBOR. Due to the reform of the IBOR, protection could be found outside the range of 80 - 125% which is mandatory for retroactive testing in accordance with IAS 39. IAS 39 has therefore been amended to allow an exemption from retroactive performance testing in such a way that protection is not interrupted during a period of uncertainty caused by IBORs simply because retroactive inefficiencies are outside this range. However, even then, other requirements for the application of hedge accounting should still be met, including an assessment of expected events. For some hedges, the hedged item or hedged risk refers to a non-contractual component of the IBOR. In order to apply hedge accounting, IFRS 9 and IAS 39 require that the identified risk component can be determined separately and measured reliably. According to the appendices, the risk component should be able to be determined separately at the beginning of determining the protection relationship, and not continuously. In the context of a macro protection, where the entity often harmonizes the protection relationship, the exemption applies from the moment the protected item was originally established within that protection relationship. Any ineffectiveness of hedging will continue to be recognized in the statement of profit or loss in accordance with IAS 39 and IFRS 9. The appendices set out the reasons for the cessation of the exemption, including the uncertainty arising from the reform of the reference interest rate, which is no longer applicable. The amendments require entities to provide additional information to investors about their hedging relationships directly affected by these uncertainties, including the nominal amount of hedging instruments to which the exemptions apply, any significant assumptions or judgments made during the application of the exemption, and qualitative disclosure of how the entity is affected by the reform. IBOR and how it manages the transition process.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *New standards and interpretations not yet adopted (continued):*

Sale or entry of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after the date to be determined by the IASB, not yet approved by the European Union). These amendments address the inconsistency between the requirements of IFRS 10 and the requirements of IAS 28 relating to the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of allowances is that full profit or loss is recognized when the transaction involves business. Partial gain or loss is recognized when the transaction involves non-business assets, even if they are subsidiary assets.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021 not yet approved by the European Union). IFRS 17 replaces IFRS 4 which has enabled companies to continue to present insurance contracts using existing practices. For this reason, it was difficult for investors to compare the financial performance of otherwise similar insurance companies. IFRS 17 is a standard that applies a single principle to the presentation of all types of insurance contracts, including reinsurance contracts. The standard requires the recognition and measurement of groups of insurance contracts at: (i) the present value of future cash flows attributable to the risk (cash flows intended to perform the contract) that includes all available information about the cash flows intended to fulfil the contract to match market information; increased (if this value is a liability) or decreased (if this value is an asset) by (ii) the amount representing the unrealized gain of the group of contracts (contract service margin). Insurers will recognize profits for a group of insurance contracts during the coverage period and as they are relieved of risk. If a group of contracts incurs or will incur a loss, the entity shall recognize that loss as incurred.

Definition of operations - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020 not yet approved by the European Union). The appendices change the definition of business. A business must have inputs and a detailed process that together significantly contribute to the ability to generate results. The new guidelines provide a framework for assessing if input and a detailed process exist, including early-stage societies that have not generated results. In the absence of results, there should be an organized workforce for the purposes of classification as a business. The definition of 'results' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants can replace missing elements or integrate acquired activities and assets. The subject may apply a "concentration test". Acquired assets would not be business if almost the entire fair value of gross assets acquired was concentrated in a single asset (or group of similar assets).

Unless otherwise stated above, the new standards and interpretations are not expected to have a material impact on the Group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies

Investments in joint ventures

Under IFRS 11 Joint Operations are classified as either joint management or joint ventures. Classification depends on the contractual rights and obligations of each investor, not on the legal structure of the mutual agreement.

Joint ventures are classified in accordance with IFRS 11, in:

- joint management - a joint transaction in which the parties that have joint control over the transaction have rights to assets and liabilities based on financial obligations from the transaction in question
- joint venture - a joint venture in which the parties that have joint control over the transaction have rights to the net assets of the transaction in question.

In classifying investments in joint ventures, the Group considers:

- structure of joint business
- a legal form of joint business structured through separate legal entities
- contractual terms of the joint venture
- all other facts and circumstances (including any other contractual arrangements).

Interests in joint ventures are stated using the equity method.

The Group calculates its investment in joint management by recognizing its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations.

The Group has identified investment in the Krško Nuclear Power Plant as joint management (Note 16).

The Group identified the investment in LNG Hrvatska doo as a joint venture as at 31 December 2018. As at 31 December 2019 LNG Hrvatska d.o.o. is a subsidiary (Note 17).

Costs of pension benefits and other employee benefits

The Group does not manage defined benefit plans after retirement for its employees and managers. Accordingly, there are no provisions for these costs. The Group has an obligation to pay contributions to pension and health insurance funds for its employees in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract. These contributions are paid in a certain percentage amount determined based on gross salary.

| | 2019 | 2018 |
|-------------------------------------|-------|------|
| Pension contribution | 20% | 20% |
| Contribution to health insurance | 16.5% | 15% |
| Contribution to the employment fund | - | 1.7% |
| Contribution to injuries at work | - | 0.5% |

Group members are required to suspend contributions from employees' gross salaries. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred (see Note 8).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Severance pay and jubilee awards

The Group pays employees jubilee awards and one-time severance pay upon retirement. The liability and cost of these benefits are determined using the projected unit credit method. Using the projected unit credit method, each period of service is considered as the basis for an additional unit of entitlement to benefits and each unit is measured separately until the final liability is created. The liability is determined at the present value of estimated future cash outflows by applying a discount rate similar to the interest rate on government bonds in the Republic of Croatia where the currencies and maturities are in accordance with the currencies and the estimated duration of the benefit obligation. Liabilities and costs of these fees were calculated by a certified actuary.

Jubilee awards

The Group pays its employees some long-term benefits (jubilee awards) and severance pay upon retirement. The award for long-term work amounts to HRK 1,500 to 5,500 net for work in the Group from 10 to 45 years of continuous employment with the employer.

Severance payments

As of 1 January 2018 the Collective Agreement (which applies to all members of the HEP Group) is in force, based on which every employee is entitled to a severance pay in the amount of 1/8 of the gross average monthly salary of an employee earned for the previous three months before the termination of the employment contract, and for each completed year of continuous employment with the employer. This Collective Agreement is valid until 31 December 2019.

On 30 October 2019, a new Collective Agreement for the Group was concluded, which will enter into force on 1 January 2020 and will apply until the end of 2021.

Property, plant and equipment

Property, plant and equipment are stated at cost less any allowance for impairment and any impairment losses. Land is stated at cost less any impairment losses. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, and any changes in the estimate are calculated based on new expectations and have an effect in current and future periods. Property, plant and equipment in use are depreciated using the straight-line method on the following basis: Land is not depreciated.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

| | 2019 and 2018 |
|---|---------------|
| Buildings | |
| Hydropower plants (dams and embankments, buildings and other structures and ancillary facilities) | 20 - 50 years |
| Thermal power plants (buildings and other constructions) | 33 - 50 years |
| Facilities and plants for transmission and distribution of electricity (substations, overhead and cable lines, dispatch centres, etc.) | 20 - 40 years |
| Hot water pipelines, steam pipelines and other buildings for the production and transmission of thermal energy | 33 years |
| Gas pipelines until 2014 | 20 - 25 years |
| Gas pipelines since 2014 | 40 years |
| Administrative buildings | 50 years |
| Facilities and equipment | |
| Plants in hydroelectric power plants | 10 - 33 years |
| Plants in thermal power plants | 6 - 25 years |
| Electricity transmission plants (electrical part of substations and transformers, electrical part of lines) | 15 - 40 years |
| Electricity distribution plants (electrical part of substations and transformers, electrical part of lines, measuring instruments, meters and other equipment) | 8 - 40 years |
| Thermal stations, hot water pipes and other equipment | 15 - 30 years |
| Gas meters and other gas network equipment | 5 - 20 years |
| Other equipment and means of transport | |
| IT | 5 - 20 years |
| Computer software licenses | 5 years |
| Telecommunications equipment | 5 - 20 years |
| Motor vehicles | 5 - 8 years |
| Office furniture | 10 years |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The cost of property, plant and equipment includes the purchase price of the property, plus customs duties and non-refundable taxes, and all direct costs of bringing the property to its working condition and location. Expenses incurred after putting property, plant and equipment into use are charged to the consolidated statement of profit or loss in the period in which they are incurred.

In situations where it is clear that the costs have resulted in an increase in the future economic benefits expected to be obtained from the use of the item of property, plant and equipment above its originally estimated capacity, they are capitalized as an additional cost of property, plant and equipment. Costs eligible for capitalization include the costs of periodic, pre-planned major inspections and overhauls necessary for further operations.

Gains or losses arising from the disposal or withdrawal of an item of property, plant and equipment are determined as the difference between the proceeds from the sale and the carrying amount of the asset and are recognized in profit or loss in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine whether there is an impairment loss. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment of intangible assets with indefinite useful lives and assets that are not in use is assessed annually and whenever there is an indication that the value of the asset may be impaired.

The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing value in use, the estimated future cash inflows are reduced to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately as an expense in the statement of profit or loss. Upon subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of the asset, with the higher carrying amount not exceeding the carrying amount that would have been determined if no previous loss had been recognized for the asset (cash-generating unit) due to impairment. A reversal of an impairment loss is recognized immediately in profit or loss.

Intangible assets

Fixed intangible assets include licenses and are stated at cost less accumulated amortization. It is amortised on a straight-line basis over a period of 5 years.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Investment property

Investment property is property held to earn rentals and / or increase the market value of assets, including assets under construction for those purposes, initially measured at cost, which includes transaction costs. After initial recognition, investment property is measured at fair value. Gains and losses on changes in the fair value of investment property are included in profit or loss in the period in which they incur. Investments in real estate are derecognised, i.e. they are derecognised by sale or permanent withdrawal, as well as when no future economic benefits are expected from its disposal. Any gain or loss arising on the derecognition of the property, determined as the difference between the net proceeds from the sale and the net carrying amount of the property, is included in profit or loss in the period in which the property is derecognised.

Group as a tenant

All leases are calculated by recognizing assets with the right of use and lease obligations, except for:

- Low value leases; and
- Leases whose lease term ends within a period of 12 months from the date of first application or less.

The lease liability is calculated at the present value of the contractual future payments to the lessor over the term of the lease, less the discount rate determined in relation to the rate inherent in the lease, unless it is (as is usually the case) easy to determine, when it uses the incremental borrowing rate of HEP Group at the beginning of the lease. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or a rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which it relates.

At the date of initial recognition, the carrying amount of the lease obligation includes:

- the amounts expected to be paid by the lessee on the basis of residual value guarantees;
- the price of the execution of the purchase option if it is certain that the lessee will use that option; and
- payment of penalties for termination of the lease if the lease period reflects that the lessee will take advantage of the possibility of termination of the lease.

Assets with the right of use are initially measured at the amount of the lease liability, less any lease incentives received and increased by:

- all lease payments made on or before the start date of the lease;
- all initial direct costs; and
- the amount of the provision recognized if the Company contractually bears the costs of dismantling, removing or rebuilding the location of the property.

The right to use is reduced by the accumulated depreciation calculated on a straight-line basis over the term of the lease, or the remaining economic life of the asset, if it is considered to be shorter than the lease term.

The useful life of the asset with the right of use is shown as follows:

| | 2019 |
|----------------------------|------------|
| Business premises and land | 2-25 years |
| Vehicles | 2-5 years |

After the initial measurement, the lease liability increases to reflect interest on lease obligations and decreases to reflect lease payments made.

The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in the index or rate, or when there is a change in the estimate of the term of any lease.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Inventories

Inventories contain mainly materials and small inventory and are stated at the lower of cost and net expected sales value. Management adjusts the value of inventories based on an overview of the overall age structure of inventories, and based on an overview of significant, individual amounts included in inventories.

Inventories also contain CO₂ emission units. By including the Republic of Croatia in the European Greenhouse Gas Emissions Trading System (EU ETS), Hrvatska elektroprivreda d.d., which performs the activity of electricity and heat production, has the obligation to purchase greenhouse gas emission units in quantities corresponding to verified CO₂ emissions from fossil fuel combustion from thermal power plants resulting in CO₂ emissions.

Companies are required to obtain sufficient CO₂ emission rights by 30 April (annual cycle). Due to the withdrawal of IFRIC 3 and insufficient provisions in IFRS, the Group has analysed various accounting models for CO₂ emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO₂ emission rights. Therefore, the Group recognizes emission allowances as inventories.

Inventories also contain gas for trading on the wholesale market and are stated at the lower of cost determined on the basis of the weighted average price and the net expected sales value (Note 21).

For quantities of gas delivered directly to customers, the method of specific identification of their individual costs is used to calculate the cost of inventory.

Acquisition cost includes the invoiced amount and other costs incurred directly in connection with bringing inventory to a specific location and usable condition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits and other short-term liquid investments with a maturity of up to three months that are currently convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or construction of a qualifying asset constitute the cost of acquiring the asset until the asset is ready for its intended use. A qualifying asset is an asset that requires a certain amount of time to be ready for its intended use. Investment income earned on the temporary investment of earmarked credit assets while they are being spent on a qualifying asset is deducted from borrowing costs that can be capitalized. All other borrowing costs are recognized as an expense in the period in which they are incurred. Interest expense is recognized in the period to which the interest relates. If work on qualifying assets is suspended, the cost of borrowing for the period in which the work is discontinued is not capitalized.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Summary of significant accounting policies (continued)*

Foreign currencies

The individual financial statements of each entity of the Group are presented in the currency of the primary economic environment in which the entity operates, the so-called functional currency. The results and financial position of each entity within the Group are presented in the consolidated financial statements in Croatian Kuna (HRK), which is also the presentation currency of the consolidated financial statements.

In the financial statements of individual Group companies, business changes denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency of the entity at the year-end exchange rate. Non-monetary items that are measured in terms of fair value in a foreign currency are translated using the exchange rates as at the dates of the fair values. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items and their recalculation are recognized in the consolidated statement of profit or loss for the period. Foreign exchange differences arising on the translation of non-monetary assets at fair value are recognized in the consolidated statement of profit or loss as a finance cost.

Foreign exchange differences arising from the translation of foreign subsidiaries are recognized in other comprehensive income and accumulated as a separate reserve in equity. The accumulated reserve is reclassified to equity when the foreign subsidiary is sold.

Taxation

The cost of income tax is the sum of current tax and changes in deferred tax during the year.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that there will be available taxable profits against which those deductible temporary differences can be utilized. Deferred tax liabilities and deferred tax assets are not recognized for temporary differences arising from goodwill or on initial recognition of other assets and liabilities, except in the case of a business combination, in transactions that do not affect tax or accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws that have been enacted or substantively enacted by the reporting date. The calculation of deferred tax liabilities and assets maintains the amount expected to be incurred or recovered at the reporting date in the amount of the carrying amount of the Group's assets and liabilities.

Deferred tax is recognized as an expense or income in the consolidated statement of profit or loss, unless it relates to items recorded directly in other comprehensive income, in which case deferred tax is also recognized in other comprehensive income or when the tax arises from initial recognition, in a business combination. In the case of a business combination, taxes are taken into account when calculating goodwill or determining the excess of the buyer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the buyer over cost.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Financial assets

The Group recognizes financial assets in its consolidated financial statements when it becomes a party to the contractual provisions of the instrument. Depending on the business model for asset management and the contractual characteristics of the cash flows of financial assets, the Group measures financial assets at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

Asset items are classified and measured as shown below:

| Description | Business model / measurement |
|---|---|
| Long-term assets | |
| Long-term loans given | Held for collection / amortized cost |
| Total financial assets at fair value through other comprehensive income | Strategic investments / fair value through other comprehensive income |
| Other financial assets (Long-term receivables) | Held for collection / amortized cost |
| Short-term assets | |
| Trade receivables | Held for collection / amortized cost |
| Other current receivables | Held for collection / amortized cost |
| Cash and cash equivalents | Held for collection / amortized cost |

The Group's business models reflect the way in which the Group manages its assets with a view to generating cash flows, whether the Group's objective is solely to collect contractual cash flows from assets (held for collection) or to collect both contractual cash flows and cash flows from selling assets (held for collection and sale). Strategic equity investments are irreversibly measured through other comprehensive income. All other financial assets are measured at fair value through profit or loss.

i) TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This group of assets consists of equity instruments held by the Group that are traded in an active market. Changes in fair value are recognized in other comprehensive income (FVOCI) without subsequent reclassification to profit or loss. If an equity instrument is sold, the accumulated revaluation reserve is reclassified to retained earnings. Dividends on these financial assets are recognized in the statement of profit or loss.

ii) Loans granted

The Group's loans are held within a business model aimed at holding financial assets to collect contractual cash flows. Contractual cash flows are only those that represent repayments of principal and interest based on that amount of principal.

Loans are measured at amortized cost. Measurement at amortized cost includes the following:

- Interest income is calculated using the effective interest method, which is applied to the gross carrying amount of the asset. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or a shorter period, if appropriate.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

FINANCIAL ASSETS (CONTINUED)

Trade and other receivables

Trade and other receivables are held with the strategy of collecting contracted cash flows. Trade receivables that do not have a significant financial component on initial recognition are measured in accordance with IFRS 15 at their transaction price.

iv) Impairment

The Group recognizes impairment of financial assets based on expected credit losses. At each reporting date, the Group measures expected credit losses and recognizes them in the financial statements. Expected credit losses from financial instruments are measured in a way that reflects:

- An unbiased and weighted amount of probability determined by estimating the range of possible outcomes,
- The time value of money,
- Reasonable and acceptable information about past events, current conditions and forecasts of future economic conditions.

For the purposes of calculating the expected credit loss, the financial assets portfolio is divided into three stages: Tier 1, Tier 2 and Tier 3. If no impairment is determined on the date of first recognition, financial assets are included in Tier 1, and subsequent reclassification to Tiers 2 and 3 depends on the increase in credit risk per financial instrument after initial recognition, i.e. on the credit quality of the financial instrument.

The Group applies a simplified approach to measure expected credit losses on trade receivables. To measure expected credit losses, trade receivables are grouped based on similar credit risk and age structure. Expected credit loss rates are based on historical credit losses that occurred during the three years prior to the end of the reporting period. Historical loss rates are then adjusted for current and future information on macroeconomic factors affecting the Group's customers.

v) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or transfers the financial asset and the transfer qualifies for derecognition.

The Group transfers financial assets if, and only if, it either transfers contractual rights to receive cash flows from financial assets, or retains contractual rights to receive cash flows from financial assets, but assumes a contractual obligation to pay cash flows to one or more recipients in the arrangement.

When the Group transfers financial assets, it is required to assess the extent to which it retains the risks and rewards of ownership of the financial assets. In this case, when all the risks and rewards of ownership are transferred, the Group derecognises the financial asset and recognizes separately as an asset or liability all rights and obligations that have been incurred or retained in the transfer. If almost all the risks and rewards of ownership of financial assets are retained, the Group continues to recognize financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Group determines whether control of the financial asset is retained. If control over financial assets is not retained, the Group derecognises the financial asset and recognizes separately as an asset or liability all rights and obligations that have arisen or been retained under the transfer. If control is retained, the Group continues to recognize financial assets to the extent that it continues to participate in those financial assets.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to currency risk. In addition, the Group concluded a Cross Currency Swap Agreement by which the dollar bond liability was converted into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. More information on derivative financial instruments is disclosed in Note 38.

Derivative financial instruments are initially recognized at fair value at the date the contract is entered into. After initial recognition, they are measured at fair value with changes recognized in the income statement.

Commodity contracts

In accordance with IFRS 9 certain commodity contracts are treated as financial instruments and fall within the scope of the standard. Contracts for the purchase and sale of goods entered into by the Group ensure the physical delivery of quantities intended for consumption or sale as part of the Group's normal operations; such contracts are therefore excluded from the scope of the standard.

In particular, forward purchases and sales for physical delivery of energy that are entered into as part of the Group's normal operations are not considered to fall within the scope of IFRS 9. This is evidenced by meeting the following conditions:

- / i / Physical delivery of contracted quantities;
- / ii / Purchased or sold quantities meet the requirements of the Group's operations;
- / iii / A contract cannot be considered a written option as defined in IFRS 9.

The Group therefore considers that the transactions agreed to balance the volume between energy purchases and sales are part of its ordinary activities as an integrated energy company and therefore do not fall within the scope of IFRS 9.

Financial pledges

Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost. All financial liabilities are initially recognized at fair value plus related transaction costs. Financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Derecognition

The Group derecognises the liabilities in the consolidated financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor on materially different terms, or the terms of the existing obligation are significantly changed, such change or modification is treated as a termination of the original obligation and recognition of a new obligation and the difference between booked values is recognized in consolidated statement of profit or loss profit and loss.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Provisions

A provision is recognized only if the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be determined reliably. Provisions are reviewed at each reporting date and adjusted to reflect the latest best estimates. If the effect of the time value of money is significant, the amount of the provision is the present value of the costs that are expected to be required to settle the obligation. In the case of discounting, the increase in provisions that reflects the passage of time is recognized as an interest expense (Note 10).

Revenue recognition

Operating income is generated primarily from the sale of electricity, heat and gas to households and industrial and other customers in the Republic of Croatia.

In accordance with the new IFRS 15, the Company applies a five-step model regarding the recognition of contracts with customers;

- 1) Identification of the contract with the customer(s)
- 2) Identification of the separate performance obligations in the contract
- 3) Determination of the transaction price
- 4) Allocation of the transaction price to the separate performance obligations
- 5) Recognition of revenue as each performance obligation is satisfied

Revenue is recognized for each separate liability in the contract in the amount of the transaction price. The transaction price is the amount of fees in the contract that the Group expects to be entitled to in exchange for the transfer of the promised goods or services to the customer.

Revenue from the sale of electricity is recognized based on the best estimate of the amount of energy delivered. As the actual calculation of delivered quantities of energy to customers in the household category is performed twice a year, the Group bases its revenues from electricity sales on the total produced and purchased quantities of electricity on the distribution network corrected for losses on the distribution network based on logarithmic regression. From the entry into force of the Act Amending the Electricity Market Act (OG 102/2015), the regulation of prices for public electricity supply to households within the universal service ceases and the amounts of tariff items for electricity supply are issued by the supplier who has the obligation to provide public service. The Group does not have a separate accounting model for recognizing any accruals that would result from a regulated tariff. Accordingly, the Group recognizes revenue based on prices determined by a tariff approved by the regulatory agency, i.e. by a decision of a company that has an obligation to provide a public service. Alternatively, the Group provides its customers with the opportunity to choose a market model, in which case revenues are recognized in accordance with free market prices (HEPI tariff model).

Revenue from the sale of heat to households and industrial and other users in the Republic of Croatia is recognized when the customer acquires control of the product, i.e. when the heat is delivered to customers and if it is probable that the Group will receive compensation.

Revenue from the sale of gas is recognized when the customer acquires control of the product, i.e. when the gas is delivered to customers and if it is probable that the Company will receive compensation. The price of gas is regulated by the Croatian Energy Regulatory Agency (HERA). The Group does not have a separate accounting model for recognizing any accruals that would result from a regulated tariff.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Summary of significant accounting policies (continued)*

Revenues from connection fees

In accordance with IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018 revenue from connection to the network is systematically allocated over the useful life of the asset (connection), and the fee received from customers for connection to the network is recorded as deferred income and recognized as income for the period at the same time as the depreciation of the connection to which it relates.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position (events for which adjustments are required in the financial statements) as at the reporting date are recorded in the financial statements. Post-reporting events that do not require adjustments in the financial statements are disclosed in the notes when the amounts are significant.

Accounting policies applicable until 1 January 2019

The Group has no significant finance leases. During 2018 and 2017 no significant new business (operating) lease agreements were concluded. The Group recognizes lease payments under operating leases as an expense on a straight-line basis over the lease term.

Segmental analysis

The Group has fully adopted IFRS 8 "Operating Segments" and discloses segment data, as the Group's debt instruments are traded in regulated markets. (Note 5).

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

3. RECLASSIFICATION OF COMPARATIVE PERIODS

Changes in comparative financial statements

In the comparative financial statements for 2018 certain items have been reclassified to bring the financial information in line with the financial statements for 2019. The reclassification did not affect the statement of profit or loss from the previous period.

Statement of profit or loss

As at 31 December 2018

| | Report 2018 | Reclassification | Restated |
|--|---------------------|------------------|---------------------|
| Income from sales | 14,237,534 | 157,207 | 14,394,741 |
| Other operating income | 960,766 | (157,207) | 803,559 |
| Total operating income | 15,198,300 | - | 15,198,300 |
| | | | |
| The cost of purchasing electricity | (2,831,169) | - | (2,831,169) |
| Fuel cost | (1,695,300) | - | (1,695,300) |
| Cost of gas sold | (1,823,664) | (137,996) | (1,961,660) |
| Material Cost | - | (194,169) | (194,169) |
| <i>Total cost of procurement of materials and energy</i> | <i>(6,350,133)</i> | <i>(332,165)</i> | <i>(6,682,298)</i> |
| Staff costs | (1,841,220) | - | (1,841,220) |
| Depreciation expense | (2,001,355) | - | (2,001,355) |
| Other operating expenses | (3,347,135) | 332,165 | (3,014,970) |
| Total operating expenses | (13,539,843) | - | (13,539,843) |
| | | | |
| Operating profit | 1,658,457 | - | 1,658,457 |
| | | | |
| Financial revenues | 290,077 | - | 290,077 |
| Financial expenditures | (265,345) | - | (265,345) |
| Net profit from financial activities | 24,732 | - | 24,732 |
| | | | |
| Pre-tax profit | 1,683,189 | - | 1,683,189 |
| | | | |
| Income tax expense | (318,437) | - | (318,437) |
| Profit for the year | 1,364,752 | - | 1,364,752 |

The item *Revenues from sales* increased by HRK 157,207 thousand, and the item *Other operating revenues* decreased by the same amount. The stated amount consists of revenues closely related to the sale of electricity and are reclassified to another position within operating revenues. The *cost of materials and energy* increased by HRK 332,165 thousand, of which the increase in the *cost of gas sold* amounted to HRK 137,996 thousand and the increase in the *cost of materials* amounted to HRK 194,169 thousand. The item *Other operating expenses* was reduced by the amount of HRK 332,165 thousand. This amount represents acquisition costs closely related to the Group's core business and is therefore reclassified to another item within operating expenses. These changes did not have an impact on the amount of total operating revenues and total operating expenses, and thus on the profit for the business year, and were made in order to increase transparency in reporting.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

3. RECLASSIFICATION OF COMPARATIVE PERIODS (continued)

Changes in comparative financial statements (continued)

Statement of financial position

As at 31 December 2018

| | 31 Dec 2018 | Reclassification | Restated |
|---|-------------------|------------------|-------------------|
| ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 31,309,427 | (45,852) | 31,263,575 |
| Investment property | 303,726 | - | 303,726 |
| Intangible assets | 178,578 | 45,852 | 224,430 |
| Investments calculated using the equity method | 23,512 | 591 | 24,103 |
| Long-term loans given | 35,790 | 9,414 | 45,204 |
| Total financial assets at fair value through other comprehensive income | 197,307 | (591) | 196,716 |
| Other financial assets | 30,764 | (25,152) | 5,612 |
| Other long-term receivables | - | 15,738 | 15,738 |
| Deferred tax asset | 962,466 | - | 962,466 |
| Total fixed assets | 33,041,570 | - | 33,041,570 |
| Current assets | | | |
| Inventories | 1,547,172 | - | 1,547,172 |
| Trade receivables | 2,200,632 | - | 2,200,632 |
| Financial assets measured at fair value through profit or loss | - | 175,098 | 175,098 |
| Other current receivables | 604,930 | - | 604,930 |
| Cash and cash equivalents | 2,955,325 | (175,098) | 2,780,227 |
| Total current assets | 7,308,059 | - | 7,308,059 |
| TOTAL ASSETS | 40,349,629 | - | 40,349,629 |

From the item *Cash and cash equivalents*, the amount of HRK 175,098 thousand was reclassified to the newly opened item *Financial assets at fair value through profit or loss*. These are investments in investment funds that do not meet the criteria of cash and cash equivalents. This reclassification change did not affect the total amount of current assets and did not affect the statement of profit or loss. The reclassification was made to better reflect the nature of these investments.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

3. RECLASSIFICATION OF COMPARATIVE PERIODS (continued)

Changes in comparative financial statements (continued)

Statement of financial position (continued)

As at 31 December 2018

| | Report 2018 | Reclassification | Restated |
|---|-------------------|------------------|-------------------|
| CAPITAL AND LIABILITIES | | | |
| Share Capital | 19,792,159 | - | 19,792,159 |
| Provisions | 65,921 | - | 65,921 |
| Retained profit | 4,511,318 | - | 4,511,318 |
| Total capital | 24,369,398 | | 24,369,398 |
| Liabilities under issued bonds | 3,560,375 | - | 3,560,375 |
| Bank overdrafts and loans | 220,450 | - | 220,450 |
| Long-term liabilities to the state | 10,281 | (10,281) | - |
| Long-term provisions | 1,067,491 | - | 1,067,491 |
| Other long-term liabilities | 7,315,415 | 10,281 | 7,325,696 |
| Deferred tax liabilities | 5,441 | - | 5,441 |
| Total long-term liabilities | 12,179,453 | - | 12,179,453 |
| Trade payables | 2,051,676 | - | 2,051,676 |
| Current maturity of long-term loans | 115,479 | - | 115,479 |
| Liabilities for taxes and contributions | 223,310 | (62,461) | 160,849 |
| Income tax liability | - | 62,461 | 62,461 |
| Interest liabilities | 39,308 | (39,308) | - |
| Liabilities to employees | 141,557 | - | 141,557 |
| Other current liabilities | 1,229,448 | 39,308 | 1,268,756 |
| Total short-term liabilities | 3,800,778 | - | 3,800,778 |
| TOTAL CAPITAL AND LIABILITIES | 40,349,629 | - | 40,349,629 |

In the financial statements for 2018 the Group reclassified the item *Property, plant and equipment* where the amount of HRK 45,852 thousand was transferred to the item *Intangible assets*, and refers to intangible assets in preparation. *Financial assets at fair value through other comprehensive income* decreased by HRK 591 thousand, and the item *Investments calculated using the equity method* increased by HRK 591 thousand. The stated amount refers to the investment in the company related to the participating interest. *Other financial assets* decreased by HRK 25,152 thousand and a portion of HRK 9,414 thousand was reclassified to *Long-term loans granted* and a portion of HRK 15,738 thousand was reclassified to *Other long-term receivables*. The stated amounts refer to receivables on housing loans and receivables from customers of energy efficiency projects. These changes did not affect the total amount of fixed assets and were reclassified in order to increase transparency in reporting.

The item *Long-term liabilities to the state* was reduced by HRK 10,281 thousand and reclassified to the item *Other long-term liabilities*. The item *Liabilities for taxes and contributions* was reduced by HRK 62,461 thousand and the item *Liabilities for income tax* was increased by the same amount. The item *Interest Liabilities* was reduced by HRK 39,308 thousand and the item *Other current liabilities* was increased by the same amount. This presentation reclassification had no impact on total current liabilities. Both reclassification changes did not have an impact on the total amount of assets and liabilities and were made for the purpose of greater transparency in reporting.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities. Future events are possible that will cause changes in the assumptions based on 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. The estimates are detailed in the accompanying notes and the most significant of these relate to the following:

Lifespan of property, plant and equipment

As explained in Note 2 the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

The Group benefits from the economic benefits embodied in the asset, which are diminished by economic and technological aging. Accordingly, in the process of determining the useful life of assets, in addition to assessing the expected physical utilization, it is necessary to consider changes in market demand, which will cause faster economic obsolescence and more intensive development of new technologies. The useful lives of property, plant and equipment will be reviewed periodically to reflect any changes in circumstances since the previous assessment. Changes in estimates, if any, will be reflected through the revised depreciation expense over the remaining, revised useful life.

Provisions for power plant decommissioning

The Management Board estimates the cost of provisions for the decommissioning of the Krško NPP and the Group's thermal power plants based on applicable laws and regulations and its own experience. The reservation also includes activities related to environmental protection that need to be carried out during the decommissioning of production facilities.

The amount of provisions for the decommissioning of thermal power plants represents the discounted value of the estimated cost of decommissioning of the Group's thermal power plants (Note 29). Significant assumptions are the discount rate and decommissioning costs.

Decommissioning of the Krško nuclear power plant

Funds for the decommissioning of NPP Krško are reserved in accordance with the Decree on the amount, deadline and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of NPP Krško (OG 155/08; Note 16).

Recognition of revenue from the sale of electricity to customers of universal service (household customers)

Since the collection takes place through an advance payment system with actual billing twice a year, the Group estimates revenues from the sale of electricity. The estimate is based on the total amount of electricity produced in such a way that the amount produced, i.e. procured, is reduced by the estimated losses on the distribution network. After analysing several different approximation methods (five-year average, linear approximation, etc.), the Administration chose logarithmic regression as the most appropriate.

The difference between previously estimated income and actual payments is recognized in the consolidated statement of financial position as other current liabilities or other current receivables.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of property, plant and equipment

Impairment calculation requires an estimate of the value in use of cash-generating units. This value was measured based on the discounted cash flow projection. The most significant variables for determining cash flow are discounted rates, forward values, the time for which cash flow projections are made, and the assumptions and judgments used to determine cash inflows and outflows.

Availability of taxable profit for which deferred tax assets can be recognized

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The determination of deferred tax assets requires the application of significant judgments, based on the determination of the probable time of occurrence and the amount of future taxable profit, together with the future planned tax strategy (Note 11).

Actuarial estimates used to calculate retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include making assumptions about discounted rates, future increases in income and mortality, or fluctuation rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty (Note 29).

Consequences of certain legal disputes

The Group is a party to a number of lawsuits arising from ordinary activities. Provisions are recorded if there is a present obligation as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably (Note 29).

Expected loss model

With the application of IFRS 9, the expected credit loss (ECL) model is introduced. The measurement of expected credit loss from impairment is based on reasonable and supportive information that is available without undue cost and effort and that includes information about past events, current and projected future conditions and circumstances. The Group recognizes a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when a commitment or guarantee has been made). For the purposes of calculating the ECL model, the financial assets portfolio is divided into three levels: Tier1, Tier 2 and Tier 3. At the date of first recognition, financial assets are included in tier 1, and subsequent reclassification to tiers 2 and 3 depends on the increase in credit risk per financial instrument after initial recognition, i.e. on the credit quality of the financial instrument. A simplified approach is applied to trade receivables, whereby expected credit losses are recognized for the entire period of the receivable.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

5. SALES REVENUES - SEGMENT INFORMATION

The Group's operating revenues are generated mostly in the Republic of Croatia.

The Group's reporting segments are divided into the following: electricity (generation, transmission, distribution and sale of electricity), district 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 income and expenses that are directly related to a particular segment. Information on financial income, i.e. expenses and income tax are not presented at the segment level, because the basis for presenting the segment is operating profit.

| HRK '000 | Electricity | | Heating | | Gas | | Group | |
|--------------------------------|------------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Income from core business | 12,534,630 | 11,807,540 | 655,173 | 664,442 | 1,352,603 | 1,922,759 | 14,542,406 | 14,394,741 |
| Income of other segments | 888,191 | 721,499 | 63,167 | 57,591 | 21,479 | 24,469 | 972,837 | 803,559 |
| Operating profit / loss | 1,944,331 | 2,266,124 | (214,481) | (239,954) | (35,548) | (367,713) | 1,694,302 | 1,658,457 |
| Net financial income | | | | | | | 24,038 | 24,732 |
| Income tax | | | | | | | (315,695) | (318,437) |
| Net profit | | | | | | | 1,402,645 | 1,364,752 |

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 NPP Krško, part of real estate, plant and equipment and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and other miscellaneous liabilities.

| HRK '000 | Total asset segments | | Total segment liabilities | |
|--------------------|----------------------|-------------------|---------------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Electricity | 32,247,898 | 32,238,163 | 8,908,695 | 8,305,271 |
| Heating | 1,259,916 | 1,155,130 | 200,442 | 198,267 |
| Gas | 438,719 | 390,921 | 93,136 | 89,909 |
| Unallocated | 8,611,478 | 6,565,415 | 7,745,483 | 7,386,784 |
| Total Group | 42,558,011 | 40,349,629 | 16,947,756 | 15,980,231 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

5. SALES REVENUES - SEGMENT INFORMATION (continued)

Revenue from electricity sales in 2019 amounts to HRK 12,534,630 thousand (in 2018: HRK 11,807,540 thousand).

Revenue from the sale of thermal energy in 2019 amounts to HRK 655,173 thousand (in 2018 HRK 664,442 thousand).

Revenue from gas sales in 2019 relates to the sale of gas on the wholesale market in the amount of HRK 971,856 thousand and to the sale of gas to gas supply customers in the amount of HRK 380,747 thousand (in 2018 gas sales on the wholesale market amounted to HRK 935,695 thousand and sales gas to gas supply customers HRK 987,064 thousand).

Territorial business 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 revenues generated by the Group from active parts of operations from external electricity customers:

| <i>HRK '000</i> | 2019 | 2018 |
|--------------------------|-------------------|-------------------|
| Croatia | 11,223,110 | 10,687,377 |
| European Union countries | 859,629 | 899,216 |
| Third countries | <u>451,891</u> | <u>220,947</u> |
| | 12,534,630 | 11,807,540 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

6. OTHER OPERATING INCOME

| <i>HRK '000</i> | 2019 | 2018 |
|---|----------------|----------------|
| Income from property financed from the connection fee | 377,585 | 319,745 |
| Collected value-adjusted receivables (Note 22) | 101,614 | 54,822 |
| Revenues from external services | 46,337 | 47,680 |
| Penalty charges | 30,564 | 42,908 |
| Revenues from sales of materials | 44,502 | 37,652 |
| Income from cancellation of provisions for payments under the collective agreement | - | 12,752 |
| Income from cancellation of long-term provisions for severance pay and jubilee awards | - | 5,119 |
| Revenues from cancellation of long-term provisions for litigation | 45,382 | 34,612 |
| Pre-bankruptcy receivables collected | 7,396 | 6,891 |
| Collected written-off receivables | 10,790 | 5,325 |
| Revenues based on court costs on lawsuits | 13,933 | 7,011 |
| Gains from sale of tangible assets | 6,226 | 5,192 |
| Over calculated last year fee on CO ₂ emissions for electricity generation | 11,905 | 11,428 |
| Revenues from subsidies, grants, recourses and compensation | - | 3,170 |
| Other operating income NPPs Krško | 49,590 | 9,141 |
| Other | 227,013 | 200,111 |
| | 972,837 | 803,559 |

7. PURCHASE COSTS

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| The cost of purchasing electricity | 3,508,877 | 2,831,169 |
| Fuel cost | 1,691,121 | 1,695,300 |
| The cost of purchasing gas for sale in the wholesale market | 1,152,889 | 1,183,002 |
| Gas supply costs - market supply | 174,093 | 778,658 |
| Cost of purchased material | 174,011 | 194,169 |
| | 6,700,991 | 6,682,298 |

Procurement of electricity and gas refers to procurement outside the system for sale on the wholesale market and end customers.

Procurement of fuel (coal, liquid fuel and gas) refers to procurement outside the electricity generation system in thermal power plants.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

8. EMPLOYEE COSTS

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| Net salaries | 1.094.263 | 1.044.604 |
| Net salaries NPP Krško | 100.063 | 94.258 |
| Tax and contribution costs | 684.589 | 662.213 |
| Costs of taxes and contributions from the salaries of NPP Krško | 43.459 | 40.145 |
| | <hr/> | <hr/> |
| | 1.922.374 | 1.841.220 |

Total contributions for pension funds amounted to HRK 308.001 thousand during 2019 (in 2018: HRK 293.072 thousand),

Remuneration to members of the Management Board and executive directors of the Group companies:

| <i>HRK '000</i> | 2019 | 2018 |
|---------------------------------|---------------|---------------|
| Gross salaries | 30.883 | 30.215 |
| Pension insurance contributions | 6.769 | 6.677 |
| Other benefits | 3.247 | 3.759 |
| | <hr/> | <hr/> |
| | 40.899 | 40.651 |

Compensation for Supervisory Board members:

| <i>HRK '000</i> | 2019 | 2018 |
|-------------------------|-------------|-------------|
| Fees | 335 | 278 |
| Taxes and contributions | 25 | 23 |
| | <hr/> | <hr/> |
| | 360 | 301 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

9. OTHER OPERATING EXPENSES

| HRK '000 | 2019 | 2018 |
|--|------------------|------------------|
| Maintenance costs | 642,767 | 569,419 |
| Value adjustment of trade receivables (Note 22) | 182,625 | 452,582 |
| Unclaimed receivables written off | 19,827 | 11,612 |
| Costs of external services and materials | 528,952 | 501,244 |
| Billable services and materials | 95,290 | 87,839 |
| Procurement of energy savings | 17,600 | - |
| Cost of CO ² emission units | 403,428 | 263,125 |
| Write-off of property, plant and equipment | 37,812 | 26,653 |
| Value adjustment of inventories | 9,282 | 18,884 |
| Value adjustment of property plant and equipment | 87,483 | 96,014 |
| Value adjustment of long-term intangible assets | 2,770 | 10,178 |
| Employee cost compensation | 123,839 | 117,175 |
| Other material rights of employees | 121,148 | 97,958 |
| NPP Krško – costs of decommissioning by Government decision | 105,618 | 105,613 |
| Contributions, taxes and fees to the state | 101,662 | 102,129 |
| Contributions and concessions for water | 78,206 | 73,541 |
| Fee for the use of power plant space | 91,899 | 99,675 |
| Fee for water purification and drainage | 12,853 | 14,040 |
| Cost of materials sold | 24,933 | 25,740 |
| Billing and collection costs | 35,381 | 27,866 |
| Reservation by litigation | 56,554 | 11,188 |
| Provisions for unused vacations | 6,757 | 8,613 |
| Reservation for severance pay and jubilee awards | 101,612 | 65,765 |
| Provisions for severance pay based on termination of employment contract | 7,966 | 33,403 |
| Provision for decommissioning of thermal power plants | 16,799 | 22,255 |
| Insurance premiums | 10,710 | 10,918 |
| Damages | 20,099 | 28,438 |
| Other expenses | 184,323 | 133,103 |
| | 3,128,195 | 3,014,970 |

Compensation of employees includes transportation costs to work in 2019 in the amount of HRK 73,560 thousand (in 2018: HRK 70,168 thousand), per diems and travel expenses in 2019 in the amount of HRK 28,680 thousand (in 2018: HRK 24,550 thousand), supplementary health insurance in the amount of HRK 6,962 thousand (in 2018: HRK 7,372 thousand) and other similar expenses in 2019 in the amount of HRK 14,637 thousand (in 2018: HRK 15,085 thousand). The costs of material rights of employees include benefits according to the Collective Agreement. Most of them relate to payments under the Collective Agreement in the amount of HRK 107,184 thousand, and to a lesser extent to solidarity benefits, benefits for separated life, assistance to children and others.

Notes to the consolidated financial statements (continued)**For the year ended 31 December 2019****10. FINANCIAL INCOME / EXPENSES**

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| Financial revenues | | |
| Positive exchange rate differences | 29,874 | 80,627 |
| Net interest income | 14,086 | 9,417 |
| Change in fair value of cross-currency swap | 226,744 | 197,972 |
| Dividend income | 4,730 | 18 |
| Other financial income | 5,665 | 935 |
| NPP Krško - interest | 100 | 1,108 |
| Total financial income | 281,199 | 290,077 |
| Financial expenditures | | |
| Interest expense | (178,859) | (191,345) |
| Negative exchange rate differences | (75,936) | (68,037) |
| NPP Krško - interest | (1,368) | (934) |
| Other financial expenses | (2,453) | (5,388) |
| Total financial expenses | (258,616) | (265,704) |
| Capitalized borrowing costs | 1,455 | 359 |
| Financial expenses recognized in the statement of profit or loss | (257,161) | (265,345) |
| Net financial gain | 24,038 | 24,732 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

11. PROFIT TAX

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| Current tax | (261,000) | (345,898) |
| Deferred tax recognized in profit or loss | (54,695) | 27,461 |
| Income tax | (315,695) | (318,437) |

The adjustment of deferred tax assets is as follows:

| <i>HRK '000</i> | 2019 | 2018 |
|---|----------------|----------------|
| Balance as of 1 January | 962,466 | 610,389 |
| Previous period adjustment - application of IFRS 15 | - | 324,616 |
| Balance as of 1 January | 962,466 | 935,005 |
| Abolition of deferred tax assets | (126,639) | (100,436) |
| Recognition of deferred tax assets | 77,381 | 127,897 |
| Balance as of 31 December | 913,208 | 962,466 |

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.

The reconciliation between income taxes and profit or loss in the statement of profit or losses shown as follows:

| <i>HRK '000</i> | 2019 | 2018 |
|---|------------------|------------------|
| Pre-tax profit | 1,718,340 | 1,683,189 |
| Income tax at the tax rate in use in the Republic of Croatia (18%) | (309,301) | (302,974) |
| The effect of non-taxable income | 111,322 | 119,750 |
| The effect of non-tax-deductible expenses | (53,413) | (157,453) |
| The effect of the difference in the tax rate of subsidiaries abroad | 89 | 68 |
| Previously unrecognized tax losses used | 64 | 531 |
| Loss-making companies | (9,761) | (5,820) |
| Tax effects of temporary differences | (54,695) | 27,461 |
| Income tax | (315,695) | (318,437) |
| Our effective tax rate was | 18% | 19% |

Most of the Group's subsidiaries are liable to pay income tax in accordance with the tax laws and regulations of the Republic of Croatia. Subsidiaries within the Group reported tax losses in the amount of HRK 191,034 thousand (2018: HRK 304,834 thousand), while the Group calculated income tax in the amount of HRK 261,000 thousand (2018: HRK 345,898 thousand) and deferred tax assets in the amount of HRK 54,695 thousand (2018: 27,461 thousand).

Realized tax losses can be transferred and recognized as a deductible item in the calculation of taxes in subsequent tax periods until their statutory expiry date, which is 5 years from the end of the year in which the tax losses occurred.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

11. INCOME TAX (continued)

The Group's tax losses and their expiration dates are shown in the following table:

| Year of tax loss | Total tax loss of the Group | Year of termination of transfer possibilities |
|------------------|--------------------------------|---|
| | HRK '000 | |
| 2015 | 69,009 | 2020 |
| 2016 | 26,221 | 2021 |
| 2017 | 9,243 | 2022 |
| 2018 | 32,334 | 2023 |
| 2019 | 54,227 | 2024 |
| | 191,034 | |

Group companies that operate continuously at a loss do not recognize deferred tax assets. The Company makes a profit and has no tax losses to carry over. In accordance with Croatian regulations, it is not possible to use tax losses on a consolidated basis. Each individual company determines its tax liability.

As at 31 December 2019 deferred tax assets arising from transferred tax losses in the amount of HRK 191,034 thousand were not recognized.

In accordance with tax regulations, the Tax Administration may at any time review the books and records of the Company and its subsidiaries for a period of three years after the end of the year in which the tax liability is stated, and may impose additional tax liabilities and penalties. The Company's management is not aware of any circumstances that could lead to potential significant liabilities in this regard.

In 2018, the Tax Administration conducted tax supervision for 2016 in the subsidiary HEP - Toplinarstvo d.o.o. and HEP - Opskrba d.o.o.. HEP - Toplinarstvo d.o.o. has filed an appeal based on 2016 tax supervision in 2019 and a decision is pending. The Management Board of the Company does not expect a material impact under the supervision. Tax supervision in 2018 for 2016 began in the subsidiary HEP - Telekomunikacije d.o.o. and was completed in 2019.

In 2019, the Tax Administration conducted tax supervision in the subsidiary HEP - Operator distribucijskog sustava d.o.o. regarding the observance of payment due dates.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

11. INCOME TAX (continued)

The table below summarizes the changes in deferred tax assets during the year:

| <i>HRK '000</i> | Value adjustment of inventories | Provisions for jubilee awards and severance payments | Depreciation above prescribed rates | Provisions for MTM bonds | Value adjustment of real estate, plant and equipment | Carried forward tax losses | Other | Total |
|---|---------------------------------------|---|---|-----------------------------|--|----------------------------------|----------------|----------------|
| 1 Jan 2018 | 43,763 | 92,897 | 11,265 | 90,941 | 337,825 | - | 358,314 | 935,005 |
| Booked to the credit and debit of the current year's profit and loss account | 3,126 | 8,799 | 2,007 | (35,635) | (10,703) | - | 59,867 | 27,461 |
| 31 Dec 2018 | 46,889 | 101,696 | 13,272 | 55,306 | 327,122 | - | 418,181 | 962,466 |
| Booked to the credit and debit of the current year's profit and loss account | 1,928 | 17,837 | 1,198 | (40,814) | (6,303) | - | (23,104) | (49,258) |
| 31 Dec 2019 | 48,817 | 119,533 | 14,470 | 14,492 | 320,819 | - | 395,077 | 913,208 |

The item "Other" mostly refers to the recognition of deferred tax assets due to the adoption of IFRS 15. With the adoption of IFRS 15, revenue from electricity connections is deferred over the life of the contract and recognized over time.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT

| <i>HRK '000</i> | Land and buildings | Inventory and equipment | Tangible assets under construction | Advances | Total |
|---|-------------------------------|--|---|-----------------|-------------------|
| Purchase value | | | | | |
| On 1 January 2018 | 39,739,857 | 49,263,043 | 2,412,224 | 15,252 | 91,430,376 |
| Transfers | 21,592 | (21,338) | (188) | | 66 |
| Additions | 3,573 | 174,577 | 1,784,247 | 71,984 | 2,034,381 |
| Additions NEK | - | - | 291,798 | (66) | 291,732 |
| Activation of ongoing investments | 494,043 | 1,762,607 | (2,256,650) | - | - |
| Activation of investments in progress by NEK | 17,651 | 268,759 | (286,410) | - | - |
| Disposals | (63,229) | (409,656) | (8,190) | - | (481,075) |
| As at 31 December 2018 | 40,213,487 | 51,037,992 | 1,936,831 | 87,170 | 93,275,480 |
| Transfers | 84,478 | 46,713 | (132,788) | - | (1,597) |
| Additions | 51,447 | 260,152 | 2,840,139 | 60,187 | 3,211,925 |
| Additions NEK | - | - | 262,292 | (19) | 262,273 |
| Activation of ongoing investments | 429,302 | 1,078,551 | (1,507,853) | - | - |
| Activation of investments in progress by NEK | 2,131 | 266,496 | (268,627) | - | - |
| Disposals | (111,356) | (539,100) | (9,348) | - | (659,804) |
| Transfer to investment property | (40,118) | - | - | - | (40,118) |
| As at 31 December 2019 | 40,629,371 | 52,150,804 | 3,120,646 | 147,338 | 96,048,159 |
| Accumulated Depreciation | | | | | |
| On 1 January 2018 | 27,661,197 | 32,751,150 | - | - | 60,412,347 |
| Depreciation expense for the year | 677,438 | 1,150,734 | - | | 1,828,172 |
| Depreciation expense for the year for NEK | 26,500 | 90,515 | - | - | 117,015 |
| Impairment | 5,957 | 88,301 | - | - | 94,258 |
| Transfers | 2,105 | (2,048) | - | - | 57 |
| Deregistered by alienation | (56,284) | (383,660) | - | - | (439,944) |
| As at 31 December 2018 | 28,316,913 | 33,694,992 | - | - | 62,011,905 |
| Depreciation for the year | 671,984 | 1,204,769 | - | - | 1,876,753 |
| Depreciation expense for the year for NEK | 26,808 | 103,881 | - | - | 130,689 |
| Impairment | 22,457 | 55,615 | - | - | 78,072 |
| Transfers | 27,199 | 3,980 | - | - | 31,179 |
| Deregistered by alienation | (106,053) | (523,182) | - | - | (629,235) |
| Transfer to investment property | (31,414) | - | - | - | (31,414) |
| As at 31 December 2019 | 28,927,894 | 34,540,055 | - | - | 63,467,949 |
| CARRYING AMOUNT | | | | | |
| As at 31 December 2019 | 11,701,477 | 17,610,749 | 3,120,646 | 147,338 | 32,580,210 |
| As at 31 December 2018 | 11,896,574 | 17,343,000 | 1,936,831 | 87,170 | 31,263,575 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group owns a large number of properties, however the ownership of individual properties has not been fully resolved. The Group is in the process of registering ownership of the Group's real estate. Due to the large number of properties, there is a possibility that not all properties owned by the Group are recorded in the business books. There is also a possibility that real estate where the Group has no registered ownership is recorded in the business books.

On 27 June 2013, the Management Board of the Company issued a Decision on measures and activities related to resolving the ownership status of the Company's real estate and subsidiaries.

The Decision sets tasks and deadlines for the purpose of submitting proposals to the competent land registry courts for the purpose of registering property rights. Activities on arranging the land registry will continue in 2019.

As at 31 December 2019 property, plant and equipment were not given as collateral for bonds issued and loans received.

13. ASSETS WITH THE RIGHT TO USE

| <i>HRK '000</i> | Land and buildings | Inventory and equipment | Total |
|-----------------------------------|-----------------------------------|--|----------------|
| PURCHASE VALUE | | | |
| 31 December 2018 | - | - | - |
| 1 January 2019 | 17,752 | - | 17,752 |
| Additions | 4,610 | 4,241 | 8,851 |
| Additions NEK | - | - | - |
| 31 December 2019 | 22,362 | 4,241 | 26,603 |
| ACCUMULATED DEPRECIATION | | | |
| 31 December 2018 | - | - | - |
| 1 January 2019 | - | - | - |
| Depreciation expense for the year | (6,290) | (820) | (7,110) |
| 31 December 2019 | (6,290) | (820) | (7,110) |
| CARRYING AMOUNT | | | |
| 31 December 2019 | 16,072 | 3,421 | 19,493 |
| 31 December 2018 | - | - | - |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

14. INTANGIBLE ASSETS

| <i>HRK '000</i> | Goodwill | Licenses, software | Intangible assets under construction | Total |
|-----------------------------------|-----------------|-------------------------------|---|----------------|
| PURCHASE COST | | | | |
| 31 December 2017 | - | 859,116 | 30,335 | 889,451 |
| Transfers | - | (66) | - | (66) |
| Increase | - | 17,422 | 32,535 | 49,957 |
| Asset activation in preparation | - | 6,840 | (6,840) | - |
| Disposals | - | (280) | (10,178) | (10,458) |
| 31 December 2018 | - | 883,032 | 45,852 | 928,884 |
| Transfers | - | 1,597 | - | 1,597 |
| Increase | 59,444 | 26,855 | 37,012 | 63,867 |
| Asset activation in preparation | - | 36,074 | (36,074) | - |
| Disposals | - | (13,146) | (2,770) | (15,916) |
| 31 December 2019 | 59,444 | 934,412 | 44,020 | 978,432 |
| Accumulated Depreciation | | | | |
| 31 December 2017 | - | 648,614 | - | 648,614 |
| Transfers | - | (57) | - | (57) |
| Depreciation expense for the year | - | 56,168 | - | 56,168 |
| Disposals | - | (271) | - | (271) |
| 31 December 2018 | - | 704,454 | - | 704,454 |
| Transfers | - | 179 | - | 179 |
| Depreciation expense for the year | - | 54,829 | - | 54,829 |
| Disposals | - | (12,584) | - | (12,584) |
| 31 December 2019 | - | 746,878 | - | 746,878 |
| CARRYING AMOUNT | | | | |
| December 31, 2019 | 59,444 | 187,534 | 44,020 | 231,554 |
| December 31, 2018 | - | 178,578 | 45,852 | 224,430 |

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. and IE - Nekretnine d.d. and was fully 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. As at 31 December 2019 the Group performed an impairment test of goodwill with the conclusion that it is not necessary to perform impairment in thousands of HRK.

31 Dec 2019

Goodwill

| | |
|--------------------------------|---------------|
| Energy park Korlat d.o.o. | 31,083 |
| Plin VTC d.o.o. | 10,474 |
| Solar power plant Poreč d.o.o. | 270 |
| IE - Nekretnine d.d. | 17,617 |
| Total | 59,444 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

15. Investment property

As at 31 December 2019 and 2018 investment property includes real estate held for the purpose of earning income from leases and / or increasing the value of capital and are stated at fair value. Fair value includes the estimated market price at the end of the reporting period. All investment property is owned by the Group.

Estimates of the fair value of real estate were performed by the official appraisers or internal services of the Group whose estimate is based on available market price information of real estate at appropriate positions. These prices were collected from various sources, including available statistics from the Central Bureau of Statistics, the Real Estate Agency, the Croatian Chamber of Commerce and the like. These values of average realized prices are adjusted for the characteristics and specifics of individual properties.

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| At fair value | | |
| At fair value | 303,726 | 305,630 |
| Net change in value based on fair value adjustment | 18,308 | (1,904) |
| Transfer from real estate | 8,704 | - |
| Year-end balance at fair value | 330,738 | 303,726 |

As at 31 December 2019 there are no investment properties given as collateral.

At the end of the reporting period, no significant capital expenditures were contracted without being recognized as liabilities.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

16. INVESTING IN NPP KRŠKO

Investment history

At the end of 2001, the Contract was signed between the Government of the Republic of Croatia and the Government of the Republic of Slovenia to regulate the status and other legal affairs related to the investment, exploitation and decommissioning of Krško Nuclear Power Plant (NPP) and the Contract between HEP d.d. and ELES GEN d.o.o.

The treaty was ratified by the Parliament of the Republic of Croatia in mid-2002 and entered into force on 11 March 2003 after being ratified by the Parliament of the Republic of Slovenia on 25 February 2003.

This contract recognizes the previously revoked ownership rights of HEP dd in the newly formed company NE Krško in the amount of 50% of the share in the power plant. Both sides agreed that the life of the power plant is at least until 2023. The produced electricity is delivered in a ratio of 50:50 for both contracting parties, and the price of the delivered energy is determined according to the actual production costs.

The agreement also clearly defines, for the first time, the obligation of the Republic of Croatia to dispose of half of the radioactive waste and spent nuclear fuel from the Krško NPP. Each state has an obligation to provide half of the necessary funds to finance the costs of developing the decommissioning program and the costs of implementing the program. Each Party shall allocate funds for these purposes to its separate fund in the amounts provided for in the decommissioning programs. In accordance with the current Program for the Decommissioning of NPP Krško and Disposal of Radioactive Waste and Spent Nuclear Fuel, HEP dd is obliged to pay funds to the Fund in the amount of EUR 14,250 thousand per year.

Current situation

Payments into the Fond for financing the decommissioning of NPP Krško

Pursuant to the Decree on the amount, deadline and manner of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP adopted by the Government of the Republic of Croatia on 24 December 2008. HEP dd paid into the Fund for financing the decommissioning of NPP Krško the amount of HRK 1,693,146 thousand during the period from 2006-2019. The amount of the payment is determined by the document Decommissioning Program from 2004. The current annual liability in the amount of EUR 14,250 thousand is paid into the Fund on a quarterly basis.

Life extension

After NPP Krško received an operating permit from the Slovenian Nuclear Safety Administration without a time limit in 2012, at the beginning of 2016, HEP d.d. and GEN energija d.o.o. decided to extend the operating life of the power plant until 2043. The decision was made with the consent of the Interstate Commission for NPP Krško and was preceded by an economic study on the profitability of investments in long-term operation of the power plant.

Accounting monitoring of the joint venture of NPP Krško

In the consolidated financial statements, the Group applies the method of joint management of assets and liabilities and presents its share in each asset and each liability, income and expense in accordance with IFRS 11. The following table shows an excerpt from the financial statements of NPP Krško doo in 100% amounts as at 31 December 2019 and 31 December 2018:

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|-------------------------------------|-------------|-------------|
| Property, plant and equipment | 3,105,654 | 2,839,470 |
| Equity and reserves | 3,274,006 | 3,268,569 |
| Gross sales revenue | 1,291,302 | 1,172,816 |
| Cash flow from operating activities | 334,916 | 333,732 |
| Profit for the year | - | - |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

17. INVESTMENTS ACCOUNTED USING THE SHARE METHOD

Hrvatska elektroprivreda d.d. (hereinafter: HEP d.d.) and Plinacro d.o.o. concluded on 1 June 2010 the Articles of Association on the establishment of LNG HRVATSKA d.o.o. for liquefied natural gas operations by which LNG HRVATSKA d.o.o. became the holder of the LNG terminal project on Krk. Based on the Articles of Association, HEP d.d. and Plinacro d.o.o. became members and co-owners of the company LNG HRVATSKA d.o.o., each with 50%- membership, management and property rights.

Pursuant to the decision of the Government of the Republic of Croatia on declaring the LNG terminal project (construction of a liquefied natural gas reception terminal on the island of Krk, Omišalj Municipality) a strategic investment project of the Republic of Croatia (OG 78/15) of 16 July 2015, the LNG terminal construction project was declared strategic investment project of the Republic of Croatia.

In November 2015, the European Commission adopted a list of projects of common interest (PCI) containing a list of key energy infrastructure projects, including the LNG terminal on the island of Krk. LNG Croatia has concluded agreements with INEA (Innovation and Networks Executive Agency) for co-financing of the project and permit documentation and a contract for co-financing of works.

The Liquefied Natural Gas Terminal Act (OG 57/18), adopted by the Parliament on 18 June 2018 stipulates that the construction of an LNG terminal is in the interest of the Republic of Croatia, and the company LNG Hrvatska d.o.o. will implement the project.

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Investments calculated using the equity method: | | |
| Investments in LNG Hrvatska d.o.o. | - | 23,512 |
| Cropex | <u>2,500</u> | <u>591</u> |
| | 2,500 | 24,103 |

The following table shows an excerpt from the financial statements of companies that are accounted for using the 100% equity method as at 31 December 2019 and 31 December 2018.

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|-------------------------------------|--------------------|--------------------|
| LNG HRVATSKA d.o.o. | | |
| Property, plant and equipment | - | 120,569 |
| Equity and reserves | - | 19,409 |
| Sales income | - | 47 |
| Cash flow from operating activities | - | (13,227) |
| Loss for the financial year | - | (7,328) |

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|-------------------------------------|--------------------|--------------------|
| Cropex d.o.o. | | |
| Property, plant and equipment | 4,422 | 105 |
| Equity and reserves | 52 | 2,616 |
| Sales income | 8,195 | 6,478 |
| Cash flow from operating activities | - | - |
| Loss for the financial year | 1,807 | (379) |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

18. LONG-TERM LOANS GIVEN

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|---|--------------|---------------|
| Receivables for housing loans | 6,090 | 9,559 |
| Receivables for loans granted | - | 35,645 |
| Current maturity of long-term loans granted | - | - |
| Expected credit losses | - | - |
| The long-term portion | 6,090 | 45,204 |

Prior to 1996, the Group sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of these assets was mainly on credit and sales receivables, which have an interest rate lower than the market rate, are repaid monthly over a period of 20 to 35 years. Receivables from the sale of apartments were transferred to newly established affiliates on 1 July 2002. These receivables are stated in the consolidated financial statements at a discounted net present value, determined using an interest rate of 7.0%. Liabilities to the state, which represent 65% of the value of apartments sold, are stated in other long-term liabilities (Note 30). Receivables are secured by mortgages on sold apartments.

Loans granted to affiliates:

| | Interest Rate | Year of loan approval | Repayment period | Approved loan amount in 000 EUR | 31 Dec 2019 | 31 Dec 2018 |
|------------------------------|---------------|-----------------------|------------------|---------------------------------|-------------|---------------|
| LNG Hrvatska d.o.o. | | 2015 | 5 years | 4,900 | - | 35,645 |
| The long-term portion | | | | | - | 35,645 |

As at 31 December 2019 the outstanding loan to LNG Hrvatska d.o.o. was transferred to its current maturity in full.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

19. TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Initial balance of assets at fair value through other comprehensive income | 196,716 | 283,578 |
| Previous period adjustment - application of IFRS 9 | - | (22,178) |
| Balance of assets at fair value through other comprehensive income as at 1 January 2018 | 196,716 | 261,400 |
| Changes in the fair value of assets | 58,291 | (64,684) |
| Closing balance of assets at fair value through other comprehensive income | 255,007 | 196,716 |

Changes in financial assets at fair value through other comprehensive income shown in the table above are presented in gross amount.

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|---|--------------------|--------------------|
| Investments through other comprehensive income (equity securities) | | |
| Jadranski Naftovod d.d. | 253,711 | 195,411 |
| Viktor Lenac d.d. | - | 128 |
| Đuro Đaković d.d. | 5 | 5 |
| Kraš d.d. | - | 3 |
| Pevec d.d. | - | 6 |
| Jadran d.d. | - | 204 |
| Elektrometal d.d. | 40 | 40 |
| Optima Telekom d.d. | - | 186 |
| Institut IGH d.d. | - | 136 |
| Međimurje beton d.d. | 153 | 153 |
| HTP Korčula d.d. | - | 66 |
| Lanište d.o.o. | - | 110 |
| Pominvest d.d. | 35 | 35 |
| Konstruktor Inženjering d.d. in bankruptcy | 233 | 233 |
| Helios Faros | 18 | - |
| Other | 812 | - |
| Total investments through other comprehensive income | 255,007 | 196,716 |

In 2019 and 2018 the fair valuation was made on the basis of the notification of the Central Depository and Clearing Company on the account balance as at 31 December. The market price of the share of Jadranski naftovod d.d. as at 31 December 2019 is HRK 4,700 and as at 31 December 2018 HRK 3,620. Fair valuation of investments in Jadranski naftovod d.d. as at 31 December 2019 increased the value of investments by HRK 58,300 thousand, and as at 31 December 2018 it decreased by HRK 85,290 thousand. The effect of fair valuation in 2019 and 2018 was conducted through reserves.

Notes to the consolidated financial statements (continued)**For the year ended 31 December 2019**

20. OTHER LONG-TERM RECEIVABLES

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Trade receivables from energy efficiency projects - long-term part | <u>1,782</u> | <u>15,738</u> |
| | 1,782 | 15,738 |

21. INVENTORIES

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|---|--------------------|--------------------|
| Inventories of fuel and chemicals | 118,994 | 113,583 |
| Electrical and mechanical materials | 416,587 | 447,957 |
| Spare parts | 228,812 | 205,449 |
| Construction materials | 12,726 | 12,289 |
| Wholesale gas supplies | 400,886 | 375,950 |
| Stocks of CO2 emission units | 528,494 | 234,050 |
| Energy saving inventories in final consumption | 10,314 | 25,593 |
| Other inventories | 58,616 | 61,143 |
| Nuclear fuel inventory NPP Krško | 158,333 | 223,543 |
| Other material inventory NPP Krško | <u>103,958</u> | <u>106,791</u> |
| | 2,037,720 | 1,806,348 |
| Value adjustment of obsolete material and spare parts | <u>(268,458)</u> | <u>(259,176)</u> |
| | 1,769,262 | 1,547,172 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

22. TRADE RECEIVABLES

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|----------------------------------|--------------------|--------------------|
| Electricity - economy | 1,467,930 | 1,515,436 |
| Electricity - households | 487,403 | 579,469 |
| Electricity - abroad | 127,335 | 148,111 |
| Thermal energy, gas and services | 1,038,756 | 1,066,272 |
| Trade receivables NPP Krško | 19,509 | 8,696 |
| Other | 112,865 | 71,038 |
| | 3,253,798 | 3,389,022 |
| Expected credit losses | (1,083,983) | (1,188,390) |
| | 2,169,815 | 2,200,632 |

The table below shows the age structure of outstanding trade receivables:

| 31 Dec 2019 | Undue | Up to 30 days | From 31-60 days | From 61-90 days | From 91-180 days | From 181-365 days | 365 and more days | Total |
|---------------------------------------|-----------|---------------|-----------------|-----------------|------------------|-------------------|-------------------|--------------------|
| Expected credit losses | | | 1.5% | 3% | 9% | 30% | 90% | |
| Gross book value of trade receivables | 1,650,160 | 290,081 | 97,219 | 44,699 | 47,773 | 25,949 | 1,097,917 | 3,253,798 |
| Expected credit losses | - | - | (1,458) | (1,341) | (4,300) | (7,785) | (1,069,099) | (1,083,983) |
| 31 Dec 2018 | Undue | Up to 30 days | From 31-60 days | From 61-90 days | From 91-180 days | From 181-365 days | 365 and more days | Total |
| Expected credit losses | | | 1.5% | 3% | 9% | 30% | 90% | |
| Gross book value of trade receivables | 1,550,159 | 311,907 | 122,541 | 65,369 | 76,237 | 49,591 | 1,213,218 | 3,389,022 |
| Expected credit losses | - | - | (1,838) | (1,961) | (6,861) | (14,877) | (1,162,853) | (1,188,390) |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

22. TRADE RECEIVABLES (continued)

The changes in impairment adjustments were as follows:

| <i>HRK '000</i> | 2019 | 2018 |
|----------------------------------|------------------|------------------|
| Balance as of 1 January | 1,188,390 | 835,640 |
| Change in expected credit losses | (185,418) | (45,010) |
| Write-off | 182,625 | 452,582 |
| Corrected receivables collected | (101,614) | (54,822) |
| Balance as of 31 December | 1,083,983 | 1,188,390 |

23. OTHER CURRENT RECEIVABLES

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Income tax receivables | 99,165 | 72,053 |
| VAT receivables | 101,393 | 166,522 |
| Advances for working capital | 255,732 | 15,298 |
| Receivables from the state for employees | 3,663 | 4,163 |
| Deposits and time deposits for a period longer than 3 months | 69,219 | 99,573 |
| Deposits and time deposits for a period longer than 3 months NPP Krško | 40,834 | 111,464 |
| Short-term loans in the country - reprogram | - | 14,896 |
| Receivables of HEP-ESCO d.o.o. from the beneficiaries of the energy efficiency project | 21,172 | 9,989 |
| Long-term receivables for sold apartments | 5,215 | 5,919 |
| Receivables for invoiced RES - HROTE fee | 31,799 | 31,858 |
| Other receivables NPP Krško | 2,303 | 2,466 |
| Other current receivables | 65,461 | 70,729 |
| | 695,956 | 604,930 |

The weighted average interest rate on deposits is 0.177911179 %.

24. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Share in investment funds – foreign currency | 64,686 | 74,972 |
| Share in investment funds – Croatian kuna | 100,499 | 100,126 |
| | 165,185 | 175,098 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

25. CASH AND CASH EQUIVALENTS

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Accounts in HRK | 2.240,715 | 2,228,672 |
| Foreign currency accounts | 583,760 | 282,725 |
| Money set aside | 58,388 | 35,445 |
| Kuna cash registers | 217 | 198 |
| Deposits with a maturity of up to 90 days | 82,844 | 60,704 |
| Daily time deposits | 384,103 | 172,361 |
| Transaction and foreign currency account - NPP Krško | 167 | 122 |
| Transaction account IE - Real Estate | 1,551 | - |
| Transaction account Sunčana elektrana Poreč | 410 | - |
| | 3,352,155 | 2,780,227 |

Structure of foreign currency accounts by currency:

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|------------------|--------------------|--------------------|
| EUR | 576,876 | 271,208 |
| USD | 2,212 | 6,989 |
| GBP | 4,039 | 3,370 |
| Other currencies | 633 | 1,157 |
| | 583,760 | 282,724 |

26. 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.

Retained earnings in the amount of HRK 5,671,268 thousand include profit reserves in the amount of HRK 487,707 thousand, retained earnings in the amount of HRK 3,779,558 thousand and current year profit attributed to the owner in the amount of HRK 1,404,003 thousand.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

27. LIABILITIES UNDER ISSUED BONDS

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Value of bonds abroad from 2015 | 3,573,685 | 3,612,610 |
| Exchange Rate Adjustment | 12,140 | (46,645) |
| Discount | 7,199 | 7,720 |
| | 3,593,024 | 3,573,685 |
| Cost allocation by bond | (9,838) | (13,310) |
| Bonds issued in 2015 | 3,583,186 | 3,560,375 |
| Investing in bonds | (64,261) | - |
| Exchange Rate Adjustment | (221) | - |
| | (64,482) | - |
| Total liabilities by issued bonds | 3,518,704 | 3,560,375 |

Bonds issued abroad in 2015

In October 2015, the Company issued corporate bonds in the amount of \$ 550,000 thousand, with a discount, with a maturity of 7 years and a fixed interest rate of 5.875% per annum. Bonds issued in 2015 were mostly used for repurchasing of 83.37% of the amount of bonds issued in 2012 (i.e. repurchase of \$ 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. The fair value of bonds, less the repurchased amount of bonds with a nominal value of \$ 9,752 thousand as at 31 December 2019 amounts to \$ 593,451 thousand (equivalent to HRK 3,946,396 thousand).

During 2019 the Company repeatedly purchased its own bonds on the secondary market in the total amount of HRK 64.482 thousand, which reduced the total book value of the corporate bond as at 31 December 2019 by the redemption.

Derivative financial instruments

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 Group concluded a Cross currency swap agreement by which the dollar bond liability was converted into a euro liability for the entire life of the bonds, i.e. until maturity on 23 October 2022.

According to the currency exchange agreement from 2015, the annual interest rate paid by the Group is fixed and amounts to 4.851% (weighted interest rate) and is payable semi-annually (the interest rate also includes the cost of exchange or swap).

The purpose of the Cross currency swap agreement is to reduce currency risk and credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Group's business results.

The Group's fair value of derivative financial instruments is linked to the Mark to market value "MTM", according to official calculations of banks, for the reporting period.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

27. LIABILITIES BY ISSUED BONDS (continued)

The positive value of "MTM" is recorded as a receivable, i.e. it 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 a derivative financial instrument, the receivable or liability in question will be reversed to the expense or expense of the Group.

As at 31 December 2019 the fair value of liabilities for bonds issued in the 2015 was HRK 80,511 thousand (2018: HRK 307,255 thousand; Note 30).

28. BANK OVERDRAFTS AND LOANS

| HRK '000 | Interest rates | 31 Dec 2019 | 31 Dec 2018 |
|--|------------------|-----------------|----------------|
| Loans from domestic banks | Variable | - | 75,898 |
| Loans from foreign banks | Fixed / Variable | 221,725 | 257,144 |
| Finance leasing | Fixed | 3,005 | 6,413 |
| Loans from participating interest companies | | 27,687 | - |
| Loans NPP Krško | | 155,736 | - |
| | | <u>408,153</u> | <u>339,455</u> |
| Total long-term loan liabilities | | 408,153 | 339,455 |
| Differentiation of loan fees | | <u>(3,229)</u> | <u>(3,526)</u> |
| Total long-term loan liabilities | | 404,924 | 335,929 |
| Current loan maturity | | (36,286) | (112,061) |
| Current maturity of financial leasing (Note 34) | | (3,005) | (3,418) |
| Current maturity of loans of companies related to the participating interest | | <u>(18,565)</u> | <u>-</u> |
| The long-term part | | 347,068 | 220,450 |

The Company contracted loans with domestic and foreign banks with applicable variable and fixed interest rates, which in 2019 ranged from 0.44% to 2.48%. The Group also has a financial lease with a fixed interest rate of 5.6%.

Loans from domestic banks are secured by bills of exchange and promissory notes. As at 31 December 2019 the Group has no debt covered by the guarantee of the Republic of Croatia.

Since 2019 the Group has a contractual loan with Plinacro d.o.o. which is contracted with the company LNG Hrvatska doo with a variable interest rate which at the date of the statement of financial position amounts to 3.96%.

In 2019 the loan of Privredna banka Zagreb dd was approved, which was approved to the company NEK (Nuklearna elektrana Krško d.o.o.), and 50% of the value of the said loan was stated on the day of the statement of financial position at an interest rate of 1%.

Loans in use

To finance the investment plan and operating activities in 2019 the Company used its own funds and funds from the loan in use.

On 24 July 2018 a Loan Agreement was signed with the EBRD and the EIB for the purpose of financing the construction project of KKE EL-TO Zagreb in the amount of EUR 130 million, of which EUR 87 million relates to the EBRD, and to the EIB EUR 43 million. The EBRD loan consists of two tranches, namely Tranche A (EUR 43,5 million) provided by the EBRD independently and Tranche B (EUR 43,5 million) in which the commercial banks' union participates.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

28. LIABILITIES UNDER LONG-TERM LOANS (continued)

In December 2018, the use of loans from the EBRD and the EIB began to finance the construction project KKE EL-TO Zagreb.

During 2019 there were no withdrawals on these loans.

As at 31 December 2019, the balance of used long-term loans amounts to EUR 6,9 million from the EBRD and EUR 3,4 million from the EIB. The use of the loan was agreed until July 20, 2021.

Repayment plan for principal of long-term loans maturing in the next five years:

| | HRK '000 |
|------------|----------------|
| 2020 | 57,856 |
| 2021 | 48,928 |
| 2022 | 58,899 |
| 2023 | 58,899 |
| 2024 | 22,614 |
| After 2024 | 157,728 |
| | 404,924 |

In 2019 two loans contracted with the Croatian Bank for Reconstruction and Development were repaid in full. The Group had EUR 118,76 million under the first contracted loan, and EUR 4,24 million under the second contracted loan.

Loans from domestic banks are secured by bills of exchange and promissory notes, while loans with development banks, the EBRD and the EIB are financed in the form of financial indicators according to which the Group is obliged to meet certain prescribed levels of the following indicators on an annual and semi-annual basis: net financial debt / EBITDA, EBITDA / net financial expenses, net financial debt / total net value.

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

The contracted financial indicators are monitored and calculated based on the projected statement of financial position and income statement.

The Group prepares preliminary calculations of financial indicators in the forthcoming medium-term period and monitors their trend.

As at 31 December 2019 the Group met all contracted financial indicators.

The Group's total exposure based on contracted credit indebtedness related to financial indicators as at 31 December 2019 amounts to EUR 10,290 thousand.

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

| Currency | 31 Dec 2019 | 31 Dec 2018 |
|----------|-------------|-------------|
| EUR | 50,686 | 45,288 |

For the purpose of securing liquidity reserves in the next medium-term period, the Company has concluded multi-purpose framework agreements with domestic banks as at 31 December 2019 in the total amount of up to HRK 600 million.

The Company may use the funds from these frameworks for short-term loans, and the issuance of guarantees, letters of credit, letters of intent in accordance with the needs of the Group companies. During 2019 short-term

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

lines were used exclusively for the purpose of issuing guarantees and opening letters of credit, and they did business equally with all banks.

From the aforementioned medium-term multi-purpose frameworks, in 2019 the Group did not have the need to conclude short-term loans due to good liquidity.

As at 31 December 2019 the total amount of available funds from the short-term framework amounts to HRK 509.500 thousand.

29. LONG-TERM PROVISIONS

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|--|------------------|------------------|
| Reversal of provisions for legal disputes | 277,189 | 275,079 |
| Provisions for severance pay | 594,676 | 494,845 |
| Provisions for severance pay and jubilee fees of Krško NPP | 43,401 | 38,694 |
| Provisions for jubilee awards | 44,086 | 41,373 |
| Provision for decommissioning of a thermal power plant | 213,073 | 194,404 |
| Reservation for electricity supplied from wind farms | 21,631 | 21,631 |
| Reservations other Krško NPP | 1,344 | 1,465 |
| | 1,195,400 | 1,067,491 |

The amount of provisions for decommissioning costs of thermal power plants in the amount of HRK 213,073 thousand represents the discounted value of the estimated cost of decommissioning of the Group's thermal power plants.

The table below summarizes the changes in provisions during the presented period:

| HRK '000 | Reversal of provisions for legal disputes | Provisions for severance pay | Provisions for jubilee awards | Provisions for thermal power plant decommissioning | Other | Total |
|--|---|------------------------------|-------------------------------|--|---------------|------------------|
| On 1 January 2018 | 298,504 | 482,100 | 46,083 | 170,149 | 21,631 | 1,018,467 |
| Transfers | - | 394 | 16 | - | - | 410 |
| Additional provisions | 11,186 | 61,446 | 273 | 24,255 | - | 97,160 |
| Reduction of provisions based on payment | (30,776) | (8,902) | (3,743) | - | - | (43,421) |
| Reduction of provisions based on estimates | (3,835) | (34) | (1,256) | - | - | (5,125) |
| As at 31 December 2018 | 275,079 | 535,004 | 41,373 | 194,404 | 21,631 | 1,067,491 |
| Transfers | - | - | - | - | 1,344 | 1,344 |
| Additional provisions | 56,554 | 115,947 | 8,736 | 20,669 | - | 201,906 |
| Reduction of provisions based on payment | (9,062) | (12,874) | (6,023) | - | - | (27,959) |
| Reduction of provisions based on estimates | (45,382) | - | - | (2,000) | - | (47,382) |
| As at 31 December 2019 | 277,189 | 638,077 | 44,086 | 213,073 | 22,975 | 1,195,400 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

29. LONG-TERM PROVISIONS (continued)

Reversal of provisions for litigations

The Group reserves costs for litigation that is estimated to be unlikely to be resolved in favour of the Company and its subsidiaries. The most significant litigation relates to disputes where the defendant is the Company. In the Company, the most significant provisions relate to the dispute related to HPP Peruća, which began in 1995. for which a first-instance verdict was rendered in 2012 in favour of the plaintiff. The value of the dispute is around HRK 330,000 thousand, and funds in the amount of 50% of the value of the dispute in the amount of HRK 165,000 thousand have been reserved.

In 2019 there were no changes that would indicate the need to change the amount of provisions.

Other major disputes of the Company relate to the Rijeka - Zagreb Motorway, where funds in the amount of 50% of the value of the dispute in the amount of HRK 10,203 thousand are reserved.

Several lawsuits are being filed against the company HEP - Proizvodnja d.o.o., for which the company has made a provision. The most significant of them was the dispute with the company Sanac d.o.o., which ended, and on 31 December 2018 provision in the amount of HRK 9,710 thousand was cancelled.

Provisions for severance pay and jubilee awards

Changes in the present value of defined liabilities based on employee benefits in the current period are shown below:

| HRK '000 | Severance payments | Jubilee awards | Total |
|-------------------------------------|--------------------|----------------|----------------|
| 1 January 2018 | 429,489 | 46,083 | 475,572 |
| NPP Krško | 52,611 | - | 52,611 |
| 1 January 2018 | 482,100 | 46,083 | 528,183 |
| Running costs | 20,362 | 2,421 | 22,783 |
| Interest costs | 8,806 | 726 | 9,532 |
| Paid income | (8,130) | (4,625) | (12,755) |
| Past labour costs | (4,519) | (369) | (4,888) |
| Actuarial (losses) | 48,837 | (2,863) | 45,974 |
| 31 December 2018 | 547,456 | 41,373 | 588,829 |
| NPP Krško | (12,452) | - | (12,452) |
| Total as at 31 December 2018 | 535,004 | 41,373 | 576,377 |
| Running costs | 26,035 | 2,813 | 28,848 |
| Interest costs | 3,187 | 235 | 3,422 |
| Paid income | (12,874) | (6,023) | (18,897) |
| Past labour costs | 5,776 | 683 | 6,459 |
| Actuarial gains/(losses) | 77,707 | 5,005 | 82,712 |
| 31 December 2019 | 634,835 | 44,086 | 678,921 |
| NPP Krško | 3,242 | - | 3,242 |
| Total as at 31 December 2019 | 638,077 | 44,086 | 682,163 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

29. LONG-TERM PROVISIONS (continued)

The following assumptions were used in making the calculations:

- The termination rate ranges from 0 to 5.74 and is based on statistics on employee turnover in the Group in the period from 2006 to 2019
- The probability of death by age and sex was derived from the Mortality Tables for Croatia in the period from 2010 to 2012 published by the Central Bureau of Statistics of the Republic of Croatia. It is assumed that the Group's employees are among the average population in terms of mortality and health status.
- The planned growth of annual salaries is 2%.
- The following discount rates were applied to calculate the present value of the liability:
 - 1.1% (HEP Opskrba d.o.o., HEP ESCO d.o.o., HEP Trgovina d.o.o., HEP Telekomunikacije d.o.o., LNG Hrvatska d.o.o.)
 - 0.6% (HEP Toplinarstvo d.o.o., HEP d.d., HEP ELEKTRA d.o.o., HEP Plin d.o.o., HEP Upravljanje imovinom d.o.o., HEP NOC, HEP ODS d.o.o., HEP VHS Zaprešić d.o.o., Plin VTC d.o.o.)
 - 0.4% (HEP Proizvodnja d.o.o.)

30. OTHER LONG-TERM LIABILITIES

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|------------------|------------------|
| Deferred income for property financed by others | 6,277,103 | 6,209,712 |
| Long-term liabilities for assets financed from clearing debt | 800,982 | 779,214 |
| Long-term liabilities to the state | 7,660 | 10,281 |
| Derivative financial liabilities by swap transactions (Note 27) | 80,511 | 307,255 |
| Other long-term liabilities | 11,243 | 19,234 |
| | 7,177,499 | 7,325,696 |

Deferred income refers to income for received property or property financed from the connection fee. Income from these assets is recognized at the same time as the depreciation of the tangible assets to which it relates, which is valid for network connection agreements concluded with customers until 30 June 2009. After 1 July 2009, the connection fee is recognized as revenue in the amount of money received from the customer at the time the customer connects to the network or when he is given permanent access to the delivery of the service.

As at 31 December 2019 the Company has a stated liability for clearing debt in the amount of HRK 800,982 thousand (2018: HRK 779,214 thousand), which relates to payments from letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of Russia Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. The process of negotiations on the manner of settling the assumed debt between the competent ministry and the Company is ongoing.

Long-term liabilities to the state in the amount of HRK 7,660 thousand in 2019 (2018: HRK 10,281 thousand) relate to the sale of apartments to employees in accordance with the state program that was abolished in 1996. According to legal regulations, 65% of the income from the sale of apartments to employees was paid to the state upon receipt of funds. By law, the Company and its subsidiaries have no obligation to remit funds before collecting them from employees.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

31. TRADE PAYABLES

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Domestic trade accounts payable | 1,673,198 | 1,610,060 |
| Foreign trade accounts payable | 437,443 | 114,071 |
| Liabilities to suppliers within the EU | 119,071 | 174,911 |
| Liabilities to suppliers – NPP Krško | 11,713 | 152,634 |
| | <hr/> | <hr/> |
| | 2,241,425 | 2,051,676 |

32. LIABILITIES FOR TAXES AND CONTRIBUTIONS

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|---|--------------------|--------------------|
| VAT liabilities | 33,193 | 116,192 |
| Utility and other fees | 38,472 | 17,241 |
| Contributions on salaries | 20,219 | 19,307 |
| Taxes and contributions on material rights of employees | 6,932 | 4,668 |
| Other | 3,277 | 3,441 |
| | <hr/> | <hr/> |
| | 102,093 | 160,849 |

33. Liabilities to employees

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|--|--------------------|--------------------|
| Salaries | 85,831 | 76,308 |
| Liabilities for contributions and taxes | 38,239 | 33,999 |
| Liabilities for severance pay for retirement | 16,216 | 3,982 |
| Wage liabilities NPP Krško | 12,533 | 9,899 |
| Other | 20,942 | 17,369 |
| | <hr/> | <hr/> |
| | 173,761 | 141,557 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

34. Other current liabilities

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|--|------------------|------------------|
| Liabilities for received advances for connections | 535,378 | 478,849 |
| Liabilities for other advances received | 191,826 | 145,422 |
| Deferred LNG income from grants | 552,951 | - |
| Calculated costs for CO ₂ emissions | 403,428 | 263,125 |
| Interest liabilities | 36,229 | 39,308 |
| Calculated costs of unused vacations | 76,646 | 69,608 |
| Calculated income from the sale of electricity to households | 3,716 | 6,250 |
| Liabilities for calculated solidarity compensation | 15,046 | 14,765 |
| Liabilities for renewable energy charges | 135,640 | 135,053 |
| Calculated severance payments to workers | 10,517 | 33,403 |
| Other accrued expenses | 6,612 | 6,271 |
| Current maturity of financial leasing (Note 28) | 3,005 | 3,418 |
| Obligations of NPP Krško | 15,535 | 35,292 |
| Other liabilities | 51,119 | 37,992 |
| | 2,037,648 | 1,268,756 |

The calculated revenues from the sale of electricity to households in the amount of HRK 3,716 thousand in 2019 and HRK 6,250 thousand in 2018 are based on the calculation of the correction of household revenues obtained by calculating the logarithmic curve. The correction of household income as at 31 December 2019 was obtained by calculating the logarithmic curve using network losses of 7.68% while for the year ended 31 December 2018 the stated percentage of losses used in the calculation was 7.75%. In 2019 the result of the correction is an increase in revenue in the amount of HRK 2,534 thousand compared to 2018 and after this correction, a liability in the amount of HRK 3,716 thousand was stated. In 2018 the result was a decrease in revenue in the amount of HRK 37,349 thousand compared to 2017 and a liability in the amount of HRK 6,250 thousand was stated.

Pursuant to the Air Protection Act and related bylaws in the field of greenhouse gas emissions, the Company is classified as a payer of the EU ETS system and nine of HEP's plants have been in the EU-ETS system since 1 January 2013.

The Group has obtained greenhouse gas emission permits for all nine HEP plants located in the EU-ETS and monitors emissions from the plants in accordance with the approved Monitoring Plans and submits data on CO₂ emissions to all 9 accounts opened in the European Union Register no later than 31 March each year for the previous calendar year.

Based on the verification of CO₂ emissions by an independent accredited body, the Group shall submit the amount of allowances to the Union Registry by 30 April of the current year at the latest, corresponding to the verified total greenhouse gas emissions from the installation in the previous calendar year, according to the verified report.

HEP's EU-ETS plants submitted to the EU Register emission allowances in the quantities of verified emissions for 2013, 2014, 2015, 2016, 2017, 2018 and 2019.

Accordingly, the costs of purchasing greenhouse gas emissions consist of the amount of CO₂ emitted (eq) and the unit price of emission units that the Group calculates on accruals (accrued costs) and expenses for the period in the year in which the greenhouse gas emissions occurred.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

35. RELATED PARTY RELATIONS

The company has a 50% share in the capital of NPP Krško. Although the investment in NPP Krško is shown in the financial statements as joint assets (joint operations), since NPP Krško is a separate legal entity, we disclose transactions between NPP Krško and the Company here.

The produced electricity in NPP Krško is delivered to HEP in the amount of 50% of the total produced quantities at a price determined by the total production costs.

Receivables and liabilities and income and expenses with related parties are presented in the following table:

| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 |
|---------------------------------------|--------------------|--------------------|
| NPP Krško | | |
| Liabilities for purchased electricity | 51,158 | 49,580 |
| Costs of purchased electricity | 596,260 | 577,283 |

Remuneration of the Management Board is explained in Note 8.

| <i>HRK '000</i> | Revenues | | Expenditures | |
|--|-----------------|----------------|---------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Companies that are partially owned by the State | | | | |
| Croatian Railways Group Company | 109,923 | 111,473 | 3 | 54 |
| INA- INDUSTRIJA NAFTE D.D. | 149,176 | 165,828 | 1,134,276 | 1,411,177 |
| Plinacro d.o.o. | 3,228 | 593 | 84,948 | 146,150 |
| Hrvatska pošta d.d. | 21,757 | 22,751 | 23,314 | 38,564 |
| Hrvatske šume d.o.o. | 5,047 | 5,481 | 21,403 | 3,108 |
| Jadrolinija d.o.o. | 1,139 | 1,245 | 2,257 | 852 |
| Narodne novine d.d. | 2,044 | 2,234 | 2,372 | 4,174 |
| Croatian Radio-Television | 13,295 | 12,839 | 2,157 | 1,566 |
| Plovput d.d. | 765 | 696 | 152 | 149 |
| Croatia Airlines d.d. | 779 | 776 | 31 | - |
| Ministry of defence | 18.991 | 20.280 | - | - |
| Ministry of the Interior | 25.806 | 26.333 | 19 | - |
| MZO, elementary and secondary schools | 49.330 | 46.346 | 31 | 41 |
| Judicial institutions | 6.831 | 7.578 | 34 | 86 |
| Universities and polytechnics | 25.983 | 27.133 | 1.820 | 2.215 |
| Legislatures The Republic of Croatia | 22.360 | 22.512 | 4.916 | 4.965 |
| Healthcare institutions | 152.128 | 151.654 | 570 | 550 |
| HROTE d.o.o. | 360.388 | 272.747 | 816.382 | 971.638 |
| TOTAL | 968.970 | 898.499 | 2.094.685 | 2.585.289 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

35. RELATED PARTY RELATIONS (continued)

| | Receivables | | Liabilities | |
|--|------------------------|------------------------|------------------------|------------------------|
| <i>HRK '000</i> | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| Companies that are partially owned by the State | | | | |
| Croatian Railways Group Companies | 27,007 | 28,242 | 2 | 37 |
| INA-industrija nafte d.d. | 15,784 | 15,185 | 59,676 | 170,712 |
| Plinacro d.o.o. | 464 | 669 | 10,999 | 19,580 |
| Hrvatska pošta d.d. | 2,546 | 3,794 | 8,979 | 8,568 |
| Hrvatske šume d.o.o. | 1,114 | 1,112 | 496 | 263 |
| Jadrolinija d.o.o. | 189 | 239 | 37 | 45 |
| Narodne novine d.d.. | 387 | 406 | 517 | 797 |
| Croatian Radio- Television | 1,623 | 2,109 | 791 | 12 |
| Plovput d.d. | 121 | 84 | 32 | 44 |
| Croatia Airlines d.d. | 75 | 111 | - | - |
| Ministry of defence | 1,476 | 3,602 | - | - |
| Ministry of the Interior | 4,042 | 6,909 | - | - |
| MZO, elementary and secondary schools | 4,695 | 8,155 | - | - |
| Judicial institutions | 820 | 847 | - | - |
| Universities and polytechnics | 2,301 | 3,916 | - | - |
| Legislative bodies of the Republic of Croatia | 2,037 | 3,907 | - | - |
| Healthcare institutions | 17,933 | 32,283 | - | - |
| HROTE d.o.o. | 49,008 | 14,026 | 102,828 | 77,541 |
| TOTAL | 131,622 | 125,596 | 184,357 | 277,599 |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

36. CONTINGENCIES AND COMMITMENTS

Disputes

In 2019 the Group entered provisions for legal disputes that was estimated to be unlikely to be resolved in favour of HEP dd and its subsidiaries.

The Group has long-term investments in the territory of Bosnia and Herzegovina and Serbia, in the amount of HRK 1,243,970 thousand. During the conversion of the Company into a joint stock company in 1994 this amount was excluded from the net asset value.

The Group has long-term investments in non-business assets in the territory of Bosnia and Herzegovina and Montenegro in the amount of HRK 722 thousand, which is excluded from the net asset value.

Operating liabilities

As part of regular investment activities, the Group had concluded contracts as at 31 December 2019 according to which investments in various facilities and equipment have begun but not been completed. In 2019 the value of contracted work in progress for the most significant projects amounted to HRK 2,658,274 thousand (2018: HRK 1,932,701 thousand).

Environmental protection

The company continuously monitors and analyses the impact of its business processes on the environment. The most important indicators of such impacts are emissions of pollutants into the air and the amount of generated industrial waste, about which the Company timely and objectively reports to the relevant institutions, local governments and the interested public. The company reports on its impacts on the environment, economy and society through non-financial sustainability reports prepared according to the guidelines of the GRI-Global Reporting Initiative, and from 2017 according to the GRI standard guidelines and publishes them on its website <http://www.hep.hr/on-hep-group/publications/report-on-sustainability/1401>. The employees dealing with nature and environmental protection are additionally trained in seminars and workshops, within which they are informed about the obligations and activities arising from the provisions of legislation in the field of nature and environmental protection.

The company has a system for monitoring environmental protection expenditures (RETZOK), which since 2004 has been monitoring expenditures for nature and environmental protection.

All HEP thermal power plants with a rated thermal input of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry of Environmental Protection and Energy. By the decision of the Management Board of the Company in 2012, the greenhouse gas emissions trading system was established, and the Republic of Croatia and HEP joined the European Greenhouse Gas Emissions Trading System (EU-ETS). On 1 January 2013, based on the Company's request, the Croatian Environment and Nature Agency (merged with the Ministry of Environmental Protection and Energy since 1 January 2019) opened nine Plant Operator Accounts in the EU register. The company has successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2018, and for 2019 the data on verified CO₂ emissions have been entered and the verifier is awaiting confirmation. Preparations of the HEP Group's facilities for the fourth trading period of EU-ETS greenhouse gas emission units, which starts on 1 January 2021 are in progress and will last until 31 December 2030.

In 2019 the non-financial sustainability report for 2018 for the HEP Group according to the guidelines of the Global Reporting Initiative Standard (GRI Standard) was completed. The Sustainability Report is published on the Company's website in Croatian and English and in printed form.

36. CONTINGENCIES AND COMMITMENTS (continued)

Report on the status of preparation of the non-financial report on the Group's sustainability for 2019

The preparation of a separate non-financial report on the Group's sustainability for 2019 is underway. In accordance with the provisions of the Accounting Act (OG 78/15 and 120/16), the non-financial report will be published on HEP's website no later than 6 months from the date of the report on the financial position, i.e. by 30 June 2020. The report will be published, as well as the previous four non-financial reports on sustainability at the following link <http://www.hep.hr/on-hep-group/publications/report-on-sustainability/1401>.

In compiling the report, the HEP Group uses the guidelines of the Global Reporting Initiative Standard (GRI Standard) and the indicators in the said standard - general and standard indicators and the sector supplement for the energy sector.

Indicative content of the 2019 sustainability report:

- Editorial by the President of the Management Board
- HEP's approach to sustainability, including goals, the way in which sustainability is implemented and responsible business, how they are integrated into business policies, description of sustainability risks
- Material topics (description and impact assessments), sustainability framework according to the goals of sustainable development of the United Nations
- Stakeholder analysis. Stakeholder involvement. Explanation of report boundaries.
- Business transparency including management approach, principles of corporate governance, ethical business, expertise and work responsibility, transparency of communication and information (all according to the required GRI indicators). Responsibility in the work environment, data related to employees (and prescribed by GRI indicators), safety and protection at work. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- Market access. HEP Group in market operations. General approach. Business and responsibility, especially for HEP Group companies. Describes the most important trends related to market operations, supply chain, according to the requirements of GRI indicators. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- Caring for the environment. Data on environmental protection, investments, projects, initiatives. The data are listed according to the areas of environmental protection (business segments). Data are given according to GRI indicators.
- The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- Investing in the community. Various forms of community investment, cooperation with stakeholders, dialogue, information and educational campaigns, initiatives aimed at cooperation and the like are described. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- List of indicators.
- HEP-Proizvodnja d.o.o. has introduced and certified an integrated environmental, quality and energy management system in accordance with international standards ISO 14001:2015, ISO 9001:2015 and ISO 50001:2018 with its 35 components, it is among the largest environmental, quality and energy management systems in Republic of Croatia.
Efficient management of quality, environment and energy is part of the business strategy of HEP-Proizvodnja d.o.o. in the production of electricity and heat and the provision of ancillary services to the electricity system.
- Certification according to ISO 14001:2015, ISO 9001:2015 and ISO 50001: 2018 was conducted and confirmed by the certification company TÜV Croatia d.o.o.
- As one of the largest production companies in Croatia, and considering the activities in which the number of employees is engaged, HEP-Proizvodnja d.o.o. is aware of its impact on the environment, and considering the introduced environmental, quality and energy management systems, it has adopted an Environmental, Quality Management Policy. and energy with which it has opted for achieving maximum operational readiness and reliability of production capacities with the implementation of environmental protection measures and increasing the share of electricity and heat production in the regional market based on the principles of environmentally friendly production, energy efficiency and sustainable business.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

- Hrvatska elektroprivreda d.d. has become the holder of the certificate of the integrated quality management system, environmental protection, energy and health and safety at work according to the international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. At the same time, the Company HEP-Upravljanje imovinom d.o.o. in the segment of operations the form an inseparable whole with HEP d.d., also has become the holder of the certificate also according to international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. In addition to other system documents that require standards, the Management Board of HEP d.d. has adopted an umbrella document - Quality Policy, Environmental Protection, Energy Management and Health and Safety at Work of HEP dd and HEP - Property Management Ltd. (PDF), which expresses its commitment to maintenance and continuous improvement of the integrated management system. As part of the certification process, through 85 days of workshops, a total of 87 employees were certified, namely 54 internal auditors and 33 lead auditors.
- The customer service of HEP-Opkrba d.o.o. with its exceptional commitment and high level of service provided was the first in Croatia to receive the ISO 9001:2015 certificate for the quality of service. In the second part of 2017 preparations for the certification of the Customer Service for ISO 9001:2015 began actively. The process was successfully completed in the planned period and the Customer Service received ISO certification for a period of three years with mandatory recertification audits each year.
- The protection of workers' health and safety, environmental protection and efficient energy management are part of the business strategy of HEP - Distribution System Operator d.o.o. (HEP ODS). The environmental management system according to the international standard ISO 14001 is the first management system certified at the level of 21 distribution areas and HEP-ODS headquarters in 2013. In 2018 the transition of this system to the requirements of the new ISO 14001:2015 standard was successfully implemented. The occupational health and safety management system was established in 2015 and in 2017 it was successfully certified for the first time according to the OHSAS 18001:2007. In 2019 the transition of this system to the requirements of the ISO 45001:2018 2018 standard was successfully implemented. The basic commitment of HEP-ODS in energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network through the implemented energy management system according to ISO 50001:2011 which is confirmed by TÜV Croatia d.o.o.
- The introduction of an integrated quality management system, environmental protection and energy in HEP - Toplinarstvo d.o.o. is underway. Quality management systems according to the ISO 9001:2015 and the environment according to ISO 14001:2015 have been introduced, and the introduction of an energy management system according to ISO 50001: 2011 is in progress.

Water Act

The Water Act, which entered into force on 1 January 2010 raised the issue of property status; accumulation lakes and ancillary facilities (canals, embankments, etc.), which is used for the production of electricity from hydropower plants for the reason that they are defined as a public water resource in general use owned by the Republic of Croatia. HEP Group acquired the said property through toll collection from their previous owners, by uniting an extremely large number of plots, which were submerged by the construction of the dam and thus an accumulation was created. Several proceedings are underway to register the ownership of the Republic of Croatia on these properties, part of which was carried out in favour of the Republic of Croatia, part of the request for registration of ownership of the Republic of Croatia was rejected by the competent courts, and one is pending.

In May 2018, the Act on Amendments to the Water Act (OG No. 46/18) entered into force, according to which the Republic of Croatia establishes the right to build for constructed water structures for the production of electricity built and invested by HEP d.d., that is, its predecessors, in favour of HEP dd, free of charge for a period of 99 years. An exception to the establishment of building rights is provided for parts of water structures that consist of reservoirs, inflow and outflow channels and tunnels. During the construction right in question, HEP dd acquires the right to manage the public good / land on which the buildings for the production of electricity were built, as well as the accumulations and supply and drainage canals and tunnels on behalf of the Republic of Croatia. The right of management includes, inter alia, the right to use the real estate in question.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

36. CONTINGENCIES AND COMMITMENTS (continued)

Water Act (continued)

In order to implement the provisions of the Act on Amendments to the Water Act (OG No. 46/18), HEP d.d. is obliged to initiate relevant procedures for registration of these rights in the land register and to obtain an appropriate subdivision study which must be harmonized with Croatian Waters and which will be the basis for the issuance of a tabular document for the registration of construction rights over the buildings in question. An appropriate subdivision study will also be the basis for the correct classification of fixed assets between the groups of intangible and tangible assets, which is currently recorded in the business books of HEP Group in the total amount as tangible assets.

Wholesale gas market supply

The Act on Amendments to the Gas Market Act (OG 16/17) appointed Hrvatska elektroprivreda - a joint stock company as a supplier on the wholesale gas market from 1 April 2017 until the tender for the selection of suppliers on the wholesale gas market. The supplier in the wholesale market sells gas to suppliers in the public service for the needs of customers from the category of households at a regulated selling price and is obliged to ensure a reliable and secure gas supply.

By the decision of HERA on the amount of tariff items for the public gas supply service for the period from 1 April to 31 July 2018 the price of gas did not change compared to the price valid until 31 March 2018. Until 31 July 2018 the selling price of gas was determined by Decisions of the Government of the Republic of Croatia, and from 1 August 2018 it is determined through the Methodology for Determining Tariff Items for the Public Gas Supply Service and Guaranteed Supply (OG 34/18). In accordance with the Methodology, for the period from 1 August 2018 to 31 March 2019 the selling price also did not change compared to the current one, which amounted HRK 0,1809 / kWh. In accordance with the Methodology, the selling price of gas for the period from 1 April 2019 to 31 March 2020, amounts HRK 0,1985 / kWh.

The Gas Market Act (OG 18/18) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. HERA conducted tenders for the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021 (15 May and 13 June 2018). As no bids were received for tenders, in accordance with the provisions of the Act, on 27 June 2018, HERA, in consultation with the Ministry of Environmental Protection and Energy, appointed HEP dd as a supplier on the wholesale market for a shorter period than the Act, i.e. 1 August 2018 to 31 March 2019. HERA conducted a public tender for the selection of suppliers in the wholesale market in the period from 25 January 2019 to 5 February 2019 and for the period from 1 April 2019 to 31 March 2021. No bids were received for the tender, and again, by the Decision on determining the OVT for the period from 1 April 2019 to 31 March 2020, appointed HEP d.d. as a supplier on the wholesale gas market.

The Law on Amendments to the Gas Market Act, from 1 April 2017, abolished the obligation to supply natural gas to the natural gas producer as well as the regulated price at which it was obliged to sell gas to the supplier on the wholesale gas market for the needs of customers using the public supply service.

In accordance with the Law on Amendments to the Law on the Gas Market, 60%, i.e. 61 packages of storage capacity in the underground gas storage were allocated.

In the period from 1 April 2014 to 31 March 2015, HEP d.d., as a supplier on the wholesale market, contracted a lease of capacity of 3,600 million kWh, in the period from 1 April 2015 to 31 March 2016, 3.550 million kWh, in the period from 1 April 2016 to 31 March 2017, 3.500 million kWh while in the period from 1 April 2017 to 31 March 2022, a contracted capacity of 3.050 million kWh.

The cost of purchasing gas for market supply in 2019 amounts to HRK 174,093 thousand (in 2018: 778,658) 2019, and the cost of purchasing gas for sale on the wholesale market is HRK 1,152,889 thousand (2018: HRK 1,183,002 thousand)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

37. SUBSIDIARY UNDERTAKINGS

As at 31 December 2019 the Company owned the following subsidiaries:

| Subsidiary | Land | Ownership share (%) | Core Business |
|--|----------|---------------------|--|
| 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 |
| HEP ESCO d.o.o. | Croatia | 100 | Financing |
| 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 | Recreation and recreation services |
| HEP NOC Velika | 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 | Cross-border electricity trading |
| HEP Energija d.o.o. | BIH | 100 | Cross-border electricity trading |
| HEP Energija sh.p.k. | Kosovo | 100 | Cross-border electricity trading |
| HEP Energija d.o.o. | R Serbia | 100 | Cross-border 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 | Electricity generation |
| PLIN VTC d.o.o. | Croatia | 100 | Gas distribution and supply |
| SUNČANA ELEKTRANA POREČ d.o.o. | Croatia | 100 | Electricity generation |
| IE – NEKRETNINE d.d. | Croatia | 100 | Real estate trading |
| LNG Hrvatska d.o.o. | Croatia | 84.18 | Liquefied natural gas business |
| NPP Krško d.o.o. | Slovenia | 50 | Electricity generation |

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

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 sole owner is HEP Plin d.o.o. since April 2019 ENERGETSKI PARK KORLAT d.o.o. whose sole owner is HEP d.d. since 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 the company HEP dd since July 2019 Furthermore, on 1 April 2019, HEP dd became the majority owner of LNG Hrvatska doo, and 1 April 2019 is the date of acquisition of control over the subsidiary and from that date LNG Hrvatska doo is included in the consolidation of the Group. In previous periods, investments in the company LNG Hrvatska doo were recognized and subsequently measured by the equity method.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

38. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages capital to ensure that the Group will be able to continue with indefinite life while at the same time increasing returns to owners through optimizing the debt-to-equity ratio.

The Group's funding structure consists of debt, which includes loans and bonds issued in Notes 27 and 28, cash and cash equivalents and equity attributable to owners, which consists of share capital, legal and other reserves and retained earnings.

Indebtedness indicator

The Management Board monitors the structure of funding sources on a semi-annual basis. As part of this monitoring, Management considers the cost of funding and the risks associated with each of the classes of funding sources. The year-end debt-to-equity ratio can be shown as follows:

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|---------------------------|--------------------|--------------------|
| Debt | 3,923,628 | 3,896,304 |
| Cash and cash equivalents | <u>(3,352,155)</u> | <u>(2,780,227)</u> |
| Net debt | 571,473 | 1,116,077 |
| Capital | <u>25,572,710</u> | <u>24,369,398</u> |
| Net debt to equity ratio | <u>2%</u> | <u>5%</u> |

Categories of financial instruments

| HRK '000 | 31 Dec 2019 | 31 Dec 2018 |
|---|-------------|-------------|
| Financial assets | | |
| Total financial assets at fair value through other comprehensive income | 255,007 | 196,716 |
| Trade receivables | 2,169,815 | 2,200,632 |
| Cash and cash equivalents | 3,352,155 | 2,780,227 |
| Loans | 116,147 | 235,491 |
| Financial liabilities | | |
| Liabilities under issued bonds | 3,518,704 | 3,560,375 |
| Liabilities under loans | 404,924 | 335,929 |
| Derivatives | 80,511 | 307,255 |
| Liabilities to suppliers | 2,241,425 | 2,051,676 |
| Lease liabilities | 20,127 | - |

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

38. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management goals

The treasury function within the HEP Group provides support to companies, coordinates access to domestic and international money and capital markets, monitors and manages financial risk related to the Group's operations through internal risk reports that analyse exposure by degree and degree of risk impact. These risks include market risk (including currency risk, fair value interest rate risk, and price risk), credit risk, liquidity risk, and cash flow interest rate risk.

Market risk

Market risk exposure is monitored and managed through sensitivity analysis. There were no changes in the Group's exposure to market risk or the way the risk is managed and measured.

Currency risk management

The Group performs certain transactions denominated in foreign currencies, which give rise to exposure to changes in foreign exchange rates. The exchange rate exposure is managed within the approved policy parameters using foreign exchange contracts.

The carrying amount of the Group's cash and liabilities denominated in foreign currencies at the reporting date is as follows:

| HRK '000 | Assets | | Liabilities | |
|----------|-------------|-------------|-------------|-------------|
| | 31 Dec 2019 | 31 Dec 2018 | 31 Dec 2019 | 31 Dec 2018 |
| EUR | 205,341 | 167,563 | 660,581 | 542,978 |
| USD | 10,117 | 1,181 | 125,284 | 122,084 |

Foreign currency sensitivity analysis

The Group is exposed to currency risk in the event of changes in the exchange rates of the euro (EUR) and the US dollar (USD). The following table presents an analysis of the effects of changes in the exchange rate of the kuna through an increase or decrease in value by 10% against the euro and the US dollar. The 10% rate is used in the Management Board's internal reporting on foreign exchange risk and represents the Management Board's assessment of reasonably possible changes in foreign exchange rates. The analysis is performed only for receivables and liabilities denominated in foreign currency and represents the adjustment of their value at the end of the period for a change in the exchange rate of 10%. Sensitivity analysis also includes external loans denominated in a currency other than the currency of the lender or borrower. The positive / negative amount below in the table indicates an increase in profit or other components of capital when the kuna would strengthen by 10%. against the relevant currency. In the event of a 10% depreciation of the kuna against the relevant currency, the effect would be the same, but in a negative amount.

| HRK '000 | 2019 | 2018 |
|---|---------|---------|
| Impact of changes in the EUR exchange rate | | |
| Profit or loss | 338,816 | 278,463 |
| Impact of changes in the USD exchange rate | | |
| Profit or loss | 76,585 | 78,214 |

Interest rate risk management

The Group is exposed to interest rate risk because it enters into loan agreements with variable interest rates. The Group's exposure to interest rates on financial assets and liabilities is presented in detail under the subheading *Liquidity risk management*. The Group manages this risk by maintaining an appropriate fixed and floating rate loan ratio in its loan portfolio.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

38. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity analysis

An analysis of the effects of changes in interest rates was performed for financial instruments for which the Group is exposed to interest rate risk at the date of the consolidated statement of financial position. For variable interest rates, the analysis was made on the assumption that the outstanding amount of liabilities at the date of the consolidated statement of financial position was outstanding throughout the year. The rate change of 50 base units is used for the purposes of internal reporting to the Management Board on interest rate risk and represents the Management Board's assessment of reasonably possible changes in interest rates.

In case of increase or decrease of interest rates by 50 base units, and all other variables remain unchanged:

- Profit for the year ended 31 December 2019 would be reduced by HRK 380 thousand (2018: HRK 441 thousand), based on interest rate risk exposure. This can be mainly attributed to the Group's exposure to interest rates on floating rate loans; 1.94% of the Group's indebtedness is at a variable interest rate (2018: 3.18%)
- the Group's sensitivity to interest rates decreased during the current period due to the reduced share of borrowings contracted at variable interest rates in total debt and due to low reference interest rates on the market

Credit risk management

Credit risk refers to the risk that the other party will fail to meet its contractual obligations resulting in a financial loss to the Group. The Group is the largest producer of electricity in the Republic of Croatia and as such, has a public obligation to provide its services to all consumers, at all locations in the country, regardless of the credit risk associated with certain consumers. Trade receivables, net, are distributed to a significant number of customers, in different industries and geographical areas.

The Group has no significant credit risk exposure to any customer or company of customers with similar characteristics. A group defines customers to have similar characteristics if they are related persons.

Credit risk related to trade receivables relates primarily to receivables from economic entities, especially those in a difficult financial situation. Credit risks related to claims on households are limited due to the possibility of disconnection from the supply network. The carrying amount of financial assets presented in the consolidated financial statements, net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of collateral collected.

Liquidity risk management

The ultimate responsibility for liquidity risk management lies with the Company's Management Board, which has built an appropriate liquidity risk management framework to manage the short-term, medium-term and long-term liquidity management needs of the Group. The Group manages this risk by maintaining adequate reserves, loans from banks and other sources of financing, by constantly monitoring projected and actual cash flows and comparing the maturity profiles of financial assets and liabilities.

Tables for interest rate risk and liquidity risk

The following table details the Group's remaining contractual maturities for non-derivative financial assets. The table has been prepared based on undiscounted cash flows of financial assets including interest on those assets that will be earned other than on the assets that the Group expects cash flows to occur in another period.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

38. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management

Maturity of non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for non-derivative financial liabilities. The table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| HRK '000 | Average Weighted Effective Interest % | Up to 1 month | From 1 to 3 months | From 3 months up to 1 year | From 1 to 5 years | Over 5 years | Total |
|--------------------------------|---|------------------|--------------------------|----------------------------------|----------------------|-----------------|------------------|
| 31 Dec 2019 | | | | | | | |
| Liabilities under issued bonds | 4.85% | - | - | 172,175 | 3,893,409 | - | 4,065,584 |
| Liabilities under loans | 1.20% | 1,009 | 1,217 | 61,578 | 200,771 | 166,101 | 430,676 |
| Liabilities to suppliers | | 1,393,655 | 752,999 | 94,771 | - | - | 2,241,425 |
| Lease liabilities | | 1,717 | 1,494 | 6,990 | 9,926 | - | 20,127 |
| Total | | 1,396,381 | 755,710 | 335,514 | 4,104,106 | 166,101 | 6,757,812 |
| 31 Dec 2018 | | | | | | | |
| Liabilities under issued bonds | 4.85% | - | - | 174,714 | 4,084,516 | - | 4,259,230 |
| Liabilities under loans | 0.90% | 421 | 19,741 | 97,502 | 172,615 | 59,503 | 349,782 |
| Liabilities to suppliers | | 1,322,446 | 650,638 | 78,592 | - | - | 2,051,676 |
| Total | | 1,322,867 | 670,379 | 350,808 | 4,257,131 | 59,503 | 6,660,688 |

The Group has access to funding sources. The total unused amount at the end of the reporting period is HRK 1,400,453 thousand. The Group expects to settle its other liabilities from operating cash flows and inflows from maturing financial assets.

Fair value of financial instruments

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 conditions that are traded in active liquid markets is determined by reference 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 the quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the period of non-derivative financial instruments is used.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

38. FINANCIAL RISK MANAGEMENT (continued)

Fair value indicators recognized in the 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:

1. level of available indicators - fair value indicators are derived from (unadjusted) prices quoted in active markets for identical assets and identical liabilities
2. level 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)
3. level of indicators - indicators derived using valuation methods in which data on assets or liabilities that are not based on available market data (unavailable input data) are used as input data.

The Group has decided that the measurement of the fair value of a currency swap is linked to the value of "Mark To Market (MTM)" in accordance with the calculation of commercial banks. The positive value of "MTM" is recorded as a receivable, i.e. it forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and also forms the financial expense of the reporting period. Upon the final maturity of a derivative financial instrument, the receivable or liability in question will be reversed to the expense or expense of the Group.

The table below shows a summary of the third level indicators used for the fair valuation of derivatives and shares and stocks of companies that are not listed on a regulated market:

| Item | Parameter | The amount used | Influence of parameters on fair value |
|---|---------------------|-----------------|---|
| Shares and stocks of companies that are not listed on regulated markets | Revenue growth rate | 3% | A higher revenue growth rate and a lower discount rate would increase fair values |
| | Discount rate | 2% | |
| Derivatives | Parameter 1 | | A larger parameter 1 and a smaller parameter 2 would increase the fair value |
| | Parameter 2 | | |

Fair value levels recognized in the consolidated statement of financial position:

| HRK '000 | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|----------------|
| 31 Dec 2019 | | | | |
| Total financial assets at fair value through other comprehensive income | 255,007 | - | - | 255,007 |
| Financial assets measured at fair value through profit or loss | 165,185 | - | - | 165,185 |
| Derivative financial liabilities | - | - | 80,511 | 80,511 |
| Investing in Real Estate | - | 330,738 | - | 330,738 |
| 31 Dec 2018 | | | | |
| Total financial assets at fair value through other comprehensive income | 196,716 | - | - | 196,716 |
| Financial assets measured at fair value through profit or loss | 175,098 | - | - | 175,098 |
| Derivative financial liabilities | - | - | 307,255 | 307,255 |
| Investing in Real Estate | - | 303,726 | - | 303,726 |

During the year there was no transfer between levels for re-measurement of fair value.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

39. BUSINESS COMBINATIONS

On 1 April 2019, the Group acquired an 84.18% stake and voting rights in LNG Hrvatska d.o.o. (LNG), which gave the Group control and made LNG a subsidiary. Until the date of acquisition of control, LNG was a joint venture in which the Group had a 50% interest and was accounted for using the equity method. The total acquisition fee amounts to HRK 243,283 thousand and relates to the items:

- 1) the fair value of the interest in LNG until the acquisition of control HRK 27,176 thousand and
- 2) the value of net assets since the acquisition of control HRK 216,107 thousand.

The transaction had the following effects:

| <i>HRK '000</i> | Total acquisition fee | Investing in gaining controlling influence | Investments in acquisitions before controlling influence |
|---------------------|----------------------------------|---|---|
| LNG Hrvatska d.o.o. | 243,283 | 216,107 | 27,176 |

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

| <i>HRK '000</i> | LNG Hrvatska d.o.o. 84.18% |
|--|---------------------------------------|
| Property, plant and equipment | 77,649 |
| Other receivables | 756 |
| Other assets | 5,709 |
| Cash and cash equivalents | 316,729 |
| Liabilities to suppliers | 1,980 |
| Liabilities to employees | 184 |
| Other current liabilities | 137,273 |
| Other long-term liabilities | 54,473 |
| Minority interests | - |
| Net assets | 206,933 |
| Historic cost | 243,283 |
| Investment in the acquisition of controlling influence - payment in 2019 | 216,107 |
| Investment in the acquisition of controlling influence - payment by 2019 | 27,176 |

There are no material differences in accounting policies between the Group and LNG. Goodwill is subject to final valuation to be completed during 2020 and currently contains unidentified intangible assets and expected synergies.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

39. BUSINESS COMBINATIONS (continued)

On 1 April 2019, the Group acquired a 100 percent stake and voting rights in the companies Energetski park Korlat and Plin VTC, which gave the Group control and the said companies became subsidiaries. In June 2019 the Group acquired a 100 percent share and voting rights in the company Sunčana elektrana Poreč (at the time of the acquisition of the Sabadin Power Plant), and in July 2019 a 100 percent share and voting rights in the company IE-Nekretnine. These companies became subsidiaries of the Group. The total acquisition fee amounts to HRK 80,517 thousand and relates to the items:

- 1) fair value of the shares in the subsidiaries
- 2) other (money, receivables, shares)

The transaction had the following effects:

| HRK '000 | Acquisition fee | Fair value of net assets | Goodwill |
|-------------------------|-----------------|--------------------------|----------|
| Korlat Energy Park | 31,092 | 9 | 31,083 |
| VTC gas | 19,650 | 9,176 | 10,474 |
| Solar power plant Poreč | 10,114 | 9,844 | 270 |
| IE-Properties | 19,661 | 2,044 | 17,617 |

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

| HRK '000 | Korlat Energy Park | VTC gas | Solar power plant Poreč | IE-Properties |
|-------------------------------|--------------------|---------------|-------------------------|---------------|
| Property, plant and equipment | 10 | 18,666 | 9,918 | 507 |
| Supplies | - | 308 | - | - |
| Trade receivables | - | 2,287 | 12 | 225 |
| Other receivables | 6 | 114 | - | 46 |
| Other assets | - | 756 | - | - |
| Cash and cash equivalents | 12 | 1,564 | 2 | 1,300 |
| Liabilities to suppliers | 19 | 2,341 | - | 13 |
| Liabilities to employees | - | 269 | - | - |
| Other current liabilities | - | 11,909 | 88 | 21 |
| Minority interests | - | - | - | - |
| Net assets | 9 | 9,176 | 9,844 | 2,044 |
| Historic cost | 31,092 | 19,650 | 10,114 | 19,661 |
| Goodwill | 31,083 | 10,474 | 270 | 17,617 |

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

Goodwill is subject to final evaluation to be completed during 2020 and currently contains unidentified intangible assets and expected synergy effects.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

40. EVENTS AFTER THE REPORTING DATE

The existence of the new coronavirus (Covid-19) was confirmed in early 2020 and quickly spread to mainland China, Europe and the United States, causing disruptions in business and economic activity. Since the beginning of the pandemic, the Group has been applying special business measures to prevent the spread of coronavirus diseases, in accordance with the decisions of the National Civil Protection Headquarters, and with the aim of ensuring the smooth functioning of all business processes of the Group while protecting the health of workers and business partners.

Considering that the HEP Group represents critical infrastructure 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 was extremely important to ensure regular operations and orderly production in these crisis conditions. distribution and supply of energy in full.

Since the beginning of the pandemic, the Group has been analysing energy consumption and modelling scenarios for optimizing the impact of the pandemic and the level of decline in total economic activity on consumption and receipts from electricity as energy, which accounts for 80% of total business activity. Previous analyses in the first quarter show that the decline in economic activity during the lockdown period had the effect of reducing total consumption and changing the structure of consumption in the context of declining consumption of business customers and increasing consumption of household customers.

In the coming period of 2020, the following parameters will have the greatest impact on the Group's energy consumption and revenues:

- economic movement (GDP)
- easing / tightening of epidemiological measures
- realization of the tourist season as a key industrial branch of the Croatian economy.

Also, it is reasonable to expect certain collection problems caused by a sharp general decline in economic activity in the first half of the year, which will also depend on the further easing of pandemic protection measures and the speed of economic recovery in the second half. Thanks to the successful operations so far and the implemented optimization measures, the Group has a satisfactory amount of financial resources that enable regular operations in the short term.

Although it is currently impossible to fully assess the overall negative impact on the Group's operations at the level of 2020 and subsequent periods, it can be assumed that these events will certainly have a negative impact on the expected level of growth and development of the Group, however, given the stable operations and optimization measures taken, it is realistic to expect that difficulties will be overcome and no significant impacts on financial positions are expected.

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

ACCOUNTING POLICIES APPLICABLE UNTIL 1 January 2019

Group as a tenant

The Group has no significant finance leases. During 2019 and 2018 no significant new business (operating) lease agreements were concluded. The Group recognizes lease payments under operating leases as an expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2019

41. OTHER PUBLICATIONS







In 2019 the auditors of the Group's financial statements provided services in the amount of HRK 1,533 thousand (2018: HRK 644 thousand). Services in 2019 and 2018 relate to audit costs, insight into interim financial information and audits of financial statements prepared for regulatory purposes.

Tax consulting fees in 2019 amounted to HRK 150 thousand (2018: HRK 142 thousand).

42. Approval of financial statements

The consolidated financial statements were adopted by the Company's Management Board and approved for issue on 15 May 2020.

Signed on behalf of the Company on 15 May 2020:

| | | | | | |
|---|---|---|---|--|---|
| Marko Ćosić Member | Nikola Rukavina Member | Petar Sprčić Member | Tomislav Šambić Member | Saša Dujmčić Member | Frane Barbarić President |
|  |  |  |  |  |  |

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

STATEMENT OF PROFIT OR LOSS

for the period 1.1.2019. to 31.12.2019.

HEP GROUP, OIB: 28921978587

in HRK

| Item | ADP code | 31 December 2018 | 31 December 2019 |
|---|----------|-----------------------|-----------------------|
| I OPERATING INCOME (ADP 126 to 130) | 125 | 15,198,299,588 | 15,515,243,375 |
| 1 Income from sales with undertakings within the group | 126 | 0 | 0 |
| 2 Income from sales (outside group) | 127 | 14,394,740,794 | 14,542,406,274 |
| 3 Income from the use of own products, goods and services | 128 | 84,433,377 | 78,102,545 |
| 4 Other operating income with undertakings within the group | 129 | 0 | 0 |
| 5 Other operating income (outside the group) | 130 | 719,125,417 | 894,734,556 |
| II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153) | 131 | 13,539,842,947 | 13,820,940,958 |
| 1 Changes in inventories of work in progress and finished goods | 132 | -892,052 | -318,393 |
| 2 Material costs (ADP 134 to 136) | 133 | 7,857,997,274 | 7,985,330,091 |
| a) Costs of raw material | 134 | 5,430,153,988 | 5,548,102,213 |
| b) Costs of goods sold | 135 | 1,252,144,498 | 1,152,888,644 |
| c) Other external costs | 136 | 1,175,698,788 | 1,284,339,234 |
| 3 Staff costs (ADP 138 to 140) | 137 | 1,841,219,784 | 1,922,373,821 |
| a) Net salaries and wages | 138 | 1,138,777,929 | 1,194,326,127 |
| b) Tax and contributions from salaries expenses | 139 | 462,668,723 | 491,077,566 |
| c) Contributions on salaries | 140 | 239,773,132 | 236,970,128 |
| 4 Depreciation | 141 | 2,001,354,807 | 2,069,381,017 |
| 5 Other expenses | 142 | 1,061,798,035 | 1,308,607,363 |
| 6 Value adjustments (ADP 144+145) | 143 | 577,657,337 | 282,159,609 |
| a) fixed assets other than financial assets | 144 | 106,191,965 | 90,253,310 |
| b) current assets other than financial assets | 145 | 471,465,372 | 191,906,299 |
| 7 Provisions (ADP 147 to 152) | 146 | 147,943,651 | 192,658,732 |
| a) Provisions for pensions, termination benefits and similar obligations | 147 | 112,051,594 | 117,951,453 |
| b) Provisions for tax liabilities | 148 | 0 | 0 |
| c) Provisions for ongoing legal cases | 149 | 11,187,531 | 56,554,105 |
| d) Provisions for renewal of natural resources | 150 | 0 | 0 |
| e) Provisions for warranty obligations | 151 | 0 | 0 |
| f) Other provisions | 152 | 24,704,526 | 18,153,174 |
| 8 Other operating expenses | 153 | 52,764,111 | 60,748,718 |
| III FINANCIAL INCOME (ADP 155 to 164) | 154 | 290,077,086 | 281,198,577 |
| 1 Income from investments in holdings (shares) of undertakings within the group | 155 | 0 | 0 |
| 2 Income from investments in holdings (shares) of companies linked by virtue of participating interest | 156 | 0 | 0 |
| 3 Income from other long-term financial investment and loans granted to undertakings within the group | 157 | 0 | 0 |
| 4 Other interest income from operations with undertakings within the group | 158 | 0 | 0 |
| 5 Exchange rate differences and other financial income from operations with undertakings within the group | 159 | 0 | 0 |
| 6 Income from other long-term financial investments and loans | 160 | 0 | 0 |
| 7 Other interest income | 161 | 10,525,439 | 14,186,174 |
| 8 Exchange rate differences and other financial income | 162 | 80,627,339 | 29,874,385 |
| 9 Unrealised gains (income) from financial assets | 163 | 198,085,289 | 231,477,649 |
| 10 Other financial income | 164 | 839,019 | 5,660,369 |

STATEMENT OF PROFIT OR LOSS

for the period 1.1.2019. to 31.12.2019.

| Item | ADP code | 31 December 2018 | 31 December 2019 |
|--|----------|------------------|------------------|
| IV FINANCIAL EXPENDITURE (ADP 166 to 172) | 165 | 265,344,895 | 257,160,908 |
| 1 Interest expenses and similar expenses with undertakings within the group | 166 | 0 | 0 |
| 2 Exchange rate differences and other expenses from operations with undertakings within the group | 167 | 0 | 0 |
| 3 Interest expenses and similar expenses | 168 | 191,919,559 | 178,782,294 |
| 4 Exchange rate differences and other expenses | 169 | 68,037,180 | 75,928,238 |
| 5 Unrealised losses (expenses) from financial assets | 170 | 86,140 | 2,558 |
| 6 Value adjustments of financial assets (net) | 171 | 1,409,020 | 0 |
| 7 Other financial expenses | 172 | 3,892,996 | 2,447,818 |
| V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST | 173 | 0 | 0 |
| VI SHARE IN PROFIT FROM JOINT VENTURES | 174 | 0 | 0 |
| VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST | 175 | 0 | 0 |
| VIII SHARE IN LOSS OF JOINT VENTURES | 176 | 0 | 0 |
| IX TOTAL INCOME (ADP 125+154+173 + 174) | 177 | 15,488,376,674 | 15,796,441,952 |
| X TOTAL EXPENDITURE (ADP 131+165+175 + 176) | 178 | 13,805,187,842 | 14,078,101,866 |
| XI PRE-TAX PROFIT OR LOSS (ADP 177-178) | 179 | 1,683,188,832 | 1,718,340,086 |
| 1 Pre-tax profit (ADP 177-178) | 180 | 1,683,188,832 | 1,718,340,086 |
| 2 Pre-tax loss (ADP 178-177) | 181 | 0 | 0 |
| XII INCOME TAX | 182 | 318,436,857 | 315,695,495 |
| XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182) | 183 | 1,364,751,975 | 1,402,644,591 |
| 1 Profit for the period (ADP 179-182) | 184 | 1,364,751,975 | 1,402,644,591 |
| 2 Loss for the period (ADP 182-179) | 185 | 0 | 0 |
| APPENDIX to the Statement of profit or loss (to be filled in by the company compiling the consolidated annual financial report) | | | |
| XIX. PROFIT OR LOSS FOR THE PERIOD (ADP 200 + 201) | 199 | 1,364,751,975 | 1,402,644,591 |
| 1. Attributable to equity holders of the parent | 200 | 1,364,751,975 | 1,404,002,155 |
| 2. Attributable to minority (non-controlling) interest | 201 | 0 | -1,357,564 |
| STATEMENT OF OTHER COMPREHENSIVE INCOME (to be filled in by the entrepreneur obliged to apply IFRS) | | | |
| I PROFIT OR LOSS FOR THE PERIOD | 202 | 1,364,751,975 | 1,402,644,591 |
| II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211) | 203 | -92,787,501 | 44,380,507 |
| 1 Exchange rate differences from translation of foreign operations | 204 | 0 | 0 |
| 2 Changes in revaluation reserves of fixed tangible and intangible assets | 205 | 0 | -4,596,486 |
| 3 Profit or loss arising from re-evaluation of financial assets available for sale | 206 | -74,142,753 | 47,957,917 |
| 4 Profit or loss arising from effective cash flow hedging | 207 | 0 | 0 |
| 5 Profit or loss arising from effective hedge of a net investment in a foreign operation | 208 | 0 | 0 |
| 6 Share in other comprehensive income/loss of companies linked by virtue of participating interest | 209 | -18,644,748 | 1,019,076 |
| 7 Actuarial gains/losses on defined remuneration plans | 210 | 0 | 0 |
| 8 Other changes in equity unrelated to owners | 211 | 0 | 0 |
| III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD | 212 | 0 | 0 |
| IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212) | 213 | -92,787,501 | 44,380,507 |
| V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213) | 214 | 1,271,964,474 | 1,447,025,098 |
| APPENDIX to the Statement of Other Comprehensive Income (to be completed by the company compiling the consolidated report) | | | |
| VI. COMPREHENSIVE PROFIT OR LOSS FOR THE PERIOD (AOP 216 + 217) | 215 | 1,271,964,474 | 1,447,025,098 |
| 1. Attributable to equity holders of the parent | 216 | 1,271,964,474 | 1,448,382,662 |
| 2. Attributable to minority (non-controlling) interest | 217 | 0 | -1,357,564 |

BALANCE SHEET as at 31.12.2019.

HEP GROUP OIB: 28921978587

in HRK

| Item | ADP code | 31 December 2018 | 31 December 2019 |
|--|----------|------------------|------------------|
| ASSETS | | | |
| A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID | 001 | 0 | |
| B) FIXED ASSETS (ADP 003+010+020+031+036) | 002 | 33,041,569,664 | 34,405,638,093 |
| I INTANGIBLE ASSETS (ADP 004 to 009) | 003 | 224,430,297 | 310,491,168 |
| 1 Research and development | 004 | 0 | 0 |
| 2 Concessions, patents, licences, trademarks, software and other rights | 005 | 178,416,997 | 206,981,161 |
| 3 Goodwill | 006 | 0 | 59,444,176 |
| 4 Advance payments for purchase of intangible assets | 007 | 0 | 0 |
| 5 Intangible assets in preparation | 008 | 45,852,180 | 44,020,275 |
| 6 Other intangible assets | 009 | 161,120 | 45,556 |
| II TANGIBLE ASSETS (ADP 011 to 019) | 010 | 31,567,300,075 | 32,910,947,896 |
| 1 Land | 011 | 1,035,876,158 | 1,040,789,121 |
| 2 Buildings | 012 | 10,860,697,843 | 10,660,687,514 |
| 3 Plant and equipment | 013 | 17,137,175,514 | 17,437,254,215 |
| 4 Tools, working inventory and transportation assets | 014 | 201,813,840 | 169,647,882 |
| 5 Biological assets | 015 | 0 | 0 |
| 6 Advance payments for purchase of tangible assets | 016 | 87,170,152 | 147,338,065 |
| 7 Tangible assets in preparation | 017 | 1,936,830,835 | 3,120,646,257 |
| 8 Other tangible assets | 018 | 4,010,195 | 3,846,649 |
| 9 Investment property | 019 | 303,725,538 | 330,738,193 |
| III FIXED FINANCIAL ASSETS (ADP 021 to 030) | 020 | 271,634,871 | 269,208,822 |
| 1 Investments in holdings (shares) of undertakings within the group | 021 | 0 | 0 |
| 2 Investments in other securities of undertakings within the group | 022 | 0 | 0 |
| 3 Loans, deposits, etc. to undertakings within the group | 023 | 0 | 0 |
| 4 Investments in holdings (shares) of companies linked by virtue of participating interest | 024 | 24,102,752 | 2,499,905 |
| 5 Investment in other securities of companies linked by virtue of participating interest | 025 | 0 | 0 |
| 6 Loans, deposits etc. given to companies linked by virtue of participating interest | 026 | 35,644,938 | 0 |
| 7 Investments in securities | 027 | 0 | 0 |
| 8 Loans, deposits, etc. given | 028 | 9,558,502 | 6,089,674 |
| 9 Other investments accounted for using the equity method | 029 | 0 | 0 |
| 10 Other fixed financial assets | 030 | 202,328,679 | 260,619,243 |
| IV RECEIVABLES (ADP 032 to 035) | 031 | 15,737,941 | 1,781,870 |
| 1 Receivables from undertakings within the group | 032 | 0 | 0 |
| 2 Receivables from companies linked by virtue of participating interests | 033 | 0 | 0 |
| 3 Customer receivables | 034 | 15,730,333 | 1,708,179 |
| 4 Other receivables | 035 | 7,608 | 73,691 |
| V. Deferred tax assets | 036 | 962,466,480 | 913,208,337 |
| C) CURRENT ASSETS (ADP 038+046+053+063) | 037 | 7,280,291,118 | 8,120,930,550 |
| I INVENTORIES (ADP 039 to 045) | 038 | 1,547,172,277 | 1,769,262,177 |
| 1 Raw materials | 039 | 909,203,709 | 826,873,622 |
| 2 Work in progress | 040 | 2,360,294 | 2,678,687 |
| 3 Finished goods | 041 | 0 | 0 |
| 4 Merchandise | 042 | 635,608,274 | 939,709,868 |
| 5 Advance payments for inventories | 043 | 0 | 0 |
| 6 Fixed assets held for sale | 044 | 0 | 0 |
| 7 Biological assets | 045 | 0 | 0 |
| II RECEIVABLES (ADP 047 to 052) | 046 | 2,551,861,716 | 2,724,272,008 |
| 1 Receivables from undertakings within the group | 047 | 0 | 0 |
| 2 Receivables from companies linked by virtue of participating interest | 048 | 4,281,702 | 0 |

Standard annual financial statements for the year and for the year ended 31 December 2019
(continued)

| | | | |
|--|-----------------|-------------------------|-------------------------|
| 3 Customer receivables | 049 | 2,200,631,782 | 2,169,814,644 |
| 4 Receivables from employees and members of the undertaking | 050 | 1,845,317 | 2,568,795 |
| 5 Receivables from government and other institutions | 051 | 239,528,476 | 201,350,841 |
| 6 Other receivables | 052 | 105,574,439 | 350,537,728 |
| III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062) | 053 | 401,030,681 | 275,241,691 |
| 1 Investments in holdings (shares) of undertakings within the group | 054 | 0 | 0 |
| 2 Investments in other securities of undertakings within the group | 055 | 0 | 0 |
| 3 Loans, deposits, etc. to undertakings within the group | 056 | 0 | 0 |
| 4 Investments in holdings (shares) of companies linked by virtue of participating interest | 057 | 0 | 0 |
| 5 Investment in other securities of companies linked by virtue of participating interest | 058 | 0 | 0 |
| 6 Loans, deposits etc. given to companies linked by virtue of participating interest | 059 | 0 | 0 |
| 7 Investments in securities | 060 | 0 | 0 |
| 8 Loans, deposits, etc. given | 061 | 225,932,108 | 110,056,523 |
| 9 Other financial assets | 062 | 175,098,573 | 165,185,168 |
| IV CASH AT BANK AND IN HAND | 063 | 2,780,226,444 | 3,352,154,674 |
| D) PREPAID EXPENSES AND ACCRUED INCOME | 064 | 27,768,357 | 31,442,541 |
| E) TOTAL ASSETS (ADP 001+002+037+064) | 065 | 40,349,629,139 | 42,558,011,184 |
| OFF-BALANCE SHEET ITEMS | 066 | 9,280,854,048 | 10,513,899,520 |
| Item | ADP code | 31 December 2018 | 31 December 2019 |
| CAPITAL AND LIABILITIES | | | |
| A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087) | 067 | 24,369,398,320 | 25,610,255,325 |
| I. INITIAL (SUBSCRIBED) CAPITAL | 068 | 19,792,159,200 | 19,792,159,200 |
| II CAPITAL RESERVES | 069 | 0 | 0 |
| III RESERVES FROM PROFIT (ADP 071+072-073+074+075) | 070 | 470,008,007 | 487,706,830 |
| 1 Legal reserves | 071 | 406,071,358 | 423,770,181 |
| 2 Reserves for treasury shares | 072 | 0 | 0 |
| 3 Treasury shares and holdings (deductible item) | 073 | 0 | 0 |
| 4 Statutory reserves | 074 | 0 | 0 |
| 5 Other reserves | 075 | 63,936,649 | 63,936,649 |
| IV REVALUATION RESERVES | 076 | 25,514,259 | 20,917,773 |
| V FAIR VALUE RESERVES (ADP 078 to 080) | 077 | 40,406,932 | 88,364,849 |
| 1 Fair value of financial assets available for sale | 078 | 40,406,932 | 88,364,849 |
| 2 Cash flow hedge - effective portion | 079 | 0 | 0 |
| 3 Hedge of a net investment in a foreign operation - effective portion | 080 | 0 | 0 |
| VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083) | 081 | 2,676,557,947 | 3,779,559,608 |
| 1 Retained profit | 082 | 2,676,557,947 | 3,779,559,608 |
| 2 Loss brought forward | 083 | 0 | 0 |
| VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086) | 084 | 1,364,751,975 | 1,404,002,155 |
| 1 Profit for the business year | 085 | 1,364,751,975 | 1,404,002,155 |
| 2 Loss for the business year | 086 | 0 | 0 |
| VIII MINORITY (NON-CONTROLLING) INTEREST | 087 | 0 | 37,544,910 |
| B) PROVISIONS (ADP 089 to 094) | 088 | 1,067,490,928 | 1,195,400,179 |
| 1 Provisions for pensions, termination benefits and similar obligations | 089 | 574,911,786 | 682,163,475 |
| 2 Provisions for tax liabilities | 090 | 0 | 0 |
| 3 Provisions for ongoing legal cases | 091 | 275,079,198 | 277,189,483 |
| 4 Provisions for renewal of natural resources | 092 | 0 | 0 |
| 5 Provisions for warranty obligations | 093 | 0 | 0 |
| 6 Other provisions | 094 | 217,499,944 | 236,047,221 |
| C) LONG-TERM LIABILITIES (ADP 096 to 106) | 095 | 4,894,951,710 | 4,803,494,272 |
| 1 Liabilities towards undertakings within the group | 096 | 0 | 0 |
| 2 Liabilities for loans, deposits, etc. to companies within the group | 097 | 0 | 0 |
| 3 Liabilities towards companies linked by virtue of participating interest | 098 | 0 | 0 |
| 4 Liabilities for loans, deposits etc. of companies linked by virtue of participating | 099 | 0 | 9,122,000 |

Standard annual financial statements for the year and for the year ended 31 December 2019
(continued)

| | | | |
|--|------------|-----------------------|-----------------------|
| interest | | | |
| 5 Liabilities for loans, deposits etc. | 100 | 2,995,007 | 0 |
| 6 Liabilities towards banks and other financial institutions | 101 | 217,454,633 | 337,945,744 |
| 7 Liabilities for advance payments | 102 | 0 | 0 |
| 8 Liabilities towards suppliers | 103 | 10,857,623 | 10,459,043 |
| 9 Liabilities for securities | 104 | 3,560,374,689 | 3,518,704,171 |
| 10 Other long-term liabilities | 105 | 1,097,829,010 | 904,217,782 |
| 11 Deferred tax liability | 106 | 5,440,748 | 23,045,532 |
| D) SHORT-TERM LIABILITIES (ADP 108 to 121) | 107 | 3,440,789,652 | 3,613,690,112 |
| 1 Liabilities towards undertakings within the group | 108 | 0 | 0 |
| 2 Liabilities for loans, deposits, etc. to companies within the group | 109 | 0 | 0 |
| 3 Liabilities towards companies linked by virtue of participating interest | 110 | 0 | 0 |
| 4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest | 111 | 0 | 18,565,000 |
| 5 Liabilities for loans, deposits etc. | 112 | 3,417,791 | 3,005,104 |
| 6 Liabilities towards banks and other financial institutions | 113 | 112,061,496 | 36,285,693 |
| 7 Liabilities for advance payments | 114 | 624,270,155 | 727,203,453 |
| 8 Liabilities towards suppliers | 115 | 2,051,675,931 | 2,241,425,258 |
| 9 Liabilities for securities | 116 | 0 | 0 |
| 10 Liabilities towards employees | 117 | 141,556,659 | 173,760,835 |
| 11 Taxes, contributions and similar liabilities | 118 | 223,309,796 | 155,221,943 |
| 12 Liabilities arising from the share in the result | 119 | 0 | 0 |
| 13 Liabilities arising from fixed assets held for sale | 120 | 0 | 0 |
| 14 Other short-term liabilities | 121 | 284,497,824 | 258,222,826 |
| E) ACCRUALS AND DEFERRED INCOME | 122 | 6,576,998,529 | 7,335,171,296 |
| F) TOTAL – LIABILITIES (ADP 067+088+095+107+122) | 123 | 40,349,629,139 | 42,558,011,184 |
| G) OFF-BALANCE SHEET ITEMS | 124 | 9,280,854,048 | 10,513,899,520 |

Standard annual financial statements for the year and for the year ended 31 December 2019
(continued)

STATEMENT OF CASH FLOWS – direct method
for the period 1.1.2019. to 31.12.2019.

HEP GROUP, OIB: 28921978587

in HRK

| Item | ADP code | 31 December 2018 | 31 December 2019 |
|---|----------|-----------------------|-----------------------|
| Cash flow from operating activities | | | |
| 1 Cash receipts from customers | 001 | 18,569,061,804 | 19,316,874,308 |
| 2 Cash receipts from royalties, fees, commissions and other revenue | 002 | 41,791,112 | 42,955,870 |
| 3 Cash receipts from insurance premiums | 003 | 0 | 0 |
| 4 Cash receipts from tax refund | 004 | 0 | 0 |
| 5 Cash payments to suppliers | 005 | -9,297,514,690 | -10,795,168,425 |
| 6 Cash payments to employees | 006 | -1,464,791,609 | -1,519,906,360 |
| 7 Cash payments for insurance premiums | 007 | 0 | 0 |
| 8 Other cash receipts and payments | 008 | -3,991,509,724 | -3,753,152,482 |
| I Cash from operations (ADP 001 to 008) | 009 | 3,857,036,893 | 3,291,602,911 |
| 9 Interest paid | 010 | -181,252,594 | -183,710,386 |
| 10 Income tax paid | 011 | -257,438,777 | -297,646,259 |
| A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 009 to 011) | 012 | 3,418,345,522 | 2,810,246,266 |
| Cash flow from investment activities | | | |
| 1 Cash receipts from sales of fixed tangible and intangible assets | 013 | 10,056,533 | 9,686,530 |
| 2 Cash receipts from sales of financial instruments | 014 | 0 | 0 |
| 3 Interest received | 015 | 0 | 0 |
| 4 Dividends received | 016 | 0 | 5,531,705 |
| 5 Cash receipts from repayment of loans and deposits | 017 | 0 | 0 |
| 6 Other cash receipts from investment activities | 018 | 9,239,548 | 531,370,056 |
| II Total cash receipts from investment activities (ADP 013 to 018) | 019 | 19,296,081 | 546,588,291 |
| 1 Cash payments for the purchase of fixed tangible and intangible assets | 020 | -2,084,272,285 | -2,360,520,555 |
| 2 Cash payments for the acquisition of financial instruments | 021 | 0 | 0 |
| 3 Cash payments for loans and deposits | 022 | 0 | 0 |
| 4 Acquisition of a subsidiary, net of cash acquired | 023 | 0 | 0 |
| 5 Other cash payments from investment activities | 024 | 0 | -80,516,958 |
| III Total cash payments from investment activities (ADP 020 to 024) | 025 | -2,084,272,285 | -2,441,037,513 |
| B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 019 + 025) | 026 | -2,064,976,204 | -1,894,449,222 |
| Cash flow from financing activities | | | |
| 1 Cash receipts from the increase of initial (subscribed) capital | 027 | 0 | 0 |
| 2 Cash receipts the from issue of equity financial instruments and debt financial instruments | 028 | 0 | 0 |
| 3 Cash receipts from credit principals, loans and other borrowings | 029 | 76,206,788 | 0 |
| 4 Other cash receipts from financing activities | 030 | 176,268,653 | 297,391,249 |
| IV Total cash receipts from financing activities (ADP 027 to 030) | 031 | 252,475,441 | 297,391,249 |
| 1 Cash payments for the repayment of credit principals, loans another borrowings and debt financial instruments | 032 | -400,594,938 | -176,782,104 |
| 2 Cash payments for dividends | 033 | -218,413,475 | -212,385,645 |
| 3 Cash payments for finance lease | 034 | 0 | 0 |
| 4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital | 035 | 0 | 0 |
| 5 Other cash payments from financing activities | 036 | -148,452,752 | -252,092,314 |
| V Total cash payments from financing activities (ADP 032 to 036) | 037 | -767,461,165 | -641,260,063 |

Standard annual financial statements for the year and for the year ended 31 December 2019
(continued)

| STATEMENT OF CASH FLOWS – direct method for the period 1.1.2019. to 31.12.2019. | | | |
|--|-----|---------------|---------------|
| C) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 031 +037) | 038 | -514,985,724 | -343,868,814 |
| 1 Unrealised exchange rate differences in cash and cash equivalents | 039 | 0 | 0 |
| D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 012+026+038+039) | 040 | 838,383,594 | 571,928,230 |
| E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD | 041 | 1,941,842,850 | 2,780,226,444 |
| F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 040+041) | 042 | 2,780,226,444 | 3,352,154,674 |

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

STATEMENT OF CHANGES IN EQUITY for the period 01.01.2019. to 31.12.2019.

HEP GROUP, OIB: 28921978587

in HRK

| Item | ADP code | Attributable to owners of the parent | | | | | | | | | | | | | | Minority (non-controlling) interest | Total capital and reserves |
|---|----------|--------------------------------------|------------------|----------------|------------------------------|--|--------------------|----------------|----------------------|---|-------------------------------------|--|--|-----------------------------------|--|-------------------------------------|----------------------------|
| | | Initial (subscribed) capital | Capital reserves | Legal reserves | Reserves for treasury shares | Treasury shares and holdings (deductible item) | Statutory reserves | Other reserves | Revaluation reserves | Fair value of financial assets available for sale | Cash flow hedge - effective portion | Hedge of a net investment in a foreign operation - effective portion | Retained profit / loss brought forward | Profit/loss for the business year | Total attributable to owners of the parent | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 (3 to 6 - 7 + 8 to 15) | 17 | 18 (16+17) |
| Previous period | | | | | | | | | | | | | | | | | |
| 1 Balance on the first day of the previous business year | 01 | 19,792,159,200 | | 387,870,308 | | | | 63,936,649 | 25,514,259 | 136,727,785 | | | 5,589,818,124 | | 25,996,026,325 | | 25,996,026,325 |
| 2 Changes in accounting policies | 02 | | | | | | | | | -22,178,100 | | | -2,658,000,904 | | -2,680,179,004 | | -2,680,179,004 |
| 3 Correction of errors | 03 | | | | | | | | | | | | | | 0 | | 0 |
| 4 Balance on the first day of the previous business year (restated) (ADP 01 to 03) | 04 | 19,792,159,200 | 0 | 387,870,308 | 0 | 0 | 0 | 63,936,649 | 25,514,259 | 114,549,685 | 0 | 0 | 2,931,817,220 | 0 | 23,315,847,321 | 0 | 23,315,847,321 |
| 5 Profit/loss of the period | 05 | | | | | | | | | | | | | 1,364,751,975 | 1,364,751,975 | | 1,364,751,975 |
| 6 Exchange rate differences from translation of foreign operations | 06 | | | | | | | | | | | | | | 0 | | 0 |
| 7 Changes in revaluation reserves of fixed tangible and intangible assets | 07 | | | | | | | | | | | | | | 0 | | 0 |
| 8 Profit or loss arising from revaluation of financial assets available for sale | 08 | | | | | | | | | -74,142,753 | | | -18,644,748 | | -92,787,501 | | -92,787,501 |
| 9 Gains or losses on efficient cash flow hedging | 09 | | | | | | | | | | | | | | 0 | | 0 |
| 10 Gains or losses arising from effective hedge of a net investment in a foreign operation | 10 | | | | | | | | | | | | | | 0 | | 0 |
| 11 Share in other comprehensive income/loss of companies linked by virtue of participating interest | 11 | | | | | | | | | | | | | | 0 | | 0 |
| 12 Actuarial gains/losses on defined benefit | 12 | | | | | | | | | | | | | | 0 | | 0 |

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

| | | | | | | | | | | | | | | | | | |
|---|----|----------------|---|-------------|---|---|---|------------|------------|-------------|---|---|---------------|---------------|----------------|---|----------------|
| plans | | | | | | | | | | | | | | | | | |
| 13 Other changes in equity unrelated to owners | 13 | | | | | | | | | | | | | | 0 | | 0 |
| 14 Tax on transactions recognised directly in equity | 14 | | | | | | | | | | | | | | 0 | | 0 |
| 15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure) | 15 | | | | | | | | | | | | | | 0 | | 0 |
| 16 Increase of initial (subscribed) capital by reinvesting profit | 16 | | | | | | | | | | | | | | 0 | | 0 |
| 17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure | 17 | | | | | | | | | | | | | | 0 | | 0 |
| 18 Redemption of treasury shares/holdings | 18 | | | | | | | | | | | | | | 0 | | 0 |
| 19 Payment of share in profit/dividend | 19 | | | | | | | | | | | | -218,413,475 | | -218,413,475 | | -218,413,475 |
| 20 Other distribution to owners | 20 | | | | | | | | | | | | | | 0 | | 0 |
| 21 Transfer to reserves by annual schedule | 21 | | | 18,201,050 | | | | | | | | | -18,201,050 | | 0 | | 0 |
| 22 Increase in reserves arising from the pre-bankruptcy settlement procedure | 22 | | | | | | | | | | | | | | 0 | | 0 |
| 23 Balance on the last day of the previous business year reporting period (ADP 04 to 22) | 23 | 19,792,159,200 | 0 | 406,071,358 | 0 | 0 | 0 | 63,936,649 | 25,514,259 | 40,406,932 | 0 | 0 | 2,676,557,947 | 1,364,751,975 | 24,369,398,320 | 0 | 24,369,398,320 |
| APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS) | | | | | | | | | | | | | | | | | |
| I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS PERIOD, NET OF TAX (ADP 06 to 14) | 24 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -74,142,753 | 0 | 0 | -18,644,748 | 0 | -92,787,501 | 0 | -92,787,501 |
| II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24) | 25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -74,142,753 | 0 | 0 | -18,644,748 | 1,364,751,975 | 1,271,964,474 | 0 | 1,271,964,474 |
| III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD | 26 | 0 | 0 | 18,201,050 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -236,614,525 | 0 | -218,413,475 | 0 | -218,413,475 |

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

| | | | | | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22) | | | | | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

STATEMENT OF CHANGES IN EQUITY for the period 01.01.2019. to 31.12.2019.

HEP GROUP, OIB: 28921978587

in HRK

| Item | ADP code | Attributable to owners of the parent | | | | | | | | | | | | | | Minority (non-controlling) interest | Total capital and reserves |
|--|----------|--------------------------------------|------------------|----------------|------------------------------|--|--------------------|----------------|----------------------|---|-------------------------------------|--|--|-----------------------------------|--|-------------------------------------|----------------------------|
| | | Initial (subscribed) capital | Capital reserves | Legal reserves | Reserves for treasury shares | Treasury shares and holdings (deductible item) | Statutory reserves | Other reserves | Revaluation reserves | Fair value of financial assets available for sale | Cash flow hedge - effective portion | Hedge of a net investment in a foreign operation - effective portion | Retained profit / loss brought forward | Profit/loss for the business year | Total attributable to owners of the parent | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 (3 to 6 -7 + 8 to 15) | 17 | 18 (16+17) |
| Current period | | | | | | | | | | | | | | | | | |
| 1 Balance on the first day of the current business year | 27 | 19,792,159,200 | | 406,071,358 | | | | 63,936,649 | 25,514,259 | 40,406,932 | | | 4,041,309,922 | | 24,369,398,320 | | 24,369,398,320 |
| 2 Changes in accounting policies | 28 | | | | | | | | | | | | -32,684,922 | | -32,684,922 | 38,902,474 | 6,217,552 |
| 3 Correction of errors | 29 | | | | | | | | | | | | | | 0 | | 0 |
| 4 Balance on the first day of the current business year (restated) (ADP 27 to 29) | 30 | 19,792,159,200 | 0 | 406,071,358 | 0 | 0 | 0 | 63,936,649 | 25,514,259 | 40,406,932 | 0 | 0 | 4,008,625,000 | 0 | 24,366,713,398 | 38,902,474 | 24,375,615,872 |
| 5 Profit/loss of the period | 31 | | | | | | | | | | | | | 1,404,002,155 | 1,404,002,155 | -1,357,564 | 1,402,644,591 |
| 6 Exchange rate differences from translation of foreign operations | 32 | | | | | | | | | | | | | | 0 | | 0 |
| 7 Changes in revaluation reserves of fixed tangible and intangible assets | 33 | | | | | | | | -4,596,486 | | | | | | -4,596,486 | | -4,596,486 |
| 8 Profit or loss arising from re-valuation of financial assets available for sale | 34 | | | | | | | | | 47,957,917 | | | 1,019,076 | | 48,976,993 | | 48,976,993 |
| 9 Gains or losses on efficient cash flow hedging | 35 | | | | | | | | | | | | | | 0 | | 0 |
| 10 Gains or losses arising from effective hedge of a net investment in a foreign operation | 36 | | | | | | | | | | | | | | 0 | | 0 |

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

| | | | | | | | | | | | | | | | | | |
|---|----|----------------|---|-------------|---|---|---|------------|------------|------------|---|--------------|---------------|---------------|----------------|------------|----------------|
| 11 Share in other comprehensive income/loss of companies linked by virtue of participating interest | 37 | | | | | | | | | | | | | | 0 | | 0 |
| 12 Actuarial gains/losses on defined benefit plans | 38 | | | | | | | | | | | | | | 0 | | 0 |
| 13 Other changes in equity unrelated to owners | 39 | | | | | | | | | | | | | | 0 | | 0 |
| 14 Tax on transactions recognised directly in equity | 40 | | | | | | | | | | | | | | 0 | | 0 |
| 15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure) | 41 | | | | | | | | | | | | | | 0 | | 0 |
| 16 Increase of initial (subscribed) capital by reinvesting profit | 42 | | | | | | | | | | | | | | 0 | | 0 |
| 17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure | 43 | | | | | | | | | | | | | | 0 | | 0 |
| 18 Redemption of treasury shares/holdings | 44 | | | | | | | | | | | | | | 0 | | 0 |
| 19 Payment of share in profit/dividend | 45 | | | | | | | | | | | -212,385,645 | | -212,385,645 | | | -212,385,645 |
| 20 Other distribution to owners | 46 | | | | | | | | | | | | | | 0 | | 0 |
| 21 Transfer to reserves by annual schedule | 47 | | | 17,698,823 | | | | | | | | -17,698,823 | | | 0 | | 0 |
| 22 Increase in reserves arising from the pre-bankruptcy settlement procedure | 48 | | | | | | | | | | | | | | 0 | | 0 |
| 23 Balance on the last day of the current business year reporting period (ADP 30 to 48) | 49 | 19,792,159,200 | 0 | 423,770,181 | 0 | 0 | 0 | 63,936,649 | 20,917,773 | 88,364,849 | 0 | 0 | 3,779,599,608 | 1,404,002,155 | 25,572,710,415 | 37,544,910 | 25,610,255,325 |
| APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS) | | | | | | | | | | | | | | | | | |
| I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS | 50 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -4,596,486 | 47,957,917 | 0 | 0 | 1,019,076 | 0 | 44,380,507 | 0 | 44,380,507 |

Standard annual financial statements for the year and for the year ended 31 December 2019 (continued)

| PERIOD, NET OF TAX (ADP 06 to 14) | | | | | | | | | | | | | | | | | |
|--|----|---|---|------------|---|---|---|---|------------|------------|---|---|--------------|---------------|---------------|-----------|---------------|
| II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24) | 51 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -4,596,486 | 47,957,917 | 0 | 0 | 1,019,076 | 1,404,002,155 | 1,448,382,662 | -1357,564 | 1,447,025,098 |
| III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22) | 52 | 0 | 0 | 17,698,823 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -230,084,468 | 0 | -212,385,645 | 0 | -212,385,645 |

