



HRVATSKA ELEKTROPRIVREDA d.d., ZAGREB

Unconsolidated Annual financial statements
and Independent Auditor's Report
for the year 2018

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Responsibility for the unconsolidated annual financial statements

The Management Board of the company Hrvatska Elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: "the Company") is responsible for ensuring that the unconsolidated annual financial statements for the year 2018, are prepared in accordance with the Accounting Act (Official Gazette No 78/15, 120/16, 116/18) and International Financial Reporting Standards as determined by the European Commission and published in the Official Journal of the EU, to give a true and fair view of the financial position, the results of operations, changes in equity and cash flows of the Company for that period.

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the unconsolidated annual financial statements of the Company.

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

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting framework;
- giving reasonable and prudent judgments and estimates; and
- using the going concern basis of accounting in preparation of the unconsolidated annual financial statements, unless it is inappropriate to presume so.

The Management is responsible for keeping the proper accounting records, which at any time with reasonable certainty present the financial position, the results of operations, changes in equity and cash flows of the Company, and also their compliance with the Accounting Act and the International Financial Reporting Standards. The Management is also responsible for safe keeping the assets of the Company and also for taking reasonable steps for prevention and detection of fraud and other irregularities.

Signed for and on behalf of the Management Board:

Marko Čosić

Member

Nikola Rukavina

Member

Petar Sprčić

Member

Tomislav Šambić

Member

Saša Dujmić

Member

Frane Barbarić

President

Hrvatska elektroprivreda d.d.

Ulica grada Vukovara 37

10000 Zagreb

Republic of Croatia

30 April 2019

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the unconsolidated annual financial statements

Opinion

We have audited the unconsolidated annual financial statements of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 (the "Company"), which comprise the Statement of financial position (Balance Sheet) as at 31 December 2018, Statement of profit or loss, Statement of other comprehensive income, Statement of changes in equity and Statement of cash flows of the Company for the year then ended, and Notes to the unconsolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying unconsolidated annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows of the Company for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards (the "IFRS"), determined by the European Commission and published in the Official Journal of the EU.

Basis for Opinion

We conducted our audit in accordance with the Accounting Act, the Audit Act and the International Auditing Standards (ISAs). Our responsibilities under those standards are further described in our Independent Auditor's report under section *Auditor's responsibilities for the audit of the unconsolidated annual financial statements*. We are independent of 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 a basis for our opinion.

Emphasis of matter

As described in the Note 25 to the unconsolidated financial statements, at 31 December 2018, the Company stated clearing debt liability in the amount of HRK 779,612 thousand (31 December 2017: HRK 775,189 thousand) regarding a payment under a letter of credit based on the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report it has not been clearly defined whether it relates to a loan or some other legal transaction. Our opinion has not been modified in this respect.

Emphasis of matter (continued)

As described in the Note 29 to the unconsolidated financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question of ownership and legal status of the Company's property - reservoirs and ancillary facilities used for generation of electricity from hydropower plants, as they are defined as Public water resources in general use in ownership of the Republic of Croatia. The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress.

In May 2018, the Law on Amendments to the Water Act (Official Gazette 46/18) entered into force, by which the Republic of Croatia establishes the construction rights on public water resources - land on which water structures were built through Company's or its predecessors' investments; except for the land on which the accumulation was constructed and the supply and drainage channels and tunnels built. These rights are granted in favour of the Company, without compensation for a period of 99 years. As long as this right is resumed, the Company is granted the right to manage, on behalf of the Republic of Croatia, public good / land on which constructions of electricity generation with accumulation and supply and drainage channels and tunnels are built. In view of the above, it is necessary to initiate relevant procedures for entering these rights into land registers. Our opinion has not been modified in this regard.

The Company's accompanying unconsolidated annual financial statements are prepared in accordance with International Financial Reporting Standards and the requirements of Croatian laws and regulations, and the Company's investments in subsidiaries and associates are stated at cost. The Company has also prepared consolidated financial statements for the Company and its subsidiaries compiled on 30 April 2019. For a better understanding of the Company and the Group as a whole, users should read the annual consolidated financial statements together with these unconsolidated annual financial statements.

Other matters

Attention is drawn to the Note 29 to the unconsolidated financial statements, where is, in accordance with point (b) of paragraph 8 Article 21a of the Labour Act, listed a web page where the separate non-financial report of the Company will be published no later than 6 months from the date of the Statement of financial position (Balance Sheet). Our opinion has not been modified in this respect.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the unconsolidated annual financial statements for the current period, and include the most significant recognized risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the allocation of our available resources, and the time spent by the engaged audit team. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our Independent Auditor's report.

Key audit matters (continued)

| Key audit matter | How we addressed the key audit matter |
|--|---|
| <p>Valuation of investments in subsidiaries and joint ventures</p> <p>As at 31 December 2018 the Company reported investments in different subsidiaries. Total investment value at 31 December 2018 was HRK 9,578,649 thousand. Impairment of investments in subsidiaries is defined as key audit matter since it includes significant estimates. As there were some impairment indicators for individual companies determined during the period, the Company's Management Board assessed the value of said investments in subsidiaries. Determining the value of individual investments in subsidiaries requires the Company's Management to make significant estimates of future cash flows and associated discount rates and growth rates based on estimates of future business of the companies.</p> <p>Related disclosures in the unconsolidated annual financial statements</p> <p>See Notes 2, 9 and 14 in the accompanying unconsolidated annual financial statements.</p> | <p>Our auditing procedures, related to this area included, among others:</p> <ul style="list-style-type: none"> - The assessment of the reasonableness of the key assumptions used in the valuation models for valuation of investments in subsidiaries and joint ventures, and in particular the projections of operating cash flows, discount rates and long-term growth rates estimates. - The comparison of the key assumptions with external information and the estimates we made ourselves. - The test of the mathematical accuracy of the valuation model for valuation of investments in subsidiaries and joint ventures. - The test of the sensitivity of the valuation model for valuation of investments in subsidiaries and joint ventures regarding the change of key assumptions. <p>We have also assessed the adequacy of the Company's disclosure of investments in subsidiaries and joint ventures.</p> |
| <p>Contingent liabilities and court disputes</p> <p>Since the Company is exposed to significant legal claims, we have focused our attention on this area. Any liabilities or contingent liabilities disclosed, or their non-disclosures in the financial statements, are inherently uncertain and depend on a number of significant assumptions and judgments. These are potentially significant amounts of which the determination of the amount for disclosure and disclosure in the unconsolidated financial statements, if applicable, is subject to a subjective assessment. According to that, the Management Board estimates future outcomes and amounts of contingent liabilities that may arise as a result of these claims.</p> <p>Related disclosures in the unconsolidated annual financial statements</p> <p>See Notes 2, 3 and 26 in the accompanying unconsolidated annual financial statements.</p> | <p>Our auditing procedures, related to this area included, among others:</p> <ul style="list-style-type: none"> - Receiving and analysing the attorneys' responses to our written inquiries and considering certain issues with them; - Critical review of the used assumptions and estimates pertaining to the claims. This includes assessing the likelihood of unfavourable outcome of court proceedings and the reliability of the assessment of the related amount of obligation; - Assessment of the adequacy of disclosure in the financial statements, taking into account sensitivity and possible prejudice in the disclosure of detailed information. <p>Based on the collected evidence, taking into account inherent uncertainty in legal issues, we agree with the Company's management's assessment of the likelihood of future significant outflows related to these issues. We have found that issues that are likely to become future outflows are stated as provisions. Furthermore, we assessed the adequacy of the Company's disclosure regarding Contingent liabilities and court disputes.</p> |

Other Information in the Annual Report and a separate nonfinancial report

The Management is responsible for other information. Other information include information contained in the Annual report, but do not include the unconsolidated annual financial statements and our Independent auditor's report on them which we received before the date of this Independent Auditor's Report and a separate non-financial report that we expect to be made available after that date.

Our opinion on the unconsolidated annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent auditor's report, entitled *Report on compliance with other legal or regulatory requirements*, and we do not express any form of assurance conclusion thereon.

In relation with our audit of the unconsolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated; as well as whether the separate nonfinancial 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 performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. In this sense, we do not have anything to report.

When we read a separate nonfinancial report, if we find that there is a significant misstatement in it, we are required to inform the Management and those charged with governance of the Company.

Responsibilities of the Management and Those Charged with Governance for the unconsolidated annual financial statements

The Management is responsible for the preparation of the unconsolidated annual financial statements that give a true and fair view in accordance with IFRS, determined by the European Commission and published in the Official Journal of the EU; and for such internal controls as management determines are necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated annual financial statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the unconsolidated annual financial statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

Auditor's responsibilities for the audit of the unconsolidated annual financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated annual financial statements, including disclosures, and whether the unconsolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with them all relationships and other matters that may reasonably be considered to influence our independence, and where applicable, related safeguards.

Among the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our Independent Auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Independent Auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Compliance with Other Legal or Regulatory Requirements

Report based on the requirements of Regulation (EU) No. 537/2014

On 5 June 2018, we were appointed by the General Assembly of the Company, based on the suggestion of the Supervisory Board, to audit the unconsolidated annual financial statements for 2018.

At the date of this Report, we have been continuously engaged in carrying out the Company's statutory audits since audit of the Company's annual financial statements from 2012, up to the audit of the Company's annual financial statements for 2018, total of 7 years.

In addition to the matters we have mentioned in our Independent Auditor's Report as Key Audit Matters, we do not have anything to report in relation with point (c) of Article 10 of Regulation (EU) No. 537/2014.

Through our statutory audit of the Company's unconsolidated annual financial statements for the year 2018, we are able to detect irregularities, including fraud in accordance with Section 225, Responding to Non-Compliance with Laws and Regulations of the IESBA Code of Conduct, which requires us to, during our audit engagements, see if the Company has complied with laws and regulations which are generally recognized to have a direct impact on the determination of significant amounts and disclosures in annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and disclosures in the annual financial statements, but compliance with which may be crucial for operational aspects of the Company's business, its ability to continue as a going concern, or to avoid significant penalties.

Except where we encounter or gain knowledge about the non-compliance of any of the aforementioned laws or regulations that is apparently insignificant, in our judgment of its content and its influence, financially or otherwise, for the Company, its stakeholders and the general public, we are obliged to inform the Company and ask it to investigate this case and take appropriate measures to resolve the irregularities and to prevent the reappearance of these irregularities in the future. If the Company, at the audited balance sheet date, does not correct any irregularities that result in misstatements in the audited annual financial statements that are cumulatively equal to or greater than the amount of significance for the financial statements as a whole, we are required to modify our opinion in an Independent Auditor's Report.

During the audit of the unconsolidated annual financial statements of the Company for the year 2018, we have determined the significance for the unconsolidated annual financial statements, as a whole, in the amount of HRK 129,300 thousand, which represents about 1.5% of the total sales revenues of the Company for 2018, considering significant fluctuations of profit before taxation in previous and current period.

Our audit opinion is consistent with the additional report for the Company's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited unconsolidated annual financial statements of the Company for the year 2018 and the date of this report, we did not provide the Company or its dependent companies, with prohibited non-scheduled services, and in the business year prior to the aforementioned period, 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 Company.

Report pursuant to the requirements of the Accounting Act

The Management is responsible for the preparation of the Management report as part of the Annual report of the Company and we are obliged to express an opinion on the compliance of the Management report as part of the Annual report of the Company with the unconsolidated annual financial statements of the Company. In our opinion, based on the work that we performed during the audit, information in the Management report for 2018, as part of the Annual report of the Company for the year 2018, are in accordance with the financial information stated in the unconsolidated annual financial statements of the Company set out on pages 9 to 95 on which we expressed our opinion as stated in the Opinion section above.

In our opinion, based on the work we performed during the audit, the Company's Management report for 2018, which is an integral part of the Company's Annual report for 2018, is prepared in accordance with the Accounting act.

Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management report for 2018 which is an integral part of the Company's Annual report for 2018.

In our opinion, based on the work that we performed during the audit, the Corporate governance statement, included in the Annual report for 2018, is prepared in accordance with the requirements of article 22, paragraph 1, points 3 and 4 of the Accounting Act.

The Corporate governance statement, included in the Annual report for 2018, includes information from the article 22, paragraph 1, and points 2, 5, 6 and 7 of the Accounting Act.

The Management is responsible for the preparation of the unconsolidated annual financial statements for the year ended 31 December 2018 in prescribed form based on the Statute of structure and content of annual financial statements (Official Gazette 95/16) and in accordance with other regulations governing the operations of the Company ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's unconsolidated annual financial statements given on pages 9 to 95 on which we expressed our opinion as stated in the section Opinion above.

Engagement partner in the audit of the unconsolidated annual financial statements of the Company for 2018, which has resulted in this Independent Auditor's Report, is Zdenko Balen, certified auditor.

Zagreb, 30 April 2019

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



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









Zdenko Balen, Certified Auditor

Statement of profit or loss – HEP d.d.
For the year ended 31 December 2018

| | NOTE | 2018 in '000 HRK | 2017 in '000 HRK |
|--|-------|---------------------|---------------------|
| Revenue from electricity sales | 4 | 3,518,849 | 3,317,347 |
| Revenue from electricity sales – related parties | 28 | 3,093,752 | 2,921,350 |
| Revenue from gas sales – market supply | 4 | 657,599 | 4,050 |
| Revenue from gas sales – wholesale | 4 | 935,695 | 963,887 |
| Revenue from gas sales – related parties | 4,28 | 133,693 | 132,384 |
| Revenue from thermal energy sales | 28 | 11,852 | - |
| Operating income – related parties | 28 | 273,610 | 307,939 |
| Sales revenues | | 8,625,050 | 7,646,957 |
| Other operating income | 5 | 66,277 | 86,622 |
| Total income | | 8,691,327 | 7,733,579 |
| Electricity purchase expense | 6 | (2,301,444) | (2,572,848) |
| Electricity purchase expense – related parties | 28 | (52,392) | (209,780) |
| Gas purchase expense – market supply | 29 | (632,930) | (5,942) |
| Gas purchase expense – wholesale market | 29 | (1,183,002) | (1,124,593) |
| Employee benefit expenses | 7 | (96,936) | (91,177) |
| Depreciation and amortisation expense | 11,12 | (61,785) | (49,113) |
| Fee and services expense – related parties | 28 | (3,449,238) | (2,775,469) |
| Other expenses | 8 | (797,816) | (768,551) |
| Total expenses | | (8,575,543) | (7,597,473) |
| Profit from operations | | 115,784 | 136,106 |
| Finance income | | 722,536 | 1,090,266 |
| Finance expenses | | (439,272) | (934,010) |
| Net profit from finance activities | 9 | 283,264 | 156,256 |
| Profit before tax | | 399,048 | 292,362 |
| Tax expense | 10 | (45,072) | 71,661 |
| Profit for the year | | 353,976 | 364,023 |

The accompanying notes form an integral part of these unconsolidated financial statements

Signed on behalf of the Company on 30 April 2019:

 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

Statement of other comprehensive income – HEP d.d.
For the year ended 31 December 2018

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---|---------------------|---------------------|
| Profit for the year | 353,976 | 364,023 |
| Other comprehensive income | | |
| Valuation (losses/gains) on available-for-sale financial assets | - | (3,565) |
| Valuation (losses/gains) on fair value through other comprehensive income on financial assets | (73,066) | - |
| <i>Total items that could be reclassified in comprehensive profit</i> | <i>(73,066)</i> | <i>(3,565)</i> |
| Other comprehensive income, net | (73,066) | (3,565) |
| Total comprehensive income for the year, net | 280,910 | 360,458 |

The accompanying notes form an integral part of these unconsolidated financial statements

Signed on behalf of the Company on 30 April 2019:


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

Statement of financial position / Balance sheet – HEP d.d.
At 31 December 2018

| ASSETS | Note | 31 Dec 2018 in '000 HRK | 31 DEC 2017 in '000 HRK |
|---|-------------|-----------------------------------|-----------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 706,339 | 762,226 |
| Investment property | 13 | 19,491 | 33,266 |
| Intangible assets | 12 | 113,246 | 128,365 |
| Investments in equity | 14 | 9,578,649 | 9,465,828 |
| Financial assets available-for-sale | 15 | - | 284,163 |
| Financial assets on fair value through other comprehensive income | 15 | 196,710 | - |
| Long term loans | 16,28 | 17,099,051 | 17,069,042 |
| Other non-current receivables | 17 | 390 | 543 |
| Deferred tax assets | 10 | 132,900 | 105,279 |
| Total non-current assets | | 27,846,776 | 27,848,712 |
| Current assets | | | |
| Inventories | 18 | 638,606 | 467,902 |
| Trade receivables | 19 | 302,582 | 325,006 |
| Current portion of long-term receivables | 16,28 | 1,325,537 | 1,355,636 |
| Other short-term receivables | 20 | 126,040 | 292,342 |
| Receivables from related parties | 28 | 2,520,438 | 3,153,035 |
| Cash and cash equivalents | 21 | 1,611,941 | 925,174 |
| Total current assets | | 6,525,144 | 6,519,095 |
| TOTAL ASSETS | | 34,371,920 | 34,367,807 |

Statement of financial position / Balance sheet – HEP d.d. (continued)
At 31 December 2018

| EQUITY | Note | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|-------------|-----------------------------------|-----------------------------------|
| Share capital | 22 | 19,792,159 | 19,792,159 |
| Revaluation reserve | 22 | 40,407 | 136,727 |
| Retained earnings | 22 | 5,384,690 | 5,220,987 |
| Total capital | | 25,217,256 | 25,149,873 |
| Liabilities on issued bonds | 23 | 3,560,375 | 3,595,828 |
| Liabilities on long-term loans and borrowings | 24 | 217,455 | 259,119 |
| Other long-term liabilities | 25 | 1,098,476 | 1,273,807 |
| Provisions | 26 | 221,244 | 217,014 |
| Deferred tax liability | | 5,441 | 24,304 |
| Total non-current liabilities | | 5,102,991 | 5,370,072 |
| Current portion of long-term loans and borrowings | 24 | 112,061 | 405,219 |
| Liabilities towards related parties | 28 | 3,071,740 | 2,790,547 |
| Other liabilities | 27 | 867,872 | 652,096 |
| Total current liabilities | | 4,051,673 | 3,847,862 |
| TOTAL EQUITY | | 34,371,920 | 34,367,807 |

The accompanying notes form an integral part of these unconsolidated financial statements

Signed on behalf of the Company on 30 April 2019:


Marko Cosić
Member


Nikola Rukavina
Member


Petar Sprčić
Member


Tomislav Šambić
Member


Saša Dujmić
Member


Frane Barbarić
President

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

Statement of changes in equity – HEP d.d.
For the year ended 31 December 2018

| | Share capital | Revaluation reserve | Retained earnings | TOTAL |
|--|-------------------|------------------------|----------------------|-------------------|
| | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK |
| 31 January 2017 | 19,792,159 | 140,292 | 5,649,310 | 25,581,761 |
| Profit of the current year | - | - | 364,023 | 364,023 |
| Other comprehensive income | - | (3,565) | - | (3,565) |
| <i>Total comprehensive income</i> | - | (3,565) | 364,023 | 360,458 |
| Merger effects | - | - | 1,945 | 1,945 |
| Dividend paid | - | - | (794,291) | (794,291) |
| 31 December 2017 | 19,792,159 | 136,727 | 5,220,987 | 25,149,873 |
| Prior year adjustment - IFRS 9 (Note 1) | - | (22,178) | 27,047 | 4,869 |
| 1 January 2018 as restated | 19,792,159 | 114,549 | 5,248,034 | 25,154,742 |
| Profit of the current year | - | - | 353,976 | 353,976 |
| Other comprehensive income | - | (74,142) | 1,076 | (73,066) |
| <i>Total comprehensive income</i> | - | (74,142) | 355,052 | 280,910 |
| Merger effects | - | - | 17 | 17 |
| Dividend paid | - | - | (218,413) | (218,413) |
| 31 December 2018 | 19,792,159 | 40,407 | 5,384,690 | 25,217,256 |

The accompanying notes form an integral part of these unconsolidated financial statements

Signed on behalf of the Company on 30 April 2019:

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

Statement of cash flows – HEP d.d.
For the year ended 31 December 2018

| | 2018 | 2017 |
|--|------------------|----------------|
| | in '000 HRK | in '000 HRK |
| CASH FROM OPERATING ACTIVITIES | | |
| Profit before tax | 397,678 | 292,362 |
| Net loss on finance activities | 74,452 | 81,718 |
| Depreciation of property, plant and equipment; amortisation of intangible assets | 61,785 | 49,113 |
| Increase in provisions | 4,230 | 4,409 |
| Fair value of investment property | 13,775 | 4,025 |
| Impairment of receivables | 326,960 | 33,098 |
| Impairment of tangible assets | 3,810 | 274,100 |
| <i>Cash from operating activities before changes in working capital</i> | <i>882,690</i> | <i>738,825</i> |
| (Increase) in trade receivables | (304,536) | (36,043) |
| Decrease/(Increase) in receivables from related parties | 728,264 | (445,656) |
| (Increase)/decrease in inventories | (170,704) | 137,510 |
| Decrease/(Increase) in other current assets | 166,302 | (99,543) |
| Increase/(decrease) in trade payables | 169,865 | (136,067) |
| Increase in other payables | 157,012 | 193,709 |
| Increase in liabilities to related parties | 281,193 | 32,345 |
| (Decrease)/Increase in other long-term liabilities | (221,218) | 345,575 |
| Cash generated from operations | 1,688,868 | 728,655 |
| Income taxes paid | (55,691) | (179,155) |
| Interests paid | (181,045) | (227,692) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 1,452,132 | 321,808 |

Statement of cash flows – HEP d.d. (continued)
For the year ended 31 December 2018

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---|---------------------|---------------------|
| INVESTING ACTIVITIES | | |
| Interests received | 12,507 | 139,162 |
| Dividends from associates | 10,016 | 11,837 |
| Increase of share capital in subsidiary | (79,547) | 0 |
| Purchases of property, plant and equipment | (165,783) | (114,843) |
| Receipts / payments for purchase of other fixed assets | 153 | (3,999) |
| Receipts / payments from loan collection – related parties | 90 | (23,307) |
| NET CASH (USED IN)/FROM INVESTING ACTIVITIES | (222,564) | 8,850 |
| FINANCING ACTIVITIES | | |
| Dividends paid | (218,413) | (794,291) |
| Payment of bonds issued | 0 | (584,507) |
| Long-term loans and borrowings received | 76,207 | 12,149 |
| Payment of long-term loans | (400,595) | (404,935) |
| NET CASH (USED IN)/FROM FINANCING ACTIVITIES | (542,801) | (1,771,584) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 686,767 | (1,440,926) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 925,174 | 2.366,100 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 1,611,941 | 925,174 |

The accompanying notes form an integral part of these unconsolidated financial statements

Signed on behalf of the Company on 30 April 2019:


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

1. GENERAL

Foundation and development

Hrvatska elektroprivreda d.d. Zagreb (hereinafter: HEP d.d. or the Company) is registered in Zagreb with its headquarters at Ulica Grada Vukovara 37. HEP d.d. is the parent company of the HEP Group and performs the function of corporate management of HEP Group and guarantees the conditions for safe and reliable electricity supply to customers. After July 2002 started the operations of subsidiaries in 100% ownership of the Company which are engaged in the production, transmission, distribution, supply and trading of electricity, and distribution and supply of heat through the central heating system in Zagreb, Osijek and Sisak and distribution and supply of gas in the Osijek-Baranja, Požega-Slavonia and Virovitica-Podravina counties. The Company sells electricity to customers who have chosen HEP Opskrba d.o.o. for their supplier, and HEP Opskrba d.o.o. performs service provision and collection of receivables.

The new Electricity Market Act was adopted in February 2013 and determined further restructuring and adjustments of operations of HEP Group with European Union directives and guidelines.

Pursuant to the provisions of the Electricity Act (Official Gazette 22/2013) the Company, as the parent company within a vertically integrated organisation and the owner of the transmission system, separated the transmission operating system in accordance with the provisions of the Act.

At the beginning of July 2013, amendments were conducted to the HEP Operator Prijenosnog Sustava (now: Hrvatski operator prijenosnog sustava d.o.o., abbreviated: HOPS d.o.o.) for the purpose of dividing it in accordance with the ITO model and pursuant to the Electricity Act and a decision by the HEP d.d. Assembly to select a model of an "independent transmission operator."

All these activities were conducted by the Company in accordance with valid laws, regulations and decisions of the Government of the Republic of Croatia.

As at 31 December 2018 HEP d.d. employed 473 employees (2017: 451).

The qualification structure of the employees on 31 December 2018 was as follows: PhD: 6; Master's degree: 38, Bachelor's degree: 274; Higher education: 44 and high school education: 106.

Corporate entities that are part of the HEP Group and related party transactions are listed in the Note 28 to the unconsolidated financial statements.

Leases

During restructuring process, property, plant and equipment and intangible assets were leased to subsidiaries of the Company at carrying value. Leases of property, plant and equipment and intangible assets are classified as finance leases since all the risks and awards of the ownership are transferred to the lessee. Maturity date of lease is equal to remaining useful depreciation life of leased assets. Lease liabilities are stated in related parties' books within long-term liabilities. Leases bear interests to the extent of the Company's externally acquired funds for the corresponding asset.

The fair value of leases has not been estimated due to the specific organization of the HEP Group and with the aim of disclosing underlying assets at their original carrying value at which they were acquired by the Group. Consequently, for a better understanding of the Company, the accompanying financial statements should be read in conjunction with the consolidated financial statements of the HEP Group.

1. GENERAL (continued)

Revenue recognition

All revenues related to the sale and supply of electricity to customers who chose HEP Opskrba d.o.o. are recognised in the Company.

HEP Operator distribucijskog sustava d.o.o, i.e. HEP Elektra d.o.o. since 2 November 2016, recognizes revenues for delivered electricity to household customers on the basis of energy data generated by sales to customers and the amounts of tariff items according to the decision of the Croatian Energy Regulatory Agency (HERA) on the amount of tariff items for the supply of electricity within the universal service. From the entry into force of the Act on Amendments to the Electricity Market Act, the tariffs for electricity supply within the universal service are provided by the supplier who has the obligation to provide the public service.

HEP Operator distribucijskog sustava d.o.o, i.e. HEP Elektra d.o.o. since 2 November 2016, recognizes revenues for delivered electricity to the corporate customers within the framework of guaranteed supply based on the energy data generated by sales to customers and the amounts of tariff items in accordance with the Methodology for determining the amount of tariff items for the guaranteed electricity supply and HERA decisions on the amount of tariff items for guaranteed electricity supply.

Companies Hrvatski operator prijenosnog sustava d.o.o. and HEP Elektra d.o.o. recognize revenues in the amount of delivered and transferred quantities of electricity based on the energy data generated by sales to customers and the amounts of tariff items based on the method of cost recovery according to the Methodology for determining the amount of tariff items for electricity distribution and the Methodology for determining the amount of tariff items for the transmission of electricity. Revenue recognition is based on the amounts of the tariff items from the Decision on the amount of tariff items for electricity distribution and the Decision on the amount of tariff items for electricity transmission issued by HERA in December 2015 and applicable from 1 January 2016.

HEP Proizvodnja d.o.o. recognizes revenues for the delivered quantities of electricity produced on the basis of the price determined by the energy data on the delivered electricity and the realized electricity production costs increased by the profit generated by the sale of electricity to the final customers, the network operators for electricity losses and the wholesale market.

1. GENRAL (continued)

General Assembly

The General assembly consists of the members representing the interests of the sole shareholder – the Republic of Croatia:

| | | |
|------------------|--------|---|
| Tomislav Panenić | Member | Member from 4 March 2016 to 25 January 2017 |
| Zdravko Marić | Member | Member from 26 January 2017 to 14 February 2018 |
| Tomislav Čorić | Member | Member since 15 February 2018 |

Supervisory Board

Members of Supervisory Board in 2018

| | | |
|-----------------------|-----------|--|
| Goran Granić | President | President since 7 December 2017 |
| Dubravka Kolundžić | Member | Member from 1 July 2015 to 10 January 2018 |
| Marko Primorac | Member | Member from 7 December 2017 to 25 July 2018 |
| Višnja Komnениć | Member | Member from 11 January 2018 to 22 October 2018 |
| Lukša Lulić | Member | Member since 29 October 2018 |
| Ivo Ivančić | Member | Member since 29 October 2018 |
| Meri Uvodić | Member | Member since 4 December 2018 |
| Jelena Zrinski Berger | Member | Member since 7 December 2017 |

Members of Supervisory Board in 2017

| | | |
|-----------------------|-----------|--|
| Nikola Bruketa | President | President from 23 February 2012 to 6 December 2017 |
| Goran Granić | President | President since 7 December 2017 |
| Žarko Primorac | Member | Member from 23 February 2012 to 6 December 2017 |
| Ivo Uglešić | Member | Member from 23 February 2012 to 6 December 2017 |
| Igor Džajić | Member | Member from 19 September 2012 to 6 December 2017 |
| Mirko Žužić | Member | Member from 19 September 2012 to 6 December 2017 |
| Juraj Bukša | Member | Member from 5 June 2014 to 6 December 2017 |
| Dubravka Kolundžić | Member | Member from 1 July 2015 to 10 January 2018 |
| Marko Primorac | Member | Member since 7 December 2017 |
| Jelena Zrinski Berger | Member | Member since 7 December 2017 |

1. GENERAL (continued)

Management Board

Management Board in 2018

| | | |
|-----------------|-----------|--------------------------------|
| Frane Barbarić | President | President since 1 January 2018 |
| 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 |
| Saša Dujmić | Member | Member since 4 December 2014 |

Management Board in 2017

| | | |
|-------------------|-----------|--|
| Perica Jukić | President | President from 12 September 2014 to 31 December 2017 |
| Zvonko Ercegovac | Member | Member from 23 February 2012 to 31 December 2017 |
| Tomislav Rosandić | Member | Member from 2 January 2015 to 31 December 2017 |
| Saša Dujmić | Member | Member since 4 December 2014 |

Basis of preparation

a) Unconsolidated financial statements

The unconsolidated financial statements for 2018 have been prepared in accordance with the Accounting Act (Official Gazette 78/15, 120/16, 116/18), the International Financial Reporting Standards ("IFRS"), determined by the European Commission and published in the Official Journal of the EU; as well as in accordance with the Ordinance on the structure and content of annual financial statements (Official Gazette 95/16).

Exceptionally, in order to have a more appropriate presentation of the unconsolidated financial statements and to eliminate possible obscurity and misinterpretations, the Company deviated from the specific requirements of IFRS 11 "Joint arrangements" (Note 15).

The unconsolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are presented in revalued amounts. All amounts in the unconsolidated financial statements are presented in thousands of Croatian Kuna (HRK '000) as the Company's functional currency, unless otherwise stated. The Company keeps accounting records in Croatian language, in Croatian Kunas, and in accordance with Croatian legal requirements and accounting principles and practices applied by legal entities in Croatia.

The unconsolidated financial statements have been prepared with the application of the basic accounting assumption of the occurrence of a business event and the assumption of the going concern concept.

1. GENERAL (continued)

Basis of preparation (continued)

b) Consolidated financial statements

The Company has prepared these unconsolidated financial statements in accordance with Croatian legislative regulations. The Company has also prepared consolidated financial statements for the Company and its subsidiaries, which together with the Company comprise the Group, as at 31 December 2018 and for the year then ended. The consolidated financial statements have been prepared in accordance with IFRS and were approved by the Management Board on 30 April 2019. In the consolidated financial statements, subsidiaries (listed in the Note 28) – where the Company has more than half of voting rights or in some other way controls their business, have been entirely consolidated. These unconsolidated financial statements should be read in conjunction with the consolidated financial statements of the HEP Group as at and for the year ended 31 December 2018, in order to obtain complete information about the Group's financial position, its performance results and changes to the financial position of Group as a whole.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

a) Changes in accounting policies

Adoption of new and revised International Financial Reporting Standards

New standards, interpretations and amendments effective

The following new standards, revised and amended existing standards and interpretations issued by the International Accounting Standards Board adopted by the European Union and are effective for the current period:

- **IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, hedge accounting, and DE recognition. The Company adopted the standard on its effective date.

IFRS 9 Financial Instruments replaced IFRS 39 - Financial Instruments: Recognition and Measurement and had the following effect on HEP dd:

Investments that were classified as financial assets available for sale in accordance with *IAS 39 - Financial Instruments: Recognition and Measurement*, in accordance with *IFRS 9 - Financial Instruments* are classified as financial assets at fair value through other comprehensive income. All gains arising from measurement at fair value of the asset in question are recognized in other comprehensive income and are not transferred to the statement of profit or loss. Previously, in accordance with *IAS 39 - Financial Instruments: Recognition and Measurement* impairment of the asset for which there was an objective evidence of impairment, was recognized in the statement of profit or loss as well as gains and losses accumulated in revaluation reserves at the time of derecognition of that asset.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

New standards, interpretations and amendments effective (continued)

IFRS 9 Financial Instruments replaced IAS 39 - Financial Instruments: Recognition and Measurement and had the following effect on HEP dd (continued):

Impairment of financial assets classified as available for sale previously recognized in the statement of profit or loss in the amount of HRK 27,046 thousand in accordance with IAS 39 - *Financial Instruments: Recognition and Measurement* (and subsequently accrued in retained earnings) were transferred to the reserve in the amount of HRK 22,178 thousand and in a deferred tax liability in the amount of HRK 4,869 thousand to ensure that such reserve and deferred tax liability reflect cumulative gains and losses on that asset from initial recognition.

HEP d.d. has chosen not to adjust comparable periods and to apply this Standard retroactively with the cumulative effect of initial application on 1 January 2018, and the changes are presented in the Statement of Changes in Equity for the year ended 31 December 2018

If the Company continued to report in accordance with IAS 39 - Financial Instruments: Recognition and Measurement for the year ended 31 December 2018, the following amounts would be reported in these financial statements:

| | Reported in accordance with IFRS 9 | Effect | Reported if IFRS was not applied |
|--|--|-------------|-------------------------------------|
| | in '000 HRK | in '000 HRK | in '000 HRK |
| EQUITY | | | |
| Reserves | 40,407 | 22,178 | 62,585 |
| Retained earnings including current profit | 5,384,690 | (27,047) | 5,357,643 |
| Deferred tax liabilities | 5,441 | 4,869 | 10,310 |

- **IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

New standards, interpretations and amendments effective (continued)

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either applies IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company adopted a standard on its effective date and its application did not have any significant impact on the Company's financial statements.

New standards, interpretations and amendments not yet effective

- **IFRS 16: Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

The Company decided not to apply the new lease standard retroactively, but the exemption for the lessee will be used. When converting to the new standard, liabilities based on existing operating leases will be discounted using the appropriate incremental borrowing rate and will be recognized as a lease liability. Assets with the right to use property will be recognised in the amount of lease liability adjusted to the amount of prepaid or calculated lease payments.

The Company estimates that the application of the new standard will have approximately the following effects:

- Increase of assets with right to use for approximately HRK 6,017 thousand
- Increase in liabilities by approximately HRK 6,017 thousand

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

a) Changes in accounting policies (continued)

New standards, interpretations and amendments not yet effective

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These Amendments have not yet been endorsed by the European Union

The Company will adopt amendments with their effective date and does not expect them to have a significant influence on the Company's financial statements.

b) Summary of principal accounting policies

Investments in subsidiaries

Subsidiaries are entities in which the Company (parent) has control or power to govern the financial and operating policies by participation in decision-making on financial and operating policies of the subsidiary. Investments in subsidiaries are reported at the end of the reporting period at cost adjusted for impairment of the individual investment.

Investments in associates

An associate is an entity over which the Company has significant influence through participation in making financial and operational decisions of the associate but does not have control or joint control over that entity. In individual financial statements of the Company, investments in associates are stated at cost method less any impairment loss on the asset.

Investments in joint arrangements

Joint arrangements are classified in accordance with IFRS 11 in:

- Joint operations - a common affair in which parties that have joint control have rights to assets and liabilities based on the financial obligations of the venture in question
- A joint venture - a joint venture in which parties who have joint control have the right to net assets from the venture in question.

When classifying investments in joint arrangements the Company considers:

- The structure of a joint arrangement
- The legal form of joint arrangement structured through separate legal entities
- Contractual terms of joint arrangement
- All other facts and circumstances (including any other contractual arrangements).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Investments in joint arrangements (continued)

Shares in joint arrangements are reported using the equity method.

Company classifies its investment in Krško Nuclear Power Plant in joint operation in the consolidated financial statements and recognizes its share of assets, liabilities, revenues and expenses in accordance with its contractual rights and obligations. As described in the Note 14, the Company has discontinued the requirement in IFRS 11 and for investments in Krško Nuclear Power Plant and applies the equity method in separate unconsolidated financial statements.

Defined benefit schemes and other employee benefits

The Company does not manage the defined benefit plans after retirement for its employees and executives. Accordingly, there is no provision for these costs.

The Company has the obligation to pay contributions to pension and health insurance funds in Croatia in accordance with legal regulations. This obligation applies to all persons who are in employment under the employment contract. The aforementioned contributions are paid at a certain percentage determined on the basis of gross salary.

| | 2018 and 2017 |
|----------------------------------|---------------|
| Pension contributions | 20% |
| Health contributions | 15% |
| Employment contributions | 1.7% |
| Professional injury contribution | 0.5% |

The Company is required to suspend contributions from employees' gross salaries.

Contributions on behalf of the worker and on behalf of the employer are calculated as the expense of the period in which they were incurred (see note 7).

Pension benefits and jubilee awards

Company pays jubilee awards and one-off retirement severance payments to its employees. The liability and the cost of these benefits are determined by applying the projected unit credit method. With the projected unit credit method, each period of working life is viewed as the basis for the additional unit of earnings rights and each unit is measured separately until the final commitment is made. The liability is determined on the basis of the present value of estimated future cash outflows using a discount rate similar to the interest rate on government bonds in the Republic of Croatia with currencies and maturities in accordance with the currencies and estimated liability duration. Liabilities and expenses of these fees are calculated by an authorized actuary.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Pension benefits and jubilee awards (continued)

Jubilee awards

The Company pays to its employees some benefits for long-term work (jubilee awards) and pension benefits when retiring. The reward for long-term work ranges from HRK 1,500 to HRK 5,500 net for working continuously in the Company for 10 to 45 years.

Severance payments

From 1 January 2018, the Collective Agreement (which applies to all members of the HEP Group) is effective, on the basis of which every employee, when retiring, is entitled to severance pay in the amount of 1/8 gross average monthly salary paid to the employee for the previous three months before the termination of the employment contract and for each year of continuous employment. This Collective Agreement is valid until 31 December 2019.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses, except for land, which is carried at cost. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Property, plant and equipment in use are depreciated using the straight-line method on the following bases:

| | 2018 and 2017 |
|-------------------------|----------------------|
| Buildings | 20-50 years |
| Office and IT equipment | 5-20 years |
| Vehicles | 5 years |
| Furniture | 10 years |

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location necessary for it to be capable of operating. Expenditures incurred after property, plant and equipment have been put into operation are normally charged to profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalized as an additional cost of property, plant and equipment. Costs eligible for capitalization include costs of periodic, planned significant inspections and overhauls necessary for further operation. Any gains or losses arising from the disposal or retirement of any item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized as an expense or income in the statement of profit or loss.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Property, plant and equipment (continued)

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment 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 the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is higher of net sales price and value in use. In assessing value in use, the estimated future cash flows are discounted 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 that 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 the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately as expenditure, unless the relevant asset is land or building not used as investment property; i.e. investment property is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, in a way that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss would have been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is immediately recognized as income, unless the relevant asset is carried at estimated value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets

Non-current intangible assets include patents and licenses and are carried at cost less accumulated amortization. Non-current intangible assets are amortized on a straight-line basis over their useful life of 5 years.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Investment property

Investment properties are properties held for the purposes of earning rentals and/or capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequently, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognized upon sale or retirement and when no future economic benefits are expected from its disposal. Any gain or loss arising from derecognition of the property (calculated as the difference between the net sale proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Finance and operating leases

The Company as lessee

The Company has no significant finance lease arrangements and there were no new significant operating lease arrangements concluded during 2018 and 2017. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

The Company as lessor

Property, plant and equipment and intangible assets are leased out by Company to related parties based on the carrying amount (except for HOPS as of 1 July 2013, and HEP Telecommunications). Leases of property, plant and equipment and intangible assets are classified as finance leases since all the risks and awards of the ownership are transferred to the lessee. Maturity date of lease is equal to remaining useful depreciation life of leased assets.

The leases bear an interest to the extent that the Company has acquired external financing to construct the underlying assets. These properties are stated at cost in order to present the underlying assets at their carrying value at which the Company initially recognized them.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Inventories

Inventories comprise material and small inventory and are carried at lower of cost and expected net sales value. The Management carries out inventories write-off based on review of the ageing structure of all inventories as well as a review of significant individual amounts of inventories.

From 2013, inventories include CO₂ emission rights. After Croatia joined the European system for greenhouse gas emissions trading (EU ETS), Hrvatska elektroprivreda (the Company) as an electricity and thermal energy generator, is obligated to purchase greenhouse gas emission units in the amount corresponding to verified emissions of CO₂ generated from the fossil fuel combustion in thermal power plants, as a result of which CO₂ is emitted.

Companies are obligated to have defined quantities of CO₂ emission rights at 30 April (yearly cycle). Due to withdrawal of IFRIC 3 and insufficient provisions of IFRS, the Company has analysed different accounting models for CO₂ emission rights, and among other EFRAG discussion papers. Occasionally, the Group trades with CO₂ emission rights. Due to that the Company recognizes these emission rights as inventory.

From April 2014 inventories also contain gas for wholesale trading and are stated at a lower of value acquisition cost determined on the basis of the average weighted price and net expected sales value (Note 18). For gas quantities that are directly delivered to customers a specific identification method of their individual costs is used to calculate inventory costs.

The cost of the purchase includes the invoiced amount and other costs incurred directly in relation to bringing the stock to a particular location and in usable condition.

Cash and cash equivalents

Cash and cash equivalents comprise petty cash, demand deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized as an expense in the period in which they incurred.

Interest expense is recognized in the period to which it relates to.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Foreign currencies

Unconsolidated financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). In the financial statements of the Company, transactions in foreign currencies are translated to the functional currency of the entity at the applicable exchange rate prevailing on the date of transaction. At each reporting date, monetary balances denominated in foreign currencies are retranslated to the functional currency of the entity at the applicable exchange rate prevailing at the end of the year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the applicable exchange rate prevailing on the date when the fair value was determined. Non-monetary items that are carried at historical cost in foreign currency are not retranslated. Exchange differences arising from the settlement of monetary items, and their retranslation, are stated as profit or loss of the period. Exchange differences arising from retranslation of non-monetary assets carried at fair value are stated as profit or loss of the period, except for exchange differences arising from the retranslation of non-monetary assets available for sale, for which gains and losses are recognized directly in equity. For such non-monetary items, any exchange gains or losses arising from retranslations are also recognized directly in equity.

Taxation

Corporate income tax expense represents the sum of the current tax liability and deferred taxes.

Current tax

Current tax liability is based on taxable profit for the year. Taxable profit differs from profit for the year as stated in the statement of profit or loss because of items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax liability is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax

Deferred tax is the amount expected to be payable or recovered on the basis of the difference between the carrying amount of assets and liabilities in the financial statements and the related tax base used to calculate the taxable profit and is calculated using the balance sheet liability method. Deferred tax liabilities are generally recognized 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. Such assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business merger) of other assets and liabilities in transactions that affect neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or asset realized, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Taxation (continued)

Current and deferred tax for the period

Deferred tax is recognized as an expense or income in the statement of comprehensive income, except when it relate to items credited or debited directly to equity, in which case the deferred tax is also recognized directly in equity, or when the tax is arising from initial recognition in business combinations.

In case of a business combination, tax effect is taken into account for the measurement of goodwill or in determining the excess of the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities over cost.

Financial assets

The Company recognizes financial assets in its financial statements when it becomes party to the contractual provisions of the instrument. Depending on the business model for asset management and contractual features cash flows for the said asset, the Company 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 follows:

| DESCRIPTION | Classification / measurement |
|---|---|
| Fixed assets | |
| Long-term loans | Held for collection / amortised cost |
| Financial assets at fair value through other comprehensive income | Equity instruments / held for collection and sale / fair value through other comprehensive income |
| Other long-term receivables | Held for collection / amortised cost |
| Current assets | |
| Trade and other receivables | Held for collection / amortised cost |
| Receivables from related parties | Held for collection / amortised cost |
| Other receivables | Held for collection / amortised cost |
| Cash and cash equivalents | Held for collection / amortised cost |

The Company's business models reflect the way in which the Company manages assets in order to realize cash flows regardless of whether the Company's objective is solely to collect contractual cash flows from assets (held for collection) or to collect contractual cash flows and cash flows arising from the sale of assets (held for collection and sale), and if none of the above applies, financial assets are classified as part of another business model and are measured at fair value through profit or loss.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Financial assets (continued)

i) Financial assets at fair value through other comprehensive income

This group of assets consists of equity instruments held by the Company and traded in an active market. Expected credit losses are not accounted for or recognized, and fair value changes are recognized in other comprehensive income (FVOCI) without reclassification to the statement of profit and loss. In case the equity instrument is sold, the accumulated revaluation reserve is reclassified to retained earnings. Dividends from these financial assets are recognized in the statement of profit or loss provided that they do not result in impairment losses at the same time.

ii) Loans granted

Company loans are held within a business model whose purpose is to hold a financial asset in order to charge contractual cash flows. Contractual terms at a particular date are cash flows that represent only payments of principal and interest. At that, the principal is the fair value of the asset at initial recognition.

Based on the above, the given loans were measured at amortized cost.

Measurement at amortized cost implies the following;

- Interest income is calculated using the effective interest rate method and applied to the gross book value of the asset at the calculation. The effective interest method is the method of calculating the cost of depreciation of financial assets and the allocation of interest income over the relevant period. Effective interest rate is the rate that discounts future cash receipts through the expected period of financial assets or a shorter period, if appropriate.

iii) 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 at initial recognition have been measured in accordance with IFRS 15 at their transaction price.

iv) Impairment

Based on expected credit losses the Company recognizes impairment of financial assets. At each reporting date, the Company measures expected credit losses and recognizes the same in the financial statements. Expected credit losses from financial instruments are measured in a manner that reflects:

- Impartial and weighted sum of probability which is determined by assessing the range of possible outcomes,
- Time value of money,
- Reasonable and acceptable data on past events, current conditions and predictions of future economic conditions.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Financial assets (continued)

iv) Impairment (continued)

For the purposes of calculating the expected loan loss, the financial asset portfolio is divided into three levels: level 1, level 2 and level 3. At the date of first recognition, financial assets are included in level 1, and the subsequent reclassification to levels 2 and 3 depends on the increase of the credit risk of financial instrument after the initial recognition, i.e. the credit quality of the financial instrument.

The Company applies a simplified approach to IFRS 9 to measure expected credit losses using expected credit loss provisions for credit losses in trade receivables. To measure expected credit losses on an aggregate basis, trade receivables are grouped based on similar credit risk and age structure. The rates of expected credit losses are based on historical credit losses that occurred over a period of three years before the end of the period. Historical loss rates are then adjusted for current and future information on macroeconomic factors affecting the Company's customers. The Company has identified domestic product (GDP), unemployment rate and inflation rate as key factors for the country in which the Company operates.

The Company applied a new standard as follows:

- Receivables from domestic and foreign customers are considered in full
- Receivables from affiliated companies are considered in full

Through the analysis of age structure, it has been determined that the Company has no significant due receivables, the most significant part of the receivables has is not yet due and the Company estimates that it will be fully paid. No significant credit losses were identified. Notwithstanding the foregoing, the Company separately considers the customers in difficulties and, in accordance with the estimate, generates expected credit losses that are most often in full value of the receivables.

v) Derecognition of financial assets

The Company ceases to recognize financial assets when;

- Contractual rights to cash flows from financial assets expire,
- Financial assets are transferred and the transfer fulfils conditions for termination of recognition.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Financial assets (continued)

v) Derecognition of financial assets (continued)

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

When the Company transfers financial assets, it is required to estimate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case, when all risks and rewards of ownership are transferred, the Company ceases to recognize financial assets and recognizes separately, as assets or liabilities, all rights and obligations that have arisen or are retained in the transfer. If almost all the risks and rewards of ownership of financial assets are retained, the Company continues to recognize financial assets. If the Company neither transfers nor retains almost all the risks and rewards of ownership of financial assets, the Company determines whether it has retained control of the financial asset.

If no control over financial assets is retained, the Company derecognises financial assets and recognizes separately, as assets or liabilities, all rights and obligations that have arisen or are retained in the transfer. If control is retained, the Company continues to recognize financial assets to the extent that it continues to participate in that financial asset.

Derivative financial instruments

The Company uses derivative financial instruments to reduce foreign exchange exposure. Additionally, the Company has concluded a Cross Currency Swap Agreement by which the Dollar obligation on bonds has been converted into the Euro obligation for the entire duration of the bonds, i.e. up to their maturity on 23 October 2022. More detailed information on derivative financial instruments is disclosed in Note 37.

Derivative financial instruments are initially recognized at fair value at the date of the conclusion of the contract and subsequently redeemed at fair value at the end of each reporting period. The Cross Currency Swap Agreement is classified as hedge of fair value with respect to the nature of the hedged item. Profit or loss from re-measurement of the hedging instrument at fair value is immediately recognized in the statement of profit or loss. Any gain or loss on a hedged item attributable to a hedged risk is adjusted to the carrying amount of the hedged item and is recognized in the statement of profit or loss.

The Company made the decision to measure the fair value of the currency swap with the "Market To Market" (MTM) value, according to the calculation of commercial banks. The positive value of "MTM" is recorded as a receivable, i.e. it generates financial income for the period, and the negative value of "MTM" is recorded as a liability and forms the financial expense of the reporting period. Upon the final maturity of the derivative financial instrument, the relevant receivables or liabilities will be discontinued at expense or in favour of the Company's income.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Commodity contracts

In accordance with IFRS 9, certain commodity contracts are treated as financial instruments and fall within the scope of the standard. Purchase and sale contracts concluded by the Company provide for the physical delivery of quantities that are intended for consumption or sale as part of the normal business of the Company; such contracts are therefore excluded from the area of application of the standard.

It is especially considered that term purchases and sales for physical deliveries of energy that are concluded as part of the Company's regular business are excluded from the scope of IFRS 9. This is demonstrated by the fulfilment of the following conditions:

- Physical delivery of contracted quantities;
- The quantities purchased or sold correspond to the Group's business requirements;
- The contract cannot be considered as a written option defined by IFRS 9.

The Company therefore considers the transactions agreed with the aim of balancing the volume between buying and selling energy as part of its regular business as an integrated energy company, therefore not falling within the scope of IFRS 9.

Financial liabilities

Initial Recognition and Measurement

Financial liabilities are classified as financial liabilities that are measured at amortized cost. All financial liabilities are initially recognized at fair value plus associated transaction costs. Financial liabilities include trade payables and other payables, 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 rate method.

Derecognition

The Company ceases to recognize the liability in the financial statements when, and only then, the obligation has been settled. When the existing financial liability is replaced by another by the same creditor under substantially different terms or the terms of existing liabilities have changed significantly, such change or modification is treated as termination of the original liability and recognition of the new liability, and the difference in the corresponding carrying amounts is recognized in the statement of profit or loss.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES AND THE SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

b) Summary of principal accounting policies (continued)

Provisions

Provision is recognized only if the Company has a present obligation (statutory or derivative) as a result of the past event, and if it is probable that settlement of the obligation will require the outflow of resources with economic benefits, and if a reliable estimate can determine the amount of the liability. Provisions are reviewed at each reporting date and adjusted according to the latest best estimates. If the effect of the time value of the money is significant, the amount of the provision is the present value of the costs that are expected to be needed to settle the obligation. In the case of discounting, the increase in the provisions reflecting the time elapses is recognized as an interest expense.

Revenue recognition

Business revenues are primarily generated through the sale of electricity to households, industrial and other customers in the Republic of Croatia which elected HEP Opskrba d.o.o. as their supplier; the sale of electricity to related parties and in the market; and the provision of administrative services to the Group companies.

In accordance with the new IFRS 15, the Company applies a five-step model for recognizing a contract with customer:

- 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 contractual obligation in the transaction price amount. The transaction price is the amount of contractual remuneration that the Company expects to be entitled to in return for the delivery of the promised goods or services. The Company recognizes revenue at the time it has fulfilled the obligation and when the revenue can be measured reliably.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The compilation of financial statements in accordance with International Financial Reporting Standards requires the Board to provide estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Future events are possible that will cause changes in assumptions based on which estimates are given, and thus changes in the estimates themselves. The effect of any change in the estimate will be reflected in the financial statements when it is possible to determine it. The estimates are presented in detail in the accompanying notes and the most significant of them relate to the following:

Useful life of property, plant and equipment

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

Provision for decommissioning of power plants

The Management Board estimates the cost of provisions for the decommissioning of the Krško Nuclear Power Plant and Group's thermal power plants on the basis of the applicable laws and regulations and its own experience. The provision also includes activities related to environmental protection to be carried out during the decommissioning of production facilities.

Decommissioning funds for Krško Nuclear Power Plant are reserved in accordance with the Regulation on Amount, Deadline and Method of Payment of Funds for Financing Decommission and Disposal of Radioactive Waste and Used Nuclear Fuel of Krško Nuclear Power Plant (OG 155/08) (Note 14).

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.

Impairment of fixed assets

The impairment calculation requires the estimate of the use value of the cash generating units. This value is measured based on the projection of the discounted cash flow. The most significant variables for determining the cash flow are the discounted rate, the term value, the time for which the cash flow projections are made, as well as the assumptions and judgments used to determine cash receipts and expenditures. The Company did not have any property impairments that would result from the projections described above.

The 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 a profit will be generated that will enable the use of related tax benefits. The determination of deferred tax assets that can be recognized requires the application of significant judgment, which is based on the probable time and level of future taxable profits, together with future tax planning strategy. The carrying amount of deferred tax assets at 31 December 2018 amounts to HRK 132,900 thousand and as at 31 December 2017 HRK 105,279 thousand (see Note 10).

Actuarial estimates used to calculate retirement benefits

The defined benefit cost was determined using actuarial estimates. Actuarial estimates include determining assumptions on discount rates, future increases in income and mortality or fluctuation rates. Due to the long-term nature of these plans, these estimates are a matter of insecurity. Provisions for severance payments and jubilee awards amount to HRK 20,746 thousand as at 31 December 2018 and HRK 15,992 thousand at 31 December 2017 (see Note 26).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Consequences of certain legal disputes

The Company is a party to numerous court disputes arising from regular business. Provisions are recorded if there is a present obligation as a result of the past event (taking into account all available evidence including the opinion of legal experts) where it is likely that settlement of the obligation will require a resource outflow and if the amount of the liability can be estimated reliably. Provisions for legal disputes on 31 December 2018 amounted to HRK 178,867 thousand and on 31 December 2017 HRK 179,391 thousand (see Note 26).

Accounting of joint investment in Krško Nuclear Power Plant

As described in Note 14, the joint operation in Krško Nuclear Power Plant is recognized in the Company's financial statements using the equity method. Application of IFRS 11 requirements has resulted in numerous issues and ambiguities, as well as misunderstandings by a part of the users of financial statements.

In the consolidated financial statements, the Company applies the joint asset and liabilities management method and discloses the Company's share of each asset and each liability, income and expense in accordance with IFRS 11.

Expected credit loss model

With IFRS 9, the expected loss credit model (ECL) is introduced. The measurement of the expected impairment loss is based on reasonable and supporting information available without excessive expense and effort and which includes information on past events, current and foreseeable future conditions and circumstances. The Company recognizes a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk from initial recognition (or when a liability or guarantee is assumed). For the purpose of calculating the ECL model, the portfolio of financial assets is divided into three stages: level 1, level 2 and level 3. At the date of first recognition, financial assets are included in step 1 and the subsequent reclassification to steps 2 and 3 depends on the increase of the credit risk instrument after initial recognition, i.e. the credit quality of a financial instrument. For trade receivables, a simplified approach is applied whereby expected credit losses are recognized for the entire term of the receivable.

4. SALES REVENUES

/i/ REVENUE FROM ELECTRICITY SALES

| | 2018 in '000 HRK | 2017 in '000 HRK |
|--|-------------------------|-------------------------|
| Revenue from sale of electricity to HEP Opskrba d.o.o. customers | 2,817,797 | 2,332,348 |
| Revenue from sale of electricity on foreign markets | 642,574 | 907,718 |
| Revenue from sale of electricity on domestic market | 58,478 | 77,281 |
| | <u>3,518,849</u> | <u>3,317,347</u> |

/ii/ REVENUE FROM GAS SALES – WHOLESALE MARKET

The Act on Amendments to the Gas Market Act (OG 16/17) appointed Hrvatska elektroprivreda d.d. as the wholesale supplier on the wholesale gas market from 1 April 2017 until the tender for the selection of suppliers on the wholesale gas market is published. Supplier on the wholesale gas sales market sells gas to gas supply providers in the public gas supply service for household customers at a regulated sales price and is obliged to provide reliable and secure gas supply.

The Gas Market Act (OG 18/18) stipulates the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of the supplier in the wholesale market will be abolished. HERA carried out tenders for the selection of suppliers on the wholesale market for the period from 1 August 2018 to 31 March 2021 (on 15 May and 13 June 2018). As no proposals were received for these calls, 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 d.d. as a wholesale supplier for a period of time shorter than the Act envisaged, i.e. from 1 August 2018 to 31 March 2019.

In accordance with the Act on Amendments to the Gas Market Act, at its session held on 28 February 2017, the Government of the Republic of Croatia adopted a Decision on the price of gas at which the gas wholesale supplier is obliged to sell gas to gas supply providers in the public gas supply service for household customers; which determines the price at HRK 0.1809 / kWh. Until 31 July 2018, the gas sale price was determined by the Government of the Republic of Croatia's decisions and from August 2018 using the Methodology for determining the tariff items for the public gas supply service and the guaranteed supply (OG 34/18).

As of 1 April 2017, the natural gas producer has no longer the obligation to deliver gas and 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 service supply is no longer valid.

Pursuant to the Act on Amendments to the Gas Market Act HEP d.d. as a wholesale market supplier, was awarded 60%, or 61 storage capacity packages in the underground gas storage facility, during the period from 1 April 2017 to 31 March 2022.

4. SALES REVENUES (continued)

Revenue from gas sales – gas suppliers - non-related parties in 2018 amounts to HRK 657,599 thousand (in 2017: HRK 4,050 thousand).

Revenue from gas sales on wholesale market – non-related parties amounts to HRK 935,695 thousand in 2018 (in 2017: HRK 963,887). Revenue from gas sales – related parties amounts to HRK 133,693 thousand (in 2017: HRK 132,384 thousand).

5. OTHER OPERATING INCOME

| | 2018 in '000 HRK | 2017 in '000 HRK |
|--|----------------------------|----------------------------|
| Collected value adjusted claims | 16,777 | 20,917 |
| Customer default interest | 21,142 | 13,843 |
| Income from leasing capacity to sell electric. energy abroad | 8,242 | 18,206 |
| Income from sale of tangible assets | 2,815 | 16,040 |
| Revenues from termination of long-term provisions | 5,943 | - |
| Other operating income | 11,358 | 17,616 |
| | <u>66,277</u> | <u>86,622</u> |

6. ELECTRICITY PURCHASE EXPENSES

The electricity purchase expenses reported in the statement of profit or loss for 2018 amount to HRK 2,301,444 thousand (2017: HRK 2,572,848 thousand) and relate to acquisitions outside the wholesale sales system and sales to end customers.

Electricity procurement expenses are smaller compared to the previous year due to lower imported electricity quantities, since, due to the improved hydrological circumstances during 2018, electricity purchases from HEP Proizvodnja d.o.o. increased.

Electricity and gas trade is conducted both bilaterally and on the stock exchanges.

For the purchase of electricity and gas, futures are contracted for which daily market price deviations are calculated. Price adjustments are included in the purchase price of deliveries.

7. EMPLOYEE BENEFIT EXPENSES

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---------------------------------------|----------------------------|----------------------------|
| Net salaries | 55,892 | 52,742 |
| Contributions and taxes from salaries | 27,441 | 25,499 |
| Contributions on gross salaries | 13,603 | 12,936 |
| | <u>96,936</u> | <u>91,177</u> |

Total employee costs:

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---------------------------------------|----------------------------|----------------------------|
| Gross salaries | 96,936 | 91,177 |
| Employee benefits (Note 8) | 6,613 | 6,404 |
| Material rights of employees (Note 8) | 3,744 | 1,806 |
| | <u>107,293</u> | <u>99,387</u> |

Employee benefits include commuting costs of HRK 2,076 thousand (2017: HRK 2,062 thousand), daily allowances and travel expenses in the amount of HRK 2,311 thousand (2017: HRK 2,080 thousand) and other similar expenses.

Costs of material rights of employees include severance payments for early retirement, jubilee awards and occasional aids.

7. EMPLOYEE BENEFIT EXPENSES (continued)

Key management personnel compensation

| | 2018 in '000 HRK | 2017 in '000 HRK |
|------------------|----------------------------|----------------------------|
| Gross salaries | 8,163 | 6,693 |
| Benefits in kind | 1,384 | 1,399 |
| Contributions | 1,848 | 1,578 |
| | 11,395 | 9,670 |

Supervisory Board members compensation

| | 2018 in '000 HRK | 2017 in '000 HRK |
|-------------------------|----------------------------|----------------------------|
| Compensation fees | 131 | 189 |
| Taxes and contributions | 84 | 120 |
| Other expenses | - | 4 |
| | 215 | 313 |

8. OTHER OPERATING EXPENSES

| | 2018 in '000 HRK | 2017 in '000 HRK |
|--|----------------------------|----------------------------|
| Value adjustment of trade receivables | 335,693 | 33,098 |
| Value adjustment of investment in progress | 28,212 | 279,233 |
| Cost of HEP d.d. for NEK decommission | 105,613 | 106,386 |
| Costs of services and materials within subsidiaries | 41,142 | 35,694 |
| Cost of external services and materials | 117,952 | 105,756 |
| Cost of sales of CO2 emission units | 89,440 | 130,001 |
| Taxes, contributions and fees | 11,491 | 10,859 |
| Bank charges, payment transaction costs and loan fees | 6,781 | 7,049 |
| Receipts in kind (Note 7) | 2,227 | 2,262 |
| Daily allowances and commuting costs to work (Note 7) | 4,387 | 4,142 |
| Insurance premiums | 6,502 | 6,648 |
| Written off unclaimed receivables | 2,538 | 1,196 |
| Other employee benefits (Note 7) | 3,744 | 1,806 |
| Provisions for severance payments and other employee costs | 4,568 | 3,613 |
| Provisions for unused annual vacations | - | 3,938 |
| Provision for legal proceedings | 1,936 | 795 |
| Compensation for damages based on lawsuits | 3,676 | 13,085 |
| Cost of energy used in production | 12,404 | - |
| Other operating expenses | 19,510 | 18,093 |
| | <u>797,816</u> | <u>768,551</u> |

9. FINANCE INCOME AND EXPENSES

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---|----------------------------|----------------------------|
| Finance income | | |
| Interest income | 109,953 | 139,162 |
| Net foreign exchange gain | 71,694 | 199,246 |
| Dividend income from subsidiaries and associates | 340,243 | 740,057 |
| Dividend income | 16 | 8,935 |
| Fair value of cross currency swap (Note 23) | 197,972 | - |
| Other finance income | 2,658 | 2,866 |
| Total finance income | 722,536 | 1,090,266 |
| Finance expenses | | |
| Interest expense | (184,405) | (220,880) |
| Net foreign exchange loss | (56,490) | (82,538) |
| Fair value of cross currency swap | - | (569,173) |
| Revaluation of shares | (190,154) | (52,025) |
| Fair valuation of shares | - | (548) |
| Expenses of futures trading on the stock exchange | - | (2,243) |
| Other finance expenses | (8,223) | (7,620) |
| Total finance expenses | (439,272) | (935,027) |
| Capitalized borrowing costs | - | 1,017 |
| Finance expenses recognised in the statement of profit or loss | (439,272) | (934,010) |
| Net profit from finance activities | 283,264 | 156,256 |

10. TAX EXPENSE

Pursuant to tax legislation and regulations in Republic of Croatia the Company is subject to taxes. The tax base is determined as the difference between amounts of income and expenses in the period and increased for expenses that are non-deductible. The income tax rate is 18%

| | 2018 | 2017 |
|---|------------------------|----------------------|
| | in '000 HRK | in '000 HRK |
| Current tax | (72,636) | (13,891) |
| Deferred tax expense related to origination and reversal of temporary differences | 27,566 | 85,552 |
| Merger of Program Sava d.o.o. | (2) | - |
| Tax expense | <u>(45,072)</u> | <u>71,661</u> |

Adjustments of deferred tax assets are shown as follows:

| | 2018 | 2017 |
|---------------------------------|-----------------------|-----------------------|
| | in '000 HRK | in '000 HRK |
| Balance at 1 January | 105,279 | 19,727 |
| Increase in deferred tax assets | 27,566 | 85,552 |
| Merger of Program Sava d.o.o. | 55 | - |
| Balance at 31 December | <u>132,900</u> | <u>105,279</u> |

Deferred tax assets are result of non-deductible provisions for derivative financial instruments (SWAPs), provisions for severance payments and jubilee awards, provisions for value adjustment of investment property inventories and provisions for contingent receivables.

| | 2018 | 2017 |
|--|------------------------|------------------------|
| | in '000 HRK | in '000 HRK |
| Profit before taxation | 399,048 | 292,362 |
| Tax paid at tax rate in Croatia (18%/20%) | (71,829) | (52,625) |
| The effect of non-deductible (income)/expenses | (807) | 38,734 |
| Tax expense for the current year | <u>(72,636)</u> | <u>(13,891)</u> |
| Effective tax rate | <u>18.20%</u> | <u>4.75%</u> |

10. TAX EXPENSE (continued)

The effects of non-deductible (income) / expense consists of income from dividends, collected previously written off receivables, state aid for education and reduction of profit for other revenues.

In the past few years, the Tax Administration has not carried out the audit of the company's tax return, except for the short supervision in 2013. In accordance with the tax regulations, the Tax Administration may at any time review the books and records of the companies for a period of three years after the expiration of the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Management Board of the Company is not aware of any circumstances that could lead to potential significant obligations in this respect.

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

| | 31 Dec 2017 | (Debited)/credited to the statement of profit or loss | 31 Dec 2018 |
|--|----------------|---|----------------|
| | in '000 HRK | in '000 HRK | in '000 HRK |
| Provisions for jubilee awards and severance payments | 2,878 | 801 | 3,680 |
| Fair value JANAF | 5,539 | - | 5,538 |
| Provision of costs for wind farms | 3,894 | - | 3,894 |
| Provision for fair value of swap | 90,941 | (35,635) | 55,306 |
| Provision of fair value of shares | - | 440 | 440 |
| Provisions for Petrokemija | - | 59,400 | 59,400 |
| Other | 2,027 | 2,560 | 4,587 |
| | <u>105,279</u> | <u>27,566</u> | <u>132,845</u> |
| Merger of Program Sava d.o.o. | - | 55 | 55 |
| | <u>105,279</u> | <u>27,621</u> | <u>132,900</u> |

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Equipment and inventory | Assets under construction | Advance payments | Total |
|---|-----------------------|-------------------------------|---------------------------------|---------------------|------------------|
| | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK |
| COST | | | | | |
| 1 Jan 2017 | 351,717 | 645,754 | 717,961 | 7,206 | 1,722,638 |
| Increase / decrease | 2,041 | 26,839 | 56,554 | (1,184) | 84,250 |
| Increase through merger | 227,640 | 2,032,496 | 192,101 | - | 2,452,237 |
| Transfer if TPP Plomin assets into | (227,640) | (2,032,496) | (192,101) | - | (2,452,237) |
| Transfer to related parties | (1,010) | (323,581) | (55,394) | - | (379,985) |
| Activation of investment in intangible assets | - | - | (57,006) | - | (57,006) |
| Written off | - | (5,944) | (274,100) | - | (280,044) |
| Transfer to investment property | (21,858) | - | - | - | (21,858) |
| 31 Dec 2017 | 330,890 | 343,068 | 388,015 | 6,022 | 1,067,995 |
| Increase / decrease | 1,158 | 3,699 | 63,410 | 85,822 | 154,089 |
| Increase by transferring investments within a facility | 34,797 | 253,731 | (288,528) | - | - |
| Increase through merger | 5,149 | 19,337 | - | - | 24,486 |
| Transfer to related parties | (18,210) | (157,125) | (2,926) | - | (178,261) |
| Disposal (sale, expense, shortage) | (1,189) | (45,428) | (13,168) | - | (59,785) |
| 31 Dec 2018 | 352,595 | 417,282 | 146,803 | 91,844 | 1,008,524 |

11. PROPERTY, PLANT AND EQUIPMENT (continued)

ACCUMULATED DEPRECIATION

| | | | | | |
|--|----------------|----------------|----------------|---------------|----------------|
| 1 Jan 2017 | 94,426 | 279,170 | - | - | 373,596 |
| Depreciation for the year | 5,375 | 26,759 | - | - | 32,134 |
| Impairment as a result of merger | 135,663 | 1,981,224 | - | - | 2,116,887 |
| Impairment of assets transferred to lease | (135,663) | (1,981,224) | - | - | (2,116,887) |
| impairment of assets | - | (20,732) | - | - | (20,732) |
| Impairment of assets transferred to the subsidiary | (213) | (79,016) | - | - | (79,229) |
| 31 Dec 2017 | 99,588 | 206,181 | - | - | 305,769 |
| Depreciation for the year | 6,188 | 27,683 | - | - | 33,871 |
| Impairment as a result of merger | 972 | 19,075 | - | - | 20,047 |
| Disposal (sale, expense, shortage) | - | (45,410) | - | - | (45,410) |
| Impairment of assets transferred to the subsidiary | (506) | (11,586) | - | - | (12,092) |
| 31 Dec 2018 | 106,424 | 195,943 | - | - | 302,185 |
| NET BOOK VALUE | | | | | |
| 31 Dec 2017 | 231,302 | 136,887 | 388,015 | 6,022 | 762,226 |
| 31 Dec 2018 | 246,353 | 221,339 | 146,803 | 91,844 | 706,339 |

Assets under construction at 31 December 2018 amounted to HRK 146,803 thousand, and most significant were investments in EL-TO Zagreb - replacement of Block A in the amount of HRK 16,314 thousand, investment for HPP Kosin in the amount of HRK 10,130 thousand, cogeneration plants for forest biomass BE-TO Sisak in the amount of HRK 11,811 thousand and BE-TO Osijek in the amount of HRK 6,697 thousand, IT technology HRK 9,591 thousand, EDM / ECM project cost HRK 6,094 thousand. Investments in 2018 amounted to HRK 67,634 thousand, of which the most significant are in EL-TO Zagreb - the replacement of block A, HPP Kosinj and the cogeneration plant BE-TO Sisak.

12. INTANGIBLE ASSETS

| | Patents and licences in '000 HRK |
|--|--|
| COST | |
| 1 Jan 2017 | 137,064 |
| Additions | 30,593 |
| Additions through business combinations | 30,061 |
| Rescission based on asset transfer | (30,061) |
| Transfer from investment | 57,006 |
| | <hr/> |
| 31 Dec 2017 | 224,663 |
| Additions | 12,803 |
| Disposals | (2) |
| | <hr/> |
| 31 Dec 2018 | 237,464 |
| | <hr/> |
| ACCUMULATED AMORTISATION AND IMPAIRMENT | |
| 1 Jan 2017 | 79,319 |
| Amortisation charge | 16,979 |
| Impairment from merger | 30,061 |
| Impairment from transfer | (30,061) |
| | <hr/> |
| 31 Dec 2017 | 96,298 |
| Amortisation charge | 27,914 |
| Impairment | 8 |
| Disposal | (2) |
| | <hr/> |
| 31 Dec 2018 | 124,218 |
| | <hr/> |
| Net book value | |
| 31 Dec 2017 | 128,365 |
| | <hr/> |
| 31 Dec 2018 | 113,246 |
| | <hr/> |

13. INVESTMENT PROPERTY

As at 31 December 2018, investments in real estate that include real estate held for the purpose of earning LEASE income and / or capital appreciation are stated at fair value. Fair value includes the estimated market price at the end of the reporting period. All investment properties owned by the Company are carried at fair value.

Investment property (in '000 HRK)

| | | |
|---------------------------------------|---------------|---------------|
| 31 Dec 2017 | 33,266 | 15,433 |
| Net gains (losses) on revaluation | (13,775) | (4,025) |
| Classification to investment property | - | 21,858 |
| 31 Dec 2018 | 19,491 | 33,266 |

14. EQUITY INVESTMENTS

Equity investments recorded in the balance sheet at 31 December 2018 in the amount of HRK 9,578,649 thousand (31 December 2017: HRK 9,465,828 thousand) comprise the investments shown in the table:

| | 31 Dec 2018 | 31 Dec 2017 |
|---|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| HEP - Proizvodnja d.o.o. | 40 | 40 |
| Hrvatski operator prijenosnog sustava d.o.o. | 4,934,719 | 4,934,719 |
| HEP - Operator distribucijskog sustava d.o.o. | 1,802,041 | 1,764,961 |
| HEP - Opskrba d.o.o. | 20 | 20 |
| HEP - Toplinarstvo d.o.o. | 764,361 | 730,816 |
| HEP - Plin d.o.o. | 20 | 20 |
| HEP ESCO d.o.o. | 18,960 | 3,920 |
| HEP - Upravljanje imovinom d.o.o. | 17,995 | 17,995 |
| HEP - Trgovina d.o.o. | 40 | 20 |
| Program Sava d.o.o. /iii/ | - | 20 |
| HEP - Telekomunikacije d.o.o. | 258,798 | 258,798 |
| Plomin Holding d.o.o. | 20 | 20 |
| HEP - Opskrba plinom d.o.o. | - | 20 |
| Hrvatski centar za čistiju proizvodnju | - | 20 |
| HEP - Elektra d.o.o. | 20 | 20 |
| HEP - VHS Zaprešić d.o.o. | 20 | - |
| NE Krško /i/ | 1,754,419 | 1,754,419 |
| LNG Hrvatska d.o.o. /ii/ | 27,176 | - |
| | 9,578,649 | 9,465.828 |

14. EQUITY INVESTMENTS (continued)

Changes in investments are as follows:

| | 2018 | 2017 |
|---|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Balance at 1 January 2018 | 9,465,828 | 9,203,125 |
| Increase in HOPS d.o.o. share capital | - | 293,131 |
| Increase in HOPS d.o.o. share capital from reinvested profit. | - | 271,672 |
| HEP-Operator distribucijskog sustava d.o.o.- capital reserves | 37,080 | - |
| HEP-Toplinarstvo d.o.o.- capital reserves | 33,545 | - |
| HEP ESCO d.o.o. | 15,040 | - |
| Program Sava d.o.o. | (20) | - |
| Hrvatski centar za čistiju proizvodnju (Croatian Centre for Cleaner Production) | (20) | - |
| HEP - VHS Zaprešić d.o.o. | 20 | - |
| HEP Upravljanje imovinom d.o.o.- increase / decrease of share capital | - | (52,025) |
| TE Plomin – merger with HEP d.d. | - | (250,075) |
| LNG Hrvatska d.o.o. | 27,176 | - |
| Balance at 31 December | 9,578,649 | 9,465,828 |

/I/ INVESTMENT IN KRŠKO NUCLEAR POWER PLANT

Investment history

At the end of 2001, a treaty 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 (NEK) 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 it was ratified by the Parliament of the Republic of Slovenia on 25 February 2003.

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

This treaty also clearly defined the obligation of the Republic of Croatia for the disposal of half of radioactive waste and used nuclear fuel from NEK. Each country has an obligation to provide half of the funding needed to finance the costs of developing decommission program and costs of program implementation. Each party shall allocate funds for these purposes into their own funds in the amounts foreseen for decommissioning programs. According to the current NEK program of decommissioning and disposal of radioactive waste and used nuclear fuel, HEP d.d. is obliged to pay funds to the Fund in the amount of EUR 14,250,000 a year.

14. EQUITY INVESTMENTS (continued)

/I/ INVESTMENT IN KRŠKO NUCLEAR POWER PLANT (continued)

Current status

Payments to the Fund for financing NEK decommission

Pursuant to the Regulation on the amount, deadline and method of payment of funds for the NEK program of decommissioning and disposal of radioactive waste and used nuclear fuel issued by the Government of the Republic of Croatia on 24 December 2008; from 2006 until the end of 2018 HEP d.d. the amount of paid HRK 1,587,528 thousand in the Fund. The current annual liability in the amount of EUR 14,250 thousand is paid to the Fund quarterly.

Extension of life span

After NEK received a license without time constraints from the Board for nuclear safety of the Republic of Slovenia in 2012; at the beginning of 2016 HEP d.d. and GEN energija d.o.o. have decided to extend the power plant life until 2043. The decision was made with the consent of the Intergovernmental Commission for NEK and was preceded by an economic study of the viability of investing in a long-term power plant.

Accounting of Joint operation in NEK

Joint operation in NEK is recognized in the Company's financial statements using the equity method. Application required by IFRS 11 has resulted in numerous issues and ambiguities, as well as misunderstandings with some users of financial statements.

With the aim of eliminating possible doubts of individual state bodies (FINA, Ministry of Finance, Central Bureau of Statistics, etc.) about information in separate financial statements of the Company, the Company's Management made a decision to change this policy in accordance with IAS 1, paragraph 19 item 20.

In the consolidated financial statements, the Company applies the joint asset and liabilities management method and discloses the Company's share of each asset and each liability, income and expense in accordance with IFRS 11.

14. EQUITY INVESTMENT (continued)

/i/ INVESTMENT IN KRŠKO NUCLEAR POWER PLANT (continued)

Financial effect of deviations

Statement of profit or loss for the year ended 31 December 2018

| | in '000 HRK HEP d.d. | in '000 HRK NEK d.o.o. | in '000 HRK HEP d.d. + NEK d.o.o. |
|---|-------------------------|---------------------------|---|
| Total operating income | 8,691,327 | 9,141 | 8,700,468 |
| Total operating expenses | (8,575,543) | (9,315) | (8,584,858) |
| Profit/loss from operations | 115,784 | (174) | 115,610 |
| Net profit from finance activities | 283,264 | 174 | 283,438 |
| Profit before tax | 399,048 | - | 399,048 |
| Tax expense | (45,072) | - | (45,072) |
| Profit for the year | 353,976 | - | 353,976 |

Statement of profit or loss for the year ended 31 December 2017

| | in '000 HRK HEP d.d. | in '000 HRK NEK d.o.o. | in '000 HRK HEP d.d. + NEK d.o.o. |
|---|-------------------------|---------------------------|---|
| Total operating income | 7,733,579 | 5,409 | 7,738,988 |
| Total operating expenses | (7,597,473) | (5,965) | (7,603,438) |
| Profit/loss from operations | 136,106 | (556) | 135,550 |
| Net profit from finance activities | 156,256 | 556 | 156,812 |
| Profit before tax | 292,362 | - | 292,362 |
| Tax expense | 71,661 | - | 71,661 |
| Profit for the year | 364,023 | - | 364,023 |

14. EQUITY INVESTMENT (continued)

/I/ INVESTMENT IN KRŠKO NUCLEAR POWER PLANT (continued)

Financial effect of deviations (continued)

Balance sheet as at 31 December 2018

| | in '000 HRK | in '000 HRK | in '000 HRK |
|---------------------------------|-------------------|------------------|--------------------------|
| | HEP d.d. | NEK d.o.o. | HEP d.d. + NEK d.o.o. |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 467,692 | 1,419,736 | 1,887,428 |
| Financial assets | 1,754,419 | (1,634,140) | 120,279 |
| Other non-current assets | 25,624,665 | - | 25,624,665 |
| Total non-current assets | 27,846,776 | (214,404) | 27,632,372 |
| Current assets | 6,525,144 | 453,082 | 6,978,226 |
| TOTAL ASSETS | 34,371,920 | 238,678 | 34,610,598 |
| EQUITY | | | |
| Total capital | 25,217,256 | - | 25,217,256 |
| Non-current liabilities | 5,102,991 | 40,853 | 5,143,844 |
| Current liabilities | 4,051,673 | 197,825 | 4,249,498 |
| TOTAL EQUITY | 34,371,920 | 238,678 | 34,610,598 |

14. EQUITY INVESTMENT (continued)

// INVESTMENT IN KRŠKO NUCLEAR POWER PLANT (continued)

Financial effect of deviations (continued)

Balance sheet as at 31 December 2017

| | in '000 HRK | in '000 HRK | in '000 HRK |
|---------------------------------|-------------------|------------------|--------------------------|
| | HEP d.d. | NEK d.o.o. | HEP d.d. + NEK d.o.o. |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 368,189 | 1,261,192 | 1,629,381 |
| Financial assets | 1,754,419 | (1,652,466) | 101,953 |
| Other non-current assets | 25,726,104 | - | 25,726,104 |
| Total non-current assets | 27,848,712 | (391,274) | 27,457,438 |
| Current assets | 6,519,095 | 557,688 | 7,076,783 |
| TOTAL ASSETS | 34,367,807 | 166,414 | 34,534,221 |
| EQUITY | | | |
| Total capital | 25,149,873 | 1,698 | 25,151,571 |
| Non-current liabilities | 5,370,072 | 53,354 | 5,423,426 |
| Current liabilities | 3,847,862 | 111,362 | 3,959,224 |
| TOTAL EQUITY | 34,367,807 | 166,414 | 34,534,221 |

Excerpt from the financial statements

The following table shows the excerpt from the financial statements of NE Krško in 100% amounts as at 31 December 2018 and 31 December 2017:

| | 31 Dec 2018 | 31 Dec 2017 |
|-------------------------------------|-------------|-------------|
| | in '000 HRK | in '000 HRK |
| Property, plant and equipment | 2,839,470 | 2,522,782 |
| Capital and reserves | 3,268,569 | 3,308,725 |
| Gross sales revenue | 1,172,816 | 1,181,749 |
| Cash flow from operating activities | 333,732 | 317,624 |
| Profit for the year | - | - |

14. EQUITY INVESTMENT (continued)

/ii/ INVESTMENT IN LNG HRVATSKA (LNG CROATIA)

Hrvatska elektroprivreda d.d. (hereinafter: HEP d.d.) and Plinacro d.o.o. concluded on 1 June 2010 the Contract on the Establishment of LNG HRVATSKA d.o.o. for liquefied natural gas business. According to the contract, LNG HRVATSKA d.o.o. became the coordinator of the LNG terminal project on Krk. Based on the Contract HEP d.d. and Plinacro d.o.o. became members and co-owners of LNG HRVATSKA d.o.o. each with a 50% of equity, management and property rights.

Pursuant to the decision of the Government of the Republic of Croatia on the designation of the LNG terminal project (construction of a liquefied natural gas terminal on the island of Krk, Omišalj municipality) as the strategic investment project of the Republic of Croatia (OG 78/15) of 16 July 2015 the LNG terminal design project was proclaimed a 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 contracts with INEA (Innovation and Networks Executive Agency) to co-finance projects of project licensing documentation preparation and a contract for co-financing construction.

The LNG Terminal Gas Act (OG 57/18), adopted by the Parliament on 18 June 2018, established that the construction of LNG terminal was in the interest of the Republic of Croatia and the LNG Hrvatska d.o.o. is appointed as the entity to implement the project.

The following table shows the excerpt from the financial statements of LNG Hrvatska d.o.o. in 100% amounts as at 31 December 2018 and 31 December 2017.

| | 31 Dec 2018 | 31 Dec 2017 |
|--------------------------------|-------------|-------------|
| | in '000 HRK | in '000 HRK |
| Property, plant and equipment | 120,569 | 101,219 |
| Capital and reserves | 19,409 | 426 |
| Sales revenue | 47 | 101 |
| Cash from operating activities | (13,227) | (17,947) |
| Loss for the year | (7,328) | (7,856) |

14. EQUITY INVESTMENT (continued)

/iii/ INVESTMENT IN PROGRAM SAVA D.O.O.

On 31 December 2018 Program Save d.o.o. was incorporated into Hrvatska elektroprivreda d.d.

Balance sheet at merger date

| | 30 Dec 2018 |
|--------------------------------|---------------|
| | in '000 HRK |
| Non-current assets | 8,391 |
| Current assets | 2,143 |
| | 10,534 |
| Share capital | 20 |
| Reserves and retained earnings | 318 |
| Non-current liabilities | 128 |
| Current liabilities | 10,068 |
| | 10,534 |

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 31 Dec 2018 | 31 Dec 2017 |
|---|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Financial assets available-for-sale | - | 282,718 |
| Financial assets at fair value through other comprehensive income | 196,710 | - |
| | 196,710 | 282,718 |

| | 2018 | 2017 |
|---|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Opening balance | 282,718 | 288,493 |
| Fair value of investment through other comprehensive income (Janaf) | (85,290) | (5,398) |
| Fair value of investment through other comprehensive income and other | (718) | (377) |
| Closing balance | 196,710 | 282,718 |

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

| | 31 Dec 2018 | 31 Dec 2017 |
|--|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| Investment in securities: | | |
| Jadranski Naftovod d.d. /i/ | 195,411 | 280,701 |
| Viktor Lenac d.d. | 128 | 305 |
| Đuro Đaković Aparati d.d. | 5 | 5 |
| Kraš d.d. | 3 | 3 |
| Pevec d.d. | - | 547 |
| Jadran d.d. | 204 | 364 |
| Elektrometal d.d. | 40 | 41 |
| Optima Telekom d.d. | 186 | 298 |
| Institut IGH d.d., | 136 | 191 |
| Međimurje beton d.d. | 153 | 153 |
| HTP Korčula d.d. | 66 | 61 |
| Lanište d.o.o. | 110 | 14 |
| Konstruktor inženjering d.d. - in bankruptcy | 233 | - |
| Pominvest d.d. | 35 | 35 |
| | 196,710 | 282,718 |
| | | |
| | 31 Dec 2018 | 31 Dec 2017 |
| | in '000 HRK | in '000 HRK |
| Other investments: | | |
| Geopodravina d.o.o. | - | 200 |
| Novenerg d.o.o. | - | 380 |
| LNG Hrvatska d.o.o. | - | 865 |
| | - | 1,445 |
| | 196,710 | 284,163 |

/i/ During December 2008, by the decision of the Government of the Republic of Croatia on the transfer of shares of Jadranski naftovod d.d., HEP d.d. acquired 53,981 shares with a nominal value of HRK 2,700, i.e. the total nominal value of up to HRK 145,748,700. The Management Board it was decided that the shares of Jadranski naftovod d.d. are classified as available-for-sale assets. The registration of shares in the Central Depository Agency was completed on 19 March 2009.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

In 2018 and 2017, a fair valuation was made on the basis of a notification by the Central Depository Clearing Company on the balance sheet date at 31 December. Market share price of Jadranski naftovod d.d. was HRK 3,620 as at 31 December 2018, and HRK 5,200 as at 31 December 2017. Through fair valuation of investments in Jadranski naftovod d.d; as on 31 December 2018 the value of the share was reduced by HRK 85,290 thousand (2017: decreased by HRK 5,398 thousand). The fair valuation effect in 2018 and 2017 was carried out through equity reserves.

16. LONG TERM LOANS

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|----------------------------|----------------------------|
| To companies of the Group – financial lease (Note 28) | 17,779,633 | 17,638,839 |
| Companies outside the Group – loan to LNG Hrvatska d.o.o. /i/ | 35,645 | 61,879 |
| To companies of the Group – loans /ii/ | 47,400 | 63,200 |
| To companies outside of the Group – sub-loans/iii/ | 561,910 | 660,760 |
| | 18,424,588 | 18,424,678 |
| Current maturities | (1,325,537) | (1,355,636) |
| | 17,099,051 | 17,069,042 |

/i/ Loans to companies outside of the Group

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---------------------|----------------------------|----------------------------|
| LNG Hrvatska d.o.o. | 35,645 | 61,879 |
| Current maturity | - | (25,772) |
| | 35,645 | 36,107 |

The agreed interest rate is variable, 3% in 2017 and 2018. Loan is secured by debenture.

16. LONG TERM LOANS (continued)

/ii/ Loans to related parties

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|-------------------------|-----------------------------------|-----------------------------------|
| HEP-Toplinarstvo d.o.o. | 47,400 | 63,200 |
| | 47,400 | 63,200 |
| Current maturity | (15,800) | (15,800) |
| | 31,600 | 47,400 |

Loans were granted under following conditions

| Loan beneficiary: | Year of approval | Interest rate | Repayment period | Approved amount in '000 HRK | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|--------------------------------|-------------------------|----------------------|-------------------------------------|--|------------------------------------|------------------------------------|
| HEP- Toplinarstvo d.o.o. | 2007 | 4% | 15 years grace period 5 years | 158,000 | 47,400 | 63,200 |
| Total | | | | 158,000 | 47,400 | 63,200 |

/iii/ Receivables for sub loans to related parties

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|-----------------------------------|-----------------------------------|
| Sub loan receivable HEP ESCO d.o.o. – long term portion | 43,684 | 46,127 |
| Sub loan receivable HEP Telekomunikacije d.o.o. | 23,403 | - |
| Sub loan receivable HOPS d.o.o. | 494,823 | 614,633 |
| | 561,910 | 660,760 |
| Current maturity | (78,348) | (116,723) |
| | 483,562 | 544,037 |

16. LONG TERM LOANS (continued)

Sub-loans

Receivables for sub-loan granted to HEP-ESCO d.o.o. are based on contracts concluded between the Company and financial institutions for financing energy efficiency projects. The Company has allocated funds from received dedicated loans to HEP-ESCO d.o.o. under same conditions. Since the amounts collected from issuing bonds were used for early repayment of loans for financing these projects, receivables for sub loans now have the same commercial conditions as issued bonds.

As at 31 December 2012 the Company terminated a lease agreement with Hrvatski operator prijenosnog sustava d.o.o. on property, plant and equipment in the amount of assets that, in accordance with the provisions of the Electricity Market Act, is necessary for carrying out the transfer activity. Ownership of these assets was transferred to Hrvatski operator prijenosnog sustava d.o.o. For the amount of outstanding balance of the loan from which the Hrvatski operator distribucijskog sustava d.o.o. assets were financed, lease liabilities of Hrvatski operator distribucijskog sustava d.o.o. were closed and transferred on long-term liabilities under same conditions that the Company has in contracts with banks.

17. OTHER NON-CURRENT RECEIVABLES

HOUSING LOANS

Housing loan receivables as at 31 December 2018 amounted to HRK 390 thousand (2017: HRK 543 thousand). Before 1996, the Company sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of this property was mainly on loans and receivables, with interest rates lower than the market rates, are repayable monthly for a period of 20 to 35 years. Receivables from sales of housing are reported in the financial statements at discounted net present value. The liability towards the state, representing 65% of the value of sold housing, is recorded in other long-term liabilities (Note 25). Receivables are secured by mortgages on sold real-estate.

18. INVENTORIES

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|-------------------------------------|----------------------------|----------------------------|
| Wholesale gas | 375,950 | 353,600 |
| CO2 emission units | 234,051 | 106,248 |
| Energy savings in final consumption | 25,593 | - |
| Investment material | 2,323 | 6,784 |
| Other material | 689 | 1,270 |
| | 638,606 | 467,902 |

19. TRADE RECEIVABLES

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|-----------------------------------|-----------------------------------|
| Trade receivables – domestic market | 474,031 | 147,582 |
| Trade receivables - wholesale | 219,214 | 212,862 |
| Receivables for electric energy – foreign markets | 71,015 | 99,280 |
| | <u>764,260</u> | <u>459,724</u> |
| Impairment of trade receivables | (461,678) | (134,718) |
| | <u>302,582</u> | <u>325,006</u> |

The age structure of trade receivables not impaired in 2018 and 2017 is as follows:

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|----------------------|-----------------------------------|-----------------------------------|
| Not due | 296,000 | 292,189 |
| Up to 30 days | 5,942 | 22,865 |
| From 31 to 60 days | 499 | 1,364 |
| From 62 to 90 days | 4 | 852 |
| From 91 to 180 days | 15 | 2,323 |
| From 181 to 365 days | 13 | 5,413 |
| Over 365 days | 116 | - |
| Overpayment | (7) | - |
| | <u>302,582</u> | <u>325,006</u> |

Changes in impairment allowance were as follows:

| | 2018 in '000 HRK | 2017 in '000 HRK |
|--------------------------------|----------------------------|----------------------------|
| Balance at 31 January | 134,718 | 135,529 |
| Impairment of receivables | 335,693 | 33,098 |
| Impaired receivables collected | (632) | (2,295) |
| Write-off | (8,101) | (31,614) |
| Balance at 31 December | <u>461,678</u> | <u>134,718</u> |

20. OTHER CURRENT RECEIVABLES

| | 31 Dec 2018 | 31 Dec 2017 |
|--|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Receivables for income tax advance | - | 135,383 |
| Advances to suppliers | 14,419 | 54,439 |
| Receivables for short-term loans to unrelated companies | 14,896 | - |
| Interest receivables from companies with participating interests | 4,282 | 3,254 |
| Receivables for deposits | 74,371 | 78,898 |
| Prepaid expenses | 17,395 | 17,128 |
| Other receivables | 677 | 3,240 |
| | 126,040 | 292,342 |

21. CASH AND CASH EQUIVALENTS

| | 31 Dec 2018 | 31 Dec 2017 |
|---|------------------|----------------|
| | in '000 HRK | in '000 HRK |
| Current accounts in HRK | 1,065,908 | 88,176 |
| Short-term term deposits (daily deposits) | 172,361 | 261,151 |
| Foreign currency accounts | 151,089 | 350,766 |
| Deposits with maturity up to 90 days | 46,558 | 148,904 |
| Investment funds | 175,098 | 75,252 |
| Restricted cash | 921 | 921 |
| Petty cash | 6 | 4 |
| | 1,611,941 | 925,174 |

22. CAPITAL AND RESERVES

At the first registration of the Company on 12 December 1994, the Company's capital was entered in the German mark (DEM) in the amount of DEM 5,784,832 thousand. By the subsequent registration of the Company, on 19 July 1995, the capital was expressed in Croatian kuna in the amount of HRK 19,792,159 thousand. Share capital consists of 10,995,644 ordinary shares with a nominal value of 1,800 kuna.

Reserves

| | 31 Dec 2018 | 31 Dec 2017 |
|--|---------------|----------------|
| | in '000 HRK | in '000 HRK |
| Opening balance | 136,727 | 140,292 |
| Correction for permanent impairment IFRS 9 | (22,178) | - |
| Other comprehensive income /(loss) Janaf | (74,142) | (3,565) |
| | 40,407 | 136,727 |

Retained earnings

| | 31 Dec 2018 | 31 Dec 2017 |
|-------------------------------------|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Opening balance | 5,220,987 | 5,649,310 |
| Correction for permanent impairment | 27,047 | - |
| Other comprehensive income | 1,076 | - |
| Merger effects | 17 | 1,945 |
| Paid dividend | (218,413) | (794,291) |
| Profit for the year | 353,976 | 364,023 |
| | 5,384,690 | 5,220,987 |

23. BONDS PAYABLE

| | 31 Dec 2018 | 31 Dec 2017 |
|--|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Nominal value of domestic bonds issued in 2007 | - | 93,030 |
| Discounted value | - | - |
| Due repayment | - | (93,030) |
| Current maturity of bonds | - | - |
| | <u>-</u> | <u>-</u> |
| Value of bonds issued abroad in 2012 | - | 493,571 |
| Due repayment | - | (491,477) |
| Exchange rate difference | - | (2,094) |
| Current maturity of bonds | - | - |
| Bonds issued in 2012 | <u>-</u> | <u>0</u> |
| Value of bonds issued abroad in 2015 | 3,612,610 | 3,626,428 |
| Exchange rate differences | (46,645) | (21,431) |
| Discount value | 7,720 | 7,613 |
| | <u>3,573,685</u> | <u>3,612,610</u> |
| Accrued cost of bonds | (13,310) | (16,782) |
| Bonds issued in 2015 | <u>3,560,375</u> | <u>3,595,828</u> |
| Total bonds payable | <u>3,560,375</u> | <u>3,595,828</u> |

23. BONDS PAYABLE (continued)

Bonds issued abroad in 2015

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

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

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

Carrying value of the discount bonds issued in 2015 is the annual amount of the discount.

Derivative financial instruments

Cross currency swap

In order to reduce exposure to currency risk, i.e. the exposure to US dollar exchange rate, the Company concluded a cross currency swap agreement, by which are the dollar liabilities on bonds converted into euro, for the entire period, that is, until the final maturity on 23 October 2022.

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

The purpose of the cross currency swap is to reduce currency risk and recommendations of credit agencies on the importance of strategic currency risk management in order to reduce the impact on the Company's business

The Company'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.

The positive value of "MTM" is recorded as a receivable, i.e. it generates financial income for the period, and the negative value of "MTM" is recorded as a liability and forms the financial expense of the reporting period. Upon the final maturity of the derivative financial instrument, the relevant receivable or liability will be discontinued and charged or credited to the Company's income.

As at 31 December 2018, using the said method, the fair value of liabilities in the amount of HRK 307,255 thousand (2017: HRK 505,228 thousand) was stated on the bonds issued in 2015 (Note 28).

24. LONG-TERM LOAN LIABILITIES

| | 31 Dec 2018 | 31 Dec 2017 |
|---|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Loans from domestic banks | 75,898 | 445,468 |
| Loans from foreign banks | 257,144 | 219,793 |
| Total long-term loan liabilities | 333,042 | 665,261 |
| Deferred loan fees | (3,526) | (923) |
| Total long-term loan liabilities | 329,516 | 664,338 |
| Current maturities | (112,061) | (405,219) |
| Long-term portion HEP | 217,455 | 259,119 |
| Total long-term loan liabilities | 217,455 | 259,119 |

The Company has contracted loans with domestic and foreign banks with variable and fixed interest rates which ranged from 0.44% to 2.57% in 2018.

Loans from domestic banks are secured by bills of exchange and promissory notes. On 31 December 2018, the Company has no debt covered by the guarantee of the Republic of Croatia.

New sources of funding

To finance the investment plan and operating activities in 2018, the Company used its own funds and funds from the loan in use.

On 24 July 2018, a loan agreement was signed with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) for the financing of the project of construction of KKE EL-TO Zagreb in the amount of EUR 130 million. The EBRD accounts for EUR 87 million and EIB for EUR 43 million. The EBRD loan consists of two tranches, namely Tranche A (EUR 43.5 million) provided by the EBRD alone and Tranche B (EUR 43.5 million) in cooperation with the commercial banks trade union.

24. LONG-TERM LOAN LIABILITIES (continued)

Loans in use

In December 2018, EBRD and EIB loans were used to finance the KKE EL-TO Zagreb construction project. As at 31 December 2018 the outstanding balances of long-term loans amounted to EUR 6,9 million from the EBRD and EUR 3,4 million from the EIB. The use of the loan was contracted until 20 July 2021.

The principal repayment schedule for long-term loans maturing in the next five years:

| | (in '000 HRK) |
|------------|-----------------|
| 2019 | 112,061 |
| 2020 | 36,164 |
| 2021 | 39,851 |
| 2022 | 43,538 |
| 2023 | 43,538 |
| After 2023 | 54,364 |
| | <hr/> |
| | 329,516 |

In 2018, two loans contracted with domestic banks (HPB and Banking Club¹) were fully repaid. On the loan from HPB, the Company had EUR 20 million and a loan of EUR 150 million from the Banking Club.

Domestic banks' loans are secured by bills of exchange and promissory notes, while loans from development banks, the EBRD and the EIB have contracted financial guarantees in the form of financial indicators according to which the Company is obliged to meet certain prescribed levels on the annual and semi-annual basis of the following indicators: net financial debt/EBITDA, EBITDA net financial expenses, net financial debt/total net value.

The Company's basic objective regarding the risks borne by the financial indicators is to protect the Company from possible breach of contractual obligations, or premature maturities of contracted credit debts.

Contracted financial indicators are monitored and calculated based on the projected balance sheet and statement of profit or loss.

The Company prepares preliminary financial statements in the upcoming mid-term period and monitors their trends.

If the projections of the balance sheet and the statement of comprehensive income at the end of the business year indicate the possibility of exceeding the individual financial ratios, the Company shall inform the bank of the existence of a breach of contract and promptly request waiver from the bank.

¹ PBZ, ZABA, RBA

24. LONG-TERM LOAN LIABILITIES (continued)

In the event that a bank does not approve a waiver, the potential scenario is a premature maturity of debt representing the liquidity risk for the Company. The Management believes that in case of exceeding an individual indicator, the Company may obtain a waiver from the creditor, since the payment of liabilities to financial institutions is a priority obligation of the Company and the Company has never been in default towards financial institutions.

Due to all of the above, the Board estimates that the possibility of early maturity of credit liabilities resulting from exceeding in financial indicators as well as the Company's exposure to credit risk, liquidity risk and market risk that may arise as a result of overcoming the financial indicators are minimal.

For the purpose of securing liquidity reserves in the next medium term, the Company has concluded multilateral framework contracts with domestic banks, totalling HRK 1,015 million. Funds from these limits may be used by the Company for short-term loans and issuance of guarantees, letters of credit, and letters of intent according to the needs of HEP Group companies. During 2018, short-term lines were used solely for the purpose of issuing guarantees and opening letters of credit, using funds of all banks equally.

From the aforementioned mid-term multi-purpose frameworks, there was no need for short-term loans due to good liquidity during 2018.

As at 31 December 2018 the total amount of available short-term funds amounts to HRK 904,384 thousand.

25. OTHER LONG-TERM LIABILITIES

| | 31 Dec 2018 | 31 Dec 2017 |
|---|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Liabilities for assets financed from clearing debt | 779,612 | 755,189 |
| Derivative finance liabilities on swap transactions (Note 23) | 307,255 | 505,228 |
| Liabilities towards the State | 751 | 828 |
| Other | 10,858 | 12,562 |
| Other long-term liabilities | 1,098,476 | 1,273,807 |

Clearing debt

On 31 December 2018 the Company has an obligation to clearing debt in the amount of HRK 779,612 thousand (2017: HRK 755,189 thousand), relating to the payment of letters of credit, based on the approval of the Ministry of Finance on the use of funds based on interbank agreements. Given that there is no other document that would regulate the relationship between the Company and the Ministry of Finance in relation to the above clearing debt, is not defined whether it is a loan or other legal relationship. Long-term liabilities to the state in the amount of HRK 751 thousand (2017: HRK 828 thousand) related to the sale of housing units to employees under the Government program, which was discontinued in 1996. According to the legislation, 65% of the proceeds from the sale of apartments to employees were payable to the state upon receipt of funds. By law, the Company has no obligation to transfer the funds before they are collected from employees.

26. PROVISIONS

| | 31 Dec 2018 | 31 Dec 2017. |
|--|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Provisions for severance payments and jubilee awards | 20,746 | 15,992 |
| Provisions for legal disputes | 178,867 | 179,391 |
| Other provisions | 21,631 | 21,631 |
| Total provisions | 221,244 | 217,014 |

Provisions for legal disputes

The Company reserves costs for legal disputes for which it is estimated that it is unlikely to be in the Company's favour. The total amount of provisions as at 31 December 2018 amounts to HRK 178,867 thousand (2017: HRK 179,391 thousand). The most significant provisions relate to a case related to HPP Peruća, initiated in 1995, for which a first-instance verdict was issued in 2012 in favour of the plaintiff. The value of the dispute amounted to about HRK 330,000 thousand, and reserved funds amounted to 50% of the value of the dispute; HRK 165,000 thousand.

Other major disputes relate to Kartnersparkass in the amount of HRK 9,903 thousand.

Movements in long-term provisions are shown as follows:

| | Severance payments in '000 HRK | Jubilee awards in '000 HRK | Legal disputes in '000 HRK | Other provisions in '000 HRK | Total in '000 HRK |
|---|--------------------------------------|----------------------------------|-------------------------------------|------------------------------------|----------------------|
| 1 Jan 2017 | 11,079 | 1,300 | 178,595 | 21,631 | 212,605 |
| Additional provisions | 3,583 | 30 | 796 | - | 4,409 |
| Decrease in provision – payment | - | - | - | - | - |
| Decrease in provision - estimate | - | - | - | - | - |
| 31 Dec 2017 | 14,662 | 1,330 | 179,391 | 21,631 | 217,014 |
| Additional provisions | 5,190 | 146 | 1,935 | - | 7,271 |
| Additional provisions – Program Sava | 281 | 22 | - | - | 303 |
| Decrease in provision – payment | (622) | (180) | - | - | (802) |
| Decrease in provision - estimate | - | (83) | (2,459) | - | (2,542) |
| 31 Dec 2018 | 19,511 | 1,235 | 178,867 | 21,631 | 221,244 |

26. PROVISIONS (continued)

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

| | Severance payments in '000 HRK | Jubilee awards in '000 HRK | Total in '000 HRK |
|-----------------------------------|--|--|-----------------------------|
| 1 Jan 2017 | 11,079 | 1,300 | 12,379 |
| Service expenses | 688 | 98 | 786 |
| Interest expenses | 407 | 36 | 443 |
| Benefits paid | (6) | (132) | (138) |
| Past service cost | 106 | 23 | 129 |
| Actuarial gains / losses | 2,388 | 5 | 2,393 |
| 31 Dec 2017 | 14,662 | 1,330 | 15,992 |
| Service expenses | 968 | 99 | 1,067 |
| Interest expenses | 340 | 21 | 361 |
| Benefits paid | (622) | (180) | (802) |
| Past service cost | 262 | 26 | 288 |
| Actuarial gains / losses | 3,620 | (83) | 3,537 |
| Acquisition - Program Sava d.o.o. | 281 | 22 | 303 |
| 31 Dec 2018 | 19,511 | 1,235 | 20,746 |

Provisions for severance payments and jubilee awards are based on calculations by a certified actuary.

The following assumptions were used in preparing the calculations:

- The termination rate is 4.98% and is based on the statistical fluctuation rates for the Company in the period from 2006 to 2018.
- The probability of death by age and sex is based on 2010-2012 Croatian Mortality Tables published by the Croatian Bureau of Statistics. It is assumed that the population of employees of the Company represents average with respect to mortality and health status.
- It is assumed that the annual salary growth will be 2%.

Present value of the obligation was determined using a 1.9% discount rate.

27. OTHER LIABILITIES

| | 31 Dec 2018 | 31 Dec 2017 |
|---|----------------|----------------|
| | in '000 HRK | in '000 HRK |
| Trade payables /i/ | 664,048 | 494,183 |
| Liabilities for taxes and contributions | 133,215 | 70,047 |
| Interest liabilities | 33,531 | 35,593 |
| Employee benefit liabilities /ii/ | 7,411 | 6,627 |
| Other liabilities /iii/ | 29,667 | 45,646 |
| | 867,872 | 652,096 |
| | | |
| /i/ Trade payables | | |
| Trade payables – domestic suppliers | 445,384 | 351,004 |
| Trade payables – foreign suppliers | 2,467 | 5,883 |
| Trade payables – electricity within the EU and abroad | 206,877 | 122,502 |
| Trade payables – EU suppliers | 9,320 | 14,794 |
| | 664,048 | 494,183 |
| | | |
| /ii/ Employee benefit liabilities | | |
| Net salaries | 4,361 | 3,982 |
| Contributions | 2,313 | 2,097 |
| Other liabilities | 737 | 548 |
| | 7,411 | 6,627 |
| | | |
| /iii/ Other liabilities | | |
| Accrued expenses for unused annual leave | 4,563 | 7,805 |
| Accrued expenses for the quota of CO2 emission units | - | 25,573 |
| Accrued liabilities to HAC | - | - |
| Insurance premiums payable | 1,767 | 2,106 |
| Deferred revenues from the EU grant funds | 7,298 | 2,484 |
| Other accrued expenses | 664 | 1,184 |
| Other liabilities | 15,375 | 6,494 |
| | 29,667 | 45,646 |

28. RELATED PARTY TRANSACTIONS

As at 31 December 2018, the Company owned the following subsidiaries:

| Subsidiary | Country | Ownership (%) | Main activities |
|--|----------|---------------|--|
| HEP-Proizvodnja d.o.o. | Croatia | 100 | Production of electricity and heat |
| Hrvatski operator prijenosnog sustava d.o.o. | Croatia | 100 | Transfer of electricity |
| HEP-Operator distribucijskog sustava d.o.o. | Croatia | 100 | Distribution of electricity |
| HEP ELEKTRA d.o.o. | Croatia | 100 | Supply of electricity |
| HEP-Opskrba d.o.o. | Croatia | 100 | Supply of electricity |
| HEP-Toplinarstvo d.o.o. | Croatia | 100 | Production and distribution of electricity and heat |
| HEP-Plin d.o.o. | Croatia | 100 | Gas distribution |
| HEP ESCO d.o.o. | Croatia | 100 | Financing energy efficiency projects |
| Plomin Holding d.o.o. | Croatia | 100 | Development of infrastructure in Plomin surrounding |
| CS Buško Blato d.o.o. | BiH | 100 | Maintenance of HPP equipment |
| HEP Upravljanje imovinom d.o.o. | Croatia | 100 | Hospitality services |
| HEP NOC Velika | Croatia | 100 | Accommodation and education |
| HEP-Trgovina d.o.o. | Croatia | 100 | Trading with electricity and optimising power plant operations |
| HEP Energija d.o.o. Ljubljana | Slovenia | 100 | Trading with electric energy |
| HEP Energija d.o.o. | BiH | 100 | Trading with electric energy |
| HEP Energija sh.p.k. | Kosovo | 100 | Trading with electric energy |
| HEP Energija d.o.o. | Serbia | 100 | Trading with electric energy |
| HEP-Telekomunikacije d.o.o. | Croatia | 100 | Telecommunications |
| HEP-VHS Zaprešić d.o.o. | Croatia | 100 | Design and construction of multipurpose hydro technical system |
| Nuklearna elektrana Krško d.o.o. | Slovenia | 50 | Production of electricity |
| LNG Hrvatska d.o.o. | Croatia | 50 | Operations with liquefied natural gas |

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

Company HEP-Telekomunikacije d.o.o. was founded in 2013. HEP-RVNP d.o.o. in 2014 changed its name to Sava d.o.o. program, and on 31 December 2018 was merged to the Company. In 2014 HEP Opskrba plinom d.o.o. was founded and on 31 December 2018 merged to HEP-Trgovina d.o.o.

Liquidation process of the company Hrvatski centar za čistiju proizvodnju (The Croatian Cleaner Production Centre) started on 9 November 2017 and it was liquidated on 7 March 2019.

HEP-Magyarország Energia Kft. was removed from the court registry on 22 March 2018.

In 2018 Program Sava d.o.o. founded HEP-VHS Zaprešić d.o.o., and on 31 December 2018 HEP-VHS Zaprešić d.o.o. was sold to HEP-Proizvodnja d.o.o.

28. RELATED PARTY TRANSACTIONS (continued)

Related party transactions relate to subsidiaries in sole ownership of the Company and to NE Krško d.o.o. (NEK) where HEP d.d. has a 50% ownership.

Related party transactions are stated as follows:

- /i/ Company's revenues arise from re-invoiced income to related parties for electricity sales (except for universal service to households and guaranteed service); accounting, legal and other similar services fees, as well as lease of business premises. The amount of these revenues from related parties is determined on the basis of the following: the value of assets of related party, the cost of employees and the total cost of the related party.
- /ii/ Interest on long-term lease of property, plant and equipment and intangible assets are charged to lessees based on loans that were used for construction of those assets and are stated as interest income from related parties.
- /iii/ Expenses with related parties arise from transmission and distribution of electricity. Costs for said services are invoiced on a monthly basis in accordance with the provisions and tariffs set by the Croatian Energy Regulatory Agency ("HERA").
- /iv/ Short-term receivables from related parties arise from the sale of fuel, materials and spare parts, for the electricity sold to the company HEP Elektra d.o.o. and HEP Opskrba d.o.o., for distributed losses to the distribution network of HOPS d.o.o., on the transmission network to the HOPS d.o.o. for the cost of the Company's common functions as well as for assets under construction financed by the Company. After completion of the construction, those assets are transferred to related parties as a finance lease.
- /v/ Long-term receivables from related parties arise from financial lease of property, plant and equipment to related parties. Lease is paid monthly according to depreciation of leased assets, increased by interests from long-term loans through which the assets were financed. The Company also has receivables from related parties for apartments sold to employees.

Receivables and liabilities, and income and expenses arisen from related party transactions are presented in the table below:

28. RELATED PARTY TRANSACTIONS (continued)

| | 2018 in '000 HRK | 2017 in '000 HRK |
|---|----------------------------|----------------------------|
| Sales revenues | | |
| Revenue from sales of electricity to HEP Elektra d.o.o. | 2,082,842 | 2,080,167 |
| Revenues from invoiced el. energy to cover losses on the distribution network | 562,169 | 416,703 |
| Revenues from invoiced el. energy to cover losses on the transfer network | 125,460 | 88,071 |
| Revenue from sales of electricity to companies of HEP Group | 46,849 | 36,840 |
| Revenues from balancing electricity | 4,352 | 67,617 |
| Revenue from sales of electricity - HEP Energija d.o.o. Ljubljana | 231,121 | 178,929 |
| Revenue from sales of electricity - HEP Energija d.o.o. Beograd | 11,982 | 11,920 |
| Revenue from sales of electricity - HEP Energija d.o.o. Mostar | 10,542 | 36,106 |
| Revenue from sales of electricity - HEP Energija SH.P.K. Kosovo | 8,120 | 4,997 |
| Revenue from sales of electricity to HEP Proizvodnja d.o.o. | 10,315 | - |
| Revenue from sales of electricity – related parties | 3,093,752 | 2,921,350 |
| Revenue from sale of gas to HEP Plin – related party | 133,693 | 132,384 |
| Revenue from sales of heat energy to HEP Proizvodnja d.o.o. | 11,852 | - |
| Revenue from administrative services | 161,624 | 157,726 |
| Lease revenues | 15,448 | 18,432 |
| Revenue from sale of CO2 emission units | 89,440 | 130,000 |
| Other revenues | 7,098 | 1,781 |
| Sales revenues | 273,610 | 307,939 |
| | 3,512,907 | 3,361,673 |
| Finance income | | |
| Interest income – leases | 80,137 | 104,251 |
| Interest income – loans to related parties | 29,126 | 33,555 |
| | 109,263 | 137,806 |
| Electricity purchase expense – related parties | | |
| TE Plomin d.o.o. | - | 208,884 |
| HEP Energija d.o.o. Ljubljana | 5,789 | 766 |
| HEP Energija d.o.o. Beograd | 33,397 | - |
| HEP Energija d.o.o. Mostar | 13,206 | 130 |
| | 52,392 | 209,780 |

28. RELATED PARTY TRANSACTIONS (continued)

| | 2018 | 2017 |
|---|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Expenses | | |
| Electricity purchase – HEP Proizvodnja d.o.o. | 2,786,685 | 2,204,507 |
| Purchase of electricity from renewable sources – HEP Opskrba d.o.o. | 525,931 | 376,404 |
| Fee for supply of electricity - HEP Opskrba d.o.o. | 45,430 | 48,247 |
| Fee for trading electricity and gas -HEP Trgovina d.o.o. | 15,646 | 14,554 |
| Fee for supply of gas -HEP Opskrba plinom d.o.o | 6,028 | 6,175 |
| Balancing electricity - HEP Operator distribucijskog sustava d.o.o. | 2,762 | 79,225 |
| Balancing electricity - HOPS d.o.o. | 66,756 | 46,357 |
| | 3,449,238 | 2,775,469 |

The costs of balancing energy in 2018 amounted to HRK 69,518 thousand (2017: HRK 125,582 thousand), and are realized on the basis of sales or purchases of balancing energy in accordance with the applicable Rules on balancing the electric power system.

| Non-current receivables | 31 Dec 2018 | 31 Dec 2017 |
|---|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| Receivables from assets in long-term lease | | |
| HEP Operator distribucijskog sustava d.o.o. | 8,082,317 | 8,161,303 |
| HEP Proizvodnja d.o.o. | 8,545,834 | 8,302,002 |
| HEP Toplinarstvo d.o.o. | 816,581 | 846,931 |
| HEP Upravljanje imovinom d.o.o. | 124,223 | 120,935 |
| HEP Plin d.o.o. | 180,152 | 175,977 |
| HEP Noc d.o.o. | 11,971 | 12,187 |
| HEP Opskrba d.o.o. | 2,014 | 2,547 |
| HEP Trgovina d.o.o. | 941 | 826 |
| HEP Esco d.o.o. | 2,637 | 2,613 |
| Program Sava d.o.o. | - | 252 |
| HEP Opskrba plinom d.o.o. | - | 170 |
| HEP Elektra d.o.o. | 3,419 | 2,177 |
| | 17,770,089 | 17,627,920 |

28. RELATED PARTY TRANSACTIONS (continued)

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|-----------------------------------|-----------------------------------|
| Receivables from housing units sold | | |
| HEP Operator distribucijskog sustava d.o.o. | 5,386 | 6,143 |
| HEP Proizvodnja d.o.o. | 3,301 | 3,687 |
| Hrvatski operator prijenosnog sustava d.o.o. | 742 | 958 |
| HEP Toplinarstvo d.o.o. | 115 | 131 |
| | 9,544 | 10,919 |
| | 17,779,633 | 17,638,839 |
| Current maturity of the lease (Note 16) | (1,231,390) | (1,197,341) |
| Receivables from long-term lease from related parties | 16,548,243 | 16,441,498 |
| | | |
| Receivables from long-term loans to related parties (see Note 16) | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
| HEP-Toplinarstvo d.o.o. | 47,400 | 63,200 |
| | 47,400 | 63,200 |
| Current maturity | (15,800) | (15,800) |
| | 31,600 | 47,400 |
| Total non-current receivables | 16,579,843 | 16,488,898 |

28. RELATED PARTY TRANSACTIONS (continued)

| Current receivables | 31 Dec 2018 | 31 Dec 2017 |
|---|------------------|------------------|
| | in '000 HRK | in '000 HRK |
| Receivables from HEP Elektra d.o.o. for electricity sold | 428,251 | 385,444 |
| Receivables from HEP Operator distribucijskog sustava d.o.o. for distribution network losses | 160,618 | 87,336 |
| Receivables from HEP Opskrba d.o.o. for electricity sold | 449,135 | 413,152 |
| Receivables from HEP Proizvodnja d.o.o. for electricity sold | 2,003 | - |
| Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses | 23,693 | 16,632 |
| Receivables from HEP Energija d.o.o. Ljubljana | 60,179 | 47,005 |
| Receivables from HEP Energija d.o.o. Beograd for electricity sold | 2,775 | 832 |
| Receivables from HEP Energija d.o.o. Mostar for electricity sold | 2,295 | 17,673 |
| Receivables of HEP d.d. from HEP- Energija SH.P.K. Kosovo for electricity | 3,531 | 1,029 |
| Receivables from HEP Proizvodnja d.o.o. for heating energy sold | 2,855 | 1,276 |
| Receivables for balancing electricity - HOPS d.o.o. | - | 65,990 |
| Other receivables | 11,577 | 12,880 |
| | 1,146,912 | 1,049,249 |
| Receivables for administrative costs | | |
| HEP Proizvodnja d.o.o. | 9,675 | 1,545 |
| HEP Operator distribucijskog sustava d.o.o. | 22,876 | 10,799 |
| HEP Toplinarstvo d.o.o. | 2,289 | 521 |
| HEP Plin d.o.o. | 4,839 | 143 |
| HEP Upravljanje imovinom d.o.o. | 6,350 | 4,007 |
| HEP Trgovina d.o.o. | 1,097 | 196 |
| HEP Opskrba d.o.o. | 3,428 | 3,397 |
| HEP NOC | - | 8 |
| HEP ESCO d.o.o. | 296 | 71 |
| Program Sava d.o.o. | - | 55 |
| HEP Telekomunikacije d.o.o. | 797 | 1,157 |
| HEP Opskrba plinom d.o.o. | - | 60 |
| Hrvatski centar za čistiju proizvodnju | - | 516 |
| HEP Elektra d.o.o. | 3,997 | 2,905 |
| | 55,644 | 25,380 |

28. RELATED PARTY TRANSACTIONS (continued)

| | 31 Dec 2018 | 31 Dec 2017 |
|--|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| Current receivables from leasing agreements | | |
| HEP Proizvodnja d.o.o. | 42,347 | 64,290 |
| HEP Toplinarstvo d.o.o. | 9,635 | 12,139 |
| HEP Operator distribucijskog sustava d.o.o. | 140,957 | 141,478 |
| HEP Plin d.o.o. | 3,217 | 2,762 |
| HEP Upravljanje imovinom d.o.o. | 4,495 | 1,544 |
| HEP NOC | 1 | 9,280 |
| HEP Trgovina d.o.o. | 69 | 61 |
| HEP Opskrba d.o.o. | 279 | 249 |
| HEP Esco d.o.o. | 197 | 105 |
| Program Sava d.o.o. | - | 8 |
| HEP Opskrba plinom d.o.o. | - | 13 |
| HEP Elektra d.o.o. | 266 | 305 |
| | 201,463 | 232,234 |
| Other current receivables | 157,658 | 432,185 |

28. RELATED PARTY TRANSACTIONS (continued)

Receivables for investments paid and other receivables

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|--|----------------------------|----------------------------|
| HEP Proizvodnja d.o.o. | 180,582 | 521,765 |
| Hrvatski operator prijenosnog sustava d.o.o. | 69,852 | 74,589 |
| HEP Operator distribucijskog sustava d.o.o. | 237,160 | 293,761 |
| HEP Toplinarstvo d.o.o. | 77,746 | 35,084 |
| HEP Plin d.o.o. | 15,792 | 6,891 |
| HEP ESCO d.o.o. | 1,083 | 8,733 |
| HEP Noc d.o.o. | 1,189 | 837 |
| Trgovina d.o.o. | 44 | - |
| HEP Upravljanje imovinom d.o.o. | 460 | 656 |
| HEP Opskrba d.o.o. | 22,869 | 84,096 |
| Program Sava d.o.o. | - | 8,732 |
| HEP Telekomunikacije d.o.o. | 37 | - |
| HEP Opskrba plinom d.o.o. | - | 42 |
| HEP Elektra d.o.o. | - | 18 |
| Plomin Holding d.o.o. | 1,350 | 1,350 |
| Hrvatski centar za čišćenje proizvodnju | - | 1,244 |

608,164 **1,037,798**

Receivables for investment and other material sold

| | | |
|---|----------------|----------------|
| HEP Operator distribucijskog sustava d.o.o. | 313,473 | 313,473 |
| HEP Plin d.o.o. | 2,680 | 2,680 |
| | 316,153 | 316,153 |

Other receivables

| | | |
|---|---------------|---------------|
| HEP Plin d.o.o. | 30,659 | 37,800 |
| HEP Noc d.o.o. | - | 18,066 |
| HEP Telekomunikacije d.o.o. | 364 | - |
| Hrvatski centar za čišćenje proizvodnju | - | 472 |
| | 31,023 | 56,338 |

Receivables for short term loans

| | | |
|-----------------------------|------------------|------------------|
| HEP Energija d.o.o. Beograd | 1,877 | 2,282 |
| HEP Energija sh.p.k. Kosovo | 1,544 | 1,416 |
| | 3,421 | 3,698 |
| | 2,520,438 | 3,153,035 |

28. RELATED PARTY TRANSACTIONS (continued)

| | 31 Dec 2018 | 31 Dec 2017 |
|--|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| Current liabilities | | |
| HEP Proizvodnja - electricity | 526,876 | 166,340 |
| HEP Opskrba - renewable energy sources fee | 41,889 | 59,863 |
| HEP Opskrba - energy supply fee | 10,928 | 2,320 |
| HEP Trgovina – trading fee | 1,860 | 739 |
| HEP Opskrba plinom d.o.o. | - | 777 |
| HEP Operator distribucijskog sustava d.o.o. – liabilities for energy balancing | - | 89,525 |
| HOPS d.o.o. – liabilities for energy balancing | 41,456 | 3,336 |
| Liabilities for guarantees of origin of electricity .-HEP Proizvodnja d.o.o. | 305 | - |
| HEP Proizvodnja – liabilities arising from cession contract | 810,952 | 966,235 |
| Other | 48,513 | 14,781 |
| | 1,482,779 | 1,303,916 |

28. RELATED PARTY TRANSACTIONS (continued)

| | 31 Dec 2018 | 31 Dec 2017 |
|--|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| Other liabilities | | |
| HEP Operator distribucijskog sustava d.o.o. | | |
| – for paid connections | 176,557 | 178,717 |
| - for cash paid to treasury | 367,966 | 151,337 |
| - for customer payments and investments paid from a sub-account | 77,906 | 74,732 |
| HEP Elektra d.o.o. for cash paid to treasury | 545,034 | 659,251 |
| HEP Proizvodnja d.o.o. -for profit advances for 2018 | 400,000 | 365,000 |
| Liabilities of HEP d.d. to related parties – Agrokor | 6,311 | - |
| Liabilities to other companies for customer payments and investments paid from a sub-account | 15,187 | 57,594 |
| | 1,588,961 | 1,486,631 |
| | 0 | 0 |
| Total current liabilities | 3,071,740 | 2,790,547 |

Relations with related party NE Krško d.o.o. are shown in the following table

| | 31 Dec 2018 | 31 Dec 2017 |
|---------------------------------------|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| NE Krško d.o.o. | | |
| Liabilities for purchased electricity | 49,580 | 49,603 |
| Cost of purchased electricity | 577,283 | 585,443 |

28. RELATED PARTY TRANSACTIONS (continued)

| | Sales revenues | | Purchase expenses | |
|--|------------------|----------------|-------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK |
| State majority-owned companies | | | | |
| INA-Industrija nafte d.d. | 100,053 | 86,258 | 1,684,383 | 1,211,442 |
| Društvo Hrvatske Željeznice | 81,609 | 64,795 | - | - |
| Croatia osiguranje d.d. | 3,591 | - | 6,427 | 2,515 |
| Hrvatska pošta d.d. | 18,525 | - | 13,389 | 13,882 |
| Hrvatske šume d.o.o. | 2,339 | 1,932 | 2,398 | 2,176 |
| Jadrolinija d.o.o. | 648 | - | - | - |
| Narodne novine d.d. | 2,047 | 2,241 | 786 | 158 |
| Hrvatska radio televizija | 6,363 | 4,804 | 73 | 176 |
| Plinacro d.o.o. | 593 | - | 96,672 | 109,111 |
| Plovput d.d. | 693 | 552 | - | - |
| Croatia Airlines d.d. | 704 | 781 | - | - |
| Petrokemija Kutina d.d. | 671,287 | 13,402 | 228 | 237 |
| Ministry of the Interior | 14,112 | 10,524 | - | - |
| Primary and secondary schools | 19,653 | 17,895 | - | - |
| Judiciary institutions | 5,060 | 4,455 | - | - |
| Universities and colleges | 15,236 | 12,848 | 1,351 | 740 |
| Legislative, executive and other bodies of the Republic of Croatia | 10,891 | 8,301 | - | - |
| Health institutions and organizations | 61,655 | 51,112 | - | - |
| Other users | 63 | - | 3,332 | 3,345 |
| HROTE d.o.o. | 40,084 | 94,876 | 38,690 | 41,822 |
| | 1,055,206 | 374,776 | 1,847,729 | 1,385,604 |

28. RELATED PARTY TRANSACTIONS (continued)

| | Receivables | | Liabilities | |
|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
| State majority-owned companies | | | | |
| INA-Industrija nafte d.d. | - | - | 145,651 | 41,373 |
| Croatia osiguranje d.d. | - | - | 1,575 | 1,775 |
| Hrvatska pošta d.d. | - | - | 1,160 | 1,163 |
| Narodne novine d.d. | - | - | 92 | 20 |
| Plinacro d.o.o. | - | - | 12,075 | - |
| HROTE d.o.o. | 10,010 | 8,243 | 267 | 3,422 |
| Other users | 151 | 64 | 6,599 | 18,125 |
| | <u>10,161</u> | <u>8,307</u> | <u>167,419</u> | <u>65,878</u> |

29. CONTINGENT LIABILITIES AND COMMITMENTS

Disputes

In 2018, the Company recorded provisions for legal disputes for which it was estimated were unlikely to be solved in favour of HEP d.d. and subsidiaries.

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

The Company has long-term investments in immovable 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.

Liabilities from operations

As a part of regular investment activities, the Company, on 31 December 2018, had concluded contracts according to which investments in various facilities and equipment were started, but not yet finished. The value of contracted unfinished works for the most significant projects was HRK 1,018,068 thousand (2017: HRK 35,593 thousand).

The Company is a shareholder in companies HEP- Toplinarstvo d.o.o. and HEP upravljanje imovinom d.o.o., which report operating losses, and the Company is willing to provide all the resources necessary for companies to continue with their operations and to fulfil their liabilities.

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 air pollutants and the amount of generated waste. The Company reports on the state of these indicators, timely and objectively, to relevant institutions, units of local self-government and the interested public. The Company reports on its environmental, economic and societal impact within the framework of the non-financial report on sustainability, prepared under the GRI-Global Reporting Initiative guidelines and, since 2017, under GRI Standard Guidelines and publishes them on its website <http://www.hep.hr/o-hep-group/publications/report-on-sustainability/1401>. Employees in charge of environmental protection are additionally trained at seminars and workshops, where they are informed about the obligations and activities arising from the provisions of legal regulations in the field of nature protection and the environment.

The Company has a system for monitoring environmental expenditures (RETZOK), monitoring expenditures in nature and environment since 2004.

All HEP's thermal power plants with rated thermal inputs greater than 50 MW have obtained Environmental permits from the Ministry of Environmental Protection and Energy. By the decision of the Management Board of the Company, a greenhouse gas emission trading system was established in 2012, and the Republic of Croatia and HEP joined the European GHG Emission Trading Scheme (EU-ETS) on 1 January 2013. The Croatian Environment and Nature Agency (since 1 January 2019 merged to the Ministry of Environmental Protection and Energy), at the Company's request, opened nine accounts of plant operators in the EU register. The Company successfully fulfilled its obligation to hand over emission units to the EU Greenhouse Gas Register for 2017, and for 2018 data on verified CO₂ emissions were verified by verifiers, and emission units were submitted to all nine plant operator accounts in amounts that corresponded with verified CO₂ emissions.

29. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Environmental Protection (continued)

In 2018, a non-financial sustainability report for 2017 was completed for the HEP Group under the Global Reporting Initiative Standard (GRI Standard) guidelines. The Sustainability Report is published on the Company's website and in a printed version in Croatian and English.

Report on the Status of the Nonfinancial Sustainability Report for the Group for 2018

The preparation of a separate non-financial statement on the Group's sustainability for 2018 is underway. The nonfinancial report will be published on HEP's web pages in accordance with the provisions of the Accounting Act (OG 78/15 and 120/16) within 6 months from the balance sheet date, i.e. until 30 June 2018. The report will be published, as well as the previous four non-financial sustainability reports, on the following link <http://www.hep.hr/o-hep-grupi/publikacije/izvjescia-o-odrzivosti/1401>

In the preparation of these reports HEP Group uses the guidelines of the Global Reporting Initiative Standard (GRI Standard) and indicators in the above standard - general and standard indicators and sector supplement for the energy sector.

Course content of the sustainability report for 2018:

- Introduction by the president of the Management Board
- HEP approach to sustainability, includes goals, integrity and sustainability and how they are integrated in business policies, description of sustainability risk
- Materiality (description and impact assessment), sustainability framework according to UN development goals
- Stakeholders: analysis, inclusion, limitations
- Transparency of operations, including management approach, the principles of corporate governance, business ethics, professionalism and accountability in the work, transparency of communication and information (all according to the required GRI indicators). Responsibility in the working environment, data relating to employees (and prescribed by the GRI indicators), security and safety at work. The chapter also includes representative stories and case studies describing accountability and sustainability.
- Market access. HEP Group on the market. General approach. Business and responsibility, for each HEP Group company. Describes the most important trends related to market operations, supply chain, according to the requirements of the GRI indicator. The chapter also includes representative stories and case studies describing accountability and sustainability.
- Caring about the environment. Data on environmental protection, investments, projects and initiatives. Data are given by environmental protection areas (segments of activity). Data is indicated by GRI indicators. The chapter also includes representative stories and case studies describing accountability and sustainability.
- HEP in the community. It describes the various forms of community investment, cooperation with stakeholders, dialogue, information and education campaigns, initiatives aimed at cooperation and similar. The chapter also includes representative stories and case studies describing accountability and sustainability.
- Indicators

29. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

- 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 50001:2011 and, with its 35 components, it is among the largest environmental, quality and energy management systems in the Republic of Croatia. Efficient quality, environment and energy management is part of HEP-Proizvodnja d.o.o.'s business strategy in the production of electrical and thermal energy and in providing auxiliary services to the electro-energy system. Certification according to the new standards ISO 14001:2015 and ISO 9001:2015 and certification according to ISO 50001:2011 was carried out and confirmed by the certification company TÜV Croatia d.o.o. As one of the largest manufacturing companies in Croatia, and with regard to the activities covered by the number of employees, HEP-Proizvodnja d.o.o., aware of its environmental impacts, introduced the Environmental, Quality and Energy Management Policy that it has set for achieving maximum drive readiness and reliability of production capacities by implementing environmental protection measures and increasing the share of electricity generation and thermal energy in a regional market based on the principles of environmentally sound production, energy efficiency and sustainable business.
- By establishing and certifying quality management and environmental protection according to ISO 9001:2015 and ISO 14001:2015 HEP-Toplinarstvo d.o.o. has created the precondition for successful management of its processes, thus seeking to increase its competitiveness, position and reputation in the market.
- HEP ODS has established a certified health and safety management system in 2017, in accordance with the requirements of OHSAS 18001:2007, which continually achieves the defined health and safety management policy and set goals of the Company. Indicators of supervisory-transitional external auditors in 2018 confirmed that the applied environmental management system, certified for the first time in 2013, is in compliance with the requirements of ISO 14001:2015 and is continuously implementing the defined environmental management policy and the Company's set objectives. The fundamental commitment of the Energy Management Company is to achieve a lasting improvement of energy performance on 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 was also certified by an independent certification company TÜV Croatia Ltd.
- Customer Service of HEP-Supply d.o.o., through exceptional commitment and high level of service provided, was, as the first in Croatia, awarded the ISO 9001:2015 certificate for quality of service. In the second part of 2017, preparations for certification of the ISO 9001:2015 Customer Service were actively started. The process was successfully completed at the end of the planned period, and the Customer Service received ISO certification for a period of three years with mandatory recertification audits each year.
- In March 2017, implementation of an integrated management system in accordance with ISO / IEC 27001:2013, ISO 9001:2015, ISO 50001:2011, ISO 14001:2015 and BS OHSAS 18001:2007 started in HEP d.d. and HEP-Upravljanje imovinom d.o.o. In June 2017, there was a first series of lectures and workshops for team members participating in the implementation of these systems, which lasted until July 2018.

29. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Supply to the wholesale gas market

The Act on Amendments to the Gas Market Act (OG 16/17) appointed Hrvatska elektroprivreda d.d. as the wholesale supplier on the wholesale gas market from 1 April 2017 until the tender for the selection of suppliers on the wholesale gas market is published. Supplier on the wholesale gas sales market sells gas to gas supply providers in the public gas supply service for household customers at a regulated sales price and is obliged to provide reliable and secure gas supply.

In accordance with the Act on Amendments to the Gas Market Act, at its session held on 28 February 2017, the Government of the Republic of Croatia adopted a Decision on the price of gas at which the gas wholesale supplier is obliged to sell gas to gas supply providers in the public gas supply service for household customers; which determines the price at HRK 0.1809 / kWh. On 1 March 2018 HERA issued a Decision on the amount of tariff items for the public gas supply service for the period from 1 April to 31 July 2018 (OG, 23/18), according to which the gas price did not change in relation to the price valid until 31 March 2018. in accordance with the methodology for determining tariff items for the public service of gas supply and a guaranteed supply (OG 34/18), the selling price of gas for the period from 1 August 2018 to 31 March 2019 amounted to HRK 0.1809 / kWh.

The Gas Market Act (OG 18/18) stipulates the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of the supplier in the wholesale market will be abolished. HERA carried out tenders for the selection of suppliers on the wholesale market for the period from 1 August 2018 to 31 March 2021 (on 15 May and 13 June 2018). As no proposals were received for these calls, 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 d.d. as a wholesale supplier for a period of time shorter than the Act envisaged, i.e. from 1 August 2018 to 31 March 2019.

As of 1 April 2017, the natural gas producer has no longer the obligation to deliver gas and 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 service supply is no longer valid.

Pursuant to the Act on Amendments to the Gas Market Act HEP d.d. as a wholesale market supplier, was awarded 60%, or 61 storage capacity packages in the underground gas storage facility.

In the period from 1 April 2014 to 31 March 2015 HEP d.d. as a wholesale market supplier, has leased a capacity of 3,600 million kWh; in the period from 1 April 2015 to 31 March 2016 3,550 million kWh; from 1 April 2016 to 31 March 2017 3,500 million kWh; while in the period from 1 April 2017 to 31 March 2022, contracted capacity is 3,050 million kWh.

The gas purchase price for the market supply in the year 2018 amounts to HRK 632,930 thousand (2017; HRK 5,942), and the gas purchase price for the wholesale market in the year of 2018 amounts to HRK 1,183,002 thousand (in 2017:1,124,593).

29. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Water Act

Provisions of the Water Management Act that came into force on 1 January 2010, raised a question of ownership and legal status of the Company's property - reservoirs and ancillary facilities used for generation of electricity from hydropower plants, as they are defined as Public water resources in general use in ownership of the Republic of Croatia". The Group acquired the said property from their previous owners, merging an exceptionally large number of particles, which by the construction of the dam were flooded, resulting in accumulation. The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress.

In May 2018, the Law on Amendments to the Water Act (OG 46/18) entered into force, by which the Republic of Croatia establishes the construction rights on public water resources - land on which water structures were built through Company's or its predecessors' investments; except for the land on which the accumulation was constructed and the supply and drainage channels and tunnels built. These rights are granted in favour of the Company, without compensation for a period of 99 years. As long as this right is resumed, the Company is granted the right to manage, on behalf of the Republic of Croatia, public good / land on which constructions of electricity generation with accumulation and supply and drainage channels and tunnels are built.

30. FINANCIAL RISK MANAGEMENT

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt, which includes loans and issued bonds disclosed in the Notes 26 and 27, cash and cash equivalents and equity attributable to owners of the parent, comprising of share capital, legal and other reserves and retained earnings.

Gearing ratio

The Management monitors and reviews the equity structure on a semi-annual basis. As part of this review, the Management considers the cost of equity and the risks associated with each class of equity. The gearing ratio at the year-end can be presented as follows:

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---------------------------|----------------------------|----------------------------|
| Debt | 3,889,891 | 4,260,166 |
| Cash and cash equivalents | (1,611,941) | (925,174) |
| Net debt | 2,277,950 | 3,334,992 |
| Equity | 25,217,255 | 25,149,873 |
| Net debt to equity ratio | 9% | 13% |

30. FINANCIAL RISK MANAGEMENT (continued)

Significant accounting policies

Details on significant accounting policies and methods adopted, including criteria for recognition and basis for measurement of each class of financial assets, financial liabilities and equity instruments are disclosed in the Note 2 to the unconsolidated financial statements.

Categories of financial instruments

| | 31 Dec 2018 in '000 HRK | 31 Dec 2017 in '000 HRK |
|---|----------------------------|----------------------------|
| Financial assets | | |
| Financial assets available for sale | | 284,163 |
| Financial assets at fair value through statement of profit or loss | 196,710 | - |
| Loans and borrowings (including cash and cash equivalents) | 5,869,031 | 5,836,870 |
| Other non-current assets | 17,099,441 | 17,069,585 |
| Financial liabilities | | |
| Financial liabilities at fair value through statement of profit or loss | 307,255 | 505,228 |
| Non-current liabilities | 4,569,050 | 4,623,526 |
| Current liabilities | 3,898,427 | 3,734,143 |

Other assets mostly relate to long-term loan receivables from related companies for lease of property.

Financial risk management objectives

The Company's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. 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

The activities of the Company are primarily exposed to the financial risk of exchange rate and interest rates fluctuations (see below). Market risk exposure is monitored and managed through sensitivity analysis. There have been no changes in the Company's exposure to market risks or in the manner in which the Company manages and measures the risk.

30. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies and thus the Company is exposed to foreign currency risk. Foreign currency risk exposure is managed within approved policy parameters utilizing cross currency swap contracts. The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

| | Assets | | liabilities | |
|-----------|----------------------|----------------------|----------------------|----------------------|
| | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2018 | 31 Dec 2017 |
| | (in '000 HRK) | (in '000 HRK) | (in '000 HRK) | (in '000 HRK) |
| European | | | | |
| Union EUR | 147,809 | 169,446 | 470,373 | 22,242 |
| USD | 492 | 9,590 | 120,815 | 120,450 |

Foreign currency sensitivity analysis

The Company is mainly exposed to the changes of EUR and USD currency. The following table details the Company's sensitivity to a 10% increase and decrease in the Croatian Kuna against the EUR and USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes foreign currency denominated receivables and liabilities and adjustments of their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive / negative number below indicates an increase in profit and other equity components where HRK strengthens 10% against the relevant currency. For a 10% weakening of the HRK against the relevant currency, there would be an equal effect, but the balance would be negative.

| | 2018 | 2017 |
|--------------------------|--------------------|--------------------|
| | in '000 HRK | in '000 HRK |
| EUR change effect | | |
| Gain or loss | (239,265) | (320,727) |
| USD change effect | | |
| Gain or loss | (77,839) | (69,507) |

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Company's exposure to interest rates on financial assets and financial liabilities is explained in the liquidity risk management section. The Company manages this risk by maintaining an appropriate mix between fixed and floating interest rate in its loan portfolio.

30. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity analysis (continued)

If interest rates had been 50 basis points higher/lower and all other variables were held constant:

- The Company's profit for the year ended 31 December 2018 would increase by HRK 79 thousand (2017: HRK -931 thousand) based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its floating interest rate loans representing 3.18% of all interest-bearing loans (2017: 10.30%); and
- 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 counterparty will fail to meet its contractual obligations resulting in financial loss to the Company. The Company is the largest provider of electric energy in the Republic of Croatia. As such, it has public responsibility to provide services to all customers, and at all locations within the country, irrespective of credit risk associated with particular customer. Net trade receivables; consist of a large number of customers, spread across diverse industries and geographical areas.

The Company does not have any significant credit risk exposure to any single customer or any group of customers having similar characteristics. The Company defines customers as having similar characteristics if they are related entities. Credit risk with respect to trade receivables is primarily related to corporate receivables, specifically those companies that are in difficult financial position. Overdue receivables from households are limited due to Company's ability to disconnect such customers from the power supply network.

Carrying amount of financial assets presented in the unconsolidated financial statements, less losses arising from impairment, represents the Company's maximum exposure to credit risk without taking into account the value of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, loans from banks, and other sources of financing, and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

30. FINANCIAL RISK MANAGEMENT (continued)

Liquidity and interest rate risk tables

The following table details the remaining period to contractual maturity for the Company's non-derivative financial assets. The tables below have been drawn up based on the undiscounted cash flows of the financial assets, including interest to be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

Maturity of non-derivative financial assets

| | Weighted average effective interest rate | Less than 1 month | 1 - 3 months | 3 -12 months | 1 - 5 years | Over 5 years | Total |
|-------------------|--|----------------------|------------------|------------------|------------------|-------------------|-------------------|
| | | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK |
| 31 December 2018 | | | | | | | |
| Interest free | | 2,788,896 | 891,348 | 440,775 | 405,939 | - | 4,526,958 |
| Floating interest | 2.11% | - | 19,545 | 61,285 | 67,806 | - | 148,636 |
| Fixed interest | 4.77% | - | 8,856 | 29,169 | 516,906 | - | 554,931 |
| Total | | 2,788,896 | 919,749 | 531,229 | 990,651 | - | 5,230,525 |
| 31 December 2017 | | | | | | | |
| Interest free | | 1,669,811 | 1,635,271 | 705,208 | 488,667 | - | 4,498,957 |
| Floating interest | 1.63% | 35,422 | 19,785 | 93,726 | 122,191 | - | 271,124 |
| Fixed interest | 4.74% | - | 9,174 | 29,747 | 499,208 | - | 538,130 |
| Fixed interest | | 109,234 | 218,469 | 973,889 | 5,206,367 | 11,756,385 | 18,264,344 |
| Total | | 1,814,467 | 1,882,699 | 1,802,570 | 6,316,433 | 11,756,385 | 23,572,555 |

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

30. FINANCIAL RISK MANAGEMENT (continued)

Maturity of non-derivative financial assets

| | Weighted average effective interest rate | Less than 1 month | 1 - 3 months | 3 -12 months | 1 - 5 years | Over 5 years | Total |
|-------------------|--|----------------------|------------------|-----------------|------------------|-----------------|------------------|
| | | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK | in '000 HRK |
| 31 Dec 2018 | | | | | | | |
| Interest free | | 2,235,836 | 1,100,548 | 432,935 | 1,097,327 | - | 4,866,646 |
| Floating interest | 1.02% | 51 | 19,127 | 57,462 | 16,931 | 35,414 | 128,985 |
| Fixed interest | 4.62% | 62 | - | 211,990 | 4,237,129 | 24,089 | 4,473,270 |
| Total | | 2,235,949 | 1,119,675 | 702,387 | 5,351,387 | 59,503 | 9,468,901 |
| 31 Dec 2017 | | | | | | | |
| Interest free | | 1,822,527 | 1,105,514 | 392,282 | 1,271,673 | - | 4,591,996 |
| Floating interest | 1.95% | 68,432 | 28,762 | 278,727 | 77,506 | - | 453,427 |
| Fixed interest | 4.60% | - | - | 214,556 | 4,504,624 | 36,756 | 4,755,936 |
| Total | | 1,890,959 | 1,134,276 | 885,565 | 5,853,803 | 36,756 | 9,801,359 |

The Company has access to sources of financing. The total unused amount at the end of the reporting period was HRK 1,792,346 thousand. The Company expects to meet its other obligations from operating cash flows and proceeds from matured financial assets.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- 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 observable current market transactions.

Fair value of derivative instruments is calculated using the listed price. Where such prices are not available, the analysis uses discounted cash flows by applying the current yield curve for the period of non-derivative instruments.

30. FINANCIAL RISK MANAGEMENT (continued)

Fair value measurements recognized in the statement of financial position

The table below analyses the financial instruments subsequently measured at fair value, classified within 3 groups according to IFRS 13:

1. Level 1 inputs – inputs are quoted prices in active market for identical assets or liabilities that the entity can access at the measurement date
2. Level 2 inputs – are inputs other than quoted market prices included within Level 1, that are observable for the asset or liability either directly or indirectly, and
3. Level 3 inputs – inputs are unobservable inputs for the asset or liability (entry data unavailable)

The measurement of fair value of cross currency swap is tied to the Mark-to-market value ("MTM") according to the calculation from the banks and the change in fair value in subsequent period is recognized through profit or loss.

| | Level 1 in '000 HRK | Level 2 in '000 HRK | Level 3 in '000 HRK | Total in '000 HRK |
|---|------------------------|------------------------|------------------------|----------------------|
| 2018 | | | | |
| Financial assets at fair value through other comprehensive income | 196,710 | - | - | 196,710 |
| Derivative financial liabilities | - | - | 307,255 | 307,255 |
| Investment property | - | 19,491 | - | 19,491 |
| 2017 | | | | |
| Financial assets available for sale | 284,163 | - | - | 284,163 |
| Derivative financial liabilities | - | - | 505,228 | 505,228 |
| Investment property | - | 33,266 | - | 33,266 |

31. OTHER DISCLOSURES







The auditors of HEP Group's financial statements provided services in the amount of HRK 644 thousand in 2018 (in 2017: HRK 730 thousand). Services in 2018 and 2017 mainly relate to audit costs, review of condensed interim financial information and audits of financial reports prepared for regulatory purposes.

Fees for tax consultancy amounted to HRK 142 thousand in 2018 (2017: HRK 134 thousand).

32. APPROVAL OF THE FINANCIAL STATEMENTS

These unconsolidated financial statements were approved by the Management Board and authorized for publication on 30 April 2019.

Signed for and on behalf of the Management Board on 30 April 2019:

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

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Ulica grada Vukovara 37