HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB

Unconsolidated Annual financial statements
and Independent Auditors' Report
for the year 2019

Contents

Responsibility for the Annual fnancial 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 2019, are prepared in accordance with the 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 annual financial statements of the Company.

In preparing the 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 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 (OG 78/15, 120/16 and 116/18) 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 Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

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

Hrvatska elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb
Croatia

15 May 2020

INDEPENDENT AUDITORS' 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") for the year ended 31 December 2019, which comprise the Unconsolidated Statement of financial position (Balance Sheet) as at 31 December 2019, Unconsolidated Statement of profit or loss, Unconsolidated Statement of other comprehensive income, Unconsolidated Statement of changes in equity and Unconsolidated 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 and other explanations.

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 2019, and of its unconsolidated financial performance and unconsolidated cash flows of the Company for the year then ended in accordance with 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 International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in our Independent Auditors' report under section *Auditors' 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

The Company has prepared the annual consolidated financial statement of the Company, and in order to better understand the operations of the Company as a whole, users should read the annual consolidated financial statements of the Company related to these annual unconsolidated financial statements.

We draw attention to Note 29 to the unconsolidated financial statements describing the clearing debt in the amount of HRK 800,982 thousand (31 December 2018 in the amount of HRK 779,214 thousand) arising from payments under letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from this interbank agreement. Our opinion has not been modified in this respect.

We draw attention to Note 33 to the unconsolidated financial statements, which highlights the need to initiate the procedure of registration of rights in the land register and harmonization with the provisions of the Act Amending the Water Act (Official Gazette No. 46/2018). Our opinion has not been modified in this regard.

Other matters

We draw your attention to Note 33 to the unconsolidated financial statements which, in accordance with point (b), paragraph 8, Article 21a of the Labour Act, lists the website where the separate non-financial report of the Group will be published within the prescribed period. Our opinion has not been modified in this regard.

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

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 unconsolidated 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 as the key audit matters to be communicated in our Independent Auditors' report:

Key Audit Matters (continued)

Key audit matter	How we addressed the key audit matter
Valuation of investments in subsidiaries and joint ventures In the annual unconsolidated financial statements as at 31 December 2019, the Company had investments in subsidiaries in the amount of HRK 9,735,948 thousand. Impairment of investments in subsidiaries is a key audit matter because it involves significant estimates. Determining the valuation of individual investments in subsidiaries requires the Company's Management Board to use various assumptions, projections and forecasts related to future cash flows, applied discount rates and growth rates to calculate the expected future operations of subsidiaries. As impairment indicators for individual subsidiaries were determined during the period, the Company's Management Board performed an assessment of the value of these shares and made the necessary impairments in the annual unconsolidated financial statements for 2019. **Related disclosures in the annual financial statements** See Notes 2, 10 and 16 in the accompanying annual financial statements.	**Our auditing procedures, related to this area included, among others:** - We reviewed the collected financial information used in considering the existence of investment impairment indicators; - We reviewed the prepared projections and forecasts of business results based on the expectations of the management of subsidiaries; - We have assessed the reasonableness of the key assumptions used in the valuation model of investments in subsidiaries and joint ventures, in particular, projections of operating cash flows, discount rates and estimates of long-term growth rates; - We compared key assumptions with external information and with estimates made by ourselves; - We tested the mathematical accuracy of the model for estimating the value of investments in subsidiaries and joint ventures; - We performed a sensitivity test of the valuation model for investments in subsidiaries and joint ventures to change in key assumptions; - We reviewed the related notes and assessed the appropriateness of the disclosures related to investments in subsidiaries and joint ventures.

Key Audit Matters (continued)

Key audit matter	How we addressed the key audit matter
Contingent liabilities and court disputes Since the Company is exposed to significant legal claims, we have focused our attention on this area. Any liabilities 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 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, in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. **Related disclosures in the annual financial statements** See Notes 2, 4 and 30 in the accompanying unconsolidated annual financial statements.	Our auditing procedures, related to this area included, among others: - 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 provisions in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets; - Assessment of the adequacy of disclosure in the unconsolidated financial statements, taking into account sensitivity and possible prejudice in the disclosure of detailed information.

Other Information in the Annual Report and separate Non-financial report

The Management is responsible for other information. Other information include information contained in the Annual report, but do not include the 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, 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.

Other Information in the Annual Report and separate Non-financial report (continued)

The Management Board is responsible for compiling the Company's Management Report as an integral part of the Company's Annual Report of the Company. Regarding the Management Report and the Corporate Governance Statement, we also carried out the procedures required by the Croatian Accounting Act. These procedures include considering:

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

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

- The information contained in the Company's Management Report and the relevant parts of the Corporate Governance Statement for the financial year for which the unconsolidated financial statements have been prepared are harmonized, in all significant respects, with the annual unconsolidated financial statements of the Company presented on pages 10 to 80 on which we expressed our opinion as set out in the Opinion section above;
- The Management Report and the relevant parts of the Corporate Governance Statement have been prepared, in all significant respects, in accordance with Articles 21 and 22 of the Accounting Act;
- Corporate Governance Statement includes the information required by Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act

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

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

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

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

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.

Auditors' responsibilities for the audit of the 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 unconsolidated annual financial statements.

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 auditors' 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.

Auditors’ responsibilities for the audit of the annual financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding financial information from persons or business activities within the Company to express an opinion on the unconsolidated financial statements. We are responsible for directing, overseeing and performing the audit. We are solely responsible for expressing our opinion.

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 unconsolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our Independent Auditors’ 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 Auditors’ report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Report on Compliance with Other Legal Requirements

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

At the date of this Independent Auditors' Report BDO Croatia d.o.o. is continuously engaged in performing the legal audit of the annual unconsolidated financial statements of the Company for 2012 until the audit of the annual unconsolidated financial statements of the Company for 2019, which totals 8 years, while FACT revizija d.o.o. is engaged for the legal audit of the annual unconsolidated financial statements of the Company for 2019, which is a one-year engagement.

In the audit of the Company's annual unconsolidated financial statements for 2019, we determined the significance for the financial statements as a whole in the amount of HRK 136,000 thousand, which represents approximately 1.5% of the realized sales revenue for 2019, due to fluctuations in profit before tax in the current and previous periods.

Our audit opinion is consistent with the supplementary report for the Company's Audit Board drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

BDO Croatia d.o.o.

FACT revizija

Report on Compliance with Other Legal Requirements (continued)

During the period between the initial date of the audited unconsolidated annual financial statements of the Company for the year 2019 and the date of this Report, we did not provide the Company 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.

The Management Board is responsible for compiling the annual unconsolidated financial statements of the Company for the year ended 31 December 2019 in the prescribed form pursuant to the Ordinance on the structure and content of annual financial statements (OG 95/16), and in accordance with other regulations governing the Company's operations. (" Standard annual unconsolidated financial statements ") which are presented on pages 81 to 91. The financial information presented in the standard annual unconsolidated financial statements of the Company is in accordance with the information presented in the annual unconsolidated financial statements of the Company presented on pages 10 to 80 to which we have expressed an opinion as set out in the Opinion section above.

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

Zagreb,

15 May 2020

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

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

Štimac Ivan

Ivan Štimac, Certified Auditor

VStipić

Vedrana Stipić, Member of the Management Board

Zagreb,

15 May 2020

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

FACT revizija d.o.o.
ZAGREB, OIB: 665380660

Jeni Krstičević, Certified Auditor

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

Daniela Šunjić, President of the Management Board

Unconsolidated Statement of profit or loss – HEP d.d.
For the year ended 31 December 2019

in '000 HRK	NOTE	2019	2018
Sales revenue	5	5,233,779	5,120,409
Sales revenues - affiliated companies	32	3,811,352	3,332,272
Other operating income	6	66,981	61,574
Other operating income - affiliated companies	32	203,126	177,072
Total operating income		**9,315,238**	**8,691,327**
The cost of electricity purchase	7	(3,157,663)	(2,301,444)
Electricity purchase - affiliated companies	32	(73,240)	(52,392)
Cost of gas purchase - market supply	33	(2,096)	(632,930)
Cost of gas purchase for sale in the wholesale market	33	(1,152,889)	(1,183,002)
Employee costs	8	(104,100)	(96,936)
Depreciation	12,13,14	(60,004)	(61,785)
Costs of fees and services-affiliated companies	32	(3,553,587)	(3,449,238)
Other operating expenses	9	(676.465)	(797,816)
Total operating expenses		**(8,780,044)**	**(8,575,543)**
Operating profit		**535,194**	**115,784**
Financial income	10	1,204,647	722,536
Financial expenses	10	(511,557)	(439,272)
Net profit from financial activities	10	**693,090**	**283,264**
Profit before tax		**1,228,284**	**399,048**
Corporate income tax	11	(120,976)	(45,072)
Profit for the year		**1,107,308**	**353,976**

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

Signed on behalf of the Company on 15 May 2020:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

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

Unconsolidated Statement of other comprehensive income – HEP d.d.
For the year ended 31 December 2019

in '000 HRK	2019	2018
Profit for the year	**1,107,308**	**353,976**
Other comprehensive income		
Changes in the value of financial assets at fair value through other comprehensive income	46,701	(73,066)
Total items that will not be reclassified to profit or loss	*46,701*	*(73,066)*
Other comprehensive income, net	**46,701**	**(73,066)**
Total comprehensive incom for the year, net	**1,154,009**	**280,910**

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

Signed on behalf of the Company on 15 May 2020:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

HRVATSKA ELEKTROPRIVREDA d.d.
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Ulica grada Vukovara 37

Unconsolidated Statement of financial position / Balance sheet – HEP d.d.
As at 31 December 2019

in '000 HRK	NOTE	31 Dec 2019	31 Dec 2018
ASSETS			
Fixed assets			
Property, plant and equipment	12	622,296	681,422
Real estate investments	15	19,491	19,491
Assets with the right to use	13	6,577	-
Intangible assets	14	139,764	138,163
Investments in subsidiaries and joint ventures	16	9,735,948	9,578,649
Financial assets at fair value through other comprehensive income	17	254,195	196,710
Long-term loans granted	18,32	17,063,550	17,099,051
Other long-term receivables	19	274	390
Deferred tax assets	11	91,755	132,900
Total fixed assets		**27,933,850**	**27,846,776**
Current assets			
Inventories	20	943,494	638,606
Trade receivables	21	252,279	302,582
Current maturities of long-term loans granted	18,32	1,310,487	1,325,537
Other current receivables	22	346,434	126,040
Receivables from affiliated companies	32	2,779,582	2,520,438
Financial assets at fair value through profit or loss	23	165,185	175,098
Cash and cash equivalents	24	1,375,389	1,436,843
Total current assets		**7,172,850**	**6,525,144**
TOTAL ASSETS		**35,106,700**	**34,371,920**

Unconsolidated Statement of financial position / Balance sheet – HEP d.d. (continued)
As at 31 December 2019

in '000 HRK	Note	31 Dec 2019	31 Dec 2018
CAPITAL AND LIABILITIES			
Share capital	25	19,792,159	19,792,159
Revaluation reserves		88,365	40,407
Retained earnings		6,278,355	5,384,690
Total capital		**26,158,879**	**25,217,256**
Liabilities under issued bonds	26	3,518,704	3,560,375
Liabilities for long-term loans	27	182,210	217,455
Lease liabilities	28	5,717	-
Other long-term liabilities	29	892,848	1,098,476
Long-term provisions	30	223,593	221,244
Deferred tax liability		18,454	5,441
Total long-term liabilities		**4,841,526**	**5,102,991**
Current maturity of long-term loans	27	36,285	112,061
Liabilities to affiliated companies	32	3,569,685	3,071,740
Current maturity of lease liabilities	28	1,020	-
Corporate income tax liability		27,934	25,055
Other liabilities	31	471,371	842,817
Total short-term liabilities		**4,106,295**	**4,051,673**
TOTAL CAPITAL AND LIABILITIES		**35,106,700**	**34,371,920**

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

Signed on behalf of the Company on 15 May 2020:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

HRVATSKA ELEKTROPRIVREDA d.d.
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Ulica grada Vukovara 37

Unconsolidated Statement of changes in equity – HEP d.d.
For the year ended 31 December 2019

in '000 HRK	Share capital	Fair value reserves	Retained earnings	Total
Balance at 1 Jan 2018, revised	**19,792,159**	**114,549**	**5,248,034**	**25,154,742**
Profit for the current year	-	-	353,976	353,976
Other comprehensive income	-	(74,142)	1,076	(73,066)
Total comprehensive income	-	*(74,142)*	*355,052*	*280,910*
Merger effects	-	-	17	17
Dividend paid	-	-	(218,413)	(218,413)
Balance at 31 Dec 2018	**19,792,159**	**40,407**	**5,384,690**	**25,217,256**
Profit for the current year	-	-	1,107,308	1,107,308
Other comprehensive income	-	47,958	(1,257)	46,701
Total comprehensive income	-	*47,958*	*1,106,051*	*1,154,009*
Dividend paid	-	-	(212,386)	(212,386)
Balance at 31 Dec 2019	**19,792,159**	**88,365**	**6,278,355**	**26,158,879**

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

Signed on behalf of the Company on 15 May 2020:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

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in '000 HRK	**2019**	**2018**
OPERATING ACTIVITIES		
Profit before tax	1,228,284	399,048
Interest income	(115,630)	(109,953)
Interest expense	174,980	184,405
Net exchange rate differences	28,854	(15,204)
Depreciation and amortisation of property, plant, equipment, intangible assets and equipment with the right to use	60,004	61,785
Increase in provisions	2,349	4,230
Fair valuation of real estate investments	-	13,775
Value adjustment of receivables	(341)	326,960
Value adjustment of property, plant and equipment and intangible assets	335	3,810
Cash flow from operating activities before changes in working capital	*1,378,835*	*868,856*
Decrease/(Increase) in trade receivables	50,644	(304,536)
Reduction of receivables from affiliated companies	134,616	728,264
(Increase) of inventories	(304,888)	(170,704)
(Increase)/Decrease in other current assets	(220,394)	180,280
(Decrease)/Increase in other liabilities	(263,205)	326,877
Increase in liabilities to subsidiaries	497,945	281,193
Reduction of other long-term liabilities	(212,990)	(221,218)
Cash from operations	**1,060,563**	**1,689,012**
Paid corporate income tax	(76,952)	(55,691)
Paid interests	(177,611)	(181,045)
CASH FROM OPERATING ACTIVITIES	**806,000**	**1,452,276**
INVESTMENT ACTIVITIES		
Interest receipts	10,020	12,507
Dividend receipts from affiliated companies	44,759	10,016
Expenditures for increasing the share capital of a subsidiary	(406,346)	(79,547)
Expenditures for the purchase of property, plant and equipment	(190,944)	(165,783)
Expenditures for acquisition of other fixed assets	116	153
Receipts from repayment of loans to affiliated companies	50,551	90
CASH FROM INVESTMENT ACTIVITIES	**(491,844)**	**(222,564)**

Unconsolidated Statement of cash flows – HEP d.d.

For the year ended 31 December 2019

in '000 HRK	**2019**	**2018**
FINANCIAL ACTIVITIES		
Receipts from received long-term loans	-	76,207
Expenditures for repayment of long - term loans	(112,521)	(400,595)
Lease principal repayment	(1,182)	-
Dividend payment	(212,386)	(218,413)
Receipts from cash funds	14,825	32,241
Expenditures for cash funds	-	(132,231)
Expenses for repayment of issued bonds	(64,346)	-
CASH FROM FINANCIAL ACTIVITIES	**(375,610)**	**(642,792)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(61,454)**	**586,921**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,436,843**	**849,922**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,375,389**	**1,436,843**

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

Signed on behalf of the Company on 15 May 2020:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

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

1. GENERAL

Foundation and development

Hrvatska elektroprivreda (hereinafter HEP d.d. or the Company) is a joint stock company with its registered office in Zagreb, Ulica grada Vukovara 37, established in 1994, by reorganizing the former Public Company Hrvatska elektroprivreda s.p.o. and is its legal successor. In the registry file, the identification number of the entity (MBS) is 080004306, and in the Central Bureau of Statistics, the identification number is 3557049, OIB 28921978587.

The share capital of the company is HRK 19,792,159 thousand, and it is divided into 10,995,644 ordinary shares of series A1 with a nominal amount of HRK 1,800.00. Shares of Hrvatska elektroprivreda d.d. are 100% owned by the Republic of Croatia.

The Company manages operations and performs part of the activities, which are in accordance with the applicable regulations and the Company's Articles of Association and the Rules of Procedure, described in the Decision on the duties of members of the Management Board of HEP d.d. according to corporate functions and activities. In addition to corporate functions, the Company directs, coordinates and monitors activities in subsidiaries in accordance with the Agreements on Mutual Relations. The Company is the owner of all assets that are contractually transferred to the management of affiliates or subsidiaries, performs the function of HEP Group corporate governance and provides conditions for the secure and reliable supply of electricity, heat and natural gas to customers.

In addition to corporate functions, HEP d.d. strategically directs, coordinates and monitors production, network and other activities in subsidiaries with the aim of harmonizing the core business activities of manufacturing subsidiaries, i.e. optimizing the production process.

The basic internal organization of the Company follows the approach of corporate governance and the powers of the Company for individual activities. Within the HEP Group, companies that perform regulated activities are clearly separated (management, accounting and legal) from unregulated activities.

The basic internal organization of the Company consists of the following organizational units:

- Management Board of HEP d.d.
- Corporate Security
- Capital Investment
- Strategy and Development
- Finance and Treasury
- Accounting
- Controlling
- Corporate Communications
- Procurement
- Human Resources
- Legal Affairs
- Internal Audit
- Information and Communication Technologies
- Market and marketing strategy
- EU and Regulatory Affairs

As at 31 December 2019 HEP d.d. had 495 employees (2018: 473). The qualification structure of employees as at 31 December 2019 was as follows: PhD 8, Master 43, Bachelor 282, College 50, High school 107, Primary school 1 and Skilled worker 4.

1. GENERAL (continued)

General Assembly

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

Tomislav Ćorić	Member	Member since 15 February 2018

Supervisory Board

Members of Supervisory Board in 2019

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

Members of Supervisory Board in 2018

Goran Granić	President	President since 18 January 2018
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 Komnenić	Member	Member from 11 January 2018 to 22 October 2018
Lukša Lulić	Member	Member since 9 November 2018
Ivo Ivančić	Member	Member since 9 November 2018
Meri Uvodić	Member	Member since 4 December 2018
Jelena Zrinski Berger	Member	Member since 18 January 2018

1. GENERAL (continued)

Management Board

Management Board in 2019

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 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

Basis of preparation

a) Unconsolidated financial statements

The unconsolidated financial statements for 2018 have been prepared in accordance with the International Financial Reporting Standards (''IFRS''), determined by the European Commission and published in the Official Journal of the EU.

Exceptionally, in order to have a more appropriate presentation of the financial statements and to eliminate possible obscurity and misinterpretations, the Company deviated from the specific requirements of IFRS 11 "Joint Operations"

The financial statements have been prepared on the historical cost basis, except for certain financial instruments and investment proiperty that are presented at fair value. All amounts in the 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 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.

b) Consolidated financial statements

The Company has prepared these 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 2019 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 32) – where the Company has more than half of voting rights or in some other way controls their business, have been entirely consolidated. These 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 2019, 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. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

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

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

In the first application of IFRS 16, the Company used the following practical solutions permitted by the standard:

Application of a single discount rate to a portfolio of leases with relatively similar characteristics, relying on previous assessments of the harmfulness of leases as an alternative to the impairment test - on 1 January 2019 there were no harmful contracts, disclosure of operating leases with a remaining lease term on 1 January 2019 was less than 12 months as short-term leases, the exclusion of initial direct costs from the measurement of the right to use assets at the date of first application, and the use of more recent knowledge in determining the lease period if the contract contains options to extend or terminate the lease.

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

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

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

In '000 HRK	**31 Dec 2018/ 1 Jan 2019**
Total future minimum lease payments for irrevocable * operating leases on 31 Dec 2018	-
Finance lease liabilities recognized on 1 Jan 2019	6,011
Totallease liabilities recognized on 1 Jan 2019	**6,011**
Of which are:	
Short-term lease liabilities	**1,020**
Long-term lease liabilities	**4,991**

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

The change in accounting policy affected the following items of the statement of the financial position of the Company on 1 January 2019:

In '000 HRK	**Note**	**The effect of the IFRS 16 adoption**
Increase in right-to-use assets	13	6,011
Increase in lease liabilities	13	6,011

(in '000 HRK)	**Note**	**2019**
Depreciaton of right-to-use assets		
Property		905
Plant		
Equipment		251
Interest expenses (included in financial expenses)		57
Expenses related to short-term leases or leases of low-value assets (included in other operating expenses)		1,028

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

IFRIC 23 “Uncertainty over Income Tax Treatments” (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 “Investments in Associates and Joint Ventures” (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs for the 2015-2017 Reporting Cycle - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after January 1, 2019).

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

(b) New standards and interpretations not yet adopted:

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

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

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

Reform of reference interest rates - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020) *The amendments are derived from substitution of reference interest rates such as LIBOR and other interbank bid interest rates ("IBORs") The amendments provide a temporary exemption from the application of certain hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under IFRS 9 and IAS 39 requires that future hedged cash flows be "highly probable". If these cash flows depend on the IBOR, the exemption provided for in the amendments requires the entity to apply the assumption that the interest rate on which the cash flows are based will not change as a result of the reform.*

IAS 39 and IFRS 9 require an estimate of expected future events for the application of hedge accounting. Although the cash flows to which IBOR interest rates apply and the interest rates that replace it are currently expected to be broadly equal, thus minimizing any inefficiencies, this may no longer be the case as the reform date approaches. According to the amendments, an entity may assume that the reference interest rate on which the cash flows of a hedged item, hedging instrument or hedged risk are based has not been affected by the reform of the IBOR. Due to the reform of the IBOR, hedging could be found outside the range of 80-125%, which is mandatory for retroactive testing in accordance with IAS 39. IAS 39 has therefore been amended to allow exemption from retroactive testing of effectiveness in such a way that hedging is not interrupted during a period of uncertainty caused by the IBOR simply because retroactive inefficiency is outside this range.

However, even then, other requirements for the application of hedge accounting should still be met, including an assessment of expected events. For some hedges, the hedged item or hedged risk refers to a non-contractual component of the IBOR. In order to apply hedge accounting, IFRS 9 and IAS 39 require that the identified risk component can be determined separately and measured reliably. According to the appendices, the risk component should be able to be determined separately at the beginning of the determination of the hedging relationship, and not continuously. In the context of a macro hedge, where the subject often harmonizes the hedging relationship, the exemption applies from the moment the hedged item was originally established within that relationship. Any ineffectiveness of hedging will continue to be recognized in the statement of profit or loss in accordance with IAS 39 and IFRS 9. The appendices set out the reasons for the cessation of the exemption, including the uncertainty arising from the reference interest rate reform, which is no longer applicable. The amendments require entities to provide additional information to investors about their hedging relationships directly affected by these uncertainties, including the nominal amount of hedging instruments to which the exemptions apply, any significant assumptions or judgments made during the application of the exemption, and qualitative disclosure of how the entity is affected by the IBOR reform and how it manages the transition process.

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

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

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

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

Investments in subsidiaries

Subsidiaries are companies in which the Company or the Parent Company has control. The Company has control over an entity if, based on its participation in it, it is exposed to a variable return, i.e. it has rights to them and the ability to influence the return by its dominance in that entity. Investments in subsidiaries are stated at the end of the reporting period at cost adjusted for impairment.

Investments in joint ventures

Under IFRS 11 Joint Operations are classified as either joint management or joint ventures. The classification depends on the contractual rights and obligations of each investor, not on the legal structure of the mutual agreement.
Joint management - a joint transaction in which the parties that have joint control over the transaction have rights to assets and liabilities based on financial liabilities from the transaction in question.
Joint venture - a joint operation in which the parties that have joint control over the transaction and have rights to the net assets of the transaction in question.
In classifying investments in joint operations, the Company considers:

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

Interests in joint ventures are stated using the equity method. The company has identified an investment in LNG Hrvatska d.o.o. as a joint venture.

In the consolidated financial statements, the Company classifies its investment in NE Krško d.o.o. as joint management and recognizes its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations. As described in Note 16, in the separate unconsolidated financial statements the Company deviated from the requirements of IFRS 11 and for investments in NE Krško d.o.o. applies the equity method.

Costs of pension benefits and other employee benefits

The Company does not manage defined benefit plans after retirement for its employees and managers. Accordingly, there are no provisions for these costs.

The company is obliged to pay contributions to pension and health insurance funds in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Costs of pension benefits and other employee benefits (continued)

These contributions are paid in a certain percentage amount determined on the basis of gross salary.

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

The company is obliged to suspend contributions from the gross salary of employees.
Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred (Note 8).

Pension benefits and jubilee awards

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

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

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

Property, plant and equipment

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

	2019 and 2018
Buildings	20-50 years
Office and IT equipment	5-20 years
Motor vehicle	5 years
Office furniture	10 years

The cost of property, plant and equipment includes the purchase price of the property, including customs duties and non-refundable taxes, and all direct costs of bringing the property to its working condition and place of use. Expenses incurred after putting property, plant and equipment into use are charged to the statement of profit or loss in the period in which they are incurred. In situations where it is clear that the costs have resulted in an increase of the future economic benefits expected to be obtained from the use of the item of property, plant and equipment above its originally estimated capacity, they are capitalized as an additional cost of property, plant and equipment.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Costs eligible for capitalization include the costs of periodic, pre-planned major inspections and overhauls necessary for further operations.

The gain or loss arising from the disposal or withdrawal of an 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 in the statement of profit or loss.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated so that any impairment loss can be determined. If 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.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately as an expense.

Upon subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of the asset, with the higher carrying amount not exceeding the carrying amount that would have been determined if no previous loss had been recognized for this asset (cash-generating unit) due to impairment. A reversal of an impairment loss is recognized immediately as income

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.

Leases

Company as a lessee

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

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

The lease liability is calculated at the present value of the contractual future payments to the lessor over the term of the lease, less the discount rate determined in relation to the rate inherent in the lease, unless it is (as is usually the case) not easy to determine. In this case the incremental borrowing rate of HEP Group at the beginning of the lease is used. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which they relate.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Leases (continued)

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

• amounts expected to be paid by the lessee under residual value guarantees;
• the cost of executing the purchase option if it is certain that the lessee will use that option; and
• payment of fines for termination of the lease if the lease period reflects that the lessee will take the opportunity to terminate the lease

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

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

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

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

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

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

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

The Company as lessor

Property, plant and equipment and intangible assets are leased from the Company to affiliated companies on the basis of their carrying amount (except HOPS as of 1 July 2013 and HEP Telekomunikacija). Leases of property, plant, equipment and intangible assets are classified as finance leases because the lessee accepts almost all the benefits and risks of ownership. Leases bear interest only up to the extent to which the lessor has obtained funds to finance the asset in question from external sources. These assets are stated at a cost in order to present the fixed assets in question at their carrying amount at which the Company originally reported them.

Investment property

Investment property is property held to earn rentals and/or increase the market value of assets, including assets under construction for those purposes, initially measured at cost, which includes transaction costs. After initial recognition, investment property is measured at fair value. Gains and losses on changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Investment property is derecognised, i.e. they are derecognised by sale or permanent withdrawal from use, as well as when no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property is determined as the difference between the net disposal proceeds and the net carrying amount of the property in question and is included in profit or loss in the period in which the property is derecognised.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Inventories

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

Inventories also contain CO2 emission units. By including the Republic of Croatia in the European Union Emissions Trading System (EU ETS), the Company, which performs the activity of electricity and heat production, has the obligation to purchase GHG emission units in quantities corresponding to verified combustion CO2 emissions of fossil fuels from thermal power plants that emit CO2.
Companies are required to acquire sufficient CO2 emission rights by 30 April (annual cycle). Due to the withdrawal of IFRIC 3 and insufficient provisions in IFRS, the Company has analyzed various accounting models for CO2 emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO2 emission rights. Therefore, the Company recognizes emission rights as inventories.

Inventories also include energy savings inventories. With the entry into force of the amendments to the Energy Efficiency Act, for the members of the HEP Group, energy suppliers, there is an obligation to achieve energy savings in final consumption. For the redistribution of realized savings from HEP Group member companies that are not liable onto HEP Group member companies that are liable to realize savings, the Methodology for distribution and purchase of energy savings was adopted. The methodology defines the manner of distribution of energy savings realized in non-liable companies and the surplus of realized savings in liable companies, as well as the conditions for mutual redemption of savings for the current business year. HEP, as the appointed holder of the consolidated Report on realized energy savings, has disposal over the savings that are the subject of this Methodology and, reallocates them to liable companies.

Inventories also include gas for trading on the wholesale market, and are stated at the lower of cost determined on the basis of the weighted average price and the net expected sales value (Note 19).
For quantities of gas delivered directly to customers, the method of specific identification of their individual costs is used to calculate the cost of inventories, where the cost is equal to the cost of acquisition.

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

Cash and cash equivalents

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

Borrowing costs

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

Foreign currencies

The Company's unconsolidated financial statements are presented in the currency of the primary economic environment in which the entity operates, the so-called functional currency. In the Company's financial statements, business changes expressed in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rate. Non-monetary items that are measured in terms of fair value in a foreign currency are translated using the exchange rates as at the dates of the fair value estimation.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items and their recalculation are recognized in the statement of profit or loss for the period. Foreign exchange differences arising from the translation of non-monetary assets at fair value are recognized in the statement of profit or loss as a financial expense.

Taxation

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

Current tax

Current tax liability is based on taxable profit for the year. Taxable profit differs from the net profit for the period presented in the statement of profit or loss because it does not include items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable nor 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 tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities and deferred tax assets are not recognized for temporary differences arising from goodwill or on initial recognition of other assets and liabilities, except in the case of a business combination, in transactions that do not affect tax or accounting profit.

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

Taxation

Deferred tax is recognized as an expense or income in the statement of comprehensive income unless it relates to items recorded directly in other comprehensive income, in which case deferred tax is also recognized in other comprehensive income or when the tax arises from initial recognition in the business merger.
The calculation of deferred tax liabilities and assets reflects the amount that is expected to be incurred or recovered at the reporting date in the carrying amount of the Company's assets and liabilities.

Deferred tax is recognized as an expense or income in the statement of comprehensive income unless it relates to items recorded directly in other comprehensive income, in which case deferred tax is also recognized in other comprehensive income or when the tax arises from initial recognition in the business merger.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets

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

D E S C R I P T I O N	Business model / measurement
Fixed assets	
Long-term loans granted	Held for collection / amortized cost
Finance lease receivables	Held for collection / amortized cost
Financial assets at fair value through other comprehensive income	Strategic investments / fair value through other comprehensive income
Other long-term receivables	Held for collection / amortized cost
Current assets	
Trade receivables and other receivables	Held for collection / amortized cost
Receivables from affiliated companies	Held for collection / amortized cost
Other current receivables	Held for collection / amortized cost
Cash and cash equivalents	Held for collection / amortized cost

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

i) Financial assets at fair value through other comprehensive income

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

ii) Loans granted and receivables from finance leases

Loans granted and receivables under finance leases of the Company are held within a business model aimed at holding financial assets to collect contractual cash flows. Contractual cash flows are only those that represent repayments of principal and interest based on that amount of principal.

Loans granted and receivables under finance leases are measured at amortized cost. Measurement at amortized cost includes the following;

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

iii) Trade and other receivables

Trade receivables and other short-term receivables are held with a contractual cash flow collection strategy. Trade receivables that do not have a significant financial component on initial recognition are measured in accordance with IFRS 15 at their transaction price

iv) Impairment

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

- Impartial and weighted probability amount determined by estimating the range of possible outcomes,
- Time value of money,
- Reasonable and acceptable data on past events, current conditions and forecasts of future economic conditions.

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

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Financial assets (continued)

v) Derecognition of financial assets

The Company derecognises a financial asset when;

- The contractual rights to cash flows from financial assets expire,
- Transfers financial assets and the transfer qualifies for derecognition.

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

When the Company transfers financial assets, it is required to assess the extent to which it retains the risks and rewards of ownership of the financial assets. In this case, when all 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 risks and rewards of ownership of financial assets are retained, the Company continues to recognize financial assets. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, the Company determines whether control of the financial assets has been retained.

If control over financial assets is not retained, the Company ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or have been retained in the transfer. If control is retained, the Company continues to recognize financial assets to the extent that it continues to participate in those financial assets.

Derivative financial instruments

The Company uses derivative financial instruments to reduce its exposure to currency risk. In addition to the above, the Company concluded a Cross Currency Swap Agreement by which the dollar liability on bonds was converted into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. More information on derivative financial instruments is disclosed in Note 34.
Derivative financial instruments are initially recognized at fair value at the date the contract is entered into. After initial recognition, they are measured at fair value with changes recognized in the statement of profit or loss.

Commodity contracts

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

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

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

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

Subsequent to 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 liabilities in the financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor on substantially different terms, or the terms of the existing liability are significantly changed, such change or modification is treated as a termination of the original obligation and as recognition of a new obligation. The difference in the corresponding carrying amounts is recognized in the statement of profit or loss.

Provisions

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

Revenue recognition

Operating revenues are generated primarily through the sale of electricity to households, industrial and other customers in the Republic of Croatia which have chosen HEP Opskrba d.o.o. as their supplier; by selling electricity to affiliated companies and on the market, by selling gas to affiliated companies and on the market, and by a fee for performing administrative services for the Group companies.

Regarding the recognition of contracts with customers, the Company applies a five-step model;

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

Revenue is recognized for each separate liability in the contract in the amount of the transaction price. The transaction price is the amount of fees in the contract that the Company expects to be entitled to in exchange for the transfer of the promised goods or services to the customer. The Company recognizes revenue when it has made a liability and when the revenue can be measured reliably.
Revenue from the sale of electricity and gas is recognized when the Company delivers energy to the customer, when significant risk and benefits of ownership are transferred to the customer, and when there is no significant uncertainty about the sale, related costs or possible returns. Delivery is made when the products are shipped to a specific location, the risks of loss are transferred to the customer and when one of the following is determined: the customer accepts the products in accordance with the contract or the deadline for acceptance of products has expired or the Company has

objective evidence that all acceptance criteria are met. Sales revenue is reported based on the price from the sales contract, less the agreed discounts and refunds at the time of sales.

3. RECLASSIFICATION OF COMPARATIVE PERIODS

Changes in comparative financial statements

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

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

In '000 HRK	Report 2018	Reclassification	Restated
Sales revenue	5,112,143	8,266	5,120,409
Sales revenues - affiliated companies	3,512,907	(180,635)	3,332,272
Other operating income	66,277	(4,703)	61,574
Other operating income - affiliated companies	-	177,072	177,072
Total operating income	**8,691,327**	**-**	**8,691,327**
The cost of electricity purchase	(2,301,444)	-	(2,301,444)
Electricity purchase - affiliated companies	(52,392)	-	(52,392)
Cost of gas purchase - market supply	(632,930)	-	(632,930)
The cost of gas purchase for sale in the wholesale market	(1,183,002)	-	(1,183,002)
Employee costs	(96,936)	-	(96,936)
Depreciation	(61,785)	-	(61,785)
Costs of fees and services-affiliated companies	(3,449,238)	-	(3,449,238)
Other operating expenses	(797,816)	-	(797,816)
Total operating expenses	**(8,575,543)**	**-**	**(8,575,543)**
Oprating profit	**115,784**	**-**	**115,784**
Financvial income	722,536	-	722,536
Financial expenses	(439,272)	-	(439,272)
Net profit from financial activities	**283,264**	**-**	**283,264**
Profit before tax	**399,048**	**-**	**399,048**
Corporate income tax	(45,072)	-	(45,072)
Profit for the year	**353,976**	**-**	**353,976**

The item *Sales revenues - affiliated companies* decreased by HRK 180,635 thousand, and the item *Other operating revenue*s by HRK 4,703 thousand. At the same time, *Sales revenu*es increased in the amount of HRK 8,266 thousand and the item *Other operating revenues - affiliated companies* in the amount of HRK 177,072 thousand. The stated amount consists of revenues from the provision of administrative services, revenues from the lease of business premises and revenues from the sale of energy savings to companies that have been reclassified to another position within operating revenues. These changes did not affect the amount of total operating revenues and were made in order to increase transparency in reporting.

3. RECLASSIFICATION OF COMPARATIVE PERIODS (continued)

Changes in comparative financial statements (continued)

Statement of financial position

As at 31 Dec 2018

In '000 HRK	31 Dec 2018	Reclassification	Restated
ASSETS			
Fixed assets			
Property, plant and equipment	706,339	(24,917)	681,422
Investment property	19,491	-	19,491
Intangible assets	113,246	24,917	138,163
Investments in subsidiaries and joint ventures	9,578,649	-	9,578,649
Financial assets at fair value through other comprehensive income	196,710	-	196,710
Long-term loans granted	17,099,051	-	17,099,051
Other long-term receivables	390	-	390
Deferred tax assets	132,900	-	132,900
Total fixed assets	**27,846,776**	**-**	**27,846,776**
Current assets			
Inventories	638,606	-	638,606
Trade receivables	302,582	-	302,582
Current maturities of long-term loans granted	1,325,537	-	1,325,537
Other current receivables	126,040	-	126,040
Receivables from affiliated companies	2,520,438	-	2,520,438
Financial assets at fair value through profit or loss	-	175,098	175,098
Cash and cash equivalents	1,611,941	(175,098)	1,436,843
Total current assets	**6,525,144**	**-**	**6,525,144**
TOTAL ASSETS	**34,371,920**	**-**	**34,371,920**

In the financial statements for 2018, the Company reclassified the items *Property of plant and equipmen*t where the amount of HRK 24,917 thousand was transferred to the item *Intangible assets*. This reclassification change did not have an impact on the total amount of fixed assets and was made in order to increase transparency in reporting. From the item *Cash and cash equivalents*, the amount of HRK 175,098 thousand was transferred to the newly opened item *Financial assets at fair value through profit or loss.* These are investments in investment funds that no longer meet the criteria of cash and cash equivalents. This reclassification change did not have an impact on the total amount of current assets and was made for the purpose of greater transparency in reporting.

3. RECLASSIFICATION OF COMPARATIVE PERIODS (continued)

Changes in comparative financial statements (continued)

Statement of financial position

As at 31 Dec 2018

In '000 HRK	Report 2018	Reclassification	Restated
CAPITAL AND LIABILITIES			
Share capital	19,792,159	-	19,792,159
Revaluation reserves	40,407	-	40,407
Retained earnings	5,384.690	-	5,384,690
Total capital	**25,217,256**	**-**	**25,217,256**
Liabilities under issued bonds	3,560,375	-	3,560,375
Liabilities for long-term loans	217,455	-	217,455
Other long-term liabilities	1,098,476	-	1,098,476
Long-term provisions	221,244	-	221,244
Deferred tax liability	5,441	-	5,441
Total long-term liabilities	**5,102,991**	**-**	**5,102,991**
Current maturity of long-term loans	112,061	-	112,061
Liabilities to affiliated companies	3,071,740	-	3,071,740
Income tax liability	-	25,055	25,055
Other liabilities	867,872	(25,055)	842,817
Total short-term liabilities	**4,051,673**	**-**	**4,051,673**
TOTAL CAPITAL AND LAIBILITIES	**34,371,920**	**-**	**34,371,920**

The item *Other liabilities* was reduced by HRK 25,055 thousand and the same amount was transferred to the newly opened item *Liabilities for income tax*. This reclassification had no impact on the total current liabilities. Both of these reclassification changes did not have an impact on the total amount of assets and liabilities and were made for the purpose of greater transparency in reporting.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The lifespan of property, plant and equipment

As explained in Note 4, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

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

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

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Determining deferred tax assets requires the application of significant judgments, which are based on determining the probable time of occurrence and the amount of future taxable profit, together with the future planned tax strategy. The carrying amount of deferred tax assets as at 31 December 2019 amounts to HRK 91,755 thousand, and as at 31 December 2018 to HRK 132,900 thousand (Note 11).
Raspoloživost oporezive dobiti za koji odgođena porezna imovina može biti priznata

Actuarial estimates used to calculate retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include making assumptions about discounted rates, future increases in income and mortality, or fluctuation rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty. (Note 30)

Consequences of certain legal disputes

The Company is a party to numerous legal disputes arising from ordinary activities. Provisions are recorded if there is a present obligation as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions for legal disputes as at 31 December 2019 amount to HRK 177,695 thousand, and as at 31 December 2018 to HRK 178,867 thousand (Note 30).

Expected loss model

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimation of share value

Given the diversity of core activities within the group, the Company continuously conducts internal market analysis by segments of core activities in order to identify potential market disturbances in a timely manner and thus reduce the risk of impairment of assets from its portfolio of activities. According to the above and in accordance with the provisions of International Accounting Standard 36 "Impairment of Assets", the Company continuously, at the end of each reporting period, assesses whether there are certain indicators that would affect the impairment of assets, performs measures to measure the recoverable amount, or reviews the value of recorded shares in affiliated companies.

5. SALES REVENUES

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

/ i / REVENUE FROM THE SALE OF ELECTRICITY

In '000 HRK	**2019**	**2018**
Revenue from the sale of electricity to customers of HEP Opskrba d.o.o.	3,378,137	2,817,797
Revenue from the sale of electricity abroad	809,732	650,816
Revenue from electricity the sale of electricity in the country	71,688	58,502
	4,259,557	**3,527,115**

The largest part of the income from the sale of electricity is the income from the sale of electricity to the customers of HEP Opskrba d.o.o. which is realized on the basis of the Agreement on mutual relations for electric power activities in accordance with which HEP-Opskrba d.o.o. in its own name, and for the account of HEP sells electricity to end customers and the sales revenue is shown in the records of HEP. HEP Opskrba d.o.o. operates in the open market and supplies end customers in the household and business categories with electricity.

/ ii / REVENUE FROM GAS SALES ON THE WHOLESALE MARKET

In '000 HRK	**2019**	**2018**
Revenue from gas sales - market supply	2,366	657,599
Revenue from gas sales in the wholesale market	971,856	935,695
	974,222	**1,593,294**
Sales revenue	**5,233,779**	**5,120,409**

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

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5. SALES REVENUES (continued)

/ ii / REVENUE FROM GAS SALES ON THE WHOLESALE MARKET (continued)

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

Based on the Act on Amendments to the Gas Market Act, the Government of the Republic of Croatia, at its session held on 28 February 2017, adopted a Decision on the gas price according to which a supplier in the wholesale gas market is obliged to sell gas to suppliers in the public gas supply service; which is 0.1809 kn / kWh for huseholds. Until 31 July 2018, the selling price of gas was determined by Decisions of the Government of the Republic of Croatia, and from 1 August 2018 it is determined by Methodology for determining tariff items for the public gas supply service and guaranteed supply (OG 34/18). In accordance with the Methodology, for the period from 1 August 2018 to 31 March 2019, the selling price also did not change compared to the current one, and amounted to HRK 0.1809 / kWh. In accordance with the Methodology, the selling price of gas for the period from 1 April 2019 to 31 March 2020 is 0.1985 HRK / kWh.
As of 1 April 2017, the natural gas producer's obligation to supply gas was abolished, as well as the regulated price at which it was obliged to sell gas to the supplier on the wholesale gas market for the needs of customers using the public supply service.
Pursuant to the Act on Amendments to the Gas Market Act, HEP d.d., as the appointed supplier on the wholesale market, was granted 60%, i.e. 61 packages of storage capacity in the underground gas storage in the period from 1 April 2017 to 31 March 2022.

6. OTHER OPERATING INCOME

In '000 HRK	**2019**	**2018**
Collected value-adjusted receivables	20,427	19,990
Default interest from customers	12,457	21,142
Profit from sale of real estate, plant and equipment	3,070	2,815
Income from cancellation of long-term provisions	11,408	5,943
Unrealized gains on fair value tangible assets	6,290	-
Revenue based on the use of own products and services	469	766
Other operating income	12,860	10,918
	66,981	**61,574**

7. COST OF ELECTRICITY PURCHASE

Expenses for the purchase of electricity shown in the Statement of profit or loss for 2019 amount to HRK 3,157,663 thousand (2018: HRK 2,301,444 thousand), and relate to the purchase of electricity for the supply of end customers and sales on the wholesale market. Due to unfavourable hydrological circumstances in part of the year, outages from the power system of the Dubrovnik hydropower plant and at the same time increased supply to customers in Croatia and the region, the cost of electricity increased compared to the previous year by HRK 856,219 thousand.Electricity and gas are traded bilaterally and on stock exchanges.For the purchase of electricity and gas, futures contracts are concluded for which deviations of market prices from the contracted ones are calculated daily. Amounts of price adjustments are included in cost of deliveries.

8. EMPLOYEE COSTS

In '000 HRK	**2019**	**2018**
Net salaries	60,445	55,892
Taxes and contributions	43,655	41,044
	104,100	**96,936**

Total contributions for pension funds amounted to HRK 18,029 thousand during 2019 (2018: HRK 16,648 thousand).

Remuneration to members of the Management Board and executive directors of the Company:

In '000 HRK	**2019**	**2018**
Gross salaries	8,271	8,163
Contributions in kind	1,024	1,384
Conributions	1,859	1,848
	11,154	**11,395**

Remuneration to members of the Supervisory Bord:

In '000 HRK	**2019**	**2018**
Fees	168	131
Taxes and contributions	108	84
	276	**215**

9. OTHER OPERATING EXPENSES

In '000 HRK	**2019**	**2018**
Value adjustment of trade receivables	9,560	335,693
Value adjustment of investments in progress	3,105	28,212
The cost of HEP d.d. for decommissioning NEK d.o.o.	105,618	105,613
Costs of services and materials within subsidiaries	42,153	41,142
Cost of external services and materials	126,656	117,952
Costs of selling CO2 emission units	273,267	89,440
Taxes, contributions and fees	12,667	11,491
Bank charges, payment charges and loan fees	5,441	6,781
Contributions in kind	1,795	2,227
Per diems and work transportation costs	4,855	4,387
Insurance premiums	6,531	6,502
Unclaimed receivables written off	176	2,538
Other material rights of employees	5,575	3,744
Material costs	24,725	-
Provisions for severance pay and other employee costs	3,521	4,568
Provisions for unused vacations	144	-
Provision for court disputes	10,203	1,936
Compensation based on a lawsuit	195	3,676
Energy used for production	9,964	12,404
Other operating expenses	30,314	19,510

	676,465	**797,816**

Compensation of employees includes transportation costs to work in the amount of HRK 2,234 thousand (2018: HRK 2,076 thousand), per diems and travel expenses in the amount of HRK 2,621 thousand (2018: HRK 2,311 thousand) and other similar costs.

9. OTHER OPERATING EXPENSES (continued)

Employee benefit cost includes early retirement benefits, jubilee awards and occasional benefits. Other operating expenses mainly consist of donations in the amount of 2% of revenue HRK 14,407 thousand (2018: HRK 12,271 thousand).

10. FINANCIAL INCOME AND EXPENSES

In '000 HRK	**2019**	**2018**
Financial income		
Interest income	115,630	109,953
Positive exchange rate differences	24,156	71,694
Dividends from subsidiaries and associates	828,297	340,243
Dividend income	4,654	16
Fair value of cross-currency swap (note 26)	226,744	197,972
Other financial income	5,166	2,658
Total financial income	**1,204,647**	**722,536**
Financial expenses		
Interest expense	(173,525)	(184,764)
Negative exchange rate differences	(53,010)	(56,490)
Value adjustment of shares	(270,059)	(190,154)
Other financial expenses	(13,508)	(8,223)
Total financial expenses	**(510,102)**	**(439,631)**
Capitalized borrowing costs	(1,455)	359
Net financial gain / (loss)	**(511,557)**	**(439,272)**
Net profit from financial activities	**693,090**	**283,264**

11. CORPORATE INCOME TAX

The company is a taxpayer, in accordance with the tax laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period and is increased by expenses that are not tax deductible. The income tax rate is 18%.

In '000 HRK	**2019**	**2018**
Current tax	(79,831)	(72,636)
Deferred tax recognized in profit or loss	(41,145)	27,566
Merger Program Sava d.o.o.	-	(2)
Corporate income tax	**(120,976)**	**(45,072)**

The adjustment of deferred tax assets is as follows:

in '000 HRK	**2019**	**2018**
Balance at 1 January	132,900	105,279
Increase in deferred tax assets	(41,145)	27,566
Merger Program Sava d.o.o.	-	55

Balance at 31 December	**91,755**	**132,900**

11. CORPORATE INCOME TAX (continued)

Deferred tax assets arose from the fair valuation of derivative financial instruments (SWAP), provisions for severance pay and jubilee awards, provisions for value adjustments of investment material inventories and provisions for disputed receivables.

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

in '000 HRK	**2019**	**2018**
Profit before tax	1,228,284	399,048
Income tax determined by the tax rate applicable in the Republic of Croatia (18%)	**(221,091)**	**(71,829)**
The effect of non-taxable income	192,545	98,047
The effect of non-tax deductible expenses	(51,285)	(98,854)
Tax income for the current year	**(79,831)**	**(72,636)**
Effective tax rate	(6.50)	(18.20)

The effects of non-tax deductible expenses mainly consist of interest between related parties, expenses from unrealized losses on impairment of shares, value adjustment of trade receivables and receivables from pre-bankruptcy, provisioning costs and increase in profit for other expenses while the effects of non-taxable income consist for the most part of dividend income, collected and previously corrected receivables, state aid for education and reduction of profit for other income.

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

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

in '000 HRK	**31 Dec 2018**	(Debited) /credited to profit and loss	**31 Dec 2019**
Provisions for jubilee awards and severance pay	**3,680**	634	**4,314**
Fair valuations of JANAF	**5,538**	-	**5,538**
Provision for cost of wind power	**3,894**	-	**3,894**
Provision for fair value of swap	**55,306**	(40,814)	**14,492**
Provision for fair value of shares	**440**	(234)	**206**
Provision for Petrokemija	**59,400**	(720)	**58,680**
Other	**4,587**	(11)	**4,576**
	132,845	(41,145)	**91,700**
Merger Program Sava d.o.o.	**55**	-	**55**
	132,900	(41,145)	**91,755**

12. PROPERTY, PLANT AND EQUIPMENT

in '000 HRK	Land and buildings	Inventory and equipment	Tangible assets in preparation	Advances	Total
PURCHASE COST					
At 1 Jan 2018	**330,890**	**343,068**	**362,615**	**6,022**	**1,042,595**
Increases / decreases	1,158	3,699	108,251	85,822	198,930
Increase through the transfer of investments within the plant	34,797	253,731	(288,528)	-	-
Increase based on company merger	5,149	19,337	-	-	24,486
Transfer to affiliated companies	(18,210)	(157,125)	(47,284)	-	(222,619)
Alienation (sale, expenditure, deficit)	(1,189)	(45,428)	(13,168)	-	(59,785)
At 31 Dec 2018	**352,595**	**417,282**	**121,886**	**91,844**	**983,607**
Increases	801	24,293	121,697	13,867	160,658
Transfer to affiliated companies	(60,617)	(162,933)	(7,955)	-	(231,505)
Alienation (sale, expenditure, deficit)	(16)	(24,474)	(3,072)	-	(27,562)
At 31 Dec 2019	**292,763**	**254,168**	**232,556**	**105,711**	**885,198**
ACCUMULATED DEPRECIATION					
At 1 Jan 2018	**99,588**	**206,181**	**-**	**-**	**305,769**
Depreciation expense for the year	6,188	27,683	-	-	33,871
Accumulated depreciation transferred by merger	972	19,075	-	-	20,047
Alienation (sale, expenditure, deficit)	-	(45,410)	-	-	(45,410)
Accumulated depreciation of assets transferred to a subsidiary	(506)	(11,586)	-	-	(12,092)
At 31 Dec 2018	**106,242**	**195,943**	**-**	**-**	**302,185**
Depreciation expense for the year	5,565	23,738	-	-	29,303
Alienation (sale, expenditure, deficit)	-	(24,459)	-	-	(24,459)
Accumulated depreciation of assets transferred to a subsidiary	(32,530)	(11,597)	-	-	(44,127)
At 31 Dec 2019	**79,277**	**183,625**	**-**	**-**	**262,902**
CARRYING AMOUNT					
At 31 Dec 2018	**246,353**	**221,339**	**121,886**	**91,844**	**681,422**
At 31 Dec 2019	**213,486**	**70,543**	**232,556**	**105,711**	**622,296**

Ongoing investments (tangible assets in preparation) as at 31 December 2019 in the Company amount to HRK 232,556 thousand, and the most significant relate to investments in EL-TO Zagreb - replacement of block A in the amount of HRK 84,870 thousand, investment for HPP Kosinj in the amount of HRK 39,355 thousand, EDM / ECM project HRK 72,393 thousand, e-mobility HRK 20,439, information technology HRK 9,591 thousand, information security system HRK 7,988 thousand, technical protection system HRK 5,959. Investments in 2019 amounted to HRK 121,697 thousand, of which the most significant are EL-TO Zagreb - replacement of block A, HPP Kosinj and the EDM / ECM project.
As at 31 December 2019, property, plant and equipment were not given as collateral for bonds issued and loans received.

13. ASSETS WITH THE RIGHT TO USE

in '000 HRK	Land and buildings	Inventory and equipment	Total
PURCHASE COST			
At 31 Dec 2018	**-**	**-**	**-**
at 1 Jan 2019	6,011	-	6,011
Increase	49	1,673	1,722
At 31 Dec2019	**6,060**	**1,673**	**7,733**
ACCUMULATED DEPRECIATION			
At 31 Dec 2018	**-**	**-**	**-**
At 1 Jan2019	**-**	**-**	**-**
Depreciation for the year	905	251	1,156
At 31 Dec 2019	**905**	**251**	**1,156**
CARRYING AMOUNT			
At 31 Dec 2018	**-**	**-**	**-**
At 31 Dec 2019	**5,155**	**1,422**	**6,577**

14. INTANGIBLE ASSETS

in '000 HRK	**Software**	**Licences**	**Intangible assets in preparation**	**Total**
PURCHASE COST				
At 1 Jan 2018	**222,354**	**2,309**	**25,400**	**250,063**
Increase	12,291	512	-	12,803
Decrease in value	-	(2)	(483)	(485)
At 31 Dec 2018	**234,645**	**2,819**	**24,917**	**262,381**
Increase	21,983	3,050	5,253	30,286
Derecognition based on transfer of assets	-	(234)	-	(234)
Transfers	-	1,591	-	1,591
At 31 Dec 2019	**256,628**	**7,226**	**30,170**	**294,024**
ACCUMULATED DEPRECIATION				
At 1 Jan2018	**94,232**	**2,066**	**-**	**96,298**
Depreciation of the current year	27,760	154	-	27,914
Increase based on property transfer	-	8	-	8
Alienation	-	(2)	-	(2)
At 31 Dec 2018	**121,992**	**2,226**	**-**	**124,218**
Depreciation of the current year	29,079	466	-	29,545
Increase based on property transfer	-	497	-	497
At 31 Dec 2019	**151,071**	**3,189**	**-**	**154,260**
Net carrying value				
At 31 Dec 2018	**112,653**	**593**	**24,917**	**138,163**
At 31 Dec 2019	**105,557**	**4,037**	**30,170**	**139,764**

Investments in progress (intangible assets in preparation) as at 31 December 2019 in the Company amount to HRK 30,170 thousand, and relate to investments in computer software and licenses.

15. INVESTMENT IN PROPERTY

As at 31 December 2019, investments in property include property held for the purpose of earning rent and/or increasing the value of capital and are stated at fair value. Fair value includes the estimated market price at the end of the reporting period. Investment property is accounted for using the fair value method

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Investment in property		
At 31 Dec 2018	**19,491**	**33,266**
Net changes in fair value	-	(13,775)
At 31 Dec 2019	**19,491**	**19,491**

As at 31 December 2019, there are no investments in real estate given as collateral.
At the end of the reporting period, no significant capital expenditures were contracted without being recognized as liabilities.

16. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

Investments in shares of companies disclosed in the Statement of Financial Position as at 31 December 2019 consist of investments shown in the table.

in '000 HRK	**Ownership share %**	**31 Dec 2019**	**31 Dec 2018**
Subsidiaries			
HEP - Proizvodnja d.o.o.	100	40	40
Hrvatski operator prijenosnog sustava d.o.o.	100	4,954,151	4,934,719
HEP - Operator distribucijskog sustava d.o.o.	100	1,802,041	1,802,041
HEP - Opskrba d.o.o.	100	20	20
HEP - Toplinarstvo d.o.o.	100	623,000	764,361
HEP - Plin d.o.o.	100	20	20
HEP ESCO d.o.o.	100	18,960	18,960
HEP - Upravljanje imovinom d.o.o.	100	14,297	17,995
HEP - Trgovina d.o.o.	100	40	40
HEP - Telekomunikacije d.o.o.	79.94	258,798	258,798
Plomin Holding d.o.o.	100	16,106	20
HEP - Elektra d.o.o.	100	20	20
Energetski park Korlat d.o.o.	100	31,092	-
IE-Nekretnine d.d.	100	19,661	-
HEP - VHS Zaprešić d.o.o.	100	-	20
		7,738,246	**7,797,054**
Investment in joint ventures			
NE Krško /i/	50	1,754,419	1,754,419
LNG Hrvatska d.o.o. /ii/	84.18	243,283	27,176
		1,997,702	**1,781,595**
Total subsidiaries and joint ventures		**9,735,948**	**9,578,649**

16. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

Changes in investments are as folkows:

in '000 HRK	**2019**	**2018**
At 1 Jan	9,578,649	9,465,828
Increase in share capital HOPS d.o.o.	19,432	-
HEP-Operator distribucijskog sustava d.o.o.	-	37,080
HEP-Toplinarstvo d.o.o.	(141,361)	33,545
HEP ESCO d.o.o.	-	15,040
Program Sava d.o.o.	-	(20)
Hrvatski centar za čistiju proizvodnju	-	(20)
Plomin Holding d.o.o.	16,086	-
HEP - VHS Zaprešić d.o.o.	(20)	20
HEP Upravljanje imovinom d.o.o.	(3,698)	-
Energetski park Korlat d.o.o.	31,092	-
LNG Hrvatska d.o.o.	216,107	27,176
IE-Nekretnine d.d.	19,661	-
Stanje 31 Dec	**9,735,948**	**9,578,649**

/i/ INVESTMENT IN NE KRŠKO

Payments to the NE Krško Decommissioning Financing Fund

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

Life extension

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

Accounting monitoring of joint investment in NE Krško

Joint ventures in NE Krško are recognized in the Company's financial statements using the equity method. In order to eliminate possible doubts of certain state bodies (FINA, Ministry of Finance, Central Bureau of Statistics, etc.) about the information in the separate financial statements of the Company, and in accordance with the provisions of IAS 1, item 19 and item 20, the Company's Management Board made a decision on changing that policy.

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

16. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

/i/ INVESTMENT IN NE KRŠKO (continued)

The following table shows an excerpt from the financial statements of NE Krško in 100% amounts as at 31 December 2019 and 31 December 2018.

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Property, plant and equipment	3,105,654	2,839,470
Capital and reserves	3,274,006	3,268,569
Sales income	1,291,302	1,172,816
Cash flow from operating activities	334,916	333,732
Profit / loss for the current year	-	-

Financial effect of derogations

Profit and loss account for the year ended 31 Dec 2019

in '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
Total operating income	**9,315,238**	**49,590**	**9,364,828**
Total operating expenses	**(8,780,044)**	**(48,322)**	**(8,828,366)**
Operating profit / loss	**535,194**	**1,268**	**536,462**
Net profit / loss from financial activities	**693,090**	**(1,268)**	**691,822**
Profit before tax	**1,228,284**	**-**	**1,228,284**
Profit tax	(120,976)	-	(120,976)
Profit for the current year	**1,107,308**	**-**	**1,107,308**

Profit and loss account for the year ended 31 Dec 2018

in '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**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)**
Operating profit / loss	**115,784**	**(174)**	**115,610**
Net profit / loss from financial activities	**283,264**	**174**	**283,438**
Profit before tax	**399,048**	**-**	**399,048**
Profit tax	(45,072)	-	(45,072)
Profit for the current year	**353,976**	**-**	**353,976**

16. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

/i/ INVESTMENT IN NE KRŠKO (continued)

Financial effect of derogations (continued)

Statement of financial position as of 31 Dec 2019

in '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
ASSETS			
Fixed assets			
Property, plant and equipment	473,062	1,552,722	2,025,784
Financial assets	1,754,419	(1,636,899)	117,520
Other fixed assets	25,706,369	-	25,706,369
Total fixed assets	**27,933,850**	**(84,177)**	**27,849,673**
Current assets	**7,172,850**	**325,104**	**7,497,954**
ASSETS	**35,106,700**	**240,927**	**35,347,627**
CAPITAL AND LIABILITIES			
Total capital	**26,158,879**	**-**	**26,158,879**
Long term liabilities	**4,841,526**	**201,146**	**5,042,672**
Short-term liabilities	**4,106,295**	**39,781**	**4,146,076**
TOTAL CAPITAL AND LIABILITIES	**35,106,700**	**240,927**	**35,347,627**

Statement of financial position as of 31 Dec 2018

in '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
ASSETS			
Fixed assets			
Property, plant and equipment	569,174	1,419,736	1,988,910
Financial assets	1,754,419	(1,634,140)	120,279
Other fixed assets	25,523,183	-	25,523,183
Total fixed assets	**27,846,776**	**(214,404)**	**27,632,372**
Current assets	**6,525,144**	**453,082**	**6,978,226**
ASSETS	**34,371,920**	**238,678**	**34,610,598**
CAPITAL AND LIABILITIES			
Total capital	**25,217,256**	**-**	**25,217,256**
Long term liabilities	**5,102,991**	**40,853**	**5,143,844**
Short-term liabilities	**4,051,673**	**197,825**	**4,249,498**
TOTAL CAPITAL AND LIABILITIES	**34,371,920**	**238,678**	**34,610,598**

16. INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES (continued)

/ii/ **INVESTMENT IN LNG HRVATSKA**

Hrvatska elektroprivreda d.d. (hereinafter: HEP d.d.) and Plinacro d.o.o. concluded on 1 June 2010 the Company Agreement on the establishment of the company LNG HRVATSKA d.o.o. for liquefied natural gas business by which the company LNG HRVATSKA d.o.o. became the holder of the LNG terminal project on Krk. Based on the Articles of Association of HEP d.d. and Plinacro d.o.o. became members and co-owners of LNG HRVATSKA d.o.o. and each with 50% management and property rights. By the decision of the Management Board of 21 February 2019, HEP, as a co-founder of the company LNG HRVATSKA d.o.o. increased the share capital in that company for a new business share in the amount of HRK 216,107 thousand so that it now amounts to 84.18%.

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

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

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

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in '000 HRK	**2019**	**2018**
Opening balance	**196,710**	**282,718**
Fair valuation of investments through other comprehensive income (Janaf)	58,299	(85,290)
Fair valuation of investments through other comprehensive income and other	(814)	(718)
Closing balance	**254,195**	**196,710**

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

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Investments in securities:		
Jadranski Naftovod d.d.	253,711	195,411
Viktor Lenac d.d.	-	128
Đuro Đaković Aparati d.d.	5	5
Kraš d.d.	-	3
Jadran d.d.	-	204
Elektrometal d.d.	40	40
Optima Telekom d.d,	-	186
Institut IGH d.d.	-	136
Međimurje beton d.d.	153	153
HTP Korčula d.d.	-	66
Lanište d.o.o.	-	110
Konstruktor inženjering d.d.-in liquidation	233	233
Pominvest d.d.	35	35
Helios Faros d.d.	18	-
	254,195	**196,710**

18. LONG-TERM LOANS GRANTED

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
To companies within the group - finance leases (Note 32)	17,686,363	17,779,633
To companies outside the group - loan LNG Hrvatska d.o.o. /i/	-	35,645
To companies within the group - loan / ii /	225,214	70,803
To companies within the group - subloans / iii /	462,460	538,507
	18,374,037	**18,424,588**
Current maturities	(1,310,487)	(1,325,537)
	17,063,550	**17,099,051**

/i/ Loans to companies outside the group

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
LNG Hrvatska d.o.o.	-	35,645
	-	**35,645**

The agreed interest rate is a discount, variable which in 2018 amounted to 3%. The loan is secured by a promissory note.

18. LONG-TERM LOANS GRANTED (continued)

/ii/ Loans to companies within the group

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
HEP-Toplinarstvo d.o.o.	31,600	47,400
HEP-Telekomunikacije d.o.o.	34,729	23,403
HEP-Plin d.o.o.	14,036	-
Plomin Holding d.o.o.	10,200	-
Energetski park Korlat d.o.o.	91,430	-
Plin VTC d.o.o.	7,454	-
LNG Hrvatska d.o.o.	35,765	-
	225,214	**70,803**
Current maturities	**(60,260)**	(15,800)
	164,954	**55,003**

These loans are granted under the following conditions:

User	***Year of approval:***	***Interest rate***	***PAyment term***	***Approved loan amount***	***31 Dec 2019***	***31 Dec 2018***
				in '000 HRK	*in '000 HRK*	*in '000 HRK*
HEP-Toplinarstvo d.o.o.	*2007*	*4%*	15 years grace period 5 years	*158,000*	*31,600*	*47,400*
HEP-Telekomunikacije d.o.o.	*2019*	*3.96%*	31 March 2022	*to 45,000*	*34,729*	*23,403*
HEP-Plin d.o.o.	*2019*	*3.96%*	3 years	*19,650*	*14,036*	-
Plomin Holding d.o.o.	*2019*	*3.96%*	5 years	*10,200*	*10,200*	-
Energetski park Korlat d.o.o.	*2019*	*3.96%*	One time, no later than 30 June 30, 2024	*600,000*	*91,430*	-
Plin VTC d.o.o.	*2019*	*3.96%*	5 years	*7,657*	*7,454*	-
LNG Hrvatska d.o.o.	*2015*	*3%*	One time, 31 October 2020	*35,765*	*35,765*	
Total				***831,272***	***225,214***	***70,803***

18. LONG-TERM LOANS GRANTED (continued)

/iii/ Receivables for sub-loans to intra-group companies

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Receivables for subloan HEP ESCO d.o.o. - long-term portion	41,235	43,684
Receivables for subloan HOPS d.o.o.	421,225	494,823
	462,460	**538,507**
Current maturity	(2,458)	(78,348)
	460,002	**460,159**

Loan receivables from HEP-ESCO d.o.o. is based on agreements concluded between the Company and financial institutions intended for the financing of energy efficiency projects. The company has lent funds from special-purpose loans to HEP-ESCO d.o.o. under the same conditions. Given that the proceeds from the issuance of bonds, among other loans, are prematurely repaid loans to finance these projects, receivables for sub-loans are now characterized by the same commercial conditions as for issued bonds.

19. OTHER LONG-TERM RECEIVABLES

Housing loans
Receivables from housing loans as at 31 December 2019 amount to HRK 274 thousand (2018: HRK 390 thousand). Prior to 1996, the Company sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of these assets was mainly on credit and sales receivables, which have an interest rate lower than the market rate, are repaid monthly over a period of 20 to 35 years. Receivables from the sale of apartments are stated in the financial statements at a discounted net present value. Liabilities to the state, which represent 65% of the value of apartments sold, are stated in other long-term liabilities (Note 29). Receivables are secured by mortgages on sold apartments.

20. INVENTORIES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Inventories of gas wholesale	400,886	375,950
CO2 emission units	528,494	234,051
Stocks of energy savings in final consumption	10,314	25,593
Inventories of investment material	3,165	2,323
Inventories of other material	635	689
	943,494	**638,606**

21. TRADE RECEIVABLES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Trade receivables in the country	460,841	474,031
Receivables from gas customers in the wholesale market	220,264	219,214
Receivables for electricity from abroad	32,511	71,015
	713,616	**764,260**
Impairment of receivables	(461,337)	(461,678)
	252,279	**302,582**

in '000 HRK **Trade receivables**	**31 Dec 2019**	**31 Dec 2018**
EUR	4,368	9,573
Other	6	13
	4,374	**9,586**

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

31 Dec 2019	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	191-365 days	Over 365 days	**Total**
Gross book value of trade receivables	239,447	6,620	1,340	826	2,109	3,076	460,198	**713,616**
Expected credit losses	-	-	(20)	(25)	(190)	(923)	(460,179)	**(461,337)**

31 Dec 2018	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	191-365 days	Over 365 days	**Total**
Gross book value of trade receivables	295,992	5,942	507	5	17	19	461,778	**764,260**
Expected credit losses	-	-	(7)	(1)	(2)	(6)	(461,662)	(461,678)

Changes in allowance for impairment were as follows:

in '000 HRK	**2019**	**2018**
Balance at 1 Jan	461,678	**134,718**
Change in expected credit losses	(341)	335,061
Write-off	-	(8,101)
Balance at 31 Dec	**461,337**	**461,678**

22. OTHER CURRENT RECEIVABLES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Advances to suppliers	227,204	14,419
Current guarantees given	23,171	5
Current loan receivables from unrelated companies	-	14,896
Interest receivables	50	88
Interest receivables from companies related with the participating interest	-	4,282
Receivables for given deposits	57,570	74,371
Prepaid expenses	19,800	17,395
Receivables from the state	144	113
Other receivables	630	471
Receivables for taxes and contributions	17,865	-
	346,434	**126,040**

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Units in investment funds - foreign currency	64,686	74,972
Units in investment funds - kuna	100,499	100,126
	165,185	**175,098**

24. CASH AND CASH EQUIVALENTS

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Giro accounts in HRK	657,897	1,065,908
Short-term funds (daily time deposits)	384,103	172,361
Foreign currency accounts	265,216	151,089
Deposits with a maturity of up to 90 days	65,985	46,558
Allocated funds	2,176	921
Cash in hand - HRK	12	6
	1,375,389	**1,436,843**

Structure f foreign currency accounts:

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
EUR	262,957	148,462
USD	2,212	2,585
GBP	15	10
Other currencies	32	32
	265,216	151,089

25. SHARE CAPITAL

In 2019, the share capital was expressed in Croatian kuna in the amount of HRK 19,792,159 thousand (2018 in the same amount) and consisted of 10,995,644 ordinary shares with a nominal value of HRK 1,800.

26. LIABILITIES UNDER ISSUED BONDS

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Value of bonds abroad from 2015	3,573,685	3,612,610
Exchange rate difference	12,140	(46,645)
Discount value	**7,199**	7,720
	3,593,024	**3,573,685**
Cost allocation by bond	(9,838)	(13,310)
Bonds issued in 2015	**3,583,186**	**3,560,375**
Bond investments	(64,261)	-
Exchange rate difference	(221)	-
Total liabilities per issued bonds	**3,518,704**	**3,560,375**

Bonds issued abroad in 2015

In October 2015, the Company issued corporate bonds in the amount of $ 550,000 thousand, with a discount, with a maturity of 7 years and a fixed interest rate of 5,875% per annum.

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

The bond is listed on the Luxembourg Stock Exchange and is actively traded.
The stated value of the discount on bonds issued in 2015 is the annual amount of the discount.
The fair value of bonds as at 31 December 2019 amounts to HRK 3,518,704 thousand.

During 2019, the Company repeatedly purchased its own bonds on the secondary market in the total amount of HRK 64,482 thousand, which reduced the total book value of the corporate bond as at 31 December 2019.

The fair value of bonds, less the repurchased amount of bonds with a nominal value of $ 9,752 thousand as at 31 December 2019 amounts to $ 593,451 thousand (equivalent to HRK 3,946,396 thousand).

Derivative financial instruments

Currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the dollar exchange rate, the Company concluded a Cross Currency Swap Agreement by which the dollar bond liability was converted into a euro liability for the entire life of the bonds, i.e. until the final maturity 23. October 2022.

According to the currency exchange 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 the cost of exchange or swap).
The purpose of the Cross currency swap agreement is to reduce currency risk and credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Company's business results.
The Company links the fair value of derivative financial instruments to the calculation of Mark to market value "MTM", according to official calculations of banks, for the reporting period**.**

26. LIABILITIES UNDER ISSUED BONDS (continued)

The positive value of "MTM" is recorded as a receivable, i.e. it forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and also forms the financial expense of the reporting period. Upon the final maturity of the derivative financial instrument, the receivable or liability in question will be canceled at the expense or credited to the income of the Company.

As at 31 December 2019, the fair value of liabilities in the amount of HRK 80,511 thousand was stated for bonds issued in 2015 (2018: HRK 307,255 thousand; note 29).

27. LONG-TERM LOAN LIABILITIES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Loans from domestic banks	-	75,898
Loans from foreign banks	221,725	257,144
Total long - term loan liabilities	**221,725**	**333,042**
Differentiation of loan fees	(3,230)	(3,526)
Total long - term loan liabilities	**218,495**	**329,516**
Current maturity	(36,285)	(112,061)
Long-term part of HEP	**182,210**	**217,455**
Total liabilities on long - term loans	**182,210**	**217,455**

The Company contracted loans with domestic and foreign banks with applicable variable and fixed interest rates, which in 2019 ranged from 0.44% to 2.48%.

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

New sources of funding

To finance the investment plan and regular operations in 2019, the Company used its own funds and funds from loans 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 purpose of financing the construction project KKE EL-TO Zagreb in the amount of EUR 130 million, of which The EBRD has EUR 87 million and the EIB EUR 43 million. The EBRD loan consists of two tranches, namely Tranche A (EUR 43.5 million) provided by the EBRD independently and Tranche B (EUR 43.5 million) in which the commercial banks' union participates.

Loans in use

In December 2018, the use of loans from the EBRD and the EIB began for the purpose of financing the construction project KKE EL-TO Zagreb. On 31 December 2019 the balance of used long-term loans amounts to EUR 6.9 million from the EBRD and EUR 3.4 million from the EIB. The use of the loan was agreed until 20 July 2021.

27. LONG-TERM LOAN LIABILITIES (continued)
During 2019, there were no withdrawals on these loans.

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

	(in '000 HRK)
2020	36,285
2021	39,806
2022	43,326
2023	43,326
2024	7,039
After 2024	48,713
	218,495

In 2019, two loans contracted with the Croatian Bank for Reconstruction and Development were repaid in full. The Group had EUR 118.76 million under the first contracted loan, and EUR 4.24 million under the second contracted loan.

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

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

The contracted financial indicators are monitored and calculated based on the projected Statement of Financial Position and Profit and Loss Account.
As at 31 December 2019, the Company met all contracted financial indicators.

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

In order to secure liquidity reserves in the next medium-term period, the Company has concluded multi-purpose framework agreements with domestic banks, in the total amount of HRK 600 million. The Company may use the funds from these frameworks for short-term loans, as well as the issuance of guarantees, letters of credit, letters of intent in accordance with the needs of HEP Group companies. During 2019, short-term lines were used exclusively for the purpose of issuing guarantees and opening letters of credit, and they did business equally with all banks.

From the previously mentioned medium-term multi-purpose frameworks, during 2019 there was no need for short-term loans due to good liquidity.

On 31 December 2019 the total amount of available funds from the short-term framework amounts to HRK 509,500 thousand.

28. LEASE LIABILITIES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Long-term liabilities for rental properties	4,589	-
Long-term liabilities for car rental	1,128	-
	5,717	**-**
Current maturity of long-term lease liabilities	**1,020**	**-**
Lease liabilities	**6,737**	**-**

29. OTHER LONG-TERM LIABILITIES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Long-term liabilities for assets financed from clearing debt	800,982	779,214
Derivative financial liabilities by swap transactions (note 26)	80,511	307,255
Long-term liabilities to the state	694	751
Other	10,661	11,256
Other long-term liabilities	**892,848**	**1,098,476**

As at 31 December 2019, the Company has a stated liability for clearing debt in the amount of HRK 800,982 thousand (2018: HRK 779,214 thousand), which relates to payments from letters of credit, based on the Consent of the Ministry of Finance on the use of funds based on interbank Agreement. Since there is no other document that would regulate the relationship between the Company and the Ministry of Finance in relation to the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

Long-term liabilities to the state in the amount of HRK 694 thousand (2018: HRK 751 thousand) relate to the sale of apartments to employees in accordance with the state program that was abolished in 1996. According to the legal regulations, 65% of the income from the sale of apartments to employees was paid to the state upon receipt of funds. By law, the Company has no obligation to remit funds before collecting them from employees.

30. PROVISIONS

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Provisions for severance pay and jubilee awards	24,267	20,746
Provisions for litigation	177,695	178,867
Other provisions	21,631	21,631
Total provisions	**223,593**	**221,244**

30. PROVISIONS (continued)

Provisions for litigation

The Company reserves costs for litigation that has been judged not to have a probable result in favour of the Company. The total amount of provisions as at 31 December 2019 amounts to HRK 177,695 thousand (2018: HRK 178,867 thousand). The most significant provisions relate to a dispute related to HPP Peruća that began in 1995, for which a first-instance verdict was rendered in 2012 in favor of the plaintiff. The value of the dispute is around HRK 330,000 thousand, and funds in the amount of 50% of the value of the dispute in the amount of HRK 165,000 thousand have been reserved. Other major disputes relate to the Rijeka - Zagreb Motorway, funds in the amount of 50% of the value of the dispute in the amount of HRK 10,203 thousand have also been reserved.

Changes in liabilities for long-term provisions are as follows:

in '000 HRK	Severance	Jubilee awards	Legal disputes	Other provisions	Total
At 1 Jan 2018	**14,662**	**1,330**	**179,391**	**21,631**	**217,014**
Additional provisions	5,190	146	1,935	-	7,271
Additional provisions - The Sava Program	281	22	-	-	303
Reduction of provisions based on payment	(622)	(180)	-	-	(802)
Reduction of provisions based on estimates	-	(83)	(2,459)	-	(2,542)
At 31 Dec 2018	**19,511**	**1,235**	**178,867**	**21,631**	**221,244**
Additional provisions	3,471	50	10,203	-	13,724
Reduction of provisions based on estimates	-	-	(11,375)	-	(11,375)
At 31 Dec 2019	**22,982**	**1,285**	**177,695**	**21,631**	**223,593**

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

in '000 HRK	Severance	Jubilee awards	Total
At 1 Jan 2018	**14,662**	**1,330**	**15,992**
Service costs	968	99	1,067
Interest expense	340	21	361
Paid income	(622)	(180)	(802)
The cost of past labor	262	26	288
Actuarial gains / losses	3,620	(83)	3,537
Merger Program Sava d.o.o.	281	22	303
At 31 Dec 2018	**19,511**	**1,235**	**20,746**
Service costs	1,230	109	1,339
Interest expense	130	7	137
Paid income	(466)	(204)	(670)
The cost of past labor	440	25	465
Actuarial gains / losses	2,137	113	2,250
At 31 Dec 2019	**22,982**	**1,285**	**24,267**

Provisions for severance pay and jubilee awards are based on a calculation by a certified actuary.
The following assumptions were used in the calculation:

- Termination rate of employment is 5.12%, and is based on statistical data on employee turnover in the Company in the period from 2006 to 2019.

30. PROVISIONS (continued)

- Probability of death by age and sex is derived from the Mortality Tables for Croatia 2010-2012. published by the Central Bureau of Statistics of the Republic of Croatia. It is assumed that the Company's employees are included in the average population in terms of mortality and health status.
- We assumed that the annual salary would increase by 2%.
-

The present value of the liability was calculated using a discount rate of 0.6% per annum.

31. OTHER LIABILITIES

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Liabilities to suppliers / i /	395,013	664,048
Liabilities for taxes and contributions	-	108,160
Interest liabilities	33,649	33,531
Liabilities to employees / ii /	8,102	7,411
Other liabilities / iii /	34,607	29,667
	471,371	**842,817**
/ i / Liabilities to suppliers		
Liabilities to suppliers in the country	256,614	445,384
Liabilities to suppliers abroad	2,682	2,467
Liabilities to electricity suppliers within the EU and abroad	118,250	206,877
Liabilities to suppliers within the EU	17,467	9,320
	395,013	**664,048**
/ ii / Liabilities to employees		
Liabilities for net salaries	4,749	4,361
Liabilities for contributions	2,525	2,313
Other liabilities	828	737
	8,102	**7,411**
/ iii / Other liabilities		
Calculated costs of unused vacations	4,707	4,563
Liabilities for insurance premiums	1,840	1,767
Deferred income from donations from EU funds	14,161	7,298
Other accrued expenses	664	664
Other liabilities	13,235	15,375
	34,607	**29,667**

32. RELATIONS WITH AFFILIATED COMPANIES

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

Subsidiary	Country	Share (%)	Primary operation
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
HEP-Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Infrastructure development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP Upravljanje imovinom d.o.o.	Croatia	100	Recreation and recreation services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP Energija d.o.o.	Slovenia	100	Electricity trading
HEP Energija d.o.o.	BIH	100	Electricity trading
HEP Energjia sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o.	Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	79.94	Telecommunications
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Plin VTC d.o.o.	Croatia	100	Gas distribution
Sunčana elektrana Poreč d.o.o.	Croatia	100	Production of electricity
IE Nekretnine d.d.	Croatia	100	Rental and management of real estate
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity
LNG Hrvatska d.o.o.	Croatia	84.18	Liquefied natural gas business

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

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

During 2019, the following companies entered the consolidation of HEP Group for the first time: PLIN VTC d.o.o. whose owner is the company HEP-Plin d.o.o. from April 2019, ENERGY PARK KORLAT d.o.o. whose owner is the company HEP d.d. from April 2019, while the company Plomin Holding d.o.o. became the owner of SUNČANA ELEKTRANA POREČ d.o.o. in June 2019, IE - Nekretnine d.d. whose owner is the company HEP d.d. from July 2019. Furthermore, during 2019, the company HEP d.d.after the recapitalization became the majority owner of LNG Hrvatska d.o.o., which has been consolidating since 2019.

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

Relations with affiliated companies refer to subsidiaries and NE Krško d.o.o. and LNG Hrvatska d.o.o.

Relationships with these companies are listed below:

/ i / Revenues of the Company are generated on the basis of pre-invoiced revenues to the related Company from the sale of electricity, except for customers of universal service (households) and guaranteed supply, fees for accounting, legal and similar services and lease of business premises. The amount of these revenues from affiliated companies is determined on the basis of the following values: the value of the assets of the affiliated company, the costs of employees and the total costs of the affiliated company.

/ ii / Interest on long-term leases of property, plant and equipment and intangible assets is calculated to lessees according to the loans used for the construction of the property and is stated in interest income with associated companies.

/ iii / Costs with affiliated companies are incurred for the electricity taken over and the electricity supply fee. The costs for the performed services are invoiced monthly in accordance with the provisions and tariffs prescribed by HERA.

/ iv / Short-term receivables from associated companies arose from the sale of fuel, materials and spare parts, for sold electricity to HEP Elektra d.o.o. and for customers of HEP Opskrba d.o.o., for sold losses on the distribution network to HEP Distribution System Operator d.o.o., on the transmission network to theHrvatskom operatoru prijenosnog sustava d.o.o., for administrative costs of the Company and for ongoing investments financed in the Company. Upon completion of construction, the said property is transferred to affiliated companies for lease.

/ v / Long-term receivables from affiliated companies arose on the basis of financial lease of real estate, plant and equipment to affiliated companies. The rent is paid monthly according to the depreciation of the leased property, increased by interest on long-term loans from which the property is financed. The Company also has receivables from affiliated companies for apartments sold to employees.

Receivables and liabilities and income and expenses from other related companies are listed in the table below:

in '000 HRK	**2019**	**2018**
Operating income		
Revenues from the sale of electricity HEP Elektra d.o.o.	2,195,006	2,082,842
Revenues from invoicing el. energy to cover losses in the distribution network	668,232	562,169
Revenues from invoicing el. energy to cover transmission network losses	129,556	125,460
Revenues from electricity sales to HEP Group companies	55,944	46,849
Revenue from balancing electricity	-	4,352
Revenues from the sale of electricity HEP Energija d.o.o. Ljubljana	282,770	231,121
Revenues from the sale of electricity HEP Energija d.o.o. Belgrade	14,914	11,982
Revenues from the sale of electricity HEP Energija d.o.o. Mostar	15,884	10,542
Revenues from sales of electricity HEP Energija SH.P.K. Kosovo	14,518	8,120
Revenue from the sale of electricity to HEP Proizvodnja d.o.o.	6,140	10,315
Revenue from electricity sales - affiliated companies	**3,382,964**	**3,093,752**
Revenue from gas sales to HEP Plin - affiliated company	**141,973**	**133,693**
Revenue from the sale of thermal energy HEP Proizvodnja d.o.o.	**3,350**	**11,852**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

Sales revenue to companies - other	39	-
Income from intra-group investment services	6,195	-
Revenue based on services and sales of materials within the group	3,342	3,265
Revenues based on services within the group - restaurant	222	270
Revenue from sales of CO2 emission units	273,267	89,440
Other sales revenue - affiliated companies	**283,065**	**92,975**
Sales revenues - affiliated companies	**3,811,352**	**3,332,272**
Revenues from the performance of administrative services	164,799	161,624
Income from renting office space	14,673	15,448
Revenues from the sale of energy savings to companies	23,654	-
Other operating income - affiliated companies	**203,126**	**177,072**
HEP Energija d.o.o. Ljubljana	7.194	5,789
HEP Energija d.o.o. Beograd	-	33,397
HEP Energija d.o.o. Mostar	65.555	13,206
HEP Energjia sh.p.k.	491	-
Expenditures for electricity supply - affiliated companies	**73.240**	**52,392**
Procurement of electricity - HEP Proizvodnja d.o.o.	2,934,574	2,786,685
Procurement of el. energy from RES - HEP Opskrba d.o.o.	448,207	525,931
Electricity supply fee - HEP Opskrba d.o.o.	60,325	45,430
Fee for electricity and gas trading services -HEP Trgovina d.o.o.	16,518	15,646
Fee for gas supply services -HEP Opskrba plinom d.o.o.	5,419	6,028
Balancing electricity - HEP Operator distribucijskog sustava d.o.o.	-	2,762
Balancing electricity - HOPS d.o.o.	88,544	66,756
Costs of fees and services-related companies	**3,553,587**	**3,449,238**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

Costs from balancing electricity in 2019 amount to HRK 88,544 thousand (2018: HRK 69,518 thousand), and are realized on the basis of the sale or purchase of balancing electricity in accordance with the applicable Rules on balancing the electricity system.

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Long-term receivables		
Receivables for long-term lease assets		
HEP Operator distribucijskog sustava d.o.o.	8,051,436	8,082,317
HEP Proizvodnja d.o.o.	8,407,017	8,545,834
HEP Toplinarstvo d.o.o.	868,492	816,581
HEP Upravljanje imovinom d.o.o.	147,263	124,223
HEP Plin d.o.o.	182,950	180,152
HEP Noc d.o.o.	11,450	11,971
HEP Opskrba d.o.o.	1,475	2,014
HEP Trgovina d.o.o.	781	941
HEP Esco d.o.o.	2,566	2,637
HEP Elektra d.o.o.	4,563	3,419
VHS Zaprešić d.o.o.	19	-
	17,678,012	**17,770,089**

The table below shows the expected undiscounted cash flows from finance lease receivables over the next 5 years.

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Expected receipts under finance lease		
1st year	1,247,770	1,231,390
2nd year	1,247,770	1,247,770
3rd year	1,247,770	1,247,770
4th year	1,247,770	1,247,770
5th year	1,247,770	1,247,770
After 5 years	11,439,162	11,547,619
	17,678,012	**17,770,089**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

in '000 HRK	31 Dec 2019	31 Dec 2018
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	4,728	5,386
HEP Proizvodnja d.o.o.	2,983	3,301
Hrvatski operator prijenosnog sustava d.o.o.	539	742
HEP Toplinarstvo d.o.o.	101	115
	8,351	**9,544**
	17,686,363	**17,779,633**
Current lease maturity	(1,247,770)	(1,231,390)
Long-term lease receivables from associated companies	**16,438,593**	**16,548,243**

in '000 HRK	31 Dec 2019	31 Dec 2018
Receivables from long-term loans from affiliated companies (note 18)		
HEP-Toplinarstvo d.o.o.	31,600	47,400
HEP-Telekomunikacije d.o.o.	34,729	23,403
HEP Plin d.o.o.	14,036	-
Plomin Holding d.o.o.	10,200	-
Energetski park Korlat d.o.o.	91,430	-
Plin VTC d.o.o.	7,454	-
LNG Hrvatska d.o.o.	35,765	-
	225,214	**70,803**
Current maturity	(60,259)	(15,800)
	164,955	**55,003**
Receivables from long-term sub-loans from affiliated companies (note 18)		
Receivable for sub-loan HEP ESCO d.o.o.	41,235	43,684
Receivable for sub-loan HOPS d.o.o.	421,225	494,823
	462,460	**538,507**
Current maturity	(2,458)	(78,348)
	460,002	**460,159**
Total long-term receivables	**17,063,550**	**17,063,405**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Current receivables		
Receivables from HEP Elektra d.o.o. for electricity sold	395,141	428,251
Receivables from HEP Operator distribucijskog sustava d.o.o for losses in the distribution network	167,614	160,618
Receivables from HEP Opskrba d.o.o. for electricity sold	489,117	449,135
Receivables from HEP Proizvodnja d.o.o. for electricity sold	-	2,003
Receivables from the Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	24,467	23,693
Receivables from HEP Energija d.o.o. Ljubljana	77,155	60,179
Receivables from HEP Energija d.o.o. Belgrade for sold electricity	3,746	2,775
Receivables from HEP Energija d.o.o. Mostar for sold electricity	3,563	2,295
Receivables of HEP d.d. from HEP- Energjia SH.P.K. Kosovo for electricity	8,346	3,531
Receivables from HEP Proizvodnja d.o.o. for heating energy sold	-	2,855
Other receivables	11,242	11,577
	1,180,391	**1,146,912**
Receivables for administrative expenses		
HEP Proizvodnja d.o.o.	7,466	9,675
HEP Operator distribucijskog sustava d.o.o.	21,605	22,876
HEP Toplinarstvo d.o.o.	1,559	2,289
HEP Plin d.o.o.	3,733	4,839
HEP Upravljanje imovinom d.o.o.	7,309	6,350
HEP Trgovina d.o.o.	2,145	1,097
HEP Opskrba d.o.o.	3,202	3,428
HEP ESCO d.o.o.	255	296
HEP Telekomunikacije d.o.o.	267	797
HEP Elektra d.o.o.	3,181	3,997
VHS Zaprešić d.o.o.	483	-
Energetski park Korlat d.o.o.	587	-
	51,792	**55,644**
Current receivables based on lease of business premises		
HEP Proizvodnja d.o.o.	56,837	42,347
HEP Toplinarstvo d.o.o.	7,456	9,635
HEP Operator distribucijskog sustava d.o.o.	138,375	140,957
HEP Plin d.o.o.	9,232	3,217
HEP Upravljanje imovinom d.o.o.	6,535	4,495
HEP NOC	-	1
HEP Trgovina d.o.o.	227	69
HEP Opskrba d.o.o.	244	279
HEP Esco d.o.o.	258	197
HEP Elektra d.o.o.	102	266
	219,266	**201,463**
Other current receivables	**152,806**	**157,658**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

in '000 HRK	31 Dec 2019	31 Dec 2018
Receivables for mpaid investments and other receivables		
HEP Proizvodnja d.o.o.	180,318	180,582
Hrvatski operator prijenosnog sustava d.o.o.	74,269	69,852
HEP Operator distribucijskog sustava d.o.o.	255,567	237,160
HEP Toplinarstvo d.o.o.	89,789	77,746
HEP Plin d.o.o	25,408	15,792
HEP ESCO d.o.o.	11,829	1,083
HEP Noc d.o.o.	1,310	1,189
Trgovina d.o.o.	44	44
HEP Upravljanje imovinom d.o.o.	3,989	460
HEP Opskrba d.o.o.	22,850	22,869
HEP Telekomunikacije d.o.o.	-	37
Plomin Holding d.o.o.	1,350	1,350
Energetski park Korlat d.o.o.	908	-
	667,631	**608,164**
Receivables for sold ionvestment and other material		
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.	30,939	30,659
HOPS d.o.o.	32,845	-
HEP Telekomunikacije d.o.o.	-	364
	63,784	**31,023**
Receivables for short-term loans		
HEP Energija d.o.o. Beograd	1,340	1,877
HEP Energija sh.p.k. Kosovo	1,533	1,544
LNG Hrvatska d.o.o.	124,886	-
	127,759	**3,421**
Receivables from affiliated companies	**2,779,582**	**2,520,438**

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Short-term liabilities		
HEP Proizvodnja for electricity	1,384,373	526,876
HEP Opskrba for RES procurement fee	54,873	41,889
HEP Opskrba for electricity supply compensation	15,617	10,928
HEP Trgovina for trading fee	1,266	1,860
HOPS d.o.o. -Equivalences for balancing energy	34,628	41,456
Obligations for guarantees of origin el.en.-HEP Proizvodnja d.o.o.	213	305
HEP Proizvodnja - obligation based on the cession agreement	810,952	810,952
Other	48,737	48,513
	2,350,659	**1,482,779**
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- for paid funds for connections	172,076	176,557
- for funds paid into the treasury	139,896	367,966
- for customer payments and paid investments from sub-accounts	79,648	77,906
HEP Elektra d.o.o. for cash paid into the treasury	767,274	545,034
HEP Proizvodnja d.o.o.-remitted advance profit for 2018.	-	400,000
Liabilities of HEP d.d. according to subsidiaries - Agrokor	-	6,311
Liabilities to other companies for customer payments and investments paid from sub-accounts	53,555	15,187
	1,212,449	**1,588,961**
HEP Energija d.o.o. Ljubljana for electricity supply	1,254	-
HEP Enenrgija d.o.o. Mostar	5,323	-
	6,577	**-**
Total short-term liabilities	**3,569,685**	**3,071,740**

Relations with the associated company NE Krško d.o.o. are shown in the following table:

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
NE Krško d.o.o.		
Liabilities for purchased electricity	51,158	49,580
Costs of purchased electricity	596,260	577,283

32. RELATIONS WITH AFFILIATED COMPANIES (continued)

	Sales revenue		Purchase expense	
in '000 HRK	**2019**	**2018**	**2019**	**2018**
Companies that are majority owned by the State				
Društvo Hrvatske Željeznice	82,938	81,609	-	-
Hrvatska pošta d.d.	13,873	18,525	11,766	13,389
Hrvatske šume d.o.o.	2,289	2,339	5,337	2,398
Jadrolinija d.o.o.	665	648	-	-
Narodne novine d.d.	1,848	2,047	272	786
Hrvatska radio televizija	7,198	6,363	820	73
Plinacro d.o.o.	2,946	593	59,927	96,672
Plovput d.d.	765	693	-	-
Croatia Airlines d.d.	445	704	-	-
Ministry of Internal Affairs	14,446	14,112	-	-
Primary and secondary schools	23,248	19,653	-	-
Judicial institutions	4,851	5,060	-	-
Colleges and universities	14,722	15,236	1,365	1,351
Legislative, executive and other bodies of the Republic of Croatia	12,102	10,891	-	-
Health facilities and organizations	70,797	61,655	-	-
Other users	3	63	2,530	3,332
HROTE d.o.o.	16,343	40,084	38,365	38,690
	269,479	**280,275**	**120,382**	**156,691**
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	915	1,160
Narodne novine d.d.	-	-	11	92
Plinacro d.o.o.	-	-	8,094	12,075
HROTE d.o.o.	-	10,010	3,879	267
Other users	111	151	7,434	6,599
	111	**10,161**	**20,333**	**20,193**

33. CONTINGENCIES AND COMMITMENTS

Legal disputes

In 2018, the Company registered provisions for legal disputes which were estimated to be unlikely to be resolved in favour of HEP d.d. and subsidiaries. The company has long-term investments in the territory of Bosnia and Herzegovina and Serbia, the value of which at cost from 1994 amounts to HRK 1,243,970 thousand. During the conversion of the Company into a joint stock company in 1994, this amount was excluded from the net asset value.

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

Operating liabilities

As part of regular investment activities, as at 31 December 2019, the Company had concluded contracts according to which investments in various facilities and equipment began but were not completed. The value of contracted and unfinished works for the most significant projects amounted to HRK 1,061,378 thousand (2018: HRK 1,018,068 thousand).

As a shareholder in the companies HEP - Toplinarstvo d.o.o. and HEP Property Management d.o.o. which record operating losses are ready to provide all the funds necessary for the companies to continue to operate and fulfill their maturity obligations.

Environmental Protection

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

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

All HEP thermal power plants with a rated thermal input of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry of Environmental Protection and Energy. By the decision of the Management Board of the Company in 2012, the greenhouse gas emissions trading system was established, and the Republic of Croatia and HEP joined the European Union Emissions Trading System (EU-ETS) on 1 January 2013. Based on the Company's request, the Croatian Environment and Nature Agency (merged with the Ministry of Environmental Protection and Energy on 1January 2019) opened nine Plant Operator Accounts in the EU register. The company has successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2018, and for 2019, data on verified CO_2 emissions have been entered, and verification by the verifier is pending.

Preparations of the HEP Group's facilities for the fourth trading period of EU-ETS greenhouse gas emission units, which starts on 1 January 2019, are in progress. and will last until 31 December 2030.

33. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

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

Report on the Status of the Nonfinancial Sustainability Report for the Group for 2019

The preparation of a separate non-financial statement on the Group's sustainability for 2019 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, 120/16 and 116/18) within 6 months from the balance sheet date, i.e. until 30 June 2020. 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/izvjesca-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 2019:

- 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

33. CONTINGENCIES AND COMMITMENTS (continued)

Management systems according to ISO standards

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

Supply to the wholesale gas market

The Act on Amendments to the Gas Market Act (OG 16/17) appointed Hrvatska elektroprivreda - a joint stock company as a supplier on the wholesale gas market from 1 April 2017 until the tender for the selection of suppliers on the wholesale gas market. The supplier in the wholesale market sells gas to suppliers in the public service for the needs of customers from the category of households at a regulated selling price and is obliged to ensure a reliable and secure gas supply.By the decision of HERA on the amount of tariff items for the public gas supply service, for the period from 1 April to 31 July 2018, the gas price did not change compared to the price valid until 31 March 2018. Until 31 July 2018, the selling price gas was determined by Decisions of the Government of the Republic of Croatia, and as of 1 August 2018 it is determined through the Methodology for Determining Tariff Items for the Public Gas Supply Service and Guaranteed Supply (OG 34/18). In accordance with the Methodology, for the period from 1 August 2018 to 31 March 2019, the selling price also did not change compared to the current one, which amounted to HRK 0.1809 / kWh. In accordance with the Methodology, the selling price of gas for the period from 1 April 2019 to 31 March 2020 is HRK 0.1985 / kWh.The Gas Market Act (OG 18/18) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. HERA conducted tenders for the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021 (15 May and 13 June 2018). As no bids were received for the tenders, in accordance with the provisions of the Act, on 27 June 2018, HERA, in consultation with the Ministry of Environmental Protection and Energy, determined HEP d.d. as a supplier on the wholesale market for a shorter period of time than provided by law, i.e. from 1 August 2018 to 31 March 2019. Also, HERA conducted a public tender for the selection of OVT in the period from 25 January 2019 to 5 February 2019 for the period from 1 April 2019 to 31 March 2021. No bids were received for the tender and was again decided on determining the OVT for the period from 1 April 2019 to 31 March 2020, appointing HEP dd as OVT.
The Act on Amendments to the Gas Market Act, from 1 April 2017, abolished the obligation to supply natural gas to the natural gas producer as well as the regulated price at which it was obliged to sell gas to the supplier on the wholesale gas market for the needs of customers using the public supply service. .Pursuant to the Law on Amendments to the Gas Market Act, 60%, ie 61 packages of storage capacity in the underground gas storage were allocated.

In the period from 1 April 2014 to 31 March 2015, HEP d.d. has contracted as a supplier on the wholesale market a lease of capacity of 3,600 million kWh, in the period from 1 April 2015 to 31 March 2016 3,550 million kWh, in the period from 1 April 2016 to 31 March 2017 3,500 million kWh while in the period from April 1, 2017 to March 31, 2022, a contracted capacity of 3,050 million kWh.The cost of purchasing gas for market supply in 2019 amounts to HRK 2,096 thousand (in 2018: 632,930), and the cost of purchasing gas for sale on the wholesale market in 2019 amounts to HRK 1,152,889 thousand (in 2018: 1,183,002 thousand)

33. CONTINGENCIES 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.

For the purpose of implementing the provisions of the Act on Amendments to the Water Act (OG No. 46/18), HEP d.d. is obliged to initiate relevant procedures for registration of these rights in the land register and obtain an appropriate subdivision study which must be harmonized with Hrvatske vode and which will be the basis for issuing a tabular document for registration of construction rights over the buildings in question. An appropriate subdivision study will also be the basis for the correct classification of fixed assets between the groups of intangible and tangible assets, which is currently recorded in the business books of HEP Group in the total amount as tangible assets.
All of the above will have an impact on the classification of assets within the groups of intangible and tangible assets and, accordingly, on the change in the useful life of the assets that consequently affect the present value of assets in the statement of financial position and depreciation expense in the income statement. a material impact on the financial statements as a whole is expected.

34. 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:

in '000 HRK	**31 Dec 2019**	**31 Dec 2018**
Debt	3,737,199	3,889,891
Cash and cash equivalents	(1,375,389)	(1,436,843)
Net debt	2,361,810	2,453,048
Equity	26,158,879	25,217,256
Net debt to equity ratio	**9%**	**9.7%**

34. FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

in '000 HRK	31 Dec 2019	31 Dec 2018
Financial assets		
Financial assets at fair value through other comprehensive income	254,195	196,710
Given loans	18,374,037	18,424,588
Receivables from customers and related companies	3,031,861	2,823,020
Cash and cash equivalents	1,375,389	1,436,843
Other long-term and short-term receivables	346,707	126,430
Financial liabilities		
Financial liabilities at fair value through profit or loss	80,511	307,255
Liabilities under issued bonds	4,237,758	4,259,230
Liabilities for long-term loans	230,574	343,025
Liabilities to affiliated companies	3,569,685	3,071,740
Lease obligations	6,737	-
Other liabilities	1,240,797	1,487,651

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.

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	
in '000 HRK	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
EUR	163,102	147,809	556,030	470,373
USD	10,115	492	120,530	120,815

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.

34. FINANCIAL RISK MANAGEMENT (continued)

in '000 HRK	**2019**	**2018**
EUR change effect		
Gain or loss	(292,440)	(239,265)
USD change effect		
Gain or loss	(73,425)	(77,839)

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.

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 2019 would increase by HRK 1.613 thousand (2018: HRK 79 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 1.29% of all interest-bearing loans (2018: 3.18%); 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.
- During 2019, HEP d.d. approved loans to HEP Group members, which is why interest receivables on loans increased compared to 2018.

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.

34. 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

in '000 HRK	**Weighted average effective interest rate**	**Less than 1 month**	**1 - 3 months**	**3 -12 months**	**1 - 5 years**	**Over 5 years**	Total
31 December 2019							
Financial liabilities at fair value through profit or loss		-	-	-	80,511	-	80,511
Liabilities under issued bonds	4.85%	-	-	172,175	4,065,583	-	4,237,758
Liabilities for long-term loans	0.93%	701	-	37,590	139,284	52,999	230,574
Liabilities to affiliated companies		1,926,293	861,531	781,861	-	-	3,569,685
Lease obligations		-	-	1,019	5,718	-	6,737
Other liabilities		395,740	1,492	31,430	812,135	-	1,240,797
Total		**2,322,734**	**863,023**	**1,024,075**	**5,103,231**	**52,999**	**9,366,062**
31 December 2019							
Financial liabilities at fair value through profit or loss		-	-	-	307,255	-	307,255
Liabilities under issued bonds	4.85%	-	-	174,714	4,084,516	0	4,259,230
Liabilities for long-term loans	0.81%	114	19,127	94,738	169,543	59,503	343,025
Liabilities to affiliated companies		1,571,663	1,100,077	400,000	-	-	3,071,740
Other liabilities		664,173	471	32,935	790,072	-	1,487,651
Total		**2,235,950**	**1,119,675**	**702,387**	**5,351,386**	**59,503**	**9,468,901**

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

34. 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 dana unavailable)

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

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

Item	**Parameter**	**Used amount**	**Influence of parameter to fair value**
Shares and stocks of companies that are not listed on regulated markets	Revenue growth rate	3%	A higher revenue growth rate and a lower discount rate would increase fair values
	Discount rate	2%	
Serivatives	Parameter 1		A larger parameter 1 and a smaller parameter 2 would increase the fair value
	Parameter 2		

in '000 HRK	**Level 1**	**Level 2**	**Level 3**	**Level 4**
2018				
Financial assets at fair value through other comprehensive income	196,710	-	-	**196,710**
Financial assets at fair value through profit or loss	175,098	-	-	**175,098**
Derivative financial liabilities	-	-	307,255	**307,255**
Investment property	-	19,491	-	**19,491**
2019				
Financial assets at fair value through other comprehensive income	254,195	-	-	**254,195**
Financial assets at fair value through profit or loss	165,185	-	-	**165,185**
Derivative financial liabilities	-	-	80,511	**80,511**
Investment property	-	19,491	-	**19,491**

35. ACCOUNTING POLICIES APPLICABLE UNTIL 1 JANUARY 2019

Company as a lessee

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

36. OTHER DISCLOSURES

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

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

37. EVENTS AFTER REPORTING DATE

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

Considering that the HEP Group represents an infrastructure system of strategic importance for the Republic of Croatia, and is one of the largest economic entities in Croatia on which the operations of a large number of companies largely depend, it was extremely important to ensure regular operations and orderly production in these crisis conditions and distribution and supply of energy in full.

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

In the coming period of 2020, the following parameters will have the greatest impact on the Group's energy consumption and revenues:
- economic trends (GDP)
- easing / tightening of epidemiological measures
- realization of the tourist season as a key industrial branch of the Croatian economy.

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

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

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

38. APPROVAL OF FINANCIAL STATEMENTS

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

Signed on behalf of the Company on 15 May 2020

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member	Member	Member	Member	Member	President

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

STATEMENT OF PROFIT OR LOSS
for the period 1.1.2019. to 31.12.2019.

HRVATSKA ELEKTROPRIVREDA D.D., Ulica grada Vukovara 37, OIB: 28921978587 in HRK

Item	ADP code	31 December 2018	31 December 2019
I OPERATING INCOME (ADP 126 to 130)	125	**8,691,327,202**	**9,315,238,140**
1 Income from sales with undertakings within the group	126	3,332,272,560	3,811,351,495
2 Income from sales (outside group)	127	5,120,408,608	5,233,779,484
3 Income from the use of own products, goods and services	128	765,960	1,001,383
4 Other operating income with undertakings within the group	129	177,071,609	203,126,119
5 Other operating income (outside the group)	130	60,808,465	65,979,659
II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)	131	**8,575,543,172**	**8,780,043,844**
1 Changes in inventories of work in progress and finished goods	132		
2 Material costs (ADP 134 to 136)	133	**7,790,503,486**	**8,142,972,747**
a) Costs of raw material	134	6,337,901,026	6,714,730,838
b) Costs of goods sold	135	1,228,017,335	1,172,986,780
c) Other external costs	136	224,585,125	255,255,129
3 Staff costs (ADP 138 to 140)	137	**96,935,769**	**104,099,763**
a) Net salaries and wages	138	55,892,233	60,445,211
b) Tax and contributions from salaries expenses	139	27,441,133	29,728,866
c) Contributions on salaries	140	13,602,403	13,925,686
4 Depreciation	141	**61,785,433**	**60,004,313**
5 Other expenses	142	**253,289,262**	**446,251,692**
6 Value adjustments (ADP 144+145)	143	**345,870,715**	**12,329,966**
a) fixed assets other than financial assets	144	10,177,598	2,769,535
b) current assets other than financial assets	145	335,693,117	9,560,431
7 Provisions (ADP 147 to 152)	146	**6,503,695**	**13,868,405**
a) Provisions for pensions, termination benefits and similar obligations	147	4,568,167	3,665,134
b) Provisions for tax liabilities	148		
c) Provisions for ongoing legal cases	149	1,935,528	10,203,271
d) Provisions for renewal of natural resources	150		
e) Provisions for warranty obligations	151		
f) Other provisions	152	0	
8 Other operating expenses	153	**20,654,812**	**516,958**
III FINANCIAL INCOME (ADP 155 to 164)	154	**722,536,408**	**1,204,646,697**
1 Income from investments in holdings (shares) of undertakings within the group	155	340,243,225	828,296,943
2 Income from investments in holdings (shares) of companies linked by virtue of participating interest	156		
3 Income from other long-term financial investment and loans granted to undertakings within the group	157		
4 Other interest income from operations with undertakings within the group	158	108,386,415	105,200,402
5 Exchange rate differences and other financial income from operations with undertakings within the group	159	876,264	3,295,419
6 Income from other long-term financial investments and loans	160		
7 Other interest income	161	2,278,738	9,031,139
8 Exchange rate differences and other financial income	162	71,693,755	22,259,041
9 Unrealised gains (income) from financial assets	163	198,051,106	231,477,642
10 Other financial income	164	1,006,905	5,086,111

STATEMENT OF PROFIT OR LOSS

for the period 1.1.2019. to 31.12.2019.

Item	ADP code	31 December 2018	31 December 2019
IV FINANCIAL EXPENDITURE (ADP 166 to 172)	165	**439,272,231**	**511,556,795**
1 Interest expenses and similar expenses with undertakings within the group	166		251,670
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	7,413,313	0
3 Interest expenses and similar expenses	168	184,404,692	174,979,540
4 Exchange rate differences and other expenses	169	56,869,809	66,266,549
5 Unrealised losses (expenses) from financial assets	170	86,141	0
6 Value adjustments of financial assets (net)	171		
7 Other financial expenses	172	190,498,276	270,059,036
V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	173		
VI SHARE IN PROFIT FROM JOINT VENTURES	174		
VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST	175		
VIII SHARE IN LOSS OF JOINT VENTURES	176		
IX TOTAL INCOME (ADP 125+154+173 + 174)	177	**9,413,863,610**	**10,519,884,837**
X TOTAL EXPENDITURE (ADP 131+165+175 + 176)	178	**9,014,815,403**	**9,291,600,639**
XI PRE-TAX PROFIT OR LOSS (ADP 177-178)	179	**399,048,207**	**1,228,284,198**
1 Pre-tax profit (ADP 177-178)	180	399,048,207	1,228,284,198
2 Pre-tax loss (ADP 178-177)	181		
XII INCOME TAX	182	**45,072,132**	**120,976,537**
XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)	183	**353,976,075**	**1,107,307,661**
1 Profit for the period (ADP 179-182)	184	353,976,075	1,107,307,661
2 Loss for the period (ADP 182-179)	185		

BALANCE SHEET as at 31.12.2019.

HRVATSKA ELEKTROPRIVREDA D.D., Ulica grada Vukovara 37, OIB: 28921978587 — in HRK

Item	ADP code	31 December 2018	31 December 2019
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001		
B) FIXED ASSETS (ADP 003+010+020+031+036)	002	**27,846,775,421**	**27,933,849,628**
I INTANGIBLE ASSETS (ADP 004 to 009)	003	138,163,197	146,340,465
1 Research and development	004		
2 Concessions, patents, licences, trademarks, software and other rights	005	113,245,865	116,170,534
3 Goodwill	006		
4 Advance payments for purchase of intangible assets	007		
5 Intangible assets in preparation	008	24,917,332	30,169,931
6 Other intangible assets	009		
II TANGIBLE ASSETS (ADP 011 to 019)	010	700,912,531	641,787,312
1 Land	011	67,546,667	64,224,123
2 Buildings	012	178,806,478	149,261,270
3 Plant and equipment	013	212,759,995	63,576,001
4 Tools, working inventory and transportation assets	014	8,236,011	6,624,839
5 Biological assets	015		
6 Advance payments for purchase of tangible assets	016	91,844,690	105,710,992
7 Tangible assets in preparation	017	121,885,481	232,556,878
8 Other tangible assets	018	342,793	342,793
9 Investment property	019	19,490,416	19,490,416
III FIXED FINANCIAL ASSETS (ADP 021 to 030)	020	10,326,556,305	10,615,373,069
1 Investments in holdings (shares) of undertakings within the group	021	7,797,053,901	7,981,529,067
2 Investments in other securities of undertakings within the group	022		
3 Loans, deposits, etc. to undertakings within the group	023	515,162,016	624,955,831
4 Investments in holdings (shares) of companies linked by virtue of participating interest	024	1,781,594,850	1,754,418,905
5 Investment in other securities of companies linked by virtue of participating interest	025		
6 Loans, deposits etc. given to companies linked by virtue of participating interest	026	35,644,938	0
7 Investments in securities	027		
8 Loans, deposits, etc. given	028	390,339	274,216
9 Other investments accounted for using the equity method	029		
10 Other fixed financial assets	030	196,710,261	254,195,050
IV RECEIVABLES (ADP 032 to 035)	031	16,548,243,514	16,438,593,954
1 Receivables from undertakings within the group	032	16,548,243,514	16,438,593,954
2 Receivables from companies linked by virtue of participating interests	033		
3 Customer receivables	034		
4 Other receivables	035		
V. Deferred tax assets	036	132,899,874	91,754,828
C) CURRENT ASSETS (ADP 038+046+053+063)	037	**6,507,749,876**	**7,153,050,824**
I INVENTORIES (ADP 039 to 045)	038	638,606,153	943,493,968
1 Raw materials	039	3,012,490	3,799,486
2 Work in progress	040		
3 Finished goods	041		
4 Merchandise	042	635,593,663	939,694,482
5 Advance payments for inventories	043		
6 Fixed assets held for sale	044		
7 Biological assets	045		
II RECEIVABLES (ADP 047 to 052)	046	4,049,747,777	4,397,103,045
1 Receivables from undertakings within the group	047	3,727,787,144	3,875,760,585

2 Receivables from companies linked by virtue of participating interest	048	4,281,702	0
3 Customer receivables	049	302,582,154	252,278,942
4 Receivables from employees and members of the undertaking	050	112,512	113,428
5 Receivables from government and other institutions	051	0	9,008,936
6 Other receivables	052	14,984,265	259,941,154
III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)	053	382,553,492	437,065,147
1 Investments in holdings (shares) of undertakings within the group	054		
2 Investments in other securities of undertakings within the group	055		
3 Loans, deposits, etc. to undertakings within the group	056	118,187,789	214,309,520
4 Investments in holdings (shares) of companies linked by virtue of participating interest	057		
5 Investment in other securities of companies linked by virtue of participating interest	058		
6 Loans, deposits etc. given to companies linked by virtue of participating interest	059		
7 Investments in securities	060		
8 Loans, deposits, etc. given	061	89,267,131	57,570,459
9 Other financial assets	062	175,098,572	165,185,168
IV CASH AT BANK AND IN HAND	063	1,436,842,454	1,375,388,664
D) PREPAID EXPENSES AND ACCRUED INCOME	064	**17,394,810**	**19,799,737**
E) TOTAL ASSETS (ADP 001+002+037+064)	065	**34,371,920,107**	**35,106,700,189**
OFF-BALANCE SHEET ITEMS	066	3,113,279,533	3,627,657,361
Item	**ADP code**	**31 December 2018**	**31 December 2019**
CAPITAL AND LIABILITIES			
A) CAPITAL AND RESERVES (ADP 068 to 070+076+077+081+084+087)	067	**25,217,255,323**	**26,158,879,035**
I. INITIAL (SUBSCRIBED) CAPITAL	068	19,792,159,200	19,792,159,200
II CAPITAL RESERVES	069		
III RESERVES FROM PROFIT (ADP 071+072-073+074+075)	070	470,002,370	487,701,173
1 Legal reserves	071	406,065,721	423,764,524
2 Reserves for treasury shares	072		
3 Treasury shares and holdings (deductible item)	073		
4 Statutory reserves	074		
5 Other reserves	075	63,936,649	63,936,649
IV REVALUATION RESERVES	076		
V FAIR VALUE RESERVES (ADP 078 to 080)	077	40,406,826	88,364,717
1 Fair value of financial assets available for sale	078	40,406,826	88,364,717
2 Cash flow hedge - effective portion	079		
3 Hedge of a net investment in a foreign operation - effective portion	080		
VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)	081	4,560,710,852	4,683,346,284
1 Retained profit	082	4,560,710,852	4,683,346,284
2 Loss brought forward	083		
VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)	084	353,976,075	1,107,307,661
1 Profit for the business year	085	353,976,075	1,107,307,661
2 Loss for the business year	086		
VIII MINORITY (NON-CONTROLLING) INTEREST	087		
B) PROVISIONS (ADP 089 to 094)	088	**221,244,278**	**223,593,493**
1 Provisions for pensions, termination benefits and similar obligations	089	20,746,439	24,267,317
2 Provisions for tax liabilities	090		
3 Provisions for ongoing legal cases	091	178,867,022	177,695,359
4 Provisions for renewal of natural resources	092		
5 Provisions for warranty obligations	093		
6 Other provisions	094	21,630,817	21,630,817
C) LONG-TERM LIABILITIES (ADP 096 to 106)	095	**4,881,746,244**	**4,617,932,686**
1 Liabilities towards undertakings within the group	096	0	4,589,525
2 Liabilities for loans, deposits, etc. to companies within the group	097		
3 Liabilities towards companies linked by virtue of participating interest	098		

4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	099		
5 Liabilities for loans, deposits etc.	100		
6 Liabilities towards banks and other financial institutions	101	217,454,632	182,209,744
7 Liabilities for advance payments	102		
8 Liabilities towards suppliers	103	10,857,623	10,459,043
9 Liabilities for securities	104	3,560,374,689	3,518,704,171
10 Other long-term liabilities	105	1,087,618,552	883,516,378
11 Deferred tax liability	106	5,440,748	18,453,825
D) SHORT-TERM LIABILITIES (ADP 108 to 121)	107	**4,039,053,525**	**4,086,761,495**
1 Liabilities towards undertakings within the group	108	3,071,740,501	3,570,336,451
2 Liabilities for loans, deposits, etc. to companies within the group	109		
3 Liabilities towards companies linked by virtue of participating interest	110		
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	111		
5 Liabilities for loans, deposits etc.	112		
6 Liabilities towards banks and other financial institutions	113	112,061,496	36,285,693
7 Liabilities for advance payments	114	796,354	1,741,733
8 Liabilities towards suppliers	115	664,047,929	395,012,842
9 Liabilities for securities	116		
10 Liabilities towards employees	117	7,411,450	8,101,726
11 Taxes, contributions and similar liabilities	118	133,215,184	27,934,453
12 Liabilities arising from the share in the result	119		
13 Liabilities arising from fixed assets held for sale	120		
14 Other short-term liabilities	121	49,780,611	47,348,597
E) ACCRUALS AND DEFERRED INCOME	122	**12,620,737**	**19,533,480**
F) TOTAL – LIABILITIES (ADP 067+088+095+107+122)	123	**34,371,920,107**	**35,106,700,189**
G) OFF-BALANCE SHEET ITEMS	124	3,113,279,533	3,627,657,361

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the period 1.1.2019. to 31.12.2019.

HRVATSKA ELEKTROPRIVREDA D.D., Ulica grada Vukovara 37, OIB: 28921978587 in HRK

Item	ADP code	31 December 2018	31 December 2019
I PROFIT OR LOSS FOR THE PERIOD	202	**353,976,075**	**1,107,307,661**
II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)	203	**-73,066,138**	**46,701,697**
1 Exchange rate differences from translation of foreign operations	204		
2 Changes in revaluation reserves of fixed tangible and intangible assets	205		
3 Profit or loss arising from re-evaluation of financial assets available for sale	206	-73,066,138	46,701,697
4 Profit or loss arising from effective cash flow hedging	207		
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	208		
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	209		
7 Actuarial gains/losses on defined remuneration plans	210		
8 Other changes in equity unrelated to owners	211		
III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	212		
IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)	213	**-73,066,138**	**46,701,697**
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)	214	**280,909,937**	**1,154,009,358**

STATEMENT OF CASH FLOWS – direct method

for the period 1.1.2019. to 31.12.2019.

HRVATSKA ELEKTROPRIVREDA D.D., Ulica grada Vukovara 37, OIB: 28921978587 — in HRK

Item	ADP code	31 December 2018	31 December 2019
Cash flow from operating activities			
1 Cash receipts from customers	001	13,188,924,627	13,196,763,717
2 Cash receipts from royalties, fees, commissions and other revenue	002	12,507,454	10,020,224
3 Cash receipts from insurance premiums	003		
4 Cash receipts from tax refund	004	195,729,602	
5 Cash payments to suppliers	005	-11,177,792,158	-11,138,017,376
6 Cash payments to employees	006	-82,496,806	-89,185,574
7 Cash payments for insurance premiums	007		
8 Other cash receipts and payments	008	-1,105,206,677	-1,125,375,547
I Cash from operations (ADP 001 to 008)	009	**1,031,666,042**	**854,205,444**
9 Interest paid	010	-181,044,999	-177,611,331
10 Income tax paid	011	-107,927,920	-76,952,142
A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 009 to 011)	012	**742,693,123**	**599,641,971**
Cash flow from investment activities			
1 Cash receipts from sales of fixed tangible and intangible assets	013	1,046,412	1,197,217
2 Cash receipts from sales of financial instruments	014		
3 Interest received	015		
4 Dividends received	016	561,473,548	401,084,182
5 Cash receipts from repayment of loans and deposits	017		
6 Other cash receipts from investment activities	018	7,245,693	9,288,994
II Total cash receipts from investment activities (ADP 013 to 018)	019	**569,765,653**	**411,570,393**
1 Cash payments for the purchase of fixed tangible and intangible assets	020	-165,783,296	-185,735,498
2 Cash payments for the acquisition of financial instruments	021		
3 Cash payments for loans and deposits	022	0	-215,947,349
4 Acquisition of a subsidiary, net of cash acquired	023		
5 Other cash payments from investment activities	024	-79,547,000	-407,254,106
III Total cash payments from investment activities (ADP 020 to 024)	025	**-245,330,296**	**-808,936,953**
B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 019 + 025)	026	**324,435,357**	**-397,366,560**
Cash flow from financing activities			
1 Cash receipts from the increase of initial (subscribed) capital	027		
2 Cash receipts the from issue of equity financial instruments and debt financial instruments	028		
3 Cash receipts from credit principals, loans and other borrowings	029	76,206,788	0
4 Other cash receipts from financing activities	030	205,678,060	139,057,824
IV Total cash receipts from financing activities (ADP 027 to 030)	031	**281,884,848**	**139,057,824**
1 Cash payments for the repayment of credit principals, loans andother borrowings and debt financial instruments	032	-400,594,938	-176,782,104
2 Cash payments for dividends	033	-218,413,475	-212,385,645
3 Cash payments for finance lease	034		
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	035		
5 Other cash payments from financing activities	036	-143,084,393	-13,619,276
V Total cash payments from financing activities (ADP 032 to 036)	037	**-762,092,806**	**-402,787,025**

STATEMENT OF CASH FLOWS – direct method

for the period 1.1.2019. to 31.12.2019.

C) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 031 +037)	038	**-480,207,958**	**-263,729,201**
1 Unrealised exchange rate differences in cash and cash equivalents	039		
D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 012+026+038+039)	040	**586,920,522**	**-61,453,790**
E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	041	849,921,932	1,436,842,454
F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 040+041)	042	**1,436,842,454**	**1,375,388,664**

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

HRVATSKA ELEKTROPRIVREDA D.D., Ulica grada Vukovara 37, OIB: 28921978587

in HRK

Item	ADP code	Attributable to owners of the parent														Minority (non-controlling) interest	Total capital and reserves
		Initial (subscribed) capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares and holdings (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Cash flow hedge - effective portion	Hedge of a net investment in a foreign operation - effective portion	Retained profit / loss brought forward	Profit/loss for the business year	Total attributable to owners of the parent		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 do 6 -7 + 8 do 15)	17	18 (16+17)
Prethodno razdoblje																	
1 Balance on the first day of the previous business year	01	19.792.159.200		387.864.598				63.936.649		136.727.580			4.405.162.468		24.785.850.495		24.785.850.495
2 Changes in accounting policies	02									-22.178.100			27.046.463		4.868.363		4.868.363
3 Correction of errors	03														0		0
4 Balance on the first day of the previous business year (restated) (ADP 01 to 03)	04	19.792.159.200	0	387.864.598	0	0	0	63.936.649	0	114.549.480	0	0	4.432.208.931	0	24.790.718.858	0	24.790.718.858
5 Profit/loss of the period	05													353.976.075	353.976.075		353.976.075
6 Exchange rate differences from translation of foreign operations	06														0		0
7 Changes in revaluation reserves of fixed tangible and intangible assets	07														0		0
8 Profit or loss arising from re-evaluation of financial assets available for sale	08									-74.142.654					-74.142.654		-74.142.654
9 Gains or losses on efficient cash flow hedging	09														0		0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	10														0		0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	11														0		0
12 Actuarial gains/losses on defined benefit plans	12														0		0
13 Other changes in equity unrelated to owners	13														0		0
14 Tax on transactions recognised directly in equity	14														0		0

15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	15														-74.142.654		-74.142.654
16 Increase of initial (subscribed) capital by reinvesting profit	16														0		0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	17														0		0
18 Redemption of treasury shares/holdings	18														0		0
19 Payment of share in profit/dividend	19												-218.413.475		-218.413.475		-218.413.475
20 Other distribution to owners	20												1.094.061		1.094.061		1.094.061
21 Transfer to reserves by annual schedule	21			18.201.123									345.821.335		364.022.458		364.022.458
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	22														0		0
23 Balance on the last day of the previous business year reporting period (ADP 04 to 22)	23	19.792.159.200	0	406.065.721	0	0	0	63.936.649	0	40.406.826	0	0	4.560.710.852	353.976.075	25.217.255.323	0	25.217.255.323
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	
I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS PERIOD, NET OF TAX (ADP 06 to 14)	**24**	0	0	0	0	0	0	0	0	-74.142.654	0	0	0	0	-74.142.654	0	-74.142.654
II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	**25**	0	0	0	0	0	0	0	0	-74.142.654	0	0	0	353.976.075	279.833.421	0	279.833.421
III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22)	**26**	0	0	18.201.123	0	0	0	0	0	0	0	0	128.501.921	0	146.703.044	0	146.703.044

Tekuće razdoblje																	
1 Balance on the first day of the current business year	27	19.792.159.200	0	406.065.721	0	0	0	63.936.649	0	40.406.826	0	0	4.560.710.852		24.863.279.248	0	24.863.279.248
2 Changes in accounting policies	28														0		0
3 Correction of errors	29														0		0
4 Balance on the first day of the current business year (restated) (ADP 27 to 29)	30	19.792.159.200	0	406.065.721	0	0	0	63.936.649	0	40.406.826	0	0	4.560.710.852	0	24.863.279.248	0	24.863.279.248
5 Profit/loss of the period	31													1.107.307.661	1.107.307.661		1.107.307.661
6 Exchange rate differences from translation of foreign operations	32														0		0
7 Changes in revaluation reserves of fixed tangible and intangible assets	33														0		0
8 Profit or loss arising from re-evaluation of financial assets available for sale	34									47.957.891					47.957.891		47.957.891
9 Gains or losses on efficient cash flow hedging	35														0		0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	36														0		0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	37														0		0
12 Actuarial gains/losses on defined remuneration plans	38														0		0
13 Other changes in equity unrelated to owners	39														0		0
14 Tax on transactions recognised directly in equity	40														0		0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	41														47.957.891		47.957.891
16 Increase of initial (subscribed) capital by reinvesting profit	42														0		0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	43														0		0
18 Redemption of treasury shares/holdings	44														0		0
19 Payment of share in profit/dividend	45												-212.385.645		-212.385.645		-212.385.645
20 Other distribution to owners	46												-1.256.195		-1.256.195		-1.256.195
21 Transfer to reserves by annual schedule	47			17.698.804									336.277.271		353.976.075		353.976.075
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	48														0		0
23 Balance on the last day of the current business year reporting period (ADP 30 to 48)	49	19.792.159.200	0	423.764.525	0	0	0	63.936.649	0	88.364.717	0	0	4.683.346.283	1.107.307.661	26.158.879.035	0	26.158.879.035
APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)																	

I OTHER COMPREHENSIVE INCOME FOR THE CURRENT PERIOD, NET OF TAX (ADP 32 to 40)	50	0	0	0	0	0	0	0	0	47.957.891	0	0	0	0	47.957.891	0	47.957.891
II COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31+50)	51	0	0	0	0	0	0	0	0	47.957.891	0	0	0	1.107.307.661	1.155.265.552	0	1.155.265.552
III TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 41 to 48)	52	0	0	17.698.804	0	0	0	0	0	0	0	0	122.635.431	0	140.334.235	0	140.334.235