



HRVATSKA ELEKTROPRIVREDA d.d.

Condensed interim financial
statements for the period ended
30 June 2017

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Independent auditors' report on review of condensed interim financial statements

To the Owner of Hrvatska Elektroprivreda d.d.:

Introduction

We have reviewed the accompanying condensed statement of financial position / balance sheet of Hrvatska Elektroprivreda d.d. (hereinafter: „the Company“) as of 30 June 2017, condensed income statement, condensed statement of other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the six months period then ended, and notes to the condensed financial statements (“the condensed interim financial information of the Company“).

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34 Interim Financial Reporting.

Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed financial statements as at 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

As described in the Note 15 to the condensed interim financial statements, as at 30 June 2017, the Company stated clearing debt liability in the amount of HRK 781,748 thousand (31 December 2016: HRK 863,450 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report on Review of condensed consolidated interim financial information, it has not been clearly defined whether it relates to a loan or some other legal relationship.

As described in the Note 19 to the condensed interim financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities used for generation of electricity from hydropower plants. Pursuant to the Water Act those property is defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. The Company has filed a motion to the Constitutional Court to institute proceedings to review the constitutionality of Article 23 Paragraph 4 of the Water Management Act with the Constitution and upon conclusion of the procedure to annul the said provision. During 2015, the Ministry of Agriculture has launched amendment procedure to the Water Act and the Ministry of Economy issued an opinion with approval of the Company's initiative to amend the Water Act. During 2016 and 2017 the Company continued activities with relevant ministries and institutions related to above issue.

In Zagreb, 24 August 2017

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



Zdenko Balen, Management Board
Member



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



Vedrana Stipić, Certified auditor

Condensed income statement of HEP d.d.

For the six months period ended 30 June 2017

	Note	For the six months period ended	
		30 June 2017	30 June 2016
		HRK '000 Unaudited	HRK '000 Unaudited
Revenue from electricity sales	3	457,988	511,438
Revenue from electricity sales – related companies	16	2,483,675	2,623,492
Revenue from sale of gas on wholesale market	5	573,379	647,559
Revenue from sale of gas to related companies	16	82,289	76,887
Operating income – related companies	16	224,226	211,332
Sales revenue		3,821,557	4,070,708
Other operating income		42,853	28,373
Total operating income		3,864,410	4,099,081
Electricity purchase cost	6	(1,178,895)	(835,206)
Electricity purchase cost – related companies	6, 16	(1,441,738)	(1,429,115)
Gas purchase cost - for sale on wholesale market		(664,451)	(705,672)
Staff cost		(44,455)	(41,445)
Depreciation and amortization costs		(24,651)	(35,278)
Services costs – related companies	16	(32,180)	(31,641)
Other operating expenses		(314,681)	(269,314)
Total operating expenses		(3,701,051)	(3,347,671)
Operating profit		163,359	751,410
Financial income	4	1,020,780	834,163
Financial expenses	4	(470,960)	(216,292)
Net profit from financial activities	4	549,820	617,871
Profit before taxation		713,179	1,369,281
Corporate income tax expense	7	42,252	(151,013)
Profit for the period		755,431	1,218,268

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board
Member

Zvonko Ercegovic
Management Board
Member

Saša Dujmić
Management
Board Member

Perica Jukić
President of the
Management Board

Condensed statement of other comprehensive income of HEP d.d.

For the six months period ended 30 June 2017

	For the six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Profit for the period	755,431	1,218,268
Other comprehensive income		
Net gain on AFS financial assets	18,593	6,090
<i>Net other comprehensive income to be reclassified to profit/(loss) in subsequent periods</i>	<i>18,593</i>	<i>6,090</i>
Other comprehensive income, net	18,593	6,090
Total comprehensive income for the period, net of tax	774,024	1,224,358

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

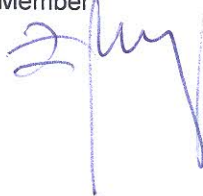
Signed on behalf of the Company on 24 August 2017:

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Tomislav Rosandić
Management Board
Member



Zvonko Ercegovic
Management Board
Member



Saša Dujmić
Management
Board Member



Perica Jukić
President of the
Management Board



HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
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Condensed statement of financial position / condensed balance sheet of HEP d.d.

As at 30 June 2017

ASSETS	Note	30 June 2017 HRK '000 Unaudited	31 December 2016 HRK '000 Audited
Non-current assets			
Property, plant and equipment		606,554	623,875
Assets under construction	9	750,681	717,961
Intangible assets		50,625	57,745
Investment property		15,433	15,433
Prepayments for property, plant and equipment		6,551	7,206
Investments in NE Krško		1,754,419	1,754,419
Investments and receivables from TE Plomin		249,975	249,975
Investments in subsidiaries	17	7,470,783	7,199,111
Available-for-sale and other investments		311,294	289,558
Long-term loans and deposits		35,552	28,830
Lease receivables from related companies	16	15,700,493	16,279,407
Long-term loans to related companies	16	55,429	63,329
Sub-loan receivables from related parties	16	604,410	672,733
Other receivables		609	666
Deferred tax assets		61,979	19,727
Total non-current assets		27,674,787	27,979,975
Current assets			
Inventories	10	426,968	605,412
Trade receivables	8	79,250	320,061
Derivative financial assets		52,480	96,196
Current portion of long-term lease receivables from related companies	16	1,083,937	1,083,937
Current portion of long-term loan receivables from related companies	16	248,491	260,881
Other short-term receivables		229,965	105,538
Receivables from related companies	16	3,595,416	2,692,696
Cash and cash equivalents		2,423,879	2,366,100
Total current assets		8,140,386	7,530,821
TOTAL ASSETS		35,815,173	35,510,796

Condensed statement of financial position / condensed balance sheet of HEP d.d.
As at 30 June 2017 (continued)

EQUITY AND LIABILITIES	Note	30 June 2017 HRK '000 Unaudited	31 December 2016 HRK '000 Audited
Share capital	12	19,792,159	19,792,159
Revaluation reserves		158,885	140,292
Retained earnings	12	5,610,450	5,649,310
Total equity		25,561,494	25,581,761
Non-current liabilities			
Liabilities under issued bonds	14	3,538,986	3,606,173
Long-term loan liabilities	13	437,714	654,682
Other long-term liabilities	15	1,068,266	909,524
Long-term provisions		213,031	212,605
Deferred tax liabilities		29,168	26,007
Total non-current liabilities		5,287,165	5,408,991
Current liabilities			
Trade payables	11	425,807	630,250
Current portion of long-term bonds	14	530,041	586,601
Current portion of long-term loans	13	429,024	408,711
Taxes and contributions		33,991	76,595
Liabilities based on share in the result	20	794,291	0
Interest payable		40,679	42,568
Current liabilities to related companies	16	2,681,095	2,758,202
Liabilities to employees		6,773	6,104
Other current liabilities		24,813	11,013
Total current liabilities		4,966,514	4,520,044
TOTAL EQUITY AND LIABILITIES		35,815,173	35,510,796

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board
Member

Zvonko Ercegovac
Management Board
Member

Saša Dujmić
Management
Board Member

Perica Jukić
President of the
Management Board

Condensed statement of changes in equity of HEP d.d.

For the six months period ended 30 June 2017

	Share capital	Revaluation reserves	Retained earnings	Total equity
	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2016	19,792,159	100,836	4,932,491	24,825,486
Profit for the period	-	-	1,218,268	1,218,268
Other comprehensive income	-	6,090	-	6,090
Total comprehensive income	-	6,090	1,218,268	1,224,358
Balance as at 30 June 2016, unaudited	19,792,159	106,926	6,150,759	26,049,844
Balance at 1 January 2017	19,792,159	140,292	5,649,310	25,581,761
Profit for the period	-	-	755,431	755,431
Other comprehensive income	-	18,593	-	18,593
Total comprehensive income	-	18,593	755,431	774,024
Distribution of dividends	-	-	(794,291)	(794,291)
Balance as at 30 June 2017, unaudited	19,792,159	158,885	5,610,450	25,561,494

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

Signed on behalf of the Company on 24 August 2017:

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Tomislav Rosandić
Management Board
Member

Zvonko Ercegovic
Management Board
Member

Saša Dujmić
Management
Board Member

Perica Jukić
President of the
Management Board

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Condensed statement of cash flows of HEP d.d.

For the six months period ended 30 June 2017

	For the six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Cash flows from operating activities		
Profit for the period	713,178	1,369,281
Net result from financial activities	(549,820)	(617,871)
Depreciation and amortization	24,651	35,278
Increase / (decrease) in provisions	426	(425)
(Income)/ expenses from impairment of receivables	(356)	6,227
<i>Operating cash flows before movements in working capital</i>	<i>188,079</i>	<i>792,490</i>
Decrease in trade receivables	241,167	189,151
(Increase) in receivables from related companies	(686,370)	(317,556)
Decrease in inventories	178,444	123,124
Decrease in other current assets	7,746	73,039
(Decrease) in trade payables	(204,443)	(330,303)
(Decrease) in other liabilities	(34,287)	(155,496)
(Decrease) in liabilities to subsidiaries	(77,107)	(397,651)
Cash generated from operations	(386,771)	(23,202)
Corporate income tax (paid)	(88,400)	(27,704)
Interests paid	(117,009)	(140,040)
NET CASH FROM OPERATING ACTIVITIES	(592,180)	(190,946)
INVESTING ACTIVITIES		
Interests receipts	1,612	86,619
Dividends from related companies	252,035	424,534
Costs/receipts from sale of tangible assets to related companies	(4,797)	247,668
Increase in property, plant and equipment	(37,728)	(174,689)
Receipts from other non-current assets	(9,210)	(272,992)
Collection of loan receivables from related companies	672,744	583,407
NET CASH FROM INVESTING ACTIVITIES	874,656	894,547

Condensed statement of cash flows of HEP d.d. (continued)

For the six months period ended 30 June 2017

	For the six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Bond repayments	(46,689)	(46,691)
Long-term loans received	10,089	90,398
Repayments of long-term loans	(188,097)	(190,111)
NET CASH USED IN FINANCING ACTIVITIES	(224,697)	(146,404)
NET INCREASE IN CASH AND CASH EQUIVALENTS	57,779	557,197
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,366,100	1,951,873
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	2,423,879	2,509,070

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board
Member



Zvonko Ercegovic
Management Board
Member



Saša Dujmić
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Board Member



Perica Jukić
President of the
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HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
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1. BASIS OF PREPARATION

These condensed interim financial statements of HEP d.d. ("the Company") are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The preparation of the unaudited condensed interim financial information for the six months period ended 30 June 2017 requires from management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed interim financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the condensed interim financial information, and actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU. The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34'). The condensed interim financial statements for the six-month period ended 30 June 2017 have been prepared under the same accounting policies as the financial statements for the year ended 31 December 2016.

Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS adopted by EU have been condensed or omitted as permitted by IAS 34. The condensed interim statement of financial position / condensed interim balance sheet as at 30 June 2017 was derived from audited annual financial statements as at 31 December 2016, but does not include all disclosures required by IFRS adopted by EU. However, the Company's management believes that disclosures in these condensed interim financial statements are adequate to make the information presented not misleading.

Leases

Property, plant and equipment and intangible assets are leased to subsidiaries of the Company at book value. Leases of property, plant and equipment and intangible assets are classified as finance leases since all the risks and awards of the ownership are transferred to the lessee. Maturity date of lease is equal to remaining useful depreciation life of leased assets.

Lease liabilities are stated with the related companies within long-term liabilities. Leases bears interests to the extent that the Company has acquired funds by external financing for construction of the corresponding asset. The fair value of leases has not been estimated due to the specific organization of the HEP Group and with the aim of disclosing underlying assets at their original book value at which they were acquired by the Group.

Consequently, for a better understanding of the Company, the accompanying condensed interim financial statements should be read in conjunction with the condensed consolidated interim financial statements of the HEP Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian legislation and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The condensed interim financial statements have been prepared on the historical cost basis, except for certain non-current assets and certain financial instruments that are presented in revalued amounts. The condensed interim financial statements are presented in thousands of Croatian Kuna (HRK '000) as the Company's functional currency.

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

Some amendments to the Standards adopted by the IASB with the application in periods beginning on January 1, 2017 have not yet been adopted by the EU and have not been applied in these condensed consolidated interim financial statements. These amendments include: amendments to IAS 7, IAS 12 and annual improvements for the 2014 - 2016 cycle (as outlined below). The adoption of these changes by the EU is expected during 2017. Management estimates that the adoption of these amendments will not have any significant changes in the financial statements of the Company.

New and revised IFRSs issued by the IASB but not effective

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will have negligible affect the classification and measurement of financial instruments.
- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. The Standard replaces IAS 11 and IAS 18. Standard is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The Standard allows a modified transfer model which does not require retroactive modifications. The Management performs detailed analysis on its possible effects on the Company's financial statements

New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been adopted by the EU yet:

- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The European Commission has decided not to implement this standard due to the fact that only small number of companies was within the scope of the standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- IFRS 16 Leases – the standard brings a new comprehensive model of identification of arrangements which have leases and their accounting treatment on the side of lessor and lessee. The standard will replace IAS 17 and interpretations of IFRIC 4, SIC 15 and SIC 27. IFRS 16 is effective for the annual period beginning on or after 1 January 2019. Earlier applications are permitted, but this is conditioned with the application of IFRS 15 unless already adopted. This standard brings significant changes to the accounting model of the lessee. Consequently, assets and liabilities will be recognised in the financial statements of the lessee in most contract that were formerly recognised as operating lease. This will result in an increase of assets and liabilities. The Management Board plans detailed analysis in the coming periods to determine effects on the financial statements of the Company.
- IFRS 17 Insurance contracts – The standard refers to a new approach to accounting treatment of insurance contracts. This standard replaces IFRS 4 and should provide harmonized measurement with insurers worldwide and reduce the volatility of operating results. The Standard enters into force for periods beginning on 1 January 2021 and thereafter. As the Company do not deal with insurance business, the consequences of applying this Standard to the Company's financial statements are not expected.
- Amendments to IFRS 2 – classification and measurement of share based payment transactions (issued in June 2016).
- Amendments to IFRS 4 – Application of IFRS 9 Financial instruments with IFRS 4 Insurance contracts (issued in June 2016).
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014).
- Amendments to IAS 7 – part of its disclosure initiative (issued in January 2016)
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016).
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in April 2016).
- Amendments to IAS 40 – Transfer of real estate investments (issued December 2016.)
- Annual Improvements 2014-2016 Cycle (issued December 2016). They include:
 - IFRS 1 First application of IFRS,
 - IFRS 12 Disclosure of interests in other entities,
 - IFRS 28 Investments in associates and joint ventures

Amendments which relate to IFRS 12 are effective for periods starting on 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for the annual period beginning on or after 1 January 2018.

- IFRIC 22 Foreign currency transactions and advance considerations (issued in December 2016).
- IFRIC 23 Uncertainty over Income tax treatments (issued in June 2017)

The Company's management anticipates that the application of the above standards, amendments and interpretations, except for IFRS 16 as stated above, will have no material impact on the Company's financial statements in the period of initial application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparation of the condensed interim financial statements

Preparation of the condensed interim financial statements in conformity with International Accounting Standard 34 Interim Financial Reporting, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Estimates used in preparation of these condensed interim financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which could cause changes in the assumptions used for making these estimates. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

There were no changes in the use of estimates or critical judgments applied in preparation of these condensed interim financial statements with respect of those applied in preparation of the annual financial statements.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

3. REVENUE FROM ELECTRICITY SALES

	For the six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Revenue from electricity export	414,614	482,798
Revenue from electricity sales in country	43,374	28,640
	457,988	511,438

4. FINANCIAL INCOME AND EXPENSES

	For the six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Financial income		
Interest	76,525	86,619
Foreign currency exchange gains	203,190	105,112
Dividend from subsidiary and associated companies	740,057	614,214
Income from dividend	26	26
Other financial income	982	28,192
Total financial income	1,020,780	834,163
Financial expenses		
Interest	(113,049)	(122,355)
Foreign exchange losses	(68,356)	(53,772)
Fair value swap	(284,678)	(33,633)
Fair value of shares	(58)	(71)
Other financial expenses	(4,819)	(6,461)
Total financial expenses	(470,960)	(216,292)
Net profit from financial activities	549,820	617,871

5. GAS SALES

Supply on the wholesale market

By a Decision of the Government of the Republic of Croatia in April 2014, the Company was defined as a gas supplier on the wholesale market in a period until April 2017. Pursuant to the above Decision from the Croatian Government, the Company has rented 70% of warehouse capacities in underground gas storage facilities. In the period from 1 April 2014 to 31 March 2015 the Company agreed rent of capacities of 3.600 million kWh, in the period of 1 April 2015 to 31 March 2016, the Company agreed rent of capacities of rent of 3.550 million kWh, and in the period from 1 April 2016 to 31 March 2017 the Company agreed rent of capacities of 3.500 million kWh. By the Act on Amendments to the Gas Market Act, the Company was determined as a supplier on the wholesale gas market from April 1, 2017 to March 31, 2018. Pursuant to the Act on Amendments to the Gas Market Act, the gas storage system operator allocated to the Company 3,050 million kWh or 60% of the storage capacity in the underground gas storage facility for the period from 1 April 2017 to 31 March 2022.

The Company as a supplier on the wholesale market sells gas as public service and under regulated conditions to local suppliers for household customers, and is obligated to provide secure and reliable gas supply.

6. ELECTRICITY PURCHASE COST

The cost of electricity purchases for the six months ended 30 June 2017 (including related companies) amounted to HRK 2,620,633 thousand (for the same period last year: HRK 2,264,321 thousand). The costs are increased compared to the same period last year due to unfavourable hydrological conditions and consequently growth of import and growth of electricity cost on the wholesale market during winter months. The electricity purchase cost which excludes related companies refers to procurement outside the wholesale system and sales to final customers.

7. CORPORATE INCOME TAX EXPENSE

Corporate income tax expense during the six months period are accounted on the basis of actual results and the profit tax rate of 18%. The reduction in the profit tax rate in Croatia from 20% to 18% came into effect from 1 January 2017.

8. TRADE RECEIVABLES

Trade receivables stated in the condensed interim statement of financial position / condensed interim balance sheet as at 30 June 2017 in the amount of HRK 79,250 mostly relate to receivables for the sale of gas to customers in the wholesale market. Trade receivables stated as at 31 December 2016 were significantly higher compared to those stated as at 30 June 2017 due to the heating season.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

9. ASSETS UNDER CONSTRUCTION

Assets under construction stated as at 30 June 2017 amounted to HRK 750,681 thousand, and the most important relates to the preparatory work for construction of a replacement block TE Plomin in the amount of HRK 221,430 thousand, investment in the project EDM/ECM in the amount of HRK 99,853 thousand and investment in the preparatory work for construction of HE Ombla in the amount of HRK 45,807 thousand and to investment in cogeneration plants on forest biomass BE-TO Sisak in the amount of HRK 139,480 thousand and BE-TO Osijek in the amount of HRK 118,060 thousand.

10. INVENTORIES

	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Gas inventory for wholesale	319,100	379,488
CO ₂ emission units	104,055	222,957
Investment material	2,738	2,026
Other material	1,075	941
	426,968	605,412

11. TRADE PAYABLES

Trade payables as at 30 June 2017 amounted to HRK 425,807 thousand (31 December 2016: HRK 630,250 thousand). The difference is largely conditioned by the increased supply of gas in the heating season.

12. EQUITY AND RESERVES

During first registration on 12 December 1994, the Company's equity was registered in the amount of (Deutsche Mark) DEM 5,784,832 thousand. By subsequent change in registration of the Company dated 19 July 1995, Company's equity was stated in Croatian Kuna in the amount of HRK 19,792,159 thousand. The share capital consists of 10,995,644 ordinary shares with individual nominal value of HRK 1,800.00.

Retained earnings in the amount of HRK 5,610,450 thousand consists of the profit for the period in the amount of HRK 755,431 thousand, retained earnings in the amount of HRK 4,403,218 thousand and reserves in the amount of HRK 451,801 thousand.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

13. LONG-TERM LOAN LIABILITIES

	Interest rate	30 June 2017	31 December 2016
		HRK'000	HRK'000
		Unaudited	Audited
Domestic bank loans	Floating	625,150	827,728
Foreign bank loans	Fixed	243,125	237,817
Total		868,275	1,065,545
Deferred loan originated fees		(1,537)	(2,152)
Total long-term loans		866,738	1,063,393
Current portion for long-term loans		(429,024)	(408,711)
Long-term portion		437,714	654,682

During 2017, the Company contracted loans with domestic and foreign banks with floating and fixed interest rates ranging from 0.47% to 2.57%

Loans from domestic banks are secured by bills of exchange and promissory notes. At 30 June 2017, the Company doesn't have any liabilities covered by *sovereign loan guarantees*.

New financing sources

For the financing of the investment plan and the regular operations in 2017 the Company used own funds and funds from loans in use.

Loans in use

During 2017, the Company still had available funds from long-term loan from KfW Entwicklungsbank in the amount of EUR 50,000 thousand for the financing of energy efficiency and renewable energy projects. As of 30 June 2017, KfW loan balance was EUR 32,8 million, and the amount of EUR 17,2 million were unutilised.

13. LONG-TERM LOAN LIABILITIES (continued)

Annual principal repayment schedule of long-term loans in next five years is stated as follows:

	Amount
	HRK'000
2017	204,728
2018	400,742
2019	113,190
2020	37,404
2021	37,404
after 2021	74,807
	<hr/> 868,275 <hr/>

Loans from domestic banks are secured by bills of exchange and promissory notes. For one club loan, the Company is obliged to meet the required level of financial indicators (covenants) on annual and semi-annual basis: tangible net worth, EBITDA to net finance charges, total net borrowings to tangible net worth.

The primary goal related to risks resulting from covenants is to protect the Company from possible defaults, respectively early maturity of loan liabilities.

The agreed covenants are monitored and calculated based on the projected Balance sheet and the Income statement.

The Company prepares preliminary calculations of the covenants in the upcoming mid-term period, and is following their trends.

If the projections accounted at the end of the financial year shows that the Company could be in breach of covenants, the Company is obligated to inform the Bank regarding the possibility of a breach (event of default) and timely request a waiver from the Bank.

In the event that the Bank does not approve the "waiver", the possible scenario is an early maturity of the debt, which represents liquidity risk for the Company.

The Management believes that in the case of breach of covenants, the Company can obtain a "waiver" from the Creditors, given that timely payment of liabilities to financial institutions represent priority obligation of the Company and the Company has never been late in payment of liabilities to financial institutions.

Therefore, the Management estimates that possibility of early maturity of loan liabilities due to breach of covenant, as well as Company's exposure to credit risk, liquidity risk and market risk, which would result from a possible non-compliance with covenants, is minimal.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

13. LONG-TERM LOAN LIABILITIES (continued)

For the purpose of providing solvency reserves the Company has concluded with domestic banks multi-purpose overdraft agreements in the total amount of HRK 1,385 billion. Funds from agreed overdrafts the Company may use as short-term loans, as well as for issuance of guarantees, letters of credit and letters of intention in accordance with the needs of the companies in the HEP Group.

During 2017, due to good liquidity, the Company did not use funds from preapproved mid-term multipurpose overdraft agreements. As of 30 June 2017, the Company has available funds from short-term financing sources in total amount of HRK 1,281 million.

14. LIABILITIES UNDER ISSUED BONDS

	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Nominal value of bonds in the country issued in 2007	46,340	92,946
Discounted value	-	84
Current maturity of bonds	(46,340)	(93,030)
	<u>-</u>	<u>-</u>
Value of bonds issued abroad in 2012	493,571	498,617
Exchange differences	(9,870)	(5,046)
Current maturity of bonds	(483,701)	(493,571)
Bonds issued in 2012	<u>-</u>	<u>-</u>
Value of bonds issued abroad in 2015	3,626,428	3,656,047
Exchange differences	(73,383)	(37,511)
Discounted value	4,459	7,892
	<u>3,557,504</u>	<u>3,626,428</u>
Accrued bond costs	(18,518)	(20,255)
Bonds issued in 2015	<u>3,538,986</u>	<u>3,606,173</u>
Total liabilities under issued bonds	<u>3,538,986</u>	<u>3,606,173</u>

14. LIABILITIES UNDER ISSUED BONDS (continued)

Bonds issued in the Republic of Croatia

Bonds in the amount of HRK 700,000 thousand, issued at the end of 2007, are repayable in 15 semi-annual instalments, commencing three years from the date of issue, and are bearing fixed interest of 6.50 percent. The bonds are listed on the Zagreb Stock Exchange.

Bonds issued abroad

In November 2012, the Company has issued bonds in the amount of USD 500,000 thousand. Bonds have maturity of 5 years and are bearing annual fixed interest of 6%. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreement, by which liability upon issued bonds abroad in USD is converted in EUR for all period of bond duration, respectively until its outermost maturity date at 9 November 2017.

According to the cross-currency swap agreement from 2012, annual interest rate paid by the Company semi-annually is fixed and amounts to 6.53% (include swap cost).

Refinancing

In October 2015, bonds issued in 2012 were refinanced from the new bond issue and repaid 83.37% of the principal respectively USD 416,852 thousand. The amount of outstanding principal on bonds issued in 2012, on 30 June 2017 amounted to USD 83,148 thousand. Cross currency swap agreement from 2012 is applicable for outstanding principal until its outermost maturity date at 9 November 2017.

The new bond issue

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with maturity of 7 years, fixed interest rate of 5.875% per annum and the issue price of 98.594%. Bonds issued in 2015, are mainly used for the repurchase of 83.37% of the bonds issued in 2012 (i.e. the repurchase of USD 416,852 thousand). The remaining issue is intended to finance the Company's business. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreement, by which liability upon issued bonds abroad in USD is converted in EUR for all period of bond duration, respectively until its outermost maturity date at 23 October 2022.

14. LIABILITIES UNDER ISSUED BONDS (continued)

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

Derivative financial instruments

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreements, by which liabilities upon issued bonds abroad in 2012 and 2015 in USD are converted in EUR for all period of bond duration, respectively until its outermost maturity date.

The purpose of the cross-currency swap agreement is to reduce currency risk and recommendations of the credit agencies about the importance of strategic management of currency risks to reduce their impact on the business performance of the Company.

According to the agreement from 2012, annual interest rate paid by the Company semi-annually is fixed and amounts to 6.53%, and according to the agreement from 2015 amounts to 4,851% (weighted interest rate).

The Company measures the fair value of the cross-currency swap according to the calculation of Mark-to-market ("MTM") value, according to official banks calculation for the reporting period.

A positive "MTM" value is recorded as a receivable respectively it is formed financial income for the period, and negative "MTM" value is recorded as a liability and it is formed financial expense of the reporting period.

After a final maturity of derivative financial instruments, subject receivables or liabilities will be debited to the expense or credited to the income of the Company.

On 30 June 2017, using this measuring method, the Company stated fair value of assets by bonds issued in 2012 in the amount of HRK 52,480 thousand (31 December 2016: HRK 96,196 thousand).

On 30 June 2017, using this measuring method, the Company stated fair value of liabilities by bonds issued in 2015 in the amount of HRK 273,213 thousand (31 December 2016: HRK 32,251 thousand) (Note 15).

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

15. OTHER LONG-TERM LIABILITIES

Other long-term liabilities as at 30 June 2017 amounted to HRK 1,068,266 thousand, and consist of liabilities for assets funded from the clearing debt in the amount of HRK 781,748 thousand, derivative financial liabilities per swap transaction in the amount of HRK 273,213 thousand (Note 14), and other liabilities in the amount of HRK 13,305 thousand.

At 30 June 2017, the Company stated clearing debt liability in the amount of HRK 781,748 thousand (31 December 2016: HRK 863,450 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, it has not been clearly defined whether it relates to a loan or other legal relationship.

16. RELATED PARTY TRANSACTIONS

Related party transactions refer to subsidiaries in sole ownership of the Company. The Company holds 50% of shares in Krško Nuclear Power Plant d.o.o. (NEK) and in the company LNG Hrvatska d.o.o.. The electricity generated by NEK is delivered to HEP d.d. at 50% of total generated quantities and at prices determined in accordance with the total generation costs.

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

NE Krško d.o.o.

	30 June 2017	31 December 2016
	HRK '000	HRK '000
	Unaudited	Audited
Liabilities for purchased electricity	48,188	52,444
Costs of purchased electricity	291,014	312,681

LNG Hrvatska d.o.o.

	30 June 2017	31 December 2016
	HRK '000	HRK '000
	Unaudited	Audited
Loan receivables	60,997	54,596

16. RELATED PARTY TRANSACTIONS (continued)

Related party transactions are listed below:

/i/ Company's revenues arise from sale of electricity, re-invoiced income of related companies for electricity sales, accounting, legal and other similar services, as well as based on the lease of business premises. The amount of these revenues from related companies is determined on the basis of the following sizes: the value of assets of related company, the cost of employees and the total cost of the related company.

/ii/ Interest on long-term lease of property, plant and equipment and intangible assets are charged to tenants based on loans that were used for construction of those assets and are stated as interest income from related companies.

/iii/ Costs with related companies arise for the electricity taken from HEP Proizvodnja d.o.o, supply of electricity from renewable sources and cogeneration plants, and balancing electricity. The costs for the aforementioned services and the losses on the network are invoiced monthly according to the provisions and tariffs prescribed by HERA.

/iv/ Short-term receivables from related companies arise from the sale of fuel, materials and spare parts, for the electricity sold by the company HEP Operator distribucijskog sustava d.o.o., HEP Opskrba d.o.o., trading of electricity and gas, from the cost of the Company's common functions as well as for assets under construction financed by the Company. After completion of the construction, those assets are transferred to related companies as a finance lease.

/v/ Long-term receivables from related companies arise from financial lease of property, plant and equipment to related companies, except HOPS. Lease is paid monthly according to depreciation of leased assets. The Company also has receivables from related companies for apartments sold to employees.

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

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	Six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Revenues from sale of electricity		
Revenues from sale of electricity to HEP-ODS	-	1,084,082
Revenues from sale of electricity to HEP Elektra d.o.o.	1,016,384	-
Revenues from sale of electricity to customers of HEP-Opkrba d.o.o.	1,122,995	1,183,648
Revenues from invoiced losses on transmission network	43,663	61,138
Revenues from invoiced losses on distribution network	187,620	234,350
Revenues from balancing energy	7,626	1,095
Revenues from sale of electricity to other companies within HEP Group	4,765	6,490
Revenues from sale of electricity to HEP-Energija d.o.o. Ljubljana	87,093	33,453
Revenues from sale of electricity to HEP-Trade d.o.o. Beograd	8,213	5,578
Revenues from sale of electricity to HEP-Trade d.o.o. Mostar	5,316	13,658
Revenues from sale to related companies	2,483,675	2,623,492

In November 2016 was founded company HEP ELEKTRA d.o.o. as a result of the status change – demerger from HEP-Operator distribucijskog sustava d.o.o., which supplies end customers with the electricity. Given the changes that have taken place, based on the Electricity Purchase Agreement for End-Customers within universal service and guaranteed supply (as of January 1, 2017), the Company sells electricity to HEP ELEKTRA d.o.o. and states realized income as income from sale of electricity to HEP ELEKTRA d.o.o.

Revenue from sale of gas to HEP Plin d.o.o.	82,289	76,887
Operating income		
Revenues from administrative services	83,402	77,212
Revenues from lease of business services	8,480	5,801
Revenues from sale of CO2 emissions	130,001	125,078
Other revenues	2,343	3,241
	224,226	211,332
Revenues from sale to related companies	2,790,190	2,911,711

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	Six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Financial income		
Interest income on lease of assets	55,468	60,863
Interest income on loans to related companies	19,769	19,818
	75,237	80,681

	Six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Electricity purchase costs – related companies		
HEP Proizvodnja d.o.o. – for delivered electricity	1,060,900	961,767
HEP Opskrba d.o.o. – for purchase of electricity from OIE	147,256	144,773
Energy balancing cost	25,956	1,242
TE Plomin d.o.o.	207,593	186,258
HEP Energija d.o.o. Ljubljana	-	1,032
HEP-Trade d.o.o. Beograd	-	562
HEP-Trade d.o.o. Mostar	33	133,481
	1,441,738	1,429,115

	Six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Costs		
HEP Opskrba d.o.o. – fee for supply of electricity	21,475	19,460
HEP Trgovina d.o.o.- fee for optimizing structure of electr. source	7,481	6,434
Supply of gas	3,224	2,679
Costs of HEP for losses on distribution network	-	3,068
	32,180	31,641

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

Long-term receivables	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Lease receivables		
HEP Operator distribucijskog sustava d.o.o.	7,776,156	8,086,042
HEP Proizvodnja d.o.o.	7,982,721	8,219,593
HEP Toplinarstvo d.o.o.	728,547	754,294
HEP Upravljanje imovinom d.o.o.	113,646	114,027
HEP Plin d.o.o.	153,190	157,101
HEP Noc d.o.o.	11,741	12,104
HEP Opskrba d.o.o.	2,702	3,248
HEP Trgovina d.o.o.	931	1,061
HEP Esco d.o.o.	1,779	2,092
Program Sava d.o.o.	279	314
HEP Opskrba plinom d.o.o.	202	237
HEP Elektra d.o.o.	1,158	1,211
	16,733,052	17,351,324
Receivables for sold flats		
HEP Operator distribucijskog sustava d.o.o.	6,319	6,610
HEP Proizvodnja d.o.o.	3,827	4,048
HOPS d.o.o.	1,093	1,215
HEP Toplinarstvo d.o.o.	139	147
	11,378	12,020
	16,784,430	17,363,344
Current portion of lease	(1,083,937)	(1,083,937)
Long-term portion of leased from related companies	15,700,493	16,279,407

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

Long-term loans to related companies	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
HEP-Toplinarstvo d.o.o.	71,100	79,000
HEP-Opkrba d.o.o.	129	129
	71,229	79,129
Current portion	(15,800)	(15,800)
	55,429	63,329

Receivables from related companies – for KfW loan funds	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Receivables for sub-loans HEP ESCO d.o.o. – long-term portion	55,337	55,337
Receivables for sub-loans HOPS	753,737	834,077
	809,074	889,414
Current portion	(204,664)	(216,681)
	604,410	672,733

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

Short-term receivables	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
HEP Operator distribucijskog sustava d.o.o. – sold electricity and interests	13,709	14,742
HEP Operator distribucijskog sustava d.o.o. – losses on distribution network	74,755	119,948
HEP Elektra d.o.o. - sold electricity	382,660	220,754
HEP Opskrba d.o.o. - sold electricity and interests	378,280	500,155
HOPS d.o.o. – losses on transmission network	16,632	25,620
HEP Energija d.o.o. Ljubljana - sold electricity	42,382	16,441
HEP Trade d.o.o. Beograd - sold electricity	506	1,615
HEP Trade d.o.o. Mostar - sold electricity	1,135	860
	910,059	900,135
Costs of common functions		
HEP Proizvodnja d.o.o.	4,640	1,750
HEP Operator distribucijskog sustava d.o.o.	8,774	8,131
HEP Toplinarstvo d.o.o.	1,372	3,542
HEP Plin d.o.o.	8,099	9,372
HEP Upravljanje imovinom d.o.o.	2,162	1,579
HEP Trgovina d.o.o.	2,159	1,212
HEP Opskrba d.o.o.	7,059	2,545
HEP NOC	79	186
HEP ESCO d.o.o.	408	664
Program Sava d.o.o.	471	901
HEP Telekomunikacije d.o.o.	481	163
Opskrba plinom d.o.o.	155	303
HEP Elektra d.o.o.	1,437	495
Hrvatski centar za čistiju proizvodnju	416	276
	37,712	31,119

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Short-term receivables for leased non-current assets		
HEP Proizvodnja d.o.o.	102,328	41,357
HEP Toplinarstvo d.o.o.	12,497	23,565
HEP Operator distribucijskog sustava d.o.o.	143,059	62,200
HEP Plin d.o.o.	5,315	12,275
HEP Upravljanje imovinom d.o.o.	1,762	1,122
HEP NOC	9,765	9,434
HEP Trgovina d.o.o.	125	43
HEP Opskrba d.o.o.	569	258
HEP Esco d.o.o.	67	76
Program Sava d.o.o.	14	15
HEP Opskrba plinom d.o.o.	9	8
HEP Elektra d.o.o.	15	104
	275,525	150,457
Other short-term receivables	164,570	231,443
Receivables for paid investments and other receivables		
HEP Proizvodnja d.o.o.	575,142	356,635
Hrvatski operator prijenosnog sustava d.o.o.	56,703	57,375
HEP Operator distribucijskog sustava d.o.o.	930,725	458,665
HEP Toplinarstvo d.o.o.	117,277	83,217
HEP Plin d.o.o.	38,649	36,591
HEP ESCO d.o.o.	1,840	786
HEP Noc d.o.o.	1,069	919
HEP Upravljanje imovinom d.o.o.	4,164	-
HEP Opskrba d.o.o.	84,554	17,937
Program Sava d.o.o.	8,732	8,705
HEP Trgovina d.o.o.	31	-
HEP Telekomunikacije d.o.o.	13	-
HEP Opskrba plinom d.o.o.	54	42
Plomin Holding d.o.o.	1,350	1,350
Hrvatski centar za čistiju proizvodnju	1,244	1,192
TE Plomin d.o.o.	28,976	-
	1,850,523	1,023,414

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Receivables for sold investment and other material		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
HEP Toplinarstvo d.o.o.	-	99
	316,153	316,252
Other receivables		
HEP Plin d.o.o.	18,293	18,240
HEP Noc d.o.o.	16,920	15,793
Hrvatski centar za čistiju proizvodnju	115	-
	35,328	34,033
Receivables from TE Plomin d.o.o.		
current portion of long-term receivables	2,127	2,127
other receivables	-	532
	2,127	2,659
Short-term loan receivables		
HEP Trade d.o.o. Beograd	2,250	2,296
HEP KS sh.p.k. Priština	1,169	888
	3,419	3,184
	3,595,416	2,692,696

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Short-term liabilities		
HEP Opskrba – for electricity supply fee	4,072	4,341
HEP Proizvodnja d.o.o. – for delivered electricity	597,923	640,743
HEP Opskrba - supply fee from OIE	28,773	41,848
HEP Trgovina – for trading fee	1,669	1,362
Liabilities for energy balancing	6,749	10,627
HEP Opskrba plinom d.o.o.	894	1,081
HEP Operator distribucijskog sustava d.o.o. – for losses on distribution network	-	85,693
HEP Proizvodnja – liabilities of HEP d.d. based on the cession agreement	966,235	966,235
Other	-	9,621
	1,606,315	1,761,551
	30 June 2017	31 December 2016
	HRK'000	HRK'000
	Unaudited	Audited
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- paid connection fees	180,501	183,381
- funds paid in treasury	217,859	217,229
- HEP Elektra d.o.o. – funds paid in treasury	655,906	485,162
- HEP Proizvodnja d.o.o.	11,673	-
- Liabilities to other companies paid in treasury	8,817	20,339
	1,074,756	906,111
TE Plomin d.o.o. for delivered electricity	-	90,334
HEP Energija d.o.o. Ljubljana for delivered electricity	-	206
HEP Trade d.o.o. Mostar for delivered electricity	24	-
	24	90,540
Total short-term liabilities	2,681,095	2,758,202

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	Sales revenue		Purchase costs	
	Six months period ended		Six months period ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	Unaudited	Unaudited	Unaudited	Unaudited
Companies controlled by the State	HRK'000	HRK'000	HRK'000	HRK'000
Hrvatske Željeznice	26,853	35,492	-	-
INA d.d.	36,482	38,777	591,003	669,689
Plinacro	-	-	66,629	51,194
Croatia osiguranje	-	-	108	65
Hrvatska pošta	-	3	6,330	6,994
Hrvatske šume	803	-	1,088	1,173
Narodne novine	974	529	73	58
Hrvatska radiotelevizija	1,981	2,588	36	36
Plovput d.d.	245	-	-	-
Croatia Airlines	356	235	-	-
Petrokemija Kutina	5,991	6,982	-	-
Ministry of the Interior	4,433	4,691	-	-
Elementary and high schools	8,418	5,155	-	-
Judicial institutions	1,983	1,327	-	-
Colleges and universities	5,814	3,136	32	12
Legislative, executive and other bodies of Republic of Croatia	3,713	2,306	-	-
Health institutions and organizations	20,842	17,696	-	-
Other users	-	-	862	2,997
HROTE d.o.o.	72,529	-	33,453	-
TOTAL	191,417	118,917	699,614	732,218

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

16. RELATED PARTY TRANSACTIONS (continued)

	Receivables		Liabilities	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
	Unaudited	Audited	Unaudited	Audited
Companies controlled by the State	HRK '000	HRK '000	HRK '000	HRK '000
INA-Industrija nafte d.d.	-	-	30,525	112,899
Croatia osiguranje d.d.	-	-	11	28
Hrvatska pošta d.d.	-	-	20	1,315
Narodne novine d.d.	-	-	-	14
HROTE d.o.o.	184	1,924	1,347	3,120
Others	101	72	5,612	37,458
	285	1,996	37,515	154,834

Remunerations for members of the Board and executive directors of the Company:

	Six months period ended	
	30 June 2017	30 June 2016
	HRK '000	HRK '000
	Unaudited	Unaudited
Gross salaries	3,371	3,607
Contributions for pension insurance	785	813
Benefits in kind	553	458
	4,709	4,878

There were no other payments to the Management Board members in addition to regular wages and benefits in kind.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

17. SUBSIDIARIES

As of 30 June 2017, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership interest in %	Principal activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
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	Thermal power generation and distribution
HEP–Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	100	Electricity generation
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects Development of infrastructure in area around Plomin
Plomin Holding d.o.o.	Croatia	100	Maintenance of hydro power plants
CS Buško Blato d.o.o.	BH	100	
HEP–Upravljanje imovinom d.o.o.	Croatia	100	Accommodation and recreation services
HEP NOC Velika	Croatia	100	Accommodation and training
HEP –Trgovina d.o.o.	Croatia	100	Electrical energy trading and optimization of power plants production
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP – Magyarorszag Energia Kft	Hungary	100	Electricity trading
HEP- Trade d.o.o. Mostar	BH	100	Electricity trading
HEP KS sh.p.k. Priština	Kosovo	100	Electricity trading
HEP- Trade d.o.o. Beograd	Serbia	100	Electricity trading
Program Sava d.o.o.	Croatia	100	Spatial planning, design, construction and supervision
HEP Opskrba plinom d.o.o.	Croatia	100	Gas distribution
HEP-Telekomunikacije d.o.o.	Croatia	79,94	Telecommunication services
Hrvatski centar za čistiju proizvodnju	Croatia	100	Training and consulting in the field of cleaner production and environmental management systems
NE Krško d.o.o.	Slovenija	50	Electricity generation

The majority of these subsidiaries were founded for the purpose of reorganization and restructuring of the core business activities driven by the new energy legislation, which came into force as of 1 January 2002. The company HEP-Telekomunikacije d.o.o. was founded in 2013. In 2014 the company HEP- RVNP d.o.o. changed its name to *Program Sava d.o.o.* and new company HEP Opskrba plinom d.o.o. was founded. In May 2015 the company APO d.o.o. was merged with the Company and in July 2015 the company HEP OIE d.o.o. was merged to the company HEP Proizvodnja d.o.o.

On 24 April 2016, the company HEP Odmor i rekreacija d.o.o. changed its name to HEP Upravljanje imovinom d.o.o.

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

17. SUBSIDIARIES

The Agreement signed between HEP and RWE expired on 28 May 2015 and upon expiration HEP d.d. become the sole owner of TE Plomin d.o.o. Movements on investments are shown as follows:

	30 June 2017	31 December 2016
	HRK '000	HRK '000
	Unaudited	Audited
Balance at 1 January	7,199,111	6,032,580
Hrvatski operator prijenosnog sustava d.o.o.	-	193,912
Reinvested profit in HOPS d.o.o.	271,672	189,680
HEP-Operator distribucijskog sustava d.o.o.- capital reserves	-	605,280
HEP-Operator distribucijskog sustava d.o.o. – transfer of shares in HEP ELEKTRA d.o.o.	-	(20)
HEP ELEKTRA d.o.o. – founders' stake	-	20
HEP Toplinarstvo d.o.o.- capital reserves	-	54,935
HEP-Telekomunikacije d.o.o.- capital reserves	-	57,604
Plomin Holding d.o.o.- decrease in shares	-	(4,980)
HEP Upravljanje imovinom d.o.o.- increase in stock capital	-	70,000
TE Plomin d.o.o. – takeover of shares from RWE	-	100
	7,470,783	7,199,111

	30 June 2017	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
HEP - Proizvodnja d.o.o.	40	40
Hrvatski operator prijenosnog sustava d.o.o.	4,641,588	4,369,916
HEP - Operator distribucijskog sustava d.o.o.	1,764,960	1,764,960
HEP - Opskrba d.o.o.	20	20
HEP -Toplinarstvo d.o.o.	730,816	730,816
HEP - Plin d.o.o.	20	20
HEP ESCO d.o.o.	3,920	3,920
HEP – Upravljanje imovinom d.o.o.	70,020	70,020
HEP-Trgovina d.o.o.	20	20
Program Sava d.o.o.	20	20
HEP-Telekomunikacije d.o.o.	258,799	258,799
Plomin Holding d.o.o.	20	20
HEP Opskrba plinom d.o.o.	20	20
NOVENERG d.o.o.	380	380
Hrvatski centar za čistiju proizvodnju	20	20
HEP Elektra d.o.o.	20	20
TE Plomin d.o.o.	100	100
	7,470,783	7,199,111

Notes to the condensed interim financial statements of HEP d.d. (continued)

For the six months period ended 30 June 2017

18. 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.

Fair value measurements recognized in the balance sheet / 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, which 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

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

The levels of fair value recognized in the statement of financial position:

	1 st level HRK '000	2 nd level HRK '000	3 rd level HRK '000	Total HRK '000
30 June 2017, unaudited				
Available-for-sale assets	311,294	-	-	311,294
Derivative financial assets	-	-	52,480	52,480
Derivative financial liabilities	-	-	273,213	273,213
Investment property	-	15,433	-	15,433
31 December 2016, audited				
Available-for-sale assets	289,558	-	-	289,558
Derivative financial assets	-	-	96,196	96,196
Derivative financial liabilities	-	-	32,251	32,251
Investment property	-	15,433	-	15,433

19. CONTINGENT LIABILITIES

Water Management Act

According to an interpretation by the State Attorney's Office, *Water Management Act* that came into force on 4 January 1996 and the new *Water Management Act* that came into force on 1 January 2010, bring into question the property-legal status of the asset for electricity production from the hydro-power plant because the land on which the hydro-power plants was constructed is classified as 'Public Water Resources' which by its legal nature is considered to be real estate for common use owned by the Republic of Croatia and cannot be the subject of ownership of a physical or legal entity. There are currently several out of court settlement procedures between the Company and Republic of Croatia relating the right of registering ownership of hydro power plants in favour of Republic of Croatia. There is no uniform case law regarding this issue.

The Company has disputed the interpretation of the Water Management Act as aforementioned property was included in balance sheet of the Company during ownership transformation and therefore cannot be subject to laws that came into force after transition was conducted. This interpretation by the Company is in accordance with the Decision by the Croatian Constitutional Court, Ref. No. U-III-3049/2007. Also, it is necessary to consider overall electrical energy security of the Republic of Croatia, and the fact that the Company has built and invested significant resources in these facilities, that the Company maintains these facilities, and is the owner of all equipment necessary for the operation and functionality of the above-mentioned hydro-power plants.

The Company has filed a motion to the Constitutional Court to institute proceedings to review the constitutionality of Article 23 Paragraph 4 of the Water Management Act with the Constitution and upon conclusion of the procedure to annul the said provision. Furthermore, in 2015 the Ministry of Agriculture has launched amendment procedure to the Water Act. As part of this process and with consideration of all of the above mentioned, the Company has submitted a proposal for amendment of the provisions of the Water Act, with the aim of clearing the property-legal relations and ownership of the Republic of Croatia over facilities for electricity production built by legal persons in the majority ownership of the Republic of Croatia. The competent Ministry of Economy issued an opinion with approval of the Company's initiative to amend the Water Act.

In 2016 and 2017, the Company continued its activities in order to address the issue of ownership of hydroelectric power plants reported on the mentioned issue to the Ministry of Environmental Protection and Energy.

20. LIABILITIES BASED ON THE SHARE IN THE RESULT

On 8 June 2017, the General Assembly of the Company issued a decision on dividend payment for 2016 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 794,291 thousand.

21. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements for six months period ended 30 June 2017 were approved by the Management Board and authorised for issue on 24 August 2017.

Signed on behalf of the Management Board on 24 August 2017:

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Tomislav Rosandić
Management Board
Member



Zvonko Ercegovic
Management Board
Member



Saša Dujmić
Management
Board Member



Perica Jukić
President of the
Management Board



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