HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Condensed consolidated interim financial statements for the period ended 30 June 2015

Contents

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Independent Auditor's Report on Review of condensed consolidated Interim Financial Information

To the Owner of Hrvatska Elektroprivreda d.d.:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Hrvatska Elektroprivreda d.d. and its subsidiaries ("the Group") as of 30 June 2015 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and notes to the condensed consolidated interim financial information. Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with IAS 34 Interim Financial Reporting.

Our responsibility is to express a conclusion on this condensed consolidated 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 consolidated financial statements as at 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

Emphasis of matter

1. As described in the Note 12 to the condensed consolidated interim financial information, as at 30 June 2015, the Group stated clearing debt liability in the amount of HRK 822,604 thousand (31 December 2014: HRK 759,089 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 a government grant.

2. As described in the Note 16 to the condensed consolidated interim financial information, 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 (canals, dams, etc.) 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.

In Zagreb, 10 September 2015

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Jadrešić

Irena Jadrešić, Certified auditor

Zdenko Balen, Member of the Management Board

	Notes	For the six months period ended 30 June 2015 HRK '000 Unaudited	30 June 2014 HRK '000 Unaudited
Revenue from electricity sales	4,6	5,244,063	5,236,859
Revenue from thermal power sales	4	389,556	374,844
Revenue from sale of gas on wholesale market	4,5	789,773	155,879
Revenue from sale of gas to customers	4	220,291	181,557
Sales revenue		**6,643,683**	**5,949,139**
Other operating income		500,219	544,190
Total operating income		**7,143,902**	**6,493,329**
Electricity purchase cost	6	(774,794)	(481,639)
Fuel cost	6	(976,073)	(986,482)
Costs of gas sold	5	(808,823)	(165,663)
Staff cost		(942,642)	(901,948)
Depreciation and amortization costs		(922,212)	(933,853)
Other operating expenses		(1,207,581)	(1,241,176)
Total operating expenses		**(5,632,125)**	**(4,710,761)**
Operating profit		**1,511,777**	**1,782,568**
Financial income	7	423,584	76,294
Financial expenses	7	(239,547)	(162,861)
Net profit /(loss) from financial activities		**184,037**	**(86,567)**
Profit before taxation		**1,695,814**	**1,696,001**
Corporate income tax expense	8	(350,668)	(373,039)
Profit for the period		**1,345,146**	**1,322,962**
Attributable to:			
Owners of the parent		1,344,184	1,321,052
Non-controlling interest		962	1,910
		1,345,146	**1,322,962**

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

Condensed consolidated statement of comprehensive income of the HEP Group (continued)

For the six months period ended 30 June 2015

	For the six months period ended	
	30 June 2015	**30 June 2014**
	HRK '000	HRK '000
	Unaudited	Unaudited
Profit for the period	**1,345,146**	**1,322,962**
Other comprehensive income		
Exchange gains arising on translation of foreign operations	(17,420)	(318)
Net gain on AFS financial assets	42,771	10,230
Net other comprehensive income to be reclassified to profit/(loss) in subsequent periods	*25,351*	*9,912*
Other comprehensive income, net	**25,351**	**9,912**
Total comprehensive income for the period, net of tax	**1,370,497**	**1,332,874**
Total comprehensive income attributable to:		
Owners of the parent	1,369,792	1,331,190
Non-controlling interest	705	1,684
	1,370,497	**1,332,874**

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

Signed on behalf of the Company on 9 September 2015:

Perica Jukić

President of the Board

Tomislav Rosandić

Member of the Board

ASSETS	Notes	30 June 2015 HRK '000 Unaudited	31 December 2014 HRK '000 Audited
Non-current assets			
Property, plant and equipment		25,026,661	25,334,813
Assets under construction		4,469,740	4,188,741
Prepayment for property, plant and equipment		58,766	41,486
Intangible assets		65,876	77,046
Investment property		236,155	236,153
Long-term loans and deposits		4,533	4,533
Available-for-sale and other investments		234,352	192,676
Other long-term assets		47,813	49,804
Derivative financial instruments	11	349,469	1,473
Deferred tax assets		628,360	653,907
Total non-current assets		**31,121,725**	**30,780,632**
Current assets			
Inventories		1,477,801	1,613,297
Trade receivables		1,496,073	1,864,680
Other short-term receivables		479,799	518,209
Cash and cash equivalents		1,176,586	1,079,900
Total current assets		**4,630,259**	**5,076,086**
TOTAL ASSETS		**35,751,984**	**35,856,718**

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

EQUITY AND LIABILITIES	Notes	30 June 2015	31 December 2014
		HRK '000	HRK '000
		Unaudited	Audited
Share capital	9	19,792,159	19,792,159
Revaluation reserves		97,718	54,947
Retained earnings	9	3,528,286	2,201,265
Equity Attributable to Owners of the Parent		**23,418,163**	**22,048,371**
Non-controlling interest	9	0	29,202
Total equity		**23,418,163**	**22,077,573**
Non-current liabilities			
Long-term loan liabilities	10	1,081,637	1,262,036
Long-term liabilities to the State		20,245	21,690
Long-term provisions		924,041	902,779
Liabilities under issued bonds	11	3,116,606	3,194,986
Other long-term liabilities	12	4,445,408	4,499,502
Deferred tax liabilities		13,573	13,573
Total non-current liabilities		**9,601,510**	**9,894,566**
Current liabilities			
Trade payables		967,353	1,590,745
Current portion of long-term bonds	11	93,380	93,380
Current portion of long-term loans	10	385,004	416,349
Short-term loans	13	-	8,981
Taxes and contributions		145,993	361,095
Interest payable		37,384	38,263
Liabilities to employees		147,655	151,240
Other short-term liabilities		955,542	1,224,526
Total current liabilities		**2,732,311**	**3,884,579**
TOTAL EQUITY AND LIABILITIES		**35,751,984**	**35,856,718**

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

Signed on behalf of the Company on 9 September 2015:

Perica Jukić
President of the Board

Tomislav Rosandić
Member of the Board

Condensed consolidated statement of changes in equity of the HEP Group
For the six months period ended 30 June 2015

	Share capital	Revaluation reserves	Retained earnings	Equity attributable to Owners of the Parent	Non controlling interest	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2014	**19,792,159**	**2,617**	**18,809**	**19,813,585**	**31,977**	**19,845,562**
Distribution of dividends	-	-	(284,918)	(284,918)	-	(284,918)
Profit for the period	-	-	1,321,052	1,321,052	1,910	1,322,962
Other comprehensive income	-	10,230	(92)	10,138	(226)	9,912
Total comprehensive income	**-**	**10,230**	**1,320,960**	**1,331,190**	**1,684**	**1,332,874**
Balance as at 30 June 2014, unaudited	**19,792,159**	**12,847**	**1,054,851**	**20,859,857**	**33,661**	**20,893,518**
Balance at 1 January 2015	**19,792,159**	**54,947**	**2,201,265**	**22,048,371**	**29,202**	**22,077,573**
Profit for the period	-	-	1,344,184	1,344,184	962	1,345,146
Other comprehensive income	-	42,771	(17,163)	25,608	(257)	25,351
Total comprehensive income	**-**	**42,771**	**1,327,021**	**1,369,792**	**705**	**1,370,497**
Distribution of dividends - RWE	-	-	-	-	(4,054)	(4,054)
Distribution of capital reserves - RWE	-	-	-	-	(25,853)	(25,853)
Balance as at 30 June 2015, unaudited	**19,792,159**	**97,718**	**3,528,286**	**23,418,163**	**0**	**23,418,163**

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

Signed on behalf of the Company on 9 September 2015:

Perica Jukić

President of the Board

Tomislav Rosandić

Member of the Board

	For the six months period ended	
	30 June 2015	30 June 2014
	HRK '000 Unaudited	HRK '000 Unaudited
Cash flows from operating activities		
Profit for the period	1,345,146	1,322,962
Corporate income tax expense recognized in profit	325,121	374,066
Net (profit) / loss from financial activities	(184,037)	86,567
Depreciation and amortization	922,212	933,853
Increase in impairment of receivables	50,914	44,033
(Decrease) / increase in impairment of inventories	(291)	1,928
(Decrease) in provisions	(13,520)	(6,412)
Operating cash flows before movements in working capital	*2,445,545*	*2,756,997*
Decrease in trade receivables	317,693	161,398
Decrease/(increase) in inventories	135,787	(287,951)
Decrease in other current assets	39,883	204,927
(Increase) in long-term receivables	-	(503)
(Decrease) in trade payables	(623,392)	(548,500)
(Decrease)/increase in other current liabilities	(332,065)	258,821
(Decrease) in other non-current liabilities	(72,702)	(115,323)
Increase in provisions	34,782	36
Cash generated from operations	**1,945,531**	**2,429,902**
Corporate income tax (paid)	(506,715)	(427,408)
Interests paid	(150,940)	(149,174)
NET CASH FROM OPERATING ACTIVITIES	**1,287,876**	**1,853,320**
INVESTING ACTIVITIES		
Interests receipts	5,596	7,244
Increase in property, plant and equipment	(883,889)	(702,481)
Other non-current assets	(16,049)	2,909
NET CASH USED IN INVESTING ACTIVITIES	**(894,342)**	**(692,328)**

	For the six months period ended	
	30 June 2015	30 June 2014
	HRK '000 Unaudited	HRK '000 Unaudited
FINANCING ACTIVITIES		
Bond repayments	(46,690)	(46,690)
Long-term loans received	26,611	-
Repayments of long-term loans	(223,277)	(103,702)
Repayments of short-term loans	(8,981)	(558,266)
Dividends and capital reserves paid – RWE	(44,511)	-
NET CASH USED IN FINANCING ACTIVITIES	**(296,848)**	**(708,658)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**96,686**	**452,334**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**1,079,900**	**260,844**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**1,176,586**	**713,178**

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

Signed on behalf of the Company on 9 September 2015:

Perica Jukić

President of the Board

Tomislav Rosandić

Member of the Board

1. BASIS OF PREPARATION

These condensed consolidated interim financial information are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting.* The preparation of the unaudited condensed consolidated interim financial information for the six months period ended 30 June 2015 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 financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the condensed consolidated interim financial 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 consolidated financial statements of Hrvatska Elektroprivreda d.d. and its and subsidiaries ("the HEP Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU. The condensed consolidated interim financial information have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34'). The condensed consolidated financial information for the six month period ended 30 June 2015 have been prepared under the same accounting policies as the consolidated financial statements for the year ended 31 December 2014.

Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS adopted by EU have been condensed or omitted as permitted by IAS 34. The condensed consolidated statement of financial position as at 30 June 2015 was derived from audited annual consolidated financial statements as at 31 December 2014, but does not include all disclosures required by IFRS adopted by EU. However, the Group's management believes that disclosures are adequate to make the information presented not misleading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group 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 Group's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The condensed consolidated interim financial information 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 consolidated interim financial information are presented in thousands of Croatian Kuna (HRK '000) as the Group's functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards

The accounting policies adopted in the preparation of the accompanying condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the accompanying condensed consolidated interim financial information for the period ended 30 June 2015. The nature and the impact of each new standard or amendment are described below:

Standards and Interpretations effective for the current period

Annual Improvements 2011-2013 Cycle - effective in EU for accounting periods beginning on or after 1 January 2015, with earlier application permitted and it is not expected that they will have any significant impact on the Group. They include:

- IFRS 3 Business Combinations,
- IFRS 13 Fair Value Measurement,
- IAS 40 Investment Property

IFRIC 21 Levies (Effective in EU for accounting periods beginning on or after 17 June 2014, with earlier application permitted).

Application of the above mentioned Standards did not have effect on the on the accompanying condensed consolidated interim financial information for the period ended 30 June 2015.

New and revised IFRSs adopted by the EU in issue but not yet effective

The Group has not applied the following new and revised IFRSs and Interpretations that have been issued and adopted by the EU but are not yet effective in the EU:

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – IAS 19 requires subjects to consider employee or third party contributions in accounting defined earning. This amendment is effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. The Company does not expect this amendment to be relevant to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and revised IFRSs adopted by the EU in issue but not yet effective (continued)

- Annual Improvements 2010-2012 Cycle, these amendment are effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted and it is not expected that they will have any significant impact on the Group. They include:
  - IFRS 2 Share-based Payment,
  - IFRS 3 Business Combinations,
  - IFRS 8 Operating Segments,
  - IFRS 13 Fair Value Measurement
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets,
  - IAS 24 Related Party Disclosures

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 endorsed for use in EU yet:

- 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 affect the classification and measurement of financial instruments.
- 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 Company prepares its Financial Statements in accordance with IFRS and does not apply this standard.
- 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.
- Annual Improvements to IFRSs 2012–2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

  The effective date of the amendments is 1 January 2016. Earlier application is allowed.
- 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 IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's Management anticipates that the application of said standards, amendments and interpretations will not have a materially significant impact on the consolidated financial statements in the period of their initial application, except for IFRS 15 and IFRS 9 for which the Group's Management is conducting detail analysis regarding possible effects from the application of this Standard on the consolidated financial statements and which is still in progress.

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

Preparation of the condensed consolidated interim financial information in conformity with International Accounting Standard 34 Interim Financial Reporting, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Estimates used in preparation of these condensed consolidated interim financial information 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 consolidated financial statements, when determinable.

There were no changes in the use of estimates or critical judgments applied in preparation of the annual consolidated financial statements for the year ended 31 December 2014 with respect of those applied in preparation of these condensed consolidated interim financial statements.

3. GENERAL

Changes in the Management Board in 2015:

Mr. Tomislav Rosandić – Member elected on 2 January 2015
Mr. Željko Štromar – Member revoked on 31 March 2015.

Changes in the Supervisory Board in 2015:

Mr. Jadranko Berlengi – Member, revoked on 31 May 2015
Ms. Dubravka Kolundžić – Member, elected on 1 June 2015

On 15 May 2015, the company APO d.o.o., for environmental protection was merged with the Company.

On 24 April 2015, the company HEP Odmor i rekreacija d.o.o. changed its name to HEP Upravljanje imovinom d.o.o.

4. SEGMENT INFORMATION

The Group generates most income from its operations in a single geographical area – the Republic of Croatia. The Group's reportable segments are defined as follows: electricity (generation, transmission, distribution and sale of electricity), heating (generation, distribution and sale of heating power), and gas (distribution and sale of gas). Each segment's operating profit or loss includes all revenue and expenses directly attributable to the reportable segment. Information about financial income, expense and income tax is not provided on a segment level, as the segments are disclosed based on the operating profit.

	Electricity		**Heating**		**Gas**		**Group**	
	Six months period ended 30 June							
	2015 HRK '000	**2014** HRK '000	**2015** HRK '000	**2014** HRK '000	**2015** HRK '000	**2014** HRK '000	**2015** HRK '000	**2014** HRK '000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	5,244,063	5,236,859	389,556	374,844	1,010,064	337,436	6,643,683	5,949,139
Other segment income	369,356	493,474	31,738	33,311	99,125	17,405	500,219	544,190
Profit / (loss) from operations							**1,511,777**	**1,782,568**
Net financial income/(cost)							184,037	(86,567)
Corporate income tax (expense)							(350,668)	(373,039)
Net profit							**1,345,146**	**1,322,962**

Segment assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities consist of assets and liabilities that cannot be reasonably attributed to the reportable business segments. Total unallocated assets include investments in Krško Nuclear Power Plant (hereinafter: NEK), a part of property, plant and equipment, and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and various other liabilities.

	Total segment assets		**Total segment liabilities**	
	30 June 2015	**31 December 2014**	**30 June 2015**	**31 December 2014**
	HRK '000	HRK '000	HRK '000	HRK '000
	Unaudited	Audited	Unaudited	Audited
Electricity	27,903,597	27,807,534	6,026,347	6,613,995
Heating	1,092,338	1,184,190	172,585	203,167
Gas	347,334	389,202	99,150	104,419
Unallocated	6,408,715	6,475,792	6,035,739	6,857,564
Total Group	**35,751,984**	**35,856,718**	**12,333,821**	**13,779,145**

4. SEGMENT INFORMATION (continued)

Geographical information

The Group operates in Europe, with countries that are members of the European Union and other countries that are not members of the European Union. Presented below is the territorial analysis of the revenue that the Group realized from continuing operations with external buyers of electricity:

	Six months period ended 30 June	
	2015	**2014**
	HRK '000	HRK '000
	Unaudited	Unaudited
Croatia	4,962,809	4,905,584
EU member states	266,361	320,472
Non - EU member states	14,893	10,803
	5,244,063	**5,236,859**

5. GAS SALES

By a Decision of the Government of the Republic of Croatia in April 2014, HEP d.d. 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 Group has rented 70% of warehouse capacities in underground gas storage facilities.

In the period from 1 April 2014 to 31 March 2015 the Group agreed rent of capacities of 3.600 million kWh, in the period of 1 April 2015 to 31 March 2016, the Group agreed rent of capacities of rent of 3.550 million kWh, and in the period from 1 April 2016 to 31 March 2017 the Group agreed rent of capacities of 3.500 million kWh.

HEP d.d. 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. FLUCTUATIONS IN OPERATIONS

The demand for electricity and thermal energy, as well as natural gas is characterized by fluctuations which have the impact on the total results of operations of the Group, and may occur as a consequence of weather conditions, economic conditions in which the Group operates and the activities of other suppliers outside the Group as well as the prices they offer to the customers.

Total operating expenses are influenced by hydrological conditions, with reference to generation of electricity in hydropower plants, market prices of fuel for generation of electricity and heating energy, market prices for purchasing of electricity and customers demand for energy.

In the first six months of 2015, revenues from electricity sales were realized in the amount of HRK 5,244,063 thousand while in the same period last year they were realized in the amount of HRK 5,236,859 thousand.

In the first six months of 2015 cost of electricity purchased amounted to HRK 774,794 thousand, while in the period ended 30 June 2014 amounted to HRK 481,639 thousand and were increased due to unfavourable hydrological conditions and consequently growth of import.

Cost of fuel in the first six months of 2015 amounted to HRK 976,073 thousand, while in the period ended 30 June 2014 amounted to HRK 986,482 thousand.

7. FINANCIAL INCOME AND EXPENSES

	Six months period ended	
Financial income	**30 June 2015** HRK '000 Unaudited	**30 June 2014** HRK '000 Unaudited
Foreign exchange gains	70,322	55,105
Interests	3,472	5,981
Fair value of cross currency swap (Note 11)	347,616	13,914
Dividend income	18	31
Interests - NEK d.o.o.	2,124	1,263
Other financial income	32	-
Total financial income	**423,584**	**76,294**
Financial expenses		
Interests	(149,108)	(148,388)
Foreign exchange losses	(87,480)	(13,658)
Interests - NEK d.o.o.	(1,832)	(786)
Other financial expenses	(1,127)	(29)
Total financial expenses	**(239,547)**	**(162,861)**
Net profit/ (loss) from financial activities	**184,037**	**(86,567)**

8. CORPORATE INCOME TAX EXPENSE

Corporate income tax expense and current taxes during the six months period ended 30 June 2015 and 30 June 2014 are accounted on the basis of actual results and the profit tax rate of 20%.

9. EQUITY AND RESERVES

Share capital consists of 10,995,644 ordinary shares, with a nominal value of HRK 1,800.00 each.

Retained earnings in the amount of HRK 3,527,482 thousand comprise legal reserves in the amount of HRK 304,399 thousand, retained earnings in the amount of HRK 1,878,741 thousand and profit for the period attributed to the Owner of the Parent in the amount of HRK 1,343,380 thousand.

In November 1996, HEP d.d. entered into a Joint Venture Agreement with RWE Energie Aktiengesellschaft, Germany ('RWE') regarding the completion and operation of TE Plomin II. Consequently, a joint venture, TE Plomin d.o.o. ('TE Plomin') was formed in December 1996, with each partner holding 50% of the equity of the new entity. A number of agreements were signed, which regulated the relationship between the joint venture partners and their respective relationships with the new company.

In accordance with the 1996 Asset Contribution Agreement, HEP d.d. contributed property, plant and equipment previously acquired for the project valued at DEM 50,000 thousand (HRK 179,138 thousand) as a contribution in kind to TE Plomin. Of this amount, HRK 50 thousand was allocated as share capital, while HRK 179,088 thousand was allocated to reserves.

In accordance with the Joint Venture Agreement, RWE contributed an equal amount of cash over the period of construction. The initial cash contribution of HRK 50 thousand was allocated as share capital and the remain amount to reserves.

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., as HEP exercised its right related to the possibility that 15 years after start of production, HEP can takeover RWE's shares in TE Plomin d.o.o. without charge.

By the end of May 2015, TE Plomin d.o.o. paid all liabilities to RWE as follows: the principal sum of HRK 25,853 thousand, non-capitalized interest in the amount of HRK 8,981 thousand, dividend from retained earnings for 2012 and 2013 in the amount of HRK 14,605 thousand, dividend for 2014 in the amount of HRK 3,092 thousand and interim dividend prepayments for 2015 in the amount of HRK 961 thousand.

10. LONG-TERM LOAN LIABILITIES

	Interest rate	30 June 2015 HRK '000 Unaudited	30 June 2014 HRK '000 Unaudited
Domestic bank loans	EURIBOR+ (1.00%-4.75%)	1,405,634	1,640,285
Foreign bank loans	Fixed 2.71%	49,623	23,183
Finance leases	Fixed 5.6%	20,413	22,362
Total		**1,475,670**	**1,685,830**
Deferred loan originated fees		(3,996)	(4,611)
Total long-term loans		**1,471,674**	**1,681,219**
Current portion for long-term loans		(385,004)	(416,349)
Current portion of finance lease		(5,033)	(2,834)
Long-term portion		**1,081,637**	**1,262,036**

10. LONG-TERM LOAN LIABILITIES (continued)

Loans from domestic banks are secured by bills of exchange and promissory notes, except for one club loan for which the Group 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 Company's primary goal related to risks resulting from covenants is to protect the Group from possible defaults, respectively early maturity of loan liabilities. The agreed covenants are monitored and calculated based on the projected Balance sheet and the Statement of comprehensive income. 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 Group.

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.

At 30 June 2015 covenants were not breached and the Group has met all contractual financial indicators.

The Group monitors the covenants continuously during the period on a monthly basis, meets the requirements of all the contractual obligations and the Management currently expects no problems with complying with the requirements in future.

The Group's total exposure to loan liabilities subject to covenant conditions as at 30 June 2015 amounts to EUR 123,529 thousand.

At 30 June 2015 the Group doesn't have any liabilities covered by *sovereign loan guarantees*.

10. LONG-TERM LOAN LIABILITIES (continued)

Loans in use

In 2nd quarter of 2015 the Group had available funds from long-term loan approved in 2008 by KfW Entwicklungsbank in the amount of EUR 50 million for the financing of energy efficiency and renewable energy projects. Funds from aforementioned loan was utilized in 2nd quarter of 2015, and as of 30 June 2015 KfW loan balance amounts to EUR 6.55 million, and the amount of EUR 43.45 million were unutilised.

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

	HRK'000
2015	194,608
2016	383,502
2017	389,551
2018	382,855
2019	88,466
After 2019	32,692
Total	**1,471,674**

Overview of long-term loans stated in foreign currency (in thousands) is shown as follows:

Currency	**30 June 2015**	**30 June 2014**
	HRK'000	HRK'000
EUR	194,292	239,713

11. LIABILITIES UNDER ISSSUED BONDS

	30 June 2015	31 December 2014
	HRK'000	HRK'000
	Unaudited	Audited
Nominal value of bonds - domestic	233,100	279,790
Discount value	(125)	(170)
Current portion of bonds	(93,380)	(93,380)
	139,595	**186,240**
Nominal value of bonds - foreign	3,008,746	2,999,389
Exchange differences	(31,735)	9,357
	2,977,011	**3,008,746**
Total liabilities for issued bonds	**3,116,606**	**3,194,986**

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 HEP d.d. 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, fully mature in November 2017 and are bearing fixed interest of 6%. Bonds of HEP d.d. are listed at Luxembourg stock - exchange and they are actively traded.

In order to hedge against exchange rate fluctuations, respectively to reduce exposure to currency risk, cross currency swap was contracted.

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Group has concluded cross currency swap agreement, by which liability upon issued bonds abroad in USD is transformed in EUR for all period of bond duration, respectively until its outermost maturity date at 9 November 2017. The purpose of this swap was, beside reduce of the currency risk, recommendations of credit agencies related to strategic management of currency risks in order to reduce impact on the Group's business result.

11. LIABILITIES UNDER ISSSUED BONDS (continued)

Cross currency swap (continued)

As at the time of contracting it was not possible to realize currency swaps USD / HRK, the Group entered into swap USD / EUR due to the fact that the monetary system in Croatia is highly euroised and the main goal of Croatian National Bank monetary policy is stability of the currency which is secured through maintenance of the stable HRK rate against EUR, specially due to expected introduction of EUR as official currency in Croatia.

Cross-currency swap covers principal and interest. According to the agreement, annual interest rate paid by the Group semi-annually is fixed and amounts to 6.53% (include swap cost).

The Group measures the fair value of the cross currency swap according to the calculation of Mark-to-market ("MTM") value. The fair value of the cross currency swap as at 30 June 2015 is stated in the amount of HRK 349,469 thousand. Increase in cross currency swap fair value in the amount of HRK 347,616 thousand is recognized as financial income (Note 7). The main reason for significant change in the fair value of the cross-currency swap was a strengthening of the US dollar against the EUR, especially in the first quarter of 2015.

12. OTHER LONG-TERM LIABILITIES

	30 June 2015	**31 December 2014**
	HRK'000	HRK'000
	Unaudited	Audited
Deferred income - assets financed by third parties	3,620,721	3,738,553
Long term liabilities for assets financed from clearing debt	822,604	759,089
Other	2,083	1,860
	4,445,408	**4,499,502**

Deferred income relate to fixed assets ceded by customers and others without charge. The income from these assets is recognized over the same period as the related assets are amortized, which applies to contracts for connection to the network concluded with customers by 30 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of cash received from the customer in the period when the customer is connected to the grid/network or when the customer is permitted permanent access to the delivery of the service.

At 30 June 2015 the Group stated clearing debt liability in the amount of HRK 822,604 thousand in respect of a clearing debt (2014: HRK 759,089 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 a government grant.

13. SHORT-TERM LOAN LIABILITIES

	30 June 2015	31 December 2014
	HRK'000	HRK'000
	Unaudited	Audited
Current portion of RWE loan (Note 9)	-	8,981
	-	**8,981**

For the purpose of providing solvency reserves for the following mid-term period, in 2013 the Group has concluded with domestic banks multi-purpose overdraft agreements in the total amount up to HRK 1 billion.

Funds from agreed overdrafts the Group may use as short-term loans, as well as for issuance of guarantees, letters of credit and letters of intention in accordance with the Group needs.

In the 2nd quarter of 2015 the Group did not use funds from preapproved mid-term multipurpose overdraft agreements, so no balance of short-term loans is reported as at 30 June 2015. However, the Group is using preapproved funds for issuing guarantees on regular basis.

The Group has signed overdraft agreement for reverse factoring in the amount of EUR 50 million until 31 December 2015.

As of 30 June 2015 the Group has available funds from above stated overdraft agreements in total amount of up to HRK 1,323.6 million.

14. RELATED PARTY TRANSACTIONS

The Company holds 50% of shares in Krško Nuclear Power Plant d.o.o. (NEK). Although investment in NEK is recognized in the financial statements as joint operation, due to the fact that NEK is a separate legal entity, transactions between NEK and the Group are also presented within related party transactions.

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:

NEK	**30 June 2015**	**31 December 2014**
	HRK'000	HRK'000
	Unaudited	Audited
Liabilities for purchased electricity	-	62,830

	Six months period ended	
	30 June 2015	**30 June 2014**
	HRK'000	HRK'000
	Unaudited	Unaudited
Costs of purchased electricity	334,089	372,385

Remunerations to the Management Board members and executive management of the Group companies:

	Six months period ended	
	30 June 2015	**30 June 2014**
	HRK'000	HRK'000
	Unaudited	Unaudited
Gross salaries	11,219	11,883
Pension contributions	2,533	2,685
Other (benefits in kind)	1,442	1,571
	15,194	**16,139**

There were no other payments to members of the Management Boars besides regular salaries and benefits in kind.

14. RELATED PARTY TRANSACTIONS (continued)

	Sales revenue		Purchase costs	
	Six months period ended 30 June		Six months period ended 30 June	
in HRK'000	**2015**	**2014**	**2015**	**2014**
	Unaudited	Unaudited	Unaudited	Unaudited
Companies partially owned by the State				
Hrvatske Željeznice	52,692	52,367	1,358	1,626
INA	68,951	60,564	666,726	329,131
Prirodni Plin	-	-	-	378,079
Plinacro	584	1,268	32,544	34,392
Croatia osiguranje	1,644	2,582	818	7,443
Hrvatska pošta	6,263	11,650	9,765	17,821
Hrvatske šume	1,814	1,861	1,718	2,712
Jadrolinija	304	304	566	261
Narodne novine	1,202	787	1,733	1,946
Hrvatska radio televizija	6,476	6,811	634	519
Plovput	146	275	68	140
Croatia Airlines	390	384	-	61
Petrokemija Kutina	10,258	10,855	10	30
Ministry of Foreign Affairs	229	227	-	-
Ministry of Defence	10,686	12,188	-	-
Ministry of the Interior	7,303	6,962	-	-
Elementary and high schools	44,232	45,233	1	17
Judicial institutions	4,473	4,672	31	46
Colleges and universities	15,434	15,581	402	736
Legislative, executive and other bodies of Republic of Croatia	13,799	13,777	1,833	3,142
Health institutions and organizations	54,233	58,890	300	754
Other users	7,392	6,159	1,821	1,853
TOTAL	**308,505**	**313,397**	**720,328**	**780,709**

14. RELATED PARTY TRANSACTIONS (continued)

In HRK'000	Receivables 30 June 2015 Unaudited	Receivables 31 December 2014 Audited	Liabilities 30 June 2015 Unaudited	Liabilities 31 December 2014 Audited
Companies partially owned by the State				
Hrvatske Željeznice	23,693	31,811	265	541
INA	13,168	14,544	91,077	163,640
Prirodni Plin	1	-	97	-
Plinacro	98	125	4,512	11,446
Croatia osiguranje	301	705	353	2,779
Hrvatska pošta	845	1,282	1,008	2,725
Hrvatske šume	251	474	13	4
Jadrolinija	127	49	395	581
Narodne novine	390	289	608	838
Hrvatska radio televizija	1,919	2,653	31	39
Plovput	5	24	51	165
Croatia Airlines	58	95	-	-
Petrokemija Kutina	3,741	3,675	13	13
Ministry of Defence	1,879	4,311	-	-
Ministry of the Interior	1,162	2,069	-	-
Elementary and high schools	7,495	16,526	-	-
Judicial institutions	563	1,838	-	-
Colleges and universities	5,124	4,161	-	-
Legislative, executive and other bodies of Republic of Croatia	2,486	5,131	-	-
Health institutions and organizations	13,510	20,202	-	-
Other users	21,436	21,623	4,296	10,317
TOTAL	**98,252**	**131,587**	**102,719**	**193,088**

14. RELATED PARTY TRANSACTIONS (continued)

As of 30 June 2015 the Group 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-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Thermal power generation and distribution
HEP-Trgovina d.o.o.	Croatia	100	Electrical energy trading and optimization of power plants production
HEP-Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	100	Electricity generation
APO d.o.o., usluge zaštite okoliša	Croatia	100	Environmental protection services and special waste management
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure in area around Plomin
CS Buško Blato d.o.o.	BH	100	Maintenance of hydro power plants
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Accommodation and recreation services
HEP-NOC Velika	Croatia	100	Accommodation and training
HEP-Obnovljivi izvori energije d.o.o.	Croatia	100	Electricity generation
Program Sava d.o.o.	Croatia	100	Spatial planning, design, construction and supervision
HEP-Trgovina 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-Trade d.o.o., Beograd	Serbia	100	Electricity trading
HEP – KS sh.p.k.	Kosovo	100	Electricity trading, transmission and distribution
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunication services
HEP – Opskrba plinom d.o.o.	Croatia	100	Gas distribution

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 and HEP-Opskrba plinom d.o.o. in 2014.

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. (Note 9).

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 (excluding derivative instruments) 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 statement of financial position

The table below analyzes 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

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.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	1st level	**2nd level**	**3rd level**	**Total**
	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2015, unaudited				
Available-for-sale assets	234,352	-	-	**234,352**
Cross currency swap	-	-	349,469	**349,469**
Investment property	-	236,155	-	**236,155**
31 December 2014, audited				
Available-for-sale assets	192,676	-	-	**192,676**
Cross currency swap	-	-	1,473	**1,473**
Investment property	-	236,153	-	**236,153**

16. CONTIGENT 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 HEP d.d. 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 Group 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.

17. EVENTS AFTER THE REPORTING PERIOD

On 23 July 2015, companies HEP – Proizvodnja d.o.o. and HEP – Obnovljivi izvori energije d.o.o. concluded an Merger agreement by which the company HEP - Obnovljivi izvori energije d.o.o. is merged to the company HEP – Proizvodnja d.o.o..

18. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Management Board and authorised for issue on 9 September 2015.

Signed on behalf of the Management Board on 9 September 2015:

Perica Jukić
President of the Board

Tomislav Rosandić
Member o the Board