HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Condensed consolidated interim financial statements for the period ended 30 June 2018

Contents

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

Independent auditors' report on review of condensed consolidated interim financial statements

To the Owner of Hrvatska elektroprivreda d.d.:

Introduction

We have reviewed the accompanying condensed consolidated financial statement of Hrvatska elektroprivreda d.d. (hereinafter: „the Company") and its subsidiaries (hereinafter: "the Group") as at 30 June 2018, comprising of financial position / condensed consolidated balance sheet as at 30 June 2018, condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months period then ended, and notes to the condensed consolidated financial statements ("the condensed consolidated interim financial information of the HEP Group").

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

Our responsibility is to express a conclusion on these 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 to 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 for the period ending 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

As described in the Note 18 to the condensed consolidated interim financial statements, as at 30 June 2018, the Company stated clearing debt liability in the amount of HRK 763,241 thousand (31 December 2017 in the amount of HRK 755,189 thousand) related to 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. Our conclusion has not been modified in this regard.

As described in the Note 23 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 properties are 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. In May 2018, the Law on Amendments to the Water Act (Official Gazette 46/18) entered into force, which establishes the Republic of Croatia's right to build on a public water resource - land on which the water structures, invested in by the Company or its predecessors, were built; except for the land on which the accumulation, the supply and drainage channel and tunnels, were constructed in favour of the Company, without compensation for a period of 99 years. As long as the right of construction is maintained, the Company is granted the right to manage public good / land on which constructions for electricity generation and accumulation and supply and drainage channels and tunnels are built on behalf of the Republic of Croatia. In this regard, it is necessary to initiate relevant procedures to enter these rights into the land registry. Our conclusion has not been modified in this regard.

Zagreb, 6 September 2018

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

Vedrana Stipić, Member of the Management Board	Jeni Krstičević, Certified Auditor

Condensed consolidated Income statement of the HEP Group

For the six months period ended 30 June 2018

	Note	For the six month period ended 30 June 2018 HRK '000 Unaudited	30 June 2017 HRK '000 Unaudited
Income from electricity sales	3,5	5,754,303	5,630,672
Income from thermal power sales	3	367,236	380,470
Income from sale of gas on wholesale market	3,4	546,834	573,379
Income from sale of gas to customers	3,4	492,405	179,635
Sales income		**7,160,778**	**6,764,156**
Other operating income	6	412,082	1,083,466
Total operating income		**7,572,860**	**7,847,622**
Electricity purchase cost	5	(1,192,551)	(1,221,642)
Fuel cost	5	(738,808)	(1,086,018)
Costs of gas sold	4	(940,207)	(583,802)
Staff cost		(931,219)	(955,211)
Depreciation and amortization costs		(990,671)	(956,250)
Other operating expenses	7	(1,398,496)	(1,193,587)
Total operating expenses		**6,191,952**	**(5,996,510)**
Operating profit		**1,380,908**	**1,851,112**
Financial income	8	170,509	218,613
Financial expenses	8	(131,000)	(460,592)
Net income / (loss) from financial activities		**39,509**	**(241,979)**
Profit before taxation		**1,420,417**	**1,609,133**
Corporate income tax	9	(247,751)	(254,127)
Profit for the period		**1,172,666**	**1,355,006**
Attributable to:			
Owners of the parent		1,172,666	1,355,006
Non-controlling interest		-	-
		1,172,666	**1,355,006**

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

Signed on behalf of the Company on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

	For the six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Profit for the period	**1,172,666**	**1,355,006**
Other comprehensive income		
Exchange gains arising on translation of foreign operation	(29,665)	(33,569)
Net loss/profit from financial assets classified at fair value	(9,318)	18,592
Net other comprehensive income to be reclassified to profit/(loss) in subsequent periods	*(38,983)*	*(14,977)*
Other comprehensive income / (loss), net	**(38,983)**	**(14,977)**
Total comprehensive income for the period, net	**1,133,683**	**1,340,029**

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

Signed on behalf of the Company on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

ASSETS	Note	30 June 2018	31 December 2017
		HRK '000	HRK '000
		Unaudited	Audited
Non-current assets			
Property, plant and equipment		28,108,759	28,590,553
Assets under construction	10	2,643,543	2,442,559
Intangible assets		186,909	210,502
Investment property		306,059	305,630
Prepayments for property, plant and equipment		11,634	15,252
Long-term loans and deposits		35,462	36,107
Investments classified at fair value through other comprehensive income and other investments		301,608	284,443
Other long-term assets		40,547	42,918
Deferred tax assets		935,196	610,389
Total non-current assets		**32,569,717**	**32,538,353**
Current assets			
Inventories	11	1,048,911	1,257,292
Trade receivables	12	2,165,708	2,081,000
Other short-term receivables	13	515,108	957,817
Cash and cash equivalents	14	2,908,473	2,017,095
Total current assets		**6,638,200**	**6,313,204**
TOTAL ASSETS		**39,207,917**	**38,851,557**

EQUITY AND LIABILITIES	Note	30 June 2018	31 December 2017
		HRK '000	HRK '000
		Unaudited	Audited
Share capital	15	19,792,159	19,792,159
Reserves		130,746	162,242
Retained earnings	15	4,274,206	6,041,625
Total equity		**24,197,111**	**25,996,026**
Liabilities under issued bonds	17	3,536,687	3,595,828
Long-term loan liabilities	16	204,336	265,895
Long-term liabilities to the State		11,718	13,065
Long-term provisions		1,017,573	1,018,467
Other long-term liabilities	18	7,291,245	4,356,607
Deferred tax liabilities		17,764	24,305
Total non-current liabilities		**12,079,323**	**9,274,167**
Trade payables	20	1,039,972	1,643,033
Current portion of long-term loans	16	272,568	408,481
Taxes and contributions		98,942	80,202
Interest payable		33,898	35,593
Liabilities to employees	19	138,265	274,173
Liabilities for dividends		218,413	-
Other short-term liabilities		1,129,425	1,139,882
Total current liabilities		**2,931,483**	**3,581,364**
TOTAL EQUITY AND LIABILITIES		**39,207,917**	**38,851,557**

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

Signed on behalf of the Company on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

Condensed consolidated statement of changes in equity of the HEP Group

For the six months period ended 30 June 2018

	Share capital	Reserves	Retained earnings	Total equity
	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2017, audited	**19,792,159**	**140,293**	**5,551,226**	**25,483,678**
Profit for the period	-	-	1,355,006	1,355,006
Other comprehensive income	-	18,592	(33,569)	(14,977)
Total comprehensive income	**-**	**18,592**	**1,321,437**	**1,340,029**
Approved dividend	-	-	(794,291)	(794,291)
Balance as at 30 June 2017, unaudited	**19,792,159**	**158,885**	**6,078,372**	**26,029,416**
Balance at 31 December 2017, audited	**19,792,159**	**162,242**	**6,041,625**	**25,996,026**
Reconciliation of the previous period – application of IFRS 9 (Note 1)	-	(22,178)	27,047	4,869
Reconciliation of the previous period – application of IFRS 15 (Note 1)	-	-	(2,719,054)	(2,719,054)
Total reconciliation of previous period	-	**(22,178)**	**(2,692,007)**	**(2,714,185)**
Balance at 1 January 2018, audited	**19,792,159**	**140,064**	**3,349,618**	**23,281,841**
Profit for the period	-	-	1,172,666	1,172,666
Other comprehensive income	-	(9,318)	(29,665)	(38,983)
Total comprehensive income	**-**	**(9,318)**	**1,143,001**	**1,133,683**
Approved dividend	-	-	(218,413)	(218,413)
Balance as at 30 June 2017, unaudited	**19,792,159**	**130,746**	**4,274,206**	**24,197,111**

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

Signed on behalf of the Company on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

	For the six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000 Unaudited	HRK '000 Unaudited
Cash flows from operating activities		
Profit before taxation	1,420,417	1,609,133
Net result from financial activities	80,238	241,979
Fair value of property investments	(429)	(3,088)
Depreciation and amortization	990,671	956,250
Value adjustments of receivables	164,291	(9,805)
Value adjustments of inventories	14,284	4,416
Decrease / (increase) in provisions	(894)	9,182
Net carrying value of disposed assets	-	8,241
Income from reversal of assets impairment	-	(508,228)
Operating cash flows before movements in working capital	*2,668,578*	*2,308,080*
(Increase) in other non-current assets	(53,133)	(33,198)
(Increase) / decrease in trade receivables	(248,999)	280,783
Decrease in inventories	194,097	229,325
Decrease / (increase) in other current assets	442,709	(275,063)
(Decrease) in trade payables	(603,061)	(790,609)
(Decrease) in other current liabilities	(234,762)	(82,574)
(Decrease) in other non-current liabilities	(184,412)	(90,369)
Cash generated from operations	**1,981,017**	**1,546,375**
Corporate income tax (paid)	(148,071)	(164,417)
Interest paid	(91,489)	(117,739)
Interest collected	18,633	17,403
NET CASH FROM OPERATING ACTIVITIES	**1,760,090**	**1,281,622**
INVESTING ACTIVITIES		
Increase in property, plant and equipment	(681,060)	(860,324)
NET CASH FROM INVESTING ACTIVITIES	**(681,060)**	**(860,324)**

	For the six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Bond repayments	-	(46,690)
Long-term loans received	-	10,089
Repayments of long-term loans	(187,652)	(189,862)
NET CASH USED IN FINANCING ACTIVITIES	**(187,652)**	**(226,463)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**891,378**	**194,835**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**2,017,095**	**3,018,846**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**2,908,473**	**3,213,681**

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

Signed on behalf of the Company on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements 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 month period ended 30 June 2018 requires from the 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 consolidated interim financial statements and the reported amounts of income 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 future periods if the revision affects both current and future periods.

The annual consolidated financial statements of Company and its subsidies (under the joint name "HEP Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34'). The condensed consolidated interim financial statements for the six-month period ended 30 June 2018 have been prepared under the same accounting policies as the consolidated annual financial statements for the year ended 31 December 2017, other than those relating to new standards and interpretations that are in effect for the first time for annual periods beginning on or after 1 January 2018. New standards that have an impact on the HEP Group and will be adopted for the 2018 annual report and which leads to changes in the accounting policies of the Company are:

- IFRS 15 – *Revenues from contracts with customers*
- IFRS 9 – *Financial instruments*

Details of the impact these standards have had is given below. Other new and amended standards and Interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to significantly impact the HEP Group as they are either not relevant to the activities of HEP Group or require accounting which is consistent with current accounting policies of HEP Group.

IFRS 15 – *Revenues from contracts with customers*

IFRS 15 – *Revenues from contracts with customers* has replaced IAS 11 – *Revenue* and IAS 11 – *Construction Contracts* as well as various Interpretations including IFRIC 18 – *Transfers of assets from customers*. The replacement of IFRIC 18 – *Transfers of assets from customers* with IFRS 15 – *Revenues from contracts with customers* has impacted HEP Group in the following way:

1. BASIS OF PREPARATION (continued)

Fees received from customers for connections based on agreements concluded until 30 June 2009 were recorded as deferred revenue and recognised as the revenue over the period together with the depreciation of assets (connections) to which it referred. Since IFRIC 18 came into force, fees received for connections based on agreements from 1 July 2009 were recognised as revenue in the amount of cash received from the customer at the time of customer's connection to the network; i.e. when the ongoing access to a supply of electricity was provided. HEP Group applied IFRIC 18 prospectively, i.e. on contracts concluded after 1 July 2009; and kept the previous accounting treatment for contracts concluded before that date.

Pursuant to the provisions of IFRS 15, in the scope of which are network connection agreements; the network connection fee is associated with distribution, transmission and electricity supply services and cannot be considered as a separate execution obligation. In accordance with IFRS 15, network access is considered to be a reimbursement for future network services and electricity, heat and gas supply and will therefore be recognized as revenue after these future services are provided. Furthermore, by providing network and electricity, heat and gas supply, the customer simultaneously receives and uses the benefits deriving from the performance of HEP during the period of execution obligation, which means that the criterion of IFRS 15 for recognizing revenue during the execution of the service has been met. An acceptable approach to determining the service provision period is the lifespan of the connection assets since the connections become part of the network and relate to HEP's obligation to provide the customer with access to the network over the entire useful life of the connections. Therefore, revenue should be systematically allocated over the period of useful life of the constructed asset or transferred asset used for the provision of permanent services and the fees received from the customer to be recorded as deferred income and recognized as the income of the period simultaneously with the amortization of the assets (connections) to which it refers.

The HEP Group has chosen not to modify the comparative periods and apply this standard retroactively with the cumulative effect of initial application on 1 January 2018. The cumulative effect of the initial application of IFRS 15 is recognized as a reduction in the initial balance of retained earnings, an increase in the initial amount of deferred income for the remaining amount of previously higher recognised connection fee revenue, that required treatment in accordance with IFRIC 18. The stated impact on the positions of the condensed financial statements for the six-month period ended 30 June 2018 is as follows:

- Decrease of retained earnings in the amount of HRK 2,719,054 thousand
- Increase of deferred income in the amount of HRK 3,047,300 thousand
- Increase in deferred tax assets in the amount of HRK 328,246

1. BASIS OF PREPARATION (continued)

Had the HEP Group continued to report in accordance with IFRIC 18 – Transfers of assets from customers for the period ended 30 June 2018; it would have reported the following amounts in these financial statements:

	Reported in accordance with IFRS 15	**Effect**	**Reported if IFRS 15 not applied**
Income statement			
	HRK '000	HRK '000	HRK '000
Other operating income	412,082	(46,560)	458,642
Profit before taxation	**1,420,417**	**(46,560)**	**1,466,977**
Corporate income tax	(247,751)	8,464	(256,215)
Profit for the period	**1,172,666**	**(38,096)**	**1,210,762**

	Reported in accordance with IFRS 15	**Effect**	**Reported if IFRS 15 not applied**
ASSETS			
	HRK '000	HRK '000	HRK '000
Deferred tax assets	935,196	328,246	606,950
EQUITY AND LIABILITIES			
Retained earnings	4,274,206	(2,730,103)	7,004,309
Deferred income from assets financed by others	6,072,558	3,093,859	2,978,699
Deferred tax liability	17,764	(4,869)	22,633
Liabilities for taxes and contributions	98,942	(6,646)	105,588

1. BASIS OF PREPARATION (continued)

IFRS 9 – *Financial instruments*

IFRS 9 – *Financial instruments* has replaced IAS 39 – *Financial Instruments: Recognition and Measurement* and has had an effect on HEP Group in the following area:

Investments classified as available for sale financial assets under IAS 39 – *Financial Instruments: Recognition and Measurement* have been classified as being Fair Value through Other Comprehensive Income (FVTOCI) under IFRS 9. All fair value gains in respect of those assets are recognised in other comprehensive income and are not recycled to consolidated profit or loss. Previously, under IAS 39 – *Financial Instruments: Recognition and Measurement,* impairments of such assets were recognised in consolidated profit or loss, when there was evidence supporting such impairment; as well as gains and losses accumulated in revaluation reserves at the moment of disposal.

Impairment of financial assets classified as available for sale initially recognised in the consolidated income statement in the amount of HRK 27,047 thousand in accordance with IAS 39 – Financial Instruments: *Recognition and Measurement* (and consequently accumulated in retained earnings); has been transferred to the revaluation reserves in the amount of HRK 22,178 thousand and to the deferred tax liability in the amount of HRK 4,869 thousand; to ensure that these reserves and deferred tax liability reflect cumulative gains and losses on these assets since initial recognition.

HEP Group has chosen not to restate comparative periods and to apply this standard retroactively with the cumulative effect of the initial application on 1 January 2018, and changes are shown in a condensed consolidated statement of changes in equity for the six-month period ended 30 June 2018.

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 consolidated interim statement of financial position / condensed interim balance sheet as at 30 June 2018 was derived from audited consolidated annual financial statements as at 31 December 2017, but does not include all disclosures required by IFRS adopted by EU. However, the management believes that disclosures in these condensed consolidated interim financial statements are adequate in the sense that they are not misleading.

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 consolidated interim financial statements have been prepared on the historical cost basis, except for certain non-current assets and certain financial investments that are presented in revalued amounts. The condensed consolidated interim financial statements 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

Standards and Interpretations effective in the current period

The following new standards and revised existing standards issued by the International Accounting Standards Board and Interpretations issued by the IFRS Interpretations Committee, which have been adopted in the European Union are effective for the current period:

- **IFRS 9 *Financial instruments: Classification and Measurement***
  The standard is effective for annual periods beginning on or after 1 January 2018, with earlier use being allowed. The final version of IFRS 9 Financial Instruments refers to all phases of a financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement as well as all prior versions of IFRS 9. The standard introduces new classification and measurement, impairment and hedge accounting requirements.
- **IFRS 15 *Revenue from Contracts with Customers***
  The standard is effective for annual periods beginning on or after 1 January 2018. The standard introduces a 5-step model to apply to customer-based revenue (with limited exceptions), regardless of the type of revenue transaction or industry. Standard requirements will also apply to the recognition and measurement of gains and losses on the disposal of some nonfinancial assets that are not part of regular corporate activities (for example, the sale of property, plant and equipment or intangible assets). Extensive disclosures will be required, including disaggregation of total revenue; information on execution obligations; changes in amounts of contracted assets and liabilities between periods and key estimates and judgments.
- **IFRS 15 *Revenue from Contracts with Customers* (clarification)**
  Explanations are effective for annual periods beginning on or after 1 January 2018, with earlier use being allowed. The purpose of the explanation is to clarify the Board's intentions when defining the requirements of IFRS 15 *Revenue from Contracts with Customers*, in particular accounting treatment of identified execution obligations by supplementing the definition of a "separately recognizable" principle, consideration of the relationship between the principal and the agent including an assessment of whether an entity in the transaction is a principal or agent, as well as the application of access control and licensing, providing additional guidance for the accounting treatment of intellectual property and royalties. Explanations also provide additional practical means for companies that apply IFRS 15 using a full retroactive approach or for those who opt to use a modified retroactive approach.
- **IFRIC 22: Foreign Currency Transactions and Advance Consideration**
  Interpretation is effective for annual periods beginning on or after 1 January 2018, with prior use being allowed. It explains the accounting treatment of transactions involving the receipt or prepayment in foreign currency. The Interpretation applies to foreign currency transactions in which a company recognizes a non-cash asset or a non-cash liability arising from the payment or receipt of prepayments before the company recognizes the relevant property, expenses or income. The Interpretation states that the transaction date for the purpose of determining the exchange rate is the date of initial recognition of non-monetary assets (prepayments) or deferred income (liabilities). In cases where there are multiple

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards and Interpretations effective in the current period (continued)

payments or the receipt of prepayments, the company must determine the date of transaction for each payment.

- **Amendments to IAS 40 – Transfer of real estate investments**
  The amendments are effective for annual reporting periods that began on 1 January 2018 or thereafter, with early adoption permitted. Amendments clarify at what point the company should transfer real estate, including real estate under development, to or from real estate investment. Amendments state that change in the way of use arises when the real estate meets, or ceases to meet, the definition of real estate investment and there is evidence of change. The mere change in the management's intention to use a real estate does not provide evidence of a change in the way it is used.

- **Amendments to IFRS 2 – Classification and measurement of share based payment transactions**
  The amendments are effective for annual reporting periods that began on 1 January 2018 or thereafter, with early adoption permitted. Amendments have defined the accounting treatment of the impact of performance and non-performance measures on cash-settled share-based payments, share-based payments with the option of net settlement of a tax liability and changes in share-based payment conditions that change the transaction's classification from the one settled in cash to the one that is settled by equity instruments.
- **Annual improvements of IFRSs (*2014 – 2016 Cycle*)** which represent a collection of amendments to various standards. Annual improvements are effective for annual periods beginning on 1 January 2018 or after that for IFRS 1 *First-time Adoption of IFRS* and IAS 28 *Investments in Associates and Joint Ventures*. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. An overview of the yearly improvement from the 2014-2016 cycle is given below:
  - **IFRS 1 *First-time Adoption of IFRS* –** The improvement erases short-term exemptions from disclosures on financial instruments, employee benefits and investors, which are applicable for first-time adopters.
  - **IAS 28 *Investments in Associates and Joint Ventures* -** this amendment clarifies that the choice of recognition of an investment in an associate or a joint venture held by a venture capital company or another qualified company, at fair value through profit or loss, is available for all investments in associates and joint ventures at the level of each individual investment, when it is initially recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards and Interpretations effective in the current period (continued)

Adoption of the said amendments did not significantly affect the Group's consolidated financial statements except for IFRS 9 - *Financial Instruments* and IFRS 15 - *Revenue from Contracts with Customers* as explained in Note 1 - Basis of preparation.

Standards and Interpretations issued by the Standards Committee, which have not yet entered into force and which the Company has not previously adopted.

At the date of issuance of these financial statements, the following standards, amendments and interpretations have been issued but have not yet entered into force:

- **IFRS 16 Leases**
  The Standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 defines the rules for recognition, measurement, presentation and disclosure for the leases of both parties, i.e. the buyer (the "lessee") and the supplier (the "lessor"). In accordance with the new standard the lessees should recognize most leases in their financial statements. A single accounting model will be applied to all leases, with certain exceptions. Accounting treatment of leases at the lessor will not be significantly altered.

- **IFRIC 23: Uncertainty over Income tax treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019, with prior application allowed. Interpretation refers to the determination of taxable profit (tax losses), tax bases, unused tax losses, unused tax incentives and tax rates when there is uncertainty regarding the treatment of income tax under IAS 12. It specifically considers whether tax treatment should be considered jointly; prerequisites for verification of tax authorities; determination of taxable profit (tax loss), tax base, unused tax losses, unused tax allowances and tax rates; and the effect of changes in facts and circumstances. This interpretation has not yet been adopted in the European Union.

- **Prepayment features with negative compensation (Amendments to IFRS 9)**
  Amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application allowed. It changes existing requirements in IFRS 9 with respect to cancellation rights to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards and Interpretations issued by the Standards Committee, which have not yet entered into force and which the Company has not previously adopted (continued)

- **Long term interest in Associates and Joint Ventures (Amendments to IAS 28)**
  Amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application allowed. It clarifies that an entity applies IFRS 9 Financial Instruments on long-term interest in associates or joint ventures that form part of a net investment in an associate or a joint venture, but on which the equity method is not applied. These amendments have not yet been adopted in the European Union.

- **The IASB has published Annual Improvements to IFRSs 2015 - 2017,** which is a summary of IFRS amendments. Amendments shall be effective for annual periods beginning on or after 1 January 2019. These annual improvements have not yet been adopted in the European Union. The Review of Annual Improvements to IFRSs for the year 2015 - 2017 issued by the IASB is presented below:

  - ***IFRS 3 and IFRS 11:*** Amendments to IFRS 3 state that when an entity acquires control of a joint venture, it revaluates the previously held interest in that business. Amendments to IFRSs 11 clarify that when an entity acquires joint control over a joint venture operation, an entity does not measure previously held interest in that business.

  - ***IAS 12:*** Amendments clarify that any tax consequences of dividends (i.e. profit distributions) should be recognized in profit or loss, regardless of how tax is incurred.

  - ***IAS 23:*** Amendments clarify that if any specific loan remains uncollected after the related assets are ready for their intended use or sale, the loan becomes a part of the funds that the entity generally borrows in calculating the capitalization rate on general borrowings.

The Group's Management Board envisages that the application of these standards, amendments and interpretations will not have a material impact on the Group's consolidated financial statements for the period of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparation of the condensed interim financial statements

Preparation of the condensed consolidated 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 consolidated interim financial statements relate to employee benefits, impairment of assets, and determination of fair value 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 change 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 these condensed consolidated interim financial statements with respect of those applied in preparation of the annual consolidated financial statements.

3. 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**	
	The six month period ended 30th of June							
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue from principal operations	5,754,303	5,630,672	367,236	380,470	1,039,239	753,014	7,160,778	6,764,156
Other segment revenue	367,378	1,033,685	29,920	33,821	14,784	15,960	412,082	1,083,466
Profit / loss from operations	**1,554,961**	**1,904,356**	**(49,553)**	**(46,669)**	**(124,500)**	**(6,575)**	**1,380,908**	**1,851,112**
Net financial income/(expense)							39,509	(241,979)
Corporate income tax							(247,751)	(254,127)
Net profit							**1,172,666**	**1,355,006**

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 2018	**31 December 2017**	**30 June 2018**	**31 December 2017**
	HRK '000	HRK '000	HRK '000	HRK '000
	Unaudited	Audited	Unaudited	Audited
Electricity	31,490,488	31,664,518	7,003,175	6,067,132
Heating	1,158,120	1,205,007	158,633	167,969
Gas	321,550	365,519	84,067	93,308
Unallocated	6,237,759	5,616,513	7,764,931	6,527,122
Total Group	**39,207,917**	**38,851,557**	**15,010,806**	**12,855,531**

3. SEGMENT INFORMATION (continued)

Geographical analysis

The Group operates in Europe, with countries that are members of the European Union and other countries that are not members of the European Union.

Presented below is the territorial analysis of the revenue that the Group realized from continuing operations with external buyers of electricity:

	The six month period ended	
	30 June 2018 HRK '000 Unaudited	**30 June 2017** HRK '000 Unaudited
Croatia	5,289,785	5,089,522
EU countries	402,826	498,733
Non-EU countries	61,692	42,417
	5,754,303	**5,630,672**

4. GAS SALES

/i/ **The wholesale gas market** in the Republic of Croatia to unrelated companies amounts to HRK 546,834 thousand.

The Gas Market Act (OG 18/18), which entered into force on 3 March 2018, until the provision of a supplier on the wholesale market through tenders, has determined Company as a wholesale supplier until 1 August 2018. After the completed tenders, HERA, in consultation with the Ministry of Environmental Protection and Energy appointed Company as a wholesale gas supplier for the period from 1 August 2018 until 31 March 2019. The supplier on the wholesale market is obliged to sell the gas to the contracted suppliers in the public service obligation under regulated conditions and for a price that is lower or equal than the reference price of gas for the needs of end-customers in the household category using the public service supply; and is obliged to provide reliable and secure gas supply.

/ii/ **Income from gas sales – market supply** in the amount of HRK 492,405 thousand relates to gas sales to HEP customers in the amount of HRK 316,756 thousand and the customers of HEP-Plin in the amount of HRK 175,649 thousand.

/iii/ **Cost of gas purchase** for sale from points /i/ and /ii/ is HRK 940,207 thousand (for wholesale supply HRK 543,361 thousand and for market supply HRK 396,846 thousand).

5. SEASONAL 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 2018, revenues from electricity sales were realized in the amount of HRK 5,754,303 thousand while in the same period last year they were realized in the amount of HRK 5,630,672 thousand. Increase is realized due to the growth in consumption and the increase of the Group's share in the sale to the buyers of entrepreneurship and the growth of the average selling price of HEP Opskrba d.o.o. to entrepreneurship customers due to the increase in market prices.

In the first six months of 2018 cost of electricity purchased amounted to HRK 1,192,551 thousand, while in the period ended 30 June 2017 amounted to HRK 1,221,642 thousand. The slight decrease in costs is the result of lower import costs due to smaller imported quantities, with simultaneous larger purchase of electricity in the incentive system.

Cost of fuel in the first six months of 2018 amounted to HRK 738,808 thousand, while in the period ended 30 June 2017 it amounted to HRK 1,086,018 thousand. It was reduced due to the lower production of thermal power plants due to favourable hydrological conditions, lower quantities of gas consumed with higher gas prices, lower quantities of coal used at lower coal prices, and discontinuation of the use of fuel oil in the production of electricity and heat.

6. OTHER OPERATING INCOME

	The six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Income from reversal of assets impairment /i/	-	508,228
Network connection services	2,394	143,840
Income from assets financed by network connection fee	157,622	112,152
Reversal of impaired receivables	29,472	40,587
Services rendered	12,685	66,426
Capitalized assets	4,888	34,864
Penalty interest	15,525	19,175
Income from sale of materials	18,519	14,928
Income from sale of cross – border transmission capacity	69,039	55,548
Revenues from inter-compensation (HOPS) - cross-border	20,284	2,829
Reversal of long-term provisions for retirement benefits and jubilee awards	2,157	8,450
Reversal of long-term provisions – court disputes	10,723	7,271
Reversal of other provisions	2,825	184
Recovery of receivables from pre-bankruptcy proceedings	2,803	8,912
Income in respect of the electricity payments reminders	108	762
Income in respect of court costs on claims	3,726	6,060
Income from sale of tangible assets	3,199	1,357
Overcharged fee in previous year on CO2 emissions for electricity generation	11,428	13,109
Other income - NEK d.o.o.	2,985	2,502
Other	41,700	36,282
	412,082	**1,083,466**

6. OTHER OPERATING INCOME (continued)

/i/ Based on the established indicators for impairment of assets and the calculation of the required impairment allowances in accordance with IAS 36, the carrying value of thermal power plants was corrected during 2014. The key indicators of impairment were the significantly higher costs of electricity generation in thermal power plants compared to the market price of electricity.

In July 2016, Block L of TE TO Zagreb was granted the status of privileged producer on the basis of the Decision on the acquisition of privileged electricity producer status issued by the Croatian Energy Regulatory Agency (HERA) according to which it entered the system of incentives and sales of electricity at a preferential price in a period of twenty-five years. This circumstance, after establishing the sustainability of the financing model from 2017, has been recognized as an indication of changes in the value of an asset and, in accordance with the same, has been made a new evaluation by an independent consultant, which has shown the need to abolish the entire amount of recognized impairment loss on Block L in TE TO Zagreb. Accordingly, and in accordance with IAS 36, the current carrying amount of the L Block TE TO in Zagreb was increased for the carrying amount that could be determined, if the impairment loss in the amount of HRK 508,228 thousand was not previously recognized, while for the same amount was increased the income from reversal of assets impairment. As at 31 December 2017 an estimate of the value was made, by which the carrying amount of block L TE TO Zagreb was revalued to HRK 187,029 thousand.

7. OTHER OPERATING EXPENSES

	The six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Maintenance costs	231,486	207,918
Impairment of trade receivables	213,180	102,625
Gas purchase costs	47,400	59,162
Gas purchase fees	-	5,250
Service costs	136,580	126,856
Uncollectable services and material	55,746	89,301
Cost of material	33,804	37,931
Cost of CO2 emission units	80,392	65,541
Write-off of non-current assets	14,587	10,986
Impairment of inventories	12,206	4,447
Employee costs	57,434	54,378
Other employee material rights	47,136	57,955
NEK – decommission by Government decision	52,757	52,847
Contributions, taxes and fees to the State	50,131	42,745
Provision for court disputes	6,158	5,774
Water contributions and concessions	56,615	26,529
Provision for unused vacation days	23.514	14.018
Fee for usage of power plant space	54,118	34,431
Water purification and drainage fee	5,676	5,017
Cost of materials sold	12,746	9,226
Billing and collection expenses	11,392	10,064
Provisions for severance payments and jubilee awards	13,662	5,580
Insurance premiums	5,496	5,997
Environmental protection fees	709	773
Cost of damages compensation	10,168	4,733
Offsetting debts written off	3,604	12,003
Provision for thermal power plant decommission	4,355	4,355
Other operating expenses – NEK d.o.o.	106,016	99,831
Other expenses	51,428	37,314
	1,398,496	**1,193,587**

8. FINANCIAL INCOME AND EXPENSES

	The six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Financial income		
Foreign exchange gains	90,555	214,764
Interest	9,311	3,190
Fair value of cross-currency swap	69,168	-
Dividend income	-	26
Interest - NEK d.o.o.	957	521
Other financial income	518	112
Total financial income	**170,509**	**218,613**
Financial expenses		
Interest	(90,098)	(114,467)
Foreign exchange losses	(40,725)	(61,177)
Interest - NEK d.o.o.	-	(212)
Losses from fair valuation of cross currency swap	-	(284,678)
Other financial expenses	(177)	(58)
Total financial expenses	**(131,000)**	**(460,592)**
Net (loss) from financial activities	**39,509**	**(241,979)**

9. CORPORATE INCOME TAX

Corporate income tax expense and current taxes during the six months period are accounted on the basis of actual results and the profit tax rate of 18%.

10. ASSETS UNDER CONSTRUCTION

As at 30 June 2018 assets under construction amount to HRK 2,643,543 thousand (31 December 2017 amounted to HRK 2,442,559 thousand).

Increase in assets under construction mainly refers to HEP-ODS d.o.o. and at HEP-Proizvodnja d.o.o. HEP-ODS d.o.o. invested in the construction of connections and the creation of electricity conditions on the network in the amount of HRK 143,267 thousand; HEP-Proizvodnja d.o.o. invested in the replacement condensation pipe Plomin in the amount of HRK 212,234 thousand, the replacement of the boiler burner TE-TO Osijek amounted to HRK 2,567 thousand and the reconstruction of VK 3 TE-TO Zagreb amounted to HRK 2,094 thousand.

11. INVENTORIES

	30 June 2018	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Inventories of fuels and chemicals	110,059	109,854
Electric materials	384,434	367,226
Spare parts	207,223	201,458
Construction material	12,384	15,100
Gas inventory for wholesale	183,003	353,600
CO2 emission units	46,293	106,248
Engineering materials	50,654	50,598
Other inventories	60,985	6,403
Nuclear fuel and other material - NEK d.o.o.	248,452	287,097
	1,303,487	**1.497,584**
Value adjustment of obsolete materials and spare parts	(254,576)	(240,292)
	1,048,911	**1.257,292**

12. TRADE RECEIVABLES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Electricity – Corporate customers	1,649,492	1,449,741
Electricity – Households	622,413	521,542
Export of electricity	89,770	155,966
Heating, gas and services	745,536	717,772
Receivables from NEK d.o.o.	7,536	15,788
Other	50,892	55,831
	3,165,639	**2,916,640**
Impairment of bad and doubtful receivables	(999,931)	(835,640)
	2,165,708	**2,081,000**

Ageing structure of unimpaired trade receivables:

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	**Audited**
Undue	1,311,870	1,441,335
Up to 30 days	336,382	349,467
31-60 days	180,810	109,038
61-90 days	99,950	62,517
91-180 days	147,637	51,319
181-365 days	76,382	57,504
More than 365 days	12,677	9,820
	2,165,708	**2,081,000**

12. TRADE RECEIVABLES (continued)

Movements in impairments were as follows:

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	**Audited**
Balance at 1 January	**835,640**	**896,396**
Impairment of trade receivables	213,180	151,143
Derecognition of previously impaired trade receivables	(19,417)	(131,928)
Reversal of impairments	(29,472)	(79,971)
Balance at 30 June	**999,931**	**835,640**

The Management performs impairment of bad and doubtful receivables based on a review of the overall ageing structure of all receivables and of significant individual receivables amounts.

13. OTHER SHORT-TERM RECEIVABLES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Receivables for corporate income tax	1,818	98,093
Receivables for VAT	-	10,084
Prepayments for working capital	8,978	54,777
Receivables from the State for employees	3,960	3,642
Deposits with the term over 3 months	111,292	129,845
Deposits with the term over 3 months – NEK	150,370	252,244
Receivables for short-term domestic loans – reprogram	-	94,486
Receivables from HEP-ESCO d.o.o. for Energy efficiency project	5,187	8,145
Loan receivables from companies with participating interest	1,000	28,772
Receivables for sold flats	6,116	6,116
Receivables from OIE - HROTE	48,443	48,766
Other receivables from HROTE d.o.o.	74,780	128,752
Receivables for accrued income from sale of electricity to households	-	31,099
Other receivables NEK	13,807	2,431
Other short-term receivables	89,357	60,565
	515,108	**957,817**

14. CASH ABD CASH EQUIVALENTS

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Current accounts – HRK	2,095,326	1,037,821
Current accounts - Foreign currency	134,416	412,724
Current accounts for special purposes	34,353	69,104
Petty cash - HRK	216	186
Short term deposits - up to 90 days	163,633	160,730
Daily deposits	405,571	261,150
Cash Funds	74,792	75,252
Current account – HRK and foreign currency – NEK	166	128
	2,908,473	**2,017,095**

15. 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 4,274,206 thousand comprise legal reserves in the amount of HRK 470,008 thousand, retained earnings in the amount of HRK 2,631,532 thousand and profit for the period attributed to the Owner of the Parent in the amount of HRK 1,172,666 thousand.

16. LONG-TERM LOAN LIABILITIES

	Interest rates	30 June 2018	31 December 2017
		HRK '000	HRK '000
		Unaudited	**Audited**
Domestic bank loans	Floating	271,050	445,468
Foreign bank loans	Fixed	197,882	219,793
Finance leases	Fixed	8,279	10,038
Total		**477,211**	**675,299**
Deferred loan originated fees		(307)	(923)
Total long-term loans		**476,904**	**674,376**
Current portion for long-term loans		(269,274)	(405,219)
Current portion of finance lease		(3,294)	(3,262)
Long-term portion		**204,336**	**265,895**

16. LONG-TERM LOAN LIABILITIES (continued)

During 2018, the Group contracted loans with domestic and foreign banks with floating and fixed interest rates ranging from 0.44% to 2.58%. Financial leasing with fixed interest rate of 5.6% was also contracted.
Loans from domestic banks are secured by bills of exchange and promissory notes. At 30 June 2018, the Group 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 2018 the Group used own funds.

Loans in use

As at 30 June 2018 the Group has no loans in use.

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

	(HRK '000)
2018	215,155
2019	114,872
2020	39,249
2021	35,979
2022	35,979
After 2022	35,977
	477,211

16. LONG-TERM LOAN LIABILITIES (continued)

Loans from domestic banks are secured by bills of exchange and promissory notes. For one club loan, 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 and total loan liabilities.

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 Group 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 Group could be in breach of covenants, the Group 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 Group can obtain a waiver from the Creditors, given that timely payment of liabilities to financial institutions represent priority obligation of the Group and the Group 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 Group's exposure to credit risk, liquidity risk and market risk, which would result from a possible non-compliance with covenants, is minimal.

As at 30 June 2018, the Group has met all contractual covenants.

The total exposure of the Group based on contracted credit lines related to covenants as at 30 June 2018 amounts to EUR 17,647 thousand.

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

Currency	**30 June 2018**	**31 December 2017**
	HRK '000	HRK '000
EUR	64,666	89,876

For the purpose of securing liquidity reserves in the next mid-term period, the Company has concluded multilateral framework contracts with domestic banks, totalling HRK 1,0 billion.

Funds from these limits may be used by the Company for short-term loans and issuance of guarantees, letters of credit, letters of intent according to the needs of Group companies.

From the aforementioned mid-term multi-purpose frameworks, during 2018, the Group did not need to conclude short-term loans due to good liquidity.

As at 30 June, the total amount of available short-term funds amounts to HRK 942 million.

17. LIABILITIES UNDER ISSUED BONDS

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Nominal value of domestic bonds issued in 2007	-	93,030
Discounted value	-	-
Due repayment	-	(93,030)
Current maturity of bonds	-	-
	-	**-**
Value of bonds issued abroad in 2012	-	493,571
Due repayment	-	(491,477)
Exchange rate differences	-	(2,094)
Current maturity of bonds	-	-
Bonds issued in 2012	**-**	**-**
Value of bonds issued abroad in 2015	3,612,610	3,626,428
Exchange rate differences	(65,095)	(21,431)
Value of discount	4,218	7.613
	3,551,733	**3,612,610**
Accrued bond costs	(15,046)	(16,782)
Bonds issued in 2015	**3,536,687**	**3,595,828**
Total liabilities under issued bonds	**3,536,687**	**3,595,828**

Bonds issued in the Republic of Croatia

Bonds in the amount of HRK 700,000 thousand, issued at the end of 2007, were repaid in 15 semi-annual instalments, with a fixed interest of 6.50 percent. The bonds were listed on the Zagreb Stock Exchange. In December 2017, the last instalment of was repaid, i.e. the bonds were repaid in full.

17. LIABILITIES UNDER ISSUED BONDS (continued)

Bonds issued abroad

Bonds issued abroad in 2012

In November 2012, the Company has issued bonds in the amount of USD 500,000 thousand, with the maturity of 5 years and bearing annual fixed interest of 6%. Bonds were listed at Luxembourg stock - exchange and they were actively traded. In November 2017 bonds were repaid in full.

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with maturity of 7 years, and fixed interest rate of 5.875% per annum. Bonds issued in 2015, were 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 activities. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

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 cross currency swap agreement in 2012 was valid for the outstanding amount of principal until maturity on 9 November 2017.

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.

According to the cross currency swap 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), and is payable semi-annually (the cost of swap is included in the interest rate).

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 2015 are converted in EUR for the entire period of bond duration, respectively until its outermost maturity date.

17. LIABILITIES UNDER ISSUED BONDS (continued)

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.

The annual interest rate paid by the Company is fixed and amounts to 4.851% according to the cross currency swap agreement from 2015.

The Company measures the fair value of derivative financial instruments 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 and as financial income for the period, and negative "MTM" value is recorded as a liability and as financial expense of the reporting period.

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

On 30 June 2018, using this measuring method, the Company stated fair value of liabilities by bonds issued in 2015 in the amount of HRK 436,059 thousand (31 December 2017: HRK 505,228 thousand).

18. OTHER LONG-TERM LIABILITIES

	30 June 2018	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Deferred income - assets financed by third parties	6,072,558	3,080,826
Long term liabilities for assets financed from clearing debt	763,241	755,189
Derivative financial liabilities from swap transactions	436,059	505,228
Other long-term liabilities	19,387	15,364
	7,291,245	**4,356,607**

Deferred income relates to fixed assets ceded by customers or assets financed from connection fees. 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.

18. OTHER LONG-TERM LIABILITIES (continued)

From 1 July 2009 to 1 January 2018, the connection fee was 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 (IFRIC 18). As of 1 January 2018, since the application of IFRS 15 started, the revenue from the network connection fee is recognized in the amount of accrued depreciation of the property built from the a fee. In line with the capabilities of the HEP Group standards, the initial condition (1 January 2018) was revised for the cumulative effect of the initial application of IFRS 15 and increased the amount of deferred revenue to HRK 3,047,300 thousand.

At 30 June 2018, the Company stated clearing debt liability in the amount of HRK 763,241 thousand (31 December 2017: HRK 755,189 thousand) related to 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.

19. LIABILITIES TO EMPLOYEES

	30 June 2018	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Net salaries	74,760	80,331
Contributions	33,721	36,099
Severance payments upon retirement	3,276	123,487
Salaries - NEK d.o.o.	9,424	15,290
Other	17,084	18,966
	138,265	**274,173**

20. TRADE PAYABLES

	30 June 2018	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Domestic trade payables	843,738	1,407,038
Foreign trade payables	67,880	70,504
Foreign trade payables - EU	111,608	93,241
Trade payables - NEK d.o.o.	16,746	72,250
	1,039,972	**1.643,033**

21. RELATED PARTY TRANSACTIONS

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

(i) NE Krško d.o.o.	**30 June 2018**	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Liabilities for purchased electricity	48,781	49,603

	The six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Cost of electricity purchased	281,889	291,014

(ii) LNG Hrvatska d.o.o.	**30 June 2018**	**31 December 2017**
	HRK '000	HRK '000
	Unaudited	Audited
Loan receivables	35,462	61,879

In May 2018, the Company raised its principal stake in LNG Hrvatska d.o.o. in the amount of HRK 26,311 thousand due to outstanding loans receivable.

(iii) Fees to members of Management board and executive directors of the Group

	The six month period ended	
	30 June 2018	**30 June 2017**
	HRK '000	HRK '000
	Unaudited	Unaudited
Gross salaries	13,051	14,044
Pension contributions	2,874	3,123
Other (benefits in kind)	1,386	1,605
	17,311	**18,772**

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

21. RELATED PARTY TRANSACTIONS (continued)

	Sale revenue		Purchase cost	
	The six month period ended 30th of June		The six month period ended 30th of June	
HRK '000	**2018**	**2017**	**2018**	**2017**
	Unaudited	Unaudited	Unaudited	Unaudited
Companies partially owned by the State				
Companies of Hrvatske Željeznice	49,838	40,147	16	146
INA Industrija nafte d.d.	66,337	64,597	574,609	491,420
Plinacro d.o.o.	-	1,280	80,750	56,769
Croatia osiguranje d.d.	3,061	1,301	1,853	696
Hrvatska pošta d.d.	11,618	1,959	15,145	15,409
Hrvatske šume d.d.	2,273	2,056	1,441	1,407
Jadrolinija d.o.o.	526	255	543	286
Narodne novine d.d.	1,051	1,094	1,931	1,576
Hrvatska radio televizija	5,654	6,569	782	701
Plovput d.d.	318	247	76	79
Croatia Airlines d.d.	390	722	-	4
Petrokemija Kutina d.d.	321,910	7,513	405	39
Ministry of Foreign Affairs	3	2	-	-
Ministry of Defence	10,039	13,017	-	-
Ministry of the Interior	11,862	12,323	-	-
Elementary and high schools	21,050	27,953	1	-
Judicial institutions	3,521	3,490	11	29
Colleges and universities	12,539	13,390	726	425
Legislative, executive and other bodies of Republic of Croatia	9,556	9,880	1,819	1,934
Health institutions and organizations	42,497	45,278	252	188
HROTE	187,932	168,983	477,061	342,372
Other users	7,233	2,797	2,104	2,181
TOTAL	**769,208**	**424,853**	**1,159,525**	**915,661**

21. RELATED PARTY TRANSACTIONS (continued)

HRK '000	Receivables 30 June 2018 Unaudited	Receivables 31 December 2017 Audited	Liabilities 30 June 2018 Unaudited	Liabilities 31 December 2017 Audited
Companies partially owned by the State				
Companies of Hrvatske Željeznice	23,774	25,911	1	245
INA-industrija nafte d.d.	16,487	16,053	131,641	45,264
Plinacro d.o.o.	-	861	9,625	20,078
Croatia osiguranje d.d.	501	213	37	1,944
Hrvatska pošta d.d.	3,026	3,446	4,081	6.930
Hrvatske šume d.o.o.	766	1,038	3	2
Jadrolinija d.o.o.	299	76	206	22
Narodne novine d.d.	369	529	437	897
Hrvatska radio televizija	2,354	2,514	38	50
Plovput d.d.	105	67	48	48
Croatia Airlines d.d.	55	98	-	-
Petrokemija Kutina d.d.	333,511	3,095	196	419
Ministry of Defence	2,066	3,522	-	-
Ministry of the Interior	3,361	6,030	-	-
Elementary and high schools	3,900	12,037	-	-
Judicial institutions	516	1,144	-	-
Colleges and universities	4,720	4,664	-	-
Legislative, executive and other bodies of Republic of Croatia	2,451	3,712	-	-
Health institutions and organizations	18,655	20,218	-	-
HROTE	75,338	281,259	105,062	116,278
Other users	25,901	17,998	1,330	6,587
TOTAL	**518,155**	**404,485**	**252,705**	**198,764**

21. RELATED PARTY TRANSACTIONS (continued)

As of 30 June 2018, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership interest in %	Principal activity
HEP-Proizvodnja d.o.o.	Croatia	100	Generation of electricity and heating
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Transmission of electricity
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Distribution of electricity
HEP ELEKTRA d.o.o.	Croatia	100	Supply of electricity
HEP Opskrba d.o.o.	Croatia	100	Supply of electricity
HEP-Toplinarstvo d.o.o.	Croatia	100	Production and distribution of heating
HEP-Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing projects of energy efficiency
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure surrounding Plomin
CS Buško Blato d.o.o.	BH	100	Maintenance of hydro power plant equipment
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Leisure and recreation services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trading and optimisation of power plant production
HEP Energija d.o.o. Ljubljana	Slovenia	100	Trading in electricity
HEP Energija d.o.o.	BH	100	Trading in electricity
HEP Energjia sh.p.k.	Kosovo	100	Trading in electricity
HEP Energija d.o.o.	Serbia	100	Trading in electricity
Program Sava d.o.o.	Croatia	100	Spatial planning, design, construction and supervision
HEP Opskrba plinom d.o.o.	Croatia	100	Supply of gas
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications
Hrvatski centar za čistiju proizvodnju (u likvidaciji)	Croatia	100	Education and consulting – cleaner production and environmental management systems
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

The majority of these subsidiaries were founded during the process of reorganization and restructuring of the core business activities under the new energy legislation, which came into force on 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 November 2016 HEP-Elektra was founded, through a statutory separation of distribution activity of HEP-Operator distribucijskog sustava d.o.o.

21. RELATED PARTY TRANSACTIONS (continued)

In 2017 HEP-Trade Mostar d.o.o. changed its name to HEP Energija d.o.o., HEP-Trade Beograd d.o.o. changed its name to HEP Energija d.o.o., and HEP-KS.sh.p.k. the name changed to HEP Energija sh.pk. In 2017, the company Plomin d.o.o. was merged to the Company.
The beginning of liquidation of the company Hrvatski centar za čistiju proizvodnju started on 9 November 2017. HEP-Magyarorszag Energia Kft. was removed from the Court Registry on 22 March 2018.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions 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 – indicators derived using valuation methods in which data on assets or liabilities that are not based on available market data (unavailable input data) are used as input data.

The 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.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	1st level	2nd level	3rd level	Total
	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2018, unaudited				
Assets classified at fair value through other comprehensive income	301,608	-	-	**301,608**
Derivative financial assets	-	-	-	**-**
Derivative financial liabilities	-	-	436,059	**436,059**
Investment in property	-	306,059	-	**306,059**
31 December 2017, audited				
Assets classified at fair value through other comprehensive income	284,443	-	-	**284,443**
Derivative financial assets	-	-	-	**-**
Derivative financial liabilities	-	-	505,228	**505,228**
Investment in property	-	305,630	-	**305,630**

23. CONTINGENT LIABILITIES

Water Management Act

With the entry into force of the Water Management Act on 1 January 2010, the property rights of the Company and the Group related to the accumulation lakes and associated facilities, which are used for the production of electricity from hydro power plants, became questionable; as they are defined as Public Water Resource in the general use owned by the Republic of Croatia. The Company and the Group acquired the said property through collection from their previous owners, merging an exceptionally large number of parcels, which were flooded during the construction of the dam, resulting in accumulation. Several registrations of ownership of the Republic of Croatia on the mentioned real estates, of which part has been carried out for the benefit of the Republic of Croatia, are now underway, a part of the request for registration of the ownership right of the Republic of Croatia has been rejected by the competent courts, and one part is in the process of solving.

In May 2018, the Law on Amendments to the Water Management Act (OG 46/18) entered into force, by which the Republic of Croatia establishes the right to build a public water resource - land on which waterworks, invested in by HEP d.d. or its predecessors; were built; except for the land on which the accumulation, the supply and drainage channel and tunnels were constructed in favour of HEP d.d., without compensation for a period of 99 years. While the right of construction is being exercised, HEP d.d. receives the right management of public good / land on which constructions for electricity generation and accumulation and supply and drainage channels and tunnels are built on behalf of the Republic of Croatia.

24. LIABILITIES BASED ON THE SHARE IN THE RESULT

On 6 June 2018, the General Assembly of the Company issued a decision on dividend payment for 2017 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 218,413 thousand, which will be paid during 2018.

25. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements for six months period ended 30 June 2018 were approved by the Management Board and authorised for issue on 6 September 2018.

Signed on behalf of the Management Board on 6 September 2018:

Marko Ćosić	Nikola Rukavina	Petar Sprčić	Tomislav Šambić	Saša Dujmić	Frane Barbarić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board