



HRVATSKA ELEKTROPRIVREDA d.d.

Condensed interim financial
statements for the period ended

30 June 2018

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Independent auditors' report on review of condensed interim financial statements

To the Owner of Hrvatska elektroprivreda d.d.:

Introduction

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

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

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily 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 financial statements as at 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

As described in the Note 17 to the condensed 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: 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, 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 21 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.

The Company prepared consolidated condensed interim financial statements for the Company and its subsidiaries, which were drawn up for the period ended 30 June 2018. For a better understanding of the operations of the Company and the Group as a whole, users should read the consolidated condensed interim financial statements in connection with these condensed interim financial statements.

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 Income statement of HEP d.d.

For the six month period ended 30 June 2018

		For the six month period ended	
	Note	30 June 2018	30 June 2017
		HRK '000	HRK '000
		Unaudited	Unaudited
Income from electricity sales	3	1,715,390	1,580,983
Income from electricity sales – related companies	18	1,492,179	1,360,680
Income from gas sales – market supply	4	316,756	-
Income from gas sales on wholesale market	4	546,834	573,379
Income from gas sales – related companies	4, 18	78,262	82,289
Operating income – related companies	18	171,056	224,226
Sales income		4,320,477	3,821,557
Other operating income		39,239	42,853
Total operating income		4,359,716	3,864,410
Electricity purchase cost	5	(891,815)	(1,178,895)
Electricity purchase cost – related companies	5, 18	(1,638,056)	(1,441,738)
Gas purchase cost – market supply		(303,356)	(1,010)
Gas purchase cost – sales on wholesale market		(633,527)	(663,441)
Staff costs		(48,183)	(44,455)
Depreciation and amortisation costs		(25,940)	(24,651)
Service costs – related companies	18	(28,256)	(32,180)
Other operating expenses	6	(400,399)	(314,681)
Total operating expenses		(3,969,532)	(3,701,051)
Operating profit		390,184	163,359
Financial income	7	550,476	1,020,780
Financial expenses	7	(133,617)	(470,960)
Net profit from financial activities	7	416,859	549,820
Profit before taxation		807,043	713,179
Corporate income tax	8	(74,487)	42,252
Profit for the period		732,556	755,431

The accompanying notes form an integral part of these condensed 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 statement of other comprehensive income of HEP d.d.

For the six month period ended 30 June 2018

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Profit for the period	<u>732,556</u>	<u>755,431</u>
Other comprehensive income		
Net loss/profit from financial assets classified at fair value through other comprehensive income	<u>(9,317)</u>	<u>18,593</u>
<i>Net other comprehensive income to be reclassified to profit/(loss) in subsequent periods</i>	<u>(9,317)</u>	<u>18,593</u>
Other comprehensive income/ (loss), net	<u>(9,317)</u>	<u>18,593</u>
Total comprehensive income for the period, net	<u>723,239</u>	<u>774,024</u>

The accompanying notes form an integral part of these condensed 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 statement of financial position / condensed balance sheet of HEP d.d.

As at 30 June 2018

ASSETS	Note	30 June 2018	31 December 2017
		HRK '000 Unaudited	HRK '000 Audited
Non-current assets			
Property, plant and equipment		365,021	374,211
Assets under construction	9	407,625	388,015
Intangible assets		118,500	128,365
Investment property		33,266	33,266
Investment in shares	10	9,465,828	9,465,828
Investments classified at fair value through other comprehensive income and other investments	11	299,328	284,163
Long term loans	18	16,418,418	17,069,042
Other receivables		486	543
Deferred tax assets		114.816	105.279
Total non-current assets		27,223,288	27,848,712
Current assets			
Inventories	12	235,017	467,902
Trade receivables		234,458	325,006
Current portion of long-term receivables		1,328,312	1,355,636
Other current receivables	13	151,093	292,342
Receivables from related companies	18	3,347,532	3,153,035
Cash and cash equivalents		1,962,541	925,174
Total current assets		7,258,953	6,519,095
TOTAL ASSETS		34,482,241	34,367,807

Condensed statement of financial position / condensed balance sheet of HEP d.d.
(continued)

As at 30 June 2018

EQUITY AND LIABILITIES	Note	30 June 2018	31 December 2017
		HRK '000	HRK '000
		Unaudited	Audited
Share capital	14	19,792,159	19,792,159
Revaluation reserves		105,232	136,727
Retained earnings	14	5,762,176	5,220,987
Total equity		25,659,567	25,149,873
Non-current liabilities			
Liabilities under issued bonds	15	3,536,687	3,595,828
Long-term loan liabilities	16	199,351	259,119
Other long-term liabilities	17	1,212,261	1,273,807
Long-term provisions		216,793	217,014
Deferred tax liabilities		17,764	24,304
Total non-current liabilities		5,182,856	5,370,072
Current liabilities			
Current portion of long-term loans	16	269,274	405,219
Liabilities towards related companies	18	2,563,070	2,790,547
Other liabilities	19	807,474	652,096
Total current liabilities		3,639,818	3,847,862
TOTAL EQUITY AND LIABILITIES		34,482,241	34,367,807

The accompanying notes form an integral part of these condensed 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 statement of changes in equity of HEP d.d.

For the six month period ended 30 June 2018

	Share capital	Revaluation reserves	Retained earnings	Total equity
	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2017, audited	19,792,159	140,292	5,649,310	25,581,761
Profit for the period	-	-	755,431	755,431
Other comprehensive income	-	18,593	-	18,593
Total comprehensive income	-	18,593	755,431	774,024
Approved dividend	-	-	(794,291)	(794,291)
Balance at 30 June 2017	19,792,159	158,885	5,610,450	25,561,494
Balance at 31 December 2017, audited	19,792,159	136,727	5,220,987	25,149,873
Reconciliation of the previous period – application of IFRS 9 (Note 1)	-	(22,178)	27,047	4,869
Balance at 1 January 2018, audited	19,792,159	114,549	5,248,034	25,154,742
Profit for the period	-	-	732,556	732,556
Other comprehensive income	-	(9,317)	-	(9,317)
Total comprehensive income	-	(9,317)	732,556	723,239
Approved dividend	-	-	(218,414)	(218,414)
Balance at 30 June 2018, unaudited	19,792,159	105,232	5,762,176	25,659,567

The accompanying notes form an integral part of these condensed 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 statement of cash flows of HEP d.d.

For the six month period ended 30 June 2018

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000 Unaudited	HRK '000 Unaudited
OPERATING ACTIVITIES		
Profit before tax	807,043	713,178
Net loss/ (profit) from financial activities	34,214	(549,820)
Depreciation and amortisation	25,940	24,651
(Decrease) /increase in provisions	(221)	426
(Income) from impairment of receivables	-	(356)
<i>Operating cash flows before movements in working capital</i>	<u>866,976</u>	<u>188,079</u>
Decrease in trade receivables	90,548	241,167
Decrease/ (Increase) in receivables from related companies	452,338	(13,626)
Decrease in inventories	232,885	178,444
Decrease in other current assets	141,249	7,746
(Decrease) in trade payables	(44,149)	(204,443)
(Decrease) / increase in other liabilities	(47,844)	61,771
(Decrease) in liabilities to subsidiaries	(227,477)	(77,107)
(Decrease) in other non-current liabilities	(128,749)	(96,058)
Cash generated from operations	<u>1,335,777</u>	<u>285,973</u>
Corporate income tax (paid)	(53,376)	(88,400)
Interest paid	(91,365)	(117,009)
NET CASH FROM OPERATING ACTIVITIES	<u>1,191,036</u>	<u>(80,564)</u>
INVESTING ACTIVITIES		
Interest collected	55,462	1,612
Dividends from related companies	5,016	252,035
Costs/receipts from sale of tangible assets to related companies	-	(4,797)
Expenses for purchase of property, plant and equipment	(26,495)	(37,728)
Expenses from other non-current assets	-	(9,210)
NET CASH FROM INVESTING ACTIVITIES	<u>33,983</u>	<u>201,912</u>

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

For the six month period ended 30 June 2018

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Bond repayments	-	(46,689)
Long-term loans received	-	10,089
Repayments of long-term loans	(187,652)	(188,097)
NET CASH USED IN FINANCING ACTIVITIES	(187,652)	(224,697)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,037,367	57,779
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	925,174	2,366,100
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,962,541	2,423,879

The accompanying notes form an integral part of these condensed 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 interim financial statements of Company HEP d.d. ("the Company") are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The preparation of the unaudited condensed interim financial information for the six 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 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 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; or in the future periods if the revision affects both current and future periods.

The annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU. The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34'). The condensed interim financial statements for the six-month period ended 30 June 2018 have been prepared under the same accounting policies as for the 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. A new standard that has an impact on the Company is adopted for the 2018 annual financial report and which leads to changes in the accounting policies of the Company are:

- IFRS 9 – *Financial instruments*

A detail of the impact this standard has 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 Company as they are either not relevant to the Company's activities or require accounting which is consistent with the Company's current accounting policies.

IFRS 9 – Financial instruments has replaced IAS 39 – *Financial Instruments: Recognition and Measurement* and has had a significant effect on the Company 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 profit or loss. Previously, under IAS 39 – *Financial Instruments: Recognition and Measurement*, impairments of such assets were recognised in 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.

1. BASIS OF PREPARATION (continued)

Impairment of financial assets classified as available for sale initially recognised in the 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.

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

Leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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.

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)

- **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 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.

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)

- **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.

Adoption of the said amendments did not significantly affect the Company's financial statements except for IFRS 9 - *Financial Instruments* 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.

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)

- **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.
- **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 Company's Management Board envisages that the application of these standards, amendments and interpretations will not have a material impact on the Company's 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 interim financial statements in conformity with International Accounting Standard 34 *Interim Financial Reporting* requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Estimates used in preparation of these condensed interim financial statements relate to employee benefits, impairment of assets, 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 financial statements, when determinable.

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

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

For the six month period ended 30 June 2018

3. INCOME FROM ELECTRICITY SALES

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Income from electricity sales – customers of HEP Opskrba d.o.o.	1,313,315	1,122,995
Income from export of electricity	380,192	414,614
Income from sales of electricity – domestic market	21,883	43,374
	<u>1,715,390</u>	<u>1,580,983</u>

4. INCOME FROM GAS SALES

/ i / **Income from gas sales** in the amount of HRK 316,756 thousand relates to gas sales to customers - market supply.

/ ii / **The wholesale gas market** in the Republic of Croatia amounts to HRK 625,096 thousand (unrelated companies 546,834 thousand and related companies 78,262 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.

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

For the six month period ended 30 June 2018

5. ELECTRICITY PURCHASE COSTS

Electricity purchase costs for the six month period ended 30 June 2018, including the purchase from related parties amount to HRK 2,529,871 thousand (HRK 2,620,633 thousand in the same period last year). Costs have been reduced compared to the same period last year because of lower electricity production in thermoelectric power plants and lower import of electricity due to more favourable hydrology.

The electricity purchase cost not including related companies refers to purchases outside of system for sales to end customers.

6. OTHER OPERATING EXPENSES

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Impairment of doubtful receivables	145,291	32,518
Cost of HEP d.d. for decommission of NEK d.o.o.	52,757	52,847
Cost of services within subsidiaries	20,177	17,214
Cost of services	46,581	48,076
Cost of sales of CO2 emission units	89,440	130,001
Taxes, contributions and fees	5,436	3,999
Bank charges, payment transaction costs and loan fees	3,321	3,507
Receivables in kind	827	918
Per diems and transportation costs	2,024	1,892
Insurance premiums	3,272	3,419
Other employee material rights	1,598	1,354
Cost of materials	2,583	2,305
Provisions for severance payment and other employee costs	207	420
Provisions for unused vacation days	-	2,553
Net book value of sold and alienated assets	1,001	272
Cost of energy used in production	12,566	1,456
Other operating expenses	13,318	11,930
	400,399	314,681

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

For the six month period ended 30 June 2018

7. FINANCIAL INCOME AND EXPENSES

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Financial income		
Interest	55,462	76,525
Foreign currency exchange gains	84,111	203,190
Dividend from subsidiaries and associated companies	340,243	740,057
Income from dividend	16	26
Fair value swap	69,168	-
Other financial income	1,476	982
Total financial income	550,476	1,020,780
Financial expenses		
Interest	(89,676)	(113,049)
Foreign exchange losses	(34,747)	(68,356)
Fair value swap	(178)	(284,678)
Fair value of shares	-	(58)
Other financial expenses	(9,016)	(4,819)
Total financial expenses	(133,617)	(470,960)
Net profit from financial activities	416,859	549,820

8. CORPORATE INCOME TAX

Corporate income tax expense during the six months period is calculated on the basis of actual results and the profit tax rate of 18%.

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

For the six month period ended 30 June 2018

9. ASSETS UNDER CONSTRUCTION

Assets under construction stated as at 30 June 2018 amounted to HRK 407,625 thousand, and the most important relate to the investment in the project EDM/ECM in the amount of HRK 59,048 thousand, investment in EL-TO Zagreb, replacement of block A with the new CCCGT plant and heat battery in the amount of HRK 20,113 thousand, investment in cogeneration plants on forest biomass BE-TO Sisak in the amount of HRK 147,247 thousand and BE-TO Osijek in the amount of HRK 129,282 thousand.

10. INVESTMENTS IN SHARES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Balance at 1 January	9,465,828	9,203,125
Increase in share capital of HOPS d.o.o.	-	293,131
Increase in share capital from reinvested profit - HOPS d.o.o.	-	271,672
HEP Upravljanje imovinom d.o.o.- increase / decrease share capital	-	(52,025)
TE Plomin – merger to HEP-u d.d.	-	(250,075)
	<u>9,465,828</u>	<u>9,465,828</u>

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
HEP - Proizvodnja d.o.o.	40	40
Hrvatski operator prijenosnog sustava d.o.o.	4,934,719	4,934,719
HEP - Operator distribucijskog sustava d.o.o.	1,764,960	1,764,960
HEP - Opskrba d.o.o.	20	20
HEP -Toplinarstvo d.o.o.	730,816	730,816
HEP - Plin d.o.o.	20	20
HEP ESCO d.o.o.	3,920	3,920
HEP – Upravljanje imovinom d.o.o.	17,995	17,995
HEP-Trgovina d.o.o.	20	20
Program Sava d.o.o.	20	20
HEP-Telekomunikacije d.o.o.	258,799	258,799
Plomin Holding d.o.o.	20	20
HEP Opskrba plinom d.o.o.	20	20
Hrvatski centar za čistiju proizvodnju	20	20
HEP Elektra d.o.o.	20	20
NE Krško	1,754,419	1,754,419
	<u>9,465,828</u>	<u>9,465,828</u>

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

For the six month period ended 30 June 2018

11. INVESTMENTS CLASSIFIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND OTHER INVESTMENTS

Changes in investments classified as at fair value through other comprehensive income are presented as follows:

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Opening balance	284,163	289,938
Capital increase - LNG Hrvatska d.o.o.	26,311	-
Fair value of investment classified at fair value through other comprehensive income (Janaf)	(10,796)	(5,398)
Fair value of investment classified at fair value through other comprehensive income – other shares	(194)	130
Fair value of investment through income statement	(156)	(507)
Closing balance	<u>299,328</u>	<u>284,163</u>

In May 2018, based on the share in rights, the Company acquired a new business share in LNG Hrvatska d.o.o. in the nominal amount of HRK 26,311 thousand.

12. INVENTORIES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Gas inventory for wholesale	183,003	353,600
CO ₂ emission units	46,294	106,248
Investment material	3,987	6,784
Other material	1,733	1,270
	<u>235,017</u>	<u>467,902</u>

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

For the six month period ended 30 June 2018

13. OTHER SHORT-TERM RECEIVABLES

	For the six month period ended	
	30 June 2018	31 December 2017
	HRK '000	HRK '000
Other short-term receivables	Unaudited	Audited
Prepayments for corporate income tax	16,540	135,383
Prepayments to suppliers	7,429	54,439
Interest receivables	93	108
Receivables from companies associated through participating interest-Interest	3,723	3,254
Receivables from the state	60	42
Receivables for given deposits (maturity over 90 days)	100,476	78,898
Prepaid expenses	11,168	17,128
Difference in procurement and sales of gas	10,816	-
Other receivables	788	3,090
	151,093	292,342

14. EQUITY AND RESERVES

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

Retained earnings in the amount of HRK 5,762,176 thousand consists of the profit for the period in the amount of HRK 732,556 thousand, retained earnings in the amount of HRK 4,559,617 thousand and reserves in the amount of HRK 470,003 thousand.

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

For the six month period ended 30 June 2018

15. 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
Current maturity	-	(93,030)
	<u>0</u>	<u>0</u>
Value of bonds abroad issued in 2012	-	493,571
Current maturity	-	(491,477)
Exchange rate differences	-	(2,094)
Bonds issued in 2012	<u>0</u>	<u>0</u>
Value of bonds abroad issued in 2015	3,612,610	3,626,428
Exchange rate differences	(65,095)	(21,431)
Value of discount	4,218	7,613
	<u>3,551,733</u>	<u>3,612,610</u>
Accrued bond costs	(15,046)	(16,782)
Bonds issued in 2015	<u>3,536,687</u>	<u>3,595,828</u>
Total liabilities under issued bonds	<u>3,536,687</u>	<u>3,595,828</u>

Bonds issued in the Republic of Croatia

Bonds in the amount of HRK 700,000 thousand, issued at the end of 2007, are repayable in 15 semi-annual instalments, commencing three years from the date of issue, and are bearing fixed interest of 6.50 percent. The bonds were listed on the Zagreb Stock Exchange. In December 2017, the last instalment of was repaid, i.e. the bonds were repaid in full.

15. LIABILITIES UNDER ISSUED BONDS (continued)

Bonds issued abroad

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

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 new bond issue

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with maturity of 7 years, fixed interest rate of 5.875% per annum and the issue price of 98.594%. Bonds issued in 2015, 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.

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 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.

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.

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

For the six month period ended 30 June 2018

15. LIABILITIES UNDER ISSUED BONDS (continued)

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).

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
Total		468,932	665,261
Deferred loan originated fees		(307)	(923)
Total long term loan liabilities		468,625	664,338
Current maturity of long term loans		(269,274)	(405,219)
Long term portion		199,351	259,119

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

For the six month period ended 30 June 2018

16. LONG TERM LOAN LIABILITIES (continued)

During 2018, the Company contracted loans with domestic and foreign banks with floating and fixed interest rates ranging from 0.44% to 2.58%.

Loans from domestic banks are secured by bills of exchange and promissory notes. At 30 June 2018, the Company doesn't have any liabilities covered by sovereign loan guarantees.

New financing sources

For the financing of the investment plan and the regular operations in 2018 the Company used own funds.

Loans in use

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

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

	Amount
	In HRK '000
2018	213,531
2019	111,487
2020	35,979
2021	35,979
2022	35,979
after 2022	35,977
	<hr/> 468,932 <hr/>

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

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

For the six month period ended 30 June 2018

16. LONG-TERM LIABILITIES (continued)

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

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

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

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

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

The total exposure of the Company 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
	In HRK '000	In 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 Company did not need to conclude short-term loans due to good liquidity.

As at 30 June 2018, the total amount of available short-term funds amounts to HRK 942 million.

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

For the six month period ended 30 June 2018

17. OTHER LONG-TERM LIABILITIES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Liabilities for assets financed from clearing debt	763,241	755,189
Derivative financial liability	436,059	505,228
Other liabilities	12,961	13,390
	<u>1,212,261</u>	<u>1,273,807</u>

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.

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS

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 Energija 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
NE 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 d.o.o. was founded, through a statutory separation of distribution activity of HEP-Operator distribucijskog sustava d.o.o.

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

For the six month period ended 30 June 2018

18. 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-Magyarország Energia Kft. was removed from the Court Registry on 22 March 2018.

In addition to affiliated i.e. subsidiary companies in the 100% ownership of the Company, in the 50% ownership of the Company are NE Krško d.o.o. and LNG Hrvatska d.o.o.

Related party transactions are listed below:

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

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

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

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

/v/ Short-term receivables from related companies arise from the sale of fuel, materials and spare parts, for the electricity sold by the company HEP ODS d.o.o., HEP Elektra d.o.o. and for the customers of HEP Opskrba d.o.o.; trading of electricity and gas, administrative services that the Company provides for related companies as well as for assets under construction financed by the Company. After completion of the construction, those assets are transferred to related companies as a finance lease.

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

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Income from sales of electricity		
Income from sales of electricity - HEP Elektra d.o.o.	1,013,056	1,016,384
Income from invoiced losses on transmission network	62,200	43,664
Income from invoiced losses on distribution network	259,686	187,619
Income from balancing energy	2,588	7,626
Income from sale of electricity to other companies within HEP Group	23,391	4,765
Income from sales of electricity - HEP-Energija d.o.o. Ljubljana	115,872	87,093
Income from sales of electricity - Energija SH.P.K. Kosovo	1,137	-
Income from sales of electricity - HEP-Trade d.o.o. Beograd	5,527	8,213
Income from sales of electricity - HEP-Trade d.o.o. Mostar	4,157	5,316
Income from sales of electricity - HEP Proizvodnja d.o.o.	4,565	-
	<u>1,492,179</u>	<u>1,360,680</u>
Income from sales of electricity - related companies		
Income from sales of gas - HEP Plin d.o.o.	78,262	82,289
Operating income		
Income from administrative services	70,262	83,402
Income from lease of business premises	8,518	8,480
Income from sale of CO2 emissions	89,440	130,000
Other income	2,836	2,344
	<u>171,056</u>	<u>224,226</u>
Income from sales to related companies	1,741,497	1,667,195

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Financial income		
Interest income on lease of assets	41,307	55,468
Interest income on loans to related companies	13,329	19,769
	<u>54,636</u>	<u>75,237</u>

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Electricity purchase costs – related companies		
Purchase of electricity –HEP Proizvodnja d.o.o.	1,308,758	1,060,900
Purchase of electricity from renewable resources –HEP Opskrba	287,988	147,256
Electricity balancing - HEP Operator distribucijskog sustava d.o.o.	-	25,956
Electricity balancing - HOPS d.o.o	25,183	-
TE Plomin d.o.o.	-	207,593
HEP Energija d.o.o. Ljubljana	3,519	-
HEP-Trade d.o.o. Beograd	19	-
HEP-Trade d.o.o. Mostar	12,589	33
	<u>1,638,056</u>	<u>1,441,738</u>

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Expenses		
Fee for electricity supply - HEP Opskrba d.o.o.	18,059	21,475
Fee for gas supply - HEP Opskrba plinom d.o.o.	3,012	3,224
Fee for electricity and gas trading services - HEP Trgovina d.o.o.	7,185	7,481
	<u>28,256</u>	<u>32,180</u>

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

Long-term receivables	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Receivables for assets in long-term lease		
HEP Operator distribucijskog sustava d.o.o.	7,842,499	8,161,303
HEP Proizvodnja d.o.o.	8,023,068	8,302,002
HEP Toplinarstvo d.o.o.	821,609	846,931
HEP Upravljanje imovinom d.o.o.	120,615	120,935
HEP Plin d.o.o.	171,908	175,977
HEP Noc d.o.o.	11,942	12,187
HEP Opskrba d.o.o.	2,546	2,547
HEP Trgovina d.o.o.	902	826
HEP Esco d.o.o.	2,295	2,613
Program Sava d.o.o.	246	252
HEP Opskrba plinom d.o.o.	145	170
HEP Elektra d.o.o.	2,775	2,177
	17,000,550	17,627,920
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	5,708	6,143
HEP Proizvodnja d.o.o.	3,497	3,687
HOPS d.o.o.	859	958
HEP Toplinarstvo d.o.o.	123	131
	10,187	10,919
	17,010,737	17,638,839
Current maturity of leases	(1,197,341)	(1,197,341)
Receivables for long term lease from related companies	15,813,396	16,441,498

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

Receivables for long-term loans from related companies	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
HEP-Toplinarstvo d.o.o.	55,300	63,200
HEP-Opkrba d.o.o.	-	-
	<u>55,300</u>	<u>63,200</u>
Current maturity	(15,800)	(15,800)
	<u>39,500</u>	<u>47,400</u>
Total	<u>15,852,896</u>	<u>16,488,898</u>

Receivables for sub-loans to related companies	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Receivables from sub-loan HEP ESCO d.o.o. – long-term portion	46,127	46,127
Revolving loan receivables - Telekomunikacije	32,303	-
Receivables from sub-loan - HOPS d.o.o.	566,800	614,633
	<u>645,230</u>	<u>660,760</u>
Current maturity	(115,170)	(116,723)
	<u>530,060</u>	<u>544,037</u>
Total long-term receivables from related companies	<u>16,382,956</u>	<u>17,032,935</u>

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

Short-term receivables	30 June 2018	31 December 2017
	HRK '000 Unaudited	HRK '000 Audited
HEP Elektra d.o.o. - sold electricity	382,625	385,444
HEP Operator distribucijskog sustava d.o.o. – losses on distribution network	34,579	87,336
HEP Opskrba d.o.o. - sold electricity and customer interest	454,915	413,152
HOPS d.o.o. – losses on transmission network	23,693	16,632
HOPS d.o.o. – electricity balancing	0	65,990
HEP Energija d.o.o. Ljubljana. - sold electricity	59,387	47,005
HEP Trade d.o.o. Beograd . - sold electricity	2,210	832
HEP Trade d.o.o. Mostar . - sold electricity	2,529	17,673
HEP- Energija SH.P.K. Kosovo . - sold electricity	169	1,029
HEP Proizvodnje d.o.o. – sold heating energy	1,363	1,276
Other receivables	12,364	12,880
	973,834	1,049,249
Receivables for costs of common functions		
HEP Proizvodnja d.o.o.	8,055	1,545
HEP Operator distribucijskog sustava d.o.o.	14,933	10,799
HEP Toplinarstvo d.o.o.	1,185	521
HEP Plin d.o.o.	1,902	143
HEP Upravljanje imovinom d.o.o.	4,930	4,007
HEP Trgovina d.o.o.	1,716	196
HEP Opskrba d.o.o.	3,641	3,397
HEP NOC	160	8
HEP ESCO d.o.o.	319	71
Program Sava d.o.o.	563	55
HEP Telekomunikacije d.o.o.	478	1,157
Opskrba plinom d.o.o.	264	60
Hrvatski centar za čistiju proizvodnju	516	516
HEP Elektra d.o.o.	2,007	2,905
	40,669	25,380

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Short-term receivables for leased non-current assets		
HEP Proizvodnja d.o.o.	133,758	64,290
HEP Toplinarstvo d.o.o.	23,794	12,139
HEP Operator distribucijskog sustava d.o.o.	141,523	141,478
HEP Plin d.o.o.	5,993	2,762
HEP Upravljanje imovinom d.o.o.	3,026	1,544
HEP NOC	9,215	9,280
HEP Trgovina d.o.o.	65	61
HEP Opskrba d.o.o.	232	249
HEP Esco d.o.o.	164	105
Program Sava d.o.o.	8	8
HEP Opskrba plinom d.o.o.	17	13
HEP Elektra d.o.o.	190	305
	317,985	232,234
Other short-term receivables	86,541	432,185
Receivables for paid investments and other receivables		
HEP Proizvodnja d.o.o.	715,220	521,765
Hrvatski operator prijenosnog sustava d.o.o.	32,784	74,589
HEP Operator distribucijskog sustava d.o.o.	611,918	293,761
HEP Toplinarstvo d.o.o.	66,339	35,084
HEP Plin d.o.o.	18,921	6,891
HEP ESCO d.o.o.	9,197	8,733
HEP Noc d.o.o.	1,244	837
HEP Upravljanje imovinom d.o.o.	34	656
HEP Opskrba d.o.o.	1,630	84,096
Program Sava d.o.o.	84,112	8,732
HEP Trgovina d.o.o.	8,737	-
HEP Opskrba plinom d.o.o.	71	42
HEP Elektra d.o.o.	154	18
Plomin Holding d.o.o.	1,350	1,350
Hrvatski centar za čistiju proizvodnju	1,244	1,244
	1,552,955	1,037,798

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Receivables for sold investment and other material		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	316,153	316,153
Other receivables		
HEP Plin d.o.o.	32,820	37,800
HEP Noc d.o.o.	19,280	18,066
Hrvatski centar za čistiju proizvodnju	472	472
HEP Plin d.o.o.	2,831	-
HEP Telekomunikacije d.o.o.	364	-
	55,767	56,338
Short-term loan receivables		
HEP Trade d.o.o. Beograd	2,239	2,282
HEP KS sh.p.k. Priština	1,389	1,416
	3,628	3,698
Total short-term receivables from related companies	3,347,532	3,153,035

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Short term liabilities		
HEP Proizvodnja – for delivered electricity	780,828	166,340
HEP Opskrba – fee for supply from renewable resources	87,795	59,863
HEP Opskrba – fee for supply of electricity	8,499	2,320
HEP Trgovina – trading fee	1,697	739
HEP Opskrba plinom d.o.o.	896	777
HEP Operator distribucijskog sustava d.o.o. – liabilities for losses on distribution network	-	89,525
Liabilities for energy balancing	12,267	3,336
HEP Proizvodnja – liabilities of HEP d.d. based on the cession agreement	966,235	966,235
Other	13,271	14,781
	<u>1,871,488</u>	<u>1,303,916</u>
	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- paid connection fees	176,161	178,717
- funds paid to treasury	75,846	151,337
- for customer payments and paid investments from sub-	75,537	74,732
- liabilities to HEP Elektri d.o.o. for funds paid to treasury	292,606	659,251
- liabilities to HEP Proizvodnja d.o.o.	-	365,000
- liabilities to other companies paid to treasury	43,961	57,594
- Liabilities to companies - Incremental loan	12,219	-
	<u>676,330</u>	<u>1,486,631</u>
HEP Energija d.o.o. Ljubljana – for delivered electricity	2,663	-
HEP Energija d.o.o. Mostar – for delivered electricity	12,589	-
	<u>15,252</u>	<u>0</u>
Total short-term liabilities	<u>2,563,070</u>	<u>2,790,547</u>

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

Receivables and liabilities and income and expenses for NE Krško d.o.o. and LNG Hrvatska d.o.o. which are in the 50% ownership of the Company are presented in the following table:

NE Krško d.o.o.

Electricity produced in NE Krško is delivered to the Company in the amount of 50% of the total quantity produced at a price determined at the total production cost.

	30 June 2018	31 December 2017
	In HRK '000	In HRK '000
	Unaudited	Audited
Liabilities for purchased electricity	48,781	49,603
Cost of purchased electricity	281,889	585,443

LNG Hrvatska d.o.o.

	30 June 2018	31 December 2017
	In HRK '000	In HRK '000
	Unaudited	Audited
Receivable for loan	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.

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	Sales income		Purchase costs	
	For the period ended		For the period ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Unaudited	Unaudited	Unaudited	Unaudited
Companies controlled by the State	HRK '000	HRK '000	HRK '000	HRK '000
Hrvatske Željeznice d.o.o.	36,152	26,853	-	-
INA d.d.	42,409	36,482	698,914	591,003
Plinacro d.o.o.	-	-	57,694	66,629
Croatia osiguranje d.d.	1,769	-	1,689	108
Hrvatska pošta d.d.	9,447	-	5,778	6,330
Hrvatske šume d.o.o.	1,099	803	1,068	1,088
Narodne novine d.d.	960	974	565	73
Hrvatska radiotelevizija	2,457	1,981	30	36
Plovput d.d.	316	245	-	-
Croatia Airlines d.d.	386	356	-	-
Petrokemija Kutina d.d.	320,084	5,991	196	-
Ministry of Interior	6,231	4,433	-	-
Primary and secondary schools	9,289	8,418	-	-
Judicial institutions	2,317	1,983	-	-
Universities	7,224	5,814	392	32
Legal, executive and other governmental bodies	4,334	3,713	-	-
Health institutions	26,265	20,842	-	-
Other users	263	-	940	862
HROTE d.o.o.	20,276	72,529	11,449	33,453
TOTAL	491,278	191,417	778,715	699,614

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

For the six month period ended 30 June 2018

18. RELATED PARTY TRANSACTIONS (continued)

	Receivables		Liabilities	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
	Unaudited	Audited	Unaudited	Audited
Companies controlled by the State	HRK '000	HRK '000	HRK '000	HRK '000
INA-Industrija nafte d.d.	-	-	128,733	41,373
Croatia osiguranje d.d.	-	-	1	1,775
Hrvatska pošta d.d.	-	-	18	1,163
Narodne novine d.d.	-	-	138	20
HROTE d.o.o.	484	8,243	1,947	3,422
Petrokemija Kutina d.d.	326.771	-	196	-
Other users	83	64	3,604	18,125
	<u>327,338</u>	<u>8,307</u>	<u>134,637</u>	<u>65,878</u>

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

	For the six month period ended	
	30 June 2018	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
Gross salaries	3,974	3,371
Contributions for pensions	902	785
Other fees (in kind)	600	553
	<u>5,476</u>	<u>4,709</u>

Members of the Management Board did not receive any other payments than ordinary wages and receipts in kind.

19. OTHER SHORT-TERM LIABILITIES

	30 June 2018	31 December 2017
	HRK '000	HRK '000
	Unaudited	Audited
Other liabilities		
Trade payables	450,034	494,183
Liabilities for taxes and contributions	50,837	70,047
Liabilities for dividend	218,413	-
Interest liabilities	33,898	35,593
Liabilities towards employees	6,998	6,627
Other liabilities	47,295	45,646
	<u>807,475</u>	<u>652,096</u>

20. 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.

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

For the six month period ended 30 June 2018

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

	1 st level in HRK '000	2 nd level in HRK '000	3 rd level in HRK '000	Total in HRK '000
30 June 2018, unaudited				
Assets classified at fair value through other comprehensive income	299,328	-	-	299,328
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	436,059	436,059
Investment in property	-	33,266	-	33,266
31 December 2017, audited				
Assets classified at fair value through other comprehensive income	284,163	-	-	284,163
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	505,228	505,228
Investment in property	-	33,266	-	33,266

21. 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 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 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 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.

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

For the six month period ended 30 June 2018

22. 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 to be paid out in 2018.

23. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

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

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