



HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Condensed consolidated financial statements

for the period ended

30 June 2019

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Independent Auditors' Report on review of the financial information for the interim accounting period

To the Shareholder of the company Hrvatska elektroprivreda d.d.:

Introduction

We have reviewed the accompanying condensed consolidated financial statements for the period ended 30 June 2019 of the company Hrvatska elektroprivreda d.d. (hereinafter: the Company) and subsidiaries (hereinafter: the Group) which comprised the Condensed Consolidated Statement of financial position / Balance Sheet as at 30 June 2019, the Condensed Consolidated Statement of profit or loss, the Condensed Consolidated Statement of other comprehensive income, the Condensed Consolidated Statement of changes in equity and Condensed Consolidated Statement of cash flows for the half-year period then ended, as well as notes to the condensed consolidated financial statements, which together form the Condensed Consolidated financial statements of the Group's interim period.

The Company's Management Board is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". It is our responsibility to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We performed the review in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The review of the financial information in the interim period consists of asking questions, primarily for those responsible for financial and accounting issues, and applying analytical and other review procedures. A review is significantly smaller in scope than an audit performed in accordance with International Auditing Standards on and, as a result, does not allow us to obtain the assurance to become aware of any material issues that may be identified in the 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 30 June 2019 interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of Matter

As described in Note 18 to the condensed consolidated financial statements, at 30 June 2019 the Company has a clearing liability of HRK 782,362 thousand (31 December 2018 HRK 779,214 thousand) related to payment from a letter of credit, based on the consent of the Ministry of Finance on the use of funds based on an interbank agreement. Since there is no other document governing the relationship between the Company and the Ministry of Finance regarding the clearing debt, no credit or other legal relationship was defined at the date of issuance of this Independent Auditor's Report.

As described in the Note 24 to the condensed consolidated financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question of ownership and legal status of the Company's property - reservoirs and ancillary facilities used for generation of electricity from hydropower plants, as they are defined as Public water resources in general use in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. In May 2018, the Law on Amendments to the Water Act (OG 46/18) entered into force, by which the Republic of Croatia establishes the construction rights on public water resources - land on which water structures were built through Company's or its predecessors' investments; except for the land on which the accumulation was constructed and the supply and drainage channels and tunnels built. These rights are granted in favour of the Company, without compensation for a period of 99 years. As long as this right is resumed, the Company is granted the right to manage, on behalf of the Republic of Croatia, public good / land on which constructions of electricity generation with accumulation and supply and drainage channels and tunnels are built. In view of the above, it is necessary to initiate relevant procedures for entering these rights into land registers. Our conclusion has not been modified in this regard.

Zagreb, 24 September 2019

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Vedrana Stipić, Member of the
Management Board

Zdenko Balen, Certified Auditor

Condensed Consolidated Statement of profit or loss of HEP Group

For the half year period ended 30 June 2019

	Note	For the six-month period ended	
		30 June 2019	30 June 2018
		in '000 HRK	in '000 HRK
		Unaudited	Unaudited
Revenue from electricity sales	3,5	6,205,410	5,754,303
Revenue from thermal power sales	3	372,941	367,236
Revenue from sale of gas on wholesale market	3,4	562,576	546,834
Revenue from sale of gas to customers	3,4	199,332	492,405
Sales revenue		7,340,259	7,160,778
Other operating income	6	504,895	412,082
Total operating income		7,845,154	7,572,860
Electricity purchase expenses	5	(1,766,367)	(1,192,551)
Fuel expenses	5	(894,986)	(738,808)
Costs of gas sold	4	(706,603)	(940,207)
Employee benefit expenses		(937,293)	(931,219)
Depreciation and amortization costs		(1,024,238)	(990,671)
Other operating expenses	7	(1,482,966)	(1,398,496)
Total operating expenses		(6,812,453)	(6,191,952)
Profit from operations		1,032,701	1,380,908
Finance income	8	146,928	170,509
Finance expenses	8	(116,295)	(131,000)
Net profit / (loss) from finance activities		30,633	39,509
Profit before tax		1,063,334	1,420,417
Tax expense	9	(204,060)	(247,751)
Profit for the year		859,274	1,172,666
Attributable to:			
Owners of the parent		859,870	1,172,666
Non-controlling interest		(596)	-
		859,274	1,172,666

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

Signed for and on behalf of the Management Board on 24 September 2019:

Marko Čosić
Member

Nikola Rukavina
Member

Petar Sprčić
Member

Tomislav Šambić
Member

Saša Dujmić
Member

Frane Barbarić
President

Condensed Consolidated Statement of other comprehensive income of HEP Group
For the half year period ended 30 June 2019

	For the six-month period ended	
	30 June 2019	30 June 2018
	in '000 HRK Unaudited	in '000 HRK Unaudited
Profit for the year	859,274	1,172,666
Other comprehensive income		
Exchange differences from foreign currency translations	(6,514)	(29,665)
Changes in fair value of financial assets at fair value through other comprehensive income	32,908	(9,318)
Decrease in revaluation reserves	(4,593)	-
<i>Net other comprehensive income carried forward to profit or loss in subsequent periods</i>	<i>21,801</i>	<i>(38,983)</i>
Other comprehensive profit / (loss), net	21,801	(38,983)
Total comprehensive income for the period, net	881,075	1,133,683

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

Signed for and on behalf of the Management Board on 24 September 2019:



Marko Čosić
Member


Nikola Rukavina
Member


Petar Sprčić
Member


Tomislav Šambić
Member


Saša Dujmić
Member


Frane Barbarić
President

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Condensed Consolidated Statement of financial position / Condensed Consolidated
Balance sheet of HEP Group
as at 30 June 2019

ASSETS	Note	30 June	31 December
		2019	2018
		in '000 HRK	in '000 HRK
		Unaudited	Audited
Non-current assets			
Property, plant and equipment	10	31,101,845	31,222,257
Advances for property, plant and equipment		179,838	87,170
Investment property		310,327	303,726
Intangible assets		190,743	178,578
Right-of-use assets		23,882	-
Loans		174	35,790
Investments calculated using the equity method		-	23,512
Financial assets at fair value through other comprehensive income		237,174	197,307
Other financial assets		28,658	30,764
Deferred tax assets		911,205	962,466
Total non-current assets		32,983,846	33,041,570
Current assets			
Inventories	11	1,481,256	1,547,172
Trade receivables	12	2,174,833	2,200,632
Other current assets	13	619,155	604,930
Cash and cash equivalents	14	3,037,719	2,955,325
Total current assets		7,312,963	7,308,059
TOTAL ASSETS		40,296,809	40,349,629

Condensed Consolidated Statement of financial position / Condensed Consolidated
Balance sheet of HEP Group (continued)
as at 30 June 2019

EQUITY	Note	30 June 2019 in '000 HRK Unaudited	31 December 2018 in '000 HRK Audited
Share capital	15	19,792,159	19,792,159
Reserves		94,237	65,921
Retained earnings	15	5,128,063	4,511,318
Capital attributed to the owners of the		25,014,459	24,369,398
Minority interest		39,897	-
Total capital		25,054,356	24,369,398
Liabilities under issued bonds	17	3,503,258	3,560,375
Loans	16	207,805	220,450
Liabilities to the State		8,870	10,281
Provisions		1,020,692	1,067,491
Lease liabilities		11,686	-
Other liabilities	18	7,191,313	7,315,415
Deferred tax liabilities		19,743	5,441
Total non-current liabilities		11,963,367	12,179,453
Trade payables	20	1,017,619	2,051,676
Current maturity of loans	16	77,658	115,479
Loans		16,377	-
Taxes and contributions		158,516	223,310
Liabilities arising from share in the result	25	212,386	-
Interests		34,897	39,308
Employee benefit liabilities	19	137,452	141,557
Lease liabilities		3,973	-
Other current liabilities	21	1,620,208	1,229,448
Total current liabilities		3,279,086	3,800,778
TOTAL EQUITY		40,296,809	40,349,629

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

Signed for and on behalf of the Management Board on 24 September 2019:

Marko Čosić
Member

Nikola Rukavina
Member

Petar Sprčić
Member

Tomislav Šambić
Member

Saša Dujmić
Member

Frane Barbarić
President

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Condensed Consolidated Statement of changes in equity of HEP Group

For the half year period ended 30 June 2019

	Share capital	Reserves	Retained earnings	Owners of parent	Non-controlling interest	Total
	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
Balance at 1 Jan 2018	19,792,159	162,242	6,041,625	25,996,026	-	25,996,026
Prior year adjustment – IFRS 9	-	(22,178)	27,047	4,869	-	4,869
Prior year adjustment – IFRS 15	-	-	(2,719,054)	(2,719,054)	-	(2,719,054)
Total adjustment of previous period	-	(22,178)	(2,692,007)	(2,714,185)	-	(2,714,185)
Balance at 1 Jan 2018	19,792,159	140,064	3,349,618	23,281,841	-	23,281,841
Profit for the year	-	-	1,172,666	1,172,666	-	1,172,666
Other comprehensive income	-	(9,318)	(29,665)	(38,983)	-	(38,983)
Total comprehensive income of the current	-	(9,318)	1,143,001	1,133,683	-	1,133,683
Dividends	-	-	(218,413)	(218,413)	-	(218,413)
Balance at 30 Jun 2018 Unaudited	19,792,159	130,746	4,274,206	24,197,111	-	24,197,111
Balance at 1 Jan 2019	19,792,159	65,921	4,511,318	24,369,398	-	24,369,398
Profit for the year	-	-	859,870	859,870	(596)	859,274
Other comprehensive income	-	28,316	(6,515)	21,801	-	21,801
Total comprehensive income of the current year	-	28,316	853,355	881,671	(596)	881,075
Non-controlling interest-LNG	-	-	(24,224)	(24,224)	40,493	16,269
Dividends	-	-	(212,386)	(212,386)	-	(212,386)
Balance at 30 Jun 2019 Unaudited	19,792,159	94,237	5,128,063	25,014,459	39,897	25,054,356

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

Signed for and on behalf of the Management Board on 24 September 2019:

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Saša Dujmić

Member

Frane Barbarić

President

Condensed Consolidated Statement of cash flows of HEP Group

For the half year period ended 30 June 2019

	For the six-month period ended	
	30 June 2019	30 June 2018
	in '000 HRK Unaudited	in '000 HRK Unaudited
OPERATING ACTIVITIES		
Profit before tax	1,063,334	1,420,417
Net loss from financing activities	82,076	80,238
Fair value of investment property	(6,601)	(429)
Depreciation of property, plant and equipment; amortisation of intangible assets	1,024,238	990,671
Non-depreciated value of disposed assets	6,208	-
Impairment of receivables	7,479	164,291
Inventory impairment	5,945	14,284
Decrease in provisions	(46,799)	(894)
<i>Cash from operating activities before changes in working capital</i>	<u>2,135,880</u>	<u>2,668,578</u>
(Increase) in trade receivables	18,320	(248,999)
Decrease in inventories	59,971	194,097
Decrease/ (Increase) in other non-current assets	61,234	(53,133)
(Increase)/ Decrease in other current assets	(14,225)	442,709
(Decrease) in trade payables	(1,034,057)	(603,061)
Increase / (Decrease) in other current liabilities	347,706	(234,762)
(Decrease) in other non-current liabilities	(126,158)	(184,412)
Cash generated from operations	<u>1,448,671</u>	<u>1,981,017</u>
Income taxes paid	(183,055)	(148,071)
Interests paid	(94,591)	(91,489)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>1,171,025</u>	<u>1,760,090</u>
INVESTING ACTIVITIES		
Interests received	19,013	18,633
Purchases of property, plant and equipment	(1,020,711)	(681,060)
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,001,698)</u>	<u>(681,060)</u>

Condensed Consolidated Statement of cash flows of HEP Group (continued)

For the half year period ended 30 June 2019

	For the six-month period ended	
	30 June 2019	30 June 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Redemption of bonds	(51,041)	-
Loans and borrowings	7,729	-
Repayment of loans and borrowings	(57,619)	(187,652)
Short-term loans received	16,377	-
Principal payments under operating leases	(2,379)	-
NET CASH FROM FINANCING ACTIVITIES	(86,933)	(187,652)
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,394	891,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,955,325	2,017,095
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,037,719	2,908,473

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

Signed for and on behalf of the Management Board on 24 September 2019:

Marko Čosić

Member

Nikola Rukavina

Member

Petar Sprčić

Member

Tomislav Šambić

Member

Saša Dujmić

Member

Frane Barbarić

President

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ZAGREB 3.2
Ulica grada Vukovara 37

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The preparation of unaudited condensed consolidated financial statements for the half-year period ending 30 June 2019 requires the Management Board to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements, as well as revenues and expenses during the reporting period. The estimates are based on information available at the date of preparation of the consolidated financial statements, and actual amounts may differ from those estimated. The estimates and assumptions from which the estimates are derived are continually revised. Changes in accounting estimates are recognized in the period affected by the change, if it affects that period only, or in future periods if it affects both current and future periods.

The annual consolidated financial statements of the Company and its subsidiaries (collectively "the HEP Group") have been prepared in accordance with International Financial Reporting Standards (IFRS) which have been adopted in the European Union. The condensed consolidated financial statements for the half-year period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34). The condensed consolidated financial statements for the half-year period ended 30 June 2019 have been prepared in accordance with the same accounting policies used for the consolidated annual financial statements for the year ended 31 December 2018, except those relating to new standards and interpretations that are effective for the first time for annual periods beginning on or after 1 January 2019. The new standard, which has an impact on the HEP Group, and will be adopted for the 2019 Annual Consolidated Statements and which changes the accounting policies of the HEP Group is:

- IFRS 16 – *Leases*

Details of the impact of this standard are given below. Other new and amended standards and interpretations issued by the IASB that will be applied for the first time in the next annual financial statements are not expected to have a material impact on the HEP Group because they are either not relevant to the activities of the HEP Group or require accounting consistent with current HEP Group accounting policies.

IFRS 16 – *Leases*

The standard is effective for annual periods beginning on or after 1 January 2019, replacing IAS 17 - *Leases* and IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*.

IFRS 16 prescribes a unified accounting model for leases and requires the recognition of assets and liabilities for all leases, together with options for leasing exclusions with a maturity of 12 months or less, or when the asset in question is of low value. IFRS 16 generally retains lessor's accounting as in IAS 17, while maintaining the difference between operating leases and finance leases. The Group has no significant leases in which it operates as a lessor.

1. BASIS OF PREPARATION (continued)

(a) Application of standards and practical solutions

HEP Group adopted IFRS 16 by applying the retroactive method with cumulative effect, using the exemption provisions for the lessee at the effective date (1 January 2019). The HEP Group has decided to apply a practical solution to use the latest findings in establishing the contract, and whether the lease contains the date of initial application. Contracts entered into force before the date of adoption of the standard which does not contain a lease under IAS 17 and IFRIC 4 has not been revised at the date of adoption. The definition of a lease in accordance with IFRS 16 was applied only to contracts that entered into force or changed on 1 January 2019 or later.

IFRS 16 permits the use of one or more practical solutions in retroactive application with the cumulative effect of standards relating to initial application. The HEP Group used the following practical solutions when applying IFRS 16 to leases that were classified as operating leases under IAS 17:

- Application of a uniform discount rate to a lease portfolio with reasonably similar features (such as leases with a similar remaining lease period for a similar class of related assets in a similar economic environment),
- Application of the exemption of non-recognition of the right of use assets and liabilities for leases whose lease period ends within a period of 12 months from the date of first application,
- Exclusion of initial direct costs from measurement of the right of use assets at the date of first application.
- Use of recent knowledge, for example in determining the lease term if the contract contains options for renewal or termination of the lease.

As a lessee, HEP Group has previously classified leases as operating or finance leases based on its assessment of whether the lease has assumed almost all the risks and rewards of ownership. In accordance with IFRS 16, HEP Group recognized the right of use assets and the lease obligation for most of the leases it had previously classified as operating leases. However, the HEP Group has chosen not to recognize the right of use assets and lease liabilities when new or short-term leases are ending in the period of 12 months or less, and for leases of low value assets based on the value of the item in question.

Following the adoption of IFRS 16, HEP Group recognized the right-of-use assets and the lease liabilities related to the use of business premises, silo parts and leases of electronic communications infrastructure, which were previously classified as operating leases.

The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the HEP Group as of 1 January 2019. The HEP Group's incremental borrowing rate is the rate at which a similar lease can be contracted, by an independent lessor, under comparable terms and conditions. The weighted average rate applied was 4.51%.

Right-of-use assets are stated at an amount equal to the lease obligation and are adjusted for the amount of any prepaid or accrued lease payments.

1. BASIS OF PREPARATION (continued)

(a) Application of standards and practical solutions (continued)

The following table presents the impact of adopting IFRS 16 in the Statement of financial position / Balance Sheet as at 1 January 2019:

	1 Jan 2019 IFRS 16 in '000 HRK Unaudited	31 Dec 2018 IAS 17/IFRIC 4 in '000 HRK Audited	Difference in '000 HRK
ASSETS			
Current assets			
Right-of-use assets	14,433	-	14,433
CAPITAL AND LIABILITIES			
Non-current liabilities			
Non-current lease liabilities	10,460	-	10,460
Current liabilities			
Lease liabilities	3,973	-	3,973

The condensed consolidated statement of profit or loss for the six months period ended 30 June 2019 includes HRK 2,876 thousand of depreciation related to right-of-use asset and HRK 310 thousand of financial expenses related to interest on lease liabilities.

(b) Significant accounting policies after first application

All leases are accounted for by the recognition of a right-of-use asset and lease liabilities except for:

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

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

1. BASIS OF PREPARATION (continued)

(b) Significant accounting policies after first application (continued)

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

- amounts expected to be paid by the lessee based on guarantees for the remaining value;
- the purchase price of the purchase option if it is probable that the lessee will exercise the option; and
- payment of termination fees if the lease period reflects that the lessee will exercise the option to terminate the lease.

The right-of-use assets are initially measured at the amount of the lease liability, less any lease incentives received, and are increased by:

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

After the initial measurement, the lease liability increases to reflect interest on the lease liability and decreases to reflect the lease paid. Right-of-use assets are reduced by accumulated depreciation calculated on a straight-line basis over the lease term, or the remaining economic life of the asset, if it is considered to be less than the lease term. The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in index or rate, or when there is a change in the estimate of the term of any lease.

Certain information otherwise disclosed in the financial statements prepared under IFRSs adopted in the European Union have been condensed or omitted in accordance with IAS 34. The condensed consolidated statement of financial position / consolidated balance sheet as at 30 June 2019 has been derived from the audited consolidated financial statements as of 31 December 2018, but does not contain all items that are required to be disclosed in accordance with IFRSs adopted in the European Union. The Company's Management Board believes that the information presented in these condensed consolidated financial statements is adequate in the sense that they do not lead to incorrect conclusions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HEP Group maintains accounting records in the Croatian language, in Croatian kunas (HRK), and in accordance with Croatian legal requirements and accounting principles and practices that are followed by companies in Croatia. The accounting records of subsidiaries in Croatia and abroad are maintained in accordance with the applicable regulations of the respective countries.

The condensed consolidated financial statements of the Company have been prepared on the historical cost basis, while some of the non-current assets and financial investments have been revalued. The condensed consolidated financial statements are presented in thousands of Croatian kunas (HRK'000), which is the Group's functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and amended International Financial Reporting Standards

There are a number of standards and amendments to existing standards issued by the International Accounting Standards Board and interpreted by the IFRS Interpretations Committee that are effective for periods beginning after 31 December 2019 (the date on which HEP Group will prepare its own annual financial statements) for which the HEP Group opted not to apply the early application. The Management Board of the Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the financial statements of the HEP Group in the period of their first application.

Use of estimates in the preparation of condensed consolidated financial statements

The preparation of condensed consolidated financial statements in accordance 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 the disclosure of contingent liabilities. The estimates used in the preparation of these condensed consolidated financial statements relate to employee benefits, amounts of asset adjustments, the determination of the fair value of assets and liabilities and the estimated costs of disposal. Future events are likely to cause changes in the assumptions on the basis of which the estimates are made, and therefore changes in the estimates themselves.

The effect of any change in the estimate will be reflected in the consolidated financial statements when it can be determined. There were no changes in the use of estimates and critical judgments in the preparation of condensed consolidated financial statements as compared to the use of the same in the preparation of annual consolidated financial statements.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

3. SEGMENT INFORMATION

The reporting segments of the Group are divided into the following: electricity (production, transmission, distribution and sale of electricity), heating (production, distribution and sale of heat energy) and gas (distribution and sales of gas).

The profit or loss of each segment is the result of all revenues and expenses that directly relate to a particular segment. Information on financial income or expense and income tax is not stated at the segment level, as the basis for representation is the segment's operating profit.

	Electricity		Heating		Gas		Group	
	2019.	2018.	2019.	2018.	2019.	2018.	2019.	2018.
	in '000	in '000	in '000	in '000	in '000	in '000	in '000	in '000
	HRK	HRK	HRK	HRK	HRK	HRK	HRK	HRK
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Six-month period ended 30 June 2019								
Revenue from main operations	6,205,410	5,754,303	372,941	367,236	761,908	1,039,239	7,340,259	7,160,778
Other segment revenue	463,110	367,378	31,256	29,920	10,529	14,784	504,895	412,082
Profit / loss from operations	1,213,725	1,554,961	(117,502)	(49,553)	(63,522)	(124,500)	1,032,701	1,380,908
Net financial income / (expense)							30,633	39,509
Corporate income tax							(204,060)	(247,751)
Net profit							859,274	1,172,666

Segment assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities comprise trade payables and other liabilities. Assets and liabilities not belonging to segments represent property and liabilities that cannot reasonably be allocated to business segments. Total unallocated assets include investment in Nuclear power plant Krško (hereinafter: NPP Krško), part of property, plant and equipment and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and other various liabilities.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

3. SEGMENT INFORMATION (continued)

	Total segment assets		Total segment liabilities	
	30 Jun 2019	31 Dec 2018	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
	Unaudited	Audited	Unaudited	Audited
Electricity	32,002,305	32,238,163	7,656,678	8,305,271
Heating	1,159,637	1,155,130	170,262	198,267
Gas	359,326	390,921	91,944	89,909
Unallocated	6,775,541	6,565,415	7,323,569	7,386,784
Total Group	<u>40,296,809</u>	<u>40,349,629</u>	<u>15,242,453</u>	<u>15,980,231</u>

Territorial business analysis

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

The following is a territorial analysis of revenues generated by the Group from the active parts of the business from external customers of electricity:

	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Croatia	5,498,815	5,289,785
EU member states	369,037	402,826
Non EU member states	337,558	61,692
	<u>6,205,410</u>	<u>5,754,303</u>

4. SALE OF GAS

/i/ **Supply in the wholesale gas market** in the Republic of Croatia to companies outside the HEP Group amounts to HRK 562,576 thousand.

The Gas Market Act (OG, 18/18), which entered into force on 3 March 2018, until the selection of the supplier in the wholesale market by tender, on 1 August 2018, determined HEP d.d. as a supplier. Following tenders, the Croatian Energy Regulatory Agency, in consultation with the Ministry of the Environment and Energy, has decided to award the public service obligation for a shorter period than the one stipulated by the Act, and on 27 Jun 2018 appointed HEP d.d. as the supplier on the wholesale gas market for the period from 1 August 2018 until 31 March 2019. The wholesale market supplier shall, under regulated conditions and at a price less than or equal to the reference gas price, sell the gas to the public service provider with which it has concluded the gas supply contract, for the needs of end-users in the household category, providing a reliable and secure gas supply. In addition to the gas sale to suppliers in the public service obligation, the supplier in the wholesale market is also entitled to sell gas for the purpose of maintaining the technical security of the gas system.

Until 1 August 1 2018, the reference gas price under the Act is equal to the gas price established by the Decision on the Gas Price at which a wholesale supplier is obliged to sell gas to suppliers in the public gas supply service for customers in the household category (OG 18/17) and which was 0.1809 HRK / kWh. At the beginning of 2019, the Croatian Energy Regulatory Agency conducted a tender for a supplier in the wholesale gas market for the period from 1 April 2019 to 31 March 2021. As no bids were submitted, the Croatian Energy Regulatory Agency designated HEP d.d. as the supplier for the wholesale gas market for the period of one regulatory year, from 1 April 2019 to 31 March 2020. The sales price for the same period was also determined and amounts to 0.1985 HRK / kWh.

The Law on Amendments to the Gas Market Act, as of April 1, 2017, abolished the natural gas producer's obligation to supply gas as well as the regulated price at which he was obliged to sell gas to the supplier in the wholesale gas market for the needs of customers using a public supply service. Pursuant to the Law on Amendments to the Gas Market Act (OG 16/17), 60% or 61 packages of storage capacity in the underground gas storage have been allocated.

In the period from 1 April 2014 to 31 March 2015, the Company leased a storage capacity of 3,600 million kWh, in the period from 1 April 2015 to 31 March 2016, the Company contracted a lease of capacity of 3,550 million kWh, a contracted capacity of 3,500 million kWh was contracted between 1 April 2016 and 31 March 2017, while a capacity of 3,050 million kWh is contracted between 1 April 2017 and 31 March 2022.

/ ii / **Income from sale of gas** - market supply in the amount of HRK 199,332 thousand relates to the sale of gas to HEP d.d. customers in the amount of HRK 1,048 thousand and customers of HEP-Plin d.o.o. in the amount of HRK 198,284 thousand.

/ iii / **The cost of gas purchasing** for sale referred to in points (i) and (ii) is HRK 706,603 thousand (for wholesale supply HRK 621,918 thousand and market supply HRK 84,685 thousand).

5. SEASONAL FLUCTUATIONS IN OPERATIONS

Demand for electricity, heat and natural gas is characterized by fluctuations that affect the overall results of the Group's operations, and which may be due to weather, economic circumstances and other suppliers outside the Group and the prices they offer to customers. Total operating expenses are influenced by hydrological conditions, i.e. electricity production in hydroelectric power plants, market prices for fuel for electricity and heat production, market prices for electricity supply and consumer demand for energy.

In the first half of 2019, revenues from the sale of electricity were generated in the amount of HRK 6,205,410 thousand, while in the same period last year they amounted to HRK 5,754,303 thousand and were increased due to the increase in sales of the HEP Group in Croatia, especially the HEP Opskrba d.o.o. category as well as due to increased sales of electricity abroad.

Electricity supply costs amount to HRK 1,766,367 thousand, while in the period ended 30 June 2018 they amounted to HRK 1,192,551 thousand. The increase in costs is a result of higher import costs and higher imported quantities due to unfavourable hydrological conditions and higher cost of imported electricity. At the same time, the purchase of electricity in the incentive system has been reduced due to a reduced percentage of compulsory purchase since 1 January 2019.

The cost of energy fuel in the first half of this year amounted to HRK 894,986 thousand, while in the same period last year it amounted to HRK 738,808 thousand, and it increased due to higher production of thermal power plants and higher consumption of gas, coal and forest biomass at higher gas prices.

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

6. OTHER OPERATING REVENUE

	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Network connection services	3,567	2,394
Revenue from assets funded from connection fees	188,480	157,622
Collected value adjusted receivable (Note 12)	34,387	29,472
Revenue from external services	24,225	12,685
Penalty charges	14,982	15,525
Revenue from sale of materials	18,079	18,519
Revenue from the sale of cross-border transmission capacity	49,023	69,039
Revenues from the HOPS inter-compensation mechanism - overseas	4,627	20,284
Income from reversal of long-term provisions for severance pay and jubilee awards	55,296	2,157
Income from reversal of long-term provisions for legal disputes	17,960	10,723
Income from reversal of other provisions	2,416	2,825
Collected pre-settlement receivables	3,921	2,803
Revenue from customer notices	156	108
Revenue from court costs	6,123	3,726
Gains from sale of tangible assets	2,456	3,199
Income from subsidies, grants, reimbursements and	1,049	182
More accrued fees in the previous year on CO2 emissions for electricity generation	11,905	11,428
Other operating income NPP Krško	2,473	2,985
Other	63,770	46,406
	504,895	412,082

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

7. OTHER OPERATING EXPENSES

	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Maintenance costs	248,306	231,486
Impairment of trade receivables (Note 12)	108,532	213,180
Gas acquisition costs	79,629	47,400
Cost of external services and materials	192,051	170,384
Chargeable services and material	31,102	55,746
Cost of CO2 Emission Units	165,868	80,392
Write-off of fixed assets	8,478	14,587
Impairment of inventories	5,945	12,206
Employee Benefits Fee	59,997	57,434
Other material rights of employees	43,870	47,136
NPP Krško - costs of decommissioning by Government decision	52,745	52,757
Contributions, taxes and fees to the state	50,263	50,131
Litigation provisions	30,040	6,158
Contributions and concessions for water	31,703	56,615
Fee for purification and drainage water	5,944	5,676
Provisions for unused annual vacations	17,681	23,514
Fee for the use of power plant space	45,710	54,118
Cost of materials sold	12,221	12,746
The cost of billing	15,185	11,392
Provision for severance payments and jubilee awards	403	13,662
Insurance premiums	6,092	5,496
Environmental protection fees	798	709
Damage charges	10,196	10,168
Written off unclaimed receivables	13,465	3,604
Provision for decommissioning of thermal power plants	4,332	4,355
Provisions for energy savings /i/	76,055	-
Other operating expenses of NPP Krško	109,763	106,016
Other expenses	56,592	51,428
	1,482,966	1,398,496

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

7. OTHER OPERATING EXPENSES (continued)

/i/ Provisions for energy savings

The Energy Efficiency Act (OG 127/14, 116/18), the Ordinance on the system for monitoring, measuring and verification of energy savings (OG 71/15) and the Ordinance on the system of the obligation of energy efficiency (OG 41/19) prescribe the obligation to establish the system of energy saving through the energy savings obligation system and the way it is implemented. The obligations arising from the above mentioned laws and regulations are first implemented in 2019. Within the Group's energy savings systems liable are electricity, heat and gas suppliers. Pursuant to legal provisions and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Group has recorded in its business books the cost of energy savings according to the best estimate in the amount of HRK 76,055 thousand.

8. FINANCE INCOME AND EXPENSES

	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Finance income		
Net foreign exchange gain	21,629	90,555
Interest income	7,613	9,311
Fair value of the cross-currency swap	113,318	69,168
Dividend income	92	-
Other finance income	4,243	518
NPP Krško - Interest	33	957
Total finance income	146,928	170,509
Finance expenses		
Interest expenses	(89,047)	(90,098)
Net foreign exchange loss	(26,542)	(40,725)
NE Krško – interest	(675)	-
Other finance expenses	(31)	(177)
Total finance expenses	(116,295)	(131,000)
Net (loss) from finance activities	30,633	39,509

9. CORPORATE INCOME TAX

Tax expense and current taxes over the half-year period are calculated based on actual results and a tax rate of 18%

10. INVESTMENT PROPERTY

Investments in progress as at 30 June 2019 amount to HRK 2,375,205 thousand (31 December 2018 HRK 1,982,683 thousand).

The increase in investment in assets relates mainly to HEP-ODS d.o.o. and to HEP-Proizvodnja d.o.o.

In HEP-ODS d.o.o. investments were made in the construction of connections and the creation of electricity conditions on the distribution network in the amount of HRK 145,609 thousand.

In HEP-Proizvodnja d.o.o. the balance of investments in progress as at 30 June 2019 amounted to HRK 392,175 thousand and at 31 December 2018 to HRK 376,940 thousand. The increase is mostly related to the following investments: replacement of the generator in HPP Gojak in the amount of HRK 13,058 thousand; reconstruction of the hot water boiler at TE-TO Zagreb for HRK 1,974 thousand; new USZMR system in HPP Đale in the amount of HRK 5,630 thousand; development of a new low-voltage distribution system in EL-TO Zagreb HRK 1,215 thousand; construction of a new steam boiler in TE-TO Sisak HRK 1,097 thousand; revitalization of the management and heating system on mobile boilers in TE-TO Sisak HRK 1,109 thousand; revitalization of energy facilities in HPP Dubrovnik HRK 1,057 thousand; revitalization of aggregates in HPP Zakučac HRK 2,133 thousand; cooling and drainage system in the HPP Velebit HRK 4,684 thousand; turbine production in the HPP Velebit HRK 2,407 thousand; reconstruction of the HPP Ozalj 1 in the amount of HRK 2,655 thousand and revitalization of the HPP Varaždin in the amount of HRK 1,567 thousand.

LNG Croatia d.o.o., which has been consolidating in the HEP Group since this year, has a current investment status of HRK 128,366 thousand (acceptance terminal for liquefied natural gas under construction in the amount of HRK 125,720 thousand).

11. INVENTORIES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Fuel and chemicals	147,672	113,583
Electric material	382,993	447,957
Spare parts	219,602	205,449
Construction material	55,521	56,752
Gas for wholesale	315,310	375,950
CO2 emission units	233,354	234,050
Other inventories	80,006	42,273
Nuclear fuel – NPP Krško	198,700	223,543
Other material – NPP Krško	113,219	106,791
	<u>1,746,377</u>	<u>1,806,348</u>
Impairment of outdated material and spare parts	(265,121)	(259,176)
	<u>1,481,256</u>	<u>1,547,172</u>

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

12. TRADE RECEIVABLES

	30 Jun 2019	31 Dec 2018
	in '000 HRK Unaudited	in '000 HRK Audited
Electricity – corporate	1,638,454	1,515,436
Electricity – households	548,183	579,469
Electricity – foreign markets	344,664	148,111
Heat, gas and services	763,580	1,066,272
Receivables from NPP Krško customers	12,363	8,696
Other	63,458	71,038
	3,370,702	3,389,022
Impairment of trade receivables	(1,195,869)	(1,188,390)
	2,174,833	2,200,632

The age structure of trade receivables not impaired is as follows

	30 Jun 2019	31 Dec 2018
	in '000 HRK Unaudited	in '000 HRK Audited
Not due	1,488,916	1,550,159
Up to 30 days	363,663	311,907
From 31 to 60 days	135,145	122,541
From 61 to 90 days	66,963	65,369
From 91 to 180 days	77,019	76,237
From 181 to 365 days	32,421	49,591
Over 365 days	10,706	24,828
	2,174,833	2,200,632

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

12. TRADE RECEIVABLES (continued)

Changes in impairment allowance were as follows:

	30 Jun 2019	31 Dec 2018.
	in '000 HRK	in '000 HRK
	Unaudited	Audited
1 January	1,188,390	835,640
Impairment of trade receivables (Note 7)	108,532	452,582
Write-offs and other	(66,666)	(45,010)
Collected impaired receivables (Note 6)	(34,387)	(54,822)
30 June	1,195,869	1,188,390

Management provides for doubtful receivables based on the overall aging of all receivables and a specific review of significant individual amounts receivable.

13. OTHER CURRENT RECEIVABLES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Receivables for income tax	103,908	72,053
Receivables for VAT	27,212	166,522
Advances for working capital	17,920	15,298
Receivables from the state for employees	5,153	4,163
Demand and time deposits for a period longer than 3 months	305,806	99,573
Demand and time deposits for a period longer than 3 months NPP Krško	7	111,464
Short-term loans in the country - reprogram	14,896	14,896
Receivables from HEP-ESCO d.o.o. from the energy efficiency project users	7,195	9,989
Receivables for apartments sold	5,919	5,919
Receivables for invoiced fee OIE - HROTE	31,880	31,858
Receivables for accrued income from electricity - household	19,975	-
Other receivables NPP Krško	3,031	2,466
Other current receivables	76,253	70,729
	619,155	604,930

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

14. CASH AND CASH EQUIVALENTS

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Current accounts in HRK	1,978,398	2,228,672
Foreign currency accounts	391,040	282,724
Restricted cash	52,426	35,445
Petty cash	216	198
Deposits with maturity up to 90 days	76,681	60,704
Daily deposits	375,121	172,361
Cash funds	163,693	175,099
Current and foreign currency accounts – NPP Krško	144	122
	<u>3,037,719</u>	<u>2,955,325</u>

15. CAPITAL AND RESERVES

The share capital of the Company consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800.00. The subscribed capital amounts to HRK 19,792,159 thousand. Retained earnings in the amount of HRK 5,128,063 thousand include legal reserves in the amount of HRK 487,707 thousand, retained earnings in the amount of HRK 3,780,486 thousand and profit for the year attributable to the owner in the amount of HRK 859,870 thousand.

16. LONG-TERM LOAN LIABILITIES

	Interest rates	30 Jun 2019	31 Dec 2018
		in '000 HRK	in '000 HRK
		Unaudited	Audited
Loans from domestic banks	Floating	45,555	75,898
Loans from foreign banks	Fixed	238,291	257,144
Finance lease	Fixed	4,995	6,413
Total loan liabilities		<u>288,841</u>	<u>339,455</u>
Deferred loan fees		<u>(3,378)</u>	<u>(3,526)</u>
Total loan liabilities		<u>285,463</u>	<u>335,929</u>
Current maturity		(73,873)	(112,061)
Current maturity of financial lease		<u>(3,785)</u>	<u>(3,418)</u>
Long-term portion		<u>207,805</u>	<u>220,450</u>

16. LONG-TERM LOAN LIABILITIES (continued)

The Group has contracted loans with domestic and foreign banks with variable and fixed interest rates that ranged from 0.44% to 2.47% in 2019. Financial leasing with a fixed interest rate of 5.6% was also contracted. Domestic bank loans are secured with bills of exchange and promissory notes. As at 30 June 2019, the Group has no debt covered by the Republic of Croatia guarantee.

New sources of financing

To finance the investment plan and the ordinary course of business in the period from 1 January to 30 June 2019 the Group used its own resources.

Loans in use

On 30 June 2019 the Group has 2 (two) loans from development banks. EBRD in the amount of EUR 87,000 thousand and EIB of EUR 43,000 thousand to finance the EL-TO Zagreb project.

The use of the loan started in December 2018 and as at 30 June 2019 the balance of used long-term loans amounted to EUR 6,476 thousand for the EBRD loan and EUR 3,356 thousand for the EIB loan. The use of the loan was agreed until 20 July 2021. The proceeds from the loan will be used in accordance with the project implementation schedule.

Repayment plan for the principal of long-term loans, which are due in the next five years:

	(in '000 HRK)
2019	77,658
2020	39,550
2021	40,240
2022	43,915
2023	43,915
After 2023	40,185
	285,463

16. LONG-TERM LOAN LIABILITIES (continued)

Domestic banks' loans are secured by bills of exchange and promissory notes, while loans from development banks, the EBRD EUR 87,000 thousand and the EIB EUR 43,000 thousand have contracted financial guarantees in the form of financial indicators according to which the Group is obliged to meet certain prescribed levels on the annual and semi-annual basis of the following indicators: net financial debt/EBITDA, EBITDA net financial expenses, net financial debt/total net value.

The Group's basic objective regarding the risks borne by the financial indicators is to protect the Group from possible breach of contractual obligations, or premature maturities of contracted credit debts.

Contracted financial indicators are monitored and calculated based on the annual and interim financial statements.

The Group prepares preliminary financial statements in the upcoming mid-term period based on the projected balance sheet and statement of profit or loss and monitors their trends.

If the projections of the balance sheet and the statement of comprehensive income at the end of the business year indicate the possibility of exceeding the individual financial ratios, the Group shall inform the bank of the existence of a breach of contract and promptly request waiver from the bank.

In the event that a bank does not approve a waiver, the potential scenario is a premature maturity of debt representing the liquidity risk for the Group.

The Management believes that in case of exceeding an individual indicator, the Group may obtain a waiver from the creditor, since the payment of liabilities to financial institutions is a priority obligation of the Group and the Group has never been in default towards financial institutions.

Due to all of the above, the Management Board estimates that the possibility of early maturity of credit liabilities resulting from exceeding in financial indicators as well as the Group's exposure to credit risk, liquidity risk and market risk that may arise as a result of overcoming the financial indicators are minimal.

As at 30 June 2019 the Group met all contractual financial indicators.

The total exposure of the Group on the basis of contracted credit lines related to financial indicators as at 30 June 2019 amounts to EUR 9,832 thousand.

Below is an overview of long-term loans denominated in foreign currencies (in '000):

Currency	30 June 2019	31 December 2018
	in '000 HRK	in '000 HRK
EUR	38,609	45,288

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

16. LONG-TERM LOAN LIABILITIES (continued)

For the purpose of securing liquidity reserves in the next medium term, the Group has concluded multilateral framework contracts with domestic banks, totalling approximately HRK 1,000,000 thousand.

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

In the period from 1 January to 30 June 2019 the Group had no need to conclude short-term loans from these frameworks, due to good liquidity.

As at 30 June 2019, the total amount of available short-term funds is HRK 911,203 thousand.

17. BOND LIABILITIES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Value of bonds issued abroad in 2015	3,573,685	3,612,610
Exchange rate differences	(11,624)	(46,645)
Discount value	3,681	7,720
	<u>3,565,742</u>	<u>3,573,685</u>
Accrued cost of bonds	(11,574)	(13,310)
	<u>3,554,168</u>	<u>3,560,375</u>
Bonds issued in 2015		
Investment in bonds	(51,041)	-
Exchange rate differences	131	-
	<u>(50,910)</u>	<u>-</u>
Total bonds payable	<u>3,503,258</u>	<u>3,560,375</u>

17. BOND LIABILITIES (continued)

Bonds issued abroad

In November 2012 the Company issued bonds in the amount of USD 500,000 thousand, with a maturity of 5 years at a fixed interest rate of 6.00% per annum. The bond was listed on the Luxembourg Stock Exchange and was actively traded. In November 2017 the bonds were fully repaid.

Refinancing

In October 2015, the bonds issued in 2012 were refinanced from the new bond issue and 83.37% of the principal or USD 416,852 thousand were repaid.

New bond issue

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

Bonds issued in 2015 were mostly used to repay 83.37% of the amount of bonds issued in 2012 (i.e. repurchase of USD 416.852 thousand). The remaining amount of the issue was intended to finance the Company's business activities.

The bond is listed on the Luxembourg Stock Exchange and is actively traded.

Cross-Currency swap

In order to reduce its exposure to currency risk, i.e., to hedge its exposure to the movement of the dollar, the Company has entered into a Cross Currency Swap, which transforms a dollar debt liability into a euro liability, for the entire duration of the bonds, i.e. until their maturity on 23 October 2022.

According to the 2015 Cross Currency Swap Agreement, the annual interest rate paid by the Company is fixed at 4,851% (weighted interest rate) and is payable semi-annually (the swap cost is also included in the interest rate).

Investing in bonds

The ability to purchase own bonds is defined in the 2015 Bond Prospectus, in which is stated that the Company or any of its subsidiaries may purchase the bonds at any time and the bonds so purchased may be held or resold. Bonds purchased that have been purchased on behalf of and for the account of the Company may be cancelled, or the principal may be reduced by the bonds so purchased. In May 2019, the Company repurchased 1.41% of its own bonds issued in 2015, in the amount of USD 7,752 thousand.

17. BOND LIABILITIES (continued)**Derivative financial instruments****Cross currency swap**

In order to reduce exposure to currency risk, i.e. the exposure to US dollar exchange rate, the Group concluded a cross currency swap agreement, by which are the dollar liabilities on bonds converted into euro, for the entire period, that is, until the final maturity.

The purpose of the cross currency swap is to reduce currency risk and recommendations of credit agencies on the importance of strategic currency risk management in order to reduce the impact on the Group's business.

According to the cross currency swap agreement from 2015, the annual interest rate paid by the Group is fixed and amounts to 4.851%.

The Group's fair value of derivative financial instruments is linked to the Mark to market value "MTM", according to official calculations of banks, for the reporting period.

The positive value of "MTM" is recorded as a receivable, i.e. it generates financial income for the period, and the negative value of "MTM" is recorded as a liability and forms the financial expense of the reporting period.

Upon the final maturity of the derivative financial instrument, the relevant receivable or liability will be discontinued and charged or credited to the Group's income.

As at 30 June 2019, using the said method, the fair value of liabilities in the amount of HRK 193,938 thousand (31 December 2018: HRK 307,255 thousand) was stated on the bonds issued in 2015.

18. OTHER NON-CURRENT LIABILITIES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Deferred income for assets financed by others	6,161,976	6,209,712
Long-term liabilities for assets financed from clearing debt	782,362	779,214
Derivative financial liabilities on swap-transactions (Note 17)	193,938	307,255
Other non-current liabilities	53,037	19,234
	<u>7,191,313</u>	<u>7,315,415</u>

Notes to the condensed consolidated financial statements of HEP Group (continued)

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18. OTHER NON-CURRENT LIABILITIES (continued)

Deferred income refers to income for the received property or property financed from the connection fee. Revenue from this property is recognized at the same time as the depreciation of the tangible asset to which it applies.

On 30 June 2019 the Group has a liability from a clearing debt in the amount of HRK 782,362 thousand (31 December 2018: 779,214 thousand), relating to the payment of letters of credit, based on the approval of the Ministry of Finance on the use of funds based on interbank agreements. Given that there is no other document that would regulate the relationship between the Company and the Ministry of Finance in relation to the above clearing debt, is not defined whether it is a loan or other legal relationship.

19. EMPLOYEE BENEFITS LIABILITIES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Net salaries	77,997	76,308
Contributions	34,394	33,999
Severance and retirement payment	732	3,982
Net salaries NPP Krško	7,216	9,899
Other	17,113	17,369
	<u>137,452</u>	<u>141,557</u>

20. TRADE PAYABLES

	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Trade payables – domestic suppliers	663,978	1,610,060
Trade payables – foreign suppliers	96,254	114,071
Trade payables – EU suppliers	217,672	174,911
Trade payables – NPP Krško	39,715	152,634
	<u>1,017,619</u>	<u>2,051,676</u>

21. OTHER CURRENT LIABILITIES	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
Liabilities for advances received for connections	574,761	478,849
Liabilities for other advance payments received	169,748	145,422
Accrued costs of unused annual vacations	87,343	69,608
Accrued income from electricity sales to households	-	6,250
Liability for accrued solidarity fee	13,516	14,765
Liability for renewable sources fees	138,523	135,053
Accrued severance pay to workers	31,469	33,403
Accrued costs for CO2 emissions	165,868	263,125
Other accrued expenses	7,961	6,271
Current portion of financial lease (Note 16)	3,785	3,418
Deferred income from grants - LNG Croatia	217,673	-
Energy savings	76,055	-
Other short-term liabilities NPP Krško	20,586	14,308
Deferred costs NPP Krsko	58,643	20,984
Other liabilities	54,277	37,992
	<u>1,620,208</u>	<u>1,229,448</u>

22. RELATED PARTY TRANSACTIONS

Receivables and liabilities and income and expenses are presented in the following table:

(i) NPP Krško d.o.o.	30 Jun 2019	31 Dec 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Liabilities for purchased electricity	50,324	49,580
	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Costs of purchased electricity	303,987	281,889

22. RELATED PARTY TRANSACTIONS (continued)

(ii) Key management personnel compensation

	Six-month period ended	
	30 Jun 2019	30 Jun 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Gross salaries	15,786	15,751
Pension contributions	3,527	3,506
Other fees (including benefits in kind)	1,665	1,871
	<hr/>	<hr/>
	20,978	21,128
	<hr/>	<hr/>

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

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

22. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK	Sales revenue		Purchase expense	
	Six-month period ended		Six-month period ended	
	30 June		30 June	
	2019	2018	2019	2018
	Unaudited	Unaudited	Unaudited	Unaudited
State majority-owned companies				
Companies of Croatian Railways Group	58,669	49,838	-	16
INA Industrija nafte d.d.	65,587	66,337	579,029	574,609
Plinacro d.o.o.	1,649	-	45,278	80,750
Croatia osiguranje d.d.	2,745	3,061	1,780	1,853
Hrvatska pošta d.d.	16,141	11,618	18,176	15,145
Hrvatske šume d.d.	4,237	2,273	2,596	1,441
Jadrolinija d.o.o.	573	526	325	543
Narodne novine d.d.	1,006	1,051	2,117	1,931
Hrvatska radio televizija	6,554	5,654	745	782
Plovput d.d.	488	318	76	76
Croatia Airlines d.d.	398	390	554	-
Petrokemija Kutina d.d.	24,642	321,910	-	405
Ministry of Foreign Affairs	-	3	-	-
Ministry of Defence	11,381	10,039	-	-
Ministry of Interior	14,914	11,862	9	-
Primary and secondary schools	57,412	21,050	35	1
Judicial institutions	4,040	3,521	15	11
Universities and colleges	14,295	12,539	892	726
Legislative, executive and other State bodies	21,389	9,556	2,574	1,819
Health institutions and organisations	82,665	42,497	260	252
HROTE d.o.o.	188,682	187,932	420,792	477,061
Other users	71,323	7,233	2,083	2,104
TOTAL	648,790	769,208	1,077,336	1,159,525

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

22. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK	Amount of receivables		Amount of liabilities	
	30 Jun 2019 Unaudited	31 Dec 2018 Audited	30 Jun 2019 Unaudited	31 Dec 2018 Audited
State majority-owned companies				
Companies of Croatian Railways Group	24,154	28,242	-	37
INA-industrija nafte d.d.	24,403	15,185	33,354	170,712
Plinacro d.o.o.	568	669	2,380	19,580
Croatia osiguranje d.d.	602	538	44	1,693
Hrvatska pošta d.d.	2,603	3,794	5,657	8,568
Hrvatske šume d.o.o.	863	1,112	750	263
Jadrolinija d.o.o.	252	239	74	45
Narodne novine d.d.	327	406	709	797
Hrvatska radio televizija	2,129	2,109	61	12
Plovput d.d.	121	84	32	44
Croatia Airlines d.d.	75	111	-	-
Petrokemija Kutina d.d.	8,626	9,460	270	347
Ministry of Defence	2,385	3,602	-	-
Ministry of Interior	3,754	6,909	-	-
Primary and secondary schools	5,244	8,155	-	-
Judicial institutions	685	847	-	-
Universities and colleges	4,186	3,916	-	-
Legislative, executive and other State bodies	3,122	3,907	-	-
Health institutions and organisations	44,558	32,283	-	-
HROTE d.o.o.	23,714	14,026	57,425	77,541
Other users	2,937	3,854	1,561	4,139
TOTAL	155,308	139,448	102,317	283,778

22. RELATED PARTY TRANSACTIONS (continued)

At 30 June 2019 the Company owned the following subsidiaries:

Subsidiary	Country	Share (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Production of electricity and heating
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Transfer 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 energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of Ploming and surrounding infrastructure
CS Buško Blato d.o.o.	BiH	100	Hydro power plant equipment maintenance
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Hospitality services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Trading in electricity and optimising plant operations
HEP Energija d.o.o. Ljubljana	Slovenia	100	Trading in electricity
HEP Energija d.o.o.	BiH	100	Trading in electricity
HEP Energija sh.p.k.	Kosovo	100	Trading in electricity
HEP Energija d.o.o.	Serbia	100	Trading in electricity
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of multi-purpose hydro technical system
ENERGETSKI PARK KORLAT d.o.o.	Croatia	100	Production of electricity
PLIN VTC d.o.o.	Croatia	100	Distribution and sale of gas
Elektrane Sabadin d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	84,18	Liquefied natural gas operations
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

Most of these subsidiaries were established within the framework of the reorganization and restructuring of their core business under the new energy laws, which came into force on 1 January 2002. The Croatian Centre for Cleaner Production started the liquidation process on 9 November 2017, and was liquidated on 7 March 2019.

During 2019, the following companies entered the consolidation of the HEP Group for the first time: PLIN VTC d.o.o. the sole owner of which is HEP-Plin d.o.o. since April 2019; ENERGETSKI PARK KORLAT d.o.o. the sole owner of which is HEP d.d. since April 2019, while Plomin Holding d.o.o. became sole owner of Power Plant Sabadin d.o.o. in June 2019 (The company Sabadin Power Plant Ltd. changed its name to SUNČANA ELEKTRANA POREČ d.o.o.). Furthermore, during 2019, HEP d.d. became the majority owner of LNG Croatia which has been consolidated for the first time in 2019, while in the preceding periods it was managed using the equity method.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- Fair value of derivative instruments is calculated using the listed price. Where such prices are not available, the analysis uses discounted cash flows by applying the current yield curve for the period of non-derivative instruments.

Fair value measurements recognized in the statement of financial position

The table below analyses the financial instruments subsequently measured at fair value, classified within 3 groups according to IFRS 13:

1. Level 1 inputs – inputs are quoted prices in active market for identical assets or liabilities that the entity can access at the measurement date.
2. Level 2 inputs – are inputs other than quoted market prices included within Level 1, that are observable for the asset or liability either directly (i.e. their prices) or indirectly (i.e. derived from prices), and
3. Level 3 inputs – Indicators derived using valuation methods in which asset data 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.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Level 1	Level 2	Level 3	Total
	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
30 June 2019, Unaudited				
Financial assets at fair value through other comprehensive income	237,174	-	-	237,174
Derivative financial liabilities	-	-	193,938	193,938
Investment property	-	310,327	-	310,327
31 December 2018, Audited				
Financial assets at fair value through other comprehensive income	197,307	-	-	197,307
Derivative financial liabilities	-	-	307,255	307,255
Investment property	-	303,726	-	303,726

24. UNFORSEEN LIABILITIES*Water Act*

In order to protect their business interests, the Company and the Group have taken all possible legal actions in the process of drafting a specific legal act, and after the final adoption of the relevant Law on Amendments to the Water Act (OG 46/18), the scope and content of the amendments were analysed, and accordingly, adequate business decisions have been made regarding the potential business risks that will result from changes to the act in question.

In May 2018, the Law on Amendments to the Water Act (OG 46/18) entered into force, by which the Republic of Croatia establishes the construction rights on public water resources - land on which water structures were built through Company's or its predecessors' investments; except for the land on which the accumulation was constructed and the supply and drainage channels and tunnels built. These rights are granted in favour of the Company, without compensation for a period of 99 years. As long as this right is resumed, the Company is granted the right to manage, on behalf of the Republic of Croatia, public good / land on which constructions of electricity generation with accumulation and supply and drainage channels and tunnels are built.

For the duration of the construction right, the Company and the Group manage the public water property on which the buildings for electricity production have been constructed, and on behalf of the Republic of Croatia, the reservoirs, inlet and outlet ducts inlet and outlet tunnels. The management right lasts 99 years. Article 15 of the Act defines the management as the maintenance, use and preservation of the public good.

The ownership of the Company and the Group shall be established over the land outside the parcels on which the Company and the Group and their legal predecessors constructed water structures for the production of electricity prior to the entry into force of the Act .

Notes to the condensed consolidated financial statements of HEP Group (continued)

For the half year period ended 30 June 2019

25. LIABILITIES ARISING FROM SHARE IN THE RESULT

On 4 July 2019, the General Assembly of the Company decided to pay a dividend for 2018 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 212,386 thousand, which will be paid in 2019.

26. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements for the six-month period ended 30 June 2019 were approved by the Management Board and approved for issue on 24 September 2019.

Signed for and on behalf of the Management Board on 24 September 2019:


Marko Čosić


Member


Nikola Rukavina

Member


Petar Sprčić

Member


Tomislav Šambić

Member


Saša Dujmić

Member


Frane Barbarić

President


ELEKTROPRIVREDA HEP
Z A G R E B 3.2
Ulica grada Vukovara 37