



**HRVATSKA ELEKTROPRIVREDA d.d.**

Condensed 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 financial statements for the period ended 30 June 2019 of the company Hrvatska elektroprivreda d.d. (hereinafter: the Company) which comprise the Condensed Statement of financial position / Balance Sheet as at 30 June 2019, the Condensed Statement of profit or loss, the Condensed Statement of other comprehensive income, the Condensed Statement of changes in equity and Condensed Statement of cash flows for the half-year period then ended, as well as notes to the condensed financial statements, which together form the Condensed financial statements of the Company'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 of the Company are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

**Emphasis of Matter**

As described in Note 17 to the condensed 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. Our conclusion has not been modified in this regard.

As described in the Note 21 to the condensed 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.


The Company has prepared condensed consolidated financial statements for the Company and its subsidiaries, which have been prepared for the period ending 30 June 2019. For the purpose of understanding the operations of the Company and the Group as a whole, users should read the condensed consolidated financial statements associated with these condensed financial statements.

Zagreb, 24 September 2019

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



Vedrana Stipić, Member of the  
Management Board

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



Zdenko Balen, Certified Auditor

Condensed Statement of profit or loss – HEP d.d.

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 Unaudited	in '000 HRK Unaudited
Revenue from electricity sales	3	2,146,920	1,715,390
Revenue from electricity sales – related parties	18	1,692,656	1,492,179
Revenue from gas sales – market supply	4	581	316,756
Revenue from gas sales – wholesale	4	562,109	546,834
Revenue from gas sales – related parties	4, 18	85,737	78,262
Revenue from thermal energy sales		2,826	7,646
Operating income – related parties	18	354,527	171,056
<b>Sales revenues</b>		<b>4,845,356</b>	<b>4,328,123</b>
Other operating income		25,204	31,593
<b>Total income</b>		<b>4,870,560</b>	<b>4,359,716</b>
Electricity purchase expense	5	(1,587,162)	(891,815)
Electricity purchase expense – related parties	5, 18	(1,541,987)	(1,638,056)
Gas purchase expense – market supply		(2,803)	(303,356)
Gas purchase expense – wholesale market		(699,832)	(633,527)
Employee benefit expenses		(51,407)	(48,183)
Depreciation and amortisation expense		(30,392)	(25,940)
Fee and services expense – related parties	18	(29,734)	(28,256)
Other expenses	6	(487,066)	(400,399)
<b>Total expenses</b>		<b>(4,430,383)</b>	<b>(3,969,532)</b>
<b>Profit from operations</b>		<b>440,177</b>	<b>390,184</b>
Finance income	7	1,027,022	550,476
Finance expenses	7	(111,053)	(133,617)
<b>Net profit from finance activities</b>	7	<b>915,969</b>	<b>416,859</b>
<b>Profit before tax</b>		<b>1,356,146</b>	<b>807,043</b>
Tax expense	8	(98,484)	(74,487)
<b>Profit for the period</b>		<b>1,257,662</b>	<b>732,556</b>

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

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
<b>Profit for the period</b>	<b><u>1,257,662</u></b>	<b><u>732,556</u></b>
<b>Other comprehensive income</b>		
Valuation (losses/gains) on fair value through other comprehensive income on financial assets	<u>32,908</u>	<u>(9,317)</u>
Total items that could be reclassified in comprehensive income	32,908	(9,317)
<b>Other comprehensive income, net</b>	<b><u>32,908</u></b>	<b><u>(9,317)</u></b>
<b>Total comprehensive income for the period, net</b>	<b><u>1,290,570</u></b>	<b><u>723,239</u></b>

The accompanying notes form an integral part of these condensed 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

HEP d.d. ELEKTROPRIVREDA d.o.o.  
 ZAGREB 32  
 Ploha grada Vukovara 37

Condensed Statement of financial position / Condensed Balance sheet – HEP d.d.d  
as at 30 June 2019

<b>ASSETS</b>	<b>Note</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
		in '000 HRK Unaudited	in '000 HRK Audited
<b>Non-current assets</b>			
Property, plant and equipment	9	721,547	706,339
Investment property		19,491	19,491
Right-of-use-assets		7,199	-
Intangible assets		103,037	113,246
Investments in equity	10	9,845,260	9,578,649
Financial assets on fair value through other comprehensive income	11	235,824	196,710
Long term loans	18	16,545,899	17,099,050
Other non-current receivables		328	390
Deferred tax assets		111,403	132,900
<b>Total non-current assets</b>		<b>27,589,988</b>	<b>27,846,775</b>
<b>Current assets</b>			
Inventories	12	577,778	638,606
Trade receivables		299,268	302,582
Current portion of long-term receivables	18	1,294,205	1,325,538
Other short-term receivables	13	101,150	126,040
Receivables from related parties	18	3,488,899	2,520,438
Cash and cash equivalents		1,468,421	1,611,941
<b>Total current assets</b>		<b>7,229,721</b>	<b>6,525,145</b>
<b>TOTAL ASSETS</b>		<b>34,819,709</b>	<b>34,371,920</b>

Condensed Statement of financial position / Condensed Balance sheet – HEP d.d  
(continued)  
as at 30 June 2019

EQUITY	Note	30 June 2019	31 December 2018
		in '000 HRK Unaudited	in '000 HRK Audited
Share capital	14	19,792,159	19,792,159
Revaluation reserve		73,315	40,407
Retained earnings	14	6,428,709	5,384,690
<b>Total capital</b>		<b>26,294,183</b>	<b>25,217,256</b>
Liabilities on issued bonds	15	3,503,258	3,560,375
Liabilities on long-term loans and borrowings	16	198,866	217,455
Long-term lease liabilities		6,175	-
Other long-term liabilities	17	1,001,802	1,098,476
Provisions		226,696	221,244
Deferred tax liability		15,150	5,441
<b>Total non-current liabilities</b>		<b>4,951,947</b>	<b>5,102,991</b>
Current portion of long-term loans and borrowings	16	73,873	112,061
Liabilities towards related parties	18	2,637,442	3,071,740
Lease liabilities		1,081	-
Other liabilities	19	861,183	867,872
<b>Total current liabilities</b>		<b>3,573,579</b>	<b>4,051,673</b>
<b>TOTAL EQUITY</b>		<b>34,819,709</b>	<b>34,371,920</b>

The accompanying notes form an integral part of these condensed 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

HEP d.d. ELEKTROPRIVREDA d.d.  
ZAGREB 32  
Lilije grada Vukovara 37





Condensed Statement of changes in equity – HEP d.d.  
For the half year period ended 30 June 2019


	Share capital	Revaluation reserve	Retained earnings	TOTAL
	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
<b>Balance at 31 December 2017, audited</b>	<b>19,792,159</b>	<b>136,727</b>	<b>5,220,987</b>	<b>25,149,873</b>
Prior year adjustment - IFRS 9 (Note 1)	-	(22,178)	27,047	4,869
<b>Balance at 1 January 2018, audited</b>	<b>19,792,159</b>	<b>114,549</b>	<b>5,248,034</b>	<b>25,154,742</b>
Profit of the current year	-	-	732,556	732,556
Other comprehensive income	-	(9,317)	-	(9,317)
<b>Total comprehensive income</b>	<b>-</b>	<b>(9,317)</b>	<b>732,556</b>	<b>723,239</b>
Dividend	-	-	(218,414)	(218,414)
<b>Balance at 30 June 2018, unaudited</b>	<b>19,792,159</b>	<b>105,232</b>	<b>5,762,176</b>	<b>25,659,567</b>
<b>Balance at 1 January 2018, audited</b>	<b>19,792,159</b>	<b>40,407</b>	<b>5,384,690</b>	<b>25,217,256</b>
Profit of the current year	-	-	1,257,662	1,257,662
Other comprehensive income	-	32,908	(1,257)	31,651
<b>Total comprehensive income</b>	<b>-</b>	<b>32,908</b>	<b>1,256,405</b>	<b>1,289,313</b>
Dividend	-	-	(212,386)	(212,386)
<b>Balance at 30 June 2019, unaudited</b>	<b>19,792,159</b>	<b>73,315</b>	<b>6,428,709</b>	<b>26,294,183</b>


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


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



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Member


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Member


 Frane Barbarić  
President

Hrvatska Elektroprivreda d.d.  
ZAGREB 3/2  
Ulica grada Vukovara 37

## Condensed Statement of cash flows – HEP d.d.

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
<b>CASH FROM OPERATING ACTIVITIES</b>		
Profit before tax	1,356,146	807,043
Net loss on finance activities	27,323	34,214
Depreciation of property, plant and equipment; amortisation of intangible assets	30,392	25,940
Increase in provisions	5,452	(221)
Impairment of receivables	326,736	142,474
	<u>1,746,050</u>	<u>1,009,450</u>
<i>Cash from operating activities before changes in working capital</i>		
(Increase) in trade receivables	(323,422)	(51,926)
(Increase)/ Decrease in receivables from related parties	(381,912)	452,338
Decrease in inventories	60,828	232,885
Decrease in other current assets	24,890	141,249
(Decrease) in trade payables	(227,066)	(44,149)
Increase/ (Decrease) in other payables	26,780	(47,844)
(Decrease) in liabilities to related parties	(434,298)	(227,477)
(Decrease) in other long-term liabilities	(107,392)	(128,749)
	<u>384,458</u>	<u>1,335,777</u>
<b>Cash generated from operations</b>		
Income taxes paid	(40,661)	(53,376)
Interests paid	(88,741)	(91,365)
	<u>255,056</u>	<u>1,191,036</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Interests received	6,275	55,462
Dividends from associates	-	5,016
Increase of share capital in subsidiary	(245,599)	-
Purchases of property, plant and equipment	(57,936)	(26,495)
Gains from purchase of other non-current assets	62	-
	<u>(297,198)</u>	<u>33,983</u>
<b>NET CASH FROM INVESTING ACTIVITIES</b>		

Condensed Statement of cash flows – HEP d.d. (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
<b>FINANCING ACTIVITIES</b>		
Repurchase of own bonds	(51,041)	-
Long-term loans received	7,729	-
Long-term loans payment	(57,618)	(187,652)
Paid principal – operating leases	(448)	
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(101,378)</b>	<b>(187,652)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(143,520)</b>	<b>1,037,367</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>1,611,941</b>	<b>925,174</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1,468,421</b>	<b>1,962,541</b>

The accompanying notes form an integral part of these condensed 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

Hrvatska Elektromrežnica d.d.  
ZAGREB 32  
Ulica grada Vukovara 37

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The preparation of unaudited condensed 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 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 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 financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) which have been adopted in the European Union. The condensed financial statements for the half-year period have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34). The condensed 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 Company, and will be adopted for the 2019 Annual Statements and which changes the accounting policies of the Company are:

- 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 Company because they are either not relevant to the activities of the Company or require accounting consistent with current Company's 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 Company has no significant leases in which it operates as a lessor.

## 1. BASIS OF PREPARATION (continued)

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

The Company 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 Company 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 have 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, the Company 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, the Company recognized the right of use assets and the lease obligation for most of the leases it had previously classified as operating leases. However, the Company 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, the Company 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 Company as of 1 January 2019. The Company'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.

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 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:

	<b>1 Jan 2019</b>	<b>31 Dec 2018</b>	<b>Difference</b>
	IFRS 16	IAS 17/IFRIC 4	
	in '000 HRK	in '000 HRK	in '000 HRK
	Unaudited	Audited	
<b>ASSETS</b>			
<b>Current assets</b>			
Right-of-use assets	6,011	-	6,011
<b>CAPITAL AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Non-current lease liabilities	6,011	-	6,011
<b>Current liabilities</b>			
Lease liabilities	-	-	-

The condensed statement of profit or loss for the six months period ended 30 June 2019 includes HRK 533 thousand of depreciation related to right-of-use asset and HRK 28 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 statement of financial position / balance sheet as at 30 June 2019 has been derived from the audited 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 financial statements is adequate in the sense that they do not lead to incorrect conclusions.

### Leases

Property, plant and equipment and intangible assets are leased to subsidiaries by the Company at book value. Leases of property, plant, equipment and intangible assets are classified as finance leases because the lessee accepts virtually all the benefits and risks of ownership. The lease term is equal to the remaining depreciation life of the leased property.

Leasing liabilities are disclosed in related parties within long-term liabilities. Leases carry interest to the extent that the Company has obtained funds from external sources. The fair value of the leases has not been estimated due to the specific nature of the HEP Group's organization and in order to show the underlying assets at their original carrying amount at which the Group acquired them.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company 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 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 financial statements are presented in thousands of Croatian kunas (HRK'000), which is the Group's functional currency.

### ***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 the Company will prepare its own annual financial statements) for which the Company 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 Company in the period of their first application.

### ***Use of estimates in the preparation of condensed consolidated financial statements***

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



## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 3. REVENUE FROM ELECTRICITY SALES

	Six-month period ended	
	30 June 2019 in '000 HRK	30 June 2018 in '000 HRK
	Unaudited	Unaudited
Revenue from sale of electricity to HEP Opskrba d.o.o. customers	1,607,063	1,313,315
Revenue from sale of electricity on foreign markets	516,156	380,192
Revenue from sale of electricity on domestic market	23,701	21,883
	<u>2,146,920</u>	<u>1,715,390</u>

#### 4. REVENUE FROM GAS SALES

/ i / **Revenues from the sale of gas** in the amount of HRK 581 thousand relate to the sale of gas to customers - market supply.

/ ii / **Supply in the wholesale gas market** in the Republic of Croatia amounts to HRK 562,109 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.

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 5. ELECTRICITY PURCHASE EXPENSES

Costs for the purchase of electricity for the six-month period ended 30 June 2019, which also include purchases from affiliated companies, amounted to HRK 3,129,149 thousand (HRK 2,529,871 thousand in the same period last year).

Costs have increased compared to the same period last year because of unfavourable hydrology and higher sales of electricity to end customers, increased off-grid procurement with rising electricity purchase prices.

### 6. OTHER OPERATING EXPENSES

	Six-month period ended	
	30 June 2019 in '000 HRK	30 June 2018 in '000 HRK
	Unaudited	Unaudited
Value adjustment of trade receivables	19,624	145,291
Cost of HEP d.d. for NEK decommission	52,745	52,757
Costs of services and materials within subsidiaries	20,734	20,599
Cost of external services and materials	49,849	48,742
Cost of sales of CO2 emission units	273,267	89,440
Taxes, contributions and fees	5,889	5,436
Bank charges, payment transaction costs and loan fees	5,230	3,321
Receipts in kind	774	827
Daily allowances and commuting costs to work	2,290	2,024
Insurance premiums	3,704	3,272
Compensation for damages based on lawsuits	22	-
Written off unclaimed receivables	139	-
Other employee benefits	2,083	1,598
Provisions for severance payments and other employee costs	-	207
Provisions for unused annual vacations	869	-
Provision for legal proceedings	10,203	-
Provisions for unrealized energy savings	19,284	-
Energy used for production	5,399	12,566
Other operating expenses	14,961	14,319
	<b>487,066</b>	<b>400,399</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 6. OTHER OPERATING EXPENSES (continued)

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 Company has recorded in its business books the cost of energy savings according to the best estimate in the amount of HRK 19,284 thousand.

### 7. FINANCE INCOME AND EXPENSES

	<b>Six-month period ended</b>	
	<b>30 June 2019</b>	<b>30 June 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
<b>Finance income</b>		
Interest income	60,881	55,462
Net foreign exchange gain on loans	19,979	84,111
Dividend income from subsidiaries and associates	828,297	340,243
Dividend income	16	16
Fair value of cross currency swap (Note 23.)	113,318	69,168
Other finance income	4,531	1,476
<b>Total finance income</b>	<b>1,027,022</b>	<b>550,476</b>
<b>Finance expenses</b>		
Interest expense	(88,204)	(89,676)
Net foreign exchange loss	(14,585)	(34,747)
Fair value of cross currency swap	-	(178)
Other finance expenses	(8,264)	(9,016)
<b>Total finance expenses</b>	<b>(111,053)</b>	<b>(133,617)</b>
<b>Net profit from finance activities</b>	<b>915,969</b>	<b>416,859</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 8. 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%.

### 9. PROPERTY, PLANT AND EQUIPMENT (INVESTMENT PROPERTY)

Investments in progress in the Company as at 30 June 2019 amount to HRK 189,116 thousand, most significant amounts are related to investments in Information Technology HRK 9,207 thousand; BigEVdata Project HRK 6,375 thousand; EDM / ECM Project HRK 6,272 thousand, EL-TO Zagreb - replacement of block A in the amount of HRK 5,761 thousand; investment in the protection of the Company's business complex HRK 3,290 thousand and renovation of office space in Osijek - Baranja building HRK 2,863 thousand.

### 10. INVESTMENT IN EQUITY

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
Balance at 1 January	9,578,649	9,465,828
Increase of share capital - HOPS d.o.o.	19,432	-
HEP - Operator distribucijskog sustava d.o.o.- capital reserves	-	37,080
HEP - Toplinarstvo d.o.o.- capital reserves	-	33,545
HEP ESCO d.o.o.	-	15,040
Program Sava d.o.o.	-	(20)
Croatian Centre for Cleaner Production	-	(20)
HEP - VHS Zaprešić d.o.o.	(20)	20
Energetski park Korlat d.o.o. – share capital	20	-
Energetski park Korlat d.o.o. – capital reserves	31,072	-
LNG Croatia d.o.o. – share capital	216,107	27,176
	<b><u>9,845,260</u></b>	<b><u>9,578,649</u></b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 10. INVESTMENT IN EQUITY (continued)

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
HEP - Proizvodnja d.o.o.	40	40
Hrvatski operator prijenosnog sustava d.o.o.	4,954,151	4,934,719
HEP - Operator distribucijskog sustava d.o.o.	1,802,041	1,802,041
HEP - Opskrba d.o.o.	20	20
HEP - Toplinarstvo d.o.o.	764,361	764,361
HEP - Plin d.o.o.	20	20
HEP ESCO d.o.o.	18,960	18,960
HEP - Upravljanje imovinom d.o.o.	17,995	17,995
HEP - Trgovina d.o.o.	40	40
HEP - Telekomunikacije d.o.o.	258,798	258,798
Plomin Holding d.o.o.	20	20
HEP - Elektra d.o.o.	20	20
HEP - VHS Zaprešić d.o.o.	-	20
NPP Krško	1,754,419	1,754,419
LNG Croatia d.o.o.	243,283	27,176
Energetski park Korlat d.o.o.	31,092	-
	<b><u>9,845,260</u></b>	<b><u>9,578,649</u></b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Opening balance	196,710	282,718
Fair value of investments through other comprehensive income (Janaf)	39,946	(85,290)
Fair value of investments through other comprehensive income and other	(832)	(377)
Fair value through statement of profit or loss	-	(341)
Closing balance	<b>235,824</b>	<b>196,710</b>

### 12. INVENTORIES

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Wholesale gas	315,310	375,950
CO2 emission units	233,354	234,051
Energy savings in final consumption	25,593	25,593
Investment material	2,541	2,323
Other material	980	689
	<b>577,778</b>	<b>638,606</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 13. OTHER CURRENT RECEIVABLES

	Six-month period ended	
	30 June 2019	31 December 2018
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Advances to suppliers	15,323	14,419
Receivables for short-term loans to unrelated companies	14,896	14,896
Interest receivables from companies with participating interests	-	4,282
Receivables for deposits	57,671	74,371
Prepaid expenses	11,248	17,395
Other receivables	2,012	677
	<b>101,150</b>	<b>126,040</b>

### 14. CAPITAL AND RESERVES

At the first registration of the Company on 12 December 1994, the Company's capital was entered in the German mark (DEM) in the amount of DEM 5,784,832 thousand. By the subsequent registration of the Company, on 19 July 1995, the capital was expressed in Croatian kuna in the amount of HRK 19,792,159 thousand. Share capital consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800.

Retained earnings in the amount of HRK 6,426,709 thousand consist of current year profit in the amount of HRK 1,257,662 thousand, retained earnings in the amount of HRK 4,683,346 thousand and reserves in the amount of HRK 487,701 thousand.



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

For the half year period ended 30 June 2019

**15. BONDS PAYABLE**

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK Unaudited	in '000 HRK Audited
	<u>                    </u>	<u>                    </u>
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><b>3,565,742</b></u>	<u><b>3,573,685</b></u>
Accrued cost of bonds	(11,574)	(13,310)
	<u><b>3,554,168</b></u>	<u><b>3,560,375</b></u>
<b>Bonds issued in 2015</b>	<u><b>3,554,168</b></u>	<u><b>3,560,375</b></u>
Investment in bonds	(51,041)	-
Exchange rate differences	131	-
Discount value	-	-
	<u><b>(50,910)</b></u>	<u><b>-</b></u>
<b>Total bonds payable</b>	<u><b>3,503,258</b></u>	<u><b>3,560,375</b></u>

## 15. BONDS PAYABLE (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.

## **15. BONDS PAYABLE (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 Company 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 Company's business results. According to the cross currency swap agreement from 2015, the annual interest rate paid by the Company is fixed and amounts to 4.851%.

The Company'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 Company'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.

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

For the half year period ended 30 June 2019

**16. LONG TERM LOAN LIABILITIES**

	<b>Interest rates</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
		in '000 HRK	in '000 HRK
		Unaudited	Audited
Loans from domestic banks	Floating	37,826	75,898
Loans from foreign banks	Fixed	238,291	257,144
<b>Total loan liabilities</b>		<b>276,117</b>	<b>333,042</b>
Deferred loan fees		(3,378)	(3,526)
<b>Total loan liabilities</b>		<b>272,739</b>	<b>329,516</b>
Current maturity		(73,873)	(112,061)
<b>Long-term portion</b>		<b>198,866</b>	<b>217,455</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 16. LONG-TERM LOAN LIABILITIES (continued)

The Company has contracted loans with domestic and foreign banks with variable and fixed interest rates that ranged from 0.44% to 2.47% in 2019.

Domestic bank loans are secured with bills of exchange and promissory notes. As at 30 June 2019, the Company 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 Company used its own resources.

#### Loans in use

On 30 June 2019 HEP 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:

	Amount in '000 HRK
2019	73,873
2020	35,751
2021	39,426
2022	43,101
2023	43,101
after 2023	37,487
	<b>272,739</b>

## 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 Company 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 Company'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 Company 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 Company 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 Company.

The Management believes that in case of exceeding an individual indicator, the Company may obtain a waiver from the creditor, since the payment of liabilities to financial institutions is a priority obligation of the Company and the Company 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 Company'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 Company met all contractual financial indicators.

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

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 16. LONG-TERM LOAN LIABILITIES (continued)

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

Currency	30 June 2019	31 December 2018
	in '000 EUR	in '000 EUR
EUR	36,888	44,424

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

Funds from these limits may be used by the Company 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. OTHER NON-CURRENT LIABILITIES

	30 June 2019	31 December 2018
	in '000 HRK Unaudited	in '000 HRK Audited
Liabilities for assets financed from clearing debt	782,362	779,612
Derivative finance liabilities on swap transactions	193,938	307,255
Liabilities towards the State	722	751
Deferred revenue from EU grant funds	13,923	-
Other liabilities	10,857	10,858
	<b>1,001,802</b>	<b>1,098,476</b>

On 30 June 2019 the Company 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.

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 18. RELATED PARTY TRANSACTIONS

As at 30 June 2019, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership (%)	Main activities
HEP - Proizvodnja d.o.o.	Croatia	100	Production of electricity and heat
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 electricity and heat
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 infrastructure in Plomin surrounding
CS Buško Blato d.o.o.	BiH	100	Maintenance of HPP equipment
HEP Upravljanje imovinom d.o.o.	Hrvatska	100	Hospitality services
HEP NOC Velika	Hrvatska	100	Accommodation and education
HEP - Trgovina d.o.o.	Hrvatska	100	Trading with electricity and optimising power plant operations
HEP Energija d.o.o. Ljubljana	Slovenia	100	Trading with electric energy
HEP Energija d.o.o.	BIH	100	Trading with electric energy
HEP Energija sh.p.k.	Kosovo	100	Trading with electric energy
HEP Energija d.o.o.	Serbia	100	Trading with electric energy
HEP - Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP - VHS Zaprešić d.o.o.	Croatia	100	Design and construction of multipurpose hydro technical system
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
PLIN VTC d.o.o.	Croatia	100	Distribution and supply of gas
Elektrane Sabadin d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	84.18	Operations with liquefied natural gas
NPP Krško d.o.o.	Slovenia	50	Production of electricity



## 18. RELATED PARTY TRANSACTIONS (continued)

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.).

Related party transactions are stated as follows:

- /i/ Company's revenues arise from re-invoiced income to related parties for electricity sales (except for universal service to households and guaranteed service); accounting, legal and other similar services fees, as well as lease of business premises. The amount of these revenues from related parties is determined on the basis of the following: the value of assets of related party, the cost of employees and the total cost of the related party.
- /ii/ Interest on long-term lease of property, plant and equipment and intangible assets are charged to lessees based on loans that were used for construction of those assets and are stated as interest income from related parties.
- /iii/ Expenses with related parties arise from transmission and distribution of electricity. Costs for said services are invoiced on a monthly basis in accordance with the provisions and tariffs set by the Croatian Energy Regulatory Agency ("HERA").
- /iv/ Long-term receivables from related parties arise from financial lease of property, plant and equipment to related parties. Lease is paid monthly according to depreciation of leased assets, increased by interests from long-term loans through which the assets were financed. The Company also has receivables from related parties for apartments sold to employees.
- /v/ Short-term receivables from related parties arise from the sale of fuel, materials and spare parts, for the electricity sold to the company HEP ODS d.o.o., HEP Elektra d.o.o. and for buyers of HEP Opskrba d.o.o., electricity and gas trading, administrative services provided by the Company to related parties and for ongoing investments financed by the Company. After completion of the construction, those assets are transferred to related parties 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 financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	<b>Six-month period ended</b>	
	<b>30 June 2019</b> in '000 HRK Unaudited	<b>30 June 2018</b> in '000 HRK Unaudited
<b>Sales revenues</b>		
Revenue from sales of electricity to HEP Elektra d.o.o.	1,083,720	1,013,056
Revenues from invoiced el. energy to cover losses on the distribution network	64,231	62,200
Revenues from invoiced el. energy to cover losses on the transfer network	353,926	259,686
Revenues from balancing electricity	-	2,588
Revenue from sales of electricity to companies of HEP Group	30,627	23,391
Revenue from sales of electricity - HEP Energija d.o.o. Ljubljana	136,062	115,872
Revenue from sales of electricity - HEP Energija sh.p.k. Kosovo	5,352	1,137
Revenue from sales of electricity - HEP Energija d.o.o. Beograd	7,609	5,527
Revenue from sales of electricity – HEP Trade d.o.o. Mostar	10,542	4,157
Revenue from sales of electricity to HEP Proizvodnja d.o.o.	587	4,565
<b>Revenue from sales of electricity – related parties</b>	<b>1,692,656</b>	<b>1,492,179</b>
<b>Revenue from sale of gas to HEP Plin</b>	<b>85,737</b>	<b>78,262</b>
<b>Revenue from sales of heat energy to HEP Proizvodnja</b>	<b>2,826</b>	<b>7,646</b>
<b>Operating revenues</b>		
Revenue from administrative services	72,326	70,262
Lease revenues	8,221	8,518
Revenue from sale of CO2 emission units	273,267	89,440
Other revenues	713	2,836
	<b>354,527</b>	<b>171,056</b>
<b>Sales revenues – related parties</b>	<b>2,135,746</b>	<b>1,749,143</b>

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	<b>Six-month period ended</b>	
	<b>30 June 2019</b> in '000 HRK Unaudited	<b>30 June 2018</b> in '000 HRK Unaudited
<b>Finance income</b>		
Interest income – leases	40,705	41,307
Interest income – loans to related parties	13,501	13,329
	<u>54,206</u>	<u>54,636</u>

	<b>Six-month period ended</b>	
	<b>30 June 2019</b> in '000 HRK Unaudited	<b>30 June 2018</b> in '000 HRK Unaudited
<b>Expenses for electricity purchase</b>		
Electricity purchase – HEP Proizvodnja d.o.o.	1,239,267	1,308,758
Purchase of electricity from renewable sources – HEP Opskrba	229,070	287,988
Balancing electricity - HOPS d.o.o.	35,211	25,183
HEP Energija d.o.o. Ljubljana	3,833	3,519
HEP-Trade d.o.o. Beograd	-	19
HEP-Trade d.o.o. Mostar	34,115	12,589
HEP-Energija Sh.p.k. Kosovo	491	-
	<u>1,541,987</u>	<u>1,638,056</u>

	<b>Six-month period ended</b>	
	<b>30 June 2019</b> in '000 HRK Unaudited	<b>30 June 2018</b> in '000 HRK Unaudited
<b>Expenses</b>		
Electricity supply compensation - HEP Opskrba d.o.o.	19,830	18,059
Fee for gas supply services - HEP Opskrba plinom d.o.o.	2,310	3,012
Trading fee for energy and gas trading - HEP Trgovina d.o.o.	7,594	7,185
	<u>29,734</u>	<u>28,256</u>

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

<b>Non-current receivables</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK Unaudited	in '000 HRK Audited
<b>Receivables from assets in long-term lease</b>		
HEP Operator distribucijskog sustava d.o.o.	7,755,714	8,082,317
HEP Proizvodnja d.o.o.	8,272,190	8,545,834
HEP Toplinarstvo d.o.o.	789,875	816,581
HEP Upravljanje imovinom d.o.o.	123,904	124,223
HEP Plin d.o.o.	175,216	180,152
HEP Noc d.o.o.	11,601	11,971
HEP Opskrba d.o.o.	1,481	2,014
HEP Trgovina d.o.o.	900	941
HEP Esco d.o.o.	2,218	2,637
HEP VHS Zaprešić d.o.o.	19	-
HEP Elektra d.o.o.	3,845	3,419
	<b>17,136,963</b>	<b>17,770,089</b>
<b>Receivables from housing units sold</b>		
HEP Operator distribucijskog sustava d.o.o.	5,046	5,386
HEP Proizvodnja d.o.o.	3,131	3,301
Hrvatski operator prijenosnog sustava d.o.o.	645	742
HEP Toplinarstvo d.o.o.	107	115
	<b>8,929</b>	<b>9,544</b>
	<b>17,145,892</b>	<b>17,779,633</b>
Current maturity of the lease	(1,231,390)	(1,231,390)
<b>Receivables from long-term lease from related parties</b>	<b>15,914,502</b>	<b>16,548,243</b>

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

<b>Receivables for long-term loans to related parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
HEP - Toplinarstvo d.o.o.	39,500	47,400
Plomin Holding d.o.o.	10,200	-
Energetski park Korlat d.o.o.	48,950	-
HEP - Plin d.o.o.	16,843	-
	<b>115,493</b>	<b>47,400</b>
Current maturity	(22,547)	(15,800)
	<b>92,946</b>	<b>31,600</b>
<b>Receivables for sub-loans loans to related parties</b>	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Sub-loan HEP ESCO d.o.o. – long-term portion	42,463	43,684
Sub-loan HEP Telekomunikacije d.o.o.	44,903	23,403
Sub-loan HOPS d.o.o.	455,823	494,823
LNG Hrvatska d.o.o.	35,530	-
	<b>578,719</b>	<b>561,910</b>
Current maturity	(40,268)	(78,348)
	<b>538,451</b>	<b>483,562</b>
<b>Total non-current receivables from related parties</b>	<b>538,451</b>	<b>483,562</b>
	<b>16,545,899</b>	<b>17,063,405</b>
<b>Loans to entities outside the Group</b>		
LNG Hrvatska d.o.o.	-	35,645
<b>Total</b>	<b>16,545,899</b>	<b>17,099,050</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 18. RELATED PARTY TRANSACTIONS (continued)

Current receivables	30 June 2019	31 December 2018
	in '000 HRK Unaudited	in '000 HRK Audited
Receivables from HEP Elektra d.o.o. for electricity sold	400,887	428,251
Receivables from HEP Operator distribucijskog sustava d.o.o. for distribution network losses	29,125	160,618
Receivables from HEP Opskrba d.o.o. for electricity sold	555,648	449,135
Receivables from HEP Proizvodnja d.o.o. for electricity sold	664	2,003
Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	24,467	23,693
Receivables from HEP Energija d.o.o. Ljubljana	64,382	60,179
Receivables from HEP Energija d.o.o. Beograd for electricity sold	3,274	2,775
Receivables from HEP Energija d.o.o. Mostar for electricity sold	8,506	2,295
Receivables from HEP-a d.d. od HEP- Energije sh.p.k. Kosovo for electricity sold	1,572	3,531
Receivables from od HEP Proizvodnje d.o.o. for heat energy sold	81	2,855
Other receivables	11,358	11,577
	<b>1,099,964</b>	<b>1,146,912</b>
<b>Receivables for administrative costs</b>		
HEP Proizvodnja d.o.o.	4,170	9,675
HEP Operator distribucijskog sustava d.o.o.	14,514	22,876
HEP Toplinarstvo d.o.o.	624	2,289
HEP Plin d.o.o.	5,730	4,839
HEP Upravljanje imovinom d.o.o.	7,777	6,350
HEP Trgovina d.o.o.	2,466	1,097
HEP Opskrba d.o.o.	4,301	3,428
HEP NOC	184	-
HEP ESCO d.o.o.	1,083	296
HEP Telekomunikacije d.o.o.	541	797
HEP Elektra d.o.o.	2,114	3,997
	<b>43,504</b>	<b>55,644</b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

### 18. RELATED PARTY TRANSACTIONS (continued)

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
<b>Current receivables from leasing agreements</b>		
HEP Proizvodnja d.o.o.	124,830	42,347
HEP Toplinarstvo d.o.o.	12,054	9,635
HEP Operator distribucijskog sustava d.o.o.	146,615	140,957
HEP Plin d.o.o.	8,509	3,217
HEP Upravljanje imovinom d.o.o.	6,081	4,495
HEP NOC	440	1
HEP Trgovina d.o.o.	127	69
HEP Opskrba d.o.o.	455	279
HEP Esco d.o.o.	296	197
HEP Elektra d.o.o.	319	266
	<b>299,726</b>	<b>201,463</b>
<b>Other current receivables</b>	<b>93,800</b>	<b>157,658</b>
<b>Receivables for investments paid and other receivables</b>		
HEP Proizvodnja d.o.o.	353,418	180,582
Hrvatski operator prijenosnog sustava d.o.o.	77,202	69,852
HEP Operator distribucijskog sustava d.o.o.	654,085	237,160
HEP Toplinarstvo d.o.o.	110,929	77,746
HEP Plin d.o.o.	27,034	15,792
HEP ESCO d.o.o.	2,830	1,083
HEP Noc d.o.o.	1,335	1,189
HEP Trgovina d.o.o.	75	44
HEP Upravljanje imovinom d.o.o.	8,356	460
HEP Opskrba d.o.o.	22,992	22,869
LNG Hrvatska d.o.o.	130,127	-
HEP Telekomunikacije d.o.o.	481	37
Energetski park Korlat d.o.o.	1,039	-
HEP Elektra d.o.o.	55	-
Plomin Holding d.o.o.	1,373	1,350
	<b>1,391,331</b>	<b>608,164</b>

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
<b>Receivables for investment and other material sold</b>		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	<u><b>316,153</b></u>	<u><b>316,153</b></u>
<b>Other receivables</b>		
HEP Plin d.o.o.	30,938	30,659
HEP Noc d.o.o.	153	-
HEP Telekomunikacije d.o.o.	10,105	364
HOPS d.o.o.	62,845	-
HEP ODS d.o.o.	136,976	-
	<u><b>241,017</b></u>	<u><b>31,023</b></u>
<b>Receivables for short term loans</b>		
HEP Energija d.o.o. Beograd	1,866	1,877
HEP Energija sh.p.k. Kosovo	1,538	1,544
	<u><b>3,404</b></u>	<u><b>3,421</b></u>
<b>Total current receivables from related parties</b>	<u><b>3,488,899</b></u>	<u><b>2,520,438</b></u>



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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	<b>30 June 2019</b> in '000 HRK Unaudited	<b>31 December 2018</b> in '000 HRK Audited
<b>Current liabilities</b>		
HEP Proizvodnja - electricity	737,922	526,876
HEP Opskrba - renewable energy sources fee	33,550	41,889
HEP Opskrba - energy supply fee	3,423	10,928
HEP Trgovina – trading fee	2,020	1,860
HOPS d.o.o. – liabilities for energy balancing	6,957	41,456
Liabilities for electricity origin- HEP Proizvodnja d.o.o.	172	305
HEP Proizvodnja – liabilities arising from cession contract	810,952	810,952
Other	51,033	48,513
	<b><u>1,646,029</u></b>	<b><u>1,482,779</u></b>

	<b>30 June 2019</b> in '000 HRK Unaudited	<b>31 December 2018</b> in '000 HRK Audited
<b>Other liabilities</b>		
<b>HEP Operator distribucijskog sustava d.o.o.</b>		
– for paid connections	174,033	176,557
- for cash paid to treasury	184,350	367,966
- for customer payments and investments paid from a sub-	78,918	77,906
<b>HEP Elektra d.o.o.</b> for cash paid to treasury	534,851	545,034
<b>HEP Proizvodnja d.o.o.</b> - for profit advances for 2018	-	400,000
Liabilities of HEP d.d. to related parties – Agrokor	6,311	6,311
Liabilities to other companies for customer payments and investments paid from a sub-account	17,990	15,187
	<b><u>996,453</u></b>	<b><u>1,588,961</u></b>
<b>Total current liabilities</b>	<b><u>2,637,442</u></b>	<b><u>3,071,740</u></b>

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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### 18. RELATED PARTY TRANSACTIONS (continued)

Claims and liabilities and income and expenses for NPP Krško d.o.o. which is in 50% ownership; and LNG Croatia d.o.o. which is in 84.18% ownership of the Company are shown in the following table:

#### NPP Krško d.o.o.

The generated electricity in the NPP Krško is delivered to the Company in the amount of 50% of the total quantities produced at a price determined by the total cost of production.

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Liabilities for purchased electricity	50,324	49,580
Cost of purchased electricity	303,987	577,283

#### LNG Croatia d.o.o.

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
Loan receivable	35,530	35,645

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	Sales revenues		Purchase expenses	
	For the period ended		For the period ended	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Unaudited	Unaudited	Unaudited	Unaudited
<b>State majority-owned companies</b>	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
Croatian Railways	41,275	36,152	-	-
INA - Industrija nafte d.d.	39,666	42,409	704,718	698,914
Croatia osiguranje d.d.	1,735	1,769	1,630	1,689
Hrvatska pošta d.d.	8,263	9,447	5,574	5,778
Hrvatske šume d.o.o.	1,189	1,099	2,270	1,068
Jadrolinija d.o.o.	329	-	-	-
Narodne novine d.d.	906	960	173	565
Hrvatska radiotelevizija	3,341	2,457	31	30
Plinacro d.o.o.	1,649	-	32,641	57,694
Plovput d.d.	401	316	-	-
Croatia Airlines d.d.	232	386	-	-
Petrokemija Kutina d.d.	21,221	320,084	-	196
Ministry of the Interior Primary and secondary schools	7,232	6,231	-	-
Judiciary institutions	13,012	9,289	-	-
Universities and colleges	2,449	2,317	-	-
Legislative, executive and other bodies of the Republic of Croatia	7,339	7,224	631	392
Health institutions and organizations	5,501	4,334	-	-
Other users	32,861	26,265	-	-
HROTE d.o.o.	51	263	1,085	940
	15,474	20,276	16,479	11,449
<b>TOTAL</b>	<b>204,126</b>	<b>491,278</b>	<b>765,232</b>	<b>778,715</b>

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

For the half year period ended 30 June 2019

**18. RELATED PARTY TRANSACTIONS (continued)**

	Receivables		Liabilities	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	Unaudited	Audited	Unaudited	Audited
<b>State majority-owned companies</b>	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
INA - Industrija nafte d.d.	-	-	31,255	145,651
Croatia osiguranje d.d.	-	-	-	1,575
Hrvatska pošta d.d.	-	-	8	1,160
Narodne novine d.d.	-	-	4	92
Plinacro d.o.o.	-	-	2,380	12,075
HROTE d.o.o.	1,232	10,010	2,965	267
Other users	136	151	1,810	6,599
	<b>1,368</b>	<b>10,161</b>	<b>38,422</b>	<b>167,419</b>

Key management personnel compensation

	Six-month period ended	
	30 June 2019	30 June 2018
	in '000 HRK	in '000 HRK
	Unaudited	Unaudited
Gross salaries	4,325	3,974
Pension contributions	959	902
Other fees (including benefits in kind)	514	600
	<b>5,798</b>	<b>5,476</b>

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

**19. OTHER CURRENT LIABILITIES**

	<b>30 June 2019</b>	<b>31 December 2018</b>
	in '000 HRK	in '000 HRK
	Unaudited	Audited
<b>Other liabilities</b>		
Trade payables	436,982	664,048
Taxes and contributions	114,929	133,215
Dividend	212,386	-
Interest	32,985	33,531
Employee benefits	7,380	7,411
Accruals for unrealized energy savings	19,284	-
Other liabilities	37,237	29,667
	<b>861,183</b>	<b>867,872</b>

**20. 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.

## Notes to the condensed financial statements - HEP d.d. (continued)

For the half year period ended 30 June 2019

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	in '000 HRK	in '000 HRK	in '000 HRK	in '000 HRK
<b>30 June 2019, Unaudited</b>				
Financial assets at fair value through other comprehensive income	235,824	-	-	<b>235,824</b>
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	193,938	<b>193,938</b>
Investment in property	-	189,116	-	<b>189,116</b>
<b>31 December 2018, Audited</b>				
Financial assets at fair value through other comprehensive income	196,710	-	-	<b>196,710</b>
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	-	307,255	<b>307,255</b>
Investment in property	-	19,491	-	<b>19,491</b>

### 21. 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.

