



HRVATSKA ELEKTROPRIVREDA d.d.
Condensed consolidated financial statements
for the six-month period ended
30 June 2020

(Translation - the Croatian text is authoritative)

Contents

	<i>Page</i>
Independent auditor's report on review of condensed interim financial information	1-2
Condensed consolidated statement of profit or loss	3
Condensed consolidated statement of other comprehensive income	4
Condensed consolidated statement of financial position	5-6
Condensed consolidated statement of changes in equity	7
Condensed consolidated statement of cash flows	8-9
Notes to the condensed consolidated financial statements	10-37

Independent auditor's report on review of condensed interim financial information

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 2020 of the company Hrvatska elektroprivreda d.d., Zagreb (hereinafter: the Group) which comprise the condensed consolidated statement of financial position as at 30 June 2020, 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 the 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 Management 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 conducted our 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 interim financial information consists of asking inquiries, primarily to persons responsible for financial and accounting issues, and applying analytical and other review procedures. A review is significantly less in scope than an audit performed in accordance with International Standards on Auditing and, consequently, does not allow us to obtain assurance to become aware of any significant issues that may be identified during the audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has drawn our attention which would cause us to believe that the Group's condensed consolidated financial statements for the period ended 30 June 2020, have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

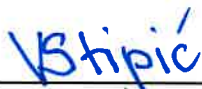
Emphasis of matter

As described in Note 22 to the condensed consolidated financial statements, as at 30 June 2020, there is a stated liability for clearing debt in the amount of HRK 807,933 thousand (31 December 2019 in the amount of HRK 800,982 thousand) relating to the payment from the letter of credit and based on the Agreement concluded between the Government of the Republic of Croatia and the Government of Russian Federation on 24 July 2006, and the Consent of the Ministry of Finance on the use of funds under the interbank agreement. Our conclusion has not been modified in relation to this issue.

We draw attention to Note 28 to the condensed consolidated financial statement, which emphasizes the need to initiate the procedure of registration of rights in the land register and harmonization with the provisions of the Act Amending the Water Act (Official Gazette No. 46/2018). Our conclusion has not been modified in relation to this issue.

Zagreb, 23 September 2020

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



Vedrana Stipić, certified auditor

Condensed consolidated statement of profit or loss
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	Note	For the Six-month period ending	
		30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
Sales revenues	5	6,547,593	7,393,908
Other operating income	7	592,133	451,246
Total operating income		7,139,726	7,845,154
Cost of material and energy	8	(2,594,066)	(3,515,266)
Employee costs		(1,005,364)	(937,293)
Depreciation and amortisation		(1,094,815)	(1,024,238)
Other operating expenses	9	(1,255,856)	(1,335,656)
Total operating expenses		(5,950,101)	(6,812,453)
Operating profit		1,189,625	1,032,701
Financial income	10	178,881	146,928
Financial expenses	10	(191,850)	(116,295)
Net profit/(loss) from financial activities		(12,969)	30,633
Profit before tax		1,176,656	1,063,334
Corporate income tax	11	(217,070)	(204,060)
Profit for the current period		959,586	859,274
Attributable to:			
Owners of parent		961,409	859,870
Non-controlling interest		(1,823)	(596)
		959,586	859,274

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

Signed on behalf of the Company on 23 September 2020:

Marko Čosić Nikola Rukavina Petar Sprčić Tomislav Šambić Saša Dujmić Frane Barbarić
Member Member Member Member Member President

HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB 3.2
Ulica grada Vukovara 37

Condensed consolidated statement of other comprehensive income
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	For the Six-month period ending	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Profit for the current period	959,586	859,274
Other comprehensive income		
<i>Items that can be reclassified to profit or loss</i>		
Exchange differences from foreign currency translations	27,027	(6,514)
Reserves	-	(4,593)
	27,027	(11,107)
<i>Items that will not be reclassified to profit or loss</i>		
Changes in value of financial assets at fair value through other comprehensive income	(27,760)	32,908
Other comprehensive profit/(loss), net	(733)	21,801
Total comprehensive profit for the current period, net	958,853	881,075
Total comprehensive profit attributable to		
Owners of parent	960,676	881,671
Non-controlling interest	(1,823)	(596)

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

Signed on behalf of the Company on 23 September 2020:

 Marko Čosić
  Nikola Rukavina
  Petar Sprčić
  Tomislav Šambić
  Saša Dujmić
  Frane Barbarić
 Member Member Member Member Member President

HRVATSKA ELEKTROPRIVREDA d.d.
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Condensed consolidated statement of financial position
as at 30 June 2020

<i>in '000 HRK</i>	Note	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
ASSETS			
Non-current assets			
Property, plant, equipment	12	32,951,964	32,580,210
Right-of-use assets		17,033	19,493
Investment property		330,625	330,738
Goodwill		45,921	59,444
Intangible assets		221,457	231,554
Investments calculated using the equity method		2,500	2,500
Non-current loans		4,594	6,090
Financial assets at fair value through other comprehensive income		218,301	255,007
Other financial assets		5,612	5,612
Other non-current receivables		70,070	1,782
Deferred tax assets		849,572	913,208
Total non-current assets		34,717,649	34,405,638
Current assets			
Inventories	13	1,254,035	1,769,262
Trade receivables	14	1,899,522	2,169,815
Financial assets at fair value through profit or loss	16	163,515	165,185
Other current receivables	15	631,626	695,956
Cash and cash equivalents	17	4,027,362	3,352,155
Total current assets		7,976,060	8,152,373
TOTAL ASSETS		42,693,709	42,558,011

Condensed consolidated statement of financial position (continued)

as at 30 June 2020

<i>in '000 HRK</i>	Note	30 June 2020	31 December 2019
		<i>Unaudited</i>	<i>Audited</i>
EQUITY AND LIABILITIES			
Share capital	18	19,792,159	19,792,159
Reserves		81,523	109,283
Retained earnings	18	6,659,704	5,671,268
Equity attributable to owners of parent		26,533,386	25,572,710
Non-controlling interest		35,722	37,545
Total equity		26,569,108	25,610,255
Liabilities under issued bonds	20	3,502,389	3,518,704
Liabilities under non-current loans	19	607,143	347,068
Lease liabilities		13,654	14,281
Long-term provisions		1,238,135	1,195,400
Other non-current liabilities	22	7,110,848	7,177,499
Deferred tax liability		16,097	23,046
Total non-current liabilities		12,488,266	12,275,998
Trade payables	24	1,005,053	2,241,425
Current maturities of non-current loans		65,777	57,856
Current portion of lease liabilities		6,850	5,846
Taxes and contributions		80,641	102,093
Corporate income tax liability		95,681	53,129
Liabilities to employees	23	152,610	173,761
Other current liabilities	25	2,229,723	2,037,648
Total current liabilities		3,636,335	4,671,758
TOTAL EQUITY AND LIABILITIES		42,693,709	42,558,011

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

Signed on behalf of the Company on 23 September 2020:


Marko Čosić
Member


Nikola Rukavina
Member


Petar Sprčić
Member


Tomislav Šambić
Member


Saša Dujmić
Member


Frane Barbarić
President

HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
Ulica grada Vukovara 37

Condensed consolidated statement of changes in equity
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	Share capital	Reserves	Retained earnings	Equity attributable to owners of parent	Non-controlling interest	Total equity
Balance at 1 January 2019	19,792,159	65,921	4,511,318	24,369,398	-	24,369,398
Profit for the current year	-	-	859,870	859,870	(596)	859,274
Other comprehensive income	-	28,316	(6,515)	21,801	-	21,801
<i>Total comprehensive income</i>	-	<i>28,316</i>	<i>853,355</i>	<i>881,671</i>	<i>(596)</i>	<i>881,075</i>
<i>Non-controlling interest - LNG Hrvatska d.o.o.</i>	-	-	(24,224)	(24,224)	40,493	16,269
Payment of dividend to owner	-	-	(212,386)	(212,386)	-	(212,386)
Balance at 30 June 2019, unaudited	19,792,159	94,237	5,128,063	25,014,459	39,897	25,054,356
Balance at 1 January 2020	19,792,159	109,283	5,671,268	25,572,710	37,545	25,610,255
Profit for the current year	-	-	961,409	961,409	(1,823)	959,586
Other comprehensive income	-	(27,760)	27,027	(733)	-	(733)
<i>Total comprehensive income</i>	-	<i>(27,760)</i>	<i>988,436</i>	<i>960,676</i>	<i>(1,823)</i>	<i>958,853</i>
Balance at 30 June 2020, unaudited	19,792,159	81,523	6,659,704	26,533,386	35,722	26,569,108

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

Signed on behalf of the Company on 23 September 2020:


Member


Member


Member


Member


Member


President

HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
Ulica grada Vukovara 37

Condensed consolidated statement of cash flows
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	For the Six-month period ending	
	30 June 2020	30 June 2019,
	<i>Unaudited</i>	<i>Unaudited</i>
OPERATING ACTIVITIES		
Profit before tax	1,176,656	1,063,334
Interest income	(10,044)	(7,646)
Interest expense	89,928	89,722
Net exchange rate differences	74,127	4,913
Fair value of investment property	113	(6,601)
Depreciation of property, plant and equipment, intangible assets and right-of-use property.	1,094,815	1,024,238
Expenses from the alienation of property	11,381	6,208
Value adjustment of receivables	(199,617)	7,479
Value adjustment of inventories	6,215	5,945
Increase/(Decrease) in provisions	42,735	(46,799)
Changes in fair value of the cross-currency swap	(127,160)	(113,318)
<i>Cash flow from operating activities before changes in working capital</i>	<i>2,159,149</i>	<i>2,027,475</i>
Decrease in trade receivables	469,910	18,320
Decrease in inventories	509,012	59,971
(Increase) / Decrease in other non-current assets	(20,143)	57,794
Decrease / (increase) in other current assets	66,000	(14,225)
(Decrease) in trade payables	(519,824)	(1,034,057)
Increase in other current liabilities	158,060	347,706
Increase / (Decrease) in other non-current liabilities	116,531	(17,753)
Cash generated through operations	2,938,695	1,445,231
Corporate income tax paid	(131,210)	(183,055)
Interest paid	(91,896)	(94,591)
NET CASH FROM OPERATING ACTIVITIES	2,715,589	1,167,585
INVESTING ACTIVITIES		
Payments for acquisition of subsidiaries, net of cash acquired	(68,899)	-
Interest receipts	23,752	19,013
Payments for purchases of property, plant and equipment	(2,180,771)	(1,020,711)
NET CASH FROM INVESTING ACTIVITIES	(2,225,918)	(1,001,698)

Condensed consolidated statement of cash flows (continued)
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	For the Six-month period ending	
	30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
FINANCING ACTIVITIES		
Receipts from non-current loans	283,898	7,729
Receipts from current loans	-	16,377
Expenditures for repayment of non-current loans	(19,879)	(57,619)
Expenses for redemption of bonds	(76,173)	(51,041)
Lease principal repayment expenses	(2,310)	(2,379)
Proceeds from cash funds	-	14,847
NET CASH FROM FINANCING ACTIVITIES	185,536	(72,086)
NET INCREASE OF CASH AND CASH EQUIVALENTS	675,207	93,801
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	3,352,155	2,780,226
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	4,027,362	2,874,027

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

Signed on behalf of the Company on 23 September 2020:

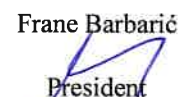

Marko Čosić
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Tomislav Šambić
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Saša Dujnić
Member


Frane Barbarić
President

HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 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 ended 30 June 2020 requires management 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 reported revenues and expenses during the reporting period. 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 in which the change affects the period if it affects only that period, or in future periods if it affects both current and future periods.

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), which are accepted 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 ending on 30 June 2020 have been prepared in accordance with the same accounting policies that were used for the annual consolidated financial statements for the year ended 31 December 2019. New and amended standards and interpretations issued by the International Accounting Standards Board that will be applied for the first time in the following annual financial statements have no significant impact on the Group or are not relevant to the Group's activities or are consistent with the Group's applicable accounting policies.

Certain information otherwise disclosed in the financial statements prepared in accordance with IFRSs adopted in the European Union is summarized or omitted in accordance with IAS 34. The condensed consolidated statement of financial position/consolidated balance sheet as at 30 June 2020 is derived from the audited consolidated financial statements as at 31 December 2019, but does not contain all items that are mandatory to be disclosed in accordance with IFRS adopted in the European Union. The Company's management believes that the information presented in these condensed consolidated financial statements is adequate in the sense that it does not lead to erroneous conclusions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and investments in real estate that are measured at fair value. All amounts disclosed in the condensed consolidated financial statements are presented in thousands of Croatian kunas (HRK), unless otherwise stated. The Group keeps accounting records in the Croatian language, in HRK and in accordance with Croatian legal regulations and accounting principles and practices followed by companies in Croatia.

The condensed consolidated financial statements have been prepared on an accrual basis under the going concern assumption.

Adoption of new and amended International Financial Reporting Standards

There are a number of standards, amendments to existing standards issued by the International Accounting Standards and Interpretations Committee and published by the International Financial Reporting Interpretations Committee that are effective for periods beginning after 31 December 2019 (the date on which the HEP Group will prepare its annual financial statements) and for which the HEP Group has decided not to make an earlier application. The Company's management anticipates that the application of these standards, amendments and interpretations will not have a material impact on the HEP Group's financial statements in the period of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparing the 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, the amount of value adjustments to assets, the determination of the fair value of assets and liabilities and the estimated costs of removing assets. Future events are possible that will cause changes in the assumptions on the basis of which the estimates are given, and thus changes in the estimates themselves.

The effect of any change in 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 compared to their use in the preparation of annual consolidated financial statements.

3. IMPACT OF COVID-19 ON GROUP'S OPERATIONS

The existence of the new coronavirus (Covid-19) was confirmed in early 2020 and quickly spread to mainland China, Europe and the United States, causing disruptions in business and economic activity. Since the beginning of the pandemic, the Group has been applying special business measures to prevent the spread of coronavirus disease and protect the health of employees and business partners, in accordance with the decisions of the National Civil Protection Headquarters, and at the same time to ensure the continued smooth operation of all business processes within the Group.

As that the Group is a critical and strategic infrastructure system of the Republic of Croatia, and is one of the largest economic entities in Croatia with a large number of companies in the domestic market largely depend on it; maximum efforts have been made to ensure smooth operations in all business segments, primarily through regular production, transmission, distribution and supply of energy.

Since the beginning of the pandemic, the Group has been analysing energy consumption and modelling scenarios for the impact of the decline in total economic activity on consumption and revenues from the sale of energy from its product portfolio. Analysis of the first half of the year shows that the decline in economic activity during the "lockdown" period had an impact on reducing total consumption and changing the structure of consumption in terms of reduced consumption by business customers and increased consumption by household customers. This decrease in total consumption was not significant for the Group's operations and therefore did not significantly affect the positions of the financial statements

Despite the introduction of extraordinary measures of assistance to natural persons adopted by the Government of the Republic of Croatia, which relate, among other things, to the delay in the enforcement, trade receivables were mostly realized within the agreed deadlines and the adopted measures have not had a significant impact on business and financial position of the Group. The Group did not use State aid provided by the Government of the Republic of Croatia, since revenues did not decrease significantly despite the slowdown in economic activities.

Given that the duration of a pandemic is uncertain and it is impossible to predict what impacts it will have, both in domestic and foreign markets, it is not possible to fully assess all the negative impacts on the Group's operations at this time. Notwithstanding the above, the current level of indebtedness and secured level of liquidity of the Group, as well as a strong market position in all activities, show that the Group is prepared to face the challenges expected in the coming period.

The Group will continue to actively monitor economic trends and take all measures to protect the interests of all stakeholders while maintaining a stable financial position.

4. RECLASSIFICATION OF COMPARATIVE PERIODS

Changes in comparative financial statements

In the comparative financial statements for 2019, certain items have been reclassified to bring the financial information in line with the financial statements for 2020. The reclassification has not affected the statement of profit or loss from the previous period.

Statement of profit or loss

Six-month period ended 30 June 2019

	Report 30 June 2019	Reclassification	Restated
Sales revenues	7,340,259	53,649	7,393,908
Other operating income	504,895	(53,649)	451,246
Total operating income	7,845,154	-	7,845,154
Cost of electricity	(1,766,367)	-	(1,766,367)
Cost of fuel	(894,986)	-	(894,986)
Cost of gas procurement	(706,603)	(79,629)	(786,232)
Cost of material	-	(67,681)	(67,681)
<i>Total cost of material and energy procurement</i>	<i>(3,367,956)</i>	<i>(147,310)</i>	<i>(3,515,266)</i>
Employee costs	(937,293)	-	(937,293)
Amortisation and depreciations	(1,024,238)	-	(1,024,238)
Other operating expenses	(1,482,966)	147,310	(1,335,656)
Total operating expenses	(6,812,453)	-	(6,812,453)
Operating profit	1,032,701	-	1,032,701
Financial income	146,928	-	146,928
Financial expenses	(116,295)	-	(116,295)
Net profit from financial activities	30,633	-	30,633
Profit before tax	1,063,334	-	1,063,334
Corporate income tax	(204,060)	-	(204,060)
Profit for the year	859,274	-	859,274

The item *Sales revenues* increased by HRK 53,649 thousand, and the item *Other operating income* decreased by the same amount. The stated amount consists of revenues closely related to the sale of electricity and is reclassified to another position within operating income.

The *Cost of materials and energy* increased by HRK 147,310 thousand, of which the increase in the *Cost of gas sold* amounted to HRK 79,629 thousand, and the increase in the *Cost of materials* amounted to HRK 67,681 thousand. The item *Other operating expenses* was reduced by HRK 147,310 thousand. This amount represents acquisition costs closely related to the Group's core business and is therefore reclassified to another item within operating expenses.

These changes did not have an impact on the amount of total operating income and total operating expenses, and thus on the profit for the business year, and were made for the purpose of greater transparency in reporting.

5. SEGMENT INFORMATION

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

Profit or loss of each segment is the result of all revenues and expenses that are directly related to a particular segment. Information on financial income, i.e. expenses and income tax is not presented at the segment level, because the basis for segment presentation is operating profit.

<i>in '000</i> <i>HRK</i>	Electricity		Heating		Gas		Group	
	Six-month period ending 30 June							
	2020	2019	2020	2019	2020	2019	2020	2019
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Income from core business	5,489,466	6,259,059	363,065	372,941	695,062	761,908	6,547,593	7,393,908
Other segment revenue	393,178	409,461	19,561	31,256	179,394	10,529	592,133	451,246
Operating profit / loss	1,034,315	1,213,725	(43,569)	(117,502)	198,879	(63,522)	1,189,625	1,032,701
Net financial income/(expense)							(12,969)	30,633
Corporate income tax							(217,070)	(204,060)
Net profit							959,586	859,274

The segment's assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities represent assets and liabilities that cannot reasonably be allocated to operating segments. Total unallocated assets include investments in the Krško Nuclear Power Plant (hereinafter: NPP Krško), part of property, plant and equipment and unallocated financial assets. Total unallocated liabilities include non-current and current loans and other miscellaneous liabilities.

5. SEGMENT INFORMATION (continued)

<i>in '000 HRK</i>	Total segment assets		Total segment liabilities	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
Electricity	32,153,409	32,247,898	8,771,620	8,908,695
Heating	1,323,191	1,259,916	158,037	200,442
Gas	482,256	438,719	100,162	93,136
Unallocated	8,736,132	8,611,478	7,094,782	7,745,483
Total group	42,694,988	42,558,011	16,124,601	16,947,756

Territorial analysis

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

The following is a territorial analysis of the Group's revenues generated from active parts of operations from external electricity customers

<i>in '000 HRK</i>	Six-month period ending	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Croatia	5,183,662	5,498,815
EU member countries	257,206	422,686
Third countries	48,598	337,558
	5,489,466	6,259,059

6. SEASONAL FLUCTUATIONS

Demand for electricity, heat and natural gas is characterized by fluctuations, which affect the overall results of the Group's operations, and which may be the result of weather conditions, economic circumstances and the activities of other suppliers outside the Group and prices they offer to customers.

In 2020, the coronavirus pandemic had an impact on reducing the demand for electricity in the economy category, while the impact was significantly milder on demand for electricity in the household category as well as the demand for heat and natural gas.

Total operating expenses are affected by hydrological conditions, i.e. electricity production in hydropower plants; market prices of fuel for electricity and heat production; market prices for electricity supply and consumer needs for energy. Due to reduced demand for electricity, there has been a drop in the price of electricity in the market.

In the first half of 2020, revenues from the sale of electricity amounted to HRK 5,489,466 thousand, while in the same period last year they amounted to HRK 6,259,059 thousand and decreased due to lower revenues from the sale of electricity on foreign markets, export of electricity surpluses, and reduced sales of electricity to customers in Croatia due to lower consumption.

Electricity procurement costs amount to HRK 1,164,519 thousand, while in the period ended 30 June 2019 they amounted to HRK 1,766,367 thousand. The reduction in costs is the result of lower import costs due to lower imported quantities and a lower price of imported electricity. At the same time, the purchase of electricity in the incentive system was reduced due to the reduced percentage of mandatory purchase from 1 January 2020.

The cost of energy fuel in the first half of this year amounted to HRK 729,589 thousand, while in the same period last year it amounted to HRK 894,986 thousand, and it decreased due to less consumed quantities and prices of coal and forest biomass with a lower gas price.

7. OTHER OPERATING INCOME

<i>in '000 HRK</i>	Six-month period ending	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Income from assets funded from connection fees	192,464	188,480
Collected value-adjusted receivables (Note 14)	200,307	34,387
Revenues from external services	45,125	24,225
Default interest	11,284	14,982
Revenues from sales of materials	13,034	18,079
Income from cancellation of long-term provisions for severance pay and jubilee awards	1,989	55,296
Revenues from cancellation of long-term provisions for litigation	8,053	17,960
Income from cancellation of other provisions	3,803	2,416
Pre-bankruptcy receivables collected	1,186	3,921
Revenues based on court costs on lawsuits	2,903	6,123
Gains from sale of tangible assets	569	2,456
Revenues from subsidies, grants, recourses and compensation	803	1,049
Last year's over-calculated fees on CO2 emissions for electricity generation	21,501	11,905
Other operating income NPP Krško	5,251	2,473
Other	83,861	67,494
	592,133	451,246

8. PROCUREMENT COSTS

<i>in '000 HRK</i>	Six-month period ending	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Cost of electricity	1,164,519	1,766,367
Fuel cost	729,589	894,986
The cost of gas for sale on the wholesale market	522,277	699,831
Gas supply costs - market supply	104,671	86,401
Cost of purchased material	73,010	67,681
	2,594,066	3,515,266

9. OTHER OPERATING EXPENSES

<i>in '000 HRK</i>	Six-month period ending	
	30 June 2020. <i>Unaudited</i>	30 June 2019. <i>Unaudited</i>
Maintenance costs	223,546	191,022
Value adjustment of trade receivables (Note 14)	47,838	108,532
Costs of external services and materials	179,588	187,914
Billable services and materials	58,929	31,102
Cost of CO2 emission units	159,528	165,868
Write-off of property, plant and equipment	13,107	8,478
Value adjustment of inventories	6,215	5,945
Employee cost compensation	52,124	59,997
Other material rights of employees	48,066	43,870
NPP Krško - decommissioning costs according to the decision of the Government	53,911	52,745
Contributions, taxes and fees to the state	46,315	50,263
Litigation provisions	34,824	30,040
Contributions and concessions for water	38,574	37,647
Provisions for unused vacations	18,067	17,681
Fee for the use of power plant space	41,965	45,710
Cost of materials sold	9,233	12,221
Billing and collection costs	10,943	15,185
Provisions for severance payments and jubilee awards	10,717	403
Insurance premiums	4,593	6,092
Environmental charges	774	798
Damages	6,658	10,196
Unclaimed receivables written off	19,275	13,465
Provision for decommissioning of thermal power plants	6,027	4,332
Provisions for energy savings /i/	14,132	76,055
Other operating expenses NPP Krško	114,081	103,503
Other expenses	36,826	56,592
	1,255,856	1,335,656

/i/ Provisions for energy savings

The Energy Efficiency Act (OG 127/14, 116/18), the Ordinance on the system for monitoring, measuring and verifying energy savings (OG 71/15) and the Ordinance on the system of energy efficiency obligations (OG 41/19) prescribe the obligation to establish an energy-saving system and the manner of its implementation. Obligations arising from the above laws and regulations apply for the first time in 2019. The obligors of the energy-saving system in the HEP Group are the companies that supply electricity, heat and gas. Pursuant to legal provisions, and in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the Group has reserved energy savings costs in its business books according to the best estimate in the amount of HRK 14,132 thousand (2019: HRK 76,055 thousand).

10. FINANCIAL INCOME AND EXPENSES

<i>in '000 HRK</i>	Six-month period ending	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Financial income		
Positive exchange rate differences	23,429	21,629
Interest income	9,950	7,613
Change in fair value of cross-currency swap	127,160	113,318
Dividend income	-	92
Negative goodwill income	18,096	-
Other financial income	152	4,243
NPP Krško - interest	94	33
Total financial income	178,881	146,928
Financial expenses		
Interest expense	(88,825)	(89,047)
Negative exchange rate differences	(97,556)	(26,542)
Unrealized losses on financial assets	(2,613)	(3)
NPP Krško - interest	(1,103)	(675)
Other financial expenses	(1,753)	(28)
Total financial expenses	(191,850)	(116,295)
Net financial profit/(loss)	(12,969)	30,633

11. CORPORATE INCOME TAX

Tax expense and current taxes during the half-year period are calculated based on actual results and the effective tax rate.

12. PROPERTY, PLANT AND EQUIPMENT

Ongoing investments as at 30 June 2020 amount to HRK 4,051,628 thousand (31 December 2019 HRK 3,120,646 thousand).

The increase in investment property relates mostly to HEP d.d., HEP-ODS d.o.o. and Energetski park Korlat d.o.o.

In HEP d.d. the balance of assets under construction as at 30 June 2020 amounts to HRK 686,073 thousand, and as at 31 December 2019 it amounted to HRK 262,727 thousand. The increase mainly relates to the following investments: investments in EL-TO Zagreb replacement of block A in the amount of HRK 270,342 thousand, SE Cres HRK 18,123 thousand, E-mobility project HRK 17,683 thousand, HES Kosiinj HRK 14,421 thousand, IT HRK 6,320 thousand and EDM/ECM project HRK 4,700 thousand.

In HEP-ODS d.o.o. HRK 145,895 thousand was invested in the construction of connections and the creation of electricity conditions on the distribution network.

In Energetski park Korlat d.o.o. HRK 237,115 thousand was invested in the construction of wind turbines and in the construction of infrastructure and network connection.

13. INVENTORIES

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Inventories of fuel and chemicals	126,360	118,994
Electrical and mechanical materials	450,901	416,587
Spare parts	226,801	228,812
Construction material	13,619	12,726
Wholesale gas supplies	91,224	400,886
CO2 emission units	220,203	528,494
Energy saving stocks in final consumption	-	10,314
Other inventories	59,884	58,616
Inventory of nuclear NPP Krško	226,889	158,333
Other material inventories NPP Krško	112,827	103,958
	1,528,708	2,037,720
Value adjustment of obsolete material and spare parts	(274,673)	(268,458)
	1,254,035	1,769,262

14. TRADE RECEIVABLES

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Electricity - economy	1,449,788	1,467,930
Electricity - households	608,542	487,403
Electricity - abroad	81,672	127,335
Thermal energy, gas and services	572,691	1,038,756
Trade receivables NPP Krško	12,320	19,509
Other	58,875	112,865
	2,783,888	3,253,798
Expected credit losses	(884,366)	(1,083,983)
	1,899,522	2,169,815

The table shows the age structure of receivables and the corresponding rate of expected credit loss.

30 June 2020, Unaudited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-364 days	365 days and over	Total
Expected credit losses			1.5%	3%	9%	30%	90%	
Gross book value of trade receivables	1,122,902	291,996	146,236	116,161	161,354	43,127	902,112	2,783,888
Expected credit losses	-	-	(2,194)	(3,485)	(14,522)	(12,939)	(851,226)	(884,366)
31 December 2019, Audited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-364 days	365 days and over	Total
Expected credit losses			1.5%	3%	9%	30%	90%	
Gross book value of trade receivables	1,650,160	290,081	97,219	44,699	47,773	25,949	1,097,917	3,253,798
Expected credit losses	-	-	(1,458)	(1,341)	(4,300)	(7,785)	(1,069,099)	(1,083,983)

14. TRADE RECEIVABLES (continued)

Changes in allowance for impairment were as follows:

<i>in '000 HRK</i>	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
Balance at the beginning of period	1,083,983	1,188,390
Change in expected credit losses	(47,148)	(185,418)
Write-off of receivables (Note 9)	47,838	182,625
Impaired receivables collected (Note 7)	(200,307)	(101,614)
Balance at the end of period	884,366	1,083,983

15. OTHER CURRENT RECEIVABLES

<i>in '000 HRK</i>	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
Current internal receivables	47,506	12,265
Income tax receivables	119,433	99,165
VAT receivables	31,135	101,393
Advances for working capital	125,965	255,732
Receivables from the state for employees	3,675	3,663
Deposits and time deposits for a period longer than 3 months	62,933	69,219
Deposits and time deposits for a period longer than 3 months NPP Krško	124,751	40,834
Receivables of HEP-ESCO d.o.o. from the beneficiaries of the energy efficiency project	18,766	21,172
Receivables for sold apartments	5,215	5,215
Receivables for invoiced RES - HROTE fee	31,808	31,799
Other receivables NPP Krško	5,439	2,303
Other current receivables	55,000	53,196
	631,626	695,956

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Share in investment funds – foreign currency	63,325	64,686
Share in investment funds - HRK	100,190	100,499
	163,515	165,185

17. CASH AND CASH EQUIVALENTS

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Accounts in HRK	2,492,291	2,242,676
Foreign currency accounts	431,728	583,760
Allocated funds	65,577	58,388
Cash in hand-HRK	276	217
Deposits with a maturity of up to 90 days	62,093	82,844
Daily time deposits	838,838	384,103
Transaction and foreign currency account - NPP Krško	129,985	167
Transaction account PPD Distribucija plina	5,215	-
Transaction account PPD Opskrba kućanstva	1,359	-
	4,027,362	3,352,155

18. SHARE CAPITAL

The share capital is denominated in Croatian kuna in the amount of HRK 19,792,159 thousand and consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800 each.

Retained earnings in the amount of HRK 6,659,704 thousand include profit reserves in the amount of HRK 487,707 thousand, retained earnings in the amount of HRK 5,210,588 thousand and current year profit attributed to the owner in the amount of HRK 961,409 thousand.

19. NON-CURRENT LOAN LIABILITIES

<i>in '000 HRK</i>	Interest rates	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
Loans from foreign banks	Fixed/Floating	488,596	221,725
Financial leasing	Fixed	1,551	3,005
Loans from participating interest companies		27,687	27,687
Loans NPP Krško		158,168	155,736
Total non-current loan liabilities		676,002	408,153
Cost allocation		(3,082)	(3,229)
Total non-current loan liabilities		672,920	404,924
Current maturity of non-current loans		(36,852)	(36,286)
Current maturity of financial leasing		(1,238)	(3,005)
Current maturity of participating interest companies' loans		(27,687)	(18,565)
Non-current portion		607,143	347,068

The Group contracted loans with domestic and foreign banks with applicable floating and fixed interest rates, which in 2020 ranged from 0.44% to 2.47%. Financial leasing with a fixed interest rate in the amount of 5.6% was also contracted.

Loans from domestic banks are secured by bills of exchange and promissory notes. As at 30 June 2020, the Group has no debt covered by the guarantee of the Republic of Croatia.

New sources of financing

From 1 January 2020 to 30 June 2020, the Group used its own funds to finance the investment plan and regular operations.

Loans in use

As at 30 June 2020, the Group has 2 (two) loans in use: from EBRD in the amount of EUR 87,000 thousand and from EIB in the amount of EUR 43,000 thousand. These loans are used to finance the EL-TO Zagreb project.

The Company started using loans in December 2018, and as of 30 June 2020, the balance of used funds amounts to EUR 32,109 thousand (EBRD) and EUR 15,466 thousand (EIB)

The loan funds can be used until 20 July 2021 and in accordance with the green project implementation dynamics.

19. NON-CURRENT LOAN LIABILITIES (continued)

The repayment plan for the principal of non-current loans maturing in the next five years:

	<i>(in '000 HRK)</i>
2020	38,542
2021	60,302
2022	81,324
2023	85,138
2024	52,099
After 2024	355,515
	<hr/> 672,920

Loans from domestic banks are secured by bills of exchange and promissory notes, while the EBRD loan of EUR 87,000 thousand and the EIB loan of EUR 43,000 thousand have contracted financial guarantees; financial indicators which the Group is obliged to meet at certain prescribed levels on an annual and semi-annual basis. These indicators are net financial debt to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net borrowing to net tangible assets.

The main objective of the Group related to the risks posed by financial indicators is to protect the Group from possible breach of contractual obligations, i.e. premature maturities of contracted credit liabilities.

Contracted financial indicators are monitored and calculated for annual and semi-annual financial statements.

The Group prepares preliminary calculations of financial indicators based on the projected statement of financial position and statement of profit or loss for the coming interim period and monitors their trend.

If the projections in the financial statements at the end of the financial year show the possibility of failing to meet the contracted value of a certain financial indicator, the Group is obliged to inform the bank about the possibility of breach of contract and promptly request the waiver from the bank.

In case the bank does not approve the waiver, the possible scenario is the early maturity of the debt, which poses a liquidity risk for the Group.

The Management Board believes that in case of failing to meet a certain indicator value, the Group may obtain a waiver from creditors, given that the payment of liabilities to financial institutions is a priority liability of the Group, and that the Group has never defaulted in payment of liabilities to financial institutions.

19. NON-CURRENT LOAN LIABILITIES (continued)

Due to all the above mentioned, the Management Board estimates that the possibility of premature maturity of loan liabilities arising from failing to meet a certain indicator value, as well as the Group's exposure to credit risk, liquidity risk and market risk that may arise as a result of this failure, is minimal.

As of 30 June 2020, the Company met all contracted financial indicators and the total exposure based on contracted loan liabilities related to financial indicators amounts to EUR 47,575 thousand.

Loan liabilities in foreign currencies (in thousands) are as follows:

Currency <i>in '000</i>	30 June 2020.	31 December 2019
EUR	85.768	50.686

For the purpose of securing liquidity reserves in the next medium-term period, the Group has concluded multi-purpose framework agreements with domestic banks, in the total amount of approximately HRK 1,000,000 thousand.

The Group may use the funds from these frameworks for short-term loans and the issuance of guarantees, letters of credit and letters of intent in accordance with the needs of the Group companies.

There was no need to conclude short-term loans from these medium-term multi-purpose frameworks in the period from 1 January 2020 to 30 June 2020; due to good liquidity.

As of 30 June 2020, the total amount of available funds from the short-term frameworks amounts to HRK 916,175 thousand.

20. LIABILITIES UNDER ISSUED BONDS

<i>in '000 HRK</i>	30 June 2020.	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Value of bonds abroad from 2015	3,593,024	3,573,685
Exchange rate difference	56,436	12,140
Discount value	3,372	7,199
	3,652,832	3,593,024
Cost allocation	(8,102)	(9,838)
Bonds issued in 2015	3,644,730	3,583,186
Value of repurchased bonds	(64,482)	-
Investments in bonds	(76,173)	(64,261)
Exchange rate difference	(1,686)	(221)
	(142,341)	(64,482)
Total liabilities under issued bonds	3,502,389	3,518,704

20. LIABILITIES UNDER ISSUED BONDS (continued)

Bonds issued abroad in 2015.

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

Bonds issued in 2015 were mostly used for repurchase of 83.37% 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 with.

The fair value of bonds, less the repurchased amount of bonds with a nominal value of USD 21,075 thousand as at 30 June 2020 amounts to USD 570,618 thousand (equivalent to HRK 3,827,489 thousand).

Investment in bonds

The possibility of purchasing own bonds as defined in the 2015 Bond Prospectus, enables the Company or any of its subsidiaries to purchase bonds and any time. The bonds so purchased may be held or resold. Bonds purchased in the name and for the account of the Company may be cancelled, i.e. the principal may be reduced. In February and March 2020, the Company repurchased 2.06% of its own bonds issued in 2015, in the amount of USD 11,323 thousand.

Derivative financial instruments

Cross-currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the dollar exchange rate, the Company concluded cross-currency swap agreement, converting dollar liabilities on bonds issued abroad in 2015 into euro liabilities until their final maturity.

The purpose of the cross-currency swap agreement is to reduce currency risk. It was concluded upon credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Company's business results.

The annual interest rate paid by the Company is fixed and amounts to 4.851%.

The Company links the fair value of derivative financial instruments to the calculation of Mark to market value (MTM), based on official bank calculations for the reporting period.

The positive value of MTM is recorded as a receivable and financial income of the period, and the negative value of MTM is recorded as a liability and financial expense of the reporting period.

Upon the final maturity of derivative financial instruments, the receivables or liabilities in question will be eliminated against expenses or in favour of income.

As at 30 June 2020, the fair value of receivables in the amount of HRK 46,649 thousand was calculated using this method. This amount represents the majority of other non-current receivables (31 December 2019, the value of related liabilities was HRK 80,511 thousand; Note 22).

21. DEBT INDICATOR

The half-year-end debt-to-equity ratio can be shown as follows:

<i>in '000 HRK</i>	30 June 2020. <i>Unaudited</i>	31 December 2019 <i>Audited</i>
Debt	4,175,309	3,923,628
Cash and cash equivalents	(4,027,362)	(3,352,155)
Net debt	147,947	571,473
Equity	26,533,386	25,572,710
Debt-to-equity ratio	0.6%	2%

22. OTHER NON-CURRENT LIABILITIES

<i>in '000 HRK</i>	30 June 2020. <i>Unaudited</i>	31 December 2019 <i>Audited</i>
Deferred income for property financed by others	6,282,937	6,277,103
Non-current liabilities for assets financed from clearing debt	807,933	800,982
Derivative financial liabilities on swap transactions	-	80,511
Liabilities to the state	6,723	7,660
Other non-current liabilities	13,255	11,243
	7,110,848	7,177,499

Deferred income refers to income for received property or property financed from the connection fee. Income from these assets is recognized simultaneously with the depreciation of the tangible assets which they relate to.

As at 30 June 2020, the Company has a stated liability for clearing debt in the amount of HRK 807,933 thousand (31 December 2019 in the amount of HRK 800,982 thousand) relating to the payment from the letter of credit and based on the Agreement concluded between the Government of the Republic of Croatia and the Government of Russian Federation on 24 July 2006, and the Consent of the Ministry of Finance on the use of funds under the interbank agreement

Since there is no other document that would regulate the relationship between the Company and the Ministry of Finance, related to the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

23. LIABILITIES TO EMPLOYEES

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Liabilities for net salaries	88,649	85,831
Liabilities for contributions and taxes	39,874	38,239
Liabilities for severance pay	576	16,216
Salaries payable NPP Plant	8,345	12,533
Other	15,166	20,942
	152,610	173,761

24. TRADE PAYABLES

in '000 HRK

	30 June 2020.	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Trade payables in the country	708,568	1,673,198
Trade payables abroad	49,722	437,443
Trade payables within EU	189,438	119,071
Trade payables - NPP Krško	57,325	11,713
	1,005,053	2,241,425

25. OTHER CURRENT LIABILITIES

in '000 HRK

	30 June 2020.	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Liabilities for received advances for connections	567,442	535,378
Liabilities for other advances received	223,556	191,826
Accrued expenses for unused annual leave	94,656	76,646
Interest liabilities	32,398	36,229
Accrued income from the sale of electricity to households	13,676	3,716
Liabilities for calculated solidarity compensation	13,285	15,046
Liabilities for renewable energy charges	121,165	135,640
Accrued severance pay to workers	-	10,517
Accrued costs for CO2 emissions	159,528	403,428
Other accrued expenses	14,515	6,612
Deferred income support - LNG Croatia	866,193	552,951
Energy savings	16,437	-
Liabilities of NPP Krško	69,599	15,535
Other liabilities	37,273	54,124
	2,229,723	2,037,648

26. RELATED PARTY TRANSACTIONS

The ultimate owner of the Company is the Republic of Croatia. Receivables and liabilities and income and expenses are shown in the following table:

<i>in '000 HRK</i>	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
(i) NPP Krško		
Liabilities for electricity	61,851	51,158

<i>in '000 HRK</i>	Six-month period ending 30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
Cost of electricity	371,104	303,987

(ii) Compensation to the Management Board and executive directors within the Group:

<i>in '000 HRK</i>	Six-month period ending 30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
Gross salaries	15,845	15,786
Contributions to pension insurance	3,421	3,527
Other (benefits in kind)	1,047	1,665
	20,313	20,978

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

26. RELATED PARTY TRANSACTIONS (continued)

<i>in '000 HRK</i>	Income		Expenses	
	Six-month period ending 30 June		Six-month period ending 30 June	
	2020.	2019.	2020.	2019.
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Companies that are majority owned by the State				
Croatian Railways Group	49,511	58,669	8	-
Plinacro d.o.o.	1,498	1,649	43,866	45,278
Hrvatska pošta d.d.	10,771	16,141	14,694	18,176
Hrvatske šume d.d.	3,844	4,237	4,321	2,596
Jadrolinija d.o.o.	603	573	194	325
Narodne novine d.d.	1,009	1,006	3,007	2,117
Hrvatska radio televizija	6,215	6,554	830	745
Plovput d.d.	367	488	98	76
Croatia Airlines d.d.	319	398	-	554
Ministry of Defense	9,028	11,381	-	-
Ministry of Interior	12,877	14,914	-	9
Primary and secondary schools	22,118	57,412	4	35
Judicial institutions	3,588	4,040	-	15
Universities and colleges	12,290	14,295	586	892
Legislative bodies of the Republic of Croatia	10,969	21,389	1,876	2,574
Health facilities	66,427	82,665	476	260
HROTE	175,676	188,682	397,089	420,792
TOTAL	387,110	484,493	467,049	494,444

26. RELATED PARTY TRANSACTIONS (continued)

<i>in '000 HRK</i>	Receivables		Liabilities	
	30 June 2020.	31.prosinca 2019.	30 June 2020.	31.prosinca 2019.
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>	<i>Audited</i>
Companies that are majority owned by the State				
Croatian Railways Group	24,810	27,007	1	2
Plinacro d.o.o.	402	464	1,311	10,999
Hrvatska pošta d.d.	2,908	2,546	3,465	8,979
Hrvatske šume d.o.o.	754	1,114	237	496
Jadrolinija d.o.o.	222	189	26	37
Narodne novine d.d.	457	387	1,710	517
Hrvatska radio televizija	1,661	1,623	32	791
Plovput d.d.	104	121	41	32
Croatia Airlines d.d.	65	75	-	-
Ministry of Defense	1,413	1,476	-	-
Ministry of Interior	3,353	4,042	-	-
Primary and secondary schools	4,309	4,695	-	-
Judicial institutions	616	820	-	-
Universities and colleges	3,457	2,301	-	-
Legislative bodies of the Republic of Croatia	2,074	2,037	-	-
Health facilities	43,274	17,933	-	-
HROTE	23,702	49,008	48,596	102,828
TOTAL	113,581	115,838	55,419	124,681

26. RELATED PARTY TRANSACTIONS (continued)

As at 30 June 2020, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership (%)	Main activity
HEP - Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP - Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP - Opskrba d.o.o.	Croatia	100	Electricity supply
HEP - Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
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	Infrastructure development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP - Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o.	BIH	100	Electricity trading
HEP Energija sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o.	Serbia	100	Electricity trading
HEP - Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP - VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Energetski park Korlat d.o.o.	Croatia	100	Electricity production
PLIN VTC d.o.o.	Croatia	100	Gas distribution and supply
SUNČANA ELEKTRANA POREČ d.o.o.	Croatia	100	Electricity production
PRVO PLINARSKO DRUŠTVO – DISTRIBUCIJA PLINA d.o.o.	Croatia	100	Gas distribution
PRVO PLINARSKO DRUŠTVO – OPSKRBA KUĆANSTVA d.o.o.	Croatia	100	Gas supply
LNG Hrvatska d.o.o.	Croatia	84,18	Liquefied natural gas
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Electricity production

26. RELATED PARTY TRANSACTIONS (continued)

Most of these subsidiaries were established during reorganization and restructuring of the core business under the new energy laws that entered into force on 1 January 2002. The company Hrvatski centar za čistiju proizvodnju started the liquidation procedure on 9 November 2017 and was liquidated on 7 March 2019.

During 2019, the following companies entered the consolidation of HEP Group for the first time: PLIN VTC d.o.o. whose sole owner since April 2019 is the company HEP-Plin d.o.o.; ENERGETSKI PARK KORLAT d.o.o. whose sole owner since April 2019 is the company HEP d.d.; SUNČANA ELEKTRANA POREČ whose sole owner since June 2019 is the company Plomin Holding d.o.o. and IE - Nekretnine d.d. whose sole owner since July 2019 is the company HEP d.d.

Furthermore, on 1 April 2019, the company HEP d.d. became the majority owner of the company LNG Hrvatska d.o.o., and since 1 April 2019, the company LNG Hrvatska d.o.o. is included in the consolidation of the Group. In previous periods of investment in the company LNG Hrvatska d.o.o. were recognized and subsequently measured using the equity method.

During 2020, the following companies joined the consolidation of HEP Group: PRVO PLINARSKO DRUŠTVO - DISTRIBUCIJA PLINA d.o.o. and PRVO PLINARSKO DRUŠTVO - OPSKRBA KUĆANSTAVA d.o.o. whose sole owner since April 2020 is the company HEP-Plin d.o.o.

IE - Nekretnine d.d. merged with HEP d.d. in June 2020.

27. FAIR VALUE INDICATORS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

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

- The fair value of financial assets and financial liabilities with standard terms and traded in active liquid markets is determined according to the quoted market price,
- 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 existing market transactions,
- The fair value of derivative instruments is calculated using listed prices. Where such prices are not available, discounted cash flow analysis is used, using the applicable yield curve for the life span of the non-derivative instruments

Fair value indicators recognized in the balance sheet/statement of financial position

The table analyses financial instruments that, after initial recognition, have been reduced to fair value, classified into three groups in accordance with IFRS 13:

Level 1 of available indicators - fair value indicators are derived from (unadjusted) prices quoted in active markets for identical assets and identical liabilities

Level 2 of available indicators - fair value indicators are derived from data other than quoted prices from level 1, and relate to the observed asset or liability (i.e. their prices) or indirectly (derived from prices), and

Level 3 of indicators - indicators derived by applying valuation methods in which data on assets or liabilities that are not based on available market data (unavailable input data) were used as input data.

The Group has decided that the measurement of the fair value of the cross-currency swap is linked to the value of "Mark To Market (MTM)" in accordance with the calculation of commercial banks. Positive MTM is recorded as a receivable and also forms the financial income of the reporting period; while the negative MTM is recorded as a liability and forms the financial expense for the period. Upon final maturity of the derivative financial instrument, the receivable or liability in question will be eliminated against Group's expenses or in favour of the Group's income.

27. FAIR VALUE INDICATORS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION (continued)

Fair value indicators in the statement of financial position/balance sheet:

<i>in '000 HRK</i>	Level 1	Level 2	Level 3	Total
30 June 2020, unaudited				
Assets classified at fair value through other comprehensive income	218,301	-	-	218,301
Financial assets at fair value through profit or loss	163,515	-	-	163,515
Derivative financial liabilities	-	-	46,649	46,649
Investment property	-	330,625	-	330,625
31 December 2019, audited				
Assets classified at fair value through other comprehensive income	255,007	-	-	255,007
Financial assets at fair value through profit or loss	165,185	-	-	165,185
Derivative financial liabilities	-	-	80,511	80,511
Investment property	-	330,738	-	330,738

28. CONTINGENT LIABILITIES

The Water Act

The Water Act, which entered into force on 1 January 2010, raised the issue of the legal status of the property, accumulation lakes and ancillary facilities (canals, embankments, etc.), which are used for the production of electricity from hydropower plants. These assets are defined as a public water resource in general use owned by the Republic of Croatia. HEP Group acquired these assets through their previous owners, uniting an extremely large number of plots, which were submerged by the construction of the dam and thus the accumulation was created. Several proceedings are underway for the registration of ownership of the Republic of Croatia on the said real estate. Some of them were carried out in favour of the Republic of Croatia, some were rejected and the rest is ongoing.

In May 2018, the Law on Amendments to the Water Act (OG 46/18) entered into force. According to this regulation, the Republic of Croatia establishes the construction rights in favour of HEP d.d. free of charge for a period of 99 years to build water structures for electricity production, which were built and invested in by HEP d.d. or its predecessors. An exemption is provided for parts of water structures consisting of reservoirs, inflow and outflow channels and tunnels. While the construction right period, HEP d.d. has the right to manage public property/land on which these facilities were built on behalf of the Republic of Croatia. The right of management includes, inter alia, the right to use the real estate in question.

In order to implement the provisions of the Law on Amendments to the Water Act (OG 46/18), HEP d.d. is obliged to initiate relevant procedures for registration of these rights in the land register and obtain an appropriate study which must be harmonized with Hrvatske vode and which will be the basis for issuing a tabular document for registration of construction rights over the buildings in question. The appropriate study will also be the basis for the correct classification of fixed assets between groups of intangible and tangible assets; which are currently classified in full amount as tangible assets.

All of the above could have an impact on the classification of assets within the groups of intangible and tangible assets and, accordingly, on the change in the useful life of the assets that consequently affects the present value of assets in the statement of financial position and depreciation expense in the statement of profit or loss. However, it is not expected that this will have a material impact on the financial statements as a whole.

29. BUSINESS COMBINATIONS

On 1 April 2020, the Group acquired a 100 per cent stake and voting rights in the companies PRVO PLINARSKO DRUŠTVO - DISTRIBUCIJA PLINA d.o.o. and PRVO PLINARSKO DRUŠTVO - OPSKRBA KUĆANSTAVA d.o.o. whereby the Group gained control and the said companies became subsidiaries. The total acquisition fee amounts to HRK 76,500 thousand and relates to the items:

- 1) fair value of shares in acquired companies
- 2) other (money, receivables, shares)

The transaction had the following effects:

<i>In '000 HRK</i>	Acquisition fee	Fair value of net assets	Goodwill
PPD – DISTRIBUCIJA PLINA d.o.o.	71,900	89,997	(18,097)
PPD – OPSKRBA KUĆANSTAVA d.o.o.	4,600	2,168	2,432

The assets and liabilities recognized as a result of the acquisition are as follows:

<i>In '000 HRK</i>	PPD – DISTRIBUCIJA PLINA d.o.o.	PPD – OPSKRBA KUĆANSTAVA d.o.o.
Property, plant and equipment	81,690	-
Inventories	444	-
Trade receivables	1,673	5,133
Other receivables	289	69
Other assets	977	329
Cash and cash equivalents	6,613	988
Trade payables	529	2,911
Liabilities to employees	235	39
Other current liabilities	925	1,401
Minority interests	-	-
Net assets	89,997	2,168
Acquisition cost	71,900	4,600
Goodwill	(18,097)	2,432

There are no material differences in accounting policies between the Group and the acquired companies.

Goodwill is the subject of a final valuation that will be completed during 2020, and currently contains unidentified intangible assets and expected synergies.

30. SHARE-BASED LIABILITY

On 27 August 2020, the General Assembly of the Company passed a decision on the payment of dividends for 2019 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 664,385 thousand, which will be paid in 2020.

31. EVENTS AFTER THE REPORTING DATE

In July 2020, the merger of the companies PLIN VTC d.o.o., PPD - DISTRIBUCIJA PLINA d.o.o. and PPD - OPSKRBA KUĆANSTAVA d.o.o. to HEP-Plin d.o.o. was completed.

32. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements for the six-month period ending on 30 June 2020 were adopted by the Management Board and approved for issue on 23 September 2020.

Signed on behalf of the Company on 23 September 2020:


Marko Čosić
Member


Nikola Bukavina
Member


Petar Sprčić
Member


Tomislav Šambić
Member


Saša Dujmić
Member


Frane Barbarić
President

HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
Ulica grada Vukovara 37