



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

(Translation - the Croatian text is authoritative)

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Independent auditors' 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 unconsolidated financial statements for the period ended 30 June 2020 of the company Hrvatska elektroprivreda d.d., Zagreb (hereinafter: the Company) which comprise the condensed unconsolidated statement of financial position as at 30 June 2020, the condensed unconsolidated statement of profit or loss, the condensed unconsolidated statement of other comprehensive income, the condensed unconsolidated statement of changes in equity and the condensed unconsolidated statement of cash flows for the half-year period then ended, as well as notes to the condensed unconsolidated financial statements, which together form the condensed unconsolidated financial statements of the Company's interim period.

The Company's 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 unconsolidated 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 Company's condensed unconsolidated 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 23 to the condensed unconsolidated financial statements, 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. Our conclusion has not been modified in relation to this issue.

We draw attention to Note 27 to the condensed unconsolidated 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.


The Company has prepared condensed consolidated financial statements for the Company and its subsidiaries for the period ended 30 June 2020. In order to better understand the operations of the Company and the Group as a whole, users should read the condensed consolidated financial statements related to these condensed unconsolidated financial statements.

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



Vedrana Stipić, certified auditor

Condensed unconsolidated statement of profit or loss – HEP d.d.
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	Note	For the six-month period ended	
		30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
Sales revenues	5	2,053,147	2,712,118
Sales revenues – related parties	24	2,050,257	2,056,441
Other operating income	6	187,531	21,454
Other operating income – related parties	24	104,217	80,547
Total operating income		4,395,152	4,870,560
Cost of electricity	7	(1,204,667)	(1,587,162)
Cost of electricity - related parties	7, 24	(1,513,632)	(1,541,987)
Gas procurement costs - market supply		(193)	(2,803)
Gas procurement costs - sale in the wholesale market	8	(522,277)	(699,832)
Employee costs		(54,088)	(51,407)
Depreciation and amortisation		(28,242)	(30,392)
Costs of fees and services - related parties	24	(30,910)	(29,734)
Other operating expenses	9	(580,767)	(487,066)
Total operating expenses		(3,934,776)	(4,430,383)
Operating profit		460,376	440,177
Financial income	10	1,022,069	1,027,022
Financial expenses	10	(178,629)	(111,053)
Net profit from financial activities	10	843,440	915,969
Profit before tax		1,303,816	1,356,146
Corporate income tax	11	(90,536)	(98,484)
Profit for the period		1,213,280	1,257,662

The accompanying notes form an integral part of these condensed unconsolidated 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
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HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2







Ulica grada Vukovara 37

Condensed unconsolidated statement of other comprehensive income – HEP d.d.
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	For the six-month period ended	
	30 June 2020 <i>Unaudited</i>	30 June 2019 <i>Unaudited</i>
Profit for the period	1,213,280	1,257,662
Other comprehensive income		
Changes in value of financial assets at fair value through other comprehensive income	(27,760)	32,908
Total item that will not be reclassified into profit or loss	(27,760)	32,908
Other comprehensive profit/(loss), net	(27,760)	32,908
Total comprehensive profit for the period, net	1,185,520	1,290,570

The accompanying notes form an integral part of these condensed unconsolidated 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.
Z A G R E B 3.2
Ulica grada Vukovara 37

Condensed unconsolidated statement of financial position– HEP d.d.

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 and equipment	12	990,554	622,296
Investment properties		19,491	19,491
Right-of-use assets		9,171	6,577
Intangible assets		129,771	139,764
Investments in associates and joint ventures	13	9,852,809	9,735,948
Financial assets at fair value through other comprehensive income	14	217,489	254,195
Non-current loans granted	24	16,879,517	17,063,550
Other non-current assets	20	46,895	274
Deferred tax assets		46,130	91,755
Total non-current assets		28,191,827	27,933,850
Current assets			
Inventories	15	315,061	943,494
Trade receivables	16	18,486	252,279
Current maturities of non-current loans granted	24	1,362,352	1,310,487
Other current receivables	17	205,259	346,434
Receivables from related parties	24	3,250,346	2,779,582
Financial assets at fair value through profit or loss		163,515	165,185
Cash and cash equivalents	18	2,179,168	1,375,389
Total current assets		7,494,187	7,172,850
TOTAL ASSETS		35,686,014	35,106,700

Condensed unconsolidated statement of financial position – HEP d.d. (continued)

as at 30 June 2020

<i>in '000 HRK</i>	Note	30 June 2020 <i>Unaudited</i>	31 December 2019 <i>Audited</i>
EQUITY AND LIABILITIES			
Share capital	19	19,792,159	19,792,159
Fair value reserves		60,605	88,365
Retained earnings	19	7,491,980	6,278,355
Total equity		27,344,744	26,158,879
Liabilities under issued bonds	20	3,502,389	3,518,704
Loan liabilities	21	448,662	182,210
Lease liabilities		7,810	5,717
Other non-current liabilities	23	818,871	892,848
Long-term provisions		223,584	223,593
Deferred tax liability		11,506	18,454
Total non-current liabilities		5,012,822	4,841,526
Current maturities of non-current loans	21	36,852	36,285
Liabilities to related parties	24	2,798,316	3,569,685
Current maturities of lease liabilities		1,067	1,020
Corporate income tax liability		35,917	27,934
Other liabilities	25	456,296	471,371
Total current liabilities		3,328,448	4,106,295
TOTAL EQUITY AND LIABILITIES		35,686,014	35,106,700

The accompanying notes form an integral part of these condensed unconsolidated 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

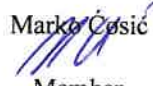
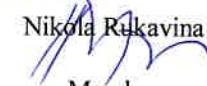



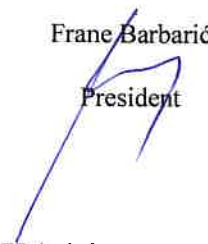
Ulica grada Vukovara 37

Condensed unconsolidated statement of changes in equity – HEP d.d.
as at 30 June 2020

<i>in '000 HRK</i>	Share capital	Fair value reserves	Retained earnings	Total
Balance as at 1 January 2019	19,792,159	40,407	5,384,690	25,217,256
Profit for the year	-	-	1,257,662	1,257,662
Other comprehensive income	-	32,908	(1,257)	31,651
<i>Total comprehensive income</i>	-	<i>32,908</i>	<i>1,256,405</i>	<i>1,289,313</i>
Paid dividend	-	-	(212,386)	(212,386)
Balance as at 30 June 2019, Unaudited	19,792,159	73,315	6,428,709	26,294,183
Balance as at 1 January 2020	19,792,159	88,365	6,278,355	26,158,879
Profit for the year	-	-	1,213,280	1,213,280
Other comprehensive income	-	(27,760)	-	(27,760)
<i>Total comprehensive income</i>	-	<i>(27,760)</i>	<i>1,213,280</i>	<i>1,185,520</i>
Merger effects	-	-	345	345
Balance as at 30 June 2020, Unaudited	19,792,159	60,605	7,491,980	27,344,744

The accompanying notes form an integral part of these condensed unconsolidated 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
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HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
Ulica grada Vukovara 37

Condensed unconsolidated statement of cash flows – HEP d.d.
for the six-month period ended 30 June 2020



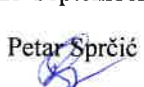
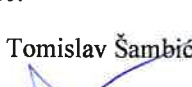


<i>in '000 HRK</i>	For the six-month period ended	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
OPERATING ACTIVITIES		
Profit before tax	1,303,816	1,356,146
Interest received	(67,946)	(60,881)
Interest paid	87,790	88,204
Exchange rate differences, net	54,620	(5,394)
Depreciation and amortisation of property, plant, equipment, intangible assets and right-to-use assets	28,242	30,392
(Decrease)/Increase in provisions	(9)	5,452
Fair value of cross-currency swap	(127,160)	(113,318)
Dividends received	(804,704)	(828,297)
Value adjustment of receivables	(170,309)	326,736
Value adjustment of property, plant, equipment and intangible assets	117	23
<i>Cash flow in operating activities before changes in working capital</i>	<i>304,457</i>	<i>799,063</i>
Decrease/(Increase) in trade receivables	403,138	(323,422)
Decrease of liabilities form related parties	469,578	446,385
Decrease of inventories	628,433	60,828
Decrease of other current assets	214,863	24,890
Decrease in trade payables	(49,811)	(227,066)
(Decrease)/Increase of other liabilities	(21,715)	36,722
Decrease in liabilities to related parties	(771,369)	(434,298)
Increase of other non-current liabilities	72,369	13,655
Cash from operating activities	1,249,943	396,757
Corporate income tax paid	(36,929)	(40,661)
Interest paid	(92,016)	(88,741)
NET CASH FROM OPERATING ACTIVITIES	1,120,998	267,355
INVESTING ACTIVITIES		
Interest received	154	-
Dividends from related parties received	37,845	-
Payment for increase of the related party share capital	(136,522)	(245,599)
Payment for property, plant and equipment	(406,622)	(59,673)
Payment for other non-current assets	28	62
Cash generated by merger	1,654	-
NET CASH FROM INVESTING ACTIVITIES	(503,463)	(305,210)

Condensed unconsolidated statement of cash flows – HEP d.d. (continued)
for the six-month period ended 30 June 2020

<i>in '000 HRK</i>	For the six-month period ended	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
FINANCING ACTIVITIES		
Proceeds from non-current loans	281,466	-
Payment of non-current loans	(18,426)	(57,618)
Principal elements of lease payment	(623)	(448)
Proceeds from cash funds	-	14,847
Repayment of issued bonds	(76,173)	(51,041)
NET CASH FROM FINANCING ACTIVITIES	186,244	(94,260)
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS	803,779	(132,115)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,375,389	1,436,842
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,179,168	1,304,727

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

Signed on behalf of the Company on 23 September 2020:

 Marko Časić Member	 Nikola Rukavina Member	 Petar Sprčić Member	 Tomislav Šambić Member	 Saša Dujmić Member	 Frane Barbarić President
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HRVATSKA ELEKTROPRIVREDA d.d.
Z A G R E B 3.2
Ulica grada Vukovara 37

1. BASIS OF PREPARATION

The condensed unconsolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. The preparation of unaudited condensed unconsolidated 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 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 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 Company's annual unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), which are accepted in the European Union. The condensed unconsolidated financial statements for the half-year period have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (IAS 34). The condensed unconsolidated 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 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 Company or are not relevant to the Company's activities or are consistent with the Company'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 unconsolidated statement of financial position as at 30 June 2020 is derived from the audited unconsolidated 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 unconsolidated financial statements is adequate in the sense that it does not lead to erroneous conclusions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed unconsolidated 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 unconsolidated financial statements are presented in thousands of Croatian kunas (HRK), unless otherwise stated. The Company 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 unconsolidated 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 Company will prepare its annual financial statements) and for which the Company 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 Company's financial statements in the period of their first application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparing the condensed financial statements

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

3. IMPACT OF COVID-19 ON COMPANY’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 Company 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 Company.

As that the Company 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 company 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 Company'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 Company. The company 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 Company's operations at this time. Notwithstanding the above, the current level of indebtedness and secured level of liquidity of the Company, as well as a strong market position in all activities, show that the Company is prepared to face the challenges expected in the coming period.

The Company 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

	Statement 30 June 2019	Reclassification	Restated
Sales revenues	2,709,610	2,508	2,712,118
Sales revenues – related parties	2,135,746	(79,305)	2,056,441
Other operating income	25,204	(3,750)	21,454
Other operating income – related parties	-	80,547	80,547
Total operating income	4,870,560	-	4,870,560
Cost of electricity	(1,587,162)	-	(1,587,162)
Cost of electricity - related parties	(1,541,987)	-	(1,541,987)
Gas procurement costs - market supply	(2,803)	-	(2,803)
Gas procurement costs - sale in the wholesale market	(699,832)	-	(699,832)
Employee costs	(51,407)	-	(51,407)
Depreciation and amortisation	(30,392)	-	(30,392)
Costs of fees and services - related parties	(29,734)	-	(29,734)
Other operating expenses	(487,066)	-	(487,066)
Total operating expenses	(4,430,383)	-	(4,430,383)
Operating profit	440,177	-	440,177
Financial income	1,027,022	-	1,027,022
Financial expenses	(111,053)	-	(111,053)
Net profit from financial activities	915,969	-	915,969
Profit before tax	1,356,146	-	1,356,146
Corporate income tax	(98,484)	-	(98,484)
Profit for the current year	1,257,662	-	1,257,662

The item Sales revenues - related parties decreased by HRK 79,305 thousand, and the item Other operating income by HRK 3,750 thousand. At the same time, Sales revenues increased in the amount of HRK 2,508 thousand and the item Other operating income - related parties increased in the amount of HRK 80,547 thousand. The stated amount refers to revenues from the provision of administrative services and revenues from the lease of business premises that HEP d.d. charged to affiliated companies. These changes did not affect the amount of total operating income and were made in order to increase transparency in reporting.

5. SALES REVENUE

<i>in '000 HRK</i>	Six-month period ended	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Revenue from electricity sales to customers of HEP Opskrba d.o.o.	1,519,430	1,607,063
Revenue from electricity sales abroad	68,523	518,185
Revenue from electricity sales in the country	10,389	23,713
Revenue from electricity sales	1,598,342	2,148,961

<i>in '000 HRK</i>	Six-month period ended	
	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Revenue from gas sales - market supply	2,607	581
Revenue from gas sales on the wholesale market	452,198	562,576
Revenue from gas sales	454,805	563,157
Total sales revenue	2,053,147	2,712,118

Revenue from the gas sales amounts to HRK 2,607 thousand related to the gas sales to customers - market supply. Supply on the wholesale gas market in the Republic of Croatia amounts to HRK 452,198 thousand. The Gas Market Act (OG 18/18) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. At the beginning of 2019, the Croatian Energy Regulatory Agency conducted a tender for a supplier on the wholesale gas market for the period from 1 April 2019 to 31 March 2021. As no bids were received, the Croatian Energy Regulatory Agency appointed HEP d.d. as a 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 amounted to 0.1985 HRK/kWh. The supplier on the wholesale market is obliged to sell gas to suppliers in the public service with whom it has concluded a gas supply contract under regulated conditions and at a price less than or equal to the reference gas price. This gas is intended for the needs of end customers from the household category using the public supply service.

5. SALES REVENUE (continued)

In addition to the sale of gas to suppliers with a public service obligation, the supplier has the right to sell gas on the wholesale market for the purpose of preserving the technical safety of the gas system. In October 2019, HERA made a decision on the designation of suppliers in the wholesale gas market for the period from 1 April 2020 to 31 March 2021, appointing HEP d.d. as a supplier in the wholesale market. Pursuant to the Decision of the Management Board No. 5-14.1/2020 of 13 February 2020, the selling price of gas for the period from 1 April 2020 to 31 March 2021 is HRK 0.1825/kWh (EUR 24.33/MWh).

The Article 19 of the transitional and final provisions of the Act on Amendments to the Gas Market Act (OG 23/20) from February 2020, stipulates that PSP d.o.o. distributes storage capacity available for the supply of end customers from the household category using the public service for the period from 1 April 2020 to 31 March 2021 in the manner defined by the Amendments to the Rules for the Use of Gas Storage Systems (OG 26/20). On 6 March PSP d.o.o. published on its official website the data on the total available capacity for the supply of end customers from the household category of using the public supply service in the period from 1 April 2020 to 31 March 2021, which amounts to 54 SBU.

According to the Amendments to the Rules for the Use of the Gas Storage System, the manner of distribution of the SBU for the needs of the public gas supply service is defined on a proportional principle.

6. OTHER OPERATING INCOME

<i>in '000 HRK</i>	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
	<hr/>	<hr/>
Collected value-adjusted receivables	175,704	4,249
Calculated energy savings	2,305	-
Default interest from customers	4,684	4,657
Profit from sale of real estate, plant and equipment	264	2,170
Income from cancellation of long-term provisions	45	4,751
Revenue based on the use of own products and services	249	287
Other operating income	4,280	5,340
	<hr/>	<hr/>
	187,531	21,454

7. COST OF ELECTRICITY

Costs of electricity for the six-month period ended 30 June 2020, including purchases from affiliated companies, amount to HRK 2,718,299 thousand (in the same period last year HRK 3,129,149 thousand).

Costs decreased compared to the same period last year due to lower purchase of electricity on the market and lower imports. Also, the costs of electricity from renewable sources in the incentive system for customers of HEP-Opkrba d.o.o. have been reduced due to the reduction of the obligation to purchase the electricity produced.

8. GAS PROCUREMENT COSTS – SALE IN THE WHOLESALE MARKET

Pursuant to the Gas Market Act (OG 18/18), on 1 October 2019, HERA announced a public tender for the designation of suppliers in the wholesale market (OVT) for the period from 1 April 2020 to 31 March 2021.

According to the documentation, in accordance with the Methodology for Determining Tariff Items for the Public Gas Supply Service and Guaranteed Supply (the Methodology), HERA determined the reference gas price at which OVT can sell gas to suppliers in the public service obligation (OOJU) in the amount of HRK 0.1985/kWh (26,47 EUR/MWh).

Due to the movement of gas prices on European markets, as well as the relationship between purchase and sale prices, no bids were received in the public tender and HERA made a decision to determine the OVT appointing HEP d.d. for OVT for the period from 1 April 2020 to 31 March 2021.

The Management Board of HEP d.d. issued a decision No. 5 14.1/2020 of 13 February 2020, determining the selling price of gas for the period from 1 April 2020 to 31 March 2021 in the amount of 0.1825 HRK/kWh (24.33 EUR/MWh) which is 5% lower than the price determined by the Methodology.

Requests for gas sales contracts for the new storage year, from 1 April 2020 to 31 March 2021, were submitted by 9 entities, which is approximately 17% of the average consumption of household customers using the public service in the previous five-year period. Entities that chose to buy gas from OVT contracted 1,014 GWh of gas with the possibility of additional contracting of quantities on a monthly basis without fees and are obliged to take a minimum of 80% or a maximum of 105% of the contracted quantities of gas in a given quarter.

Other entities decided to procure gas for the needs of the public service on a market basis, i.e. from other gas suppliers and/or traders.

The cost of gas for sale on the wholesale market for the six-month period ended 30 June 2020 amounts to HRK 522,277 thousand (in the same period last year HRK 699,832 thousand).

9. OTHER OPERATING EXPENSES

<i>in '000 HRK</i>	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Value adjustment of trade receivables	5,401	19,624
The cost of HEP d.d. for decommissioning NEK d.o.o.	53,911	52,745
Costs of services and materials within subsidiaries	21,210	20,734
Cost of external services and materials	56,950	49,849
Costs of selling CO2 emission units	385,669	273,267
Calculated energy savings	12,922	-
Taxes, contributions and fees	5,938	5,889
Bank charges, payment charges and loan fees	4,587	5,230
Receipts in kind	497	774
Per diems and transportation costs to work	1,657	2,290
Insurance premiums	2,851	3,704
Compensation based on a lawsuit	1,240	22
Unclaimed receivables written off	290	139
Other material rights of employees	2,391	2,083
Provisions for severance pay and other employee costs	36	-
Provisions for unused vacations	1,018	869
Provision for litigation	-	10,203
Provisions for unrealized energy savings	7,463	19,284
Energy used for production	-	5,399
Other operating expenses	16,736	14,961
	580,767	487,066

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 Company has reserved energy savings costs in its business books according to the best estimate in the amount of HRK 7,463 thousand.

10. FINANCIAL INCOME AND EXPENSES

in '000 HRK

	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Financial income		
Interest income	67,946	60,881
Positive exchange rate differences	22,139	19,979
Dividends from subsidiaries and associates	804,704	828,297
Dividend income	-	16
Fair value of cross-currency swap	127,160	113,318
Other financial income	120	4,531
Total financial income	1,022,069	1,027,022
Financial expenses		
Interest expenses	(87,790)	(88,204)
Negative exchange rate differences	(76,759)	(14,585)
Unrealized losses	(2,646)	-
Other financial expenses	(11,434)	(8,264)
Total financial expenses	(178,629)	(111,053)
Net financial gain	843,440	915,969

11. CORPORATE INCOME TAX

Income tax during the six-month period is calculated based on actual results and an effective tax rate of 3.44%.

12. PROPERTY, PLANT AND EQUIPMENT (ASSETS UNDER CONSTRUCTION)

As at 30 June 2020, Company's assets under construction amount to HRK 686,073 thousand, and the most significant relate to investments in EL-TO Zagreb replacement of block A in the amount of HRK 355,212 thousand, EDM/ECM project HRK 77,093 thousand, HES Kosinj HRK 63,212 thousand HRK, E-mobility project HRK 38,124 thousand, investments in TE-TO Osijek replacement of block A in the amount of HRK 12,647 thousand, investments in IT HRK 10,684 thousand, investments in the information security system in the amount of HRK 9,383 thousand and the protection of the HEP d.d. facility in the amount of HRK 7,357 thousand.

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Balance at the beginning of the period	9,735,948	9,578,649
Increase of share capital HOPS d.o.o.	-	19,432
HEP - Toplinarstvo d.o.o.- capital reserves	-	(141,361)
Plomin Holding d.o.o.	-	16,086
HEP - VHS Zaprešić d.o.o.	-	(20)
HEP Upravljanje imovinom d.o.o.	-	(3,698)
Energetski park Korlat d.o.o. – share capital	-	20
Energetski park Korlat d.o.o. – capital reserves	-	31,072
IE - Nekretnine d.d.	(19,661)	19,661
LNG Hrvatska d.o.o. – share capital	-	216,107
NE Krško – capital reserves	136,522	-
	9,852,809	9,735,948

13. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
HEP - Proizvodnja d.o.o.	40	40
Hrvatski operator prijenosnog sustava d.o.o.	4,954,151	4,954,151
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.	623,000	623,000
HEP - Plin d.o.o.	20	20
HEP ESCO d.o.o.	18,960	18,960
HEP - Upravljanje imovinom d.o.o.	14,297	14,297
HEP - Trgovina d.o.o.	40	40
HEP - Telekomunikacije d.o.o.	258,798	258,798
Plomin Holding d.o.o.	16,106	16,106
HEP - Elektra d.o.o.	20	20
Energetski park Korlat d.o.o.	31,092	31,092
IE - Nekretnine d.d.	-	19,661
	7,718,585	7,738,246
Investments in joint ventures		
NE Krško	1,890,941	1,754,419
LNG Hrvatska d.o.o.	243,283	243,283
	2,134,224	1,997,702
	9,852,809	9,735,948

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

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

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Opening balance	254,195	196,710
Fair value of investment through other comprehensive income (Janaf)	(36,707)	58,299
Fair value of investment through other comprehensive income and other	1	(814)
Closing balance	217,489	254,195

15. INVENTORIES

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Wholesale gas supplies	91,224	400,886
CO2 emission units	220,203	528,494
Energy saving stocks in final consumption	-	10,314
Inventories of investment material	3,035	3,165
Inventories of other material	599	635
	315,061	943,494

16. TRADE RECEIVABLES

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Trade receivables in the country	283,485	460,841
Receivables from gas customers in the wholesale market	13,192	220,264
Receivables for electricity from abroad	5,007	32,511
	301,684	713,616
Expected credit losses	(283,198)	(461,337)
	18,486	252,279

16. TRADE RECEIVABLES (continued)

30 June 2020 unaudited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	365 days and over	Total
Expected credit losses			1.5%	3%	9%	30%	90%	
Gross carrying value of trade receivables	7,536	1,407	2,345	4,691	2,906	27	282,772	301,684
Expected credit losses	-	-	(35)	(141)	(262)	(8)	(282,752)	(283,198)
31 December 2019, audited	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	365 days and over	Total
Expected credit losses			1.5%	3%	9%	30%	90%	
Gross carrying value of trade receivables	239,447	6,620	1,340	826	2,109	3,076	460,198	713,616
Expected credit losses	-	-	(20)	(25)	(190)	(923)	(460,179)	(461,337)

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

Changes in allowance for impairment were as follows:

<i>in '000 HRK</i>	30 June 2020 <i>Unaudited</i>	31 December 2020 <i>Audited</i>
Balance at the beginning of the period	461,337	461,678
Changes in expected credit losses	(4,397)	(341)
Collected impaired receivables	(173,742)	-
Balance at the end of the period	283,198	461,337

17. OTHER CURRENT RECEIVABLES

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Advances to suppliers	98,459	227,204
Short-term guarantees given	23,171	23,171
Interest receivables	21	50
Receivables for given deposits	49,915	57,570
Prepaid costs	12,792	19,800
Receivables from the state	107	144
Receivables for taxes and contributions	-	17,865
Calculated energy savings	12,618	-
Other receivables	8,176	630
	205,259	346,434

18. CASH AND CASH EQUIVALENTS

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Giro account – HRK	1,218,676	657,897
Short-term cash deposits (day deposits)	838,838	384,103
Foreign currency accounts	77,338	265,216
Deposits with the maturity up to 90 days	44,165	65,985
Restricted cash	124	2,176
Cash in hand - HRK	27	12
	2,179,168	1,375,389

19. EQUITY AND RETAINED EARNINGS

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, each with a nominal value of HRK 1,800.00.

Retained earnings in the amount of HRK 7,491,980 thousand consists of current period profit in the amount of HRK 1,213,280 thousand, retained earnings in the amount of HRK 4,683,691 thousand and reserves in the amount of HRK 1,595,009 thousand.

20. LIABILITIES UNDER ISSUED BONDS

in '000 HRK

	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	14,140
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)	0
Investments in bonds	(76,173)	(64,261)
Exchange rate difference	(1,686)	(221)
Repurchased bonds	(142,341)	(64,482)
Total liabilities under issued bonds	3,502,389	3,518,704

Bonds issued abroad

In November 2012, the Company issued bonds in the amount of USD 500,000 thousand, with a maturity of 5 years and 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 repaid in full.

Refinancing

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

Cross-currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to dollar exchange rates, the Company concluded a Cross-Currency Swap Agreement by which the dollar liability was converted into a euro liability for the entire duration, i.e. until the final maturity on 23 October 2022. According to this cross-currency swap agreement from 2015, the annual interest rate paid by the Company is fixed and amounts to 4.851% (weighted interest rate) and is payable semi-annually (the interest rate includes the swap cost).

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.

20. LIABILITIES UNDER ISSUED BONDS (continued)

Investment in bonds (continued)

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).

21. LOAN LIABILITIES

<i>in '000 HRK</i>	Interest rates	30 June 2020	31 December 2019
		<i>Unaudited</i>	<i>Audited</i>
Loans with foreign banks	Fixed	488,596	221,725
Total non-current loan liabilities		488,596	221,725
Cost allocation		(3,082)	(3,230)
Total non-current loan liabilities		485,514	218,495
Current maturities		(36,852)	(36,285)
Non-current portion		448,662	182,210

21. LOAN LIABILITIES (continued)

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

Loans from domestic banks are secured by bills of exchange and promissory notes. As at 30 June 2020, the Company does not have any debt which is covered by the guarantee of the Republic of Croatia.

New sources of financing

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

Loans in use

As at 30 June 2020, the Company 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 greed project implementation dynamics.

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

	Amount in '000 HRK
2020	18,426
2021	51,180
2022	65,507
2023	69,321
2024	36,283
after 2024	<u>244,797</u>
	485,514

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 Company 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 Company related to the risks posed by financial indicators is to protect the Company 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 Company 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 Company 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 Company.

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

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 Company'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.

21. LOAN LIABILITIES (continued)

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

Currency <i>in '000 EUR</i>	30 June 2020	31 December 2019
EUR	64,639	29,791

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

The Company 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.

22. DEBT INDICATOR

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

<i>in '000 HRK</i>	30 June 2020	31 December 2019
Debt	3,987,903	3,737,199
Cash and cash equivalents	(2,179,168)	(1,375,389)
Net debt	1,808,735	2,361,810
Equity	27,344,744	26,158,879
Debt-to-equity ratio	6.7%	9%

23. OTHER NON-CURRENT LIABILITIES

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Non-current liabilities for assets financed from clearing debt	807,933	800,982
Derivative financial liabilities under swap transactions	-	80,511
Non-current liabilities to the state	676	694
Deferred income from donations - EU funds	202	-
Other liabilities	10,060	10,661
	818,871	892,848

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 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.

24. RELATED PARTY TRANSACTIONS

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

Subsidiary	Country	Ownership (%)	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
HEP Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP - Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP - Telekomunikacije d.o.o.	Croatia	79,94	Telecommunications
Energetski park Korlat d.o.o.	Croatia	100	Electricity production
LNG Hrvatska d.o.o.	Croatia	84,18	Liquefied natural gas
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Electricity production
Other related parties within HEP Group:			
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP NOC Velika	Croatia	100	Accommodation and education services
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
PLIN VTC d.o.o.	Croatia	100	Gas distribution and supply
SUNČANA ELEKTRANA POREČ d.o.o.	Croatia	100	Electricity production
HEP - VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
PRVO PLINARSKO DRUŠTVO – DISTRIBUCIJA PLINA d.o.o.	Croatia	100	Gas distribution
PRVO PLINARSKO DRUŠTVO – OPSKRBA KUĆANSTVA d.o.o.	Croatia	100	Gas supply

24. 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.

During 2019 and in the first half of 2020, the following companies entered the consolidation of the 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., ENERGY PARK KORLAT d.o.o. whose sole owner since April 2019 is the company HEP d.d., while the company Plomin Holding d.o.o. became the sole owner of Elektrana Sabadin d.o.o. in June 2019 (the company Elektrane Sabadin d.o.o. changed its name to SUNČANA ELEKTRANA POREČ d.o.o.), and the company IE-Nekretnine d.d. which merged with HEP d.d. on 31 May 2020.

Relationships with these companies are listed below:

- /i/ The Company's revenues arise from the sale of electricity, pre-invoiced revenues of the associated company from the sale of electricity, fees for the provision of accounting, legal and similar services as well as from the lease of business premises. The amount of these revenues from affiliated companies is determined on the basis of the following values: the value of the assets of the affiliated company, employee costs and total costs of the affiliated company.
- /ii/ Interest on long-term leases of property, plant and equipment and intangible assets are charged to lessees based on interest rates on loans used for the construction of assets and is reported as interest income with affiliated companies.
- /iii/ Costs with affiliated companies are incurred for electricity taken over from HEP Proizvodnja d.o.o., procurement of electricity from renewable sources and cogeneration plants, and balancing electricity. Costs for the above services and losses on the network are invoiced monthly in accordance with the provisions and tariffs prescribed by HERA.
- /iv/ Non-current receivables from affiliated companies arise from the financial lease of real estate, plant and equipment to affiliated companies other than HOPS d.o.o. and HEP Telekomunikacija d.o.o. The rent is paid monthly according to the depreciation of the leased property. The Company also has receivables from affiliated companies for apartments sold to employees.
- /v/ Current receivables from affiliated companies arise from the sale of fuel, materials and spare parts, the sale of electricity to HEP ODS d.o.o., HEP Elektra d.o.o. and for customers of HEP Opskrba d.o.o., electricity and gas trading, administrative services provided by the Company to affiliated companies and for ongoing investments financed by the Company. Upon completion of construction, these assets are transferred to affiliated companies as a finance lease.

Receivables and liabilities and income and expenses of the Company with its related parties are listed in the table below:

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Revenues from electricity sales		
Revenues from electricity sales to HEP Elektra d.o.o.	1,088,306	1,083,720
Revenues from invoiced electricity to cover losses in the transmission network	35,695	64,231
Revenues from invoiced electricity to cover losses in the distribution network	268,760	353,926
Revenues from electricity sales to other companies within the HEP Group	29,282	30,627
Revenues from electricity sales to HEP Energija d.o.o. Ljubljana	124,784	136,062
Revenues from electricity sales to HEP Energija sh.p.k. Kosovo	21,612	5,352
Revenues from electricity sales to HEP Energija d.o.o. Belgrade	4,351	7,609
Revenues from electricity sales to HEP-Trade d.o.o. Mostar	3,918	10,542
Revenues from electricity sales to HEP Proizvodnja d.o.o.	-	587
Revenues from electricity sales - affiliated companies	1,576,708	1,692,656
Revenues for gas sales - HEP Plin d.o.o.	79,663	85,737
Revenues from thermal heat sales - HEP Proizvodnja	-	2,826
Other sales revenues – affiliated companies		
Revenue from sales to companies - other	5,235	1,242
Revenue from sales of services and materials within the Group	679	595
Revenues based on services within the Group - restaurant	54	118
Income from futures trading on the stock exchange - CO2	2,249	-
Revenue from sales of CO2 emission units	385,669	273,267
	393,886	275,222
Sales revenues – affiliated companies	2,050,257	2,056,441
Operating revenues		
Revenues from the performance of administrative services	83,745	72,326
Income from renting office space	7,551	8,221
Revenues from the sale of energy savings to companies	12,921	-
	104,217	80,547
Electricity procurement costs - affiliated companies		
Procurement of electricity - HEP Proizvodnja d.o.o.	1,339,585	1,239,267
Procurement of electricity from RES - HEP Opskrba d.o.o.	147,116	229,070
Procurement of electricity E.p. Korlat d.o.o.	21	-
Electricity balancing - HOPS d.o.o.	20,202	35,211
HEP Energija d.o.o. Ljubljana	5,694	3,833
HEP-Trade d.o.o. Beograd	7	-
HEP-Trade d.o.o. Mostar	1,007	34,115
HEP-Energija Sh.p.k. Kosovo	-	491
	1,513,632	1,541,987
Expenses		
Electricity supply fee - HEP Opskrba d.o.o.	21,290	19,830
Gas supply services fee - HEP Opskrba plinom d.o.o.	1,737	2,310
Energy and gas trading services fee - HEP Trgovina d.o.o.	7,883	7,594
	30,910	29,734

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Non-current receivables		
Receivables for non-current lease assets		
HEP Operator distribucijskog sustava d.o.o.	7,726,438	8,051,436
HEP Proizvodnja d.o.o.	8,130,704	8,407,017
HEP Toplinarstvo d.o.o.	840,221	868,492
HEP Upravljanje imovinom d.o.o.	146,822	147,263
HEP Plin d.o.o.	177,318	182,950
HEP Noc d.o.o.	11,084	11,450
HEP Opskrba d.o.o.	1,044	1,475
HEP Trgovina d.o.o.	697	781
HEP Esco d.o.o.	2,116	2,566
HEP Elektra d.o.o.	3,868	4,563
HEP VHS Zaprešić d.o.o.	19	19
	17,040,331	17,678,012
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	4,505	4,728
HEP Proizvodnja d.o.o.	2,908	2,983
Hrvatski operator prijenosnog sustava d.o.o.	485	539
HEP Toplinarstvo d.o.o.	96	101
	7,994	8,351
	17,048,325	17,686,363
Current lease maturity	(1,247,770)	(1,247,770)
Receivables for non-current leases from affiliated companies	15,800,555	16,438,593

24. RELATED PARTY TRANSACTIONS (continued)

Receivables for non-current leases from affiliated companies

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
HEP - Toplinarstvo d.o.o.	23,700	31,600
HEP Telekomunikacije d.o.o.	66,800	34,729
Hrvatski operator prijenosnog sustava d.o.o.	124,057	-
Plomin Holding d.o.o.	30,032	10,200
Energetski park Korlat d.o.o.	349,590	91,430
HEP - Plin d.o.o.	87,728	14,036
Plin VTC d.o.o.	7,047	7,454
LNG Hrvatska d.o.o.	36,324	35,765
	725,278	225,214
Current maturity	(112,086)	(60,259)
	613,192	164,955
Receivables for sub-loans to affiliated companies		
Receivable for sub-loan - HEP ESCO d.o.o. – non-current portion	39,987	41,235
Receivable for sub-loan HOPS d.o.o.	428,279	421,225
	468,266	462,460
Current maturity	(2,496)	(2,458)
Total non-current receivables	16,879,517	17,063,550
Total current maturities of non-current leases	(1,362,352)	(1,310,487)

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Current receivables		
Receivables from HEP Elektra d.o.o. for electricity sold	386,655	395,141
Receivables from HEP ODS d.o.o. for losses in the distribution network	31,523	167,614
Receivables from HEP Opskrba d.o.o. for electricity sold	522,719	489,117
Receivables from the HOPS d.o.o. for transmission network losses	7,408	24,467
Receivables from HEP Energija d.o.o. Ljubljana	57,393	77,155
Receivables from HEP Energija d.o.o. Belgrade for electricity sold	3,171	3,746
Receivables from HEP Energija d.o.o. Mostar for electricity sold	3,224	3,563
Receivables from HEP- Energije sh.p.k. Kosovo for electricity sold	6,583	8,346
Other receivables	11,120	11,242
	1,029,796	1,180,391
Receivables for cost of joint services		
HEP Proizvodnja d.o.o.	5,755	7,466
HEP Operator distribucijskog sustava d.o.o.	19,572	21,605
HEP Toplinarstvo d.o.o.	2,918	1,559
HEP Plin d.o.o.	2,432	3,733
HEP Upravljanje imovinom d.o.o.	417	7,309
HEP Trgovina d.o.o.	3,134	2,145
HEP Opskrba d.o.o.	2,663	3,202
HEP NOC	256	-
HEP ESCO d.o.o.	1,384	255
HEP Telekomunikacije d.o.o.	303	267
HEP Elektra d.o.o.	1,290	3,181
VHS Zaprešić d.o.o.	567	483
Energetski park Korlat d.o.o.	479	587
Plomin Holding d.o.o.	1	-
	41,171	51,792

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Current receivables for non-current lease of assets		
HEP Proizvodnja d.o.o.	62,045	56,837
HEP Toplinarstvo d.o.o.	39,928	7,456
HEP Operator distribucijskog sustava d.o.o.	145,291	138,375
HEP Plin d.o.o.	9,630	9,232
HEP Upravljanje imovinom d.o.o.	280	6,535
HEP NOC	458	-
HEP Trgovina d.o.o.	226	227
HEP Opskrba d.o.o.	235	244
HEP Esco d.o.o.	435	258
HEP Elektra d.o.o.	336	102
	258,864	219,266
Other current receivables	133,838	152,806
Receivables for investments paid and other receivables		
HEP Proizvodnja d.o.o.	288,923	180,318
Hrvatski operator prijenosnog sustava d.o.o.	32,363	74,269
HEP Operator distribucijskog sustava d.o.o.	684,102	255,567
HEP Toplinarstvo d.o.o.	134,888	89,789
HEP Plin d.o.o.	30,847	25,408
HEP ESCO d.o.o.	13,052	11,829
HEP Noc d.o.o.	1,504	1,310
HEP Trgovina d.o.o.	116	44
HEP Upravljanje imovinom d.o.o.	4,019	3,989
HEP Opskrba d.o.o.	22,852	22,850
HEP Elektra d.o.o.	533	-
Plomin Holding d.o.o.	-	1,350
Energetski park Korlat d.o.o.	908	908
	1,214,107	667,631

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Receivables for investment and other material sold		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	316,153	316,153
Other receivables		
HEP Plin d.o.o.	28,887	30,939
HOPS d.o.o.	73,736	32,845
HEP ODS d.o.o.	151,979	-
	254,602	63,784
Receivables for current loans		
HEP Energija d.o.o. Beograd	1,361	1,340
HEP Energija sh.p.k. Kosovo	454	1,533
LNG Hrvatska d.o.o.	-	124,886
	1,815	127,759
Total current receivables from affiliated companies	3,250,346	2,779,582

24. RELATED PARTY TRANSACTIONS (continued)

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Current liabilities		
HEP Proizvodnja - for electricity	1,003,192	1,384,373
HEP Opskrba - for procurement from RES	22,702	54,873
HEP Opskrba - for electricity supply	1,127	15,617
HEP Trgovina - for trading fee	1,909	1,266
HOPS d.o.o. - balancing energy	2,047	34,628
HEP Proizvodnja d.o.o. - Liabilities for electricity origin guarantees	-	213
HEP Proizvodnja - liabilities under the assignment agreement	810,952	810,952
Other	17,600	48,737
	1,859,529	2,350,659
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- for paid connection fees	170,226	172,076
- for funds paid into the treasury	115,758	139,896
- for customer payments and investments paid from sub-accounts	109,923	122,522
HEP Elektra d.o.o. for cash funds paid into the treasury	516,967	767,274
Liabilities to other companies for customer payments and investments paid from sub-accounts	22,562	20,681
	935,436	1,212,449
HEP Energija d.o.o. Ljubljana for electricity	3,328	1,254
HEP Energija d.o.o. Mostar	-	5,323
Energetski park Korlat d.o.o.	23	-
	3,351	6,577
Total liabilities	2,798,316	3,569,685

Receivables and liabilities and income and expenses for NE Krško d.o.o. (the Company has which is 50% of ownership) are shown in the following table:

NE Krško d.o.o.

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

in '000 HRK

	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Liabilities for purchased electricity	61,851	51,158
Costs of purchased electricity	371,104	596,260

24. RELATED PARTY TRANSACTIONS (continued)

<i>in '000 HRK</i>	Sales revenues		Purchase costs	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Companies that are majority owned by the State				
Hrvatske Željeznice	36,547	41,275	-	-
Hrvatska pošta d.d.	5,842	8,263	4,069	5,574
Hrvatske šume d.o.o.	1,081	1,189	3,313	2,270
Jadrolinija d.o.o.	347	329	-	-
Narodne novine d.d.	905	906	64	173
Hrvatska radiotelevizija	3,150	3,341	38	31
Plinacro d.o.o.	959	1,649	27,199	32,641
Plovput d.d.	367	401	-	-
Croatia Airlines d.d.	197	232	-	-
Ministry of Interior	7,258	7,232	-	-
Primary and secondary schools	10,062	13,012	-	-
Judicial institutions	2,484	2,449	-	-
Colleges and universities	6,704	7,339	402	631
Legislative, executive and other bodies of the Republic of Croatia	5,951	5,501	-	-
Health facilities and organizations	24,966	32,861	-	-
Other users	-	51	-	1,085
HROTE d.o.o.	354	15,474	133,412	16,479
UKUPNO	107,174	141,504	168,497	58,884
	Receivables		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>
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	12	915
Narodne novine d.d.	-	-	4	11
Plinacro d.o.o.	-	-	1.171	8.094
HROTE d.o.o.	-	-	9.934	3.879
Other users	63	111	22	7.434
	63	111	11.143	20.333

24. RELATED PARTY TRANSACTIONS (continued)

Remuneration to the members of the Management Board and executive directors

<i>in '000 HRK</i>	30 June 2020	30 June 2019
	<i>Unaudited</i>	<i>Unaudited</i>
Gross salaries	3,725	4,325
Contributions to pension insurance	803	959
Other (benefits in kind)	291	514
	4,819	5,798

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

25. OTHER CURRENT LIABILITIES

<i>in '000 HRK</i>	30 June 2020	31 December 2019
	<i>Unaudited</i>	<i>Audited</i>
Other liabilities		
Accounts payable	345,202	395,013
Liabilities for taxes and contributions	31,573	-
Interest liabilities	29,349	33,649
Liabilities to employees	8,232	8,102
Accruals for unrealized energy savings	7,462	-
Other liabilities	34,478	34,607
	456,296	471,371

26. FAIR VALUE INDICATORS RECOGNIZED 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.

26. FAIR VALUE INDICATORS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION (continued)

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 Company 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 expenses or in favour of the Company's income.

The table below shows a summary of the third level indicators used for the fair valuation of derivatives and shares and stocks of companies that are not listed on a regulated market:

Fair value indicators in the statement of financial position:

<i>in '000 HRK</i>	Level 1	Level 2	Level 3	Total
31 December 2019, audited				
Assets classified at fair value through other comprehensive income	254,195	-	-	254,195
Financial assets at fair value through profit or loss	165,185	-	-	165,185
Derivative financial liabilities	-	-	80,511	80,511
Investment property	-	19,491	-	19,491
30 June 2020, unaudited				
Assets classified at fair value through other comprehensive income	217,489	-	-	217,489
Financial assets at fair value through profit or loss	163,515	-	-	163,515
Derivative financial assets	-	-	46.649	46.649
Investment property	-	19,491	-	19,491

27. 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.

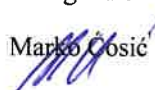
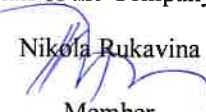



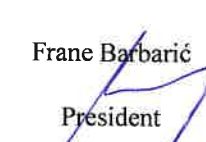
In order to implement the provisions of the Law on Amendments to the Water Act (OG 46/18), HEP d.d. is obliged to initiate relevant procedures for registration of these rights in the land register and obtain an appropriate study which must be harmonized with Hrvatske vode and which will be the basis 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.

28. APPROVAL OF CONDENSED UNCONSOLIDATED FINANCIAL STATEMENTS

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

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