HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Condensed consolidated interim financial statements for the period ended 30 June 2017

Contents

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Independent auditors' report on review of condensed consolidated interim financial statements

To the Owner of Hrvatska Elektroprivreda d.d.:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position / condensed consolidated balance sheet of Hrvatska Elektroprivreda d.d. (hereinafter: „the Company“) and its subsidiaries (hereinafter: "the Group") as of 30 June 2017, condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months period then ended, and notes to the condensed consolidated financial statements ("the condensed consolidated interim financial information of the HEP Group“).

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

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements as at 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Registrirano kod Trgovačkog suda u Zagrebu pod brojem 080044149
OIB 76394522236

Emphasis of matter

As described in the Note 17 to the condensed consolidated interim financial statements, as at 30 June 2017, the Company stated clearing debt liability in the amount of HRK 781,748 thousand (31 December 2016: HRK 863,450 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report on Review of condensed consolidated interim financial information, it has not been clearly defined whether it relates to a loan or some other legal relationship.

As described in the Note 22 to the condensed consolidated interim financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's and Group's property - reservoirs and ancillary facilities used for generation of electricity from hydropower plants. Pursuant to the Water Act those property is defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. The Company has filed a motion to the Constitutional Court to institute proceedings to review the constitutionality of Article 23 Paragraph 4 of the Water Management Act with the Constitution and upon conclusion of the procedure to annul the said provision. During 2015, the Ministry of Agriculture has launched amendment procedure to the Water Act and the Ministry of Economy issued an opinion with approval of the Company's initiative to amend the Water Act. During 2016 and 2017 the Company continued activities with relevant ministries and institutions related to above issue.

In Zagreb, 24 August 2017

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za pružanje revizorskih,konzalting
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Zagreb, J.F. Kennedy 6b

Zdenko Balen, Management Board Member

Vedrana Stipić, Certified auditor

Condensed consolidated income statement of the HEP Group

For the six months period ended 30 June 2017

	Note	For the six months period ended 30 June 2017 HRK '000 Unaudited	30 June 2016 HRK '000 Unaudited
Revenue from electricity sales	3,5	5,630,672	5,406,437
Revenue from thermal power sales	3	380,470	382,046
Revenue from sale of gas on wholesale market	3,4	573,379	647,559
Revenue from sale of gas to customers	3	179,635	186,931
Sales revenue		**6,764,156**	**6,622,973**
Other operating income	6	1,083,466	551,392
Total operating income		**7,847,622**	**7,174,365**
Electricity purchase cost	5	(1,221,642)	(971,827)
Fuel cost	5	(1,086,018)	(841,980)
Costs of gas sold on wholesale market	4	(583,802)	(628,785)
Staff cost		(955,211)	(924,670)
Depreciation and amortization costs		(956,250)	(884,374)
Other operating expenses		(1,193,587)	(1,169,771)
Total operating expenses		**(5,996,510)**	**(5,421,407)**
Operating profit		**1,851,112**	**1,752,958**
Financial income	7	218,613	148,290
Financial expenses	7	(460,592)	(207,234)
Net (loss) from financial activities		**(241,979)**	**(58,944)**
Profit before taxation		**1,609,133**	**1,694,014**
Corporate income tax expense	8	(254,127)	(348,988)
Profit for the period		**1,355,006**	**1,345,026**
Attributable to:			
Owners of the parent		1,355,006	1,345,026
Non-controlling interest		-	-
		1,355,006	**1,345,026**

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board
Member

Zvonko Ercegovac
Management Board
Member

Saša Dujmić
Management
Board Member

Perica Jukić
President of the
Management Board

HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB
Ulica grada Vukovara 37

Condensed consolidated statement of other comprehensive income of the HEP Group

For the six months period ended 30 June 2017

	For the six months period ended	
	30 June 2017	**30 June 2016**
	HRK '000	HRK '000
	Unaudited	Unaudited
Profit for the period	**1,355,006**	**1,345,026**
Other comprehensive income		
Exchange gains arising on translation of foreign	(33,569)	(28,065)
Net gain on AFS financial assets	18,592	6,090
Net other comprehensive income to be reclassified to profit/(loss) in subsequent periods	*(14,977)*	*(21,975)*
Other comprehensive income, net	**(14,977)**	**(21,975)**
Total comprehensive income for the period, net of tax	**1,340,029**	**1,323,051**

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

Signed on behalf of the Company on 24 August 2017:

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Tomislav Rosandić Management Board Member	Zvonko Ercegovac Management Board Member	Saša Dujmić Management Board Member	Perica Jukić President of the Management Board

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

ASSETS	**Note**	**30 June 2017** HRK '000 Unaudited	**31 December 2016** HRK '000 Unaudited
Non-current assets			
Property, plant and equipment	6	28,067,898	28,093,856
Assets under construction	9	3,128,286	2,677,233
Intangible assets		136,552	157,586
Investment property		234,579	231,491
Prepayments for property, plant and equipment		28,228	36,707
Long-term loans and deposits		35,668	28,973
Available-for-sale and other investments		317,674	295,938
Other long-term assets		45,210	46,941
Deferred tax assets		488,917	555,461
Total non-current assets		**32,483,012**	**32,124,186**
Current assets			
Inventories	10	1,171,627	1,405,368
Trade receivables	11	1,682,614	1,953,592
Other short-term receivables	12	962,264	730,917
Cash and cash equivalents	13	3,213,681	3,018,846
Total current assets		**7,030,186**	**7,108,723**
TOTAL ASSETS		**39,513,198**	**39,232,909**

Condensed consolidated statement of financial position / condensed consolidated balance sheet of the HEP Group - continued

As at 30 June 2017

EQUITY AND LIABILITIES	Note	30 June 2017 HRK '000 Unaudited	31 December 2016 HRK '000 Unaudited
Share capital	14	19,792,159	19,792,159
Revaluation reserves		158,885	140,293
Retained earnings	14	6,078,372	5,551,226
Total equity		**26,029,416**	**25,483,678**
Liabilities under issued bonds	16	3,538,986	3,606,173
Long-term loan liabilities	15	446,022	664,764
Long-term liabilities to the State		14,541	15,901
Long-term provisions		939,882	930,700
Other long-term liabilities	17	4,257,437	4,190,347
Deferred tax liabilities		29,168	26,007
Total non-current liabilities		**9,226,036**	**9,433,892**
Trade payables	19	996,729	1,787,338
Current portion of long-term bonds	16	530,041	586,601
Current portion of long-term loans	15	432,153	411,832
Taxes and contributions		39,263	157,750
Liabilities based on share in the result	23	794,291	-
Interest payable		40,680	42,569
Liabilities to employees	18	148,479	155,269
Other short-term liabilities		1,276,110	1,173,980
Total current liabilities		**4,257,746**	**4,315,339**
TOTAL EQUITY AND LIABILITIES		**39,513,198**	**39,232,909**

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board Member

Zvonko Ercegovac
Management Board Member

Saša Dujmić
Management Board Member

Perica Jukić
President of the Management Board

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

Condensed consolidated statement of changes in equity of the HEP Group
For the six months period ended 30 June 2017

	Share capital	Revaluation reserves	Retained earnings	Total equity
	HRK '000	HRK '000	HRK '000	HRK '000
Balance at 1 January 2016	**19,792,159**	**100,836**	**4,132,208**	**24,025,203**
Profit for the period	-	-	1,345,026	1,345,026
Other comprehensive income		6,090	(28,065)	(21,975)
Total comprehensive income	**-**	**6,090**	**1,316,961**	**1,323,051**
Balance as at 30 June 2016, unaudited	**19,792,159**	**106,926**	**5,449,169**	**25,348,254**
Balance at 1 January 2017	**19,792,159**	**140,293**	**5,551,226**	**25,483,678**
Profit for the period	-	-	1,355,006	1,355,006
Other comprehensive income	-	18,592	(33,569)	(14,977)
Total comprehensive income	**-**	**18,592**	**1,321,437**	**1,340,029**
Distribution of dividend	-	-	(794,291)	(794,291)
Balance as at 30 June 2017, unaudited	**19,792,159**	**158,885**	**6,078,372**	**26,029,416**

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

Signed on behalf of the Company on 24 August 2017:

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Tomislav Rosandić
Management Board Member

Zvonko Ercegovac
Management Board Member

Saša Dujmić
Management Board Member

Perica Jukić
President of the Management Board

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Ulica grada Vukovara 37

	For the six months period ended	
	30 June 2017	**30 June 2016**
	HRK '000	HRK '000
	Unaudited	Unaudited
Cash flows from operating activities		
Profit before taxation	1,609,133	1,694,014
Net result from financial activities	241,979	58,944
Fair value of property investments	(3,088)	-
Depreciation and amortization	956,250	884,374
Value adjustments of receivables	(9,805)	(14,071)
Value adjustments of inventories	4,416	4,181
Increase/(decrease) in provisions	9,182	(40,891)
Net carrying value of disposed assets	8,241	-
Income from reversal of assets impairment	(508,228)	-
Operating cash flows before movements in working capital	*2,308,080*	*2,586,551*
Decrease in other non-current assets	(33,198)	(62,460)
Decrease in trade receivables	280,783	317,053
Decrease/(increase) in inventories	229,325	28,863
(Decrease)/increase in other current assets	(275,063)	249,447
(Decrease) in trade payables	(790,609)	(808,103)
(Decrease) in other current liabilities	(82,574)	(417,453)
(Decrease) in other non-current liabilities	(90,369)	(116,444)
Cash generated from operations	**1,546,375**	**1,777,454**
Corporate income tax (paid)	(164,417)	(74,416)
Interests paid	(117,739)	(143,249)
Interests collected	17,403	20,021
NET CASH FROM OPERATING ACTIVITIES	**1,281,621**	**1,579,810**
INVESTING ACTIVITIES		
Increase in property, plant and equipment	(860,324)	(806,243)
NET CASH USED IN INVESTING ACTIVITIES	**(860,324)**	**(806,243)**

Condensed consolidated statement of cash flows of the HEP Group (continued)

For the six months period ended 30 June 2017

	For the six months period ended	
	30 June 2017	30 June 2017
	HRK '000	HRK '000
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Bond repayments	(46,690)	(46,690)
Long-term loans received	10,089	90,398
Repayments of long-term loans	(189,862)	(191,572)
NET CASH USED IN FINANCING ACTIVITIES	**(226,463)**	**(147,864)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**194,835**	**625,703**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,018,846**	**2,493,166**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**3,213,681**	**3,118,869**

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

Signed on behalf of the Company on 24 August 2017:

Tomislav Rosandić
Management Board Member

Zvonko Ercegovac
Management Board Member

Saša Dujmić
Management Board Member

Perica Jukić
President of the Management Board

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

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting.* The preparation of the unaudited condensed consolidated interim financial statements for the six months period ended 30 June 2017 requires from management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the condensed consolidated interim financial statements, and actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The annual consolidated financial statements of Hrvatska Elektroprivreda d.d. and its and subsidiaries ("the HEP Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by EU. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' ('IAS 34'). The condensed consolidated financial statements for the six-month period ended 30 June 2017 have been prepared under the same accounting policies as the consolidated financial statements for the year ended 31 December 2016.

Certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS adopted by EU have been condensed or omitted as permitted by IAS 34. The condensed consolidated statement of financial position / condensed consolidated balance sheet as at 30 June 2017 was derived from audited annual consolidated financial statements as at 31 December 2016, but does not include all disclosures required by IFRS adopted by EU. However, the Company's management believes that disclosures are adequate to make the information presented not misleading.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

Some amendments to the Standards adopted by the IASB with the application in periods beginning on January 1, 2017 have not yet been adopted by the EU and have not been applied in these condensed consolidated interim financial statements. These amendments include: amendments to IAS 7, IAS 12 and annual improvements for the 2014 - 2016 cycle (as outlined below). The adoption of these changes by the EU is expected during 2017. Management estimates that the adoption of these amendments will not have any significant changes in the consolidated financial statements of the Company.

New and revised IFRSs issued by the IASB but not effective

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will have negligible affect the classification and measurement of financial instruments.
- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. The Standard replaces IAS 11 and IAS 18. Standard is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The Standard allows a modified transfer model which does not require retroactive modifications. The Management performs detailed analysis on its possible effects on the Company`s consolidated financial statements

New and revised IFRSs issued by the IASB but not yet adopted by the EU

The following standards and amendments to the existing standards have not been adopted by the EU yet:

- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The European Commission has decided not to implement this standard due to the fact that only small number of companies was within the scope of the standard.
- IFRS 16 Leases – the standard brings a new comprehensive model of identification of arrangements which have leases and their accounting treatment on the side of lessor and lessee. The standard will replace IAS 17 and interpretations of IFRIC 4, SIC 15 and SIC 27. IFRS 16 is effective for the annual period beginning on or after 1 January 2019. Earlier applications are permitted, but this is conditioned with the application of IFRS 15 unless already adopted. This standard brings significant changes to the accounting model of the lessee. Consequently, assets and liabilities will be recognised in the financial statements of the lessee in most contract that were formerly recognised as operating lease. This will result in an increase of assets and liabilities. The Management Board plans detailed analysis in the coming periods to determine effects on the consolidated financial statements of the Company.
- IFRS 17 Insurance contracts – The standard refers to a new approach to accounting treatment of insurance contracts. This standard replaces IFRS 4 and should provide harmonized measurement with insurers worldwide and reduce the volatility of operating results. The Standard enters into force for periods beginning on 1 January 2021 and thereafter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As the Company and the Group do not deal with insurance business, the consequences of applying this Standard to the Company's consolidated financial statements are not expected.

- Amendments to IFRS 2 – classification and measurement of share based payment transactions (issued in June 2016).
- Amendments to IFRS 4 – Application of IFRS 9 Financial instruments with IFRS 4 Insurance contracts (issued in June 2016).
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014).
- Amendments to IAS 7 – part of its disclosure initiative (issued in January 2016)
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016).
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued in April 2016).
- Amendments to IAS 40 – Transfer of real estate investments (issued December 2016.)
- Annual Improvements 2014-2016 Cycle (issued December 2016). They include:

– IFRS 1 First application of IFRS,
– IFRS 12 Disclosure of interests in other entities,
– IFRS 28 Investments in associates and joint ventures

Amendments which relate to IFRS 12 are effective for periods starting on 1 January 2017, while amendments to IFRS 1 and IAS 28 are effective for the annual period beginning on or after 1 January 2018.

- IFRIC 22 Foreign currency transactions and advance considerations (issued in December 2016).
- IFRIC 23 Uncertainty over Income tax treatments (issued in June 2017)

The Company's management anticipates that the application of the above standards, amendments and interpretations, except for IFRS 16 as stated above, will have no material impact on the consolidated financial statements in the period of initial application.

Use of estimates in preparation of the condensed consolidated interim financial information

Preparation of the condensed consolidated interim financial statements in conformity with International Accounting Standard 34 Interim Financial Reporting, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Estimates used in preparation of these condensed consolidated interim financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which could cause changes in the assumptions used for making these estimates, and thus changes in the estimates themselves. The effect of any changes in estimates will be recorded in the consolidated financial statements, when determinable. There were no changes in the use of estimates or critical judgments applied in preparation of these condensed consolidated interim financial statements with respect of those applied in preparation of the annual consolidated financial statements. Change in estimates in the financial statements for the period 1 January to 30 June 2017 was stated under IAS 36, referring to the increase in the value of Block L in TETO Zagreb (Note 6).

3. SEGMENT INFORMATION

The Group generates most income from its operations in a single geographical area – the Republic of Croatia. The Group's reportable segments are defined as follows: electricity (generation, transmission, distribution and sale of electricity), heating (generation, distribution and sale of heating power), and gas (distribution and sale of gas). Each segment's operating profit or loss includes all revenue and expenses directly attributable to the reportable segment. Information about financial income, expense and income tax is not provided on a segment level, as the segments are disclosed based on the operating profit.

	Electricity		Heating		Gas		Group	
	Six months period ended 30 June							
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	5,630,672	5,406,437	380,470	382,046	753,014	834,490	6,764,156	6,622,973
Other segment income	1,033,685	519,693	33,821	25,121	15,960	6,578	1,083,466	551,392
Profit / (loss) from operations	**1,904,356**	**1,788,936**	**(46,669)**	**(65,658)**	**(6,575)**	**29,680**	**1,851,112**	**1,752,958**
Net financial income/(cost)							(241,979)	(58,944)
Corporate income tax (expense)							(254,127)	(348,988)
Net profit							**1,355,006**	**1,345,026**

Segment 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 consist of assets and liabilities that cannot be reasonably attributed to the reportable business segments. Total unallocated assets include investments in Krško Nuclear Power Plant (hereinafter: NEK), a part of property, plant and equipment, and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and various other liabilities.

	Total segment assets		Total segment liabilities	
	30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
	HRK '000	HRK '000	HRK '000	HRK '000
	Unaudited	Audited	Unaudited	Audited
Electricity	30,902,001	30,179,137	5,666,823	6,227,856
Heating	1,096,484	1,226,459	137,547	170,255
Gas	312,022	370,917	82,595	99,960
Unallocated	7,202,691	7,456,396	7,596,817	7,251,160
Total Group	**39,513,198**	**39,232,909**	**13,483,782**	**13,749,231**

3. SEGMENT INFORMATION (continued)

Geographical information

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.

Presented below is the territorial analysis of the revenue that the Group realized from continuing operations with external buyers of electricity:

	Six months period ended 30 June	
	30 June 2017 HRK '000	**30 June 2016** HRK '000
	Unaudited	Unaudited
Croatia	5,089,522	4,876,858
EU member states	498,733	469,254
Non - EU member states	42,417	60,325
	5,630,672	**5,406,437**

4. GAS SALES

By a Decision of the Government of the Republic of Croatia in April 2014, the Company was defined as a gas supplier on the wholesale market in a period until April 2017. Pursuant to the above Decision from the Croatian Government, the Company has rented 70% of warehouse capacities in underground gas storage facilities.

In the period from 1 April 2014 to 31 March 2015 the Group agreed rent of capacities of 3.600 million kWh, in the period of 1 April 2015 to 31 March 2016, the Group agreed rent of capacities of rent of 3.550 million kWh, and in the period from 1 April 2016 to 31 March 2017 the Group agreed rent of capacities of 3.500 million kWh.

By the Act on Amendments to the Gas Market Act, the Company was determined as a supplier on the wholesale gas market from April 1, 2017 to March 31, 2018.

Pursuant to the Act on Amendments to the Gas Market Act, the gas storage system operator allocated to the Group 3,050 million kWh or 60% of the storage capacity in the underground gas storage facility for the period from 1 April 2017 to 31 March 2022.

The Group as a supplier on the wholesale market sells gas as public service and under regulated conditions to local suppliers for household customers, and is obligated to provide secure and reliable gas supply.

5. FLUCTUATIONS IN OPERATIONS

The demand for electricity and thermal energy, as well as natural gas is characterized by fluctuations which have the impact on the total results of operations of the Group, and may occur as a consequence of weather conditions, economic conditions in which the Group operates and the activities of other suppliers outside the Group as well as the prices they offer to the customers.
Total operating expenses are influenced by hydrological conditions, with reference to generation of electricity in hydropower plants, market prices of fuel for generation of electricity and heating energy, market prices for purchasing of electricity and customers demand for energy.

In the first six months of 2017, revenues from electricity sales were realized in the amount of HRK 5,630,672 thousand while in the same period last year they were realized in the amount of HRK 5,406,437 thousand. Increase is realized due to significantly higher sales by producers in the system of generation incentives from the renewable energy, twice the higher selling price of electricity in the wholesale market due to market price growth and higher supply of customers in Slovenia.

In the first six months of 2017 cost of electricity purchased amounted to HRK 1,221,642 thousand, while in the period ended 30 June 2016 amounted to HRK 971,827 thousand. The costs are increased compared to the same period last year due to unfavourable hydrological conditions and consequently growth of import at higher prices.

Cost of fuel in the first six months of 2017 amounted to HRK 1,086,018 thousand, while in the period ended 30 June 2016 amounted to HRK 841,980 thousand. Cost of fuel is increased due to significantly higher prices of coal and more used quantities of natural gas.

6. OTHER OPERATING INCOME

	Six months period ended 30 June	
	30 June 2017 HRK '000	**30 June 2016** HRK '000
	Unaudited	Unaudited
Income from reversal of assets impairment	508,228	-
Network connection services	143,840	141,073
Income from assets financed by network connection fee	112,152	113,874
Reversal of impaired receivables	40,587	49,924
Services rendered	66,426	25,526
Capitalized assets	34,864	25,853
Penalty interests	19,175	19,699
Income from sale of materials	14,928	11,986
Income from sale of cross – border transmission capacity	55,548	28,696
Revenues from inter-compensation (HOPS) - cross-border	2,829	11,845
Reversal of long-term provisions for retirement benefits and jubilee awards	8,450	13,563
Reversal of long-term provisions – court disputes	7,271	45,342
Reversal of other provisions	184	492
Recovery of receivables from pre-bankruptcy proceedings	8,912	2,590
Income in respect of the electricity payments reminders	762	1,997
Income in respect of court costs on claims	6,060	5,143
Income from sale of tangible assets	1,357	2,755
Recovery of written-off receivables	417	1,246
Income from subsidies, grants, reimbursements and	-	11,930
Overcharged fee in previous year on CO2 emissions for electricity generation	13,109	9,486
Other income - NEK d.o.o.	2,502	2,438
Other	35,865	25,934
	1,083,466	**551,392**

6. OTHER OPERATING INCOME (continued)

/i/ Based on the established indicators for impairment of assets and the calculation of the required impairment allowances in accordance with IAS 36, the carrying value of thermal power plants was corrected during 2014. The key indicators of impairment were the significantly higher costs of electricity generation in thermal power plants compared to the market price of electricity.

In July 2016, Block L of TE TO Zagreb was granted the status of privileged producer on the basis of the Decision on the acquisition of privileged electricity producer status issued by the Croatian Energy Regulatory Agency (HERA) according to which it entered the system of incentives and sales of electricity at a preferential price in a period of twenty-five years. This circumstance, after establishing the sustainability of the financing model from 2017, has been recognized as an indication of changes in the value of an asset and, in accordance with the same, has been made a new evaluation by an independent consultant, which has shown the need to abolish the entire amount of recognized impairment loss on Block L in TE TO Zagreb. Accordingly, and in accordance with IAS 36, the current carrying amount of the L Block TE TO in Zagreb was increased for the carrying amount that could be determined, if the impairment loss in the amount of HRK 508,228 thousand was not previously recognized, while for the same amount was increased the income from reversal of assets impairment.

7. FINANCIAL INCOME AND EXPENSES

	Six months period ended 30 June	
	30 June 2017 HRK '000 Unaudited	**30 June 2016** HRK '000 Unaudited
Financial income		
Foreign exchange gains	214,764	140,858
Interests	3,190	7,009
Dividend income	26	26
Interests - NEK d.o.o.	521	397
Other financial income	112	-
Total financial income	**218,613**	**148,290**
Financial expenses		
Interests	(114,467)	(124,411)
Foreign exchange losses	(61,177)	(48,600)
Interests - NEK d.o.o.	(212)	(518)
Losses from fair valuation of cross currency swap	(284,678)	(33,633)
Other financial expenses	(58)	(72)
Total financial expenses	**(460,592)**	**(207,234)**
Net (loss) from financial activities	**(241,979)**	**(58,944)**

8. CORPORATE INCOME TAX EXPENSE

Corporate income tax expense and current taxes during the six months period ended 30 June 2017 are accounted on the basis of actual results and the profit tax rate of 18% and profit tax rate of 20% conclusively with the 30 June 2016.

9. ASSETS UNDER CONSTRUCTION

As at 30 June 2017 assets under construction amount to HRK 3,128,286 thousand (31 December 2016 amounted to HRK 2,677,233 thousand).

Increase in assets under construction mainly refers to HEP-ODS d.o.o. and at HEP-Proizvodnja d.o.o.. In HEP-ODS d.o.o. was invested in replacement and reconstruction of energy facilities (HRK 77,501 thousand), new transformer stations, transmission lines and networks (HRK 41,532 thousand), and the creation of power conditions and connections (HRK 165,747 thousand). In HEP-Proizvodnja d.o.o. was invested in the revitalization of hydro power plants in the amount of HRK 57,520 thousand and replacement of equipment and reconstruction of thermal power plants in the amount of HRK 37,426 thousand.

10. INVENTORIES

	30 June 2017 HRK '000	**31 December 2016** HRK '000
	Unaudited	Audited
Inventories of fuels and chemicals	176,318	150,627
Electric materials	346,406	330,917
Spare parts	190,104	194,400
Construction material	17,440	24,974
Gas inventory for wholesale	319,100	379,488
CO_2 emission units	104,055	222,957
Other inventories	57,988	74,967
Nuclear fuel and other material - NEK d.o.o.	197,706	260,113
	1,409,117	**1,638,443**
Value adjustment of obsolete materials and spare parts	(237,490)	(233,075)
	1,171,627	**1,405,368**

11. TRADE RECEIVABLES

	30 June 2017	31 December 2016
	HRK '000	HRK '000
	Unaudited	Audited
Electricity – Corporate customers	1,487,196	1,422,648
Electricity – Households	456,238	489,270
Export of electricity	85,146	67,886
Heating, gas and services	463,719	791,301
Receivables from NEK d.o.o.	10,302	15,057
Other	66,605	63,826
	2,569,206	**2,849,988**
Impairment of bad and doubtful receivables		
	(886,592)	(896,396)
	1,682,614	**1,953,592**

Aging structure of unimpaired trade receivables:

	30 June 2017	31 December 2016
	HRK '000	HRK '000
Undue	947,912	1,336,879
Up to 30 days	323,353	333,439
31-60 days	161,488	118,850
61-90 days	107,579	55,159
91-180 days	105,652	56,141
181-365 days	28,674	43,773
More than 365 days	7,956	9,351
	1,682,614	**1,953,592**

11. TRADE RECEIVABLES (continued)

Movements in impairments were as follows:

	30 June 2017	31 December 2016
	HRK '000	HRK '000
Balance at 1 January	**896,396**	**1,045,598**
Impairment of trade receivables	102,625	107,276
Derecognition of previously impaired trade receivables	(71,842)	(171,671)
Reversal of impairments	(40,587)	(84,807)
Balance at 30 June	**886,592**	**896,396**

The Management performs review of receivables and recognizes impairment of bad and doubtful receivables based on a review of the overall ageing structure of all receivables and of significant individual receivables amounts.

12. OTHER SHORT-TERM RECEIVABLES

	30 June 2017	31 December 2016
	HRK '000	HRK '000
Receivables for corporate income tax	37,051	60,522
Prepayments	70,356	5,863
Receivables from the State for employees	6,940	9,714
Claims for overcharged water management fee	-	5,914
Receivables for accrued income from sale of electricity to households	35,754	-
Demand and term deposits with maturity over 3 months	179,845	111,191
Demand and term deposits with maturity over 3 months NEK	325,466	275,980
Receivables from HEP-ESCO d.o.o. for Energy efficiency project	4,015	9,813
Loan receivables from companies with participating interest	25,405	25,752
Receivables for sold flats	6,465	6,464
Receivables from OIE - HROTE	65	34,774
Other receivables from HROTE d.o.o.	128,752	-
Received bills of exchange	-	27,456
Derivative financial instruments	52,480	96,196
Other receivables NEK	889	2,369
Other short-term receivables	88,781	58,909
	962,264	**730,917**

13. CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
	HRK '000	HRK '000
	Unaudited	Audited
Current accounts – HRK	1,140,064	938,761
Current accounts - Foreign currency	238,862	216,798
Current accounts for special purposes	49,289	31,686
Petty cash - HRK	276	260
Short term deposits - up to 90 days	1,303,923	1,314,216
Daily deposits	406,273	441,633
Cash Funds	74,794	75,322
Current account – HRK and foreign currency – NEK	200	170
	3,213,681	**3,018,846**

14. EQUITY AND RESERVES

Share capital consists of 10,995,644 ordinary shares, with a nominal value of HRK 1,800.00 each.

Retained earnings in the amount of HRK 6,078,372 thousand comprise legal reserves in the amount of HRK 451,807 thousand, retained earnings in the amount of HRK 4,271,559 thousand and profit for the period attributed to the Owner of the Parent in the amount of HRK 1,355,006 thousand.

15. LONG-TERM LOAN LIABILITIES

	Interest rates	30 June 2017	31 December 2016
		HRK '000	HRK '000
		Unaudited	Audited
Domestic bank loans	Floating	625,150	827,728
Foreign bank loans	Fixed	243,125	237,817
Finance leases	Fixed	11,437	13,202
Total		**879,712**	**1,078,747**
Deferred loan originated fees		(1,537)	(2,152)
Total long-term loans		**878,175**	**1,076,595**
Current portion for long-term loans		(429,024)	(408,711)
Current portion of finance lease		(3,129)	(3,120)
Long-term portion		**446,022**	**664,764**

15. LONG-TERM LOAN LIABILITIES (continued)

During 2017, the Group contracted loans with domestic and foreign banks with floating and fixed interest rates ranging from 0.47% to 5.6%

Loans from domestic banks are secured by bills of exchange and promissory notes. At 30 June 2017, the Group doesn't have any liabilities covered by *sovereign loan guarantees*.

New financing sources

For the financing of the investment plan and the regular operations in 2017 the Group used own funds and funds from loans in use.

Loans in use

During 2017, the Group still had available funds from long-term loan from KfW Entwicklungsbank in the amount of EUR 50,000 thousand for the financing of energy efficiency and renewable energy projects. As of 30 June 2017, KfW loan balance was EUR 32,8 million, and the amount of EUR 17,2 million were unutilised.

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

	(in HRK'000)
2017	206,271
2018	404,234
2019	116,603
2020	40,394
2021	37,403
after 2021	74,807
	879,712

Loans from domestic banks are secured by bills of exchange and promissory notes. For one club loan, the Group is obliged to meet the required level of financial indicators (covenants) on annual and semi-annual basis: tangible net worth, EBITDA to net finance charges, total net borrowings to tangible net worth.

The primary goal related to risks resulting from covenants is to protect the Group from possible defaults, respectively early maturity of loan liabilities.
The agreed covenants are monitored and calculated based on the projected consolidated Balance sheet and the consolidated Income statement.

The Group prepares preliminary calculations of the covenants in the upcoming mid-term period, and is following their trends.

15. LONG-TERM LOAN LIABILITIES (continued)

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

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

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

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

At 30 June 2017 covenants were not breached and the Group has met all contractual financial indicators.

The Group’s total exposure to loan liabilities subject to covenant conditions as at 30 June 2017 amounts to EUR 52,941 thousand.

Overview of long-term loans stated in foreign currency (in thousands) is shown as follows:

Currency	**30 June 2017**	**31 December 2016**
EUR	118,773	142,733

For the purpose of providing solvency reserves the Group has concluded with domestic banks multi-purpose overdraft agreements in the total amount of HRK 1,385 billion. Funds from agreed overdrafts the Group may use as short-term loans, as well as for issuance of guarantees, letters of credit and letters of intention in accordance with the Group’s needs.
During 2017, due to good liquidity, the Company did not use funds from preapproved mid-term multipurpose overdraft agreements.

As of 30 June 2017, the Group has available funds from short-term financing sources in total amount of HRK 1,281 million.

16. LIABILITIES UNDER ISSSUED BONDS

	30 June 2017 HRK '000 Unaudited	31 December 2016 HRK '000 Audited
Nominal value of bonds in the country issued in 2007	46,340	92,946
Discounted value	-	84
Current maturity of bonds	(46,340)	(93,030)
Bonds issued in 2007	**-**	**-**
Value of bonds issued abroad in 2012	493,571	498,617
Exchange differences	(9,870)	(5,046)
Current maturity of bonds	(483,701)	(493,571)
Bonds issued in 2012	**-**	**-**
Value of bonds issued abroad in 2015	3,626,428	3,656,047
Exchange differences	(73,383)	(37,511)
Discounted value	4,459	7,892
	3,557,504	**3,626,428**
Accrued bond costs	(18,518)	(20,255)
Bonds issued in 2015	**3,538,986**	**3,606,173**
Total liabilities under issued bonds	**3,538,986**	**3,606,173**

Bonds issued in the Republic of Croatia

Bonds in the amount of HRK 700,000 thousand, issued at the end of 2007, are repayable in 15 semi-annual instalments, commencing three years from the date of issue, and are bearing fixed interest of 6.50 percent. The bonds are listed on the Zagreb Stock Exchange.

Bonds issued abroad

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

16. LIABILITIES UNDER ISSSUED BONDS (continued)

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreement, by which liability upon issued bonds abroad in USD is converted in EUR for all period of bond duration, respectively until its outermost maturity date at 9 November 2017.

According to the cross-currency swap agreement from 2012, annual interest rate paid by the Company semi-annually is fixed and amounts to 6.53% (include swap cost).

Refinancing

In October 2015, bonds issued in 2012 were refinanced from the new bond issue and repaid 83.37% of the principal respectively USD 416,852 thousand. The amount of outstanding principal on bonds issued in 2012, on 30 June 2017 amounted to USD 83,148 thousand. Cross currency swap agreement from 2012 is applicable for outstanding principal until its outermost maturity date at 9 November 2017.

The new bond issue

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with maturity of 7 years, fixed interest rate of 5.875% per annum and the issue price of 98.594%. Bonds issued in 2015, are mainly used for the repurchase of 83.37% of the bonds issued in 2012 (i.e. the repurchase of USD 416,852 thousand). The remaining issue is intended to finance the Company's business. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreement, by which liability upon issued bonds abroad in USD is converted in EUR for all period of bond duration, respectively until its outermost maturity date at 23 October 2022.

According to the agreement from 2015, annual interest rate paid by the Company semi-annually is fixed and amounts to 4.851% (weighted interest rate include swap cost).

16. LIABILITIES UNDER ISSSUED BONDS (continued)

Derivative financial instruments

Cross currency swap

In order to reduce exposure to currency risk, i.e. hedge against fluctuations in USD exchange rate, the Company has concluded cross currency swap agreements, by which liabilities upon issued bonds abroad in 2012 and 2015 in USD are converted in EUR for all period of bond duration, respectively until its outermost maturity date.

The purpose of the cross-currency swap agreement is to reduce currency risk and recommendations of the credit agencies about the importance of strategic management of currency risks to reduce their impact on the business performance of the Company.

According to the agreement from 2012, annual interest rate paid by the Company semi-annually is fixed and amounts to 6.53%, and according to the agreement from 2015 amounts to 4,851% (weighted interest rate).

The Company measures the fair value of the cross-currency swap according to the calculation of Mark-to-market ("MTM") value, according to official banks calculation for the reporting period.

A positive "MTM" value is recorded as a receivable respectively it is formed financial income for the period, and negative "MTM" value is recorded as a liability and it is formed financial expense of the reporting period.

After a final maturity of derivative financial instruments, subject receivables or liabilities will be debited to the expense or credited to the income of the Company.

On 30 June 2017, using this measuring method, the Company stated fair value of assets by bonds issued in 2012 in the amount of HRK 52,480 thousand (31 December 2016: HRK 96,196 thousand), (Note 21).

On 30 June 2017, using this measuring method, the Company stated fair value of liabilities by bonds issued in 2015 in the amount of HRK 273,213 thousand (31 December 2016: HRK 32,251 thousand), (Note 21).

17. OTHER LONG-TERM LIABILITIES

	30 June 2017	**31 December 2016**
	HRK '000	HRK '000
	Unaudited	Audited
Deferred income - assets financed by third parties	3,189,230	3,280,668
Long term liabilities for assets financed from clearing debt	781,748	863,450
Derivative financial liabilities from swap transactions	273,213	32,251
Other long-term liabilities	13,246	13,978
	4,257,437	**4,190,347**

Deferred income relates to fixed assets ceded by customers or assets financed from connection fees. The income from these assets is recognized over the same period as the related assets are amortized, which applies to contracts for connection to the network concluded with customers by 30 June 2009. After 1 July 2009, the connection fee is recognized as income in the amount of cash received from the customer in the period when the customer is connected to the grid/network or when the customer is permitted permanent access to the delivery of the service.

At 30 June 2017, the Group stated clearing debt liability in the amount of HRK 781,748 thousand in respect of a clearing debt (31 December 2016: HRK 863,450 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, it has not been clearly defined whether it relates to a loan or some other legal relationship.

18. LIABILITIES TO EMPLOYEES

	30 June 2017	**31 December 2016**
	HRK ‘000	HRK ‘000
	Unaudited	Audited
Net salaries	81,519	79,092
Contributions	37,507	36,379
Severance payments upon retirement	854	4,303
Salaries - NEK d.o.o.	9,069	15,176
Other	19,530	20,319
	148,479	**155,269**

19. TRADE PYABLES

	30 June 2017	**31 December 2016**
	HRK ‘000	HRK ‘000
	Unaudited	Audited
Domestic trade payables	922,062	1,490,580
Foreign trade payables	32,596	169,824
Foreign trade payables - EU	18,670	97,937
Trade payables - NEK d.o.o.	23,401	28,997
	996,729	**1,787,338**

20. RELATED PARTY TRANSACTIONS

The Company holds 50% of shares in Krško Nuclear Power Plant d.o.o. (NEK) and in the company LNG Hrvatska d.o.o.. Although investment in NEK is recognized in the consolidated financial statements as joint operation, due to the fact that NEK is a separate legal entity, transactions between NEK and the Group are also presented within related party transactions.

The electricity generated by NEK is delivered to HEP d.d. at 50% of total generated quantities and at prices determined in accordance with the total generation costs.

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

NE Krško d.o.o.

	30 June 2017	**31 December 2016**
	HRK ‘000	HRK ‘000
	Unaudited	Audited
Liabilities for purchased electricity	48,188	52,444

	Six months period ended	
	30 June 2017	**30 June 2016**
	HRK ‘000	HRK ‘000
	Unaudited	Unaudited
Costs of purchased electricity	291,014	312,681

On June 30, 2017, the Group stated loan receivables from the company LNG Hrvatska d.o.o. in the amount of HRK 60,997 thousand (31 December 2016: HRK 54,595 thousand).

Remunerations to the Management Board members and executive management of the Group companies:

	Six months period ended	
	30 June 2017	**30 June 2016**
	HRK ‘000	HRK ‘000
	Unaudited	Unaudited
Gross salaries	14,044	14,657
Pension contributions	3,123	3,271
Other (benefits in kind)	1,605	1,730
	18,772	**19,658**

There were no other payments to members of the Management Board besides regular salaries and benefits in kind

20. RELATED PARTY TRANSACTIONS (continued)

	Sales revenue		Purchase costs	
	Six months period ended 30 June		Six months period ended 30 June	
HRK'000	**2017**	**2016**	**2017**	**2016**
	Unaudited	Unaudited	Unaudited	Unaudited
Companies partially owned by the State				
Companies of Hrvatske Željeznice	40,147	50,043	146	628
INA Industrija nafte d.d.	64,597	66,984	491,420	554,399
Plinacro d.o.o.	1,280	610	56,769	44,142
Croatia osiguranje d.d.	1,301	1,544	696	587
Hrvatska pošta d.d.	1,959	6,086	15,409	18,849
Hrvatske šume d.d.	2,056	1,570	1,407	1,428
Jadrolinija d.o.o.	255	283	286	254
Narodne novine d.d.	1,094	1,098	1,576	1,667
Hrvatska radio televizija	6,569	6,006	701	727
Plovput d.d.	247	142	79	82
Croatia Airlines d.d.	722	422	4	-
Petrokemija Kutina d.d.	7,513	8,454	39	77
Ministry of Foreign Affairs	2	232	-	-
Ministry of Defence	13,017	11,548	-	-
Ministry of the Interior	12,323	11,517	-	-
Elementary and high schools	27,953	42,506	-	18
Judicial institutions	3,490	4,690	29	74
Colleges and universities	13,390	16,176	425	243
Legislative, executive and other bodies of Republic of Croatia	9,880	13,699	1,934	1,940
Health institutions and organizations	45,278	53,446	188	287
HROTE	168,983	13,405	342,372	294,040
Other users	2,797	5,016	2,181	3,947
TOTAL	**424,853**	**315,477**	**915,661**	**923,389**

20. RELATED PARTY TRANSACTIONS (continued)

HRK'000	Receivables 30 June 2017 Unaudited	Receivables 31 December 2016 Audited	Liabilities 30 June 2017 Unaudited	Liabilities 31 December 2016 Audited
Companies partially owned by the State				
Companies of Hrvatske Željeznice	18,536	27,589	9	177
INA-industrija nafte d.d.	16,377	19,923	31,671	119,264
Plinacro d.o.o.	644	152	5,187	31,228
Croatia osiguranje d.d.	396	242	177	427
Hrvatska pošta d.d.	87	1,448	2,559	8,120
Hrvatske šume d.o.o.	632	1,029	2	13
Jadrolinija d.o.o.	53	123	38	25
Narodne novine d.d.	406	411	520	645
Hrvatska radio televizija	1,885	2,525	16	23
Plovput d.d.	78	58	48	51
Croatia Airlines d.d.	66	109	-	-
Petrokemija Kutina d.d.	2,782	3,176	-	82
Ministry of Defence	2,121	4,356	-	-
Ministry of the Interior	3,059	4,648	-	-
Elementary and high schools	3,595	15,531	-	-
Judicial institutions	471	1,495	-	-
Colleges and universities	3,082	5,519	-	-
Legislative, executive and other bodies of Republic of Croatia	2,479	5,404	-	-
Health institutions and organizations	15,228	19,881	-	-
HROTE d.o.o.	271,138	80,128	52,113	127,841
Other users	15,882	18,567	1,185	18,892
TOTAL	**358,997**	**212,314**	**93,525**	**306,788**

20. RELATED PARTY TRANSACTIONS (continued)

As of 30 June 2017, the Group owned the following subsidiaries:

Subsidiary	Country	Ownership interest in %	Principal activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
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	Thermal power generation and distribution
HEP–Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	100	Electricity generation
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure in area around Plomin
CS Buško Blato d.o.o.	BH	100	Maintenance of hydro power plants
HEP–Upravljanje imovinom d.o.o.	Croatia	100	Accommodation and recreation services
HEP NOC Velika	Croatia	100	Accommodation and training
HEP –Trgovina d.o.o.	Croatia	100	Electrical energy trading and optimization of power plants production
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP – Magyarorszag Energia Kft	Hungary	100	Electricity trading
HEP- Trade d.o.o. Mostar	BH	100	Electricity trading
HEP KS sh.p.k. Priština	Kosovo	100	Electricity trading
HEP- Trade d.o.o. Beograd	Serbia	100	Electricity trading
Program Sava d.o.o.	Croatia	100	Spatial planning, design, construction and supervision
HEP Opskrba plinom d.o.o.	Croatia	100	Gas distribution
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunication services
Hrvatski centar za čistiju proizvodnju	Croatia	100	Training and consulting in the field of cleaner production and environmental management systems
NE Krško d.o.o.	Slovenija	50	Electricity generation

The majority of these subsidiaries were founded for the purpose of reorganization and restructuring of the core business activities driven by the new energy legislation, which came into force as of 1 January 2002 (Note 1).

The company HEP-Telekomunikacije d.o.o. was founded in 2013. In 2014 the company HEP- RVNP d.o.o. changed its name to *Program Sava d.o.o.* and new company HEP Opskrba plinom d.o.o. was founded.

The company APO d.o.o., for environmental protection was merged with the Company and the company HEP OIE d.o.o. was merged to the company HEP Proizvodnja d.o.o. In 2015 the company HEP NOC Velika was transferred to the ownership of the company HEP Operator distribucijskog sustava d.o.o.. In November 2016 was founded company HEP ELEKTRA d.o.o. as a result of the status change – demerger from HEP-Operator distribucijskog sustava d.o.o..

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

1. Level 1 inputs – inputs are quoted prices in active market for identical assets or liabilities, which the entity can access at the measurement date

2. Level 2 inputs – are inputs other than quoted market prices included within Level 1, that are observable for the asset or liability either directly or indirectly, and

3. Level 3 inputs – inputs are unobservable inputs for the asset or liability

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

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	1st level	**2nd level**	**3rd level**	**Total**
	HRK '000	HRK '000	HRK '000	HRK '000
30 June 2017, unaudited				
Available-for-sale assets	317,674	-	-	**317,674**
Derivative financial assets	-	-	52,480	**52,480**
Derivative financial liabilities	-	-	273,213	**273,213**
Investment property	-	234,579	-	**234,579**
31 December 2016, audited				
Available-for-sale assets	295,938	-	-	**295,938**
Derivative financial assets	-	-	96,196	**96,196**
Derivative financial liabilities	-	-	32,251	**32,251**
Investment property	-	231,491	-	**231,491**

22. CONTIGENT LIABILITIES

Water Management Act

According to an interpretation by the State Attorney's Office, *Water Management Act* that came into force on 4 January 1996 and the new *Water Management Act* that came into force on 1 January 2010, bring into question the property-legal status of the asset for electricity production from the hydro-power plant because the land on which the hydro-power plants was constructed is classified as 'Public Water Resources' which by its legal nature is considered to be real estate for common use owned by the Republic of Croatia and cannot be the subject of ownership of a physical or legal entity. There are currently several out of court settlement procedures between HEP d.d. and Republic of Croatia relating the right of registering ownership of hydro power plants in favour of Republic of Croatia. There is no uniform case law regarding this issue.

The Company has disputed the interpretation of the Water Management Act as aforementioned property was included in balance sheet of the Group during ownership transformation and therefore cannot be subject to laws that came into force after transition was conducted. This interpretation by the Company is in accordance with the Decision by the Croatian Constitutional Court, Ref. No. U-III-3049/2007. Also, it is necessary to consider overall electrical energy security of the Republic of Croatia, and the fact that the Company has built and invested significant resources in these facilities, that the Company maintains these facilities, and is the owner of all equipment necessary for the operation and functionality of the above-mentioned hydro-power plants.

22. CONTIGENT LIABILITIES (continued)

The Company has filed a motion to the Constitutional Court to institute proceedings to review the constitutionality of Article 23 Paragraph 4 of the Water Management Act with the Constitution and upon conclusion of the procedure to annul the said provision. Furthermore, in 2015 the Ministry of Agriculture has launched amendment procedure to the Water Act.
As part of this process and with consideration of all of the above mentioned, the Company has submitted a proposal for amendment of the provisions of the Water Act, with the aim of clearing the property-legal relations and ownership of the Republic of Croatia over facilities for electricity production built by legal persons in the majority ownership of the Republic of Croatia. The competent Ministry of Economy issued an opinion with approval of the Company's initiative to amend the Water Act.

In 2016 and 2017, the Company continued its activities in order to address the issue of ownership of hydroelectric power plants reported on the mentioned issue to the Ministry of Environmental Protection and Energy.

23. LIABILITIES BASED ON THE SHARE IN THE RESULT

On 8 June 2017, the General Assembly of the Company issued a decision on dividend payment for 2016 in favour of the State Budget of the Republic of Croatia in the total amount of HRK 794,291 thousand.

24. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements for six months period ended 30 June 2017 were approved by the Management Board and authorised for issue on 24 August 2017.

Signed on behalf of the Management Board on 24 August 2017:

Tomislav Rosandić Management Board Member	Zvonko Ercegovac Management Board Member	Saša Dujmić Management Board Member	Perica Jukić President of the Management Board

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