



HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Consolidated financial statements
and Independent Auditor's Report

As of 31 December 2014

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The Management Board of Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: "HEP d.d." or "the Company") is responsible for ensuring that the annual consolidated financial statements for the year 2014 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13) and the International Financial Reporting Standards effective in the European Union, to give a truthful and objective view of the Company's consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows for that period.

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has drawn up consolidated financial statements under the assumption that the Company is a going concern.

In preparing these financial statements, the Board is responsible for:

- the selection of suitable accounting policies that are then applied consistently;
- reasonable and prudent judgments and estimates;
- following applicable financial reporting standards, and that any material departures are disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on the going concern basis unless such an assumption is not appropriate.

The Board is responsible for keeping proper accounting records, which shall at any time and with reasonable accuracy reflect the Company's consolidated financial position and results of operations and their compliance with the Accounting Act (Official Gazette No 109/07, 54/13) and the International Financial Reporting Standards. The Board is also responsible for safeguarding the Company's assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Signed on behalf of the Board:

Perica Jukić

President of the Board

Hrvatska elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb
Republic of Croatia
30 April 2015

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hrvatska elektroprivreda (HEP) d.d.

1. We have conducted an audit of the accompanying annual consolidated financial statements of Hrvatska Elektroprivreda d.d. (hereinafter: "HEP d.d." or "the Company") which comprise the Consolidated Balance Sheet / Consolidated Statement of Financial Position as at 31 December 2014; Consolidated Statement of Comprehensive Income; the Consolidated Statement of Changes in Equity; the Consolidated Cash Flow Statement for the year ended, and a summary of principal accounting policies and other notes with explanations.

Responsibility of the Company's Management

2. The Company's Management is responsible for the preparation and fair presentation of the enclosed Consolidated Financial Statements according to the International Financial Reporting Standards in effect in the European Union and for internal controls that Management identifies are relevant to prepare the consolidated financial statements free from any significant misstatements whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on the enclosed consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the said circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

4. In our opinion, the enclosed consolidated financial statements, in all materially significant aspects, give a true and fair view of the consolidated financial position of Hrvatska elektroprivreda (HEP) d.d., as at 31 December 2014 and of HEP d.d.'s consolidated financial performance and consolidated cash flows for 2014 in accordance with the Croatian Accounting Act and International Financial Reporting Standards that are effective in the European Union.

Emphasis of matter

5. As described in Note 28 to the consolidated financial statements in the Consolidated Balance Sheet / Consolidated Statement of the Financial Position as at 31 December 2014, the Company has entered liability for a clearing debt to the amount of HRK 759,089 thousand regarding payment under a letter of credit on the basis of consent by the Ministry of Finance with the use of funds pursuant to an interbank agreement. As there is no other document that regulates relations between the Company and the Ministry of Finance regarding the clearing debt up to the date of our independent auditor's report, it has not been clearly defined as either a loan or government subsidy.

Opinion compliance with other legal or regulatory requirements

6. The Management Board is responsible for the preparation of these annual consolidated financial statements for the year ended 31 December 2014 in the prescribed form based on the Statute of the structure and Content of Annual Consolidated Financial Statements (Official Gazette 38/08, 12/09, 130/10) ("Standard Annual Consolidated Financial Statements"). Financial information presented in Company's Standard Annual Consolidated Financial Statements is in accordance with the information presented in Company's Annual Consolidated Financial Statements presented on pages 4 to 95 for which we expressed our opinion as presented in the paragraph above 'Opinion.'

Disclaimer of opinion on compliance of the Annual Report

7. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to Article 17 of the Accounting Act, we are obliged to give our opinion on the compatibility of the Company's Annual Report with the Company's Annual Consolidated Financial Statements. In our opinion, pursuant to the conducted audit of the Company's Annual Consolidated Financial Statements and in comparison with the Company's Annual Report for the year ended 31 December 2014, the financial information presented in the Company's Annual Report and approved by the Management Board on 30 April 2015 is in compliance with the financial information presented in the Company's Annual Consolidated Financial Statements presented on pages 4 to 95 for which we have expressed our opinion as stated in the paragraph 'Opinion' above.

Zagreb, 30 April 2015

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

Audit d.o.o.
Baštijanova 52a
10000 Zagreb

Zdenko Balen, Member of the Board

Marijana Pranjić, Member of the Board

Ines Rožić, Certified Auditor

Dubravka Tršinar, Certified Auditor

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Note	2014 HRK '000	2013 HRK '000 Restated
Income from electricity sales	4	10,575,290	11,947,939
Income from thermal power sales	4	671,946	763,461
Income from gas sales on wholesale market	4, 34	689,575	-
Income from gas sales to customers	4	371,490	406,167
Other operating income	4,5	1,290,873	1,577,350
Total operating income		13,599,174	14,694,917
Cost of electricity supplies		(1,200,023)	(2,186,214)
Fuel costs		(1,642,692)	(2,609,803)
Costs of gas sales on wholesale market	34	(717,721)	-
Staff costs	6	(1,880,519)	(1,868,718)
Depreciations costs	10, 11	(1,897,190)	(1,836,801)
Other operating expenses	7	(3,060,580)	(3,819,773)
Total operating expenses		(10,398,725)	(12,321,309)
Profit from operations		3,200,449	2,373,608
Financial income	8	433,671	62,541
Financial expenses	8	(556,577)	(873,287)
Net financial expenses		(122,906)	(810,746)
Profit before tax		3,077,543	1,562,862
Profit	9	(612,119)	(264,658)
Profit for current year		2,465,424	1,298,204
Attributable to:			
Equity holder		2,462,332	1,292,256
Non-controlling interest		3,092	5,948
		2,465,424	1,298,204

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

Consolidated Statement of Comprehensive Income (continued)

For the year ended 31 December 2014

	2014	2013
	HRK '000	HRK '000
		Restated
Profit for the current year	<u>2,465,424</u>	<u>1,298,204</u>
Other comprehensive income		
Foreign currency translation differences	81	401
Fair valuation of JANAF shares	<u>52,330</u>	<u>(3,429)</u>
Total items which are transferred into profit and loss account	52,411	(3,028)
Other comprehensive income / (loss), net	<u>52,411</u>	<u>(3,028)</u>
Total comprehensive income for the current year	<u>2,517,835</u>	<u>1,295,176</u>
Total comprehensive income attributable to:		
Equity holder	2,514,662	1,288,827
Non-controlling interest	<u>3,173</u>	<u>6,349</u>
	<u>2,517,835</u>	<u>1,295,176</u>

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

Signed on behalf of the Company on 30 April 2015

Perica Jukić

President of the Board

Consolidated Balance Sheet/Consolidated Statement of Financial Position
As at 31 December 2014

		31 December	31 December	1 January
ASSETS	Note	2014	2013	2013
		HRK '000	HRK '000	HRK '000
			Restated	Restated
Long-term assets				
Property, plant and equipment	10, 14	25,334,813	25,318,021	25,121,211
Capital works in progress	10	4,188,741	4,076,885	3,929,074
Intangible assets	11	77,046	69,433	73,968
Investment property	12	236,153	233,057	233,917
Prepayment for tangible assets	13	41,486	57,766	72,318
Long-term loans and deposits	16	4,533	6,160	514
Assets available for sale and other investments	17	192,676	125,166	129,353
Other long-term assets	18	49,804	58,812	67,318
Deferred tax assets	9	653,907	756,647	724,929
		30,779,159	30,701,947	30,352,602
Short-term assets				
Inventories	19	1,613,297	1,154,404	1,250,037
Trade receivables	20	1,864,680	1,800,076	1,873,245
Other short-term receivables	21	519,682	654,169	317,996
Cash and cash equivalents	22	1,079,900	260,844	605,024
		5,077,559	3,869,493	4,046,302
TOTAL ASSETS		35,856,718	34,571,440	34,398,904

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

Consolidated Balance Sheet/Consolidated Statement of Financial Position (continued)
As at 31 December 2014

CAPITAL and LIABILITIES	Note	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Share capital	23	19,792,159	19,792,159	19,792,159
Capital reserves	23	54,947	2,617	6,046
Retained earnings	23	2,201,265	18,809	(1,207,682)
Equity attributable to equity holder		22,048,371	19,813,585	18,590,523
Non-controlling interest	15	29,202	31,977	47,283
Total equity		22,077,573	19,845,562	18,637,806
Long-term borrowings	24	1,262,036	1,722,010	1,839,630
Long-term liabilities toward the state	25	21,690	24,451	27,544
Long-term provision	26	902,779	808,382	661,411
Bonds issued	27	3,194,986	3,278,893	3,335,608
Other long-term liabilities	28	4,499,502	5,038,526	4,911,633
Deferred tax liability		13,573	654	1,511
Total long-term liabilities		9,894,566	10,872,916	10,777,337
Trade payables	32	1,590,745	1,580,440	2,492,729
Current portion of long-term bonds issued	27	93,380	93,380	593,380
Current portion of long-term borrowings	24	416,349	208,838	132,084
Short-term borrowings	29	8,981	692,654	410,843
Taxes and contributions payable	30	361,095	165,670	347,817
Interest payable		38,263	41,132	45,574
Liabilities to employees	31	151,240	145,940	140,568
Other short-term payable	32	1,224,526	924,908	820,766
Total current liabilities		3,884,579	3,852,962	4,983,761
TOTAL CAPITAL AND LIABILITIES		35,856,718	34,571,440	34,398,904

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

Signed on behalf of the Company on 30 April 2015

Perica Jukić

President of the Board

Consolidated Statement of Changes in Equity
For the year ended 31 December 2014

	Share capital	Capital reserves	Retained earnings/ transferred (loss)	Equity attributable to the equity holder of the parent	Non- controlling interest	Total equity
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
31 December 2012	19,792,159	6,046	118,915	19,917,120	47,283	19,964,403
Effect of restatement	-	-	(1,326,597)	(1,326,597)	-	(1,326,597)
Balance at 1 January 2013 Restated	19,792,159	6,046	(1,207,682)	18,590,523	47,283	18,637,806
Transferred losses	-	-	(271)	(271)	-	(271)
Transferred losses - NEK	-	-	(75,081)	(75,081)	-	(75,081)
Surpluses of land	-	-	1,622	1,622	-	1,622
Profit for the current year	-	-	1,292,256	1,292,256	5,948	1,298,204
Translation differences	-	-	-	-	401	401
Fair value - JANAF shares	-	(3,429)	-	(3,429)	-	(3,429)
Total comprehensive income for the current year	-	(3,429)	1,292,256	1,288,827	6,349	1,295,176
Non-controlling interest	-	-	-	-	(8,707)	(8,707)
Distribution of dividend RWE	-	-	-	-	(12,948)	(12,948)
Balance at 31 December 2013	19,792,159	2,617	10,844	19,805,620	31,977	19,837,597
Restatement	-	-	7,965	7,965	-	7,965
Balance at 1 January 2014 Restated	19,792,159	2,617	18,809	19,813,585	31,977	19,845,562
Effect of restatement - NE Krško	-	-	2,135	2,135	-	2,135
Allocation of retained earnings	-	-	(284,918)	(284,918)	-	(284,918)
Surpluses in land	-	-	2,907	2,907	-	2,907
Income in current year	-	-	2,452,411	2,452,411	3,092	2,455,503
Income in current year - NEK	-	-	9,921	9,921	-	9,921
Translation differences	-	-	-	-	81	81
Fair value JANAF shares	-	52,330	-	52,330	-	52,330
Total comprehensive income for the current year	-	52,330	2,462,332	2,514,662	3,173	2,517,835
Non-controlling interest	-	-	-	-	(5,948)	(5,948)
Balance at 31 December 2014	19,792,159	54,947	2,201,265	22,048,371	29,202	22,077,573

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

Signed on behalf of the Company on 30 April 2015

Perica Jukić

President of the Board

Consolidated Cash Flow Statement
For the year ended 31 December 2014

	2014	2013
	HRK '000	HRK '000 Restated
Cash flow from operating activities		
Profit in current year	2,465,424	1,298,204
Income tax expense recognised in profit	509,764	296,377
Net financial expense	122,906	810,746
Gain from real estate fair valuation	(3,954)	(4,907)
Decrease of other long-term assets	(49,311)	(20,179)
Fair value adjustment JANAF shares	52,330	(3,429)
Loss on fair value adjustment of derivatives	393,281	(391,808)
Depreciation – real estate, plant & equipment & intangible assets	1,897,190	1,836,801
Increase/ value adjustment of receivables	56,689	25,811
Increase / value adjustment of inventories	19,892	47,987
Increase/(decrease) provisions	94,397	115,744
<i>Operating cash flows before movements in working capital</i>	<u>5,558,608</u>	<u>4,011,347</u>
Increase trade receivables	(121,293)	67,305
Decrease in inventories	(478,785)	30,418
(Increase) /decrease other short-term assets	(60,454)	(162,397)
(Decrease / increase trade liabilities	(67,470)	(639,960)
Increase other short-term liabilities	798,242	(50,994)
(Decrease) other long-term liabilities	(607,062)	93,642
Cash generated from operations	<u>5,021,786</u>	<u>3,349,361</u>
Paid income tax / Income tax return	(465,018)	(364,946)
Interest paid	(404,220)	(378,355)
NET CASH (USED FOR) /OPERATING ACTIVITIES	<u>4,152,548</u>	<u>2,606,060</u>
INVESTMENT ACTIVITIES		
Interest received	13,210	13,817
Acquisition of property, plant and equipment	(2,042,535)	(2,166,937)
Property, plant and equipment sold	20,845	33,507
Change in the non-controlling interest and dividend payment to RWE	(5,948)	(21,655)
NET CASH USED IN INVESTMENT ACTIVITIES	<u>(2,014,428)</u>	<u>(2,141,268)</u>

Consolidated Cash Flow Statement (continued)
For the year ended 31 December 2014

	2014 HRK '000	2013 HRK '000
		Restated
FINANCING ACTIVITIES		
Gains from long-term loans	58	23,955
Gains from short-term loans	-	478,000
Repayment of long-term loans	(258,958)	(134,547)
Repayment of bonds issued	(93,380)	(593,380)
Repayment of short-term loans	(681,866)	(583,000)
Allocation of dividend to the parent	(284,918)	-
NET CASH USED IN FINANCING ACTIVITIES	(1,319,064)	(808,972)
	819,056	(344,180)
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT START OF YEAR	260,844	605,024
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,079,900	260,844

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

Signed on behalf of the Company on 30 April 2015

Perica Jukić

President of the Board

Notes to the Consolidated Financial Statements – HEP d.d. (continued)

For the year ended 31 December 2014

1. GENERAL

The Hrvatska elektroprivreda Group, Zagreb (hereinafter: the “Group”) consists of the parent company Hrvatska elektroprivreda d.d., Zagreb (hereinafter: “HEP d.d.” or the “Company”) and the subsidiaries listed in Note 35.

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37. The principal activities of the Group are the generation, transmission and distribution of electricity, and the control of electricity power systems. In addition to these main activities, the Group deals with the generation and distribution of thermal power through the district heating systems in Zagreb and Osijek, and the distribution of gas in Osijek and Đakovo.

All the Group’s activities are governed by applicable laws, regulations and decisions issued by the Croatian Government.

As at 31 December 2014, the Group employed 12,061 workers (31 December 2013: 11,877).

As at 31 December NEK d.o.o. employed 646 workers (2013.: 635)

These consolidated financial statements are presented in Croatian Kuna (HRK) since that is the currency in which the majority of the Group’s transactions are denominated.

Energy Laws

The Croatian Parliament (Sabor) on 19 October 2012 adopted Energy Act regulating energy activities and on 8 February 2013 Sabor passed the Electricity Market Act. The Gas Market Act was adopted on 22 February 2013 and the District Heating Energy Act in turn was adopted on 21 June 2013. The new laws and by-laws determine the further restructuring of the HEP Group and the adjustment of operations in line with European Union guidelines and directives.

The HEP d.d. and subsidiary companies its services continue to perform as by law determined public services: the transmission, distribution and supply of electricity which is performed as a universal service and a guaranteed service.

The generation, supply and trading of electricity are performed as market activities as is defined by regulations which regulate energy activities and trading on energy markets.

The supply of electricity is performed according to rules by which are regulated market relations, where the energy subjects freely contract the quantity and price of electricity delivered. The supply of electricity which is performed as a universal service and as a guaranteed service is performed according to regulated conditions to buyers who have the right to such mode of supply and choose it freely or utilize it automatically. Buyers in the household category are supplied with electricity within the system of a public service commitment as do privileged customers who did not utilize the right to choice a suppliers or have remained without a supplier. Some customers in the household category have exercised the right to choose a supplier.

HEP d.d. and subsidiary companies make adjustments to Group’s organization structure according to changed regulations and time-limits prescribed by these regulations.

1. GENERAL (continued)

Energy Laws (continued)

In April 2012, the Government of the Republic of Croatia (RH) adopted a Decision on The Electricity Generation Tariff Model, with the exemption of privileged customers, with no tariff item amounts; The Electricity Transmission Tariff Model, with no tariff item amounts; The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts. The Group has been applying the tariff models since 1 May 2012; Decision on the amount of tariff items for electricity generation with the exception of privileged customers, without tariff items and the tariff system for the supply of electricity with the exception of privileged customers without tariff items which were applicable until 30 September 2013.

In February 2013 the Electricity Market Act was adopted which determines that each customer has the right to freely choose a supplier, and customers in the household category have the right to electricity supplies as an universal service. Customers, who did not utilize the right to choose a supplier or have remained without a supplier, consume the service of guaranteed supply which is performed as a public service. Pursuant to the provisions of the Electricity Market Law on 13 September the Croatian Electricity Regulatory Agency (HERA) adopted the Methodology for determining tariff items for electricity supplies within the framework of a universal service and on 17 December 2013 HERA adopted the Methodology for determining the amount of tariff items for guaranteed electricity supplies.

As of 1 October 2013 electricity supplies for households within the framework of universal services are subject to tariff items for electricity and supplies and fees in accordance with the Methodology for determining the amount of tariff items for electricity supplies within universal services and a decision by HEP Operator distribucijskog sustava d.o.o. on the amount of tariff items for electricity supplies within the framework of universal services dated 1 October 2013.

Customers supplied with electricity as a guaranteed supply, pay for supplies to the amount of tariff items in accordance with the Methodology for determining the prices for calculated electricity balancing, subject to reliable discrepancies. As of 1 July 2014 tariff items for electricity supplies in accordance with the Methodology for determining amounts of tariff items for guaranteed electricity supplies and a HERA decision on the amount of tariff items for guaranteed electricity supplies dated 12 June 2014 are applied for supplies to customers within the framework of guaranteed supplies.

1. GENERAL (continued)

Governance and Management

General Assembly

The General Assembly consists of members representing shareholder interests:

Ivan Vrdoljak	Member	Since 21 November 2012
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Supervisory Board

Members of the Supervisory Board in 2014

Nikola Bruketa	President	Member since 23 February	2012
Žarko Primorac	Member	Member since 23 February	2012
Ivo Uglešić	Member	Member since 23 February	2012
Ante Ramljak	Member	Member since 23 February	2012
Igor Džajić	Member	Member since 19 September	2012
Mirko Žužić	Member	Member since 19 September	2013
Juraj Bukša	Member	Member since 5 June	2014
Jadranko Berlengi	Member	Member since 3 June	2008

Supervisory Board in 2013

Nikola Bruketa	President	Member since 23 February	2012
Žarko Primorac	Member	Member since 23 February	2012
Ivo Uglešić	Member	Member since 23 February	2012
Ante Ramljak	Member	Member since 23 February	2012
Igor Džajić	Member	Member since 19 September	2012
Mirko Žužić	Member	Member since 19 September	2013
Jadranko Berlengi	Member	Member since 3 June	2008

Notes to the Consolidated Financial Statements – HEP d.d. (continued)

For the year ended 31 December 2014

1. GENERAL (continued)

Governance and Management (continued)

Management Board in 2014

Perica Jukić	President	Member since 10 May 2013, President since 12 September 2014
Tomislav Šerić	President	Member since 10 May 2013 to 12 September 2014
Zvonko Ercegovic	Member	Member since 23 February 2012
Ivan Matasić	Member	Member since 23 February 2012 to 12 September 2014
Krunoslava Grgić-Bolješić	Member	Member since 23 February 2012 to 12 September 2014
Željko Štromar	Member	Member since 16 December 2013 to 31 March 2015
Saša Dujmić	Member	Member since 4 December 2014

Management Board in 2013

Tomislav Šerić	President	Member since 10 May 2013
Zlatko Koračević	President	Member to 10 May 2013
Zvonko Ercegovic	Member	Member since 23 February 2012
Ivan Matasić	Member	Member since 23 February 2012
Krunoslava Grgić-Bolješić	Member	Member since 23 February 2012
Perica Jukić	Member	Member since 10 May 2013
Rodoljub Lalić	Member	Member to 10 May 2013
Željko Štromar	Member	Member since 16 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Group's principal accounting policies which have been applied consistently in the current year and with the year before that, is set out below.

Presentation of financial statements

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") effective in the European Union.

The IFRS issued by the Committee for Financial Reporting Standards appointed by the Government of the RH (Official Gazette 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12, 45/13, 69/13, 73/13), which were effective until Croatia entered the European Union, are in accordance with the IFRS established by the European Commission and instruments in the Official Gazette of the European Union.

Financial statements are prepared on the basis of historical costs with the exception of certain financial instruments that are stated in revaluated amounts. The financial statements are stated in thousands of Croatian Kuna ('000 HRK), as the official operating currency that represents the Group's principal business operations.

Basis of accounting

The Group maintains its accounting records in Croatian and the reporting currency is the Croatian Kuna in accordance with Croatian laws and accounting principles and practices observed by enterprises in Croatia. The accounting records of the subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The Group's financial statements are prepared in thousands of HRK (HRK '000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, interpretations and supplements issued by the IASB and adopted in the European Union that are in force

As of 31 December 2014, the Company adopted the amended IASB standards listed below and a comparison of data has been presented. The adopted standards did not influence the principal as of 1 January 2014:

- IFRS 10 "Consolidated Financial Statements," issued in May 2011 and supplemented in 2012 replaces the preceding IAS 27 version (2008) "Consolidated and Separated Financial Statements" effective for the annual period beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements," issued in May 2011 and supplemented in 2012 replaces the preceding IAS 31 "Interest in Joint Ventures," (effective for the annual period beginning on or after 1 January 2014);
- IFRS 12 "Disclosure of Interests in Other Entities," issued in May 2011 and supplemented in 2012 (effective for the annual period beginning on or after 1 January 2014);
- IAS 27 "Unconsolidated Financial Statements," (amended and supplemented in 2011), consolidated requirements previously described in IAS 27 (2008) are revised and contained in IFRS 10 "Consolidated Financial Statements," (IAS 27 in force (amendment and supplement in 2011) is applied to the annual period beginning on or after 1 January 2014);
- IAS 28 "Investments in Associates and Joint Ventures," (amended and supplemented in 2011). This version replaces IAS 28 (2003) Investments in Associates," (IAS 28 in force (amended and supplement in 2011) is applied to the annual period beginning on or after 1 January 2014);
- IFRS 21 "Levies," – issued in May 2013, (effective for the annual period beginning on or after 1 January 2014);
- Supplements to IAS 32 – Clearance of financial assets and financial liabilities (effective for the annual period beginning on or after 1 January 2014);
- Amendments and supplements to IAS 39 – Eligible Hedge Items (effective for the annual period beginning on or after 1 January 2014).

Standards, interpretations and supplements that have not come into force as yet

On the date these financial statements were approved the following amended standards and interpretations had been issued but were not in force as at 31 December 2014:

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 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 affect the classification and measurement of financial instruments.
- 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 Company prepares its Financial Statements in accordance with IFRS and does not apply this standard.
- Amendments and supplements to IAS 19 Employee Benefits – IAS 19 requires subjects to consider employee or third party contributions in accounting defined earning. This amendment is effective for the annual period beginning on or after 1 July 2014 The Company does not expect this amendment to be relevant to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Annual Improvements 2010-2012, effective as of 1 July 2014 and it is not expected that they will have any significant impact on the Company. They include:
 - IFRS 2 Share-based Payment
 - IFRS 3 Business Combinations
 - IFRS 8 Operating Segments
 - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
 - IAS 24 Related Party Disclosures
- Annual Improvements 2011-2013, effective as of 1 July 2014 and it is not expected that they will have any significant impact on the Company. They include:
 - IFRS 3 Business Combinations
 - IFRS 13 Fair Value Measurement
 - IAS 40 Investment Property
- 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.

Management anticipates that the application of other standards, amendments and interpretations will not have a materially significant impact on the financial statements in the period of their initial application.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Basis for the preparation of the Group's financial statements

The Group's financial statements represent aggregate amounts of the assets, liabilities, capital and reserves, and the results of its operations for the year then ended. All intragroup balances and transactions have been eliminated.

Principles and method of consolidation

The consolidated financial statements incorporate the financial statements of HEP d.d. and entities controlled by HEP d.d. (subsidiaries). A list of the Group's subsidiaries is provided in Note 35. Control is achieved where HEP d.d. has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group

All intragroup transactions, balances, income and expenses are eliminated on consolidation

Non-controlling interests in the net assets of consolidated subsidiaries in these financial statements are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination.

Reporting currency

The Group's consolidated financial statements are prepared in Croatian Kuna.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in associated

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting except when classified as held for sale in accordance with IFRS 5 "Non-current Assets Held For Sale and Discontinued Operations."

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Goodwill is included in the net book value of investments and is tested for impairment as part of investment. Any deficiency of the cost of acquisition below the Group's share of the fair value of the identifiable net assets of the associate at the date of acquisition is credited to profit and loss in the period of acquisition. Where the Group transacts with its associate, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Investment in jointly controlled entities

Jointly controlled entities are entities where the Group and other parties are engaged in jointly controlling business activities; i.e. when strategic financial and business decisions demand unanimous approval of all parties that participate in control.

Certain individual financial statements by companies, for investment by jointly controlled companies assets and liabilities are recorded in accordance to the share in joint management (Note 13 Investment in NEK d.o.o.).

Where a Group entity directly undertakes its activities under joint venture arrangements, the Group's share of jointly controlled assets and any liabilities jointly incurred with other ventures are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to / from the Group and their amount can be measured reliably. Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using full consolidation.

The Group reports its interests in jointly controlled entities using full consolidation for TE Plomin d.o.o. and accounts for assets and liabilities based on its share in joint control.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of contributions and other employee benefit costs

The Group has no defined post-retirement benefit plans for its employees or management in Croatia or abroad. Accordingly, no provision for these costs has been included.

The Group is obliged to pay contributions to pension and health insurance funds in Croatia in accordance with legislative regulations. This obligation applies to all staff hired on the basis of employment contract. The contributions are paid at a certain percentage determined on the basis of gross salary.

	2014 and 2013
Pension insurance contributions	20%
Health insurance contributions as of 1 April 2014	15%
Employment fund contributions	1.7%
Occupational injuries	0.5%

Contributions for health insurance

As of 1 May 2012 to 31 March 2014 a rate of 13% applied and then as of 1 April that rate was 15%.

The Group's companies are obliged to withhold pension insurance contributions from the employees' gross salaries.

Contributions on behalf of the employer and the employees are recognised as cost in the period in which they are incurred (see Note 6).

Pension allowances and jubilee awards

The Group pays employees jubilee awards and one-off retirement bonuses upon retirement. The obligations and expenses for these payments are determined with the application of the method of forecasting credit units. The method of forecasting credit units for each period of seniority is observed as the basis for additional units of eligibility to allowances and each unit is measured separately until the realisation of final liabilities. This liability is determined at the current value of forecasted future monetary outflow with the application of the discount rate which is similar to the interest rate of state bonds in the RH released on the market where the currency and maturity is in accordance with the currency and estimated duration of liabilities for the payment of these allowances. Liabilities and the costs of these allowances were calculated by a certified actuary.

Jubilee awards

The Group provides long-service benefits (jubilee awards) and retirement benefits to its employees. The long-service benefits range from HRK 1,500 to HRK 5,500 net, and are provided for tenure from 10 to 45 years of continuous employment with the employer in the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension allowances and jubilee awards (continued)

Severance packages

A Collective Agreement has been in force as of 1 October 2014 (which relates to all members of the HEP Company), pursuant to which each employee is eligible for a severance package upon retiring amounting to 1/8 of the average gross monthly wage of employees for the three months prior to retiring and for each completed year of continual employment in the Company. That Collective Agreement is valid until 30 June 2016.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses, except for land, which is carried at cost.

The estimated useful lives, residual values and depreciation methods are reviewed at each year's end, and each change in the estimate is counted on the basis of new expectations and has the effect in the current and the future periods. Property, plant and equipment in used are depreciated using the straight-line method on the following bases:

Buildings	2014 and 2013
Hydroelectric power plants (flood gates and dams, buildings and other buildings as well as accompanying structures)	20 – 50 years
Thermal power plants (buildings and other structures)	33 – 50 years
Electricity transmission and distribution plants and facilities (transmission lines and buildings of transformer stations, switch-yard, dispatch centres and other)	20 – 40 years
Water and steam pipelines and other thermal power generation	33 years
Gas pipelines	20 – 25 years
Administrative buildings	50 years
Plant and equipment	
Hydroelectric power plants	10 – 33 years
Thermal power plants	6 – 25 years
Electricity transmission plants and facilities (electric parts of transformer stations and transformers; and electric parts of transmission lines)	15 – 40 years
Electricity distribution plants and facilities (electric parts of transformer stations and transformers, electric parts of distribution lines, measuring instruments, meters and other equipment)	8 – 40 years
Thermal power stations, hot-water pipelines and other equipment	15 – 30 years
Gas meters and other gas network equipment	5 – 20 years
Other equipment and vehicles	
IT equipment	5 – 20 years
Software license	5 years
Telecommunications equipment	5 – 20 years
Vehicles	5 – 8 years
Office furniture	10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

The initial cost of property, plant and equipment consists of the purchase price, including all customs duties and non-refundable taxes and all costs directly attributable to bringing an asset to the condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into use and are charged to expenses in the period in which they are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalization include costs of periodic, planned significant inspections and overhauls necessary for further operation.

Any gains or losses arising from the disposal or withdrawal of property, plant and equipment is determined as the difference between the proceeds of gains on sale and the carrying amount of the asset and they are credited or charged, respectively, to the income statement.

Impairment of property, plant and equipment and intangible assets.

Items of tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset, tangible or intangible, exceeds its recoverable amount, an impairment loss is charged to the income statement.

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

A recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment (continued)

The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the risks specific to the asset of the estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the relevant cash-generating unit.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is land or a building other than an investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets

Intangible fixed assets include patents, trademarks and licenses and are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line method over a period of 5 years (licences and IT programmes).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Investment in property ceases to be recognised, i.e. removed due to sale or permanent withdrawal from use when no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property ceases to be recognized.

Finance and operating leases

The Group as a lessee

The Group has no significant finance lease arrangements and no significant operating lease arrangements were entered during 2014 and 2013. The Group recognises amounts payable under operating leases are recognised as an expense on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

Trade receivables and prepayments

Trade receivables are carried at the invoiced amount less any impairment for bad and doubtful accounts.

Management conducts a value adjustment for bad of doubtful accounts based on a review of the total age structure of the receivables and based on a review of significant, individual amounts included in the receivables.

As the collectability of certain receivables over a longer period is not certain, the Group makes a reasonable assessment of allowance for irrecoverable amounts:

Age of receivables	Percentage if impairment 2014 and 2013
31 – 60 days	1.5%
61 – 90 days	3%
91 -180 days	9%
181-365 days	30%
More than 1 year	90%

Legally disputed receivables and receivables from subjects in the process of pre-bankruptcy settlement (principal debt and interest) are fully provided, regardless of the number of past due days and the provision is charged to expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories comprise mainly of materials and small items and are carried at the lower of cost, determined using the weighted average price less allowance for obsolete and excessive inventories, and net realisable value. Management provides for inventories based on a review of the overall ageing structure of inventories, as well as of individual significant amounts of inventories.

Since 2013 inventories include CO₂ emission units, with the inclusion of the RH into the European system of trading with emission units of green-house gasses (EU ETS), Hrvatska elektroprivreda as a producer of electricity and heating energy is obliged to purchase emission units of green-house gasses that correspond to verified CO₂ emission produced by burning fossil fuel in thermal power plants which then emit CO₂.

Since April 2014 stocks consist of gas for sale on wholesale markets and are stated at the lower value of the cost of supply determined on the basis of the average weighted price. (Notes 18 and 31)

The costs of stocks of gas sold directly to customers are calculated using the method of specific identification of their individual costs.

Cost comprises the invoiced amount as well as all other costs directly attributable to bringing inventories to their location and the condition of being readily available for use. The average weighted price method is used to determine the cost of inventories

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of income in the period in which they are incurred. Short-term borrowings and supplier loans are recorded at original amount granted less repayment. Interest expense is charged to income statement on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

Individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Croatian Kuna (HRK), which is the functional currency of the Group and the currency presented in the consolidated financial statements.

In preparing the financial statements of individual Group entities, transactions in currencies are translated to the functional currency of the entity at the exchange rate prevailing on the date of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the year-end rates. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising from the settlement of monetary items, and of the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising for retranslation of non-monetary items carried at fair value are included in profit or loss for the period as finance cost except for differences arising on the retranslation of non-monetary assets available for sale, in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting the consolidated financial statements, assets and liabilities of the Group's foreign operations are expressed in Croatian Kuna using exchange rates prevailing at the date of the statement of financial position. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising on the year-end translation, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the amount in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax periods

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, increased for transaction costs, except for those financial assets classified as at fair value through profit or loss.

Financial assets are classified as "assets available for sale" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the depreciated cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets available for sale

Shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends has been established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

The fair value of AFS financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of reporting period. The change in fair value attributable to translation differences that result from a change in depreciated cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans, and other receivables with fixed or regular payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Decrease in value of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at depreciated cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the depreciated cost would have been had the impairment not been recognised.

Previously entered losses subsequent to impairment of principal instruments available for sale are not cancelled through the income statement and any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Investments

Investments in immaterial non-consolidated companies are generally recorded at cost less provisions for any impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at depreciated cost using the effective interest method.

The effective interest method is a method of calculating the depreciated cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Cessation of recognising financial liabilities

The Company ceases to recognise financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative Financial instruments

The Group has entered into an interest rate swap to manage its exposure to interest rate. Further details of derivative financial instruments are disclosed in Note 27.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. Where discounting is used, the increase in provisions that reflects the passage of time is recognized as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in preparing the financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to employee benefits, useful lives of property, plant and equipment, impairment of assets and determination of fair values of assets and liabilities, and estimated decommissioning costs. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the consolidated financial statements, when determinable.

Recognition of income

Operating income is realised primarily from the sale of electricity to households industrial and other customers within Croatia. These sales constitute the main source of the Group's operating income.

Income from the sale of electricity is recognised according to the best Management estimate of the actual energy consumed based on the energy data and tariff items under the cost-recovery models called Electricity Transmission Tariff Model with no Tariff Amounts and The Electricity Distribution Tariff Model, with no Tariff Amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts until 30 September 2013 and the Methodology for determining of the amounts of tariff items for the supply of electric energy in the frame of universal service since 1 October 2013. Recognition of income is based on Decision of the Government of the Republic of Croatia on the level of tariff items from April 2012 and the Decision of HEP Operator distribucijskog sustava d.o.o. on the level of tariff items for the supply of electric energy in the frame of universal service from September 2013. Customers supplied with electricity as a guaranteed supply pay for supplies to the amount of tariff items in accordance to the Methodology for determining prices to calculate electricity balanced subjects responsible for discrepancies and as of 1 July 2014 they are subject to tariff items for electricity in accordance with the Methodology for defining tariff items amounts for guaranteed electricity supplies and the decision by the Croatian Electricity Regulatory Agency (HERA) of the amount of tariff items for guaranteed electricity supplies date 12 June 2014. Income from the supply of electricity for customers who have selected a supplier are recognised at the price that is in accordance with the Methodology of count of electric energy for privileged buyers in the category of entrepreneurs of the HEP Opskrba and is based on data of sales achieved to buyers with contracted electricity prices and supply fees that are based on the Methodology to calculate electricity prices for supply to buyers by HEP Opskrba, which was adopted by the Supervisory Board of HEP Opskrba. For buyers in the household category, the Decision by HEP d.d. Management of 15.11.2013 is applied – Approval of new product for household customers from HEP Supply which approves the release of the HEPI tariff model on the market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income from connection fees

As of 1 July 2009 Group has adopted IFRIC 18 "Transfers of Assets from Customers".

IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer asset (item or property, plant and equipment or cash) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. When the item of property, plant and equipment transferred from a customer meets the definition of an asset the Company must recognize the asset in its financial statements.

Since 1 July 2009 the connection fees received from customers have been recognized in the income when the fee is received at the moment when the customer is connected to the grid or at the moment when the customer has continuous access to services.

Segmental disclosures

The Group has fully adopted IFRS 8 "Operating Segments" and presented operating segment disclosures required by the Standard, since it has debt instruments, which are traded on the public market.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical judgement for the application of accounting policies

In the application of the accounting policies, which are described in Note 2, Management has made certain judgments that had a significant impact on the amounts reported in the financial statements (irrespective of the underlying estimates referred to below).

These judgments are provided in detail in the accompanying notes. However, the critical judgments relate to the following areas:

Useful lives of property, plant and equipment

As described in Note 2, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

Fair value adjustment of financial assets and interest swap

As described in Note 20, Management uses its judgment to estimate whether trade and other receivables have suffered an impairment loss. Management believes that the carrying amount of the interest-rate swap approximates its fair value as disclosed in Note 27.

Provisions for environment protection

The exact scope of activities or technologies to be applied has not been specified by the applicable laws or regulations. In determining the level of provisions for environmental protection and decommissioning, Management relies on the prior experience and its own interpretation of the current laws and regulations. Pursuant to Article 4.1 of the Law on Acknowledging the Contract between the Government of the Republic of Croatia and the Government of the Republic of Slovenia on Regulating the Status and other Legal Relations in Respect of Investments in, Exploitation and Decommissioning of, the Nuclear Power Plant Krško (Official Gazette No. 9/2002), the Croatian Government on 28 April 2006 issued a decree on the payment of funds for the decommissioning and disposal of radioactive waste and consumed nuclear fuel of the Nuclear Power Plant Krško.

The decommissioning costs of thermal power plants represent the discounted value of the estimated decommissioning costs of the Group's thermal power plants.

Impairment based on higher or lower calculated income

After analysing a number of different methods of approximation (five-year average, a linear approximation, etc.), the Management has decided that the method of logarithmic regression is the most appropriate. The amount of losses on the network distribution is calculated using the percentage of the function of the logarithmic regression on the total amount of purchased power from the transmission network – the result of the losses of electricity distribution network in the current year in MWh.

The difference between the thus obtained quantities of losses and over/under billed revenue balance for the current year is calculated.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical judgement for the application of accounting policies (continued)

Impairment based on higher or lower calculated income (continued)

That difference represents the basis for calculation of over / under billed revenue and is multiplied by the average selling prices for households earned in the current year from those without a fixed monthly fee and the result is the difference that increases or decreases the revenues from selling electricity to households.

Impairment of long-term assets

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and expenditure. There were no impairments of the Group's assets that would result from the projections described above.

Availability of taxable income for which assets from deferred taxes can be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets at 31 December 2014 amounted to HRK 653,907 thousand and at 31 December 2013 it amounted to HRK 756,647 thousand (see Note 9).

Actuary estimates used to calculate allowances for retirement

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards at 31 December 2014 amounted to HRK 364,497 thousand and HRK 271,527 thousand as at 31 December 2013. (see Note 26).

Consequences of certain legal disputes

There are a number of legal disputes that have arisen from the regular course of its operations. Provisions are recorded if there is a current liability resulting from a past event (taking into account all available evidence, including the opinion of legal experts) where there is a likelihood of an outflow of resources will be required to settle the obligation and if this can be reliably estimated (see Note 26).

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Critical judgement for the application of accounting policies (continued)

Fair value of shares in JANAF and investment property

In 2014 and 2013 the Company valued its shares in the Adriatic Oil Pipeline (JANAF) at fair value.

The fair value in 2014 and 2013 was determined based on a notification of Central Clearing Deposit Agency regarding open balances as of 31 December. The market value of shares in JANAF at 31 December 2014 amounted to HRK 3,499 (2013: HRK 2,290) resulting in an increase of shares by HRK 65,262 thousand (2013: decrease by HRK 4,318 thousand, see Note 15). The fair value in 2014 and 2013 was included in reserves. A value adjustment of 20% was recorded for the increased value of the investment through an increased value of investment and decrease in provisions and increased in deferred tax liabilities.

Value adjustment

Taking over property from HAC d.o.o.

During the period between 2007 and 2009 HEP d.d. and HAC d.o.o. signed an agreement of mutual relations and joint financing of electricity complexes necessary for electricity supplies in relation to the Construction Law, the Public Roads Law, Energy Law, and Law on Electricity Market as a mutual interest. For the purpose of regulating undefined relations between the contractual parties and taking over the said electricity complex, Supplements to the Agreement were prepared whereby the Company takes over the electricity complex constructed by HAC d.o.o. within the construction of public roads in accordance with the provisions of the Roads Law.

Pursuant to the signed Agreement to take over the electricity complex between HEP d.d. and HAC d.o.o. dated 25 March 2015, HEP d.d. has recorded business events in its accounts for 2014 in accordance with Point 42 of the IRS 8 and restated them for previous periods.

Investments in NE Krško d.o.o.

Pursuant to the published International Financial Reporting Standards (IFRS) 11 "Joint Arrangements" which replaced International Accounting Standard (IAS) 31 "Interest in Joint Venture," joint venture in NE Krško d.o.o. according to International Financial Reporting Standard 11 is classified as a joint arrangement. The Company recognises its share in each asset and each liability, income and expense for its share in the joint arrangement of NEK d.o.o. The Company conducted a value adjustment of investments in NE Krško d.o.o. previously calculated by the method of share and difference between method of share and method of accounting assets and liabilities stated as a debit to retained profit.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Value adjustment

Fair value of shares in thermal power plants

Pursuant to Defined indicators for the impairment of assets and calculation of value of impairment in accordance with IRS 36 the carrying amount of the value of thermal power plants was conducted which at 31.12.2014 were valued at HRK 2,389,405,851.93. The value adjustment consists of the value of buildings and equipment and plants.

For the reason noted, value adjustments were conducted for previous reporting periods.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Restatements in the financial statements as at 1 January 2013

	Note	Amount in the consolidated financial statements prior to restatement HRK '000	Amount in the consolidated financial statements after restatement HRK '000	Effect of restatement increase / (decrease) HRK '000
Consolidated Statement of Financial Position at 1 January 2013				
Property, plant and equipment	10	25,304,113	25,121,211	(182,902)
Current investments	10	3,915,002	3,929,074	14,072
Investment in NE Krško	14	1,754,419	-	(1,754,419)
Deferred tax assets	9	224,904	724,929	500,025
Total long-term assets		31,775,826	30,352,602	(1,423,224)
Inventories	19	981,641	1,250,037	268,396
Other short-term receivables	21	243,614	317,996	74,382
Total short-term assets		3,703,524	4,046,302	342,778
TOTAL ASSETS		35,479,350	34,398,904	(1,080,446)
Retained profit	23	118,915	(1,207,682)	(1,326,597)
Principal subscribed to the owner		19,917,120	18,590,523	(1,326,597)
Total capital		19,964,403	18,637,806	(1,326,597)
Liabilities for taxes and contributions		179,441	347,817	168,376
Other short-term liabilities		381,375	820,766	439,391
Total short-term liabilities		4,737,610	4,983,761	246,151
TOTAL CAPITAL and LIABILITIES		35,479,350	34,398,904	(1,080,446)

Restatements in the consolidated financial statements as at 31 December 2013

	Note	Amount in the consolidated financial statements prior to restatement HRK '000	Amount in the consolidated financial statements after restatement HRK '000	Effect of restatement increase / (decrease) HRK '000
Consolidated Statement of Comprehensive Income for the year ended 31 December 2013				
Costs of electricity supplies		2,670,155	2,186,214	(483,941)
Fuel costs		2,609,803	2,735,799	125,996
Staff costs		1,739,964	1,868,718	128,754
Depreciations costs	10,11	1,799,217	1,836,801	37,584
Other operating costs		3,498,481	3,693,777	195,296
Total operating expenses		12,317,620	12,321,309	(3,689)
Profit from operations		2,377,297	2,373,608	(3,689)
Profit before tax		1,566,551	1,562,862	(3,689)
Corporate income tax		(265,396)	(264,658)	738
Profit for current year		1,301,155	1,298,204	(2,951)
Capital to the owner		1,295,207	1,292,256	(2,951)
		HRK '000	HRK '000	HRK '000
Consolidated Statement of Financial Position for the year ended 31 December 2013				
Property, plant and equipment	10	25,504,613	25,318,021	(186,592)
Current investments		4,062,813	4,076,885	14,072
Property investment		231,285	233,057	1,772
Prepayments for tangible assets	13	57,288	57,766	478
Investment in NE Krško		1,754,419	-	(1,754,419)
Deferred tax assets	9	255,885	756,647	500,763
Total long-term assets		32,125,873	30,701,947	(1,423,926)
Inventories		903,236	1,154,404	251,168
Trade receivables		1,780,129	1,800,076	19,947
Other short-term receivables		490,930	654,169	163,239
Cash and cash equivalents		260,755	260,844	89
Total short-term assets		3,435,050	3,869,493	434,443
TOTAL ASSETS		35,560,923	34,571,440	(989,483)

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Restatements in the consolidated financial statements as at 31 December 2013

Retained earnings	23	1,415,473	18,809	(1,396,664)
Principal subscribed to the owner		21,210,249	19,813,585	(1,396,664)
Total capital		21,242,226	19,845,562	(1,396,664)
Liabilities for long-term loans		1,686,418	1,722,010	35,592
Long-term provisions		781,797	808,382	26,585
Other long-term liabilities		5,037,592	5,038,526	934
Total long-term liabilities		10,809,805	10,872,916	63,111
Liabilities toward suppliers		1,485,965	1,580,440	94,475
Liabilities for short-term loans		672,338	692,654	20,316
Liabilities for taxes and contributions	30	35,540	165,670	130,130
Liabilities to employees		135,168	145,940	10,772
Other short-term liabilities		836,531	924,908	88,377
Total short-term liabilities		3,508,892	3,852,962	344,070
TOTAL CAPITAL I LIABILITIES		35,560,923	34,571,440	(989,483)

4. SEGMENT INFORMATION

The Group generates income from its operations in a single geographical area – the Republic of Croatia. The Group's reportable segments are separated as follows: electricity (generation, transmission, distribution and sale of electricity), heating (distribution and sale of heating power), and gas (distribution and sale of gas).

Each segment's operating profit or loss include all revenue and expenses directly attributable to the reporting business segments. Information about segment financial income, expense and income tax is not provided on a segment level, as the segments are disclosed based on operating profit.

	Electricity		Heating		Gas		Group	
	2014	2013	2014	2013	2014	2013	2014	2013
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Income from core activity	10,575,290	11,947,939	671,946	763,461	1,061,065	406,167	12,308,301	13,117,567
Other income allocated to segments	1,191,846	1,480,459	69,886	66,928	29,141	29,963	1,290,873	1,577,350
Income / losses from operations	3,265,346	2,543,025	(135,068)	(166,615)	70,171	(2,802)	3,200,449	2,373,608
Net financial expenses							(122,906)	(810,746)
Profit tax							(612,119)	(264,658)
Net profit							2,465,424	1,298,204

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 reporting business segments. Total unallocated assets include investments in NE Krško, 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	
	2014	2013	2014	2013
	HRK '000	HRK '000	HRK '000	HRK '000
		Restated		Restated
Electricity	27,807,534	27,706,562	6,613,995	6,481,463
Heating	1,184,190	1,227,066	203,167	178,558
Gas	389,202	347,338	104,419	153,035
Unallocated	6,475,792	5,290,474	6,857,564	7,912,822
Group Total	35,856,718	34,571,440	13,779,145	14,725,878

Information on the largest customers

Income from the sale of electricity in 2014 amounted to HRK 10,575,290 thousand (2013: HRK 11,947,939 thousand).

Income from the sale of district heating energy in 2014 amounted to HRK 671,946 thousand (2013: HRK 763,461 thousand).

Income from the sale of gas in 2014 on the wholesale market amounted to HRK 689,575 thousand and the sale to customers amounted to HRK 371,490 thousand (2013: sale of gas to customers: HRK 406,167 thousand).

Territorial business analysis

The Group operates in Europe, with countries that are members of the European Union and other countries that are not members of the European Union. Presented below is the territorial analysis of the revenue that the Group generated from continuing operations with external buyers of electric energy:

	2014	2013
	HRK '000	HRK '000
		Restated
Croatia	9,815,887	11,236,233
European Union member states	604,645	330,581
Other non-European Union countries	154,758	381,125
	10,575,290	11,947,939

5. OTHER OPERATING INCOME

	2014	2013
	HRK '000	HRK '000
		Restated
Service for connection to network	352,047	349,864
Income od assets to finance connections fees	234,482	233,050
Subsequent collection of receivables previously with the provision made (Note 20)	99,549	90,064
Services rendered	112,187	132,106
Capitalised assets	88,905	95,988
Default interest	58,664	107,097
Income from the sale of materials	39,510	40,812
Income from the sale of cross-border transmission capacity	75,731	61,041
Income compensations mechanisms HOPS – foreign market	35,747	40,044
Income from cancellation of costs for severance pays on the basis of cancellation of employment contract	-	204,712
Reversal of long-term provisions – vacation	70	11,489
Reversal of long-term provisions for retirement benefits and jubilee awards	4,696	62,666
Reversal of long-term provisions – court costs	42,487	25,259
Income from reversal of other provisions	20	28,529
Income of excises to the invoiced electric energy and gas	29,546	16,749
Income in respect of the electricity bill reminders	5,334	5,493
Income from balancing energy	8,389	-
Income in respect of court costs on claims	1,012	7,022
Inventory surplus – fixed assets	7,654	3,079
Income from sale of tangible assets	1,603	5,375
Recovery of receivables previously written-off	8,906	6,000
Other operating income - NEK d.o.o.	5,094	-
Other	79,240	50,911
	1,290,873	1,577,350

In 2015 the Group generated income from grid connection services in the amount of HRK 352,047 thousand (2013: HRK 349,864 thousand) based on IFRIC 18 (Transfer of Assets From Customer).

6. STAFF COSTS

	2014 HRK '000	2013 HRK '000 Restated
Net salaries	1,038,540	1,052,623
Net salaries in NEK d.o.o.	94,546	85,983
Costs of taxes and contributions on salaries	703,240	687,340
Costs of taxes and contributions on salaries - NEK d.o.o.	44,193	42,772
	1,880,519	1,868,717

Total staff costs:

	2014 HRK '000	2013 HRK '000 Restated
Gross salaries	1,741,780	1,739,962
Gross salaries NEK	138,739	128,755
Allowances for staff costs (Note 7)	112,542	128,388
Material rights of employees (Note 7)	73,244	518,370
	2,066,305	2,515,475

Remuneration for members of the Board and executive directors in the Group:

	2014 HRK '000	2013 HRK '000 Restated
Gross salaries	24,034	22,230
Costs of taxes and contributions on salaries	5,439	4,976
Other allowances	3,354	2,635
	32,827	29,841

Allowances for staff costs include transport allowances amounting to HRK 72,539 thousand (2013: HRK 76,613 thousand), daily travel allowance and travelling expenses amounting to HRK 18,024 thousand (2013: HRK 17,368 thousand), supplementary health insurance amounting to HRK 6,770 thousand (2013: HRK 13,219 thousand) amounting HRK 15,209 thousand (2013: HRK 21,155 thousand).

Employee benefit costs include benefits under the Collective Agreement which mostly relate to the costs for severance pays on the basis of the termination of employment contracts amounting to HRK 49,974 thousand and a smaller portion for solidarity support, severance pays, jubilee awards, compensations for the detached life, allowance to children, etc.

7. OTHER OPERATING EXPENSES

	2014	2013
	HRK '000	HRK '000
		Restated
Maintenance costs (service and material)	600,137	550,142
Value provision of trade receivables (Note 20)	221,014	277,866
Gas costs	224,733	361,296
General and administrative expenses	252,775	259,342
Collective services and material	130,910	106,409
Cost of materials	89,895	83,888
Compensation for less taken -over quantities of gas than contracted	2,611	144,859
Purchase of emission units of CO	108,972	98,661
Excises for electric energy and gas	29,546	16,841
Value adjustment of inventories	16,993	48,347
Compensations of staff costs (Note 6)	112,542	128,388
Other material employee benefits (Note 6)	73,244	518,370
NE Krško – – decommissioning expenses according to government	108,719	107,937
Contributions, taxes and fees to the state	85,221	87,121
Litigation provisions	29,668	196,837
Contributions and concession for water	67,198	71,310
Provision for unused annual leave	17,677	552
Fee for the usage of power plant facilities	87,654	76,043
Compensation for water-purification and drainage	14,893	16,301
Write-off of long-term tangible assets	21,318	32,150
Purchase value of sold materials	25,777	29,870
Calculation and collection costs	34,372	36,973
Provisions for retirement bonuses and jubilee awards	97,666	3,065
Provisions for severance pays on the basis of employment contract cancellation	53,568	133,092
Insurance premiums	22,584	23,943
Environment protection contributions	3,319	4,591
Damages and indemnifications	12,929	19,556
Written-off unused receivables	12,510	13,691
Provision for decommission of thermo-electric power plants	7,920	8,427
Value adjustment for long-term tangible assets	73,518	195,296
Costs of fuel - NEK	134,385	125,996
Costs of services - NEK d.o.o.	147,278	-
Other operating costs - NEK d.o.o.	75,364	-
Other costs	63,670	42,613
	3,060,580	3,819,773

8. FINANCIAL INCOME AND EXPENSES

	2014	2013
	HRK '000	HRK '000
Financial income		Restated
Foreign currency exchange gains	22,437	47,608
Interest	13,210	13,817
Fair value swap (Note 27)	393,281	-
Income from dividend	3,000	1,116
Other financial income – NEK d.o.o.	1,743	-
Total financial income	433,671	62,541
Financial expenses		
Interest	(400,378)	(378,883)
Foreign currency losses	(152,571)	(59,685)
Depreciation of deferred interest	(3,833)	(3,804)
Fair value swap	-	(391,808)
Fair value of shares	(202)	(36,136)
Other financial expenses	(5,647)	(7,304)
Financial expenses	(562,631)	(877,620)
Capitalised borrowing costs	6,054	4,333
Total financial expenses	(556,577)	(873,287)
Net losses from financing activities	(122,906)	(810,746)

9. INCOME TAX

	2014	2013
	HRK '000	HRK '000
		Restated
Current tax	509,764	296,377
Deferred tax related to generating and removing temporary difference	102,355	(31,719)
Corporate income tax	612,119	264,658

Value adjustment of differed tax is as follows:

	2014	2013
	HRK '000	HRK '000
		Restated
Balance at 1 January	756,647	224,904
Effect of restatement	-	500,763
Reversal of deferred tax assets	(155,853)	(115,401)
Deferred tax assets recognition	53,113	146,381
Balance at 31 December	653,907	756,647

Deferred tax assets have arisen on the tax not recognized provisions for jubilee awards and regular severance pays, value provisions which are not tax recognized and other provisions. The reconciliation between income tax and profit reported in the income statement is set out below:

	2014	2013
	HRK '000	HRK '000
		Restated
Profit before taxation	3,077,543	1,562,862
Income tax at the Republic of Croatia rate of 20%	615,509	312,572
Tax non recognized income	(138,582)	(40,564)
Tax effect of permanent differences	102,355	(31,719)
Tax effect of losses brought forward from previous years	(768)	(17,097)
Unrecognised deferred tax asset on losses carry forward	33,605	41,466
Tax expense for the current year	612,119	264,658

The Group and its subsidiary Companies are subject to income tax separately, according to the tax laws and regulations of the Republic of Croatia. Other subsidiaries in the Group including HEP d.d. reported total tax losses of HRK 1,528,456 thousand (2013: HRK 1,476,528 thousand), while the Group recorded a total income tax expense of HRK 509,764 thousand (2013: HRK 296,377 thousand) and reported deferred tax assets in the amount of HRK 102,355 thousand (2013: HRK 31,719 thousand).

9. INCOME TAX (continued)

Tax losses are available for carry forward and offsetting against the tax base in future taxation periods until their expiration as prescribed by law, which is 5 years following the year in which the tax losses were incurred. Tax losses reported by the Group and their time-limits for their expiration are presented below:

Tax losses	Total tax loss for the Group	Year of expiry
2010	152,800	2015
2011	434,935	2016
2012	565,360	2017
2013	207,334	2018
2014	168,027	2019
	1,528,456	

As of 31 December 2014 and 2013 the Group did not recognise deferred tax assets arising from tax losses carried forward at certain subsidiaries because the availability of future taxable profit against which the unused tax losses can be utilized is not certain.

9. INCOME TAX (continued)

The Croatian Tax Administration has not performed a review of the Company's income tax returns and its subsidiaries, except a shortened monitoring in 2013. In accordance with local regulations, the Tax Administration may at any time inspect the books and records of the Company within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. Management is not aware of any circumstances that may give rise to a potential material liability in this respect.

The tables below present a summary of changes in deferred tax assets during the year:

HRK '000	Value adjustment of inventory	Provisions for jubilee and retirement benefits	Depreciation at rates above statutory rates	Provisions for the MTM upon bonds	Value adjustment of long-term tangible assets	Other	Total
At 1 January 2013	29,946	115,086	4,112	3	500,048	75,734	724,929
Entered (debited) / in favour of the income statement	8,598	(47,734)	1,275	78,359	715	(9,495)	31,717
At 31 December 2013	38,544	67,352	5,387	78,362	500,763	66,239	756,647
Entered (debited) / in favour of the income statement	3,699	15,062	1,521	(78,362)	(22,882)	(21,778)	(102,740)
At 31 December 2014	42,243	82,414	6,908	-	477,881	44,461	653,907

10. PROPERTY, PLANT AND EQUIPMENT

HRK '000

	Land and buildings	Inventory and equipment	Current investments	Total
ACQUISITION VALUE				
at 1 January 2013	35,847,411	35,732,868	3,915,002	75,495,281
Restated at 1 January 2013	-	1,048,202	-	1,048,202
Restated - NEK d.o.o.	1,073,567	4,769,370	14,072	5,857,009
Balance at 1 January 2013, restated	36,920,978	41,550,440	3,929,074	82,400,492
Transfers	14,917	(16,194)	-	(1,277)
Additions	15,030	115,911	2,032,485	2,163,426
Provisions for legal disputes	-	-	4,642	4,642
Current investments	539,876	1,314,060	(1,872,068)	(18,132)
Inventory surplus	3,916	4,322	-	8,238
Disposals	(46,501)	(235,843)	(17,248)	(299,592)
At 31 December 2013	37,448,216	42,732,696	4,076,885	84,257,797
Transfers	1,700	(1,694)	-	6
Additions	22,011	123,351	1,893,731	2,039,093
Current investments	521,174	1,277,754	(1,825,274)	(26,346)
Inventory surplus	3,707	3,646	236	7,589
Disposals	(92,338)	(262,510)	(6,165)	(361,013)
Increased assets - NEK d.o.o.	6,522	38,802	49,328	94,652
At 31 December 2014	37,910,992	43,912,045	4,188,741	86,011,776
ACCUMULATED DEPRECIATION				
At 1 January 2013	23,114,175	23,161,991	-	46,276,166
Effect of restatement 1 January 2013	-	128,548	-	82,434
Effect of restatement HEP Proizvodnja d.o.o.	661,047	1,839,078	-	2,500,125
Restated - NEK d.o.o.	789,228	3,656,140	-	4,445,368
At 1 January 2013, restated	24,564,450	28,785,757	-	53,350,207
Depreciation costs	720,421	1,053,833	-	1,774,254
Transfers	5,116	(5,408)	-	(292)
Disposals	(43,716)	(224,588)	-	(268,304)
Inventory surplus	745	2,591	-	3,336
HEP Proizvodnja d.o.o.	(23,462)	27,152	-	3,690
At 1 January 2013, restated	25,223,554	29,639,337	-	54,862,891
Decrease assets HEP Proizvodnja d.o.o.	10,115	63,403	-	73,518
Depreciations costs	680,388	948,798	-	1,629,186
Depreciations costs - NEK	24,328	221,511	-	245,839
Transfers	1,034	(341)	-	693
Removed from books	(84,018)	(243,521)	-	(327,539)
Inventory surplus	-	3,635	-	3,635
At 31 December 2014	25,855,401	30,632,822	-	56,488,223
CARRYING AMOUNT				
At 31 December 2014	12,055,591	13,279,223	4,188,741	29,523,555
At 31 December 2013, restated	12,224,662	13,093,359	4,076,885	29,394,906

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Group is in the process of registering its title to land and buildings through the local courts in Croatia. To this date no disputes have been lodged related to the Group's ownership.

11. INTANGIBLE ASSETS

	HRK '000
ACQUISITION VALUE	Intangible assets
Balance at 1 January 2013, restated	614,353
Transfers	1,277
Additions	3,511
Current investments	18,132
Disposals	(10,282)
Balance at 31 December 2013, restated	626,991
Transfers	(6)
Additions	3,442
Current investments	26,346
Disposals	(371)
Balance at 31 December 2014	656,402
ACCUMULATED DEPRECIATION	
Balance at 1 January 2013, restated	540,385
Transfers	273
Depreciation in current year	24,963
Disposals	(8,063)
Balance at 31 December 2013, restated	557,558
Transfers	2
Depreciation in current year	22,165
Disposals	(369)
Balance at 31 December 2014	579,356
CARRYING AMOUNT	
Balance at 31 December 2014	77,046
Balance at 31 December 2013, restated	69,433
Balance at 1 January 2013, restated	73,968

12. PROPERTY INVESTMENT

As of 31 December 2014 investment properties comprise properties held for the purpose of generating earnings from rental and/or capital appreciation, and are carried at fair value based on market price of the Management Board. Fair value comprises the estimated market value at the end of the reporting period. All investment properties are owned by the HEP d.d.

At fair value	31 December 2014 HRK '000	31 December 2013 HRK '000	1 January 2013 HRK '000
		Restated	Restated
Fair value adjustment	231,285	233,917	234,760
Depreciation costs	(269)	(366)	(366)
Net change in value on the basis of fair value adjustment	3,378	(6,192)	(331)
Other changes	157	3,926	(146)
Closing balance at fair value	234,551	231,285	233,917
Property investment - NEK d.o.o.	1,602	1,772	-
Closing balance	236,153	233,057	233,917

13. PREPAYMENT FOR TANGIBLE ASSETS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
JSC Tehnopromexport –TE Sisak	17,727	25,182	49,659
Končar GIM	5,550	10,311	15,528
Litostroj Slovenia	284	2,174	2,444
VOITH Siemens Austria	689	1,887	2,288
Končar inženjering Zagreb	1,002	2,732	-
Spegra Inženjering	-	2,836	-
Đuro Đaković holding	1,844	4,361	-
Končar Inženjering d.d. - TE Sisak	-	-	622
Siemens	1,130	1,999	-
Other	13,260	6,284	1,777
	41,486	57,766	72,318

14. INVESTMENT IN NE KRŠKO

Background

The legal status of the Nuclear Power Plant Krško ("NPPK") was regulated by an inter-republic agreement dating back to 1970 and various agreements between the founders from 1974 and 1982. Pursuant to the stated agreements, the Company had a 50% interest in the NPPK in Slovenia, the other 50% was held by ELES d.o.o., Ljubljana, the legal successor of the Slovenian power utility.

In 1998, the Slovene government passed a decree transforming the NPPK into a public company, Nuclear Power Plant Krško d.o.o. ("NPPK"), and nationalizing the nuclear power plant. Additionally, due to operational disputes, which include disagreements on energy prices to be charged and approval of annual budgets, the supply of power to HEP d.d. from NPPK was cut on 30 July 1998 and was not restored until 19 April 2003.

In late 2001, the Governments of the Republic of Croatia and the Republic of Slovenia signed an Agreement governing the status and other legal relations in connection with their respective investment in NPPK, usage and decommissioning, as well as a partnership agreement between HEP d.d. and ELES GEN d.o.o. This agreement was ratified by the Croatian parliament (Sabor) in 2002, and it came into effect on 11 March 2003, following the ratification by the Slovene parliament on 25 February 2003.

The Agreement acknowledges the ownership rights of HEP d.d. in the newly formed company, Nuklearna elektrana Krško d.o.o. ('NPPK') in respect to its 50% holding in NPPK, which were previously denied. Both parties have agreed to extend the useful life of the power plant at least to the year 2023. The Agreement also regulates that the produced electricity is supplied 50:50 to both contracting parties, and that the price of the electricity supplied is determined based on real production cost.

The agreement also clearly defined the liabilities for the RH to care for half the radioactive and consumed nuclear fuel from NE Krško. Each country is obliged to secure half the necessary resources to finance the costs of preparing a programme of decommissioning and costs to implement the programme. Each side shall set aside the said funds for that purpose in a specific fund to the amount specified in the decommissioning programme. Pursuant to the valid Programme for the decommissioning of NE Krško and disposal of radioactive waste and consumed nuclear fuel, HEP d.d. is obliged to make deposits to the Fund to the amount of ERU 14,250 thousand.

HEP d.d. started to receive electricity from NPPK on 19 April 2003, and expects to receive 2,700-2,950 GWh annually up to 2023, representing 15% of electricity consumption in Croatia.

By the end of 2003, the provisions of the Agreement were implemented according to which HEP d.d. and NPPK waive mutual receivables for damages and withdraw all claims arising there from up to 30 June 2002, including the disputed liabilities for electricity purchase and amounts due with respect to the previously calculated contribution for financing the decommissioning of the power plant and funds to cover the losses from previous years. After implementing the changes, the capital of NPPK as at 31 December 2003 amounted to SIT 84.7 billion (approximately: HRK 2.8 billion). Still there are some outstanding off-balance receivables from HEP d.d. to NPPK and Slovenia from the past, which do not have any influence on the current business relations but are related to compensating for damages that the Company is seeking from the Republic of Slovenia for undelivered electricity from NE Krško for the period 1.7.2002-18.4.2003. The matter was referred to international arbitration in 2005 before the International Centre for the Resolution of Investment Disputes in Washington.

14. INVESTMENT IN NE KRŠKO (continued)

Current status

Payment to the Fund for the Decommissioning of NE Krško

According to the above stated Agreement, the decommissioning of NPPK will be a joint obligation of both parties. Each party will provide half of the funds necessary to prepare the decommissioning plan and to cover the cost of implementation of the plan adopted by the Croatian government on 24.12.2008. As of 2006 and until the end of 2014 Hrvatska elektroprivreda paid the amount of HRK 1,159,652 thousand to the Fund to finance the decommissioning of NE Krško. The amount of the payment is defined by the 2004 Decommissioning Programme. The current annual liabilities of EUR 14,250 thousand to the Fund are paid in quarterly.

Extension of useful life

After NE Krško obtained a licence in 2012 from the Republic of Slovenia related to the nuclear safety without any limitations, at the end of 2014 HEP and GEN Energija adopted a decision to extend the life of the plant until 2043. The decision to extend the operating life of NE Krško for 20 years was preceded with an investment feasibility study of long-term investments in the power plant.

Accounting monitoring of joint investments in NE Krško

Investments in NEK until 2014 were calculated according to the method of shares.

Pursuant to International Financial Reporting Standard (IFRS) 11 - Joint Arrangements, which replaced International Accounting Standard (IAS) 31 – Interest in Joint Ventures, the joint operations of NE Krško d.o.o. are classified as jointly controlled.

The Company recognises its share in each asset and in each liability, in income and expenses in accordance with its share in the joint management.

The transfer from accounts monitoring of investments in NEK d.o.o. from the method of shares in accounts of assets and liabilities pursuant to share, in the financial statements for 2014 the Company has entered the following changes: impairment of investments calculated according to the method of shares, recognised its share in each asset and in each liability and income and expenses of NEK d.o.o, stated the difference between the value of shares that the Company ceased to recognise and recognised assets and liabilities debited to the retained profit from the preceding period (as at 31.12.2013: HRK 75,080 thousand).

14. INVESTMENT IN NE KRŠKO (continued)

Excerpt from the financial statements

The table below shows an excerpt of the financial statements for NE Krško d.o.o. in 100% amounts as at 31 December 2014 and 2013:

	31 December 2014 HRK '000	31 December 2013 HRK '000
Property, plant and equipment	2,495,642	2,823,284
Capital and reserves	3,382,788	3,358,677
Gross income from sales	1,494,330	1,468,111
Cash flow from operating activities	401,719	560,324
Profit in current year	<u>19,842</u>	<u>2,080</u>

15. INVESTMENT IN TE PLOMIN

In November 1996, HEP d.d. entered into a Joint Venture Agreement with RWE Energie Aktiengesellschaft, Germany ('RWE') regarding the completion and operation of TPP Plomin II. Consequently, a joint venture, TE Plomin d.o.o. ('Plomin') was formed in December 1996. Partners to this joint investment hold a 50% share in the capital of the new company. A number of agreements were entered into, which regulate the mutual relations and relations with the new Groups.

Pursuant to the 1996 Agreement of shares in assets, HEP d.d. invested property, plant and equipment previously obtained for the project valued at DEM 50,000 thousand (HRK 179,138 thousand) as its share in TE Plomin d.o.o. An amount of HRK 50 thousand was allocated as share capital and HRK 179,088 thousand and the remainder for reserves.

Pursuant to the agreement of joint venture, RWE invested the same amount of money during the construction period. The initial cash contribution of HRK 50 thousand was allocated to share capital and the remainder to reserves. The capital RWE invested was to be returned 15 years after the start of operations, or 30 April 2000. The Agreement between HEP and RWE ceases to be valid pursuant to its provisions as HEP has decided to exploit its right which entails that 15 years after the power plant is put into operation it takes over RWE's share that it has in TE Plomin d.o.o.

An agreement of the transfer of business shares is expected to be concluded between 30.4. and 31.5.2015.

In 2014 the return of invested capital was not paid to RWE as agreed and in 2013 the return on capital amounted to HRK 12,948 thousand. As at 31 December 2014 a further HRK 26,060 thousand remained unpaid (2013: HRK 25,979 thousand).

Payment is expected on 30.4.2015.

Pursuant to Plomin's Articles of Association, RWE has the right to an annual dividend for the duration of the joint arrangement at an annual rate of 14% to 17% depending on the number of hours of peak exploitation of the availability of the power plant during the year. RWE invested capital is included in unpaid capital as is that share of unpaid cumulative interest during the construction phase.

During the period of construction, the accrued cumulative interest on the RWE capital amounted to HRK 54,717 thousand (EUR 7,536 thousand) and is payable on a straight-line basis during the period of exploitation. As at 31 December 2014 accrued undistributed interest amounted to HRK 5,116 thousand (2012.: HRK 8,846 thousand).

RWE has the right to an annual refund of capital invested (through preferential dividend) from Plomin's net profit. In 2014 that dividend amounted to 17% as it did in 2013. In 2014 the dividend for 2013 was not paid pursuant to a decision by the Company but is stated in the figure of short-term liabilities and amounts to HRK 5,948 thousand (Note 32). The dividend for 2012 was not paid out in 2013 pursuant to a decision by Company but is stated in the short-term liabilities and amounts to HRK 8,707 thousand. Payment is expected on 30.4.2015.

The said dividend has priority in relation to HEP d.d.'s share, considering that HEP d.d.'s share will be used to pay interest to RWE for 2000 and HEP d.d. did not realise its share of profit in Plomin.

15. INVESTMENT IN TE PLOMIN (continued)

The joint venture partners entered into a number of agreements necessary for power plant operations, including: operation and maintenance agreements, a joint use and supply agreement and a power purchase agreement ("PPA"). The PPA agreement regulates the sale of electric energy to the Group by Plomin d.o.o. HEP d.d. is obliged to purchase all energy produced by TE Plomin d.o.o. at prices calculated in accordance with specified formulas in the PPA, which are designed to cover all costs of operations of Plomin, and ensure the guaranteed return on capital to RWE.

Excerpt from the financial statements

In the consolidated financial statements the Group has presented its share in TE Plomin on the method of complete consolidation:

	31 December 2014	31 December 2013
	HRK '000	HRK '000
Property, plant and equipment	187,183	286,116
Capital and inventories	195,310	211,115
Gross income from sales	747,784	782,951
Income from regular operations	30,323	13,102
Net income	3,092	5,948
Cash flow from business operations	24,197	20,677

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
Opening balance of non-controlling share	31,977	47,283	62,847
Capital payment	-	(12,948)	(12,922)
Liabilities for dividend / Dividend pay out	(5,948)	(8,707)	(11,514)
Increase for the current year profit	3,092	5,948	8,707
Exchange difference	81	401	165
Closing balance	29,202	31,977	47,283

16. LONG-TERM LOANS AND DEPOSITS OFFERED

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Receivables from loans	4,743	6,379	808
Value adjustment	(74)	(83)	(158)
Current dues on long-term loans	(136)	(136)	(136)
Long-term portion	4,533	6,160	514

Loans to unrelated parties are states as follows:

	Date loan approved	Repayment	Loan amount	31 December 2014	31 December 2013	1 January 2013
				HRK '000	HRK '000	HRK '000
					Restated	Restated
City of Dubrovnik	2013.	5 years	5,707	4,207	5,707	-
City of Pregrada	2006.	10 years	1,358	407	543	679
Did d.o.o.	2007.	4 years	1,010	129	129	129
Total				4,743	6,379	808
Value adjustment				(74)	(83)	(158)
Current dues				(136)	(136)	(136)
Long-term portion				4,533	6,160	514

17. INVESTMENTS AVAILABLE FOR SALE AND OTHER INVESTMENTS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Investments available for sale	191,611	124,101	128,288
Other investments	1,065	1,065	1,065
	192,676	125,166	129,363

17. INVESTMENT AVAILABLE FOR SALE AND OTHER INVESTMENTS (continued)

Changes to investments available for sale are stated as follows:

	31 December 2014 HRK '000	31 December 2013 HRK '000	1 January 2013 HRK '000
		Restated	Restated
Balance at start of the year	124,101	128,288	120,605
Fair value of shares in Jadranski Naftovod d.d. & Viktor Lenac through income statement	65,230	(4,286)	7,470
Fair value of investments through income statement	(73)	-	-
Investments in shares	2,353	99	213
	191,611	124,101	128,288

	31 December 2014 HRK '000	31 December 2013 HRK '000	1 January 2013 HRK '000
		Restated	Restated
Investments available for sale:			
Jadranski Naftovod d.d.	188,878	123,616	127,935
Viktor Lenac d.d.	128	166	133
Đuro Đaković d.d.	5	5	5
Kraš d.d.	2	2	2
Pevec d.d.	312	312	213
Jadran d.d.	365	-	-
Industrogradnja grupa d.d.	490	-	-
Optima Telekom d.d.,	1,099	-	-
Institut IGH d.d.,	178	-	-
Međimurje beton d.d.	104	-	-
HTP Korčula d.d.	50	-	-
	191,611	124,101	128,288
Other investments			
Geopodravina d.o.o.	200	200	200
LNG Hrvatska d.o.o.	865	865	865
	1,065	1,065	1,065
	192,676	125,166	129,363

17. INVESTMENTS AVAILABLE FOR SALE AND OTHER INVESTMENTS (continued)

In December 2008, HEP d.d. acquired 53,981 shares of Jadranski Naftovod d.d. under a decision of the Croatian Government, with a nominal value of HRK 2,700 per share i.e. the total nominal value of HRK 145,748,700. According to the Management Decision, the Jadranski Naftovod shares were designated as available for sale. The shares were subscribed at the Central Depository Agency on 19 March 2009.

In 2014 and 2013 fair value was determined by notification of the Central Clearing Deposit Agency as of 31 December. The market value of shares in JANAF as at 31 December 2014 amounted to HRK 3,499 and in 2013: HRK 2,290. The fair value adjustment of investments in JANAF as at 31 December 2014 increased the value of investments by HRK 65,262 thousand (2013: increased by HRK 4,318 thousand). The fair value adjustment in 2014 and 2013 was conducted through inventories. Inventories were reduced by the 20% increase in the value of investments and increased deferred tax liabilities.

On 1 June 2010 HEP d.d. and Plinacro d.o.o. concluded the Articles of Incorporation of LNG Hrvatska d.o.o., a liquefied natural gas company. In 2011 it increased the share capital from HRK 20 thousand to HRK 220 thousand, and in 2012 to HRK 1,730 thousand so HEP is the owner of a portion or an amount of 50%, and the Plinacro d.o.o. is the owner of the other part of the portion. The Company was additionally capitalized by Plinacro d.o.o. with an amount of HRK 22,600 thousand as is recorded at the Commercial Court, dated 4 February 2013. The share capital of LNG Hrvatska d.o.o. amounts to HRK 24,330 thousand.

Pursuant to a pre-bankruptcy settlement with creditors for electricity, heating energy and gas sold and exchanged receivables for shares in companies facing difficulties in operations, the Group took over shares in 7 companies with a total value of HRK 2,145 thousand.

18. OTHER LONG-TERM ASSETS

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Housing loan receivables	25,572	29,672	33,649
Energy efficiency receivables – long-term portion	10,992	19,003	24,616
Accrued cumulative interest – RWE	1,283	5,116	8,846
Other long-term assets	11,957	5,021	207
	49,804	58,812	67,318

Prior to 1996, the Group had sold apartments it owned to its employees, the sale of which were governed by the laws of the Republic of Croatia. This property was generally sold on credit, and the related housing receivables, which are secured and bear interest at rates below market, are repayable on a monthly basis over periods of 20-35 years. Receivables for sold flats were transferred to new subsidiaries as of 1 July 2002. The housing receivables are shown in the financial statements at their discounted net present values, determined using an interest rate of 7.0 %. The amounts owed to the state, which represent 65 % of the value of the sold apartments, are included in non-current liabilities to the state (Note 25). The receivables are secured by mortgages over the sold apartments.

Pursuant to the provisions of association interest is calculated on the entire capital invested by RWE Power during the construction phase of the power station at a rate of 17% (intercalary interest). Intercalary interest is calculated on the total amount of EUR 7,536 thousand or the equivalent to HRK 55,653 thousand and has been entirely recognised as deferred expense subject to straight-line depreciation over a period of 15 years.

Repayment of interest is done along with the repayment of invested funds from RWE Power and it started after the electric power plant was finished. In 2014 the total amount repaid was EUR 502 thousand equivalent to HRK 3,817 thousand (2012: EUR 502 thousand, equivalent to HRK 3,809 thousand). Complete payment of interest is due to be made on 30.4.2015.

As at 31 December 2014 deferred expenses for the interest amounted EUR 168 thousand or the equivalent of HRK 1,283 thousand (2013: EUR 670 thousand or HRK 5,116 thousand). Currency exchange differences are included in the financial income or expense for the year in they arise.

19. INVENTORIES

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Inventories of fuel and chemicals	292,215	425,168	526,542
Electrical material	298,635	276,886	217,167
Spare parts	191,943	176,671	221,934
Building material	38,193	94,694	87,378
Inventories of gas for wholesale	432,559	-	-
CO ₂ emission units	219,270	67,613	-
Other inventories	64,812	47,777	66,206
Inventories of nuclear fuel and other material - NEK d.o.o.	281,135	251,168	268,396
	1,818,762	1,339,977	1,387,623
Impairment of obsolete materials and spare parts	(205,465)	(185,573)	(137,586)
	1,613,297	1,154,404	1,250,037

In 2013 the assessment of inventories was changed in a way that provisions were set aside for material stocks according to the age structure as follows: material stocks of 2 to 3 years – 30% of value; material stocks 3 to 4 years – 60% of value and material stocks of more than 4 years -100% of value. This excludes criteria of the effect of turnover of unmarketable stocks.

20. TRADE RECEIVABLES

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Electricity – corporate customers	1,410,548	1,563,413	1,606,227
Electricity – households	445,353	478,131	478,424
Electricity – foreign sales	33,699	26,026	53,207
Heating, gas and services	846,967	531,501	502,643
Connection to transmission network	2	57,022	41,233
Trade receivables - NEK d.o.o.	42,501	19,947	-
	<u>59,791</u>	<u>41,526</u>	<u>83,190</u>
	<u>2,838,859</u>	<u>2,717,566</u>	<u>2,764,924</u>
Impairment of bad and doubtful receivables	<u>(974,179)</u>	<u>(917,490)</u>	<u>(891,679)</u>
	<u>1,864,680</u>	<u>1,800,076</u>	<u>1,873,245</u>

20. TRADE RECEIVABLES (continued)

Age structures of traded receivables not impaired are stated as follows:

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Undue	1,194,793	1,025,984	1,015,832
Up to 30 days	363,326	427,207	437,422
31-60 days	122,393	150,482	161,682
61-90 days	59,883	64,919	75,704
91-180 days	59,278	87,281	89,315
181-365 days	55,330	32,657	71,078
More than 365 days	9,677	11,546	22,212
	1,864,680	1,800,076	1,873,245

Impairment adjustments for reduced value are stated as follows:

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Balance at 1 January	917,490	891,679	781,600
Value adjustment trade receivables (Note 7)	221,014	277,866	250,972
Removals from accounts of previously written-off receivables	(64,776)	(161,991)	(21,338)
Amounts collected with the provision made (Note 5)	(99,549)	(90,064)	(119,555)
At 31 December	974,179	917,490	891,679

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

21. OTHER SHORT-TERM RECEIVABLES

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Receivables from VAT	-	64,421	142,908
Prepayment for working capital	3,544	638	706
Receivables from the state for employees	4,387	35,634	15,366
Receivables from interest	340	3,123	2,995
Demand and term deposits over 3 months	209,950	90,075	21,220
Demand and term deposits over 3 months - NEK	216,160	191,514	63,831
Receivables upon short-term loan from non-related companies	10,500	90,000	-
Receivables from MF for overpaid VAT upon import	-	39,853	-
Accounted income from sale of electric energy to households	-	58,207	-
Other receivables - NEK	2,005	2,032	10,551
Other short-term receivables	72,796	78,672	60,419
	<u>519,682</u>	<u>654,169</u>	<u>317,996</u>

The Company in August 2013 concluded a contract for a short-term loan with legal entities with public authorities for an amount of HRK 90,000 thousand for a period of one year with an interest rate at the level of the discount rate of the HNB and repayment was made in 2014.

In November 2014 the Company concluded a contract for a short-term loan with the company in the RH amounting to HRK 10,500 thousand for a period of 180 days with an interest rate at the level of the discount rate of the HNB and the repayment was executed in 2015.

22. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Kuna currency account	448,172	150,543	156,084
Foreign currency accounts	193,425	39,227	118,482
Reserved cash	21,473	9,222	7,403
Kuna cashier	231	281	280
Deposits with a maturity of 90 days	30,012	4,685	159,225
Short-term term deposits (daily)	386,551	56,797	163,550
Transactions in foreign currency - NEK	36	89	-
	1,079,900	260,844	605,024

23. CAPITAL AND RESERVES

When the Company was first registered on 12 December 1994, the Company's share capital was registered in German marks (DEM) to the amount of 5,784,832 thousand DEM. The following registration on 19 July 1995 the share capital was stated in Croatian Kuna and amounted to HRK 19,792,159 thousand. Shareholder capital consists of 10,995,644 regular shares with a nominal value of HRK 1,800.

Reserves

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Starting balance of reserves	2,617	6,046	(438,957)
Transferred from retained profit	-	-	438,957
Other comprehensive income /(losses) - JANA F	52,330	(3,429)	6,046
Capital reserves	54,947	2,617	6,046

Retained profit	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
Starting balance	18,809	(1,207,682)	516,807
Restatement	-	-	(1,326,597)
Increase/decrease retained profit - NEK	2,135	(75,081)	-
Other increases	2,907	3,368	13,964
Transfer to capital reserves	-	-	(438,957)
Payment of profit to owner	(284,918)	-	-
Profit / (Loss) in current year	2,462,332	1,298,204	27,101
	2,201,265	18,809	(1,207,682)

24. LIABILITIES FROM LONG-TERM LOANS

	Interest rate	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
	EURIBOR+ (1.00%- 5.35%)			
Loans with domestic banks		1,640,285	1,853,007	1,961,548
Loans with foreign banks	Fixed 2.71%	23,183	23,588	25,585
Financial leasing	Fixed 5.6%	22,362	25,898	-
Loan - RWE		-	1,279	5,055
Loan - NEK		-	35,592	-
Total		1,685,830	1,939,364	1,992,188
Davison of charges for loans		(4,611)	(5,841)	(20,474)
Total long-term liabilities for loans		1,681,219	1,933,523	1,971,714
Current dues		(416,349)	(208,838)	(132,084)
Current dues on financial leases (Note 32)		(2,834)	(2,675)	
Long-term portion		1,262,036	1,722,010	1,839,630

Loans of domestic banks are assured by bills of exchange and debentures. As at 31.12.2014 the Group no longer has any loans guaranteed by the RH.

New sources of financing

For the financing of the investment plan and the regular operations in 2014 the Group used its own sources as well as the loan assets in use.

Current loans in use

In 2014 the long-term loan approved by KfW Entwicklungsbank amounting to 50 million EUR continued to be used to finance energy efficiency and renewable energy projects. The balance of the loan with od KfW Bank as at 31 December 2014 amounted to 3.1 million EUR, or the unused portion of the loan amounting to 46.9 million EUR.

24. LIABILITIES FOR LONG-TERM LOANS (continued)

The repayment schedule of the principal on long-term loans due in the next five years:

2015	419,183
2016	389,900
2017	389,784
2018	383,017
2019	85,490
After 2019	13,845
	1,681,219

The terms of some loans include restrictive financial and business conditions according to which the Group needs to satisfy the prescribed level of the following indicators: net value of assets (own capital), debt coverage and net total liabilities for loans.

As at 31 December 2014 the Group satisfied the contracted financial indicators.

Below is an overview of long-term loans states in foreign currency (in thousands):

Currency	31 December 2014	31 December 2013	1 January 2013
EUR	219,596	245,703	263,349

25. LONG-TERM LIABILITIES TOWARD THE STATE

Long-term liabilities toward the state amounting to HRK 21,690 thousand in 2014 (2013: HRK 24,451 thousand) relate to the sale of apartments to employees in accordance with the state programme that was abolished in 1996. According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected. According to the law, HEP d.d. has no liability to remit the funds, unless and until they are collected from the employee.

26. LONG-TERM PROVISIONS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Provisions for legal disputes	363,052	375,870	204,292
Provisions for retirement bonuses	319,691	231,911	285,739
Provisions for jubilee awards	44,806	39,616	45,408
Provisions for decommissioning thermal power plant	120,689	112,769	104,341
Provisions for downloaded electricity from wind power plants	21,631	21,631	21,631
Provisions for retirement bonuses and jubilee awards & other benefits - NEK	32,910	26,585	-
	902,779	808,382	661,411

The thermal power plant decommissioning provision amounting to HRK 120,689 thousand represents a discounted value of the estimated decommissioning costs of the Group's thermal power plants.

Movements in the present value of defined benefit obligations in the current period were as follows:

	Provisions legal disputes	Provisions for severance packages	Provisions for jubilee awards	Provisions for decommissioning thermal power plants	Other	Total
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
As at 1 January 2014	375,870	231,911	39,616	112,769	48,216	808,382
Transferred	-	-	-	-	-	-
New provisions	29,667	93,820	5,924	7,920	6,325	143,656
Decrease in provisions (amounts paid)	(26,258)	(1,652)	(721)	-	-	(28,631)
Decrease in provisions according to valuation	(16,227)	(4,388)	(13)	-	-	(20,628)
As at 31 December 2014	363,052	319,691	44,806	120,689	54,541	902,779

26. LONG-TERM PROVISIONS (continued)

Legal disputes

The Company makes provisions for legal disputes where it is assessed the unlikely outcome in favour of HEP d.d. The total amount of provisions at 31 December 2014 amounted to HRK 363,052 thousand (2013: HRK 375,870 thousand).

The most significant of these is a dispute in which HEP Proizvodnja d.o.o. and HEP d.d. HEP Proizvodnja d.o.o. as the plaintiff have instituted a complaint against Zagrebački Holding d.o.o. for which provisions have been provided in 2014 to the amount of HRK 76,130 thousand and related to compensation for water purification plants.

The most important provision relates to the court case related to HEP Peruća which was started in 1995, for which a first instance ruling in 2012 went in favour of the plaintiff. In regard to the complexity of the valuation and the estimation of proofs on behalf of the court, as well as the high value of the procedure amounting to HRK 330,000 thousand and of the possibility of a partial success in favour of the plaintiff, assets are provided for at a level of 50% of the value of the dispute amounting to HRK 165,000 thousand.

Other significant disputes relate to Kartner sparkass amounting to HRK 9,903 thousand, the City of Dubrovnik amounting to HRK 4,345 thousand, the Konavle Municipality amounting to HRK 3,760 thousand and Dubrovnik-Neretva County amounting to HRK 1,966 thousand.

The Water Management Act

According to an interpretation by the State Prosecution, the Law on Waters that came into force on 4.1.1996 and the new Law on Waters that came into force on 1.1.2010, bring into question the property-legal status of the asset for electricity production from the hydro-electricity plant because the land on which the hydro-electric plant was constructed on is classified as 'Public Water Resources' which by its legal nature is considered to be real estate for common use owned by the RH 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 RH relating the right of registering ownership of hydroelectric power plants in favour of RH. There is no common legal practise regarding this issue.

The Company has disputed the interpretation of the Law on Waters seeing that this refers to real estate that was entered in the Company's balance sheet during the process of transition 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.

The Company filed a recommendation to the Constitutional Court to institute proceedings to check the compliance of Article 23, Par. 4 of the Law on Waters with the Constitution and upon conclusion of the procedure to annul the said provision.

26. LONG-TERM PROVISIONS (continued)

Provisions for severance packages and jubilee awards

Changes to the current identified liabilities pursuant to employee benefits in the current period are states as follows:

	Severance packages	Jubilee awards	Total
	HRK '000	HRK '000	HRK '000
As at 1 January 2014	231,911	39,616	271,527
Current service costs	11,364	2,248	13,612
Interest costs	11,857	1,635	13,492
Benefits paid	(14,525)	(7,068)	(21,593)
Past service costs	1,347	227	1,574
Actuary costs (losses)	77,737	8,148	85,885
As at 31 December 2014	319,691	44,806	364,497

The following assumptions were used to prepare the calculation:

- the termination rate is 6.08 % and is based on statistical fluctuation rates for the Group in the period from 2006 to 2014.;
- the mortality rate by age and gender is based on Croatian Mortality Tables 2000-2002 published by the Croatian Bureau of Statistics. It is assumed that the population of employees of the Group represents the average with respect to mortality and health status;
- we assumed the annual salary will not increase.

the present value of the obligation was determined using a discount rate of 4% per annum for all members of the Group.

27. LIABILITIES FOR ISSUED BONDS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Nominal value of bonds in the country	279,790	373,170	966,550
Discounted value	(170)	(286)	(814)
Current maturity on bonds	(93,380)	(93,380)	(593,380)
	186,240	279,504	372,356
Nominal value of bonds abroad	2,999,389	2,963,252	2,955,595
Currency exchange differences	9,357	36,137	7,657
	3,008,746	2,999,389	2,963,252
Total liabilities for issued bonds	3,194,986	3,278,893	3,335,608

Bonds issued in the country

Bonds issued in 2006 amounting to HRK 500,000 thousand with a maturity in November 2013 were entirely paid out. Bonds amounting to HRK 700,000 thousand issued at the end of 2007 are being repaid in 15 six-monthly instalments, with a grace period of three years after the issue date and bear a fixed interest rate of 6.50%. The bonds were listed on the Zagreb Stock Exchange.

Bonds issued abroad

In November 2012 the Company issued bonds amounting to USD 500,000 thousand on the international capital market. The bonds carry a maturity of 5 years and are entirely due in November 2017 and bear a fixed interest rate of 6.00%. HEP d.d. bonds are listed on the Luxembourg Stock Exchange market and are regularly traded.

For the purpose of securing currency risks an agreement was concluded of value exchange (swap).

27. LIABILITIES FOR ISSUED BONDS (continued)

Currency swap

For the purpose of protection against currency exchange risk, i.e. changes in the value of the dollar, the Company concluded an agreement of currency swap by which the dollar liability for bonds issued abroad and denominated into euro for the entire time of the duration of the bonds, i.e. until their maturity on 9 November 2017.

According to the agreement the six-monthly interest rate paid by the company is fixed at 6.53%, while the interest rate that the Company seeks from the contracting party based on the swap is equal to the fixed rate at which the bonds were issued and amounts to 6.00%.

The Company connects the fair value of the currency swap to the calculation of the Mark-to-Market "MTM" value and at 31.12.2014 it amounted to HRK 1,473 thousand, liabilities amounting to HRK 391,808 thousand were removed and the amount of HRK 393,281 thousand is recorded as a financial expense. (Note 8.).

28. OTHER LONG-TERM LIABILITIES

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Deferred income for property financed by third parties	3,738,553	3,975,988	4,220,301
Long term liabilities for assets financed by clearing debt	759,089	668,377	689,792
Long-term debt under interest rate swap (Note 27)	-	391,808	-
Other	1,860	2,353	1,540
	4,499,502	5,038,526	4,911,633

Deferred revenue is related to fixed assets contributed by customers and others without charge. The revenue is recognized into income over the same periods as the related assets are depreciated, which applies to contracts for connection to the network concluded by 30 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of funds received from the customer in the period when the customer is connected to the grid or when permanent access to the delivery of the service is given.

At 31 December 2013 the Group reported a liability in the amount of HRK 759,089 thousand in respect of a clearing debt (2013: HRK 668,377 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of finance with the use of the 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 as either a loan or a government subsidy.

29. LIABILITIES FOR SHORT-TERM BORROWINGS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Borrowings with domestic banks and subsidiaries of foreign banks, denominated in various currencies under the following terms: Interest rate per EURIBOR/TZ Min. Fin. + margin (2.75%-3.20%)	-	295,000	400,000
secured by bills of exchange	-	-	-
Other short-term borrowings	-	369,664	3,261
Short-term portion of loan - RWE	8,981	7,674	7,582
Short-term loan	-	20,316	-
	8,981	692,654	410,843

By July 2014 the Group had repaid all the existing short-term loans. However, for the purpose of providing for solvency reserves in the following medium-term period, during the year the Company concluded multi-purpose general contracts with domestic banks with a total amount of HRK 1.0 billion.

The Company can use the funds from the said framework for short-term loans, to issue guarantees, assets, and letters of intent in accordance with the Group's needs.

From the above mentioned medium-term multi-purpose framework in 2014, the Group did not have any need to conclude any short-term loans due to good liquidity.

At the end of June 2014, the Group settled all liabilities to suppliers through reverse (supplier) factoring. After the said return the Group possesses the entire amount from the framework agreement on reverse (supplier) factoring available until 31 December 2015.

As at 31.12.2014, the Group had HRK 1,328 million at its disposal for short-term sources of financing.

30. LIABILITIES TAXES AND CONTRIBUTIONS

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Liabilities for VAT	120,567	-	-
Liabilities for income tax	180,250	130,129	302,222
Utilities and other fees	30,731	13,641	17,519
Contributions on salaries	22,570	18,650	20,111
Other	6,977	3,250	7,965
	361,095	165,670	347,817

31. LIABILITIES TOWARD EMPLOYEES

	31 December 2014	31 December 2013	1 January 2013
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Liabilities for net salaries	79,123	71,589	75,220
Liabilities for contributions	39,397	37,749	39,179
Liabilities for net salaries - NEK d.o.o.	10,620	10,772	-
Other	22,100	25,830	26,169
	151,240	145,940	140,568

32. LIABILITIES TOWARD SUPPLIERS AND OTHER SHORT-TERM LIABILITIES

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
LIABILITIES TOWARD SUPPLIERS			
Liabilities toward suppliers in the country	1,401,253	1,126,964	2,246,352
Liabilities toward suppliers abroad	68,243	187,926	246,377
Liabilities toward suppliers in the EU	105,355	171,075	-
Liabilities toward suppliers - NEK d.o.o.	15,894	94,475	-
	1,590,745	1,580,440	2,492,729

	31 December 2014 HRK '000	31 December 2013 HRK '000 Restated	1 January 2013 HRK '000 Restated
OTHER SHORT-TERM LIABILITIES			
Deferred income and received advances for connections	330,859	287,181	216,610
Liabilities for other advances received	121,033	116,797	98,344
Accrued expenses for unused vacation days	71,436	53,828	64,827
Deferred income from sale of el. energy to households	40,467	-	19,426
Liabilities for renewable sources	45,128	47,541	11,477
Accounted costs of severance pays to employees	231,123	177,555	249,174
Interest	122,926	44	755
Costs of CO ₂ emission units	111,806	98,508	-
Liabilities to HAC	77,775	77,775	77,775
Other costs	1,703	5,126	28,324
Liabilities for non-controlling part (Note 15)	14,807	8,707	-
Current portion of financial lease (Note 24)	2,834	2,675	-
Liabilities - NEK d.o.o.	39,999	10,602	-
Other liabilities	12,630	38,569	54,054
	1,224,526	924,908	820,766

Correction of income from households as at 31 December 2013 was obtained by the count of logarithmic curve using the losses in the network of 8.68% in the amount of HRK 58,207 thousand while for the year ended 31 December 2012 the percent of loss was 8.85%. The result is the increase of revenue in the amount of HRK 77,632 thousand in respect to the previous year: cancellation of liability for accounted income in the amount of HRK 19,425 thousand was made and recorded in the receivables to the amount of HRK 58,207 thousand (Note 21).

33. RELATED PARTY TRANSACTIONS

The Group has a 50% ownership in the capital of NPPK (NE Krško d.o.o.). Electricity produced at NE Krško is delivered to HEP d.d. at 50% of the total quantities produced at a price which is determined in accordance with the total production costs of NE Krško.

Receivables and payables, and income and expenditure arising from related party transactions are presented in the table below

	31 December 2014	31 December 2013
	HRK '000	HRK '000
NE Krško d.o.o.		
Liabilities for purchased electricity	62,830	63,373
Cost of purchased electricity	747,165	727,855

33. RELATED PARTY TRANSACTIONS (continued)

HRK '000	Income from sales		Costs of supply	
	2014	2013	2014	2013
Enterprises controlled partially by the state				
Croatian Railways	104,993	137,709	3,297	67,997
INA-Oil Industry (Parent)	131,359	156,430	983,943	54,506
Natural Gas	0	0	457,863	2,002,330
Plinacro	2,274	2,298	73,949	64,278
Croatia Osiguranje – Insurance Co	5,136	5,618	14,223	17,543
Croatia Post	20,226	23,210	22,493	44,539
Croatian Forests	3,260	5,529	5,464	2,261
Jadrolinija	650	870	658	4,031
Official Gazette	2,385	1,618	3,932	4,438
Croatian Radio Television	13,127	13,735	1,158	1,194
Plovput	446	578	349	165
Croatia Airlines	768	981	6	66
Petrokemija Kutina	18,537	3,488	61	82
Ministry of Foreign and European Affairs	455	513	-	-
Defence Ministry	22,182	24,358	-	-
Interior Ministry	13,074	26,510	-	-
Primary and secondary schools	78,055	88,078	-	-
Judicial institutions	8,188	13,758	74	173
Universities and Institutes of Technology	27,792	33,610	1,172	3,715
Legislative, executive and other government bodies	26,129	29,040	5,426	6,345
Health institutions and organisations	112,742	122,821	1,168	3,194
Other users	11,342	16,619	5,124	6,577
TOTAL	603,120	707,371	1,580,360	2,283,434

33. RELATED PARTY TRANSACTIONS (continued)

HRK '000	Amount of receivables		Amount of liabilities	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Majority state owned companies				
Croatian Railways	31,811	79,781	541	39,792
INA-Oil Industry (Parent)	14,544	18,298	163,640	11,075
Natural Gas	-	-	-	153,148
Plinacro	125	400	11,446	8,670
Croatia Osiguranje – Insurance Co	705	611	2,779	5,119
Croatia Post	1,282	3,211	2,725	8,786
Croatian Forests	474	530	4	49
Jadrolinija	49	57	581	1,274
Official Gazette	289	163	838	1,226
Croatian Radio Television	2,653	2,399	39	147
Plovput	24	74	165	51
Croatia Airlines	95	217	-	-
Petrokemija Kutina	3,675	9,488	13	-
Defence Ministry	4,311	4,090	-	-
Interior Ministry	2,069	6,592	-	-
Primary and secondary schools	16,526	20,491	-	-
Judicial institutions	1,838	4,532	-	-
Universities and Institutes of Technology	4,161	4,619	-	-
Legislative, executive and other government bodies	5,131	5,572	-	-
Health institutions and organisations	20,202	27,855	-	-
Other users	21,623	4,191	10,317	3,513
TOTAL	131,587	193,171	193,088	232,850

34. UNCERTAIN EVENTS AND COMMITTED LIABILITIES

Legal disputes

In 2014 the Group recorded provisions for legal disputes for which it considers it is unlikely that they will be ruled in favour of HEP d.d. and subsidiary companies.

The Group has long-term investments in Bosnia and Herzegovina and Serbia valued at costs in 1994 to the amount of HRK 1,243,970 thousand. During the Company's transition in 1994 into a shareholding company, this amount was not included in the net value of assets.

Operating liabilities

As part of its regular investment activities, at 31 December 2014 the Group had contract for investments that were started by not competed for various buildings and equipment. In 2014 the value of contracted unfinished works for the most significant projects amounted to around HRK 1,411,115 thousand (2013: HRK 1,300,391 thousand).

Environment protection

HEP continually monitors and analyses the impact of its business operations on the environment. The most important indicators of this are the monitoring of air-borne pollutant emissions and waste that occurs and HEP ensures the timely and objective reporting to the relevant institutions, local government units and the public. Employees involved in environment and nature protection receive additional training through seminars and workshops where they are informed of the obligations and activities resulting from legal environmental regulations in the areas of environment and nature protection.

The Company's Accounting Monitoring of Costs and Investments in Environmental Protection system (RETZOK) introduced in 2004 facilitates monitoring requirements for environment and nature protection. A request has been submitted to the Ministry of Environment and Nature Protection to unify environment protection conditions. Some thermal-power plants have obtained environment licences - TE Sisak, TE-TO Osijek, KTE Jertovec and Pogon Osijek HEP-Toplinarstva d.o.o., procedures are still underway for other plants...

The system of CO₂ emissions trading in HEP Company was officially set up in 2012 pursuant to the Decision of the Management Board of HEP under which obligations, responsibilities and time-limits for meeting obligations of individual departments and companies within HEP's emission trading system are set. The Agency for Environment Protection has opened nine Accounts of plant operators in the EU Greenhouse Gas Inventory. HEP has successfully fulfilled its legal obligations and submission of emission units to the EU Greenhouse Gas Inventory for 2013 and in 2014 entered information verifying CO₂ emission which were confirmed by Croatian officials and these emission units were submitted onto all nine Accounts of plant operators with the relevant quantities that corresponded to the verified CO₂ emissions.

In 2014 activities were started to prepare non-financial statements for 2013 and 2014 for the HEP Group in accordance with Global Reporting Initiative (GRI 4) guidelines.

The system is continually being introduced regarding environment management system in accordance with ISO 14001 in distribution areas of HEP structures.

34. UNCERTAIN EVENTS AND COMMITTED LIABILITIES

In 2014 the process of introduction the environment protection IT system in HEP Group continued with the objective of combining data related to environment and nature protection. INFOZOK was upgraded with modules for data collection of the use and monitoring of the quality of water and monitoring data on environment licences.

Investments into environment protection and energy efficiency projects were submitted to the Environment Protection Fund at the HEP Group level resulting in incentive corrective factors leading to a reduction of 50% of allowances for the emission of air-borne pollutants.

Environment protection management in accordance with ISO 14001 is continually being introduced in all HEP production structures.

In 2013 the process of introduction the environment protection IT system in HEP Group continued with the objective of combining data related to environment and nature protection.

Restructuring of HEP Operator prijenosnog sustava d.o.o. (Croatian Transmission System Operator d.o.o.)

The Electricity Market Act (Official Gazette 22/2013) came into force on 2.3.2013 (hereinafter: the Act).

Regulatory acts prescribed the Act need to be adopted within twelve months of the Act entering into force and regulatory acts prescribed by the Energy Act (Official Gazette 120/2012) within six months of the Act entering into force.

Pursuant to the provisions of the Act (Official Gazette 22/2013) HEP d.d, as the ruling company within the vertical structure of an integrated subject and the owner of the transmission system, conducted the restructure of the transmission system operator pursuant to the provisions of the Act and undertook all activities to fulfil the requirement to divide the transmission system operator with the aim of having it certified.

The General Assembly of HEP d.d. on 9 April 2013 adopted the decisions to divide the transmission operator system on the model of ITO - Independent Transmission Operator

In July 2013, registration procedures were conducted to transform HEP Operator prijenosnog sustava (now: Croatian Transmission System Operator d.o.o., abbreviated HOPS d.o.o.) with the objective of restructuring it in accordance with the ITO model "Independent Transmission Operator" pursuant with the Electricity Market Act and decision of the HEP d.d General Assembly.

Assets that the HEP Operator prijenosnog sustava d.o.o. used were transferred to its ownership and any receivables due were transferred to the HEP Operator prijenosnog sustava d.o.o.'s capital

Supply at wholesale gas market

Since April 2014 HEP d.d. by a Decision of the Government of the Republic of Croatia was determined as a supplier on wholesale market of gas in a period until April 2017. Pursuant to the above the Croatian Government rented 70% of warehouse capacities in underground gas storage facilities.

The supplier on the wholesale market (HEP d.d.) sells gas to suppliers in public service for the purposes of buyers from the household category at regulated conditions and is obliged to provide for a reliable and secure supply of gas.

	HRK '000
Income from the sale of Gas	
Income from the sale of gas to suppliers - unrelated companies	689,575
Income from the sale of gas – related companies	94,542
Other income regarding sale of gas	16,763
	<hr/>
Total income from the sale of gas	800,880
Costs related to the sale of gas	
Costs of gas sold	553,159
Fees for storage capacities	80,008
Fees for use of transport system	84,554
	<hr/>
	717,721
	<hr/>
Other costs related to the sale of gas	19,555
	<hr/>
Total costs related to the sale of gas	737,276

35. SUBSIDIARIES

As at 31 December 2014, the Company in its ownership had the following subsidiaries:

Subsidiary	Country	Interest in (%)	Main 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-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Thermal power generation and distribution
HEP-Trgovina d.o.o.	Croatia	100	Electrical energy trading and optimising power plant operations
HEP-Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	50	Electricity generation
APO d.o.o., usluge zaštite okoliša	Croatia	100	Environmental protection services and radioactive waste management
HEP ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure in area around Plomin
CS Buško Blato d.o.o.	BiH	100	Maintenance of hydro power plants
HEP-Odmor i rekreacija d.o.o.	Croatia	100	Accommodation and recreation service
HEP-NOC Velika	Croatia	100	Accommodation and training
HEP-Obnovljivi izvori energije d.o.o.	Croatia	100	Electricity generation
Program Sava d.o.o.	Croatia	100	Area arrangement, design, building and monitoring
HEP-Trgovina d.o.o. Ljubljana	Slovenia	100	Electrical energy trading
HEP- Magyarorszag Energia KFT	Hungary	100	Electrical energy trading
HEP-Trade d.o.o., Mostar	BiH	100	Electrical energy trading
HEP-Trade d.o.o., Beograd	Serbia	100	Electrical energy trading
HEP – KS sh.p.k.	Kosovo	100	Electrical energy trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP – Opskrba plinom d.o.o.	Croatia	100	Gas supply

The majority of these subsidiaries were formed for the purpose of reorganization and re-structuring the core business activities driven by the new energy legislation, which came into effect as of 1 January 2002, as indicated in Note 1. and HEP- Telekomunikacije d.o.o. in 2013.

HEP-RVNP d.o.o. has changed its name in 2014 into Program Sava d.o.o.

36. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings and issued bonds disclosed in Note 24, 27 and 29, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, legal and other reserves and retained earnings.

Gearing ratio

Management reviews the source of financing on a semi-annual basis. As part of this review, Management considers the cost of financing and the risks associated with each class of sources of funding. The gearing ratio at the year-end can be presented as follows:

	31 December 2014	31 December 2013
	HRK '000	HRK '000
Debt	4,975,732	5,995,775
Cash and cash equivalents	(1,079,900)	(260,844)
Net debt	3,895,832	5,734,931
Equity	22,077,573	19,845,562
Net debt to equity ratio	18%	29%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the consolidated financial statements.

Categories of financial instruments

	31 December 2014	31 December 2013
	HRK '000	HRK '000
Financial assets		
Financial assets available for sale	192,676	125,166
Loans and receivables (including cash and cash equivalents)	3,385,074	2,534,330
Other long-term assets	54,337	64,971
Financial liabilities		
Long-term liabilities	5,749,390	6,390,110
Short-term liabilities	2,316,043	2,854,940

36. FINANCIAL INSTRUMENTS (continued)

Financial risk objectives

The function of the treasury within the HEP Group provides companies with services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	31 December	31 December	31 December	31 December
	2014	2013	2014	2013
	'000	'000	'000	'000
European Union (EUR)	23,260	4,900	626,788	729,763
USD	30	-	5,954	158

36. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to the changes of euro (EUR) and US dollar (USD). The following table details the Group's sensitivity to a 10% increase and decrease in the HRK against EUR and USD. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated receivables and liabilities and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive / negative number below indicates an increase in profit and other equity where HRK strengthens 10% against the relevant currency. For a 10% weakening of the HRK against the relevant currency, there would be an equal effect, but the balance would be negative.

	2014 HRK '000	2013 HRK '000
EUR exchange impact		
Profit or loss	462,391	553,624
USD exchange impact		
Profit or loss	3,393	91

36. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at floating interest rates. The Group's exposures to interest rates on financial assets and financial liabilities are explained in detail in the section *Liquidity risk management*. The Group manages this risk by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the interest rate exposure of the Group to financial instruments at the date of the balance sheet/statement of financial position. For floating rates, the analysis is prepared assuming the amount of liability outstanding at the balance sheet / statement of financial position was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant:

- Profit for the year ended 31 December 2014 would decrease/increase by HRK 8,201 thousand (2013: HRK 12,349 thousand), based on exposure to interest rate risk. This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings, which accounted for 33.12% of the Company's debt (2013: 41.63%);
- The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate of debt instruments.

Loan risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Company is the largest provider of electricity in the Republic of Croatia. As such, it has a public responsibility to provide services to all users, and locations within the country, irrespective of credit risk associated with particular customers. Trade receivables, net, consist of a large number of customers, spread across diverse industries and geographical areas.

The Group does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

Credit risk with respect to trade receivables is primarily related to domestic corporate receivables, specifically where services are provided to economic concerns, which are in a difficult financial position. Overdue receivables from households are limited due to Company's ability to disconnect such customers from the power supply network.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

36. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and other sources of financing, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following table details the remaining period to contractual maturity for the Group's non-derivative financial assets. The tables below have been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Maturity of non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 -12 months	1 – 5 years	Over 5 years	Total
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
2014							
Non-interest bearing		2,366,041	801,454	337,149	39,131	910	3,544,685
Floating interest rate							
instruments		131	-	-	-	-	131
Fixed interest	6.00%	62	10,618	522	-	-	11,202
Total		2,366,234	812,072	337,671	39,131	910	3,556,018
2013							
Non-interest bearing		914,345	787,697	206,655	409,260	2,224	2,320,181
Floating interest rate							
instruments	7.00%	535	1,018	92,331	-	-	93,884
Total		914,880	788,715	298,986	409,260	2,224	2,414,065

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

36. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

Maturity of non-derivative financial liabilities

	Weighted average effective interest rate %	Less than 1 month HRK '000	1 – 3 months HRK '000	3 -12 months HRK '000	1 – 5 years HRK '000	Over 5 years HRK '000	Total HRK '000
2014							
Non-interest bearing		1,980,663	862,644	89,568	846,629	118,889	3,898,403
Floating interest rate							
instruments	2.60	81,010	54,902	323,469	1,440,009	-	1,899,390
Fixed interest	6.50	-	956	312,552	3,634,269	14,526	3,962,303
Total		2,061,673	918,502	725,589	5,920,907	133,415	9,760,096
2013							
Non-interest bearing		1,481,347	628,489	28,808	1,075,760	5,704	3,220,108
Floating interest rate							
instruments	3.17	14,585	49,118	824,881	1,656,115	78,835	2,623,534
Fixed interest	6.46	473	45,774	315,464	3,921,980	25,510	4,309,201
Total		1,496,405	723,381	1,169,153	6,653,855	110,049	10,152,843

The Group has access to financing facilities, the total unused amount of which is HRK 1,687,895 thousand at the reporting date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

36. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

Fair value of financial assets and financial liabilities are defined as follows:

- Fair value of financial assets and financial liabilities that are traded on active markets under standard terms are defined at the price quoted on the market;
- Fair value of other financial assets and other financial liabilities (excluding derivative instruments) are defined in accordance with the model to determine prices and based on analysis of discounted cash flows using the price on previous transactions on the market and the price that is offered for similar instruments;
- Fair value of derivative instruments is calculated at listed prices. Where these prices are not available, an analysis of discounted cash flows is used with the application of the valid curve of income for the period of the duration of the instrument for unoptional derivatives, while optional derivatives are based on the model to determine the price of options. Termed currency contracts are valued using the quoted forward currency exchange and curve of income from quoted interest rates for contracts with similar maturities. Interest swap is valued at the current value estimated for future cash flows and discounted on the basis of valid income curves from quoted interest rates.

Indicators of fair value recognised in the Statement of Financial Position

The table below analyses the financial instruments premeasured subsequently at fair value, classified into three groups depending on the availability of indicators of fair value:

1. Level 1 observable indicators – indicators of fair value derived from (unrestated) prices quoted in active markets for identical assets and liabilities are identical;
2. Level 2 observable indicators – indicators of fair value derived from data other than quoted prices from Level 1 for observable assets or liabilities (i.e. their prices) or indirectly (derived from the price); and
3. Level 3 indicators – indicators derived from valuation techniques using as input data on the assets or liabilities that are not based on available market data (unobservable input).

	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
2014				
Assets available for sale	192,676	-	-	192,676
Fair value of swap	-	-	1,473	1,473
Investment in real estate	-	-	234,551	234,551
2013				
Assets available for sale	125,166	-	-	125,166
Fair value of swap	-	-	391,808	391,808
Investment in real estate	-	-	231,285	231,285

The measurement of fair value of the currency swap is connected with the value "Mark-to-market "MTM") according to the calculation of business banks and also that the value is Restated at each reporting date through the profit and loss account.

34. APPROVAL OF THE FINANCIAL STATEMENTS

These Consolidated financial statements were approved by the Board and authorised for issue on 30 April 2015.

Signed on behalf of the Company on 30 April 2015. :

Perica Jukić

President of the Board