HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Annual consolidated financial statements
together with Independent Auditor's Report
for the year 2015

Contents

Responsibility for the Consolidated Financial Statements

Management Board of the company Hrvatska Elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: "the Company") is responsible for ensuring that the annual consolidated financial statements for the year 2015, are prepared in accordance with the Accounting Act (Official Gazette No 109/07, 54/13) and International Financial Reporting Standards as adopted by EU, to give a true and fair view of the consolidated financial position, the consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Company 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 adopted the going concern basis in preparing the consolidated financial statements of the Company.

In preparing these consolidated financial statements, the Board is responsible that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the consolidated financial statements are prepared on the going concern basis unless such assumption is not appropriate.

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

Signed for and on behalf of the Management Board

Perica Jukić
President of the Management Board

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

Tomislav Rosandić
Member of the Management Board

Hrvatska elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb
Republic of Croatia
29 April 2016

Tel: +385 1 2395 741
Fax: +385 1 2303 691
E-mail: bdo-croatia.hr

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of the company Hrvatska elektroprivreda d.d.

1. We have audited the accompanying annual consolidated financial statements of the company HRVATSKA ELEKTROPRIVREDA d.d., Zagreb, (hereinafter "the Company") for the year ended 31 December 2015, which comprise of the consolidated Balance sheet / Statement of financial position as at 31 December 2015; consolidated Statement of comprehensive income; consolidated Statement of changes in equity; consolidated Statement of cash flows for the year then ended; and the accompanying Notes to the consolidated Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

Management's Responsibility

2. The Management is responsible for the preparation and a fair presentation of the enclosed consolidated financial statements according to the International Financial Reporting Standards adopted by EU and also for those internal controls which are determined by the Company's management as necessary to enable preparation of the consolidated financial statements free from material 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 whether the consolidated financial statements are free from material misstatements.

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 in 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 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 the 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 material aspects, give a true and fair view of the consolidated financial position of the company HRVATSKA ELEKTROPRIVREDA d.d., Zagreb as at 31 December 2015, and its consolidated financial performance and consolidated cash flows for 2015 in accordance with the Accounting Act and International Financial Reporting Standards as adopted by EU.

Emphasis of matter

5. As described in the Note 27 to the consolidated financial statements, at 31 December 2015, the Company stated clearing debt liability in the amount of HRK 842,162 thousand (31 December 2014: HRK 759,089 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report it has not been clearly defined whether it relates to a loan or a government grant.

6. As described in the Note 25 to the consolidated financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities (canals, dams, etc.) used for generation of electricity from hydropower plants. Pursuant to the Water Act those property is defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. The Company has filed a motion to the Constitutional Court for review of the constitutionality of Article 23 Paragraph 4 of the Water Act and for the cancelation of the same.

Opinion on compliance with other legal or regulatory requirements

7. The Management Board is responsible for the preparation of the annual consolidated financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual consolidated financial statements"). Financial information presented in the Company's standard annual consolidated financial statements are in accordance with the information presented in the Company's annual consolidated financial statements presented on pages 5 to 89 on which we have expressed our opinion as presented in the paragraph Opinion above.

Opinion on compliance with the Annual Report

8. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance 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 comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual consolidated financial statements presented on pages 5 to 89 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 29 April 2016

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

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

Irena Jadrešić, certified auditor | Zdenko Balen, Management Board member

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	2015	2014
		HRK'000	HRK'000
Revenue from electricity sales	3	10,537,427	10,575,290
Revenue from thermal power sales	3	682,388	671,946
Revenue from sale of gas on wholesale market	3	1,298,352	689,575
Revenue from sale of gas to customers	3	386,388	371,490
Sales revenue		***12,904,555***	***12,308,301***
Other operating income	4	1,664,910	1,290,873
Total operating income		**14,569,465**	**13,599,174**
Electricity purchase cost		(1,943,077)	(1,200,023)
Fuel cost		(1,798,986)	(1,777,077)
Costs of gas sold		(1,352,038)	(717,721)
Staff cost	5	(1,923,831)	(1,880,519)
Depreciation and amortization costs	9,10	(1,825,097)	(1,897,190)
Other operating expenses	6	(2,730,671)	(2,926,195)
Total operating expenses		**(11,573,700)**	**(10,398,725)**
Operating profit		**2,995,765**	**3,200,449**
Financial income	7	70,479	433,671
Financial expenses	7	(670,520)	(556,577)
Net loss from financial activities		**(600,041)**	**(122,906)**
Profit before taxation		**2,395,724**	**3,077,543**
Corporate income tax expense	8	(455,667)	(612,119)
Profit for the year		**1,940,057**	**2,465,424**
Attributable to:			
Owners of the Parent		1,939,095	2,462,332
Non-controlling interest		962	3,092
		1,940,057	**2,465,424**

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

	2015 HRK'000	2014 HRK'000
Profit for the year	**1,940,057**	**2,465,424**
Other comprehensive income		
Exchange (losses) / gains arising on translation of foreign operations	(4,453)	2,216
Net gain on AFS financial assets	45,889	52,330
Net other comprehensive income to be reclassified to income/ (loss) in subsequent periods	41,436	54,546
Other comprehensive income, net	**41,436**	**54,546**
Total comprehensive income for the year, net of	**1,981,493**	**2,519,970**
Total comprehensive income attributable to:		
Owners of the Parent	1,980,788	2,516,797
Non-controlling interest	705	3,173
	1,981,493	**2,519,970**

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President o the Management Board

Tomislav Rosandić

Member of the Management Board

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

ASSETS	Note	31 Dec 2015	31 Dec 2014
		HRK'000	HRK'000
Non-current assets			
Property, plant and equipment	9,13	25,722,455	25,334,813
Assets under construction	9	4,386,574	4,188,741
Prepayments for property, plant and equipment	12	37,880	41,486
Intangible assets	10	121,437	77,046
Investment property	11	236,778	236,153
Long-term loans and deposits	15	28,605	4,533
Available-for-sale and other investments	16	245,910	192,676
Other non-current assets	17	115,795	51,277
Deferred tax assets	8	650,681	653,907
Total non-current assets		**31,546,115**	**30,780,632**
Current assets			
Inventories	18	1,489,289	1,613,297
Trade receivables	19	1,847,063	1,864,680
Other short-term receivables	20	835,753	518,209
Cash and cash equivalents	21	2,493,166	1,079,900
Total current assets		**6,665,271**	**5,076,086**
TOTAL ASSETS		**38,211,386**	**35,856,718**

EQUITY AND LIABILITIES	Note	31 Dec 2015 HRK'000	31 Dec 2014 HRK'000
Share capital	22	19,792,159	19,792,159
Revaluation reserves	22	100,836	54,947
Retained earnings /(loss carried forward)	22	4,132,208	2,201,265
Equity Attributable to Owners of the Parent		**24,025,203**	**22,048,371**
Non-controlling interest	14	-	29,202
Total equity		**24,025,203**	**22,077,573**
Long-term loan liabilities	23	936,243	1,262,036
Long-term liabilities to the State	24	18,774	21,690
Long-term provisions	25	969,501	902,779
Liabilities under issued bonds	26	4,223,883	3,194,986
Other long-term liabilities	27	4,444,970	4,499,502
Deferred tax liabilities		21,816	13,573
Total non-current liabilities		**10,615,187**	**9,894,566**
Trade payables	31	1,740,910	1,590,745
Current portion of long-term bonds issued	26	93,380	93,380
Current portion of long-term loans	23	386,509	416,349
Short-term loans	28	-	8,981
Taxes and contributions	29	199,288	361,095
Interests payable		45,693	38,263
Liabilities to employees	30	226,510	151,240
Other non-current liabilities	32	878,706	1,224,526
Total non-current liabilities		**3,570,996**	**3,884,579**
TOTAL EQUITY AND LIABILITIES		**38,211,386**	**35,856,718**

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

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

Consolidated statement of changes in equity

For the year ended 31 December 2015

	Share capital	Revaluation reserves	Retained earnings / Loss carried forward	Equity attributable to Owners of the Parent	Non controlling interests	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2014	**19,792,159**	**2,617**	**18,809**	**19,813,585**	**31,977**	**19,845,562**
Profit for the year	-	-	2,462,332	2,462,332	3,092	2,465,424
Other comprehensive income	-	52,330	2,135	54,465	81	54,546
Total comprehensive income	-	*52,330*	*2,464,467*	*2,516,797*	*3,173*	*2,519,970*
Land surpluses	-	-	2,907	2,907	-	2,907
Payment of retained earnings	-	-	(284,918)	(284,918)	-	(284,918)
Distribution of dividends to (RWE)	-	-	-	-	(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**
Profit for the year	-	-	1,939,095	1,939,095	962	1,940,057
Other comprehensive income	-	45,889	(4,196)	41,693	(257)	41,436
Total comprehensive income	-	*45,889*	*1,934,899*	*1,980,788*	*705*	*1,981,493*
Land surpluses	-	-	1,401	1,401	-	1,401
Other changes	-	-	(5,357)	(5,357)	-	(5,357)
Distribution of dividends to (RWE)	-	-	-	-	(29,907)	(29,907)
Balance at 31 December 2015	**19,792,159**	**100,836**	**4,132,208**	**24,025,203**	**-**	**24,025,203**

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB 3/2
Ulica grada Vukovara 37

	2015	2014
	HRK'000	HRK'000
Cash flows from operating activities		
Profit/ (loss) for the year	1,940,057	2,465,424
Corporate income tax expense recognized in profit	455,667	509,764
Net loss from financial activities	600,041	122,906
Property surpluses	-	(3,954)
Fair value of swap	(12,449)	393,281
Fair value of property investment	(625)	(3,096)
Value adjustment of non-current assets	47,507	73,518
Depreciation and amortization	1,825,097	1,897,190
Receivables value adjustment	71,419	56,689
Inventories value adjustment	14,257	19,892
Increase in provisions	66,722	94,397
Operating cash flows before movements in working capital	*5,007,693*	*5,626,011*
(Increase) in trade receivables	(53,802)	(121,293)
Decrease /(increase) in inventories	109,751	(478,785)
(Increase) in other current assets	(317,544)	(60,454)
Increase/(decrease) in trade payables	150,165	(67,470)
Increase in other current liabilities	75,483	798,242
(Decrease) in other non-current liabilities	(247,223)	(607,062)
Cash generated from operations	**4,724,523**	**5,089,189**
Corporate income tax paid	(843,656)	(465,018)
Interests paid	(389,097)	(404,220)
NET CASH FROM OPERATING ACTIVITIES	**3,491,770**	**4,219,951**
INVESTINGACTIVITIES		
Interest receipts	49,420	13,210
Increase in property, plant and equipment	(2,528,144)	(2,063,723)
Disposal of property, plant and equipment	25,674	20,845
Increase in other non-current assets	(23,966)	(46,215)
NET CASH (USED IN) INVESTING ACTIVITIES	**(2,477,016)**	**(2,075,883)**

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

	2015 HRK'000	2014 HRK'000
FINANCING ACTIVITIES		
Receipts from bonds issued	3,703,533	-
Long-term loans received	66,722	-
Repayment of long-term loans	(417,915)	(258,848)
Repayment of issued bonds	(2,900,335)	(93,380)
Repayment of short-term loans	(8,981)	(681,866)
Dividends paid to the owner	-	(284,970)
Dividends paid to RWE	(44,512)	(5,948)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	**398,512**	**(1,325,012)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,413,266**	**819,056**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,079,900**	**260,844**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**2,493,166**	**1,079,900**

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

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

1. GENERAL

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 the Note 35.

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37. The principal activities of the Group are generation, transmission and distribution of electricity, and the control of the electric power systems. In addition to main activities, HEP Group also produces and distributes 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 11,935 employees (2014: 12,061), excluding Krško Nuclear Power Plant which employed 648 employees (2014: 646).

These consolidated financial statements are presented in Croatian Kuna as the Group's functional currency.

Laws regulating the energy sector

The Croatian Parliament adopted following Acts and Regulations that are regulating the Group's activities:

- the Energy Act and the Regulation of Energy Activities Act (adopted on 19 October 2012),
- the Electricity Market Act (adopted on 8 February 2013),
- the Gas Market Act (adopted on 22 February 2013), and
- the Heat Energy Market Act (adopted on 21 June 2013),
- Law on Amendments of the Electricity Market Act (adopted on 18 September 2015).

New Acts and Regulations, harmonized with EU Guidelines and Directives, determined further restructuring and adjustments of operations of HEP Group. According to provisions of the Electricity Market Act and amendments of the Electricity Market Act, HEP d.d. and its subsidiaries continue to provide public energy services in the Republic of Croatia, namely: transmission, distribution and universal and guaranteed supply of electricity. Generation, supply (on open market) and trading of electricity are performed as market activities as defined by legislation regulating the energy activities and trading on energy markets. Supply of electricity on open market is performed in accordance with rules governing market relations, where the energy subjects freely negotiate quantities and prices on a free market basis. Supply of electricity as a universal and guaranteed service, is performed according to regulated conditions to the protected customers who have a right to such model of supply and choose it freely or automatically. Household customers are supplied with electricity as guaranteed public service, as well as part of protected customers that have not exercised their right to select the electricity supplier or are left without a supplier. Part of household customers exercised their right to choose their supplier. HEP d.d. and its subsidiaries are reorganizing the Group in accordance with changed Acts and Regulations and prescribed deadlines.

1. GENERAL (continued)

Laws regulating the energy sector (continued)

In April 2012, the Government of the Republic of Croatia issued following Decisions: Tariff Model for Electricity Generation, with the exemption of protected customers, with no tariff items; Electricity Transmission Tariff Model, with no tariff items; Electricity Distribution Tariff Model, with no tariff items; and Electricity Supply Tariff Model, with the exemption of protected customers, with no tariff items. The Group has been applying above mentioned Tariff Models since 1 May 2012. On 30 September 2013 Decisions on Tariff Model for Electricity Generation, with the exemption of protected customers, with no tariff items and Electricity Supply Tariff Model, with the exemption of protected customers, with no tariff items ceased to have effect.

Electricity Market Act adopted in February 2013, determines that each customer has a right to freely choose a supplier, and household customers have a right to electricity supply as a universal service. Customers that have not exercised their right to select the electricity supplier or are left without a supplier, are using public guaranteed supply service. Pursuant to the provisions of the Electricity Market Act on 13 September the Croatian Energy Regulatory Agency (HERA) issued Methodology for determining tariff items for electricity supplies within the universal service and on 17 December 2013 HERA adopted the Methodology for determining the amount of tariff items for guaranteed electricity supplies.

From 1 October 2013, households supplied with electricity within the universal service, are charged in accordance with Methodology for setting tariff items for electricity supply within the universal service and the Decision of HEP Operator distribucijskog sustava d.o.o. on the amount of tariff items for electricity supply within universal service dated 1 October 2013, and from 1 January 2015 by Decision of HERA on the amount of tariff items for electricity supply in the context of universal service.

Customers using public guaranteed supply service were charged in accordance with the Methodology for setting prices for balancing electricity price charged to customers responsible for deviations and from 1 July 2014, in accordance with the Methodology for setting the tariff items for guaranteed electricity supply and the Decision of Croatian Energy Regulatory Agency on the amount of tariff items for guaranteed electricity supply.

1. GENERAL (continued)

General assembly

The General assembly consists of the members representing the interests of one shareholder – the Republic of Croatia:

Ivan Vrdoljak	Member	Member from 21 November 2012 until 3 March 2016
Tomislav Panenić	Member	Member since 4 March 2016

Supervisory Board

Members of the Supervisory Board in 2015

Nikola Bruketa	President	President since 23 February 2012
Žarko Primorac	Member	Member since 23 February 2012
Ivo Uglešić	Member	Member since 23 February 2012
Igor Džajić	Member	Member since 19 September 2012
Mirko Žužić	Member	Member since 19 September 2012
Juraj Bukša	Member	Member since 5 June 2014
Jadranko Berlengi	Member	Member from 3 June 2008 until 31 May 2015
Dubravka Kolundžić	Member	Member since 1 June 2015

Members of the Supervisory Board in 2014

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

Management Board in 2015

Perica Jukić	President	Member since 10 May 2013, President since 12 September 2014
Zvonko Ercegovac	Member	Member since 23 February 2012
Željko Štromar	Member	Member since 16 December 2013 to 31 March 2015
Tomislav Rosandić	Member	Member since 2 January 2015
Saša Dujmić	Member	Member since 4 December 2014

1. GENERAL (continued)

Management Board in 2014

Perica Jukić	President	Member since 10 May 2013, President since 12 September 2014
Tomislav Šerić	President	President since 10 May 2013 to 12 September 2014
Zvonko Ercegovac	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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Group's significant accounting policies which have been applied consistently in the current and previous years is set out below.

Presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

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

Basis of accounting

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

The Group's consolidated financial statements are presented in thousands of Croatian Kuna (HRK'000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

- Annual Improvements 2011-2013 Cycle - effective in EU for accounting periods beginning on or after 1 January 2015, with earlier application permitted. They include:
  - IFRS 3 Business Combinations,
  - IFRS 13 Fair Value Measurement,
  - IAS 40 Investment Property
- IFRIC 21 Levies (Effective in EU for accounting periods beginning on or after 17 June 2014, with earlier application permitted).

The adoption of these standards has no impact on the Company's consolidated financial statements for 2015.

New and revised IFRSs adopted by the EU in issue but not yet effective

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions – IAS 19 requires subjects to consider employee or third party contributions in accounting defined earning. This amendment is effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted. The Management Board does not expect this amendment to be relevant to the Group.
- Annual Improvements 2010-2012 Cycle, these amendment are effective in EU for accounting periods beginning on or after 1 February 2015, with earlier application permitted and it is not expected that they will have any significant impact on the Group. They include:
  - IFRS 2 Share-based Payment,
  - IFRS 3 Business Combinations,
  - IFRS 8 Operating Segments,
  - IFRS 13 Fair Value Measurement,
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets,
  - IAS 24 Related Party Disclosures;

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

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

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will 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 consolidated financial statements in accordance with IFRS and does not apply this standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 Board perform detailed analysis about the possible effects of the mentioned standards on the Company's consolidated financial statements.
- Annual Improvements to IFRSs 2012–2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

  The effective date of the amendments is 1 January 2016. Earlier application is permitted.
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (issued in December 2014)
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)
- Amendments to IAS 1 Disclosure Initiative (issued in December 2014)
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)

The Company's Management anticipates that the application of said standards, amendments and interpretations will not have a materially significant impact on the consolidated financial statements in the period of their initial application, except for IFRS 15 and IFRS 9 for which the Company's Management is conducting detail analysis regarding possible effects from the application of these Standards on the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The basis for preparation of the Company's financial statements

The Company's financial statements represent aggregate amounts of assets, liabilities and equity, and the results of the Group's operations for the year ended.

Principles and methods of consolidation

The consolidated financial statements incorporate the financial statements of HEP d.d. (the Parent company) and entities controlled by HEP d.d. (it's subsidiaries). List of Group's subsidiaries is provided in the Note 35. HEP d.d. has control over the entity if based on its participation is exposed to variable yield, i.e. has a right to it and ability to influence the yield with its prevalence in the entity. Considering that HEP has a 100% share in the capital of its subsidiaries and represents the only member resulting in the ability to manage and appoint Members of the Board, all mentioned companies are included in the consolidated financial statements as subsidiaries.

Subsidiaries are included in the consolidated financial statements from the date the Company gains control until the date when the Company ceases to control the subsidiary.

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

All significant intergroup transactions, balances, income and expenses are eliminated in consolidation. Non-controlling interest in the net assets of consolidated subsidiaries in these consolidated financial statements are identified separately from the Group's equity therein. Non-controlling interest 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. Profit or loss and every part of other comprehensive income are attributable to Owners of the parent and non-controlling interest, even if it results in a negative amount of non-controlling interest.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are accounted as equity transactions. If the parent loses control over the subsidiary, it derecognises related assets (including goodwill) and liabilities, non-controlling interest and other components of equity in former subsidiary, and recognises the gain or loss associated with the loss of control attributable to the former controlling interest. Any remaining interest is recognized at fair value.

Reporting currency

The consolidated financial statements of the Company are presented in Croatian Kuna (HRK '000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in joint arrangements

In accordance with IFRS 11, Joint arrangements are classified as:

- joint operations - whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement
- joint venture - whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

In classification of investments in joint operations, the Group considers:
- The structure of joint operation,
- Legal form of the joint operation structured through separate legal entities,
- Contracting conditions of joint operations,
- All other facts and circumstances (including any other contractual arrangements).

Interest in joint ventures are measured using equity method.

The Group recognizes its interest in joint operation through its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations.

The Group identified its investment in Krško Nuclear Power Plant as joint operation (Note 13).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The Group has no defined post-retirement benefits for its employees or Management. Accordingly, no provision for these costs has been included.

Legal pension and health insurance contributions are paid on behalf of the Group's employees. This obligation applies to all employees hired on the basis of employment contract. The contributions are paid at a certain percentage determined on the basis of gross salary.

	2015 and 2014
Pension insurance contributions	20%
Health insurance contributions from 1 April 2014	15%, 13%
Employment Fund contribution	1.7%
Occupational injury	0.5%

Health insurance contributions

**From 1 May 2012 until 31 March 2014 rate of 13% was applied, and as of 1 April 2014 the rate is 15%.*

The Group companies have the obligation to withhold the pension insurance contributions from the employees' gross salaries. Contributions on behalf of the employer and the employees are recognized as cost in the period in which they incurred (Note 5).

The Group pays employees jubilee awards and one-time severance payments upon retirement. The liabilities and expenses for these payments are determined with the application of the projected unit credit method. By using projected unit credit method, each period of seniority is observed as the basis for additional units of eligibility to allowances and each unit is measured separately until the realization of final liabilities. This liability is determined at the present value of projected future cash outflow with the application of the discount rate which is similar to the interest rate of State bonds in Croatia 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) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Severance payments

A new Collective Agreement was adopted as of 1 October 2014 (which covers all of the Group companies), under which the employees are entitled to a severance payment in the extent of 1/8 of the average gross monthly salary earned in the period of three months prior to the retirement, for each completed year of continuous employment at the employer. The effective date of the Collective contract is until 30 June 2016.

Property, plant and equipment (hereinafter: PPE)

Property, plant and equipment are measured 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 method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

PPE in use are depreciated using the straight-line method on the following bases:

Buildings	**2015 and 2014**
Hydroelectric power plants (flood gates and dams, buildings and other buildings as well as accompanying objects)	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 others)	20 – 40 years
Water and steam pipelines and other thermal power generation and transmission objects	33 years
Gas pipelines until 2014	20 – 25 years
Gas pipelines from 2014	40 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 licenses	5 years
Telecommunications equipment	5 – 20 years
Motor vehicles	5 – 8 years
Office furniture	10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The cost of PPE comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location necessary for it to be capable of operating as intended by Management. Expenditures incurred after PPE have been put into operation are normally charged to profit or loss in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of PPE beyond its originally assessed standard performance, the expenditures are capitalized as an additional cost of PPE. 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 retirement of any item of PPE is determined as the difference between the sale proceeds and the carrying amount of the asset and are recognized and is recognized as an expense or income in the consolidated statement of comprehensive income.

Impairment of PPE and intangible assets
At each reporting date, the Group reviews the carrying amounts of its PPE 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.

Recoverable amount is 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 that asset for which the estimates of future cash flows have not been adjusted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 recognized immediately as expenditure, unless the relevant asset is 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, in a way that the increased carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss would have been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income, 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

Non-current intangible assets include licenses and software and are carried at cost less accumulated amortization. Non-current intangible assets are amortized on a straight-line basis over their useful life of 5 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Investment properties are properties held for the purposes of earning rentals and/or capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequently, 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 for the period in which they arises.

An investment property is derecognized upon sale or retirement and when no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net sale proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Finance and operating leases

The Group as lessee

The Group has no significant finance lease arrangements and there were no new significant operating lease arrangements concluded during 2015 and 2014. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Trade receivables and prepayments

Trade receivables are carried at cost less any impairment for bad and doubtful receivables. The Management carries out impairment of bad and doubtful receivables based on review of the aging structure of all receivables as well as a review of significant individual amounts included in the receivables.
Given the uncertainty that some of receivables will be collected over longer period, the Group carries out impairment of unrecoverable amounts, based on a reasonable estimate and past experience as follows:

Receivables ageing structure	**Impairment percentage in 2015 and 2014**
31 - 60 days	1.5%
61 - 90 days	3%
91 - 180 days	9%
181 - 365 days	30%
Over one year	90%

Receivables for which legal proceedings have been initiated and receivables from entities in bankruptcy and pre-bankruptcy settlement proceedings (principal and interests) are impaired in their full amount, regardless of the overdue period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories comprise material and small inventory and are carried at lower of cost and net realisable value.

The Management carries out inventories write-off based on review of the ageing structure of all inventories as well as a review of significant individual amounts of inventories.

From 2013, inventories include CO_2 emission rights. After Croatia joined to the European system for greenhouse gas emissions trading (EU ETS), the Group as an electricity and thermal energy generator, is obligated to purchase greenhouse gas emission units in the amount corresponding to verified emissions of CO_2 generated from the fossil fuel combustion in thermal power plants, as a result of which CO_2 is emitted. The Group is obligated to have defined quantities of CO_2 emission rights at 30 April (yearly cycle). Due to withdrawal of IFRIC 3 *Emission Rights* and insufficient provisions of IFRS, the Group has analyzed different accounting models for CO_2 emission rights, and among other EFRAG discussion papers. Occasionally, the Group trades with CO_2 emission rights. Due to that the Group recognize these emission rights as inventory.

From April 2014, inventories include gas stock held for trading on the wholesale market and are stated at lower of cost and net realizable value. The Group measures inventories based on the weighted average price (Note 18).
Inventory costs for quantities of gas for direct delivery to customers are calculated using method of specific identification. Cost comprise invoiced amount as well as all other costs directly attributable to brining inventories to their present location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise petty cash, demand deposits and other short-term 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 recognized as an expense in the period in which they incurred. Interest expense is recognized on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Separate 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 presented in Croatian Kuna (HRK), as the Group's functional and presentation currency.

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

Exchange differences arising on the settlement of monetary items, and on their retranslation, are stated as profit or loss in the period in which they incurred. Exchange differences arising on retranslation of non-monetary assets carried at fair value are stated as profit or loss, except for exchange differences arising on the retranslation of non-monetary assets available for sale, for which gains and losses are recognized directly in equity. For such non-monetary items, any exchange gains or losses arising from retranslations are also recognized directly in equity.

For the purpose of presenting consolidated financial statements, assets and liabilities of the Group's foreign entities are presented in Croatian Kuna at the applicable exchange rate on the date of the statement of financial position. Those assets and liabilities are originally denominated in EUR. As the main goal of the CNB monetary policy is stability of the currency which is secured through maintenance of the stable HRK rate against EUR, income and expense items (together with comparatives) are translated at the annual average exchange rate. However, if exchange rate fluctuates significantly (over 10%), the Group use the exchange rates at the dates of transactions. Exchange differences arising from year-end translation, are classified as equity and presented in other comprehensive income. In the year in which foreign entity is sold, exchange differences are transferred to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Corporate income tax expense represents the sum of the current tax liability and deferred taxes.

Current tax

Current tax liability is based on taxable profit for the year. Taxable profit differs from profit for the year as stated in the statement of comprehensive income because of 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 current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the 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 statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized 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 utilized. Such assets and liabilities are not recognized if the temporary differences arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect 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 adjusted to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the tax 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 will be settled or asset realized, based on 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 tax consequences that would follow from the manner 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)

Current and deferred tax for the period

Deferred tax is recognized as an expense or income in the consolidated statement of comprehensive income, except when relate to items credited or debited directly to equity, in which case the deferred tax is also recognized directly in equity, or when the tax is arising from initial recognition of accounting for a business combination.

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

Financial assets

Investments are recognized and derecognized on the date of transaction. Financial assets are initially measured at fair value, increased by transaction costs, except for those financial assets classified at fair value through profit or loss.

Financial assets are classified as Available-for-sale, at fair value through profit or loss 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 amortized cost of financial asset and of allocation interest income over the relevant period. The effective interest rate is the rate that 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.

Available-for-sale financial assets (AFS)

Shares held by the Group that are traded in an active market are classified as Available-for-sale financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognised in revaluation reserve through other comprehensive income, except for impairment losses, interests calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss for the period. Where the investment is disposed or impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is recognized in profit for the period.
Dividends i.e. profit shares on equity instruments are recognized as 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 available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate prevailing at the end of the reporting period.

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when 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 affected. For financial assets carried at amortized cost, the amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced for the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the impairment account. When a trade receivable is considered uncollectible, it is written off through the impairment account. Subsequent recoveries of amounts previously written-off are credited to impairment account. Changes in the carrying amount of the impairment account are recognized 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 objectively related to an event occurring after the impairment was recognized, previously recognized impairment losses are reversed through the profit or loss to the extent that the carrying amount of the investment, at the date when the impairment is reversed, does not exceed what the amortized cost would have been if the impairment has not been recognized.
In respect of AFS equity instruments, any increase in fair value subsequent to an impairment loss is recognized directly in revaluation reserve.

Investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities, including loans and borrowings, are subsequently measured at amortized cost by applying the effective interest method.

The effective interest method is a method of calculating the amortized cost of financial liability and of allocating interest expense over the relevant period. Effective interest rate is the rate that discounts estimated future cash payments (including all fees and points paid and 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.

Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the Group's liabilities are settled, cancelled or they expire. The difference between the carrying amount of derecognized financial liability and consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

The Group entered into a cross currency swap agreement in order to manage its exposure to exchange rate risk. Further details on derivative financial instruments are disclosed in the Note 26.

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

Provisions

Provisions are recognized 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 obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the present best estimate. Where the effect of discounting is materially significant, the amount of the provision is the present value of the expenses expected to be required to settle the obligation. When discounting is used, 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 preparation of the consolidated financial statements

Preparation of the consolidated financial statements in conformity with International Financial Reporting Standards, as adopted by EU, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Estimates used in preparation of these consolidated financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which could cause changes in the assumptions used for making these estimates. The effect of any changes in estimates will be recorded in the consolidated financial statements, when determinable.

Revenue recognition

Revenue is realized primarily from the sale of electricity to households, industrial and other customers within the Republic of Croatia. These activities constitute the main source of the Group's operating income.

Revenue from the sale of electricity is recognized based on best estimate on the quantities of energy delivered. As the actual calculation of the quantities of energy delivered to customers is performed twice a year, the Group recognized revenue from sales of electricity based on the total generated and purchased energy quantities. Thereby the total generated and purchased energy quantities are corrected for losses in the distribution network based on logarithmic regression. The price of electricity is regulated by the Croatian Energy Regulatory Agency (By entry into force of the Law on Amendments to the Electricity Market Act (Official Gazette 102/2015.) ceases price regulation for public service electricity supply of households in the context of universal service). The Group accounting model do not include any accrual or deferral of revenue, or any associated assets or liabilities, related to price regulation and thus the Group measure revenue from the sale of electricity based on regulated prices. Alternatively, the Group provides option for their customers to choose market price model, in which case revenue is recognized in accordance with market prices (HEPI tariff model).

Revenue from sale of heating energy to households, industrial and other customers in the Republic of Croatia is recognized when the heating energy is delivered to the customers and is probable that future economic benefits related to transaction will inflow into the Group.

Revenues from gas sale are recognized in the period when the gas is delivered to the customers and is probable that future economic benefits related to transaction will inflow into the Group. The price of gas is regulated by the Croatian Energy Regulatory Agency. The Group's accounting model do not include any deferral of revenue related to price regulation and thus the Group measure revenue from the gas sale based on regulated prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from connection fees

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

IFRIC 18 clarifies the IFRS requirements regarding accounting of contracts in which an entity receives an asset (item or property, plant and equipment or cash) from the customer for their construction, which the entity, in return, must use either to connect the customer to a network or to provide the customer with the 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 consolidated financial statements.

Since 1 July 2009, connection fees received from customers have been recognized as income in the amount of cash received from the customer, in the moment customer is connected to the network/grid or in a moment the customer is enabled continuous access to services.

Segment analysis

The Group has adopted IFRS 8 "Operating Segments" and disclosed information about their operating segments, given that the Group has debt instruments, which are traded in public market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical judgments when applying accounting policies

When applying accounting policies described in the Note 2, the Management made certain judgments that had a significant impact on the amounts stated in the consolidated financial statements. These judgments are provided in detail in the accompanying notes and the most significant relate to the following:

Useful lives of property, plant and equipment

As described in the Note 2, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. In 2014 useful lives of gas pipelines are extended from 20-25 year to 40 years.

Fair value of financial assets

As described in the Note 19, the Management uses its judgment when estimating whether trade and other receivables have suffered an impairment loss.

Provisions for environmental protection

The applicable regulations, specifically the environmental protection legislation, do not specify requirements, activities or technology to be applied.

In determining the level of provisions for environment protection and decommissioning, the Management relies on the prior experience and its own interpretation of the related legislation. Pursuant to Article 4.1 of the Act 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 regarding Investment, Exploitation and Decommissioning of the Nuclear Power Plant Krško (hereinafter: NEK) (Official Gazette 9/2002), on 28 April 2006 the Croatian Government issued a Regulation on the payment of funds for decommissioning and disposal of radioactive waste and consumed nuclear fuel of NEK.

Provision for decommissioning of thermal power plants represent present value of the estimated decommissioning costs of the Group's thermal power plants.

Recognition of revenues from sale of electricity - households

As the collection is conducted through prepayments with actual calculation twice a year, the Group is estimating revenues from the sale of electricity. The estimate is based on the total generated and purchased energy quantities, which are corrected for losses in the distribution network based on logarithmic regression. After analyzing a number of different methods of approximation (five-year average, a linear approximation, etc.), the Management chosen method of logarithmic regression as the most appropriate. The amount of losses on the distribution network is calculated using the percentage of the logarithmic regression function on the total amount of purchased energy from the transmission network - the result are the losses of electricity distribution network in the current year in MWh. The difference between initially estimated revenues and actual prepayments is recognized in the statement of financial position as other short-term liabilities or other short-term receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-current assets

The impairment calculation requires the estimate of value in use of the cash generating units. That value 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 inflows and outflows.

Availability of taxable profits for which deferred tax assets could be recognized

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that the related tax benefit will be realised against future taxable profits. Measurement of the amount of deferred taxes that can be recognised, requires a significant level of judgement which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. Carrying amount of deferred tax assets as at 31 December 2015 amounted to HRK 650,681 thousand, as at 31 December 2014 to HRK 653,907 thousand (Note 8).

Actuarial estimates used in determining severance payments and jubilee awards

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 regarding those estimates. Provisions for jubilee awards and severance payments amounted to HRK 420,425 thousand as at 31 December 2015 and HRK 364,497 thousand as at 31 December 2014 (Note 25).

Consequences of certain court disputes

The Group is a subject to number of court disputes arising from operating activities. Provisions are made if there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation (Note 25).

3. SEGMENT INFORMATION

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

	Electricity		Heating		Gas		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Opreating revenue	10.537.427	10.575.290	682.388	671.946	1.684.740	1.061.065	12.904.555	12.308.301
Other segment income	1.588.378	1.203.331	55.407	58.401	21.125	29.141	1.664.910	1.290.873
Operating profit / loss	**3.149.041**	**3.476.794**	**(290.676)**	**(346.516)**	**137.400**	**70.171**	**2.995.765**	**3.200.449**
Net financial expenses							(600.041)	(122.906)
Corporate income tax							(455.667)	(612.119)
Net profit							**1.940.057**	**2.465.424**

Segment assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities consist of assets and liabilities that cannot be reasonably attributed to the reportable business segments. Total unallocated assets include investments in NEK, a part of property, plant and equipment, and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and various other liabilities.

	Total segment assets		Total segment liabilities	
	2015	2014	2015	2014
	HRK'000	HRK'000	HRK'000	HRK'000
				Restated
Electricity	29.030.695	27.807.534	6.125.754	6.613.995
Heating	1.204.678	1.184.190	187.850	203.167
Gas	383.816	389.202	101.933	104.419
Unallocated	7.592.197	6.475.792	7.770.646	6.857.564
Total Group	38.211.386	35.856.718	14.186.183	13.779.145

3. SEGMENT INFORMATION (continued)

Customer information

In 2015 electricity sales amounts to HRK 10,537,427 thousand (2014: HRK 10,575,290 thousand).

Heating energy sales for the year 2015 amounts to HRK 682,388 thousand (2014: HRK 671,946 thousand).

In 2015 gas sales in wholesale market amounts to HRK 1,298,352 thousand and gas sales to customers in the amount of HRK 386,388 thousand (2014 wholesale market: HRK 689,575 thousand; gas sales to customers HRK 371,490 thousand).

Geographical information

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

	2015	**2014**
	HRK'000	HRK'000
Croatia	9,917,663	9,815,887
EU member states	454,362	677,218
Non - EU member states	165,402	82,185
	10,537,427	**10,575,290**

4. OTHER OPERATING INCOME

	2015 HRK'000	2014 HRK'000
Network/grid connection services	367,263	352,047
Revenues from court verdict for undelivered electricity NEK	328,925	-
Income from assets financed by network/grid connection fee	230,636	234,482
Reversal of impaired receivables (Note 19)	73,123	99,549
Services rendered	135,658	141,733
Capitalized assets	95,437	88,905
Penalty interests	74,243	58,664
Income from sale of materials	37,592	39,510
Income from sale of cross – border transmission capacity	58,508	75,731
Revenues from inter-compensation (HOPS) - cross-border	18,341	35,747
Reversal of severance payments based on termination of employment contract	21,915	-
Reversal of long-term provisions – vacation accrual	5,843	70
Reversal of long-term provisions for retirement benefits and jubilee awards	21,695	4,696
Reversal of long-term provisions – court costs	20,593	42,487
Reversal of other provisions	6,170	20
Recovery of receivables from pre-bankruptcy proceedings	17,363	8,900
Income in respect of the electricity payments reminders	5,082	5,334
Income in respect of court costs on claims	8,177	8,389
Income from sale of tangible assets	51,281	1,603
Recovery of written-off receivables	2,352	8,906
Other income - NEK d.o.o.	4,977	5,094
Other	79,736	79,006
	1,664,910	**1,290,873**

In 2015 the Group realized income from network/grid connection services in the amount of HRK 367,263 thousand (2014: HRK 352,047 thousand) pursuant to IFRIC 18 (Transfers of assets from Customers).

5. STAFF COSTS

	2015 HRK'000	2014 HRK'000
Net salaries	1,078,947	1,038,540
Net salaries NEK d.o.o.	95,097	94,546
Taxes and contributions	711,389	703,240
Taxes and contributions NEK d.o.o.	38,398	44,193
	1,923,831	**1,880,519**

Total staff costs:

	2015 HRK'000	2014 HRK'000
Gross salaries	1,790,336	1,741,780
Gross salaries NEK d.o.o.	133,495	138,739
Reimbursement of costs to employees (Note 6)	117,937	112,542
Employee benefits (Note 6)	59,359	73,244
Unused vacation (Note 6)	441	17,677
	2,101,568	**2,083,982**

Remunerations to the Board Members and executives:

	2015 HRK'000	2014 HRK'000
Gross salaries	27,198	29,002
Pension contributions	6,107	6,432
Other benefits	3,360	3,972
	36,665	**39,406**

5. STAFF COST (continued)

Reimbursement of costs to employees for 2015 includes commuting costs in the amount of HRK 74,398 thousand (2014: HRK 72,539 thousand), daily allowances and travelling expenses for 2015 in the amount of HRK 19,581 thousand (2014: HRK 18,024 thousand), additional health insurance for 2015 amounting to HRK 7,507 thousand (2014: HRK 6,770 thousand) and other similar expenses for 2015 in the amount of HRK 16,451 thousand (2014: HRK 15,209 thousand).

Employee benefit costs mostly include benefits under the Collective Agreement which amounts to HRK 49,131 thousand, and to a minor extent to solidarity support, jubilee awards, family separation allowances and fieldwork bonuses, child benefits and other.

In 2015 there were no other payments to the Management Board members in addition to regular salaries and benefits in kind in the amount of HRK 2,694 thousand (2014: HRK 3,354 thousand).

6. OTHER OPERATING EXPENSES

	2015	2014
	HRK'000	HRK'000
Maintenance costs (service and material)	605,513	600,137
Impairment of trade receivables (Note 19)	170,915	221,014
Gas costs	154,122	224,733
Cost of services	295,829	252,775
Chargeable services and supplies	154,948	130,910
Cost of material	87,149	89,895
Compensation for lower quantities of gas than contracted	5,073	2,611
CO2 emission allowances cost	133,768	108,972
Value adjustment of inventory	15,898	16,993
Value adjustment of non-current tangible assets	47,507	73,518
Employee benefits (Note 5)	117,937	112,542
Other employees benefits (Note 5)	59,359	73,244
NE Krško – decommissioning expense	108,681	108,719
Taxes and contributions	87,339	85,221
Litigation provisions	25,313	29,668
Contributions and concession for water fees	71,517	67,198
Provision for unused vacation (Note 5)	441	17,677
Fee for the usage of power plant facilities	74,825	87,654
Compensation for water-purification and drainage	11,898	14,893
Property, plant and equipment write off	25,674	21,318
Cost of materials sold	30,012	25,777
Calculation and collection costs	30,004	34,372
Provisions for retirement benefits and jubilee awards	78,226	97,666
Provisions for severance payments based on the termination of employment contract	-	53,568
Insurance premiums	16,186	22,584
Environmental protection fees	2,864	3,319
Compensation for damages	20,406	12,929
Bed debts write off	7,943	12,510
Provisions for decommissioning of fossil fuelled power plants	7,608	7,920
Other operating expenses NEK d.o.o.	216,761	222,642
Other	66,955	93,216
	2,730,671	**2,926,195**

7. FINANCIAL INCOME AND EXPENSES

	2015	2014
Financial income	HRK'000	HRK'000
Foreign exchange gains	56,081	22,437
Interests	8,237	13,210
Fair value of cross currency swap (Note 26)	-	393,281
Dividend income	3,094	3,000
NEK d.o.o. – other financial income	3,067	1,743
Total financial income	**70,479**	**433,671**
Financial expenses		
Interests	(287,316)	(404,211)
Foreign exchange losses	(189,244)	(152,571)
Fair value of cross currency swap	(12,449)	-
Bond repurchase	(178,943)	-
Fair value of shares	(969)	(202)
NEK - Other financial expenses	(1,461)	(2,477)
Other financial expenses	(138)	(3,170)
Financial expenses	**(670,520)**	**(562,631)**
Less: Capitalized borrowing cost	-	6,054
Total financial expenses	**(670,520)**	**(556,577)**
Net loss from financial activities	**(600,041)**	**(122,906)**

8. CORPORATE INCOME TAX EXPENSE

	2015	2014
	HRK'000	HRK'000
Current tax	452,441	509,764
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	3,226	102,355
Corporate income tax expense	**455,667**	**612,119**

Adjustments of deferred tax assets are shown as follows:

	2015	2014
	HRK'000	HRK'000
Balance at 1 January	653,907	756,647
Reversal of deferred tax assets	(47,609)	(155,853)
Recognition of deferred tax assets	44,383	53,113
Balance at 31 December	**650,681**	**653,907**

Deferred tax assets have arisen from tax unrecognized provisions for jubilee awards and regular severance payments, value adjustments and other provisions.

The reconciliation between income tax and profit reported in the statement of comprehensive income is set out below:

	2015	2014
	HRK'000	HRK'000
Profit before taxation	2,395,724	3,077,543
Income tax at the applicable rate in the Republic of Croatia of (20%)	**479,145**	**615,509**
Tax unrecognized income	(40,506)	(138,582)
Tax effect on permanent differences	3,226	102,355
Tax effect on losses carried forward	-	(768)
Unrecognized deferred tax assets from companies operating with loss	13,802	33,605
Tax expense for the year	**455,667**	**612,119**
Effective tax rate	19%	20%

8. CORPORATE INCOME TAX EXPENSE (continued)

The Group and its subsidiaries are subject to corporate income tax, according to the tax laws and regulations of the Republic of Croatia. Other subsidiaries in the Group including HEP d.d. stated total tax losses in the amount of HRK 1,444,665 thousand (2014: HRK 1,528,456 thousand), while the Group stated total corporate income tax expense in the amount of HRK 452,441 thousand (2014: HRK 509,764 thousand) and deferred tax assets in the amount of HRK 3,226 thousand (2014: HRK 102,355 thousand).

Tax losses are available for carrying forward and offsetting against the tax base in future tax periods until their expiration as prescribed by the law, which is 5 years following the year in which the tax losses were incurred.

Tax losses stated by the Group and their expirations are presented below:

Year of tax loss origination	Total tax loss stated by the Group	Year of expiry
	HRK'000	
2011	434,935	2016
2012	565,360	2017
2013	207,334	2018
2014	168,027	2019
2015	69,009	2020
	1,444,665	

Group companies which are continuously stating losses in their financial statements, are not recognizing deferred tax assets. HEP d.d. is realizing profit and has no tax losses carried forward to be utilized. According to the Croatian legislation, it is not possible to utilize tax losses at the Group level. Each individual company determines its tax liability.

As of 31 December 2015, the Group could not recognize deferred tax assets arising from tax losses carried forward in the amount of HRK 1,444,665 thousand.

8. CORPORATE INCOME TAX EXPENSE (continued)

In recent years Croatian Tax Authorities have not performed a review of the corporate income tax returns of HEP d.d. and its subsidiaries, except the short monitoring in 2013. In accordance with local regulations, Tax Authority may at any time inspect the books and records of any Group company within 3 years following the year in which the tax liability is reported and may impose additional tax liabilities and penalties. The Company's Management is not aware of any circumstances that could lead to a potential material liability in this respect.

The following table summarizes movements in deferred tax assets during the year:

HRK'000	**Inventories write-off**	**Provisions for jubilee awards and retirement benefits**	**Depreciation over prescribed rates**	**Provisions for MTM bonds**	**PPE impairment**	**Tax losses carried forward**	**Other**	**Total**
As at 31 December 2013	**38,544**	**67,352**	**5,387**	**78,362**	**500,763**	**768**	**65,471**	**756,647**
Credited to profit and loss for the year	3,699	15,062	1,521	(78,362)	(22,882)	(768)	(21,010)	(102,740)
As at 31 December 2014	**42,243**	**82,414**	**6,908**	**-**	**477,881**	**-**	**44,461**	**653,907**
Credited to profit and loss for the year	2,832	10,791	2,105	16,375	(26,682)	3,242	(11,889)	(3,226)
As at 31 December 2015	**45,075**	**93,205**	**9,013**	**16,375**	**451,199**	**3,242**	**32,572**	**650,681**

9. PROPERTY, PLANT AND EQUIPMENT

HRK'000 COST	Land and buildings	Fixtures and equipment	Assets under construction	Total
As at 1 January 2014	**37,448,216**	**42,732,696**	**4,076,885**	**84,257,797**
Reclassification	1,700	(1,694)	-	6
Additions	22,011	123,351	1,893,731	2,039,093
Transfer from assets under construction	521,174	1,277,754	(1,825,274)	(26,346)
Inventory surpluses	3,707	3,646	236	7,589
Disposals	(92,338)	(262,510)	(6,165)	(361,013)
Additions for assets of NEK d.o.o.	6,522	38,802	49,328	94,652
As at 31 December 2014	**37,910,992**	**43,912,045**	**4,188,741**	**86,011,778**
Reclassification	(156,753)	156,294	219	(240)
Additions	16,009	324,141	1,997,895	2,338,045
Additions for assets of NEK d.o.o.	-	100,899	519	101,418
Transfer from assets under construction	415,538	1,327,783	(1,788,095)	(44,774)
Inventory surpluses	13,523	16,334	-	29,857
Disposals	(117,081)	(373,617)	(12,705)	(503,403)
As at 31 December 2015	**38,082,228**	**45,463,879**	**4,386,574**	**87,932,681**
ACCUMULATED DEPRECIATION				
As at 1 January 2014	**25,223,554**	**29,639,337**	-	**54,862,891**
Disposal HEP Proizvodnja d.o.o.	10,115	63,403	-	73,518
Depreciation	680,388	948,798	-	1,629,186
Depreciation NEK	24,328	221,511	-	245,839
Reclassification	1,034	(341)	-	693
Disposal	(84,018)	(243,521)	-	(327,539)
Inventory surpluses		3,635	-	3,635
As at 31 December 2014	**25,855,401**	**30,632,822**	-	**56,488,223**
Depreciation	671,785	959,834	-	1,631,619
Depreciation NEK	-	213,765	-	213,765
Reclassification	(75,614)	75,580	-	(34)
Disposal	(113,300)	(364,966)	-	(478,266)
Inventory surpluses	6,349	(38,004)	-	(31,655)
As at 31 December 2015	**26,344,621**	**31,479,031**	-	**57,823,652**
CARRYING AMOUNT				
At 31 December 2015	**11,737,607**	**13,984,848**	**4,386,574**	**30,109,029**
At 31 December 2014	**12,055,591**	**13,279,223**	**4,188,741**	**29,523,555**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group owns a large number of properties, however titles to individual properties has not been fully resolved. The Group is in process of registering ownership over properties. Due to a large number of properties, there is a possibility that all properties of the Group are not registered in the Group's business ledgers. Also, there is a possibility that the Group's business ledgers include records of properties to which the Group has no title. The Management Board of the parent company adopted the Decision on measures and activities related to resolving the ownership status of properties of HEP d.d. dated 27 June 2013. The Decision contains tasks and deadlines for the purpose of submitting proposals to the Land Registry Courts in order to register ownership rights. Activities on land-registry will be continued in 2016.

The Water Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities (canals, dams, etc.) used for generation of electricity from hydropower plants, which are, according to the Water Act defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Group acquired above mentioned property through payment to previous owners, uniting an extremely large number of cadastral plots (land plots), which were submerged by the construction of the dam and therefore created reservoirs. The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress.

10. INTANGIBLE ASSETS

	HRK'000
COST	**Licences**
Balance at 1 January 2014	**626,991**
Reclassification	(6)
Additions	3,442
Transfer in use	26,346
Disposals	(371)
Balance at 31 December 2014	**656,402**
Reclassification	240
Additions	26,308
Transfer in use	44,774
Disposals	(1,108)
Balance at 31 December 2015	**726,616**
ACCUMULATED AMORTIZATION	
Balance at 1 January 2014	**557,558**
Reclassification	2
Depreciation	22,165
Disposals	(369)
Balance at 31 December 2014	**579,356**
Reclassification	34
Depreciation	26,897
Disposals	(1,108)
Balance at 31 December 2015	**605,179**
CARRYING AMOUNT	
As at 31 December 2015	**121,437**
As at 31 December 2014	**77,046**

11. INVESTMENT PROPERTY

As of 31 December 2015 and 2014 investment property comprise properties held for the purposes of earning rentals and/or capital appreciation, and are carried at fair value by reference to the best management estimate. The fair value comprise estimated market price at the end of the reporting period. All investment properties are owned by HEP d.d.

Fair valuation was conducted by internal departments of the Group. The estimate is based on data available on the real estate market price in the appropriate locations. These prices are collected from different sources, including available data from Central Bureau of Statistics, Agency for Transactions and Mediation in Immovable Properties, CCE and others. These average values are adjusted to the characteristics and peculiarities of individual properties.

At fair value	**31 Dec 2015** HRK'000	**31 Dec 2014** HRK'000
Fair value	**236,153**	**231,285**
Net fair value adjustment	(795)	3,266
Closing balance at fair value	**235,358**	**234,551**
Investment property NEK	1,420	1,602
	236,778	**236,153**

12. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	31 Dec 2015 HRK'000	31 Dec 2014 HRK'000
JSC Tehnopromexport –TE Sisak	58	17,727
Končar GIM	2,707	5,550
Litostroj Slovenia	160	284
VOITH Siemens Austria	16	689
Končar inženjering Zagreb	2,605	2,247
Spegra Inženjering	2,224	3,718
Đuro Đaković holding	19,810	1,844
Siemens	461	1,130
Other	9,839	8,297
	37,880	**41,486**

Prepayments for PPE relate to construction of production facilities.

13. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO

Investment background

Legal status of the Nuclear Power Plant Krško ("NE Krško") was regulated by inter-republic (between Slovenia and Croatia) 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 NE Krško 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 NE Krško into a public company, NE KRŠKO d.o.o. ("NEK"), 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 NEK was cut off on 30 July 1998 and was not restored until 19 April 2003. In late 2001, the Governments of the Republic of Croatia the Republic of Slovenia signed an Agreement governing the status and other legal relations in connection with their respective investment in NEK, 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 during 2002, and it came into force at 11 March 2003, following the ratification by the Slovenian 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. ('NEK') in respect to its 50% holding in NEK, 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 was also clearly defined obligation towards the Croatian half of disposal of radioactive waste and used nuclear fuel from NEK. Each country/government has an obligation to provide half of the funds necessary to prepare the decommissioning plan and cost of the program. Each side will allocate fund for this purpose into a separate fund in the amounts estimated by the decommissioning program. According to the current program of decommissioning and disposal of radioactive waste and spent nuclear fuel, HEP d.d. is a contributor to the Fund in the amount of EUR 14,250 thousand per year. HEP d.d. started to receive electricity from NEK on 19 April 2003, and expects to receive 2,700-2,950 GWh annually up to year 2023, representing 15% of electricity consumption in Croatia.

By the end of 2003, the provisions of the Agreement have been implemented according to which HEP d.d. and NEK 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 NEK as at 31 December 2003 amounted to SIT 84.7 billion (approximately: HRK 2.8 billion).

13. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO (continued)

Current status

Payments to the Fund for Decommissioning of NEK

Based on the Regulation on the amount, time and manner of payment of funds for the decommissioning and disposal of radioactive waste and used nuclear fuel of NEK, adopted by the Croatian Government on 24 December 2008, in the period from 2006 to 2015 HEP d.d. made payments to the Fund for Decommissioning of NEK in the amount of HRK 1,268,333 thousand. The amount of payment is determined by the Program of decommissioning from 2004. Actual annual liability in the amount of EUR 14,250 thousand is payable quarterly.

Extension of useful life of NEK

After NEK has obtained from the Slovenian nuclear safety administration a safety license to operate without any limitations in 2012, at the end of 2014 HEP and GEN Energija d.o.o. adopted a decision to extend the operational life of the plant until 2043. The decision to extend the operating life of NEK for 20 years was preceded with an investment feasibility study of long-term investments in the power plant.

Resolution of an international arbitration dispute

The Company has acquired the right to compensation for damages claimed from the Republic of Slovenia for undelivered electricity from NEK in the period from 1 July 2002 to 18 April 2013 in the amount of HRK 328,926 thousand (Note 4).

Compensation was paid in December 2015 and January 2016.

Accounting of NEK joint operation

Investments in NEK are measured by using the equity method (in 2014 the Group recognizes its share in assets, liabilities, revenues and expenses of NEK in its financial statements).

In order to eliminate possible concerns of individual government agencies (FINA, the Ministry of Finance, Central Bureau of Statistics, etc.) on the information in the separate financial statements of the Company, and in accordance with the provisions of IAS 1, point 19 and point 20, the Management Board adopted a decision to change that policy.

In its consolidated financial statements, the Company applies the method of joint management of assets and liabilities and reports share of the Company in each asset and each liability, income and expense in accordance with IFRS 11.

13. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO (continued)

Extract from financial statements

In table bellow is shown an extract from financial statements of NEK in full (100%) amounts at 31 December 2015 and 2014:

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Property, plant and equipment	2,270,953	2,495,642
Capital and reserves	3,374,393	3,382,788
Gross sales	1,372,011	1,494,330
Cash flows from operating activities	662,485	401,719
Profit for the year	-	19,842

14. INVESTMENT IN THE 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 TE Plomin II. Consequently, a joint venture, TE Plomin d.o.o. ('TE Plomin') was formed in December 1996, with each partner holding 50% of the equity of the new entity.

Agreement between HEP d.d. and RWE expired in May 2015 in accordance with its provisions since HEP decided to exercise its right related to the possibility that 15 years after start of production, HEP can takeover RWE's shares in TE Plomin d.o.o..
Company signed with RWE termination of Joint Venture Agreement for TE Plomin II and the Agreement on the transfer of shares in TE Plomin II, and it became sole owner of the company TE Plomin d.o.o.

The Company paid all liabilities to RWE.

Extract from financial statements

In these consolidated financial statements, the Group has stated its interest in TE Plomin using full consolidation method.

	31 Dec 2015	**31 Dec 2014**
	HRK'000	HRK'000
Property, plant and equipment	205,779	187,183
Capital and reserves	181,584	195,310
Gross sales	645,363	747,784
Operating profit	15,910	30,323
Net profit	3,357	3,092
Cash flows from operating activities	115,347	24,197

14. INVESTMENT IN THE TE PLOMIN (continued)

	2015	2014
	HRK'000	HRK'000
Opening balance of non-controlling interest	29,202	31,977
Equity payoff	(25,853)	-
Liabilities for dividend / Dividend payment	(4,054)	(5,948)
Increase for current year's profit	962	3,092
Exchange differences	(257)	81
Closing balance	**-**	**29,202**

15. LONG TERM LOANS AND DEPOSITS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Loans given	28,947	4,743
Impairments	(12)	(74)
Current portion of long-term loans given	(330)	(136)
Long-term portion	**28,605**	**4,533**

15. LONG TERM LOANS AND DEPOSITS (continued)

Loans given to third parties:

	Year of loan approval	Repayment period	Loan amount	31 Dec 2015	31 Dec 2014
				HRK'000	HRK'000
City of Dubrovnik	2013	5 years	5,707	2,707	4,207
City of Pregrada	2006	10 years	1,358	271	407
Did d.o.o.	2007	4 years	1,010	129	129
LNG Hrvatska	2015	5 years	63,600	25,840	-
Total				**28,947**	**4,743**
Impairment				(12)	(74)
Current portion				(330)	(136)
Long-term portion				**28,605**	**4,533**

16. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Available-for-sale investments	244,845	191,611
Other investments	1,065	1,065
	245,910	**192,676**

16. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS (continued)

Movements on available-for-sale investments are presented below:

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Opening balance	191,611	124,101
Changes in fair value of available-for-sale investments	53,127	65,157
Investment in shares	107	2,353
	244,845	**191,611**

Changes in fair value of available-for-sale investments shown in the table above are presented in the gross amount. In the consolidated statement of comprehensive income within other comprehensive income is presented amount of changes in fair value of available-for-sale investments net of corporate income tax under Net gain/(loss) on AFS financial assets.

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Available-for-sale investments:		
Jadranski Naftovod d.d.	242,915	188,878
Viktor Lenac d.d.	115	128
Đuro Đaković d.d.	5	5
Kraš d.d.	3	2
Pevec d.d.	312	312
Jadran d.d.	364	365
Industrogradnja grupa d.d.	490	490
Optima Telekom d.d.	223	1,099
Institut IGH d.d.	98	178
Međimurje beton d.d.	154	104
HTP Korčula d.d.	59	50
INGRA d.d.	72	-
Other	35	-
	244,845	**191,611**

16. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS (continued)

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Other investments		
Geopodravina d.o.o.	200	200
LNG Hrvatska d.o.o.	865	865
	1,065	**1,065**
	245,910	**192,676**

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. By Decision of the Management Board, shares of Jadranski Naftovod were classified as available for sale. Transfer of shares was registered at Central Depository Agency on 19 March 2009.

In 2015 and 2014 fair value was determined by a market value from Zagreb Stock Exchange as of 31 December. The market price of one share of Jadranski Naftovod as of 31 December 2015 was HRK 4,500 and as of 31 December 2014 was HRK 3,499. By fair valuation of the investment in Jadranski Naftovod as of 31 December 2015 total amount of investment was increased by HRK 54,036 thousand (2014: increased by HRK 65,262 thousand). The fair valuation in 2015 and 2014 was recognised through equity (revaluation reserves), and adjusted for 20% by increasing deferred tax liabilities.

On 1 June 2010 HEP d.d. and Plinacro d.o.o. had concluded the Articles of Incorporation of LNG Hrvatska d.o.o., *a liquefied natural gas company*. Recapitalization was conducted in 2011 and subscribed capital was increased from HRK 20 thousand to HRK 220 thousand. HEP d.d. has a 50% stake in the company, and Plinacro d.o.o. has other 50%. As registered at Commercial court, on 4 February 2013 LNG Hrvatska d.o.o. was recapitalized by Plinacro d.o.o. in the amount of HRK 22,600 thousand. Subscribed capital of LNG Hrvatska d.o.o. is stated in the amount of HRK 24,330 thousand.

Based on the pre-bankruptcy settlement agreements with debtors for electricity, heating and gas sold, the Group has become a stakeholder in seven companies by converting their outstanding debts into shares (equity) in the amount of HRK 2,145 thousand.

17. OTHER NON-CURRENT ASSETS

	31 Dec 2015 HRK'000	31 Dec 2014 HRK'000
Housing loan receivables	21,818	25,572
Energy efficiency receivables – long-term portion	15,460	10,992
Capitalized interests – RWE	-	1,283
Derivative financial instruments (Note 26)	70,900	1,473
Other non-current assets	7,617	11,957
	115,795	**51,277**

Prior to 1996, the Group had sold apartments/flats in its ownership to its employees, the sale of which was regulated by the laws of Republic of Croatia. These flats were usually sold on credit, and the related 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 apartments/flats were transferred to new subsidiaries as of 1 July 2002. The housing loan receivables are stated in the consolidated financial statements at their discounted net present values, determined using an interest rate of 7.0%. The liability to the State, which represents 65% of the value of sold apartments, is included in non-current liabilities to the State (Note 24). The receivables are secured by mortgages over the sold apartments.

18. INVENTORIES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Inventories of fuels and chemicals	129,118	292,215
Electric materials	320,381	298,635
Spare parts	197,320	191,943
Building material	32,699	38,193
Construction material	439,951	432,559
CO_2 emission units	297,128	219,270
Other inventories	62,473	64,812
Nuclear fuel and other material - NEK d.o.o.	229,941	281,135
	1,709,011	**1,818,762**
Write-off of obsolete materials and spare parts	(219,722)	(205,465)
	1,489,289	**1,613,297**

19. TRADE RECEIVABLES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Electricity – Corporate customers	1,473,439	1,410,548
Electricity – Households	478,274	445,353
Export of electricity	32,770	33,699
Heating, gas and services	805,186	846,967
Connection to transmission network	27,292	2
Receivables from NEK d.o.o.	8,951	42,501
Other	66,749	59,789
	2,892,661	**2,838,859**
Provisions for bad and doubtful receivables	(1,045,598)	(974,179)
	1,847,063	**1,864,680**

19. TRADE RECEIVABLES (continued)

Aging structure of unimpaired trade receivables:

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Undue	1,206,160	1,194,793
up to 30 days	349,305	363,326
from 31 to 60 days	125,892	122,393
from 61 to 90 days	51,797	59,883
from 91 to 180 days	62,379	59,278
from 181 to 365 days	41,659	55,330
365 days and over	9,871	9,677
	1,847,063	**1,864,680**

Movements in impairments were as follows:

	2015	2014
	HRK'000	HRK'000
Balance at 1 January	**974,179**	**917,490**
Impairment of trade receivables (Note 6)	170,915	221,014
Derecognition of previously impaired trade receivables	(26,373)	(64,776)
Reversal of impairments (Note 4)	(73,123)	(99,549)
Balance at 31 December	**1,045,598**	**974,179**

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

20. OTHER SHORT-TERM RECEIVABLES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Corporate income tax receivables	210,936	-
Prepayments	5,359	3,544
Receivables from the State for employees	6,435	4,387
Interest receivables	1,474	340
Demand and term deposits with maturity over 3 months	99,166	209,950
Demand and term deposits with maturity over 3 months NEK	417,904	216,160
Borrowing receivables – third parties	-	10,500
Receivables from HEP-ESCO d.o.o. for Energy efficiency project	13,063	13,092
Receivables from OIE - HROTE	30,548	-
Other receivables NEK	2,031	2,005
Other short-term receivables	48,837	58,231
	835,753	**518,209**

In November 2014, the company has concluded a short-term borrowing agreement with the company from Croatia in the amount of HRK 10,500 thousand for the period of 180 days, and interest rate in the amount of HNB (Croatian National Bank) discount rate. Borrowing was fully repaid in 2015.

21. CASH AND CASH EQUIVALENTS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Current accounts - HRK	497,566	448,172
Current accounts – Foreign currency	427,145	193,425
Current accounts for special purposes	30,706	21,473
Petty cash - HRK	271	231
Short term deposits - up to 90 days	1,419,032	30,012
Daily deposits	118,393	386,551
Current and foreign currency bank account - NEK d.o.o.	53	36
	2,493,166	**1,079,900**

22. EQUITY AND RESERVES

The share capital was first registered on 12 December 1994 in German marks (DEM) and amounted to DEM 5,784,832 thousand. On 19 July 1995, the share capital was reregistered in Croatian Kuna in the amount of HRK 19,792,159 thousand. The share capital consists of 10,995,644 ordinary shares, with a nominal value of HRK 1,800 each.

Revaluation reserves

	31 Dec 2015	**31 Dec 2014**
	HRK'000	HRK'000
Opening balance	54,947	2,617
Other comprehensive income, net	45,889	52,330
	100,836	**54,947**

Retained earnings	**31 Dec 2015**	**31 Dec 2014**
	HRK'000	HRK'000
Opening balance	2,201,265	18,809
Other changes	(5,357)	-
Exchange loss / gain arising on translation of foreign operations	(4,196)	2,135
Land surpluses	1,401	2,907
Dividends paid	-	(284,918)
Profit / (loss) for the year	1,939,095	2,462,332
	4,132,208	**2,201,265**

23. LONG-TERM LOAN LIABILITIES

	Interest rates	31 Dec 2015	31 Dec 2014
		HRK'000	HRK'000
Domestic bank loans	EURIBOR+ (1.00p.p.-5.35p.p.)	1,219,772	1,640,285
Foreign bank loans	2.71%, fixed	90,296	23,183
Finance leases	5.6%, fixed	16,066	22,362
Total		**1,326,134**	**1,685,830**
Deferred loan originated fees		(3,382)	(4,611)
Total long-term loans		**1,322,752**	**1,681,219**
Current portion of long-term loans		(383,525)	(416,349)
Current portion of finance lease (Note 32)		(2,984)	(2,834)
Long-term portion		**936,243**	**1,262,036**

Loans from domestic banks are secured by bills of exchange and promissory notes. At 31 December 2015 the Group doesn't have any liabilities covered by *sovereign loan guarantees*.

New financing sources

For the financing of the investment plan and the regular operations in 2015 the Group used funds from loans in use.

Loans in use

During 2015 the Group had available funds from long-term loan approved in 2008 by KfW Entwicklungsbank in the amount of EUR 50,000 thousand for the financing of energy efficiency and renewable energy projects. As of 31 December 2015 KfW loan balance was EUR 11.8 million, and the amount of EUR 38.2 million were unutilised.

23. LONG-TERM LOAN LIABILITIES (continued)

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

	(HRK'000)
2016	386,254
2017	416,027
2018	436,871
2019	83,901
2020	3,081
	1,326,134

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

The primary goal related to risks resulting from covenants is to protect the Group from possible defaults, respectively early maturity of loan liabilities.

The agreed covenants are monitored and calculated based on the projected Statement of financial position and the Statement of comprehensive income. The Group prepares preliminary calculations of the covenants in the upcoming mid-term period, and is following their trends.

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

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

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

23. LONG-TERM LOAN LIABILITIES (continued)

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

As of 31 December 2015 covenants were not breached and the Group has met all contractual financial indicators.

The Group's total exposure to loan liabilities subject to covenant conditions as of 31 December 2015 amounts to EUR 105,882 thousand.

An analysis of long-term loans in foreign currencies is provided below (in '000):

Currency	31 Dec 2015	31 Dec 2014	31 Dec 2013
EUR	173,690	219,596	245,703

24. LONG-TERM LIABILITIES TO THE STATE

Long-term liabilities to the State amounted to HRK 18,774 thousand in 2015 (2014: HRK 21,690 thousand) and relate to the sale of apartments to employees in accordance with the State program that was discontinued 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 allocate the funds until they are collected from the employee.

25. LONG-TERM PROVISIONS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Provisions for court disputes	367,772	363,052
Provisions for severance payments	374,550	319,691
Provisions for jubilee awards	45,875	44,806
Provisions for decommissioning of fossil fuelled power plants	128,297	120,689
Provision for electricity purchased from wind power plants	21,631	21,631
Provisions for severance payments, jubilee awards and other - NEK	31,376	32,910
	969,501	**902,779**

Provisions for decommissioning of fossil fuelled power plants in the amount of HRK 128,297 thousand represent discounted value of the estimated decommissioning costs of the Group's fossil fuel power plants.

Movements in provisions during the presented period were as follows:

	Legal disputes	Provisions for severance payments	Jubilee awards	Decommission-ing of FFPPs	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 31 December 2014	**363,052**	**319,691**	**44,806**	**120,689**	**54,541**	**902,779**
Additional provisions	25,260	77,566	8,538	7,608	-	118,972
Decrease in provisions (amounts paid)	(16,922)	(2,977)	(4,901)	-	(1,534)	(26,334)
Decrease in provisions based on estimates	(3,618)	(19,730)	(2,568)	-	-	(25,916)
At 31 December 2015	**367,772**	**374,550**	**45,875**	**128,297**	**53,007**	**969,501**

25. LONG-TERM PROVISIONS (continued)

Provisions for court disputes

Provisions for court disputes relate to cases where possible outcome has been determined as uncertain or negative. Most significant court disputes are initiated against HEP Proizvodnja d.o.o. and HEP d.d.

HEP Proizvodnja d.o.o. is in litigation with Zagrebački Holding d.o.o., with provisions amounting to HRK 76,130 thousand in 2015 and relate to dispute for waste water treatment plant fees.

At HEP d.d. most significant provision relate to the litigation related to HE Peruča (hydropower plant Peruča) which started in 1995, for which a first Instance ruling was issued in 2012 and was ruled in favour of the plaintiff. Litigation case value amounts to HRK 330,000 thousand, and provisions are recorded at 50% of case value, i.e. HRK 165,000 thousand. Other significant provisions relate to Kartner sparkass amounting to HRK 9,903 thousand.

Water Management Act

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

The Company has disputed the interpretation of the Water Management Act as aforementioned property was included in balance sheet of the Group during ownership transformation and therefore cannot be subject to laws that came into force after transition was conducted. This interpretation by the Company is in accordance with the Decision by the Croatian Constitutional Court, Ref. No. U-III-3049/2007. The Company has filed a motion to the Constitutional Court to institute proceedings to review the constitutionality of Article 23 Paragraph 4 of the Water Management Act with the Constitution and upon conclusion of the procedure to annul the said provision.

25. LONG-TERM PROVISIONS (continued)

Provisions for severance payments and jubilee awards

Movements in the present value of the defined employees benefits during the current period were as follows:

	Retirement benefits	Jubilee awards	Total
	HRK'000	HRK'000	HRK'000
At 31 December 2013	**231,911**	**39,616**	**271,527**
Cost of services	11,364	2,248	13,612
Interest expense	11,857	1,635	13,492
Benefits paid	(14,525)	(7,068)	(21,593)
Past service cost	1,347	227	1,574
Actuarial (loss)	77,737	8,148	85,885
At 31 December 2014	**319,691**	**44,806**	**364,497**
Cost of services	13,309	2,308	15,617
Interest expense	14,140	1,706	15,846
Benefits paid	(8,993)	(6,829)	(15,822)
Past service cost	29,823	1,394	31,217
Actuarial (loss)	6,580	2,490	9,070
At 31 December 2015	**374,550**	**45,875**	**420,425**

The following assumptions were used in preparing the calculations:

- The termination rate is from 0% to 5.74% percent and is based on the statistical fluctuation rates for the Group in the period from 2006 to 2015.
- The probability of death by age and sex is based on 2010-2012 Croatian Mortality Tables published by the Croatian Bureau of Statistics. It is assumed that the population of employees of the Group represents average with respect to mortality and health status.
- It is assumed that in 2015 there will be no annual salary growth.
- Present value of the obligation was determined using a 4.1% discount rate for all subsidiaries and HEP d.d.

26. LIABILITIES UNDER ISSUED BONDS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Nominal value of bonds from 2006 - domestic	186,410	279,790
Discount value	(84)	(170)
Current portion of bonds	(93,380)	(93,380)
	92,946	**186,240**
Nominal value of bonds from 2012 issued abroad	3,008,746	2,999,389
Bond repurchase (83.37%)	(2,806,955)	-
Exchange difference	296,826	9,357
	498,617	**3,008,746**
Nominal value of bonds from 2015 issued abroad	3,703,533	-
Exchange difference	3,455	-
Discount value	(50,941)	-
	3,656,047	-
Accrued bond expenses	(23,727)	-
	3,632,320	
Total liabilities under issued bonds	**4,223,883**	**3,194,986**

Bonds issued in the Republic of Croatia

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

Bonds issued abroad

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

26. LIABILITIES UNDER ISSUED BONDS (continued)

Cross currency swap

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

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

Refinancing

In October 2015, bonds issued in 2012 were refinanced from the new bond issue and repaid 83.37% of the principal respectively USD 416,852 thousand. The amount of outstanding principal on bonds issued in 2012, on 31 December 2015 amounted to USD 65,306 thousand.

Cross currency swap agreement from 2012 is applicable for outstanding principal until its outermost maturity date at 9 November 2017.

The new bond issue

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

Bonds issued in 2015, are mainly used for the repurchase of 83.37% of the bonds issued in 2012 (i.e the repurchase of USD 416,852 thousand). The remaining issue is intended to finance the Company's business. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

Cross currency swap

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

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

Derivative financial instruments

Cross currency swap

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

26. LIABILITIES UNDER ISSUED BONDS (continued)

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

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

The Group measures the fair value of the cross currency swap according to the calculation of Mark-to-market ("MTM") value.

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

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

On 31 December 2015, using this measuring method, the Company stated fair value of assets by bonds issued in 2012 in the amount of HRK 70,900 thousand (Note 17).

On 31 December 2015, using this measuring method, the Company stated fair value of liabilities by bonds issued in 2015 in the amount of HRK 81,876 thousand (Note 27).

27. OTHER LONG-TERM LIABILITIES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Deferred income – assets financed by third parties	3,505,750	3,738,553
Long-term liabilities for assets financed from clearing debt	842,162	759,089
Cross currency swap (Note 26)	81,876	-
Other long-term liabilities	15,182	1,860
	4,444,970	**4,499,502**

27. OTHER LONG-TERM LIABILITIES (continued)

Deferred income relate to income from assets ceded by customers and others without charge or assets financed from connection fee. The income from these assets is recognized over the same period as the related assets are amortized, which applies to contracts for connection to the network concluded with customers by 30 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of cash received from the customer in the period when the customer is connected to the grid/network or when the customer is permitted permanent access to the delivery of the service.

At 31 December 2015 the Group stated clearing debt liability in the amount of HRK 842,162 thousand (2014: HRK 759,089 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, it has not been clearly defined whether it relates to a loan or a government grant.

28. SHORT-TERM LOAN LIABILITIES

	31 Dec 2015	**31 Dec 2014**
	HRK'000	HRK'000
Current portion of RWE loan	-	8,981
	-	**8,981**

For the purpose of providing solvency reserves for the following mid-term period, the Company has concluded with domestic banks multi-purpose overdraft agreements in the total amount of HRK 1,0 billion. Funds from agreed overdrafts the Company may use as short-term loans, as well as for issuance of guarantees, letters of credit and letters of intention in accordance with the Group needs.

During 2015, due to good liquidity, the Group did not concluded short-term loans from preapproved mid-term multipurpose overdraft agreements.

Also, the Group has signed reverse factoring agreement in the amount of EUR 50 million with maturity until 31 December 2016.

As of 31 December 2015 the Group has available the amount of up to HRK 1,325 million from short-term financing sources.

29. TAXES AND CONTRIBUTIONS

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
VAT liability	105,430	120,567
Corporate income tax liability	-	180,250
Utility and other fees	37,326	30,731
Contributions on salaries	22,738	22,570
Contributions and taxes for employees material right	29,530	4,560
Other	4,264	2,417
	199,288	**361,095**

30. LIABILITIES TO EMPLOYEES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Net salaries	79,744	79,123
Contributions	40,435	39,397
Severance payments for retirements	60,718	634
Severance payments for termination of employment contracts	12,406	-
Net salaries NEK d.o.o.	11,601	10,620
Other	21,606	21,466
	226,510	**151,240**

31. TRADE PAYABLES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Domestic trade payables	1,510,348	1,401,253
Foreign trade payables	73,293	68,243
Foreign trade payables - EU	136,569	105,355
Trade payables - NEK d.o.o.	20,700	15,894
	1,740,910	**1,590,745**

32. OTHER NON-CURRENT LIABILITIES

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
Prepayments received for connection fees	357,756	330,859
Other prepayments	116,202	121,033
Accrued expenses for unused vacations	61,504	71,436
Deferred income from electricity sale to households	33,539	40,467
Liabilities for fees for renewable energy sources	46,704	45,128
Accrued severance payments to employees	31,851	231,123
Accrued interest expenses	-	122,926
Accrued expenses for CO_2 emissions	133,740	111,806
Accrued expenses to HAC	-	77,775
Other accrued expenses	12,844	1,703
Liability for payment of dividend to RWE	-	14,807
Current portion of liabilities for finance lease (Note 23)	2,984	2,834
NEK d.o.o. liabilities	44,420	39,999
Other	37,162	12,630
	878,706	**1,224,526**

32. OTHER NON-CURRENT LIABILITIES (continued)

Correction of household income as at 31 December 2015 was obtained by calculating the logarithmic curve using network losses of 8.39% in the amount of HRK 33,539 thousand, while for the year ended 31 December 2014, stated percentage of loss used in the calculation was 8.56% in the amount of HRK 40,467 thousand . The result is an increase in revenue in the amount HRK 6,928 thousand in comparison to the previous year.

Pursuant to The Act on Air Protection (Official Gazette No. 130/2011, 47/14) and the accompanying ordinances in the area of greenhouse gas emissions, HEP d.d. has been classified as the obligator of the EU ETS system. The Group is required to obtain a permit for greenhouse gas emissions and to monitor emissions from facilities in accordance with the approved monitoring plan and to submit verified reports the Environmental Protection Agency by 31 March each year, on the total CO_2 emissions for the previous calendar year.

Based on the submitted report, and not later than 30 April of the current year, the Group is obligated to submit quantities of emission units to the EU Registry in the amount equal to the verified total greenhouse gas emissions from the facilities in the previous calendar year. Pursuant to the above, the cost of greenhouse gas emissions fee consists of the amount of CO_2 emitted (equivalent) and the price of emission units which the Group calculates on accruals (accrued expenses) and expenses of the period during the year in which the greenhouse gases emissions.

33. RELATED PARTY TRANSACTIONS

The Company holds 50% of shares in Krško Nuclear Power Plant d.o.o. (NEK). Although investment in NEK is recognized in the financial statements as joint operation, due to the fact that NEK is a separate legal entity, transactions between NEK and HEP d.d. are also presented within related party transactions. The electricity generated by NEK is delivered to HEP d.d. at 50% of total generated quantities and at prices determined in accordance with the total generation costs.

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

	31 Dec 2015	**31 Dec 2014**
	HRK'000	HRK'000
NEK		
Liabilities for purchased electricity	62,497	62,830
Costs of purchased electricity	664,425	747,165

Management remunerations are explained in the Note 5.

33. RELATED PARTY TRANSACTIONS (continued)

	Sales revenue		Purchase costs	
	2015	2014	2015	2014
	HRK'000	HRK'000	HRK'000	HRK'000
Companies partially owned by the State				
Hrvatske Željeznice	107,502	104,993	2.185	3.297
INA-Industrija nafte d.d.	152,362	131,359	1.278.937	983.943
Prirodni Plin d.o.o.	-	-	-	457.863
Plinacro d.o.o.	1,456	2,274	103.603	73.949
Croatia osiguranje d.d.	4,449	5,136	2.074	14.223
Hrvatska pošta d.d.	14,069	20,226	21.785	22.493
Hrvatske šume d.o.o.	3,481	3,260	3.469	5.464
Jadrolinija d.o.o.	514	650	851	658
Narodne novine d.d.	3,663	2,385	3.682	3.932
Hrvatska radio televizija	16,394	13,127	1.422	1.158
Plovput d.d.	270	446	164	349
Croatia Airlines d.d.	1,096	768	2	6
Petrokemija Kutina d.d.	20,924	18,537	197	61
Ministry of Foreign Affairs	969	455	-	-
Ministry of Defence	21,726	22,182	-	-
Ministry of the Interior	19,090	13,074	-	-
Elementary and high schools	83,648	78,055	18	-
Judicial institutions	8,660	8,188	75	74
Colleges and universities	37,652	27,792	1.820	1.172
Legislative, executive and other bodies of Republic of Croatia	27,014	26,129	4.335	5.426
Health institutions and organizations	109,853	112,742	718	1.168
Others	13,518	11,342	18.249	5.124
TOTAL	**648,310**	**603,120**	**1.443.586**	**1.580.360**

33. RELATED PARTY TRANSACTIONS (continued)

HRK'000	Receivables 31 Dec 2015	Receivables 31 Dec 2014	Liabilities 31 Dec 2015	Liabilities 31 Dec 2014
Companies partially owned by the State				
Hrvatske Željeznice	28,735	31,811	400	541
INA-industrija nafte d.d.	16,269	14,544	138,417	163,640
Prirodni Plin d.o.o.	-	-	-	-
Plinacro d.o.o.	119	125	22,950	11,446
Croatia osiguranje d.d.	302	705	656	2,779
Hrvatska pošta d.d.	1,249	1,282	2,381	2,725
Hrvatske šume d.o.o.	361	474	2	4
Jadrolinija d.o.o.	91	49	487	581
Narodne novine d.d.	459	289	778	838
Hrvatska radio televizija	2,850	2,653	35	39
Plovput d.d.	8	24	51	165
Croatia Airlines d.d.	109	95	-	-
Petrokemija Kutina d.d.	3,773	3,675	152	13
Ministry of Defence	4,366	4,311	-	-
Ministry of the Interior	3,587	2,069	-	-
Elementary and high schools	14,658	16,526	-	-
Judicial institutions	1,254	1,838	-	-
Colleges and universities	9,979	4,161	-	-
Legislative, executive and other bodies of Republic of Croatia	4,442	5,131	-	-
Health institutions and organizations	17,261	20,202	-	-
Others	21,731	21,623	19,212	10,317
TOTAL	**131,603**	**131,587**	**185,521**	**193,088**

34. CONTINGENT LIABILITIES AND COMMITMENTS

Court disputes

In 2015 the Group has recorded provisions for court 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 in the amount of HRK 1,243,970 thousand. During the Company's transition in 1994 into a shareholding company, this amount was excluded from the net assets value.

Operating commitments

As part of regular investment activities, at 31 December 2015 the Group had concluded agreements for investments in various facilities and equipment that has commenced but has not been completed. In 2015 the value of the most significant contracted investments in progress amounted to HRK 1,474,040 thousand (2014: HRK 1,411,115 thousand).

Environmental and nature protection

HEP d.d. and its subsidiaries continuously monitors and analyses impact of its business operations to the environment. The most important indicators of that impact are emissions of air pollutants and the quantity of industrial waste and ensures timely and objective reporting to the relevant institutions, local government and the public. Employees involved in environmental and nature protection are going through additional trainings, seminars and workshops where they are informed of the obligations and activities resulting from legal regulations in the areas of environmental and nature protection.

The Company's environmental expenditure monitoring system (RETZOK) introduced in 2004, monitors all investments for the environmental and nature protection. A request has been submitted to the Ministry of Environmental Protection, Physical Planning and Construction to unify environmental protection conditions. Part of thermal-power plants have obtained environmental licenses – TE-TO Sisak- blocks A, B and C, TE-TO Osijek, TE Jertovec, TE Rijeka and Pogon Osijek HEP-Toplinarstvo d.o.o., and for other plants procedures are still in progress.

The CO_2 emissions trading system was officially set up in 2012 pursuant to the Decision of the Management Board of HEP d.d. under which, obligations, responsibilities and deadlines for meeting obligations for individual departments and companies within HEP's emission trading system are set. Croatian Environment Agency has opened nine "Accounts" of plant operators in the EU Greenhouse Gas Inventory. HEP successfully fulfilled its legal obligations for submission of emission units to the EU Greenhouse Gas Inventory for 2014 and for 2015 HEP entered information verifying CO_2 emission, which were after confirmation by Croatian officials submitted onto all nine Accounts of plant operators with the relevant quantities that corresponded the verified CO_2 emissions. In 2015 non-financial sustainability report for 2013 and 2014 for the HEP Group in accordance with Global Reporting Initiative (GRI 4) guidelines is finished. Sustainability Report was published on the website of HEP in Croatian and English language. Implementation of Environment management system in accordance with ISO 14001 in HEP's generation facilities is finished in 2015.

34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

In 2015, the Group continued on establishment of environmental information system (INFOZOK) with a goal of unifying data relating to environmental and nature protection. INFOZOK is upgraded with modules for data collection about usage and monitoring of water quality and managing data on environmental permits.

Gas supply at wholesale market

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

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

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

35. SUBSIDIARIES

As at 31 December 2015 the Group had the following subsidiaries in its ownership:

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

The majority of these subsidiaries were founded for the purpose of reorganization and restructuring of the core business activities driven by the new energy legislation, which came into force as of 1 January 2002 (Note 1). The company HEP-Telekomunikacije d.o.o. was founded in 2013 and HEP-Opskrba plinom d.o.o. in 2014. In 2014 the company HEP- RVNP d.o.o. changed its name to *Program Sava d.o.o. za usluge.*

In 2015, the company APO d.o.o., for environmental protection was merged with the Company and the company HEP OIE d.o.o. was merged to the company HEP Proizvodnja d.o.o. The ownership of the company HEP NOC Velika in 2015 was transferred to HEP Operator distribucijskog sustava d.o.o.

36. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The capital structure of the Group consist of debt, which includes loans and issued bonds disclosed in the Notes 24, 27 and 29, cash and cash equivalents and equity attributable to Owners of the parent, comprising of share capital, legal and other reserves and retained earnings.

Gearing ratio

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

	31 Dec 2015 HRK'000	**31 Dec 2014** HRK'000
Debt	5,640,015	4,975,732
Cash and cash equivalents	(2,493,166)	(1,079,900)
Net debt	3,146,848	3,895,832
Equity	24,025,203	22,077,573
Net debt to equity ratio	**13%**	**18%**

Significant accounting policies

Details on significant accounting policies and methods adopted, including criteria for recognition and basis for measurement of each class of financial assets, financial liabilities and equity instruments are disclosed in the Note 2 to the consolidated financial statements.

Categories of financial instruments

	31 Dec 2015 HRK'000	**31 Dec 2014** HRK'000
Financial assets		
Available-for-sale	245,910	192,676
At fair value through profit or loss	70,900	1,473
Loans and receivables (including cash and cash equivalents)	4,956,580	3,385,074
Other non-current assets	73,500	54,337
Financial liabilities		
At fair value through profit or loss	81,876	-
Non-current liabilities	6,036,244	5,239,661
Current liabilities	2,860,839	2,825,772

36. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management objectives

The Group's Treasury function provides 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 companies through internal risk reports which analyze 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 management

Market risk exposure is monitored and managed through sensitivity analysis. There has been no changes in the Group's exposure to market risks or in the manner in which the Group manages and measures the risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies and thus the Group is exposed to foreign currency risk. Foreign currency risk exposure is managed within approved policy parameters utilizing cross currency swap contracts.

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

	Assets		**Liabilities**	
	31 Dec 2015	**31 Dec 2014**	**31 Dec 2015**	**31 Dec 2014**
	('000)	*('000)*	*('000)*	*('000)*
European Union (EUR)	239,017	23,260	751,030	626,788
USD	10,738	30	3,775	5,954

36. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to the changes of EUR and USD currency. The following table details the Group's sensitivity to a 10% increase and decrease in the Croatian Kuna against the 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 foreign currency denominated receivables and liabilities and adjustments of 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 components 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.

	2015	**2014**
	HRK'000	HRK'000
EUR change effect		
Profit or loss	390,924	462,391
USD change effect		
Profit or loss	(4,869)	3,733

36. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Group's exposure to interest rates on financial assets and financial liabilities is explained in the liquidity risk management section. The Group manages this risk by maintaining an appropriate mix between fixed and floating interest rate in its loan portfolio.

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 consolidated statement of financial position. For floating interest rates, the analysis is prepared assuming that the amount of outstanding liability at the date of the consolidated 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:

- The Group's profit for the year ended 31 December 2015 would decrease by HRK 5,963 thousand (2014: HRK 8,201 thousand) based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its floating interest rate loans representing 21.33% of all interest bearing loans in 2015 (2014: 33.12%); and
- the Group's sensitivity to interest rates would decrease during current period mainly due to decrease in floating interest rate loans.

Credit risk management

Credit risk refers to the risk that counterparty will fail to meet its contractual obligations resulting in financial loss to the Group. The Group is the largest provider of electric energy in the Republic of Croatia. As such, it has public responsibility to provide services to all customers, and at all locations within the country, irrespective of credit risk associated with particular customer. Net trade receivables, 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 group 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 corporate receivables, specifically those companies that are in difficult financial position. Overdue receivables from households are limited due to Group's ability to disconnect such customers from the power supply network.

Carrying amount of financial assets presented in the consolidated financial statements, less losses arising from impairment, represents the Group's maximum exposure to credit risk without taking into account the value of any collateral obtained.

36. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management

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, loans from banks, and other sources of financing, and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate 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 to 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
2015							
Interest free		4,097,584	803,872	55,069	46,927	68,923	5,072,375
Floating interest bearing	3.00%	-	-	775	26,254	-	27,029
Fixed interest bearing		-	-	-	-	-	-
Total		**4,097,584**	**803,872**	**55,844**	**73,181**	**68,923**	**5,099,404**
2014							
Interest free		2,366,041	801,454	337,149	39,131	910	3,544,685
Floating interest bearing		131	-	-	-	-	131
Fixed interest bearing	6.00%	62	10,618	522	-	-	11,202
Total		**2,366,234**	**812,072**	**337,671**	**39,131**	**910**	**3,556,018**

36. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Maturity of non-derivative financial liabilities

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has 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.

	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
2015							
Interest free		1,621,936	744,376	23,429	949,204	-	3,338,945
Floating interest bearing	2.31%	73,876	30,315	308,418	863,662	-	1,276,271
Fixed interest bearing	5.03%	0	632	319,220	1,453,234	4,066,660	5,839,746
Total		**1,695,812**	**775,323**	**651,067**	**3,266,100**	**4,066,660**	**10,454,962**
2014							
Interest free		1,980,663	862,644	89,568	846,629	118,899	3,898,403
Floating interest bearing	2.60%	81,010	54,902	323,469	1,440,009	-	1,899,390
Fixed interest bearing	6.50%	-	956	312,552	3,634,269	14,526	3,962,303
Total		**2,061,673**	**918,502**	**725,589**	**5,920,907**	**133,425**	**9,760,096**

The Group has access to sources of financing. The total unused amount at the end of the reporting period was HRK 1,616,659 thousand. The Group expects to meet its other obligations from operating cash flows and proceeds from matured financial assets.

36. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

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

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

Fair value measurements recognized in the statement of financial position

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

1. Level 1 inputs – inputs are quoted prices in active market for identical assets or liabilities, that the entity can access at the measurement date
2. Level 2 inputs – are inputs other than quoted market prices included within Level 1, that are observable for the asset or liability either directly or indirectly, and
3. Level 3 inputs – inputs are unobservable inputs for the asset or liability

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

36. FINANCIAL RISK MANAGEMENT (continued)

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

	1st level HRK '000	2nd level HRK '000	3rd level HRK '000	Total HRK '000
2015				
Available-for-sale assets	245,910	-	-	**245,910**
Derivative financial assets	-	-	70,900	**70,900**
Derivative financial liabilities	-	-	81,876	**81,876**
Investment property	-	236,778	-	**236,778**
2014				
Available-for-sale assets	192,676	-	-	**192,676**
Derivative financial assets	-	-	1,473	**1,473**
Investment property	-	236,153	-	**236,153**

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board and authorized for issue on 29 April 2016.

Signed on behalf of the Management Board on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

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