



# Annual Report

2012

 HEP



# Annual Report

2012



# HEP Group 2012

Change  
2012/2011

**+0.1%**

Electricity sales  
**16.6 TWh**

Change  
2012/2011

**-4.6%**

Electricity production  
**12.1 TWh**

Change  
2012/2011

**-4.2%**

Heat sales  
**2.2 TWh**

Change  
2012/2011

**-10.6%**

Gas sales  
**134 mn m<sup>3</sup>**

Change  
2012/2011

**-1.4%**

Number of  
employees  
**13,585**

Change  
2012/2011

**+7.1%**

**Operating income**

**HRK**

**14,019.6**

**mn**

Change  
2012/2011

**+3.6%**

**EBITDA**

**HRK**

**2,162.6**

**mn**

Change  
2012/2011

**+811%**

**Group net profit**

**HRK**

**71.2**

**mn**

Change  
2012/2011

**+3.4%**

**Total assets**

**HRK**

**34,898.2**

**mn**

Change  
2012/2011

**+21.8%**

**Investments**

**HRK**

**2,598.3**

**mn**

# Contents

<b>CHAIRMAN'S REPORT</b>	<b>8</b>
<b>PRESIDENT'S REPORT</b>	<b>10</b>

---

1

<b>COMPANY PROFILE</b>	<b>13</b>
Mission, vision and basic values	16
HEP Group companies	22
Legal framework	23
Development – goals, current and planned projects	25
Membership in international organizations	27
Short historical overview	28

---

2

<b>CORPORATE GOVERNANCE</b>	<b>29</b>
Governing bodies of HEP d.d.	32
Members of governing bodies	34
General Shareholders Assembly	38
Audit	38

---

3

<b>HEP BUSINESS OPERATIONS IN 2012</b>	<b>39</b>
Business environment	42
Financial results achieved	48
Results by activity	48
Financial position	50
Investments	51
Credit rating	52

---

4

<b>REPORT ON IMPACT ON STAKEHOLDERS</b>	<b>53</b>
Basic principles in relations with stakeholders	56
Anti-Corruption Program	57
Employees	58
Customers	60
Donations	64

5

<b>SUSTAINABLE DEVELOPMENT</b>	<b>65</b>
Policy and organization of nature and environmental protection function	68
Harmonization with the EU legislation	69
Basic indicators	70
Major achievements in 2012	74

---

6

<b>FINANCIAL STATEMENTS</b>	<b>77</b>
HEP Group – consolidated financial statements together with independent auditor's report	78
HEP d.d. – financial statements	156

---

7

<b>REPORTS BY HEP GROUP COMPANIES WITH FINANCIAL STATEMENTS</b>	<b>163</b>
HEP-Proizvodnja d.o.o.	164
HEP – Operator prijenosnog sustava d.o.o.	174
HEP – Operator distribucijskog sustava d.o.o.	184
HEP-Toplinarstvo d.o.o.	194
HEP-Plin d.o.o.	202

---

8

<b>REPORTS BY OTHER HEP GROUP COMPANIES</b>	<b>211</b>
HEP-Opskrba d.o.o.	212
HEP-Trgovina d.o.o.	216
HEP-ESCO d.o.o.	220
APO d.o.o., usluge zaštite okoliša	222
HEP – Obnovljivi izvori energije d.o.o.	224
HEP – Razvoj višenamjenskih nekretninskih projekata d.o.o.	226
HEP – Odmor i rekreacija d.o.o.	228
Ustanova HEP – Nastavno-obrazovni centar	229

---

<b>HEP GROUP ADDRESS LIST</b>	<b>231</b>
-------------------------------	------------



# cEntUry

## **Kraljevac hydropower plant...**

...celebrated a century of its existence and operation in 2012. It was put into operation on March 19, 1912. It was then as well as many years after the biggest operational and generating hydropower plant in Southeast Europe and one of the biggest in the entire Europe. The history of its planning, design and construction testifies to the spirit of united Europe many years before the emergence of the European Union. The German Schuckert&Co, a predecessor company to Siemens, developed the underlying design, the Belgian expert Macquet suggested the most favourable solution, the Austrian Wasserwerke was awarded the water concession sold later to the Italian Sufid, the Swiss engineer Charles de Halle developed the detailed design, the Hungarian Ganz produced the equipment and French experts ran construction works.





Kraljevac hydropower plant



# of successes

The Republic of Croatia became a member of the EU on July 1, 2013. HEP Group, as a leader in its industry sector and one of the biggest business groups in Croatia, has been strongly present at energy, organizational, professional, financial and business events and processes in the European Union. This 2012 Annual Report testifies to it.

# Chairman's Report

The Supervisory Board gave its support to the programme of the Management Board of HEP d.d. for its work in the period 2013-2016. It is my opinion that the presented Programme focuses on strengthening the company in order for it to adapt to new business possibilities and function as a competent business entity under new market conditions.

The Supervisory Board has been continuously following the activities on HEP Group's capital investment projects, primarily the completion of construction preparation and the construction of Ombla HPP and the completion of the preparations and the construction of the replacement Unit C at Plomin TPP.

**Nikola Bruketa**

Chairman of the Supervisory Board



Ninth meeting of the Supervisory Board of HEP d.d. began to perform its function in accordance with the law and the Company's internal rules and regulation after the proposed recall of the members of the Supervisory Board by the Croatian Government to the General Shareholders Assembly on February 23, 2012 before the end of their term and following the proposal for the selection of new members.

During its term until end 2012 and in the period until the annual General Assembly of HEP d.d. held on June 6, 2013, the Supervisory Board supervised the conduct of affairs of the Company and carried out other work in accordance with the Companies Act, Articles of Association of the Company and Rules of Procedure of the Supervisory Board. It discussed and accepted information provided by the Management Board concerning overall conditions in the Company, business policy and relations with related companies, decisions significantly affecting the position of the Company, and matters in principle of future conduct of the Company. It also accepted the reports on the Company's business operations submitted during the business year and gave all necessary consents to the Management Board decisions.

At the proposal of the Company's Management Board, the Supervisory Board gave its consent for the Consolidated Economic Plan and the Investment Plan of HEP Group for 2013. It accepted the Work Programme of the Management Board of HEP d.d. for the term period 2012-2016. The Supervisory Board will receive information, twice a year, regarding the fulfillment of the set key Programme parameters at its meetings and for the purpose of monitoring the execution of the Work Programme of the Management Board

In addition, at its meeting held on June 6, 2013 the Supervisory Board gave its support to the programme of the Management Board of HEP d.d. for its work in the period 2013-2016 prepared by the Management Board following the changes of its members as of May 10, 2013. It is my opinion that the presented Programme focuses on strengthening the company in order for it to adapt to new business possibilities and function as a competent business entity under new market conditions.

The Supervisory Board gave its consent for the proposed wording of the Articles of Association of Hrvatska elektroprivreda d.d. of March 4, 2013 passed by the General Assembly on April 9, 2013.

The topic of detailed discussion for the Supervisory Board was the harmonization of HEP Group with the third package of EU energy regulations. The Supervisory Board has been closely following the implementation of HEP Group's harmonization with the *Third Package* by receiving regular information from the Management Board on the stages of the procedure and all conducted and planned activities. Within these activities, the Supervisory Board gave its consent to the draft decision of the Company's Management Board proposing to the General Assembly of HEP d.d. to adopt the Decision for unbundling the transmission system operator in accordance with the Independent Transmission Operator model (ITO).

It is important to stress the active role of the Supervisory Board during the process of issuing USD 500mn corporate bonds in 2012, with a 6% interest rate issued by Hrvatska elektroprivreda on November 9, 2012. As the Supervisory Board was regularly informed by the Management Board on all stages of the bond issued, it accepted the information on the selection of the arranging bank and gave its consent to the Management Board for signing the Mandate Letter and for agreeing the short-term bridge loan. Furthermore, the Supervisory Board signed the implementing decision under which the Supervisory Board, along with the required consent for the corporate bond issue, grants certain authority to the Management Board in the process of bond issue and accepts the Final information on conducted activities regarding the corporate bond issue and the plan for using obtained funds. At its meeting held on November 22, 2012 the Supervisory Board appointed the Audit Committee of the Supervisory Board of Hrvatska elektroprivreda d.d. The Audit Committee held two sessions discussing numerous issues including in particular the Work Programme of the Audit Committee for 2013, amendments to the Rules of Procedure of the Audit Committee and the Work Programme of the external auditor for 2012. It also discussed the reports and the work plan submitted by the Internal Audit and Risk Management Department of HEP d.d. for 2012 and 2013, respectively.

By receiving regular reports and information from the Management Board of the Company, the Supervisory Board has been continuously participating and following the activities on HEP Group's capital investment projects set by the 2012-2016 Investment Plan and documents determining the strategic framework for investments, primarily the completion of construction preparation and the construction of Ombla HPP and the completion of the preparations and the construction of the replacement Unit C at Plomin TPP.

In conclusion, at its meeting held on June 6, 2013 the Supervisory Board stated that it had reviewed business and financial reports for 2012 and determined that the joint-stock company Hrvatska elektroprivreda and the group of subsidiary companies had been conducting their affairs in accordance with the provisions of the Companies Act, Articles of Association, decisions of the Shareholders Assembly and the internal rules and regulations of the Company.

# President's Report

The goal of the changes is to achieve faster establishment of modern and efficient company organized under the principles of corporate governance and in line with the best practice of similar European companies to respond to challenges of large, capital investments in new power plants and the need for strengthening competitive capabilities on the liberalized electric power market. International capital market recognized HEP's potential in line with our restructuring plans resulting in a demand for our USD 500mn Eurobonds exceeding five times the asked amount.

**Tomislav Šerić**  
President of the Management Board



I am submitting this report for the previous business year as the President of the Management Board, the position I was appointed to upon the proposal of the Croatian Government and pursuant to the Decision of the Supervisory Board of HEP d.d. on May 10, 2013 considerably after the expiry of the reporting 2012. The main goal of the changes taking place in the Management Board of HEP d.d. is to achieve faster establishment of modern and efficient company organized under the principles of corporate governance and in line with the best practice of similar European companies to respond to challenges of large, capital investments in new power plants and the need for strengthening competitive capabilities on the liberalized electric power market. Changes in the Management Board are aligned, time-wise, with strong entrance of several competitors on the electricity market. Despite opening the Croatian market for commercial customers in 2008, these current events (June 2013) marked the start of the real market competition. Therefore, the situation and relations in the electric power system are still not reflected truly by this report.

Before viewing and commenting on the 2012 financial operating results, I have to point at another important circumstance of this 2012 Annual Report. This is the last report which equally presents the abridged report of HEP Transmission System Operator. The process of unbundling the transmission system operator according to the ITO (independent transmission operator) model is underway pursuant to the Decision made by the Shareholders Assembly of HEP d.d. (April 2013) and the Electricity Market Act. In 2012, HEP Group recorded consolidated net profit of HRK 71.2 million, which is a significant increase compared to the net profit of HRK 7.8 million the year before. HEP Group conducted its 2012 operations in complex economic circumstances in Croatia, marked by a 2 percent GDP drop, slowdown of economic activities and continuation of multi-year economic crisis. Such circumstances had a direct effect on the financial position of our commercial customers, many of whom initiated pre-bankruptcy settlement procedure including HEP as a creditor in most of them, as well as households which has resulted in aggravated collection of electricity, heat energy and gas receivables.

Extremely unfavourable hydrology from 2011 continued during the first three quarters 2012. Insufficient electricity volumes due to decreased hydro generation and thermal operation optimization (resulting from increased input gas and fuel oil prices) were procured on the market which requested significant additional funds, especially in light of increased electricity prices abroad.

Such environment resulted in increased operating cost by 7.2 percent compared to 2011. Unfavourable cost increasing trend and unchanged electricity price during a long previous period while appreciating a difficult financial position of our customers forced us to submit the request for electricity tariff item increase, which was approved by the Croatian Government after the positive opinion from HERA. The price increase was put into effect on May 1, 2012. Due to approved price increase for regulated activities, implementation of the new pricing methodology for HEP Supply's eligible customers and increased sale abroad, the 2012 income increased by 6.4 percent.

With regard to HEP financial operations, the most important event is taking a step into the international capital market, which recognized HEP's potential in line with our restructuring plans resulting in a demand for our USD 500mn Eurobonds with a five-year maturity, exceeding five times the asked amount, to reach USD 2.7 billion. The issue was carried out without a sovereign guarantee and at the lowest price of capital with a 6 percent yield. HEP Group's current liquidity was stabilized due to a successful delivery of the Eurobond issue. This, along with improved hydrology in the last quarter 2012, resulted in complete settlement of trade liabilities until end November. The second important effect of the Eurobond issue is collecting funds for HEP's investment plan. In 2012, HRK 2.6 billion was invested into replacing, reconstructing, refurbishing and renewing the existing energy facilities and the construction and preparation of the new ones.

The construction of CCGT natural gas-fired Unit C of Sisak Thermal Power Plant (230 MWe, 50 MWt) is underway. Its commissioning is expected in 2014. The Decision on integrated environmental requirements was obtained and the location permit issued for the 500 MW coal-fired replacement Unit C in Plomin Thermal Power Plant in 2012. The international procedure for the selection of the strategic partner regarding this project is currently underway.

Having in mind changed environmental regulation compared to the period of issuing the Regulation on Environmental Impact Assessment for Ombla Hydropower Plant, HEP repeated the survey and contracted the development of the Biodiversity Management Plan for Ombla HPP area and the appropriate

ecological network impact assessment during 2012. In line with the recommendation of the Ministry of Environmental and Nature Protection, HEP is ready to additionally harmonize its project documentation for Ombla HPP with the current Croatian and European environmental regulation and projects in the ecological network by applying the highest environmental standards. In view of the expected duration of such a procedure and for the purpose of avoiding further cost, HEP and EBRD agreed on cancelling the Loan Agreement in the end of May 2013.

Based on the level of their readiness, these projects are followed by the second phase of Dubrovnik HPP and the second phase of the hydroelectric system Senj II/Kosinj. Several other hydro, gas-fired thermal and smaller bio cogeneration power plants are under various stages of preparation. HEP takes a responsible attitude in approaching the preparation of these projects, especially in terms of environmental protection and including interested public in early project phases. We expect such an approach to be awarded by our surrounding thus creating favourable conditions for the execution of our investment cycle.

I would like to emphasize that HEP will make all decisions on investment project planning and delivery solely in line with the objectivized procedure of determining HEP's priority interest and ranking these projects according to feasibility and cost-effectiveness criteria.

Objective scaling and efficient management of the development-investment cycle is one of the goals for the development of HEP d.d. business system until 2016, set by the Management Board Work Programme. The first and the underlying goal is to optimize HEP Group's operations in line with the EU legislation. This will be achieved by increasing the efficiency of business processes and introducing new elements of control and new working methods in key segments. Furthermore, we will try to retain a dominant market share by introducing new products and services based on the *smart* grid principle. The expected loss of share on the domestic market will be compensated by entering into other markets, primarily regional ones.

The launched process will result in HEP's transformation into a modernly organized and well-positioned company, capable and prepared for market competition. Therefore, this Management Board will strongly insist on the implementation of all the measures contributing to meeting our set goals. We all have to be prepared to accept changes and work in favour of HEP, our owner and all our customers and Croatian citizens.

Company  
Profile





# Connne

## Transmission capacity auctions

In 2012, HEP Transmission System Operator carried out its first multilateral coordinated annual and monthly across-border transmission capacity auctions for Croatian-Slovenian and Croatian-Hungarian borders by CEE CAO (Central Eastern Europe Central Allocation Office).





Zagreb, Croatia  
HEP



Freising, Germany  
CEE CAO

# ction





# Mission

To provide secure and quality energy supply to customers, with a high degree of social responsibility.



# Vision

As a strong regional, modern and socially responsible corporation, HEP Group has been recognized as an example of efficient generation and customer energy supply.

# Basic values



## Competence and creativity

Our employees are the most valuable resource and support in achieving the company's mission and vision and in creating values for the company. With openness to new ideas and creativity, we develop skills and competencies.



## Quality and business excellence

Following requirements and expectations of all stakeholders, we improve the quality of our products and services. Our goal is the company's business excellence.



## Integrity

We act professionally and conscientiously in our relations towards customers, business partners, employees and assets. We affirm zero-tolerance for corruption. Our Code of Ethics defines the principles of business behavior.



## Environmental responsibility

We produce, transmit and distribute energy in an environmentally acceptable manner. We promote efficient use of energy among our customers as well as development and use of renewable energy sources.



Sustai



Zagreb, Croatia  
HEP



Bruxelles, Belgium  
European Commission

# nability



## EU ETS

The project of 'Introducing HEP into the European Union Emission Trading Scheme' was completed during 2012. Croatia joined the EU ETS on January 1, 2013.

# Company Profile

## HEP Group companies

HEP d.d. (Hrvatska elektroprivreda d.d.) is the parent company of HEP Group, wholly owned by the state, the founder and the sole (100%) owner of the subsidiary companies; it consolidates management of HEP Group subsidiaries and is the owner of the assets which are contractually transferred to subsidiary or daughter companies for management.

### SUBSIDIARY COMPANIES OWNED WHOLLY BY HEP d.d.

HEP-Proizvodnja d.o.o. (HEP Generation) carries out the activity of electricity generation and heat production for district heating systems in the cities of Zagreb, Osijek and Sisak. C.S. Buško Blato d.o.o., a daughter-company of HEP Proizvodnja d.o.o., is located in Bosnia & Herzegovina.

HEP – Operator prijenosnog sustava d.o.o. (HEP Transmission System Operator) is responsible for the transmission of electricity produced by Croatian power plants or imported from other countries for Croatian customers, at minimum costs and maximum possible standards of electricity quality and system security. The company is also responsible for transmission of Croatia-produced electricity for export purposes, and it manages electricity transit through the Croatian system.

*Note:* Pursuant to the Electricity Market Act, at its session of 9 April, 2013 the General Assembly of HEP d.d. reached the decision on unbundling the transmission system operator according to the ITO model (independent transmission operator).

HEP – Operator distribucijskog sustava d.o.o. (HEP Distribution System Operator) is responsible for secure supply to tariff customers. The company distributes electricity taken from the transmission network, and performs selling, metering, billing and payment collection for the electricity supplied. It is also responsible for the maintenance and operation of distribution network and plants.

HEP-Opskrba d.o.o. (HEP Supply) supplies electricity to eligible customers in Croatia.

HEP-Trgovina d.o.o. (HEP Trade) carries out the activities of purchase and sale of electricity, optimization of power plants' operation and trading intermediation in the domestic and international market. Daughter companies HEP-Trgovina d.o.o. Brežice (Slovenia) and HEP Magyarorszag Energia KFT (Hungary) have the task of electricity trading in the markets of the countries in which they are established and in third markets.

HEP-Toplinarstvo d.o.o. (HEP Heating) is active in heat production, distribution and supply in the cities of Zagreb, Osijek and Sisak and in a part of the Zagreb County.

HEP-Plin d.o.o. (HEP Gas), headquartered in Osijek, supplies natural gas to customers in the areas of Osijek-Baranja County, Požega-Slavonia County and Virovitica-Podravina County.

HEP-ESCO d.o.o., a company providing energy services, develops, implements and finances market-based energy efficiency projects.

APO usluge zaštite okoliša d.o.o. (APO Environmental Services) is a consulting and engineering company specializing in environmental protection, especially hazardous and radioactive waste and radioactive material.

HEP – Obnovljivi izvori energije d.o.o. (HEP Renewable Energy Sources), a company for the organization and business management of construction, operation, management and maintenance of facilities using RES for electricity and heat energy generation.



HEP – Odmor i rekreacija d.o.o. (HEP Leisure and Recreation) provides tourist and hospitality services and organizes sporting recreation.

Plomin Holding d.o.o. develops local infrastructure and entrepreneurial projects in the vicinity of the Plomin power plant.

HEP – Development of Multi-Purpose Real Estate Projects d.o.o. is registered (April 2012) for real estate design, construction, operation, maintenance and transactions.

HEP – Nastavno-obrazovni centar, Velika, (HEP Training and Education Center) is an educational institution which, in addition to providing training in live work, conducts secondary school programs for adults and organizes professional gatherings, seminars and courses.

#### COMPANIES IN MIXED OWNERSHIP

TE Plomin d.o.o., co-owned by HEP d.d. and RWE Power (50%:50%), operates a 210 MW power plant.

LNG Hrvatska d.o.o., co-owned by HEP d.d. and Plinacro d.o.o. (50%:50%), established in order to take over an 11% stake in the international consortium Adria LNG d.o.o.

NE Krško d.o.o. (Nuclear power plant Krško), Republic of Slovenia, is a company outside HEP Group, co-owned by HEP d.d. and GEN Energija (50%:50%).

## Legal framework

The national legal framework for the energy sector comprises the “Third Energy Package” adopted in 2009, Energy Development Strategy of the Republic of Croatia (2009) and fundamental laws that regulate the energy sector in the Republic of Croatia.

The fundamental laws are:

- Energy Act
- Electricity Market Act
- Energy Regulation Act
- Gas Market Act
- Heat Energy Production, Distribution and Supply Act

Subordinate legislation of the greatest importance for the functioning of the electricity market comprises:

- Tariff systems for electricity production, distribution and supply
- Tariff system for electricity production from renewable energy sources and cogeneration
- General Conditions of Electricity Supply
- Grid Code

For natural gas and heat energy markets the most important subordinate legislation comprises:

- Tariff systems for natural gas storage, distribution, transport and supply
- General Conditions of Natural Gas Supply
- Tariff system for heat energy production, distribution and supply

**ENERGY ACT** (Official Gazette 120/2012) regulates the measures for secure supply of energy and its efficient production and use. It defines documents which regulate and under which the energy policy, energy system planning, carrying out of energy businesses in the market or as public services and carrying out of energy businesses in consideration of environmental measures are implemented.

**ELECTRICITY MARKET ACT** (Official Gazette 22/2013) regulates rules and measures for secure and reliable generation, transmission, distribution and supply of electricity, and organization of the electricity market as a part of the EU electric power market. Furthermore, it regulates the rules for end-customer protection, electric power system organization and operation, open market access, setting universal service obligation and electricity customer rights including end-customer rights, separate business accounting, separate financial reports, network access rules, principle of reciprocity and cross-border electricity transmission.

During 2012, the following pieces of primary or secondary legislation were passed:

- The Energy Act
- The Energy Activity Regulation Act
- The Act on establishing the Centre for Energy Sector Operation Monitoring
- Amendments to Electricity Market Code
- Decision modifying the Decision on the charge for electricity market organization
- Amendments to the Act on the efficient use of energy in final consumption
- Decision on the charge for performing energy regulation
- Decision on the amount of tariff items within the Tariff System for electricity generation excluding eligible customers, without tariff item amount
- Decision on the amount of tariff items within the Tariff System for electricity supply excluding eligible customers, without tariff item amount
- Decision on the amount of tariff items within the Tariff System for electricity distribution excluding eligible customers, without tariff item amount
- Decision on the amount of tariff items within the Tariff System for electricity transmission excluding eligible customers, without tariff item amount
- Tariff system for electricity generation from RES and cogeneration
- Rules on the use of RES and cogeneration
- Rules on acquiring the eligible electricity producer status
- Rules on the methodology for monitoring, measuring and verifying energy savings in direct consumption
- Amendments to the Tariff system for electricity generation from RES and cogeneration
- Decision on the gas market organization charge
- Rules on amending the Rules on natural gas market organization
- Amendments to the transport system grid code
- Decision on the gas supply price to the gas supplier for tariff customer suppliers
- Amendments to the Tariff system for natural gas transport, without tariff item amount
- Amendments to the Tariff system for natural gas supply excluding eligible customers
- Amendments to the Tariff system for natural gas distribution, without tariff item amount
- Decision on the tariff item amount in the Tariff system for natural gas supply, excluding eligible customers, without tariff item amount
- Decision on the tariff item amount in the Tariff system for natural gas distribution, without tariff item amount
- Decision on the tariff item amount in the Tariff system for natural gas supply, excluding eligible customers, without tariff item amount

### THIRD ENERGY PACKAGE

In 2009, the EU adopted the Third Energy Package, consisting of two guidelines governing the internal electricity market and natural gas market, two regulations which lay down requirements for network access for cross-border electricity exchange and network access for natural gas transport, and a regulation establishing the Agency for Cooperation of Energy Regulators. The main objectives of the third energy package are stronger market competition and liquidity, improvement of network infrastructure operation, security of supply, customers' active role and protection and promotion of renewable energy sources. Croatia is obligated to adjust its national legal framework to the third energy package. HEP is carrying out preparatory activities for adjustment on the basis of the ITO (Independent Transmission Operator) model pursuant to the Electricity Market Act and the Decision adopted by the General Assembly of HEP d.d. (April 9, 2013).

### ENERGY DEVELOPMENT STRATEGY

The Energy Development Strategy of the Republic of Croatia (Official Gazette 130/2009) is the umbrella document which sets forth the energy policy and plans the energy development of Croatia for the period until 2020. The three fundamental objectives of the Strategy are security of electricity supply, competitiveness of the energy system and sustainability of energy development. For the electricity sector, it envisages an increase in the total consumption of electricity until the year 2020 and closure of existing

conventional thermal power plants totaling 1,100 MW. Consequently, the Strategy envisages construction of base-load production facilities running on coal and gas and large hydro power plants. In addition to conventional sources, the Strategy provides for intensive construction of renewable energy facilities. The objective is to maintain the share of production from large hydropower and renewable energy sources in total electricity consumption at a present level in the period until 2020 to reach 35 percent in 2020. Besides generating plants, the Strategy envisages further development of transmission and distribution networks.

## Development – goals, current and planned projects

### DEVELOPMENT GOALS

**OPERATIONAL OPTIMIZATION** means mutual harmonization of underlying factors including business strategy, business model, organization, business processes, human resources, information technology, management methods and efficiency at the level of the entire business system, consisting of four basic elements:

- operational optimization of HEP Group as a whole
- increased efficiency of business processes
- introduction of new control elements and operational methods in key segments
- harmonization with EU regulation

**DEVELOPMENT INVESTMENT CYCLE.** The key for investments into HEP generating capacities is adoption of long-term investment decisions on the construction of new generating capacities and the reconstruction of the existing ones. HEP has a number of potential projects in various development phases, on the existing and new locations and run by various technologies. These projects must be ranked according to feasibility criteria and cost-effectiveness as well as to the priority of HEP's interest. Decision process and investment cost-effectiveness structuring must be objectivized.

**CREATION OF NEW MARKET PRODUCTS AND SERVICES.** We will aim at retaining the dominant market share by introducing new products in all segments using current experiences and data from customer database and introducing new services in line with the smart grid principle.

**REGIONAL STEP FORWARD.** The loss of a portion of domestic market imposes the need for a more significant step forward into other markets, primarily regional.

### ELECTRICITY GENERATION

HEP researches, prepares and develops a number of construction projects of hydro and thermal power facilities.

- Under construction is a natural gas combined-cycle cogenerating unit at **Sisak TPP – Unit C** (230 MWe, 50 MWt), scheduled to be completed and put into operation in mid 2014.
- Regarding the 500 MW coal-fired replacement unit project (3.6 TWh/year) in TPP Plomin (TPP Plomin C), the decision on the integrated environmental requirements and the location permit were issued during 2012. The process of selecting the strategic partner to finance, construct, equip, maintain and operate the plant with HEP was also prepared. During 2013, the process of selecting the strategic partner and activities on preparing the construction site have been continued.
- In case of **Ombla HPP** (68 MW, 223 GWh), the public information process has been carried out with regard to the biodiversity management plan for the Ombla area developed during 2012. Other activities connected with construction preparation are planned and carried out.
- According to their level of preparedness, other capital investment projects are being developed. The project activity rate and type are aligned with the priorities resulting from evaluating business

attractiveness and strategic importance for HEP Group. This group of projects includes: Dubrovnik II HPP (300 MW, 318 GWh), Senj II/Kosinj HPP (412 MW, 450 GWh) including the construction of the Kosinj hydro system and Senj 2 HPP, which documentation is being prepared by HEP as well as conducting environmental impact assessment procedure and preparing all other technical documentation required for obtaining the location permit and investment preparation.

Other projects, including thermal power plant refurbishment, construction of new hydro power plants, both run-of-river and storage ones, are currently being developed. Further activities regarding the delivery of these projects will depend on feasibility studies and ranking criteria. Several other potential sites for the construction of thermal and hydro power plants are currently under consideration.

Hydropower plants are continuously being refurbished for the purpose of prolonging their life span, increasing operating availability and achieving better generation characteristics.

The construction of plants for electricity (and heat) production from renewable energy sources operated by all commercially available technologies is planned: small hydro (up to 10 MW), wind, biomass, photovoltaic and collectors. On HEP's plants and facilities, photovoltaic and solar heating systems will be prepared and built.

#### ELECTRICITY TRANSMISSION

The transmission system operator will, in accordance with legal requirements, follow construction projects of generating plants by building the necessary transmission capacity and creating other conditions in the existing network to ensure reliable and safe operation of these plants once they come on line.

In line with the Third Energy Package, the process of unbundling the transmission system operator according to the ITO model (independent transmission operator) is underway. Development of the electricity transmission system will be managed in line with the new status of the operator.

#### ELECTRICITY DISTRIBUTION

It is planned to intensify modernization and construction of the distribution network in order to meet the growing needs for electricity and connect new customers, especially in major cities, tourist and industrial zones.

The Smart Grid Project is being prepared for implementation by introducing smart meters at customers' locations, two-way communication and connection of distributed electricity sources and customers.

The main activities focus on the continuation of investments in capital projects of 110 kV, 35 kV and 10(20) kV and launching of new ones, implementation of the Dubrovnik Programme projects (Srđ substation and associated lines), continuation of investments in the construction of telecommunication links to provide for integration of important plants and business infrastructure into HEP's telecommunications system as well as to ensure conditions for the implementation of smart grid concept, continuation of investment in the replacement of worn-out and the construction of new submarine cables, preparation and construction of medium and low voltage facilities, reconstruction of household connections in areas in which the network has been reconstructed, implementation of the Voltage Recovery investment programme, continuation of investment in regular replacement of metering equipment at metering points and investment to improve metering points in accordance with regulations, and launching of investment program to increase security of supply in individual areas.

#### GAS BUSINESS

The long-term business policy of HEP is to participate in the gas sector at several levels. The energy activity of gas trade (wholesale) and gas supply (retail) will be developed aiming at positive financial effect of HEP Group operations.

#### DISTRICT HEATING

The main development objectives are to expand the heating business in Sisak by completing the construction of the new unit at Sisak TPP, continue the projects of renewal of hot water and steam network, build the heating systems in Zagreb and Velika Gorica, connect existing customers to the district heating

system and retire separate boiler plants, implement the project of technical and economic optimization of the district heating system and renew heating substations.

### ENERGY EFFICIENCY

Increasing importance will be given to the implementation and financing of energy efficiency using the ESCO model for customers and clients outside and within HEP Group. Customers will be continuously provided with additional services through energy inspections, advises, etc.

## Membership in international organizations

HEP d.d. and HEP Group companies are collective members and certain experts from HEP are individual members of a large number of international organizations, institutions and associations:

- EURELECTRIC (Union of the Electricity Industry)
- ENTSO-E (European Network of Transmission System Operators for Electricity), where HEP OPS d.o.o. is a full and founding member having representatives in the Assembly and the Board, committees and working groups
- IEEE (The Institute of Electrical and Electronic Engineers)
- CIGRE (International Council on Large Electric Systems)
- ICOLD (International Commission of Large Dams)
- IHA (International Hydropower Association)
- TSC (TSO Security Co-operation)
- CIREN (Congres International des Réseaux Electriques de Distribution)
- LWA (Live Working Association)
- EFET (European Federation of Energy Traders)
- IAEA (International Atomic Energy Agency)
- ENS (European Nuclear Society)
- UNICHAL (International Union of Heat Distributors)
- EUROHEAT & POWER
- EWEA (The European Wind Energy Association)
- IIA GLOBAL (Institute of Internal Auditors, Florida, SAD), through HIIR – Institute of Internal Auditors of Croatia)
- ISACA (Information Systems Auditand Control Association); through the Croatian branch, ISACA Chapter Croatia)
- ISSA (International Social Security Association)
- ECLA (European Company Lawyers Association); and others.

Our experts contribute to the work of these organizations with their technical papers and materials, by participating in international and national conferences and forums, professional gatherings, symposia, workshops and seminars, circular email discussions, through their work in certain bodies of these associations and in national committees. In this way they share specialist knowledge and experiences and are active members of international energy community, directly and in an organized manner taking part in learning about, applying and creating of *the acquis*. As such they are important participants in creating the national energy policy and legislation and in implementing activities of interest for HEP and its customers.

## Short historical overview

- 1895 **First alternating current electricity system in Croatia, Krka HPP – Šibenik**
- 1912 Kraljevac HPP, among the largest hydro power plants at the time, is built
- 1925 “Ante Šupuk i sin” (Ante Šupuk & Son), Šibenik, among UNIPEDA founders
- 1937 Vice Roy’s Electrica Company is founded
- 1941 State electrical company is founded
- 1943 110 kV line Rakitje (Zagreb) – Brestanica (Slovenia) is built
- 1945 Electrical company of Croatia is founded
- 1954 Union of electricity companies of Croatia is founded  
Beginning of district heating: hot water pipeline for Končar factory from EL-TO Zagreb plant
- 1957 110kV Zagreb – Jajce (BiH) line goes into service; synchronous operation of western and central system
- 1961 Business association of electricity distribution companies of Croatia is founded
- 1962 First line of 220 kV network Zakučac HPP (Split) – Brinje – Mraclin (Zagreb)
- 1965 United electricity industry of Croatia is founded
- 1974 Union of electricity organizations of Croatia is founded  
Gas distribution and supply begins within Elektroslavonija Osijek
- 1977 First 400 kV transformer station, Ernestinovo (Osijek), and first 400 kV line, Ernestinovo – Mladost, are built
- 1981 Krško nuclear power plant goes into service
- 1990 **Public enterprise Hrvatska elektroprivreda (HEP) is founded**
- 1991 Heavy war destruction to power plants and facilities
- 1992 400 kV line TS Meline (Rijeka) – TS Tumbri (Zagreb) is put into operation
- 1993 About 120 MW emergency diesel and gas power plants are installed in Dalmatia
- 1994 Island interconnection 110 kV TS Melina (Rijeka) – Krk – Rab – Pag – Zadar is built
- 1995 Reconstruction and refurbishment of Peruća dam is completed (blasted in 1993)
- 1997 Eastern Slavonia reintegrated into the Croatian electricity system
- 1998 Gas-fire power plant (2x26 MW) is put into operation at EL-TO Zagreb location
- 1999 Double circuit line 400 kV Žerjavinec/Tumbri (Zagreb) – Heviz, Hungary is put into service
- 2000 Plomin 2 TPP (210 MW) begins commercial operation
- 2001 HEP becomes a member of UCTE
- 2002 **Hrvatska elektroprivreda d.d. is restructured into HEP Group**
- 2003 Combined-cycle cogeneration unit K (200 MWe/150 MWt) at TE-TO Zagreb is put into operation
- 2004 TS 400/220/110 kV Žerjavinec and the reconstructed TS 400/110 kV Ernestinovo are put into operation  
Reconnection of UCTE zones 1 and 2 is coordinated from HEP’s HQ
- 2005 HEP issues corporate bonds worth HRK 500mn
- 2007 HEP issues corporate bonds worth HRK 700mn
- 2009 Trial operation of the combined-cycle cogeneration unit L (100 MWe, 80 MWt) at TE-TO Zagreb  
Construction of a combined-cycle unit (230 MWe, 50 MWt) at Sisak TPP begins
- 2010 Trial operation of Lešće HPP (42 MW)  
2x400 kV Ernestinovo – Pech (Hungary) power line in operation
- 2012 HEP d.d. issues bonds worth USD 500mn

Corporate  
Governance



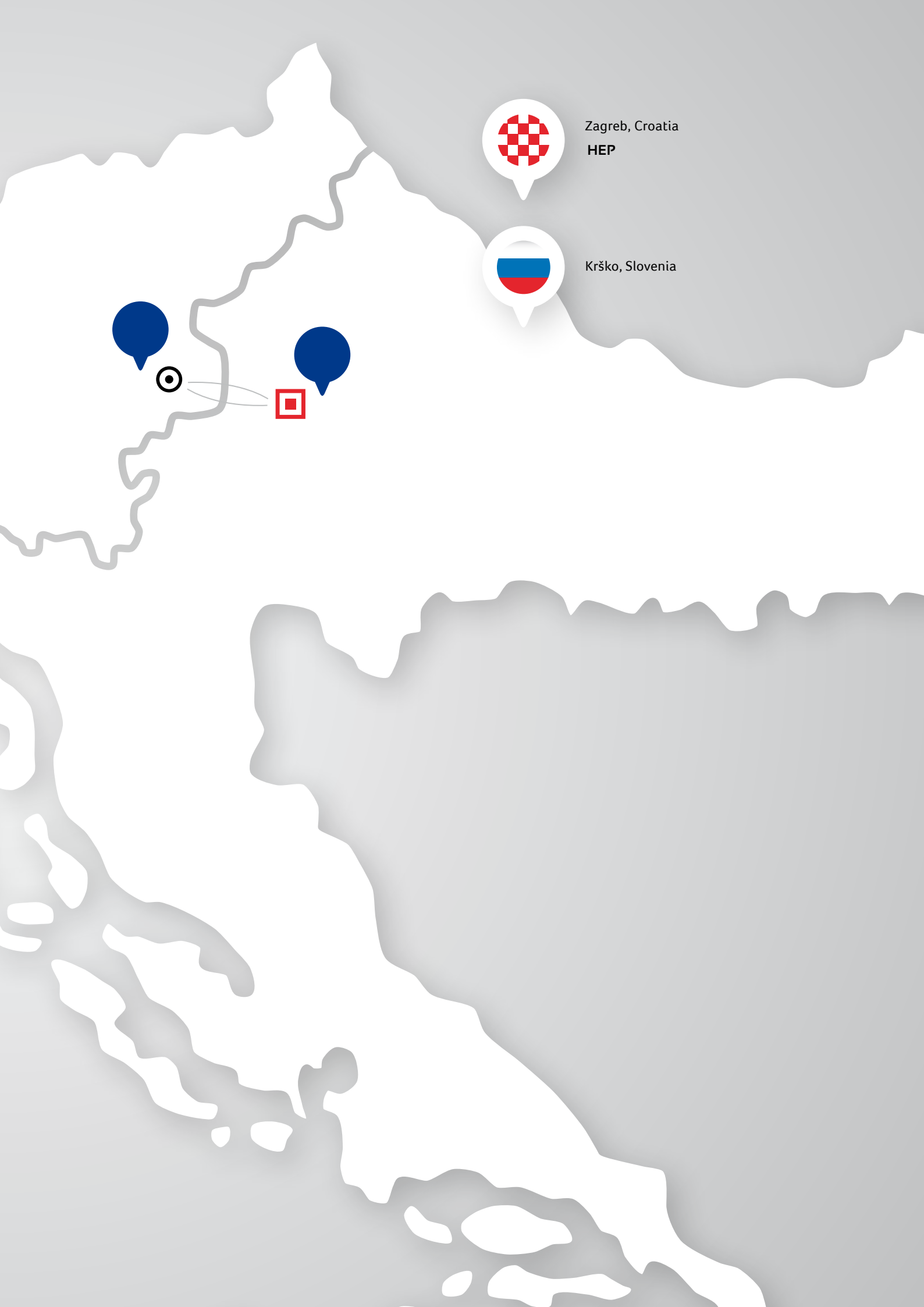


# Safety

## **Krško nuclear power plant**

Krško nuclear power plant is co-owned by HEP and Gen Energija. European nuclear power plants durability testing conducted in 2012 for the needs of the European Commission confirmed a high level of plant's safety.





Zagreb, Croatia  
HEP



Krško, Slovenia

# Corporate Governance

In accordance with the HEP Group corporate governance model, HEP d.d. manages and partly performs the following corporate functions:

- strategy
- investment planning
- corporate development
- international affairs
- restructuring
- improvement in production businesses
- optimization of production plants
- energy trading
- improvement in transmission and distribution businesses
- optimization of network system operation
- sustainable development and quality improvement
- marketing and corporate communications
- procurement
- corporate finance and treasury
- improvement in corporate finance function
- accounting
- controlling
- human resources management
- legal affairs
- information technology and telecommunications
- internal audit
- risk management
- defense and safety
- general affairs

Apart from its corporate functions, HEP d.d. directs, coordinates and monitors generation and network as well as other businesses of subsidiaries. Every member of the Management Board is an executive in charge of a corporate function. The main internal organization of HEP d.d. is based on corporate governance approach and on the powers the Company has over individual business activities.

## Governing Bodies of HEP d.d.

(from Articles of Association of HEP d.d. adopted at the session of the General Assembly on April 9, 2013)

### THE MANAGEMENT BOARD OF THE COMPANY

The Management Board of the Company consists of 6 members, one of which is appointed the president of the Management Board. The president is appointed and removed by the Supervisory Board. The term of office of the president and members of the Management Board is 4 years.

For the realization of its managerial tasks and powers the Management Board performs the following work:

- 1) manages the business affairs of the Company,
- 2) establishes and implements the business policy, medium-term and long-term plans,
- 3) carries out the decisions made by the Supervisory Board and the Shareholders' Assembly, and takes measures and issues instructions for their implementation,
- 4) passes internal rules and regulations of the Company and organizational rules,
- 5) represents and acts for the Company, and signs contracts within the framework of the law and these Articles of Association,
- 6) proposes decisions on matters falling in the scope of work of the Supervisory Board and Shareholders' Assembly of the Company,

- 7) submits reports to the Supervisory Board on business policy and other principle issues regarding the future operations as well as on deviations from earlier predictions providing the reason; reports on the operational profitability and the profitability of using own capital; reports on business underway, especially income and state-of-affairs; activities which might be of a large significance for operational profitability and company's liquidity;
- 8) submits annual financial reports to the Company's Supervisory Board;
- 9) submits the report on the Company's state-of-affairs to the General Assembly once a year;
- 10) submits the written consolidated annual company report to the General Assembly;
- 11) appoints members of the Assembly and Supervisory Boards of the companies in which HEP d.d. has controlling interest or significant influence;
- 12) appoints and revokes Company's employees with special authorities and responsibilities;
- 13) passes staff and employment plans;
- 14) proposes and takes necessary measures and issues direct orders to ensure operations of the Company, especially the safety and operation of the power system;
- 15) performs other work tasks in line with the law and Company rules.

The Management Board of the Company may, subject to approval by the Supervisory Board, decide on:

- 1) formation of companies in this country and abroad ,
- 2) sale and purchase of shares and stakes held by the Company in other companies, and sale of real property,
- 3) sale and purchase of and charges on real property exceeding HRK 20,000,000.00
- 4) borrowing and issuance of securities exceeding HRK 100,000,000.00
- 5) giving of power of attorney and waiving of rights without compensation above HRK 5,000,000.00

#### SUPERVISORY BOARD

The Supervisory Board consists of 7 members. Six members are appointed and revoked by the Shareholders' Assembly of the Company and one member is elected and revoked by workers pursuant to provisions of the Labor Act. The Decision adopted by the General Assembly on appointing and revoking members of the Supervisory Board enters into force on the day of its adoption. The term of office of the members of the Supervisory Board is four years. After the expiry of their term the members of the Supervisory Board may be reelected. The members of the Supervisory Board elect the chairperson and an alternate chairperson from among themselves.

The Supervisory Board supervises the management of the Company's business affairs. It:

- 1) appoints and revokes the Management Board of the Company;
- 2) examines and reviews business records, documentation, cash records, securities and other documents related to the operations of the Company;
- 3) gives approval on annual financial reports made by the Management Board of the Company;
- 4) gives prior approval on the decisions of the Management Board where this is required by these Articles of Association;
- 5) submits reports to the Shareholders' Assembly of the Company on the supervision carried out, especially with respect to financial operations and their consistency with business records
- 6) performs other activities set by the law and Company rules.

#### GENERAL SHAREHOLDERS ASSEMBLY

The Shareholders Assembly is composed of shareholders and/or their proxies. The Shareholders Assembly decides on matters determined by the law and these Articles of Association, in particular:

- 1) passes the Articles of Association and their amendments;
- 2) appoints and revokes the members of the Supervisory Board;
- 3) makes decisions on the use of profit;
- 4) revokes members of the Management and Supervisory Boards of the Company;
- 5) appoints the auditor of the Company;
- 6) decides on increase or decrease in the capital stock of the Company;
- 7) decides on status changes and dissolution of the Company;
- 8) carries out other work in accordance with the law and these Articles of Association.

# Members of governing bodies

SHAREHOLDERS ASSEMBLY OF  
HRVATSKA ELEKTROPRIVREDA d.d.  
(HEP d.d.)



**Ivan Vrdoljak**  
Member of the  
Shareholders Assembly

SUPERVISORY BOARD OF  
HRVATSKA ELEKTROPRIVREDA d.d.  
(HEP d.d.)



**Nikola Bruketa**  
Chairman



**Jadranko Berlangi**  
member, worker's  
representative

AUDIT COMMITTEE OF THE SUPERVISORY  
BOARD (APPOINTED BY THE DECISION OF THE  
SB OF 22 NOVEMBER, 2012)

**Žarko Primorac**, Chairman  
**Ante Ramljak**, member  
**Boris Tušek** (full professor at the Faculty of  
Economy in Zagreb), external member



**Igor Džajić**  
member

**Žarko Primorac**  
member

**Ante Ramljak**  
member

**Ivo Uglešić**  
member

## MANAGEMENT BOARD

### **Tomislav Šerić**

President of the Board  
(as of May 10, 2013)

### **Zvonko Ercegovac**

member

### **Krunoslava Grgić Bolješić**

member



Born in 1973. Graduate electrical engineer (1998) and since 2006 holder of a MBA degree (Paris). After working shortly in 1999 in Ekspert as safety specialist for electrical installations and in Siemens in 2000 as computer programmer/developer, developed an entrepreneurial project which he managed until 2005. Then until 2008 as a manager for marketing strategy, programs and processes worked in T-Mobile, and until 2009 as director in Osječki promet i gospodarstvo. From 2009 the leader of Poslovni inkubator BIOS in Osijek. Since February 2012 a member of the Management Board of HEP d.d. in charge of transmission and distribution. President of HRO CIGRE, a member of the Executive Committee of the Energy Association of the Croatian Employers' Association and a member of of Renewable Energy Sources Affiliation of Croatian Chamber of Economy.

Born in 1965. University specialist in economics (2008) and graduate electrical engineer (electrical energy program) (2005). In 1992 a graduate degree in electromechanical engineering. State exam in the area of electrical engineering passed at the Ministry of Construction and Environmental Protection in 1993. Before being appointed member of the Management Board, director of Supply Department, HEP Plin from 1989, preceded by the position of protection engineer and head of Sales and Customer Relations. From 2006 to 2010 a member of HERA Council.

Born in 1974. Bachelor of Law (1999), postgraduate study in Commercial Law and Company Law. Bar exam in 2002. After attorney traineeship, 2000, worked as court trainee at the Municipal Court in Ozalj, and until December 2002 as senior staff member with Croatia banka in Zagreb. After that took the position of secretary of Energy Regulatory Council (until December 2005), then secretary of HERA. From 2007 worked in HERA as head of personnel and general affairs and as a senior staff member. Member of HRO CIGRE, Study Committee for electricity market and regulation.

**Perica Jukić**

member  
(as of 10 May, 2013)

**Ivan Matasić**

member



Born in 1969. Graduated from the Faculty of Mechanical Engineering and Naval Architecture in Zagreb in 1996, obtained his Master's degree in 2005 in cogeneration facilities and distribution of heat energy. He was first employed by HEP Generation since 1996 as an independent engineer in TE-TO Zagreb, followed by the Head of Generation and the facilities' director since 2008. Within this period, he worked as a generation engineer on commissioning of the new CCGT unit (Unit K in 2004) and as a process engineer involved in the Unit L project (2006-2009). In the period from 2009 until May 2013 he was the director of the Thermal Power Plants Department in HEP-Generation d.o.o.. He is the Head of the joint HEP/RWE Operation and Maintenance Committee.

Born in 1974. Graduated at the Faculty of Electrical Engineering and Computing, received a MSc degree in 1999 and a DSc degree in 2003. Since 2004 holder of a MBA degree. From 1996 to 2002 junior researcher at the Faculty of Electrical Engineering and Computing, at which during studies received "Josip Lončar" award and University President's Award. Founded and was the director of Rego-Stan d.o.o. Zagreb (1998-2002), from 2003 to 2004 member of the Management Board of Elektropromet d.d., Zagreb, in charge of finance and logistics. In A.T. Kearney was a consultant from 2005 to 2008, and then an independent consultant. Since late 2009 a member of the Management Board of HŽ Infrastruktura, in charge of procurement, finance, controlling and internal audit.

\* President of the Management Board in the reporting period until his recall on 10 May, 2013 was Zlatko Koračević

Member of the Management Board in charge of development and investment in the reporting period until his recall was Rodoljub Lalić

## General Shareholders Assembly

### GENERAL SHAREHOLDERS ASSEMBLY 2012

The annual meeting of the General Shareholders Assembly was held on May 24, 2012. The Assembly reviewed consolidated and unconsolidated annual financial statements of HEP d.d. and HEP Group for 2011 including Independent's Auditor's Report and the Annual Report on the state of affairs and operations of HEP d.d. and HEP Group in 2011 and the report of the Supervisory Board on the supervision conducted over HEP d.d. conduct of operations in 2011. Decision was adopted by the Assembly at the proposal of the Supervisory Board on the use of operating profit for 2011. Statements of release were given to members of the Management Board and members of the Supervisory Board for the business year 2011.

### GENERAL SHAREHOLDERS ASSEMBLY 2013

The annual meeting of the General Shareholders Assembly was held on June 6, 2013. The Assembly reviewed consolidated and non-consolidated annual financial statements of the Company and HEP Group for 2012 including the Independent Auditor's Report, the Annual Report on the state of affairs and operations of HEP d.d. and HEP Group in 2012 and the report of the Supervisory Board on the supervision conducted in 2012. The Assembly adopted the Decision on the use of operating profits made in 2012. Statements of release were given to members of the Management Board and members of the Supervisory Board for the business year 2012.

## Audit

### INDEPENDENT AUDITOR

At the meeting held on November 22, 2012 the General Assembly appointed the auditing firms BDO Croatia d.o.o. and Audit d.o.o. Zagreb as the auditor of HEP d.d., related companies and consolidated financial statements for HEP Group for the year ended December 31, 2012.

### INTERNAL AUDIT AND RISK MANAGEMENT

Internal Audit and Risk Management Department is responsible for the corporate function of internal audit and risk management. Internal audit and risk management are pivotal functions of HEP d.d. Management Board and a part of the internal supervision of HEP d.d. and HEP Group.

During the year, the Department carried out internal audits in line with the annual internal audit programme and submitted reports thereon. Reports on the internal audits carried out were submitted to HEP d.d. Management Board and management giving an objective assessment of the revised state of affairs and business processes, internal control systems, HEP's compliance with laws and internal rules and regulations, meeting of objectives and tasks of the business policy. The purpose and the objective of internal audits and reports is to provide the management with a reasonable guarantee of security, efficiency and effectiveness of the business system and processes, reliability and accuracy of information, compliance of business operations with laws, regulations and HEP internal rules, plans, programs and business policy. The Department provides recommendations for enhancing business processes, aids the Management Board of HEP d.d. with improvement internal controls and mitigation of operating risks. In 2012, HEP d.d. Management Board adopted the new Rules in internal audit as well as a number of rules and decisions required for the execution of the said Rules. These new rules are based on basic internal audit principles (integrity, objectivity, confidentiality, expertise) and guarantee a quality normative framework required for professional execution of internal audit activities. In late 2012, for the first time the Supervisory Board appointed members of the Audit Committee, which held its first meeting in December. The Audit Committee will, within its jurisdiction, significantly contribute to further development of internal audit in HEP Group and aid to strengthening the principle of independence of HEP Group. The Department submits semi-annual and annual reports on its work on a regular basis.



HEP Business  
Operations in  
2012





# Reliab

## Plomin thermal power plant

The second unit of TPP Plomin is co-owned by HEP and RWE Power. It was continuously operational for 282 days i.e. 6,760 hours from July 23, 2012 until May 1, 2013 which was the all-time record since its commissioning in 2000.



Plomin, Croatia



Essen, Germany

# ility



# HEP Business Operations in 2012

## Business environment

In terms of business operations the year 2012, was marked by extremely unfavourable business environment for the entire HEP Group. Below average and dry hydrology in the first three quarters followed by energy fuel price increase resulted in higher operating costs as well as electricity and heat energy purchase costs, while the perennial economic crisis and the slow-down of economic activities led to decreased electricity, heat energy and gas consumption and slower collection of receivables.

Long lasting dry period throughout the entire 2011 continued till the last quarter 2012 and resulted in the need for substituting insufficient hydro electricity generation by a significant rise of import. This development along with an evident rise of fuel oil, gas and imported electricity price followed by the rise of euro and dollar exchange rate compared to the year before, significantly increased operating variable costs. In order to settle increased fuel liabilities and electricity purchase, short term debt was significantly increased which impaired Group's financial stability.

In early 2012, HEP submitted requests for the increase of administratively regulated electricity tariffs for households and the use of transmission and distribution network, which was approved by the Government and given effect from May 2012. This step facilitated the needed growth of income and increased cash flows in the second half of the year. However, higher heat energy tariffs, which operating costs had also significantly increased due to higher fuel costs, was approved in December which would result in increased income in 2013.

Furthermore, despite conducted activities and in light of the stagnant Croatian economy, increased number of insolvent legal entities and high unemployment, trade receivables did not improve.

HEP Group's financial position was consolidated in late 2012 following a successful completion of the Eurobond issue in early November in the amount of USD 500 mn. The simple USD-EUR currency swap agreement was concluded at the same time in order to hedge HEP from dollar exchange rate volatility throughout the term of issued bond obligations (until 2017).

In view of carried out debt restructuring and ensured funding for 2012 arranged investments as well as paid trade liabilities due to funds acquired from the bond issues, HEP strengthened its financial position and stabilized liquidity in end 2012.

As of December 2012, HEP has been paying all its trade liabilities in due periods, significantly decreased its short-term debt compared to the year before and had unused short-term credit lines in the amount of HRK 902 mn at its disposal.

At the end of the business year, the Group recorded net profit of HRK 71.2 mn, HRK 62.5 was attributable to equity holder. This result was positively affected by approved increase of tariff items from regulated

activities as of May 1 as well as the implementation of the new pricing methodology for HEP Supply's eligible customers as of August 1, 2012.

Operating profit in the amount of HRK 393.5mn decreased by HRK 73.9mn compared to the year before due to higher operating expenses of HRK 1,005.4mn than operating income which increased by HRK 931.6mn.

HEP Group continued with successful implementation of business operations improvement and operating efficiency increase measures, which had also been defined by the Restructuring Programme of HEP Group for period 2012-2016 and the Work Programme of the Management Board of HEP d.d.

In line the Programme and for the purpose of certifying the transmission system operator according to the ITO model pursuant to provisions of the 2009/72/EC Directive of the European Parliament and the Council, by making HEP-Transmission System Operator d.o.o. functionally independent from other daughter companies of HEP Group, numerous activities were conducted throughout 2012. In line with the adopted Action plan for HEP Group restructuring pursuant to EU energy regulations, structured in 13 areas, expert teams from various HEP fields dedicated special attention to defining mutual relations between the future independent transmission system operator and other parts of HEP Group based on the principle of independence of HEP TSO from other daughter companies of the Group constituting a vertically integrated entity and the independence of the entire management structure of HEP TSO; unbundling of transmission from generation and distribution; financial unbundling of HEP TSO; reorganization of the IT system in view of provisions set by new regulations on completely unbundled systems, suppliers and consultants for IT and security access systems as well as re-branding of HEP TSO. Total investments in the construction of new energy facilities, replacement and reconstruction of the existing ones in 2012 amounted to HRK 2.6 billion. Significant investments in energy facilities were launched or continued. However, planned scope of preparations for some investments (construction of TPP Plomin C and HPP Ombla) was not carried out. By means of the pre-qualifying tender three bidders were chosen as a possible strategic partner in the construction and commercial operation of TPP Plomin C.

Total electricity turnover in 2012 was 18.8 TWh, 12.1 TWh of which was generated in the power plants wholly or partially owned by the Group and 6.7 TWh was procured on the market. Needs of domestic customers and grid losses were ensured by 17.5 TWh, while 1.3 TWh was sold on the neighbouring markets. Domestic gross electricity consumption was decreased in 2012 by 0.8 percent.

Availability of energy facilities, network and plants with insignificant outages was satisfactory thus not impacting electricity, heat energy and gas supply significantly. Electricity and fuel supply was also reliable. During 2012, other suppliers apart from HEP Group, intensified their activities. Their market share in eligible customer supply is estimated at about 3 percent, while the remaining 97 percent is held by HEP Supply. A percentage of entrepreneurial customers, primarily those with low consumption, did not use their right to choose a supplier but continued to be supplied by HEP Distribution System Operator. A share of eligible customers in electricity sold in the domestic market in 2012 was 49 percent.

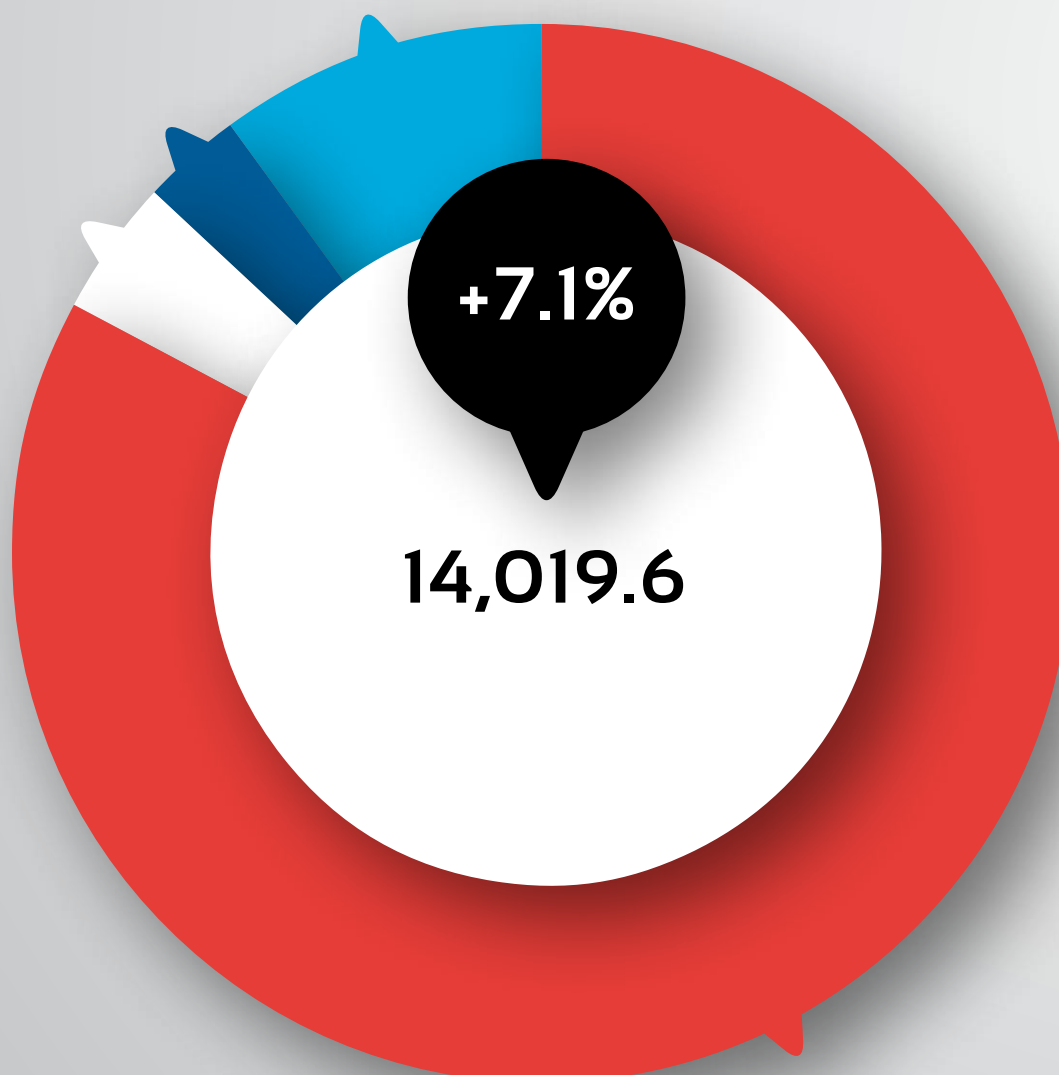
# Operating income

In 2012, the Group's operating income was HRK 14,019.6mn. This is an increase of HRK 931.6 mn compared to 2011. Growth in operating income is the result of increased income from electricity sales, income from services and income from heat and gas sales.

Income from electricity sales accounts for 83 percent of Group's operating income. The eight percent increase compared to the year before is the result of approved increase of tariff items from regulated activities as of May 1, and the implementation of the new pricing methodology for HEP Supply's eligible customers as of August 1, 2012. Income from heat and gas sales makes 4 and 3 percent respectively, which is a 0.5% and a 3.9% increase, respectively, compared to 2011. Other operating income increased in total by 3.9 percent compared to 2011 (increased income from cancelling long-term provisions – legal fees, income from connection services, income from services, income from the sale of material, income from cancelling long-term provisions for severance pays and jubilee awards and income from assets received without a charge).

## OPERATING INCOME (HRK mn)

Electricity sales	11,630.3	83%
Heat sales	585.5	4%
Gas sales	396.0	3%
Other operating income	1,407.9	10%



# Operating expenses

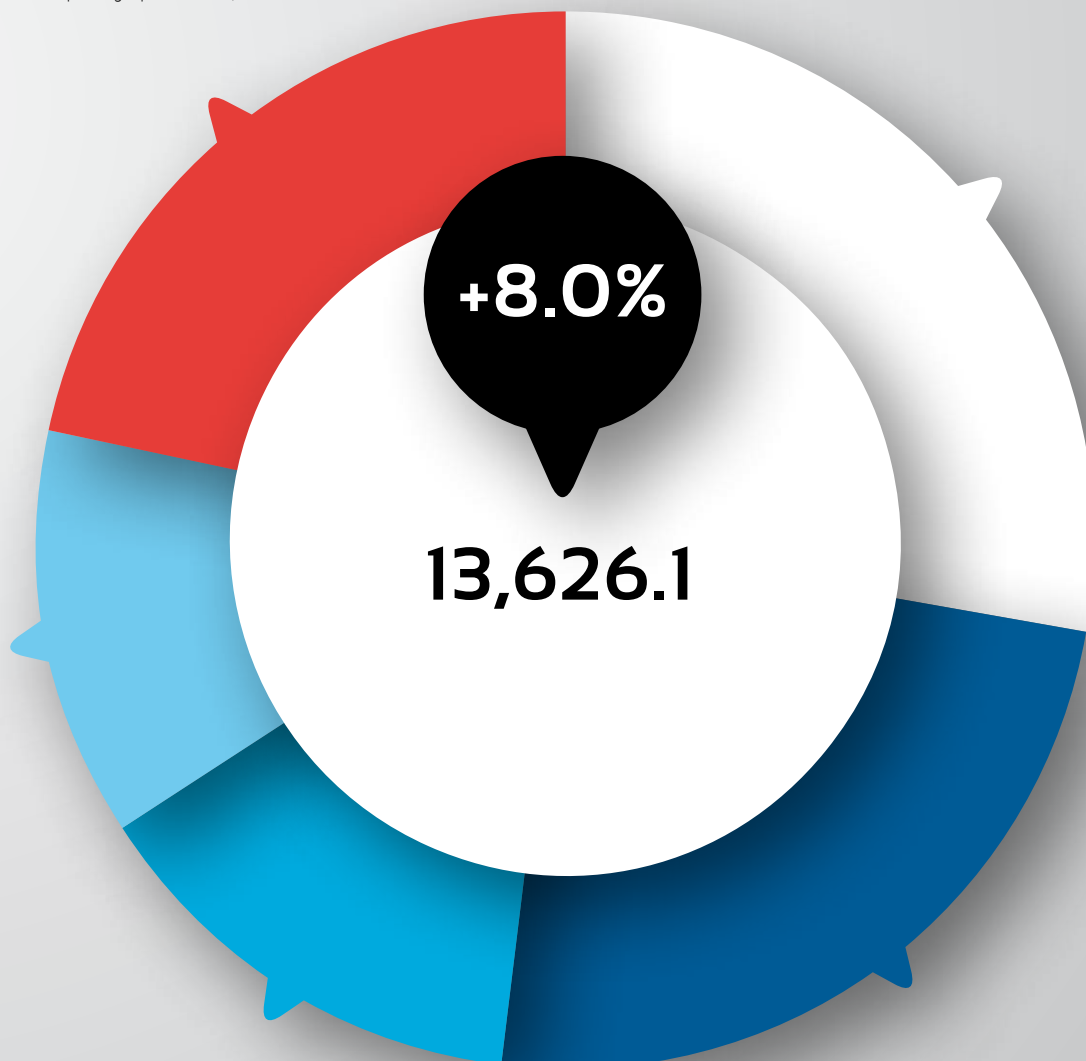
Group's operating expenses in 2012 increased by HRK 1,005.4 mn to HRK 13,626.1 mn. Among total operating expenses, energy fuel for electricity and heat production and electricity purchase account for 52.2 percent. These costs amounted to HRK 7,112.5 mn, an increase by HRK 934.8 mn or 15.1% compared to 2011 as a result of the following factors:

- extremely unfavourable hydrology for most of the year (total hydro generation was a mere 4.8 TWh) and increased electricity imports on domestic and foreign markets (by 931 GWh);
- increase in price of imported electricity;
- higher prices of fuel oil and gas

Compared to 2011, staff cost decreased by 1.4 percent due to a reduction in the number of employees (199 less compared to the year before). Other operating income increased by 4 percent in total including higher gas purchase prices, overheads and other expenses.

## OPERATING EXPENSES (HRK mn)

Electricity procurement	3,793.0	28%
Fuel	3,319.5	24%
Staff costs	1,863.2	14%
Depreciation	1,734.2	13%
Other operating expenses	2,916.1	21%



# Entrepre

## Power exchanges

During 2012, HEP Trade continued with business activities of its foreign subsidiaries established in the neighbouring countries.

The Slovenian company participated on the BSP and the Hungarian on the HUPX power exchanges.







Zagreb, Croatia  
HEP



Brežice, Slovenia



Budapest, Hungary

# neurship



## Financial results achieved

### BASIC INDICATORS

	unit	2010	2011	2012	2012/2011
Electricity sales	TWh	17.6	16.6	16.6	+0.1%
Electricity production	TWh	15.8	12.7	12.1	-4.6%
Heat sales	TWh	2.4	2.3	2.2	-4.2%
Gas sales	mn.m <sup>3</sup>	162	150	134	-10.6%
Operating income	HRK mn	12,923.0	13,088.0	14,019.6	+7.1%
EBITDA	HRK mn	3,831.1	2,088.2	2,162.6	+3.6%
Group net profit (loss)	HRK mn	1,435.4	7.8	71.2	+811%
Total assets	HRK mn	33,752.4	33,746.4	34,898.2	+3.4%
Investments	HRK mn	1,693.3	2,132.6	2,598.3	+21.8%
Number of employees		14,016	13,784	13,585	-1.4%

According to financial indicators, HEP Group is one of the biggest business entities in the Republic of Croatia. The 2012 business operations were characterized by the recession, further slow-down of economic activities and other unfavourable operating conditions for HEP Group.

Due to unfavourable hydrology, the need for imports of electricity increased. Due to increased price of imported electricity, electricity procurement costs increased as well, whereas fuel costs increased due to significant price increase in fuels, especially natural gas and fuel oil. Cost increase, despite growth in operating income, reduced operating income to HRK 393.5 mn (in 2011 it was HRK 467.4 mn). Group net profit was HRK 71.2 mn, HRK 62.5 mn is attributable to equity holders of the parent.

### CONSOLIDATED PROFIT AND LOSS ACCOUNT (ABRIDGED) (HRK mn)

	2010	2011	2011/2010	2012	2012/2011
Operating income	12,923.0	13,088.0	1.3%	14,019.6	7.1%
Operating cost	10,757.7	12,620.6	17.3%	13,626.1	8.0%
Operating profit	2,165.3	467.4	-78.4%	393.5	-15.8%
Group net profit (loss)	1,435.4	7.8	-99.5%	71.2	811.2%
Net profit (loss) attributable to equity holders of the parent	1,421.3	-3.7		62.5	

## Result by activity

### BUSINESS RESULT (HRK mn)

	electricity			heat energy			gas distribution		
	2011	2012	12/11	2011	2012	12/11	2011	2012	12/11
Operating income	12,025.7	12,951.5	7.7%	651.0	646.1	-0.8%	411.3	422.0	2.6%
Operating profit (loss)	757.1	824.1	8.8%	-293.3	-434.0	48.0%	3.5	3.5	-0.4%

Most of operating income (92.4%) and operating profit of the Group was achieved in electricity business. Higher operating profit in this business activity is a consequence of increased electricity selling price. Although district heating accounts for only 4.6% of income, operating loss in this business activity was HRK 434.0mn. The loss increased compared to 2011 due to growth of fuel prices – fuel oil and gas, while the heat energy selling price increased only as of December 13, 2012. Gas distribution has the smallest share in operating income (3 percent) with recorded operating profit of HRK 3.5 mn.

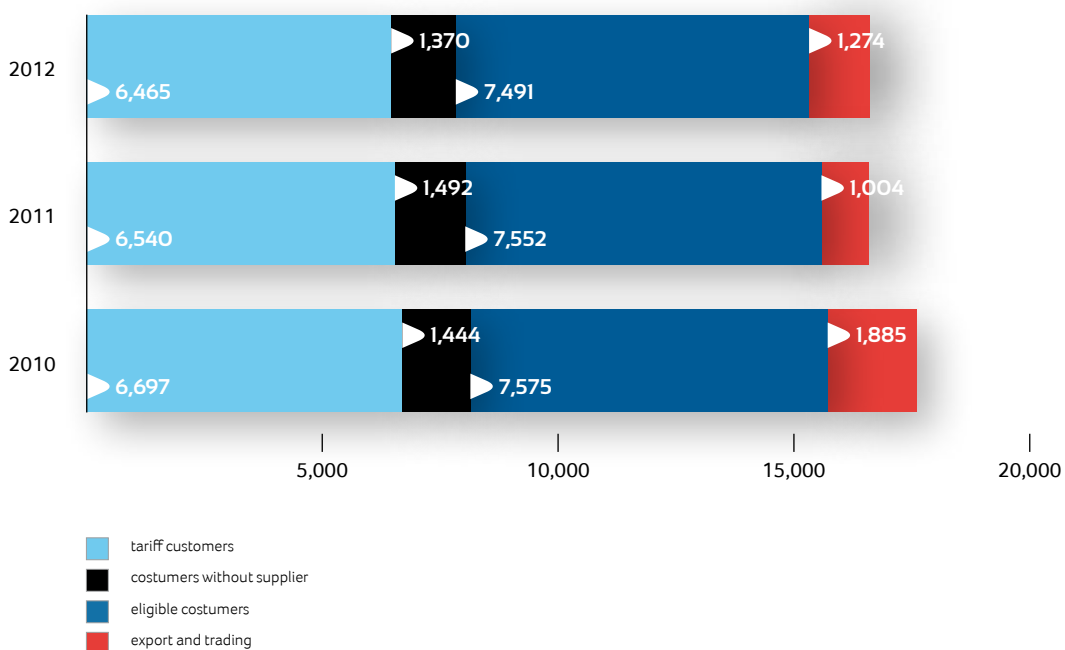
**ELECTRICITY**

Production, transmission, distribution and supply of electricity are carried out by HEP Group on the entire territory of Croatia. The Group is the largest supplier of electricity. In 2012, operating profit of HRK 824.1 mn was achieved which is a much better business result compared to 2011 due to higher electricity prices.

Income from electricity sales amounted to HRK 11,630.3 mn, of which 96.1 percent was from the supply of domestic customers and 3.9 percent from sales in neighboring market.

**ELECTRICITY PRODUCTION AND PROCUREMENT (GWh)**

	2010	2011	2012	2012/2011
hydro power plants	8,309	4,577	4,773	4.3%
thermal power plants	4,787	5,147	4,699	-8.7%
Krško nuclear power plant	2,690	2,951	2,622	-11.1%
electricity procurement	4,046	5,863	6,794	15.9%

**ELECTRICITY SALES (GWh)**

## DISTRICT HEATING

The business of production, distribution and supply of heat energy is performed in the areas of Zagreb, Osijek, Velika Gorica, Zaprešić, Samobor and Sisak.

The business made an operating loss in 2012 of HRK 434 mn, which is a HRK 140.7 mn more compared to 2011 due to a continuous increase of fuel prices and unchanged heat energy tariff from January 1, 2009 when a 16% average price increase occurred until December 13, 2012 when the 36.8% average price increase for tariff customers was approved.

Totals sales of heat and process steam were 2.2 TWh, which is 4.2 percent less than in 2011. Annual household consumption, which was a 4.5% lower, is impacted by weather during heating season, while the entrepreneurial consumption depending on economic environment decreased by 3.7% due to aggravated economic circumstances.

## GAS

The business of gas distribution and supply is performed in the areas of Osijek-Baranja, Virovitica-Podravina and Požega-Slavonia counties. In 2012, the business made an operating profit of HRK 3.5 mn, which is HRK 0.01 mn less than in 2011.

In 2012, there was a further decrease in consumption by non-residential customers of 13.3 percent, while residential customers decreased their consumption by 8.7 percent. Total sales compared to the year before decreased by 10.6 percent. Gas consumption highly depends on weather and economic environment as well.

Despite lower consumption, gas sales income increased by 3.9% in 2012 due to increased average gas selling price of 16% (due to increased distribution tariff item and introduction of a fixed monthly charge as of May 1, 2012).

# Financial position

## CONSOLIDATED BALANCE SHEET (ABRIDGED)

	December 31, 2011		December 31, 2012		Change 2012/2011
	HRK mn	share	HRK mn	share	
Long-term assets	30,364.4	90%	31,194.7	89%	+3%
Short-term assets	3,382.0	10%	3,703.5	11%	+10%
<b>Total assets</b>	33,746.4	100%	34,898.2	100%	+3%
Capital and reserves	19,421.9	58%	19,488.8	56%	+0.3%
Long term provisions	778.6	2%	661.4	2%	-15%
Long term liabilities	8,674.1	26%	10,115.9	29%	+17%
Short term liabilities	4,871.7	14%	4,632.1	13%	-5%
<b>Total capital and liabilities</b>	33,746.4	100%	34,898.2	100%	+3%

## ASSETS

The value of total assets of HEP Group in 2012 increased by HRK 1,151.9mn to HRK 34.9 billion. The increase of HRK 830.3 mn was achieved in long-term assets owing to investments in preparation and construction of new electric facilities, connection of consumers and replacement, reconstruction and refurbishment of the existing energy facilities. Long-term assets account for 89 percent of the value of the Group's assets.

The value of short-term assets is HRK 3.7 billion, an increase by HRK 321.5 mn, as a result of increased accounts receivables by HRK 377 mn, cash and cash equivalents by HRK 197.9mn and a decrease in total accounts receivables by HRK 171.5mn as well as a decrease in inventories of HRK 81.9mn. The

most significant item in short-term assets is accounts receivable amounting to HRK 1.9 billion, which increased in 2012 due to a larger share of accounts receivables. This is mainly the result of increased electricity price for tariff and eligible customers. This is followed by inventories of materials, spare parts and energy fuel which amounted to HRK 981.6mn, the value of which decreased due to lower quantities of fuel oil and coal in inventories.

### CAPITAL AND LIABILITIES

Capital and reserves at the end of 2012 amounted to HRK 19.5 billion with a share of 56 percent in the Group's total assets and an increase of HRK 66.9mn compared to 2011 due to profits recorded in the current year and the decision adopted by the General Assembly on allocation of the 2011 profit and retained profit from previous years used for reserves.

Long-term liabilities amounted to HRK 10.1 billion and accounted for 29 percent in total liabilities and capital. They increased by HRK 1,441.9 mn primarily due to increased liabilities for bonds issued on the international capital market in November 2012 in the amount of HRK 2,370.4mn. Funds provided from the bond issue were used for early repayment of some long term loans with unfavourable financial indicators thus decreasing long term liabilities towards the state and long term loans by HRK 697.8mn by the year end.

Short-term liabilities decreased by HRK 239.6mn compared to the beginning of the year due to which their share decreased from 14 to 13 percent. Due to earlier loan repayment, short term loans liabilities and current maturities of long term loans decreased by HRK 1,235 mn, while liabilities for bonds issued increased by HRK 500 mn as the bonds issued in 2006 in the same amount fully mature in 2013. Trade payables also increased as well as tax and contributions liabilities and all other liabilities.

## Investments

In 2012, the value of the investments made by the Group was HRK 2,598.3mn. The greatest part was focused on three segments of HEP Group's business system:

- reconstruction and modernization of generation facilities, plants and networks;
- construction of new generation facilities;
- reconstruction of the existing and the construction of new transmission and distribution infrastructure facilities.

Apart from the above, investments were made in district heating and gas distribution energy systems as well as in business system upgrades.

### INVESTMENTS (HRK mn)

	2010	2011	2012	2012/2011
Investments in property, plant and equipment	1,693.3	2,132.6	2,598.3	+21.8%

HEP continuously invests into maintenance and modernization of the existing facilities and the construction of new generation capacities and network systems for the purpose of ensuring security of energy supply, strengthening HEP's competitiveness and contributing to sustainable development of the Croatian energy sector.

HEP Group intends to use its investments for creating preconditions for achieving the appropriate level of energy independence in the electricity sector considering the current electricity consumption and its growth projection after the economic crisis ends as well as necessary decommissioning of thermal power plants that cannot be aligned with the prescribed environmental requirements due to their old age and technical inefficiency.

An overview of the 2012 major investments per company is given in the section Reports by HEP Group companies.

## Credit rating

In their report of November 16, 2012 Standard&Poor's confirmed their long-term credit rating of Hrvatska elektroprivreda d.d. of BB- and withdrew the company's credit rating from the CreditWatch with the negative outlook on October 3, 2012. The outlook was stable in light of the analysts' opinion that HEP's financial position and liquidity stabilized especially due to five-year bond issue in November. In their report of September 21, 2012 Moody's assessed HEP's long-term capability to serve all its financial obligations with Ba2 with negative outlook, reflecting HEP's significant investment needs in the future and increased exposure to refinancing, exchange rate and interest risks.


After lowering the credit rating of the Republic of Croatia in early February, Moody's placed credit rating of Hrvatska elektroprivreda on a watch list with possible lowering. Having conducted analyses, Moody's confirmed the existing Ba2 grade with a negative outlook on May 15, 2013.

### **CREDIT RATING OF HRVATSKA ELEKTROPRIVREDA:**

- *Standard & Poor's:BB-/Stable*
- *Moody's: Ba2/Negative/*

Report on  
Impact on  
Stakeholders

4

A light gray silhouette of the European continent is centered in the background. Two blue circular markers with white dots below them are placed on the map: one on the western coast of Europe and one on the eastern coast. The word "Partne" is written in a large, black, sans-serif font across the middle of the map.

# Partne

## Concerto Solution

As part of the European Concerto Solution scientific and research project, HEP Renewable Energy Sources participates in the development of the 2x250 kW solar PV demonstration plant on the island of Hvar.





Croatia



Slovenia



Finland



Switzerland



Austria

# rship



# Report on Impact on Stakeholders

HEP conducts its business in compliance with the law and ethical standards, on the principles of sustainable development and social responsibility, based on the following documents:

- Code of Ethics (available at: <http://www.hep.hr/hep/odgovornost/etickiKodeks.pdf>)
- Code of Ethics of the Croatian Chamber of Economy
- Code of Corporate Governance (Zagreb Stock Exchange and HANFA)

## Basic principles in relations with stakeholders

To achieve our *mission* and to fulfill our vision, we align all our business operations with expectations of all stakeholders, adhering to the following principles:

### **OWNERS**

- To make optimum business effects and an appropriate profit for the owner.

### **CUSTOMERS**

- To satisfy the needs and expectations of the customers, providing value for money. To act in a professional and correct manner in accordance with best practices and generally accepted values, building trust in our actions.

### **EMPLOYEES**

- To appreciate employee interests and competencies and to develop a reward and promotion system. To secure and constantly apply state-of-the art work safety measures and to encourage life-long learning, cooperative spirit and professionalism.

### **BUSINESS PARTNERS**

- To foster and build relations with business partners, respecting their quality and professionalism. To carry out public procurement processes in a correct manner and to prevent any possible irregularity.

### **SOCIETY, LOCAL COMMUNITIES**

- To respect cultural, religious, traditional and any other material or spiritual characteristics in cooperating with the local communities in which we are active, creating a friendly environment.

## Anti-Corruption Program

In 2012, HEP continued to implement the Action Plan for the implementation of Anti-Corruption Programme of Croatia's Government applicable to state majority-owned companies for the period 2010-2012, in order to strengthen responsibility and transparency, create conditions for prevention of corruption at all levels and promote zero-tolerance to corruption. The following has been carried out as part of the Action Plan:

- The website includes postings of job vacancies.
- Ethics commissioners were appointed in HEP Group companies constituting the Ethics Commission at Group level as well as a person for receiving reports of irregularities in business. Information about contact and/or reporting unethical behaviour and irregularities in business was posted on HEP's internal website and on the internet website.
- A list of duties and job titles assessed as being at high risk for corruption has been determined. Employees in such positions sign the Confidentiality and Impartiality Statement in which they confirm that in the previous year they had carried out all their duties in accordance with laws, regulations and company's internal rules, acting in the process completely objectively, independently and impartially, securing the confidentiality and non-disclosure of business information in compliance with the company's internal rules and that in the next year they would act in the same manner. Appropriate educational material on corruption prevention and business ethics is available to them and to all other employees on the intranet.
- During 2012, Information Officer for HEP Group received 11 requests for access to information, 10 of which were resolved within the legal time-limit and one was forwarded to another public body. In accordance with the Right to Access to Information Act, the Information Officer prepared the Report on the implementation of the Act for 2012 and sent it to the Croatian Personal Data Protection Agency. The Report also states that information on a company's business operations, as required by the Act, must be published through the internet website on which Information Catalogue is also posted.
- The website should also include the list of decisions of the Management Board of the Company made with consent of the Government of Croatia.

### PUBLIC PROCUREMENT

#### NUMBER OF PROCUREMENT PROCEDURES CARRIED OUT IN 2012 BY HEP GROUP COMPANIES

HEP Group company	Number of public procurement processes in 2012
HEP d.d.	99
HEP-Proizvodnja d.o.o.	256
HEP – Operator prijenosnog sustava d.o.o.	249
HEP – Operator distribucijskog sustava d.o.o.	853
HEP-Plin d.o.o.	21
HEP-Toplinarstvo d.o.o.	100
HEP-Trgovina d.o.o.	1
HEP – Obnovljivi izvori energije d.o.o.	1
Total	1,580

Considering a large number of items that are subject to public procurement, HEP has been continuously performing comprehensive activities to fight corruption, with a special emphasis on transparency and strengthening of responsibility. As part of the Action Plan for the implementation of the Anti-Corruption Program of the Government of Croatia the following measures have been implemented:

*Separation of business and private interests in accordance with the Public Procurement Act.* All members of the Supervisory Board and of the Management Board of HEP d.d., members of supervisory boards and managing directors of subsidiary companies signed statements of (non-)existence of conflict of interest pursuant to the Public Procurement Act (in force since January 1, 2012). Also, for every public procure-

ment procedure, statements of (non-)existence of conflict of interest must be additionally signed by authorized representatives and other persons that have influence on the selection of tenderers.

*Publishing of information regarding procurement procedures.* On HEP website all public procurement procedures within HEP Group are posted. Also posted are the procedures that are not subject to the Public Procurement Act if another type of invitation to tender/tendering is applied.

*Publishing of contract award and performance.* In accordance with the Conclusion of the Government of Croatia dated March 17, 2011, public authorities are obligated to publish the information about public procurement contracting on their website. Therefore, since April 16, 2011 HEP Group members, which are subject to the Public Procurement Act, publish the information on awards and performance of framework agreements and contracts made on the basis of an appropriate public procurement procedure on HEP website.

*Integrity.* In case of procurement procedures or contracts which estimated worth exceeds HRK 6 mn for goods and services or HRK 12 mn for works, irrespective of the type of procurement procedure, tenderers are obligated to sign the Integrity Statement in which they guarantee correctness in the public procurement procedure, absence of corrupt practices or fraud and express their consent to an independent audit of the public procurement procedure. In case of procurement below the above stated amounts, the general part of the tender documents is supplemented with an integrity clause.

The primary business objective in this area is to build a reliable system of public procurement, characterized by predictability, more competition, efficient and effective management of resources, value for money and orderly procedure (timely procurement). To achieve these objectives, HEP will continue to strengthen transparency, providing more information to prospective tenderers with the aim of giving equal opportunity to all those wishing to participate in the public procurement procedure.

## Employees

### NUMBER OF EMPLOYEES

On December 31, 2012 of the total of 13,562 employees, 13,519 were employed on a permanent basis and 13 on a temporary basis (of which 26 trainees on a temporary basis) and 4 employees were on unpaid leave.

### NUMBER OF EMPLOYEES BY HEP GROUP COMPANY (DECEMBER 31, 2012)

HEP Group company	No of employees		Change
	2011	2012	2012-2011
HEP-Operator distribucijskog sustava d.o.o.	9,228	9,051	-177
HEP-Proizvodnja d.o.o.	2,263	2,223	-40
HEP-Operator prijenosnog sustava d.o.o.	1,196	1,181	-15
HEP d.d.	425	435	10
HEP-Toplinarstvo d.o.o.	351	353	2
HEP-Plin d.o.o.	136	134	-2
HEP-Opskrba d.o.o.	62	60	-2
Crpna stanica Buško blato d.o.o.	42	43	1
APO d.o.o.	22	23	1
HEP-ESCO	18	19	1
HEP-Trgovina d.o.o.	16	24	8
HEP – Odmor i rekreacija d.o.o.	11	11	0
Ustanova HEP-Nastavno-obrazovni centar Velika	11	12	1
HEP- Obnovljivi izvori energije d.o.o.	7	8	1
HEP-Razvoj višenamjenskih nekretninskih projekata d.o.o.	-	8	8
<b>HEP Group TOTAL</b>	<b>13,788</b>	<b>13,585</b>	<b>-203</b>

**QUALIFICATION STRUCTURE**

Qualification	2011	2011(%)	2012	2012 (%)
DSc and MSc	180	1.3	216	1.6
BSc	2,013	14.6	2,026	14.9
Assoc. degree	1,068	7.8	1,068	7.9
Secondary sch.	5,857	42.6	5,803	42.8
Element. Sch. / semi skilled	780	5.7	743	5.5
Highly skilled	2,167	15.8	2,089	15.4
Skilled	1,697	12.3	1,617	11.9
<b>TOTAL</b>	<b>13,762</b>	<b>100.0</b>	<b>13,562*</b>	<b>100.0</b>

**AGE STRUCTURE**

Years of age	No. of employees
do 20	1
20-25	42
25-30	498
30-35	860
35-40	1,630
40-45	1,640
45-50	1,966
50-55	2,518
55-60	2,580
60-65	1,827
<b>TOTAL</b>	<b>13,562*</b>

\*Not including APO d.o.o.

**EMPLOYMENT AND TRADE UNION RELATIONS**

Five trade unions are active in HEP Group: Croatian Electricity Trade Union- HES, Independent Trade Union of Employees of Hrvatska elektroprivreda – NSR, Vocational Trade Union of Workers in Hrvatska elektroprivreda – TEHNOS, Autonomous Trade Union in Power Industry, Chemistry and Non-Metal Industry of Croatia – EKN and the Croatian Trade Union for Distribution Workers – HEDISS (registered on 19 April, 2012). Employment and rights of employees of HEP Group companies are regulated in work rules of the companies and Collective Agreement for HEP Group.

On January 12, 2011 the new Collective Agreement was concluded between HEP Group companies and four trade unions, applicable from January 1, 2011 to December 31, 2012. This Collective Agreement was joined by the newly established Croatian Trade Union for Distribution Workers.

In accordance with Article 152, the parties to the Collective Agreement set up a Joint Commission for the interpretation of the provisions of the Agreement. The commission met periodically, in accordance with the provisions of the Collective Agreement and depending on the requests for interpretation they received. In HEP Group companies in which workers' councils were elected, the employers fulfilled their obligations toward workers' councils, in compliance with the sections 148-150 of the Labor Act (Official Gazette no. 149/09, 61/11) relating to obligations to inform, consult and allow participation in decision-making of workers' councils on matters important for employees.

**HUMAN RESOURCES MANAGEMENT**

An increasing attention has been paid at HEP Group level to the development and implementation of modern HR management practices in order to prepare the company and its employees for doing business in an open market.

A standardized selection procedure is conducted across HEP Group for employment of new people and for scholarship recipients (high school and university students). There is also a process in place of introducing new employees to their job and/or mentoring of trainees so they can sooner become capable of working independently, adapt to the work environment and start their personal development from the very beginning in the company.

For the purposes of optimizing human resources management and HEP Group operations in general, preparations began for introducing a performance monitoring system. A precondition for the implementation of this system is to define jobs and competencies for the existing job groups and standardized work places existing in HEP Group. Therefore, the Management Board of HEP d.d. adopted the decision on appointing the Team for cataloging jobs and competencies in April 2012, which task is to prepare and carry out the development of jobs and competencies catalogue at the Group level.

**EDUCATION AND TRAINING**

Having considered the need for permanent life-long employee education which will contribute to the development of their professional knowledge and skills necessary for efficient operation and enable

follow-up and implementation of cutting-edge trends in all HEP Group operational parts, HEP allocates significant financial resources to education and training (postgraduate studies) and specialist education in Croatia and abroad (conferences, seminars, courses) as required by work needs.

Since 2009, the Company has been conducting education in the area of social skills aimed at trainees and titled *Communication skills and business etiquette* as a mandatory part of the trainee program and development as well as internally organized course titled *Presentation skills* (its attendance is not mandatory). Human Resources Department organized two other internal educational courses: *Business correspondence* and *Management*.

For the purpose of a single record keeping in the area of education and unifying data and report development for the requirements of HEP Group, the Records of Education, a software application has been implemented.

## HEALTH AND WORK SAFETY

Under the law, the implementation of protective measure is the responsibility of the employer. In organizational units the responsibility lies with employer's authorized officers on behalf of the employer. As required by law, in each organizational unit there is one or more safety specialists, depending on the number of employees. Safety specialists provide their professional assistance to the employer and its authorized officers in the implementation and improvement of safety at work and protection of health of employees.

In 2012, there were 233 work injuries in HEP Group, two of which were fatal, 27 serious and 206 light ones. One fatal work-related injury was due to a thunder strike during worker's intervention at the overhead line caused by his own independent decision and non-implementation of protective measures. The second fatal work-related injury occurred in traffic, on the way to work by a passenger car.

More than 20% of the total number of injuries account for commuting injuries (42), which the law recognizes as work injuries.

Out of 27 serious injuries, 17 occurred at workplace and ten on the way to/from work. Out of 17 injuries at workplace, 11 were due to a fall from the pylon, four due to electricity (electric arc, fuse explosion, live electricity) and two due to a blow. The injuries that occurred at workplace were mostly due to non-compliance with safety measures.

In the observed period no professional illnesses were registered. In 2012, 10,952 working days or 87,617 working hours were lost due to injuries at work.

Injuries at work are mainly a consequence of not applying basic or special protection rules at work. That is why more and more attention has been paid during the past few years to permanent education of employees at all levels, especially direct supervisors and/or authorized officers.

# Customers

## NUMBER OF CUSTOMERS

The number and structure of electricity, district heating, process steam and natural gas customers are shown in reports by HEP Group companies.

## RELATIONS WITH ELECTRICITY CUSTOMERS – HEP DSO

HEP Distribution System Operator d.o.o. (HEP DSO) is a company that provides the network use service to all customers connected to the distribution network. HEP ODS is also the provider of the electricity supply service to customers who are in the public supply system. Day-to-day activities of HEP ODS area directed towards improving the quality of electricity it delivers and services it provides. In carrying out of its business HEP ODS has been continuously improving its relationship with customers, according to their needs and expectations.

Customers can post questions on the HEP DSO website, and by using the 'My Account' application they can submit their meter readings, see their consumption and payment data for the previous period as

well as obtain other information. A large number of My Account users has confirmed the significance of such a channel of communication with the customers. In addition, HEP DSO website provides information on tariff models, legislation governing HEP DSO business, overview of planned works on the distribution network and/or overview of electricity outage announcements for any part of Croatia and other useful information.

Apart from the above mentioned channels of communication, customers can communicate directly with their local distribution areas by using the free telephone number to submit meter reading, get information or file a complaint. In addition to these channels of communication, in each distribution area customers can communicate directly with employees to submit meter reading, get information or file a complaint.

All household customers can pay their electricity bills without any extra charge at all FINA and Croatian Postal Service offices. Customers can also pay their bills without extra charge by a standing order agreed with a commercial bank or a credit card company with which HEP ODS has the contract for this service.

#### RELATIONS WITH ELECTRICITY CUSTOMERS- HEP SUPPLY

HEP Supply uses various communication tools and develops new projects and products for the purpose of enhancing its customer relations.

During the previous year, special attention was paid to the First Meeting organized with customers by HEP Supply and held in Opatija as part of the 10th HRO CIGRÉ symposium. The invitation was extended to representatives of the largest companies in Croatia – HEP Supply's customers with the highest consumption and regular settlement. During the meeting, HEP Supply managing director introduced HEP Supply business activity and especially emphasized measures and activities conducted by the company for improving mutual cooperation. Customers were presented with new brands i.e. EEn and ZelEn.

##### *ZelEn*

HEP Supply follows trends on the neighbouring electricity markets as well as its customers' needs. Intensive development of new products and services represents contribution to sustainable development and innovation, which sets HEP Supply apart from other market participants. As a socially responsible company which takes care of increasing the RES share in electricity consumption, HEP Supply has developed its new product called ZelEn.

ZelEn consists of TÜV SÜD certificates and a right to use the 'ZelEn' brand. All HEP's hydropower plants have been certified by TÜV SÜD, which guarantees the RES electricity origin. The customer who buys a 100% green energy acquires the right to use the 'ZelEn' brand throughout the agreement duration. The use of this brand guarantees the customer additional value and a clear support of the socially responsible behaviour and fostering of renewable energy sources.

HEP Supply has conducted a web survey for expression of interest by large customers regarding the need for such a product. More than 30 customers responded. HEP Supply has provided all its customers with the possibility of concluding an agreement including this product, while the funds collected through its sale will be used solely for the construction of RES.

##### *EEn*

eMOBILITY is a development project based on the synergy between new advanced electric vehicle technologies, charging infrastructure and RES. The goal of this project is to increase energy efficiency and improve life quality while decreasing CO<sub>2</sub> emission and city noise. HEP wishes to be the main stakeholder in the development and construction of the electric vehicle infrastructure as well as the main player in providing mobility services to end customers as it regards each electric vehicle, from the point of view of the electric power system, a distributed consumer and a potential electricity producer.

Numerous promotional activities have been conducted for the purpose of public introduction of the Project. The marketing campaign was launched in May 2012 as part of the Zagreb Energy Week by signing the Agreement with the first Croatian electric vehicle producer – DOK-ING. This cooperation aims at exploring the possibilities and financial viability of converting the existing traditional HEP's vehicles into electric ones. As a HEP Group's development project, eMobility has been presented at various fairs and conferences.

As the new development project also includes the construction of the charging network, the Company has designed and launched the new brand called ELEN (abbreviated from the Croatian 'electric energy'), representing the name of electric vehicle fast charging stations. In the cooperation with the City of Zagreb and in the organization of the Croatian Designers Association, the competition for the selection of the best conceptual design regarding the future charging station design has been conducted. The goal was to select a standardized project as a basis for future construction of the charging station chain (the construction plan will be developed after the study by the Faculty of Electrical Engineering and Computing in Zagreb is completed).

#### **MY ACCOUNT**

HEP Supply customers may access their data by using the My Account web application. This web site recorded more than 33,000 hits in 2012. Customers may use the services of the call centre, which recorded 61,035 calls in 2012. The quality of customer relations is confirmed by the data regarding the response to their queries – in 94% of the cases the query was resolved immediately. At the same time, 3,560 written queries were responded and more than 500 dubious matters resolved through a direct contact with customers. Other information channels are also available to customers including the Company's web site, newsletter, HEP Vjesnik monthly magazine and information published on web portals and social networks.

#### **RELATIONS WITH HEAT CUSTOMERS (HEP DISTRICT HEATING)**

During 2012 and during previous years, HEP- District Heating focused its operations on improved service provision to customers, their needs and achieving safe and reliable heat energy supply.

Technical services at HEP District Heating d.o.o. have systematically received, processed and replied in the shortest period possible to all customer queries, complaints and demands submitted by post, on-duty staff phone numbers, consumer phone numbers, e-mails, fax or in person.

Customer communication was possible on the web page [www.hep.hr/toplinarstvo](http://www.hep.hr/toplinarstvo), containing all relevant data and information on the Company as well as the frequently asked questions on heat energy process, customer change, possibility of installing heat cost allocators, possibility of leaving the district heating system, heat energy debt, supplied heat energy consumption metering, available payment methods, advice regarding heat energy savings etc.

Customers were informed on heating season start and finish, interruptions during heat energy supply and planned works on heating system revitalization through media, and on the new heat energy prices in force since December 13, 2012 by ads in a daily newspaper, a letter and a leaflet sent along with the heat energy invoices for December 2012.

HEP-District Heating d.o.o. informed its customers on metering and allocation of supplied heat energy as well as on the installation of heat cost allocators through a leaflet, and educated them with useful energy saving advice on a more rational heat energy consumption.

#### **RELATIONS WITH GAS CUSTOMERS (HEP GAS)**

Customer gas supply is conducted in line with the General Conditions for Natural Gas Customer Supply. Short gas supply interruptions in 2012 due to planned network work or connection of new customers were timely announced by direct written notes and in the media. Gas supply was timely read and billed. As the majority of customers are supplied in line with the public service provision principles, sale was billed according to regulated prices set by the Croatian Government. During 2012, selling price for households increased by 20% as of April 1, whereas it changes for the majority of entrepreneurial customers each month (due to constant changes of the purchase price tied with oil, gas and USD currency trends). This made the billing of supplied gas more difficult.

It was especially difficult to collect payment of supplied natural gas from the entrepreneurial customers. Despite such a situation and due to the integrated financial function in HEP Group, liquidity was not aggravated therefore not affecting the settlement of our obligations towards the gas supplied.

In 2012, HEP-Gas launched the new service – on-line access to the natural gas account balance by using the My Account application. Following the registration process, customers may view their invoices and payments, print their last invoice, submit meter reading, view the readings and consumption in the previous period. The application is clear, simple to use and available nonstop.



**COMPLAINT COMMISSIONS**

As required by the Consumer Protection Act, commissions are in place for customer complaints in 21 distribution areas of HEP DSO, in HEP-District Heating d.o.o. and HEP-Gas d.o.o. The commissions are composed of representatives of individual HEP companies or areas and representatives of consumer associations.

## Number of complaints considered by commissions of HEP DSO – 2012

Billing	Faulty meter	Connection/ disconnection	Voltage conditions	Other	TOTAL
total 288	total 6	total 6	total 0	total 26	total 326
accepted 74	accepted 2	accepted 1	accepted 0	accepted 4	accepted 81
rejected 214	rejected 4	rejected 5	rejected 0	rejected 22	rejected 245

## Number of complaints considered by commissions of HEP-District Heating – 2012

Quality of supply services (regarding meter reading, billing, collection)	Quality of heat energy (temperature in customer premises, temperature of hot water, steam parameters)	Change in connected load	Change at metering point (separation, linking, relocation of installations, etc.)	Redistribution of quantity of heat supplied	TOTAL
total 8	total 1	total 0	total 1	total 3	total 13
accepted 0	accepted 0	accepted 0	accepted 0	accepted 0	accepted 0
rejected 8	rejected 1	rejected 0	rejected 1	rejected 3	rejected 13

## Number of complaints considered by commissions of HEP Gas – 2012

total	10
accepted	1
rejected	9

## Donations

### DEMINING ASSISTANCE

The most significant single donation in 2012 was awarded to the Croatian Mine Action Center for the implementation of demining projects in southern Croatia, in accordance with safety priorities of the annual demining plan of the Government of the Republic of Croatia. HEP thereby contributed to one of the most important national projects, significant for population safety and economic development in the mine-contaminated areas.

### OTHER (MULTI-YEAR COOPERATION)

- Since 1998, HEP has been participating in the Eco School Project which has been implemented by the Foundation for Environmental Education of the Council of Europe. HEP is the sponsor of the following ECO Schools: Electromechanical Vocational School Varaždin, and Konjščina, Stanovi Zadar, Ivo Lola Ribar Labin, Vladimir Nazor Pazin, Kostrena, Kalnik elementary schools and a kindergarten, Tribalj
- Since 1995, HEP has been giving prizes to students who achieve best results in national mathematics and physics contests and since 2005 to the best students of vocational electrical schools.
- On the occasion of Earth Day, April 22, *Degenia Velebitica*, an annual award for the best piece of environmental journalism, is presented. The founders of the award are Environmental Journalists Section of the Croatian Journalists Society and APO Environmental services, a member of HEP Group.
- HEP regularly supports the work of the HEP Pensioners Association and HEP's Croatian Homeland War Veterans Association by giving donations.

Sustainable  
Development





# Succe

## Bonds

In November 2012, HEP set pricing terms for the \$500mn Eurobond issue with maturity in 2017. Nearly 200 investors from more than 20 countries participated in this transaction.



Croatia



Italy



UK



Austria



Germany



Switzerland

SS



# Sustainable Development

## Policy and organization of nature and environmental protection function

HEP continuously monitors and analyzes the impact of its business processes on the environment. The most important indicators of such impacts are emissions of pollutants into the air and quantity of production waste. The company reports on all environmental components timely and objectively to relevant institutions, units of local self-government and the interested public. Employees working in nature and environmental protection department attend seminars and workshops to get informed about duties and activities arising from environmental and nature protection legislation. Technical support to these employees is provided by the Sustainable Development and Quality Improvement Department of HEP d.d. and members of HEP teams: the Team for Coordination and Standardization of Environmental Business Procedures, the Team for the Implementation of the Kyoto Protocol provisions and the Team for Obtaining the Integrated Environmental Requirements. The fundamental objective of the Team for Coordination and Standardization of Environmental Business Procedures to analyse and evaluate environmental activities in HEP Group emphasizing planning, coordination, internal communication and proposals for improving environmental activities. In light of a significant influence on HEP Group operations, planning the operation of the existing generation facilities and the construction of the new ones, the Team for the implementation of the Kyoto protocol provisions was established with its main task of setting up the greenhouse gas emission trading system in HEP Group and coordinating the work of departments and companies within the *third trading period* (from 2013 – 2020) as well as preparation of HEP Group for the period after 2020.

The Decision on the Integrated Environmental Requirements is a precondition for further operation of the existing and one of the preconditions for obtaining the location permit for the reconstruction of the existing and the construction of new thermal power plant facilities of nominal thermal power higher than 50MW. Therefore, the objective set before the Team for obtaining the integrated environmental requirements in the cooperation with the authorized personnel with the permit from the Ministry of Environment and Nature Protection is to develop the alignment analysis of HEP's thermal power plants with the best available techniques, which will serve as a basis for developing plans and programmes for aligning those facilities which can be aligned in light of the life span of the existing thermal facilities within the set term.

## Harmonization with the EU legislation

### OBTAINING ENVIRONMENTAL PERMITS

During 2012, the procedure for obtaining the integrated environmental requirements for the existing thermal facilities of nominal thermal power exceeding 50 MW was continued. This procedure was initiated pursuant to the Environment Protection Act (Official Gazette 110/07) and the Ordinance on the process of determining the integrated environmental requirements (Official Gazette 114/08). Based on the alignment analysis of the facilities with the best available techniques and the paper on alignment methods and time-limits, in June 2012 HEP submitted to the Ministry of Environment and Nature Protection requests for obtaining integrated environmental requirements which intention is to maximally prolong the investment cycle in the existing facilities and prioritize the construction of new, replacement, more efficient and environmentally friendlier generation units. In line with the procedure on obtaining the integrated environmental requirements, the Ministry of Environment and Nature Protection submitted HEP's requests to relevant state bodies involved in the process to obtain their opinion for the purpose of issuing special conditions relating to environmental components outside the Ministry's jurisdiction. In September 2012, the Decision by the Ministry of Environment and Nature Protection on the integrated environmental requirements was obtained within the single procedure of environmental impact assessment for the replacement of the existing TE Plomin 1 for the purpose of its modernization and capacity increase.

### PREPARATION FOR GREENHOUSE GAS EMISSION TRADING

Croatia has become a part of the European Union Emission Trading Scheme at the beginning of the *third trading period* (from January 1, 2013 until December 31, 2020). By its membership in the EU ETS, HEP becomes obliged to buy greenhouse gas emission on the market in the volume of verified CO<sub>2</sub> emissions occurring as a consequence of electricity and a portion of heat energy generation, burning fossil fuels in thermal facilities of nominal thermal power exceeding 20 MW.

During 2012, the project titled 'Introducing HEP in the system of greenhouse gas emission trading' initiated in 2011 was completed, which purpose was to prepare HEP Group for the system of emission trading considering obligations taken from legal regulations regarding greenhouse emission reduction and climate change mitigation, risks occurring in the emission trading and the strategy used by European energy companies for hedging against price and volume risks. As the emission prices are influenced by a number of factors (market supply and demand ratio, weather conditions, economy and politics), the PLEXOS market simulator was used in the project for projecting CO<sub>2</sub> emission volumes as well as planning funds for emission purchase.

The system of CO<sub>2</sub> emissions trading in HEP Group was officially set up in late 2012 pursuant to the Decision of the Management Board of HEP under which obligations, responsibilities and time-limits for meeting obligations of individual departments and companies within HEP's emission trading system are set.

### EUROPEAN ECOLOGICAL NETWORK NATURA 2000

Areas of the National Ecological Network in Croatia encompass internationally important birds areas as well as areas important for other wild species and biotypes pursuant to the Bird Protection Directive (Council Directive 79/409/EEC; 2009/147/EC) and the Directive on the conservation of natural habitats and of wild flora and fauna (Council Directive 92/43/EEC). In light of its particular geographical position, Croatia has numerous biological variety of species and biotypes thus making the size of its territory in the National Ecological Network and the NATURA 2000 proposal one of the largest in Europe.

In the period between 2009 until today, HEP has repeatedly, in a written and oral communication with state bodies competent for the preservation of biological diversity, indicated the possible real obstacles and limitations in the operation of the existing and the construction of the planned electric facilities, to which the company has not received a satisfactory reply. Since 2007, the year of establishing the National Ecological Network, HEP has not constructed a single more significant investment project on the area of the ecological network. Therefore, real limitations regarding the execution i.e. increased project costs

will be seen and quantified only after some of these projects go through the process of environmental impact assessment i.e. after their delivery.

#### KEEPING UP WITH LEGAL REQUIREMENTS

To educate and inform the employees on obligations resulting from legal environmental regulations in a timely manner, since 2000 HEP Group has been following and monitoring systematically, in the form of monthly reports and annual printed bulletins, as well as preparing overviews of legal requirements in the area of environmental and nature protection of importance for operations and business of all HEP Group companies.

During 2012, improvements were continued and further expansion of the implemented electronic data bases were planned (the Register of Waste Generation and Process; the Register of Chemicals Consumption; RETZOK- Accounting Monitoring of Costs and Investments in Environmental Protection; Emission Verification – monitoring air-borne pollutant emissions and verification of greenhouse gas emissions), a part of HEP's IT Environmental Protection System which is currently being developed.

During 2012, workshops were held to inform and remind HEP employees of legal obligations in the area of waste management and how to maintain the registers at HEP Group level.

## Basic indicators

During 2012, HEP continued to monitor pollutant emissions into the air – sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), carbon dioxide and particulates as required by air quality legislation, as well as the quantities of hazardous and non-hazardous waste generated within HEP and concentration of hazardous substances in waste water.

#### AIR EMISSIONS

Pollutant emissions into the air come predominantly from HEP's large combustion plants – thermal power plants Plomin 1, Plomin 2, TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek, Sisak, Jertovec and Rijeka while the remaining part of the pollutant emissions result from heating boiler rooms of HEP District Heating d.o.o. Compared to 2011, the year 2012 witnessed a decrease of all air emissions from thermal facilities as a result of increased, environmentally friendlier, share of natural gas compared to fuel oil. As of January 1, 2012 HEP has been procuring only a low-sulphur fuel oil which has resulted in additional decrease of air pollutants.

#### EMISSION OF AIR POLLUTANT SUBSTANCES IN 2011 AND 2012

Year	HEP's companies	NO <sub>x</sub>	SO <sub>2</sub>	Solids (PM10)	CO <sub>2</sub>
		t/year	t/year	t/year	t/year
2011	HEP-Generation d.o.o.	6,128.76	9,848.82	220.12	4,034,423.44
	HEP-District Heating	46.74	244.81	10.71	66,573.30
	<b>TOTAL</b>	<b>6,175.50</b>	<b>10,093.63</b>	<b>230.83</b>	<b>4,100,996.74</b>
2012	HEP-Generation d.o.o.	5,069.24	7,939.62	176.44	3,668,774.54
	HEP-District Heating d.o.o.	86.55	115.60	2.28	57,499.89
	<b>TOTAL</b>	<b>5,155.79</b>	<b>8,055.22</b>	<b>178.72</b>	<b>3,726,274.43</b>
<b>2012/2011 (%)</b>		<b>-16.51</b>	<b>-20.20</b>	<b>-22.57</b>	<b>-9.14</b>



## WASTE

The years-long trend of improving waste management system continued by investing in existing and new temporary waste storages and in employee education to which special attention was paid. All HEP Group companies and plants continued to build and equip temporary storages for waste and secondary raw materials and furnish them with tanks for separate waste collection. In all plants the managing of waste data electronically using the application "Waste Management" continued. In 2012, a total of 2,258.68 tons of hazardous waste and 103,518.73 tons of non-hazardous waste was produced within HEP Group. Larger quantities of generated waste are a result of replacing out-dated equipment containing hazardous substances, increasing record-keeping quality of generated waste volumes and separation of individual waste types for the purpose of its recycling i.e. disposal compared to previous periods in all HEP organizational units. All of the generated waste was handed over to authorized collectors, exporters or processors for further processing and final disposal.

### TOTAL QUANTITY OF HAZARDOUS AND NON-HAZARDOUS WASTE GENERATED IN 2011 AND 2012

Year	Hazardous waste (t)	Non-hazardous waste (t)
2011	1,574.00	116,236.00
2012	2,258.68	103,518.73
2012/2011(%)	43.5	-10.9

### EXPENSES FOR ENVIRONMENTAL AND NATURE PROTECTION

In 2012, total expenses for nature and environmental protection incurred by HEP Group companies amounted to HRK 101.19 mn and remained at the level from 2011. The most significant investments in 2012 were the projects to improve waste management system in HEP's plants, to protect nature and the environment and to invest in soil and underwater protection.



# Innova

## eMobility

In 2012 HEP Supply launched the e-mobility project called ELEN. By developing its own infrastructure HEP wishes to connect Croatia and join the European energy motorway to provide electric vehicles with the possibility of roaming.



tion



Croatia



Czech Republic



Estonia



Slovenia



Poland



Denmark



Italy



Belgium



Norway



Switzerland



Netherlands



UK



Germany



Spain



Ireland



France



Portugal

## Major achievements in 2012

### AIR QUALITY IMPROVEMENT

- In TE-TO Zagreb the assembly work on the reconstruction of the firing plant of the high-pressure K-3 boilers (unit C) was completed as well as accompanying changes on the K-3 management, operation, supervision and protection system. The boiler's natural gas operation was functionally tested and adjusted. Measured emission values for natural gas fired plants are significantly lower than legally prescribed border limits. Operational adjustment and testing boiler's fuel oil fired operation are currently underway.
- The reconstruction of the pressure system of the VK-5 hot-water boiler was also completed, new equipment in boiler's natural gas and fuel oil firing system assembled as well as boiler operation and supervision system, burning process operation and power management systems. Natural gas operation stability adjustment and testing were successfully conducted. These activities are currently being performed on the fuel oil firing system.
- In EL-TO Zagreb the replacement of the VK3 boiler burner was conducted. The boiler is currently undergoing a trial run as well as functional testings and required adjustments of its operation with regard to natural and fuel oil.
- In Plomin TPP flue gas system optimization was conducted to balance flow speed within flue gas canals. A part of the nozzle in the absorber was changed during the overhaul and deflection plates into the flue gas canal installed. Optimization aimed at a better flue gas flow at its entry into the desulphurization plant resulting in a more efficient SO<sub>2</sub> elimination.
- The wet ash disposal plant was built for the purpose of decreasing fugitive emissions from the ash disposal site.
- In HEP TSO d.o.o. volumes of SF<sub>6</sub> greenhouse gas were recorded, emission evaluation conducted and data submitted to the Ministry of Environment and Nature Protection and the Environmental Protection Agency.
- 2,830 m of hot water network with preinsulated pipes was replaced in the local boiler plants of HEP District Heating d.o.o. which will result in decreased losses in heat energy transmission and lower air pollutant emissions.
- The gasification project (replacement for liquid fuel oil) of Slavonska 6 boiler room, Samobor was completed. Its installed capacity is 11.8 MW which results in lower air pollutant emissions.
- In the Sisak Plant of HEP District Heating d.o.o. return condensate from Brzaj TS to TS 1 in Caprag connected with return condensate to Energana was conducted. The construction of return condensate and the steam pipeline from Energana to Sisak TPP is currently in its final stage. The construction of the new steam pipeline and the new C Unit in Sisak TPP will end the need for steam production in Energana. All projects contribute to decreasing heat energy losses and emission volumes.
- 2,280 m of hot water network with preinsulated pipes were replaced in the Osijek plant of HEP District Heating d.o.o. which will result in decreased losses in heat energy transmission and lower air pollutant emissions.
- By using the TEODSG programme package (technical and economic optimization of the heating remote system) in the heating network plant of HEP District Heating d.o.o., the simulation of the central heating system at various outdoor temperatures was conducted. Based on the results, the generating source (heating plant) 'driving curve' was adjusted thus achieving significant fuel savings and decreasing air pollutant emissions.
- The reconstruction of the central heating and air conditioning based on the heat pumps principle was conducted in Elektra Zagreb on the business premises at the address of Kršnjavoga 7. Significant electricity savings are expected (38% in summer, 10% in winter) as well as natural gas savings (55%).
- For the purpose of preventing gas leaks into the environment, HEP Gas d.o.o. repaired damaged gas lines and conducted control of gas network tightness.

### WATER PROTECTION

- In Plomin TPP the return of wastewater from the wastewater processing plant was conducted, and the use permit obtained. This measure was proved to be 90% efficient. The 10% efficiency is expected by adjusting water return rate.
- In EL-TO Zagreb the hydrant network pipeline was replaced due to high losses of drinking water
- In Sisak TPP water tightness of a portion of the internal sewage system next to the transformer was recovered.
- In TE-TO Osijek water tightness of rainfall sewage and accompanying facilities for wastewater drainage was recovered.
- In Čakovec HPP and Dubrava HPP telemetric equipment for monitoring water volumes for the gasket cooling system was installed
- In Dubrava HPP the facility for waterflow protection from pollution at the discharge canal was constructed. The facility consists of the floating dams, floating dam anchorage, access stairs, busbars, floating dam storage and the suspension service walking bridge over the discharge canal. The purpose of this facility is to protect waterflows from pollution at the discharge canal and improve life conditions for local population downstream from Dubrava HPP.
- In hydro generation area North, project documentation was compiled and reconstruction of the filtering facility agreed for protecting against invasive bivalves.
- Environmental protection programmes for testing water tightness of pipes and oil sumps in 110/x kV and 35/X kV, under jurisdiction of HEP DSO, were made and carried out for the most part.
- Water tightness was tested at several HEP DSO locations. If it was required, the recovery was conducted or the environmental programme for sewage tank improvement developed. Separators for process water purification were installed at several restaurants, car washing premises or other facilities.
- Oil sewage and oil separators were installed at the site of several transformer stations and transformer storages.
- Emergency measures operating plans were developed in case of a sudden water pollution at 110/X kV and 35/X kv TS, storages or transformer workshops.
- Rules of operation and maintenance of wastewater discharge facilities at 110/X kV and 35/X kV TS sites were made.

### WASTE MANAGEMENT AND SOIL PROTECTION

- In hydro generation area North three new 1,100 l containers were purchased for waste separation as well as absorption aids for oil pollution rehabilitation and chemical resistant cupboards for keeping equipment and hazardous chemical protection aids.

### ENVIRONMENTAL PROTECTION

- Protection of natural fish spawning sites within the HPP system is conducted by regulating the water levels during the spawning period considering the hydrology on the upstream part of the Drava river i.e. its flow from Slovenia. Subsidizing fish stocking (in line with the fish stocking plan of sport fishing clubs) and other forms of cooperation with the County Association of sport and fishing clubs is a protection measure prescribed by the environmental impact assessment studies. Stocking 1.73 ton of fish was subsidized. In line with the studies, monitoring of the ichthyologic accumulation water condition is conducted including drainage canals and the part of the old flow of the river Drava. Data is analysed and processed by the Faculty of Science Zagreb.
- Under the Agreement on the cooperation in conducting protection measures of the protected white stork (*Ciconia Ciconia*), concluded between the Ministry of Culture and HEP, HEP DSO constantly conducts measures for white stork protection. Special care is taken in activities conducted on sites occupied by the stork, the condition of the stork nest frame is monitored, they are repaired or replaced and stork nest moves as required (during 2012 about 70 of above described activities were conducted).

- Activities relating to bird protection against the electric shock on MV lines were conducted, primarily on the island of Cres where 40 odd pillars were insulated to eliminate the most critical positions where griffon vultures were hurt by an electric shock. Activities were conducted in the cooperation with the 'Caput Insulae' ecological association and a senior environmental inspector.
- In the area around Perušić a wide operation was conducted to eliminate the danger of hurting the common buzzard. Based on the inspection findings and the order by the environmental inspector, the 10 kV line from 35/10 kV Perušić TS to TS 10/0.4 kV Konjsko Brdo TS was insulated.

#### OTHER

- Following the public consultation conducted in 2011, in June 2012 the Advisory Committee gave a positive opinion on the environmental impact assessment of the Plomin TPP reconstruction – the replacement of the existing TPP Plomin 1 for the purpose of modernization and capacity increase (TPP Plomin C). In line with the The Convention on Environmental Impact Assessment in a Transboundary Context (the ESPOO Convention), Slovenia also submitted a positive opinion on the environmental impact. In September 2012, the Ministry of Environment and Nature Protection issued the Decision on the integrated environmental requirements for Plomin TPP C.
- Having considered the fact of changed environmental regulation compared to the period of issuing the Decision on environmental impact assessment for Ombla HPP, HEP has repeated research on the Ombla area and contracted additional expert documentation which has resulted in the Biodiversity Management Plan for Ombla HPP area and the environmental impact assessment for the ecological network. Conducted research resulted in new environmental and nature protection measures, which were presented to public in March 2013.
- The public consultation on the Environmental Impact Assessment Study for connecting Sisak TPP to 220 kV overhead line Mraclin-Prijedor was conducted. The Ministry of Environment and Nature Protection issued the Decision on environmental impact assessment.
- In TE-TO Zagreb, Sisak TPP, TE-TO Osijek and hydro generation area North operation plans for protection and rescue were made as well as projections of population vulnerability, vulnerability of fixed assets and cultural heritage, environment in case of disasters and large accidents.

#### CERTIFICATION

- In line with the Decision made by the Management Board of HEP d.d., the certification procedure according to ISO 9001 will be conducted in all HEP d.d. departments. Preparations for the selection of the consultants for drafting documentation required for the certification procedure has been carried out.
- In line with the Decision made by the Managing Director of HEP Generation d.o.o. (of 27 August 2012), the Team for the coordination of setting up the integrated system for environmental management according to ISO 14001 and the system for quality management according to ISO 9001 in Rijeka TPP, Osijek TPP, Plomin TPP, hydro generation area South and Dubrovnik HPP was appointed. In late 2012 first activities started by analysing the state of affairs in Rijeka TPP, Osijek TE-TO and Plomin TPP. Certification of this plants is expected until end 2013.
- In the facilities with established quality and environment management systems according to ISO 14001 and ISO 9001, independent certification companies conducted the control audit. The quality and management system recertification was conducted in TE-TO Zagreb, Sisak TPP, EL-TO Zagreb, KTE Jertovec, hydro generation areas North and West.
- HEP Generation HPP confirmed their green certificates for electricity generation from RES for 2011.
- HEP DSO established the environment management system according to ISO 14001:2004. Certification audit was conducted in December 2012. The certification company acknowledged the environment management system in line with the requirements set by ISO 14001:2004.
- By establishing the environment management system, HEP DSO has set up quality waste management, quality storage and use of chemicals, implementation of risk mitigation measures in all its organizational units. Procedures in case of extraordinary events and measures for air, soil, water and employee health are defined.

Financial  
statements



Hrvatska Elektroprivreda Group

# Consolidated financial statements

As of 31 December 2012

Together with Independent Auditor's Report

## 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 consolidated financial statements for the year 2012 are prepared in accordance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12) issued by the Committee for Financial Reporting Standards, nominated by the Government of the Republic of Croatia, to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Group for that period. After making enquiries, the Board has a reasonable expectation that the Group 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 Group.

In preparing those consolidated financial statements, the responsibilities of the Board include ensuring 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 financial position and the results of operations of the Group and their compliance with the Accounting Law (National gazette No 109/07) and the International Financial Reporting Standards (National gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12) issued by the Committee for Financial Reporting Standards. The Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:  
Zlatko Koračević  
President of the Board

HEP d.d., Ulica grada Vukovara 37  
10000 Zagreb, Republic of Croatia  
18 April 2013



## Independent Auditor's Report

To the Owners of Hrvatska elektroprivreda d.d.:

1. We have audited the accompanying annual consolidated financial statements of the company HEP Group (hereinafter "the Group") for the year ended 31 December 2012, which comprise of the consolidated Balance sheet/consolidated Statement of Financial Position as of that date; the consolidated Statement of Income/consolidated Statement of Comprehensive Income; the consolidated Statement of Changes in Equity; the consolidated Cash Flows Statement for the year then ended; and the accompanying Notes to the consolidated Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the consolidated financial statements of the Group for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed modified opinion. Matters affecting the opinion related to the advance payment to Hrvatske autoceste d.o.o. as described in the point 4 of this report.

### RESPONSIBILITY OF THE COMPANY'S MANAGEMENT

2. The preparation and a fair presentation of the enclosed consolidated Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

### RESPONSIBILITY OF AUDITOR

3. Our responsibility is to express an opinion on the enclosed consolidated Financial Statements based on the audit performed. Except as stated in the paragraph Matters affecting the opinion, the audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting 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 misstatements in the consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

### MATTERS AFFECTING THE OPINION

4. As described in the note 13, the Group advanced HRK 300 million to Hrvatske autoceste d.o.o. in December 2006 for the purchase of electricity facilities on the Croatian motorways within two years from the date of the advance payment. As of the date of these consolidated financial statements, the legal title to these facilities has not yet been transferred to the Group. The Group is the economic beneficiary of the electricity facilities, which it uses for their intended economic purposes in the supply of electricity to customers. As of the date of preparation of the consolidated financial statements for 2012, the Group

## Independent Auditor's Report (continued)

has not classified the advance payment by type of assets used in the Group's business, and we have received no calculation of the economic impact of the reclassification of those assets from prepayments to assets in use and the related depreciation from the Management Board. As a result, we are unable to assess the impact of this matter on the Group's financial statements for 2012.

### MODIFIED OPINION

5. In our opinion, except for the potential effects of the matters disclosed in paragraph 4 above, the consolidated financial statements present fairly, in all material respects, the financial position of the HEP Group at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

### EMPHASIS OF MATTER

6. As described in the note 28, at 31 December 2012 the Group reported a liability in the amount of HRK 689,792 thousand in respect of a clearing debt regarding a payment under a letter of credit on the basis of the consent of the Ministry of Finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the HEP Group and the Ministry of Finance regarding the clearing debt, up to the issuance of our report it has not been clearly defined as either a loan or a government grant.

7. Without qualification of our opinion we draw attention to the note 26, due to financially significant value of court dispute initiated against the Group, related to compensation in respect of rehabilitation of HE Peruća.

### OTHER LEGAL AND REGULATORY REQUIREMENTS

8. The preparation of the annual consolidated Financial Statements of the HEP Group for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual consolidated Financial Statements of the Group are identical to information stated in the annual consolidated Financial Statements of the Group shown on pages 81 to 155 which are the subject of our opinion as set out in section Opinion with reserve, above.

In Zagreb, 18 April 2013

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

Jeni Krstičević, auth. auditor  
President of the Management

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

Zoran Vuk, auth. auditor,  
Member of the Management

## Consolidated Income Statement – HEP Group

For the year ended 31 December 2012

	Notes	2012	2011
		HRK'000	HRK'000
			<b>Restated</b>
Revenue from electricity sales	4	11,630,275	10,769,900
Revenue from thermal power sales	4	585,485	582,352
Revenue from gas sales	4	395,956	381,177
Other operating income	4,5	1,407,862	1,354,570
<b>Total operating income</b>		<b>14,019,578</b>	<b>13,087,999</b>
Electricity purchase cost		(3,793,038)	(3,259,984)
Fuel costs		(3,319,512)	(2,917,739)
Staff cost	6	(1,863,235)	(1,890,228)
Depreciation and amortization expense	10, 11	(1,734,157)	(1,749,518)
Other operating expenses	7	(2,916,120)	(2,803,164)
<b>Total operating expenses</b>		<b>(13,626,062)</b>	<b>(12,620,633)</b>
<b>Profit from operations</b>		<b>393,516</b>	<b>467,366</b>
Financial revenue	8	67,929	57,718
Financial costs	8	(352,908)	(428,989)
<b>Net financial expense</b>		<b>(284,979)</b>	<b>(371,271)</b>
<b>Profit before tax</b>		<b>108,537</b>	<b>96,095</b>
Income tax expense	9	(37,335)	(88,281)
<b>Profit of the current year</b>		<b>71,202</b>	<b>7,814</b>
<b>Attributable to:</b>			
Equity holder		62,495	(3,700)
Non-controlling interest		8,707	11,514
		<b>71,202</b>	<b>7,814</b>

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

Signed on behalf of the Company on 18 April 2013 by:  
Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

# Consolidated Statement of comprehensive Income – HEP Group

For the year ended 31 December 2012

	Notes	2012	2011
		HRK'000	HRK'000
			<b>Restated</b>
<b>Profit for the current year</b>		<b>71,202</b>	<b>7,814</b>
Foreign translation differences		164	1,071
Fair valuation adjustment of Janaf shares		6,046	(8,921)
<b>Other comprehensive income / (loss)</b>		<b>6,210</b>	<b>(7,850)</b>
<b>Total comprehensive income / (loss) for the current year</b>		<b>77,412</b>	<b>(36)</b>
<b>Total comprehensive income / (loss) attributable to:</b>			
Equity holder		68,540	(12,621)
Non-controlling interest		8,872	12,585
		<b>77,412</b>	<b>(36)</b>

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

Signed on behalf of the Company on 18 April 2013 by:

Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

## Consolidated Statement of Financial Position – HEP Group

As at 31 December 2012

ASSETS	Note	31 December 2012	31 December 2011	1. January 2011
		HRK'000	HRK'000	HRK'000
<b>Non-current assets</b>			<b>Restated</b>	<b>Restated</b>
Property, plant and equipment	10	24,409,429	24,390,612	24,090,370
Capital work in progress	10	3,915,002	3,092,220	3,046,316
Intangible assets	11	73,968	57,647	65,010
Investment property	12	233,917	234,760	223,094
Prepayments for property, plant and equipment	13	372,318	427,039	386,055
Investment in NPP Krško	14	1,754,419	1,754,419	1,754,419
Long-term loan receivables and deposits	16	514	719	1,183
Assets held for sale and other investments	17	129,452	120,915	162,380
Other non-current assets	18	67,219	107,152	110,973
Deferred tax assets	9	238,469	178,903	159,350
		<b>31,194,707</b>	<b>30,364,386</b>	<b>29,999,150</b>
<b>Current assets</b>				
Inventories	19	981,641	1,063,520	1,116,671
Trade receivables	20	1,873,245	1,496,236	1,730,328
Other short-term receivables	21	243,614	415,105	144,064
Cash and cash equivalents	22	605,024	407,123	762,157
		<b>3,703,524</b>	<b>3,381,984</b>	<b>3,753,220</b>
<b>TOTAL ASSETS</b>		<b>34,898,231</b>	<b>33,746,370</b>	<b>33,752,370</b>

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

Signed on behalf of the Company on 18 April 2013 by:

Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

Consolidated Statement of  
Financial Position – HEP Group (continued)  
As at 31 December 2012

<b>CAPITAL AND LIABILITIES</b>	<b>Note</b>	<b>31 December 2012</b>	<b>31 December 2011</b>	<b>1. January 2011</b>
		HRK'000	HRK'000	HRK'000
			<b>Restated</b>	<b>Restated</b>
Share capital	23	19,792,159	19,792,159	19,792,159
Capital reserves	23	6,046	(438,957)	(874,074)
(Accumulated loss)/ retained earnings	23	(356,648)	5,851	947,198
<b>Equity attributable to equity holder</b>		<b>19,441,557</b>	<b>19,359,053</b>	<b>19,865,283</b>
Non-controlling interest	15	47,283	62,847	76,993
<b>Total equity</b>		<b>19,488,840</b>	<b>19,421,900</b>	<b>19,942,276</b>
Long-term borrowings	24	1,839,630	2,534,489	2,883,554
Long-term liabilities to the state	25	27,544	30,466	33,734
Long-term provisions	26	661,411	778,629	799,945
Bonds issued	27	3,335,608	965,202	1,058,042
Other long-term liabilities	28	4,911,633	5,143,989	5,008,204
Deferred tax liability		1,511	-	1,874
<b>Total non-current liabilities</b>		<b>10,777,337</b>	<b>9,452,775</b>	<b>9,785,353</b>
Trade payables		2,492,498	2,427,184	1,553,211
Current portion of long-term bonds issued	27	593,380	93,380	93,380
Current portion of long-term borrowings	24	132,084	1,174,713	1,184,921
Short-term borrowings	29	410,843	603,163	292,493
Taxes payable	30	74,116	40,755	444,985
Interest payable		45,574	23,191	30,489
Liabilities to employees	31	140,568	127,934	134,226
Other short-term payables	32	742,991	381,375	291,036
<b>Total current liabilities</b>		<b>4,632,054</b>	<b>4,871,695</b>	<b>4,024,741</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>34,898,231</b>	<b>33,746,370</b>	<b>33,752,370</b>

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

Signed on behalf of the Company on 18 April 2013 by:

Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

## Consolidated Statement of Changes in Equity – HEP Group

For the year ended 31 December 2012

	Share capital	Capital reserves	Retained earnings/ (Accumulated losses)	Equity attributable to the equity holder of the parent	Non-controlling interest	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Balance at 1 January 2011, before restatement</b>	<b>19,792,159</b>	<b>(874,074)</b>	<b>816,246</b>	<b>19,734,331</b>	<b>76,993</b>	<b>19,811,324</b>
Effect of 2009 and 2010 restatements (Note 3)	-	-	130,952	130,952	-	130,952
<b>Balance at 1 January 2011, restated</b>	<b>19,792,159</b>	<b>(874,074)</b>	<b>947,198</b>	<b>19,865,283</b>	<b>76,993</b>	<b>19,942,276</b>
Allocation of retained earnings	-	444,038	(444,038)	-	-	-
Dividends paid to owner	-	-	(493,376)	(493,376)	-	(493,376)
Losses carried forward – Trgovina M	-	-	(233)	(233)	-	(233)
Loss/profit for the current year	-	-	(3,700)	(3,700)	11,514	7,814
Translation differences	-	-	-	-	1,071	1,071
Janaf shares fair value adjustment	-	(8,921)	-	(8,921)	-	(8,921)
<b>Total comprehensive income of the current year</b>	<b>-</b>	<b>(8,921)</b>	<b>(3,700)</b>	<b>(12,621)</b>	<b>12,585</b>	<b>(36)</b>
Non-controlling interest	-	-	-	-	(14,063)	(14,063)
Distribution of dividend RWE (what	-	-	-	-	(12,668)	(12,668)
<b>Balance 31 December 2011</b>	<b>19,792,159</b>	<b>(438,957)</b>	<b>5,851</b>	<b>19,359,053</b>	<b>62,847</b>	<b>19,421,900</b>
Allocation of retained earnings	-	438,957	(438,957)	-	-	-
Surpluses and deficits of land	-	-	7,559	7,559	-	7,559
IFRIC 18 effect	-	-	6,405	6,405	-	6,405
Profit for the current year	-	-	62,495	62,495	8,707	71,202
Translation differences	-	-	(1)	(1)	165	164
Janaf shares fair value adjustment adjustmet	-	6,046	-	6,046	-	6,046
<b>Total comprehensive income of the current year</b>	<b>-</b>	<b>6,046</b>	<b>(1)</b>	<b>6,045</b>	<b>165</b>	<b>6,210</b>
Non-controlling interest	-	-	-	-	(11,514)	(11,514)
Distribution of dividend RWE	-	-	-	-	(12,922)	(12,922)
<b>Balance 31 December 2012</b>	<b>19,792,159</b>	<b>6,046</b>	<b>(356,648)</b>	<b>19,441,557</b>	<b>47,283</b>	<b>19,488,840</b>

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

Signed on behalf of the Company on 18 April 2013 by:  
Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

# Consolidated Statement of cash flows – HEP Group

For the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
<b>Cash flows from operating activities</b>		
Profit for the year	71,202	7,814
Income tax expense recognised in profit	37,335	88,281
Net financial expense	284,979	371,271
Gain from real estate fair valuation	331	(7,676)
Loss on fair value adjustment of derivatives	-	1,080
Depreciation and amortization	1,734,157	1,749,518
Increase in provisions for doubtful receivables	250,972	364,544
Increase in provision for inventories	539	11,330
(Decrease) in provisions	(117,218)	(21,316)
<i>Operating cash flows before movements in working capital</i>	<i>2,262,297</i>	<i>2,564,846</i>
Increase in trade receivables	(627,981)	(130,452)
Decrease in inventories	81,340	41,821
Decrease/(increase) in other current assets	171,491	(285,084)
Increase in trade payables	65,314	877,038
Increase in other liabilities	322,931	142,918
(Decrease)/Increase in long-term liabilities	(213,755)	92,160
<b>Cash generated from operations</b>	<b>2,061,637</b>	<b>3,303,247</b>
Income tax return / Income taxes paid	33,983	(600,873)
Interest paid	(306,517)	(236,874)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,789,103</b>	<b>2,465,500</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	3,766	12,979
Acquisition of property, plant and equipment	(2,598,254)	(2,132,612)
Write off property, plant and equipment	16,138	44,311
Surpluses of real estate	(8,889)	-
Decrease/(increase) of other assets	87,166	(49,467)
Change in the non-controlling interest and dividend payment to RWE	(24,436)	(26,732)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(2,524,509)</b>	<b>(2,151,521)</b>



Consolidated Statement  
of cash flows – HEP Group (continued)  
For the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
<b>FINANCING ACTIVITIES</b>		
Bonds received	2,955,595	-
Repayments of bonds issued	(93,380)	(92,840)
Long-term loans raised	505,905	793,839
Repayment of long-term loans	(2,242,525)	(1,193,750)
Short-term loans raised	1,081,682	997,924
Repayment of short-term loans	(1,273,970)	(680,810)
Dividends paid to owner	-	(493,376)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>933,307</b>	<b>(669,013)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>197,901</b>	<b>(355,034)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>407,123</b>	<b>762,157</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>605,024</b>	<b>407,123</b>

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

Signed on behalf of the Company on 18 April 2013 by:  
Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

# Notes to the consolidated financial statements of the HEP Group

For the year ended 31 December 2012

## 1. GENERAL

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

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

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

At 31 December 2012, the number of staff employed by the Group was 13,562 (31 December 2011: 13,762).

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

### ENERGY LAWS

On 3 December 2004, the Croatian Parliament ratified the amendments to the following laws: The Energy Law, the Law on Electricity Market and the Law on the Regulation of Energy Activities.

HEP d.d. and its subsidiaries continue to provide their services as regulated public services as follows: electricity generation for tariff-based customers, electricity transmission, electricity distribution and electricity supply for tariff-based customers.

Generation and supply of electricity for eligible customers, (eligibility as described by the group of tariff laws) and trading on the energy market are performed as market activities.

The supply of electricity to eligible customers is performed according to rules governing market relations, which allow negotiating electricity quantities and prices on a free-market basis. Electricity for households and those preferential customers that have not exercised their right to select the electricity supplier or are left without a supplier is supplied as part of the system of obligatory public services.

In June 2008, the Government of the Republic of Croatia promulgated a Decision on The Electricity Generation Tariff Model, with the exemption of eligible customers, with no tariff item amounts; The Electricity Transmission Tariff Model, with no tariff item amounts; The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts. The Group has been applying the tariff models since 1 July 2008 to 30 April 2012 when the Government of the Republic of Croatia brought the Decision by which are changed the stated tariff items and they are applied since 1 May 2012.

In December 2008, the Law on the Amendments to the Electricity Market Law became effective, under which small customers were obliged to choose their supplier and sign a contract with that chosen supplier by 30 June 2009, which is the date until which they are entitled to receive energy supplied by suppliers of tariff customers.

Small customers failing to select their electricity supplier until the given date will be charged for the supply of electricity based on the balancing electricity price charged to customers who have not selected their supplier either.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 1. GENERAL (continued)

### ENERGY LAWS (continued)

According to the new laws, HEP d.d. restructured its operations, by forming separate companies for electricity generation, transmission of electricity, distribution of electricity, electricity supply and electricity trading. HEP d.d. has restructured the Group in accordance with the amended laws.

In February 2013 was brought a new Law on electricity energy market by which is defined further restructuring of the HEP Group and the adjustment of operations with the procedures and directives of EU.

### GOVERNANCE AND MANAGEMENT

#### GENERAL ASSEMBLY

The General assembly consists of the members representing the interests of the HEP d.d.:

Ivan Vrdoljak	President	Member since 21 November 2012
Radimir Čačić	President	Member since 26 January 2012 until 21 November 2012
Đuro Popijač	President	Member since 21 November 2009 until 25 January 2012 godine

#### SUPERVISORY BOARD

##### Members of Supervisory Board in 2012

Nikola Bruketa	President	Member since 23 February 2012
Alen Leverić	Member	Member since 23 February 2012 until 9 April 2013
Ante Ramljak	Member	Member since 23 February 2012
Hubert Bašić	Member	Member since 23 February 2012 until 7 May 2012
Igor Džajić	Member	Member since 12 July 2012
Žarko Primorac	Member	Member since 23 February 2012
Ivo Uglešić	Member	Member since 23 February 2012
Jadranko Berlengi	Member	Member since 3 June 2008

##### Members of Supervisory Board in 2011

Darko Horvat	President	Member since 30 June 2010 and President since 20 July 2010 until 22 February 2012
Dražen Bošnjaković	Member	Member since 19 October 2009 until 22 February 2012
Krešimir Dragić	Member	Member since 19 October 2009 until 22 February 2012
Slavko Konfić	Member	Member since 28 April 2008 until 22 February 2012
Gordana Obran	Member	Member since 19 October 2009 until 22 February 2012
Zvonimir Sabati	Member	Member since 19 October 2009 until 22 February 2012
Jadranko Berlengi	Member	Member since 3 June 2008

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 1. GENERAL (continued)

### GOVERNANCE AND MANAGEMENT (continued)

#### *Management Board in 2012*

Zlatko Koračević	President	Member since 23 February 2012
Zvonko Ercegovac	Member	Member since 23 February 2012
Krunoslava Grgić-Bolješić	Member	Member since 23 February 2012
Rodoljub Lalić	Member	Member since 23 February 2012
Ivan Matasić	Member	Member since 23 February 2012
Tomislav Šerić	Member	Member since 23 February 2012

#### *Management Board in 2011*

Leo Begović	President	Member since 25 September until 22 February 2012
Dubravko Lukačević	Member	Member since 2 November 2009 until 22 February 2012
Snježana Pauk	Member	Member since 2 November 2009 until 22 February 2012
Miljenko Pavlaković	Member	Member since 2 November 2009 until 22 February 2012
Damir Pečvarac	Member	Member since 2 November 2009 until 22 February 2012
Velimir Rajković	Member	Member since 2 November 2009 until 22 February 2012

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are presented at fair value. The financial statements are presented in thousands of Croatian Kuna (HRK'000), since that is the currency in which the majority of the Group's transactions are denominated.

### BASIS OF ACCOUNTING

The Group maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law 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 financial statements are prepared in thousands of Croatian kuna (HRK'000).

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Changes and amendments to IFRS 1 "First-time adoption to IFRS"** – severe hyperinflation and removal of fixed dates for the first time adopters of IFRS (effective for annual periods beginning on or after 1 July 2011),
- **Changes and amendments to IFRS 7 „Financial instruments: disclosures“** – transfer of financial assets (effective for annual periods beginning on or after 1 July 2011)
- **Changes and amendments to IAS 12 „Income tax“** – deferred taxes: return of assets with deferred taxes (effective for annual periods beginning on or after 1 January 2012),

Approval of the stated changes and supplements of the existing standards, re-make and explanations has did not brought to changes in accounting policies of the Group.

### STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

At the date of approval of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 „Financial instruments“** (applies to annual periods beginning on or after 1 January 2015)
- **IFRS 10 „Consolidated financial statements“** published on May 2011 and amended in 2012, supersedes the previous version of IAS 27 (2008) "Consolidated and Separate Financial Statements", (effective for annual periods beginning on or after 1 January 2013)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (continued)

- **IFRS 11 „Joint Arrangements”**, published on May 2011 and amended in 2012, superseded IAS 31 “Interests in Joint Ventures” (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 12 „Disclosure of Interests in Other Entities ”**, published on May 2011 and amended in 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 „Fair Value Measurement”**, published on May 2011 (effective for annual periods beginning on or after 1 January 2013)
- **IAS 27 “Separate Financial Statements”** (as amended in 2011), consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 “Consolidated Financial Statements”, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- **IAS 28 “Investments in Associates and Joint Ventures” (as amended in 2011)** issued. This version supersedes IAS 28 (2003) “Investments in Associates” (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1 “First –time Adoption of IFRS”** – proclaimed in March 2012, which deal with the state loans count at interest rates lower than market during the traversing to IFRS (effective for annual periods beginning on or after 1 July 2013),
- **Amendments to IFRS 7 “Financial Instruments – Disclosures”** – proclaimed in December 2011, by which is prescribed the disclosure of extended information on the set-off of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 „Financial instruments – classification and measurement“** – proclaimed in December 2011, by which is prescribed the disclosure of data on the first application of IFRS 9 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 “Presentation of Financial Statements”** – Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 19 “Employee Benefits”** – finishing of the procedure for the count of employees’ benefits after the cessation of job (applies to annual periods beginning on or after 1 January 2013)
- **Alterations and amendments of IAS 32 “Financial instruments – disclosures”** – published in December 2011, by which is prescribed the disclosure of expanded information on the set-off of financial property and financial liabilities (applies to annual periods beginning on or after 1 January 2014),
- **IFRIC 20 ”Stripping costs in the production phase of a surface mine“**(applies to annual periods beginning on or after 1 January 2013),
- **Alterations and amendments to various standards and interpretations under the name “Annual improvements in the period 2009 – 2011”** which were published in May 2012 and which relate to the disclosed alterations and amendments since 2009 till 2011 and primarily have influence to five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34), with the consequent alterations and amendments and the supplements of various of other standards (applied to annual periods beginning on or after 1 January 2013),

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (continued)

HEP Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

*In addition is stated the review of the main requests for issued but not yet adopted standards and interpretations.*

- Requires of IFRS 9 recognised financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be subsequently measured at amortised cost or fair value
- IFRS 10 replaces the parts of IAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation that is control. New definition of control that contains three elements: a) power over an investee, b) exposure, or rights, to variable returns from its involvement with the investee, and c) the ability to use its power over the investee to affect the amount of the investor’s returns.
- IFRS 11 replaces IAS 31 “Interests in Joint Ventures”. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.
- IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.
- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.
- The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: a) items that will not be reclassified subsequently to profit or loss; and b) items that will be reclassified subsequently to profit or loss when specific conditions are met.
- The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets.
- By modifications and amendments of IAS 32 are added the directions how to be solved the inconsistencies determined by the application of certain criterions for the set-off. This relates to interpretation of the meaning “momentarily has a legal executable right for the set-off” and that some systems of the gross set-off may be considered as an equivalent of the net set-off.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED (continued)*

- By modifications and amendments of IFRS 7 are added the requests for the proclaming which will enable to the users of financial reports of the company to estimate the effect or the potential effect of the set-off of financial assets and the financial liabilities including the right for the set-off.
- HEP Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of IFRS 13 "Fair Value Measurement" will result in more extensive disclosures in the financial statements.
- The management of the Group anticipates that the adoption of other standards (IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities"), revisions and interpretations will have no material impact on the financial statements of Group in the period of initial application.

### THE BASIS OF THE PREPARATION OF THE GROUP'S FINANCIAL STATEMENT

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

### PRINCIPLES AND METHODS OF CONSOLIDATION

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling's share of changes in equity since the date of the combination. Losses applicable to the non-controlling in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the holders of the non-controlling interests have a binding obligation and are able to make an additional investment to cover the losses.

### REPORTING CURRENCY

Financial statements of Group are prepared in Croatian kuna (HRK '000).



Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### INVESTMENTS IN ASSOCIATES

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

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

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

Any excess of the cost of acquisition over the Group’s share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Goodwill is included in net book value of investments and is tested for impairment as part of investment. Any deficiency of the cost of acquisition below the Group’s share of the fair values of the identifiable net assets of the associate at the date of acquisition is credited to profit and loss in the period of acquisition.

Where the Group transacts with its associate, profits and losses are eliminated to the extent of the Group’s interest in the relevant associate.

### INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

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

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group’s share of jointly controlled assets and any liabilities incurred jointly with other ventures are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company’s share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to / from the Company and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using full consolidation.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### RETIREMENT AND OTHER EMPLOYEE BENEFIT COSTS

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

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

	2012	2011
Pension insurance contributions	20%	20%
Health insurance contributions *	13%	15%
Employment Fund contribution	1.7%	1.7%
Occupational injury	0.5%	0.5%

\* the rate is applied since 1 May 2012

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 recognised as cost in the period in which they are incurred (see Note 6).

### RETIREMENT BENEFITS AND JUBILEE AWARDS

The Group provides benefits to its employees, which include long-service benefits (jubilee awards) and one-off retirement payment. The obligation and the cost of these benefits are determined using the Projected Unit Credit Method. The Projected Unit Credit Method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate on government bonds where the currency and terms of the Government bonds are consistent with the currency and estimated terms of the benefit obligation. Calculations of the obligation and cost of these benefits are performed by a certified actuary.

### JUBILEE BONUSES

The Company provides long-service benefits (jubilee awards) and retirement benefits to its employees. The long-service benefits range from HRK 1,500.00 to HRK 5,500.00, net, and are provided for a discontinued tenure from 10 to 45 years of continuous employment with the employer.

### SEVERANCE PAYMENTS

A new Collective Agreement was adopted as of 1 January 2011 (which covers all the HEP Group members), under which the employees are entitled to a retirement benefit to 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 is until 31 December 2012.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### PROPERTY, PLANT AND EQUIPMENT

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

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate recognised within income statement.

Property, plant and equipment in use are depreciated using the straight-line method on the following bases:

	<b>2012 and 2011</b>
<b>Buildings</b>	
Hydroelectric power plants (Dams, embankments, buildings and other structures and facilities)	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 plants and facilities	33 years
Gas pipelines	20 – 25 years
Administrative buildings	50 years
<b>Plant and equipment</b>	
Hydroelectric power plants	10 – 33 years
Thermal power plants	6 – 25 years
Electricity transmission plants and facilities (electric parts of transformer stations and transformer; 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
<b>Other equipment and vehicles</b>	
IT equipment	5 – 20 years
Software licenses	5 years
Telecommunications equipment	5 – 20 years
Motor vehicles	5 – 8 years
Office furniture	10 years

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

### IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

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

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

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

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

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### PROPERTY, PLANT AND EQUIPMENT (continued)

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

### INTANGIBLE ASSETS

Intangible fixed assets include patents, trademarks and licenses and are carried at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over a period from 5 to 20 years.

### INVESTMENT PROPERTY

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

### FINANCE AND OPERATING LEASES

#### *THE GROUP AS LESSEE*

The Group has no significant finance lease arrangements and no significant operating lease arrangements were entered during 2012 and 2011. Amounts payable under operating leases are recognised as expense on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### TRADE DEBTORS AND PREPAYMENTS

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

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable.

As the collectability of certain receivables over a longer period is not certain, the Group makes an assessment of allowance for unrecoverable amounts, based on a reasonable estimate and past experience, in order to write down or write off those amounts as follows:

	<b>2012 and 2011</b>
Ageing of past due	Allowance percentage percentage
31-60 days	1.5%
61-90 days	3%
91-180 days	9%
181-365 days	30%
Over one year	90%

Outstanding receivables claimed through the courts and those included in bankruptcy estate (the debt principal and interest) are fully provided, regardless of the number of past due days, and the provision is charged to expenses.

### INVENTORIES

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

Cost comprises the invoiced amount as well as all other costs directly attributable to bringing inventories to their location and the condition of being readily available for use.

### CASH AND CASH EQUIVALENTS

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

### BORROWING COSTS

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

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### BORROWING COSTS (continued)

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

### FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Croatian kunas (HRK), which are the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currency of the entity at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the year-end rates. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period as finance cost except for differences arising on the retranslation of non-monetary assets available for sale, in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### TAXATION

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

#### *CURRENT TAX*

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

#### *DEFERRED TAX*

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

Deferred tax liabilities are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

#### *CURRENT AND DEFERRED TAX FOR THE PERIOD*

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

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



Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### FINANCIAL ASSETS

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

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

### *EFFECTIVE INTEREST METHOD*

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

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

### *FINANCIAL ASSETS AVAILABLE FOR SALE*

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

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

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

### *LOANS AND RECEIVABLES*

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### FINANCIAL ASSETS (continued)

#### *IMPAIRMENT OF FINANCIAL ASSETS*

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

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

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### *INVESTMENTS*

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

### FINANCIAL LIABILITIES

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

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

#### *DERECOGNITION OF FINANCIAL LIABILITIES*

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *DERIVATIVE FINANCIAL INSTRUMENTS*

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

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

### *PROVISIONS*

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

### *USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS*

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

### *REVENUE RECOGNITION*

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

Revenue from the sale of electricity is recognised according to the best management estimate of the actual energy consumed based on the energy data and tariff items under the cost-recovery models called Electricity Transmission Tariff Model With No Tariff Amounts, The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts. Revenue recognition is based on the Decision of the Croatian Government on the level of tariff items from June 2008 and April 2012 (see Note 1).

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### REVENUE FROM CONNECTION FEES

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

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

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

### SEGMENTAL DISCLOSURES

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

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

#### CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

#### *USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT*

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

#### *FAIR VALUE OF FINANCIAL ASSETS AND INTEREST-RATE SWAP*

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

#### *PROVISIONS FOR ENVIRONMENTAL PROTECTION*

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

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

#### *OVER / UNDER BILLED REVENUE ADJUSTMENT*

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

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

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

##### *IMPAIRMENT OF NON-CURRENT ASSETS*

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

##### *AVAILABILITY OF TAXABLE PROFITS AGAINST WHICH THE DEFERRED TAX ASSETS COULD BE RECOGNISED*

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amounts of deferred tax assets at 31 December 2012 amounted to HRK 238,469 thousand and 31 December 2011 amounted to HRK 178,902 thousand (see Note 9).

##### *ACTUARIAL ESTIMATES USED IN DETERMINING THE RETIREMENT BONUSES*

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for jubilee awards and retirement bonuses amounted to HRK 331,147 thousand at 31 December 2012 and HRK 357,632 thousand at 31 December 2011 (see Note 26).

##### *CONSEQUENCES OF CERTAIN LEGAL ACTIONS*

There are a number of legal actions involving the Group, which have arisen from the regular course of their operations. 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, provisions are recorded (see Note 26).

##### *RE-MEASUREMENT OF THE JANAF SHARES AND INVESTMENT PROPERTY AT FAIR VALUE*

During 2012 and 2011, the Group remeasured the Jadranski naftovod shares and the investment properties at fair value.

In 2012 and 2011 fair value was determined based on a notification of Central clearing deposit company regarding open balances as of 31 December 2012 and 2011. The market value of the Jadranski naftovod share as at 31 December 2012 was HRK 2,370 (2011: HRK 2,230).

The loss resulting from the fair valuation of the investment property in 2012 amounts to HRK 331 thousand, while a gain of HRK 7,676 thousand was recognised on the fair valuation in 2011 (see Note 5).

##### *VALUATION OF INVENTORIES*

During 2012, based on an estimation, the Group made value adjustments for obsolete inventories and materials (material with no turnover in the previous 2 years) according to the ageing structure in the total amount of HRK 539 thousand (2011: HRK 11,330 thousand) (Note 19).

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### IFRIC 18 VALUE RESTATEMENT

The international financial reporting interpretation committee (IFRIC) has brought in January 2009 the Interpretation 18 – Transfer of property from the buyers (IFRIC 18), with the obligatory implementation since 1 July 2009.

In the Republic of Croatia the stated interpretation has come into force at 1 January 2010 on the basis of the Decision of the Committee for financial reporting standards dated 11 January 2010 (National Gazette 18/2010).

Following to the stated, the Management Board of HEP d.d. brought a Decision on change of the accounting policy by which the Interpretation of the Committee for international financial reporting interpretation No 18 “Transfer of property from the buyers” is applied since 1 January 2010. In 2012 the Management Board has brought a decision on application of IFRIC 18 since 1 July 2009 and for distinguishing in the relation for the later application of IFRIC 18 the data are restated in the financial statements and for the amount of HRK 176,687 thousand are decreased other long term liabilities at 31 December 2011 and 1 January 2011.

The effect of adjustments for the period since 1 July 2009 till 31 December 2009 is the increase of other revenues, respectively the profit and retained profit and the decrease of other long term liabilities as is stated:

The effects of the restatement are as follows:

Effect on balance	31 December 2011	1 January 2011
	HRK'000	HRK'000
Other long term liabilities before restatement	5,320,676	5,170,943
Restatement effect	(176,687)	(162,739)
Other long term liabilities, restated	<b>5,143,989</b>	<b>5,008,204</b>
Other short term liabilities before restatement	346,801	259,328
Restatement effect	34,615	31,708
Other	(41)	-
Other short term liabilities, restated	<b>381,375</b>	<b>291,036</b>
Retained profit before restatement	(136,262)	816,246
Restatement effect	142,072	130,952
Other	41	-
Retained profit, restated	<b>5,851</b>	<b>947,198</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

#### IFRIC 18 VALUE RESTATEMENT (continued)

<b>Effect on other comprehensive income</b>	<b>31 December 2011</b>
	HRK'000
Other income from operations before restatement	1,340,622
Increase of other business income	13,948
Other business income, restated	<b>1,354,570</b>
Income tax before restatement	(85,453)
Restatement effect	(2,828)
Income tax, restated	<b>(88,281)</b>
Loss of the current year before restatement	(3,306)
Restatement effect	11,120
Profit, restated	<b>7,814</b>



Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 4. SEGMENT INFORMATION

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

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

	Electricity		Heating		Gas		Group	
	2012	2011	2012	2011	2012	2011	2012	2011.
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Revenue	11,630,275	10,769,900	585,485	582,352	395,956	381,177	12,611,716	11,733,429
Other income allocated to segments	1,321,220	1,255,792	60,607	68,667	26,035	30,111	1,407,862	1,354,570
<b>Income from operations</b>	<b>824,062</b>	<b>757,148</b>	<b>(434,042)</b>	<b>(293,291)</b>	<b>3,496</b>	<b>3,509</b>	<b>393,516</b>	<b>467,366</b>
Net financial expense							(284,979)	(371,271)
Income tax							(37,335)	(88,281)
<b>Net profit</b>							<b>71,202</b>	<b>7,814</b>

Segment assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities consist of assets and liabilities that cannot be reasonably attributed to the reporting business segments.

Total unallocated assets include investments in NPPK, 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	
	2012.	2011.	2012.	2011.
	HRK'000	HRK'000	HRK'000	HRK'000
		Restated		Restated
Electricity	29,769,194	28,910,912	7,154,363	7,098,415
Heating	1,215,719	1,138,791	222,638	241,566
Gas	350,638	322,338	176,210	169,170
Unallocated	3,562,680	3,374,329	7,856,180	6,815,319
<b>Total Group</b>	<b>34,898,231</b>	<b>33,746,370</b>	<b>15,409,391</b>	<b>14,324,470</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 4. SEGMENT INFORMATION (continued)

### INFORMATION ON THE LARGEST CUSTOMERS

In 2012 electricity sales amount to HRK 11,630,275 thousand (HRK 10,769,900 thousand in 2011).

Heating energy sales for the year 2012 amount to HRK 585,485 thousand (HRK 582,352 thousand in 2011).

In 2012 gas sales amount to HRK 395,956 thousand (HRK 381,177 thousand in 2011).

### TERRITORIAL BUSINESS ANALYSIS

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

Presented below is the territorial analysis of the revenue that the Group generated from continuing operations with external buyers of electric energy:

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Croatia	11,197,595	10,582,154
European Union member states	92,566	27,463
Other countries –non-European Union member states	340,114	160,283
	<b>11,630,275</b>	<b>10,769,900</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 5. OTHER OPERATING INCOME

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Service for connection to network	365,869	263,891
Income from assets received free of charge	233,362	231,908
Subsequent collection of receivables previously provided against (Note 20)	119,555	139,266
Services rendered	155,657	118,859
Capitalised assets	99,693	109,502
Late-payment interest	77,418	93,220
Reversal of long-term provisions – vacation	432	64,477
Income from sale of materials	61,968	52,070
Income from sale of cross – border transmission capacity	43,047	49,997
Income from electricity in transit – foreign	3,497	33,877
Reversal of long-term provisions for retirement benefits and jubilee awards	28,935	26,514
Reversal of long-term provisions – court costs	87,407	23,088
Income from reversal of other provisions	49,634	-
Income in respect of the electricity bill reminders	13,392	21,702
Income from balancing energy	8,537	14,479
Income in respect of court costs on claims	6,996	8,831
Income upon count of fee for SO <sub>2</sub> from previous year	4,427	8,008
Income upon count of fee for CO <sub>2</sub> from previous year	3,477	12,162
Fair valuation of investment into property	(331)	7,676
Inventory surplus – fixed assets	77	5,648
Income from sale of tangible assets	2,362	4,835
Recovery of receivables previously written off	2,155	4,286
Other	40,296	60,274
	<b>1,407,862</b>	<b>1,354,570</b>

In 2012 the Group generated income from grid connection services in the amount of HRK 365,869 thousand (2011: HRK 263,891 thousand) based on IFRIC 18 (Transfer of Assets From Customers).

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 6. STAFF COSTS

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Net salaries	1,122,716	1,135,278
Taxes and contributions	740,519	754,950
	<b>1,863,235</b>	<b>1,890,228</b>

### TOTAL STAFF COSTS:

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Gross salaries	1,863,235	1,890,228
Reimbursement of costs to employees (Note 7)	146,309	143,885
Employee benefits (Note 7)	83,691	108,285
	<b>2,093,235</b>	<b>2,142,398</b>

### DIRECTORS' AND EXECUTIVES REMUNERATION:

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Gross salaries	21,531	19,104
Pension contributions	4,821	4,305
Other receipts	3,022	2,185
	<b>29,374</b>	<b>25,594</b>

Reimbursement of costs to employees includes transportation allowances in the amount of HRK 87,751 thousand (2011: HRK 83,925 thousand), daily allowances and travelling expenses in the amount of HRK 16,620 thousand (2011: HRK 17,636 thousand), additional health insurance amounting to HRK 15,498 thousand (2011: HRK 15,530 thousand), and other similar expenses in the amount of HRK 26,440 thousand (2011: HRK 26,794 thousand).

Employee benefit costs include benefits under the Collective Agreement and consist primarily of Christmas and Easter allowances, solidarity support, jubilee awards, family separation allowances and fieldwork bonuses, holiday bonuses, child benefits and other.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 7. OTHER OPERATING EXPENSES

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Maintenance costs (service and material)	580,204	669,345
Provisions for doubtful receivables (Note 20)	250,972	364,544
Gas costs	361,070	352,066
General and administrative expenses	331,541	251,549
Collective services and material	165,386	118,896
Refund of costs to employees (Note 6)	146,309	143,885
Cost of material	87,508	93,871
Other material employee's rights (Note 6)	83,691	108,285
NPPK – decommissioning expense	106,835	106,005
Contributions to the State	87,396	96,524
Litigation provisions	40,079	78,265
Distributions and concession for water	64,961	68,789
Accrual for unused vacation days	1,359	63,900
Fee for the usage of power plant facilities	37,401	48,539
Write-off of tangible assets	14,328	47,854
Purchase value of sold materials	50,045	45,464
Calculation and collection costs	39,743	39,859
Provisions for retirement bonuses and jubilee awards	2,450	35,721
Provisions for severance pays on the basis of working contract cancellation	249,174	-
Provisions for other costs to workers	28,087	-
Refund for the less taken over quantities than stipulated	20,296	-
Insurance premiums	24,418	24,607
Fee for environmental protection	18,210	21,217
Damages and indemnities	49,632	16,027
Provision for investment in HE Lešće	-	(39,286)
Provision for NPPK additional decommissioning costs	-	(53,838)
Other	75,025	101,076
	<b>2,916,120</b>	<b>2,803,164</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 8. FINANCIAL REVENUE AND COSTS

	<b>2012</b>	<b>2011</b>
<b>Financial income</b>	HRK'000	HRK'000
		<b>Restated</b>
Foreign exchange gains	64,147	41,515
Interest income	3,766	12,979
Income from dividends	16	3,224
<b>Total financial income</b>	<b>67,929</b>	<b>57,718</b>
<b>Finance costs</b>		
Interest expense	(319,868)	(242,560)
Foreign exchange losses	(46,303)	(160,266)
Amortization of deferred interest	(3,770)	(3,740)
Fair value of interest rate swap	-	(1,080)
Fair valuation adjustment of shares	(88)	(30,769)
<b>Financial expenses</b>	<b>(370,029)</b>	<b>(438,415)</b>
Capitalised borrowing cost allocated to PPE	17,121	9,426
<b>Total financial expenses</b>	<b>(352,908)</b>	<b>(428,989)</b>
<b>Net finance expense</b>	<b>(284,979)</b>	<b>(371,271)</b>

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 9. INCOME TAX

	2012	2011
	HRK'000	HRK'000
		<b>Restated</b>
Current taxes	96,901	107,754
Deferred tax income relating to the origination and reversal of temporary differences	(59,566)	(19,473)
<b>Income tax</b>	<b>37,335</b>	<b>88,281</b>

Adjustments to deferred tax assets were as follows:

	2012.	2011.
	HRK'000	HRK'000
		<b>Restated</b>
Balance at 1 January	178,902	159,430
Reversal of deferred tax assets	(26,971)	(29,869)
Deferred tax assets recognised	86,538	49,342
Balance at 31 December	<b>238,469</b>	<b>178,903</b>

Deferred tax assets have arisen on the tax not recognized, provisions for jubilee awards and regular severance pays, value provisions which are not taxable recognized and other provisions.

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

	2012	2011
	HRK'000	HRK'000
		<b>Restated</b>
Profit before taxation	108,537	96,095
<b>Income tax at the applicable rate of 20%</b>	<b>21,707</b>	<b>19,219</b>
Non-taxable income and realisation of deferred tax asset previously not recognised	(37,878)	(4,060)
Tax effect of permanent differences	(59,566)	(19,473)
Tax effect of losses brought forward	-	(4,392)
Unrecognised deferred tax asset on losses carry forward	113,072	96,987
<b>Tax expense for the current year</b>	<b>37,335</b>	<b>88,281</b>

The Group and its subsidiaries are subject to income tax separately, according to the tax laws and regulations of the Republic of Croatia. Other subsidiaries in the Group including HEP d.d. reported total tax losses of HRK 1,463,330 thousand (2011: HRK 1,000,859 thousand), while the Group recorded a total income tax expense of HRK 96,901 thousand (2011: HRK 107,754 thousand) and reported deferred tax assets in the amount of HRK 59,566 thousand (2011: HRK 19,473 thousand).

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 9. INCOME TAX (continued)

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

Tax losses reported by the Group and their expiry by year are presented below:

Year of loss origination	Total tax loss reported by the Group	Year of expiry
2008	194,136	2013
2009	116,099	2014
2010	152,800	2015
2011	434,935	2016
2012	565,360	2017
	<b>1,463,330</b>	

As of 31 December 2012 and 2011 the Group did not recognise deferred tax assets arising from tax losses carried forward at certain subsidiaries because the availability of future taxable profit against which the unused tax losses can be utilized is not certain.

The Croatian Tax Authorities have not performed a review of the income tax returns of the Group and its subsidiaries. In accordance with local regulations, the 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 assessments and penalties. The Group management is not aware of any circumstances that may give rise to a potential material liability in this respect.

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

HRK'000	Value adjustment of inventory	Provisions for jubilee and retirement benefits	Litigation provision	Depreciation at rates above statutory rates	Other	Total
<b>At 1 January 2011</b>	<b>25,999</b>	<b>77,544</b>	<b>4,550</b>	<b>4,854</b>	<b>46,483</b>	<b>159,430</b>
Credited to profit and loss for the year	3,385	1,638	(4,550)	2,081	16,919	19,473
<b>At 31 December 2011</b>	<b>29,384</b>	<b>79,182</b>	<b>-</b>	<b>6,935</b>	<b>63,402</b>	<b>178,903</b>
Credited to profit and loss for the year	1,711	(5,487)	-	3,026	60,317	59,566
<b>At 31 December 2012</b>	<b>31,095</b>	<b>73,695</b>	<b>-</b>	<b>9,961</b>	<b>123,718</b>	<b>238,469</b>



Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 10. PROPERTY, PLANT AND EQUIPMENT

HRK'000 COST	Land and buildings	Fixtures and equipment	Assets under construction	Total
<b>At 1 January 2011, restated</b>	<b>34,172,805</b>	<b>33,132,075</b>	<b>3,046,316</b>	<b>70,351,196</b>
Restatement 1 January 2011	-	3,305	(49)	3,256
Additions	9,380	67,386	2,029,690	2,106,456
Transfers from assets under construction	759,134	1,196,938	(1,956,072)	-
Capitalized borrowing costs	-	-	10,427	10,427
Inventory surpluses	5,343	4,146	1,982	11,471
Disposals	(51,995)	(134,329)	(40,074)	(226,398)
<b>At 31 December 2011</b>	<b>34,894,667</b>	<b>34,269,521</b>	<b>3,092,220</b>	<b>72,256,408</b>
Transfers	(14,864)	14,085	954	175
Additions	14,065	165,472	2,401,000	2,580,537
Capitalized borrowing costs	-	-	17,717	17,717
Transfers from assets under construction	435,837	1,121,448	(1,595,798)	(38,513)
Inventory surpluses	10,422	5,092	-	15,514
Disposals	(48,827)	(269,809)	(1,091)	(319,727)
<b>At 31 December 2012</b>	<b>35,291,300</b>	<b>35,305,809</b>	<b>3,915,002</b>	<b>74,512,111</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2011, restated</b>	<b>21,780,144</b>	<b>21,434,366</b>	<b>-</b>	<b>43,214,510</b>
Restatement at 1 January 2011	-	1,517	-	1,517
Transfers	(2,509)	9,043	-	6,534
Charge for the year	697,423	1,028,908	-	1,726,331
Disposals	(50,173)	(126,279)	-	(176,452)
Inventory surplus	242	894	-	1,136
<b>At 31 December 2011, restated</b>	<b>22,425,127</b>	<b>22,348,449</b>	<b>-</b>	<b>44,773,576</b>
Transfers	(14,101)	13,221	-	(880)
Charge for the year	696,478	1,014,970	-	1,711,448
Disposals	(44,990)	(258,099)	-	(303,089)
Inventory surpluses	1,611	5,014	-	6,625
<b>At 31 December 2012</b>	<b>23,064,125</b>	<b>23,123,555</b>	<b>-</b>	<b>46,187,680</b>
<b>CARRYING AMOUNT</b>				
<b>At 31 December 2012</b>	<b>12,227,175</b>	<b>12,182,254</b>	<b>3,915,002</b>	<b>28,324,431</b>
<b>At 31 December 2011, restated</b>	<b>12,469,540</b>	<b>11,921,072</b>	<b>3,092,220</b>	<b>27,482,832</b>
<b>At 1 January 2011, restated</b>	<b>12,392,661</b>	<b>11,697,709</b>	<b>3,046,316</b>	<b>27,136,686</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 10. PROPERTY, PLANT AND EQUIPMENT (continued)

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Group is in the process of registering, through the local courts in Croatia, its title to land and buildings. To date, no claims have been made against concerning its title to these assets over the Group.

The Group has no more pledged the property, plant and equipment because it has repaid the loan (2011: HRK 427,392 thousand) to secure the banking facilities provided to TE Plomin d.o.o.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 11. INTANGIBLE ASSETS

	HRK'000
<b>COST</b>	<b>Intangible assets</b>
<b>At 1 January 2011, restated</b>	<b>568,731</b>
Transfers	(5,972)
Additions	15,729
Disposals	(2,304)
<b>At 31 December 2011, restated</b>	<b>576,184</b>
Activation of investments	38,513
Disposals	(344)
<b>At 31 December 2012</b>	<b>614,353</b>
<b>ACCUMULATED AMORTISATION</b>	
<b>At 1 January 2011, restated</b>	<b>503,721</b>
Transfers	(5,972)
Charge for the year	23,078
Disposals	(2,290)
<b>At 31 December 2011, restated</b>	<b>518,537</b>
Charge for the year	22,343
Disposals	(495)
<b>At 31 December 2012</b>	<b>540,385</b>
<b>CARRYING AMOUNT</b>	
<b>At 31 December 2012</b>	<b>73,968</b>
<b>At 31 December 2011, restated</b>	<b>57,647</b>
<b>At 1 January 2011, restated</b>	<b>65,010</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 12. INVESTMENTS IN PROPERTIES

As of 31 December 2012 investments in properties comprise properties held for the purpose of generating earnings from rental and/or capital appreciation, and are carried at fair value based on market price of the Management Board. Fair value comprises the estimated market value at the end of reporting period. All the investment properties are owned by the HEP d.d.

At fair value	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Fair value	<b>234,760</b>	<b>223,094</b>	<b>202,467</b>
Depreciation charge for the year	(366)	(109)	(187)
Net gain/(loss) on fair value adjustment	(331)	7,676	19,865
Other changes	(146)	4,099	949
Closing balance at fair value	<b>233,917</b>	<b>234,760</b>	<b>223,094</b>

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 13. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Power facilities – Hrvatske autoceste	300,000	300,000	300,000
JSC Tehnopromexport – TE Sisak	49,659	94,299	56,530
Končar GIM	15,528	17,067	17,905
Litostroj Slovenia	2,444	2,891	4,457
VOITH Siemens, Austria	2,288	3,054	3,978
Končar Inženjering d.d. TE Sisak	622	2,896	-
Končar Inženjering d.d. – HE Lešće	-	-	1,249
Others	1,777	6,832	1,936
	<b>372,318</b>	<b>427,039</b>	<b>386,055</b>

In December 2006, the Group advanced a payment to Hrvatske autoceste d.o.o. for the purpose of acquisition of electricity facilities on the Croatian highways within 2 years from the advance payment. As of the date of these financial statements, the facilities were not transferred to the Group, and an agreement was concluded with Hrvatske autoceste d.o.o. In December 2009, under which the deadline for the takeover of the electricity facilities by the Group has been prolonged for another 2 years.

The Group is the beneficial owner of these facilities, as it uses those assets for their intended economic purpose, which is to supply electricity to customers.

As of the date of issue of these financial statements, the Group has not classified these assets by type, and the economic effect of transfer of these assets from prepayments to tangible assets has not been calculated as well as the related depreciation.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 14. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Opening balance	1,754,419	1,754,419	1,754,419
	<b>1,754,419</b>	<b>1,754,419</b>	<b>1,754,419</b>

### INVESTMENT BACKGROUND

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

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

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

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

HEP d.d. started to receive electricity from NPPK on 19 April 2003, and expects to receive 2,550 GWh annually up to 2023, representing 16% 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 NPPK waive mutual receivables for damages and withdraw all claims arising there from up to 30 June 2002, including the disputed liabilities for electricity purchase and amounts due with respect to the previously calculated contribution for financing the decommissioning of the power plant and funds to cover the losses from previous years. After implementing the changes, the capital of NPPK as at 31 December 2003 amounted to SIT 84.7 billion (approximately: HRK 2.8 billion). Still there are some outstanding off-balance receivables from HEP d.d. to NPPK and Slovenia from the past, which do not have any influence on the current business relations.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 14. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO (continued)

### CURRENT STATUS

According to the above stated agreement, the decommissioning of NPPK will be a joint obligation of both parties. Each party will provide half of the funds necessary to prepare the decommissioning plan and to cover the cost of implementation of the plan. In addition, each party will form a separate fund to allocate the funds for this purpose in the amounts estimated by the decommissioning plans. According to the current programme for the decommissioning of the Nuclear Power Plant Krško and disposal of nuclear waste, HEP d.d. is obliged to pay in the fund EUR 14,250 thousand per year. From 2004 to 2012, the Company disclosed radioactive waste disposal and decommissioning provisions in the amount of HRK 942,996 thousand, which is also the amount it paid onto the Fund's account in the period from 2006 to 2012.

The payment to the Fund are performed on the basis of *Regulation of the amount, time-limit and the mode of payment of assets for the financing of overhauling and the providing for of nuclear waste and the utilized unclear firing of the Nuclear plant Krško* brought by the part of the Government of the Republic of Croatia at 24 December 2008.

### EXTRACTED FINANCIAL INFORMATION

The following table presents the financial information extracted from the financial statements of NPPK as at 31 December 2012 and 2011:

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
Property, plant and equipment	3,008,158	3,023,770	3,089,065
Capital and reserves	3,316,417	3,309,732	3,245,896
Gross sales	1,419,092	1,492,491	1,214,576
Cash flows from operating activities	674,550	495,358	313,211

Liabilities for received electrical energy from NPP Krško as at 31 December 2012 amount to HRK 61,119 thousand (2011: HRK 64,667 thousand). The Company operates at the point of coverage and the result for the financial year is equal to nil.

## 15. INVESTMENT IN TPP PLOMIN

In November 1996, HEP d.d. entered into a Joint Venture Agreement with RWE Energie Aktiengesellschaft, Germany ('RWE') regarding the completion and operation of TPP Plomin II. Consequently, a joint venture, TE Plomin d.o.o. ('Plomin') was formed in December 1996, with each partner holding 50 % of the equity of the new entity. A number of agreements were entered into, which regulate the relationship between the joint venture partners and their respective relationships with the new groups.

In accordance with the 1996 Asset Contribution Agreement, HEP d.d. contributed property, plant and equipment previously acquired for the project valued (by Croatian valuation experts) at DEM 50,000 thousand (HRK 179,138 thousand) as a contribution in kind to Plomin. Of this amount, HRK 50 thousand was allocated as share capital, while HRK 179,088 thousand was allocated to reserves.

In accordance with the Joint Venture Agreement, RWE contributed an equal amount of cash over the period of construction. The initial cash contribution of HRK 50 thousand was allocated as share capital and the remainder to reserves. The RWE capital contributed is distributed back to RWE over the term of the joint venture of 15 years, starting from the date of operation of the power plant at 30 April 2000. In 2012 the distribution of RWE invested equity amounted to HRK 12,922 thousand (2011: HRK 12,668 thousand). The remaining undistributed RWE invested capital amounted to HRK 38 million at 31 December 2012 (2011: HRK 51 million).

Under the Statute of Plomin, RWE is entitled to an annual return during the term of the joint venture of 14% to 17% on invested capital (based on the actual number of hours of peak exploitation during the year). The invested capital includes RWE undistributed equity contribution as the unpaid portion of the accrued cumulative interest earned on investment during construction.

During the period of construction, the accrued cumulative interest on the RWE capital amounted to HRK 54,717 thousand (EUR 7,536 thousand) and is payable on a straight-line basis during the period of exploitation. At 31 December 2012, accrued undistributed interest amounted to HRK 8,846 thousand (2011: HRK 12,611 thousand).

The RWE annual return on invested capital, effectively a preferred dividend, is paid out from net profit of Plomin. The rate for 2012 is 17% as well as for 2011. The amount paid out in 2012 in respect of 2011 profits was HRK 11,514 thousand and in 2011 HRK 14,063 thousand in respect of 2010 profits.

These distributions have priority to HEP d.d. interest in the results of the joint venture and any other payments to HEP d.d.. Since HEP d.d. share has been used to pay RWE interest on capital since 2000, HEP d.d. has not realized any portion of profits earned by Plomin.

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

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



Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 15. INVESTMENT IN TPP PLOMIN (continued)

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
Opening balance of non-controlling share	62,847	76,993	91,409
Capital payment	(12,922)	(12,668)	(12,382)
Dividend payment	(11,514)	(14,063)	(16,583)
Increase for the current year profit	8,707	11,514	14,063
Exchange differences	165	1,071	486
<b>Closing balance</b>	<b>47,283</b>	<b>62,847</b>	<b>76,993</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 16. LONG-TERM LOAN RECEIVABLES AND DEPOSITS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Loans given	808	1,022	1,318
Value adjustment	(158)	(167)	(135)
Current portion of loans given	(136)	(136)	-
<b>Long-term portion</b>	<b>514</b>	<b>719</b>	<b>1,183</b>

Loans given to third parties are as follows:

	Year loan approved	Repayment period	Loan amount	31 December 2012	31 December 2011	1 January 2011
				HRK'000	HRK'000	HRK'000
					Restated	Restated
Town of Pregrada	2006	10 years	1,358	679	815	950
Did d.o.o.	2007	4 years	1,010	129	207	368
<b>Total</b>				<b>808</b>	<b>1,022</b>	<b>1,318</b>
Value adjustment				(158)	(167)	(135)
Current portion				(136)	(136)	-
<b>Non-current portion</b>				<b>514</b>	<b>719</b>	<b>1,183</b>

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 17. INVESTMENTS AVAILABLE FOR SALE AND OTHER INVESTMENTS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Investments available for sale	128,387	120,605	162,170
Other investments	1,065	310	210
	<b>129,452</b>	<b>120,915</b>	<b>162,380</b>

Changes in investments available for sale are presented below:

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Beginning balance	120,605	162,170	152,797
Fair value adjustment of investments in Jadranski Naftovod d.d.	7,558	-	9,373
Fair valuation adjustment of investments in Jadranski naftovod d.d. presented in income	(88)	(41,565)	-
Fair valuation adjustment of investments in Pevec d.d.	312	-	-
	<b>128,387</b>	<b>120,605</b>	<b>162,170</b>

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
<b>Investment in securities:</b>			
Jadranski Naftovod d.d.	127,935	120,378	161,943
Pevec d.d.	312	-	-
Viktor Lenac d.d.	133	220	220
Đuro Đaković d.d.	5	5	5
Kraš d.d.	2	2	2
	<b>128,387</b>	<b>120,605</b>	<b>162,170</b>
<b>Other investments</b>			
Geopodravina d.o.o.	200	200	200
LNG Hrvatska d.o.o.	865	110	10
	<b>129,452</b>	<b>120,915</b>	<b>162,380</b>

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

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

In 2012 and 2011 fair value was determined by notification of the Central clearing deposit company as of 31 December. The market value of Jadranski naftovod shares as of 31 December 2012 is HRK 2,370 and 2011 HRK 2,230. The fair valuation of the investment in Jadranski naftovod as of 31 December 2012 has increased the investment value by HRK 7,558 thousand (2011: reduced by 41,465 thousand). The fair valuation in 2012 was performed through reserves and in 2011 through the profit and loss account. On 1 June 2010 HEP d.d. and Plinacro d.o.o. concluded the Articles of Incorporation of LNG Hrvatska d.o.o., a liquefied natural gas company. In 2011 a decision was made to increase the share capital of LNG Hrvatska d.o.o. from HRK 20 thousand to HRK 220 thousand, and 2012 to HRK 1,730 thousand. HEP d.d. and Plinacro d.o.o. each hold 50 percent of the equity share.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 18. OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Housing loan receivables	33,649	38,095	42,890
Energy efficiency receivables – long-term portion	24,616	56,415	51,930
Accrued cumulative interest – RWE	8,846	12,611	16,078
Other long-term assets	108	31	75
	<b>67,219</b>	<b>107,152</b>	<b>110,973</b>

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

According to the provisions on joining, intercalary interest was accrued on all the funds invested by RWE in the period of construction at a rate of 17 percent. The accrued interest balance of EUR 7,536 thousand, equivalent to HRK 55,653 thousand has been recognised as deferred expense subject to straight-line amortisation over a period of 15 years.

Repayment of interest is done along with the repayment of invested funds from RWE Power and it started after the electric power plant was finished. In 2012 the total amount repaid was EUR 502 thousand equivalent to HRK 3,809 thousand (in 2011 EUR 502 thousand, equivalent to HRK 3,734 thousand).

As at 31 December 2012 deferred expense for the interest amounted to EUR 1,173 thousand equivalent to HRK 8,846 thousand (2011: EUR 1,675 thousand, equivalent to HRK 12,611 thousand). The related exchange differences are included in the financial revenue or financial cost for the year in which they arise.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 19. INVENTORIES

	<b>31 December 2012</b>	<b>31 December 2011</b>	<b>1 January 2011</b>
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Inventories of fuel and other material	526,542	644,113	748,065
Electric materials	217,167	187,740	162,486
Spare parts	221,934	212,512	175,536
Construction material	87,378	90,418	83,211
Other inventories	66,206	65,784	73,090
Impairment of obsolete materials and spare parts	(137,586)	(137,047)	(125,717)
	<b>981,641</b>	<b>1,063,520</b>	<b>1,116,671</b>

In 2012, the Group estimated the impairment for obsolete inventories of materials (material with no turnover in the last 2 years), in accordance with the ageing structure, at HRK 539 thousand (2011: HRK 11,330 thousand).

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 20. TRADE RECEIVABLES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Electricity – Corporate customers	1,606,227	1,422,139	1,355,919
Electricity – Households	478,424	313,463	336,814
Foreign sales – Electric energy	53,207	35,625	71,530
Heating, gas and services	502,643	443,354	446,462
Connection to transmission network	41,233	-	33,131
Other	83,190	63,255	61,882
	<b>2,764,924</b>	<b>2,277,836</b>	<b>2,305,738</b>
<b>Impairment of bad and doubtful receivables</b>	(891,679)	(781,600)	(575,410)
	<b>1,873,245</b>	<b>1,496,236</b>	<b>1,730,328</b>

Ageing analysis of receivables not impaired is as follows:

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Not yet due	1,015,832	876,451	1,044,409
0-30 days	437,422	309,826	347,291
31-60 days	161,682	138,013	145,786
61-90 days	75,704	67,558	64,544
91-180 days	89,315	61,198	68,461
181-365 days	71,078	37,075	50,294
Over 365 days	22,212	6,115	9,543
	<b>1,873,245</b>	<b>1,496,236</b>	<b>1,730,328</b>

Movements in impairment allowance were as follows:

	31 December 2011	31 December 2010	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
<b>At 1 January</b>	<b>781,600</b>	<b>575,410</b>	<b>402,876</b>
Impairment for potential losses on receivables and interest on receivables (Note 7)	250,972	364,544	332,139
Reversal of prior-year provisions	(21,338)	(19,088)	(25,074)
Amounts collected (Note 5)	(119,555)	(139,266)	(134,531)
<b>At 31 December</b>	<b>891,679</b>	<b>781,600</b>	<b>575,410</b>

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 21. OTHER SHORT-TERM RECEIVABLES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
VAT receivable	142,908	179,965	27,560
Prepayments of income tax	-	138,719	-
Advances for working capital	706	13,616	26,196
Receivables from the State in respect of employees	15,366	10,284	6,403
Interest receivable	2,995	2,553	3,564
Demand and time deposits	21,220	4,328	1,735
Other short-term receivables	60,419	65,640	78,606
	<b>243,614</b>	<b>415,105</b>	<b>144,064</b>

## 22. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Current accounts – HRK	156,084	123,916	71,510
Current accounts – Foreign	118,482	92,117	27,352
Current accounts for special purposes	7,403	6,105	5,710
Petty cash registers – HRK	280	280	287
Deposits due till 90 days	159,225	5,120	559,800
Daily deposits	163,550	179,585	97,498
	<b>605,024</b>	<b>407,123</b>	<b>762,157</b>



Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 23. CAPITAL 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 1,800.00 each.

Accumulated losses in the amount of HRK 356,648 thousand comprise legal reserves in the amount of HRK 191,094 thousand, transferred loss in the amount of HRK 610,237 thousand and profit for the year subscribed to the owner in the amount of HRK 62,495 thousand.

The non-controlling interest attributable to RWE amounts to HRK 47,283 thousand, of which HRK 8,707 thousand represents dividends attributable to the foreign equity holder.

### CAPITAL RESERVES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Opening balance of reserves	(438,957)	(874,074)	(1,889,646)
Transfer from retained earnings	438,957	444,038	1,008,073
Other comprehensive income, net before restatement			24,853
Effect of restatement			(17,354)
Other comprehensive income/(loss)	6,046	(8,921)	7,499
Capital reserves	<b>6,046</b>	<b>(438,957)</b>	<b>(874,074)</b>

### RETAINED EARNINGS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Opening balance	5,851	947,198	403,018
Increase of retained earnings	13,963	(-233)	130,950
Transfer to reserves	(438,957)	(444,038)	(1,008,073)
Dividend paid to the owner	-	(493,376)	-
Loss / profit for the year	62,495	(3,700)	1,421,303
	<b>(356,648)</b>	<b>5,851</b>	<b>947,198</b>

Based on the Decision the Shareholders' Assembly of HEP d.d. from 24 May 2012 on the allocation of the 2011 profits and retained earnings from previous years is performed the transfer to reserves in the amount of HRK 438,957 thousand.

Based on the Decision the Shareholders' Assembly of HEP d.d. from 27 June 2011 on the allocation of the 2010 profits and retained earnings, HRK 444,038 thousand were transferred to reserves and HRK 493,376 thousand were distributed to the owner.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 24. LONG-TERM BORROWINGS

	Interest rates	31 December 2012	31 December 2011	1 January 2011
		HRK'000	HRK'000	HRK'000
			<b>Restated</b>	<b>Restated</b>
Domestic bank borrowings	EURIBOR+ (1.00%-5.35%)	1,961,548	1,681,140	1,040,610
Foreign bank borrowings	EURIBOR+ 0.50%	25,585	2,042,011	3,010,835
Liabilities to domestic companies	EURIBOR+ 1.95%	-	-	4,661
Loan from RWE		5,055	8,828	12,369
<b>Total</b>		<b>1,992,188</b>	<b>3,731,979</b>	<b>4,068,475</b>
Deferred loan origination fees		(20,474)	(22,777)	-
<b>Total long-term borrowings</b>		<b>1,971,714</b>	<b>3,709,202</b>	<b>4,068,475</b>
Current portion		(132,084)	(1,174,713)	(1,184,921)
<b>Long-term portion</b>		<b>1,839,630</b>	<b>2,534,489</b>	<b>2,883,554</b>

Loans of domestic banks are assured by bills of exchange and debentures. At the year end the Group from the assets assured by issuing of bonds has performed the premature returns of some long term loans, with a purpose of prolongation of maturity of the total loan portfolio. For that are repaid all the loans with unfavourable financial clauses, among which were the loans assured with the state guarantee. At 31 December 2012 the Group has no more debt covered with the Republic of Croatia guarantee.

### NEW SOURCES OF FUNDS

During the year the Group has not concluded new long term loans. For the financing of the investment plan and operations in 2012 the Group has utilized the assets gathered by issuing of euro bonds at the international capital market (detailed in Note 27) as well as the assets from loans in use.

### LOANS IN USE

For the purpose of financing the investments and operations in previous years, the Group has during 2012 on its disposal the amount of EUR 84 milion from the loan of EUR 150 million concluded with a consortium of domestic banks (Privredna banka Zagreb d.d., Raiffeisenbank Austria d.d. and Zagrebačka banka d.d.). During 2012 the utilisation of the long-term loan approved by KfW Entwicklungsbank in the amount of EUR 50 million for the financing of the projects of subsidiaries HEP ESCO d.o.o and HEP Obnovljivi izvori energije d.o.o. The key lending terms and conditions are as follows: 5-year utilisation period; quarterly repayment of principal over a period of 10 years following the expiry of the utilisation period. At 31 December 2012 the KfW loan balance was EUR 3.4 million, of which EUR 46.6 million were unutilised. Also, during 2012 the Group had on its disposal the assets from the long term loan concluded with European bank for reconstruction and development and the union of banks in the amount of EUR 123.2 million which are intended for the financing of construction of HE Ombla near Dubrovnik. Loan tranches have the total maturity of 12 a 15 years, in which is included a period of utilization of assets of 4 years. The beginning of the loan assets' utilization is planned in the year 2013.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 24. LONG-TERM BORROWINGS (continued)

### LOANS IN USE (continued)

The annual principal repayment schedule for the following five years is as follows:

2013	132,084
2014	284,418
2015	412,694
2016	381,673
2017	380,849
After 2017	400,470
<b>Total</b>	<b>1,992,188</b>

The covenants, as defined in the applicable loan agreements, specifically require the Group to meet certain prescribed levels of the following ratios based on consolidated financial statements: operating ratio, debt service coverage, internal cash generation, tangible net worth capital, and net borrowing. As at 31 December 2012 all the covenants were met.

The analysis of long-term borrowings in various foreign currencies is provided below (in '000):

Valuta	31 December 2012	31 December 2011	1 January 2011
EUR	263,349	495,587	549,223

## 25. LONG-TERM LIABILITIES TO THE GOVERNMENT

The long-term debt to the Government in the amount of HRK 27,544 thousand in 2012 (2011: HRK 30,466 thousand) relates to the obligation arising on the sale of housing units to employees under the Government program, which 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 remit the funds, unless and until they are collected from the employee.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 26. LONG-TERM PROVISIONS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Litigation provision	204,292	217,621	162,443
Provision for retirement bonuses	285,739	314,081	302,157
Provision for jubilee awards	45,408	43,551	46,268
Provision for the de-commissioning of thermal power plants	104,341	100,044	93,121
Provision for NPPK decommissioning (long-term)	-	-	53,838
Provision according to damages contract	-	80,800	80,800
Provision for electricity purchased from wind power plants	21,631	22,532	22,031
Provision for investment in HE Lešće	-	-	39,287
	<b>661,411</b>	<b>778,629</b>	<b>799,945</b>

The thermal power plant decommissioning provision in the amount of HRK 104,341 thousand represents a discounted value of the estimated decommissioning costs of the Group's thermal power plants. Movements in the present value of defined benefit obligations in the current period were as follows:

	Legal actions	Retirement bonuses	Jubilee awards	Decommissioning of TPPs	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>At 1 January 2012</b>	<b>217,621</b>	<b>314,081</b>	<b>43,551</b>	<b>100,044</b>	<b>103,332</b>	<b>778,629</b>
Transfer	34,000	-	-	-	(34,000)	-
New provisions made	40,079	21,955	4,218	4,297	-	70,549
Decrease in provisions (amounts paid)	(76,091)	(22,459)	(7,136)	-	(47,701)	(153,387)
Decrease in provision on valuation	(11,317)	(27,838)	4,775	-	-	(34,380)
<b>At 31 December 2012</b>	<b>204,292</b>	<b>285,739</b>	<b>45,408</b>	<b>104,341</b>	<b>21,631</b>	<b>661,411</b>

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 26. LONG-TERM PROVISIONS (continued)

### LEGAL CASES PROVISION

The Group has booked the provision for legal actions refers to cases where possible outcome has been determined as uncertain or negative and was recognised in the total amount of HRK 204,292 thousand (in 2011: HRK 217,621 thousand). The most important court case provided against is the one of HEP Proizvodnja d.o.o. for a dispute with Zagrebački Holding which in 2012 has the provision in the amount of HRK 84,821 thousand and which relates to compensation for the waste water treatment plant.

The official decision is in course of the one materially significant dispute related to HEP Peruća which was started in 1995, for which was in 2012 brought the first instance decision in favour of the accuser. As according to the stand of the Group and the County State Practice of Law this decision is legally and factually untenable, the Group has lodged a complaint.

Management Board of HEP d.d. has estimated that exists the high grade probability for the Group of the positive result of the subject dispute.

### RETIREMENT BONUSES AND JUBILEE AWARDS

Movements in the present value of defined benefit obligations in respect of employee benefits during the current period were as follows:

	Retirement benefits	Jubilee awards	Total
	HRK'000	HRK'000	HRK'000
<b>At 1 January 2012</b>	<b>314,081</b>	<b>43,551</b>	<b>357,632</b>
Cost of services	10,333	2,399	12,732
Interest expenses	11,608	1,814	13,422
Salaries paid	(22,459)	(7,136)	(29,595)
Benefits paid	14	5	19
Actuarial gains/(losses)	(27,838)	4,775	(23,063)
<b>At 31 December 2012</b>	<b>285,739</b>	<b>45,408</b>	<b>331,147</b>

The following assumptions were used in preparing the calculations:

- The termination rate is from 0% to 6.23% percent and is based on the statistical fluctuation rates for the Group in the period from 2005 to 2012.
- The probability of death by age and sex is based on Croatian Mortality Tables 2000 published by the Croatian Statistical Bureau. It is assumed that the population of employees of the Company represents average with respect to mortality and health status.
- We assumed the annual salary will not increase in other years.
- The present value of the obligation was determined using a 4.4% discount rate for all the companies within the Group.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 27. ISSUED BONDS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Nominal value of bonds	1,200,000	1,200,000	1,200,000
Cumulative repayment	(233,450)	(140,070)	(46,690)
Discount value	(814)	(1,348)	(1,888)
Current portion of bonds	(593,380)	(93,380)	(93,380)
	<b>372,356</b>	<b>965,202</b>	<b>1,058,042</b>
Nominal value of bonds – foreign	2,955,595		
Foreign exchange differences	(92,198)		
Liabilities according to SWAP	99,855		
	<b>2,963,252</b>		
	<b>3,335,608</b>		

### BONDS ISSUED IN THE COUNTRY

Bonds in the amount of HRK 500,000 thousand, issued in 2006, are due in 2013, and bear interest at a fixed rate of 5.00 percent. Bonds in the amount of HRK 700,000, issued at the end of 2007, are repayable in 15 semi-annual installments, commencing three years from the date of issue, and bear interest at a fixed rate of 6.50 percent. The HEP d.d. 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 at international capital market. Bonds have maturity of 5 years, in full mature in November 2017 and carry fixed interest of 6%. Bonds of HEP d.d. are inserted at the market of the Luxembourg stock-exchange and they are actively traded.

Part of assets assured by issuing of bonds is utilized for the return of short-term loans and the refinancing (premature returns) of the existing long term loans, with a purpose of prolongation of maturities of the total loan portfolio, while the remaining part of assets is utilized for the financing of investments in current year.

For the purpose of protection of currency risk, respectively the change in movements of dollar value, in the same time is concluded the contract on currency exchange (swap) by which the dollar liability is transformed into euro and that for the whole period of duration of liability upon issued bonds, up to its outermost maturity at 9 November 2017.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 27. ISSUED BONDS (continued)

### INTEREST SWAP

The Group has concluded contract on interest swap by which is protected the Group's exposure on the basis of liabilities at changeable interest rates. According to contract, six -month interest rate which pays the Group is fixed and amounts 5.39%, while the swap interest rate is equal to six-month EURIBOR. Payments according to the contract were performed each six months and the Contract has expired at 25 October 2012.

### CURRENCY SWAP

For the purpose of currency risk protection, i.e. change in movement of the dollar value, the Group has concluded the contract on currency swap ,by which the dollar liability upon issued bonds abroad is transformed in euro and this for all period of bond duration, respectively till its outermost maturity date at 9 November 2017.

According to contract, a six month interest rate which is paid by the Group is fixed and amounts 6.53%,while the interest rate which the Group demands as creditor from contractual parties according to swap is equal to fixed rate at which bonds are issued and amounts 6.00%.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 28. OTHER NON-CURRENT LIABILITIES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Deferred income for property financed by third parties	4,220,301	4,440,468	4,590,815
Long term liabilities for assets financed by clearing debt	689,792	701,012	414,938
Long-term debt under interest rate swap	-	850	672
Other	1,540	1,659	1,779
	<b>4,911,633</b>	<b>5,143,989</b>	<b>5,008,204</b>

Deferred revenue is related to fixed assets contributed by customers and others without charge. The revenue is recognized into income over the same periods as the related assets are amortized, which applies to contracts for connection to the network concluded by 3 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of funds received from the customer in the period when the customer is connected to the grid or when permanent access to the delivery of the service is given.

At 31 December 2012 the Group reported a liability in the amount of HRK 689,792 thousand in respect of a clearing debt (2011: HRK 701,012 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the HEP Group and the Ministry of Finance regarding the clearing debt, it has not been clearly defined as either a loan or a government grant.



Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 29. SHORT-TERM BORROWINGS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Borrowings from domestic banks and foreign banks, denominated in various currencies on the following terms:	400,000	592,778	282,252
Interest rate from EURIBOR/TZ Min. of fin. + margin (2.60% – 5.70%)		-	-
Secured by bills of exchange			
Borrowings from domestic companies	3,261	2,806	2,805
Short term part of the RWE loan	7,582	7,579	7,436
	<b>410,843</b>	<b>603,163</b>	<b>292,493</b>

During 2012, the Group used short-term loans from domestic banks for working capital purposes and for the settlement of trade payables. In addition to the prolongation of current loans arranged during the year, the Group also concluded new credit lines for the purpose of keeping financial stability.

By the premature return of the majority short term loans at the year end, short term indebtedness is decreased for 32% in relation to the year beginning. At 31 December 2012, the Group disposes with HRK 902 million unutilized short term loan resources.

Short term loans are assured with bills of exchange and debentures.

## 30. LIABILITIES FOR TAXES AND CONTRIBUTIONS

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Liabilities for income tax	28,521	-	357,228
Utility and other fees	17,519	12,680	25,596
Contributions on salaries	20,111	23,205	23,953
Liabilities for customs	908	2,239	20,153
Contributions and taxes for benefits in kind	3,519	1,984	14,880
Other	3,538	647	3,175
	<b>74,116</b>	<b>40,755</b>	<b>444,985</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 31. LIABILITIES TO EMPLOYEES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Net salaries	75,220	78,074	81,133
Contributions	39,179	40,363	41,953
Other	26,169	9,497	11,140
	<b>140,568</b>	<b>127,934</b>	<b>134,226</b>

### 32. OTHER PAYABLES

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Deferred income and received advances for connections	216,610	193,125	110,538
Deferred income for other advances received	98,344	15,538	7,214
Accrued expenses for unused vacation days	64,827	63,900	64,477
Deferred income from sale of el. energy to households	19,426	10,905	-
Liabilities for renewable sources	11,477	8,017	16,446
Decommissioning NPPK accrued expenses	-	-	5,023
Accounted costs of severance pays to employees	249,174	-	-
Other accrued expenses	31,163	3,203	9,459
Current portion of the liability under interest rate swap	-	850	2,203
Other payables	51,970	85,837	75,676
	<b>742,991</b>	<b>381,375</b>	<b>291,036</b>

Value adjustment of receivables from Households as at 31 December 2012 was calculated by using logarithmic curve with losses on the supply network of 8.7%, while for the year ended 31 December 2011 the percent of loss was 8.3%. The result is the decrease of revenue in the amount of HRK 8,521 thousand in the respect to the previous year.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 33. RELATED PARTY TRANSACTIONS

The Group has a 50% ownership in the capital of NPPK (NE Krško d.o.o.).

The produced electric energy at NPPK is delivered to HEP d.d. at 50% of total produced quantities at a price which is determined in accordance with the total production costs of NPPK.

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

	31 December 2012	31 December 2011
	HRK'000	HRK'000
<b>NE Krško d.o.o.</b>		
Liabilities for purchased electricity	61,119	64,667
Cost of purchased electricity	707,758	737,565

HRK'000	Sales revenue		Purchases	
	2012	2011	2012	2011
<b>Enterprises controlled by the Government</b>				
Hrvatske Željeznice	112,500	108,259	12,765	9,279
INA-Industrija nafte	155,192	121,110	132,403	1,419,311
Prirodni plin	-	-	2,531,088	1,011,225
Plinacro	2,135	1,975	34,760	34,296
Hrvatske komunikacije	85,744	83,937	24,318	27,400
Croatia osiguranje	5,508	6,481	16,371	16,924
Hrvatska pošta	23,245	22,062	60,553	54,523
Hrvatske šume	6,474	5,785	6,087	12,113
Jadrolinija	1,102	727	647	787
Narodne novine	2,590	2,855	5,120	6,236
Croatian Radio & Television	12,437	12,441	1,185	1,079
Ploput	579	551	692	230
Croatia Airlines	780	788	-	2
Petrokemija Kutina	29,028	9,428	118	46
Ministry of Foreign Affairs	525	563	-	-
Ministry of Defense	22,530	17,597	-	-
Ministry of Interior	25,187	24,862	-	-
Elementary and secondary schools	82,888	79,120	-	-
Judicial institutions	12,185	10,506	-	-
Colleges and universities	31,594	30,649	4,145	3,160
Legislative, executive and other bodies of the Republic of Croatia	30,482	29,169	6,572	5,848
Health institutions and organisations	89,538	81,711	3,233	3,502
Other users	12,025	70,472	16,669	15,883
<b>TOTAL</b>	<b>744,268</b>	<b>721,048</b>	<b>2,856,726</b>	<b>2,621,844</b>

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

### 33. RELATED PARTY TRANSACTIONS (continued)

HRK'000	Receivables		Payables	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
<b>Enterprises controlled by the Government</b>				
Hrvatske Željeznice	45,902	22,615	2,460	866
INA-Industrija nafte	18,927	14,709	12,707	206,061
Prirodni Plin	-	-	297,100	371,656
Plinacro	355	351	-	4,380
Hrvatske komunikacije	9,331	8,092	7,625	8,179
Croatia osiguranje	610	582	4,356	-
Hrvatska pošta	3,107	3,380	3,791	4,568
Hrvatske šume	1,041	1,262	365	1,288
Jadrolinija	178	57	592	761
Narodne novine	263	284	1,361	1,790
Croatian Radio & Television	2,385	2,006	152	231
Plovput	65	64	102	49
Croatia Airlines	148	149	276	-
Petrokemija Kutina	5,026	266	-	-
Ministry of Defense	3,260	4,209	-	-
Ministry of Interior	3,402	7,286	-	-
Elementary and secondary schools	15,191	15,096	-	-
Judicial institutions	3,841	2,599	-	-
Colleges and universities	4,847	4,136	-	-
Legislative, executive and other bodies of the Republic of Croatia	5,825	5,183	-	-
Health institutions and organizations	18,789	35,810	-	-
Other users	3,569	5,842	6,351	11,008
<b>TOTAL</b>	<b>146,062</b>	<b>133,978</b>	<b>337,238</b>	<b>610,837</b>

Under the Croatian energy laws, the Group is an eligible gas buyer.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 34. CONTINGENT LIABILITIES AND COMMITMENTS

In 2012, the Group established a provision for legal actions estimated to be ruled against HEP d.d. The Group has long-term financial investments in the territory of Bosnia and Herzegovina, and Serbia, which in 1994 had a historical cost of HRK 1,243,970 thousand. At the time of the transformation of the Company into a joint stock company in 1994, this amount was excluded from the net asset value.

### OPERATING COMMITMENTS

As at 31 December 2012, as part of its investing activities, the Group has concluded contracts under which the construction of a number of significant facilities and other investments has commenced but has not been completed. In 2012 the value of unrealised contracts for the most significant projects amounts to approximately HRK thousand 1,690,780 thousand (2011: HRK 1,670,904 thousand). Most significant investments refers to investments in HEP Proizvodnja d.o.o., HEP Operator Prijenosnog Sustava d.o.o. and HEP Operator Distribucijskog Sustava d.o.o.

### ENVIRONMENTAL MATTERS

HEP Group monitors and analyses the environmental impact of its business activities on an on-going basis. The key impact indicators comprise emissions of pollutants into air and the quantity of production waste, which HEP reports to the competent institutions, local self-government units and public stakeholders on a regular and timely basis. The staffs engaged in environmental and nature protection undergo training and seminars and workshops where they receive information about the obligations and measures provided in the applicable environmental laws and regulations.

There is an environmental expenditure monitoring system (RETZOK) at the Company from 2004 which monitors all investments in environmental and nature protection.

The Company is in the process of performing analyses and achieving readiness with respect to compliance with the requirements imposed by EU legislation in terms of more stringent pollutant emission limits and reduced greenhouse gas emissions, the greenhouse gas emission trading scheme, integrated environmental permitting system, as well as the system of ecologically important areas and corridors (the National Ecological Network).

To the Ministry of environmental protection and the nature are delivered the requests for the obtaining of integrated conditions for the environmental protection and in the course is the procedure of the obtaining of permits.

By the decision of the Management of HEP is maintained the greenhouse gas emission unit trade system in which are stated the liabilities and the time-limits of implementation of sector liabilities and the companies included in the HEP trading system. To the agency for the environmental protection, national administrator of the Croatian part of the EU Greenhouse gas register, were delivered the requests for the opening of the Plant operator's account.

To the Environmental protection fund are proved the investments into environmental protection projects and the improvement of energetic efficacy at the level of the whole HEP Group which has resulted by stimulative corrective factors by which are decreased fees for the omission of contaminating substances in the environment of 50%.

In course is the continuation of implementation of the management environmental protection system according to standard ISO 14001 into productive HEP plants.

In 2012 is continued with the maintenance of informative system of environmental protection in HEP Group with a goal of combining data related to nature protection and environment.

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

### SEPARATION OF THE COMPANY HEP OPERATOR PRIJENOSNOG SUSTAVA D.O.O. FROM THE GROUP

Law on electric energy market (National gazette 22/2013) became valid at 2 March 2013 (hereinafter: Law). Substatutory acts prescribed by Law should be brought in a time-limit of twelve months from the date of entering into force of the Law, and the substatutory acts should be prescribed by Law on energy (National gazette 120/2012) in a time-limit of six months from the date of entering of law into force.

According to provisions of the Law on electric energy market (National gazette 22/2013), Hrvatska elektroprivreda d.d. as a leading company inside the vertically integrated subject and the owner of the transmission system is liable to perform separation of the transmission system operators according to Law provisions, and to undertake all the activities for the fulfilment of requests for the separation of the transmission system operators with a goal of certification of transmission system operators during 2013. Assembly of Hrvatska elektroprivreda d.d. at 9 April 2013 has brought a decision on separation of the transmission system operators according to independent transmission operator model (ITO-Independent transmission Operator).

HEP Operator prijenosnog sustava d.o.o. will bring a request for certification, which according to the Law performs Hrvatska energetska regulatorna agencija – Croatian energetic regulatory agency (hereinafter: HERA). Together with the request is to be applied the documentation which proves that the efficaciously separation is performed from the part of HEP d.d. and the other related companies, which under the definition from the Law comprise vertically integrated subject, including the independence of the total managing structure of the company HEP Operator prijenosnog sustava d.o.o., and to possess all the human, technical, physical and financial resources for the performing of electric energy transfer activity as also the fulfilment of other prescribed liabilities.

In the procedure of certification, HERA will the explained draft of certificate deliver for the opinion to the European commission, which opinion has to be taken into regard in a degree, as greater as possible.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 35. SUBSIDIARIES

As at 31 December 2012, the Group had the following subsidiaries:

Subsidiary	Country	Interest in (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
HEP – 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	50	Electricity generation
APO d.o.o., usluge zaštite okoliša	Croatia	100	Special waste management
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.	BiH	100	Maintenance of hydro power plants
HEP-Odmor i rekreacija d.o.o.	Croatia	100	Accommodation and recreation services
HEP-NOC Velika	Croatia	100	Accommodation and training
HEP-Obnovljivi izvori energije d.o.o.	Croatia	100	Electricity generation
HEP – Razvoj višenamjenskih nekretninskih projekata d.o.o.	Croatia	100	Purchase and sale of electrical energy
HEP-Trgovina d.o.o. Brežice	Slovenija	100	Purchase and sale of electrical energy
HEP- Magyarorszag Energia KFT	Mađarska	100	Trgovanje električnom energijom

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 36. FINANCIAL INSTRUMENTS

### CAPITAL RISK MANAGEMENT

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

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

### GEARING RATIO

The Group's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of sources of funding. The gearing ratio at the yearend can be presented as follows:

	31 December 2012	31 December 2011
	HRK'000	HRK'000
Debt	6,311,545	5,370,947
Cash and cash equivalents	(605,024)	(407,123)
Net debt	5,706,521	4,963,824
Equity	19,488,840	19,421,900
Net debt to equity ratio	<b>29%</b>	<b>25%</b>

### SIGNIFICANT ACCOUNTING POLICIES

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

### CATEGORIES OF FINANCIAL INSTRUMENTS

	31 December 2012	31 December 2011
	HRK'000	HRK'000
<b>Financial assets</b>		
Financial property available for sale	129,452	120,915
Loans and receivables (including cash and cash equivalents)	2,563,609	1,989,496
Other non-current assets	67,732	107,872
<b>Financial liabilities</b>		
Non-current liabilities	5,894,114	4,233,678
Current liabilities	3,814,947	4,449,565



Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 36. FINANCIAL INSTRUMENTS (continued)

### FINANCIAL RISK MANAGEMENT OBJECTIVES

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

### MARKET RISK

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

### FOREIGN CURRENCY RISK MANAGEMENT

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

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

	Assets		Liabilities	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	HRK'000	HRK'000	HRK'000	HRK'000
European Union (EUR)	44,664	16,101	683,215	548,280
USD	1,492	109	8,449	48,716

### FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

	2012	2011
	HRK'000	HRK'000
<b>EUR change impact</b>		
Profit or loss	481,826	400,753
<b>USD change impact</b>		
Profit or loss	3,984	28,288

## 36. FINANCIAL INSTRUMENTS (continued)

### INTEREST RATE RISK MANAGEMENT

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

### INTEREST RATE SENSITIVITY ANALYSIS

The sensitivity analysis has been determined based on the interest rate exposure of the Group to financial instruments at the date of the statement of financial position. For floating rates, the analysis is prepared assuming the amount of liability outstanding at the reporting date 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 2012 would decrease/increase by HRK 11,807 thousand (2011: HRK 19,597 thousand), based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings, which accounted for 37% (2011: 73%); and
- The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate of debt instruments.

### CREDIT RISK MANAGEMENT

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

The Group does not have any significant credit risk exposure to any single counterparty or any 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 domestic corporate receivables, specifically where services are provided to economic concerns, which are in a difficult financial position. Overdue receivables from households are limited due to Group's ability to disconnect such customers from the power supply network.

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

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 36. FINANCIAL INSTRUMENTS (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 Company manages liquidity risk by maintaining adequate reserves, banking facilities and other sources of financing, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

### LIQUIDITY AND INTEREST 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 that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

#### MATURITY OF NON-DERIVATIVE FINANCIAL ASSETS

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
		HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2012							
Non-interest bearing		1,582,046	662,390	448,507	65,559	2,156	2,760,658
Variable interest rate instruments	5,00%	23	46	66	-	-	135
<b>Total</b>		<b>1,582,069</b>	<b>662,436</b>	<b>448,573</b>	<b>65,559</b>	<b>2,156</b>	<b>2,760,793</b>
2011							
Non-interest bearing		754,298	897,131	461,614	99,238	5,788	2,218,069
Variable interest rate instruments	5,00%	22	43	149	-	-	214
<b>Total</b>		<b>754,320</b>	<b>897,174</b>	<b>461,763</b>	<b>99,238</b>	<b>5,788</b>	<b>2,218,283</b>

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

Notes to the consolidated financial  
statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 36. FINANCIAL INSTRUMENTS (continued)

### LIQUIDITY AND INTEREST RATE RISK TABLES (continued)

#### MATURITY OF NON-DERIVATIVE FINANCIAL LIABILITIES

	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
<b>2012</b>							
Non-interest bearing		1,337,387	881,754	470,775	707,064	536	3,397,516
Variable interest rate instruments	3.41%	14,532	52,140	543,036	1,792,940	387,757	2,790,405
Fixed interest rate instruments	6.31%	-	-	824,881	5,004,943	15,926	5,845,750
<b>Total</b>		<b>1,351,919</b>	<b>933,894</b>	<b>1,838,692</b>	<b>7,504,947</b>	<b>404,219</b>	<b>12,033,671</b>
<b>2011</b>							
Non-interest bearing	-	1,430,610	1,151,841	452,560	274,667	2,618	3,312,296
Variable interest rate instruments	4.37%	71,634	395,827	1,367,154	3,547,752	684,184	6,066,551
Fixed interest rate instruments	5.60%	8,437	-	178,950	1,037,917	112,162	1,337,466
<b>Total</b>		<b>1,510,681</b>	<b>1,547,668</b>	<b>1,998,664</b>	<b>4,860,336</b>	<b>798,964</b>	<b>10,716,313</b>

The Group has access to financing facilities, the total unused amount of which is HRK 2,183,142 thousand at the reporting date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

#### 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 (excluding derivative instruments) 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 using the current yield curve for the period of the instruments under optional derivatives, while the optional derivative used models for pricing options. Forward currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates for contracts with similar maturity. Interest rate swaps are valued at the present value of estimated future cash flows and discounted based on the current yield curve derived from quoted interest rates.

Notes to the consolidated financial statements of the HEP Group (continued)  
For the year ended 31 December 2012

## 36. FINANCIAL INSTRUMENTS (continued)

### FAIR VALUE MEASUREMENTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION

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

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

The indicators of fair value recognized in the statement of financial position

	1 <sup>st</sup> level	2 <sup>nd</sup> level	3 <sup>rd</sup> level	Total
	HRK'000	HRK'000	HRK'000	HRK'000
<b>2012</b>				
Assets available for sale	129,452	-	-	<b>129,452</b>
<b>2011</b>				
Assets available for sale	120,915	-	-	<b>120,915</b>
Interest swap liability (current and noncurrent portion)	-	850	-	<b>850</b>

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board and authorised for issue on 18 April 2013.

Signed on behalf of the Group on 18 April 2013:

Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

HEP d.d.

# Financial Statements

## Independent Auditor's Report

To the Owner of Hrvatska elektroprivreda d.d.:

1. We have audited the accompanying annual financial statements of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter "the Company") for the year ended 31 December 2012, which comprise of the Balance sheet / Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed modified opinion. Matters affecting the opinion related to the advance payment to Hrvatske autoceste d.o.o. as described in the point 4 of this report.

### RESPONSIBILITY OF THE COMPANY'S MANAGEMENT

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error, are the responsibility of the Company's management.

### RESPONSIBILITY OF AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. Except as stated in the paragraph Matters affecting the opinion, the audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

#### MATTERS AFFECTING THE OPINION

4. As described in the note 12, the Company advanced HRK 300 million to Hrvatske autoceste d.o.o. in December 2006 for the purchase of electricity facilities on the Croatian motorways within two years from the date of the advance payment. As of the date of these financial statements, the legal title to these facilities has not yet been transferred to the Company. The Company is the economic beneficiary of the electricity facilities, which it uses for their intended economic purposes in the supply of electricity to customers. As of the date of preparation of the financial statements for 2012, the Company has not classified the advance payment by type of assets used in the Company's business, and we have received no calculation of the economic impact of the reclassification of those assets from prepayments to assets in use and the related depreciation from the Management Board. As a result, we are unable to assess the impact of this matter on the Company's financial statements for 2012.

#### MODIFIED OPINION

5. In our opinion, except for the potential effects of the matters disclosed in paragraph 4 above, the enclosed financial statements present fairly, in all material respects, the financial position of the company Hrvatska elektroprivreda d.d at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

#### EMPHASIS OF MATTER

6. As described in the note 1, the Company is under finance lease agreements leased property, plant and equipment to its subsidiaries. The leases bear interest to the extent that the Company has acquired external financing to construct the underlying assets. These receivables are stated at nominal value because of the specifics of the HEP Group.

7. As described in the note 26, at 31 December 2012 the Company reported a liability in the amount of HRK 689,792 thousand in respect of a clearing debt regarding a payment under a letter of credit on the basis of the consent of the Ministry of Finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, up to the issuance of our report it has not been clearly defined as either a loan or a government grant.

8. Without qualification of our opinion we draw attention to the note 26, due to financially significant value of court dispute initiated against the Company, related to compensation in respect of rehabilitation of HE Peruća.

9. The Company drawn up the accompanying financial statements in accordance with the International Financial Reporting Standards and in accordance with the requirements of the Croatian laws and regulations and, and stated its investments in subsidiaries and associates at cost. The Company has also prepared consolidated financial statements for Hrvatska elektroprivreda d.d. and its subsidiaries, which were drawn up on 18 April 2013. For a better understanding of the Group's business in general, users should read the consolidated financial statements in conjunction with these financial statements.

#### OTHER LEGAL AND REGULATORY REQUIREMENTS

10. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial

Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 5 to 90 which are the subject of our opinion as set out in section Opinion with reserve, above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
President of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management



## Income Statement – HEP d.d.

for the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
Electricity sales	11,578,819	10,757,193
Service revenues – related companies	1,378,430	1,239,661
Other operating income	181,075	238,446
<b>Total operating income</b>	<b>13,138,324</b>	<b>12,235,300</b>
Purchase of electricity	(4,211,361)	(3,835,440)
Staff costs	(78,976)	(76,014)
Depreciation and amortisation	(52,155)	(68,171)
Electricity generation, transmission and distribution fee from related parties	(8,218,664)	(7,613,865)
Other operating expenses	(569,017)	(528,609)
<b>Total operating expenses</b>	<b>(13,130,173)</b>	<b>(12,122,099)</b>
<b>Profit from operations</b>	<b>8,151</b>	<b>113,201</b>
Financial revenue	598,672	724,715
Financial costs	(314,109)	(383,432)
<b>Net financial income</b>	<b>284,563</b>	<b>341,283</b>
<b>Profit before tax</b>	<b>292,714</b>	<b>454,484</b>
Income tax benefit	16,596	15,614
<b>Net profit for the current year</b>	<b>309,310</b>	<b>470,098</b>

Signed on behalf of the Company on 18 April 2013 by:

Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

## Statement of comprehensive income – HEP d.d.

for the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
<b>Profit for the year</b>	<b>309,310</b>	<b>470,098</b>
Fair valuation adjustment of Janaf shares	6,046	(8,922)
Other comprehensive income / (loss), net	6,046	(8,922)
<b>Total operating income</b>	<b>315,356</b>	<b>461,176</b>

Signed on behalf of the Company on 18 April 2013 by:  
 Zlatko Koračević  
 President of the Board

Ivan Matasić  
 Member of the Board

## Statement of financial position – HEP d.d.

at 31 December 2012

ASSETS	31 December 2012	31 December 2011
	HRK'000	HRK'000
Property, plant and equipment	248,655	217,558
Capital work in progress	313,096	256,199
Intangible assets	13,042	13,512
Investment properties	8,010	8,010
Prepayments for tangible assets	313,035	327,872
Investment in NPP Krško	1,754,419	1,754,419
Investment in and long term receivables from TPP Plomin	300,820	441,791
Investments in subsidiaries	6,398	6,378
Investments available for sale and other investments	129,353	120,915
Long-term loan receivables and deposits	385	511
Long-term lease receivables from related companies	14,724,461	18,124,813
Long-term loan receivables from related parties	126,529	142,407
Receivables from sub loans from related parties	1,393,054	209,001
Other receivables	1,091	1,209
Deferred tax assets	65,199	48,603
<b>Total non-current assets</b>	<b>19,397,547</b>	<b>21,673,198</b>
Inventories	18,290	25,880
Trade receivables	35,282	20,208
Current portion of long-term lease receivables from related companies	1,109,084	1,311,413
Current portion of long-term loan receivables from related parties	150,969	45,394
Other short-term receivables	16,026	161,246
Receivables from related companies	8,474,013	4,269,451
Cash and bank balances	497,096	268,920
<b>Total current assets</b>	<b>10,300,760</b>	<b>6,102,512</b>
<b>TOTAL ASSETS</b>	<b>29,698,307</b>	<b>27,775,710</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

Statement of financial position – HEP d.d.  
at 31 December 2012 (continued)

<b>EQUITY AND LIABILITIES</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
	HRK'000	HRK'000
Share capital	19,792,159	19,792,159
Capital reserves	6,046	(438,958)
Retained earnings	508,034	637,682
<b>Total equity</b>	<b>20,306,239</b>	<b>19,990,883</b>
Long term liabilities in respect of Bonds issued	3,335,608	965,202
Long-term borrowings	1,834,576	2,525,661
Long-term liabilities to the state	1,075	1,130
Other long-term liabilities	697,153	707,702
Long-term liabilities to related companies	161,854	178,980
Provisions	39,909	40,013
Deferred tax liability	1,511	-
<b>Total non-current liabilities</b>	<b>6,071,686</b>	<b>4,418,688</b>
Trade payables	718,648	503,711
Current portion of issued bonds	593,380	93,380
Current portion of long-term borrowings	132,084	1,154,563
Short-term borrowings	402,826	595,584
Taxes payable	77,372	54,737
Interest payable	45,439	23,024
Liabilities to related companies	1,302,276	913,273
Liabilities to employees	5,437	5,229
Other payables	42,920	22,638
<b>Total current liabilities</b>	<b>3,320,382</b>	<b>3,366,139</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29,698,307</b>	<b>27,775,710</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zlatko Koračević  
President of the Board

Ivan Matasić  
Member of the Board

Reports by  
HEP Group  
Companies



# HEP- Proizvodnja d.o.o.

In accordance with HEP Group business policy, in 2011 HEP Proizvodnja d.o.o. (HEP Generation) paid special attention to its core activities, production of electricity and heat for the needs of customers in Croatia. Special attention was given to improvements in electricity production efficiency and to maintenance of high availability of production units. The level of business and collegial cooperation with HEP Group companies remained high and contacts with the relevant ministries (of the economy and of environmental protection) intensified especially in view of hydropower plant revitalization and thermal power plant investments in line with the emission decrease obligations. We have had good cooperation with HERA, HROTE and other energy institutions.

The year 2012 was below average in domestic electricity production. Continuation of unfavourable hydrological conditions from 2011 caused lower annual production by HEP's hydro power plants (4.77 TWh) than planned. Thanks to specific features and energy abundance of the upper basin of the Drava river, our hydro power plants on the Drava exceeded the plan by 15.8% thus generating 1.22 TWh. The electricity production by thermal power plants and cogenerating plants was 3.71 TWh, while heat energy production was somewhat lower (2.35 TWh) as a result of a milder winter. All-time record high availability and record long periods of non-stop generation of TPP Plomin Units A and B resulted in 1.445 TWh generated by TPP Plomin B.



In 2012, special attention was paid to the optimization of the structure and size of inventories and to the pace of procurement of fuel for HEP's thermal and cogenerating plants, with due regard to the economic and ecological viability of substituting oil with natural gas. Compared to 2011, natural gas consumption insignificantly increased to 701 million m<sup>3</sup>. In 2011, HEP Generation introduced hourly plans for natural gas consumption on a daily basis, which continued in 2012. Thanks to changed gas regulations enabling simultaneous natural gas supply contracts with several suppliers on one metering point at the level of the Plinacro transport system, cooperation was established not only with the supplier company Prirodni plin but also with another supplier, Crodux-plinom d.o.o. Consumption of fuel oil continued to decrease to reach 109,700 tonne in 2012, which is significantly less in terms of procurement compared to previous years. Coal consumption was 296,779 t.

In 2012, renewal of HPP Zakučac Unit 1 and HPP Dubrovnik Unit 1 was completed. Further renewal is expected in spring 2013. The reconstruction of the 110 kV switchyard of Varaždin HPP was also completed. The 400/110/30 KV power transformer in Velebit pumped-storage HPP was also replaced, which has increased the operational reliability of this HPP as well as the energy feed for this part of Dalmatia. During 2012, the equipment assembly for Unit C in Sisak TPP continued. More significant construction works were completed and the installation of the boiler plant for Unit C almost fully finished. Works on the water treatment plant started. In the Cetina River Basin Center, computer hardware and specialized software were installed for the needs of operations planning (scheduling) and remote control of hydro power plants in the Cetina River basin. Testing software applications and training of operators is underway.

As part of the restructuring process of HEP Group and in line with the process of adjustment to EU directives, pursuant to guidelines adopted by the Management Board of HEP d.d. in late 2012 HEP Generation started developing underlying documentation for agreeing the scope of demarcation on switchyard facilities between HEP Generation and the companies performing regulated network activities (HEP TSO and HEP DSO).

HEP Generation continued activities for obtaining the status of eligible producer for new and renewed small hydro power plants, including biological minimum generating sets. This documentation was obtained for Lešće HPP which became a part of the system for incentivizing the RES generation. Recertification was successfully carried out for production of green energy from HEP's hydro power plants for 2012. Preparations were made for trading so called 'green energy' certificates in the cooperation with HEP Trade.

During 2012, a complex process of obtaining integrated environmental requirements (individual environmental permits) for HEP's existing thermal power plants, taking into account IPPC and IED directives, i.e. the application of best available techniques and emission limit values taking into account the economic viability of the investments continued.

In 2012, the number of HEP Generation employees continued to decrease so that understaffing and high average age have become a growing business problem. Accordingly, the reorganization of this daughter company within HEP Group's reorganization is being prepared.

Director  
**Nikola Rukavina\***

\*Director since May 21, 2013. In the reporting period the director was Damir Magić.

## GENERATING PLANTS

HYDRO POWER PLANTS	Available capacity (MW)	HYDRO POWER PLANTS	Available capacity (MW)
<b>Storage</b>		<b>Run-of-river</b>	
HE Zakučac	486	HE Varaždin	92.46
RHE Velebit	276 (-240)	HE Dubrava	77.78
HE Orlovac	237	HE Čakovec	77.44
HE Senj	216	HE Gojak	55.5
HE Dubrovnik	2x108*	HE Lešće	42.3
HE Vinodol	90	HE Rijeka	36.2
HE Peruća	60	HE Miljacka	24
HE Kraljevac	46.4	HE Jaruga	7.2
HE Dale	40.8	HE Golubić	6.54
HE Sklope	22.5	HE Ozalj	5.5
CS Buško blato	7.5/4.2 (-10.2/-4.8)	HE Krčić	0.34
CHE Fužine	4.6 (-5.7)		
HE Zavrleje	2		
CHE Lepenica	0.8 (-1.2)		
HE Zeleni vir	1.7		

CS: pumping station CHE: pumped storage RHE: reversible pump turbine

\* One unit of Dubrovnik HPP operates for Bosnia and Herzegovina

THERMAL POWER PLANTS	NET AVAILABLE CAPACITY (MW,MWt,t/h)	Fuel
TE-TO Zagreb	422 / 600 / 300	oil/natural gas
TE Sisak	396/20	oil/natural gas
TE Rijeka	303	oil
TE Plomin (A)	105	coal
EL-TO Zagreb	90 / 184 / 400	oil/natural gas
TE-TO Osijek	90 / 124 / 70	oil / natural gas/extra light oil
KTE Jertovec	74	natural gas/extra light oil
TE PLOMIN (B)*	192	coal

\* Owned by TE Plomin d.o.o. (HEP : RWE Power – 50% : 50%); HEP-Proizvodnja d.o.o. – O&M contract

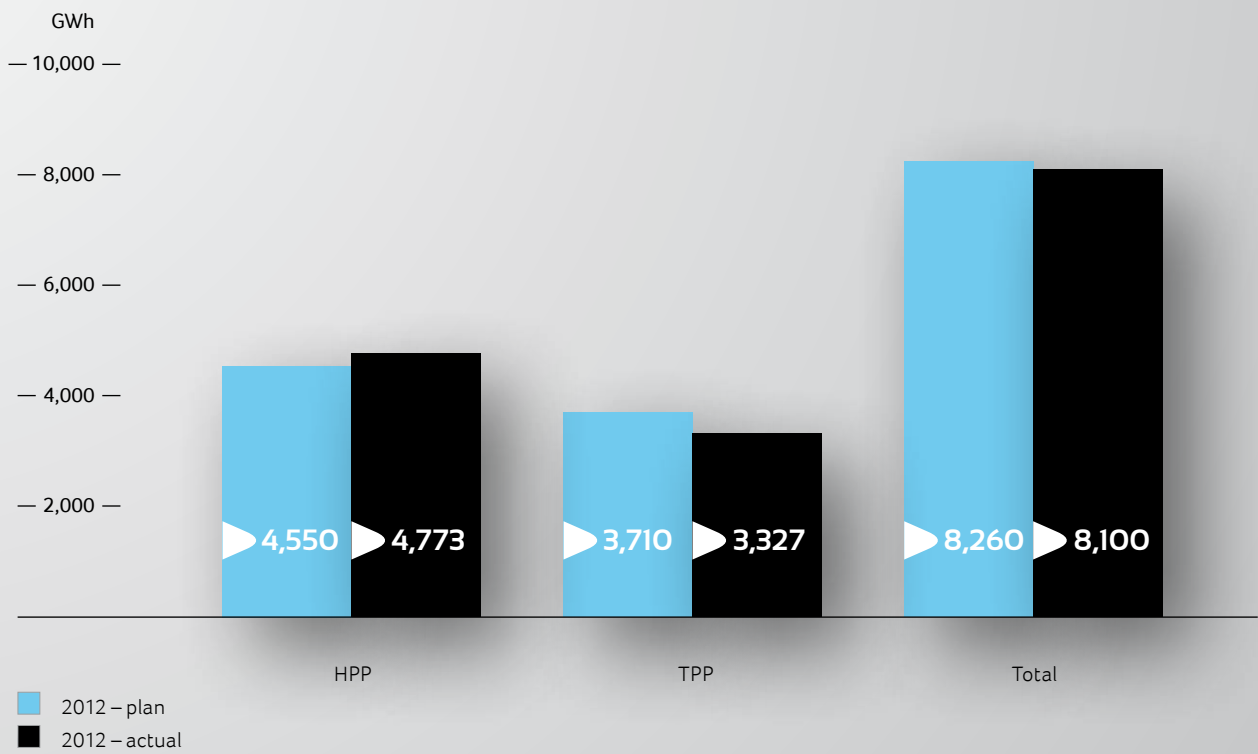
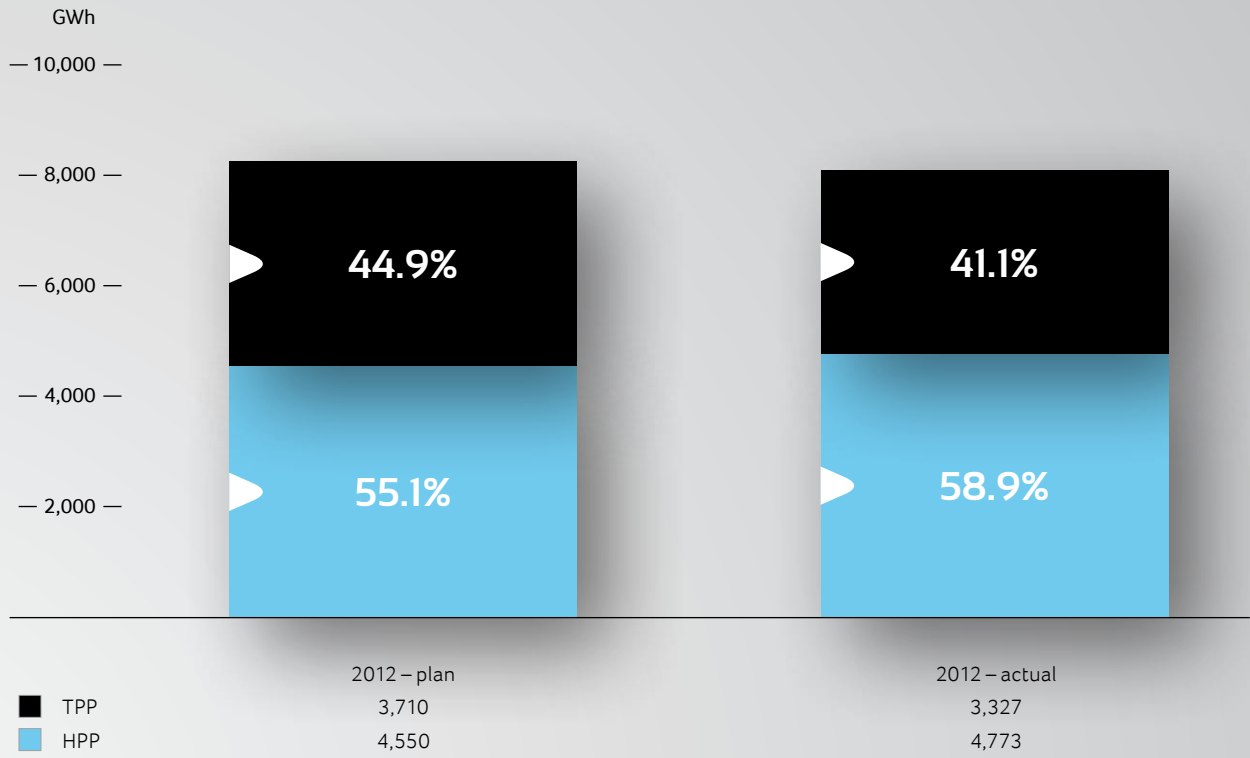
## Electricity and heat production in 2012

## ELECTRICITY PRODUCTION

HEP Generation power plants generated the total of 8,100 GWh of electricity in 2012 (4,773 GWh or 58.9% in hydro and 3,327 GWh or 41.1% in thermal power plants). Thus, its own sources covered 42.35% total electricity needs in the Republic of Croatia.

Compared to the 2012 planned generation, total achieved generation was 1.94% lower including 4.9% higher hydro generation and 10.3% lower thermal generation.





### HEAT ENERGY PRODUCTION

In 2012, HEP Generation CCGT plants generated a total of 2,349,410 MWh of heat energy which is a 4.6% less than the 2012 total planned annual generation. Compared to the year before, heat generation was lower by 4.4%.

Process steam generation amounted to 826,616 tonne, which is a 2.1% less than the 2012 total planned generation (844,344 t) and 5.5% less compared to the year before (874,478 t).

Heat production in 2012 was 1,660,839 MWh or 5.7% less than the 2012 total planned production (1,760,302 MWh) and 3.9% less compared to the heat produced in 2011 (1,728,015 MWh).

### AVAILABILITY OF POWER PLANTS RUN BY HEP GENERATION FOR 2012 INCLUDING TE PLOMIN D.O.O.

Availability of all generating plants i.e. HEP power plants measured as the ratio of availability hours (availability hours = operation + reserve in relation to the total number of hours minus planned overhauls) is 95.4 percent, which is somewhat lower than in 2011 (by 2.3%).

## Financial Statements

### INDEPENDENT AUDITOR'S REPORT

To the Owner of HEP Proizvodnja d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP Proizvodnja d.o.o., Zagreb, Ulica grada Vukovara 37, (hereinafter "the Company") for the year ended 31 December 2012, which comprise of the Balance sheet/ Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed affirmative opinion.

### RESPONSIBILITY OF THE COMPANY'S MANAGEMENT

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

### RESPONSIBILITY OF AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. The audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

**OPINION**

4. In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of the company HEP Proizvodnja d.o.o. at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

**EMPHASIS OF MATTER**

5. We draw attention to the fact that the Company at 31 December 2012 has the stated loss over the level of capital in the amount of HRK 14,457 thousand and that the short term liabilities exceed short term assets for the amount of HRK 2,397,909 thousand. According to Law on financial operations and the pre-bankruptcy agreement (National gazette 108/12, 144/12), the Company does not fulfill the prescribed conditions for adequacy of capital and is insolvent.

The continuation of operations of the Company under the going concern assumption depends on ability of the Company to assure sufficient money assets how to be able to settle the liabilities in time, assure adequate sources of financing and start with business operations with profit. How to attain this, as is described in Note 1 to the financial statements, a Company's member, HEP d.d. has engaged itself to offer the financial support to Company and the Company's Management makes efforts to improve current operations and the financial position of the Company.

6. As described in the note 1 to the enclosed financial statements, the HEP d.d. has under finance lease agreements leased property, plant and equipment to its subsidiaries. The leases bear interest to the extent that the HEP d.d. has acquired external financing to construct the underlying assets. These liabilities are stated at nominal value because of the specifics of the HEP Group.

**OTHER LEGAL AND REGULATORY REQUIREMENTS**

7. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 58 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
President of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management

# HEP Proizvodnja d.o.o., Income Statement

for the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
Income from fee for production of electric energy and other income – related companies	4,354,732	4,030,519
Other operating income	180,423	61,456
	<b>4,535,155</b>	<b>4,091,975</b>
Material and spare parts expenses	2,933,560	2,457,186
Service expenses	331,302	361,873
Staff expenses	339,255	347,247
Depreciation and amortisation	444,937	447,094
Administrative expenses – related companies	98,966	95,668
Ostali rashodi iz poslovanja	322,051	340,439
	<b>4,470,071</b>	<b>4,049,507</b>
<b>Profit from operations</b>	<b>65,084</b>	<b>42,468</b>
Financial income	405	235
Financial expenses	(71,928)	(50,862)
<b>Net financial loss</b>	<b>(71,523)</b>	<b>(50,627)</b>
<b>Loss before taxation</b>	<b>(6,439)</b>	<b>(8,159)</b>
Income tax	208	(87)
<b>Loss for the current year</b>	<b>(6,231)</b>	<b>(8,246)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Damir Magić,  
President of the Board

## HEP Proizvodnja d.o.o., Statement of comprehensive income for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
<b>Loss for the current year</b>	<b>(6,231)</b>	<b>(8,246)</b>
Other comprehensive income or loss for the current year	-	-
<b>Total comprehensive loss for the current year</b>	<b>(6,231)</b>	<b>(8,246)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Damir Magić,  
President of the Board

# HEP Proizvodnja d.o.o., Statement of financial position

at 31 December 2012

<b>ASSETS</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
	HRK'000	HRK'000
Intangible assets	17,735	5,178
Property, plant and equipment	6,444,795	6,986,888
Investment in progress	2,082,059	1,639,259
Investment property	38,739	38,866
Prepayments for property, plant and equipment	69,447	98,993
Investment in subsidiary	8	7
Receivables from the sale of flats	11,861	13,872
Deferred tax assets	57,004	56,796
<b>Total non-current assets</b>	<b>8,721,648</b>	<b>8,839,859</b>
Inventories	604,414	619,742
Other current assets	115,778	199,581
Receivables from related companies	1,282,025	1,008,411
Trade receivables	3,034	1,601
Current portion of long-term receivables	2,749	2,474
Cash and cash equivalents	5,886	18,841
<b>Total current assets</b>	<b>2,013,886</b>	<b>1,850,650</b>
<b>TOTAL ASSETS</b>	<b>10,735,534</b>	<b>10,690,509</b>

Signed on behalf of the Company on 18 April 2013 by:  
Damir Magić,  
President of the Board

HEP Proizvodnja d.o.o.,  
Statement of financial position  
at 31 December 2012 (Continued)

<b>EQUITY AND LIABILITIES</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
	HRK'000	HRK'000
Share capital	20	20
Accumulated loss	(8,246)	0
Loss of the current year	(6,231)	(8,246)
<b>Total equity</b>	<b>(14,457)</b>	<b>(8,226)</b>
Long term liabilities to related companies	6,062,667	6,590,781
Long-term provisions	266,730	383,447
Other long-term liabilities	8,799	9,816
<b>Total non-current liabilities</b>	<b>6,338,196</b>	<b>6,984,044</b>
Trade payables	707,294	872,407
Liabilities to related companies	3,135,450	2,334,416
Current portion of long-term debt to related companies	444,937	447,094
Other payables	124,114	60,774
<b>Total current liabilities</b>	<b>4,411,795</b>	<b>3,714,691</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10,735,534</b>	<b>10,690,509</b>

Signed on behalf of the Company on 18 April 2013 by:  
Damir Magić,  
President of the Board

# HEP – Operator prijenosnog sustava d.o.o.

Operating objectives set in the 2012 Economic Plan and HEP TSO's Investment Plan were exceeded, which was shown in the profit and loss account. In line with the legal and regulatory framework, HEP TSO conducted its fundamental tasks – operation of electricity system of the Republic of Croatia, electricity transmission, maintenance and development and construction of the transmission network while providing support to the development and functioning of the Croatian electricity market and its inter-connections with neighboring electricity markets in the European Union and the Energy Community. In 2012, total electricity consumption was 17,518 GWh, which is 1.1 percent less compared to 2011, with the record high registered system peak load of 3,193MW or 7.5 percent more than in 2011. There were no major disturbances in the operation of the electric power system and customer electricity supply. Transmission losses amounted to 462 GWh which is in absolute and relative terms (2.04 percent of the 22,590 GWh of total electricity transmitted) lower than in 2011 and in relative terms matches the losses of most other European transmission system operators.





During 2012, new 110/(20) 10 kV Dugopolje, 12/110 kV Jelinak and 20/110 kV Ponikve substations were put into regular operation. Already commenced activities on construction preparation, construction, reconstruction and revitalization of a number of transmission facilities were continued, particularly emphasizing the advanced construction stage of the 220/110 kV Plat substation within the Dubrovnik Programme and the execution of the multi-year Electric Power System Operation Project. It can be seen that a significant part of the 2012 HEP TSO activities was focused on facilitating the acceptance of increased share of produced electricity and installed capacity from windfarms, which still remains one of the most important strategic challenges in the coming mid-term period.

The next group of company's strategic objectives in the observed period is connected with the implementation of the provisions from the so-called EU Third Energy Package, which are primarily focusing on transmission system operators. As part of extensive preparatory activities, HEP TSO issued its first 'Indicative mid-term transmission network development plan'.

HEP TSO employees continued to actively participate and cooperate with the relevant Ministry in the activities concerning the monitoring of the implementation of commitments taken within Croatia's EU accession negotiations and other activities concerning EU requirements and projects.

In this regard, HEP TSO nominated several key projects of OHL and highest voltage level substation construction and revitalization for acquiring the status of the Projects of Common Interest and Projects of Energy Community Interest.

In 2012, HEP TSO remained compliant with the Regulation 714/2009/EC and Congestion Management Guidelines (annex to Regulation) concerning the establishment of joint auctions for cross-border transmission capacity at all time levels on Croatian borders, especially those toward EU member states. This was achieved through extensive preparations and successful negotiations and agreements with CEE CAO (CAO GmbH Freising – Central Allocation Office for Central-East Europe), ELES, MAVIR, European Commission, Energy Community Secretariat, HERA, Ministry and regional SEE group in ENTSO-E, which resulted in signing the Service Agreement with CAO GmbH, ELES and MAVIR, and execution of first multilateral coordinated annual and monthly auctions of cross-border transmission capacities for the Croatian-Slovenian and Croatian-Hungarian borders by CEE CAO in December. As a co-founder, HEP TSO launched the Project Team Company for SEE in June (the project company for the preparation of the Office for coordinated mutual SEE auctions) aiming at achieving preparations for the first coordinated mutual auctions until late 2014.

HEP TSO continued to participate, to the extent of its possibilities as a full establishing member, in ENTSO-E (European electricity TSOs) and its working bodies (committees and groups), Assembly and Board as well as in the TSC activities (Transmission System Operator Security Cooperation), the initiative that gathers 11 transmission system operators of the central part of the mainland Europe.

We can conclude that HEP TSO's successful business achievements in 2012, in terms of aggravated operating environment, is the result of HEP TSO employee operating continuity. During 2012, the number of HEP TSO employees decreased by 15 (to 1,181). However, for the purpose of achieving increased, new legal obligations and company's business goals in the coming mid-term period, employee qualification structure and age must be significantly improved.

Director  
**Zdeslav Čerina**

# Scheme of the Croatian Transmission system with electricity exchanges at borders (GWh), 2012



**LEGEND**

Electricity Exchange by Border (GWh)

SUBSTATIONS	POWER PLANTS	TRANSMISSION LINES
400 / 220 / 110 kV	Thermal Power Plant (connected to the transmission network)	400 kV
400 / 110 kV	Hydro Power Plant (connected to the transmission network)	220 kV
220 / 110 kV	Industrial Power Plant (connected to the transmission network)	110 kV
220 / 35 kV	Wind Power Plant	
110 / x kV		
35 / x kV		
Railway Traction Substation		

## TRANSMISSION NETWORK AS AT DECEMBER 31, 2012

	400 kV	220 kV	110 kV	Medium voltage	Total
Overhead lines (km)	1,247	1,210	4,828	203	7,488
Substations (unit)	5	6	122	0	133
Installed capacity (MVA)	4,100	2,120	4,961	0	11,181

## ENERGY BALANCE 2012 (GWh)

Total production *	9,897
Import (entering Croatia)	13,191
<b>Total procurement</b>	<b>23,088</b>
Export (exiting Croatia)	5,568
<b>Total consumption</b>	<b>17,518</b>
Direct procurement and consumption on distribution network	498
Transmission losses	462
<b>Transmission consumption</b>	<b>16,559</b>
Direct customers	600
Pumping and other auxiliary consumption	273
<b>Delivered to distribution from transmission network</b>	<b>15,685</b>
* Including energy received from industrial power plants and wind power plants and production taken directly by distribution network	

<b>System peak load (February 6, 2012)</b>	<b>3,193 MWh/h</b>
--	--------------------

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

To the Owner of HEP Operator prijenosnog sustava d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP Operator prijenosnog sustava d.o.o., Zagreb, Kupska 4, (hereinafter "the Company") for the year ended 31 December 2012, which comprise of the Balance sheet/ Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed affirmative opinion.

### *RESPONSIBILITY OF THE COMPANY'S MANAGEMENT*

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

### *RESPONSIBILITY OF AUDITOR*

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. The audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

### *OPINION*

4. In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of the company HEP Operator prijenosnog sustava d.o.o. at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

*OTHER LEGAL AND REGULATORY REQUIREMENTS*

5. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 58 which are the subject of our opinion as set out in section Opinion above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
President of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management

# HEP – Operator prijenosnog sustava d.o.o.

## Income Statement

for the year ended 31 December 2012

	2012	2011
		Restated
	HRK'000	HRK'000
Electricity transmission income- related parties	1,263,276	1,140,254
Income from balancing energy-related parties	34,165	75,076
Income from sale of cross-border transmission capacity-related parties	61,053	45,606
Other income – related companies	1,340	1,443
Other operating income	184,899	132,306
	<b>1,544,733</b>	<b>1,394,685</b>
Material and spare parts expenses	(21,870)	(23,832)
Service expenses	(132,279)	(100,817)
Staff expenses	(179,443)	(184,454)
Depreciation and amortisation	(230,310)	(236,562)
Support system services expenses	(230,299)	(234,032)
Transmission grid losses	(239,372)	(219,409)
Purchase of balancing energy	(65,096)	(89,453)
Administrative expenses – related companies	(57,929)	(51,145)
Other operating expenses	(93,744)	(72,473)
	<b>(1,250,342)</b>	<b>(1,212,177)</b>
<b>Profit from operations</b>	<b>294,391</b>	<b>182,508</b>
Financial income	426	729
Financial expenses	(41,077)	(47,887)
<b>Net financial loss</b>	<b>(40,651)</b>	<b>(47,158)</b>
<b>Profit before taxation</b>	<b>253,740</b>	<b>135,350</b>
Income tax	(50,480)	(27,634)
<b>Net profit for the current year</b>	<b>203,260</b>	<b>107,716</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zdeslav Čerina  
Director

## HEP – Operator prijenosnog sustava d.o.o., Statement of comprehensive income

for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
		Restated
<b>Profit for the year</b>	<b>203,260</b>	<b>107,716</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the current year</b>	<b>203,260</b>	<b>107,716</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zdeslav Čerina  
Director

# HEP – Operator prijenosnog sustava d.o.o., Statement of financial position

at 31 December 2012

ASSETS	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Property, plant and equipment	4,219,645	3,740,068	3,807,668
Capital work in progress	677,643	526,403	438,158
Intangible assets	19,212	20,249	24,179
Investment properties	11,826	11,899	8,751
Prepayments for property, plant and equipment	445	119	169
Receivables from sale of flats	4,546	5,073	5,955
Deferred tax assets	16,497	11,432	11,293
<b>Total non-current assets</b>	<b>4,949,814</b>	<b>4,315,243</b>	<b>4,296,173</b>
Inventories	17,588	18,027	17,808
Trade receivables	71,065	15,822	46,807
Receivables from related companies	756,890	358,644	423,908
Other current assets	36,850	19,239	23,613
Current portion of long-term receivables	775	877	673
Cash and cash equivalents	6,794	20,196	11,570
<b>Total current assets</b>	<b>889,962</b>	<b>432,805</b>	<b>524,379</b>
<b>TOTAL ASSETS</b>	<b>5,839,776</b>	<b>4,748,048</b>	<b>4,820,552</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zdeslav Čerina  
Director



HEP – Operator prijenosnog sustava d.o.o.,  
Statement of financial position  
at 31 December 2012 (continued)

<b>CAPITAL AND LIABILITIES</b>	<b>31 December 2012</b>	<b>31 December 2011</b>	<b>1 January 2011</b>
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Subscribed capital	20	20	20
Reserves	40	40	40
Retained earnings	218,784	123,240	135,114
<b>Total equity</b>	<b>218,844</b>	<b>123,300</b>	<b>135,174</b>
Long-term liabilities to related company	1,415,317	3,436,236	3,546,045
Provisions for retirement and jubilee bonuses, and legal actions	46,780	48,895	50,852
Other long term liabilities	90,777	94,886	74,616
<b>Total non-current liabilities</b>	<b>1,552,874</b>	<b>3,580,017</b>	<b>3,671,513</b>
Liabilities to related companies	3,482,969	584,900	559,622
Trade payables	322,521	168,204	162,249
Current portion of long-term liabilities to related company	163,698	233,528	229,919
Other current liabilities	98,870	58,099	62,075
<b>Total current liabilities</b>	<b>4,068,058</b>	<b>1,044,731</b>	<b>1,013,865</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>5,839,776</b>	<b>4,748,048</b>	<b>4,820,552</b>

Signed on behalf of the Company on 18 April 2013 by:  
Zdeslav Čerina  
Director

# HEP – Operator distribucijskog sustava d.o.o.

HEP – Operator distribucijskog sustava d.o.o. (Distribution System Operator) operates in line with legally regulated conditions, which requires frequent adjustments of business processes to legislative framework. The year 2012 in operating terms was the year of changing the Croatian energy legislative according to the third energy package. In late 2012, the Energy Act and the Act on Regulation of Energy Activities came into force, whereas the Electricity Market Act was adopted (in force from early 2013). Provisions of the above named Acts require comprehensive operational adjustment.

In the second half 2012, based on the Work Programme of HEP d.d., the Company developed the HEP DSO Work Programme for the period 2012-2016. The Programme defines operating framework and guidelines as well as individual, unambiguous business activities. The Programme aims at continuing useful activities from the previous business periods, accelerate and make them more efficient as well as develop new business activities. New business activities will enable the company to respond to new requirements of network users, network technological challenges, social needs and new legal obligations. In short: active network requires active network operator!

For its own needs primarily and for the market in the lesser scope, the company carried out secondary activities including the construction of electricity power facilities, workshop products development and various services. A significant step forward was made in favour of the future of these activities.



Company's underlying business objectives for the period 2012-2016 are expressed in: the quality of electricity supply, energy efficiency increase in distribution and electricity use, distribution network development taking into consideration the establishment of distributed generation and its unification with the network, new organizational structure of the company aimed at optimizing and improving network users relations, human resources management and knowledge transfer. The ultimate business objective is to establish business excellence of the new distribution system operator.

Company's operations include regular and investment activities, with rules and procedures harmonized with decisions made by the Management Board of HEP d.d., the Supervisory Board and the Company's director.

The 2012 investment plans were structured to include the continuation of capital facilities started and agreed in 2011, construction launch of new capital investments, start of investment activities aimed at the implementation of smart grid concept, continuation of investments in the construction of telecommunication links and replacement of worn-out and the construction of new undersea cables as well as continuation of preparing capital facilities for future planned periods.

The completion of the following capital investments in 2012 must be singled out: five 110/10(20) kV substations (Funtana, Dugopolje, Benkovac, Dubovac, Glina), three 35/10(20) kV substations and five medium voltage OHLs (35, 20 and 10 kV). Capital investments were continued in five new 110/10(20) kV substations (Srđ, Ferenščica, Kneginec, Imotski and Našice) and three existing 35/10(20) kV substations. Two HRK 219.5 mn worth investment programmes i.e. Voltage Rehabilitation and New Voltage Standards, rehabilitated voltage conditions for 35,411 customers including work on 851 transformer areas (about 5% of the total MV/LV substations), 1,021 LV terminals with bad voltage conditions and reconstruction of 839 km of LV lines. This project required the construction of new 13km of OHL and 70km of cable as well as 142 10(20)/0.4 kV substations with total capacity of 30,350 kVA.

The programme of regulating metering points was continued, within which the meters became the part of the advanced metering system (AMI). This investment is of particular importance as it ensures metering data required by electricity market participants. HEP DSO thus obtains an important role of metering data operator. The Automatic Meter Reading system (AMR) includes 3,600 meters with remote management of the connection point to network (remote customer switch on/off from the network), which significantly contributes to special procedures of receivables collection, enables meter access and disclosure of unauthorized consumption.

Director  
**Ljiljana Čule**

Trend of increasing the total number of billing metering points connected to the distribution network was retained. Total number was increased by 0.3 percent in late 2012 i.e. by 5,977 metering points. However, in commercial category a decreasing 0.5% trend was observed i.e. 1,070 billing metering points less. Increasing trend for investments into RES in Croatia continued, especially in small solar plants up to 30 kW built as simple facilities and connected to the LV network by a simplified procedure. For the purpose of responding to a large number of requests, Rules on procedures in the process of plant connection onto the network were developed. During 2012, 98 plants with total installed capacity of 11.5 MVA were connected to HEP DSO network. As of 31 December, 2012 there was a total of 153 plants connected to the distribution network with total installed capacity of 263 MVA.

Activities on the introduction of environment management system were completed in late 2012. Certification according to ISO 14001:2004 was also successfully carried out.

Business environment and work technology are continuously changing. We are therefore investing into the development of new knowledge and workers skills through professional training, specialization and education. During the business 2012, the company focused on improving the operation in all activities and business units and preparing the reconstruction of its business system by maintaining a responsible relation to network users, social environment and workers. The company adjusted to social tendencies in creating new values, investment environment in terms of electric power facility construction, increasing operational efficiency and cost justification as well as meeting current environmental requirements.

## NUMBER OF TRANSFORMER STATIONS BY VOLTAGE LEVEL

TS 110/10(20) kV	TS 35(30)/10(20) kV	TS 20/0.4 kV	TS 10/0.4 kV
7	326	4,306	20,767

## LINE LENGTHS BY VOLTAGE LEVEL AND LINE TYPE

Lines 110 kV (km)			Lines 35, 30 kV (km)			Lines 20 kV (km)		
OHL	Cable	Undersea	OHL	Cable	Undersea	OHL	Cable	Undersea
72.1	11.0	5.8	3,325.5	1,341.5	135.3	3,243.7	3,126.9	2.6
Lines 10 kV (km)			Network 0.4 kV (km)			Household connections (km)		
OHL	Cable	Undersea	OHL-bare	OHL-insulated	Cable	OHL-bare	OHL-insulated	Cable
18,851.7	11,002.2	234.8	21,382.3	25,254.8	17,135.4	4,368.3	16,672.0	1,458.5

## NUMBER OF CUSTOMERS/METERING POINTS BY CONSUMPTION CATEGORY (VOLTAGE LEVEL)

Description	Number of metering points
<b>High voltage 110 kV</b>	4
<b>Total medium voltage</b>	2,135
Low voltage – commercial (excl. public lighting)	189,926
Low voltage – commercial (public lighting)	21,537
Low voltage – residential	2,137,283
<b>TOTAL</b>	2,350,885

## ELECTRICITY SALES BY CUSTOMER CATEGORY IN 2012 (kWh)

Description	Total-Croatia
Commercial – high voltage (HV)	142,966,671
Commercial – medium voltage (MV)	3,450,571,803
<b>TOTAL Commercial HV and MV</b>	<b>3,593,538,474</b>
Commercial – low voltage (LV)	4,240,897,171
Commercial – low voltage (LV) – public lighting	432,203,477
Residential – low voltage (LV)*	6,486,494,762
<b>TOTAL LOW VOLTAGE</b>	<b>11,159,595,410</b>
Public supply service	7,856,568,098
Eligible customers**	6,896,565,786
<b>TOTAL SALES ON DISTRIBUTION NETWORK</b>	<b>14,753,133,885</b>
Sales to customers without supplier on transmission network	5,561,402

## NOTES:

\* Data on electricity sold to residential customers are based on estimated consumption billing.

\*\* There are several eligible customers' suppliers active in the electricity market. Sales to eligible customers within HEP Group are the responsibility of HEP Opskrba d.o.o.

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

To the Owner of HEP – Operator distribucijskog sustava d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP – Operator distribucijskog sustava d.o.o., Zagreb, Ulica grada Vukovara 37, (hereinafter “the Company”) for the year ended 31 December 2012, which comprise of the Balance sheet/ Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed affirmative opinion.

## RESPONSIBILITY OF THE COMPANY'S MANAGEMENT

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

## RESPONSIBILITY OF AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. The audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

## OPINION

4. In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of the company HEP – Operator distribucijskog sustava d.o.o. at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

## EMPHASIS OF MATTER

5. As described in the note 1, to the enclosed unconsolidated financial statements the HEP d.d. has under finance lease agreements leased property, plant and equipment to its subsidiaries. The leases bear interest to the extent that the HEP d.d. has acquired external financing to construct the underlying assets. These liabilities are stated at nominal value because of the specifics of the HEP Group.

*OTHER LEGAL AND REGULATORY REQUIREMENTS*

6. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 62 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
president of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management

# HEP Operator distribucijskog sustava d.o.o., Income Statement

for the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Electricity distribution fee income – related companies	3,537,391	3,278,329
Services rendered	338,098	300,336
Other operating income	370,517	423,605
<b>Total operating income</b>	<b>4,246,006</b>	<b>4,002,270</b>
Cost of externally purchased energy	(97,366)	(50,567)
Grid losses and balancing energy purchases	(685,494)	(621,739)
Service expenses	(240,095)	(198,498)
Staff expenses	(1,161,636)	(1,180,329)
Depreciation and amortisation	(787,310)	(780,525)
Administrative expenses – related companies	(166,590)	(185,041)
Other operating expenses	(631,798)	(589,561)
<b>Total operating expenses</b>	<b>(3,770,289)</b>	<b>(3,606,260)</b>
<b>Profit from operations</b>	<b>475,717</b>	<b>396,010</b>
Financial income	712	2,374
Financial expenses	(50,893)	(38,026)
<b>Net financial loss</b>	<b>(50,181)</b>	<b>(35,652)</b>
<b>Profit before tax</b>	<b>425,536</b>	<b>360,358</b>
Income tax expense	(100)	(70,630)
<b>Profit for the current year</b>	<b>425,436</b>	<b>289,728</b>

Signed on behalf of the Company on 18 April 2013 by:  
Ljiljana Čule,  
Director



## HEP Operator distribucijskog sustava d.o.o., Statement of comprehensive income

for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
		Restated
<b>Profit before tax</b>	<b>425,436</b>	<b>289,728</b>
Other comprehensive income for the current year	-	-
<b>Total comprehensive income for the current year</b>	<b>425,436</b>	<b>289,728</b>

Signed on behalf of the Company on 18 April 2013 by:  
Ljiljana Čule,  
Director

# HEP Operator distribucijskog sustava d.o.o., Statement of financial position

at 31 December 2012

ASSETS	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Property, plant and equipment	11,988,817	11,874,752	11,893,722
Capital work in progress	744,704	584,479	502,836
Intangible assets	21,776	16,974	16,150
Investment properties	65,823	66,168	72,143
Receivables from sale of flats	19,510	21,675	24,695
Prepayments for tangible assets	319	37	5
Deferred tax assets	95,602	59,908	60,612
Investments available for sale	100	-	-
<b>Total non-current assets</b>	<b>12,936,651</b>	<b>12,623,993</b>	<b>12,570,163</b>
Inventories	269,586	232,611	204,341
Trade receivables	909,525	652,581	700,054
Receivables from related companies	1,661,387	1,317,904	1,156,065
Current portion of long-term receivables	3,504	3,761	3,451
Other current assets	54,806	47,517	38,409
Cash and cash equivalents	28,161	53,905	31,630
<b>Total current assets</b>	<b>2,926,969</b>	<b>2,308,279</b>	<b>2,133,950</b>
<b>TOTAL ASSETS</b>	<b>15,863,620</b>	<b>14,932,272</b>	<b>14,704,113</b>

Signed on behalf of the Company on 18 April 2013 by:  
Ljiljana Čule,  
Director

HEP Operator distribucijskog sustava d.o.o.,  
Statement of financial position  
at 31 December 2012 (continued)

<b>EQUITY AND LIABILITIES</b>	<b>31 December 2012</b>	<b>31 December 2011</b>	<b>31 January 2011</b>
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Share capital	20	20	20
Retained earnings	560,960	400,044	181,368
<b>Total equity</b>	<b>560,980</b>	<b>400,064</b>	<b>181,388</b>
Long-term liabilities to related companies	7,507,056	7,238,155	7,491,403
Other non-current liabilities	3,913,311	4,109,103	4,269,063
Long-term provisions	290,095	290,825	279,031
<b>Total non-current liabilities</b>	<b>11,710,462</b>	<b>11,638,083</b>	<b>12,039,497</b>
Trade payables	516,690	480,066	351,872
Liabilities to related companies	1,829,921	1,419,633	1,212,123
Current portion of long-term liabilities to related company	575,394	570,742	568,842
Other current liabilities	670,173	423,684	350,391
<b>Current liabilities</b>	<b>3,592,178</b>	<b>2,894,125</b>	<b>2,483,228</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>15,863,620</b>	<b>14,932,272</b>	<b>14,704,113</b>

Signed on behalf of the Company on 18 April 2013 by:  
Ljiljana Čule,  
Director

# HEP- Toplinarstvo d.o.o.

The year 2012 was an important year for HEP-Toplinarstvo d.o.o. (District Heating), the biggest energy entity in Croatia performing heat energy generation, distribution and supply. All customers were provided with a reliable, safe and quality heat energy supply, activities envisaged by the economic and investment plans were successfully carried out, the new Energy Act (Official Gazette 120/12) entered into force under which the method for making decisions on tariff item amounts for heat energy was changed, request of HEP District Heating for changing the tariff item amount was assessed justified resulting in new heat energy prices in force from mid December 2012.

During 2012, HEP District Heating connected 14 MW of new consumption on the heating system thus continually supplying 117,145 households and 6,051 business offices with heat energy.



In line with the 2012 investment plan, parts of distribution networks in Zagreb, Velika Gorica, Samobor, Zaprešić, Osijek and Sisak were refurbished, the construction of the second part of the system for steam condensate return from boiler station in Caprag, a suburb of the city of Sisak was completed, execution of the project of connecting Zagreb' area of Dubrava to the centralized district heating system of the city of Zagreb was continued as well as the project of refurbishing direct heating stations into indirect. During mid 2012, the Termin application used for technical and economic optimization of the district heating system became operational. The application was implemented by HEP District Heating in cooperation with HEP ESCO d.o.o.. Its purpose is to optimize heat energy supply, improve hydraulic environment on the heating network and prepare to connect new consumption while achieving significant financial savings through lowering distribution network losses.

Pursuant to the new Energy Act, in November 2012 competence for adopting decisions on tariff item amounts for heat energy was transferred from local self-government units to the Croatian Energy Regulatory Agency (HERA), as an independent, autonomous and non-profit organization for regulating energy activities. This new legislative change has great significance for operation of all heating entities currently facing numerous problems – from inadequate heat energy prices, outstanding heat energy liabilities to a large number of customer requests for leaving the heating system.

Pursuant to decisions adopted by HERA on 13 December, 2012 new heat energy tariff item amounts in Zagreb, Velika Gorica, Samobor, Zaprešić, Osijek and Sisak came into force. Despite several requests made by HEP District Heating for heat energy price correction submitted to relevant bodies since the last heat energy price increase in 2009, it has to be emphasized that these decision adopted by HERA in December 2012 made a positive step towards adjusting heat energy prices with real operating costs of the company with energy fuel costs accounting for its 80% share.

In conclusion, I can assert that despite difficulties facing the entire heating sector in the country, HEP District Heating is ready to respond to new business challenges brought by further change of legislative regulation especially the upcoming new Heat Energy Market Act and harmonization with EU directives thanks to effort, engagement and active participation of its own professional employees.

Director  
**Robert Krklec**

## HEP District Heating in 2012



Zagreb

### DISTRICT HEATING SYSTEM ŽAGREB

#### PRODUCTION:

heat	1,472,371 MWh
steam	573,188 t

#### SALES:

heat	1,301,943 MWh
steam	475,276 t

<b>NUMBER OF CUSTOMERS:</b>	90,396
-----------------------------	--------

Zagreb

### LOCAL BOILER PLANTS

#### PRODUCTION:

heat	190,956 MWh
------	-------------

#### SALES:

heat	177,473 MWh
------	-------------

<b>NUMBER OF CUSTOMERS:</b>	16,951
-----------------------------	--------

Sisak

### SISAK OPERATIVE AREA

#### PRODUCTION:

heat	97,709 MWh
steam	4,547 t

#### SALES:

heat	63,478 MWh
steam	3,404 t

<b>NUMBER OF CUSTOMERS:</b>	4,137
-----------------------------	-------

Osijek

### OSIJEK OPERATIVE AREA

#### PRODUCTION:

heat	197,538 MWh
steam	141,157 t

#### SALES:

heat	184,021 MWh
steam	106,049 t

<b>NUMBER OF CUSTOMERS:</b>	11,712
-----------------------------	--------

During 2012, the number of heat energy customers rose by 0.4 percent to a total number of 123,196 until end 2012, of which 117,145 households and 6,051 corporate entities.

In heat consumption (district heat and process steam) households make 58 percent (48% in income) and corporate entities 42 percent (52% in income). The ratio of delivered heat energy (hot water) to process steam in MWh was 78%:22%.

In consumption of district heat, the share of Zagreb (including Samobor, Velika Gorica and Zaprešić) was 85.7 percent, Osijek 10.6 percent, and Sisak 3.7 percent. Consumption of process steam was 584,729 tonne (Zagreb 81%, Osijek 18%, Sisak 1%).

In 2012, heat energy sales decreased by 4.2 percent compared to the year before as a consequence of a somewhat warmer heating season. Taking each of the two main products separately, heat and steam sales decreased by 4.6% and 2.7% respectively.

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

To the Owner of HEP Toplinarstvo d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP Toplinarstvo d.o.o., Zagreb, Miševička 15a, (hereinafter "the Company") for the year ended 31 December 2012, which comprise of the Balance sheet/ Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures.

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed affirmative opinion.

### *RESPONSIBILITY OF THE COMPANY'S MANAGEMENT*

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

### *RESPONSIBILITY OF AUDITOR*

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. The audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

### *OPINION*

4. In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of the company HEP Toplinarstvo d.o.o. at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

### *EMPHASIS OF MATTER*

5. We draw attention to the fact that the Company at 31 December 2012 has the stated loss over the level of capital in the amount of HRK 1,606,229 thousand and that the short term liabilities exceed short term assets for the amount of HRK 1,580,182 thousand. According to Law on financial operations and the pre-bankruptcy agreement (National gazette 108/12,144/12), the Company does not fulfill the prescribed conditions for adequacy of capital and is insolvent.

The continuation of operations of the Company under the going concern assumption depends on ability of the Company to assure sufficient money assets how to be able to settle the liabilities in time, assure adequate sources of financing and start with business operations with profit. How to attain this, as is

described in Note 1 to the financial statements, a Company's member, HEP d.d. has engaged itself to offer the financial support to Company and the Company's Management makes efforts to improve current operations and the financial position of the Company.

6. As described in the note 1 to the enclosed financial statements, the HEP d.d. has under finance lease agreements leased property, plant and equipment to its subsidiaries. The leases bear interest to the extent that the HEP d.d. has acquired external financing to construct the underlying assets. These liabilities are stated at nominal value because of the specifics of the HEP Group.

***OTHER LEGAL AND REGULATORY REQUIREMENTS***

7. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 57 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
president of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management



# HEP Toplinarstvo d.o.o., Income Statement

for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
		<b>Restated</b>
Income from thermal energy sale to the buyers outside the HEP Group	585,485	582,352
Income from sale of electric energy to eligible customers	10,571	9,016
Income from thermal energy and other income – related companies	3,954	3,906
Restaurant income	573	470
Other operating income	49,463	59,181
	<b>650,046</b>	<b>654,925</b>
Energy, material and spare parts expenses	(102,625)	(106,740)
Service expenses	(25,137)	(27,783)
Staff expenses	(50,171)	(49,404)
Depreciation and amortisation	(57,906)	(59,929)
Expense in respect of electricity generation and other expenses – related companies	(818,538)	(659,161)
Other operating expenses	(52,783)	(66,841)
	<b>(1,107,160)</b>	<b>(969,858)</b>
<b>Loss from operations</b>	<b>(457,114)</b>	<b>(314,933)</b>
Financial revenues	8,121	7,936
Financial expenses	(14,637)	(14,114)
<b>Net financial loss</b>	<b>(6,516)</b>	<b>(6,178)</b>
<b>Loss before tax</b>	<b>(463,630)</b>	<b>(321,111)</b>
Income tax	-	-
<b>Loss for the current year</b>	<b>(463,630)</b>	<b>(321,111)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Robert Krklec  
Director

## HEP Toplinarstvo d.o.o., Statement of comprehensive income for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
		Restated
<b>Loss for the current year</b>	<b>(463,630)</b>	<b>(321,111)</b>
Other comprehensive income for the current year	-	-
<b>Total comprehensive loss for the current year</b>	<b>(463,630)</b>	<b>(321,111)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Robert Krklec  
Director

## HEP Toplinarstvo d.o.o., Statement of financial position at 31 December 2012

ASSETS	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Property, plant and equipment	878,206	839,861	864,816
Assets under construction	80,960	71,757	38,494
Intangible assets	1,105	717	953
Receivables from the sale of flats	701	767	705
Advances for property, plant and equipment	641	-	44
Investment property	824	824	903
Receivables from related companies	156,352	174,283	174,283
<b>Total non-current assets</b>	<b>1,118,789</b>	<b>1,088,209</b>	<b>1,080,198</b>
Inventories	34,186	32,285	24,225
Trade receivables	166,722	138,195	137,562
Receivables from related companies	1,120	644	15,098
Other receivables	47,750	47,206	19,934
Current portion of long-term receivables	112	130	294
Cash and cash equivalents	4,512	7,049	9,528
<b>Total current assets</b>	<b>254,402</b>	<b>225,509</b>	<b>206,641</b>
<b>TOTAL ASSETS</b>	<b>1,373,191</b>	<b>1,313,718</b>	<b>1,286,839</b>

Signed on behalf of the Company on 18 April 2013 by:  
Robert Krklec  
Director

HEP Toplinarstvo d.o.o.,  
Statement of financial position  
at 31 December 2012 (continued)

	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Share capital	20	20	20
Reserves	20	20	20
Accumulated losses	(1,606,269)	(1,142,639)	(821,528)
<b>Total equity</b>	<b>(1,606,229)</b>	<b>(1,142,599)</b>	<b>(821,488)</b>
Long-term liabilities to related companies	992,781	964,041	1,003,074
Other long-term liabilities	410	437	477
Long-term provisions	12,215	10,652	7,664
Deferred income	139,430	147,180	160,443
<b>Total non-current liabilities</b>	<b>1,144,836</b>	<b>1,122,310</b>	<b>1,171,658</b>
Trade payables	62,058	71,589	40,889
Liabilities to related companies	1,706,095	1,190,781	832,679
Current portion of long-term debt to related companies	57,906	59,929	56,240
Other short-term liabilities	8,525	11,708	6,861
<b>Total current liabilities</b>	<b>1,834,584</b>	<b>1,334,007</b>	<b>936,669</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,373,191</b>	<b>1,313,718</b>	<b>1,286,839</b>

Signed on behalf of the Company on 18 April 2013 by:  
Robert Krklec  
Director

# HEP-Plin d.o.o.

HEP-Plin (HEP Gas) carries out two energy businesses of the gas sector: gas distribution and gas supply to customers pursuant to the Companies Act, Energy Act and Gas Market Act and a number of implementing regulations. Gas distribution is carried out according to regulated principles of public service provision, and gas supply to customers according to regulated principles of public service provision for tariff customers (households) and to other customers according to market principles – by individually negotiating mutual rights and obligations.

In 2012, the continuity of gas supply to customers was ensured thanks to our gas wholesale supplier which was able to ensure sufficient quantities of gas from domestic production and imports.

The stagnation of business activities in Croatia continued, reflected as a decrease in gas sales to commercial customers, especially to our large commercial customers. Somewhat lesser decrease of sale resulting from temporary cancellation of gas supply was recorded in household category which uses gas primarily for heating.

Due to the implementation of savings measures it is planned to cut all costs that do not directly affect the security and continuity of gas supply to customers further. Thus, the HEP Gas Work Programme for the period 2012-2016 was adopted as part of the Work Programme of HEP d.d. Management Board.

Business environment was characterized by non-existence of appropriate regulation (the new Gas Market Act, amendments of the Tariff system for gas distribution and supply etc), which were not adopted by the regulator of energy activities and relevant government bodies and which would facilitate further operational harmonization with the new Energy Act.



Current tasks arising from the objectives were successfully carried out in 2011 to our and our customers' satisfaction and to the satisfaction of our concession grantors – units of area and local self governments. The distribution network has been maintained in the proper and functional working order and breakdowns at gas supply points were repaired in the shortest period possible by duty crews. There were no major disruptions in gas deliveries resulting from a major breakdown in the gas network. Significant attention is continually paid to environmental protection, primarily to preventing gas leakages into the atmosphere.

In 2012, the construction continued of the gas network based on the obligation taken under concession agreements in ten new settlements and a part remained to be constructed in 2013. Unfortunately, connecting new customers to the finished network, due to the economic crisis, did not progress as expected. The existing network underwent the necessary modifications and reconstruction in accordance with the reduced investment funds.

The year 2012 was the year of a more severe competition for HEP Gas. In terms of distribution, there is no competition as long as the existing concession agreements are in force and the contractual terms are met. In case the right to gas distribution is lost in some local self-government areas, distribution network owned by HEP Gas will be leased or sold to another concessionaire thus achieving return of investment. However, the activity of customer gas supply faces much stronger competition. Until 31 July 2013 (when legal exemption becomes non-void), tariff customer supply will be conducted by HEP Gas as an incumbent supplier, whereas entrepreneurial customer supply is currently faced with competition. There are currently about 50 gas suppliers registered in Croatia. Currently, gas supply market in Croatia has not been regulated on an arm's length principle.

Upon EU accession, full opening of the gas market and discontinuation of price regulation for all eligible customers, we expect constant and uncertain market competition. On the other hand, opening of gas market represents an opportunity for HEP Gas to expand its gas energy activities to other areas either by obtaining concession rights or acquiring some smaller neighbouring and remote energy entities without a perspective for independent survival.

In 2012, operating profit was HRK 0.3mn. Total income compared to the year before was 2.7% higher, although the application of the average gas selling price increase deflator in 2012 of 16.1% results in real income decrease of 11.5%! On the other hand, total expenses increased by 2.3% compared to 2011 with the 2.6% increase of its main costs – gas procurement (procurement decreased in volume by 11%, but the average purchase price increased by 15.1 percent).

Director  
**Nikola Liović**

## HEP-Plin d.o.o. in 2012



### NUMBER OF CUSTOMERS

Supply area		Customer category	
Osijek-Baranja County	61,424	TM1 – Residential	67,815
Požega-Slavonija County	7,989	TM2 – Commercial (up to 1 mn m <sup>3</sup> )	5,373
Virovitica-Podravina County	3,793	TM3 – Commercial (above 1 mn m <sup>3</sup> )	18
<b>Total</b>	<b>73,206</b>	<b>Total</b>	<b>73,206</b>

TM – tariff model

### GAS NETWORK

	2011	2012	2012/2011 (%)
Gas lines – owned by HEP d.d. (km)	1,859	1,972	6.1
Gas lines – owned by other parties (km)	531	492	2.7
<b>Gas lines – total</b>	<b>2,390</b>	<b>2,464</b>	<b>3.1</b>
<b>Reducing stations– DRS (number)</b>	<b>52</b>	<b>52</b>	<b>0.0</b>
<b>Odorizers (number)</b>	<b>27</b>	<b>27</b>	<b>0.0</b>

### ENERGY BALANCE (10<sup>3</sup> m<sup>3</sup>)

	2011	2012	2012/2011 (%)
Procurement (10 <sup>3</sup> m <sup>3</sup> )	157,475	140,185	-11.0
Sales (10 <sup>3</sup> m <sup>3</sup> )	149,661	133,794	-10.6

### GAS SALE STRUCTURE (10<sup>3</sup> m<sup>3</sup>)

Customer category	2011	2012	2012/2011 (%)
TM1 – Residential	88,296	80,588	-8.7
TM2 – Commercial (up to 1 mn m <sup>3</sup> )	44,416	39,582	-10.9
TM3 – Commercial (above 1 mn m <sup>3</sup> )	16,948	13,624	-19.6
<b>Total</b>	<b>149,661</b>	<b>133,795</b>	<b>-10.6</b>

# Financial Statements

## INDEPENDENT AUDITOR'S REPORT

To the Owner of HEP Plin d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP Plin d.o.o., Osijek, Cara Hadrijana 7, (hereinafter "the Company") for the year ended 31 December 2012, which comprise of the Balance sheet/ Statement of Financial Position as of that date; the Statement of Income / Statement of Comprehensive Income; the Statement of Changes in Equity; the Cash Flows Statement for the year then ended; and the accompanying Notes to the Financial Statements which concisely set out the principal accounting policies and other disclosures .

The audit of the financial statements of the Company for the year ended 31 December 2011 was performed by another auditor, who in its report dated 16 April 2012, expressed affirmative opinion.

### *RESPONSIBILITY OF THE COMPANY'S MANAGEMENT*

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the Republic of Croatia and also those internal controls which are determined by the Company's management as necessary to enable preparation of the financial statements free from material misstatements whether due to fraud or error are the responsibility of the Company's management.

### *RESPONSIBILITY OF AUDITOR*

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. The audit was performed in accordance with the International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the Financial Statements.

We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for our opinion.

### *OPINION*

In our opinion, the enclosed financial statements present fairly, in all material respects, the financial position of the company HEP Plin d.o.o. at 31 December 2012, the results of its operations and its cash flows for 2012 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the Republic of Croatia.

### *EMPHASIS OF MATTER*

5. We draw attention to the fact that the Company at 31 December 2012 has the stated loss over the level of capital in the amount of HRK 6,989 thousand and that the short term liabilities exceed short term assets for the amount of HRK 16,258 thousand. According to Law on financial operations and the pre-bankruptcy agreement (National gazette 108/12,144/12), the Company does not fulfill the prescribed conditions for adequacy of capital and is insolvent.

The continuation of operations of the Company under the going concern assumption depends on ability of the Company to assure sufficient money assets how to be able to settle the liabilities in time, assure adequate sources of financing and start with business operations with profit. How to attain this, as is

described in Note 1 to the financial statements, a Company's member, HEP d.d. has engaged itself to offer the financial support to Company and the Company's Management makes efforts to improve current operations and the financial position of the Company.

6. As described in the note 1 to the enclosed financial statements, the HEP d.d. has under finance lease agreements leased property, plant and equipment to its subsidiaries. The leases bear interest to the extent that the HEP d.d. has acquired external financing to construct the underlying assets. These liabilities are stated at nominal value because of the specifics of the HEP Group.

***OTHER LEGAL AND REGULATORY REQUIREMENTS***

7. The preparation of the annual Financial Statements of the Company for the year ended 31 December 2012 in prescribed form on the basis of Regulation on the structure and content of the annual Financial Statements (National gazette No 38/08, 12/09, 130/10) ("Standard annual financial statements") is responsibility of the Company's management. Financial information set out in standard annual Financial Statements of the Company are identical to information stated in the annual Financial Statements of the Company shown on pages 4 to 49 which are the subject of our opinion as set out in section Opinion, above.

In Zagreb, 18 April 2013

BDO Croatia d.o.o.  
Jeni Krstičević, auth. auditor  
president of the Management

Audit d.o.o.  
Zoran Vuk, auth. auditor,  
Member of the Management



## HEP Plin d.o.o., Income Statement for the year ended 31 December 2012

	<b>2012</b>	<b>2011</b>
	HRK'000	HRK'000
		<b>Restated</b>
Gas sales	395,956	381,177
Service revenues	4,983	7,290
Income from related companies	3,183	3,122
Other operating income	21,052	22,821
<b>Total operating income</b>	<b>425,174</b>	<b>414,410</b>
Cost of gas purchase and material used	(363,474)	(354,313)
Service expenses	(3,907)	(3,891)
Staff expenses	(18,315)	(18,783)
Depreciation and amortization	(11,745)	(11,192)
Expenses with related parties	(4,439)	(4,550)
Other operating expenses	(21,054)	(19,600)
<b>Total operating expenses</b>	<b>(422,934)</b>	<b>(412,329)</b>
<b>Profit from operations</b>	<b>2,240</b>	<b>2,081</b>
Financial income	301	84
Financial expenses	(714)	(1,786)
<b>Net financial loss</b>	<b>(413)</b>	<b>(1,702)</b>
<b>Profit / (loss) from operations before tax</b>	<b>1,827</b>	<b>379</b>
Income tax	(1,498)	(738)
<b>Loss for the year</b>	<b>329</b>	<b>(359)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Nikola Liović  
Director

## HEP Plin d.o.o., Statement of comprehensive income for the year ended 31 December 2012

	2012	2011
	HRK'000	HRK'000
<b>Profit / (loss) for the year</b>	<b>329</b>	<b>(359)</b>
Other comprehensive income for the year		
<b>Total comprehensive (loss) for the year</b>	<b>329</b>	<b>(359)</b>

Signed on behalf of the Company on 18 April 2013 by:  
Nikola Liović  
Director

## HEP Plin d.o.o., Statement of financial position at 31 December 2012

ASSETS	31 December 2012	31 December 2011	1 January 2011
	HRK'000	HRK'000	HRK'000
		<b>Restated</b>	<b>Restated</b>
Property, plant and equipment	197,290	191,630	188,104
Investment in progress and prepayments	3,749	4,200	1,570
Intangible assets	259	201	210
Prepayments for non-current assets	-	19	-
Trade receivables	4,038	-	-
Deferred tax assets	752	621	790
<b>Total non-current assets</b>	<b>206,088</b>	<b>196,671</b>	<b>190,674</b>
Inventories	1,525	1,844	2,173
Trade receivables	119,944	116,534	120,584
Receivables from related companies	589	4,797	7,903
Other current assets	716	3,759	4,404
Cash and cash equivalents	22,365	3,530	1,422
<b>Total current assets</b>	<b>145,139</b>	<b>130,464</b>	<b>136,486</b>
<b>Total assets</b>	<b>351,227</b>	<b>327,135</b>	<b>327,160</b>

Signed on behalf of the Company on 18 April 2013 by:  
Nikola Liović  
Director

HEP Plin d.o.o.,  
Statement of financial position  
at 31 December 2012 (continued)

SHAREHOLDERS'EQUITY AND LIABILITIES	31 December 2012	31 December 2011	1 January 2011
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
Share capital	20	20	20
Accumulated losses	(8,734)	(8,284)	(4,792)
Retained earnings	1,396	1,396	1,306
Profit / (loss) for the year	329	(449)	(3,492)
<b>Total equity</b>	<b>(6,989)</b>	<b>(7,318)</b>	<b>(6,958)</b>
Long-term liabilities to related companies	103,193	92,233	86,236
Deferred income	90,133	94,653	99,169
Other non-current liabilities	3,493	3,104	3,030
<b>Total non-current liabilities</b>	<b>196,819</b>	<b>189,990</b>	<b>188,435</b>
Trade payables	77,937	66,640	71,512
Liabilities to related companies	71,743	66,585	62,546
Current portion of long-term liabilities to related Companies	7,070	6,465	6,376
Other current liabilities	4,647	4,772	5,249
<b>Total current liabilities</b>	<b>161,397</b>	<b>144,463</b>	<b>145,683</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>351,227</b>	<b>327,135</b>	<b>327,160</b>

Signed on behalf of the Company on 18 April 2013 by:

Nikola Liović  
Director

Reports  
by Other  
HEP Group  
Companies



# HEP-Opskrba d.o.o.

HEP-Opskrba (HEP Supply) recorded good business results in 2012 despite stronger competition and a serious slowdown of economic activities in Croatia i.e. closing of numerous domestic companies resulting in lower electricity consumption of large customers.

In the liberalized market environment, we guarantee safe and reliable electricity supply for more than 38,000 customers. A regional step forward was made by entering into supply contracts for first two customers in the Republic of Slovenia. We have successfully maintained and strengthened the position of the leading national electricity supplier with over 88% of electricity sale to entrepreneurial category. The share of an increasing number of active competitors is under 3 percent in terms of the entrepreneurial category.

For the purpose of adjusting to a more difficult operating conditions, we have focused on improving bill collection on one hand, and putting large efforts in improving service provision to our customers on the other. We have introduced the new electricity pricing methodology which provides customers with an opportunity to use various pricing models, flexible payment dates and decreased costs by introducing energy efficiency measures. This approach has enabled us to retain the loyalty of our long-lasting customers as well as to initiate a positive trend of winning new accounts by means of public tendering. In 2012, HEP Supply participated in 459 public tenders and entered into contracts worth HRK 253.7mn. Trend of losing contracts at public tenders from previous years has been stopped and halved thanks to our adaptation to market operating conditions. According to Integrityobservers data, HEP Supply was one of five companies with the highest number of signed contracts and framework agreements in the public tender procedure in 2012.



During the process of public procurement, prescribed for employers in case of electricity supply purchase, the following employers have chosen HEP Supply as the most favourable bidder: Hrvatska pošta d.d., Hrvatske autoceste d.o.o., Hrvatske ceste d.o.o., HŽ infrastruktura d.o.o., Zagrebački holding, Vodovod i kanalizacija d.o.o. Split, Hrvatska radiotelevizija d.o.o., HZZO (execution of a single procurement procedure for 28 employers, primarily hospitals and university medical centres), cities of Dubrovnik, Osijek, Sisak, Virovitica, Zagreb (city administration).

Based on the analysis findings, the company has undertaken its first steps for expanding its operation on regional markets opting for the Slovenian. Its first activities on the Slovenian market, HEP Supply launched in July 2012 by following public tender announcements for electricity supply. Along with electricity market analyses, especially its legislative framework, the company took part in tenders for acquiring basic information on conditions and prices offered by other suppliers. Therefore, in 2012 HEP Supply participated in over ten public tenders for electricity supply and signed contracts with two customers which supply started on 1 January, 2013.

Our main priority is satisfaction of our customers to whom we have been continuously adjusting by offering better quality services and innovative products applying sustainable development and socially responsible operation norms. With that in mind, we have developed a unique market product called ZelEn, which guarantees our customer that its entire electricity volume is generated from RES. This serves as an incentive in terms of social responsibility and environmental awareness, whereas all funds gathered from the sale of Zel En product will be used solely for financing construction RES projects.

In order to keep pace with world trends and ensure the sustainability of our operations, we have continued with the development of the eMobility project, by which we wish to connect Croatia to the European energy motorway. As part of the project, we will start with the construction of electric vehicles charging stations network thus securing preconditions for their use and contributing to decreased CO<sub>2</sub> emissions. The Croatian economy is facing yet another difficult and challenging year. However, we believe in increased income and profitability as the result of our efforts and favourable hydrology. With that in mind, HEP Supply stresses its objective of retaining the leading market position by the quality of our offer and preserving customer satisfaction.

Director  
**Tina Jakaša**

## NUMBER OF CUSTOMERS

Customer category	2011	2012	% 2012/2011
<b>Number of customers</b>	<b>47,652</b>	<b>38,458</b>	<b>-19.3</b>
Number of metering points per customer	2.2	2.7	23.9
<b>Electricity sale per customer</b>	<b>MWh/per customer</b>	<b>171</b>	<b>23.9</b>
	<b>HRK/per customer</b>	<b>67,175</b>	<b>83,375</b>

More than 8,000 customers switched to the public service provided by HEP Distribution System Operator

## NUMBER OF METERING POINTS

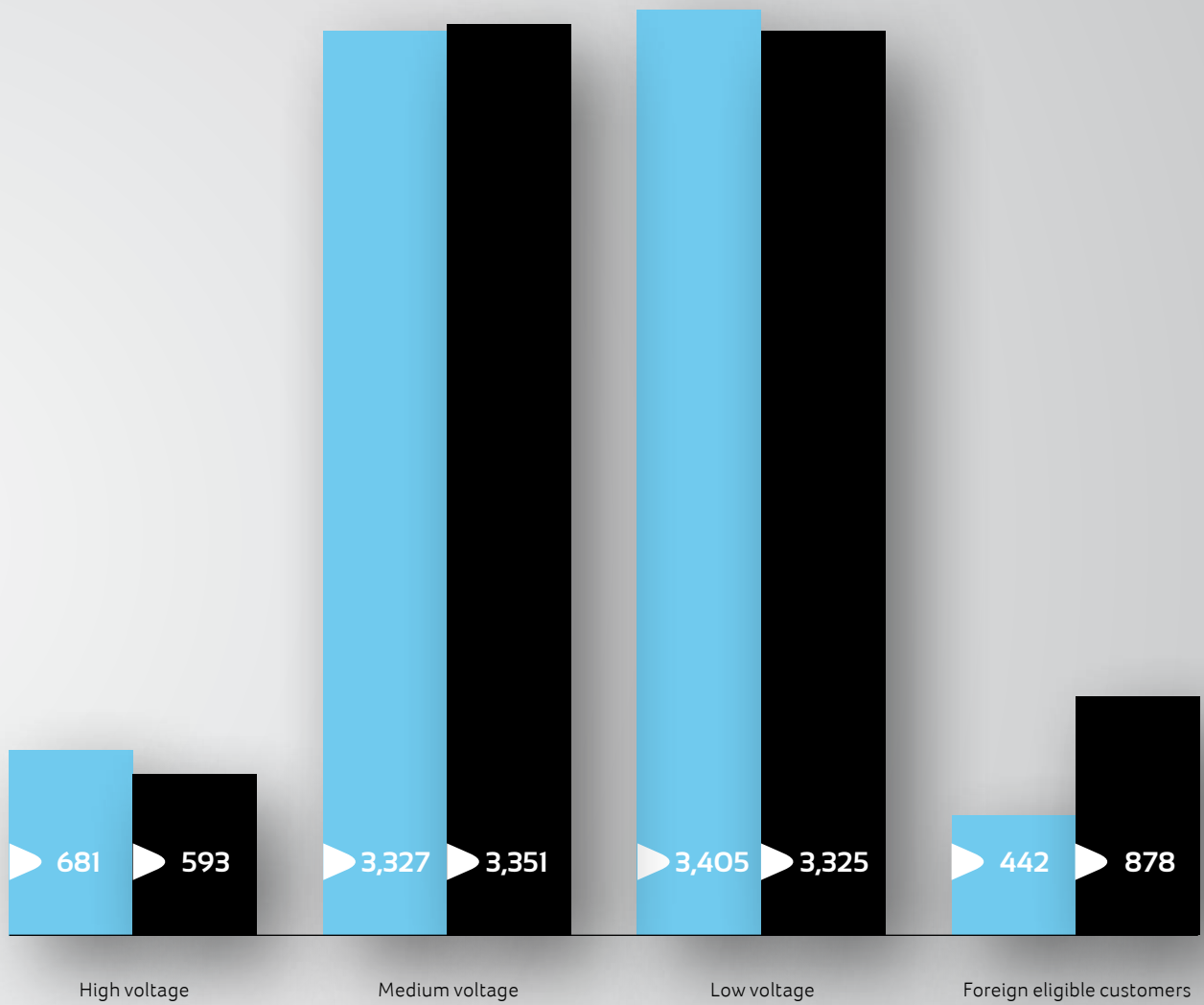
Customer category	2011	2012	% 2012/2011
<b>High voltage</b>	<b>35</b>	<b>40</b>	<b>14.3</b>
<b>Medium voltage</b>	<b>1,725</b>	<b>1,702</b>	<b>-1.3</b>
Low voltage – commercial	102,226	91,724	-10.3
Low voltage – public lighting	11,765	12,096	2.8
Low voltage – residential	350	79	-77.4
<b>Total low voltage</b>	<b>114,341</b>	<b>103,899</b>	<b>-9.1</b>
<b>Total</b>	<b>116,101</b>	<b>105,641</b>	<b>-9.0</b>

## ELECTRICITY SALE IN GWH PER CONSUMPTION CATEGORIES (VOLTAGE LEVELS)

Customer category	2011	2012	% 2012/2011
<b>High voltage</b>	<b>681</b>	<b>593</b>	<b>-13.0</b>
<b>Medium voltage</b>	<b>3,327</b>	<b>3,351</b>	<b>0.7</b>
Low voltage – commercial	3,165	3,102	-2.0
Low voltage – public lighting	236	220	-6.8
Low voltage – residential	3.7	3.0	-20.2
<b>Total low voltage</b>	<b>3,405</b>	<b>3,325</b>	<b>-2.3</b>
<b>Total eligible customers in Croatia</b>	<b>7,412</b>	<b>7,269</b>	<b>-1.9</b>
Foreign eligible customers	442	878	98.7
<b>Total eligible customers</b>	<b>7,854</b>	<b>8,147</b>	<b>3.7</b>



## Sales per Voltage Level (GWh)



■ 2011  
■ 2012

# HEP-Trgovina d.o.o.

During 2012, by optimizing the operation of HEP Group power plants in combination with purchase and sale of electricity in the electricity market, the company fulfilled all its business tasks, whereby it contributed to the achievement of HEP Group mission. In discharging day-to-day work, it was necessary for us to adjust to the changing conditions in the electricity market, oscillations in electricity consumption, changing hydrologic conditions and to sporadic unavailability of generating plants. The achievement of good business results despite unplanned aggravating circumstances was also due to cooperation with other companies of HEP Group.

During 2012, HEP Trgovina (HEP Trade) continued the activities relating to operations of foreign companies in neighboring countries aimed at increasing profits by achieving lower prices in buying and selling of electricity. The Slovenian company participated in auctions for cross-border transmission capacity at Slovenian/Austrian border, organized by CAO (Central Allocation Office). In this way HEP is able to buy or sell electricity in the liquid market. During 2011, the Hungarian company took an active part in the work of HUPX (Hungarian Power Exchange), and the new daughter company was set up in Kosovo.



The employees in 2012 participated in national and international conferences for professional improvement and keeping up with trends in the electricity market, thus contributing to achieving HEP Group's vision. The company continued to actively participate in the work of EFET (European Federation of Energy Traders).

Total electricity consumption on the transmission network was 17,526 GWh, a decrease of 0.8 percent compared to 2012 or 1.6 percent compared to the consumption planned in the electricity balance. Tariff and eligible customers in the consumption structure accounted for 95.6 percent. Consumption by HEP customers was 17,304 GWh and consumption by customers outside HEP Group was 222 GWh. Due to exceptionally unfavourable hydrological conditions, in the first three quarters 2012 hydroelectric production was 4,773 GWh or 4.9 percent lower than planned, so that hydro power plants in covering total consumption contributed by only 27 percent. The energy value of inflows amounted to 5,197 GWh which is 10.5 percent more than planned.

Production by thermal power plants was 10.3 percent lower than planned due to the optimization of variable production costs. The record low consumption of fuel oil was registered at 111,469 tonne.

In light of the above described energy circumstances, record import level was recorded of 6,609 GWh, which is 7.6 percent more than planned while the export was 40.5% higher than planned primarily due to extremely favourable hydrology in the last quarter 2012.

During 2012, the volume of trade was realized in the amount of 8,211 GWh which is 13 percent higher than planned.

Director  
**Ante Ćurić**

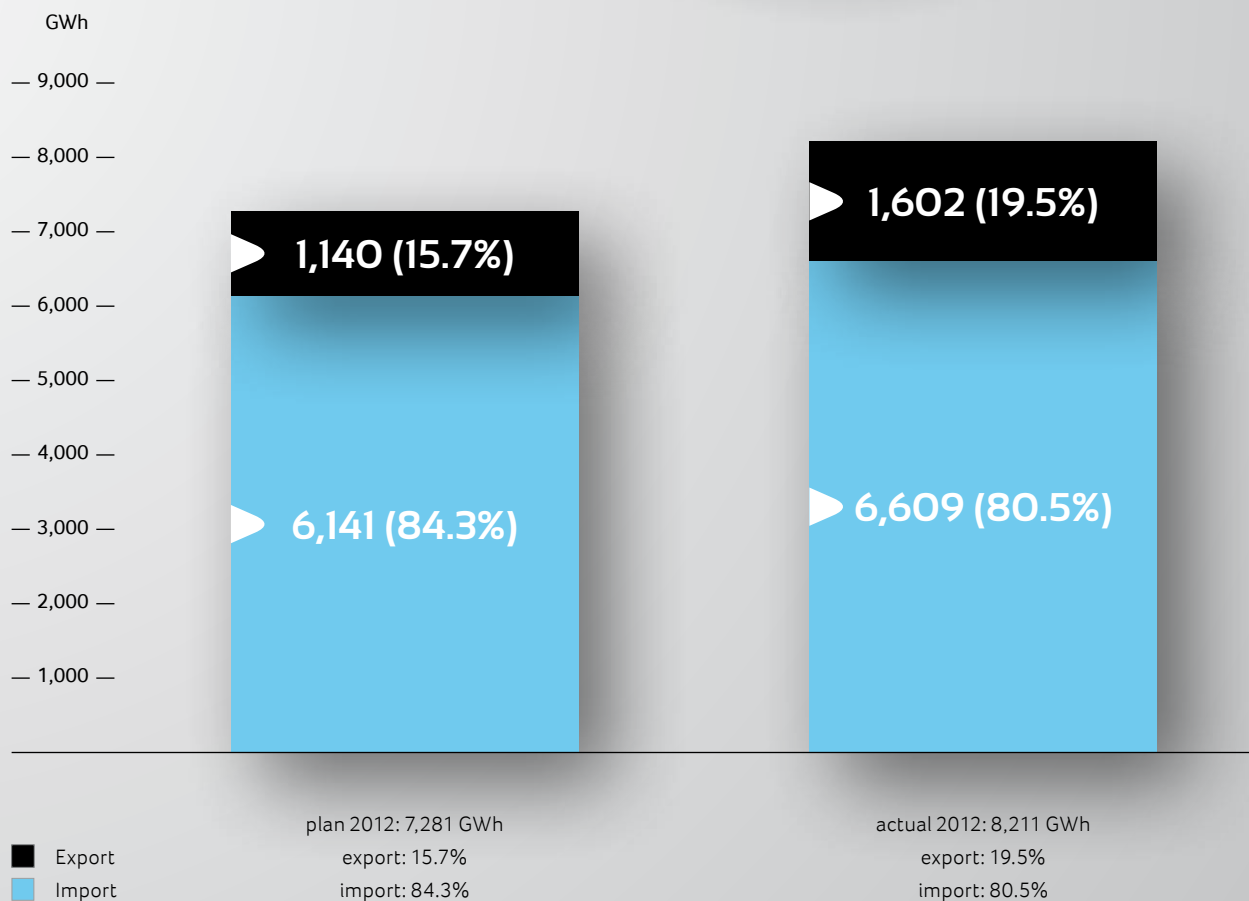
## ACHIEVED IN 2012 – ENERGY DATA

				GWh	
	2011	2012	2012/2011 (%)	2012 (plan)	2012/2012 plan (%)
<b>Total consumption at transmission network</b>	<b>17,667</b>	<b>17,526</b>	<b>-0.8</b>	<b>17,804</b>	<b>-1.6</b>
Hydro generation	4,577	4,773	4.3	4,550	4.9
Thermal generation	3,602	3,327	-7.6	3,710	-10.3
NE Krško d.o.o.	2,951	2,622	-11.2	2,660	-1.5
TE Plomin d.o.o.	1,545	1,372	-11.2	1,445	-5.0
Import	5,779	6,609	14.4	6,141	7.6
Export	-1,033	-1,602	55.1	-1,140	40.5
Industrial plants	11	12	8.9	18	-33.4
Eligible producers	234	414	76.7	421	-1.7
<b>Available electricity</b>	<b>17,667</b>	<b>17,526</b>	<b>-0.8</b>	<b>17,804</b>	<b>-1.6</b>

## Structure of Electricity Consumption in 2012 (GWh; %)



## Trade Volume, 2012



# HEP-ESCO d.o.o.

HEP ESCO is the first company in Croatia established to prepare, execute and finance energy efficiency projects according to the Energy Service Company model, in which investments into the project are returned through energy savings achieved after the investment is completed.

Energy efficiency is a strategic goal of the Republic of Croatia as well as one of the reasons for establishing the company performing such an activity within HEP Group. Following successful operations in its first years, the company was faced with strategic, institutionalized and organizational barriers slowing it down, even hindering the market operation of HEP ESCO. After executing the World Bank project, HEP ESCO was faced with the problem of treating energy efficiency projects as a budgetary burden for public institutions. In light of public sector projects having the highest market share, this resulted in a significant sale decrease. However, HEP ESCO focused its attention to new clients – industry and privately owned buildings including hospitality and food industry. HEP ESCO operations in 2012 were also influenced by the economic crisis impacting local communities and industry. Problems included inadequate private users solvency and clients hit by the recession. Several initiated projects were stopped in their early stages due to clients' financial difficulties. This led to insufficient number of energy efficiency projects and concluded agreements with clients – end users of electricity and heat energy resulting in negative financial figures at the end of the year.



The new Management Board of HEP d.d. gave a strong incentive and support to HEP ESCO, which carried out its reorganization and adopted the new work plan and programme. In early August 2012, the new Rules of organization and work in line with the HEP ESCO Work Programme for the period 2012-2016 was adopted and the Mutual Relations Agreement between HEP ESCO and HEP d.d. prepared. In line with the company's Work Programme, several execution programmes were developed during 2012, among which energy efficiency of the facilities owned by HEP d.d. must be emphasized as a novelty.

During 2012, two big energy efficiency projects for HEP District Heating were completed:

- technical and economic optimization of the central district heating system in the city of Zagreb; HRK 15.4mn total value, repayment period of 8 years, with the objective of optimizing the operation of Zagreb's heating system, energy savings and decreasing greenhouse gases emissions, and
- the project of modernizing the heating system of Velika Gorica, HRK 16mn total value, repayment period of 28 months, with the objective of installing energy efficiency measures and the construction of the connecting pipeline and hot water line in Galženica III boiler room.

During 2012, HEP ESCO also managed the execution of the PV plant project on the roof of the Adria Hotel in Biograd, reconstruction of the lighting system in Elka's manufacturing halls and coordination of gasification contractors in the Music School in Karlovac.

Meeting one of the main developing business objectives of HEP Group – provision of energy service to citizens, in 2012 HEP ESCO developed the concept and successfully delivered the pilot project of the energy efficiency and RES information point in Varaždin.

In view of the significant role of RES and the synergy effect obtained from their implementation in energy efficiency projects, the pilot project of integrated PV plants along with the renewal of HEP's building was launched and nine PV plant projects with total capacity of 204 kW developed with previously obtained energy consent and electricity purchase contracts signed.

In the second half 2012, activities regarding project preparation for EU funds intensified. The Sunshine project was accepted, the A2PBEER project is undergoing the contracting process with the commission, while the TRAP-EE project has been applied for the Leonardo da Vinci – Transfer of Innovation contest. Its adoption is expected.

Ten year long business activities of HEP ESCO can confirm that energy efficiency can initiate and engage a portion of small and medium-sized entrepreneurs and contribute to creation of added value to be repaid in savings. During next few years, HEP ESCO as well as other ESCO companies in Croatia will significantly contribute to meeting goals set by the National Action Plans for energy efficiency and requirements stemming from the new energy efficiency directive.

Director  
**Vlasta Zanki**

# APO d.o.o., usluge zaštite okoliša

APO d.o.o. usluge zaštite okoliša (APO Environmental Services) – a member of HEP Group – is a consulting and engineering company specializing in environmental protection. The economic crisis and insufficient investments marked the business 2012. Many investors slowed down their development of already agreed documentation due to issues with investment delivery or illiquidity, which created additional operating difficulties for APO. Market prices continued to drop, and APO services provision within HEP Group also recorded a lowering trend.

Works and services offered by APO on the market are the following:

- Services in the area of environmental protection, sustainable development, planning, research, project design and management – reports, studies, assessments, monitoring;
- Nature protection – nature protection programs, management plans, action plans, reports on the state of the environment, waste management – waste inventory, mediation;





- Industrial pollution control and risk management – engineering solutions, reports, documentation for integrated environmental requirements; air quality and climate change – report verification, emission calculation;
- Others – project environmental due diligence, project and program management including the entire project management from the offer to delivery; consultancy and technical support for projects financed by EU and global funds.
- Services in the area of nuclear facility decommissioning and nuclear material and radioactive waste disposal, nuclear material and TENORM management (materials with natural elevated radioactivity).

APO's employees, and thus APO itself, are authorized for performing the following work: environmental impact/environmental impact assessment (studies, papers and other documentation); nature impact/ecological network impact (studies, papers and other documentation); integrated environmental requirements, development of technical and technological solution for plants and other documentation (analyses/papers) in the process of obtaining the integrated environmental requirements; safety reports; evaluation of environmental damage; recovery programmes; calculation (inventory) of greenhouse gases emissions and other polluting emissions; verification of emission reports; environmental protection programmes; environmental protection action programmes, strategic studies and environmental reports. APO monitored and responded to all new requirements set by legislative regulations in 2012. For the purpose of higher competitiveness, rounding its service offer and joint market presence, several mutual cooperation agreements were concluded with companies developing project documentation and conceptual designs. This contributed to winning several contracts for assessing the need for evaluating municipal waste disposal site improvement, which shows an increasing demand as all disposal sites must be improved until late 2018.

In line with its authorization, during 2012 APO developed 25 new documents for various employers, primarily the need for EIAS, previous assessment of project acceptability for ecological network, safety reports, operational plans of urgent measures in case of extraordinary and sudden water pollution, requests for integrated environmental requirements pursuant to the Ordinance on the procedure of determining integrated environmental requirements, technical and technological solutions and alike. For the needs of the Fund for funding decommissioning and radioactive waste and used nuclear fuel from Krško NPP disposal the following was developed: the Analysis of the existing domestic and EU legislative framework for disposal activities of radioactive waste and used nuclear fuel in Croatia with the proposal of necessary harmonization between domestic legislature with EU laws, IAEA norms and good practice. Due to decreased income from waste disposal activities resulting from stronger market competition, APO withdrew from operational waste disposal activities. We opted only for mediation activities in the waste organization and/or disposal. Total volume of collected waste in 2012 amounted to 492.776 t, of which 491.445 t in HEP Group.

In 2012, the group of clients expanded to include Hrvatske autoceste, Hrvatske vode, Gavrilović, the city of Metković, the city of Zaprrešić, Usluge Poreč, Viševica, Sladorana, Tvornica šećera Osijek and others. In international terms, we would like to emphasize the cooperation with French SAFAGE on establishing the Centre for environmental permit issuance in Croatia.

Director  
**Mirjana-Čerškov Klika**

# HEP – Obnovljivi izvori energije d.o.o.

HEP-Obnovljivi izvori energije d.o.o. (Renewable Energy Sources) is a company specialized for organization and operational management of construction, management, operation and maintenance of facilities using RES for electricity and heat energy generation for the purpose of achieving sustainable development and meeting HEP Group environmental protection objectives. Organization and business management of research, development and RES project preparation are carried out within the company as well. HEP RES participates in the energy market as an investor into plants using RES and as such equally competes with other market investors.

The company HEP Obnovljivi izvori energije d.o.o. (HEP RES, HEP Renewable Energy Sources) in 2012 continued to develop its priority projects: biomass cogenerating plant Velika Gorica and solar photovoltaic power plants Concerto Hvar and Konjsko. Also, the company was very active in the development of other renewable energy projects.



At the beginning of 2009, a contract was signed with the German development bank KfW, which secured finance for HEP for the implementation of renewable energy and energy efficiency projects. KfW Bank loan proceeds amounting to 50 million euro were allocated to HEP Obnovljivi izvori energije for power plant projects using renewable energy sources and to HEP ESCO for energy efficiency projects. In addition to the loan, HEP and KfW signed a grant agreement. Smaller portion of the grant was used to purchase specialist software for the assessment of wind potential and staff training, and the greater part was used for consultancy services in the development of wind power plant projects and preparing documentation for obtaining the location permit for Velika Gorica biomass plant.

Using KfW loan proceeds, three poles were installed to measure wind characteristics of 100 meters in height, and project documentation was prepared for obtaining the location permit for the biomass power plant Velika Gorica. In the further development of biomass power plants, cooperation is expected with other members of HEP Group, primarily HEP District Heating, HEP Generation and HEP ESCO.

Also, wind studies were completed based on the wind characteristics measuring campaign on several sites in southern and mainland Croatia. Some sites have shown good quality potential and these are being further developed. The activities to get the sites incorporated in county physical plans continued and would continue into 2013.

Activities relating to European FP7 project of photovoltaic power plant Concerto Hvar continued. The purpose of the Concerto Solution project is to support public and private partners in creating energy self-sufficient communities by applying energy efficiency measures and using renewable energy sources. The project involves 17 partners from Switzerland, Finland, Austria, Slovenia and Croatia, and as the demonstration zone in Croatia the island of Hvar was chosen. The responsibility of HEP RES in the project is to develop a demonstration solar photovoltaic power plant 2x250 kW on the island of Hvar. The Paper on optimal technical solution for connecting the plant onto the network started.

During mid 2012, extensive activities of defining technically feasible potential for the installation of solar plants on facilities and surfaces owned by HEP were launched. Preproject documentation for one part of planned solar plants on roof surfaces of HEP's facilities was developed at the end of the year.

In the field of environmental protection, HEP RES's plan for the implementation of renewable energy sources was incorporated in HEP Group's Plan for CO<sub>2</sub> emission reduction.

The work on the development of new competencies and raising of awareness of the role of renewable energy sources within and outside HEP Group continued, in professional communities and the general public. For that reason HEP RES was frequently present in HEP Group internal publications, at professional gatherings and conferences, and on its website.

Taking the above into consideration, it can be asserted that the successful realization of the objectives have continued, in accordance with the company's mission and vision, further development of quality projects continued and the participation in EU projects have opened the possibilities for further advances and expansion and for the better positioning of HEP RES on the RES market.

Director  
**Hubert Bašić**

# HEP – Višenamjenski nekretninski projekti d.o.o.

HEP – Razvoj višenamjenskih nekretninskih projekata d.o.o. (development of multi-purpose real estate projects) is a newly founded daughter company of HEP Group. Founded in April 2012, its core activity is development of multi-purpose projects which integral part is electricity generation.

Development and execution of multi-purpose projects is usually followed by several participants with various and often conflicted interests. Task of the project leader is to harmonize these interests and ensure project execution. Most frequent multi-purpose project functions are energy generation, protection



against large bodies of water, irrigation and drainage, transport of people and goods, development of commercial real estates.

During its almost a full year of operation, organizational structure of the Programme of protecting, regulating and using the Sava river and its coastal area from the Slovenian border to the city of Sisak was successfully established. Terms of reference of the multi-purpose system from the Slovenian border to the city of Sisak was defined and the agreement for the development of the conceptual design based on the terms of reference signed.

All Programme stakeholders were identified and strategically and operationally included in the operational structure. Some of them co-financed the development of the conceptual design. The management model recognizes all stakeholders as Programme owners as all of them will benefit from it regardless of preparation funding. Stakeholders will participate through co-financing of individual stages thus making the Programme more cost-effective and beneficial for all.

The Programme Technical Council was formed with its aim to supervise designers and evaluate solutions. The Council consists of university professors, professional associations representatives and independent experts. This multidisciplinary approach guarantees the scientific and professional solution soundness as well as transparency in light of the professional public. Members of the Technical Council will change depending on required expertise and Programme stages.

The application for EU funds was successful resulting in allocated EUR 1.5million as a technical aid for developing the feasibility and social and environmental study for the Programme of protecting, regulating and using the Sava river and its coastal area from the Slovenian border to the city of Sisak.

After analyzing the model of real estate management in HEP Group, development of a more efficient management model proposal commenced. The strategy of using tourism-related real estate owned by HEP Group was developed and presented to the Management Board.

Completion of already started activities is expected in the following period as well as a full affirmation of the model of multi-purpose investment project management including interested public and insisting on professional and scientific solution verification.

Director  
**Leo Penović**

# HEP – Odmor i rekreacija d.o.o.

HEP – Odmor i rekreacija d.o.o. (HEP Leisure and Recreation) was established to provide vacation and recreation services to HEP Group employees.

In 2012, there were vacation houses available to HEP Group employees on 10 locations along the Adriatic Coast.

These units are used only by HEP Group employees based on the results of the contest for the use of vacation houses. The contest for the use of vacation houses is for the period from June 20 to September 8 each year and the employees use the units in ten-day shifts (eight shifts).

The intention of the company is to extend the season to at least 120 days and in certain vacation houses to year-round operation. During 2012, there were 22,834 bed nights.

One of the main tasks of the Company is setting up centralized planning and supervision of the implementation of recreation activities as well as to centralize the financial resources approved for recreation of employees. HEP Odmor i rekreacija is responsible for the implementation of recreation for all employees in the Zagreb area, and for supervision of recreation programs in the entire HEP Group.

Main business activities of the Company in 2012 included urgent start of further vacation facilities modernization by implementing advanced energy efficiency measures and using RES for the purpose of achieving energy savings in summer and winter months. These investments will result in new capacities in categorized facilities which will be offered to market via a tourist agency, which establishment is underway.

During 2012, the Company was modernizing vacation houses to reach the two, three or four star category; collecting the complete documentation and obtaining permits, conducting the process of categorization and preparing for entering into the wider commercial market aiming at filling empty accommodation during and out of season.

Director  
**Karolina Juzbašić**



# Ustanova HEP – Nastavno- obrazovni centar

HEP NOC (HEP Education and Training Center) is primarily intended for education and professional improvement of HEP Group employees and introduction of live work technology. Also, its purpose is to train HEP's employees in other technologies and/or provide education as may be needed by HEP. This establishes HEP-NOC as a business school of HEP, and by being approved and registered as an institution the Center has been granted public access. The verification of programs for training and professional improvement means that all legal preconditions for additional training and acquiring new qualifications have been met.

Education, provided for employees of other companies, represents a significant source of income for HEP NOC. The Centre has expanded its activity to include periodical testing of personal protective equipment and insulation tools in the control-testing laboratory accredited by the Croatian Accreditation Agency. Pursuant to provisions of the Secondary Education Act and the Articles of Association of the Centre, its Steering Committee passed the HEP NOC Annual Work Plan and Programme: adult education in school year 2011/2012. The Plan and Programme were harmonized with positive experience from similar institutions as well as with goals and needs of HEP Group. The planning process also considered own experience from previous years of independent operation. The 2013 Operating Plan stems from the proposed Annual Plan and Work Programme. Results are the consequence of economic recession,

Head  
**Zdenko Miletić**



which will probably continue in near future. Therefore, we will parallelly focus on decreasing costs and expanding the market which should result in rising incomes.

The 2012 business plans and objectives included training and professional improvement of HEP NOC employees, training and professional improvement of HEP Group employees as well as employees of other companies engaged in live work and other programmes, export of live work technology in Slovenia, increased scope of work of the control-testing laboratory for insulation tools and equipment, inter-laboratory cooperation and accreditation of the HEP NOC control-testing laboratory according to HRN EN ISO/IEC 17025:2007, affirmation, market presence and expansion of the Centre's operating scope to ensure new jobs in 2012, facility modernization and collection of teaching tools.

Pursuant to the Education Act, HEP NOC adopted the work plan and programme for the school year also representing the 2012 work framework.

HEP-NOC offers 16 verified educational programs. During 2012, andragogue schooling attendance continued, participation in professional gatherings of EDZ, CROLab etc. as well as full membership of the Croatian Association of Laboratories (CROLAB) based on met criteria in the process of accreditation from the Croatian Accreditation Agency.

In terms of educational and accommodation occupancy, HEP NOC recorded satisfactory figures in all months in its seventh year of operational independence, excluding the vacation period (part of July and August). In 2012, 3,968 people stayed the night in HEP NOC facilities, mostly full-board, while 1,502 people participated in educational programmes, seminars, workgroups and events.

We can conclude that all plans were carried out in high percentage due to realistic and careful planning in line with the complex business environment. A significant income source during times of lower engagement for the needs of HEP Group companies came from exporting the LV live work technology to Slovenia and from providing education of private company employees.

Positive trend is expected in 2013 with further overheads decrease and stronger general economic activity. This is certainly contributed by fast adoption of a number of documents, rules and harmonization of Croatian norms in the process of EU accession under which adult education becomes a mandatory factor of development with an appropriate investment amount at the level of the entire society. Its unique and specific programme will definitely ensure HEP NOC an appropriate status and guarantee further professional development of HEP Group employees.



# HEP Group Address List

## HRVATSKA ELEKTROPRIVREDA d.d.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/63 22 111  
www.hep.hr

### OFFICE OF MANAGEMENT BOARD

PHONE: ++385 1/ 61 71 294  
FAX: ++385 1/ 63 22 787

### MARKETING AND CORPORATE COMMUNICATIONS DEPARTMENT

PHONE: ++385 1/ 63 22 202  
FAX: ++385 1/ 63 22 102

## HEP-PROIZVODNJA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/ 63 22 111  
FAX: ++385 1/ 61 72 016

## HEP – OPERATOR DISTRIBUCIJSKOG SUSTAVA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/ 63 22 111  
FAX: ++385 1/ 61 70 956

## HEP OPSKRBA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/63 22 318  
FAX: ++385 1/63 22 409

## HEP-TRGOVINA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/ 63 22 111  
FAX: ++385 1/ 61 70 478

## HEP-TOPLINARSTVO d.o.o.

10000 Zagreb, Miševečka 15 a  
PHONE: ++385 1/ 60 09 555  
FAX: ++385 1/ 61 31 978

## HEP-PLIN d.o.o.

31000 Osijek, Cara Hadrijana 7  
PHONE: ++385 31/ 24 48 88  
FAX: ++385 31/21 31 99

## HEP ESCO d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/63 22 302  
FAX: ++385 1/63 22 459

## HEP – OBNOVLJIVI IZVORI ENERGIJE d.o.o.

10 000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/ 63 22 111  
FAX: ++385 1/63 22 531

## APO d.o.o., USLUGE ZAŠTITE OKOLIŠA

10000 Zagreb, Savska cesta 41/IV  
PHONE: ++385 1/ 63 11 999  
FAX: ++385 1/ 61 76 734

## HEP – NASTAVNO-OBRAZOVNI CENTAR

34330 Velika, Luke Ibrišimovića 9  
PHONE: ++385 34/313-037  
FAX: ++385 34/233-084

## HEP – ODMOR I REKREACIJA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/38 70 801  
FAX: ++385 1/38 70 804

## HEP – RAZVOJ VIŠENAMJENSKIH NEKRETNINSKIH PROJEKATA d.o.o.

10000 Zagreb, Ulica grada Vukovara 37  
PHONE: ++385 1/ 36 52 056  
FAX: ++385 1/ 36 52 060

## C.S. BUŠKO BLATO d.o.o.

80101 Livno, Podgradina bb  
Bosna i Hercegovina  
PHONE: ++387 34/ 245 148  
FAX: ++387 34/ 245 666

## TE PLOMIN d.o.o.

52234 Plomin, Plomin luka bb  
PHONE: ++385 52/ 86 62 44  
FAX: ++385 52/ 86 33 04

## PLOMIN HOLDING d.o.o.

52234 Plomin, Plomin b.b.  
PHONE: ++385 52/ 86 33 47  
FAX: ++385 52/ 86 33 44

## NOTES

### TIMEFRAME OF THE REPORT

This Annual Report gives an overview of the business year 2012 – from January 1 to December 31, 2012

Data on the events important for HEP Group operations occurring after December 31 are also given, but no later than June 30, 2013

### FINANCIAL REPORTS OF HEP GROUP COMPANIES

In the financial reports of the companies in the Chapter 'Reports by HEP Group Companies with Financial Statements', the authorized auditor provides references to the notes which are an integral part of the financial statements. In this Annual Report, due to its scope, accompanying notes are not provided. The full statements with notes are available at HQ of the companies concerned.

### PUBLISHER:

Hrvatska elektroprivreda d.d. (HEP d.d.) Zagreb  
Ulica grada Vukovara 37  
tel. +385 1 63 22 111  
[www.hep.hr](http://www.hep.hr)

### FOR THE PUBLISHER:

Tomislav Šerić

### PRODUCTION:

Marketing and Corporate Communications Department

### DEPARTMENT DIRECTOR:

Mirela Klanac

### EDITOR:

Darko Alfirev

### TRANSLATED BY:

Anita Robinić

### GRAPHIC DESIGN:

Bestias dizajn

### PRINT:

Denona, Zagreb

ISSN 1332-4993



