Annual Report

2013

HEP

Annual Report

2013

HEP Group 2013

Electricity sales

+5.1%

17.4 TWh

Electricity production

+21.1%

14.7 TWh

Heat sales

-0.2%

2.2 TWh

Gas sales

-6.7%

125 mn m^3

Operating income

+4.8%

HRK 14,694.9 mn

EBITDA

+91.1%

HRK 4,140.3 mn

Group net profit (loss)

+3,533.7%

HRK 1,301.2 mn

Total assets

+0.2%

HRK 35,560.9 mn

Number of employees

-12.6%

11,877

*Change 2013/2012 (%)

Contents

5

6

7

8

Chairman's Report

Nikola Bruketa
Supervisory Board
Chairman

During fiscal year 2013, the Supervisory Board held eight meetings (two conference calls) in the period between two annual Assemblies.
The Supervisory Board adopted the proposal submitted by the Management Board of HEP d.d. on appointing the auditor for the fiscal year 2013. BDO Croatia d.o.o. and Audit d.o.o. were jointly appointed as auditors of Hrvatska elektroprivreda d.d. and its dependant companies.

During five meetings of the Audit Committee of Hrvatska elektroprivreda d.d., which also took part in the Company's operational supervision, numerous issues, in particular those regarding Company's financial reports, audit findings and activities of external auditor were discussed as well as the report on the work conducted by the Department of Internal Audit and Risk Management of HEP d.d. in 2013.
The Supervisory Board supervised the conduct of Company affairs 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.
The Supervisory Board analysed the execution of planned results and implementation of fundamental objectives set by the Company's business policy for 2013. It also took active participation in monitoring the execution of the Work Programme of the Management Board for the term period 2013-2016 and meeting set key parameters of the Programme and planned activities.
Pursuant to the Decision adopted by the Croatian Government from 3 October 2013, the Supervisory Board appointed Željko Štromar a member of the Management Board of HEP d.d.

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 2014. It also provided adequate prior consents regarding the following proposals:

- establishment of HEP-Telekomunikacije d.o.o. (pursuant to the Decision of the Croatian Government on fiber optics integration in public companies to comply with all terms set by the Directive of the EC and the Electricity Market Act for the needs of the new independent transmission operator set up according to the ITO model);
- establishment of the new limited liability company within HEP Group for performing the activity of wholesale gas market supplier;
- conclusion of Annex IV of the Agreement made between HEP d.d. and HAC d.o.o. from 20 December 2006;
- adoption of amended plan of financial and operational restructuring of Našicecement d.d. in the process of pre-bankruptcy settlement;
- adopting the Decision on transferring the real-estate title to HOPS d.o.o.

The active role undertaken by the Supervisory Board in 2013 in the execution of HEP Group restructuring processes must be pointed out. It received regular reports from the Management Board of HEP d.d., expressed its opinions and provided recommendations to the Management Board focusing on enhancing operational efficiency and future strategic determinants of HEP Group in view of new circumstances emerging on the electricity market and taking an equal part in competition.

By receiving regular reports and information from the Management Board of the Company, the Supervisory Board has been continuously participating and following the activities regarding HEP Group's capital investment projects, annual investment plans and documents setting the strategic framework for investments,

During fiscal 2013, the Supervisory Board held two thematic meetings of the Management and Supervisory Boards.

During the first meeting held in October 2013, the capacity and technological efficiency of the electric power system were discussed as well as investment planning and execution, operational organization, staffing development and possibilities of improving economic operating parameters.

The topic discussed during the second meeting held in February 2014 was the implementation of the Work Programme of the Management Board of HEP d.d. in the period 2013-2016.

Apart from regular reports submitted by the Management Board of HEP d.d. on operating results and environment, the Supervisory Board also discussed individual current topics in detail including: development of gas activity in HEP, development of windpower plant projects in Croatia of business interest for HEP, status of TPP Plomin C 500 project, the position of HEP Group on the electricity market, status of the EDM/ECM SAP project and relations with HEP's trade unions.

After having reviewed business and financial reports, it was determined that the joint-stock company Hrvatska elektroprivreda and the group of its 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.

The Supervisory Board stated that the annual financial reports were drafted in line with the figures existing in the Company books, showing accurate property-related and operational situation of the Company without expressing any objections to auditor's report on examining Company's annual financial statements and HEP Group's consolidated financial statements for 2013.

President's Report

Tomislav Šerić
President of the
Management Board

Despite strong challenges set by the business environment in 2013, HEP Group fully achieved its mission of safe and quality energy supply to its customers. Major positive operating results were recorded: operating profit of HRK 2.5 billion and Group's net profit of HRK 1.3 billion. Investments into the construction of new and replacement and reconstruction of existing facilities reached considerable HRK 2.2 billion. Group's own generation facilities produced 14.7 TWh of electricity.

Appropriate availability of power plants, transmission and distribution network was recorded without any significant disturbances in electricity, heat energy and gas supply. Furthermore, trade liabilities were significantly reduced and medium-term multi-purpose frameworks agreed with banks. The restructuring of HEP Distribution System Operator and Croatian Transmission System Operator was conducted in early 2013 resulting in a reduced number of the employed and lowered staff cost.

Having summarized the most important operating indicators in 2013, I would like to single out several events and processes which affected HEP's operations strongly not only during 2013 but also in 2014, as their full effect on the HEP's business position is still expected in the following years.

Firstly, the implementation of the EU third energy package. Legal and organizational preparations for unbundling the independent transmission system operator from the vertical structure of HEP Group took place in 2013. Croatian Transmission System Operator, registered on July 2, a date which almost coincided with the Croatian accession to EU, is now waiting for regulator's certification. Operational harmonization of HEP Distribution System Operator with the Electricity Market Act will follow including partial independence and autonomy of the distribution system and meeting its obligation of a household supplier within the universal service as well as its role as a last resort supplier.

The second most important event in 2013 was the emergence of several alternative electricity suppliers on the Croatian residential market (households) as well as their aggressive presence on the commercial sector i.e. other customers. One can't but notice that the emergence of alternative suppliers coincided with a significant decrease of electricity prices on power exchanges. Taking reduced generation costs and lower procurement price into consideration, HEP DSO decreased the price of supply within the universal service for households by an average of 10.7 percent as of 1 October. Additionally, in late November, HEP Supply launched *Hepi*, an innovative service package, providing discounts to its customers depending on contract duration as well as loyalty awards and other benefits such as paying for cost of actual energy consumed in the previous month. Hepi's intention is to award the existing customers' loyalty as well as to build trust foundation for our future customers.

The third event is directly connected with HEP's financial operations. During the last quarter 2013, the two leading credit agencies upgraded our credit rating. Standard&Poor's upgraded HEP's stand-alone credit profile from b to b+ and confirmed HEP's BB- for long-term debt with a stable outlook. S&P assessed HEP's credit indicators as stronger due to a more favourable business environment and improved liquidity resulting from active company management. Moody's confirmed the existing HEP rating (Ba2) and upgraded the outlook from negative to stable.

Good credit rating is an important element of HEP's sustainable investment policy. We will finalize the construction of the natural gas-fired combined cycle cogeneration Unit C in TPP Sisak this year (230 MWe, 50 MWt). Among new thermal power projects, the biggest and the most important for HEP is the 500 MW coal-fired replacement unit C in TPP Plomin with offers received from potential strategic partners in April 2014. We will continue developing several hydropower projects in 2014, having in mind the effect of NATURA 2000 implementation in terms of significant slowdown, hindrance or even inability to construct our facilities on sites foreseen by physical planning for the construction of hydropower plants. Therefore, we primarily focused on better utilization of the existing hydro as well as thermal locations by developing several gas based projects. We continue with revitalizations of HPP Zakučac and HPP Dubrovnik as well as preparations for revitalizing several other hydropower plants.

We continued developing two biomass-fired heating plants as well as constructing several mini hydropower plants and introducing them into the system of incentives. In early 2014, HEP installed photovoltaic plants on nine own facilities throughout Croatia. Definition of cooperation terms with several private investors regarding integrated windpark projects is expected soon.

Finally, preparations for making investments into distribution activity were carried out in the amount of about one billion kuna in 2014. We plan to further reduce technical and non-technical losses by increasing distribution network energy efficiency. The smart grid implementation also started including the pilot project of testing advanced metering technologies to be carried out in 2014.

As part of its business orientation of developing an efficient multiutility organization capable of offering a wide range of energy and energy-related products and services on the wholesale and retail markets, HEP was preparing for a more aggressive presence on the gas market throughout 2013. The same was achieved by the Decision on appointing HEP d.d. a wholesale gas supplier passed by the Croatian Government in late February 2014. Under the Decision, in the period from 1 April 2014 until 31 March 2017, HEP d.d. shall sell gas to suppliers obligated by the public service of gas supply for residential customers under regulated terms.

In line with the above said, I can state that HEP is facing a very challenging future with further competition strengthening, emergence of new market participants under a strict supervision of EU authorities focused on preventing subsidies or market restrictions, change of electricity structure in line with the EU climate policy. However, successful operations, proactive business policy and respectable financial results in 2013 represent a robust foundation of HEP's development as an efficient company comparable with similar European companies, ready to face these as well as other future challenges on domestic, regional and European markets.

ZelEn

Green energy for socially responsible companies

ZelEn

HEP's 26 hydropower plants, accounting for over half of Croatian generating capacities, produce certified green energy.

Owing to these hydropower plants, Croatia's 16.8 percent share of RES in total energy consumption is significantly higher than the EU average (14.1 percent).

Due to extremely favourable hydrology in 2013, HEP's hydropower plants generated 8 TWh of green energy, a share exceeding 45 percent in the energy mix. Even during the driest years, this share has alway exceeded 25 percent.
As all HEP hydropower plants are certified by TÜV SÜD for electricity generation from renewable sources – green energy, HEP Supply started selling its new product ZelEn to its customers in 2013, using the certificate as the confirmation of its generation source. Under strict procedures and standards, this German certification company in the European registry supervises generation and sale of electricity produced in hydropower plants and issues certificates to its customers. By using its protected brand on their products, ZelEn buyers acknowledge their acceptance of social responsibility principles.
All funds collected through sale of the ZelEn product are intended for RES construction or energy efficiency projects. Funds will be allocated in line with the decision made by the Committee consisting of HEP-ESCO, HEP Supply and ZelEn product buyer representatives.
ZelEn is currently offered to customers with annual consumption exceeding 1 GWh. Following the adoption of necessary regulations, it will be offered to other customers as well. As the Croatian Power Exchange is planned for 2014 as a platform for trading certificates of electricity origin, an increased interest in HEP's green energy is to be expected.

Company Profile

1

Mission

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

Vision

HEP Group as a strong regional, modern and socially responsible company, recognized as an example of efficient energy generation and supply to customers.

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 the efficient use of energy among our customers as well as development and use of renewable energy sources.

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 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 a 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 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 conducts selling, metering, billing and payment collection for the electricity supplied. It is also responsible for maintenance and operation of the distribution network and plants.

HEP Opskrba d.o.o. (HEP Supply) supplies electricity, heat energy and gas.

HEP-Trgovina d.o.o. (HEP Trade) carries out purchase and sale of electricity, optimization of power plants' operation and trading intermediation in domestic and international markets. It has also been registered for gas supply. Its 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 of their establishment and in third markets.

HEP-Toplinarstvo d.o.o. (HEP District 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. It has been registered as a heat energy customer.

HEP-Plin d.o.o. (HEP Gas)**,** headquartered in Osijek, distributes and supplies natural gas to customers.

HEP Opskrba plinom d.o.o. (HEP Gas Supply), established in May 2014, carries out business activities of trade mediation on domestic and foreign markets, conduct of gas procurement contracting procedures and sale for the needs of the public service users, companies within HEP Group as well as other end customers, gas trade, gas supply, provision of trade services. The company carries out HEP Group's gas portfolio optimisation activities.

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 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 tourism and hospitality services.
Plomin Holding d.o.o. develops local infrastructure and entrepreneurial projects in the vicinity of the Plomin power plant.
Program Sava d.o.o. (Programme Sava Ltd) (until March 2014 registered as HEP – Development of Multi-Purpose Real Estate Projects d.o.o.) is responsible for development and management of the multipurpose Programme for the Protection, Regulation and Use of the Sava River and its River Banks from the border with the Republic of Slovenia to the city of Sisak
HEP – Nastavno-obrazovni centar, Velika, (HEP Training and Education Center) is an educational institution which, in addition to providing live work training, conducts secondary school programmes for adults and organizes professional gatherings, seminars and courses.

COMPANIES IN MIXED OWNERSHIP

HEP Telekomunikacije d.o.o. (HEP Telecommunications), co-owned by HEP d.d., HEP-Distribution System Operator d.o.o. and Croatian Transmission System Operator d.o.o., established in November 2013 for providing IT and telecommunication support to HEP Group business operations.
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 for the purpose of developing the LNG terminal project.

INDEPENDENT TRANSMISSION OPERATOR

Hrvatski operator prijenosnog sustava d.o.o. (HOPS) Croatian Transmission System Operator has been unbundled from HEP Group pursuant to the Electricity Market Act and according to the ITO (Independent Transmission Operator) model.

COMPANY OUTSIDE HEP GROUP

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

Legal framework

EUROPEAN LEGAL FRAMEWORK

European energy-related legal framework represents the foundation of the national primary and secondary legislation of a member state, including Croatia, which accepted the obligation of fully transposing EU regulations into its national legislature upon its EU accession on 1 July 2013. In terms of the energy sector, it regards the implementation of the so-called 'Third Energy Package' adopted in 2009 i.e. a group of regulations consisting of two directives on regulating the internal electricity and natural gas markets, two ordinances setting network access conditions for cross-border electricity exchange and network access for natural gas transport, the ordinance under which the Agency for the Cooperation of Energy Regulators is set and a number of other, subsequently adopted regulations.

THIRD ENERGY PACKAGE

Main objectives of the Third Energy Package include stronger market competition and liquidity, improvement of network infrastructure operation, security of supply, customers' active role and protection as well as promotion of renewable energy sources.
Pursuant to obligations set by Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, in line with the Electricity Market Act (Official Gazette 22/13) and the decision adopted by the Shareholders Assembly of HEP d.d (9 April 2013), HEP was preparing the implementation of the ITO model (independent transmission operator) during 2013. As of 1 July 2013, HEP-Transmission System Operator d.o.o. having existed to-date commenced its operations under the name of the Croatian

Transmission System Operator d.o.o. according to the ITO model. It is organized as an independent legal entity outside the structure of the vertically integrated entity. At the same time, HEP d.d. has certain rights as the company owner according to requirements set before the transmission system operator organized as an ITO. The certification procedure has been conducted by the Croatian regulator (HERA), and its completion is expected during 2014.
Important regulations adopted during 2013 to be implemented by member states in a timely manner are the following:

- Regulation EC No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009; and
- Regulation EC No 543/2013 of 14 June 2013 on submission and publication of data in electricity market and amending Annex I to Regulation EC No 714/2009 of the European Parliament and of the Council.

NATIONAL LEGAL FRAMEWORK

The Croatian energy sector legal and regulatory framework includes the Energy Development Strategy of the Republic of Croatia (2009) and fundamental laws that regulate the energy sector in the Republic of Croatia, in particular those stemming from the Third Energy Package.

STRATEGY OF ENERGY DEVELOPMENT

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 total consumption of electricity until the year 2020 and closure of existing conventional thermal power plants totaling 1,100 MW. Consequently, the Strategy envisages the construction of base load coal- and gas-fired production facilities 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, planning at reaching 35 percent. Apart from generating plants, the Strategy envisages further development of transmission and distribution networks.

ENERGY ACTS

Divided in terms of energy activities they perform, the most important energy acts representing the foundation for HEP's operation as well as its dependent companies are the following:

- Energy Act
- Electricity Market Act
- Gas Market Act
- Heat Energy Market Act
- Regulation of Energy Activities Act
- Act on Efficient Use of Energy in Direct Consumption

During last ten years, significant changes have occurred on the electricity and gas market. They resulted from the liberalization and deregulation of energy markets initiated by EU by passing three packages of energy directives and regulations. Among rules and set objectives, unbundling of energy activities in electricity and gas is set to be the main characteristic. The existing, mainly vertically integrated companies initiated the processes of legal, financial and ownership unbundling of market-based generation, supply and trade activities from regulated transmission and distribution network as well as gas system operation activities (storage, transport, distribution, LNG terminal management).
Despite its formal opening in 2008, the electricity market was fully opened in 2013 with the emergence of alternative electricity suppliers in Croatia who started offering their services to all customers, including the residential sector.

Similar processes occurred on the gas market as well. Although it has been formally opened since 2008, its real opening and the emergence of new wholesale suppliers occurred in the gas season 2012/2013 following price deregulation for end customers in the fourth quarter 2012. Although primary and secondary legislation envisages the possibility of changing the supplier, gas market has still not evolved fully. Therefore, real competition, especially in case of end customers in distribution systems, is still to be expected.
Significant changes of the heat energy market were introduced with the Heat Energy Market Act entry into force (Official Gazette 80/13, 14/14), in early July 2013 under which Croatia harmonized with Directive 2009/28/EC on promoting the use of energy from RES, Directive 2010/31/EU on the energy performance of buildings and Directive EU 2012/27 on energy efficiency. This Act has set conditions for heat energy market opening and heat energy price competitiveness, fostered sustainable development in district heating as well as energy efficiency in heat energy generation and use. The Act has set new relations between energy entities in district heating i.e. heat energy production, distribution and supply have been unbundled and the new activity introduced – a heat energy customer.
The Energy Act (Official Gazette 120/12, 14/14) regulates measures for safe energy supply and efficient energy generation and use. It also defines legal acts under which the energy policy and energy system planning is regulated as well as performance of energy activities on the market or as public services and performace of energy activities by respecting environmental and energy efficiency measures.

ELECTRICITY

Electricity Market Act (Official Gazette 22/2013) regulates rules and measures for secure and reliable generation, transmission, distribution and supply of electricity as well as organization of the electricity market as 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.
Under the Act, the transmission system operator must be organized and operated according to one of the three models envisaged by the Directive, unbundled when selecting the particular model, and certified by HERA. Furthermore, the Act also regulates criteria for organizational and financial unbundling of the distribution system operator as well as the obligation to develop its own visual identity different from the remaining part of the vertically integrated entity.
Secondary legislation in effect with regard to electricity market operation in 2013 was the following:

- Electricity Market Rules (Official Gazette 135/06, 146/10, 90/12)
- General Conditions for Electricity Supply (Official Gazette 14/06)
- Grid Code (Official Gazette 36/06)
- Electric Power System Balancing Rules (Official Gazette 133/06, 135/11)

The following methodologies were passed and/or amended with regard to energy activities performed as public service, electricity transmission and distribution and guaranteed electricity supply as well a electricity supply within the universal service:

- Methodology for setting prices for billing balancing energy to entities responsible for deviations (Official Gazette 121/13) – adopted by HERA. Under the Methodology, the method for calculating unit prices for billing balancing energy to entities responsible for deviations in the billing interval for positive and negative deviations is set. The Methodology also sets the method for balancing energy reference price calculation in the billing period, the method for calculating a tolerance threshold in the billing period for positive and negative deviations of the entity responsible for deviations, the method for setting a balancing energy unit price in the billing period for covering cost of balancing eligible electricity producers within the incentive system and the method for reporting and monitoring the implementation of the Methodology.
- Methodology for setting the tariff item amount for guaranteed electricity supply (Official Gazette 158/13) – adopted by HERA. Under the Methodology, tariff models and tariff items for guaranteed electricity supply are set as well as the method for determining a share of suppliers not within

the public service obligation, the method for calculating average electricity price, the method for setting the tariff item amount for guaranteed electricity supply, the method for data submission and the procedure for setting and amending tariff item amounts for guaranteed electricity supply.
- Methodology for setting tariff items for electricity supply within the universal service (Official Gazette 116/13, 38/14) – adopted by HERA. The Methodology sets its objectives, principles and characteristics, the method and criteria under which a customer supplier within the universal service procures electricity, tariff models, tariff elements and tariff items, the method for setting supplier's cost and income, data needed for setting supplier's cost and income, the procedure for setting and amending the tariff item amount for active energy and tariff items for supply fee.

HEAT ENERGY

The Heat Energy Market Act (Official Gazette 80/13, 14/14) regulates measures for safe and reliable heat energy supply, heating systems for heating and cooling heat energy use, conditions for obtaining heat energy distribution concession and the distribution network construction concession, rules and measures for safe and reliable heat energy production, distribution and supply in heating systems for achieving energy efficiency in heating systems. This Act regulates the performance of heat energy production and supply as market activities and heat energy distribution as a regulated activity performed as a public service. The Act introduces a new activity of a heat energy customer including professional management, operation, maintenance of indoor installations, heat energy supply for the purpose of its billing and issuing invoices to end customers in a building/facility within an independent, closed or central heating system under the heat energy consumption agreement concluded with a co-owner's authorized representative. Under the Heat Energy Market Act, all owners of residential and business premises in buildings constructed prior to this Act entry into force and for the purpose of a more rational use of heat energy are under obligation of installing devices for local separation of heat energy (allocators) or heat energy consumption meters (calorimeters). Regardless of which two of the above mentioned they install, owners must also install heating output regulators (thermostatic radiator valves). Until end 2015, devices must be installed by owners of residential and business premises in buildings with more than 70 self-standing functional units. Until end 2016, it shall apply to ownes of residential and business premises in buildings with more than two and less then 70 self-standing functional units. Secondary legislation in force under which the heat energy market was regulated in 2013 was the following:
- General Conditions for Heat Energy Supply (Official Gazette 129/06), passed by the Croatian Government, in effect since 2007. These General Conditions, among others, regulate mutual contractual relations as well as obligations and responsibilities of the heat energy distributor and user, connection terms, heat energy delivery and supply and distribution network use as well as metering, billing and invoicing terms for heat energy supplied.
- Rules on the method of supplied heat energy cost allocation and billing (Official Gazette 139/08, 18/09, 136/11, 145/11), passed by the Ministry of Economy, Labour and Entrepreneurship in 2008. These Rules prescribe the installation of devices for local separation of supplied heat energy, heating output regulators and heat energy consumption meters as well as models of cost allocation and billing of supplied heat energy on a joint heat energy meter to heat energy customers – owners of self-standing functional units, registering heat energy via devices for local separation of supplied heat energy or metering it by a separate heat energy consumption meter.
- Tariff system for heat energy production, distribution and supply without the tariff item amount (Official Gazette 65/07 – revised, 154/08, 22/10, 46/10, 50/10, 86/11) and Tariff system for heat energy production and supply without tariff item amounts (Official Gazette 86/11), adopted by HERA and under which the methodology for calculating tariff items for heat energy production, distribution and supply is set, excluding eligible customers. These secondary regulations expired in mid May 2014 and were replaced by the Methodology for setting tariff item amounts for heat energy production (Official Gazette 56/14) and the Methodology for setting tariff item amounts for heat energy distribution (Official Gazette 56/14).

GAS

The Gas Market Act (Official Gazette 28/13,14/14) regulates rights and obligations of energy entities present on the gas market and decribes energy activities. Its entry into force on 14 March 2013 brought many changes focusing on harmonization with the EU third energy package. As of 1 April 2014, roles, responsibilities and relations between gas market participants have significantly changed. Transitional and final provisions of the Gas Market Act set that the existing gas supplier becomes the suppliers' supplier under the public service until 31 March 2014. On the said date, the long-term agreement on storing gas concluded between Prirodni plin (Natural Gas) d.o.o. and Podzemno skladište plina (Underground Gas Storage) d.o.o. expires thus providing energy entities with the possibility to express their interest for leasing storage capacity.

Furthermore, provisions of the Gas Market Act regulating gas and natural gas producer's obligations set that the natural gas producer must ensure that the entire produced natural gas volume is first offered to suppliers supplying gas to customers in Croatia, while the suppliers within the public service shall ensure conditions for regular and safe gas supply to end customers by primarily purchasing gas from gas producers, insufficient gas volumes from traders as well as other suppliers on the organized gas market or from abroad.

Apart from the Gas Market Act, the gas market in Croatia has also been regulated by the following secondary legislation:

- General Conditions of Gas Supply (Official Gazette 158/13) – adopted by HERA. It regulates contractual relations between a gas supplier and end customer, terms of supplied gas billing and invoicing, end customer protection and the change of supplier.
- Gas Distribution System Grid Code (Official Gazette 158/13) – adopted by HERA. It regulates development, construction and maintenance of the distribution system, its management and supervision, connection with other gas system parts, connection to the distribution system, rights and obligations of the distribution system operator, system user and end customer.
- Transport System Grid Code (Official Gazette 12/13) – adopted by Plinacro d.o.o., transport system operator with a prior consent from HERA. It regulates development, construction and maintenance of the transport system, its connection, connection to other parts of the gas system, supervision and management of the transport system, transport system balancing, services of the transport system operator, mutual rights and obligations of the transport system operator and the transport system user, contractual relations and general terms of use of the transport system, capacity reservation, capacity trading, capacity use, metering rules and gas volume allocation rules, data publishing, data exchange and communication, gas supply restrictions as well as discontinuance and unauthorized gas consumption.
- Rules on gas storage use (Official Gazette 12/13) – adopted by Podzemno skladište plina d.o.o., gas storage system operator with a prior consent from HERA. It regulates the connection of the gas storage system with other parts of the gas system, development, construction and maintenance of the gas storage system, management and supervision of the gas storage system, services provided by the gas storage system operator, contractual relations and general terms of use of the gas storage system, reservation and use of gas storage system capacity, gas storage system capacity trading, rights and obligations of the gas storage system operator and gas storage system user, metering and allocation rules, data publishing and information exchange.
- Rules on gas market organization (Official Gazette 12/2013, 02/2014) – adopted by HROTE (Croatian Energy Market Operator) with a prior consent from HERA. It regulates principles and standards regarding gas market organization and functioning, rules on organization of balancing groups and keeping the registry of balancing group heads and members, contractual relations between gas market operator and participants, rules on the virtual trading point, responsibilities of gas market participants for their deviations and rules for balancing energy billing.

In case of energy activities performed as a public service i.e. gas transport, gas distribution, gas market organization, gas supply as a public service, guaranteed gas supply, gas storage (regulated activities, HERA passes methodologies for setting tariff item amounts as well as the decision on tariff item amounts. In 2013, HERA passed the following methodologies and decisions:

1. Methodology for setting prices for non-standard services for gas transport, gas distribution, gas storage and public service of gas supply (Official Gazette 158/13)
2. Methodology for setting gas system balancing energy prices (Official Gazette 158/13)
3. Methodology for setting the tariff item amount for public service of gas supply and guaranteed supply (Official Gazette 158/13)
4. Methodology for setting tariff item amounts for gas distribution (Official Gazette 104/13)
5. Methodology for setting tariff item amounts for gas transport (Official Gazette 85/13, 158/13)
6. Decision on the tariff item amount for gas transport for Plinacro d.o.o. (Official Gazette 102/13)

AMENDED LEGAL REGULATIONS IN 2013

Finally, during 2013, the following primary and secondary legislative acts were passed or amended:

- The Electricity Market Act
- The Gas Market Act
- The Heat Energy Market Act
- The Act on Efficient Use of Energy in Direct Consumption
- Centre for Monitoring Business Activities and Investments in the Energy Sector Act
- Amendments to the Act on Efficient Use of Energy in Direct Consumption
- Decision on the manner and procedure of keeping separated accounting of energy entities
- Tariff system for producing energy from RES and cogeneration
- Regulation on the fee for fostering electricity production from RES and cogeneration
- Regulation on setting up the system of guarantee of electricity origin
- Rules on using the registry of guarantee of electricity origin
- Rules on allocation and use of cross-border transmission capacities
- Decision on the amount of fee for using the land used by generation facilities for electricity generation
- Rules for the acquisition of the status of eligible electricity producer
- Decision on the procedure for controlling criteria for the exemption from obligation and development of the cost-benefit analysis of facilities for electricity and heat energy generation used for peak load and contingent electricity generation

Development – objectives, current and planned projects

DEVELOPMENT OBJECTIVES

Operational optimization means adjustment of basic factors such as the business strategy, business model, organization, business processes, human resources, IT, management methods and efficiency of the entire business model. It consists of four basic elements:

- Operational optimization of HEP Group as a whole
- Increased efficiency of business processes
- Introduction of new control elements as well as new methods of work in key segments
- Harmonization with EU regulations.

Development investment cycle. Long-term investment decisions on the construction of new generation capacities and the reconstruction of the existing ones represent the key for making investments into HEP generation capacities. HEP has a number of potential projects in various development stages, on the existing and new locations, by using various technologies. Projects are ranked according to feasibility and profitability criteria as well HEP's priority along with objectivised decision-making procedures and investment economic viability structuring.

Creating new market products and services. HEP will try to retain its dominant market share through its new products in all segments, use of existing experiences and data from the customer database and introducing new services based on the smart grid principles.

Regional step forward. Losing a share of domestic market imposes the need for a stronger step forward into other markets, primarily regional ones.

ELECTRICITY GENERATION

While investments into existing generation capacities focus on increasing key, strategic generation facilities, investments into new generation capacities and technologies aim, through fuel energy diversification, at ensuring long-term reliability and availability of the Group's generation portfolio, which as a whole must meet terms of security of supply, competitiveness and sustainability now and in future. One key long-term development objective based on sustainable development includes investments into RES.

The construction of the new combi-cogeneration Unit C at Sisak TPP entered its final stage.

The execution of the TPP Plomin C project (hard coal-fired, 500 MW capacity) depends on the implementation of the public tender for the selection of strategic partner, which started in 2012 with prequalifications as its first stage, continued in 2013 by requesting the offer from three qualified bidders received in late April 2014. Negotiations with the preferred bidder are expected to be finalized by end 2014. In such a case, the construction start is expected in 2015.

The feasibility study as well as the EIA study were completed with respect to the TE–TO Osijek project – the replacement of the existing Unit A by the new CCCGT unit. The issuance of the location permit for this 500 MW combined cycle cogeneration plant is expected during 2014.

The feasibility study and the EIA study were completed with respect to the EL–TO Zagreb project – the replacement of the existing Unit A by the new CCCGT unit. The development of the conceptual design is underway. The issuance of the Integrated Pollution, Prevention and Control is expected during 2014 as well as development of documentation required for location permit issuance.

The EIA study was completed for the 2nd phase of the HPP Dubrovnik project. Survey works are being conducted including drillings and geophysical testings along the discharge tunnel route. The development of the study of possible business models for project execution is underway.

The complext process of harmonizing the EIAS with the new requirements stemming from Natura 2000 is conducted for the hydroelectric system Kosinj/Senj project.

In line with the decision on required adjustment of the project environmental documentation by carrying out appropriate assessment for successful and acceptable continuation of the HPP Ombla construction project, the cooperation with EBRD with regard to ensuring project funding sources was terminated in May 2013 till further notice.

In late 2013, contracts for long-term supply of wood chip with regard to two biogass-fired cogeneration projects (Osijek and Sisak) were concluded. Construction tenders were announced in early 2014.

Other renewable energy sources projects include the construction start of the mini hydropower plant (MHPP) Prančevići in November 2013. MHPP Peruča should obtain the status of the RES within the system of incentives. The same goal is set before the ongoing development of required documentation for the reconstruction of RHPP Fužine and HPP Zeleni Vir mini hydropower plants. The preparation for the project of installing nine photovoltaic plants on HEP's office buildings in several cities thorughout Croatia began during 2013, and was completed in March 2014.

Other potential projects are also under consideration, including reversible hydropower plants and their potential of increasing the total value of HEP's generation portfolio. As this project is currently in the development stage, its further activities will be determined according to the feasibility study.

The implementation of the new concept of the Sava HPPs project, developed in 2012 and 2013, is being researched and assessed in comparison with earlier concepts.

Hydropower plants are continuously being refurbished for the purpose of prolonging their life span, increasing operational reliability and availability, decreasing maintenance costs and achieving better generation characteristics. The most important projects carried out in 2013 included the revitalization of HPP Zakučac with completed 1st stage by putting the replacement unit of increased capacity in operation and launched 2nd stage. The renewal of the first unit was completed in HPP Dubrovnik, while the preparations for the renewal of the second unit were delayed for 2014 in agreement with Elektroprivreda

Republike Srpske due to extraordinarily favourable hydrology on the Trebišnjica river i.e. availability of water resources in the Bileća accumulation lake.

ELECTRICITY DISTRIBUTION

Investments in energy infrastructure must ensure the retention of long-term value, enable stability of fuel supply and development of fuel market for the benefit of all participants.
During 2013, a number of substations and other facilities of the distribution network was constructed, reconstructed and/or rehabilitated.
Among completed capital investments in 2013, the following should be pointed out: 110/10(20) kV Kneginec substation, 35/10(20) kV Hrvatska Kostajnica substation, transition to 20 kV of Jastrebarsko area. Important capital investments which will continue in the following year include 110/10(20) kV Srđ substation, 110/10(20) kV Ferenščica substation (both with a high degree of completeness regarding a distribution part of the investment), 110/10(20) kV Sesvete substation and 110/10(20) kV Imotski substation.
Apart from the above, several investment programmes with a large number of smaller investment activities were carried out. Investments made in the replacement and regulation of metering points and connections are very important as they ensure regular meter replacement as well as the reconstruction of worn-out and technically outdated connections.
Intensified modernization and the construction of the distribution network is planned for the following period focusing on covering electricity needs and connecting new customers, especially in large cities, tourist and industrial areas. Several separate investment programmes focusing on the recovery of voltage condition in the distribution system will continue as well as the introduction of modern metering devices for metering consumption and harmonization with new norms.
Further development into the distribution network will ensure long-term monitoring of consumption development, electricity market development as well as security of supply.

DISTRICT HEATING

More important projects in 2013 include the connection of Dubrava to the CHS with fully completed works on the construction of the main hot water and steam lines from phase 1, rehabilitation of the heat water pipeline in Zagreb, rehabilitation of direct heating stations (total of 44 heating stations), rehabilitation of the warm water network in Velika Gorica (460 m completed), rehabilitation of the hot water and steam network in Osijek, remote control systems in Osijek and Sisak, rehabilitation of TS1 and the warm water network behind TS1 in Caprag, rehabilitation of the warm water network behind TS2 in Caprag, a connecting steam pipeline with a condensate return from Sisak TPP to Energana ŽS as well as other investments.

GAS

In 2013, investments in the preparation and construction of new gas pipelines were made in all local self governments where gas distribution is supplied by HEP Gas and which require network expansion. The execution rate is conditioned by obligations set by the concession agreement and the economic viability of the construction project. The construction of the gas network continued in seven new settlements with 88 km of new gas network built.

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)
- **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)
- **CIRED** (Congres International des Réseaux Electriques de Distribution)
- **LWA** (Live Working Association)
- **EFET** (European Federationof Energy Traders)
- **IAEA** (International Atomic Energy Agency)
- **ENS** (European Nuclear Society)
- **UNICHAL** (International Union of Heat Distributors)
- **EUROHEAT & POWER** (international organization engaged in cogeneration, remote heating and cooling),
- **EWEA** (The European Wind Energy Association)
- **IIA GLOBAL** (Institute of Internal Auditors, Florida, USA), through HIIR – Institute of Internal Auditors of Croatia)
- **ISACA** (Information Systems Audit and Control Association); through the Croatian branch, ISACA Chapter Croatia)
- **ISSA** (International Social Security Association)
- **ECLA** (European Company Lawyers Association)

Our experts contribute to work of these organizations with their technical papers and materials, by participating in conferences, professional gatherings, symposia, workshops and seminars, circular e-mail discussions, work in bodies of these associations and in national committees. In this way, they share professional knowledge and experiences and are active members of the international energy community, directly and in an organized manner taking part in learning about, applying and creating *the acquis*. As such they are important participants in creating the national energy policy and legislation and 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 UNIPEDE 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
1993 About 120 MW emergency diesel and gas power plants are installed in Dalmatia
1995 Reconstruction and refurbishment of Peruća dam is completed (blasted in 1993)
1997 Eastern Slavonia reintegrated into the Croatian electricity system
1998 Gas -fired power plant (2x26 MW) is put into operation at the EL-TO Zagreb site
2000 Plomin 2 TPP (210 MW) begins commercial operation
2002 Hrvatska elektroprivreda d.d. restructured into HEP Group
2003 Combined cycle cogeneration unit K (200 MWe/150 MWt) at TE-TO Zagreb put into operation
2009 Combined cycle cogeneration unit L (100 MWe, 80 MWt) at TE-TO Zagreb put into operation
2010 HE Lešće put into operation (42 MW)
2012 HEP d.d. issues bonds in the amount of USD 500mn
2013 Croatian Transmission System Operator unbundled from HEP Group according to ITO model

Corporate Governance

2

Corporate Governance

In accordance with the HEP Group corporate governance model, HEP d.d. manages and partly performs tasks within corporate functions as well as directs, coordinates and monitors activities in dependant companies. 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)

THE MANAGEMENT BOARD OF THE COMPANY

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

For execution 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 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 the power of attorney and waiving 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 Labour 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 re-elected. The members of the Supervisory Board elect the chairperson and a deputy chairperson 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 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 of Hrvatska elektroprivreda d.d. (HEP d.d.)

SHAREHOLDERS ASSEMBLY

Ivan Vrdoljak,
member

SUPERVISORY BOARD

Nikola Bruketa, Chairman

Jadranko Berlengi, member, worker's representative

Juraj Bukša, member (as of 5 June 2014)*

Igor Džajić, member

Žarko Primorac, member

Ivo Uglešić, member

Mirko Žužić, member (as of 19 September 2013)

(* Ante Ramljak, a member in the reporting period)

AUDIT COMMITTEE OF THE SUPERVISORY BOARD

Žarko Primorac, Chairman
Mirko Žužić* (as of 5 June 2014)
Boris Tušek (full professor at the Faculty of Economy in Zagreb), external member

(* Ante Ramljak, a member in the reporting period)

MANAGEMENT BOARD

Tomislav Šerić,
President of the Board

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, programmes 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 the Renewable Energy Sources Affiliation of Croatian Chamber of Economy.

Zvonko Ercegovac,
member

Born in 1965. University specialist in economics (2008) and graduate electrical engineer (electrical energy programme) (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.

Krunoslava Grgić Bolješić,
member

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

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.

Ivan Matasić,
member

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.

Željko Štromar,
member (as of 22 November 2013)

Born in 1971. Graduated from the Faculty of Civil Engineering in Zagreb in 1997. Obtained his Master's degree in 2006. In 1997, he was employed by Coning as the head of project until 2000. From 2000 until 2004 he was the head of technical support at Termika in Novi Marof. From 2004, he was employed by the IGH Institute, first as the Department Director, then (2009-2012) as the deputy director in charge of project management, design and supervision. In 2012 and 2013, he became the member of the Board in charge of operations core business activity. He graduated from the Business School of the Croatian Chamber of Commerce and Steiermark Austria Chamber of Commerce in 2001. He is a member of the Croatian Chamber of Civil Engineers, the Association of Civil Engineers and Technicians and the Croatian Engineers Association.

General Shareholders Assembly

GENERAL SHAREHOLDERS ASSEMBLY 2013

The annual meeting of the General Shareholders Assembly was held on June 6, 2013. The Assembly reviewed consolidated and unconsolidated annual financial statements of HEP d.d. and HEP Group for 2012 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 2012 and the report of the Supervisory Board on the supervision conducted over HEP d.d. conduct of operations in 2012. Decision was adopted on the use of operating profit for 2012. The acts of the Management Board and the Supervisory Board for the business year 2012 were ratified.

GENERAL SHAREHOLDERS ASSEMBLY 2014

The annual meeting of the General Shareholders Assembly was held on June 5, 2014. The Assembly reviewed consolidated and non-consolidated annual financial statements of the Company and HEP Group for 2013 including the Independent Auditor's Report, the Annual Report on the state of affairs and operations of HEP d.d. and HEP Group in 2013 and the report of the Supervisory Board on the supervision conducted in 2013.

The Assembly adopted the Decision on the use of operating profits made in 2013. Pursuant to provision of the Companies Act, Articles of Association of HEP d.d. and the Decision passed by the Croatian Government on adopting the Plan of Asset Management owned by the Republic of Croatia for 2014, the recorded profit of HRK 747,741,484 is allocated to: statutory reserves (HRK 37,387,074), retained profit in the amount of reinvested profit of HEP Distribution System Operator for 2012 (HRK 425,436,000) and payouts in favour of the Croatian State Budget (HRK 284,918,410).

The Assembly adopted the Decision under which the acts of the Management Board of the Company – Board President and members executing those duties in 2013 including Tomislav Šerić – the President and the following Board members: Zvonko Ercegovac, Krunoslava Grgić Bolješić, Perica Jukić, Ivan Matasić and Željko Štromar were ratified. The acts of the Chairman and members of the ninth assembly of the Supervisory Board for the business year 2013 were also ratified.

Pursuant to the Conclusion made by the Croatian Government, the Assembly passed the Decision on revoking Ante Ramljak as the member of the Supervisory Board of Hrvatska elektroprivreda d.d. and appointing Juraj Bukša. The Decision came into effect on the day of its passage. The term of the newly-appointed member of the Supervisory Board expires with the expiry of the term of the ninth assembly of the Supervisory Board of HEP d.d., appointed under the Decision of the General Shareholders Assembly from 23 February 2012.

Audit

INDEPENDENT AUDITOR

At the meeting held on September 19, 2013 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, 2013.

INTERNAL AUDIT AND RISK MANAGEMENT

Internal Audit and Risk Management Department, as a pivotal function of HEP d.d., is responsible for the corporate function of internal audit and risk management. As such, it is a part of the internal supervision of HEP Group.

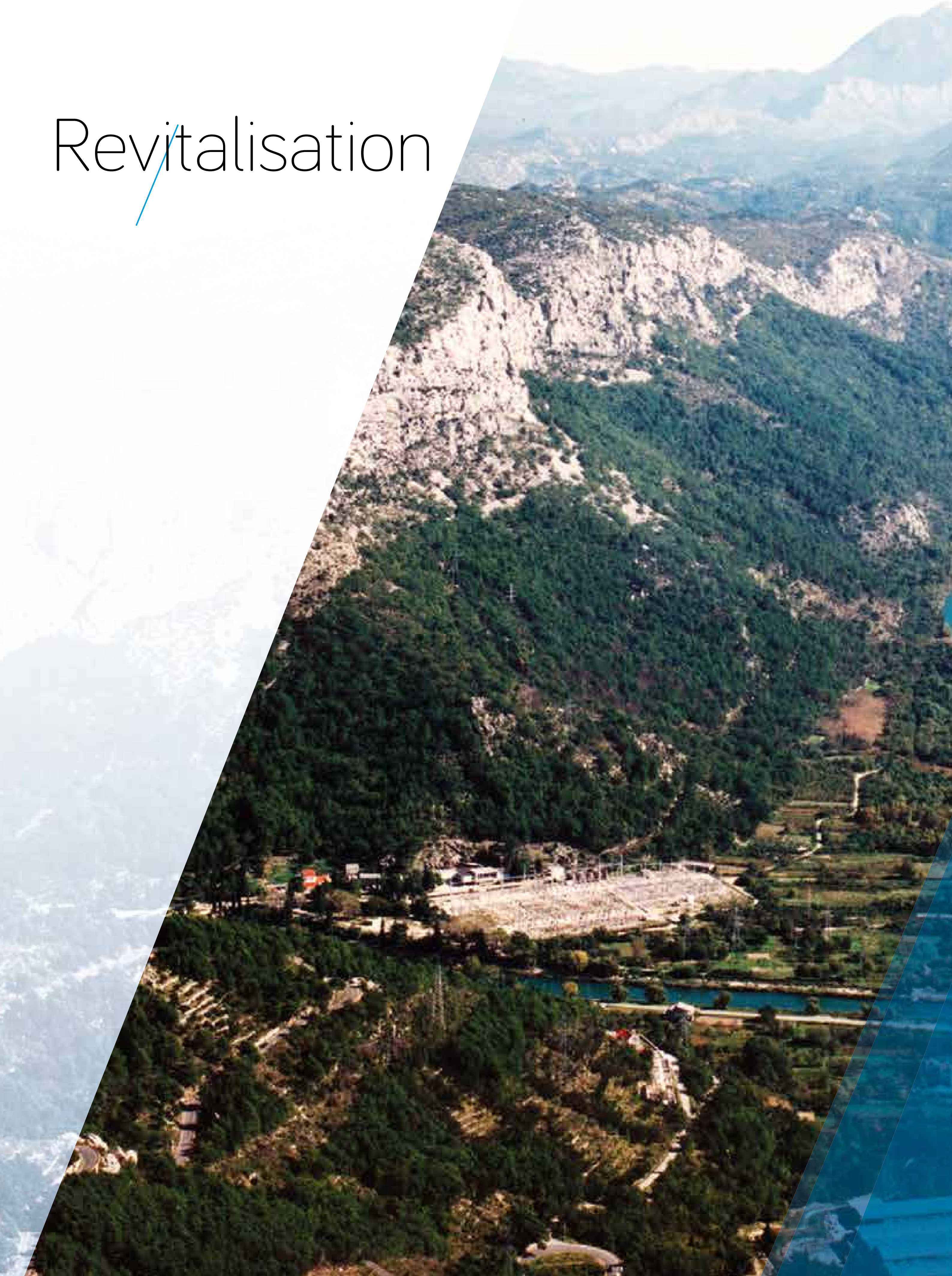
The Department carries out internal audits in line with the annual internal audit work programme. The purpose and the objective of internal audits and reports is to provide the management with a reasonable guarantee of security, efficiency and effectiveness of the business system and processes, reliability and

accuracy of information, compliance of business operations with laws, regulations and HEP Group's internal rules, plans, programs and business policy.
The reports systematically provide the assessment of the revised state of affairs and business processes as well as internal control systems. Reports on the conducted internal audits were regularly submitted to the Management Board, the Supervisory Board and the Audit Committee of HEP d.d. as well as responsible management.
The Department provides recommendations for enhancing business processes, aids the Management Board of HEP d.d. and the responsible management of HEP Group in improving internal controls and mitigation of operating risks.
In 2013, Amendments to the Internal Audit Rules were adopted under which the process of recommendation implementation was improved. The 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.
During 2013, the Audit Committee held five meetings discussing, among others, essential topics regarding internal audit performance. This has significantly contributed to further development of the internal audit in HEP Group and aided to strengthening the principle of its independence within HEP Group.
The Department submits semi-annual and annual reports on its work to the Management Board of HEP d.d., the Supervisory Board and the Audit Committee of HEP d.d. on a regular basis.

Revitali

Revitalisation of Croatia's largest power plant – HPP Zakučac sation

Revitalisation



Built in two phases in 1961 and 1980, respectively, 522 MW hydropower plant Zakučac is the biggest power plant in Croatia. Its record high generation of 2.43 TW in 2010 satisfied 14 percent of electricity consumption in Croatia. The market value of such electricity generated volume was HRK 900 million.

In light of extraordinary importance of this hydropower plant, a comprehensive one billion kuna worth project of its revitalisation, modernisation and capacity increase was launched.

Its planned power plant capacity increase following the revitalisation will amount to 52 MW, resulting in increased electricity generation by 58 GWh per year. As a comparison, the only newly built hydropower plant in Croatia is 42 MW HPP Lešće. Apart from increasing its capacity and electricity generation, objectives set before the reconstruction of HPP Zakučac also include the replacement of outdated equipment in line with the latest technological solutions, depreciating in 30 to 50 years.

The reconstruction will also lead to reduced maintenance and operational costs, its automated operation and introduction of process automation and remote control.

As the electricity generation in HPP Zakučac is of vital interest for the stability of the electric power system in Croatia, available units have been operational during the reconstruction period, which has proven to be the biggest technological challenge in terms of power plant modernization.

The replacement of the first out of four generating units was carried out in 2013. In May 2014, the network synchronization of the second new unit was completed.

HEP Business Operations in 2013

3

HEP Business Operations in 2013

Business environment

HEP Group accomplished fully its mission in 2013 i.e. safe and quality supply of energy to customers with a high degree of social responsibility. Increased tariff item amounts for electricity as a regulated activity as well as increased heat energy and gas prices from 2012 had a positive effect on operating revenue and cash flow from customers resulting in a record-high operating income in the amount of HRK 14.7 bn.
Favourable hydrology resulted in reduced costs and cash expenses for electricity and energy fuel procurement ending in decreased operating expenses of HRK 12.3 bn. Reduced generation and electricity procurement costs allowed HEP DSO to reduce tariff items for household electricity supply within the universal service as of 1 October 2013.
Recorded operating profit amounted to HRK 2.4 bn, an increase by HRK 2.0 bn compared to the year before due to a significant decrease of operating costs of HRK 1.4bn along with an increase of operating income by HRK 675.3mn. The Group's net profit was HRK 1.3 bn compared to the profit in 2012 of HRK 35.8 mn.
As good business results significantly improved Group's liquidity, HEP settled all its trade payables within due periods while funding investments by own means without any need for long-term debt. Liquidity was further strengthened by contracted medium-term multi-purpose frameworks thus ensuring quality and stable working capital funding sources in the following period.
Improved financial operations and proactive liquidity management was recognized by Standard & Poor's as well, the rating agency which increased HEP's stand-alone rating grade from b to b+ on 4 October 2013 and confirmed HEP's current credit rating grade of BB- for long-term debt with a positive outlook. Increased stand-alone grade was based on the assessment of HEP's credit indicators becoming stronger as a result of a more favourable business environment and improved liquidity as well as an active and a more methodical approach to management of Hrvatska elektroprivreda.
Moody's credit agency confirmed its HEP's rating (Ba2) in its report from 29 November and upgraded rating outlook from 'negative' into 'stable' due to conducted measures for liquidity improvement.
Last year's recorded business results must be considered within the context of other operating conditions. Regardless of all conducted activities and due to continued unfavourable economic situation and further rise of unemployment, expected improvement in the collection of receivables did not occur. The slow-down of the Croatian economy, growth of insolvent legal entities and a high unemployment rate as well as execution of pre-bankruptcy settlements affected a relative share of doubtful receivables.
In 2013, total electricity turnover reached 19.5 TWh, 14.7 TWh of which was generated in the power plants wholly or partially owned by the Group while 4.2 TWh was procured on the market. Needs of do-

mestic customers and grid losses were ensured by 17.3 TWh, while 2.2 TWh was sold on the neighbouring markets. Domestic gross electricity consumption was decreased by 1.3 percent in 2013.
During 2013, other suppliers, apart from HEP Group, intensified their activities and focused on the household category. It has been estimated that HEP's share in customer supply decreased from 98 percent in early 2013 to about 91 percent in December 2013.
HEP Group remained one of the biggest investors in Croatia in 2013, with its investments of HRK 2.2 bn. During 2013, investment funds were redirected from those companies which, due to objective circumstances, were not able to carry out certain investments, to those companies which were able, based on conducted analyses, to carry out its investments in a larger scope than planned.
Significant preparatory activities for construction commencement were conducted in relation to several significant investments such as Plomin C thermal power plant, hydropower system Senj 2, Sava Programme, Dubrovnik 2 hydropower plant, BE-TO Osijek and Sisak cogeneration plants. Equipment replacements were permanently carried out as well as the reconstruction and revitalization of the existing generation facilities and transmission and distribution networks. In line with the existing practice, future investment decisions will be made solely based on the objectivised process of determining HEP's priority interest and ranking projects according to feasibility and profitability criteria.
In early 2013, HEP-Distribution System Operator d.o.o. and Croatian Transmission System Operator d.o.o were restructed, which resulted in a lower number of employees and reduced staff cost. HEP Group continued with successful implementation of rationalisation and operating efficiency increase measures.

Financial results achieved

According to financial indicators, HEP Group is one of the biggest business entities in the Republic of Croatia. Long lasting recession and economic slow-down had been causing reduced energy consumption in Croatia for a number of years, the trend which continued in 2013.
Due to extremely favourable hydrology in 2013, hydro electricity generation increased with a paralel decrease of thermal power plant generation and electricity procurement. This resulted in reduced electricity procurement cost by HRK 1.12 bn (29.6%) and energy fuel cost by HRK 709.7 mn (21.4%). Reduced costs along with increased income due to a residual effect of approved 2012 price increase as well as income growth resulting from exporting electricity surplus generated in hydropower plants led to increased operating profit of HRK 2.38 bn (in 2012 it was HRK 349.3 mn). HEP Group's net profit was HRK 1,301.2 mn, HRK 1,295.2 mn of which is attributable to equity holders of the parent.

Consolidated profit and loss account (abridged)					HRK mn
	2011	2012	12/11	2013	13/12
Operating income	13,173.4	14,019.6	+6.4%	14,694.9	+4.8%
Operating cost	12.713,8	13.670,3	+7.5%	12,317.6	-9.9%
Operating profit	459.7	349.3	-23.9%	2,377.3	+580.6%
Group net profit (loss)	7.8	35.8	+364.0%	1,301.2	+3,533.7%
Net profit (loss) attributable to equity holders of the parent	-3.7	27.1		1,295.2	+4,679.2%

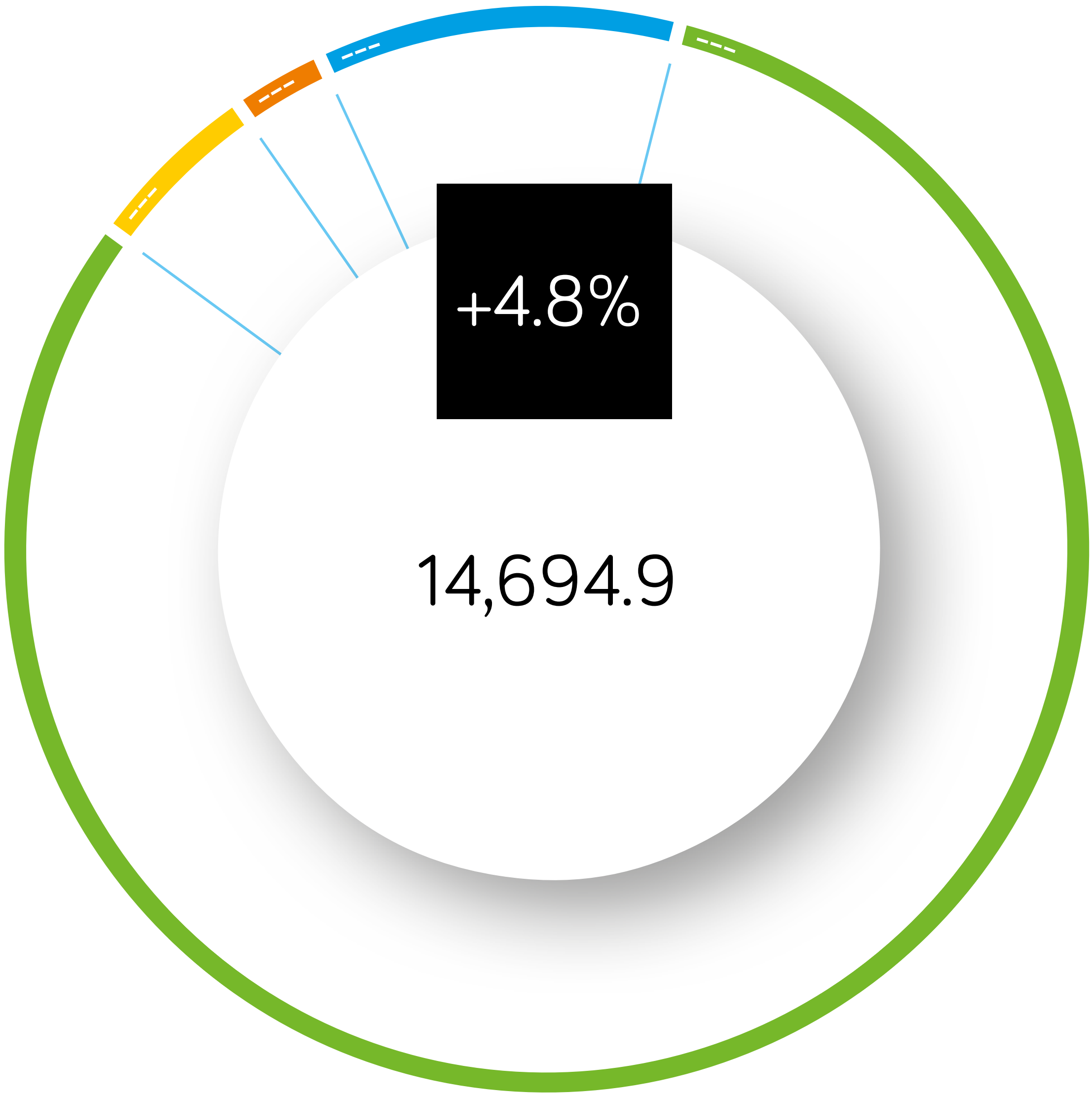
Operating income

In 2013, Group's operating income was HRK 14,694.9mn. This is an increase of HRK 675.0 mn compared to 2012. Growth in operating income is primarily the result of increased income from electricity and heat energy sales, increased other operating income, income from HOPS market functions, income from gas sales and extraordinary income.

Income from electricity sales accounts for 81 percent of Group's operating income. The 2.7 percent increase compared to the year before was the result of the residual effect of approved increase of tariff items from regulated activities as of May 1, 2012 as well as income from exporting surplus electricity generated in hydropower plants. Income from heat and gas sales accounts for 5 and 3 percent, respectively, which is a 30.4% and 2.6% increase respectively, compared to 2012. Other operating income increased by 12% compared to the year before. This increase is primarily due to income from cancelling provisions for payments pursuant to the Collective Agreement, income from HOPS market function and income from default interest charged to electricity, gas and heat energy customers.

OPERATING INCOME (HRK mn)

Electricity sales	11,947.9	81%
Heat sales	763.5	5%
Gas sales	406.2	3%
Other operating income	1,577.4	11%



Operating expenses

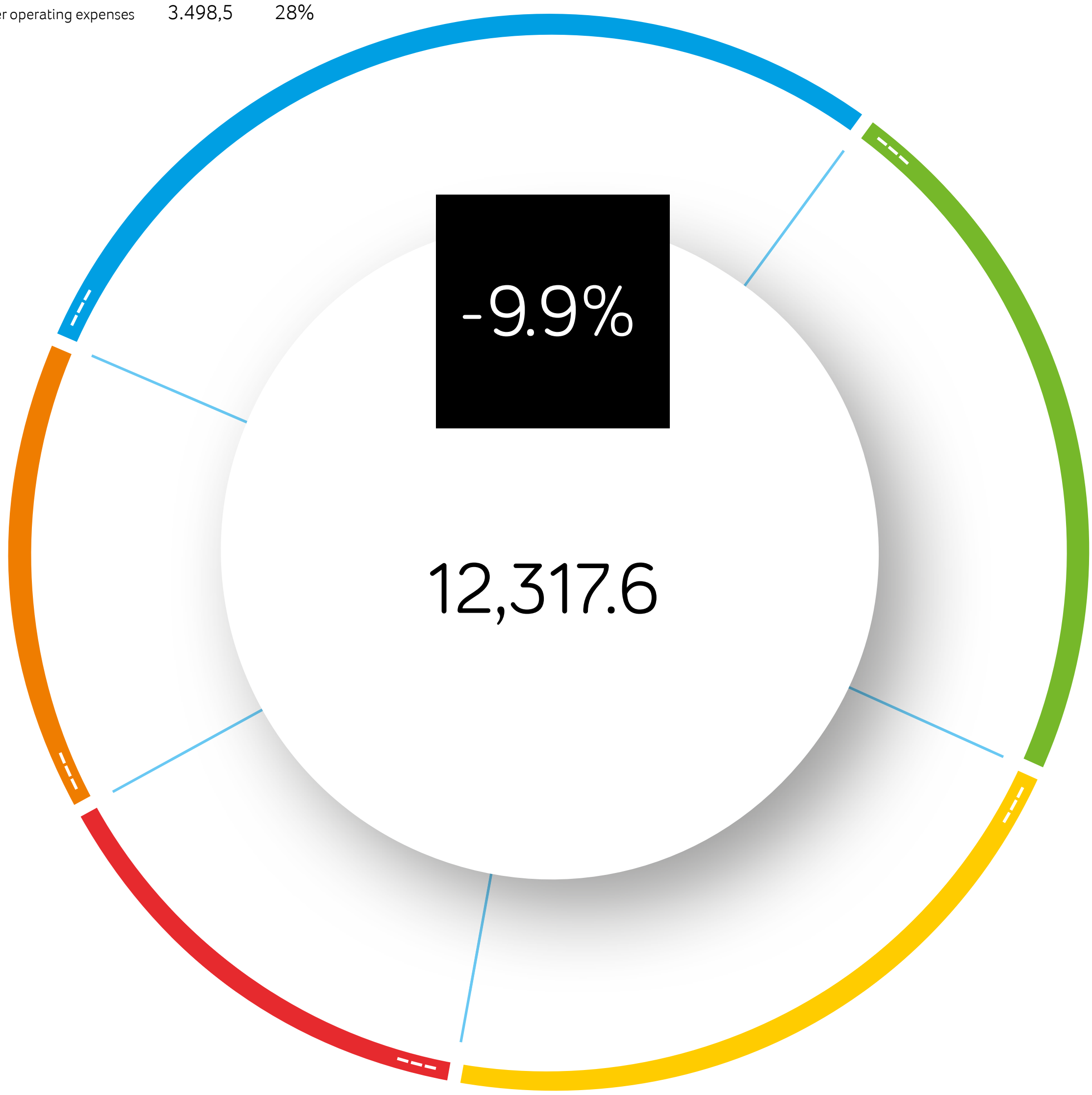
Group's operating expenses in 2013 decreased by HRK 1,352.7 mn to HRK 12,317.6 mn. Among total operating expenses, energy fuel for electricity and heat production and electricity purchase accounts for 42.9 percent. These costs amounted to HRK 5,280.0 mn, a decrease of HRK 1,832.6 mn or 25.8% compared to 2012 as a result of the following factors:

- extremely favourable hydrology for most of the year with a total hydro generation of 8.1 TWh and subsequent reduced electricity procurement domestically and abroad (by 2,490 GWh) as well as reduced thermal generation (by 622 GWh);
- decreased price of imported electricity
- decreased prices of coal and natural gas
- decreased energy fuel consumption.

Compared to 2012, staff cost decreased by 6.6 percent due to a reduction in the number of employees (1,708 less compared to the year before). Other operating income increased by 20 percent in total, in which the highest increase regards severance payments made and provisioned in line with the termination of employment contract according to the restructuring Programme. Fees which are paid according to generated electricity were also increased due to increased total generation volume as well as the increased price used as a fee calculation basis.

OPERATING EXPENSES (HRK mn)

Electricity procurement	2.670,2	22%
Fuel	2.609,8	21%
Staff costs	1.740,0	14%
Depreciation	1.799,2	15%
Other operating expenses	3.498,5	28%



Result by activity

BUSINESS RESULT

	electricity			heat energy			gas distribution		
									HRKmn
	2012	2013	**13/12**	2012	2013	**13/12**	2012	2013	13/12
Operating income	12,951.5	13,440.0	**3.8%**	646.1	821.1	**27.1%**	422.0	433.9	2.8%
Operating profit (loss)	804.1	2,556.0	**217.9%**	-457.1	-175.9	**-61.5%**	2.2	-2.8	-

Most of operating income (91.5%) and total operating profit of the Group was achieved in electricity business. Higher operating profit in this business activity is a consequence of the residual effect of increased electricity selling price as well as extremely favourable hydrology. Although district heating accounts for only 5.6% of income, operating loss in this business activity was HRK 175.9mn. The loss was reduced compared to 2012 due to approved increase of heat energy selling price in December 2012. Gas distribution has the smallest share in operating income (3 percent) with recorded operating loss of HRK 2.8 mn.

ELECTRICITY

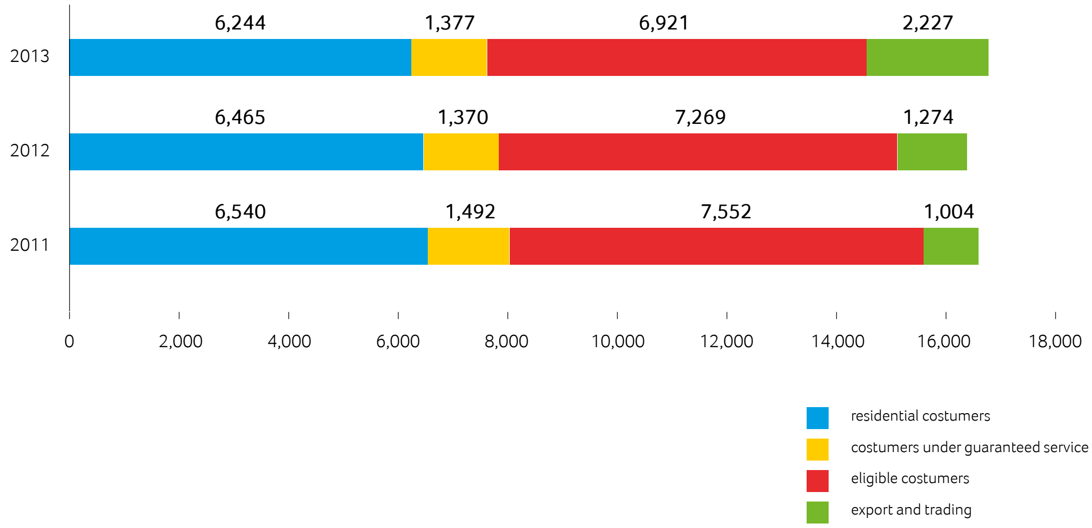
Production, transmission, distribution and supply of electricity are carried out by HEP Group on the entire territory of Croatia. The Group is the largest supplier of electricity. In 2013, operating profit of HRK2,556.0mn was recorded.
Income from electricity sales amounted to HRK 11,947.9 mn, 94 percent of which was from the supply of domestic customers and 6 percent from sales in neighboring market.

ELECTRICITY PRODUCTION AND PROCUREMENT

	2011	2012	2013	udjel u ukupnom prometu	GWh 13/12
hydro power plants	4,577	4,773	8,054	42%	**68.7%**
thermal power plants	5,147	4,699	4,078	22%	**-13.2%**
Krško nuclear power plant	2,951	2,622	2,518	13%	**-4.0%**
electricity procurement	5,863	6,794	4,304	23%	**36.7%**

Power plants, wholly of partially owned by the Group, generated 14.7 TWh of electricity, i.e. 77% of total electricity turnover recorded by the Group in 2013. Due to good hydrology, the structure of electricity sources is significantly more favourable than the year before. Due to high energy values of water inflows, hydrogeneration recorded 8,054 GWh of electricity i.e. a 3.1% less compared to the record-high 2010 generation. Thermal generation was reduced by 13.2% compared to 2012 due to high generation costs, which resulted in optimized cost of electricity generation and procurement. A total of 4,304 GWh was procured from outside sources i.e. a 36.7% less compared to 2012, 649 GWh of which was purchased from HROTE (electricity generated from RES and cogeneration within the incentive system).
Domestic electricity sale amounted to 14.5 TWh, i.e. a 3.7% decrease compared to 2012. Domestic sale accounts for 95.5% of total electricity sale in Croatia. The share of the household category in the structure of sold electricity is 42.9% (6,244 GWh), customers within the guaranteed sevice account for 9.5% (1,377 GWh), while the share of eligible customers is 47.6 percent (6,921 GWh). Sales abroad amounted to 2,227 GWh, which is a 74.7 percent increase compared to 2012.

ELECTRICITY SALES (GWh)



DISTRICT HEATING

The business of production, distribution and supply of heat energy is performed in the area of Zagreb, Osijek, Velika Gorica, Zaprešić, Samobor and Sisak.
The business made an operating loss in 2013 of HRK 175.9 mn. Compared to 2012, the loss decreased by HRK 281.2mn primarily as a result of increased heat energy selling price as of 13 December 2012 when the average annual 36.8% tariff customer increase was approved.
In 2013, heat energy and process steam generation and procurement amounted to 2.54 TWh i.e. a 0.5 percent less compared to 2012. Heat energy consumption was 2.2 TWh (0.2 percent less compared to 2012). Increased household consumption (0.2%) was affected by weather during the heating season. Due to unfavourable economic circumstances, entrepreneurial consumption was reduced by 0.8 percent.

GAS

The business of gas distribution and supply is performed in the area of Osijek-Baranja, Virovitica-Podravina and Požega-Slavonia counties. In 2013, the business made an operating loss of HRK 2.8 mn compared to the HRK 2.2. mn profit made in 2012.
As gas consumption is affected by weather during the heating season as well as general economic situation, due to mild winter and slow economic activity, gas sale in 2013 was decreased by 6.7% compared to 2012. Households and entrepreneurs reduced their consumption by 7.2 and 6 percent, respectively. Despite reduced consumption compared to 2012, income from gas sales increased by 2.6% due to increased average gas selling price by 9.7%. Increased gas selling price came into effect on 1 May 2012 by increasing the tariff item for gas distribution and introducing the fixed monthly charge.

Financial position

CONSOLIDATED BALANCE SHEET (ABRIDGED)

	December 31, 2012		December 31, 2013		Change 13/12
	HRKmn	share	HRKmn	share	
Long-term assets	31,775.8	90%	32,125.9	90%	+1.1%
Short-term assets	3,703.5	10%	3,435.0	10%	-7.2%
Total assets	**35,479.4**	**100%**	**35,560.9**	**100%**	**+0.2%**
Capital and reserves	19,964.4	56%	21,242.2	60%	+6.4%
Long term provisions	661.4	2%	781.8	2%	+18.2%
Long term liabilities	10,115.9	29%	10,028.6	28%	-0.9%
Short term liabilities	4,737.6	13%	3,508.9	10%	-25.9%
Total capital and liabilities	**35,479.4**	**100%**	**35,560.9**	**100%**	**+0.2%**

ASSETS

The value of total assets of HEP Group in 2013 increased by HRK 81.6mn to HRK 35.6 billion. The increase of HRK 350.0 mn was achieved in long-term assets owing to investments in preparation and construction of new electric facilities, connection of consumers as well as replacement, reconstruction and refurbishment of the existing energy facilities. Long-term assets account for 90 percent of the value of the Group's assets.

The value of short-term assets is HRK 3.4 billion, a decrease by HRK 268.5 mn, as a result of decreased cash and cash equivalents by HRK 344.3mn, a decrease in total accounts receivables by HRK 93.1mn, a decrease in inventories of HRK 78.4mn, and increased loans and deposits by HRK 158.9mn as well as all other receivables by HRK 76.4 mn. The most significant item in short-term assets is accounts receivable amounting to HRK 1.8 billion, which decreased in 2013 due to increased share of doubtful receivables. This is followed by inventories of materials, spare parts and energy fuel which amounted to HRK 903.2mn, 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 2013 amounted to HRK 21.24 billion, an increase of HRK 1,277.8mn compared to 2012 as a result of increased net profit for the current year. This increased this share in Group's total asset from 56 to 60 percent.

Long-term provision increased by HRK 120.4mn compared to last year and amounted to HRK 781.8mn, primarily due to increased provisions for litigation by HRK 171.6mn and reduced provision for severance pays by HRK 53.8mn.

Long-term liabilities amounted to HRK 10.0 billion and accounted for 28 percent in total liabilities and capital. They decreased by HRK 87.9mn due to decreased long-term loan liabilities as well as bond issued related liabilities.

Short-term liabilities amounted to HRK 3,509.9 mn, a decrease by HRK 1,228.7 mn compared to the beginning of the year. In light of reduced costs and investments, trade liabilities reduced by HRK 1,006.8mn. Liabilities for securities were by HRK 500 mn lower as a result of paid off bonds issued in 2006. Liabilities for short-term loans used for securing liquidity reserves in the following medium-term period increased as well as liabilities toward current maturity of long-term loans.

The debt/equity ratio is 28.0 percent. It is lower than last year, when it was 31.6 percent.

Investments

In 2013, the Group made investments in the amount of HRK 2,166.9mn. Main investments were focused on the reconstruction and modernization of generation facilties and electric power system plants, the construction of new generation facilties and the 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 IT and telecommunication infrastructure upgrade.

Investments				HRK mn
	2011	2012	2013	**2013/2012**
Investments in property, plant and equipment	2,132.6	2,598.3	2,166.9	**-16.6%**

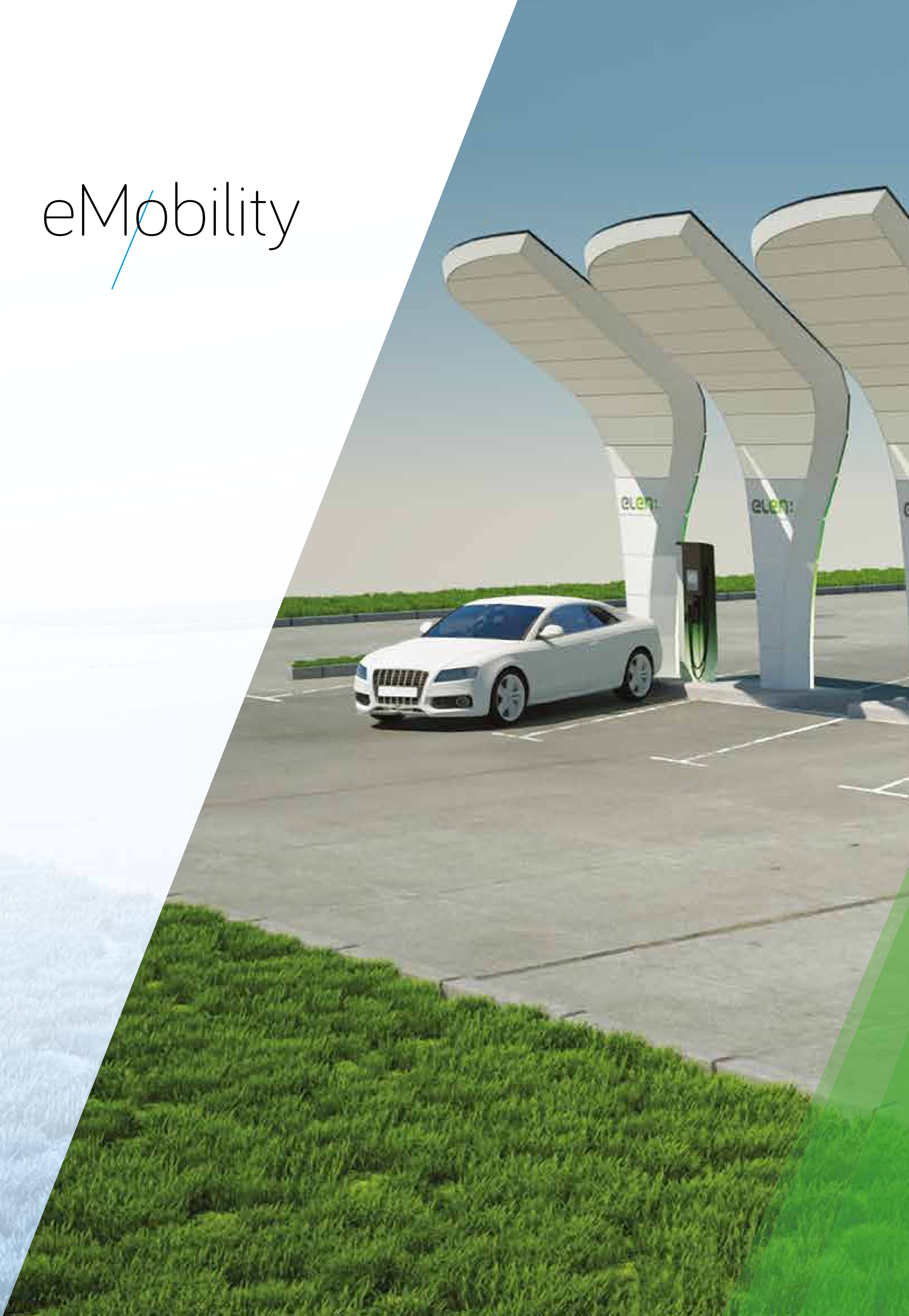
An overview of the 2013 major investments per company is given in the section Reports by HEP Group companies.

eMobil

Sustainable transport solutions from HEP

ity

eMobility



eMobility, HEP Group's development project has been harmonized with the EU energy strategy objectives. The project is based on the concept of using energy from renewable sources as fuel powering electric vehicles. HEP wishes to take on a leading role in regional electromobility by constructing infrastructure for charging electric vehicles based on the smart power grid concept.

By constructing its own infrastructure, HEP wishes to connect entire Croatia, join the European energy highway and contribute to reduced CO_2 emissions and environmental protection.

HEP has been developing electric vehicle charging stations under ELEN brand. In cooperation with the city of Zagreb and organization of the Croatian Design Association, the conceptual design was selected for the layout of the electric vehicle charging stations. Its objective was to choose a standard under which the charging station chain will be built according to findings of the study conducted by the Faculty of Electrical Engineering and Computing in Zagreb.

In February 2014, HEP and the city of Koprivnica signed the contract for building five electric vehicle charging stations as part of the Civitas Dyn@mo project. The Dyn@mo project connects four European cities in its mission of strengthening sustainable mobility. It is focused on developing the most efficient measures of transport sustainability based on electromobility and planned sustainable city traffic.

The electric vehicle charging system with eight parking places was introduced in early 2014 in the garage of HEP's new office building.

The eMobility project was awarded by the Zagreb Mayor's Award at INOVA 2013 for the most prominent Croatian innovator and by GREENOVATION 2013 for the best web programme of the Croatian green economy for its 'elen.hep.hr – The Source of Electricity – Portal for eMobility popularization'.

Report on Impact on Stakeholders

4

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**:

OWNER

- To achieve 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 Programme

In 2013, HEP continued to implement the Action Plan for the implementation of the Anti-Corruption Programme of the Croatian Government applicable to state majority-owned companies 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 commissionaires 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 2013, the Information Officer for HEP Group received 21 requests for access to information, all of which were resolved within the legal time-limit. In accordance with the Right to Access to Information Act, the Information Officer prepared the Report on the implementation of the Act for 2013 and sent it to the Croatian Information Commissioner. The Report also states that information on a company's business operations, as required by the Act, must be published on the internet website along with posting the Information Catalogue as well. The website should also include the list of decisions adopted by the Management Board of the Company with the consent of the Government of Croatia.

PUBLIC PROCUREMENT

NUMBER OF PROCUREMENT PROCEDURES CARRIED OUT IN 2013 BY HEP GROUP COMPANIES

PUBLIC PROCUREMENT	
HEP Group company	**Number of public procurement processes in 2013**
HEP d.d.	96
HEP – Proizvodnja d.o.o.	334
HEP – Operator distribucijskog sustava d.o.o.	756
HEP – Plin d.o.o.	24
HEP – Toplinarstvo d.o.o.	99
HEP – Trgovina d.o.o.	0
HEP – Obnovljivi izvori energije d.o.o.	6
HEP – Odmor i rekreacija d.o.o.	8
Program Sava d.o.o.	0
HEP Opskrba d.o.o.	3
HEP ESCO d.o.o.	0
HEP NOC d.o.o.	2
APO d.o.o.	0
Total	1,328

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 responsibility. As part of the Action Plan for the implementation of the Anti-Corruption Programme 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. Also, for every public procurement 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 information regarding procurement procedures. All public procurement procedures within HEP Group are posted on HEP website. The procedures that are not subject to the Public Procurement Act if another type of invitation to tender/tendering is applied are also posted.

Publishing contract award and performance. In accordance with provisions of the Public Procurement Act, HEP Group members, which are subject to the Public Procurement Act, publish 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 value 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 under 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, procurement based on the' value for money' principle and orderly procedure conduct (timely procurement). To achieve these objectives, HEP will continue to strengthen transparency, providing more information to prospective tenderers focusing on giving equal opportunity to all those wishing to participate in the public procurement procedure.

Employees

NUMBER AND STRUCTURE OF EMPLOYEES

On December 31 2013, 10,846 out of the total of 10,877 employees were employed on a permanent basis and 27 on a temporary basis (of which 18 trainees on a temporary basis), while 4 employees were on unpaid leave.

NUMBER OF EMPLOYEES BY HEP GROUP COMPANY (DECEMBER 31, 2013)

HEP Group company	No of employees		Change
	2012	2013	2013-2012
HEP-Operator distribucijskog sustava d.o.o.	9,051	7,531	-1,520
HEP-Proizvodnja d.o.o.	2,223	2,182	-41
HEP d.d.	435	460	25
HEP-Toplinarstvo d.o.o.	353	347	-6
HEP-Plin d.o.o.	134	134	0
HEP-Opskrba d.o.o.	60	75	15
Crpna stanica Buško blato d.o.o.	43	42	-1
HEP-Trgovina d.o.o.	24	23	-1
HEP-ESCO	19	22	3
APO d.o.o.	23	20	-3
Ustanova HEP-Nastavno-obrazovni centar Velika	12	12	0
HEP – Odmor i rekreacija d.o.o.	11	12	1
HEP- Obnovljivi izvori energije d.o.o.	8	9	1
HEP-Razvoj višenamjenskih nekretninskih projekata d.o.o.	8	8	0
HEP-Operator prijenosnog sustava d.o.o.*	1.181	-	-
HEP Group TOTAL	**13,585**	**10,877**	**-2,708**

*In 2013, the company was unbundled according to the ITO model. It is therefore exempt from the HEP Group total number of employees.

QUALIFICATION STRUCTURE

Qualification	2013	2013 (%)
DSc and MSc	199	1.8
BSc	1,693	15.6
Assoc. degree	874	8.0
Secondary sch.	4,858	44.7
Element. sch. / semi skilled	492	4.5
Highly skilled	1,501	13.8
Skilled	1,267	11.7
TOTAL	**10,877**	**100%**

AGE STRUCTURE

Years of age	No. of employees
do 20	1
20-25	28
25-30	356
30-35	702
35-40	1,405
40-45	1,502
45-50	1,742
50-55	2,189
55-60	2,114
60-65	838
TOTAL	**10,877**

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, Chemisty 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 by work rules of the companies and Collective Agreement for HEP Group.

The Collective Agreement (Bulletin 237 from January 12,2011) was concluded for the period from January 1 2011 until December 31 2012. Its provisions were valid until March 2013 pursuant to provisions on extended implementation of the Act on criteria for participating in tripartite bodies and collective negotiation representativeness.

On April 26, 2013 the new Collective Agreement (Bulletin 303 from April 26, 2013) was concluded between HEP Group and two representative trade unions, applicable from April 1, 2013 until March 31, 2014. Pursuant to Article 152 of the Collective Agreement, the parties to the Collective Agreement set up the Joint Commission for the interpretation of the Agreement provisions. 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 with elected workers' councils, the employers fulfilled their obligations toward workers' councils, in compliance with the sections 148-150 of the Labour Act (Official Gazette no. 149/09, 61/11, 73/13) relating to obligations to inform, consult and allow participation in decision-making of workers' councils on matters important for employees.

HUMAN RESOURCE MANAGEMENT

In setting objectives for 2013, the HR Department considered real operating needs as well as the role and function of the HR management within HEP Group. This role, within the context of strategic restructuring, is especially important as it manages a dynamic company structure and employees as well as optimizes a labour dimension based on defining business processes, describing work positions and competencies, planning employee sucession and analysing needed professions and workers' strategic development.
The goal is to implement modern resource management systems in a timely manner by carrying out a single development policy based on the synergy of corporate knowledge, experience and motivation resulting in a successful achievement of business goals and reduced total operating cost of HEP.
HEP Group continually implements modern practices of HR management focused on employing and developing competent workers who will represent the company's competitive value in open market operations.
Standardized processes of employing new workers and selecting scholarship recipients (pupils and students) as well as introducing new employees to their work tasks i.e. monitoring their knowledge acquisition for independent work were set up. They function in a manner which provides for the selection of best candidates as well as their fast and successful adaptation to work environment.

EDUCATION AND TRAINING

Having considered the need for permanent life-long employee education which will contribute to developing 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.
The HR Department has been conducting in-house internship educations primarily aimed at deveoping so-called soft skills (*Communication Skills and Business Etiquette, Presentation Skills*) as well as education intended for all interested employees (*Business Correspondence*).
For the purpose of keeping a single record 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 2013, there were 146 work injuries in HEP Group, 219 serious and 127 light ones. Work injuries are mainly the consequence of not applying basic or special protection rules at work. That is why increasing attention has been paid during the past few years to permanent education of employees at all levels, especially direct supervisors and/or authorized officers.
Safe work education is conducted regularly for new employees or workers who changed their work position in line with legal obligations. Other trainings are conducted according to expressed needs by areas and plants, internally or externally by authorized companies, depending on the type of training.
Hazardous machines and devices as well as fire alarm and supression systems are tested according to testing schedule and deadlines as required by law.

Customers

NUMBER OF CUSTOMERS

The number and structure of electricity, district heating, process steam and natural gas customers is 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 DSO is also the provider of the public service of electricity supply to customers within the universal and guaranteed supply. The Company has continually been raising the quality level of its services provided to its customers and improving its distribution network for the purpose of increasing the quality level of supplied electricity to all distribution network users. The web site of HEP DSO provides its customers with the possibility of obtaining most relevant information on one place. All other questions can be submitted to a single e-mail address. The 'My Account' application facilitates the submission of meter readings as well as provisional calculations, overview of historical consumption and payment data. Customers can also view all announced interruptions in electricity supply for the entire Croatian territory.
Meter readings can be submited at any time to a free telephone answering machine at 0800 0555. In addition to these channels of communication, in each distribution area customers can communicate directly with employees with the purpose of submitting meter readings, getting information or filing 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 an extra charge by a standing order agreed with a commercial bank or a credit card company with which HEP DSO has the contract for this service.

RELATIONS WITH ELECTRICITY CUSTOMERS – HEP SUPPLY

HEP Supply pays special attention to its direct contact with customers. Company's business priority is customer satisfaction, which is achieved by its continuous adaptation, offering quality services and innovative products based on sustainable development and socially responsible behaviour principles. Key customers with their consumption exceeding 1GWh are served by a personal sales adviser. Other customers use the Customer Service. Direct contact is made at Meetings with Customers. These meetings aim at introducing new products and services to customers, informing them on electricity market trends domestically and regionally, explaining legislative changes and plans for furthering future cooperation. Focusing on increasing competitiveness, customers are offered the possibility of association to achieve better contractual terms. Customers mutually enter into an association agreement and select the association head i.e. a member of the association who negotiates supply terms on their behalf. This product is especially interesting to certain industrial segments such as shipyard, tourism, construction, wood industry and alike. In 2013, 44 such association agreements were concluded (including up to 20 companies per agreement).
In 2013, the new product called Hepi was launched. It focuses on the household category and provides discounts ranging from 4.5 to 5.5 percent compared to the universal service price at the product launching moment. Discount rate depends on contract duration (one, two or three years). Those Hepi customers who opted for e-mail invoices, collect points for electricity consumed and thus achieve additional discounts and awards. The benefit of this approach compared to the competition is payment of electricity as consumed, one month delayed payment and the possibility of being exempt from supply fee payments.
The Hepi tariff is primarily contracted on-line, via the request form found on the web page. A large number of Requests had also been submitted to the contact center. In a little more than a month, from product launching to end 2013, a total of 7,385 requests for entering into the supply contract for the household category was received. A total of 7,385 contracts was sent to customers for their signature,

of which 3,539 was signed, 826 effective from 1 January 2014, while the others came into effect as of 1 February 2014.

HEP Supply customers can also view their data by using the 'My Account' web application, recording more than 23,000 visits in 2013. In the same period, 68,265 calls were made to the contact center. The Contact Center provides a complete service with regard to the Hepi product for households, including information provision, request submission, contract mailing and its filing into the Billing application as well as complaint resolution. The quality of the Contact Center staff is confirmed by information that 94% of customer queries was resolved upon their first call.

Customers can also use other information channels, such as the Company's web site, the newsletter, HEP Vjesnik monthly magazine and information published on web portals and social networks.

RELATIONS WITH HEAT ENERGY CUSTOMERS (HEP DISTRICT HEATING)

HEP District Heating continued to provide a quality and reliable heat energy supply to its end customers in 2013 as it did during previous years. The Company also provided timely readings and billing of supplied heat energy. Its operation was focused on improving service quality by protecting customers' rights with regard to personal data protection, information access and customer protection.

In line with legal regulations, end customers were timely and regularly informed on the start and end of the heating season, heat energy supply interruptions, planned heat system revitalizations, heat energy prices, validity of the new Heat Energy Market Act as well as customers' rights and obligations stemming from the said Act.

The Heat Energy Act set new obligations for end customers, provided them with the possibility of selecting the heat energy customer and fostered the implementation of energy efficiency and energy savings measures in their residential and office premises by installing a heat allocator and a thermostatic radiator valve. In view of these being significant novelties and changes for end customers, HEP District Heating sent to its customers, along with the November 2013 bill, a leaflet with useful information regarding the new Act, and put at their disposal telephone numbers and e-mail addresses for all issues relating to the new Act, thus trying to maximise its approach to end customers through providing timely and professional information and advice.

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 Complaint Commissions are set up pursuant to the Consumer Protection Act. These Commissions, which include representatives of customer protection associations, held regular meetings discussing and resolving all complaints submitted by heat energy end customer complaints.

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 2013 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, purchased gas was billed according to regulated prices set by the Croatian Government. During 2013, the selling price for households remained unchanged (in comparison with its change for majority entrepreneurial customers on a monthly basis 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 entrepreneurial customers. Despite such a situation and due to the integrated financial function in HEP Group, liquidity was not aggravated thus not affecting the settlement of our liabilities for gas supplied.

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. Commissions are composed of representatives of individual HEP companies or areas and representatives of consumer associations.

NUMBER OF COMPLAINTS DISCUSSED BY COMMISSIONS OF HEP DSO – 2013

	Billing	Faulty meter	Connection/ disconnection	Voltage conditions	Other	**TOTAL**
total	349	17	3	0	14	383
accepted	64	6	0	0	0	70
rejected	285	11	3	0	14	313

NUMBER OF COMPLAINTS DISCUSSED BY COMMISSIONS OF HEP–DISTRICT HEATING – 2013

	Quality of supply services (regarding meter reading, billing, collection)	Quality of heat energy (temperature on customer premises, temperature of hot water, steam parameters)	Change in connected load	Change at metering point (separation, linking, relocation of installations, etc.)	Redistribution of supplied heat volume	Other reasons	**TOTAL**
total	3	0	0	3	0	5	11
accepted	0	0	0	1	0	0	1
rejected	3	0	0	2	0	5	10

NUMBER OF COMPLAINTS DISCUSSED BY COMMISSIONS OF HEP–GAS – 2013

total	2
accepted	0
rejected	2

Donations

DEMINING ASSISTANCE

The most significant single donation in 2013 (as in the previous two years) 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 Croatian Government. HEP thereby contributed to one of the most important national projects, significant for the safety of people as well as economic development in the mine-contaminated areas.

PUBLIC TENDER FOR AWARDING GRANTS

In 2013, HEP conducted the public tender for awarding grants for the third time. It was titled 'Light along the common road'. Tenderers (registered associations, clubs and institutions seated in Croatia) could apply their projects or programmes for 2013 in the following areas: youth, art and cultural heritage, science and society or environment. In line with the conditions set, 1,363 projects were submitted. Having examined project quality and originality, the degree of its usefulness for the local and wider social community as well as efficiency of using donated funds, HEP selected 348 projects which execution was co-financed by its funds in the total amount of HRK 2.5 million.

OTHER (MULTI-YEAR COOPERATION)

- Since 1995, HEP has been awarding students who achieve best results in national mathematics and physics contests and since 2005 to best students of vocational electrical schools.
- 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
- On the occasion of the 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 HEP Pensioners Association and HEP's Croatian Homeland War Veterans Association by giving donations.

Sustainable Development

5

Sustainable Development

Policy and organization of nature and environmental protection function

The Croatian accession to EU on 1 July 2013 resulted in amendments and adoption of numerous new legal regulations from the environmental protection area harmonized with EU directives. Obligations and restrictions stemming from the legal framework represent a new challenge to HEP in meeting its obligation of securing customer supply.

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 obtain information 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 is to analyse and evaluate environmental activities in HEP Group emphasizing planning, coordination, internal communication and proposals for improving environmental activities.

Harmonization with the EU legislation

OBTAINING ENVIRONMENTAL PERMITS

Environmental permits are a precondition for continuous operation of the existing and one of the preconditions for obtaining the usability permit for the reconstruction of the existing and the construction of new thermal power plants of nominal heat energy exceeding 50 MW. As the procedure for obtaining environmental permits formally commenced in 2007, the fundamental task entrusted to the Team in charge of obtaining environmental permits in the cooperation with authorized personnel of the Ministry for Environmental Protection and Nature was to develop requirements as well as technical and technological solutions and make plans and plants' harmonization programmes within set time periods viable in view of the plants' life span.

During 2013, the procedure for obtaining environmental permits for the existing thermal power plants, commenced pursuant to provisions of the Environmental Act (Official Gazette 110/07) and the Ordinance on the procedure for setting integrated environmental terms (Official Gazette 114/08) was continued. The new Environmental Act came into effect in the meantime (Official Gazette 80/13), which announced the passage of the new Environmental Permit Ordinance (Official Gazette 8/14) aimed at harmonizing the Croatian legislature with provisions of the Directive on Industrial Emission 2010/75/EC. Pursuant to provisions of the above stated legal regulations regarding public disclosure in the process of environmental permit issuance, public consultations with regard to HEP Generation plants (TPP Rijeku, TPP Sisak, TE-TO Zagreb, KTE Jertovec and TE-TO Osijek) as well as the Osijek plant of HEP District Heating were held. First environmental permits in HEP Group were issued to the Osijek plant of HEP District Heating and TE-TO Osijek cogeneration plant in early 2014. Procedures regarding other plants are underway.

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). Through its membership in the EU ETS, HEP has undertaken the obligation of buying greenhouse gas emissions on the market in the volume of verified CO2 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.
Purchased emission units must be submitted by traders onto Accounts of plant operators opened in the EU Greenhouse Gas Inventory – the Croatian part until 30 April each for the previous calendar year. The system of CO2 emissions trading in HEP Group was officially set up in 2012 pursuant to the Decision of the Management Board of HEP under which obligations, responsibilities and time-limits for meeting obligations of individual departments and companies within HEP's emission tradiong system are set. For the purpose of providing guidelines to HEP Trade, the company in charge of buying and selling emission units in HEP Group, the in-house commission was set up in March 2013, which proved to be a good cooperation model between departments and companies in terms of timely fulfilment of legal obligations and submission of emission units to the EU Greenhouse Gas Inventory.
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 CO2 emission volumes as well as planning funds for emission purchase.

WATER FRAMEWORK DIRECTIVE – BASIS FOR INTEGRAL WATER MANAGEMENT

The foundation for integral water management in EU was set by the Water Framework Directive (2006/60/EC), which provisions were transposed by the Republic of Croatia into its Water Act and its stemming secondary legislation. Integral water management includes water protection and evaluation of ecosystem services, sustainable water usage, eutrophication and water pollution reduction as well as flood and ice risk assessment and management. The Water Area Management Plan stemming from the Water Act remains in force until 2015. The list of candidates with individual water body status was made as its part to be confirmed through the Water Bodies Management Plan for the period 2016-2021. As the announcement of the water body status and the determined water level is a prerequisite for setting objectives which need to be developed by implementing measures i.e. it affects the operation of the existing and the construction of future generation facilities, HEP as an interested party need to be included in the Plan development.

EUROPEAN ECOLOGICAL NETWORK NATURA 2000

Areas of the National Ecological Network in Croatia encompass internationally important bird habitats 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 possible real obtacles and limitations in the operation of the existing and the construction of 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 have gone through the process of environmental impact assessment

KEEPING UP WITH LEGAL REQUIREMENTS

To educate and inform the employees about obligations resulting from legal environmental regulations in a timely manner, HEP Group has been systematically following and monitoring, in the form of monthly reports and annul printed bulletins, as well as preparing overviews of legal requirements in environmental and nature protection of importance for operations and business of all HEP Group companies since 2000. During 2013, improvements were continued and further expansion of the implemented electronic data bases were planned (Registry of Waste Generation and Process; Registry 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.

Basic indicators

During 2013, HEP continued to monitor pollutant emissions into the air – sulfur dioxide (SO_2), nitrogen oxides (NO_x), carbon dioxide (CO_2) and particulates as required by the 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 2012, the year 2013 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 2013 BY HEP GROUP SOURCES

Year	NOx	SO_2	solids (PM10)	CO_2
	t/year	t/year	t/year	t/year
2012	5,156	8,055	179	3,726,274
2013	5,286	6,025	93	3,490,584
2013/2012%	**3**	**-25**	**-48**	**-6**

WASTE

During 2013, the Sustainable Waste Management Act came into effect (Official Gazette 94/13) and announced the passage of numerous new secondary regulations which need to be embedded into the existing waste management system in HEP. The years-long trend of improving waste management system continued in 2013 by investing in existing and new temporary waste storages and in employee education. 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. Electronic management of waste data using the application "Waste Management" continued in all plants.

In 2013, a total of 1,565 tons of hazardous waste and 101,705 tons of non-hazardous waste was produced within HEP Group. Reduced quantities of generated hazardous and non-hazardous waste are the result of continuous improvement of the waste management system in HEP i.e. waste separation at the location of its emergence, waste storage development, increasing record-keeping quality of generated waste volumes and HEP employees education. All 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 2012 AND 2013

Year	**Hazardous waste (t)**	**Non-hazardous waste (t)**
2012	2,259	103,519
2013	1,565	101,705
2013/2012 %	**-31**	**-2**

EXPENSES FOR ENVIRONMENTAL AND NATURE PROTECTION

In 2013, total expenses for nature and environmental protection incurred by HEP Group companies amounted to HRK 101.08 mn and remained at the 2012 levels. The most significant investments in 2013 were the projects of improving the waste management system in HEP's plants as well as nature and the environment protection projects.

EXPENSES FOR ENVIRONMENTAL AND NATURE PROTECTION IN HEP GROUP ACCORDING TO RETZOK REPORTS

Environmental protection	**Cost of regular operations** (in HRK 000)	**Investments** (in HRK 000)
Air and Climate	5,360	130
Waste Waters	1,507	66
Waste	7,924	3,643
Soil and Underground Water Protection	557	51
Noise and Vibrations	18	0
Nature and Landscape Protection	6,845	4,118
Radiation Protection	45	0
Research and Development	117	518
Others (mostly fees in regular operations)	61,807	8,378
TOTAL 2013	**84,180**	**16,904**
TOTAL 2012	**84,796**	**16,396**
2013/2012 (%)	**-1**	**3**

Major achievements in 2013

AIR QUALITY PROTECTION

- The system of adaptive electrofilter regulators for reducing flue ash concentrations at air discharge from TPP Plomin 1 was upgraded.
- TPP Sisak conducted control measurings of the system for continuous measuring of air pollution emissions from Unit A boilers and intermittent air pollution emissions from Unit B boilers as well as auxiliary boiler room.
- KTE Jertovec conducted intermittent measurings of air pollution emissions from gas turbines.
- TE-TO Zagreb carried out the replacement of all 8 combined gas/fuel oil and 8 ignition burners, 8 sets of safety and regulation gas, fuel oil, blowing/dispersing steam and combustion air reinforcements, replacement of bay measuring equipment, installation of new burner management and monitoring system and its connection to the Unit C operating system. Measuring air pollution emissions in natural gas- and fuel oil-fired operations resulted in figures in compliance with permitted borderline emission values valid until 1 January 2018 i.e. until the expiry of the transition period for harmonizing with the provisions of the Industrial Emissions Directive. The reconstruction of VK 5 and VK6 hotwater boilers was also carried out resulting in a more efficient combustion thus reducing the air polluting emission volume.

- In the Sisak Plant of HEP District Heating d.o.o., the return condensate system from all heating stations in TPP Sisak was put into operation. The use of the condensate energy will reduce the fuel volume for energy production resulting in reduced air pollution emissions.
- In the Osijek Plant of HEP District Heating d.o.o., the automatics was replaced on the 35 MW hot water boiler resulting in the reduction of air pollution emissions. The replacement of 3,400 m of hot water network by preinsulated pipes as well as the replacement of the 1,200 m of steam network will result in reduced heat losses, consumed water volumes and air pollution emissions.
- The R12, R22 or R502 active substances were replaced in all air-conditioners and heat cranes of Elektroprimorje Rijeka (HEP DSO) by R134, R407 or R404 substances which are more acceptable in terms of ozon layer preservation.

WATER PROTECTION

- HEP Generation launched the project of supplying, installing and commissioning the environmental measuring equipment, which is a precondition for increasing energy efficiency, better utilization of raw materials and aux substances and reduced environmental impact. Under the project, water flow monitoring was ensured for seven metering points at the Plomin site, four water supply connecting points, one fresh water source and two sea water discharges from TPP Plomin 1 and 2. TPP Sisak also commenced the installation of waste water flow measuring devices as well as devices for measuring the flow of caught water and discharged cooling water from the plant.
- TPP Sisak conducted cleaning of the waste water processing device and the drainage system: sanitary sewer and sewage disposal tank, waste water measuring hole and prepump station, deep concrete tank in the waste water processing plant and the waste water oily separator. The internal discharge system was upgraded for achieving water impermeability. As part of the HEP District Heating steam network revitalization, the project of collecting steam heat condensate from main heating stations was conducted. The condensate is returned to TPP Sisak and used for feeding steam boilers with a permanent monitoring of condensate quality (use of heat condensate, reduced supply water volume for auxiliary boilers).
- Individual portions of the sewage system in KTE Jertovec were rehabilitated and tested.
- New chemical water prepration (KPV 3) was built and commissioned in TE-TO Zagreb. This is a fully automated cutting edge plant with the microprocessor management of 240 t/h capacity (2x 120 t/h) of operational demi water and 120 t/h in regeneration or preparation. As part of this project, the plant for processing clean condensate and its return into the demineralized water system for boiler supply was built. This resulted in a significant reduction of raw water extraction from TE-TO Zagreb wells as well as waste water discharge into the public sewage system. During 2013, fuel oil tank farm was revitalized in TE-TO Zagreb as part of the comprehensive reconstruction of the fuel oil economy. The oily waste water separator will be completed during 2014. New devices for measuring the volume of pumped water were installed as well as meters monitoring the emergence of the oily layer in the hole in front of the waste water prepump station, meter monitoring of the emergence of oily waste waters and waste water pH values in the last internal hole before the connection into the main discharge collector, the Sava cooling water meter, the Sava water temperature meter in front of the water intake pumps as well as the colling water temeperature meter prior to its return into the Sava i.e. the Savica lake.
- Floor heater in the old fuel oil tank SG1 was revitalized in EL-TO Zagreb. The project of reducing waste and cooling waters on gas turbines was conducted and works on redirecting waste waters to one exit hole (1-east) launched as well as the installation of the flow meter (replacement of old unreliable meters).
- The construction of the facility intended for protecting water supply from pollution at the discharge canal of HPP Dubrava started in the hydro generation area North. The fundamental intention of this facility is to protect water flows downstream from HPP Dubrava engine room from contamination caused by upstream pollution (regardless of plant’s operating mode) or by hydropower plant’s operation.

- Oil sumps of HPP Peruća and HPP Orlovac were cleaned and tested for water impermeability. The device for determining oil in the system and drainage well of HPP Zakučac was installed as well as oil separators.
- The reconstruction of the sewage system leading from the restaurant was completed in Elektroslavonija Osijek (HEP DSO). The oil separator was also installed.

WASTE MANAGEMENT AND SOIL PROTECTION

- Temporary waste storage was upgraded at the Plomin TPPs site. The storage is covered, fenced, lit, under video surveillance. Its access is forbidden to unauthorized personnel, and waste tanks duly marked.
- All generation plants of HEP Generation continued upgrading their waste management systems by procuring appropriate tanks, developing temporary waste disposal sites and staff education.
- All water flows housing HEP hydropower plants continued with cleaning debris, its sorting and appropriate processing and disposal.
- HPP Jaruga (located within Krka National Park) is run by environmentally friendly oils and grease. Transformers bearing 5.1 tonnes of oil were replaced by the new ones with 2.8 tonnes of oil i.e oil switches were replaced by the non-oily ones.
- During the process of introducing the environmental management system in line with ISO 14001 in distribution areas of HEP DSO, the waste management system was upgraded by procuring a disposal tank for hazardous and non-hazardous waste and developing the existing temporary waste disposal sites.

ENVIRONMENTAL PROTECTION

- In HEP Generation's hydrogeneration area North, fish spawning sites within the HPP system are made by regulating 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 cooperation with the County Association was continued. Monitoring of the ichthyologic accumulation water condition is conducted including drainage canals and the part of the old flow of the river Drava. Furthermore, for the purpose of protecting the relic species, Myricaria Germanica plant, its habitation identification re-started along embankments of HPP Dubrava. Invasive species (egeria densa and zebra mussel) continued to be removed for the purpose of protecting equipment as well as preserving biological diversity of the Drava river.
- Hydrogeneration area South continued subsidizing fish ranching in the cooperation with local sport and fishing clubs.
- Under the Agreement on 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. During 2013, all stork nests on electric power network pillars were recorded, the condition of the stork nest frame monitored, installed, replaced, repaired or removed, as needed, by placing a new pillar or a frame. In 2013, activities relating to bird protection against the electric shock on MV lines were conducted, especially in areas of increased risk.

OTHER

- Focusing on adapting TPP Plomin to best available technology until 2018 pursuant to measures set by the Environmental Permit Requirements, the acustic model of the existing condition on site was made (TPP Plomin 1 and 2 and coal transport). Conflict and strategic noise maps were also made in line with the said measures aimed at lowering noise at plant's borders. Other measures will be conducted in 2014 in line with the requirements deadlines.
- In the hydrogeneration area North, the removal of accumulated deposits from the accumulation lake of HPP Varaždin continued for maintaining safety and reaching initial accumulation levels.
- HEP District Heating continued the project of revitalization, planning and expansion of the Central Heating System (CHS) of the city of Zagreb resulting in reduced heat losses and increased reli-

ability of heat energy supply on the entire territory of Zagreb. Apart from the rehabilitation of the CHS heat water network, the heating station equipment was also modernized. Furthermore, the construction of the hot water and steam lines continued for the Zagreb suburb of Dubrava during 2013, which will serve as the basis for connecting boiler rooms into the CHS thus increasing energy efficiency as well as reducing air polluting emissions.

CERTIFICATION

- During 2013, TPP Rijeka, TE-TO Osijek and TPP Plomin introduced integrated environment management systems according to ISO 14001 as well as the quality management according to ISO 9001. ISO certified quality and environment management systems are the result of the long-lasting responsible and process-oriented operations in all HEP thermal and hydropower plants in generation areas North and West. The introduction of the quality and environment management systems in HEP Generation will be completed in 2014 with the introduction of the said systems into hydrogeneration area South and HPP Dubrovnik.
- In 2013, all 21 distribution areas of HEP DSO confirmed their environment management systems according to ISO 14001, which were introduced and certified in 2012.

Financial Statements

6

Demini

Support to the project of national significance ng

Demining

During the early stages of war occupying its territory in 1991, Croatia was faced with the issue of mines as one of the gravest consequences of the war waged on this territory. Mine contamination results in numerous adverse economic, developing, environmental and social consequences and represents a security problem for population on the territory exposed to war activities. Vast agricultural surfaces, woods, border areas, banks and rivers are still unreachable due to existing or suspected mines. In early 2014, the surface of 613.6 km2, expanding across 91 towns and municipalities in 12 counties, is still considered under mine threat.

Many electric power facilities owned by HEP (power plants, substations) as well as hundreds of kilometers of electricity network have also been exposed to mines. HEP started investing significant funds into demining its facilities and network during and after the Homeland War, which facilitated the use of decontaminated surfaces for other purposes as well.

It has been the largest individual sponsor of the Croatian Mine Action Center since 2011. Donations are used for carrying out demining projects according to safety priorities set by the Demining Plan of the Croatian Government. HEP is thus contributing to meeting one of the most important national projects, significant for the safety of the inhabitants as well as for economic development on the still mine contaminated areas. The 2013 donation of HRK 2.2. million was used for demining arable lands in Osijek-Baranja and Vukovar- Srijem counties.

In the last 15 years, HEP has invested and donated more than HRK 700 million in total.

Being the company with a firsthand knowledge of mine threat, HEP continued its involvement in humanitarian demining.

HEP Group

Consolidated financial statements

As of 31 December 2013
Together with Independent Auditor's Report

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of the Company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: ''the Company'') is responsible for ensuring that the consolidated annual financial statements for the year 2013 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13) and the International Financial Reporting Standards effective in the European Union, to give a truthful and objective review of the consolidated financial position, the consolidated results of operations, the consolidated changes in equity and the consolidated cash flows of the Company for that period.
After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has drawn up consolidated financial statements under the assumption that the Company is a going concern.
In preparing these consolidated financial statements, the Board is responsible for:

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

Signed on behalf of the Management Board:

Tomislav Šerić
President of the Board

Hrvatska elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb, Republic of Croatia
30 April 2014

Independent Auditor's Report

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

1. We have audited the accompanying annual consolidated financial statements of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter "the Company") for the year ended 31 December 2013, which comprise the consolidated Balance Sheet / consolidated Statement of Financial Position as of that date; 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 explanations.

RESPONSIBILITY OF THE COMPANY'S MANAGEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

RESPONSIBILITY OF THE AUDITOR

3. Our responsibility is to express an opinion on the enclosed consolidated Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of 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 these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated Financial Statements.
   We believe that auditing proof and evidence collected by us are sufficient and suitable as the basis for expressing our opinion.

OPINION

4. In our opinion, the enclosed consolidated financial statements, in all material respects, give a true and fair view of the consolidated financial position of the company HRVATSKA ELEKTROPRIVREDA d.d at 31 December 2013, and its consolidated financial performance and the consolidated cash flows of the Company for 2013 in accordance with the Accounting Act and International Financial Reporting Standards effective in the European Union.

EMPHASIS OF MATTER

5. As described in the note 28 to the consolidated financial statements, the Company in consolidated Balance Sheet/consolidated Statement of Financial Position at 31 December 2013 has reported a liability in the amount of HRK 668,377 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 Independent auditor's report it has not been clearly defined as either is a loan or a government grant.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

6. The Company's Management is responsible for the preparation of the annual consolidated financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Consolidated Financial Statements").The financial information set out in the standard annual consolidated financial statements of the Company are in accordance with the information stated in the annual consolidated financial statements of the Company shown on pages 4 to 92 which are the subject of our opinion, as set out in the section Opinion.

OPINION ON ADJUSTMENT TO ANNUAL STATEMENT

7. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy Act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual consolidated financial statements of the Company. In our opinion, on the basis of the performed audit of the annual consolidated financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management on 30 April 2014, are in accordance with the financial information set out in the annual consolidated financial statements of the Company shown on pages 4 to 92 which were the object of our opinion, as set out in section Opinion.

In Zagreb, 30 April 2014

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

Zdenko Balen, member of the Management
Ines Rožić, certified auditor

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

Marijana Pranjić, member of the Management
Dubravka Tršinar, certified auditor

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013	2012
		HRK'000	HRK'000
			Restated
Revenue from electricity sales	4	11,947,939	11,630,275
Revenue from thermal power sales	4	763,461	585,485
Revenue from gas sales	4	406,167	395,956
Other operating income	4,5	1,577,350	1,407,862
Total operating income		**14,694,917**	**14,019,578**
Electricity purchase cost		(2,670,155)	(3,793,038)
Fuel costs		(2,609,803)	(3,319,512)
Staff cost	6	(1,739,964)	(1,863,235)
Depreciation and amortization expense	10, 11	(1,799,217)	(1,778,400)
Other operating expenses	7	(3,498,481)	(2,916,120)
Total operating expenses		**(12,317,620)**	**(13,670,305)**
Profit from operations		**2,377,297**	**349,273**
Financial revenue	8	62,541	67,929
Financial costs	8	(873,287)	(352,908)
Net financial expense		**(810,746)**	**(284,979)**
Profit before tax		**1,566,551**	**64,294**
Income tax expense	9	(265,396)	(28,486)
Profit of the current year		**1,301,155**	**35,808**
Attributable to:			
Equity holder		1,295,207	27,101
Non-controlling interest		5,948	8,707
		1,301,155	**35,808**

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

Consolidated Statement of Comprehensive Income (continued) For the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
		Restated
Profit for the current year	**1,301,155**	**35,808**
Other comprehensive income		
Foreign translation differences	401	164
Fair valuation of Janaf shares	(3,429)	6,046
Total items which are transferred into profit and loss account	(3,028)	6,210
Other comprehensive income / (loss), net	**(3,028)**	**6,210**
Total comprehensive income for the current year	**1,298,127**	**42,018**
Total comprehensive income attributable to:		
Equity holder	1,291,778	33,146
Non-controlling interest	6,349	8,872
	1,298,127	**42,018**

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

Signed on behalf of the Group on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

Consolidated Balance Sheet/consolidated Statement of Financial Position

As at 31 December 2013

ASSETS	Note	31 December 2013	31 December 2012	1 January 2012
		HRK'000	HRK'000	HRK'000
			Restated	**Restated**
Non-current assets				
Property, plant and equipment	10	25,504,613	25,304,113	25,329,538
Capital work in progress	10	4,062,813	3,915,002	3,092,220
Intangible assets	11	69,433	73,968	57,647
Investment property	12	231,285	233,917	234,760
Prepayments for property, plant and equipment	13	57,288	72,318	127,039
Investment in NPP Krško	14	1,754,419	1,754,419	1,754,419
Long-term loan receivables and deposits	16	6,160	514	719
Assets available for sale and other investments	17	125,166	129,452	120,915
Other non-current assets	18	58,812	67,219	107,152
Deferred tax assets	9	255,884	224,904	156,489
		32,125,873	**31,775,826**	**30,980,898**
Current assets				
Inventories	19	903,236	981,641	1,063,520
Trade receivables	20	1,780,129	1,873,245	1,496,236
Other short-term receivables	21	490,929	243,614	415,105
Cash and cash equivalents	22	260,755	605,024	407,123
		3,435,049	**3,703,524**	**3,381,984**
TOTAL ASSETS		**35,560,922**	**35,479,350**	**34,362,882**

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

Consolidated Balance Sheet/consolidated Statement of Financial Position (continued)
As at 31 December 2013

CAPITAL AND LIABILITIES	Note	31 December 2013	31 December 2012	1 January 2012
		HRK'000	HRK'000	HRK'000
			Restated	**Restated**
Share capital	23	19,792,159	19,792,159	19,792,159
Capital reserves	23	2,617	6,046	(438,957)
Retained earnings	23	1,415,473	118,915	516,807
Equity attributable to equity holder		**21,210,249**	**19,917,120**	**19,870,009**
Non-controlling interest	15	31,977	47,283	62,847
Total equity		**21,242,226**	**19,964,403**	**19,932,856**
Long-term borrowings	24	1,686,418	1,839,630	2,534,489
Long-term liabilities to the state	25	24,451	27,544	30,466
Long-term provisions	26	781,797	661,411	778,629
Bonds issued	27	3,278,893	3,335,608	965,202
Other long-term liabilities	28	5,037,592	4,911,633	5,143,989
Deferred tax liability		654	1,511	-
Total non-current liabilities		**10,809,805**	**10,777,337**	**9,452,775**
Trade payables	32	1,485,965	2,492,729	2,427,415
Current portion of long-term bonds issued	27	93,380	593,380	93,380
Current portion of long-term borrowings	24	208,838	132,084	1,174,713
Short-term borrowings	29	672,338	410,843	603,163
Taxes and contributions payable	30	35,540	179,441	146,080
Interest payable		41,132	45,574	23,191
Liabilities to employees	31	135,168	140,568	127,934
Other short-term payables	32	836,530	742,991	381,375
Total current liabilities		**3,508,891**	**4,737,610**	**4,977,251**
TOTAL CAPITAL AND LIABILITIES		**35,560,922**	**35,479,350**	**34,362,882**

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

Signed on behalf of the Group on 30 April 2014 by:

Tomislav Šerić — Ivan Matasić

President of the Board — Member of the Board

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital	Capital reserves	Retained earnings	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
Balance at 1 January 2012	**19.792.159**	**(438.957)**	**5.851**	**19.359.053**	**62.847**	**19.421.900**
Effect of restatement	**-**	**-**	**510.956**	**510.956**	**-**	**510.956**
Balance at 1 January 2012 Restated	**19.792.159**	**(438.957)**	**516.807**	**19.870.009**	**62.847**	**19.932.856**
Allocation of retained earnings	-	438.957	(438.957)	-	-	-
Transferred loss of Trgovina	-	-	1	1	-	1
Surpluses and deficit of land	-	-	7.559	7.559	-	7.559
The effect of IFRIC 18	-	-	6.405	6.405	-	6.405
Profit for the current year	-	-	27.101	27.101	8.707	35.808
Translation differences	-	-	(1)	(1)	165	164
Janaf shares fair value adjustment	-	6.046	-	6.046	-	6.046
Total comprehensive income of the current year	**-**	**6.046**	**27.100**	**33.146**	**8.872**	**42.018**
Non-controlling interest	-	-	-	-	(11.514)	(11.514)
Distribution of dividend RWE	-	-	-	-	(12.922)	(12.922)
Balance 31 December 2012	**19.792.159**	**6.046**	**118.915**	**19.917.120**	**47.283**	**19.964.403**
Foreign exchange differences of Trgovina	-	-	(271)	(271)	-	(271)
Surpluses and deficit of land	-	-	1.622	1.622	-	1.622
Profit for the current year	-	-	1.295.207	1.295.207	5.948	1.301.155
Translation differences	-	-	-	-	401	401
Janaf shares fair value adjustment	-	(3.429)	-	(3.429)	-	(3.429)
Total comprehensive income of the current year		**(3.429)**	**1.295.207**	**1.291.778**	**6.349**	**1.298.127**
Non-controlling interest	-	-	-	-	(8.707)	(8.707)
Distribution of dividend RWE	-	-	-	-	(12.948)	(12.948)
Balance 31 December 2013	**19.792.159**	**2.617**	**1.415.473**	**21.210.249**	**31.977**	**21.242.226**

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

Signed on behalf of the Group on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

Consolidated Statement of cash flows

For the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
		Restated
Cash flows from operating activities		
Profit for the current year	1,301,155	35,808
Income tax expense recognised in profit	265,396	28,486
Net financial expense	411,634	284,979
Gain from real estate fair valuation	7,304	331
Loss on fair value adjustment of derivatives	391,808	-
Depreciation and amortization of tangible and intangible	1,799,217	1,778,400
Increase in provisions for bad and doubtful receivables	277,866	250,972
Increase in provision for inventories	48,347	539
Increase/(Decrease) in provisions	115,744	(117,218)
Operating cash flows before movements in working capital	*4,618,471*	*2,262,297*
Increase in trade receivables	(184,750)	(627,981)
Decrease in inventories	30,058	81,340
(Increase)/decrease in other current assets	(162,397)	171,491
(Decrease)/increase in trade payables	(639,960)	65,314
Increase in other short-term liabilities	(51,083)	322,931
(Decrease) in long-term liabilities	(273,565)	(213,755)
Cash generated from operations	**3,336,774**	**2,061,637**
Paid income tax / Income tax return	(364,946)	33,983
Interest paid	(378,355)	(306,517)
NET CASH FROM OPERATING ACTIVITIES	**2,593,473**	**1,789,103**
INVESTING ACTIVITIES		
Interest received	13,817	3,766
Acquisition of property, plant and equipment	(2,166,937)	(2,598,254)
Property, plant and equipment sold	33,507	16,138
Surpluses of real estate	(4,907)	(8,889)
Decrease of other long-term assets	17,405	87,166
Change in the non-controlling interest and dividend payment to RWE	(21,655)	(24,436)
NET CASH USED IN INVESTING ACTIVITIES	**(2,128,770)**	**(2,524,509)**

Consolidated Statement of cash flows (continued)
For the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
		Restated
FINANCING ACTIVITIES		
Receipts from issuance of bonds	-	2.955.595
Repayments of bonds issued	(593.380)	(93.380)
Long-term loans raised	732	505.905
Repayment of long-term loans	(134.547)	(2.242.525)
Long-term loans raised	23.223	-
Short-term loans raised	478.000	1.081.682
Repayment of short-term loans	(583.000)	(1.273.970)
NET CASH USED IN FINANCING ACTIVITIES	**(808.972)**	**933.307**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(344.269)**	**197.901**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**605.024**	**407.123**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**260.755**	**605.024**

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

Signed on behalf of the Group on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

Notes to the consolidated financial statements

For the year ended 31 December 2013

1. GENERAL

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

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

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

At 31 December 2013, the number of staff employed by the Group was 11,857 (At 31 December 2012: 13,562).

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

The Croatian Parliament (Sabor) on 19 October 2012 has brought the Law on energy and the Law on regulation of energetic activities and on 8 February 2013 the Law on electric energy market. By new regulations is determined further restructuring of the HEP Group and the adjustment of operations with lines of direction and the directives of the EU.

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

Generation of electric energy, supply of electric energy, trade with electric energy are performed as market activities as is defined by regulations which regulate energetic activities and trading at energy market. The supply of electric energy is performed according to rules by which are regulated market relations, where the energetic subjects freely contract quantity and the price of delivered electric energy. The supply of electric energy which is performed as an universal service and as a guaranteed service is performed according to regulated conditions to the buyers who have the right to such mode of supply and may choose it freely or utilize it authomatically. The buyers in category of household are supplied by electric energy in the system of the public service commitment as well as a part of privileged customers who did not utilize the right for the choice of the suppliers or have remained without supplier. A part of customers in a category of household has utilized the right for the choice of the supplier.

The HEP and subsidiary companies make adjustments of the Group organization according to the changed regulations and time-limits prescribed by these regulations.

In April 2012, 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 May 2012.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

1. GENERAL (continued)

ENERGY LAWS (continued)

In February 2013 was brought the law on electric energy market by which is determined that each buyer has a right for free choice of the supplier, and the buyers in a category of households have the right for the supply of electric energy as an universal service. The buyers who did not utilize the right for the choice of supplier or have remained without supplier, use the service of guaranteed supply which is performed as common service and pay such the supply of electric energy according to the amounts of tariff items congruently to the Methodology for the determining of prices for the count of the electric energy balancing to subjects responsible for aberration.

By new law on electric energy market is determined the following restructuring of the HEP Group and the adjustment of operations with the lines of directions and the directives of European Union.

GOVERNANCE AND MANAGEMENT

GENERAL ASSEMBLY

The General assembly consists of the members representing the interests of shareholders:

Ivan Vrdoljak	Member	Member since 21 November 2012
Radimir Čaćić	Member	Member since 26 January 2012 until 21 November 2012
Đuro Popijač	Member	Member since 21 November 2009 until 25 January 2012

SUPERVISORY BOARD

Members of Supervisory Board in 2013

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

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
Žarko Primorac	Member	Member since 23 February 2012
Ivo Uglešić	Member	Member since 23 February 2012
Igor Džajić	Member	Member since 12 July 2012
Jadranko Berlengi	Member	Member since 3 June 2008

1. GENERAL (continued)

Management Board in 2013

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

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with an International Financial Reporting Standards (''IFRS'') effective in the European Union.

The International Financial Reporting Standards ("IFRS") issued by the Committee for Financial Reporting Standards nominated by the Government of the Republic of Croatia (Official gazette No 136/09, 8/10, 18/10, 27/10, 65/10, 120/10, 58/11, 140/11, 15/12, 118/12, 45/13, 69/13), which were effective till the date of entrance of Croatia into the European Union, are in accordance with International Financial Reporting Standards ("IFRS") which have been promulgated in official gazette of European Union.

The financial statements have been prepared on the historical cost basis, except for certain long-term property and certain financial instruments that are presented in revalued amounts. 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 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 and supplements to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee which are adopeted in EU, are effective for the current period:

- **IFRS 13 „Fair Value Measurement"**, published on May 2011 (effective for annual periods beginning on or after 1 January 2013)
- **Alterations and 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 January 2013),
- **Alterations and amendments and 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),
- **Alterations and amendment to IAS 1 "Presentation of Financial Statements"** – revising the way of presentation of the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Alterations and amendments to IAS 19 "Employees' 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)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD (continued)

- **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 of 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 the 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 other standards (applied to annual periods beginning on or after 1 January 2013),

Adoption of IFRS 13 "The fair value determining" has influenced to the promulgation of detailed data in the financial statements. The adoption of other stated changes and supplements of the existing standards and interpretations did not bring to significant changes in accounting policies of the Group.

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

On the date of issuance of these financial statements were promulgated, but not yet effective the following standards, alterations and interpretations:

- **IFRS 9 „Financial instruments"** (applies to annual periods beginning on or after 1 January 2015)
- **IFRS 10 „Consolidated financial statements"** published in 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 2014)
- **IFRS 11 „Joint Arrangements"**, published in May 2011 and amended in 2012, superseded former version of IAS 31 "Interests in Joint Ventures" (effective for annual periods beginning on or after 1 January 2014)
- **IFRS 12 „Disclosure of Interests in Other Entities "**, published in May 2011 and amended in 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 "Separate Financial Statements"** (as altered and amended in 2011), consolidation requirements previously described in part of IAS 27 (2008) have been revised and are now contained in IFRS 10 "Consolidated Financial Statements", (effective date of IAS 27 (as altered and amended in 2011) is applied for annual periods beginning on or after 1 January 2014),
- **IAS 28 "Investments in Associates and Joint Ventures"** (as altered and amended in 2011). This version supersedes IAS 28 (2003) "Investments in Associates" (effective date of IAS 28 (as altered and amended in 2011) applied for annual periods beginning on or after 1 January 2014).
- **Alterations and amendments to IFRS 9 „Financial instruments – Classification and Measurement"** – proclaimed in December 2011, by which is prescribed the disclosure of information on the first application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Alterations and amendments to IFRS 1 " First –time Adoption of IFRS"** – proclaimed in March 2012, which prescribe the exemption of the request of reclassification of comparative information demanded by IFRS 9 (starts with application in the same time when the IFRS 9)
- **Alterations and amendments to IFRS 10 "Consolidated Financial Statements"** published in October 2012, by which is permitted the exemption of the preparation of the consolidated financial statements for subjects which comply with the definition of investment subjects (effective for annual periods beginning on or after 1 January 2014)

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED (continued)

- **Alterations and supplements of IAS 32 "Financial instruments: disclosure",** promulgated in December 2011, by which was prescribed the promulgation of extended information on the set-off of financial property and financial liabilities (effective for the periods of year which start on or after 1 January 2014).
- **Alterations and supplements of IAS 36 "Value impairment of property" -**promulgated in May 2013, which interprete the uncertainties arisen by entering into effect of IFRS 13, and which relate to promulgation of information on refundable amount for non financial property (effective for annual periods which start on or after 1 January 2014).
- **Alterations of IAS 39 "Financial instruments-recognition and measurement"** -promulgated in June 2013, by which are prescribed possibilities for the recognition and measurement of re-stored derivatives in the framework of the protection accountancy (hedge) (effective for annual periods which start on or after 1 January 2014).
- **IFRIC 21 "Duties"** – promulgated in May 2013 (effective for annual periods which start on or after 1 January 2014).

The Management of the Company has decided not to apply the stated standards, alterations and interpretations before their date of coming into effect and anticipates that their adoption will not significantly inflow to the financial statements of the Company in a period of their first application.

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

REPORTING CURRENCY

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

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 Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to / from the Group and their amount can be measured reliably.

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

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.

	2013 and 2012
Pension insurance contributions	20%
Health insurance contributions *	13%
Employment Fund contribution	1,7%
Occupational injury	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 Group provides long-service benefits (jubilee awards) and retirement benefits to its employees. The long-service benefits range from HRK 1,500 to HRK 5,500, net, and are provided for a tenure from 10 to 45 years of continuous employment with the employer.

SEVERANCE PAYMENTS

A new Collective Agreement was adopted as of 1 April 2013 (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 contract is until 31 March 2014.

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, and each change in the estimate is counted on the basis of new expectations and has the effect in the current and the future periods.

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

Buildings	**2013 and 2012**
Hydroelectric power plants (flood gates and dams, buildings and other buildings as well as accompanying objects)	20 – 50 years
Thermal power plants (buildings and other structures)	33 – 50 years
Electricity transmission and distribution plants and facilities (transmission lines and buildings of transformer stations, switch-yard, dispatch centres and others)	20 – 40 years
Water and steam pipelines and other thermal power generation and transmission objects	33 godine
Gas pipelines	20 – 25 years
Administrative buildings	50 years
Plant and equipment	
Hydroelectric power plants	10 – 33 years
Thermal power plants	6 – 25 years
Electricity transmission plants and facilities (electric parts of transformer stations and transformers; and electric parts of transmission lines)	15 – 40 years
Electricity distribution plants and facilities (electric parts of transformer stations and transformers, electric parts of distribution lines, measuring instruments, meters and other equipment)	8 – 40 years
Thermal power stations, hot-water pipelines and other equipment	15 – 30 years
Gas meters and other gas network equipment	5 – 20 years
Other equipment and vehicles	
IT equipment	5 – 20 years
Software licenses	5 years
Telecommunications equipment	5 – 20 years
Motor vehicles	5 – 8 years
Office furniture	10 years

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

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, tangible or intangible, exceeds its recoverable amount, an impairment loss is charged to the income statement.

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

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

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (licences and informatics programs).

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 2013 and 2012. 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.

TRADE DEBTORS AND PREPAYMENTS

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

Ageing of past due	**Allowance 2013 and 2012**
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.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES

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

Cost comprises the invoiced amount as well as all other costs directly attributable to brining inventories to their location and the condition of being readily available for use. For the expense of inventories is utilized the average weighted price method.

CASH AND CASH EQUIVALENTS

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

BORROWING COSTS

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

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

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES (continued)

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.

TAXATION

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

CURRENT TAX

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

DEFERRED TAX

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

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

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TAXATION (continued)

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.

FINANCIAL ASSETS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL ASSETS (continued)

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.

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.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts till 30 September 2013 and the Methodology for determining of the amounts of tariff items for the supply of electric energy in the frame of universal service since 1 October 2013. The recognition of revenues is based on Decision of the Government of the Republic of Croatia on the level of tariff items from April 2012 and the Decision of HEP Operator distribucijskog sustava d.o.o. on the level of tariff items for the supply of electric energy in the frame of universal service from September 2013. Revenues for the supply of privileged customers are recognized at prices according to Methodology of count of electric energy for privileged buyers in category of entrepreneurs of the HEP Opskrba.

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 asses 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 (continued)
For the year ended 31 December 2013

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING ESTIMATES (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 2013 amounted to HRK 255,884 thousand and 31 December 2012 amounted to HRK 224,904 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 271,527 thousand at 31 December 2013 and HRK 331,147 thousand at 31 December 2012 (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 2013 and 2012, the Group measured the Jadranski naftovod shares and the investment properties at fair value.

In 2013 and 2012 fair value was determined based on a notification of Central clearing deposit company regarding open balances as of 31 December. The market value of the Jadranski naftovod share as at 31 December 2013 was HRK 2,290 (2012: HRK 2,370) resulting in a decrease of share by HRK 4,318 thousand (2012: an increase by HRK 7,558 thousand; see Note 17). In 2013 and 2012 the effect of the re-measurement of the shares at fair value was included in reserves.

The loss resulting from the fair valuation of the investment property in 2013 amounts to HRK 6,192 thousand, while a loss of HRK 331 thousand was recognised on the fair valuation in 2012 (see Note 12).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

CORRECTION OF VALUE

The Hrvatska elektroprivreda d.d. and Hrvatske autoceste d.o.o. in previous years have concluded the Agreement on delivery into ownership the energetic plants built along with motor-roads, which were in economic utilization by HEP and were utilized for the purpose to which they were intended, i.e. the supply of buyers with electric energy. By the change of legal regulations and by the signing of the Annex IV of the Agreement, the conditions were obtained for the take-off of electro-energetic objects into the books of accounts of the Group and the closing of the advance payment in the amount of HRK 300,000 thousand which the HEP d.d. has paid to the Hrvatske autoceste d.d.
For the following reasons are performed the corrections of the former reporting periods.
The inflow of the corrections to the observed periods is shown, as follows:

CORRECTIONS IN THE FINANCIAL STATEMENTS AS AT 1 JANUARY 2012

	Note	Amount in financial statements before adjustment	Amount in financial statements after adjustment	Effect of adjustment increase / (decrease)
		HRK'000	HRK'000	HRK'000
Statement of financial position at 1 January 2012				
Property, plant and equipment	10	24,390,612	25,329,538	938,926
Prepayments for tangible assets	13	427,039	127,039	(300,000)
Deferred tax assets	9	178,903	156,489	(22,414)
Total non-current assets		30,364,386	30,980,898	616,512
TOTAL ASSETS		**33,746,370**	**34,362,882**	**616,512**
Retained earnings	23	5,851	516,807	510,956
Principal subscribed to the owner		19,359,053	19,870,009	510,956
Total capital		19,421,900	19,932,856	510,956
Liabilities to suppliers		2,427,184	2,427,415	231
Liabilities for taxes and contributions	30	40,755	146,080	105,325
Total current liabilities		4,871,695	4,977,251	105,556
TOTAL EQUITY AND LIABILITIES		**33,746,370**	**34,362,882**	**616,512**

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

CORRECTION OF VALUE (continued)

ADJUSTMENTS IN FINANCIAL STATEMENTS AT 31 DECEMBER 2012

	Note	Amount in financial statements before adjustment	Amount in financial statements after adjustment	Effect of adjustment increase / (decrease)
		HRK'000	HRK'000	HRK'000
Statement of comprehensive income for the year ended 31 December 2012				
Deprecation cost	10,11	1,734,157	1,778,400	44,243
Total operating expenses		13,626,062	13,670,305	44,243
Profit from operations		393,516	349,273	44,243
Profit before taxation		108,537	64,294	44,243
Income tax		(37,335)	(28,486)	8,849
Profit for the current year		**71,202**	**35,808**	**35,394**
To the owner of capital		**62,495**	**27,101**	**35,394**
		HRK'000	HRK'000	HRK'000
Statement of financial position at 31 December 2012				
Property, plant and equipment	10	24,409,429	25,304,113	894,684
Prepayments for tangible assets	13	372,318	72,318	(300,000)
Deferred tax assets	9	238,469	224,904	(13,565)
Total non-current assets		31,194,707	31,775,826	581,119
TOTAL ASSETS		**34,898,231**	**35,479,350**	**581,119**
(Accumulated loss) / retained earnings	23	(356,648)	118,915	475,563
Principal subscribed to the owner		19,441,557	19,917,120	475,563
Total capital		19,488,840	19,964,403	475,563
Liabilities to suppliers		2,492,498	2,492,729	231
Liabilities for taxes and contributions	30	74,116	179,441	105,325
Total current liabilities		**4,632,054**	**4,737,610**	**105,556**
TOTAL EQUITY AND LIABILITIES		**34,898,231**	**35,479,350**	**581,119**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

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	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Revenue	11,947,939	11,630,275	763,461	585,485	406,167	395,956	13,117,567	12,611,716
Other income allocated to segments	1,489,751	1,321,220	57,636	60,607	29,963	26,035	1,577,350	1,407,862
Income/loss from operations	**2,556,006**	**804,147**	**(175,907)**	**(457,114)**	**(2,802)**	**2,240**	**2,377,297**	**349,273**
Net financial expense							(810,746)	(284,979)
Income tax							(265,396)	(28,486)
Net profit							**1,301,155**	**35,808**

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	
	2013	**2012**	**2013**	**2012**
	HRK'000	HRK'000	HRK'000	HRK'000
		Restated		**Restated**
Electricity	29,709,614	29,797,335	6,481,463	7,154,363
Heating	1,227,066	1,215,719	178,558	222,638
Gas	347,338	350,638	153,035	176,210
Unallocated	4,276,904	4,115,658	7,505,640	7,961,736
Total Group	**35,560,922**	**35,479,350**	**14,318,696**	**15,514,947**

4. SEGMENT INFORMATION (continued)

INFORMATION ON THE LARGEST CUSTOMERS

In 2013 electricity sales amount to HRK 11,947,939 thousand (HRK 11,630,275 thousand in 2012).
Heating energy sales for the year 2013 amount to HRK 763,461 thousand (HRK 582,352 thousand in 2012).
In 2013 gas sales amount to HRK 406,167 thousand (HRK 395,956 thousand in 2012).

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:

	2013	2012
	HRK'000	HRK'000
		Restated
Croatia	11,236,233	11,197,595
European Union member states	330,581	92,566
Other countries – non-European Union member states	381,125	340,114
	11,947,939	**11,630,275**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

5. OTHER OPERATING INCOME

	2013	2012
	HRK'000	HRK'000
		Restated
Service for connection to network	349,864	365,869
Income from assets received free of charge	233,050	233,362
Subsequent collection of receivables previously with the provision made (Note 20)	90,064	119,555
Services rendered	132,106	155,657
Capitalised assets	95,988	99,693
Penalty interest	107,097	77,418
Income from sale of materials	40,812	61,968
Income from sale of cross – border transmission capacity	61,041	43,047
Income from electricity in transit – foreign	40,044	3,497
Income from cancellation of costs for severance pays on the basis of cancellation of working contract	204,712	-
Reversal of long-term provisions – vacation	11,489	432
Reversal of long-term provisions for retirement benefits and jubilee awards	62,666	28,935
Reversal of long-term provisions – court costs	25,259	87,407
Income from reversal of other provisions	28,529	49,634
Income of excises to the invoiced electric energy and gas	16,749	-
Income in respect of the electricity bill reminders	5,493	13,392
Income from balancing energy	-	8,537
Income in respect of court costs on claims	7,022	6,996
Income upon count of fee for SO_2 from previous year	232	4,427
Income upon count of fee for CO_2 from previous year	229	3,477
Inventory surplus – fixed assets	3,079	77
Income from sale of tangible assets	5,375	2,362
Recovery of receivables previously written-off	6,000	2,155
Other	50,450	39,965
	1,577,350	**1,407,862**

In 2013 the Group generated income from grid connection services in the amount of HRK 349,864 thousand (2012: HRK 365,869 thousand) based on IFRIC 18 (Transfer of Assets From Customers).

6. STAFF COSTS

	2013	2012
	HRK'000	HRK'000
		Restated
Net salaries and wages	1,052,638	1,122,716
Taxes and contributions	687,326	740,519
	1,739,964	**1,863,235**

TOTAL STAFF COSTS:

	2013	2012
	HRK'000	HRK'000
		Restated
Gross salaries	1,739,964	1,863,235
Reimbursement of costs to employees (Note 7)	128,388	146,309
Employee benefits (Note 7)	518,370	83,691
	2,386,722	**2,093,235**

DIRECTORS' AND EXECUTIVES' REMUNERATION:

	2013	2012
	HRK'000	HRK'000
		Restated
Gross salaries	22,230	21,531
Contributions for pension insurance	4,976	4,821
Other receipts	2,635	3,022
	29,841	**29,374**

Reimbursement of costs to employees includes transportation allowances in the amount of HRK 76,613 thousand (2012: HRK 87,751 thousand), daily allowances and travelling expenses in the amount of HRK 17,368 thousand (2012: HRK 16,620 thousand), additional health insurance amounting to HRK 13,219 thousand (2012: HRK 15,498 thousand), and other similar expenses in the amount of HRK 21,155 thousand (2012: HRK 26,440 thousand).

Employee benefit costs include benefits under the Collective Agreement. By mostly part relate to the costs for severancy pays on the basis of working contract cancellation in the amount of HRK 415,175 thousand and by smaller part to solidarity support, severance pays, jubilee awards, compensations for the detached life,aid to children, etc.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

7. OTHER OPERATING EXPENSES

	2013	2012
	HRK'000	HRK'000
		Restated
Maintenance costs (service and material)	(550,142)	(580,204)
Value provision of trade receivables (Note 20)	(277,866)	(250,972)
Gas costs	(361,296)	(361,070)
General and administrative expenses	(259,342)	(331,541)
Collective services and material	(106,409)	(165,386)
Cost of materials	(83,888)	(87,508)
Compensation for less taken -over quantities of gas than the contracted	(144,859)	(20,296)
Purchase of emission units of CO_2	(98,661)	-
Excises for electric energy and gas	(16,841)	-
Value adjustment of inventories	(48,347)	(904)
Compensations of costs of employees (Note 6)	(128,388)	(146,309)
Other material employees' rights (Note 6)	(518,370)	(83,691)
NPPK – decommissioning expenses according to government decision	(107,937)	(106,835)
Contributions, taxes and fees to the state	(87,121)	(87,396)
Litigation provisions	(196,837)	(40,079)
Contributions and concession for water	(71,310)	(64,961)
Provision for unused vacation days	(552)	(1,359)
Fee for the usage of power plant facilities	(76,043)	(37,401)
Compensation for water-purification and drainage	(16,301)	(15,503)
Write-off of long-term tangible assets	(32,150)	(14,328)
Purchase value of sold materials	(29,870)	(50,045)
Calculation and collection costs	(36,973)	(39,743)
Provisions for retirement bonuses and jubilee awards	(3,065)	(2,450)
Provisions for severance pays on the basis of working contract cancellation	(133,092)	(249,174)
Provisions for other costs to workers	-	(28,087)
Insurance premiums	(23,943)	(24,418)
Fee for environmental protection	(4,591)	(18,210)
Damages and indemnifications	(19,556)	(49,632)
Written-off unsued receivables	(13,691)	(7,242)
Provision for decomission of thermo-electric power plants	(8,427)	(4,297)
Other	(42,613)	(47,079)
	(3,498,481)	**(2,916,120)**

8. FINANCIAL REVENUE AND COSTS

	2013	2012
Financial income	HRK'000	HRK'000
		Restated
Foreign exchange gains	47,608	64,147
Interest income	13,817	3,766
Income from dividends	1,116	16
Total financial income	**62,541**	**67,929**
Finance costs		
Interest expense	(378,883)	(319,537)
Foreign exchange losses	(95,821)	(46,391)
Amortization of deferred interest	(3,804)	(3,770)
Fair value of interest rate swap	(391,808)	-
Other financial expenses	(7,304)	(331)
Financial expenses	**(877,620)**	**(370,029)**
Capitalised borrowing costs	4,333	17,121
Total financial expenses	**(873,287)**	**(352,908)**
Net finance expense	**(810,746)**	**(284,979)**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

9. INCOME TAX

	2013	2012
	HRK'000	HRK'000
		Restated
Current taxes	296,377	96,901
Deferred tax cost / (income) relating to the origination and reversal of temporary differences	(30,981)	(68,415)
Income tax	**265,396**	**28,486**

Adjustment of deferred tax assets is as follows:

	2013	**2012**
	HRK'000	HRK'000
		Restated
Balance at 1 January	224,904	156,489
Reversal of deferred tax assets	(115,401)	(26,971)
Deferred tax assets recognition	146,381	95,386
Balance at 31 December	**255,884**	**224,904**

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:

	2013	2012
	HRK'000	HRK'000
		Restated
Profit before taxation	1,566,551	64,294
Income tax at the applicable rate in the Republic of Croatia of 20%	**313,310**	**12,859**
Tax non recognized income	(41,302)	(29,030)
Tax effect of permanent differences	(30,981)	(68,415)
Tax effect of losses brought forward from previous years	(17,097)	-
Unrecognised deferred tax asset on losses carry forward	41,466	113,072
Tax expense for the current year	**265,396**	**28,486**

The Group and its subsidiary Companies are subject to income tax separately, according to the tax laws and regulations of the Republic of Croatia. Other subsidiaries in the Group including HEP d.d. reported total tax losses of HRK 1,476,528 thousand (2012: HRK 1,463,330 thousand), while the Group recorded a total income tax expense of HRK 294,828 thousand (2012: HRK 96,901 thousand) and reported deferred tax assets in the amount of HRK 30,981 thousand (2012: HRK 68,415 thousand).

9. INCOME TAX (continued)

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

Tax losses reported by the Group and their time-limits for their expiration are presented below:

Year of loss origination	Total tax loss reported of the Group	Year of expiration
2009	116,099	2014
2010	152,800	2015
2011	434,935	2016
2012	565,360	2017
2013	207,334	2018
	1,476,528	

As of 31 December 2013 and 2012 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, except the shortened monitoring in 2013. 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 movements in deferred tax assets during the year:

HRK'000	Value adjustment of inventory	Provisions for jubilee and retirement benefits	Depreciation at rates above statutory rates	Provisions for the MTM upon bonds	Other	Total
At 1 January 2012	**29,384**	**79,182**	**6,935**	–	**40,988**	**156,489**
Credited to profit and loss for the year	1,711	(5,487)	3,026	–	69,165	68,415
At 31 December 2012	**31,095**	**73,695**	**9,961**	–	**110,153**	**224,904**
Credited to profit and loss for the year	7,449	(10,549)	3,096	78,362	(47,378)	30,980
At 31 December 2013	**38,544**	**63,146**	**13,057**	**78,362**	**62,775**	**255,884**

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

10. PROPERTY, PLANT AND EQUIPMENT

HRK'000 **COST**	**Land and buildings**	**Furniture and equipment**	**Assets under construction**	**Total**
At 1 January 2012	34,894,667	34,269,521	3,092,220	72,256,408
Restated 1 January 2012	556,111	427,058	-	983,169
At 1 January 2012, restated	**35,450,778**	**34,696,579**	**3,092,220**	**73,239,577**
Transfers	(14,864)	14,085	954	175
Additions	14,065	165,473	2,401,000	2,580,538
Capitalized interest	-	-	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)
At 31 December 2012	**35,847,411**	**35,732,868**	**3,915,002**	**75,495,281**
Transfers	14,917	(16,194)	-	(1,277)
Additions	15,030	115,911	2,028,152	2,159,093
Capitalized interest	-	-	4,333	4,333
Legal cases' provisions	-	-	4,642	4,642
Transfers from assets under construction	539,876	1,314,060	(1,872,068)	(18,132)
Inventory surpluses	3,916	4,322	-	8,238
Disposals	(46,501)	(235,843)	(17,248)	(299,592)
At 31 December 2013	**36,374,649**	**36,915,124**	**4,062,813**	**77,352,586**
ACCUMULATED DEPRECIATION				
At 1 January 2012	22,425,127	22,348,449	-	44,773,576
Restated 1 January 2012	25,025	19,218	-	44,243
At 1 January 2012, restated	**22,450,152**	**22,367,667**	**-**	**44,817,819**
Transfers	(14,101)	12,855	-	(1,246)
Charge for the year	721,503	1,034,554	-	1,756,057
Removal from books by sale	(44,990)	(258,099)	-	(303,089)
Inventory surpluses	1,611	5,014	-	6,625
At 31 December 2012	**23,114,175**	**23,161,991**	**-**	**46,276,166**
Transfers	5,116	(5,408)	-	(292)
Charge for the year	720,421	1,053,833	-	1,774,254
Removal from books by sale	(43,718)	(224,586)	-	(268,304)
Inventory surpluses	745	2,591	-	3,336
At 31 December 2013	**23,796,739**	**23,988,421**	**-**	**47,785,160**
CARRYING AMOUNT				
At 31 December 2013	**12,577,910**	**12,926,703**	**4,062,813**	**29,567,426**
At 31 December 2012, restated	**12,733,236**	**12,570,877**	**3,915,002**	**29,219,115**
At 1 January 2012, restated	**13,000,626**	**12,328,912**	**3,092,220**	**28,421,758**

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 for TE Plomin d.o.o.

11. INTANGIBLE ASSETS

	HRK'000
COST	Intangible assets
At 1 January 2012, restated	**576,184**
Transfers from assets under construction	38,513
Disposals	(344)
At 31 December 2012., restated	**614,353**
Transfers	**1,277**
Additions	**3,511**
Transfers from assets under construction	18,132
Disposals	(10,282)
At 31 December 2013	**626,991**
ACCUMULATED DEPRECIATION	
At 1 January 2012, restated	518,537
Charge for the year	22,343
Disposals	(495)
At 31 December 2012, restated	540,385
Transfers	273
Charge for the year	24,963
Disposals	(8,063)
At 31 December 2013	557,558
CARRYING AMOUNT	
At 31 December 2013	**69,433**
At 31 December 2012, restated	**73,968**
At 1 January 2012, restated	**57,647**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

12. INVESTMENT PROPERTIES

As of 31 December 2013 investment properties comprise properties held for the purpose of generating earnings from rental and/or capital appreciation, and are carried at fair value based on market price of the Management Board. Fair value comprises the estimated market value at the end of reporting period. All the investment properties are owned by the HEP d.d.

At fair value	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Fair value	**233,917**	**234,760**	**223,094**
Depreciation charge for year	(366)	(366)	(109)
Net change in value on the basis of fair value adjustment	(6,192)	(331)	7,676
Other changes	3,926	(146)	4,099
Closing balance at fair value	**231,285**	**233,917**	**234,760**

13. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
JSC Tehnopromexport –TE Sisak	25,182	49,659	94,299
Končar GIM	10,311	15,528	17,067
Litostroj Slovenia	2,174	2,444	2,891
VOITH Siemens Austria	1,887	2,288	3,054
Končar inženjering Zagreb	2,732	-	-
Spegra Inženjering	2,836		
Đuro Đaković holding	4,361	-	-
Končar Inženjering d.d. – TE Sisak	-	622	2,896
Other	7,805	1,777	6,832
	57,288	**72,318**	**127,039**

14. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Opening balance	1,754,419	1,754,419	1,754,419
	1,754,419	**1,754,419**	**1,754,419**

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 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 the Republic of Slovenia signed an Agreement governing the status and other legal relations in connection with their respective investment in NPPK, usage and decommissioning, as well as a partnership agreement between HEP d.d. and ELES GEN d.o.o. This agreement was ratified by the Croatian parliament (Sabor) during 2002, and it come 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 real production cost.

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

By the end of 2003, the provisions of the Agreement 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 (continued)
For the year ended 31 December 2013

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 2013, the Company disclosed radioactive waste disposal and decommissioning provisions in the amount of HRK 1,050,933 thousand, which is also the amount it paid onto the Fund's account in the period from 2006 to 2013.

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.

Investment in NPPK is calculated by portion method and is stated in the amount of HRK 1,754,419 thousand.

EXTRACTED FINANCIAL INFORMATION

The following table presents the financial information extracted from the financial statements of NPPK as at 31 December 2013 and 2012:

	31 December 2013	31 December 2012
	HRK'000	HRK'000
Property, plant and equipment	2,823,284	3,008,158
Capital and reserves	3,358,677	3,316,417
Gross sales	1,468,111	1,419,092
Cash flows from operating activities	560,324	674,550
Profit of the current year	2,080	-

Liabilities for received electrical energy from NPP Krško as at 31 December 2013 amount to HRK 63,373 thousand (2012: HRK 61,119 thousand).

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 company.
In accordance with the 1996 Asset Contribution Agreement, HEP d.d. contributed property, plant and equipment previously acquired for the project valued 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 2013 the distribution of RWE invested equity amounted to HRK 12,948 thousand (2012: HRK 12,922 thousand). The remaining undistributed RWE invested capital amounted to HRK 25,979 thosuand at 31 December 2013 (2012: HRK 38,526 thousand).
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 2013, accrued undistributed interest amounted to HRK 5,116 thousand (2012: HRK 8,846 thousand).
The RWE annual return on invested capital, effectively a preferred dividend, is paid out from net profit of Plomin. The rate for 2013 and 2012 is 17%. In 2013, dividends for 2012 are not paid according to the decision of the Company, but is stated in the figure of short-term liabilities and amounts to HRK 8,707 thousand (note 32); in 2012 is paid- off the amount of HRK 11,514 thousand which relates to the net income for 2011.
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 (continued)
For the year ended 31 December 2013

15. INVESTMENT IN TPP PLOMIN (continued)

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
Opening balance of non-controlling share	47,283	62,847	76,993
Capital payment	(12,948)	(12,922)	(12,668)
Liabilities for dividend / Dividend payment	(8,707)	(11,514)	(14,063)
Increase for the current year profit	5,948	8,707	11,514
Exchange differences	401	165	1,071
Closing balance	**31,977**	**47,283**	**62,847**

16. LONG-TERM LOAN RECEIVABLES AND DEPOSITS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Loans given	6,379	808	1,022
Value adjustment	(83)	(158)	(167)
Current portion of loans given	(136)	(136)	(136)
Long-term portion	**6,160**	**514**	**719**

Loans given to third parties are as follows:

	Year loan approval	Repayment period	Loan amount	31 December 2013	31 December 2012	1 January 2012
				HRK'000	HRK'000	HRK'000
					Restated	**Restated**
Town of Dubrovnik	2013	5 years	5,707	5,707	-	-
Town of Pregrada	2006	10 years	1,358	543	679	815
Did d.o.o.	2007	4 years	1,010	129	129	207
Total				**6,379**	**808**	**1,022**
Value adjustment				(83)	(158)	(167)
Current portion				(136)	(136)	(136)
Non-current portion				**6,160**	**514**	**719**

17. INVESTMENTS AVAILABLE FOR SALE AND OTHER INVESTMENTS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Investments available for sale	124,101	128,387	120,605
Other investments	1,065	1,065	310
	125,166	**129,452**	**120,915**

Changes in investments available for sale are presented below:

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Beginning balance	128,288	120,605	162,170
Fair value of investments in Jadranski Naftovod d.d. and Viktor Lenac through profit and loss account	(4,286)	7,470	(41,565)
Fair valuation of investments in Pevec d.d.	99	312	-
	124,101	**128,387**	**120,605**

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Investment in securities:			
Jadranski Naftovod d.d.	123,616	127,935	120,378
Viktor Lenac d.d.	166	133	220
Đuro Đaković d.d.	5	5	5
Kraš d.d.	2	2	2
Pevec d.d.	312	312	-
	124,101	**128,387**	**120,605**
Other investments			
Geopodravina d.o.o.	200	200	200
LNG Hrvatska d.o.o.	865	865	110
	1,065	**1,065**	**310**

Notes to the consolidated financial statements (continued) For the year ended 31 December 2013

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

In December 2008, HEP d.d. acquired 53,981 shares of Jadranski Naftovod d.d. under a decision of the Croatian Government, with a nominal value of HRK 2,700 per share i.e. the total nominal value of HRK 145,748,700. According to the Management Decision, the Jadranski Naftovod shares were designated as available for sale. The shares were subscribed at the Central Depository Agency on 19 March 2009. In 2013 and 2012 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 2013 is HRK 2,290 and 2012 HRK 2,370. The fair valuation of the investment in Jadranski naftovod as of 31 December 2013 has decreased the investment value by HRK 4,318 thousand (2012: increased by 7,558 thousand). The fair valuation in 2013 and 2012 was performed through reserves.
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 is increased basic capital from HRK 20 thousand to HRK 220 thousand, and in 2012 to HRK 1,730 thousand, so the HEP is the owner of a portion in the amount of 50%, and the Plinacro d.o.o. is the owner of the other part of the portion. The Company is additionally capitalized by Plinacro d.o.o. in the amount of HRK 22,600 thousand as is recorded at Trade court dated 4 February 2013.The basic capital of the Company LNG Hrvatska d.o.o. amounts to HRK 24,330 thousand.

18. OTHER NON-CURRENT ASSETS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Housing loan receivables	29,672	33,649	38,095
Energy efficiency receivables – long-term portion	19,003	24,616	56,415
Accrued cumulative interest – RWE	5,116	8,846	12,611
Other long-term assets	5,021	108	31
	58,812	**67,219**	**107,152**

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 2013 the total amount repaid was EUR 502 thousand equivalent to HRK 3,817 thousand (in 2012 EUR 502 thousand, equivalent to HRK 3,809 thousand).

As at 31 December 2013 deferred expense for the interest amounted to EUR 670 thousand equivalent to HRK 5,116 thousand (2012: EUR 1,173 thousand, equivalent to HRK 8,846 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 (continued)
For the year ended 31 December 2013

19. INVENTORIES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Inventories of fuel and other material	425,168	526,542	644,113
Electric materials	276,886	217,167	187,740
Spare parts	176,671	221,934	212,512
Construction material	94,694	87,378	90,418
Other inventories	115,390	66,206	65,784
Impairment of obsolete materials and spare parts	(185,573)	(137,586)	(137,047)
	903,236	**981,641**	**1,063,520**

In 2013 is changed the assessment of inventories in a way that for material stocks is made the provision according to the age structure ,as follows: material stocks of age-group 2 to 3 years – 30% of value; material stocks of age-group 3 to 4 years – 60% of value and material stocks of age-group more than 4 years -100% of value. Excluded is a criteria of the inflow of a turnover of unmarketable stores. The result of a change in the estimate of inventories is the increase of cost in the amount of HRK 30,297 thousand.

20. TRADE RECEIVABLES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Electricity – Corporate customers	1,563,413	1,606,227	1,422,139
Electricity – Households	478,131	478,424	313,463
Electric energy – foreign sales	26,026	53,207	35,625
Heating, gas and services	531,501	502,643	443,354
Connection to transmission network	57,022	41,233	-
Other	41,526	83,190	63,255
	2,697,619	**2,764,924**	**2,277,836**
Impairment of bad and doubtful receivables	(917,490)	(891,679)	(781,600)
	1,780,129	**1,873,245**	**1,496,236**

Ageing analysis of receivables not impaired is as follows:

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Not yet due	1,006,037	1,015,832	876,451
0-30 days	427,207	437,422	309,826
31-60 days	150,482	161,682	138,013
61-90 days	64,919	75,704	67,558
91-180 days	87,281	89,315	61,198
181-365 days	32,657	71,078	37,075
Over 365 days	11,546	22,212	6,115
	1,780,129	**1,873,245**	**1,496,236**

Movements in impairment allowance were as follows:

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
At 1 January	**891,679**	**781,600**	**575,410**
Value provision of trade receivables (Note 7)	277,866	250,972	364,544
Removals from accounts of previously written-off receivables	(161,991)	(21,338)	(19,088)
Amounts collected with the provision made (Note 5)	(90,064)	(119,555)	(139,266)
At 31 December	**917,490**	**891,679**	**781,600**

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 (continued)
For the year ended 31 December 2013

21. OTHER SHORT-TERM RECEIVABLES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
VAT receivable	64,421	142,908	179,965
Amounts due for income tax	38,246	-	138,719
Advances for working capital	638	706	13,616
Receivables from the state in respect of employees	35,634	15,366	10,284
Interest receivable	3,123	2,995	2,553
Demand and time deposits over 3 months	90,075	21,220	4,328
Receivables upon short-term loan from non related companies	90,000	-	-
Receivables from MF for overpaid VAT upon import	39,853	-	-
Accounted income from sale of electric energy to households	58,207	-	-
Other short-term receivables	70,732	60,419	65,640
	490,929	**243,614**	**415,105**

The Company in August 2013 has concluded the contract on short-term loan with legal entity with public authorities in the amount of HRK 90,000 thousand for a period of one year with an interest rate at the level of the discount rate of the HNB.
Correction of income from households as at 31 December 2013 was obtained by the count of logarithmic curve using the losses in the network of 8.68% in the amount of HRK 58,207 thousand, while for the year which ended 31 December 2012 the stated percentage of losses, used in the count has amounted 8.85%. The result is the increase of income in the amount of HRK 77,632 thousand in relation to previous year. Cancelled is the liability for the accounted income in the amount of HRK 19,425 thousand and is recorded the receivables in the amount of HRK 58,207 thousand (Note 32).

22. CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Current accounts – HRK	150,543	156,084	123,916
Current accounts – foreign	39,227	118,482	92,117
Current accounts for special purposes	9,222	7,403	6,105
Petty cash registers – HRK	281	280	280
Deposits due till 90 days	4,685	159,225	5,120
Daily deposits	56,797	163,550	179,585
	260,755	**605,024**	**407,123**

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 each.

Retained earnings in the amount of HRK 1,415,473 thousand comprise legal reserves in the amount of HRK 206,560 thousand, transferred loss in the amount of HRK 86,294 thousand and profit for the current year subscribed to the owner in the amount of HRK 1,295,207 thousand.

The non-controlling interest attributable to RWE amounts to HRK 31,977 thousand, of which HRK 5,948 thousand relates to dividend.

CAPITAL RESERVES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Opening balance of reserves	6,046	(438,957)	(874,074)
Transfer from retained earnings	-	438,957	444,038
Other comprehensive income/(loss)	(3,429)	6,046	(8,921)
Capital reserves	**2,617**	**6,046**	**(438,957)**

Retained earnings	**31 December 2013**	**31 December 2012**	**1 January 2012**
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Opening balance	118,915	516,807	947,198
The effect of restating	-	-	510,956
Increase of retained earnings	1,351	13,964	(233)
Transfer to reserves	-	(438,957)	(444,038)
Dividends paid to the owner	-	-	(493,376)
Profit/(loss) for the current year	1,295,207	27,101	(3,700)
	1,415,473	**118,915**	**516,807**

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

24. LONG-TERM BORROWINGS

	Interest rates	31 December 2013	31 December 2012	1 January 2012
		HRK'000	HRK'000	HRK'000
			Restated	**Restated**
Domestic bank borrowings	EURIBOR+ (1.00%-5.35%)	1,853,007	1,961,548	1,681,140
Foreign bank borrowings	Fixed 2x71%	23,588	25,585	2,042,011
Financial lease	Fixed 5.6%	25,898	-	-
Loan from RWE		1,279	5,055	8,828
Total		**1,903,772**	**1,992,188**	**3,731,979**
Deferred loan origination fees		(5,841)	(20,474)	(22,777)
Total long-term borrowings		**1,897,931**	**1,971,714**	**3,709,202**
Current portion		(208,838)	(132,084)	(1,174,713)
Current portion of financial lease (Note 32.)		(2,675)		
Long-term portion		**1,686,418**	**1,839,630**	**2,534,489**

Loans of domestic banks are assured by bills of exchange and debentures. At 31 December 2013 the Group has no more debt covered with the Republic of Croatia guarantee.

NEW SOURCES OF FUNDS

For the financing of the investment plan and the regular operations in 2013 the Group has used own sources as well as the loan assets in utilization. During the year is concluded the agreement on financial lease for the purchase of vehicles and working machines.

LOANS IN USE

During 2013 is further utilized 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. By signing the ammendment 1 of the Loan agreement, in November 2013 are finalized the negotiations with the KfW Bank on the new assignment and reallocation of loan assets for new projects and to new companies of the HEP Group. A time-limit is extended from 31 December 2013 to 31 December 2017. The loan balance of KfW Bank as at 31 December 2013 amounts to EUR 3.1 million and the unutilized loan part amounts to EUR 46.9 million.

24. LONG-TERM BORROWINGS (continued)

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

2014	208,838
2015	420,809
2016	386,385
2017	388,609
2018	390,885
After 2018	108,246
Total	**1,903,772**

The covenants, as defined in the applicable loan agreements, specifically require the Group to meet certain prescribed levels of the following ratios: debt service coverage, tangible net worth capital, and net borrowing.
As at 31 December 2013 all the covenants were met.

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

Currency	**31 December 2013**	**31 December 2012**	**1 January 2012**
EUR	249,262	263,349	495,587

25. LONG-TERM LIABILITIES TO THE GOVERNMENT

The long-term debt to the Government in the amount of HRK 24,451 thousand in 2013 (2012: HRK 27,544 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 (continued)
For the year ended 31 December 2013

26. LONG-TERM PROVISIONS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Provision for court disputes	375,870	204,292	217,621
Provision for retirement bonuses	231,911	285,739	314,081
Provision for jubilee awards	39,616	45,408	43,551
Provision for the de-commissioning of thermal power plant	112,769	104,341	100,044
Provision according to damages contract	-	-	80,800
Provision for electricity purchased from wind power plants	21,631	21,631	22,532
	781,797	**661,411**	**778,629**

The thermal power plant decommissioning provision in the amount of HRK 112,769 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	Decommis-sioning of TPPs	Other	Total
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
At 1 January 2013	**204,292**	**285,739**	**45,408**	**104,341**	**21,631**	**661,411**
Transfer				-	-	
New provisions made	196,705	19,859	3,949	8,428	-	228,941
Decrease in provisions (amounts paid)	(12,441)	(11,644)	(6,466)	-	-	(30,551)
Decrease in provision on valuation	(12,686)	(62,043)	(3,275)	-	-	(78,004)
At 31 December 2013	**375,870**	**231,911**	**39,616**	**112,769**	**21,631**	**781,797**

26. LONG-TERM PROVISIONS (continued)

PROVISION FOR COURT DISPUTES

The Group makes the provision for legal actions where it is assessed the unlikely outcome in favour of HEP d.d. Total amount of provision in 2013 amounts HRK 375,870 thousand (in 2012: HRK 204,292 thousand). The most important court cases are provided against the HEP Proizvodnja d.o.o. and HEP d.d. HEP Proizvodnja d.o.o. conducts a dispute with Zagrebački Holding which provision in 2013 amounts to HRK 84,821 thousand and relates to the compensation for the waste water treatment plant.
The most important provision relates to the court case related to HEP Peruća which was started in 1995, for which was in 2012 brought the first instance decision in favour of the accuser. In regard to the complexity of the valuation and the estimation of proofs by side of the court, as well as high value of the procedure amounting to HRK 330,000 thousand and for posible partial success of the accuser, the asets are provided at the level of 50% of the value of dispute amounting to 165,000 thousand.

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	u tisućama kuna
At 1 January 2013	**285,739**	**45,408**	**331,147**
Cost of current work	8,408	2,024	10,432
Interest expenses	11,451	1,925	13,376
Salaries paid	(11,644)	(6,466)	(18,110)
Benefits paid	-	-	-
Actuarial gains/(losses)	(62,043)	(3,275)	(65,318)
At 31 December 2013	**231,911**	**39,616**	**271,527**

The following assumptions were used in preparing the calculations:

- the termination rate is from 0% to 7.63% percent and is based on the statistical fluctuation rates for the Group in the period from 2006 to 2013.
- 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 2014.
- the present value of the obligation was determined using a 5.4% discount rate for all the companies within the Group.

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

27. ISSUED BONDS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Nominal value of bonds – domestic	373,170	966,550	1,059,930
Discount value	(286)	(814)	(1,348)
Current portion of bonds	(93,380)	(593,380)	(93,380)
	279,504	**372,356**	**965,202**
Nominal value of bonds – foreign	2,963,252	2,955,595	
Foreign exchange differences	36,137	7,657	
	2,999,389	**2,963,252**	
Total liabilities upon issued bonds	**3,278,893**	**3,335,608**	

BONDS ISSUED IN THE REPUBLIC OF CROATIA

Bonds in the amount of HRK 500,000 thousand, issued in 2006, are due in November 2013, totally are paid by one shot. 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.
For the purpose of protection of currency risk, in the same time is concluded the contract on currency exchange (swap).

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%.
On the basis of count of the financial insttiutions, the Group records movements of market value of the respective financial derivative at each date of the reporting period.
The Company connects the fair value of the currency swap to the calculation Mark-to-market ("MTM") value. The fair value of the currency swap as at 31 December 2013 in the amount of HRK 391,808 thousand is recorded as financial expense (Note 8.).

28. OTHER NON-CURRENT LIABILITIES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Deferred income for property financed by third parties	3,975,988	4,220,301	4,440,468
Long term liabilities for assets financed by clearing debt	668,377	689,792	701,012
Long-term debt under interest rate swap (Note 27)	391,808	-	850
Other	1,419	1,540	1,659
	5,037,592	**4,911,633**	**5,143,989**

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 30 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of funds received from the customer in the period when the customer is connected to the grid or when permanent access to the delivery of the service is given.
At 31 December 2013 the Group reported a liability in the amount of HRK 668,377 thousand in respect of a clearing debt (2012: HRK 689,792 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of finance regarding the clearing debt, it has not been clearly defined as either a loan or a government grant.

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

29. SHORT-TERM BORROWINGS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Borrowings from domestic banks and subsidiaries of foreign banks, denominated in various currencies under the following terms:	295,000	400,000	592,778
Interest rate from EURIBOR/TZ Min. of fin. + margin (2.75% – 3.20%)	-	-	-
secured by bills of exchange			
Other short-term borrowings	369,664	3,261	2,806
Short term part of the RWE loan	7,674	7,582	7,579
	672,338	**410,843**	**603,163**

Till July 2013 the Group has repaid all the existing short-term loans.However, for the purpose of providing for the solvency reserves in the following medium-term period, The Group during the year has concluded with domestic banks multi-purpose general contracts in total amount of HRK 1.0 billion.
The sources from the stated general contracts the Group may use for short-term loans,as well as the issuance of guarantees, letters of credit,letters of intention according to necessities of the Group's companies.
From previously mentioned medium-term multi-purpose lines, the Group has concluded short-term loans in the amount of HRK 295 million for current assets.
During the year is extended the general contract on supplier's factoring in the amount of EUR 50 million. Separate contracts from this general contract are extended for a further one year,thus the original time-limits for the return of liabilities toward suppliers have crossed over a period of one year,and the terms are acquired for the reclassification of the stated liabilities.
As at 31 December 2013 the Group has on its disposal the amount of HRK 629 million from short-term sources of financing.

30. LIABILITIES FOR TAXES AND CONTRIBUTIONS

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Liabilities for income tax	-	133,846	105,325
Utility and other fees	13,641	17,519	12,680
Contributions on salaries	18,650	20,111	23,205
Liabilities for customs	-	908	2,239
Contributions and taxes for benefits in kind	1,547	3,519	1,984
Other	1,702	3,538	647
	35,540	**179,441**	**146,080**

31. LIABILITIES TO EMPLOYEES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Net salaries	71,589	75,220	78,074
Contributions	37,749	39,179	40,363
Other	25,830	26,169	9,497
	135,168	**140,568**	**127,934**

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

32. ACCOUNTS PAYABLE AND OTHER PAYABLES

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
ACCOUNTS PAYABLE			
Domestic accounts payable	1,126,964	2,246,352	1,874,195
Foreign accounts payable	187,926	246,377	553,220
Liabilities toward suppliers inside the EU	171,075	-	
	1,485,965	**2,492,729**	**2,427,415**

	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
OTHER PAYABLES			
Deferred income and received advances for connections	287,181	216,610	193,125
Liabilities for other advances received	116,797	98,344	15,538
Accrued expenses for unused vacation days	53,828	64,827	63,900
Deferred income from sale of el. energy to households	-	19,426	10,905
Liabilities for renewable sources	47,541	11,477	8,017
Accounted costs of severance pays to employees	177,555	249,174	-
Other accrued expenses	105,762	31,163	3,203
Liabilities for non-controlling part (Note 15)	8,707	-	-
Current portion of financial lease (Note 24)	2,675	-	-
Other liabilities	36,484	51,970	86,687
	836,530	**742,991**	**381,375**

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

33. RELATED PARTY TRANSACTIONS

The Group has a 50% ownership in the capital of NPPK (NE Krško d.o.o.).
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 2013	31. December 2012
	HRK'000	HRK'000
NE Krško d.o.o.		
Liabilities for purchased electricity	63,373	61,119
Cost of purchased electricity	727,855	707,758

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

33. RELATED PARTY TRANSACTIONS (continued)

		Sales revenue		Purchases
HRK'000	**2013**	**2012**	**2013**	**2012**
Enterprises controlled partially by the Government				
Hrvatske Željeznice	137,709	112,500	67,997	12,765
INA Matica (Parent)	156,430	155,192	54,506	132,403
Prirodni Plin	0	0	2,002,330	2,531,088
Plinacro	2,298	2,135	64,278	34,760
Croatia osiguranje	5,618	5,508	17,543	16,371
Hrvatska pošta	23,210	23,245	44,539	60,553
Hrvatske šume	5,529	6,474	2,261	6,087
Jadrolinija	870	1,102	4,031	647
Narodne novine	1,618	2,590	4,438	5,120
Hrvatska radio televizija	13,735	12,437	1,194	1,185
Plovput	578	579	165	692
Croatia Airlines	981	780	66	-
Petrokemija Kutina	3,488	29,028	82	118
Ministry of Foreign Affairs	513	525	-	-
Ministry of Defense	24,358	22,530	-	-
Ministry of Interior	26,510	25,187	-	-
Elementary and secondary schools	88,078	82,888	-	-
Judicial institutions	13,758	12,185	173	-
Colleges and universities	33,610	31,594	3,715	4,145
Legislative, executive and other bodies of the Republic of Croatia	29,040	30,482	6,345	6,572
Health institutions and organisations	122,821	89,538	3,194	3,233
Other users	16,619	12,025	6,577	16,669
TOTAL	**707,371**	**646,499**	**2,283,434**	**2,832,408**

33. RELATED PARTY TRANSACTIONS (continued)

	Receivables		Payables	
HRK'000	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Enterprises controlled partially by the Government				
Hrvatske Željeznice	79,781	45,902	39,792	2,460
INA Matica	18,298	18,927	11,075	12,707
Prirodni Plin	-	-	153,148	297,100
Plinacro	400	355	8,670	-
Croatia osiguranje	611	610	5,119	4,356
Hrvatska pošta	3,211	3,107	8,786	3,791
Hrvatske šume	530	1,041	49	365
Jadrolinija	57	178	1,274	592
Narodne novine	163	263	1,226	1,361
Croatian Radio & Television	2,399	2,385	147	152
Plovput	74	65	51	102
Croatia Airlines	217	148	-	276
Petrokemija Kutina	9,488	5,026	-	-
Ministry of Defense	4,090	3,260	-	-
Ministry of Interior	6,592	3,402	-	-
Elementary and secondary schools	20,491	15,191	-	-
Judicial institutions	4,532	3,841	-	-
Colleges and universities	4,619	4,847	-	-
Legislative, executive and other bodies of the Republic of Croatia	5,572	5,825	-	-
Health institutions and organizations	27,855	18,789	-	-
Other users	4,191	3,569	3,513	6,351
TOTAL	**193,171**	**136,731**	**232,850**	**329,613**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

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 Group into a joint stock company in 1994, this amount was excluded from the net asset value.

OPERATING COMMITMENTS

As at 31 December 2013, 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 2013 the value of unrealised contracts for the most significant projects amounts to approximately HRK thousand 1,300,391 thousand (2012: HRK 1,690,780 thousand).

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. The agency for environmental protection has opened on the basis of the request of HEP, nine Accounts of plant operator into the register of the EU. The HEP accordingly to the emissions of CO2 from thermo-energetic plants during 2013 has bought the emission units with a goal of fulfilment of obligations which arise from legal regulations.
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 2013 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.

34. NEPREDVIDIVI DOGAĐAJI I PREUZETE OBVEZE (nastavak)

SEPARATION OF THE COMPANY HEP OPERATOR PRIJENOSNOG SUSTAVA D.O.O. FROM THE GROUP (HRVATSKI OPERATOR PRIJENOSNOG SUSTAVA D.O.O.)

Law on electric energy market (Official 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 (Official 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 (Official gazette 22/2013), Hrvatska elektroprivreda d.d. as a leading company inside the vertically integrated subject and the owner of the transmission system performed separation of the transmission system operators according to Law provisions and undertook all the activities for the fulfilment of request for the separation of the transmission system operators with a goal of certification.

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).

At the beginning of July 2013 were performed the status changes in the HEP Operator prijenosnog sustava (now: The Hrvatski operator prijenosnog sustava d.o.o.; abbreviated: the HOPS d.o.o.) due to separation toward the ITO model of "Independent Transmission Operator" in accordance with Law on electric energy market and by the decision of the Assembly of HEP d.d.

Assets which was used by the Hrvatski operator prijenosnog sustava d.o.o. in performing of activities is transferred to its property, and due receivables are transferred in basic capital of the Hrvatski operator prijenosnog sustava d.o.o. (in the HEP d.d.an increase of portion-Note 32).

SUPPLY AT WHOLESALE MARKET OF GAS

On 27 February 2014, the HEP d.d. by the Decision of the Government of the Republic of Croatia was determined as a supplier on wholesale market of gas in a period till 31 March 2017.

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

35. SUBSIDIARIES

As at 31 December 2013, the Group in its ownership had the following subsidiaries:

Subsidiary	Country	Interest in (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Thermal power generation and distribution
HEP-Trgovina d.o.o.	Croatia	100	Electrical energy trading
HEP-Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	50	Electricity generation
APO d.o.o., usluge zaštite okoliša	Croatia	100	Environmental protection services and radio active 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
Program Sava d.o.o. za usluge	Croatia	100	Area arrangement, design, building and monitoring
HEP-Trgovina d.o.o. Brežice	Slovenija	100	Electrical energy trading
HEP- Magyarorszag Energia KFT	Mađarska	100	Electrical energy trading
HEP-Trade d.o.o., Mostar	BiH	100	Electrical energy trading
HEP-Trade d.o.o., Beograd	R Srbija	100	Electrical energy trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunication works

The majority of these subsidiaries were formed for the purpose of reorganization and re-structuring the core business activities driven by the new energy legislation, which came into effect as of 1 January 2002, as indicated in Note 1. and HEP- Telekomunikacije d.o.o. in 2013.
HEP-RVNP d.o.o. has changed its name in 2014 into Program Sava d.o.o..

36. FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.
The capital structure of the Group consists of debt, which includes the borrowings and issued bonds disclosed in Note 24, 27 and 29, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, legal and other reserves and retained earnings.

GEARING RATIO

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 year end can be presented as follows:

	31 December 2013	31 December 2012
	HRK'000	HRK'000
Debt	5,939,867	6,311,545
Cash and cash equivalents	(260,755)	(605,024)
Net debt	5,679,112	5,706,521
Equity	21,242,226	19,964,403
Net debt to equity ratio	**27%**	**29%**

SIGNIFICANT ACCOUNTING POLICIES

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

CATEGORIES OF FINANCIAL INSTRUMENTS

	31 December 2013	31 December 2012
	HRK'000	HRK'000
Financial assets		
Financial property available for sale	125,166	129,452
Loans and receivables (including cash and cash equivalents)	2,353,659	2,563,609
Other non-current assets	64,971	67,732
Financial liabilities		
Non-current liabilities	6,051,367	5,894,114
Current liabilities	2,636,821	3,814,947

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.

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

36. FINANCIAL INSTRUMENTS (continued)

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 2013	31 December 2012	31 December 2013	31 December 2012
	(u tisućama)	*(u tisućama)*	*(u tisućama)*	*(u tisućama)*
European Union (EUR)	4,900	44,664	729,763	683,215
USD	-	1,492	158	8,449

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.

	2013	2012
	HRK'000	HRK'000
EUR change impact		
Profit or loss	553,624	481,826
USD change impact		
Profit or loss	91	3,984

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.

36. FINANCIAL INSTRUMENTS (continued)

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 2013 would decrease/increase by HRK 12,349 thousand (2012: HRK 11,807 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 41.63% (2012: 37%); 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.
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.

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.

Notes to the consolidated
financial statements (continued)
For the year ended 31 December 2013

36. FINANCIAL INSTRUMENTS (continued)

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
2013							
Non-interest bearing		914,345	787,697	206,655	409,260	2,224	2,320,181
Variable interest rate instruments	7.00%	535	1,018	92,331	-	-	93,884
Total		**914,880**	**788,715**	**298,986**	**409,260**	**2,224**	**2,414,065**
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
Total		**1,582,069**	**662,436**	**448,573**	**65,559**	**2,156**	**2,760,793**

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.

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
2013							
Non-interest bearing		1,481,347	628,489	28,808	1,075,760	5,704	3,220,108
Variable interest rate instruments	3.17%	14,585	49,118	824,881	1,656,115	78,835	2,623,534
Fixed interest rate instruments	6.46%	473	45,774	315,464	3,921,980	25,510	4,309,201
Total		**1,496,405**	**723,381**	**1,169,153**	**6,653,855**	**110,049**	**10,152,843**
2012							
Non-interest bearing	-	1,337,387	881,754	470,775	707,064	536	3,397,516
Variable interest rate instruments	4.37%	14,532	52,140	543,036	1,792,940	387,757	2,790,405
Fixed interest rate instruments	5.60%	-	-	824,881	5,004,943	15,926	5,845,750
Total		**1,351,919**	**933,894**	**1,838,692**	**7,504,947**	**404,219**	**12,033,671**

36. FINANCIAL INSTRUMENTS (continued)

The Group has access to financing facilities, the total unused amount of which is HRK 987,571 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.

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

	1st level	2nd level	3rd level	Total
	HRK'000	HRK'000	HRK'000	HRK'000
2013				
Assets available for sale	125,166	-	-	**125,166**
Fair value of swap	-	-	391,808	**391,808**
Investment in real estate	-	-	231,285	**231,285**
2012				
Assets available for sale	129,452	-	-	**129,452**
Investment in real estate	-	-	233,917	**233,917**

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

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2013

37. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board and authorised for issue on 30 April 2014.

Signed on behalf of the Group on 30 April 2014:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

HEP d.d.

Financial Statements

Independent Auditor's Report

To the Shareholder of the company 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 2013, which comprise the Balance Sheet / Statement of Financial Position as of that date; 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 explanations.

RESPONSIBILITY OF THE COMPANY'S MANAGEMENT FOR FINANCIAL STATEMENTS

2. The preparation and a fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the European Union 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 THE AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards of Auditing. 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 of 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 these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 expressing our opinion.

OPINION

4. In our opinion, the enclosed financial statements, in all material respects, give a true and fair view of the financial position of the company Hrvatska elektroprivreda d.d at 31 December 2013, and its financial performance and cash flows for 2013 in accordance with the Accounting Act and International Financial Reporting Standards effective in the European Union.

EMPHASIS OF MATTER

5. As described in the note 1 to the financial statements, the Company under the finance lease agreements has 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.
6. As described in the note 26 to the financial statements, at 31 December 2013 the Company has reported a liability in the amount of HRK 668,377 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 Independent auditor's report it has not been clearly defined as either is a loan or a government grant.
7. 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, has stated its investments in subsidiaries and associates at cost. The Company has also prepared consolidated financial statements for the Company and its subsidiaries, which were drawn up on 30 April 2014. For a better understanding of the Company's and Group's business in general, users should read the consolidated financial statements in conjunction with these financial statements.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

8. The Company's Management is responsible for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Financial Statements").The financial information set out in the standard annual financial statements of the Company are in accordance with the information stated in the annual financial statements of the Company shown on pages 5 to 92 which are the subject of our opinion, as set out in the section Opinion.

OPINION ON ADJUSTMENT TO ANNUAL STATEMENT

9. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy Act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual financial statements of the Company. In our opinion, on the basis of the performed audit of the annual financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management on 30 April 2014, are in accordance with the financial information set out in the annual financial statements of the Company shown on pages 5 to 92 which were the object of our opinion, as set out in section Opinion.

In Zagreb, 30 April 2014

BDO Croatia d.o.o.
Zdenko Balen, member of the Management
Ines Rožić, certified auditor

Audit d.o.o.
Marijana Pranjić, member of the Management
Dubravka Tršinar, certified auditor

HEP d.d. – Statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
		Restated
Electricity sales	11,000,616	11,578,819
Service revenues – related companies	1,436,979	1,378,430
Other operating income	196,426	181,075
Total operating income	12,634,021	13,138,324
Purchase of electricity	(2,198,202)	(3,454,730)
Purchase of electricity – related companies	(720,972)	(756,631)
Staff costs	(82,787)	(78,976)
Depreciation and amortisation	(87,360)	(96,398)
Electricity generation, transmission and distribution fee from related parties	(8,346,845)	(8,218,664)
Other operating expenses	(651,142)	(569,017)
Total operating expenses	(12,087,308)	(13,174,416)
Profit from operations	546,713	(36,092)
Financial revenue	1,067,217	598,672
Financial costs	(838,318)	(314,109)
Net financial income	228,899	284,563
Profit before tax	775,612	248,471
Income tax benefit / cost	(27,871)	25,445
Net profit for the current year	747,741	273,916

HEP d.d. – Statement of comprehensive income for the year ended 31 December 2013 (continued)

	2013	2012
	HRK'000	HRK'000
		Restated
Profit for the current year	747,741	273,916
Other comprehensive income		
Fair valuation of investment in the Jadranski naftovod d.d.	(3,429)	6,046
Total items which are transferred into profit and loss account	(3,429)	(6,046)
Other comprehensive income / (loss), net	(3,429)	6,046
Total comprehensive income for the current year	744,312	279,962

Signed on behalf of the Company on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

HEP d.d. – Balance sheet / Statement of financial position

at 31 December 2013

ASSETS	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	Restated
Property, plant and equipment	1,101,097	1,143,339	1,156,484
Capital work in progress	399,817	313,096	256,199
Intangible assets	13,397	13,042	13,512
Investment properties	8,533	8,010	8,010
Prepayments for tangible assets	6,418	13,035	27,872
Investment in NPP Krško	1,754,419	1,754,419	1,754,419
Investment in and long term receivables from TPP Plomin	256,404	300,820	441,791
Investments in subsidiaries	4,026,354	6,398	6,378
Investments available for sale and other investments	125,166	129,353	120,915
Long-term loan receivables and deposits	6,031	384	511
Long-term lease receivables from related companies	14,457,421	14,724,461	18,124,813
Long-term loan receivables from related parties	110,729	126,529	142,407
Receivables from sub loans from related parties	1,160,963	1,393,054	209,001
Other receivables	977	1,091	1,209
Deferred tax assets	104,766	51,634	26,189
Total non-current assets	**23,532,492**	**19,978,665**	**22,289,710**
Inventories	89,980	18,290	25,880
Trade receivables	44,457	35,282	20,208
Current portion of long-term lease receivables from related companies	1,080,257	1,109,084	1,311,413
Current portion of long-term loan receivables from related parties	125,355	150,969	45,394
Other short-term receivables	313,957	16,026	161,246
Receivables from related companies	5,457,238	8,474,013	4,269,451
Cash and bank balances	83,101	497,096	268,920
Total current assets	**7,194,345**	**10,300,760**	**6,102,512**
TOTAL ASSETS	**30,726,837**	**30,279,425**	**28,392,222**

Signed on behalf of the Company on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

HEP d.d. – Balance sheet / Statement of financial position at 31 December 2013 (continued)

EQUITY AND LIABILITIES	31 December 2013	31 December 2012	1 January 2012
	HRK'000	HRK'000	HRK'000
		Restated	**Restated**
Share capital	19,792,159	19,792,159	19,792,159
Capital reserves	2,617	6,046	(438,958)
Retained earnings	1,731,337	983,596	1,148,638
Total equity	**21,526,113**	**20,781,801**	**20,501,839**
Long-term liabilities in respect of bonds issued	3,278,893	3,335,608	965,202
Long-term borrowings	1,661,916	1,834,576	2,525,661
Long-term liabilities to the state	1,026	1,075	1,130
Other long-term liabilities	1,065,835	697,153	707,702
Long-term liabilities to related companies	5,758	161,854	178,980
Provisions	217,729	39,909	40,013
Deferred tax liability	654	1,511	-
Total non-current liabilities	**6,231,811**	**6,071,686**	**4,418,688**
Trade payables	358,023	718,879	503,942
Current portion of issued bonds	93,380	593,380	93,380
Current portion of long-term borrowings	208,838	132,084	1,154,563
Short-term borrowings	664,609	402,826	595,584
Liabilities for taxes	55,920	182,697	160,062
Interest payable	41,110	45,439	23,024
Liabilities to related companies	1,507,607	1,302,276	913,273
Liabilities to employees	6,009	5,437	5,229
Other payables	33,417	42,920	22,638
Total current liabilities	**2,968,913**	**3,425,938**	**3,471,695**
TOTAL EQUITY AND LIABILITIES	**30,726,837**	**30,279,425**	**28,392,222**

Signed on behalf of the Company on 30 April 2014 by:

Tomislav Šerić
President of the Board

Ivan Matasić
Member of the Board

7

Reports by HEP Group Companies

HEP Proizvodnja d.o.o.

Nikola Rukavina, Director

During 2013, HEP-Proizvodnja d.o.o. (HEP Generation) conducted core generation activities within HEP Group in line with the Company's registration for electricity and heat energy generation meeting the needs and costs of HEP's portfolio of electricity, heat energy and process steam supply to its customers. HEP Generation conducts and furthers the following business activities:

- planning, preparation and execution of the construction of new and revitalization of the existing hydropower plants (HPP), thermal power plants (TPP) and cogeneration plants (TE-TO);
- prevention and corrective maintenance according to plants condition and the Croatian electric power system needs;
- operational planning and management of generation as well as fuel procurement, storage and consumption optimization;
- provision of ancillary services to HOPS, provision and activation of power and energy regulation reserves;
- certification of the guarantee of green energy origin as well as generation of electricity within the incentive system;
- execution of environmental and work safety measures and activities;
- contribution to improvements of the Croatian energy regulations and the cooperation with the Croatian bodies and institutions.

From the energy point of view, the year 2013 was above average in hydrological terms with recorded hydo generation of 8.05 TWh, accounting for 75% of domestic generation. The electricity and heat energy production by thermal power plants and cogenerating plants was 2.63 TW and 2.31 TWh, respectively. Lower generation by thermal and cogeneration plants is the result of a high price of natural gas compared to a market-wise more favourable electricity import for the needs of HEP customers and extremely favourable hydrology in terms of hydro generation. Heat energy production remained at the last year level, while the fuel consumption optimization was based on reduced unit production i.e. increased operation of boiler units for the needs of heat consumption of district heating systems in Zagreb, Osijek and Sisak. Appropriate availability and permanent operation along with a somewhat lower generation was characteristic for both Plomin TPP units. In 2013, special attention was paid to optimization of fuel reserves structure and volume for thermal power and cogeneration plants considering the economic and environmental justification of substituting fuel oil with natural gas. Compared to 2012, natural gas consumption was reduced by 100 mn m^3, which resulted in lower variable costs for HEP Generation and overall successful business performance of HEP Group.
In 2013, the revitalization of the Zakučac HPP Unit A was completed and the revitalization of the Unit B commenced. Revitalization of the Dubrovnik HPP Unit B was completed, and the revitalization of the

Unit A prolonged due to extremely favourable hydrology. The construction of the Unit C in Sisak TPP entered into its final stage.
During 2013, jurisdiction separation with regard to high-voltage power facilities between HEP Generation and HOPS was carried out pursuant to the Decision adopted by the Management Board of HEP d.d. The medium-voltage separation between HEP Generation and HEP DSO commenced.
The dispatcher center for the Dalmatian area generation (CSRCE) commenced its operation in late summer by consolidating planning and operational management of HEP power plants on the Cetina, Krka and Zrmanja rivers as well as Dubrovnik HPP. In 2013, Maintenance Rules for HEP Generation power plants were adopted considering regulation specificities and experiences in maintaining power facilities, electrical and mechanical and process equipment as well as accompanying subsystems.
HEP Generation continued activities for obtaining the status of an eligible producer for new and renewed small hydro power plants, including biological minimum generating sets. A complex process of obtaining integrated environmental requirements (individual environmental permits) for HEP's existing thermal power plants continued. During late 2013, the integrated system of quality and environmental management according to ISO 9001:2008 and 14001:2004 was certified in Plomin TPP, Rijeka TPP and Osijek cogeneration plant which marked the end of the certification process for all HEP Generation thermal power plants. The efficiency of work safety and fire protection was maintained at high levels in terms of conducting measures and training staff.

GENERATING PLANTS

HYDRO POWER PLANTS	Available capacity (MW)	HYDRO POWER PLANTS	Available capacity (MW)
Storage		**Run-of-river**	
HE Zakučac	522*	HE Varaždin	92.5
RHE Velebit	276 (-240)	HE Dubrava	79.8
HE Orlovac	237	HE Čakovec	77.4
HE Senj	216	HE Gojak	55.5
HE Dubrovnik	108+120**	HE Lešće	41.2
HE Vinodol	90	HE Miljacka	24
HE Peruća	60	HE Jaruga	7.2
HE Kraljevac	46.4	HE Golubić	6.5
HE Đale	40.8	HE Ozalj	5.5
HE Sklope	22.5	HE Lešće ABM	1.1
CS Buško blato	7.5/4.2/(-10.2/-4.8)	HE Krčić	0.3
CHE Fužine	4.6/(-5.7)		
HE Zavrelje	2		
HE Zeleni vir	1.7		
RHE Lepenica	0.8 (-1.2)		

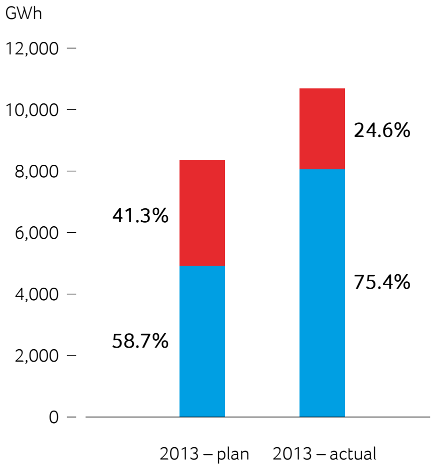
CS: pumping station CHE: pumped storage RHE: reversible pump turbine
ABM: biological minimum unit
* The capacity following the Unit A revitalization has still not been confirmed by acceptance testings.
** During revitalization of HE Dubrovnik, shared 50%-50% generation was agreed with Elektroprivreda Republike Srpske

THERMAL POWER PLANTS	NET AVAILABLE CAPACITY (MW, MWt, t/h)	Fuel
TE-TO Zagreb	422 / 743 / 360	oil/natural gas
TE Sisak	396 / 0 / 96	oil/natural gas
TE Rijeka	303	oil
TE Plomin (A)	105	coal
EL-TO Zagreb	88.8 / 347 / 377	oil/natural gas
TE-TO Osijek	90 / 139 / 150	oil / natural gas/extra light oil
KTE Jertovec	74	natural gas/extra light oil
TE PLOMIN (B)*	192	coal

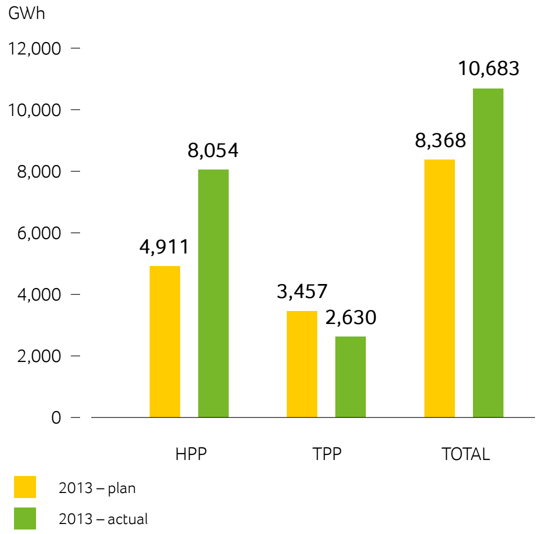
* Owned by TE Plomin d.o.o. (HEP : RWE Power – 50% : 50%); HEP-Proizvodnja d.o.o. – O&M contract

ELECTRICITY AND HEAT PRODUCTION IN 2013

HEP Generation power plants generated the total of 10,684 GWh of electricity in 2013. Hydro and thermal generation accounted for 8,054 GWh or 75.4 percent and 2,630 GWh or 24.6 percent, respectively. Compared to the 2013 planned generation, total recorded generation was 27.7 percent higher including 64% higher hydro and 24% lower thermal generation.



	2013 – plan	2013 – actual
TPP	3,457	2,630
HPP	4,911	8,054



HEAT ENERGY PRODUCTION

In 2013, HEP Generation CCGT plants generated a total of 2,314,043 MWh of heat energy, which is a 6.8% less than planned. Compared to the generated 2,349,410 MWh the year before, heat generation decreased by 1.5 percent.

Process steam generation amounted to 824,250 tonnes, which is a 9.7% less than planned (912,756 t). The generation in 2012 recorded 826,616 tonnes.

Heat production in 2013 was 1,655,170 MWh or 3.9% less than planned (1,723,117 MWh). The 2012 generation was 1,660,839 MWh.

AVAILABILITY OF POWER PLANTS OPERATED BY HEP GENERATION FOR 2013 INCLUDING TPP PLOMIN B

Availability of all generating plants i.e. HEP power plants measured as the ratio of availability hours (availability hours = operation + reserve in relation to total number of hours minus planned overhauls) is 97.1%, which exceeds availability in 2012 by 1.8%.

Financial reports

INDEPENDENT AUDITOR'S REPORT

To the Owners of the company 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 2013, which comprise the Balance Sheet / Statement of Financial Position as at 31 December 2013, Statement of Comprehensive Income, Statement of Changes in Equity and 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.

RESPONSIBILITY OF THE COMPANY'S MANAGEMENT FOR FINANCIAL STATEMENTS

2. The preparation and fair presentation of the enclosed Financial Statements according to the International Financial Reporting Standards effective in the European Union 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.

AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards of Auditing. 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 these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

4. In our opinion, the enclosed financial statements, in all material aspects, give a true and fair view of the financial position of the Company as at 31 December 2013, and its financial performance and cash flows for 2013 in accordance with the Accounting Act and International Financial Reporting Standards effective in the European Union.

EMPHASIS OF MATTER

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

OPINION ON COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENT

6. The Company's Management is responsible for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10)

and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Financial Statements"). Financial information set out in the standard annual financial statements of the Company are in accordance with the 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 the section Opinion above.

OPINION ON COMPLIANCE OF ANNUAL REPORT

7. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy Act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual financial statements of the Company. In our opinion, on the basis of the performed audit of the annual financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management on 30 April 2014, are in accordance with the financial information set out in the annual financial statements of the Company shown on pages 4 to 58 which were the object of our opinion, as set out in section Opinion.

In Zagreb, 25 April 2014

BDO Croatia d.o.o.
Zdenko Balen, member of the Management Board
Darko Karić, certified auditor

Audit d.o.o.
Marijana Pranjić, member of the Management Board
Dubravka Tršinar, certified auditor

HEP Proizvodnja d.o.o., Statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	HRK '000	HRK '000
Income from fee for production of electric energy and other income – related companies	4,867,049	4,354,732
Other operating income	37,281	180,423
	4,904,330	**4,535,155**
Energy for manufacturing, materials and spare parts	(2,268,994)	(2,933,560)
Service expenses	(317,175)	(331,302)
Personnel expenses	(337,451)	(339,255)
Depreciation	(425,566)	(444,937)
Administrative expenses – related companies	(94,658)	(98,966)
Other operating expenses	(633,134)	(322,051)
	(4,076,978)	**(4,470,071)**
Profit from operating activities	**827,352**	**65,084**
Financial income	484	405
Financial expenses	(79,314)	(71,928)
Net loss from financial activities	**(78,830)**	**(71,523)**
Profit/(Loss) from regular operations before taxation	**748,522**	**(6,439)**
Corporate income tax	(151,424)	208
Profit/(Loss) for the business year	**597,098**	**(6,231)**

HEP Proizvodnja d.o.o.,
Statement of comprehensive income
for the year ended 31 December 2013 (continued)

	2013	2012
	HRK '000	HRK '000
Profit/(Loss) for the current year	**597,098**	**(6,231)**
Other comprehensive income or loss for the current year		-
Total comprehensive profit/(loss) for the current year	**597,098**	**(6,231)**

Signed on behalf of the Company on 25 April 2014
Nikola Rukavina,
Director

HEP Proizvodnja d.o.o., Balance sheet / Statement of financial position

as at 31 December 2013

ASSETS	31 December 2013	31 December 2012
	HRK '000	HRK '000
Intangible assets	16,874	17,735
Property, plant and equipment	6,253,077	6,444,795
Investments in progress	2,412,498	2,082,059
Investments in properties	38,655	38,739
Prepayments for property, plant and equipment	63,263	69,447
Investments in subsidiaries	8	8
Receivables from the sale of apartments	10,471	11,861
Deferred tax assets	84,298	57,004
Total long-term assets	**8,879,144**	**8,721,648**
Inventories	417,009	604,414
Other short-term assets	36,927	115,778
Receivables from related companies	2,013,635	1,282,025
Trade receivables	2,080	3,034
Current portion of long-term receivables	2,299	2,749
Cash and cash equivalents	8,294	5,886
Total short-term assets	**2,480,244**	**2,013,886**
TOTAL ASSETS	**11,359,388**	**10,735,534**

Signed on behalf of the Company on 25 April 2014
Nikola Rukavina,
Director

**HEP Proizvodnja d.o.o.,
Balance sheet / Statement of financial position
as at 31 December 2013 (continued)**

CAPITAL AND LIABILITIES	31 December 2013	31 December 2012
	HRK '000	HRK '000
Subscribed capital	20	20
Retained earnings/(Accumulated loss)	582,621	(14,477)
Total capital	**582,641**	**(14,457)**
Long-term liabilities to related companies	5,888,972	6,062,667
Long-term provisions	278,941	266,730
Other long-term liabilities	7,714	8,799
Total long-term liabilities	**6,175,627**	**6,338,196**
Trade payables	361,519	707,294
Liabilities to related companies	3,366,070	3,135,450
Current portion of long-term liabilities to related companies	425,566	444,937
Other short-term liabilities	447,965	124,114
Total short-term liabilities	**4,601,120**	**4,411,795**
TOTAL CAPITAL AND LIABILITIES	**11,359,388**	**10,735,534**

Signed on behalf of the Company on 25 April 2014
Nikola Rukavina,
Director

HEP Operator distribucijskog sustava d.o.o.

Ljiljana Čule,
Director

As the largest company within the vertical organization of HEP Group, HEP-Operator distribucijskog sustava d.o.o. (Distribution System Operator) performs not only its core energy business activities of electricity distribution and supply within the public service but also numerous non-core activities including the construction and maintenance of energy facilities, production of workshop products, services of maintaining the fleet, restaurant.

The business year 2013 was marked by further harmonization of the Croatian energy legislation with EU directives, primarily by means of the new Electricity Market Act, which served as the basis for business and organizational operating adjustments. The 2013 business operations were also strongly impacted by the regulation of mutual relations with HEP d.d. and the transmission system operator, accounting unbundling, the obligation of developing and announcing the investment ten-year plans, the Act on Financial Operations and Pre-Bankruptcy Settlement, improved efficiency of receivables collection, connection of a large number of distributed sources...

During 2013, a number of measures and activities based on set business objectives from the Work Programme of HEP d.d. and the Work Programme of HEP DSO for the period 2012-2016 (the Programme) was conducted. Fundamental business objectives for the period 2012-2016 are expressed through the electricity supply quality, increased energy efficiency in electricity distribution and use, development of distribution network into the distribution system with advanced solutions considering the inevitable establishment of distributed generation and its consolidation with the network, organizational and business harmonization with the new legal framework, service provision and network customer relation improvement, HR management and knowledge transfer.

Serving as a precondition for meeting the majority of objectives set by the Programme, the restructuring of business activities and organization was conducted in 2013. The new Rules on the Company's organization and systematisation came into effect on 1 March 2013. The reorganization and downsizing programme resulted in a reduced number of employees. As of 31 December 2013, the Company employed 7,531 workers, which is by 1,521 less than on 31 December 2012.

The completion of the following capital investments in 2013 must be singled out: 110/20 kV Kneginec substation, 35/10(20) kV Čaglin substation and the connecting 35kV overhead line, 35/10(20) kV Hrvatska Kostajnica substation, 35/10(20) kV Otok substation, 35/10(20) kV Pitomača, 20 kV Novi centar Karlovac switchyard and the 35/10(20) kV Hrvace substation network. Investment and development programmes are planned and carried out by focusing on the balanced and efficient development and construction of the distribution network based on the technical and economic criteria in order to achieve the highest possible degree of wider community contribution.

During 2013, the increasing trend of power plant connections onto the network continued. A total of 548 power plants was connected with installed capacity of 30,319 kW.

As of Novemebr 2013, income from the sale of electricity has been recorded in the Company's books pursuant to newly-established relations under the Power Purchase Agreement for end customers within the universal service and guaranteed supply between the Company and HEP d.d., the Methodology for setting the tariff item amounts for electricity supply within the universal service and the Methodology for setting prices for billing balancing electricity to entities responsible for deviations.

Further restructuring of the electricity market and the emergence of a number of suppliers resulted in a significantly more complex customer-supplier relations and processes. In light of its role of the provider of the public supply service and regulated electricity prices, HEP DSO is not market oriented but exposed to a risk of losing a share of its tariff customers due to the possibility of changing the supplier resulting in the loss of its income share.

We continuously invest into development of new knowledge and skills. Each conduct of public business activity is followed by the principle of establishing a special relation with the public. Provision of quality service to network users and an objective relation to all electricity market participants represent our permanent obligation, of which we submit regular report to the regulator.

The business year 2013 was difficult. As the following 2014 does not alleviate its challenges, we are prepared to meet them head on by investing our knowledge, time and personality.

NUMBER OF TRANSFORMER STATIONS BY VOLTAGE LEVEL

TS 35(30)/10(20) kV	TS 20/0.4 kV	TS 10/0.4 kV
327	4,508	20,769

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
23.3	4.8	5.8	3,334.7	1,320.6	132.2	3,221.8	3,276.0	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**
17,829.4	10,918.2	239.6	19,521.7	26,905.8	17,464.9	3,797.3	17,258.7	10,471.3

NUMBER OF CUSTOMERS/METERING POINTS BY CONSUMPTION CATEGORY (VOLTAGE LEVEL)

Description	Number of metering points
High voltage 110 kV	4
Total medium voltage	2,114
Low voltage – commercial (excl. public lighting)	189,559
Low voltage – commercial (public lighting)	21,817
Low voltage – residential	2,148,375
TOTAL	2,361,869

ELECTRICITY SALES BY CUSTOMER CATEGORY IN 2013 (kWh)

Description	Total-Croatia
Commercial – high voltage (HV)	150,507,879
Commercial – medium voltage (MV)	3,506,753,976
TOTAL Commercial HV and MV	**3,657,261,855**
Commercial – low voltage (LV)	4,139,576,795
Commercial – low voltage (LV) – public lighting	432,259,748
Residential – low voltage (LV)*	6,236,983,433
TOTAL LOW VOLTAGE	**10,808,819,977**
Public supply service (HEP DSO)	7,528,649,222
Eligible customers (other suppliers)	6,937,432,609
TOTAL SALES ON DISTRIBUTION NETWORK	**14,466,081,832**
Sales to customers without supplier on transmission network	46,135,375

NOTES:
* Data on electricity sold to residential customers are based on the system of advanced payments.

Financial Reports

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 December 31st 2013, 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.

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 European Union 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 December 31st 2013, the results of its operations and its cash flows for 2013 in accordance with the Accounting Act and International Financial Reporting Standards effective in the European Union.

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.

Interve

More than 400 workers in the mission of restoring electricity supply ntions

Interventions

Bad weather in early February 2014 destroyed 510 km of power lines in Gorski kotar, half of the entire distribution network in the area. Freezing rain covered the lines by ice deposits , found to be up to 20cm thick at places, thus creating 40 times greated load than normal. During the storm, 15 thousand households of the area lost their power supply i.e. about 23,000 people. Total damage of HRK 84.4 million represents the biggest peacetime damage in the history of HEP. Direct damage reported by HEP in line with the criteria set by the EU Solidarity Fund was HRK 54.4 million.

Urgent network repair and electricity supply restoration employed more than 400 workers of HEP Distribution System Operator during three weeks. All of them worked in extremely difficult winter conditions, reaching breakdown locations accompanied by teams from Hrvatske šume and the Croatian Mountain Rescue Service.

They had only one mission- to put the light back on inside the homes of inhabitants of Gorski kotar, rescue their food reserves, restore phone signal, television, internet, return children to their warm beds... Luckily, despite extremely difficult conditions of work organization and execution and a high level of risk and danger, no work injury was recorded during the intervention. Apart from network repairs, supply restoration in Gorski kotar required the installation of over 20 power generating units. HEP sent three power generating units as well as three teams of fitters to aid our Slovenian colleagues, as the majority of this country was also almost simultaneously hit by a similar weather disaster.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

6. The preparation of the annual Financial Statements of the Company for the year ended December 31st 2013 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 60 which are the subject of our opinion as set out in section Opinion, above.

OPINION ON ADJUSTMENT TO THE ANNUAL REPORT

7. The Management Board of the Comany is responsible for compiling the Annual report of the Company. In accordance with article 17 of the Law of accounting, we are required to express our opinion on the compatibility of the annual financial reports and the Annual report. In our opinion, on the basis of our audit of the Company and the comparison with the Annual report of the Company for the year ended December 31st 2013, the financial information stated in the Annual report, approved by the Company's management on April 4th 2014, are in accordance with the financial information stated in the annual financial reports of the Company shown on pages 4 to 60 which are the subject of our opinion as set out in the section Opinion, above.

In Zagreb, April 25th 2014

BDO Croatia d.o.o. Audit d.o.o.
Zdenko Balen, member of the Board
Darko Karić, authorized auditor

Marijana Pranjić, member of the Board
Dubravka Tršinar, authorized auditor

HEP Operator distribucijskog sustava d.o.o., Income statement

for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
Electricity distribution fee income – related companies	3.506.891	3.438.731
Electricity distribution fee income – universal supply	545.536	-
Income from sale of services	333.528	338.098
Other income – related parties	123.275	98.660
Other operating income	611.850	370.517
Total operating income	**5.121.080**	**4.246.006**
Purchase of electric energy from HEP d.d.	(499.946)	-
Purchase of electric energy from HROTE	(158.219)	(97.366)
Cost of losses on the grid	(672.349)	(685.494)
Service expenses	(203.881)	(240.095)
Staff expenses	(1.049.834)	(1.161.636)
Depreciation and amortization	(806.499)	(787.310)
Administrative expenses – related companies	(179.180)	(166.590)
Other operating expenses	(798.536)	(631.798)
Total operating expenses	**(4.368.444)**	**(3.770.289)**
Profit from operations	**752.636**	**475.717**
Financial income	1.220	712
Financial expenses	(84.876)	(50.893)
Net financial loss	**(83.656)**	**(50.181)**
Profit before tax	**668.980**	**425.536**
Income tax expense	(79.920)	(100)
Profit for the current year	**589.060**	**425.436**

HEP Operator distribucijskog sustava d.o.o.,
Statement of comprehensive income
for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
		Restated
Profit before tax	**589.060**	**425.436**
Other comprehensive income for the current year	-	-
Total comprehensive income for the current year	**589.060**	**425.436**

Signed on behalf of the Company on April 25th 2014 by:
Ljiljana Čule,
Director

HEP Operator distribucijskog sustava d.o.o., Statement of financial position

at 31 December 2013

ASSETS	31 December 2013	1 January 2012
	HRK'000	HRK'000
Property, plant and equipment	12.083.748	11.988.817
Capital work in progress	713.648	744.704
Intangible assets	21.040	21.776
Investment properties	59.137	65.823
Receivables from sale of flats	16.748	19.510
Prepayments for tangible assets	1.898	319
Deferred tax assets	48.368	95.602
Investments available for sale	-	100
Financial assets	15.940	-
Total non-current assets	**12.960.527**	**12.936.651**
Inventories	268.676	269.586
Trade receivables	875.587	909.525
Receivables from related companies	1.981.365	1.661.387
Current portion of long-term receivables	3.632	3.504
Other current assets	74.336	54.806
Cash and cash equivalents	73.625	28.161
Total current assets	**3.277.221**	**2.926.969**
TOTAL ASSETS	**16.237.748**	**15.863.620**

Signed on behalf of the Company on April 25th 2014 by:
Ljiljana Čule,
Director

HEP Operator distribucijskog sustava d.o.o.,
Statement of financial position
at 31 December 2013 (continued)

EQUITY AND LIABILITIES	31 December 2013	31 January 2012
	HRK'000	HRK'000
Share capital	425.456	20
Capital reserves	15.940	-
Retained earnings	590.682	560.960
Total equity	**1.032.078**	**560.980**
Long-term liabilities to related companies	7.602.054	7.507.056
Other non-current liabilities	3.704.868	3.913.311
Long-term provisions	226.292	290.095
Total non-current liabilities	**11.533.214**	**11.710.462**
Trade payables	299.557	516.690
Liabilities to related companies	2.231.303	1.829.921
Current portion of long-term liabilities to related company	592.361	575.394
Other current liabilities	549.235	670.173
Current liabilities	**3.672.456**	**3.592.178**
TOTAL CAPITAL AND LIABILITIES	**16.237.748**	**15.863.620**

Signed on behalf of the Company on April 25th 2014 by:
Ljiljana Čule,
Director

HEP Toplinarstvo d.o.o.

Robert Krklec,
Director

HEP Toplinarstvo d.o.o. (District Heating), as the largest heat energy distributer accounting for more than 80 percent of total heat sector in Croatia, supplied 2.2 TWh of heat energy to end customers in 2013. Heat energy supply was continuous and stable throughout the year for all 124,180 end customers in Zagreb, Osijek, Sisak, Velika Gorica, Samobor and Zaprešić. Focusing on maintaining and improving supply reliability in the above mentioned cities, parts of hot water supply, warm water supply and steam supply network underwent revitalization in the off season period. The execution of previously commenced projects continued including the most important project of connecting Zagreb' area of Dubrava to the centralized district heating system of the city of Zagreb, the project of refurbishing direct heating stations into indirect ones and the project of constructing the connecting steam line with condensate return from Sisak TPP to Energana plant. In 2013, the project of revitalization of TS1 and the warm water supply network in Caprag, a suburb of the city of Sisak commenced as well as the project of implementing the remote system management in Osijek and Sisak.

The heat energy sector was marked last year by the adoption of the new Heat Energy Market Act (Official Gazette 80/13, 14/14) under which Croatia harmonized with EU provisions and directives. HEP District Heating experts participated in public consultations with regard to the adoption of the Act and its accompanying secondary legislation as well as presentations of the Act's provisions, together with the Ministry of Economy and HERA, to target groups throughout Croatia.

The Heat Energy Market Act introduces significant changes in business operations of heat energy producers, distributers and suppliers, creates all preconditions for heat energy market opening and heat energy price competitiveness, stimulates sustainable development in heat energy sector and energy efficiency in heat energy production and use as well as mitigation of adverse environmental effects. The Act sets new relations between energy entities in heat energy sector and introduces a new activity of a heat energy customer. Heat energy distribution remains a regulated activity i.e. it is carried out under the concession as a public service in comparison with heat energy generation, supply and a heat energy customer being defined as market ones. Apart from energy entities, the Act also introduces new obligations for heat energy end customers including the obligation of adopting a decision on selecting the heat energy customer as the most important one, entering into the heat energy consumption contract and the obligation of installing heat allocators and thermostatic radiator valves in all apartments and business premises connected to joint heat energy meters no later then 2016.

In 2013, HEP District Heating started harmonizing its operations with the provisions of the new Act by registering for conducting the new activity of a heat energy customer in October 2013. Within this activity, HEP District Heating will try to maintain a high quality and realiability of heat energy supply, offering its end customers optimal management of district heating systems on their premises as well as the possibility of investing into their technological improvement in line with their financial capabilities.

HEP District Heating sees the year 2013 as a positive turning point in the regulation of energy activities in the heat sector as well as a start of regulating relations between energy entities on the heat energy market. Apart from the said, the possibility of the market-based price setting for supply and purchase as well as the adoption of new tariff methodologies for setting prices of heat energy production and distribution is considered by HEP District Heating a precondition for resolving a time-long issue of unrealistic heat energy prices on the Croatian market and final normalization of business operations and financial consolidation.

In these new market conditions, HEP District Heating plans to maintain its position of a leader by the high quality of its service and usage of multi-year experience and knowledge of its employees. By implementing its double headed communication as well as an individual approach towards end customers, the Company intends to position itself as a modern socially responsible company which meets the needs of its users.

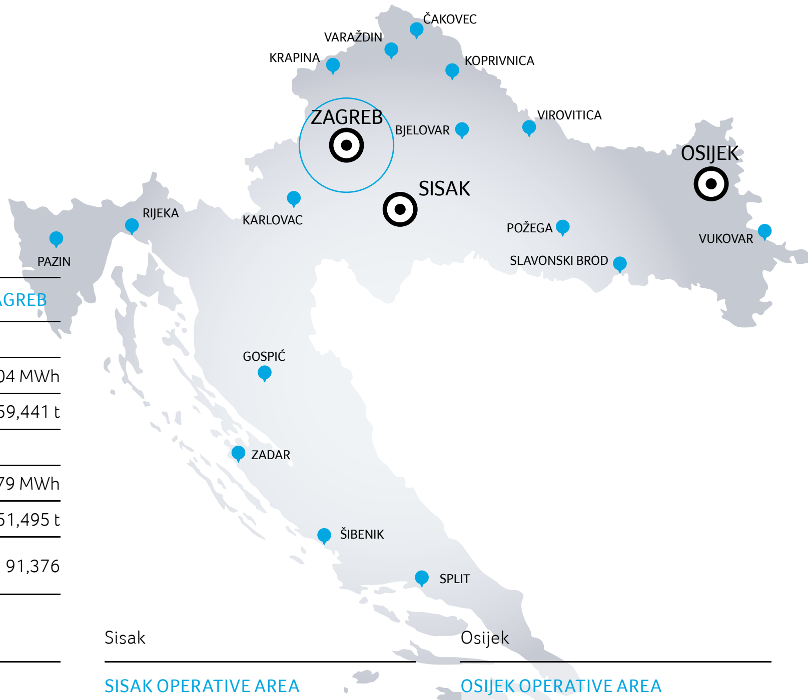
HEP DISTRICT HEATING IN 2013

During 2013, the number of end heat energy customers rose by 0.8 percent to a total number of 124,180 until end 2013, of which 118,124 (95.1%) are households and 6,056 (4.9%) corporate entities.

In heat consumption (district heat and process steam), households account for 58.5 percent (45.6% in income) and corporate entities for 41.5 percent (54.4% in income). The ratio of supplied heat energy (hot water) to process steam (in MWh) was 78.5%:21.5%.

In consumption of district heat, the share of Zagreb (including Samobor, Velika Gorica and Zaprešić) was 84.6 percent, Osijek 12.6 percent, and Sisak 2.8 percent. The consumption of process steam was 569.089 tonnes (Zagreb 79.3%, Osijek 20.7%).

In 2013, heat energy sales decreased by 0.2 percent compared to the year before. Taking each of the two main products of HEP District Heating separately, heat sales increased by 0.5% while steam sales decreased by 2.7%.



Zagreb

DISTRICT HEATING SYSTEM ZAGREB	
PRODUCTION:	
heat	1,466,204 MWh
steam	559,441 t
SALES:	
heat	1,315,079 MWh
steam	451,495 t
NUMBER OF CUSTOMERS:	91,376

Zagreb

LOCAL BOILER PLANTS	
PRODUCTION:	
heat	190,629 MWh
SALES:	
heat	178,026 MWh
NUMBER OF CUSTOMERS:	16,971

Sisak

SISAK OPERATIVE AREA	
PRODUCTION:	
heat	101,629 MWh
SALES:	
heat	61,507 MWh
NUMBER OF CUSTOMERS:	4,134

Osijek

OSIJEK OPERATIVE AREA	
PRODUCTION:	
heat	193,759 MWh
steam	150,662 t
SALES:	
heat	180,701 MWh
steam	117,594 t
NUMBER OF CUSTOMERS:	11,699

Financial Reports

INDEPENDENT AUDITOR'S REPORT

To the owner of the company HEP Toplinarstvo d.o.o.:

1. We have audited the accompanying annual financial statements of the company HEP Toplinarstvo d.o.o., Zagreb, Miševečka 15a, (hereinafter "the Company") for the year ended 31 December 2013, which comprise of the Balance Sheet / Statement of Financial Position as of that date; 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 explanations.

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 European Union 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 THE AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards of Auditing. 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 of material misstatements.
   An audit involves performing of procedures to obtain audit evidence about 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 these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

4. In our opinion, the enclosed financial statements, in all materially significant aspects, give a true and fair view of the financial position of the Company HEP Toplinarstvo d.o.o. as at 31 December 2013 and of the financial performance and cash flows of the Company for 2013 in accordance with the Croatian Accounting Act and International Financial Reporting Standards that are effective in the European Union.

EMPHASIS OF MATTER

5. We draw attention to the fact that the Company at 31 December 2013 has stated loss over the level of capital in the amount of HRK 1,791,241 thousand and that the short term liabilities exceed short term assets for the amount of HRK 1,778,220 thousand. According to Law on financial operations and the pre-bankruptcy agreement, the Company does not fulfill the prescribed conditions for adequacy of capital.
   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.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

7. The Company's Management is responsible for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Financial Statements").The financial information set out in the standard annual financial statements of the Company are in accordance with the information stated in the annual financial statements of the Company shown on pages 5 to 56 which are the subject of our opinion, as set out in the section Opinion, above.

OPINION ON ADJUSTMENT TO ANNUAL STATEMENT

8. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy Act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual financial statements of the Company. In our opinion, on the basis of the performed audit of the annual financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management on 9 April 2014, are in accordance with the financial information set out in the annual financial statements of the Company shown on pages 5 to 56 which were the object of our opinion, as set out in section Opinion.

In Zagreb, 25 April 2014

BDO Croatia d.o.o.
Zdenko Balen, member of the Management
Darko Karić, certified auditor

Audit d.o.o.
Marijana Pranjić, member of the Management
Dubravka Tršinar, certified auditor

HEP Toplinarstvo d.o.o., Statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
Income from thermal energy sale to the buyers outside the HEP Group	763,461	585,485
Income from sale of electric energy to eligible customers	11,134	10,571
Income from thermal energy and other income – related companies	4,899	3,954
Restaurant income	585	573
Other operating income	45,917	49,463
	825,996	**650,046**
Energy, material and spare parts expenses	(96,413)	(102,625)
Service expenses	(22,131)	(25,137)
Staff expenses	(49,946)	(50,171)
Depreciation and amortisation	(59,933)	(57,906)
Expense in respect of electricity generation and other expenses – related companies	(703,214)	(818,538)
Other operating expenses	(70,266)	(52,783)
	(1,001,903)	**(1,107,160)**
Loss from operations	**(175,907)**	**(457,114)**
Financial revenues	9,335	8,121
Financial expenses	(18,400)	(14,637)
Net financial loss	**(9,065)**	**(6,516)**
Loss before tax	**(184,972)**	**(463,630)**
Income tax	-	-
Loss for the current year	**(184,972)**	**(463,630)**

HEP Toplinarstvo d.o.o.,
Statement of comprehensive income
for the year ended 31 December 2013 (continued)

	2013	2012
	HRK'000	HRK'000
Loss for the current year	**(184,972)**	**(463,630)**
Other comprehensive income for the current year	-	-
Total comprehensive loss for the current year	**(184,972)**	**(463,630)**

Signed on behalf of the Company on 25 April 2014 by:
Robert Krklec
Director

HEP Toplinarstvo d.o.o., Statement of financial position

at 31 December 2013

ASSETS	31 December 2013	31 December 2012
	HRK'000	HRK'000
Property, plant and equipment	903,655	878,206
Assets under construction	69,988	80,960
Intangible assets	927	1,105
Receivables from the sale of flats	527	701
Advances for property, plant and equipment	528	641
Investment property	300	824
Receivables from related companies	-	156,352
Total non-current assets	**975,925**	**1,118,789**
Inventories	26,670	34,186
Trade receivables	191,727	166,722
Receivables from related companies	2,308	1,120
Other receivables	22,761	47,750
Current portion of long-term receivables	159	112
Cash and cash equivalents	9,824	4,512
Total current assets	**253,449**	**254,402**
TOTAL ASSETS	**1,229,374**	**1,373,191**

Signed on behalf of the Company on 25 April 2014 by:
Robert Krklec
Director

HEP Toplinarstvo d.o.o., Statement of financial position at 31 December 2013 (continued)

	31 December 2013	31 December 2012
	HRK'000	HRK'000
Share capital	20	20
Reserves	20	20
Accumulated losses	(1,791,241)	(1,606,269)
Total equity	**(1,791,201)**	**(1,606,229)**
Long-term liabilities to related companies	848,531	992,781
Other long-term liabilities	379	410
Long-term provisions	9,846	12,215
Deferred income	130,150	139,430
Total non-current liabilities	**988,906**	**1,144,836**
Trade payables	30,664	62,058
Liabilities to related companies	1,941,951	1,706,095
Current portion of long-term debt to related companies	51,535	57,906
Other short-term liabilities	7,519	8,525
Total current liabilities	**2,031,669**	**1,834,584**
TOTAL EQUITY AND LIABILITIES	**1,229,374**	**1,373,191**

Signed on behalf of the Company on 25 April 2014 by:
Robert Krklec
Director

HEP Plin d.o.o.

Nikola Liović, Director

HEP-Plin (HEP Gas) carries out two energy-related businesses of the gas sector: gas distribution and gas supply to customers pursuant to the Companies Act, Energy Act and Gas Market Act as well as a number of implementing regulations. Gas distribution is carried out according to regulated principles of public service provision. Gas supply is carried out pursuant to regulated principles of public service provision for tariff customers (households) and to other customers according to market principles – by individually negotiated mutual rights and obligations.

Gas distribution tasks were successfully carried out in 2013 having met expectations set by most customers and our concessionnaires – regional and local self-governments. The distribution network was maintained in a working and functional order. Permanent services conducted repairs on gas acceptance points in the shortest time possible. There was no major delays in gas supply due to gas network breakdowns. Special attention was continuously paid to environmental protection by preventing gas leakages into the atmosphere. The construction of the gas network in line with the concession agreements was continued. The portion of works will be conducted in 2014. Unfortunately, the connection of new customers onto the built network was not carried out according to expectations due to the economic and social crisis resulting in lower profitability of investments made into the construction of the gas network. All necessary modifications and reconstructions were carried out on the existing network.

The Croatian accession to EU on 1 July 2013 launched a more intensive harmonization of HEP Gas operations with new gas sector regulations, which were additionally and fully harmonized with EU guidelines, especially in gas regulation performed according to principles of public service provision. In line with the above, the new Gas Market Act was adopted in March (Official Gazzette 28/13 and 14/14) as well as several implementing regulations under HERA competence (Official Gazzete 158/13). These regulations bring large changes and the need for operational adjustment in terms of end customer relations in 2014.

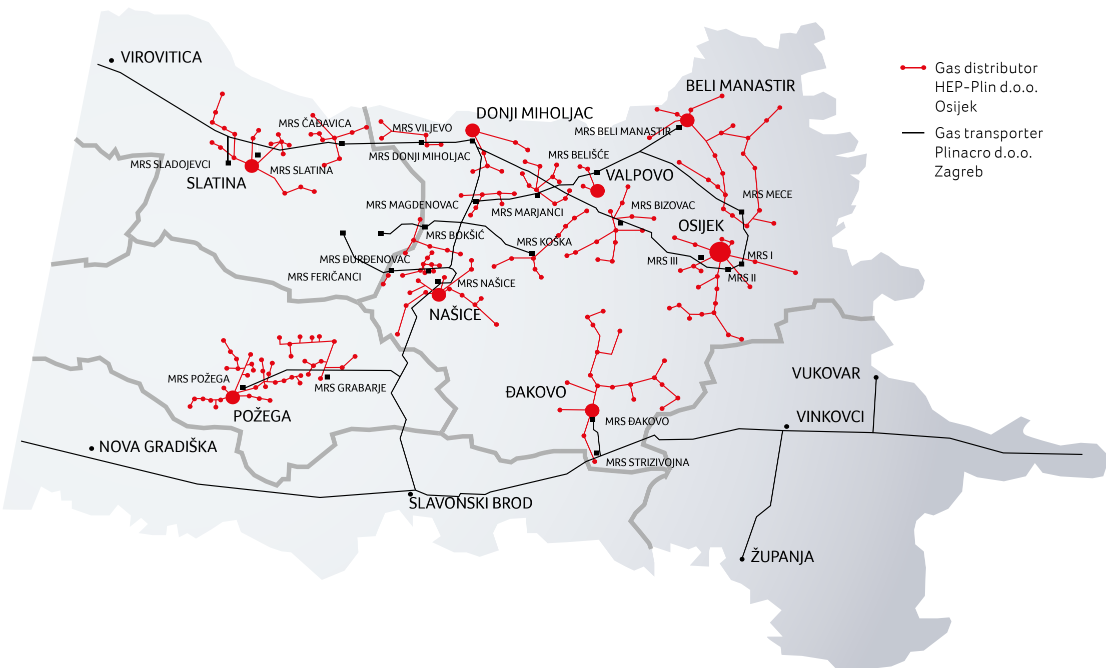
Until full gas market opening for household customers, a transitional period until 31 March 2017 was set. The market has been opened for other customers for a number of years although HEP Gas started facing market competition more seriously only in 2013.

In terms of distribution activities, there is no competition as long as the existing concession agreements are valid and the activity is performed according to contracted terms. Distributer's rights and obligations as the provider of the public service of gas distribution are prescribed by the State, while the regulation and the supervision is under the competence of the regulatory agency (HERA) setting network rules and regulating the price of the public service of gas distribution.

In terms of customer gas supply, the public service of residential supply is carried out by HEP Gas as an existing supplier. The supply in the commercial category is increasingly competition dominated.

Upon full gas market opening and end of price regulation for all eligible customers, we expect a permanent and uncertain market competition. On the other hand, gas market opening represents an opportunity for HEP Gas to expand its operations to some other areas either by obtaining concession rights or taking over some smaller neighbouring or even farther energy entities without a solid perspective of independent survival.

HEP-PLIN D.O.O. IN 2013



NUMBER OF CUSTOMERS

Supply area	No. of metering points	Customer category	No. of metering points
Osijek-Baranja County	62,073	TM1 – Residential	68,677
Požega-Slavonija County	8,049	TM2 – Commercial (up to 1 mn m³)	5,237
Virovitica-Podravina County	3,810	TM3 – Commercial (above 1 mn m³)	18
Total	**73,932**	**Total**	**73,932**

TM – tariff model

GAS NETWORK

	2012	2013	2013/2012 (%)
Gas lines – owned by HEP d.d. (km)	1,972	2,060	4.5
Gas lines – owned by other parties (km)	492	492	0.0
Gas lines – total	**2,464**	**2,552**	**3.6**
Reducing stations– DRS (number)	**52**	**52**	**0.0**
Odorizors (number)	**27**	**25**	**-7.4**

ENERGY BALANCE (10^3 m^3)

	2012	2013	2013/2012 (%)
Procurement (10^3 m^3)	140,185	130,593	-6.8
Sales (10^3 m^3)	133,794	124,834	-6.7

GAS SALE STRUCTURE (10^3 m^3)

Customer category	2012	2013	2013/2012
TM1 – Residential	80,588	74,797	-7.2
TM2 – Commercial (up to 1 mn m^3)	39,582	32,887	-16.9
TM3 – Commercial (above 1 mn m^3)	13,624	17,150	25.9
Total	**133,795**	**124,834**	**-6.7**

Financial Reports

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 2013, which comprise of the Balance sheet / Statement of Financial Position on 31 December 2013; the 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 .

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 European Union 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 Plin d.o.o. at 31 December 2013, the financial success and its cash flows for 2013 in accordance with the Accounting Act and International Financial Reporting Standards applicable in the European Union.

EMPHASIS OF MATTER

5. We draw attention to the fact that the Company in the Balance sheet / Statement of financial position at 31 December 2013 has the stated loss over the level of capital in the amount of HRK 9,308 thousand and that the short term liabilities exceed short term assets for the amount of HRK 16,802 thousand. According to Law on financial operations and the pre-bankruptcy agreement, the Company does not fulfill the prescribed conditions for adequacy of capital.
   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.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

7. The Company's Management is responsible for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Financial Statements").The financial information set out in the standard annual financial statements of the Company are in accordance with the information stated in the annual financial statements of the Company shown on pages 4 to 51 which are the subject of our opinion, as set out in the section Opinion.

OPINION ON ADJUSTMENT TO ANNUAL STATEMENT

8. The Company's Management is responsible for the preparation of the Annual statement of the Company. As a result of the provisions of article 17 of the Accountancy Act, we are obliged to express an opinion on adjustment of the Annual statement of the Company with the annual financial statements of the Company. In our opinion, on the basis of the performed audit of the annual financial statements of the Company and the comparison with the Annual statement of the Company for the year which ended 31 December 2013, the financial information set out in the Annual statement of the Company, approved for their issuance by the Company's Management on 14 April 2014, are in accordance with the financial information set out in the annual financial statements of the Company shown on pages 4 to 51 which were the object of our opinion, as set out in section Opinion.

In Zagreb, 25 April 2014

BDO Croatia d.o.o.
Zdenko Balen, member of the Management
Darko Karić, certified auditor

Audit d.o.o.
Marijana Pranjić, member of the Management
Dubravka Tršinar, certified auditor

HEP Plin d.o.o., Statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
Gas sales	406,167	395,956
Service revenues	2,522	4,983
Income from related companies	2,445	3,183
Other operating income	27,441	21,052
Total operating income	**438,575**	**425,174**
Cost of gas purchase and material used	(363,440)	(363,474)
Service expenses	(3,823)	(3,907)
Staff expenses	(18,502)	(18,315)
Depreciation and amortization	(12,152)	(11,745)
Expenses with related parties	(4,601)	(4,439)
Other operating expenses	(38,859)	(21,054)
Total operating expenses	**(441,377)**	**(422,934)**
Profit from operations	**(2,802)**	**2,240**
Financial income	379	301
Financial expenses	(992)	(714)
Net financial loss	**(613)**	**(413)**
Profit / (loss) from operations before tax	**(3,415)**	**1,827**
Income tax	1,095	(1,498)
Loss for the year	**(2,320)**	**329**

HEP Plin d.o.o.,
Statement of comprehensive income
for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
Profit / (loss) for the year	**(2,320)**	**329**
Other comprehensive income for the year		
Total comprehensive (loss) for the year	**(2,320)**	**329**

Signed on behalf of the Company on 25 April 2014 by:
Nikola Liović
Director

HEP Plin d.o.o., Balance sheet / Statement of financial position

at 31 December 2013

ASSETS	**31 December 2013**	**31 December 2012**
	HRK'000	HRK'000
Property, plant and equipment	205,018	197,290
Investment in progress and prepayments	3,964	3,749
Intangible assets	210	259
Prepayments for non-current assets	297	-
Trade receivables	-	4,038
Deferred tax assets	1,848	752
Total non-current assets	**211,337**	**206,088**
Inventories	1,305	1,525
Trade receivables	104,927	119,944
Receivables from related companies	494	589
Other current assets	6,126	716
Cash and cash equivalents	23,643	22,365
Total current assets	**136,495**	**145,139**
Total assets	**347,832**	**351,227**

Signed on behalf of the Company on 25 April 2014 by:
Nikola Liović
Director

HEP Plin d.o.o., Balance sheet / Statement of financial position at 31 December 2013 (continued)

SHAREHOLDERS' EQUITY AND LIABILITIES	31 December 2013	31 December 2012
	HRK '000	HRK '000
Share capital	20	20
Accumulated losses	(9,328)	(7,008)
Total equity	**(9,308)**	**(6,988)**
Long-term liabilities to related companies	114,776	103,193
Deferred income	85,593	90,133
Other non-current liabilities	3,474	3,493
Total non-current liabilities	**203,843**	**196,819**
Trade payables	58,582	77,937
Liabilities to related companies	81,827	71,743
Current portion of long-term liabilities to related Companies	7,502	7,070
Other current liabilities	5,386	4,646
Total current liabilities	**153,297**	**161,396**
TOTAL CAPITAL AND LIABILITIES	**347,832**	**351,227**

Signed on behalf of the Company on 25 April 2014 by:
Nikola Liović
Director

HEP Opskrba d.o.o.

Tina Jakaša, Director

The operation of HEP-Opskrba (HEP Supply) in 2013 was carried out in circumstances of unfavourable economic trends as well as an extremely aggresive emergence of alternative suppliers, which used a historically low electricity price for their further expansion among commercial customers as well as their entrance in the residential sector during midyear.

Despite a very competitive electricity supply market and five years after the liberalization commenced, HEP Supply continues to be a strong leader. More than 34,6000 customers in Croatia as well as our Slovenian customers recognized the additional value of our services and products. In 2013, HEP Supply started to supply electricity to two customers in Slovenia totalling in 1.4 GWh. Our target customers are public bidders. We are present on the market in synergy with HEP Trade Brežice. During 2013, we participated in 9 public tenders with total value of EUR 1.65mn. We also offer the Zelen product in view of the Green Public Procurement Ordinance from 2010, which set the implementation of environmental aspects in public tenders i.e. a minimum of 40% of procured energy must be renewable.

Faced with further slowdown of economic activity, we focused on increased receivables collection paralelly putting efforts in enhancing services provided to our customers. Supply security and reliability, offer of various tariff models in line with our customers' needs, most favourable due payment periods and terms, price competitiveness, high quality products and services represent just a portion of our offer, which has been continuously expanded and enhanced.

In line with the above said, we introduced a new product last year called Green Energy (*ZelEn*), electricity from certified HEP hydropower plants. During first half of the year, this product was purchased by 17 customers with total contracted annual consumption of 206,540 MWh. Thus collected funds of HRK 129,000 will be entirely invested into construction projects of renewable source or energy efficiency.

Another new product called *Let's team up* proved to be very successful by providing customers with the possibility of joint association for achieving more favourable electricity supply terms. During last year, 44 contracts were concluded in such a manner, encompassing up to 20 companies. Aiming at further enhancement of customer relation, we organized annual regional meetings with our customers in Zagreb, Split, Osijek and Opatija gathering more than 250 of our largest customers.

The end of the year was marked by yet another new product for residential sector called *Hepi*. In just over a month, more than 7,385 requests for entering into the residential electricity supply contracts were submitted. Almost half was concluded. This is an innovative package of electricity supply services providing citizens with the possibility of settling their bills according to their real consumption in the following month. Depending on contract duration, which cannot last more than three years, Hepi ensures 4.5 to 5.5 percent lower price compared to the universal service offered by HEP DSO. With an access to one's real consumption and simple cost management, Hepi ensures additional discounts as well (up to 8.3 percent savings) as well as awards for self electricity readings and online payments.

We continued with our work on the ELEN development project based on using electricity produced from renewable sources as fuel for electric vehicles. HEP wishes to connect entire Croatia, join the European energy highway and contribute to reduced CO_2 emissions and environmental protection. Within these projects and in the cooperation with the Croatian Design Association, the conceptual design was selected for the layout of the electric vehicle charging stations. The public tender for the Electric Vehicle Charging Station System in the garage of the HEP's new office building was also conducted specifying eight parking places solely for electric vehicles. The cooperation with the city of Koprivnica was also established within which the city intends to build five charging stations as part of the Civitas Dyn@mo project.
Our effort was recognized by numerous awards, including GREENOVATION 2013 for the most quality projects and solution in *green* economy and the Zagreb Mayor's Award for our ELEN development project.

NUMBER OF CUSTOMERS

Customer category		2012	2013	% 2013/2012
Number of customers		**38,458**	**34,630**	**-9.9**
Number of metering points per customer		**2.7**	**2.6**	**-3.7**
Electricity sale per customer	**MWh/per custome**	**212**	**211**	**-0.5**
	HRK/per customer	**83,358**	**83,526**	**0.2**

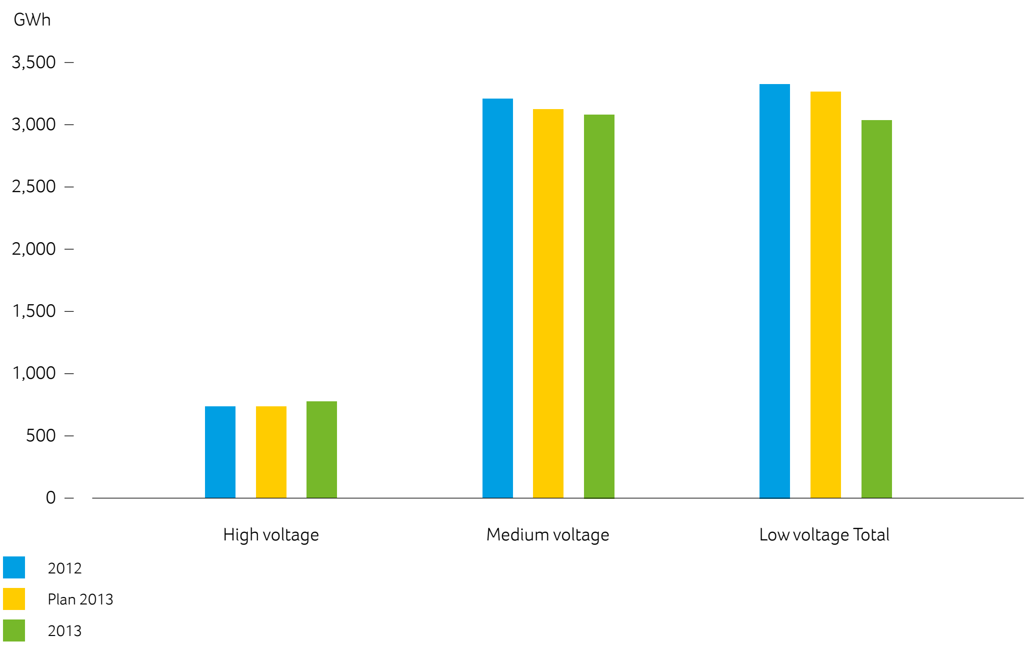
NUMBER OF METERING POINTS

Customer category	2012	2013	% 2013/2012
High voltage	**40**	**47**	**17.5%**
Medium volatge	**1,701**	**1,365**	**-19.8%**
Low voltage – commercial	91,725	79,614	-13.2%
Low voltage – public lighting	12,096	10,175	-15.9%
Low voltage – residential	79	17	-78.5%
Total low voltage	**103,900**	**89,806**	**-13.6%**
Total	**105,641**	**91,218**	**-13.7%**

ELECTRICITY SALE IN GWH PER CONSUMPTION CATEGORIES (VOLTAGE LEVELS)

Customer category	2012	2013	% 2013/2012
High voltage	**737**	**776**	**5.3%**
Medium voltage	**3,207**	**3,080**	**-4.0%**
Low voltage – commercial	3,102	2,830	-8.8%
Low voltage – public lighting	220	203	-7.6%
Low voltage – residential	3,0	0,7	-75.2%
Total low voltage	**3,325**	**3,034**	**-8.8%**
Total eligible customers in Croatia	**7,269**	**6,889**	**-5.2%**
Foreign eligible customers	878	434	-50.6%
Total eligible customers	**8,147**	**7,323**	**-10.1%**

ELECTRICITY SALE PER VOLTAGE LEVELS



Financial statements

INDEPENDENT AUDITOR'S REPORT

To the owner of the company HEP Opskrba d.o.o., Zagreb:

1. We have audited the accompanying annual financial statements of the company HEP Opskrba d.o.o., Zagreb (hereinafter "the Company") for the year ended 31 December 2013, which comprise of the Balance Sheet/Statement of Financial Position as of that date; 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 explanations.

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 European Union 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 THE AUDITOR

3. Our responsibility is to express an opinion on the enclosed Financial Statements based on the audit performed. We conducted our audit in accordance with International Standards of Auditing. 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 of 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 these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 expressing our opinion.

OPINION

4. In our opinion, the enclosed financial statements, in all significant aspects, give a true and fair view of financial position of the company HEP Opskrba d.o.o. at 31 December 2013, and its financial performance and the cash flows of the Company for 2013 in accordance with the Accounting Act and International Financial Reporting Standards effective in the European Union.

OPINION ON THE ADJUSTMENT TO OTHER LEGAL AND REGULATORY REQUIREMENTS

5. The Company's Management is responsible for the preparation of the annual financial statements of the Company for the year ended 31 December 2013 in prescribed form on the basis of the Regulation on the structure and content of annual financial statements (Official gazette No 38/08,12/09,130/10) and in accordance with the other provisions which regulate the operations of the Company ("Standard Annual Financial Statements").The financial information set out in the standard annual financial statements of the Company are in accordance with the information stated in the annual financial statements of the Company shown on pages 4 to 45 which are the subject of our opinion, as set out in the section Opinion, above.

In Zagreb, 25 April 2014

BDO Croatia d.o.o.
Zdenko Balen, member of the Management
Darko Karić, certified auditor

Audit d.o.o.
Marijana Pranjić, member of the Management
Dubravka Tršinar, certified auditor

HEP Opskrba d.o.o.,
Statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
	HRK'000	HRK'000
Income from related companies	213,910	153,653
Other operating income	12,821	398
	226,731	**154,051**
Purchase of el. energy out of renewable sources' system	(143,893)	(89,896)
Material and spare parts expenses	(577)	(425)
Service expenses	(2,906)	(2,625)
Staff expenses	(10,917)	(11,048)
Depreciation and amortization	(387)	(420)
Costs based on energy balance	(43,236)	(38,122)
Administrative expenses – related companies	(2,835)	(2,159)
Other operating expenses	(21,029)	(8,443)
	(225,780)	**(153,138)**
Profit from operations	**951**	**913**
Financial revenues	475	775
Financial expenses	(236)	(1,266)
Net financial gains	**239**	**(491)**
Profit before tax	**1,190**	**422**
Income tax	(266)	(98)
Profit for the year	**924**	**324**

HEP Opskrba d.o.o.,
Statement of comprehensive income
for the year ended 31 December 2013 (continued)

	2013	2012
	HRK'000	HRK'000
Profit for the current year	**924**	**324**
Other comprehensive income for the current year	-	-
Total comprehensive income for the current year	**924**	**324**

Signed on behalf of the Company on 25 April 2014 by:
Tina Jakaša
Director

HEP Opskrba d.o.o., Balance Sheet / Statement of financial position

at 31 December 2013

ASSETS	Notes	31 December 2013	31 December 2012
		HRK'000	HRK'000
Intangible assets	8	240	313
Property, plant and equipment	8	1,659	1,108
Long-term loan receivables	9	129	129
Deferred tax assets	7	200	210
Total non-current assets		2,228	1,760
Trade receivables	10	456,678	532,612
Receivables from related companies	16	45,182	37,522
Inventory of real estate's acquired by pre-bankruptcy settlement		4,904	-
Other short-term asset	11	20,960	17,167
Cash and cash equivalents		11,664	18,155
Total current assets		539,388	605,456
TOTAL ASSETS		541,616	607,216
EQUITY AND LIABILITIES			
Share capital		20	20
Retained earnings		924	324
Total equity	12	944	344
Long-term liabilities to related companies	16	890	1,079
Other long-term liabilities	13	1,002	937
Total non-current liabilities		1,892	2,016
Trade payables	14	17,144	26,852
Liabilities to related companies	16	485,763	565,082
Other current liabilities	15	35,873	12,922
Total current liabilities		538,780	604,856
TOTAL EQUITY AND LIABILITIES		541,616	607,216

Signed on behalf of the Company on 25 April 2014 by:
Tina Jakaša
Director

8

Reports by Other HEP Group Companies

HEP Trgovina d.o.o.

Director
Ante Ćurić

HEP-Trgovina d.o.o. (HEP Trade) has operated as a company within HEP Group since 2007. During 2013, 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, thus contributing to the achievement of the HEP Group mission. In discharging its day-to-day work, it was necessary for us to adjust to the changing conditions in the electricity market, oscillations in electricity consumption, changing hydrology and 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 2013, HEP Trgovina continued its activities relating to operation of foreign companies in the neighbouring countries focusing on increasing profits by achieving lower prices in electricity buying and selling. The Slovenian company participated in the BSP Exchange (Slovenian Power Exchange) as well as auctions of cross-border transmission capacity at the Slovenian/Austrian border, organized by the CAO (Central Allocation Office). It provided HEP with the possibility of buying and selling electricity in the liquid market. During 2013, the Hungarian company took an active part in the work of HUPX (Hungarian Power Exchange), while new daughter companies in Serbia and Kosovo launched their business operations. The operation of foreign branch officies intensified in 2013 resulting in achieved trading volume of 2,456 GWh, 2.3 times higher compared to 2012.
In 2013, the employees participated in national and international conferences for professional improvement, kept pace with trends in the electricity market, thus contributing to achieving the HEP Group vision. The company continued to actively participate in the work of EFET (European Federation of Energy Traders).
Total electricity consumption in Croatia was 17,296 GWh, which is a 1.3% less than in 2012, but also a 0.8% increase compared to consumption planned in the energy balance. The share of HEP tariff and eligible customers in the consumption structure is 96 percent. The consumption of HEP Group customers accounted for 15,924 GWh, while the consumption of customers outside HEP Group was 678 GWh. In 2013, the market share of suppliers other than HEP Group was 4.1 percent, which is a 2.8 percent more compared to 2012.
Due to extremely favourable hydrology, hydro generation recorded in 2013 was 8,054 GWh i.e. 64 percent more than planned. Therefore, thermal generation participated with 48 percent in covering total consumption. Recorded energy value of water flows amounted to 7,893 GWh, which is 61 percent more than planned.
Thermal generation was 24 percent lower than planned due to optimizing generation costs. The record-low fuel oil consumption of 47,196 tonnes was recorded, which is by 43.5 percent less than planned, while the gas consumption amounted to 599.2 mn m^3, 22 percent less than planned.
In light of the above mentioned energy circumstances, the electricity import amounted to 3,649 GWh i.e. 20.8% less than planned, while the export volume was higher than planned by 134.7 percent, primarily due to exceptionally favourable hydrology.
During 2013, the trading volume recorded was 5,996 GWh, which is by 6.9 percent more than planned.

ACHIEVED IN 2013 – ENERGY DATA

				GWh	
	2012	**2013**	2013/2012 (%)	**2013 (plan)**	2013/2013 (%) (plan)
Electricity consumption Croatia	**17,526**	**17,296**	**-1.3**	**17,160**	**0.8**
Electricity consumption HEP	**17,304**	**16,618**	**-4.0**	**16,921**	**-1.8**
Hydro generation	4,773	8,054	68.8	4,991	64.0
Thermal generation	3,327	2,629	-21.0	3,457	-24.0
NPP Krško	2,622	2,518	-4.0	2,655	-5.2
TPP Plomin B	1,372	1,448	5.5	1,538	-5.9
Import	6,387	3,649	-42.9	4,610	-20.8
Export	-1,602	-2,347	46.5	-1,000	134.7
Producers outside HEP Group	12	18	54.1	28	-35.7
Eligible producers	414	649	56.8	722	-10.1
Total available electricity HEP	**17,304**	**16,618**	**-4.0**	**16,921**	**-1.8**
Total available electricity Croatia	**17,526**	**17,296**	**-1.3**	**17,160**	**0.8**

STRUCTURE OF ELECTRICITY CONSUMPTION IN 2013 (GWh; %)

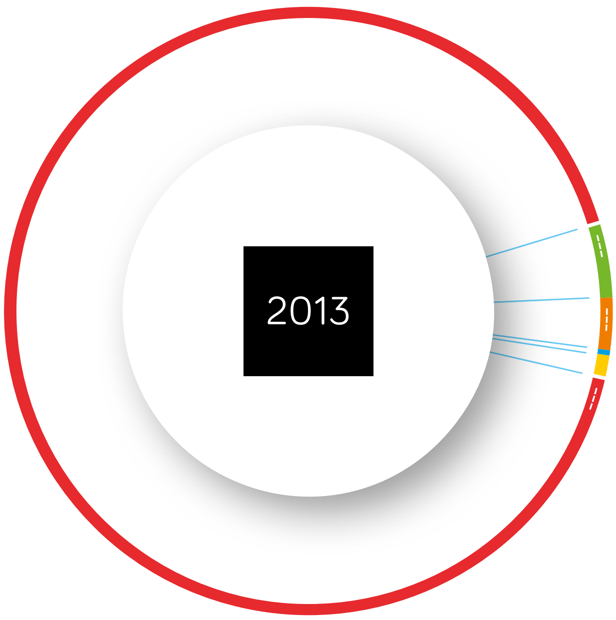
HEP customers; 15,924 GWh
92.1 %

Customers outside HEP; 678 GWh
3.9 %

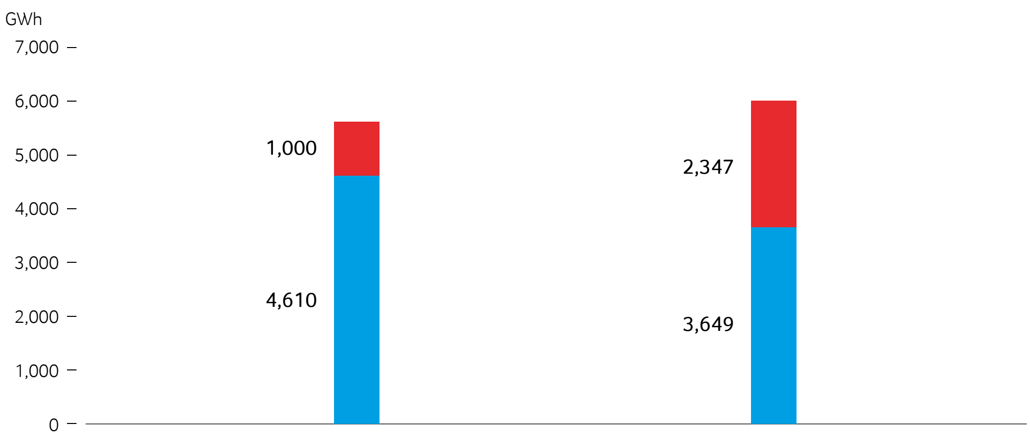
Transmission losses; 485 GWh
2.8 %

Other consumption; 59 GWh
0.3 %

Pumping energy; 150 GWh
0.9 %



HEP d.d. TRADING VOLUME



export
import

volume: plan 2013: 5,610 GWh
export: 17.8%
import: 82.2%

volume: actual 2013: 5,996 GWh
export: 39.1%
import: 60.9%

HEP ESCO d.o.o.

Director
Vlasta Zanki

HEP ESCO is a HEP Group company in charge of developing, managing and funding energy efficiency and RES projects integrated in buildings according to the ESCO (Energy Service Company) model, under which all project investments are returned through energy savings after the investment has been completed. During ten years of its operation and more than 60 successfully conducted projects in building design and construction, public lighting and energy supply systems, HEP ESCO has become recognizable as a consulting company for providing energy services in public and private sectors.
In 2013, preparations for numerous market-based projects started. HEP ESCO and its potential clients contracted a number of consultant services including energy audits, energy certification and development of detailed investment studies as well as introduction of a systematic energy management and energy consumption measurements. HEP ESCO also developed and offered specialized education and consulting services in EU funded project preparation.
In 2013, HEP ESCO prepared for HEP Group and in the first quarter 2014 carried out the project of nine 207 kW photovoltaic integrated power plants on building roofs owned by HEP. As part of the EU Sunshine Project, ten energy consumption remote reading systems on nine HEP buildings and one public lighting system were installed.
Apart from conducting its esco projects, HEP ESCO expanded its energy services to a number of consulting services offered to its clients. During 2013, HEP ESCO offered building certification services, energy audits of buildings, development of detailed investment studies, introduction of energy management, energy consumption optimization as well as system management and introduction of energy and water consumption remote readings. During the observed period, the following projects were completed: construction of the integrated photovoltaic power plant on the ADRIA Hotel project and the reconstruction of lighting and installation of LED lights in ELKA's plants. With regard to energy certifications in 2013, a total of 17,460,44 m^2 net usable building surface was certified on a total of 16 buildings and two public lighting systems.
During 2013, HEP ESCO developed several new services. The ESCO Monitor is a computerised business system for systematic energy management providing the monitoring of building's energy features and systems, public lighting installations, industrial plants and RES systems. The ESCO Monitor was envisaged as a computerised support to ESCO projects implementation as well as to introduction of new services such as energy consumption optimization within the systematic energy management service. The ESCO Monitor will ensure not only the above mentioned energy effect based contracts but also the introduction of new HEP ESCO services through energy consumption optimization agreements.
During 2013, HEP ESCO and the Canadian Econoler developed two specialized courses in energy efficiency and RES to be offered on the Croatian market: Certified Expert for the use of the RETScreen software and Certified Expert for savings measuring and verification.

New energy services ensure a permanent promotion of ESCO services in direct contact with potential clients and partners on the market.

In 2013, HEP ESCO initiated activities as a partner on three EU funded projects. All three projects build on HEP ESCO experience and knowledge required for their execution as well as EU financial strategic determinants and objectives.

Ten year long business activities of HEP ESCO have confirmed 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.

APO d.o.o., usluge zaštite okoliša

Mirjana-Čerškov Klika, Director

APO d.o.o. usluge zaštite okoliša (APO Environmental Services) is a consulting and engineering company specializing in environmental protection. During 2013, APO initiated the Plan of Restructuring. Its regular operations were exposed to negative operating trends, including the economic crisis and the recession which was particularly visible in insufficient funds committed to activities provided by APO, reduced price of services to a level of unprofitability and a continuous trend of a reduced number of services provided within HEP Group. 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 (environmental protection – reports, studies, assessments, monitoring); Nature protection – nature protection programmes, management plans, action plans, reports on the state of the environment, Waste management– waste inventory, mediation, collection; 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 programme 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 materials with natural elevated radioactivity management.

APO's employees (13 out of 20) have been authorized for performing the following groups of work tasks:

- Development of the strategy, plan or programme significant environmental impact (strategic studies)
- Development of environmental impact study, including accompanying documentation;
- Development of documentation for issuing environmental permit;
- Development of environmental protection programmes, Development of environmental position reports, Development of Security Reports;
- Development of environmental papers regarding activities not within the prescribed obligation of environmental impact assessment;
- Development of recovery papers, programmes and recovery reports;
- Evaluation of environmental damage including threats;
- Development of documentation for obtaining the 'Environment friendly' protection sign;
- Development of the chapter and appropriate assessment study;
- Preparation and development of documentation for the procedure of determining the prevailing public interest with the proposal for compensation;

- Development of risk assessment studies regarding wild species introduction, re-introduction and breeding;
- Development, verification and analysis of monitoring the status of individual environmental tasks and groups of work tasks for the needs of the Environmental Pollution Registry;
- Development of separate papers, reports, budgets and projections by environmental items; development of reports on greenhouse and other pollutant emission budgets; reports on the implementation of policies and measures, development and verification of reports and separate reports on environmental emissions.

APO kept in touch with all new requirements set by legislative regulations in 2013. 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, as an increasing demand in light of all disposal sites obligation of improvement until late 2018.

During 2013, APO developed 29 new documents for various employers. This primarily includes assessments of environmental impact assessment studies, 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 for determining integrated environmental requirements, technical and technological solutions and alike.

Total waste volume for conducted mediation in waste disposal in 2013 was 40 tonnes.

In 2013, the existing clients including HAC, Hrvatske vode, Gavrilović, cities of Metković and Zaprešić, Usluge Poreč, Viševica, Sladorana, Sugar Factory Osijek, Pliva, Hospira, Hidroplan, INA, Environmental Protection and Energy Efficiency Fund, Fund for financing the decommissioning of Krško NPP and disposal of Krško NPP radioactive waste and spent nuclear fuel, were expanded to include municipalities of Sućuraj, Čačinci and Vrbik, Port Authority of Šibenik-Knin County, Water Supply and Drainage of Zagreb County etc. Our foreign clients included COWI-IPF, Ramboll and LENOCI Environmental Consulting.

HEP Obnovljivi izvori energije d.o.o.

Hubert Bašić, director

HEP-Obnovljivi izvori energije d.o.o. (Renewable Energy Sorces) is a company specialized in organization and operational management of construction, management, operation and maintenance of RES facilities for electricity and heat energy generation for the purpose of achieving sustainable development and meeting HEP Group's environmental protection objectives. Organization and business management of RES project research, development and preparation is carried out within the company as well. HEP RES participates in the energy market as an investor into RES fired plants and as such equally competes with other market investors.

During 2013, HEP RES continued activities of developing own windpower sites, particularly the measuring campaign by using three metering poles for measuring wind characteristics of 100 meter in height funded by the KfW loan. Based on wind studies and conducted wind characteristics measuring campaigns on several sites in coastal, southern and continental Croatia, some sites have demonstrated a good quality potential and their development will be continued. The activities on incorporating sites into county physical plans continued.

Activities relating to European FP7 project of Concerto Hvar photovoltaic power plant 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. The project-related responsibility of HEP RES is to develop a demonstration 2x250 kW solar photovoltaic power plant. As the Paper on optimal technical solution for connecting the plant onto the network on several sites has indicated certain problems, new potential locations for the construction of the photovoltaic power plant on the island of Hvar have been tested.

In the second half 2013, following the definition of a technically feasible potential for installing solar plants on facilities and surfaces managed by HEP, the preproject documentation development and feasibility studies for most solar power plants on HEP's roof surfaces started. This documentation will serve as a basis for making business decisions on the construction of photovoltaic power plants in the next period depending on set national quotas for solar power plant grid connection.

In late 2013, activities for defining a technically feasible potential for installing small hydro units in several existing water-based facilities were initiated i.e. the reconstruction of several abandoned small hydropower plants. Basic technical solutions and underlying documentation for incorporating the project into physical plans were launched.

In early 2013, the research into new possibilities of developing windparks in Croatia was initiated. It includes the cooperation with potential partners on joint development of windpark projects by joint ventures. One form of such cooperation is the acquisition of shares in project holder companies in various development stages. As the construction of new wind capacities in Croatia is limited, HEP's short-term business interest in this segment is primarily in taking over developing projects, projects under construction or already built capacities. The announcement published in July 2013 invited all potential partners to express their interest in joint development of windpark projects within the HOPS quota. The second open-end announcement for the expression of interest was published in September. During 2013, a certain number of Expressed Interests was received. Subsequently, during late 2013, the organization of initial activities for the preparation of potential acquisitions started.

In the field of environmental protection, HEP RES's plan for the implementation of renewable energy sources was incorporated in the HEP Group's Plan for reducing CO_2 emissions.

The work on the development of new competencies and raising awareness of the role of renewable energy sources within and outside HEP Group continued, in professional communities and among general public. This is why HEP RES was frequently present in HEP Group's 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 continued in accordance with the company's mission and vision as well as further development of quality projects and the participation in EU projects which have opened the possibilities for further advances and expansion and for better positioning of HEP RES on the RES market.

Program Sava d.o.o.*

Leo Penović**
Director

Program Sava d.o.o. (Sava Programme Ltd) is a company in charge of development and management of the multi-purpose programme of protection, regulation and use of the Sava river and its river banks from the border with Slovenia to the city of Sisak (hereinunder the Programme), also known as Zagreb on the Sava River. During 2013, a new conceptual design was developed envisaging the evacuation of large water flows away from the city of Zagreb through the reconstructed Sava-Odra flood-relief canal, which connects to the Sava river near Prevlaka.
The use of river energy potential was envisaged through the construction of the multi-purpose hydro-technical system Zaprešić (Podsused), HPP Prečko with the Lučko floodgate for distributing large waters, HPP Sisak as well as four water steps through Zagreb which basic purpose is to stabilize the level of subterranean waters. Total installed capacity of all mentioned facilities is 150 MW, with an average annual generation of 636 GWh.
The new concept stabilizes the level of subterranean waters and increases the flood protection level along the entire area from the Slovenian border to Sisak. This will resolve the issue of water supply to Zagreb area long-term and additionally increase the flood protection level along the entire territory. The system envisages the second category navigability to the Slovenian border as all facilities will be equipped by a ship lock as well as a fourth category flood-relief canal to Velika Gorica. In light of a different distribution of large waters, Zagreb embankments would lose their flood protection function thus freeing the 350 hectare surface of developing potential in the city itself.
On August 1 2013, the Croatian Government adopted the conclusion on the method of Programme preparation. It appointed the daughter company of HEP Group – Sava Programme Ltd a leader of the Programme preparation with the Ministry of Economy, Ministry of Regional Development and EU Funds, Ministry of Foreign and European Affairs, Ministry of Environmental Protection, Ministry of Agriculture, Ministry of Construction and Physical Planning, Ministry of Maritime Affairs, Transport and Infrastructure, CEI, the city of Zagreb, Zagreb County, Sisak-Moslavina County, Croatian Waters and HEP as stakeholders. Under the Conclusion adopted by the Croatian Government, stakeholders signed the cooperation agreement and agreed Programme's development joint funding.
During the year, work activities connected with the Feasibility Study as well as the Strategic Environmental Impact Assessment started. For this purpose Sava Programme Ltd. obtained EU fund technical aid in the amount of EUR 1.5 million. These studies are developed by the international consultancy consortium of MottMacdonald–WYG-Atkins, selected by EU. These studies will compare the potentials of the new 2013 concept with the one developed back in 2003 as well as the concept of minimum water resource

* As of March 2013, HEP-Development of Multi-Purpose Real Estate Projects d.o.o. was renamed into Sava Programme Ltd. in line with the obligations accepted by the Stakeholders' Agreement regarding Programme prepartion.
** Until 12 June 2014

changes for selecting the alternative most beneficial one for the observed area. Consultants will developed a detailed Programme implementation plan for the selected alternative including the financial plan of maximizing the share of EU funds. The study is expected to be completed in the first half 2015.
Harmonization of the water regime was agreed with the representatives of Slovenian HESS (hydropower plants on the lower Sava river). Joint application for incorporating the project among priorities of the Danube strategy was submitted. In late 2013, the Zagreb on the Sava programme was listed in its energy part.
In view of the management model which has been insisting on professional and scientific cerification from its start as well as public engagement, the new concept has been presented on thirty professional gatherings, seminars and conferences. The activities of the Professional Council continued including experts, academic public and non-governmental representatives having the task to systematically monitor programme's development as well as conduct a double-line communication with professional public. The web page www.zagrebnasavi.hr was also launched to make the entire process of the Programme development available to wider public.
Already started activities will continue in the following period as well as the conduct of further research required for the Programme's development. The Programme's viability will be tested by the Hydropower Sustainability Assessment Protocol methodology to provide it with solid and sustainable foundations from the very start.

HEP Odmor i rekreacija d.o.o.

Director
Karolina Juzbašić

HEP – Odmor i rekreacija d.o.o. (HEP Leisure and Recreation) was established to provide vacation and recreation services to HEP Group employees. The company ceased conducting the latter business activity – recreation – under the decision adopted by the Management Board of HEP d.d. from 29 November 2012. The Company intends to conduct its operations in a market-wise sustainable manner by using property in an optimal manner focusing on better utilization of its portfolio market potential and increased organizational and management efficiency. Keeping the function of tourism subsidies for HEP Group employees also represents one of our clear objectives along with a potential expansion onto the commercial market. In 2012, there were vacation houses available to HEP Group employees on 12 locations along the Adriatic Coast.

These units are used only by HEP Group employees based on the results of the competition for the use of vacation houses. External guests can use the vacation house located at Biograd 2 hostel site. The competition for the use of vacation houses is valid 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 a year-round operation. During 2012, there were 22,697 overnight stays.

In 2013, the Company set the task of launching an immediate further facility reconstruction aimed at engaging as many categorized facilities as possible, which vacancies will be commercially offered on the market (in the period not used by HEP employees).

Furthermore, investments into facilities, which were long neglected in terms of insufficient investments into adaptation and redecoration, also represent an important task.

With this in mind, the most important achievements in 2013 include ensuring general minimal technical conditions, categorization and commercial offer of accommodation units in Biograd hostel and commenced development and equipping of two-, three- or four-star standard facilities (construction works and adaptation in Karlobag, Jadrija, Biograd 1, Preko 1 vacation facilities).

An important part of the activities conducted regarded the resolution of property legal issues pursuant to the Construction Act. The Company's web page is under development.

Ustanova HEP Nastavno obrazovni centar

Head
Zdenko Miletić

HEP – Nastavno obrazovni centar (HEP Education and Training Center) in Velika is primarily intended for education and professional improvement of HEP Group employees in terms of live work technology as well as for other technologies i.e. education in line with HEP Group's requirements. This has established HEP-NOC as a business school of HEP. Having been approved and registered as an institution, the Center has also been granted public access. The verification of training and professional improvement programmes met all legal preconditions for acquiring new qualifications and knowledge. 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. Compared to 2012, which was assessed as a good business year, due to complex economic circumstances, the training scope and volume was significantly reduced which directly affected the Center's operations.

HEP-NOC offers 16 verified educational programmes. During 2013, andragogue schooling attendance continued as well as participation in professional gatherings of EDZ, CROLAb etc.

In 2013, HEP NOC continued its work as a full member of the Croatian Association of Laboratories and met all criteria in the process of accreditation by the Croatian Accreditation Agency. The control-testing laboratory of HEP NOC expanded its scope of work in periodical testings (control) of insulation tool and equipment used by HEP-DSO to users outside of HEP Group.

Apart from its laboratory cooperation with other electrical enginnering laboratories, HEP NOC continues its excellent cooperation with the Faculty of Electrical Engineering from Osijek and the Faculty of Electrical Engineering and Computing from Zagreb. Significant cooperation was established with private companies which core activity includes the construction and maintenance of electric power facilities and plants.

Plant modernization and collection of teachning means included the connection and testing of laid grounding conductors, further upgrade of the control-testing laboratory by setting a new electromagnetic protective screen, development of new testing electrodes, customization of the cabinet for executing practical work on SF6 facilities.

In 2013, HEP NOC recorded satisfactory educational and accommodation occupancy. This was primarily due to HEP Group employees who attended educational programmes, one- and two-day seminars. Most educational programmes were carried out by HEP NOC employees. Specialized seminars and work groups were served by outsourced associates-lecturers, primarily HEP DSO's employees.

In 2013, the control-testing laboratory received, reviewed and tested 859 units of specialized insulation tools and personal protective gear. In terms of tool testing, HEP NOC established a successful cooperation with 14 distribution areas of HEP DSO.

Slowed down general economic activities and financial capabilities of a large number of companies resulted in reducing investments for life-long education. In such circumstances, it is very difficult to attract a sufficient number of participants and form groups in line with the existing programmes. Companies which had successfully invested into education did not have sufficient funds to continue the cycle including the procurement of required materials and tools. Therefore, the specific characteristic of the business 2013 was HEP NOC focus on its activity towards companies from its neughbouring area, primarily Slovenia.

Positive trend is expected in 2014 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
TELEPHONE: ++385 1/63 22 111
www.hep.hr
OFFICE OF MANAGEMENT BOARD
TELEPHONE: ++385 1/ 61 71 294
MARKETING AND CORPORATE
COMMUNICATIONS DEPARTMENT
TELEPHONE: ++385 1/ 63 22 202
javnost@hep.hr

HEP PROIZVODNJA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 111

HEP OPERATOR DISTRIBUCIJSKOG
SUSTAVA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 111

HEP OPSKRBA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 318
opskrba@hep.hr

HEP TRGOVINA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 111

HEP TOPLINARSTVO d.o.o.
10000 Zagreb, Miševečka 15 a
TELEPHONE: ++385 1/ 60 09 555
toplinarstvo@hep.hr

HEP PLIN d.o.o.
31000 Osijek, Cara Hadrijana 7
TELEPHONE: ++385 31/ 24 48 88

HEP OPSKRBA PLINOM d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 111

HEP ESCO d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/63 22 302
infoesco@hep.hr

HEP OBNOVLJIVI IZVORI ENERGIJE d.o.o.
10 000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/ 63 22 111
hep-oie@hep.hr

APO d.o.o., USLUGE ZAŠTITE OKOLIŠA
10000 Zagreb, Savska cesta 41/IV
TELEPHONE: ++385 1/ 63 11 999
apo@apo.hr

HEP NASTAVNO OBRAZOVNI
CENTAR
34330 Velika, Luke Ibrišimovića 9
TELEPHONE: ++385 34/313-037

HEP ODMOR I REKREACIJA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/38 70 801

PROGRAM SAVA d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/63 22 111
info@zagrebnasavi.hr

HEP TELEKOMUNIKACIJE d.o.o.
10000 Zagreb, Ulica grada Vukovara 37
TELEPHONE: ++385 1/63 22 111

C.S. BUŠKO BLATO d.o.o.
80101 Livno, Podgradina bb
Bosna i Hercegovina
TELEPHONE: ++387 34/ 245 148

TE PLOMIN d.o.o.
52234 Plomin, Plomin luka bb
TELEPHONE: ++385 52/ 86 62 44

PLOMIN HOLDING d.o.o.
52234 Plomin, Plomin b.b.
TELEPHONE: ++385 52/ 86 33 47
plomin-holding@hep.hr

NOTES

TIMEFRAME OF THE REPORT
This Annual Report gives an overview of the business year 2013 – from January 1 to December 31, 2013
Data on the events important for HEP Group operations occurring after December 31 are also given, but no later than June 30, 2014

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

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