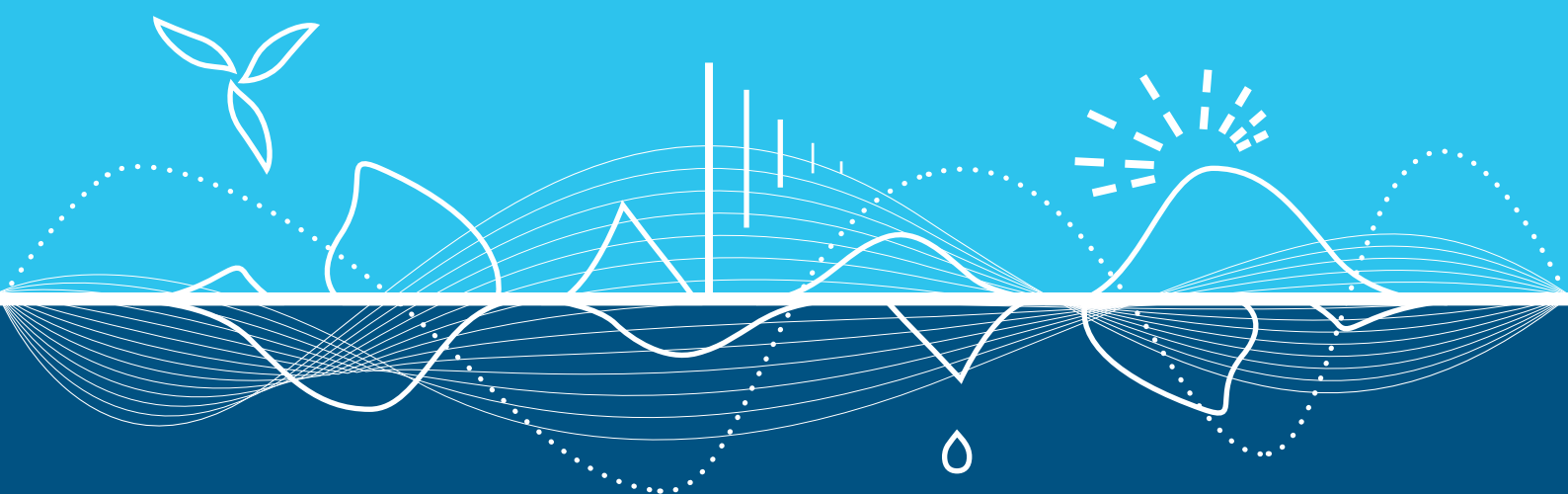


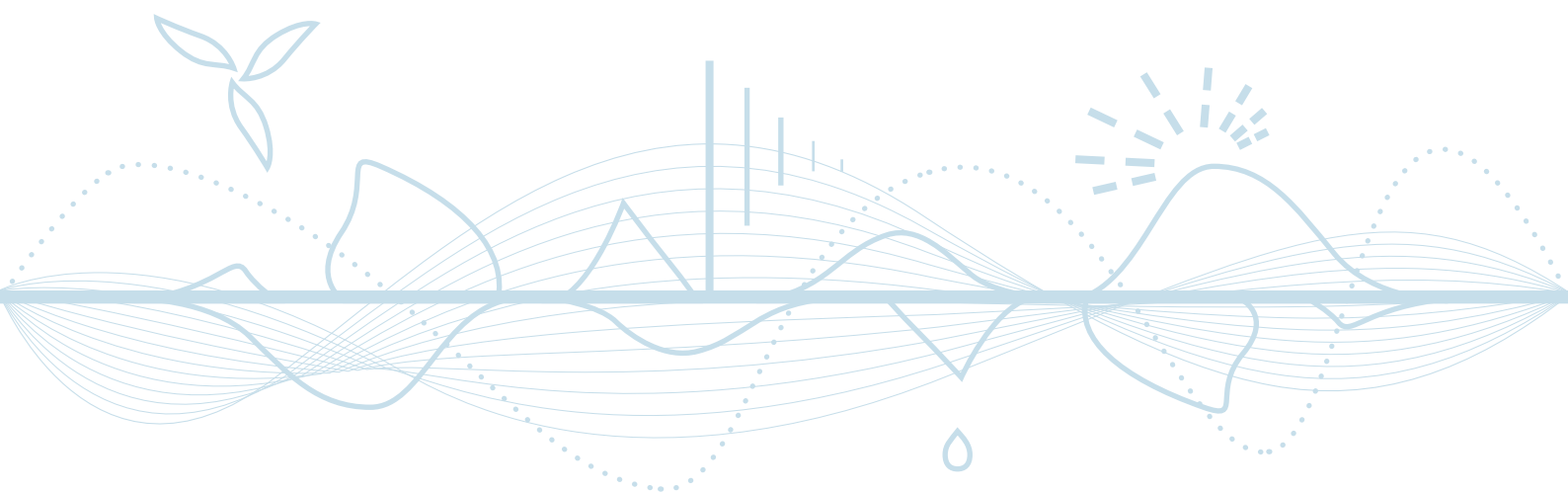
# Annual Report

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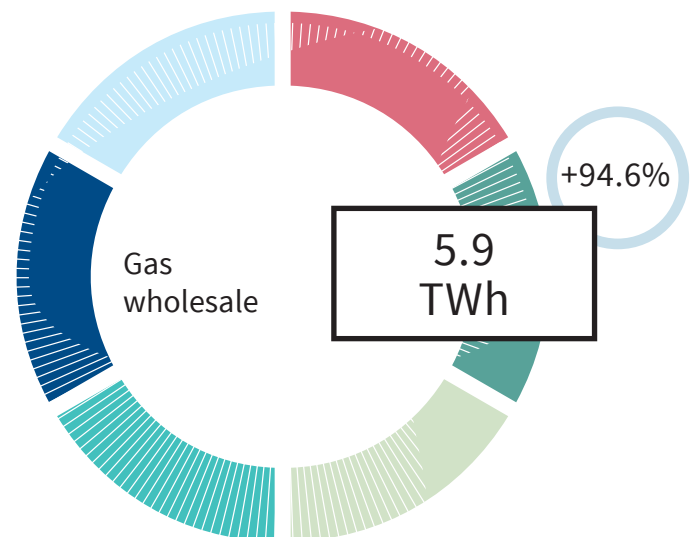
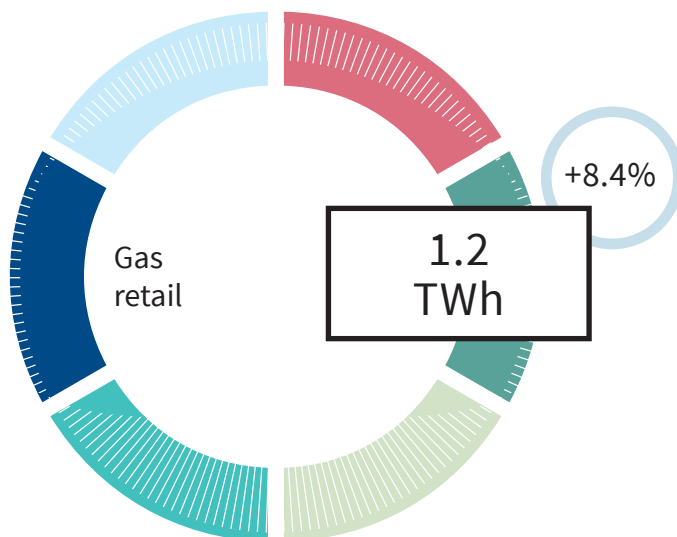
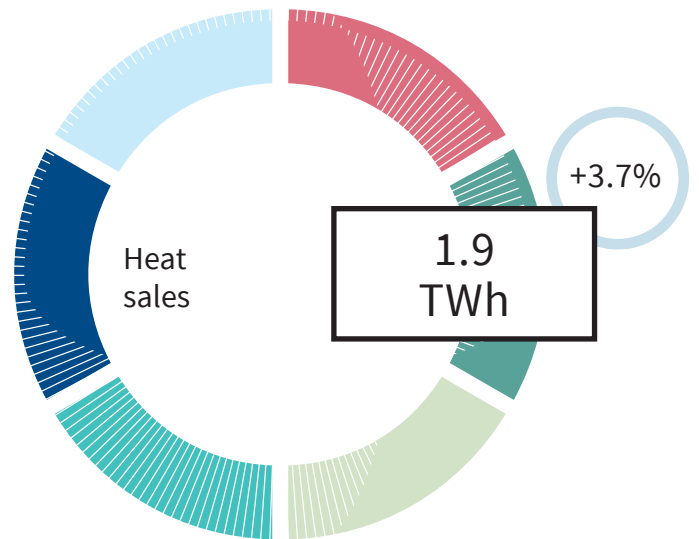
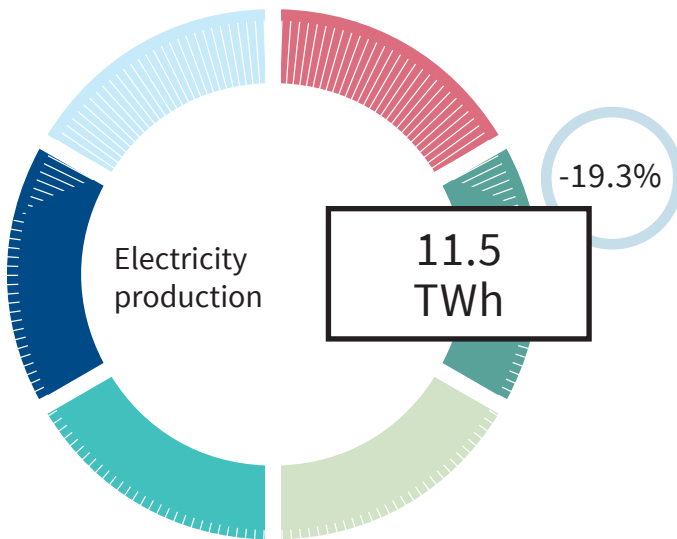
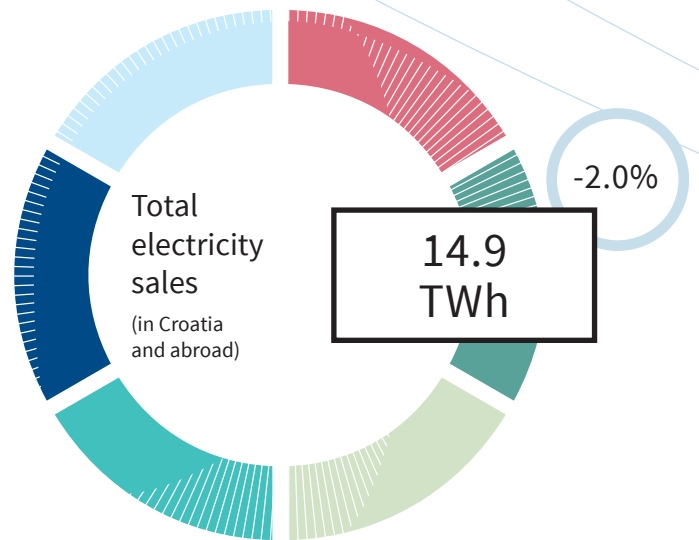


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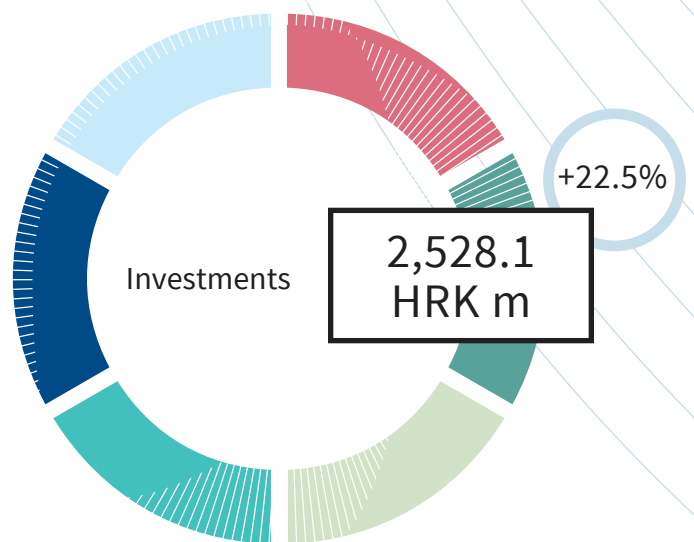
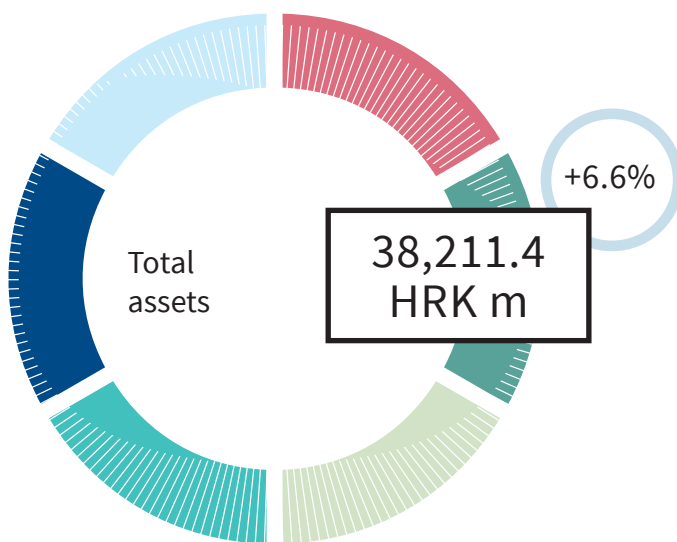
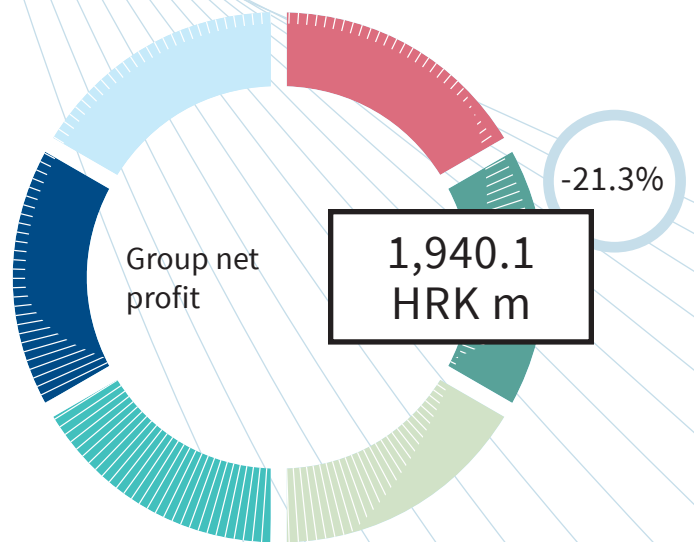
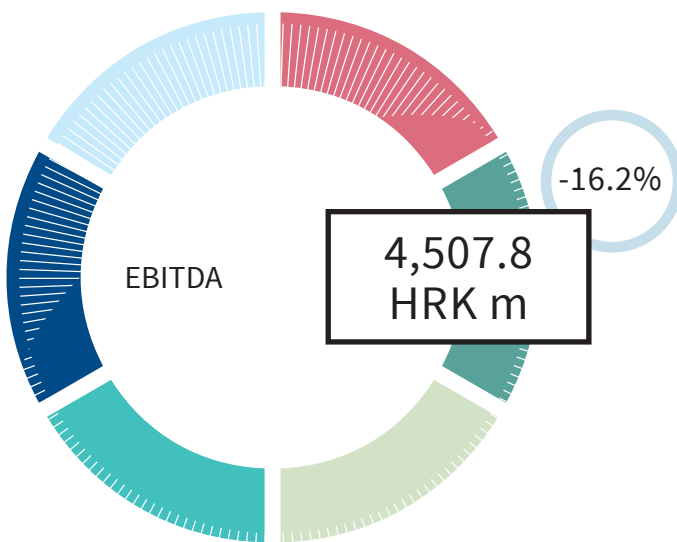
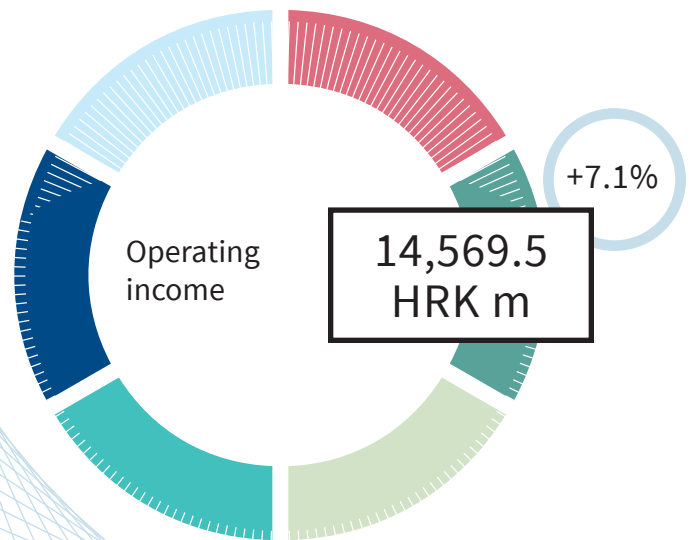
2015



# HEP Group 2015



Change  
2015/2014 (%)



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# Chairman's report



**Nikola Bruketa**  
Supervisory Board Chairman

During fiscal year 2015, the Supervisory Board held 14 meetings (five electronic sessions) in the period between two annual Assemblies. The Supervisory Board adopted the proposal submitted by the Management Board of HEP d.d. on appointing BDP Croatia d.o.o. the auditor of Hrvatska elektroprivreda d.d. and its dependant companies in the fiscal year 2015.

During four meetings of the Audit Committee of Hrvatska elektroprivreda d.d., which also participated in the supervision of Company operations, numerous issues, in particular those regarding Company's financial statements, audit findings and the 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 2015.

The Supervisory Board supervised the conduct of Company affairs and carried out other work related activities in accordance with the Companies Act, the Articles of Association of the Company and the Rules of Procedure of the Supervisory Board. It discussed and accepted information provided by the Management Board concerning the overall conditions in the Company, its business policy and relations with related companies, decisions significantly affecting the position of the Company, and general matters of the Company's future management. It also accepted the reports on the Company's business operations submitted during the business year and gave all necessary consents to decisions adopted by the Management Board.

The Supervisory Board analysed the achievement of planned results and the implementation of fundamental objectives set by the Company's business policy for 2015. It also took active participation in the supervision of the delivery of strategically important issues for HEP Group.

At the proposal of the Company's Management Board, the Supervisory Board gave its consent to the Consolidated Economic Plan and the Investment Plan of HEP Group for 2016. It also provided adequate prior consents to the following proposals made by the Management Board:

- the selection of arrangers for HEP d.d. bond issuance
- the establishment of a new limited liability company co-owned with RWE Hrvatska d.o.o.
- the implementation of a status change of merging HEP Obnovljivi izvori energije d.o.o. with HEP Proizvodnja d.o.o.
- the continuation of activities on project preparation and documentation development for the project design of HPP Senj/Kosinj II

- the submission of a letter to the competent bodies of the Republic of Croatia for the purpose of launching the initiative for the regulation of HEP's ownership position in terms of the entire Company asset, especially hydropower plants
- the preparation of the corporate bond issue up to EUR 500,000,000.00 (or its USD counter-value) and indebtedness of HEP d.d. by issuing corporate bonds in the amount of up to EUR 500,000,000.00, HEP d.d. bond issuance and setting bond price terms, the confirmation of received offers and offer conditions for the repurchase of the existing bonds due in 2017, and the conclusion of currency swap agreements and conditions
- urgent employment in 2015 by increasing the previously agreed number of workers under the 2016 Urgent Employment Plan for HEP Group and the plan for employing new workers and interns in HEP Group for 2016
- the transfer of assets by lease and capital reserves in HEP Operator distribucijskog sustava d.o.o.
- the transfer of asset ownership to HOPS d.o.o., and the submission of information to the Management Board of HOPS d.o.o. on the alternative method of resolving the issue of own business premises and relocating the National Dispatch Center
- launching the procedure of obtaining the consent from the Croatian Government for extending the time period for corporate guarantee issuance in the amount of up to HRK 150,000,000.00
- the 2016 Economic and Investment Plans for HEP Group
- the decrease of equity of HEP Toplinarstvo d.o.o.
- the increase of equity of HEP Upravljanje imovinom d.o.o.
- the implementation of the status change of the division of HEP-Operator distribucijskog sustava d.o.o. under the division by establishment, under which a new company for performing the supply within the public service will be set up
- the consent to HEP Opskrba d.o.o. for entering into the agreement on settling debt with Našicecement d.d., waiving interest and concluding a three-party agreement by HEP-Opskrba d.o.o. – Našicecement d.d. - Osilovac d.o.o. on the lien over all claims against the bank account of Osilovac d.o.o.

The active role undertaken by the Supervisory Board in 2015 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 the enhancement of operating efficiency and future strategic determinants of HEP Group in view of new circumstances emerging on the electricity market and taking an equal part in market competition. By receiving regular reports and information from the Management Board of the Company, the Supervisory Board was continuously participating and monitoring the activities regarding HEP Group's capital investment projects, annual investment plans and documents under which the strategic framework for investments was set.

Apart from regular reports submitted by the Management Board of HEP d.d. on operating performance and the business environment, the Supervisory Board also discussed in detail other current topics existing in HEP Group, especially the procedures undertaken for the purpose of resolving operating issues of HEP Toplinarstvo d.o.o., the development and the content of the strategic HEP 2030 document, the status of the CCCGT ELTO Zagreb project, CCCGT Osijek 500, HPP Senj/Kosinj – Phase II, TPP Sisak C, TPP Plomin C and LNG Croatia, refinancing the 2012 bonds and the results of the 2015 bond issuance, the procedure of HOPS certification as an independent transmission system operator, the delivery of the 2015 Investment Plan, the development of windfarm projects in Croatia of business interest for HEP Group, the expressions of interest and the submission of initial data of RES projects, HEP Group restructuring project as well as the status of HEP's overall business relations and claims in other surrounding countries. The review of business and financial reports found 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 annual financial reports were drafted in line with the figures entered in the Company books, showing accurate property-related and operational state of affairs of the Company.

The Supervisory Board expressed no objections to auditor's report on examining Company's annual financial statements and HEP Group's consolidated financial statements for 2015.



# President's report



**Perica Jukić, M.Sc.**

President of the Management Board

The content of this year's 2015 Annual Report of HEP Group differs from the reports published in the last ten years. In early 2016, the first non-financial report (sustainability report) for 2013 and 2014 was published. We have also made a decision to continue publishing non-financial reports in line with the Global Reporting Initiative Guidelines. Thus, the 2015 Sustainability Report will include a more comprehensive and systematic overview of those aspects which have so far been presented as part of the Annual Report such as environment, procurement, human resources, customer and community relations etc.

The Annual Report will continue to include financial statements for HEP Group with the auditor's opinion as well as abridged reports for HEP Group daughter companies. We are therefore inviting all our customers, suppliers, investors, scientific community, associations, state administration and local self-government bodies, as well as other interested public to get a comprehensive insight in 2015 HEP Group operations by using both business publications as their source of information.

Reviewing briefly the business year 2015, I am pleased to say that HEP Group fully met its mission of a safe, quality and reliable energy supply to customers while recording the net profit of HRK 1.94 billion, as a record-breaking positive business result for the second year in a row.

Our own production facilities produced 11.5 TWh of electricity. A good availability of power plants, transmission and distribution network was achieved with no significant disturbances in electricity, heat energy and gas supply.

In the exceptionally demanding and changeable environment, the Management Board continued to carry out the development strategy of HEP Group's business system under four basic levers: business optimization, development-investment cycle, regional step forward, and development of new products and services.

With the aim of retaining a dominant share on the Croatian electricity market, HEP implemented intensive measures for improving its services in 2015 as well as for developing and offering innovative products adapted to customer requirements. It also continued with the harmonization of its business operations with sustainable development standards as well as a good practice of socially responsible operations.

HEP has been an international electricity market player for several years. A strong step into the Slovenian market was made in 2015 by winning a five percent of the overall electricity consumption including the supply of the Slovenian capital of Ljubljana. Activities of expanding our operations into other neighbouring countries have continued.

A further opening of the domestic electricity market and a number of legal and regulatory changes affecting HEP Group's operations significantly conditioned and additionally accelerated the harmonization of our business system and the redefinition of business objectives.

The process of HEP Group's transformation, launched in 2014, continued under identified and defined objectives and measures. Most companies were reorganized in 2015, and the transformation of those business segments with recognized advancement possibilities was initiated.

In terms of regulated activities, HEP Operator distribucijskog sustava d.o.o. started preparatory activities for unbundling supply from network operations parallelly with preparing the process of its comprehensive business restructuring. Activities regarding the certification process of the Croatian Transmission System Operator (HOPS) as an independent transmission operator (ITO model) continued. In October 2015, the certification draft was submitted to the European Commission. The process was successfully completed in February 2016, when the Croatian Energy Regulatory Agency issued the Decision on the certification of HOPS as an independent transmission operator.

The second US\$ 550 m Eurobond issuance was successfully completed in 2015. The demand for the new issuance was almost four times the offering exceeding 2 billion US\$. International institutional investors, including respectable world funds, as well as investors which had participated in the previous issue, about 175 of them from some 30 countries including Croatia, recognized HEP as a proven energy leader and a stable company with a good rating and a quality capital investment plan. The successful bond issuance is a proof of HEP building a respectable reputation on the international debt capital market as a basis for the large demand and a successful new issue. Additionally, by refinancing the existing bonds HEP proved its proactive debt management as well as the financial management capacity in line with the best world practice.

Its active and thoughtful liquidity management was confirmed by Standard&Poor's (BB-) and Moody's (Ba2), credit agencies which revised and asserted the current rating in 2015. In view of the methodology used by Standard&Poor's for rating state-owned companies, HEP included, the outlook of HEP's rating was downgraded from stable to negative as a consequence of downgrading Croatia's sovereign rating from stable to negative in July 2015. Moody's asserted the stable projection for its rating awarded to HEP in 2015.

HEP Group has been trying to meet the requirements of the energy sector development in the Republic of Croatia through its long-term investment cycle by accepting new circumstances such as the increasing presence of other open market participants, especially in electricity supply and electricity production from renewable energy sources. Several projects continued their construction development in 2015. In late 2015, a new combined cycle cogeneration gas-fired unit in TE-TO Sisak was put into trial operation. The construction of two wood biomass-fired cogeneration facilities in Sisak and Osijek was also prepared. Furthermore, the third revitalised unit was put into operation in Zakučac hydropower plant. In view of the latter investment as well as its overall hydro investment cycle, HEP has become the biggest investor in green economy in Croatia.

HEP takes exceptional care of the development of its own RES portfolio in addition to the existing large hydropower plant capacities. It installed nine photovoltaic plants on its office building roofs, started the construction of two wood biomass cogeneration facilities, considered several RES projects, and installed ten public electric vehicle charging stations in Croatia until end 2015.

Successful and proactive business operations as well as its respectable results achieved in 2015 represent a solid foundation of HEP's development as a modern and efficient company comparable to its European counterparts and ready to respond to future challenges. The transformation of its business system will facilitate the optimization of HEP Group's structure in line with market conditions and the Croatia's EU membership, all aimed at achieving a more profitable bottom line in open market conditions in Croatia and a more intensive step forward into neighbouring markets.

HEP continues its 120 year old tradition of electricity production, distribution and supply in Croatia. As a strong and integral energy company, competitively present on the regional market, we will continue to ensure a sufficient and reliable energy supply to Croatian citizens and its economy adhering to the principles of environmentally friendly generation and energy efficiency.



# 1

## Company profile

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# Mission, vision and core values



## **Mission**

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

## **Vision**

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

## Core values

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### 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 the 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 a sole (100%) owner of subsidiary companies; it consolidates the management of HEP Group subsidiaries and is the owner of assets which are contractually transferred to subsidiaries or daughter companies for management.

### SUBSIDIARY COMPANIES WHOLLY OWNED 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 and Herzegovina.

**TE Plomin d.o.o.** operates the second unit of 210 MW Plomin Thermal Power Plant (until 28 May 2015 the company was co-owned by HEP d.d. and RWE Energie; under the Share Transfer Agreement and the Cooperation Termination Agreement, the General Assembly of TE Plomin d.o.o. passed the decision on amending the Articles of Association by making HEP d.d. the Company's sole founder).

**HEP – Operator distribucijskog sustava d.o.o.** (HEP Distribution System Operator) is responsible for reliable customer supply. The company distributes electricity taken from the transmission network, and carries out selling, metering, billing and payment collection of supplied electricity. It is also responsible for the 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 the following activities on behalf and for the account of HEP d.d.: purchase and sale of electricity, lease of cross-border transmission capacities purchase and sale of gas, lease of transportation system capacities, optimization of HEP's power plant operations for ensuring the required electricity volume for HEP customers under most favourable terms, emission trading, green certificate trading, power purchase agreements with producers other than HEP Group. The following HEP Trade daughter companies operate on the neighbouring markets: **HEP Energija** Ljubljana (Slovenia), **HEP Magyarorszag Energia KFT** (Hungary), **HEP Trade d.o.o.** Belgrade (Serbia), **HEP KS.sh.p.k** Priština (Kosovo) and **HEP Trade d.o.o.** Mostar (Bosnia and Herzegovina).

**HEP-Toplinarstvo d.o.o.** (HEP District Heating) is active in heat production, distribution and supply in the cities of Zagreb, Osijek, Sisak, Velika Gorica, Zaprešić and Samobor. It has been registered as a heat energy buyer.

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

**HEP - Opskrba plinom d.o.o.** (Gas Supply) carries out business activities of trade mediation on both domestic and foreign markets, fuel (gas) procurement contracting procedures and the sale for the needs of public service users, companies within HEP Group as well as other end customers, gas trade, gas supply and the provision of trading services.

**HEP-ESCO d.o.o.**, a company for the provision of energy services, develops, implements and finances market-based energy efficiency projects.

**HEP – Upravljanje imovinom d.o.o.** (Asset Management) (until May 2015 HEP-Leisure and Recreation d.o.o.) is the company in charge of the management of non-operating assets of HEP Group and the provision of tourism activities.

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

**Program Sava d.o.o.** (Programme Sava Ltd) is responsible for the 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

**Notes:**

- **APO usluge zaštite okoliša d.o.o.** (APO Environmental Services), a consulting and engineering company specializing in environmental protection, was merged with HEP d.d. in May 2015)
- **HEP-Obnovljivi izvori energije d.o.o.** (HEP Renewable Energy Sources) operated until mid 2015 when it was merged with HEP Proizvodnja d.o.o.

**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., provide telecommunication support to HEP Group business operations.

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

**LNG Hrvatska d.o.o.**, co-owned by HEP d.d. and Plinacro d.o.o. (50%:50%), was established for the construction and management of infrastructure necessary for the receipt, storage and re-gasification of liquefied natural gas.

**Novenerg d.o.o.**, registered in October 2015 and co-owned by HEP d.d. and RWE Hrvatska d.o.o. (50%:50%) engages in the strategic assessment and the analysis of the potential for investing into capacities for producing electricity from RES and the provision of technical consulting services.

**INSTITUTIONS**

**HEP - Nastavno-obrazovni centar**, (HEP Training and Education Center), (established by HEP d.d. and merged with HEP DSO in mid 2015) is an educational institution which, in addition to providing live work training, conducts secondary school programmes for adults and organizes professional consultancy, seminars and courses.

**The Croatian Cleaner Production Center** (having merged with APO d.o.o., HEP d.d. inherited founder's rights to the Croatian Cleaner Production Center) focuses on promoting the concept of cleaner production in Croatia. Center services are intended for industry and service industry, state administration, industry associations, educational institutions, financial organizations and the public.

**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.

## LEGAL FRAMEWORK

**EUROPEAN LEGAL FRAMEWORK**

Since Croatia's accession to the European Union on 1 July 2013, the energy-related national legislative framework as well as its secondary legislation are based on the European legal framework. As a full EU member, Croatia accepted the obligation of fully transposing the so-called 2009 'Third Energy Package' into its national legislature as well as a number of other regulations significantly affecting business operations of energy companies. Some of the regulations adopted by EU during 2015 and which need to be transposed i.e. implemented by member states in a set time period include the following: Commission Regulation (EU) 2015/1222 establishing a guideline on capacity allocation and congestion management, and Directive (EU) 2015/1513 of the European Parliament and of the Council of 9 September 2015 on amending Directive 98/70/EC relating to the quality of petrol and diesel fuels and amending Directive 2009/28/EC on the promotion of the use of energy from renewable sources.

In February 2015, the European Commission published the strategy for achieving a strong European Union i.e. a single European energy market with advanced climate policy. The EU strategy was devised as an aid in achieving climate and energy objectives until 2030 and becoming a world renewable energy





A strong step into the Slovenian market was made by winning a five percent of the overall electricity consumption including the supply of the Slovenian capital of Ljubljana.



Activities of  
expanding our  
operations into  
other neighbouring  
countries have  
continued.

leader. The layout of the new electricity market should satisfy consumers' expectations, enable the efficient use of new technologies, and facilitate investments, especially in RES and a low carbon emission generation. Cross-border competition should result in major benefits and facilitate decentralized electricity production as well as support the establishment of innovative energy service providers.

The Energy Union means in particular:

**Solidarity clause:** reducing the dependence on single suppliers and fully relying on their neighbours, especially when confronted with energy supply disruptions. With more transparency when EU countries make deals to buy energy or gas from countries outside the EU;

**Energy flows, as if it were a Fifth freedom:** that of free flow of energy across borders - strictly enforcing the current rules in areas such as energy unbundling and the independence of regulators – taking legal action if needed. Redesigning the electricity market, to be more interconnected, more renewable, and more responsive. Seriously overhauling state interventions in the internal market, and phasing out environmentally harmful subsidies.

**Energy efficiency first:** fundamentally rethinking energy efficiency and treating it as an energy source in its own right so that it can compete on equal terms with generation capacity;

**Transition to a low-carbon society that is built to last:** ensuring that locally produced energy – including from renewables – can be absorbed easily and efficiently into the grid; promoting EU technological leadership, through developing the next generation of renewables technology and becoming a leader in electromobility, while European companies expand exports and compete globally. Along with the strategy, an Interconnection Communication, setting out the measures needed to achieve the target of 10% electricity interconnection by 2020, which is the minimum necessary for the electricity to flow and be traded between Member States, was adopted.

And as a third document, a Communication setting out a vision for a global climate agreement was adopted. In December 2015 at the Paris conference, 195 countries signed the Agreement on limiting global warming significantly below 2°C compared to the pre-industrial period. It includes a transparent, dynamic and legally binding global agreement with fair and ambitious commitments from all parties for the purpose of reducing emissions.

### SUMMER ENERGY PACKAGE

Based on the EU Strategy initiated as one of the political priorities of the Juncker Commission in February 2015 and which encompasses a far-seeing policy for climate change mitigation, the Commission published the so-called 'summer package' in July proposing new benefits for energy consumers in a number of documents as well as the re-thinking of the electricity market, updating the energy efficiency labelling system, and the audit of the EU's emission trading system (ETS). Energy efficiency first is emphasized in particular, and households and commercial customers are becoming a core of the European energy market. Some of the documents published by the Commission as part of its summer package include the 'Presentation of a new Deal for Energy Consumers' and its accompanying document 'Best Practices on Renewable Energy Self-Consumption' as well as the 'Launching the public consultation process on a new energy market design'. Within the public consultation at the EU level, HEP Group companies gave their opinion and proposals regarding the new model of the energy market under the Directive on RES for the period 2020-2030 and the audit of the Energy Efficiency Directive 2012/27/EU.

### NATIONAL LEGAL FRAMEWORK

The legislative and regulatory framework of the energy sector in the Republic of Croatia is represented by the Energy Strategy of the Republic of Croatia (2009) and core acts regulating the energy sector, in particular those resulting from the Third Energy Package. The fundamental framework regulating the operation of HEP and its daughter companies by their energy performing business activities is based on the following acts:

- Energy Act
- Electricity Market Act
- Gas Market Act
- Heat Energy Market Act
- Regulation of Energy Activities Act
- Energy Efficiency Act
- RES and High Efficiency CHP Act

**THE ENERGY ACT (OG 120/12, 14/14, 102/15)** regulates the 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 the performance of energy activities on the market or as public services and the performance of energy activities by meeting environmental and energy efficiency measures.

**RES AND HIGH EFFICIENCY CHP ACT (OG 100/2015)** regulates planning and the promotion of the production and consumption of electricity produced in generation facilities which use renewable energy sources and high efficiency cogeneration (RES CHP), sets measures for the promotion of electricity generation by using RES CHP, regulates the implementation of the system for the promotion of electricity generation from RES CHP, regulates issues regarding the construction of facilities for the generation of electricity from RES CHP on the state-owned land, regulates the management of the RES CHP registry for projects, lead partners and eligible producers of electricity from renewable energy sources and high efficiency cogeneration, regulates the issue of international cooperation in the area of RES as well as other issues important for the use of RES CHP.

The objective of this Act is to promote the generation of electricity from RES CHP, to promote the generation of electricity from RES CHP at the consumption site, to increase a share in the overall direct consumption of energy produced from RES by using incentive mechanisms and the regulatory framework for the use of RES CHP. The use of RES CHP fulfills Croatia's energy interests set under the Energy Development Strategy, laws and other regulations, in particular in terms of:

- meeting the national objective for the use of energy from RES with regard to a share of the use of energy from RES in the overall direct energy consumption in the Republic of Croatia in 2020
- a wider use of own natural energy resources
- a long-term decrease of dependence on energy fuel import
- efficient use of energy and reduced environmental impact of fossil fuel
- opening new jobs and the development of entrepreneurship in energy and other business activities stimulated by energy project development and its results in the local community
- fostering the development of new and innovative technologies and contributions to local community
- diversification of energy production and increase of the security of supply

**THE ENERGY EFFICIENCY ACT (OG 127/2014)** aims at achieving set energy savings objectives in final energy demand, thus complying with the EU objective of a 20 percent lower primary energy until 2020. Under said Act, the efficient use of energy is regulated as well as the adoption of local, regional and national plans for improving energy efficiency and its implementation. Energy efficiency measures are set as well as energy efficiency obligations, responsibilities of the energy regulatory entity, the transmission and distribution operator as well as the energy market in connection with energy transmission, transport and distribution, energy and/or water supply and in particular the activity of energy service, energy savings and user rights in energy efficiency implementation.

This Act aims at achieving objectives of sustainable energy development: reduced adverse environmental effects by the energy sector, increased security of energy supply, meeting energy user needs as well as international obligations undertaken by Croatia for reducing greenhouse gas emissions by stimulating energy efficiency measures in all energy consumption areas.

The third national energy efficiency action plan contains proposed energy efficiency sector measures, which implementation will result in meeting the objective of reduced final energy demand, as well as energy generation (transformation), transmission and distribution measures which aim at achieving primary energy savings and revised energy consumption projection. The biggest savings are expected under the implementation of the programme for the renovation of buildings in the public, commercial and residential sectors launched by the Ministry of Construction and Physical Planning.

## ELECTRICITY

**THE ELECTRICITY MARKET ACT (OG 22/13, 102/15)** regulates rules and measures for secure and reliable electricity generation, transmission, distribution and supply, electricity trade and the 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, sets universal and guaranteed service obligations and electricity customer rights, network access rules, the principle of reciprocity and cross-border electricity transmission.

Amendments to the Act were adopted in 2015. Significant changes include additional regulation and separation of obligations between the market operator and the transmission system operator in terms of market stakeholders' deviation in the realization of planned volumes of procured and supplied electricity and the Croatia's electric power system balancing, the responsibility of the electricity market operator as well as the transmission system operator has been defined in the organization of the power exchange for electricity physical trading across Croatia and its connection with other power exchanges as well as its obligation for the clearing of concluded sales and purchase transactions, the supplier-end customer relationship is simplified in the area of contract conclusion, invoice issuance, household connections and temporary disconnections, the obligation of introducing a single bill for electricity and grid use is set for every metering point no later than 31 December 2016, the regulated price for universal service is cancelled, and guaranteed supply becomes a sole activity performed under regulated terms.

The Act regulates obligations regarding data and information submission to ACER (the Agency for the Cooperation of Energy Regulators) pursuant to Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency and the Commission Implementing Regulation (EU) No 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of Regulation (EU) No 1227/2011 of the European Parliament and of the Council on wholesale energy market integrity and transparency (the so-called REMIT Regulation), on all sales and purchase transactions on the electricity wholesale market including derivatives i.e. the obligation for the submission of technical and commercial data to the Croatian Energy Regulatory Agency and the Croatian Competition Agency.

The biggest novelty for HEP is contained in the fact that an energy entity which performs customer supply within the universal service on the day of this Act coming into effect (HEP-Operator distribucijskog sustava d.o.o.) must unbundle electricity supply carried out as a public service by means of a status change of separating a company by unbundling, no later than 31 December 2016.

Under the foreseen two-year harmonization process i.e. the adoption of new secondary regulations pursuant to the Act, public consultations with active participation of HEP Group companies were conducted and the following adopted:

- General Terms for Network Use and Electricity Supply (HERA)
- Rules on Switching the Electricity Supplier (HERA)
- Methodology for setting prices for the provision of balancing energy (HERA)
- Methodology for setting prices and conditions for ancillary service provision (HOPS; consultation ended, no act was adopted)
- Electric Power System Balancing Rules (HOPS; consultation ended, no act was adopted)
- Electricity Market Rules (HROTE)

## HEAT ENERGY

During 2015, the umbrella act regulating heat activity in the Republic of Croatia i.e. the Heat Energy Market Act (OG 80/13, 14/14), was amended. In September 2015, the Regulation on the Amendments of the Heat Energy Market Act was adopted (OG 95/15). Under the Heat Energy Market Act, apart from new district heating systems: an autonomous, closed and central district heating system, a new category of heat energy market participants was introduced i.e. a heat energy buyer. The heat energy buyer is defined as an activity different from energy activity including expert management, operation, maintenance of indoor installations, heat energy supply for heat energy billing, and invoice issuance to end customers in a building/facility in an autonomous, closed or central heating system under the heat energy consumption agreement concluded with the authorized co-owners' representative. As the

time period set for concluding agreements between heat energy buyers and authorized co-owners' representatives expired, and in order to continue heat energy supply and ensure safety, reliability and continuity of heat energy supply, the Regulation on the Amendments of the Heat Energy Act (OG 95/15) set that the existing heat energy supplier continues to carry out the heat energy buyer activity until 1 September 2016.

In the previous year, secondary legislation stemming from the Heat Energy Market Act (OG 80/13, 14/14, 95/15) and regulating district heating in Croatia was amended.

During March and November 2015, the Rules on the method of cost allocation and billing for supplied heat energy (OG 99/14, 27/15, 124/15) were amended. It primarily regulates models of cost allocation and billing for supplied heat energy on a joint heat energy metering point to heat energy end customers-owners of separate facility parts representing autonomous functional units, and whose consumption shares are registered via a device for the local distribution of supplied heat energy or who measure heat energy consumption by a separate heat energy metering unit. The objective of all these amendments is a fairer distribution of consumed heat energy on a joint heat energy metering point among heat energy end customers – owners of separate facility parts representing autonomous functional units.

In November 2015, General Terms and Conditions for Heat Energy Supply (OG 35/14, 129/15) were amended and a procedure for disconnecting the entire building/facility from the district heating system was more precisely defined.

## **GAS**

Market opening pursuant to the EU third energy package requirements represents a serious professional, financial and organizational challenge for most energy and public entities in the gas sector. This process started by the adoption of a new Energy Act and the Act on the Energy Activity Regulation in October 2012.

The open natural gas market enabled all customers to freely choose a supplier as well as all suppliers to enter into supply agreements with new customers. The basic precondition for market opening is an equal, fair and transparent access to gas network at the level of the transport and distribution system. The development of the energy-related legislation represents one of more important areas of EU member states operation, including the obligation of the appropriate harmonization to the European energy legislation and organizational standards of a single internal European market. Basic EU legislation guidelines are connected with the natural gas market and they served as a basis for developing legal regulations and implementing the harmonization of Croatia's secondary legislation.

The Third Energy Package regulates basic relations on the natural gas market. Underlying acts are the Energy Act (OG 120/12, 14/14, 95/15, 102/15) and the Act on the Regulation of Energy Activities (OG 120/12). The establishment and the regulation of natural gas market relations has been regulated under the Gas Market Act (OG 28/13, 14/14), the Rules on the Gas Market Organization (HROTE, 12/14) (hereinunder: the Rules), Transmission Network Code (Plinacro, 2/16), the Rules of Gas Storage Use (Podzemno skladište plina d.o.o, 12/14) and General Terms and Conditions of Gas Supply (OG 158/13). This has created the condition for full gas market opening.

As of 1 April 2015 and pursuant to decisions by the Croatian Government, new prices have been in effect – the price of natural gas which must be charged by the wholesale supplier (WS) to suppliers under the public service i.e. 0.2289 HRK/kWh, which is a 12% decrease compared to the earlier set price, and the price at which INA d.d. as the natural gas producer must sell said gas to the wholesale supplier i.e. 0.1715 HRK/kWh, which is a 7 percent decrease compared to the earlier set price.

During 2015, tariff items were increased as per the Extraordinary Audit Request issued by Plinacro due to a significant and continuous decrease of gas consumption. HERA adopted the decision on tariff item amount for gas transport in 2015 and 2016 i.e. the first regulation period 2014-2016 in June 2015. The implementation of new tariff items started on 1 October 2015. New tariff item amounts for 2015 increased by 14 percent for tariff items at the transport system entry points, by 60 percent for the transport system exit points, and by 16 percent for the tariff item for gas volume at the transport system exit points. Set tariff item amounts for 2016 decreased on average by 1 percent compared to the tariff item amounts in 2015.

In March 2015, HERA adopted the Decision on the tariff item amount for gas distribution in 2015 and 2016 as well as the Decision on the tariff item amount for the public service of gas supply for 2015. The weighted average of tariff items for gas distribution is 17 percent higher than the earlier one set for 2015. The Decision on the tariff item amount for the public service of gas supply for 2015 regulates tariff item amounts for the public service of gas supply for the suppliers under the public service obligation in the period from 1 April 2015 until 31 December 2015.

Apart from the aforementioned, gas market relations have also been regulated under the following general acts and decisions:

- Gas Distribution System Code (OG 155/14),
- Methodology for setting tariff item amounts for the public service of gas supply and guaranteed supply (OG 38/14),
- Decision on the tariff item amount for the public service of gas supply for 2015 (OG 155/14 and 28/15),
- Methodology for setting tariff item amounts for gas transport (OG 85/13, 158/13 and 118/15),
- Methodology for setting tariff item amounts for gas storage (OG 22/14),
- Decision on the tariff item amount for gas storage (OG 28/14),
- Methodology for setting the connection fee for gas distribution or transport system and for the increase of connection capacity (OG 76/14),
- Decision on the connection fee for gas distribution or transport system and for the increase of connecting capacity for the regulation period 2014-2016 (OG 86/14),
- Methodology for setting the price of non-standard gas transport, gas distribution, gas storage and the public service of gas supply (OG 158/13),
- Methodology for setting the price of gas system balancing energy (OG 155/14),
- Decision on setting the obligation of the natural gas producer for the sale of natural gas to the wholesale gas market supplier (OG 29/14),
- Decision on the price of gas at which the natural gas producer must sell natural gas produced in Croatia to the wholesale gas supplier (OG 28/15),
- Decision on setting the gas wholesale supplier (OG 29/14),
- Decision on the price of gas at which the gas wholesale supplier must sell gas to the suppliers under the public service obligation of gas supply for household customers (OG 28/15),
- Decision on setting the priority in the process of allocating the gas storage capacity to the gas wholesale supplier (OG 29/14),
- Decision on the gas market organization fee (OG 38/12),
- Decision on the adoption of the Intervention Plan of measures for the protection of the security of gas supply in the Republic of Croatia (OG 78/14).

## 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, built
- 1925 "Ante Šupuk i sin" (Ante Šupuk & Son), Šibenik, among UNIPEDE founders
- 1937 Vice Roy's Electrica Company founded (BEP)
- 1941 State electrical company founded (DEP)
- 1945 Electrical company of Croatia founded (ELPOH)
- 1954 Union of electricity companies of Croatia founded (ZEPH)  
Beginning of district heating: hot water pipeline for Končar factory from EL-TO Zagreb plant
- 1961 Business association of electricity distribution companies of Croatia founded (ELDIH)
- 1965 United electricity industry of Croatia founded
- 1974 Union of electricity organizations of Croatia founded (ZEOH)  
Gas distribution and supply commenced within Elektroslavonija Osijek
- 1981 Krško nuclear power plant put into operation

### **1990 Public enterprise Hrvatska elektroprivreda (HEP) founded**

- 1991 Heavy war destruction to power plants and facilities
- 1993 About 120 MW emergency diesel and gas power plants installed in Dalmatia
- 1995 Reconstruction and refurbishment of the Peruća dam completed (blasted in 1993)
- 1997 Eastern Slavonia reintegrated into the Croatian electricity system
- 1998 Gas -fired power plant (2x26 MW) put into operation at the EL-TO Zagreb site
- 2000 Plomin 2 TPP (210 MW) began 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. issued bonds in the amount of USD 500 m
- 2013 Croatian Transmission System Operator unbundled from HEP Group according to ITO model
- 2014 HEP d.d. became a wholesale gas market supplier
- 2015 HEP d.d. issued bonds in the amount of USD 550 m  
Trial run of combined-cycle Unit C of TE-TO Sisak (230 MWe, 50 MWt)





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## Corporate management

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# Corporate governance

In accordance with the HEP Group corporate governance model, HEP d.d. manages and performs some tasks within corporate functions as well as directs, coordinates and monitors activities in dependant companies. Each 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 a 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 and members of the Management Board are 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 carries out the following activities:

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. establishing companies in this country and abroad ,
2. sale and purchase of shares and stakes held by the Company in other companies, and the sale of real property in such companies,
3. sale and purchase of and lien 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 (seven) 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 reelected. 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 consent to annual financial reports made by the Management Board of the Company;
4. gives prior consent to 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.



By conducting a number of activities focused on improving customer relations, a permanent adjustment of offers to market demands, and marketing campaigns for strengthening HEP's brand....



...the market share in electricity supply of domestic customers was also stabilized at 84%.

# Members of governing bodies of Hrvatska elektroprivreda d.d. (HEP d.d.)

**SHAREHOLDERS ASSEMBLY** > **Tomislav Panenić,**  
member  
(as of 4 March 2016.)\*  
(Minister of Economy of the Republic of Croatia)

\*in the reporting period the member of the General Assembly was Ivan Vrdoljak

<b>SUPERVISORY BOARD</b>	> <b>Nikola Bruketa,</b> Chairman	> <b>Juraj Bukša,</b> member	> <b>Igor Džajić,</b> member	> <b>Dubravka Kolundžić</b> member, employee representative (as of 1 June 2015)*
	> <b>Žarko Primorac,</b> member	> <b>Ivo Uglešić,</b> member	> <b>Mirko Žužić,</b> member	

\*until 1 June 2015, Jadranko Berlengi represented workers as a SB member

<b>AUDIT COMMITTEE OF THE SUPERVISORY BOARD</b>	> <b>Žarko Primorac,</b> Chairman	> <b>Mirko Žužić,</b> member	> <b>Boris Tušek</b> (full professor at the Faculty of Economics in Zagreb), external member

## MANAGEMENT BOARD



> **Perica Jukić,**  
President of the Board

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 employed by HEP Generation in 1996 first as an independent engineer in TE-TO Zagreb, and then as the Head of Generation and the facilities' director in 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. when he was appointed a member of the Management Board of HEP d.d. He was the Head of the joint HEP/RWE Operation and Maintenance Committee in TE Plomin d.o.o.



> **Saša Dujmić,**  
member

Born in 1970. Graduated first in 1995 from the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture in Split acquiring the associate degree in electrical engineering and then in 2007 a bachelor's degree. He attends the postgraduate specialist studies in energy sector economy at the Faculty of Economics in Split. He had been employed by HEP, Elektrodalmacija Split, since 1996 first as an engineer in the Facility Maintenance Department and then in the Preparation and Implementation Department. From 2012 until 2014, he was director of Elektrodalmacija Split of HEP Distribution System Operator. He has been a visiting fellow at the Faculty of Electrical Engineering, Mechanical Engineering and Naval Architecture since 2007 in the course of Electrical Equipment Maintenance and Testing. He passed the state exam for performing particular tasks in facility construction (2000) at the Ministry of Environment and Physical Planning.



> **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 a member of the Management Board, director of Supply Department, HEP Gas from 1989, preceded by the position of a protection engineer and the head of Sales and Customer Relations. From 2006 to 2010, a member of the HERA Council.



> **Tomislav Rosandić,**  
member

Born in 1975. Graduated in 1997 from the Faculty of Economics, University of Zagreb in the field of managing company's finances. He was employed by Cibala banka first as a securities analyst, and then as the director of the Retail Department. From 2000 until 2002, he was a branch manager of Zagrebačka banka, and a member of the Management Board of Dilj d.d. for a year. From 2003 until 2005, he presided over the Management Board of Dilj d.d., a member of Nexe Group. In 2005, he became the CFO of the Group, and then a member of the Management Board and its CFO. Before having been appointed a member of the Management Board of HEP d.d., he was a member of the Management Board and the CFO of Eurocable Group d.d. from 2012 until 2014. He has been a certified investment advisor since 2003, and a certified member of supervisory boards since 2007.



## GENERAL SHAREHOLDERS ASSEMBLY

### GENERAL SHAREHOLDERS ASSEMBLY 2015

The annual meeting of the General Shareholders Assembly was held on 11 June 2015. The Assembly reviewed consolidated and unconsolidated annual financial statements of HEP d.d. and HEP Group for 2014 including the Independent Auditor's Report and the Annual Report on the state of affairs and operations of HEP d.d. and HEP Group in 2014 and the Report of the Supervisory Board on the supervision conducted over HEP d.d. operations in 2014. Acts of the members of the Management and the Supervisory Boards, respectively, were ratified for 2014.

### GENERAL SHAREHOLDERS ASSEMBLY 2016

The annual meeting of the General Shareholders Assembly was held on 27 June 2016. The Assembly reviewed consolidated and unconsolidated annual financial statements of HEP d.d. and HEP Group for 2015 including the Independent Auditor's Report, the Annual Report on the state of affairs and operations of HEP d.d. and HEP Group in 2015 and the Report of the Supervisory Board on the supervision conducted over HEP d.d. operations in 2015. The decision on the use of earned profit from 2015 operations was made. Acts of the members of the Management and the Supervisory Boards, respectively, were ratified for 2015.

## AUDIT

### INDEPENDENT AUDITOR

At the meeting held on September 28, 2015 the General Assembly appointed the auditing firm BDO Croatia d.o.o. Zagreb as the auditor of HEP d.d., related companies and consolidated financial statements for HEP Group for the year ending on December 31, 2015.

### INTERNAL AUDIT

The Internal Audit 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. Business operations of Internal Audit are defined under the Act on the Internal Control System in the Public Sector (OG 78/15) and the Internal Audit Rules, which has been harmonized with the IPPF (International Professional Practices Framework). The Rules are based on the fundamental internal audit principles (integrity, objectivity, confidentiality, expertise) and guarantee a quality normative framework necessary for the professional practice of the internal audit department. The International Professional Practices Framework is a layout of professional rules and guidelines defining the work of internal audit, which have been structured and integrated in a document published by the IIA Global.

The Internal Audit Department carries out internal audits in line with the Strategic Plan and the Department Annual Plan adopted by the Management Board of HEP d.d. with the consent of the Audit Committee. The purpose of internal audits is to provide the Supervisory Board, the Audit Committee and the Management Board of HEP d.d. 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, programmes and business policies.

The internal audit reports systematically provide the status of the revised business processes and the internal control systems. In 2015, eleven internal audits were carried out, the reports of which were submitted to the Management Board of HEP d.d. and its responsible management. The Department provides recommendations for enhancing business processes, assists the Management Board of HEP d.d. and the responsible management of HEP Group in improving internal controls and the mitigation of operating risks.

Pursuant to the Audit Act and the Act on the Internal Control System in the Public Sector, the Internal Audit Department falls under the jurisdiction of the Audit Committee. During 2015, the Audit Committee held five meetings discussing, among others, essential topics regarding internal audit practices and the implementation of proposed recommendations. This has significantly contributed to a further development of the internal audit department in HEP Group and facilitated the strengthening of its independence within HEP Group.





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## Business operations in 2015

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# Business operations in 2015

## BUSINESS ENVIRONMENT

In 2015, the mission of HEP Group has been completely fulfilled: a secure and a good-quality supply of energy to customers accompanied by a high level of social responsibility. As a good business result was achieved strengthening the Group's financial position, HEP Group retained its position of one of the biggest business groups in the Republic of Croatia in terms of financial indicators.

The Croatian economy recorded growth in 2015. According to the first estimates of the Croatian Bureau of Statistics, the 2015 gross domestic product increased by 1.6% compared to 2014, which was the first time after 2008 that the positive growth rate was achieved. Improved economic activities, colder winter and extremely high summer temperatures resulted in increased electricity consumption in Croatia in 2015, which recorded a significant increase of 3.7% after a number of decreasing or slightly increasing years.

In 2015, HEP Group's sale of electricity, heat energy and gas increased due to some cold weather in winter months.

The market share in electricity supply of domestic customers was also stabilized at 84% by conducting a number of activities focused on improving customer relations, a permanent adjustment of offers to market demands, and marketing campaigns for strengthening HEP's brand. By taking a step forward into foreign markets (Slovenia, Bosnia and Herzegovina, Serbia), HEP Group has additionally strengthened its position of a market leader in electricity supply.

The price of electricity for households within the universal service decreased in the second half of the year. In the last quarter, HEP granted to its household customers an additional 3 lipa/kwh discount so to avoid their paying a higher price following the adoption of the Ordinance on criteria for the acquisition of the status of an energy vulnerable customer under which a solidarity contribution was set for reimbursing the energy cost of vulnerable customers.

Gas and coal prices continued to decrease in 2015 as well as electricity prices on neighbouring reference power exchange. However, in view of decreased electricity hydro generation, compared to a record high 8.4 TWh in 2014, the procurement of electricity increased significantly which affected the rise of operating costs.

The Group recorded net profit of HRK 1.94 billion i.e. HRK 525.4 million less than in 2014 (HRK 2.47 billion).

The largest share of profit was recorded from electricity and gas, while district heating recorded loss.

Total available electricity of HEP was 17.6 TWh in 2015, of which 11.5 TWh was produced in power plants fully or partially owned by HEP Group, while the remaining portion was procured on the market. HEP sold 13.1 TWh to domestic customers and 1.9 TWh on neighbouring markets.

HEP Group continued to be one of the biggest investors in Croatia in 2015, with its investments of HRK 2.5 billion. Equipment was replaced on an ongoing bases as well as the reconstructions and refurbishments of the existing generation facilities and transmission and distribution network carried out primarily engaging domestic producers and contractors. Investments were financed by own funds with no need for any new long-term debt. All trade liabilities were settled within maturity periods.

The new US\$ 550 m corporate bond issue eliminated the risk of refinancing the US\$ 500 m debt due in 2017, the average maturity of funding sources was extended and the average weighted cost of HEP's financing decreased. Furthermore, positive net financial effect of HRK 17.2 million was achieved as a

result of decreased funding cost, the results of the repurchase of the existing bonds and a positive effect of terminating the existing currency risk hedging lines.

Following the Standard and Poor's change of Croatia's credit rating outlook in July 2015 from stable into negative, HEP's credit rating (BB-) outlook also changed from stable into negative due to the methodology applied to state-owned companies, HEP included. Moody's also revised and confirmed the existing Ba2 rating with a stable outlook in 2015. Both agencies confirmed the above stated credit rating for the US\$ 550 m bond issue in October as well.

The construction of the new unit in TPP Sisak was completed and put into trial operation. The construction of two new cogeneration wood biomass power plants commenced in Osijek and Sisak. These plants were granted the eligible producer status. In line with the current practice, future decisions on investment projects planning and delivery will also be made exclusively on the basis of objectified procedure of determining HEP's priority interests and ranking projects according to criteria of feasibility and cost-effectiveness.

HEP Group has been carrying out the Project of Operative and Strategic Transformation which will, due to achieving a new business structure and the optimization of business processes, lead to significant long-term sustainable savings in business and ensure cost efficiency of HEP Group as a whole thus strengthening its competitiveness on the market. During 2015, the restructuring process for all companies was completed (except for the Croatian Transmission System Operator d.o.o. and HEP-Distribution system Operator d.o.o.) which resulted in the optimization of business processes and increased operating efficiency. The process of restructuring HEP Distribution System Operator d.o.o. started, under which supply carried out as a public service will be unbundled pursuant to legal regulations.

On 31 March 2014, the Croatian Transmission System Operator submitted the request to the Croatian Energy Regulatory Agency (HERA) for certification under the ITO model. Following more than two years of work on very demanding business activities of harmonizing mutual relations with HEP Group companies with the provisions of the so-called 'third package' of EU energy regulations, the Administrative Council of HERA issued it the certificate for operating as an independent transmission operator on 22 February 2016.

## ACHIEVED FINANCIAL PERFORMANCE

Despite favourable hydrology in 2015, hydro generation was significantly lower than the record production in 2014, which resulted in increased electricity procurement on the market and increased generation by thermal power plants. This led to increased cost of electricity procurement and energy fuel by HRK 743.1 million (62%) and HRK 21.9 million (1.2%), respectively. Cost of procuring wholesale gas also increased by HRK 634.3 million (88%) as HEP started to conduct this activity on 1 April 2014. Although Group's operating income increased by HRK 970.3 million (7.1%) due to increased costs, operating profit was reduced by HRK 204.7 million (from HRK 3.2 billion in 2014 to HRK 3.0 billion in 2015). Reduced operating profit and higher loss from financial activities resulting from negative currency rate differences, increased interest for bonds and the cost of bond repurchase led to decreased net profit of HEP Group by HRK 525.4 million. Recorded net profit amounted to HRK 1,940.1 million, of which HRK 1,939.1 million was attributable to equity holders of the parent.

Consolidated profit and loss account (abridged)	HRK m			
	2014	2015	15-14	%15/14
Operating income	13,599.2	14,569.5	+970.3	+7.1%
Operating expenses	10,398.7	11,573.7	+1,175.0	+11.3%
Profit from operations	3,200.4	2,995.8	-204.7	-6.4%
Net profit of the Group	2,465.4	1,940.1	-525.4	-21.3%
Net profit attributable to equity holders of the parent	2,462.3	1,939.1	-523.2	-21.2%

## OPERATING INCOME

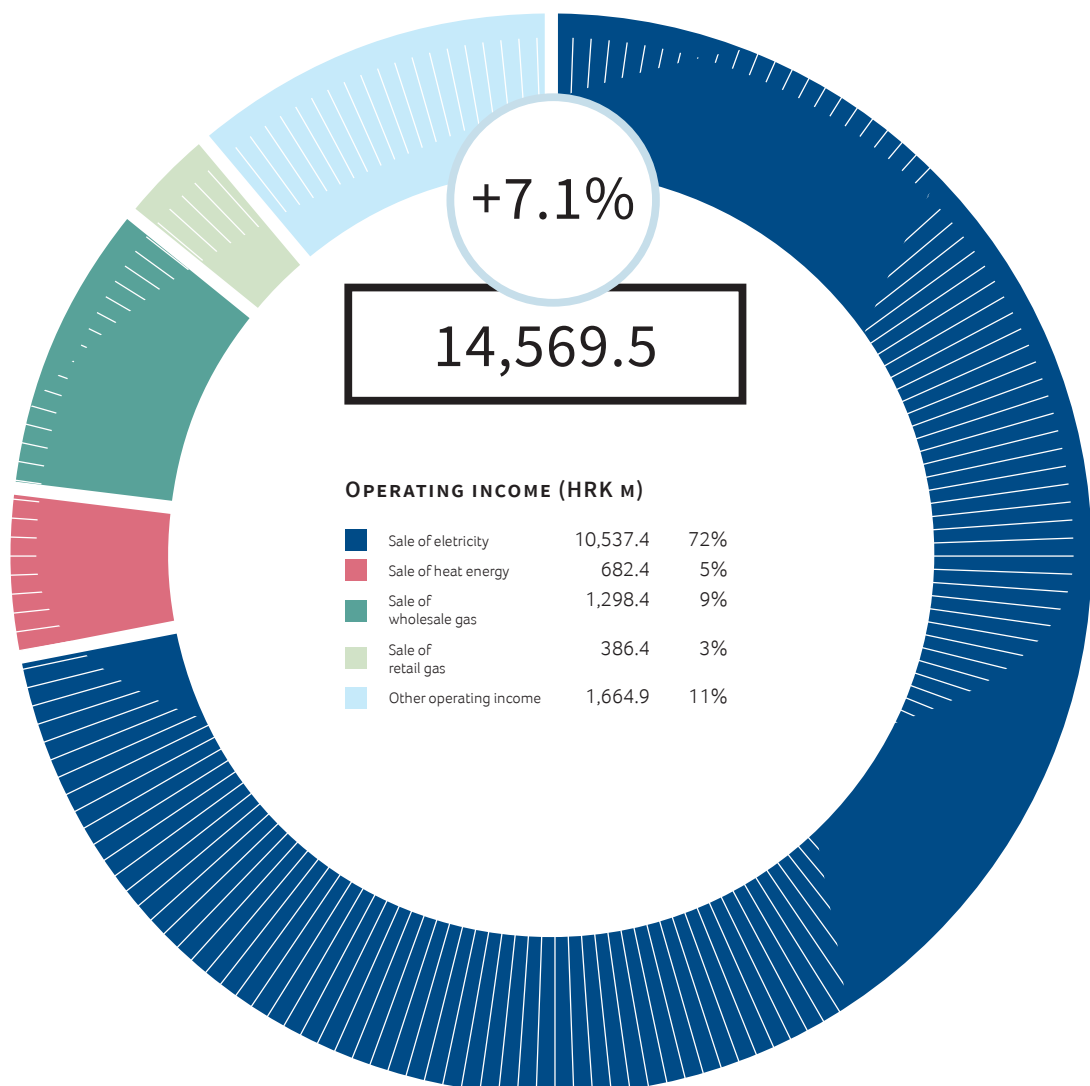
In 2015, the Group earned operating income in the amount of HRK 14,569.5 m, an increase by HRK 970.3 m (7.1%) compared to 2014. The growth of operating income is primarily the result of increased income from the sale of gas on the wholesale market as well as the increase of other operating income. The Group earned 72% of its operating income from the sale of electricity. A 0.4% decrease compared to the year before is the result of lower income from exports by 18.4% than in the year before due to a decreased export of surplus electricity produced in HEP power plants, which reached high levels in 2014 due to the record electricity generation by hydropower plants, while the sale to domestic customers increased by 1.0% due to the recorded electricity consumption growth in Croatia.

Under the decision of the Croatian Government, Hrvatska elektroprivreda d.d. became the wholesale market gas supplier for the period 1 April 2014 until 31 March 2017. It sells gas to suppliers obligated to adhere to the public service of household gas supply under regulated terms and provides a reliable and safe gas supply. The Group recorded income from this activity of HRK 1,298.4 million accounting for 9% of operating income. This income is by HRK 608.8 million higher than in 2014 as the conduct of this activity commenced on 1 April 2014.

Income from the sale of heat energy, which accounts for 5% of operating income, increased by 3.7% as a result of increased consumption and low temperatures during winter months in early 2015.

Income from the sale of retail gas accounts for 3%, i.e. a 4.0% increase compared to 2014 resulting from increased sale by 8.4%. Increased income is the result of lower winter temperatures as well as the fact that HEP Group expanded its gas supply beyond areas supplied by the distribution network in East Slavonia by offering its electricity customers the possibility of gas purchase as well.

Other operating income increased in total by 29% compared to the year before, primarily due to income received under the court ruling for unsupplied electricity from Nuclear Power Plant Krško in the period between 1 July 2002 until 19 April 2003.

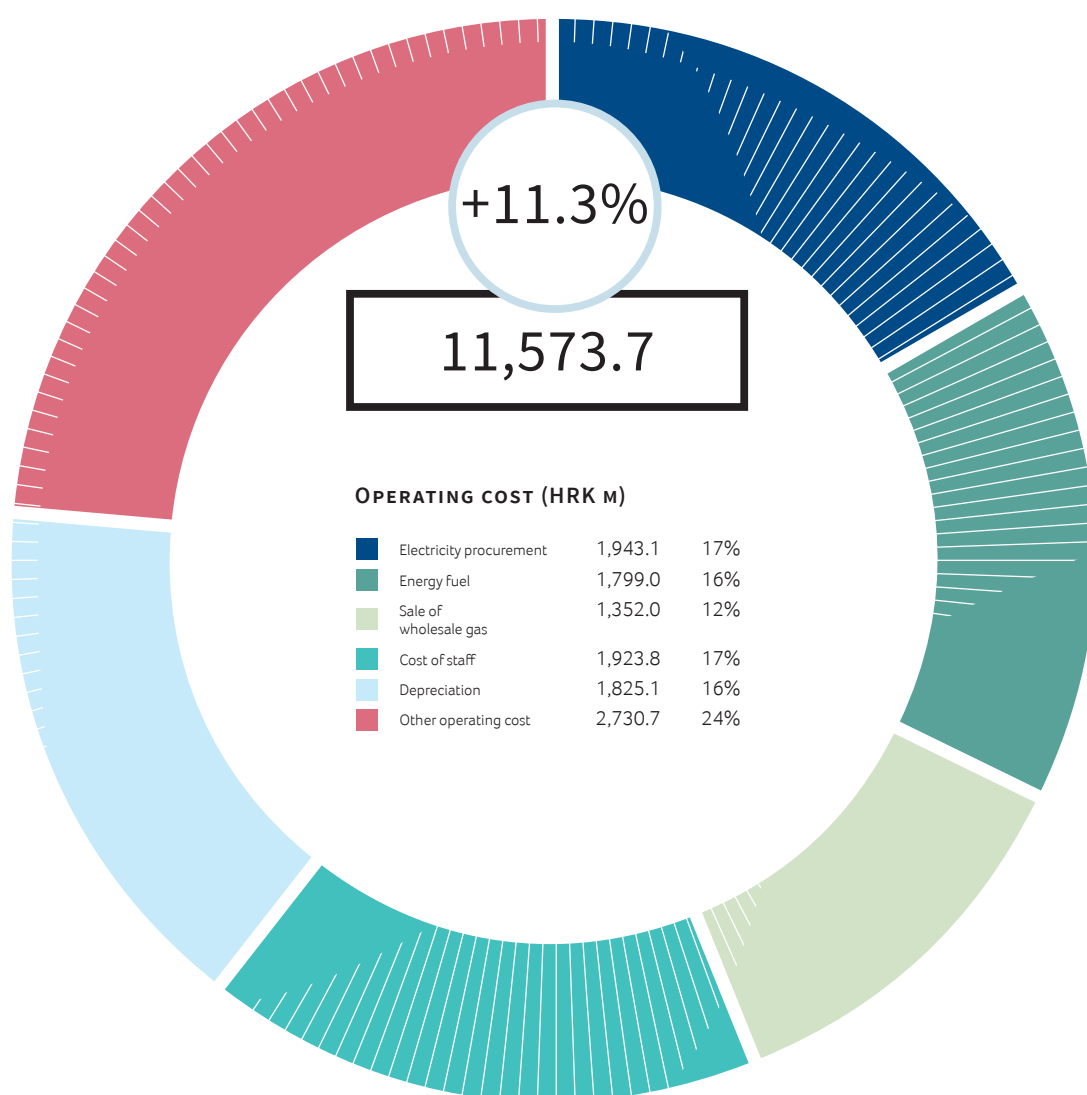


## OPERATING COST

Group's operating expenses increased in 2015 by HRK 1,175.0 million totalling at HRK 11,573.7 million. Energy fuel for electricity and heat energy generation as well as electricity procurement account for 32% of total expenses and amount to HRK 3,742.1 m, an increase by HRK 765.0 million or by 26% compared to 2014, which is the result of the following factors:

- hydropower plants generated 5.7 TWh of electricity, which is by 32.1% less than in 2014
- electricity import increased by 2.2 TWh due to decreased hydro generation, increased off-system trading and increased sale of electricity to domestic customers
- production by cogeneration thermal power plants increased by 266 GWh. Their production consumed 70.5% more fuel oil (in light of the legal obligation of utilizing stored high sulphur fuel oil with sulphur mass content higher than 1% until end 2015) and 9.5% more natural gas
- lower prices of gas, coal and electricity mitigated the impact of increased fuel consumption and increased electricity procurement on cost rise

Other operating expenses decreased in total by 6.7% compared to 2014 due to a reduced cost of gas procurement for customer supply in light of lower prices, and lower cost of provisions and value adjustments. Cost of staff increased by 2.3% due to the increase of the value of the salary-related point and the growth of the health insurance contribution rate.







The second US\$ 550 m Eurobond issuance was successfully completed in 2015.



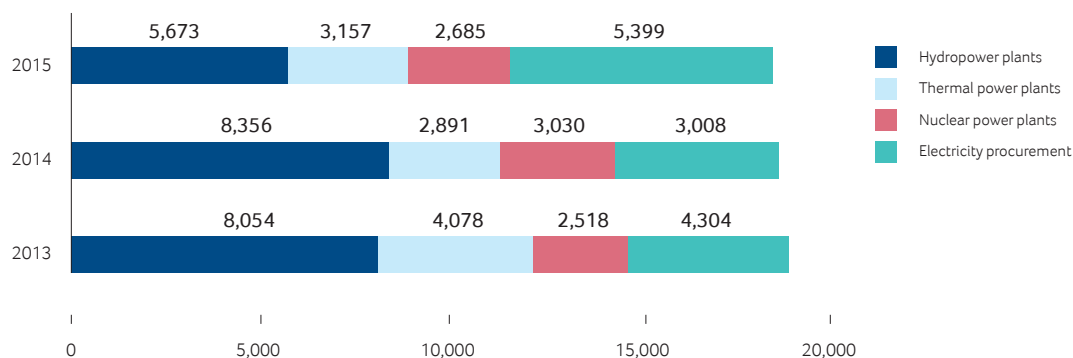
The demand for  
the new issuance  
was almost four  
times the offering  
exceeding  
2 billion US\$.

## ELECTRICITY

Electricity generation, transmission, distribution and supply are carried out by HEP Group across the entire area of Croatia. The Group is the biggest supplier of electricity. In 2015, the operating profit amounted to HRK 3.149,0 m.

Income from the sale of electricity totalled at HRK 10,537.4 m, 95% of which was achieved from the supply of domestic customers, and 5% from the sale abroad.

### ELECTRICITY GENERATION AND PROCUREMENT (GWh)



Power plants wholly or partially owned by the Group generated 11.5 TWh of electricity, which is 67% of the overall electricity turnover recorded by the Group in 2015. Under average hydrology characteristic for 2015, 5,673 GWh of electricity was generated, which is by 2,683 GWh less compared to the 2014 generation. Generation by cogeneration power plants also increased accounting for 18.3% of the overall energy demand in 2015.

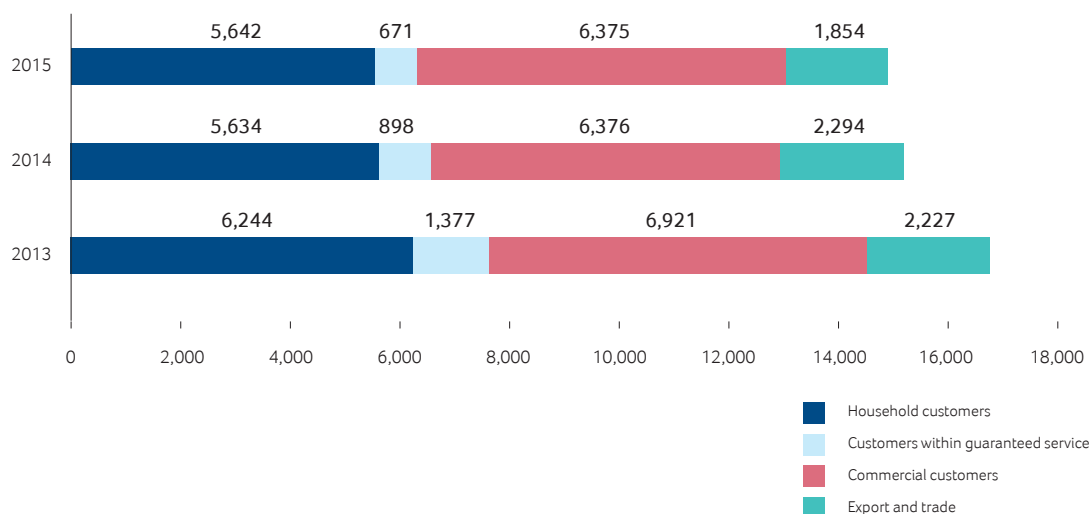
A total of 5,226 GWh of energy (30.6% of electricity demand) was procured off-system, which is by 2,326 GWh (80.2%) more than in 2014. 3,506 GWh of the overall amount accounts for electricity import for the needs of Croatian customers and resale, while 775 GWh was allocated to trading needs outside the Croatian electric power system. Furthermore, 926 GWh accounts for the mandatory repurchase of electricity generated by eligible producers within the incentive system (RES and cogeneration) from the Croatian Energy Market Operator (HROTE), and 19 GWh for the procurement from the producers other than HEP Group and traders in Croatia.

13.1 TWh of electricity was sold to domestic customers: 5.6 TWh (38%) to households, 6.7 TWh (45%) to entrepreneurs, and 0.7 TWh (5%) to customers within the guaranteed supply. The sale of HEP to domestic customers accounts for 84.6% of the overall electricity sale in Croatia in 2015. The sale abroad decreased and amounted to 1.9 TWh, which was by 19.2% less than in 2014. This decrease was due to the export of surplus electricity generated by HEP power plants, which was high in 2014 in light of the record high electricity generation by hydropower plants.

The insignificant decrease of income from electricity by 0.4% compared to 2014 along with the effect of decreased electricity import is a consequence of the reduced price for households within the universal service and for commercial customers within the guaranteed supply as of 1 July 2015 as well as a decrease of the average price for customers of HEP Supply due to adjustments made to the competition environment.

Under the Ordinance adopted by the Ministry of Economy on the criteria for the acquisition of the status of an energy vulnerable customer, household customers must pay a solidarity contribution of HRK 0.03/kWh of consumed electricity to the supplier as of 1 October 2015, while electricity suppliers must transfer these funds into the State Budget as means allocated for the reimbursement of energy costs for vulnerable customers meeting the terms and conditions set under separate provisions by the welfare department. As HEP Group has retained the same electricity price for household customers, the solidarity contribution decreased income from the sale of electricity to customers within the universal service and household customers of HEP Supply.

### ELECTRICITY SALE (GWh)



### HEAT ENERGY

Generation, distribution and heat energy supply are conducted on the areas of Zagreb, Osijek, Velika Gorica, Zaprešić, Samobor and Sisak. As heat energy consumption increased during winter months due to colder weather, 2.3 TWh of heat energy and process steam was produced, which was by 4.6% more compared to 2014. Sale of heat energy was recorded in the amount of 1.9 TWh or 3.7% more compared to 2014. The annual consumption of household and commercial customers increased by 3.2% and 4.4%, respectively.

District heating recorded operating loss of HRK 290.7 million in 2015. Compared to 2014, the loss decreased by HRK 55.8 m, primarily due to decreased cost of fuel and heat energy procurement resulting from lower prices of heat energy production fuels.

### GAS

HEP Group conducts the activity of retail distribution and customer supply. As of 1 April 2014, it has become the wholesale market supplier. In these activities, the operating profit of HRK 137.4 m was recorded compared to HRK 70.2 m achieved in 2014.

Retail gas distribution and supply is conducted in the following counties: Osječko-baranjska, Virovitičko-podravska and Požeško-slavonska. With the opening of the gas market, HEP Gas started supplying customers on other distribution areas (Zagreb, Varaždin, Bjelovar, Zadar, Križevci, Kutina, Ivanić Grad, Sisak, Slavonski Brod, Samobor, Koprivnica, Pitomača, Virovitica, Rijeka, Vinkovci etc.). Income from retail gas distribution and supply was HRK 386.4 m, by 4.0% more than in 2014 due to increased consumption (8.4% higher than in the previous year) and lower winter temperatures. Sale of gas to households and entrepreneurs increased by 5.7% and 11.5%, respectively due to increased sale on the distribution area of HEP Gas (3.7%) and the sale to new customers on other distribution areas (127.1%).

In gas wholesale, conducted by HEP Group as of 1 April 2014 pursuant to the decision of the Croatian Government, income of HRK 1,298.4 m was achieved. Prices at which HEP procures gas from INA and sells it to suppliers under the public service obligation of gas supply to households are set by the Government. In March, new lower prices for the period from 1 April 2015 until 31 March 2016 were set.

## FINANCIAL POSITION

### CONSOLIDATED BALANCE (ABRIDGED)

	31 December 2014		31 December 2015		Change 15/14 (%)
	HRK m	share	HRK m	share	
Long-term assets	30,780.6	86%	31,546.1	83%	+2.5%
Short-term assets	5,076.1	14%	6,665.3	17%	+31.3%
<b>Total assets</b>	<b>35,856.7</b>	<b>100%</b>	<b>38,211.4</b>	<b>100%</b>	<b>+6.6%</b>
Capital and reserves	22,077.6	62%	24,025.2	63%	+8.8%
Long-term provisions	902.8	3%	969.5	3%	+7.4%
Long-term liabilities	8,991.8	25%	9,645.7	25%	+7.3%
Short-term liabilities	3,884.6	11%	3,571.0	9%	-8.1%
<b>Total liabilities and capital</b>	<b>35,856.7</b>	<b>100%</b>	<b>38,211.4</b>	<b>100%</b>	<b>+6.6%</b>

### ASSETS

The value of HEP Group's total assets at the end of 2015 was HRK 38.2 bn and it increased by HRK 2,354.7 m. Long-term assets accounted for 83% of Group's asset value, which marked an increase of HRK 765.5 m resulting from the increased value of real estates, plants and equipment as well as the investment in the preparation and construction of new energy facilities, connection of customers as well as replacement, reconstruction and refurbishment of existing energy facilities.

The value of short-term assets was HRK 6.7 bn and it increased by HRK 1.589.2 m due to the increase of cash and cash equivalents by HRK 1,413.3 m and the increase of other short term receivables by HRK 317.5 m. Inventories stood at HRK 1.5 billion, a decrease by HRK 124.0 m due to reduced fuel and chemicals reserves. Trade receivables of HRK 1.8 billion represent a decrease by HRK 17.6 million.

### CAPITAL AND LIABILITIES

Capital and reserves at the end of 2015 amounted to HRK 24 bn with an increase of HRK 1,947.6 m in comparison with 2014 due to achieved profit. This increased the share of this item in the Group's total assets from 62% to 63%.

Long-term provision was increased by HRK 66.7 m, primarily due to the increase of provisions for severance pays.

Long-term liabilities amounted to HRK 9,645.7 m and accounted for 25% of Group's total liabilities and equity. They increased by HRK 653.9 m due to increased liabilities for issued bonds resulting from the issue of Eurobonds in October 2015.

Short-term liabilities amounted to HRK 3,571.0 m. They decreased by HRK 313.6 m compared to early 2015. Other short term liabilities decreased (primarily liabilities for severance and interest rate costs), liabilities for taxes, contributions and due maturity of long term loans. Trade liabilities, interest and staff related liabilities all increased. The debt/equity ratio increased to 23.7% compared to 22.7% in late 2014.

## CREDIT RATINGS

HEP is rated by both Standard&Poor's and Moody's. In July 2015, Standard&Poor's changed the credit rating outlook for the Republic of Croatia from stable into negative. Due to the methodology used for rating state-owned companies, HEP included, HEP's credit rating (BB-) outlook was also changed from stable into negative in the report published on 22 July 2015. In 2005, Moody's revised and affirmed the existing rating (Ba2) with a stable outlook. Both agencies affirmed credit ratings for the US\$ 500 m bond issuance in October.

In March 2016, Moody's affirmed HEP's Ba2 rating but changed the outlook from stable into negative as a result of Croatia's rating downgrade to Ba2 with a negative outlook and in view of the methodology this rating agency applies to state-owned companies.

Credit agency	baseline credit assessment	standalone credit quality
Standard & Poor's	BB- (negative)	b+
Moody's	Ba2 (negative)	ba3

## INVESTMENTS

In 2015, the Group made investment in the amount of HRK 2,528.1 m. Main investments focused on the reconstruction and modernization of generation facilities and electric power system plants, the construction of new generation facilities and the reconstruction of the existing and the construction of new transmission and distribution network infrastructure.

Apart from the above, investments were made in district heating and gas distribution systems as well as the upgrade of IT and telecommunication infrastructure and the development of the EV charging stations across Croatia.

Investments	HRK m			
	2013	2014	2015	2015/2014
Investments in property, plants and equipment	2,166.9	2,063.7	2,528.1	+22.5%

Through continuous investments into the maintenance and modernization of the existing facilities and the construction of new generation capacities and network systems, HEP meets the following objectives: security of energy supply, competitiveness of HEP's power system, the development of HEP Group's business system, contribution to sustainability and the continuity of the Croatian energy sector by taking into consideration an ever bigger presence of other participants on the open market, especially in electricity supply and electricity generation from renewable energy sources.

Through investments, HEP Group achieves preconditions for the future reach of an adequate level of energy independence in electricity sector, by taking into consideration today's electricity consumption and the projection of its growth as well as the essential decommissioning of thermal facilities, which cannot meet prescribed conditions of environment protection because of their technological old age.

### IMPORTANT INVESTMENTS

- The construction of the gas-fired CCCGT Unit C (230 MWe + 50 MWt) in TPP Sisak was completed and put into trial run.
- Agreements for the construction of wood biomass cogeneration facilities BE-TO Osijek (3 MWe; 10 MWt) and BE-TO Sisak (3 MWe; 10 MWt) were signed. The power purchase agreement was also concluded with HROTE.
- The third phase of the installation of replacement units of increased capacity as part of the revitalisation of HPP Zakučac was completed. All activities conducted on generation unit A in HPP Dubrovnik were completed and it was connected on the electric power system of the Republic of Croatia.



The third revitalised unit of Zakučac hydropower plant was put into operation.



In view of the investment and its overall hydro investment cycle, HEP has become Croatia's biggest investor in green economy.



- The Exclusivity Agreement was concluded with the preferential bidder for the strategic partner on the construction of TPP Plomin C (500 MW). Construction preparation was completed.
- The conceptual design for the location permit on the construction preparation of HES Kosinj/Senj II was agreed.
- Croatia completed the HPP Dubrovnik II EIAS. The decision on launching an administrative procedure depends on a business execution model with Elektroprivreda Republike Srpske.
- According to the EBRD procurement rules, tender for the construction of CCCGT Unit in EI-TO Zagreb (90-150 MWe; do 120 MWt) was prepared.
- Under the Conclusion adopted by the Supervisory Board of HEP d.d., the annex to the Connection Pre-Agreement was signed with HOPS, and the comprehensive analysis of connecting the combined-cycle cogeneration plant Osijek 500 into the Croatia's electric power system and relevant markets carried out.
- In terms of distribution, the construction, reconstruction, transformation upgrade or the construction of additional MV plants in several 110/10(20)kv, 35/10(20)kv electric power facilities and the MV network was completed.
- The recovery of voltage conditions and the increase of the security of supply in distribution network continued as well as investments into the replacement and regulation of metering points and connections.
- In terms of district heating, the works on connecting Zagreb districts of Dubrava onto the central heating system, the revitalisation of hot water and steam pipeline network of the city of Osijek, the introduction of the remote operation system continued as well as the revitalisation of the warm-, hot-, and steam pipeline network of the city of Zagreb. The revitalisation of a section of the warm-water network in Velika Gorica was completed.
- In terms of gas distribution, the construction of the gas network in Osijek-Baranja County (Bolman and Novi Bolman settlements) and Virovitica-Podravina County (Sopje municipality) continued.
- Continuous investments are made in the development of IT and telecommunication infrastructure as well as in the construction of telecommunication network which ensures the connection of important facilities and business infrastructure into HEP's telecommunication system as well as a creation of preconditions for the implementation of the smart grid concept.
- The upgrade of the SAP IS-U-based EDM/ECM system was launched.
- Within the project of e-mobility, development and construction of the EV charging public infrastructure continued across Croatia.





# 4

## Financial statements

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HRVATSKA ELEKTROPRIVREDA D.D. ZAGREB

# Annual consolidated financial statements

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

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the consolidated financial statements of the Company.

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

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

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

Signed for and on behalf of the Management Board

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board

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

# INDEPENDENT AUDITOR'S REPORT

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

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

### Management's Responsibility

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

### Auditor's Responsibility

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

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

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

### Opinion

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

### Emphasis of matter

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

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

#### Opinion on compliance with other legal or regulatory requirements

7. The Management Board is responsible for the preparation of the annual consolidated financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual consolidated financial statements"). Financial information presented in the Company's standard annual consolidated financial statements are in accordance with the information presented in the Company's annual consolidated financial statements presented on pages 63 to 137 on which we have expressed our opinion as presented in the paragraph Opinion above.

#### Opinion on compliance with the Annual Report

8. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual consolidated financial statements. In our opinion, pursuant to the conducted audit of the Company's annual consolidated financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual consolidated financial statements presented on pages 63 to 137 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 29 April 2016

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

Irena Jadrešić, certified auditor  
Zdenko Balen, Management Board member



# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

**Consolidated Statement of Comprehensive Income (continued)**  
**For the year ended 31 December 2015**

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

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

## Consolidated Balance Sheet / Statement of Financial Position

AS AT 31 DECEMBER 2015

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

Consolidated Balance Sheet / Statement of Financial Position (continued)  
For the year ended 31 December 2015

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

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Revaluation reserves	Retained earnings / Loss carried forward	Equity attributable to Owners of the Parent	Non controlling interests	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>Balance at 1 January 2014</b>	<b>19,792,159</b>	<b>2,617</b>	<b>18,809</b>	<b>19,813,585</b>	<b>31,977</b>	<b>19,845,562</b>
Profit for the year	-	-	2,462,332	2,462,332	3,092	2,465,424
Other comprehensive income	-	52,330	2,135	54,465	81	54,546
Total comprehensive income	-	52,330	2,464,467	2,516,797	3,173	2,519,970
Land surpluses	-	-	2,907	2,907	-	2,907
Payment of retained earnings	-	-	(284,918)	(284,918)	-	(284,918)
Distribution of dividends to (RWE)	-	-	-	-	(5,948)	(5,948)
<b>Balance at 31 December 2014</b>	<b>19,792,159</b>	<b>54,947</b>	<b>2,201,265</b>	<b>22,048,371</b>	<b>29,202</b>	<b>22,077,573</b>
Profit for the year	-	-	1,939,095	1,939,095	962	1,940,057
Other comprehensive income	-	45,889	(4,196)	41,693	(257)	41,436
Total comprehensive income	-	45,889	1,934,899	1,980,788	705	1,981,493
Land surpluses	-	-	1,401	1,401	-	1,401
Other changes	-	-	(5,357)	(5,357)	-	(5,357)
Distribution of dividends to (RWE)	-	-	-	-	(29,907)	(29,907)
<b>Balance at 31 December 2015</b>	<b>19,792,159</b>	<b>100,836</b>	<b>4,132,208</b>	<b>24,025,203</b>	<b>-</b>	<b>24,025,203</b>

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board

## Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2015

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

**Consolidated Statement of Cash Flows (continued)**  
**For the year ended 31 December 2015**

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

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić  
 President of the Management Board

Tomislav Rosandić  
 Member of the Management Board

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2015

## 1. GENERAL

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

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37. The principal activities of the Group are generation, transmission and distribution of electricity, and the control of the electric power systems. In addition to main activities, HEP Group also produces and distributes thermal power through the district heating systems in Zagreb and Osijek, and the distribution of gas in Osijek and Đakovo. All the Group’s activities are governed by applicable laws, regulations and decisions issued by the Croatian Government.

As at 31 December 2014 the Group employed 11,935 employees (2014: 12,061), excluding Krško Nuclear Power Plant which employed 648 employees (2014: 646).

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

### LAWS REGULATING THE ENERGY SECTOR

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

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

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



**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 1. GENERAL (continued)

### LAWS REGULATING THE ENERGY SECTOR (CONTINUED)

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

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 1. GENERAL (continued)

### GENERAL ASSEMBLY

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

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

### SUPERVISORY BOARD

#### Members of the Supervisory Board in 2015

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

#### Members of the Supervisory Board in 2014

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 1. GENERAL (continued)

### *Management Board in 2015*

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

### *Management Board in 2014*

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### BASIS OF ACCOUNTING

The Group maintains its accounting records in the Croatian language, in Croatian Kuna and in accordance with Croatian legislation and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Group's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions. The Group's consolidated financial statements are presented in thousands of Croatian Kuna (HRK'000).

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

#### *STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT PERIOD*

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### NEW AND REVISED IFRSS ADOPTED BY THE EU IN ISSUE BUT NOT YET EFFECTIVE

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

### NEW AND REVISED IFRSS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU

*THE FOLLOWING STANDARDS AND AMENDMENTS TO THE EXISTING STANDARDS HAVE NOT BEEN ADOPTED BY THE EU YET:*

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will affect the classification and measurement of financial instruments.
- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The Company prepares its consolidated financial statements in accordance with IFRS and does not apply this standard.
- IFRS 15 Revenue from Contracts with Customers – IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. Management Board perform detailed analysis about the possible effects of the mentioned standards on the Company's consolidated financial statements.
- Annual Improvements to IFRSs 2012–2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

The effective date of the amendments is 1 January 2016. Earlier application is permitted.

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### NEW AND REVISED IFRSS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU (CONTINUED)

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

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

### THE BASIS FOR PREPARATION OF THE COMPANY'S FINANCIAL STATEMENTS

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

### PRINCIPLES AND METHODS OF CONSOLIDATION

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### **PRINCIPLES AND METHODS OF CONSOLIDATION (CONTINUED)**

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

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

### **REPORTING CURRENCY**

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

### **INVESTMENTS IN JOINT ARRANGEMENTS**

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

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

In classification of investments in joint operations, the Group considers:

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

Interest in joint ventures are measured using equity method.

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### EMPLOYEE BENEFITS

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

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

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

### HEALTH INSURANCE CONTRIBUTIONS

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

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

The Group pays employees jubilee awards and one-time severance payments upon retirement. The liabilities and expenses for these payments are determined with the application of the projected unit credit method. By using projected unit credit method, each period of seniority is observed as the basis for additional units of eligibility to allowances and each unit is measured separately until the realization of final liabilities. This liability is determined at the present value of projected future cash outflow with the application of the discount rate which is similar to the interest rate of State bonds in Croatia released on the market where the currency and maturity is in accordance with the currency and estimated duration of liabilities for the payment of these allowances. Liabilities and the costs of these allowances were calculated by a certified actuary.

### JUBILEE AWARDS

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



**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### JUBILEE AWARDS (CONTINUED)

#### SEVERANCE PAYMENTS

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

### PROPERTY, PLANT AND EQUIPMENT (HEREINAFTER: PPE)

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

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

<b>Buildings</b>	<b>2015 and 2014</b>
Hydroelectric power plants (flood gates and dams, buildings and other buildings as well as accompanying objects)	20 – 50 years
Thermal power plants (buildings and other structures)	33 – 50 years
Electricity transmission and distribution plants and facilities (transmission lines and buildings of transformer stations, switch-yard, dispatch centres and others)	20 – 40 years
Water and steam pipelines and other thermal power generation and transmission objects	33 years
Gas pipelines until 2014	20 – 25 years
Gas pipelines from 2014	40 years
Administrative buildings	50 years
<b>Plant and equipment</b>	
Hydroelectric power plants	10 – 33 years
Thermal power plants	6 – 25 years
Electricity transmission plants and facilities (electric parts of transformer stations and 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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The cost of PPE comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location necessary for it to be capable of operating as intended by Management. Expenditures incurred after PPE have been put into operation are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of PPE beyond its originally assessed standard performance, the expenditures are capitalized as an additional cost of PPE. Costs eligible for capitalization include costs of periodic, planned significant inspections and overhauls necessary for further operation.

Any gains or losses arising from the disposal or retirement of any item of PPE is determined as the difference between the sale proceeds and the carrying amount of the asset and are recognized and is recognized as an expense or income in the consolidated statement of comprehensive income.

#### *IMPAIRMENT OF PPE AND INTANGIBLE ASSETS*

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

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

Recoverable amount is higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset for which the estimates of future cash flows have not been adjusted.

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

### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

### INTANGIBLE ASSETS

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### INVESTMENT PROPERTY

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

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

### FINANCE AND OPERATING LEASES

#### *THE GROUP AS LESSEE*

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

### TRADE RECEIVABLES AND PREPAYMENTS

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

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

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

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

### INVENTORIES

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

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

From 2013, inventories include CO<sub>2</sub> emission rights. After Croatia joined to the European system for greenhouse gas emissions trading (EU ETS), the Group as an electricity and thermal energy generator, is obligated to purchase greenhouse gas emission units in the amount corresponding to verified emissions of CO<sub>2</sub> generated from the fossil fuel combustion in thermal power plants, as a result of which CO<sub>2</sub> is emitted. The Group is obligated to have defined quantities of CO<sub>2</sub> emission rights at 30 April (yearly cycle). Due to withdrawal of IFRIC 3 Emission Rights and insufficient provisions of IFRS, the Group has analyzed different accounting models for CO<sub>2</sub> emission rights, and among other EFRAG discussion papers. Occasionally, the Group trades with CO<sub>2</sub> emission rights. Due to that the Group recognize these emission rights as inventory.

From April 2014, inventories include gas stock held for trading on the wholesale market and are stated at lower of cost and net realizable value. The Group measures inventories based on the weighted average price (Note 18).

Inventory costs for quantities of gas for direct delivery to customers are calculated using method of specific identification. Cost comprise invoiced amount as well as all other costs directly attributable to bringing inventories to their present location and condition.

### CASH AND CASH EQUIVALENTS

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

### BORROWING COSTS

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

All other borrowing costs are recognized as an expense in the period in which they incurred. Interest expense is recognized on an accrual basis.

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### FOREIGN CURRENCIES

Separate financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are presented in Croatian Kuna (HRK), as the Group's functional and presentation currency.

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

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

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

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

### TAXATION

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

#### *CURRENT TAX*

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

#### *DEFERRED TAX*

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or asset realized, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### TAXATION (CONTINUED)

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

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

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

### FINANCIAL ASSETS

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

Financial assets are classified as Available-for-sale, at fair value through profit or loss and Loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *EFFECTIVE INTEREST METHOD*

The effective interest method is a method of calculating the amortized cost of financial asset and of allocation interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

#### *AVAILABLE-FOR-SALE FINANCIAL ASSETS (AFS)*

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

Dividends i.e. profit shares on equity instruments are recognized as profit or loss when the Group's right to receive the dividends has been established.



**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### **FINANCIAL ASSETS (CONTINUED)**

The fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate prevailing at the end of the reporting period.

#### *LOANS AND RECEIVABLES*

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

#### *IMPAIRMENT OF FINANCIAL ASSETS*

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

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

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

In respect of AFS equity instruments, any increase in fair value subsequent to an impairment loss is recognized directly in revaluation reserve.

#### *INVESTMENTS*

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### FINANCIAL LIABILITIES

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

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

#### *DERECOGNITION OF FINANCIAL LIABILITIES*

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

### DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### PROVISIONS

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

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

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

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

### REVENUE RECOGNITION

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

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### REVENUE FROM CONNECTION FEES

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

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

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

### SEGMENT ANALYSIS

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### **CRITICAL JUDGMENTS WHEN APPLYING ACCOUNTING POLICIES**

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

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

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

#### *FAIR VALUE OF FINANCIAL ASSETS*

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

#### *PROVISIONS FOR ENVIRONMENTAL PROTECTION*

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

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

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

#### *RECOGNITION OF REVENUES FROM SALE OF ELECTRICITY - HOUSEHOLDS*

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

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

### CRITICAL JUDGMENTS WHEN APPLYING ACCOUNTING POLICIES (CONTINUED)

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

The impairment calculation requires the estimate of value in use of the cash generating units. That value is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgments used in determining cash inflows and outflows.

#### *AVAILABILITY OF TAXABLE PROFITS FOR WHICH DEFERRED TAX ASSETS COULD BE RECOGNIZED*

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

#### *ACTUARIAL ESTIMATES USED IN DETERMINING SEVERANCE PAYMENTS AND JUBILEE AWARDS*

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty regarding those estimates. Provisions for jubilee awards and severance payments amounted to HRK 420,425 thousand as at 31 December 2015 and HRK 364,497 thousand as at 31 December 2014 (Note 25).

#### *CONSEQUENCES OF CERTAIN COURT DISPUTES*

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

### 3. SEGMENT INFORMATION

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

	Electricity		Heating		Gas		Group		
	2015	2014	2015	2014	2015	2014	2015	2014	
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	
Operating revenue	10,537,427	10,575,290	682,388	671,946	1,684,740	1,061,065	12,904,555	12,308,301	
Other segment income	1,588,378	1,203,331	55,407	58,401	21,125	29,141	1,664,910	1,290,873	
<b>Operating profit / loss</b>	<b>3,149,041</b>	<b>3,476,794</b>	<b>(290,676)</b>	<b>(346,516)</b>	<b>137,400</b>	<b>70,171</b>	<b>2,995,765</b>	<b>3,200,449</b>	
							Net financial expenses	(600,041)	(122,906)
							Corporate income tax	(455,667)	(612,119)
							<b>Net profit</b>	<b>1,940,057</b>	<b>2,465,424</b>

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

	Total segment assets		Total segment liabilities	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
				<b>Restated</b>
Electricity	29,030,695	27,807,534	6,125,754	6,613,995
Heating	1,204,678	1,184,190	187,850	203,167
Gas	383,816	389,202	101,933	104,419
Unallocated	7,592,197	6,475,792	7,770,646	6,857,564
<b>Group Total</b>	<b>38,211,386</b>	<b>35,856,718</b>	<b>14,186,183</b>	<b>13,779,145</b>

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

### 3. SEGMENT INFORMATION (continued)

#### CUSTOMER INFORMATION

In 2015 electricity sales amounts to HRK 10,537,427 thousand (2014: HRK 10,575,290 thousand). Heating energy sales for the year 2015 amounts to HRK 682,388 thousand (2014: HRK 671,946 thousand). In 2015 gas sales in wholesale market amounts to HRK 1,298,352 thousand and gas sales to customers in the amount of HRK 386,388 thousand (2014 wholesale market: HRK 689,575 thousand; gas sales to customers HRK 371,490 thousand).

#### GEOGRAPHICAL INFORMATION

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

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



Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

#### 4. OTHER OPERATING INCOME

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

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 5. STAFF COSTS

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

### TOTAL STAFF COSTS:

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

### REMUNERATIONS TO THE BOARD MEMBERS AND EXECUTIVES:

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

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 6. OTHER OPERATING EXPENSES

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 7. FINANCIAL INCOME AND EXPENSES

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 8. CORPORATE INCOME TAX EXPENSE

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

Adjustments of deferred tax assets are shown as follows:

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

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

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 8. CORPORATE INCOME TAX EXPENSE (continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 8. CORPORATE INCOME TAX EXPENSE (continued)

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 9. PROPERTY, PLANT AND EQUIPMENT

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



**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## **9. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 10. INTANGIBLE ASSETS

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 11. INVESTMENT PROPERTY

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 12. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

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

Prepayments for PPE relate to construction of production facilities.

## 13. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO

### INVESTMENT BACKGROUND

Legal status of the Nuclear Power Plant Krško ("NE Krško") was regulated by inter-republic (between Slovenia and Croatia) agreement dating back to 1970 and various agreements between the founders from 1974 and 1982. Pursuant to the stated agreements, the Company had a 50% interest in the NE Krško in Slovenia, the other 50% was held by ELES d.o.o., Ljubljana, the legal successor of the Slovenian power utility. In 1998, the Slovene government passed a decree transforming the NE Krško into a public company, NE KRŠKO d.o.o. ("NEK"), and nationalizing the nuclear power plant. Additionally, due to operational disputes, which include disagreements on energy prices to be charged and approval of annual budgets, the supply of power to HEP d.d. from NEK was cut off on 30 July 1998 and was not restored until 19 April 2003. In late 2001, the Governments of the Republic of Croatia the Republic of Slovenia signed an Agreement governing the status and other legal relations in connection with their respective investment in NEK, usage and decommissioning, as well as a partnership agreement between HEP d.d. and ELES GEN d.o.o. This agreement was ratified by the Croatian parliament during 2002, and it came into force at 11 March 2003, following the ratification by the Slovenian parliament on 25 February 2003. The Agreement acknowledges the ownership rights of HEP d.d. in the newly formed company, Nuklearna elektrana Krško d.o.o. ('NEK') in respect to its 50% holding in NEK, which were previously denied. Both parties have agreed to extend the useful life of the power plant at least to the year 2023. The Agreement also regulates that the produced electricity is supplied 50:50 to both contracting parties, and that the price of the electricity supplied is determined based on real production cost. The Agreement was also clearly defined obligation towards the Croatian half of disposal of radioactive waste and used nuclear fuel from NEK. Each country/government has an obligation to provide half of the funds necessary to prepare the decommissioning plan and cost of the program. Each side will allocate fund for this purpose into a separate fund in the amounts estimated by the decommissioning program. According to the current program of decommissioning and disposal of radioactive waste and spent nuclear fuel, HEP d.d. is a contributor to the Fund in the amount of EUR 14,250 thousand per year. HEP d.d. started to receive electricity from NEK on 19 April 2003, and expects to receive 2,700-2,950 GWh annually up to year 2023, representing 15% of electricity consumption in Croatia.

By the end of 2003, the provisions of the Agreement have been implemented according to which HEP d.d. and NEK waive mutual receivables for damages and withdraw all claims arising there from up to 30 June 2002, including the disputed liabilities for electricity purchase and amounts due with respect to the previously calculated contribution for financing the decommissioning of the power plant and funds to cover the losses from previous years. After implementing the changes, the capital of NEK as at 31 December 2003 amounted to SIT 84.7 billion (approximately: HRK 2.8 billion).

### CURRENT STATUS

#### **Payments to the Fund for Decommissioning of NEK**

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

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

### EXTENSION OF USEFUL LIFE OF NEK

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

### RESOLUTION OF AN INTERNATIONAL ARBITRATION DISPUTE

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

Compensation was paid in December 2015 and January 2016.

### ACCOUNTING OF NEK JOINT OPERATION

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

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

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 14. INVESTMENT IN THE TE PLOMIN

In November 1996, HEP d.d. entered into a Joint Venture Agreement with RWE Energie Aktiengesellschaft, Germany ('RWE') regarding the completion and operation of TE Plomin II. Consequently, a joint venture, TE Plomin d.o.o. ('TE Plomin') was formed in December 1996, with each partner holding 50% of the equity of the new entity.

Agreement between HEP d.d. and RWE expired in May 2015 in accordance with its provisions since HEP decided to exercise its right related to the possibility that 15 years after start of production, HEP can takeover RWE's shares in TE Plomin d.o.o..

Company signed with RWE termination of Joint Venture Agreement for TE Plomin II and the Agreement on the transfer of shares in TE Plomin II, and it became sole owner of the company TE Plomin d.o.o.

The Company paid all liabilities to RWE.

### EXTRACT FROM FINANCIAL STATEMENTS

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

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

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 15. LONG TERM LOANS AND DEPOSITS

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

Loans given to third parties:

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



Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 16. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS

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

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

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

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

	31 Dec 2015	31 Dec 2014
	HRK'000	HRK'000
<b>Available-for-sale investments:</b>		
Jadranski Naftovod d.d.	242,915	188,878
Viktor Lenac d.d.	115	128
Đuro Đaković d.d.	5	5
Kraš d.d.	3	2
Pevec d.d.	312	312
Jadran d.d.	364	365
Industrogradnja grupa d.d.	490	490
Optima Telekom d.d.	223	1,099
Institut IGH d.d.	98	178
Međimurje beton d.d.	154	104
HTP Korčula d.d.	59	50
INGRA d.d.	72	-
Other	35	-
	<b>244,845</b>	<b>191,611</b>
<b>Other investments</b>		
Geopodravina d.o.o.	200	200
LNG Hrvatska d.o.o.	865	865
	1,065	1,065
	<b>245,910</b>	<b>192,676</b>

**Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015**

## **16. 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. By Decision of the Management Board, shares of Jadranski Naftovod were classified as available for sale. Transfer of shares was registered at Central Depository Agency on 19 March 2009. In 2015 and 2014 fair value was determined by a market value from Zagreb Stock Exchange as of 31 December. The market price of one share of Jadranski Naftovod as of 31 December 2015 was HRK 4,500 and as of 31 December 2014 was HRK 3,499. By fair valuation of the investment in Jadranski Naftovod as of 31 December 2015 total amount of investment was increased by HRK 54,036 thousand (2014: increased by HRK 65,262 thousand). The fair valuation in 2015 and 2014 was recognised through equity (revaluation reserves), and adjusted for 20% by increasing deferred tax liabilities.

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 17. OTHER NON-CURRENT ASSETS

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

Prior to 1996, the Group had sold apartments/flats in its ownership to its employees, the sale of which was regulated by the laws of Republic of Croatia. These flats were usually sold on credit, and the related receivables, which are secured and bear interest at rates below market, are repayable on a monthly basis over periods of 20- 35 years. Receivables for sold apartments/flats were transferred to new subsidiaries as of 1 July 2002. The housing loan receivables are stated in the consolidated financial statements at their discounted net present values, determined using an interest rate of 7.0%. The liability to the State, which represents 65% of the value of sold apartments, is included in non-current liabilities to the State (Note 24). The receivables are secured by mortgages over the sold apartments.

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 18. INVENTORIES

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	HRK'000	HRK'000
Inventories of fuels and chemicals	129,118	292,215
Electric materials	320,381	298,635
Spare parts	197,320	191,943
Building material	32,699	38,193
Construction material	439,951	432,559
CO <sub>2</sub> emission units	297,128	219,270
Other inventories	62,473	64,812
Nuclear fuel and other material - NEK d.o.o.	229,941	281,135
	<b>1,709,011</b>	<b>1,818,762</b>
Write-off of obsolete materials and spare parts	(219,722)	(205,465)
	<b>1,489,289</b>	<b>1,613,297</b>

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 19. TRADE RECEIVABLES

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

Aging structure of unimpaired trade receivables:

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

Movements in impairments were as follows:

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

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 20. OTHER SHORT-TERM RECEIVABLES

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 21. CASH AND CASH EQUIVALENTS

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

Notes to the Consolidated Financial Statements (continued)  
 For the year ended 31 December 2015

## 22. EQUITY AND RESERVES

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

### REVALUATION RESERVES

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

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



Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 23. LONG-TERM LOAN LIABILITIES

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

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

### NEW FINANCING SOURCES

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

### LOANS IN USE

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 23. LONG-TERM LOAN LIABILITIES (continued)

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

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 24. LONG-TERM LIABILITIES TO THE STATE

Long-term liabilities to the State amounted to HRK 18,774 thousand in 2015 (2014: HRK 21,690 thousand) and relate to the sale of apartments to employees in accordance with the State program that was discontinued in 1996. According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the State at such time as the proceeds were collected. According to the law, HEP d.d. has no liability to allocate the funds until they are collected from the employee.

## 25. LONG-TERM PROVISIONS

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

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

Movements in provisions during the presented period were as follows:

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 25. LONG-TERM PROVISIONS (continued)

### PROVISIONS FOR COURT DISPUTES

Provisions for court disputes relate to cases where possible outcome has been determined as uncertain or negative. Most significant court disputes are initiated against HEP Proizvodnja d.o.o. and HEP d.d. HEP Proizvodnja d.o.o. is in litigation with Zagrebački Holding d.o.o., with provisions amounting to HRK 76,130 thousand in 2015 and relate to dispute for waste water treatment plant fees.

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

### WATER MANAGEMENT ACT

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 25. LONG-TERM PROVISIONS (continued)

### PROVISIONS FOR SEVERANCE PAYMENTS AND JUBILEE AWARDS

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

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

The following assumptions were used in preparing the calculations:

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

Notes to the Consolidated Financial Statements (continued)  
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## 26. LIABILITIES UNDER ISSUED BONDS

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

### BONDS ISSUED IN THE REPUBLIC OF CROATIA

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

### BONDS ISSUED ABROAD

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 26. LIABILITIES UNDER ISSUED BONDS (continued)

### CROSS CURRENCY SWAP

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

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

### REFINANCING

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

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

### THE NEW BOND ISSUE

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

### CROSS CURRENCY SWAP

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 26. LIABILITIES UNDER ISSUED BONDS (continued)

### DERIVATIVE FINANCIAL INSTRUMENTS

#### CROSS CURRENCY SWAP

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

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

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

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

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

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

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

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



Notes to the Consolidated Financial Statements (continued)  
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## 27. OTHER LONG-TERM LIABILITIES

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

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

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

Notes to the Consolidated Financial Statements (continued)  
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## 28. SHORT-TERM LOAN LIABILITIES

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	HRK'000	HRK'000
Current portion of RWE loan	-	8,981
	-	<b>8,981</b>

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

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

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

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

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

## 29. TAXES AND CONTRIBUTIONS

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

## 30. LIABILITIES TO EMPLOYEES

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

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 For the year ended 31 December 2015

### 31. TRADE PAYABLES

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

### 32. OTHER NON-CURRENT LIABILITIES

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

**Notes to the Consolidated Financial Statements (continued)**  
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### 32. OTHER NON-CURRENT LIABILITIES (continued)

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

Pursuant to The Act on Air Protection (Official Gazette No. 130/2011, 47/14) and the accompanying ordinances in the area of greenhouse gas emissions, HEP d.d. has been classified as the obligator of the EU ETS system. The Group is required to obtain a permit for greenhouse gas emissions and to monitor emissions from facilities in accordance with the approved monitoring plan and to submit verified reports the Environmental Protection Agency by 31 March each year, on the total CO<sub>2</sub> emissions for the previous calendar year.

Based on the submitted report, and not later than 30 April of the current year, the Group is obligated to submit quantities of emission units to the EU Registry in the amount equal to the verified total greenhouse gas emissions from the facilities in the previous calendar year. Pursuant to the above, the cost of greenhouse gas emissions fee consists of the amount of CO<sub>2</sub> emitted (equivalent) and the price of emission units which the Group calculates on accruals (accrued expenses) and expenses of the period during the year in which the greenhouse gases emissions.

### 33. RELATED PARTY TRANSACTIONS

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

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

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

Management remunerations are explained in the Note 5.

Notes to the Consolidated Financial Statements (continued)  
For the year ended 31 December 2015

### 33. RELATED PARTY TRANSACTIONS (continued)

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

Notes to the Consolidated Financial Statements (continued)  
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### 33. RELATED PARTY TRANSACTIONS (continued)

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

**Notes to the Consolidated Financial Statements (continued)  
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## 34. CONTINGENT LIABILITIES AND COMMITMENTS

### COURT DISPUTES

In 2015 the Group has recorded provisions for court disputes for which it considers it is unlikely that they will be ruled in favour of HEP d.d. and subsidiary companies.

The Group has long-term investments in Bosnia and Herzegovina and Serbia in the amount of HRK 1,243,970 thousand. During the Company's transition in 1994 into a shareholding company, this amount was excluded from the net assets value.

### OPERATING COMMITMENTS

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

### ENVIRONMENTAL AND NATURE PROTECTION

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

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



## 34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

### ENVIRONMENTAL AND NATURE PROTECTION (CONTINUED)

The CO<sub>2</sub> emissions trading system was officially set up in 2012 pursuant to the Decision of the Management Board of HEP d.d. under which, obligations, responsibilities and deadlines for meeting obligations for individual departments and companies within HEP's emission trading system are set. Croatian Environment Agency has opened nine "Accounts" of plant operators in the EU Greenhouse Gas Inventory. HEP successfully fulfilled its legal obligations for submission of emission units to the EU Greenhouse Gas Inventory for 2014 and for 2015 HEP entered information verifying CO<sub>2</sub> emission, which were after confirmation by Croatian officials submitted onto all nine Accounts of plant operators with the relevant quantities that corresponded the verified CO<sub>2</sub> emissions. In 2015 non-financial sustainability report for 2013 and 2014 for the HEP Group in accordance with Global Reporting Initiative (GRI 4) guidelines is finished. Sustainability Report was published on the website of HEP in Croatian and English language. Implementation of Environment management system in accordance with ISO 14001 in HEP's generation facilities is finished in 2015.

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

### GAS SUPPLY AT WHOLESALE MARKET

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

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

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

Notes to the Consolidated Financial Statements (continued)  
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## 35. SUBSIDIARIES

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

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

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

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

Notes to the Consolidated Financial Statements (continued)  
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## 36. FINANCIAL RISK MANAGEMENT

### CAPITAL RISK MANAGEMENT

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

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

### GEARING RATIO

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

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

### SIGNIFICANT ACCOUNTING POLICIES

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

### CATEGORIES OF FINANCIAL INSTRUMENTS

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

**Notes to the Consolidated Financial Statements (continued)**  
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## 36. FINANCIAL RISK MANAGEMENT (continued)

### FINANCIAL RISK MANAGEMENT OBJECTIVES

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

### MARKET RISK MANAGEMENT

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

### FOREIGN CURRENCY RISK MANAGEMENT

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

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

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

Notes to the Consolidated Financial Statements (continued)  
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### 36. FINANCIAL RISK MANAGEMENT (continued)

#### FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 36. FINANCIAL RISK MANAGEMENT (continued)

### INTEREST RATE RISK MANAGEMENT

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

### INTEREST RATE SENSITIVITY ANALYSIS

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

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

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

### CREDIT RISK MANAGEMENT

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Credit risk with respect to trade receivables is primarily related to corporate receivables, specifically those companies that are in difficult financial position. Overdue receivables from households are limited due to Group's ability to disconnect such customers from the power supply network.

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

Notes to the Consolidated Financial Statements (continued)  
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## 36. FINANCIAL RISK MANAGEMENT (continued)

### LIQUIDITY RISK MANAGEMENT

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

### LIQUIDITY AND INTEREST RATE RISK TABLES

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

#### MATURITY OF NON-DERIVATIVE FINANCIAL ASSETS

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
		HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
<b>2015</b>							
Interest free		4,097,584	803,872	55,069	46,927	68,923	5,072,375
Floating interest bearing	3.00%	-	-	775	26,254	-	27,029
Fixed interest bearing		-	-	-	-	-	-
<b>Total</b>		<b>4,097,584</b>	<b>803,872</b>	<b>55,844</b>	<b>73,181</b>	<b>68,923</b>	<b>5,099,404</b>
<b>2014</b>							
Interest free		2,366,041	801,454	337,149	39,131	910	3,544,685
Floating interest bearing		131	-	-	-	-	131
Fixed interest bearing	6.00%	62	10,618	522	-	-	11,202
<b>Total</b>		<b>2,366,234</b>	<b>812,072</b>	<b>337,671</b>	<b>39,131</b>	<b>910</b>	<b>3,556,018</b>

Notes to the Consolidated Financial Statements (continued)  
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### 36. FINANCIAL RISK MANAGEMENT (continued)

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

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

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



**Notes to the Consolidated Financial Statements (continued)**  
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## 36. FINANCIAL RISK MANAGEMENT (continued)

### FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

**Notes to the Consolidated Financial Statements (continued)**  
**For the year ended 31 December 2015**

## 37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board

# 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 2015, which comprise the Balance sheet / Statement of financial position as at 31 December 2015, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

### MANAGEMENT'S RESPONSIBILITY

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

### AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 HRVATSKA ELEKTROPRIVREDA d.d., Zagreb as at 31 December 2015, and its financial performance and cash flows for 2015 in accordance with the Accounting Act and International Financial Reporting Standards as adopted by EU.

#### EMPHASIS OF MATTER

5. As described in the Note 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 in organization of the HEP Group.
6. As described in the Note 25 to the financial statements, at 31 December 2015, the Company stated clearing debt liability in the amount of HRK 842,162 thousand (31 December 2014: HRK 759,089 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report it has not been clearly defined whether it relates to a loan or a government grant.
7. As described in the Note 26 to the financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities (canals, dams, etc.) used for generation of electricity from hydropower plants. Pursuant to the Water Act those property is defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. The Company has filed a motion to the Constitutional Court for review of the constitutionality of Article 23 Paragraph 4 of the Water Act and for the cancelation of the same.
8. The Company's accompanying financial statements are prepared in accordance with International Financial Reporting Standards as adopted by EU and the requirements of Croatian laws and regulations, and the Company's investments in subsidiaries and associates are stated at cost. The Company has also prepared consolidated financial statements for the Company and its subsidiaries compiled on 29 April 2016. For a better understanding of the Company and the Group as a whole, users should read the consolidated financial statements together with these financial statements.  
Opinion on compliance with other legal or regulatory requirements
9. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 5 to 97 on which we have expressed our opinion as presented in the paragraph Opinion above.

#### OPINION ON COMPLIANCE WITH THE ANNUAL REPORT

10. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual financial statements presented on pages 5 to 97 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 29 April 2016

BDO Croatia d.o.o.  
Irena Jadrešić, certified auditor  
Zdenko Balen, Management Board member

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

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK '000	HRK '000
		Restated
Revenue from electricity sales	5,420,126	7,236,373
Revenue from electricity sales-related companies	67,812	151,366
Revenue from sale of gas	1,298,352	689,575
Revenue from sale of gas to HEP- Plin – related company	167,124	94,542
Operating income – related companies	939,645	952,705
<b>Income from sale</b>	<b>7,893,059</b>	<b>9,124,561</b>
Other operating income	499,648	161,352
<b>Total operating income</b>	<b>8,392,707</b>	<b>9,285,913</b>
Electricity purchase cost	(2,108,770)	(1,451,604)
Electricity supplies – related companies	(464,428)	(598,714)
Costs of gas sold	(1,352,038)	(717,721)
Staff cost	(89,101)	(87,498)
Depreciation and amortization costs	(96,558)	(118,816)
Costs of allowances for the generation, transmission and distribution of electricity - related companies	(2,526,392)	(4,948,470)
Other operating expenses	(477,429)	(457,055)
<b>Total operating expenses</b>	<b>(7,114,716)</b>	<b>(8,379,878)</b>
<b>Operating profit</b>	<b>1,277,991</b>	<b>906,035</b>
Financial income	1,124,158	2,145,449
Financial expenses	(601,129)	(1,632,876)
<b>Net profit from financial activities</b>	<b>523,029</b>	<b>512,573</b>
<b>Profit before taxation</b>	<b>1,801,020</b>	<b>1,418,608</b>
Corporate income tax expense	(176,681)	(209,556)
<b>Profit for the year</b>	<b>1,624,339</b>	<b>1,209,052</b>

**Statement of comprehensive income – HEP d.d.  
for the year ended 31 December 2015 (continued)**

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		Restated
Profit /(loss) for the year	1,624,339	1,209,052
Other comprehensive income		
Net gain/loss from AFS financial assets	45,889	52,330
<b>Net other comprehensive income to be reclassified to income/ (loss) in subsequent periods</b>	<b>45,889</b>	<b>52,330</b>
Other comprehensive income, net	45,889	52,330
<b>Total comprehensive income for the year, net</b>	<b>1,670,228</b>	<b>1,261,382</b>

Signed on behalf of the Company on 29 April 2016:

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board

## Balance sheet / statement of financial position – HEP d.d.

AS AT 31 DECEMBER 2015

ASSETS	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
<b>Non-current assets</b>			
Property, plant and equipment	1,410,174	2,079,105	2,020,750
Assets under construction	447,646	328,465	399,818
Intangible assets	22,244	16,435	13,397
Investment property	14,487	13,889	8,533
Prepayments for property, plant and equipment	21,454	4,287	6,418
Investment in NE Krško	1,754,419	1,754,419	1,754,419
Investment and receivables from TE Plomin	252,201	254,278	256,404
Investment in subsidiaries	6,032,580	5,325,094	4,026,353
Available-for-sale and other investments	245,838	192,223	125,166
Long-term loans and deposits	28,476	4,404	6,031
Receivables on long-term leases from related parties	13,239,929	14,501,373	14,457,420
Receivables on long-term loans from related parties	79,129	94,929	110,729
Receivables on sub-leases from related parties	897,024	1,044,070	1,160,963
Other receivables	776	854	979
Derivative financial instruments	70,900	1,473	
Deferred tax assets	31,431	19,679	104,766
<b>Total non-current assets</b>	<b>24,548,708</b>	<b>25,634,977</b>	<b>24,452,146</b>
<b>Current assets</b>			
Inventories	753,624	673,279	89,980
Trade receivables	309,963	350,406	44,457
Current maturity of long-term receivables from related companies for rental	1,057,217	1,086,428	1,080,257
Current maturity of long-term rentals from related parties	148,223	154,219	125,355
Other short-term receivables	131,966	36,485	313,957
Receivables from related companies	6,180,063	4,074,125	5,457,238
Cash and cash equivalents	1,951,873	730,658	83,101
<b>Total current assets</b>	<b>10,532,929</b>	<b>7,105,600</b>	<b>7,194,345</b>
<b>TOTAL ASSETS</b>	<b>35,081,637</b>	<b>32,740,577</b>	<b>31,646,491</b>

Balance sheet / statement of financial position – HEP d.d.  
as at 31 December 2015 (continued)

<b>EQUITY AND LIABILITIES</b>	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
	HRK`000	HRK`000	HRK`000
		<b>Restated</b>	<b>Restated</b>
Share capital	19,792,159	19,792,159	19,792,159
Revaluation reserves	100,836	54,947	2,617
Retained earnings	4,932,491	3,328,974	2,404,841
<b>Total equity</b>	<b>24,825,486</b>	<b>23,176,080</b>	<b>22,199,617</b>
Liabilities under issued bonds	4,223,883	3,194,986	3,278,893
Long-term loan liabilities	923,161	1,242,508	1,661,916
Other long-term liabilities	939,287	764,855	1,066,862
Long-term liabilities to related companies	-	5,758	5,758
Long-term provisions	211,589	222,871	217,729
Deferred tax liabilities	21,816	13,573	654
<b>Total non-current liabilities</b>	<b>6,319,736</b>	<b>5,444,551</b>	<b>6,231,812</b>
Trade payables	681,827	561,814	358,023
Current portion of long-term bonds issued	93,380	93,380	93,380
Current portion of long-term loans	383,525	416,349	208,838
Short-term loans	-	-	664,609
Taxes and contributions	114,512	91,813	224,296
Interests payable	45,692	38,247	41,110
Liabilities toward related companies	2,578,573	2,658,833	1,507,607
Liabilities to employees	21,061	6,248	6,009
Other short-term liabilities	17,845	253,262	111,190
<b>Total current liabilities</b>	<b>3,936,415</b>	<b>4,119,946</b>	<b>3,215,062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,081,637</b>	<b>32,740,577</b>	<b>31,646,491</b>

Signed on behalf of the Company on 29 April 2016:

Perica Jukić  
President of the Management Board

Tomislav Rosandić  
Member of the Management Board





# 5

## Reports by HEP Group companies with financial statements

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HEP-PROIZVODNJA D.O.O.  
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HEP - OPERATOR  
DISTRIBUCIJSKOG  
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# HEP Proizvodnja d.o.o.

HEP-Proizvodnja continued to improve core generation activities within HEP Group in 2015 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.

The enhancement of HEP generation business activities includes a wide scope of technical and technological, economic and legal activities from the following priority business areas: planning, preparation and execution of the construction of new and the revitalization of the existing hydropower plants, thermal power plants and cogeneration plants; prevention and corrective maintenance according to plants condition and the needs of the Croatian electric power system; 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 electricity generation within the incentive system; implementation of environmental and work safety measures and activities; contribution to improvements of the Croatian energy regulations and active cooperation with the Croatian bodies and institutions.

From the energy point of view, the year 2014 was favourable in terms of hydrology with total recorded generation of 7,535 GWh, of which hydro and thermal production accounted for 5,673 GWh and 1,862 GWh, respectively. Heat energy production remained at the last years 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.

By appropriately maintaining its heat and electricity generation facilities, HEP Generation retained a high availability level of almost all its generation units in 2015. Apart from some minor difficulties, planned regular maintenance of generation units was carried out as well as the reactive maintenance in cases of breakdown repairs and operating disturbances.

For the purpose of ensuring the safety of the Croatian electric power system control, generation facilities operated by HEP Generation provided the complete provision of regulation and reserve capacity services by the transmission system operator (HOPS). Good cooperation in the field of operation and maintenance of generation units outside Croatian borders (Buško blato, Trebišnjica) was established.

HPP Lešće was issued the eligible producer status in 2015. The preliminary decision on acquiring the status of the eligible producer for the combined-cycle Unit L in TE-TO Zagreb was also issued. HPP Lešće generation was listed in the Registry of Guarantees of Electricity Origin managed by HROTE. The company continued its ten-year continuity of obtaining 'green energy' certificates issued by the international certification company for all HEP's hydropower plants, which facilitates the sale of green energy certificates on international and domestic electricity markets.

HEP Generation and HEP District Heating signed the contract on heat energy and process steam sale for central heating stations of the cities of Zagreb, Osijek and Sisak for 2016 with an annex containing the obligation on the part of HEP District Heating for arranging metering points at the interface of heat energy producers and distributors.

In 2015, HEP Generation continued the analysis of power plant consumption based on the metering points at the interface with the distribution network, which direct effects are expected in the form of optimizing monthly peak load reservations and the selection of electricity supply tariff models.

A high level of cooperation with the relevant bodies and energy sector institutions (Ministry of Economy, Ministry of Environmental Protection, HERA, HROTE) was retained.

Director  
Nikola Rukavina

## GENERATING CAPACITIES

HYDRO POWER PLANTS	AVAILABLE CAPACITY (MW) / (-MW pumping regime)	HYDRO POWER PLANTS	AVAILABLE CAPACITY (MW)
<b>Storage</b>		<b>Run-of-river</b>	
HE Zakučac	535*	HE Varaždin	92.46
RHE Velebit	276 (-240)	HE Dubrava	79.78
HE Orlovac	237	HE Čakovec	77.44
HE Senj	216	HE Gojak	55.5
HE Dubrovnik	126+126**	HE Lešće	41.2
HE Vinodol	90	HE Rijeka	36.8
HE Peruća	60	HE Miljacka	24
HE Kraljevac	46.4	HE Jaruga	7.2
HE Đale	40.8	HE Golubić	6.54
HE Sklope	22.5	HE Ozalj	5.5
CS Buško blato	7.5/4.2/(-10.2/-4.8)	HE Lešće ABM	1.09
CHE Fužine	4.6/(-5.7)	HE Krčić	0.34
HE Zavrelje	2		
RHE Lepenica	0.8 (-1.2)		
HE Zeleni vir	1.7		

CS: pumping station CHE: pumped storage RHE: reversible pump turbine ABM: biological minimum generator set  
\* If Units A and B work simultaneously, their max power is 2x131MW, power of Units C and D is 138MW+135MW.

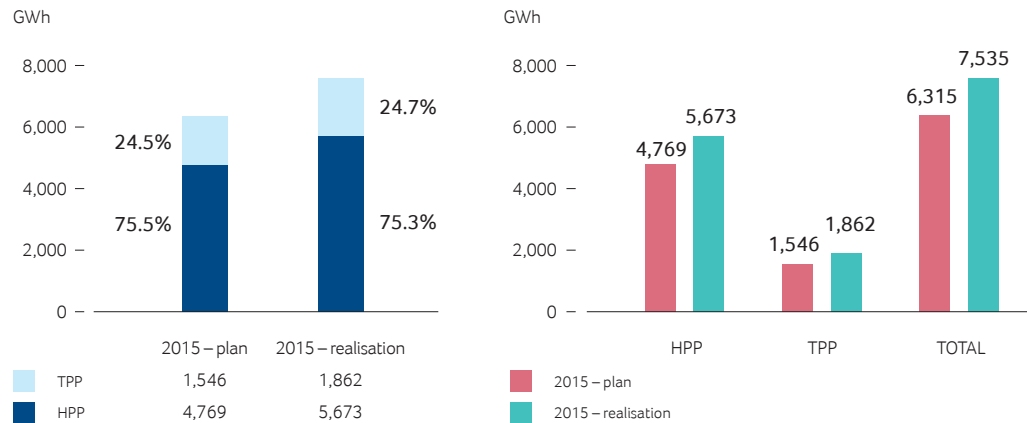
\*\* During the revitalization of HE Dubrovnik, a shared 50%-50% generation was agreed

THERMAL POWER PLANTS	NET AVAILABLE CAPACITY (MW,MWt,t/h)	FUEL
TE-TO Sisak	631 / 0 / 161	oil/natural gas
TE-TO Zagreb	422 / 743 / 360	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	89 / 120 / 80	oil / natural gas/extra light oil
KTE Jertovec	74	natural gas/extra light oil
<b>TE Plomin (B)*</b>	<b>192</b>	<b>coal</b>

\* Solely owned by HEP Group, HEP-Proizvodnja d.o.o. has the O&M agreement

## ELECTRICITY GENERATION IN 2015

In 2015, HEP Generation power plants produced the total of 7,535 GWh of electricity. Hydro and thermal generation accounted for 5,673 GWh or 75.3 percent and 1,862 GWh or 24.7 percent, respectively. Total generation was by 19.3 percent higher than planned including 19% and 20.4% higher hydro and thermal generation, respectively.



## HEAT ENERGY PRODUCTION IN 2015

In 2015, HEP Generation CCGT plants generated a total of 2,115,109 MWh of heat energy, which is 13.3% less than planned. Compared to the generated 2,058,100 MWh the year before, heat generation increased by 2.8 percent.

Process steam generation amounted to 734,568 tonnes, which is 16.7% less than planned but more than the 2014 production (729,217 t).

Heat production in 2015 was 1,541,177 MWh or 9.6% less than planned. However, it is still more than the production of the year before (1,450,662 MWh).

## AVAILABILITY OF POWER PLANTS RUN BY HEP GENERATION FOR 2015 INCLUDING TE PLOMIN D.O.O.

The 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) was 94.6% i.e. by 3.2% less than the 2014 availability.

# FINANCIAL REPORTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of company HEP Proizvodnja d.o.o.:

1. We have audited the accompanying annual financial statements of company HEP Proizvodnja d.o.o., Zagreb, Ulica grada Vukovara 37, (hereinafter "the Company") for the year ended 31 December 2015, which comprise of the Balance sheet / Statement of financial position as at 31 December 2015; Statement of comprehensive income; Statement of changes in equity; Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out significant accounting policies and other disclosures.

## THE MANAGEMENT'S RESPONSIBILITY

2. The Management is responsible for the preparation and a fair presentation of the enclosed financial statements according to the International Financial Reporting Standards adopted by the EU and also for 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.

## AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. The audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 as at 31 December 2015 and of the financial performance and cash flows of the Company for the year 2015 in accordance with the Accounting Act and International Financial Reporting Standards that are effective in the European Union.

## EMPHASIS OF MATTER

5. We draw attention that the Company as at 31 December 2015 stated loss exceeding capital in the amount of HRK 750,807 thousand. Pursuant to the Financial Operations and Pre-bankruptcy Settlement Proceedings Act, the Company does not meet the required criteria of capital adequacy. The Company's continued operations under the going concern basis depend on the Company's ability to secure sufficient resources to settle obligations in a timely manner, to secure adequate sources of financing and to commence operating at a profit. In order to achieve this as described in Note 1 to the Financial Statements, a member of the Company has obliged to offer financial support to the Company and the Company's Management is making efforts to improve current operations and the Company's financial position.

6. As described in the Note 1, to the enclosed financial statements, HEP d.d. has leased property, plant and equipment to its subsidiaries under finance lease agreements. 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 their nominal value because of the specifics of the HEP Group. As described in the Note 25 to the financial statements, provisions of the Water Act, which came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities used for generating electricity from hydropower plants. Pursuant to the Water Act those properties are defined as "Public water resources in general use in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are still in progress. Owner of the Company, Hrvatska elektroprivreda d.d. has filed a motion to the Constitutional Court for review of the constitutionality of Article 23 Paragraph 4 of the Water Act and the proposal for cancelation of said provision.

#### **OPINION ON THE COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENTS**

7. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in prescribed form based on the Statute of structure and content of annual financial statements (Official Gazette 38/08, 12/09, 130/10 and 78/15) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 5 to 57 on which we have expressed our opinion as presented in the paragraph Opinion above.

#### **OPINION ON THE COMPLIANCE WITH THE ANNUAL REPORT**

8. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report, approved for their issuance by the Management Board, are in compliance with the financial information presented in the Company's annual financial statements presented on pages 5 to 57 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 27 April 2016

BDO Croatia d.o.o.

Irena Jadrešić, Certified Auditor

Zdenko Balen, Member of the Management Board

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

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK'000	HRK'000
Income from fee electricity generation and other income from related companies	3,210,602	3,929,747
Other operating income	93,419	38,277
	<b>3,304,021</b>	<b>3,968,024</b>
Energy for manufacturing, materials and spare parts	(1,424,701)	(1,337,602)
Service expenses	(322,951)	(303,091)
Staff expenses	(344,049)	(345,522)
Depreciation	(233,306)	(237,160)
Administrative expenses – related companies	(122,067)	(96,312)
Other operating expenses	(369,513)	(433,013)
	<b>(2,816,587)</b>	<b>(2,752,700)</b>
<b>Profit from operating activities</b>	<b>487,434</b>	<b>1,215,324</b>
Financial income	720	472
Financial expenses	(64,577)	(68,213)
<b>Net loss from financial activities</b>	<b>(63,857)</b>	<b>(67,741)</b>
<b>Profit before taxation</b>	<b>423,577</b>	<b>1,147,583</b>
Corporate income tax	(86,467)	(232,560)
<b>Profit for the business year</b>	<b>337,110</b>	<b>915,023</b>



HEP-Proizvodnja d.o.o.,  
 Statement of comprehensive income  
 for the year ended 31 December 2015 (continued)

	2015	2014
	HRK`000	HRK`000
<b>Profit for the current year</b>	<b>337,110</b>	<b>915,023</b>
Other comprehensive income or loss for the current year		
<b>Total comprehensive profit for the current year</b>	<b>337,110</b>	<b>915,023</b>

Signed for and on behalf of the Management Board,  
 Nikola Rukavina,  
 Director

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

AS AT 31 DECEMBER 2015

ASSETS	31 December 2015	31 December 2014
	HRK'000	HRK'000
Intangible assets	42,011	13,764
Property, plant and equipment	4,034,362	3,843,159
Investments in progress	2,439,758	2,418,733
Investment properties	38,617	38,651
Prepayments for property, plant and equipment	31,796	50,848
Investments in subsidiaries	8	8
Receivables from the sale of apartments	6,524	8,356
Deferred tax assets	513,915	541,242
<b>Total long-term assets</b>	<b>7,106,991</b>	<b>6,914,761</b>
Inventories	148,016	313,630
Other short-term assets	123,698	6,525
Receivables from related companies	1,913,324	1,953,235
Trade receivables	2,382	2,341
Current portion of long-term receivables	2,420	2,451
Cash and cash equivalents	53,600	37,885
<b>Total short-term assets</b>	<b>2,243,440</b>	<b>2,316,067</b>
<b>TOTAL ASSETS</b>	<b>9,350,431</b>	<b>9,230,828</b>

HEP Proizvodnja d.o.o.,  
Balance sheet / statement of financial position  
as at 31 December 2015 (continued)

CAPITAL AND LIABILITIES	31 December 2015	31 December 2014
	HRK'000	HRK'000
Subscribed capital	20	20
Accumulated loss	(750,827)	(1,088,029)
<b>Total capital</b>	<b>(750,807)</b>	<b>(1,088,009)</b>
Long-term liabilities to related companies	6,142,445	6,053,033
Long-term provisions	289,195	300,795
Other long-term liabilities	5,568	6,721
<b>Total long-term liabilities</b>	<b>6,437,208</b>	<b>6,360,549</b>
Trade payables	293,124	274,255
Liabilities to related companies	2,903,451	2,970,480
Current portion of long-term liabilities to related companies	233,306	237,160
Other short-term liabilities	234,149	476,393
<b>Total short-term liabilities</b>	<b>3,664,030</b>	<b>3,958,288</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>9,350,431</b>	<b>9,230,828</b>

Signed for and on behalf of the Management Board,  
Nikola Rukavina,  
Director

# HEP Operator distribucijskog sustava d.o.o.

HEP-Operator distribucijskog sustava d.o.o. (HEP DSO-distribution system operator) is the largest limited liability company within the vertical structure of HEP Group. Its core activity is electricity distribution and supply which is performed as a public service i.e. a regulated activity. The successful performance of our core activities is underlined by business results as well as by equally important public and user opinion. Apart from its core activities, HEP DSO also carries out non-core ones for its own needs as well as for the market in a smaller scope and volume, which are primarily connected to core activities such as the construction and maintenance of electric power facilities and network connections, the construction of factory products and the provision of fleet and restaurant maintenance services.

As the company operates within the constantly changing legal and regulatory framework, its operations are carried out along with the ongoing smaller or bigger harmonization of business processes. The underlying legal framework is set by the Energy Act and the Electricity Market Act, as well as resulting secondary legislation and other general regulations defining company operations. The most significant secondary legislation includes the General Terms of Network Use and Electricity Supply, the Electricity Distribution Tariff System, the Methodology for Setting Tariff Item Amounts for Electricity Distribution, the Methodology for Setting Tariff Item Amounts for Electricity Supply within the Universal Service, and the Methodology for Setting Tariff Item Amounts for Guaranteed Electricity Supply.

During 2015, 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 was conducted. Key business objectives of this company for the period 2012-2016 are expressed through increasing the quality of electricity supply, increasing general operating efficiency in meeting maintenance and investment plans, raising the level of services provided to network users and electricity market participants, enhancing energy efficiency in electricity distribution and use by implementing measures for decreasing electricity losses, the development of the distribution network into the distribution system with advanced solutions considering the inevitable establishment of distributed generation and its consolidation with the network, and the ongoing development of electricity market operation-related processes.

In July 2015, the project of Company's operational and strategic restructuring set off. Its objective is to develop key strategic guidelines for optimum organization and business processes. Implementation completion is planned for 2017.

The business operations of HEP DSO in 2015 were characterised by the following: the new legislative framework, upgrade of accounting unbundling of distribution, supply and non-core activity, the development of the 10-year development plan, increased efficiency of receivables collection, intensified electricity market related activities, and the development of measures and activities for supply unbundling.

The Company has been adjusting to social goals of creating new values, the support to investments into power facility construction, work efficiency increase and cost justification. It is also focused on meeting high environmental and work safety objectives. Investment and development programmes are planned and carried out for the purpose of achieving a balanced and efficient development and the construction of distribution network.

In view of the constantly changing business environment and work technologies, we keep investing into the development of new knowledge and skills of our employees through professional education, specialisation and training.

Director  
Željko Šimek

## NUMBER OF TRANSFORMER STATIONS BY VOLTAGE LEVEL

35(30)/10(20) kV	10(20)/0.4 kV
307	25,307

## LINE LENGTHS BY VOLTAGE LEVEL AND LINE TYPE (km)

OHL (CB) 100 kV	OHL 35 kV, 20 kV, 10 kV	CB 35 kV, 20 kV, 10 kV	OHLLV – 0.4 kV	CBLV – 0.4 kV
10	24,055	16,840	67,746	28,092

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

	Number of metering points
<b>High voltage 110 kV</b>	<b>4</b>
<b>Total medium voltage</b>	<b>2,167</b>
Low voltage – commercial (excl. public lighting)	192,927
Low voltage – commercial (public lighting)	21,454
Low voltage – residential	2,171,110
<b>TOTAL</b>	<b>2,387,662</b>

## ELECTRICITY SALES BY CUSTOMER CATEGORY IN 2015 (kWh)

	Total - Croatia
Commercial – high voltage (HV)	140,052,909
Commercial – medium voltage (MV)	3,765,714,346
<b>TOTAL Commercial HV and MV</b>	<b>3,905,767,255</b>
Commercial – low voltage (LV)	4,247,706,385
Commercial – low voltage (LV) – public lighting	424,682,904
Residential – low voltage (LV)	6,202,453,678
<b>TOTAL LOW VOLTAGE</b>	<b>10,874,842,967</b>
Public service of supply	6,254,596,465
Market suppliers customers	8,526,013,757
<b>Total sales on distribution network</b>	<b>14,780,610,222</b>
Sale to customers without a supplier within guaranteed supply (HOPS network)	14,957,467

# FINANCIAL REPORTS

## INDEPENDENT AUDITOR'S REPORT

To the Owner of the company HEP - Operator distribucijskog sustava d.o.o.

1. We have audited the accompanying annual financial statements of the company HEP - Operator distribucijskog sustava d.o.o., Zagreb, Ulica grada Vukovara 37 (hereinafter "the Company") for the year ended 31 December 2015, which comprise the Balance sheet / Statement of financial position as at 31 December 2015, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

## MANAGEMENT'S RESPONSIBILITY

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

## AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 2015, and its financial performance and cash flows for 2015 in accordance with the Accounting Act and International Financial Reporting Standards as adopted by EU.

## EMPHASIS OF MATTER

5. As described in the Note 1 to the financial statements, HEP d.d. under the finance lease agreements has 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 in organization of the HEP Group.

**OPINION ON COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENTS**

6. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 4 to 56 on which we have expressed our opinion as presented in the paragraph Opinion above.

**OPINION ON COMPLIANCE WITH THE ANNUAL REPORT**

7. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual financial statements presented on pages 4 to 56 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 26 April 2016

BDO Croatia d.o.o.

Irena Jadrešić, certified auditor

Zdenko Balen, Management Board member

## HEP - Operator distribucijskog sustava d.o.o. - Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK'000	HRK'000
OPERATING INCOME		
Revenues from distribution and supply of electricity – related companies until 1 July 2014	-	1,716,595
Revenues from sale of electricity as universal and guaranteed supply until 1 July 2014	2,855,051	3,069,351
Revenues from sale of electricity – distribution fee	3,382,560	1,523,742
Revenues from sale of services	357,403	342,024
Other revenues – related companies	18,387	18,707
Other operating income	402,918	386,351
<b>Total operating income</b>	<b>7,016,319</b>	<b>7,056,770</b>
OPERATING EXPENSES		
Electricity purchase cost - HEP-a d.d.	(2,476,573)	(2,697,549)
Electricity purchase cost - HROTE	(235,525)	(215,346)
Losses on distribution network and electricity balancing costs	(492,042)	(533,989)
Services costs	(239,045)	(207,952)
Staff costs	(1,057,481)	(1,028,063)
Depreciation and amortization	(853,746)	(818,649)
Administrative costs – related companies	(154,658)	(146,771)
Other operating expenses	(533,464)	(554,261)
<b>Total operating expenses</b>	<b>(6,042,534)</b>	<b>(6,202,580)</b>
<b>Operating profit</b>	<b>973,784</b>	<b>854,190</b>
Financial income	2,072	1,269
Financial expenses	(67,605)	(73,513)
<b>Net loss from financial activities</b>	<b>(65,533)</b>	<b>(72,244)</b>
<b>Profit before taxation</b>	<b>908,251</b>	<b>781,946</b>
Corporate income tax expense	(183,052)	(161,885)
<b>Profit for the year</b>	<b>725,199</b>	<b>620,061</b>



HEP - Operator distribucijskog sustava d.o.o.  
Statement of comprehensive income  
for the year ended 31 December 2015 (continued)

	2015	2014
	HRK'000	HRK'000
<b>Profit for the year</b>	<b>725,199</b>	<b>620,061</b>
Other comprehensive income for the year	-	-
<b>Total comprehensive income for the year</b>	<b>725,199</b>	<b>620,061</b>

Signed on behalf of the Company on 26 April 2016:

Željko Šimek,  
Director

## HEP - Operator distribucijskog sustava d.o.o. - Balance sheet / statement of financial position

AS AT 31 DECEMBER 2015

ASSETS	Notes	31 December 2015	31 December 2014
		HRK'000	HRK'000
Property, plant and equipment	11	12,937,655	12,060,480
Assets under construction	11	843,099	907,441
Intangible assets	12	30,692	24,969
Investment property	13	59,085	59,203
Receivables for sold flats	14	12,922	14,848
Prepayments for property, plant and equipment		1,947	571
Deferred tax assets	10	82,703	69,549
Financial assets	26	16,033	16,393
<b>Total non-current assets</b>		<b>13,984,136</b>	<b>13,153,454</b>
Inventories	15	260,846	238,394
Trade receivables	16	755,407	724,402
Receivables from related companies	25	912,644	2,184,722
Current portion of long-term receivables	14	3,140	3,301
Other current assets	17	18,262	63,097
Cash and cash equivalents	18	308,821	129,040
<b>Total current assets</b>		<b>2,259,120</b>	<b>3,342,956</b>
<b>TOTAL ASSETS</b>		<b>16,243,256</b>	<b>16,496,410</b>

HEP - Operator distribucijskog sustava d.o.o.  
Balance sheet / statement of financial position  
as at 31 December 2015 (continued)

EQUITY AND LIABILITIES	31 December 2015	31 December 2014
	HRK'000	HRK'000
Share capital	699,456	699,456
Capital reserves	460,244	15,940
Retained earnings	726,601	622,968
<b>Total equity</b>	<b>1,886,301</b>	<b>1,338,364</b>
Long-term liabilities to related companies	6,312,510	7,667,726
Other long-term liabilities and deferred income	3,259,796	3,481,694
Long-term provisions	359,754	274,787
<b>Total non-current liabilities</b>	<b>9,932,060</b>	<b>11,424,207</b>
Trade payables	407,991	387,654
Liabilities to related companies	2,695,027	1,935,449
Current portion of long-term liability to related company	584,782	597,127
Other short-term liabilities	737,095	813,609
<b>Total current liabilities</b>	<b>4,424,895</b>	<b>3,733,839</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>16,243,256</b>	<b>16,496,410</b>

Signed on behalf of the Company on 26 April 2016:

Željko Šimek,  
Director

# HEP Toplinarstvo d.o.o.

HEP-Toplinarstvo (District Heating) concluded business year 2015 successfully by ensuring a quality and reliable supply of heat energy and process steam to all its end customers in Zagreb, Osijek, Sisak, Velika Gorica, Samobor and Zaprešić, which was its core objective. During 2015, end customers were supplied 1.9 TWh of heat energy.

Our business operations, in line with the Economic and Investment Plans, respectively, were fully focused on meeting set goals, reducing losses, streamlining operations, and improving the collection of receivables for supplied heat energy as well as end customer relations.

Among important investment projects carried out in 2015, the following must be pointed out: the revitalisation and the replacement of a portion of hot water and steam network in Zagreb, Velika Gorica and Osijek as well as the revitalisation of a pipe distribution lines around main heating stations TS-2 and TS-3 in Sisak which primary goal was to increase the reliability of heat energy supply, reduce heat energy losses in distribution and supplement process water in the system.

The ongoing works on the execution of the project of connecting Zagreb district of Dubrava onto the central heating system must be pointed out. In light of its volume, this project has been divided into six stages. During 2015, scheduled works were carried out within each stage.

Furthermore, in line with the planned rate of delivery, we conducted the Project of Technical and Economic Optimization of the Remote Heating System in Osijek, which introduction was planned for 2015 and 2016. This Project will result in the entire and immediate insight into the system and plant condition, the optimization of generation and distribution in real time and the reduction of losses, which will have a direct effect on improving our business results.

Apart from the implementation of its investment projects, HEP District Heating focused its operations on improving the satisfaction of heat energy end customers. Aiming at building a quality relation and mutual trust, HEP District Heating informed its end customers of all novelties regarding its services and provided timely replies to all queries, requests and complaints submitted by end customers.

During 2015, HEP District Heating retained its leading position on the heat energy market. Despite creating conditions for market opening and competition in heat energy supply and purchase under the Heat Energy Market Act, such competition has still not come to life. In light of legal preconditions for market opening, HEP District Heating has been preparing for competition and new challenges by offering its end customers a full service, long lasting experience and knowledge in the management and maintenance of heating facilities, a high level of service quality, capacities for investing in new technologies and system development as well as safety and stability of the service it provides as one of the members of HEP Group. All the above mentioned projects and goals along with a high quality level of provided services were successfully met by HEP District Heating due to dedicated work, devotion and professionalism of its employees. As the biggest heat energy-related entity in Croatia, HEP District Heating will continue to work on improving the quality of its service to end customers, educating and informing them, and achieving a safe and reliable supply of heat energy.

Director  
Ivica Martinek

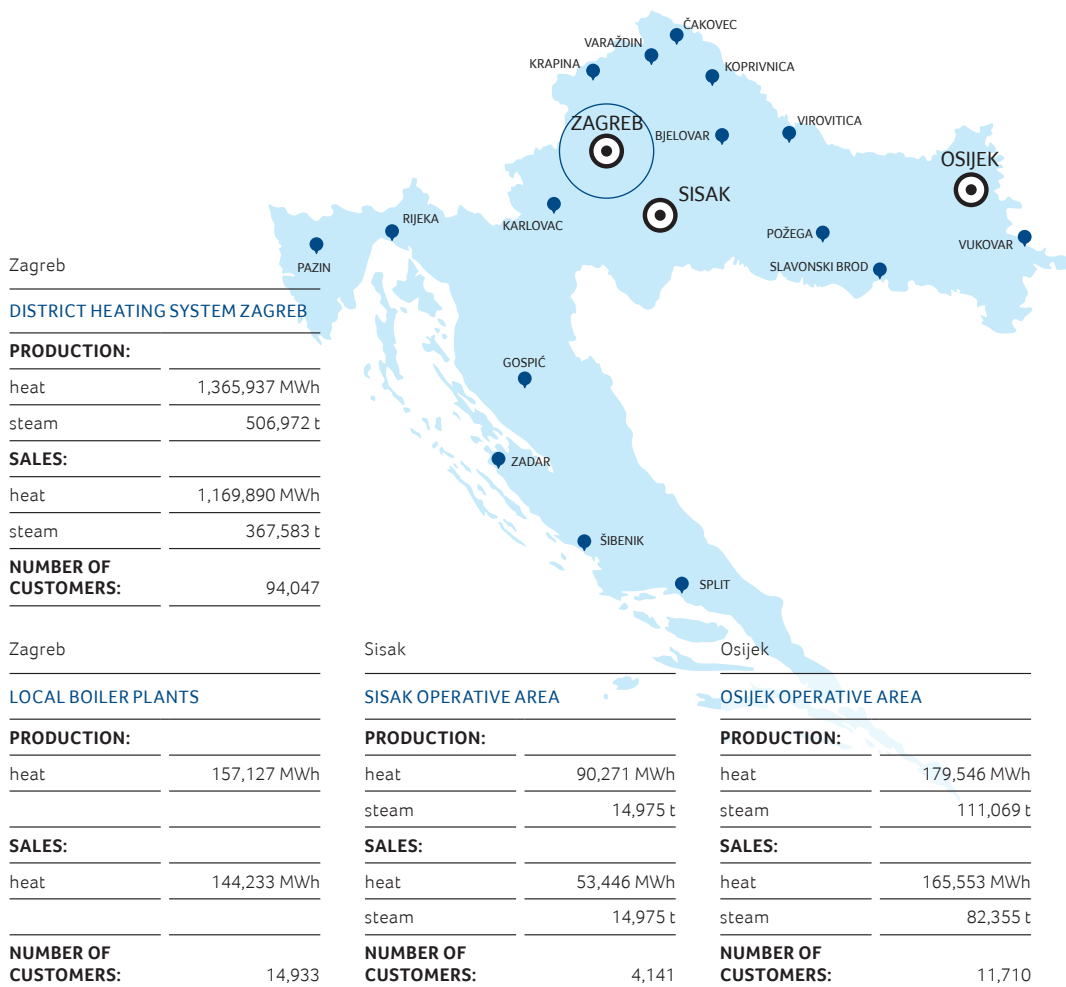
## HEP DISTRICT HEATING IN 2015

During 2015, the number of end heat energy customers rose by 0.2 percent to a total number of 124,831 until end 2015, of which 118,562 (95.0%) are households and 6,269 (5%) corporate entities.

In heat consumption (district heat and process steam), households account for 58.8 percent (47.6% in income) and corporate entities for 41.2 percent (52.4% in income). The ratio of supplied heat energy (hot water) to process steam (in MWh) was 79.5%:20.5%.

In consumption of district heat, the share of Zagreb (including Samobor, Velika Gorica and Zaprešić) was 84.4 percent, Osijek 12.2 percent, and Sisak 3.4 percent. The consumption of process steam was 473,912 tonnes (Zagreb 79.5%, Osijek 17.3, Sisak 3.2%).

In 2015, heat energy sales increased by 3.7 percent compared to the year before. Taking each of the two main products of HEP District Heating separately, the sale of heat energy increased by 5.3%, while the sale of process steam decreased by 2.2 percent.



# FINANCIAL REPORTS

## INDEPENDENT AUDITOR'S REPORT

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

1. We audited the accompanying annual financial statements of company HEP Toplinarstvo d.o.o., Zagreb, Miševička 15a, (hereinafter "the Company") for the year ended 31 December 2015, which comprise of the Balance sheet / Statement of financial position as at 31 December 2015; Statement of comprehensive income; Statement of changes in equity; Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

## MANAGEMENT'S RESPONSIBILITY

2. The Management is responsible for the preparation and a fair presentation of the enclosed financial statements according to the International Financial Reporting Standards adopted by the EU and also for 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.

## AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. The audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 as at 31 December 2015 and of the financial performance and cash flows of the Company for the year 2015 in accordance with the Accounting Act and International Financial Reporting Standards that are effective in the European Union.

## EMPHASIS OF MATTER

5. We draw attention that the Company as at 31 December 2015 stated loss exceeding capital in the amount of HRK 196,717 thousand, and that short-term liabilities exceed short-term assets in the amount HRK 275,709 thousand. Pursuant to the Financial Operations and Pre-bankruptcy Settlement Proceedings Act, the Company does not meet the required criteria of capital adequacy. The Company's continued operations under the going concern basis depend on the Company's ability to secure sufficient resources to settle obligations in a timely manner, to secure adequate sources of financing and to commence operating at a profit. In order to achieve this as described in Note 1 to the Financial Statements, a owner of the Company has obliged to offer financial support to the Company and the Company's Management is making efforts to improve current operations and the Company's financial position.

6. As described in the Note 1, to the enclosed financial statements, HEP d.d. has leased property, plant and equipment to its subsidiaries under finance lease agreements. 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 their nominal value because of the specifics of the HEP Group.

**OPINION ON THE COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENTS**

7. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 5 to 49 on which we have expressed our opinion as presented in the paragraph Opinion above.

**OPINION ON THE COMPLIANCE WITH THE ANNUAL REPORT**

8. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual financial statements presented on pages 5 to 49 on which we have expressed our opinion as presented in the paragraph Opinion above.

Zagreb, 26 April 2016

BDO Croatia d.o.o.

Irena Jadrešić, Certified Auditor

Zdenko Balen, Member of the Management Board

## HEP Toplinarstvo d.o.o. - Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK'000	HRK'000
Income from thermal energy sale to the buyers outside the HEP Group	682,388	671,946
Income from sale of electric energy to preferential customers	11,838	11,485
Income from thermal energy and other income – related companies	4,769	4,481
Restaurant income	456	415
Other operating income	54,951	57,986
	<b>754,402</b>	<b>746,313</b>
Energy, materials and spare parts expenses	(585,113)	(629,946)
Service expenses	(21,918)	(22,331)
Staff cost	(52,736)	(51,372)
Depreciation	(56,643)	(57,478)
Administrative expenses – related companies	(21,563)	(21,282)
Other operating expenses	(58,426)	(98,972)
	<b>(796,399)</b>	<b>(881,381)</b>
<b>Loss from operating activities</b>	<b>(41,997)</b>	<b>(135,068)</b>
Financial income	46	41
Financial expenses	(14,864)	(14,884)
<b>Net loss from financial activities</b>	<b>(14,818)</b>	<b>(14,843)</b>
<b>Loss before taxation</b>	<b>(56,815)</b>	<b>(149,911)</b>
Corporate income tax	-	-
<b>Loss for the business year</b>	<b>(56,815)</b>	<b>(149,911)</b>



HEP Toplinarstvo d.o.o.  
 Statement of comprehensive income  
 for the year ended 31 December 2015 (continued)

	2015	2014
	HRK`000	HRK`000
<b>Loss for the current year</b>	<b>(56,815)</b>	<b>(149,911)</b>
Other comprehensive income for the current year	-	-
<b>Total comprehensive loss for the current year</b>	<b>(56,815)</b>	<b>(149,911)</b>

Signed for and on behalf of the Management Board on 26 April 2016

Ivica Martinek  
 Director

## HEP Toplinarstvo d.o.o., Balance sheet / statement of financial position

AS AT 31 DECEMBER 2015

ASSETS	31 December 2015	31 December 2014
	HRK'000	HRK'000
Property, plant and equipment	855,150	881,002
Investments in progress	122,732	83,932
Intangible assets	990	1,071
Receivables from the sale of flats	383	469
Prepayments for property, plant and equipment	273	308
Investments in properties	260	260
<b>Total long-term assets</b>	<b>979,788</b>	<b>967,042</b>
Inventories	26,921	37,833
Trade receivables	169,214	163,326
Receivables from related companies	1,069	49,212
Other receivables	3,613	5,577
Current portion of long-term receivables	119	123
Cash and cash equivalents	25,023	10,289
<b>Total short-term assets</b>	<b>225,959</b>	<b>266,360</b>
<b>TOTAL ASSETS</b>	<b>1,205,747</b>	<b>1,233,402</b>

Signed for and on behalf of the Management Board on 26 April 2016

Ivica Martinek  
 Director

HEP Toplinarstvo d.o.o.,  
Balance sheet / statement of financial position  
as at 31 December 2015 (continued)

	31 December 2015	31 December 2014
	HRK'000	HRK'000
Share capital	20	1,801,230
Reserves	20	20
Accumulated losses	(196,757)	(1,941,152)
<b>Total equity</b>	<b>(196,717)</b>	<b>(139,902)</b>
Long-term liabilities to related companies	779,647	815,413
Other long-term liabilities	295	325
Long-term provisions	9,021	6,490
Deferred income	111,833	120,163
<b>Total long-term liabilities</b>	<b>900,796</b>	<b>942,391</b>
Trade payables	40,613	38,674
Liabilities to related companies	386,587	305,560
Current portion of long-term liabilities to related companies	48,380	49,164
Other short-term liabilities	26,088	37,515
<b>Total short-term liabilities</b>	<b>501,668</b>	<b>430,913</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>1,205,747</b>	<b>1,233,402</b>

Signed for and on behalf of the Management Board, on 26 April 2016

Ivica Martinek  
Director

# HEP-Plin d.o.o.

HEP-Plin (HEP Gas) carries out the energy-related business of gas distribution and gas supply to customers. Gas distribution is carried out under regulated principles of public service provision. Gas supply is carried out pursuant to regulated principles of public service provision to households and to other customers under market principles, by freely negotiated mutual rights and obligations.

The continuity of customer gas supply was ensured in 2015 by securing sufficient gas volumes from domestic production and import. Commercial customers' gas needs in the gas year 2014/2015 were met by procuring wholesale gas from the most favourable bidders.

In view of a partial waking up of stagnant business activities in the country and several concluded supply contracts with new customers, gas sale to commercial customers increased. The consumption of household customers who primarily use gas for heating increased due to colder winter compared to the year before.

Everyday activities of gas distribution successfully continued in 2015 at our pleasure and satisfaction of a large majority of customers and our concessionaires – regional and local self-governments. The distribution network was maintained in a working and functional order. Technical services conducted repairs on gas acceptance points in the shortest time possible. There were no major delays in gas supply caused by 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 continued in 2015. The portion of works will be conducted in 2016. Unfortunately, the connection of new customers onto the built network was not carried out according to expectations due to the economic 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.

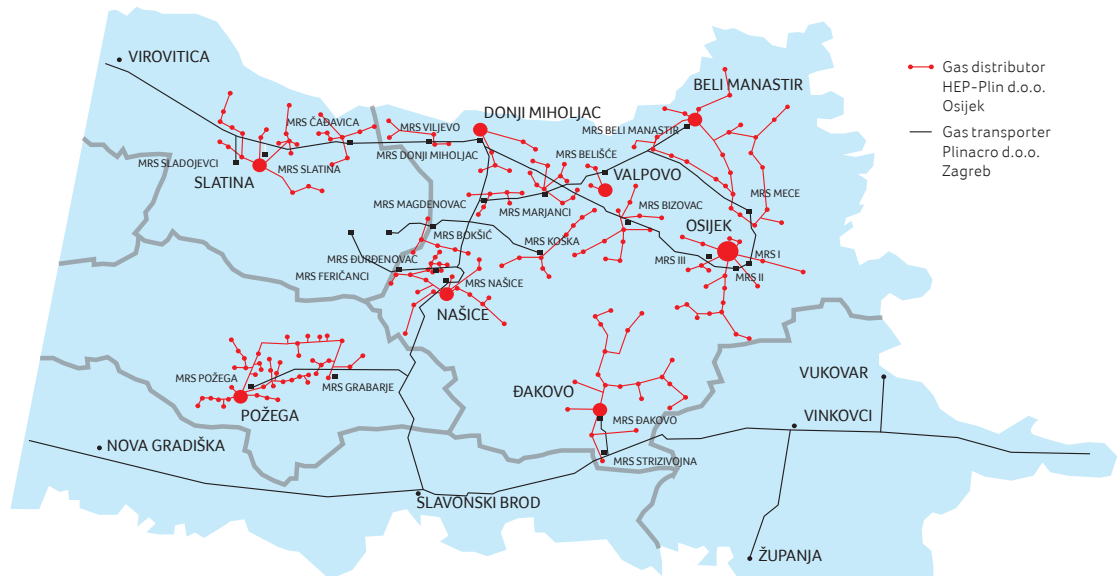
In terms of distribution activities, there is no competition as long as the existing concession agreements are valid and the activity is performed according to contracted terms. If HEP Gas loses the right to distribute gas in some areas, the distribution network owned by HEP Gas will be leased or sold to the new concessionaire, thus compensating for current investments. The monopoly of distribution is restricted by the state under prescribed rights and obligations on part of the distributor as a provider of the public service of gas distribution as well as by regulating and controlling it through HERA, which sets the grid code for gas distribution and regulates the price of its public service.

However, the business of customer gas supply faces much bigger competition. HEP Gas carries out the supply of households under the public service of supply as an incumbent supplier. Until the full gas market opening for household customers, a transitional period has been set until 31 March 2017. Market was open for all other customers, although the competition took off in 2015.

Upon full gas market opening and the end of price regulation for all eligible customers, we are expecting 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.

Director  
Damir Pečušak

## HEP-PLIN D.O.O. IN 2015



## NUMBER OF CUSTOMERS (METERING POINT)

Supply area	Number
Osijek-Baranja County	63,720
Požega-Slavonija County	8,249
Virovitica-Podravina County	3,811
Other counties	108
<b>Total</b>	<b>75,888</b>

Category	2014	2015	2015/2014 (%)
TM1-TM4 Residential	69,255	70,135	1.3
TM1-TM8 Commercial (under 1 m <sup>3</sup> )	5,351	5,745	7.4
TM9-TM12 Commercial (over 1 m <sup>3</sup> )	5	8	60.0
<b>Total</b>	<b>74,611</b>	<b>75,888</b>	<b>2</b>

## GAS NETWORK

Gas lines – owned by HEP (km)	2,161
Gas lines – owned by other parties (km)	492
<b>Gas lines – total (km)</b>	<b>2,653</b>
Reducing stations– DRS (units)	52
Odorizers (units)	25

ENERGY BALANCE (10<sup>3</sup> m<sup>3</sup>)

	2014	2015	2015/2014 (%)
Procurement (10 <sup>3</sup> m <sup>3</sup> )	119,372	129,343	8.4
Sales (10 <sup>3</sup> m <sup>3</sup> )	114,945	124,536	8.3

GAS SALE STRUCTURE (10<sup>3</sup> m<sup>3</sup>)

Customer categories	2014	2015	2015/2014 (%)
TM1-TM4 Residential	61,844	65,407	5.8
TM1-TM8 Commercial (under 1 m <sup>3</sup> )	39,957	40,175	0.5
TM9-TM12 Commercial (over 1 m <sup>3</sup> )	13,144	18,954	44.2
<b>Total</b>	<b>114,945</b>	<b>124,536</b>	<b>8.3</b>

# FINANCIAL REPORTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of company HEP Plin d.o.o.

1. We have audited the accompanying annual financial statements of company HEP Plin d.o.o., Osijek, Cara Hadrijana 7, ("the Company") for the year ended 31 December 2015, which comprise the Balance sheet / Statement of financial position as at 31 December 2015, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

## THE MANAGEMENT'S RESPONSIBILITY

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

## AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 2015, and its financial performance and cash flows for 2015 in accordance with the Accounting Act and International Financial Reporting Standards as adopted by EU.

## EMPHASIS OF MATTER

5. As described in the note 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 COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENTS**

6. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 4 to 48 on which we have expressed our opinion as presented in the paragraph Opinion above.

**OPINION ON THE COMPLIANCE WITH THE ANNUAL REPORT**

7. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual financial statements presented on pages 4 to 48 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 27 April 2016

BDO Croatia d.o.o.

Irena Jadrešić, certified auditor

Zdenko Balen, Management Board member

## HEP Plin d.o.o. - Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK'000	HRK'000
Revenue from sale of gas	386,388	371,490
Revenue from services	3,138	1,988
Income from related companies	2,051	2,298
Other operating income	17,987	24,979
<b>Total operating income</b>	<b>409,564</b>	<b>400,755</b>
Cost of gas sold and material used	(329,012)	(322,214)
Cost of services	(5,293)	(5,262)
Staff cost	(21,225)	(20,169)
Depreciation and amortization costs	(10,213)	(9,342)
Expenses with related parties	(4,741)	(4,486)
Other operating expenses	(16,552)	(32,752)
<b>Total operating expenses</b>	<b>(387,036)</b>	<b>(394,225)</b>
<b>Profit from operating activities</b>	<b>22,528</b>	<b>6,530</b>
Financial income	1,089	2,025
Financial expenses	(839)	(2,048)
<b>Net profit/(loss) from financial activities</b>	<b>250</b>	<b>(23)</b>
<b>Profit before taxation</b>	<b>22,778</b>	<b>6,507</b>
Corporate income tax expense	(5,186)	(2,744)
<b>Profit for the year</b>	<b>17,592</b>	<b>3,763</b>



HEP Plin d.o.o.  
Statement of comprehensive income  
for the year ended 31 December 2015 (continued)

	2015	2014
	HRK`000	HRK`000
<b>Profit for the year</b>	<b>17,592</b>	<b>3,763</b>
Other comprehensive income for the year, net	-	-
<b>Total comprehensive profit for the year, net</b>	<b>17,592</b>	<b>3,763</b>

Signed on 27 April 2016 for and on behalf of the Management Board,

Damir Pećušak  
Director

## HEP Plin d.o.o. - Balance sheet / statement of financial position

AS AT 31 DECEMBER 2015

ASSETS	31 December 2015	31 December 2014
	HRK`000	HRK`000
Property, plant and equipment	221,710	213,652
Assets under construction	5,105	4,092
Intangible assets	389	219
Prepayments for property, plant and equipment	25	92
Deferred tax assets	740	556
<b>Total non-current assets</b>	<b>227,969</b>	<b>218,611</b>
Inventories	2,138	1,498
Trade receivables	102,185	114,311
Receivables from related companies	1,027	6,893
Other short-term assets	420	1,129
Cash and cash equivalents	51,104	53,653
<b>Total current assets</b>	<b>156,874</b>	<b>177,484</b>
<b>TOTAL ASSETS</b>	<b>384,843</b>	<b>396,095</b>

HEP Plin d.o.o.  
Balance sheet / statement of financial position  
as at 31 December 2015 (continued)

EQUITY AND LIABILITIES	31 December 2015	31 December 2014
	HRK`000	HRK`000
Share capital	20	20
Accumulated loss	11,632	(5,960)
<b>Total equity</b>	<b>11,652</b>	<b>(5,940)</b>
Long-term liabilities to related companies	137,966	130,956
Long-term provisions	78,623	82,140
Other long-term liabilities	3,701	2,778
<b>Total long-term liabilities</b>	<b>220,290</b>	<b>215,874</b>
Trade payables	6,809	5,523
Liabilities to related companies	126,576	160,796
Current portion of long-term liabilities to related companies	6,715	5,864
Other current liabilities	12,801	13,978
<b>Total current liabilities</b>	<b>152,901</b>	<b>186,161</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>384,843</b>	<b>396,095</b>

Signed on 27 April 2016 for and on behalf of the Management Board,

Damir Pećušak  
Director

# HEP Opskrba d.o.o.

HEP Opskrba (HEP Supply) successfully faced challenging market conditions in Croatia and the region in 2015. On Croatia's open market, it increased the number of its customers across segments including the City of Zagreb and the State Office for the Central Public Procurement. Working in synergy with regional HEP Trade's daughter companies, HEP Supply won almost 150 new industrial customers in Slovenia as well as its first customers in Bosnia and Herzegovina and Serbia, parallelly optimizing its business operations and internal organization.

Small and big economic entities as well as households recognized HEP Supply's innovative solutions for increasing savings and competitiveness by reducing electricity costs while providing quality supply and professional customer support. Apart from the already known innovative solutions such as ZelEn and Let's Team Up!, HEP Supply joined HEP Gas in 2015 in offering their customers a combined offer of several energy fuels thus winning over their first customers who opted for a combined electricity and gas offer. The biggest commercial customers demand increasingly more complex offers and put new challenges before their suppliers. HEP Supply successfully predicted such a situation and responded to all market challenges in cooperation with HEP Trade. This is witnessed by over 66,000 satisfied customers including the biggest ones such as Agrokor, Ina, Messer, Holcim, Podravka as well as public administration customers i.e. the City of Zagreb and the State Office for the Central Public Procurement with more than 500 users. HEP Supply proved its competitiveness last year by winning 67% of all electricity public tenders announced by procurement entities obliged to adhere to the Public Procurement Act in the total value of HRK 251 million.

Its dedication to small entrepreneurs and craftsmen was shown by the project of integral procurement under which all members of the Croatian Chamber of Commerce, more than 77,000, were ensured the most favourable price of electricity. HEP Supply thus has a direct effect on the development of entrepreneurship in Croatia and the increase of competitiveness of small companies and craftsmen.

The liberalisation of the Croatian market encouraged HEP Supply to prove its market leader position on neighbouring markets by working in synergy with HEP Trade's daughter companies. HEP Supply is especially proud of its offer being recognized by Slovenian capital Ljubljana along with over 150 companies, cities and public institutions in Slovenia. Ljubljana as the winner of the Green European Capital title in 2016 uses HEP Supply's ZelEn, electricity fully obtained from renewable sources. Apart from entering the Slovenian market, first customers in Serbia and Bosnia and Herzegovina were also won. The Croatia's 1.6 percent growth rate last year shows the end of recession along with increased number of bankruptcies. Parallelly with achieving a certain degree of stabilisation, electricity prices continued to decrease, continuing the 2013 trend. HEP Supply responded to power exchange decreasing prices in an adequate manner. In light of a lower average price and increased sale of 6.14%, HEP Supply recorded the 2.8% higher financial result compared to 2014.

Thanks to the transparent nature of Hepi household tariffs, offering its customers loyalty programmes, payment for real consumption, month-end payment, online invoice access and mobile application, without false promises and misleading its customers, HEP Supply was successful in distancing itself from unloyal competition of some alternative suppliers. By using new telesales channels, cooperating with partners, advertising, as well as by its clear and unambiguous offer, HEP Supply has retained the existing and won new customers.

All these activities and operational enhancement, with a particular emphasis on customer relations, were unmistakably rated by the customers. The results of an independent research conducted by the Croatian Association for Energetics showed that HEP Supply offers the best service price-quality ratio on the market compared with all suppliers in Croatia. HEP Supply also won the 2015 Croatian Green Award for its 'Bring joy to your household with Hepi' project.

Director  
Tina Jakaša

## HEP SUPPLY IN 2015

## NUMBER OF METERING POINTS

Customer category	2014	2015	15/14 (%)
<b>High voltage</b>	<b>46</b>	<b>55</b>	<b>19.6</b>
<b>Medium voltage</b>	<b>1,193</b>	<b>1,225</b>	<b>2.7</b>
Low voltage - commercial	91,300	86,844	-4.9
Low voltage - public lighting	12,146	13,049	7.4
Low voltage - residential	20,655	25,313	22.6
<b>Total low voltage</b>	<b>124,101</b>	<b>125,206</b>	<b>0.9</b>
<b>Total</b>	<b>125,340</b>	<b>126,486</b>	<b>0.9</b>

## NUMBER OF CUSTOMERS

Customer category		2014	2015	15/14 (%)
Number of customers		64,949	66,724	2.73%
Number of metering points per customer		1.9	1.9	-0.23%
	<b>MWh/customer</b>	<b>99</b>	<b>102</b>	<b>3.38%</b>
<b>Electricity sale per customer</b>	<b>HRK/customer</b>	<b>36,859</b>	<b>36,861</b>	<b>0.01%</b>

ELECTRICITY SALE IN GWH PER CONSUMPTION  
CATEGORIES (VOLTAGE LEVELS)

Customer category	2014	2015	15/14 (%)
<b>High voltage</b>	<b>861</b>	<b>787</b>	<b>-8.6</b>
<b>Medium voltage</b>	<b>2,782</b>	<b>2,894</b>	<b>4.0</b>
Low voltage - commercial	2,548	2,831	11.1
Low voltage - public lighting	188	220	17.5
Low voltage - residential	54.4	97.0	78
<b>Total low voltage</b>	<b>2,790</b>	<b>3,148</b>	<b>12.8</b>
<b>TOTAL</b>	<b>6,434</b>	<b>6,829</b>	<b>6.1</b>

## FINANCIAL REPORTS

### INDEPENDENT AUDITOR'S REPORT

To the Shareholder of 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 2015, which comprise the Balance sheet / Statement of financial position as at 31 December 2015; Statement of comprehensive income; Statement of changes in equity; Statement of cash flows for the year then ended, and the accompanying Notes to the Financial Statements which concisely set out the significant accounting policies and other explanatory notes.

### MANAGEMENT'S RESPONSIBILITY

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

### AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the enclosed financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. The audit involves performing 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 misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the 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 HEP OPSKRBA d.o.o., Zagreb as at 31 December 2015, and its financial performance and cash flows for 2015 in accordance with the Accounting Act and International Financial Reporting Standards as adopted by EU.

### OPINION ON THE COMPLIANCE WITH OTHER LEGAL OR REGULATORY REQUIREMENTS

5. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 4 to 44 on which we have expressed our opinion as presented in the paragraph Opinion above.

**OPINION ON THE COMPLIANCE WITH THE ANNUAL REPORT**

6. The Management Board is responsible for the preparation of the Company's Annual Report. Pursuant to the Article 17 of the Accounting Act, we are obliged to give our opinion on the compliance of the Company's Annual Report with the Company's annual financial statements. In our opinion, pursuant to the conducted audit of the Company's annual financial statements and comparison with the Company's Annual Report for the year ended 31 December 2015, the financial information presented in the Company's Annual Report are in compliance with the financial information presented in the Company's annual financial statements presented on pages 4 to 44 on which we have expressed our opinion as presented in the paragraph Opinion above.

In Zagreb, 25 April 2016

BDO Croatia d.o.o.

Irena Jadrešić, certified auditor

Zdenko Balen, Management Board member

## HEP Opskrba d.o.o. - Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	HRK'000	HRK'000
Income from related companies	352,092	268,345
Other operating income	1,209	1,115
	<b>353,301</b>	<b>269,460</b>
Purchase of el. energy out of renewable sources' system	(255,209)	(211,504)
Material and spare parts expenses	(720)	(539)
Service expenses	(2,797)	(3,532)
Staff expenses	(12,694)	(12,350)
Depreciation and amortization costs	(908)	(338)
Costs based on energy balance	(53,776)	(19,719)
Administrative expenses – related companies	(11,740)	(8,230)
Other operating expenses	(14,274)	(11,656)
	(352,118)	(267,868)
<b>Profit from operating activities</b>	<b>1,183</b>	<b>1,592</b>
Financial income	350	386
Financial expenses	(18)	(16)
<b>Net profit from financial activities</b>	<b>332</b>	<b>370</b>
<b>Profit before taxation</b>	<b>1,515</b>	<b>1,962</b>
Corporate income tax expense	(342)	(440)
<b>Profit for the year</b>	<b>1,173</b>	<b>1,522</b>



HEP Opskrba d.o.o.  
Statement of comprehensive income  
for the year ended 31 December 2015 (continued)

	2015	2014
	HRK'000	HRK'000
<b>Profit for the current year</b>	<b>1,173</b>	<b>1,522</b>
Other comprehensive income for the current year	-	-
<b>Total comprehensive income for the current year</b>	<b>1,173</b>	<b>1,522</b>

Signed for and on behalf of the Management Board, on 25 April 2016:

Tina Jakaša  
Director

## HEP Opskrba d.o.o. Balance sheet / statement of financial position

AS AT 31 DECEMBER 2015

ASSETS	31 December 2015	31 December 2014
	HRK`000	HRK`000
Intangible assets	538	213
Prepayments for tangible assets	-	3
Property, plant and equipment	3,694	1,049
Long-term loan receivables	129	129
Deferred tax assets	174	123
<b>Total long-term assets</b>	<b>4,535</b>	<b>1,517</b>
Trade receivables	428,880	427,948
Receivables from related companies	41,219	45,313
Inventory of materials	119	132
Other short-term asset	44,430	33,945
Cash and cash equivalents	16,363	15,315
<b>Total short-term assets</b>	<b>531,011</b>	<b>522,653</b>
<b>TOTAL ASSETS</b>	<b>535,546</b>	<b>524,170</b>
<b>CAPITAL AND LIABILITIES</b>		
Share capital	20	20
Retained earnings	1,173	1,522
<b>Total equity</b>	<b>1,193</b>	<b>1,542</b>
Long-term liabilities to related companies	3,453	1,583
Other long-term liabilities	870	612
<b>Total long-term liabilities</b>	<b>4,323</b>	<b>2,195</b>
Trade payables	26,689	42,646
Liabilities to related companies	463,335	433,734
Current portion of long-term liabilities to related companies	908	338
Other short-term liabilities	39,098	43,715
<b>Total current liabilities</b>	<b>530,030</b>	<b>520,433</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>535,546</b>	<b>524,170</b>

Signed for and on behalf of the Management Board, on 25 April 2016:

Tina Jakaša  
Director



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## Reports by other HEP Group companies

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# HEP Trgovina d.o.o.

During 2015, HEP Trgovina d.o.o. (HEP Trade) fulfilled all its business tasks by optimizing the operation of HEP Group power plants in combination with the purchase and sale of electricity in the electricity market. HEP has a direct access to the liquid Western European electricity, gas, coal and emission unit market. All wholesale transactions of electricity purchase and sale in the EU countries are conducted by HEP d.d. The market access in the non-EU countries (Serbia, Bosnia and Herzegovina, Kosovo) is still maintained via HEP Trade's foreign daughter companies. Electricity supply of customers outside Croatia can only be carried out via local companies licenced for the performance of such activity. Thus, HEP Trade cooperates with HEP Supply in supplying electricity to foreign customers via HEP Trade's daughter companies abroad. During 2015, a total of 49,425 MWh of electricity was sold to customers in Slovenia. Contracts for supplying electricity for loss coverage and guaranteed supply to the Slovenian distribution system operator were concluded for the following period as well as contracts on supplying electricity to Slovenian customers accounting for about 6 % market share of HEP Group on the Slovenian market. In January 2016, the electricity supply of customers in Serbia and Bosnia and Herzegovina started thus making HEP the first supplier on the market of Bosnia and Herzegovina which supplies customers connected to the distribution network. This is an important step for HEP Group in the implementation of the strategy for taking the role of a regional player in the field of energy.

HEP Trade purchases gas in the name and for the account of HEP d.d. for supplying thermal power plants and cogeneration plants of HEP Generation as well as HEP Gas business customers. HEP d.d. and HEP Trade entered into the register of balance responsible parties on the gas market in Croatia which secured the gas transport system capacity lease as well as gas trade on the virtual trading point in Croatia. HEP Trade set up HEP d.d.'s balance group on the Slovenian gas market which has ensured the possibility of transport system capacity lease at entry and exit points of said transport system. In March 2015, it set up HEP d.d.'s balance group on the Austrian gas market as well as leased the cross-border transport capacity from Austria to Croatia. In August 2015, HEP Trade joined HEP d.d. in the Central European Gas Hub thus ensuring HEP's direct access to the liquid Western European gas market, gas purchase at a delivery point (a virtual trading point in Austria), which represents a significant diversification of supply routes and facilitates gas purchase from a larger number of bidders. A total of 4,471 GWh of gas was purchased for 2015.

Apart from the bilateral purchase of CO<sub>2</sub> emissions, HEP Trade participates in the name and for the account of HEP d.d. in primary auctions for the procurement of CO<sub>2</sub> emissions organized by the EEX exchange and on the EEX Forward Market. During 2015, a total of 3,368,000 of CO<sub>2</sub> emissions was purchased, covering all HEP Group needs for CO<sub>2</sub> emissions in electricity and heat energy production in 2015 and 2016 as well as 17 percent of planned needs in 2017.

The overall electricity consumption in Croatia in 2015 was 17,596 GWh, which is a 4 percent increase compared to 2014. This ended a decreasing consumption trend from the period 2010-2014. Customer consumption in Croatia was 15,486 GWh, 2,384 GWh of which was consumed by off-system customers. In late 2015, the market share of suppliers other than HEP Group was 15.4 percent. Hydro generation in 2015 was 5,673 GWh, satisfying 37 percent of HEP Group customer needs. Thermal generation by HEP Proizvodnja facilities and TE Plomin d.o.o. was 1,862 GWh and 1,295 GWh, respectively. 50,707 tonnes of fuel oil, 3,864 GWh of gas and 872,877 tonnes of coal was consumed.

Electricity import and export amounted to 3,818 GWh and 1,065 GWh, respectively. 832 GWh of electricity was purchased and sold abroad. During 2015, the volume trade of 6,547 GWh was achieved. From the total generation by eligible producers (1,099 GWh), HEP Group was obliged to take 926 GWh of electricity in line with its market share.

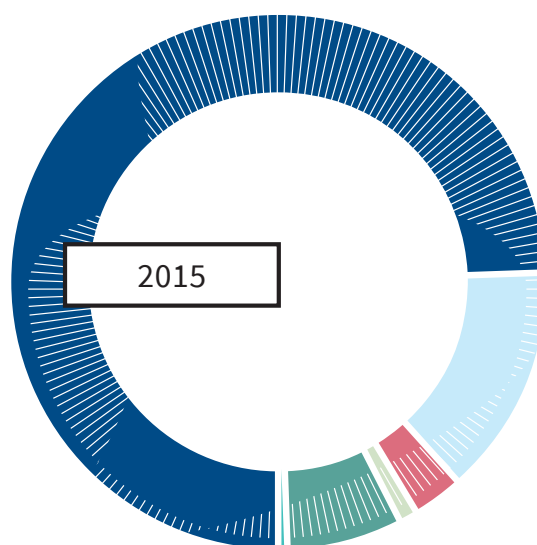
Director  
Ante Ćurić

## ACHIEVED IN 2015 – ENERGY DATA

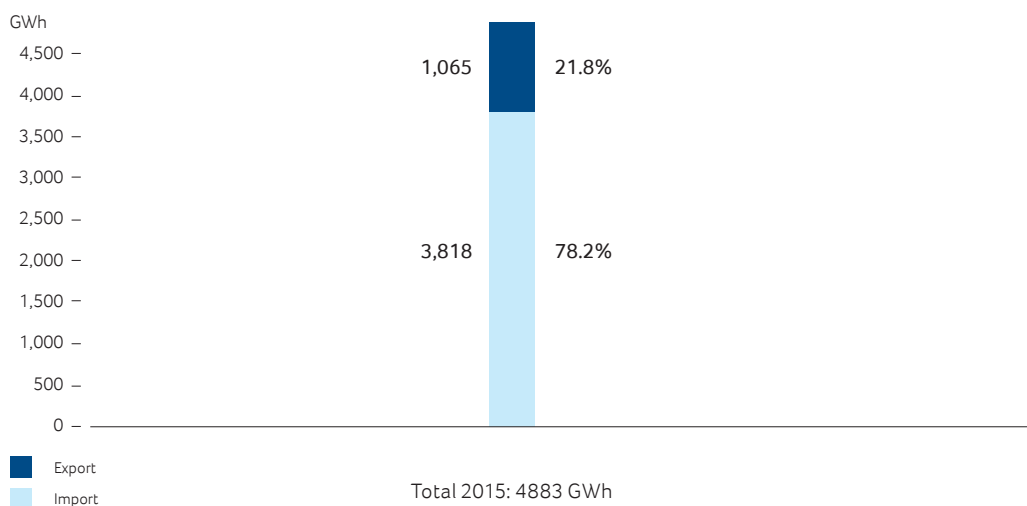
	GWh		
	2014	2015	2015/2014 (%)
<b>Electricity balance</b>			
<b>Electricity consumption Croatia</b>	<b>16,922</b>	<b>17,596</b>	<b>4.0</b>
<b>Electricity consumption HEP</b>	<b>14,962</b>	<b>15,212</b>	<b>1.7</b>
Hydro generation	8,356	5,673	-32.1
Thermal generation	1,450	1,862	28.4
NPP Krško	3,030	2,685	-11.4
TPP Plomin B	1,441	1,295	-10.1
Import	1,853	3,818	106.0
Export	-2,100	-1,065	-49.3
Producers outside HEP Group	19	19	-1.7
Eligible producers	913	926	1.4
Costumers outside HEP	1,960	2,384	21.6
<b>Total available electricity HEP</b>	<b>14,962</b>	<b>15,212</b>	<b>1.7</b>
<b>Total available electricity in Croatia</b>	<b>16,922</b>	<b>17,596</b>	<b>4.0</b>

## STRUCTURE OF ELECTRICITY CONSUMPTION IN 2015 (GWh; %)

HEP customers	13,102	75%
Customers outside HEP	2,384	14%
Transmission losses	507	3%
Pumping energy	236	1%
Distribution losses	1,295	7%
Other consumption	73	0%



## HEP D.D. TRADING VOLUME



# HEP Opskrba plinom d.o.o.

HEP-Opskrba plinom (HEP Gas Supply) successfully faced all business challenges in 2015 by harmonizing with legal changes. It carried out all its obligations set under legal regulations, general acts and decisions of the Croatian Government in the name and on the account of HEP d.d. During 2015, gas procurement was agreed for the needs of public service users, contract provisions for the sale of gas to the supplier under the public service obligation were published, and contracts with suppliers under the public service obligation concluded. Diversification of entry gas volumes i.e. the combination of using storage capacities and entry gas volumes at the virtual trading point resulted in the required storage occupancy on 31 December pursuant to the instruction from the Ministry of Economy. This ensured sufficient stored gas capacities for safe and reliable supply of gas to protected customers in line with the results of the conducted stress test pursuant to the Regulation (EU) 994/2010.

According to the transport system operator data, total gas volume supplied to customers in the Republic of Croatia in 2015 was 22,992 GWh, which is a 2.7 percent increase compared to 2014. The share of HEP d.d. as the supplier on the gas wholesale market was 25.6 percent i.e. 5,881 GWh. During 2015, HEP Gas Supply recorded total income of HRK 1,469,844 in the name and for the account of HEP d.d.; receivables of HRK 1,834,670 for gas supplied, overruns for more/less gas volume purchased, balancing energy and interest with the 100% collection.

Rules adopted by HROTE, which came into effect as of 1 January 2015, the organization and operation of the gas market was defined. Especially important changes affecting Company's financial operations regard the rules of trading at a virtual point, rules for offering, using and billing balancing energy, and rules of trade and billing balance group deviations. The model of stakeholders' responsibility (balance groups) was set up on the balancing energy market for the purpose of levelling the volume of gas delivered to and taken from the transport system, and dividing financial transactions from physical gas supplies. HROTE appointed HEP d.d. a balancing energy tenderer for the storage year 2015/2016. In view of the above stated and the fact there were no incidents recorded on the balancing energy market nor in the work of the transport system of the Republic of Croatia, it can be concluded that HEP Gas Supply successfully faced all challenges and ensured the safety and balance of the Croatia's gas supply system during 2015.

During 2015, the Department of Information and Communication Technologies in cooperation with HEP Gas Supply conducted the procurement procedure for the installation and maintenance of the operational and commercial support to gas portfolio management. The software will enable a reliable and quality support to monitoring company's current and future business operations, the optimization of the natural gas trading process, a decrease of dependent cost of procurement for the needs of HEP Group companies, the upgrade of exchanging data and information with market participants.

For the purpose of improving and monitoring market trends, in 2015 HEP Gas Supply employees participated in conferences in Croatia and abroad, round tables, professional events. The workshop for the suppliers under the public service was also organized which focused on presenting all relevant gas related information for gas year 2015/2016.

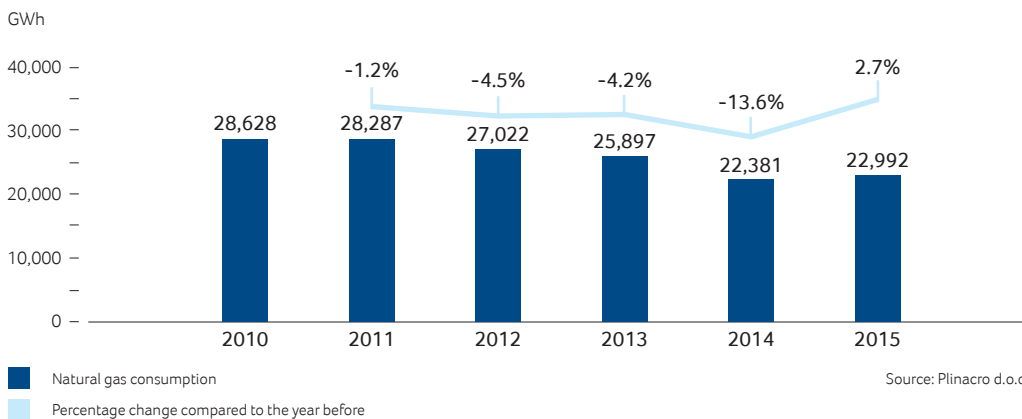
The increasing openness of the energy market as well as the time-limited role of the gas wholesale market supplier in Croatia for the suppliers under the public service obligation requires the definition of strategic objectives of gas business development within HEP Group until 31 March 2017. It is our goal to ensure all preconditions and prepare the Company for its active inclusion into the Croatian gas market following its full liberalisation by taking over those customers who use the public service of supply, by retaining the existing customers i.e. gas suppliers who currently conduct the public service of supply and by acquiring business customers.

HEP Gas Supply is prepared to become a part of the service definition process and to offer a new energy product to end customers together with other companies of HEP Group.

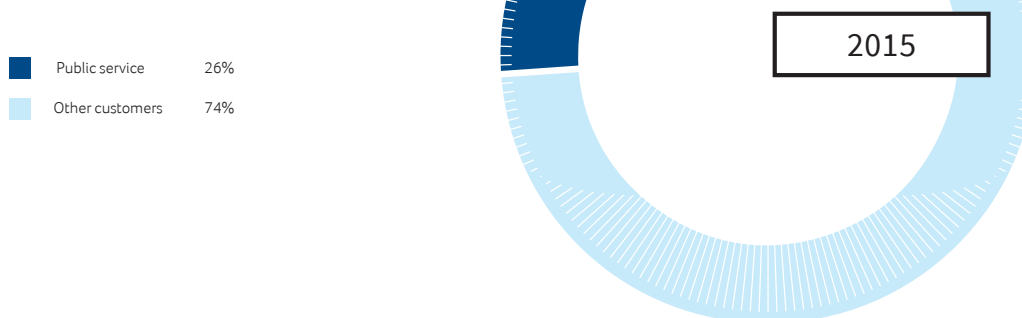
Director

Marko Blažević

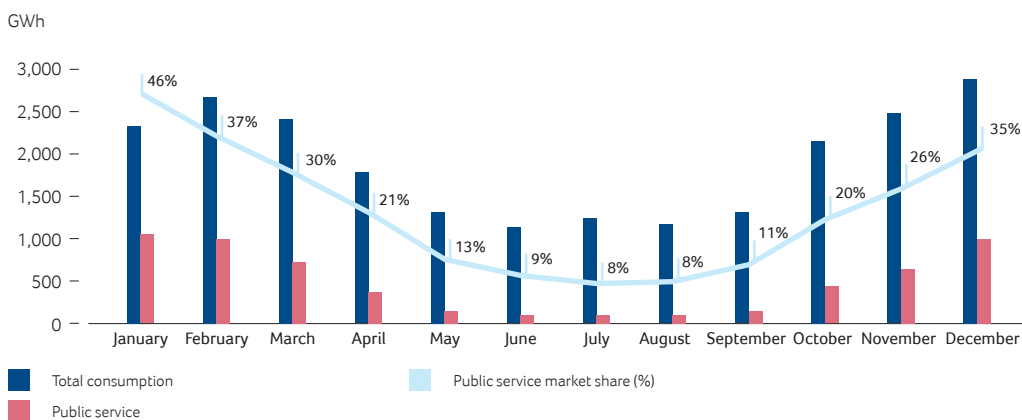
### CONSUMPTION OF NATURAL GAS IN CROATIA (2010 - 2015)



### MARKET SHARE OF WHOLESALE SUPPLIERS IN TOTAL GAS CONSUMPTION – 2015



### MARKET SHARE OF PUBLIC SUPPLY IN TOTAL GAS CONSUMPTION – 2015 (BY MONTHS)





# HEP ESCO d.o.o.

HEP-ESCO is the company owned by HEP Group founded for developing, executing and funding energy efficiency projects according to the ESCO model (Energy Service Company), under which all project investments are returned through energy savings after the investment has been completed.

During 12 years of its operation HEP ESCO successfully conducted about 80 projects in building design and construction, industry, public lighting and energy supply systems, both in the private and public sectors. In 2015, HEP ESCO continued preparing numerous market-based projects. In view of the industry being a key segment of ESCO project development, the following projects were either completed or commenced:

- construction of the cogeneration facility and the biomass dryer at the Tršće site (1 MWe) of Orkan Energija;
- the implementation of energy efficiency measures in the lighting system of ELKA plant, Phase 2;
- energy efficient upgrade of the outdoor, indoor and temporary lighting in Viktor Lenac Shipyard;
- energy efficiency project by implementing the heat energy recovery measure by Elektrokontakt d.d.;
- upgrade of temporary lighting in Uljanik Shipyard in Pula;
- upgrade of temporary lighting in 3.maj Shipyard in Rijeka.

During 2015, the preparations for contracting and executing energy efficiency programmes for ZELEN donations were made, as a joint venture of HEP ESCO, HEP Supply and HEP d.d.

As part of the waste management and energy consumption optimization services, ESCO Monitor and ESCO Monitor Panel were marketed as a computer support in energy management.

During summer 2015, HEP ESCO developed the Programme of Energy Management System Establishment and Implementation as well as introduced the ESCO Monitor system on the premises of Hrvatska elektroprivreda d.d. (SGE Programme), which was officially launched on 2 November 2015 following the obtained consent by the Management Board of HEP d.d. Under the mutual relations agreement, HEP ESCO was appointed the lead partner in the execution of the SGE Programme. During the last two months 2015, intensive programme-related activities commenced in all daughter companies. The objective of the SGE Programme implementation is the adherence to energy efficiency-related legal regulations, the achievement of energy and financial savings, and systematic energy management in all HEP Group buildings.

During 2015, HEP ESCO Training Center continued providing the service of specialized education and organized courses for the Certified Expert for the use of the RETScreen® software, the Certified Expert for savings measuring and verification, and the Energy Management course by implementation of ISO 50001 in cooperation with the Croatian Metrology Society. By providing professional education developed by HEP ESCO for the Croatian market, a permanent promotion of ESCO services is ensured through a direct contact with potential clients and partners on the market as well as a direct sales channel for ESCO service.

In 2015, HEP-ESCO participated in the preparation of three projects which applied for EU funds. The execution of three projects which had already obtained EU funding and started in 2013, has continued. In the cooperation with the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, HEP ESCO participates in a scientific-research project of the advanced facility management project.

Director  
Vlasta Zanki

# Program Sava d.o.o.

In line with the transparency and sustainability principles, the Programme of development, regulation and use of the Sava River and its river banks from the border with Slovenia to the city of Sisak continued. Funded by the EU, Program Sava d.o.o. continues with the development of strategic environmental impact assessment and feasibility studies in 2015 supported by all project stakeholders.

The European Union recognized potentials of Programme Sava in its early development stage and ensured funds for co-financing project preparation i.e. the development of strategic environmental impact assessment and feasibility studies. Apart from the grant, the EU's support to project development extended to funding the sustainability assessment of programme preparation under the Hydropower Sustainability Assessment Protocol (HSAP). This represents the project's added value, the international foundation of project sustainability principles if you will. Programme Sava is the first project in the world with the assessed sustainability in its early development stage so as to ensure the sustainability level in later stages as well. The Sustainability Report was completed and published in 2015. Its development included more than 40 representatives from non-governmental organizations, media and stakeholders. The project fulfilled basic sustainability criteria in all 9 assessed categories.

The assessment procedure was fully transparent. The methodology was developed jointly by the representatives of non-governmental organizations such as WWF and Nature Conservancy as well as financial institutions including the World Bank and the CITI Group. The HSAP assessment method is a joint project of all hydro energy projects stakeholders focused on recognizing sustainable projects worldwide with a low investment risk.

Following report recommendations and focusing on the protection of subterranean water levels, the international consortium MottMacdonald-WYG-Atkins, apart from developing three basic system options, set to develop a new one, called Option 2A. This option is the result of all to-date deliberations and analyses regarding the hydrotechnical regulation of the Sava River based on the Option 2 which provides for the evacuation of big water waves pass Zagreb. The development objective of this option is to balance all system purposes such as flood protection, energy, navigability, urban regeneration and cost-effectiveness.

From its very start, the development of strategic environmental impact and feasibility studies had to meet strict sustainability and transparency criteria. This is the main reason for developing EIAS for all three analysed options as well as for Option 2A, which will be made in the future. Environmental aspects are a basic criterion of every hydroenergy project. Current utmost importance is to make every solution sustainable, especially in environmental terms.

The launch of the Programme Sava project must be preceded by a quality preparation, which will achieve the sustainability of all design solutions so as build its delivery on quality foundations. The preparation of project documentation is planned until the end of next year so as to fulfil the authority awarded to Program Sava d.o.o. by the Croatian Government along with a primary funding of the project preparation by the EU.

Director  
Dubravko Ponoš

# HEP Telekomunikacije d.o.o.

HEP-Telekomunikacije (telecommunications) provides the support to HEP Group business operations as a whole. Within telecommunication technology, HEP Telekomunikacije operates telecommunication infrastructure and the telecommunication system of the Company and HEP Group as a whole. The telecommunication infrastructure includes all passive telecommunication equipment and systems (optic infrastructure, antenna poles, etc.), while the telecommunication system encompasses all active network gear and accompanying systems. HEP Telekomunikacije is solely responsible for the following: defining general telecommunication rules, standards and procedures for the development and exploitation of telecommunication infrastructure and system of the Company and HEP Group as a whole: Company's and HEP Group's telecommunication infrastructure and system planning, designing, developing, constructing, and maintaining.

In 2015, as per requests obtained from all HEP Group members, we initiated the procedure of large purchase procurement for the purpose of concluding a two-year framework agreement for network upgrade (connecting new locations, structured cabling, the installation of the new and the upgrade of the existing LAN/WAN network equipment, wireless system upgrade, etc.). In line with the Company's TC transmission system maintenance needs, we initiated the procedure of large purchase procurement for the purpose of concluding a two-year framework agreement (corrective and preventive maintenance of the DWDM/SDH transmission equipment).

Focusing on the improvement of telecommunication infrastructure operations, operating activity control and advancement, business result enhancement, all for the purpose of optimizing the service management process, we initiated a large purchase procurement with a goal of concluding a two-year framework agreement for the introduction of the service management process project.

In 2016, the replacement of the 10-thread OPGW and the underground optic cable must be put into action, in particular along the main optical infrastructure lines of HEP Telekomunikacije. The execution of the project, planned for the minimum period of two to three years, is based on the prepared list of routes and defined execution priorities.

Along with upgrading the access, the LAN/WAN upgrade also includes the backbone of the IP network i.e. routers located in Zagreb, Split, Rijeka and Osijek data centres and the establishment of 1G and 10G links in the backbone via DWDM, EWDM and CWDM technologies.

HEP's existing DWDM transmission system (produced by ADVA FSP3000 R7) will be upgraded by new user cards and interfaces (1 GbE, 10 GbE, STM-16, FC...) as needed by HEP Group members and HOPS, as well as external users.

The operations of HEP-Telekomunikacije need industrial solutions for improving the execution of the current and facilitate new telecommunication services. Such solutions include the licenced software.

The foundation of the telecommunication network is the fiber optic network. Its disruption may cause significant damage resulting in the inability to operate the electric power system, the impossibility of business application-based activities, external user's work interruption, etc. As finding the optic cable disruption point is essential for the operation of the telecommunication system, the introduction of the monitoring system facilitates fast disruption detection and the possibility of taking preventive actions and fast problem resolution.

In view of the regulative requirement for unbundling companies which perform regulated and unregulated activities, a trend of increased risk of security threats, the business need for regulating the process of consistent management of user identities and rights to access the infrastructure, it is necessary to expand the existing system for monitoring and the operation of the network infrastructure by functionalities of user identity and access right management as well as the management of user roles. Apart from achieving the upgrade of the existing functionalities by introducing a new product of online access control, it will also result in the delivery of additional functionalities which will facilitate in strengthening the security and add new possibilities of online access control.

Director  
Željko Racanović

# HEP – Upravljanje imovinom d.o.o.\*

On 20 April 2015, the General Assembly of HEP Odmor i rekreacija d.o.o. (HEP Leisure and Recreation) adopted the decision on changing the company and amending company statements under which the company name was changed into HEP-Upravljanje imovinom d.o.o. (HEP Asset Management). The company is in charge of the management and maintenance of non-operating assets, the provision of tourist services, the preparation, organization and financing works on leisure facilities owned by HEP d.d. The company objective is to optimize the management of non-operating assets.

As the General Affairs Department was discontinued as a result of the reorganization of HEP d.d., its business tasks were transferred to HEP Asset Management. The company tries to conduct its business operations in a commercially sustainable manner by optimizing the use of real estates and focusing on a better utilization of the portfolio commercial potential while increasing organizational and operational efficiency. The retention of a tourism function of subsidized tourism for HEP Group employees represents another clear objective of our company along with its potential expansion into the commercial market. The company is planning to continue developing the real estate investment project by reconstructing and adapting the remaining facilities which do not require any major capital investments, all for the purpose of increasing income. In view of the described organizational and status changes, the primary task of the company in 2015 was to continue raising the quality of facility equipment which resulted in increased income from core activity.

HEP Asset Management manages leisure facilities in its own name and for its own account. HEP Group employees could choose between facilities on 15 locations along the Adriatic coast for their 2015 summer vacations. These vacation facilities are used by HEP Group employees who are awarded time slots under the tender as well as other guests (Biograd 2 and Karlobag Hostels). The tender for the use of holiday homes covers the annual period from 20 June until 8 September. HEP employees use said facilities in ten day periods (eight shifts). The company intends to extend the season to at least 120 days, as well as throughout the year in some facilities. In 2015, there were 31,292 overnight stays.

HEP Asset Management operates and maintains non-operating assets of HEP d.d. and business premises located in HEP HQ, automotive fleet, restaurant, waste management and environmental protection on behalf and for the account of HEP d.d.

In 2015, the energy revitalization of the old HEP's office building in Zagreb was completed. Regular facility, plant, installation and equipment maintenance was ongoing.

Director  
Stanko Kežman

\*Until April 2015, the company name was HEP – Odmor i rekreacija d.o.o.



## Notes

### TIMEFRAME OF THE REPORT

This Annual Report gives an overview of the business year 2015 – from January 1 to December 31, 2015. Data on the events important for HEP Group operations occurring after December 31 are also given, but no later than June 30, 2016

### 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 the HQ of the companies concerned.

### PRESENTATION OF HOPS DATA

The Croatian Transmission System Operator Ltd. (HOPS), unbundled from HEP Group in 2013 under the Electricity Market Act according to the ITO model (Independent Transmission Operator), has been presented in this Annual Report under Business Operations 2015 and in the Consolidated Financial Statements for HEP Group together with the Report from Independent Auditor. In line with the independent status of HOPS, data regarding its business operations have not been presented in any other chapters hereof.

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