Sustainability Report

HEP GROUP
2013 / 2014

HEP

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Introduction by the President of the Management Board

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M.Sc.
Perica Jukić
President of the Management Board

Dear readers,

Responsible companies are expected to conduct successful business and to develop continuously by addressing the requirements by their key stakeholders - owners, customers, employees and business partners. Companies are demanded to do so in a long-term sustainable manner comprising all their operational segments. Large companies, especially the corporations that are strategically important to the state, are obliged to show special devotion to their strategic approach to corporate responsibility and to ensure their own sustainabilityhaving in mind the market stability, support to economic development of communities, as well as the employment for thousands of employees and multiplied business partners and suppliers. Some industries bear specific sensitivity, for besides their care to ensure economic development and create social contribution, they are also responsible to ensure excellence in environmental protection. In the past decades, energy sector has significantly influenced the development and growth of other industries, by inciting innovations and progress thus opening options for the development of new technologies, new working methods and generation in various sectors, as well as employment and the prosperity of local communities.

HEP group is dedicated to develop its business well-balanced and equally responsible in all three vital dimensions: economic, social and environmental.

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I am proud to present the first all-encompassing sustainability report of HEP group for years 2013 and 2014, composed in compliance with the fourth generation of Global Reporting Initiative guidelines (GRI G4). This report, however, ensues a long tradition of reporting on environmental impact, ever since 2003. Besides, our regular Annual Reports have traditionally enclosed the chapters related to some strategic areas of sustainable development, such as community investment, human resources development or environmental protection. This report positions HEP group among the first state owned companies in the Republic of Croatia that report on their business sustainability according to the new European Union Directive on the disclosure of non-financial information (Directive2014/95/EU of the European Parliament and of the Council).

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HEP group faced many demanding changes within a very short time during especially intensive reporting period of 2013 and 2014. Liberalization of the electricity market, numerous regulatory changes, increased requests to improve the organizational efficiency, demands to comply with the emission reduction objectives, necessity to develop energy efficiency, constant demands for grid modernization and the investment in generation facilities and technical infrastructure, as well as the need to conduct the corporate restructuring to succesfully cope with contemporary trends – these are some of the challenges we had to address in the past couple of years. As a part of the total economic corpus of Croatia, but also European Union, to which Croatia accessed on July 1, 2013, HEP group is exposed to all EU economic and industrial trends. The crisis caused decreased consumption of electricity, weakened the investment capacity on the global level, while international sources of finance imposed new and stricter rules. The capability to adapt swiftly to new conditions, mark adequate goals and initiate new projects, as well as prepare new market breakthroughs were crucial to ensure competitive edge and create a new foundation to strengthen our business potential.

Indubitablyin the past two decades, the energy sector was greatly exposed to swift changes not only due to technological development and scientific progress, but also dynamized by numerous regulatory changes, equally in environmental and customer relations segments. However, energy sector has one characteristic which is contradictory to fast development: projects have to be planned for longer than a decade. This fact brings the energy sector to a grand test of its limitations and feasibility of its sustainable development. We cannot be too flexible, because our structure is not simply adaptable, but simultaneously we have to cherish a vision which sees far into the future. Therefore our sustainability goals embed the adequate grid modernization, replacement of old facilities with the best available techniques having the minimal environmental impact, investment in renewable sources of energy and launch of various energy efficiency projects. We develop our projects bearing in mind our great responsibility to ensure the stability and security of the energy system, being the most significant Croatian company dealing in generation, transport, distribution and supply of electricity, as well as the generation and distribution of thermal energy and distribution and supply of gas.

In the reporting period we were concentrated to build the foundations to develop a successful business strategy in the next operational period. Our sustainability approach is best visible in the material issues based on ensuring energy security and stability, strengthening of competitiveness on the domestic and other targeted markets, implementing structural changes, showing adequate responses to regulatory and legislative changes, but also in raising the quality of intellectual and social capital of the company, investing in the development of workplace, developing key stakeholder relations and our links with local communities.

HEP group is an especially significant corporation for the strategic development of our country.We are aware that, besides ensuring corporate profitability and fulfilling numerous quality standards, corporate values and its social reputation are significantly important. A complex system comprising 14 companies in the reporting period, cannot easily and simultaneously respond to all stakeholder demands. We are sincere in our committment to a continuous development in all segments of sustainability, to

clearly recognize the areas of excellence and present our best-practice projects, but also to identify the areas in which we should constantly improve. This report is one of the ways to conduct our sustainability goals in practice, because for us it is not only a document containing valuable data on the reporting period, but also an inspiration and a reminder on beneficial opportunities of progress.

Our dedication to continuously report on our business according to the internationally recommended guidelines is enhanced by our desire that this document becomes a central source of all relevant information on HEP group. It is complementary to our Annual Report and supplements it with data and descriptions of our projects in several areas: management approach, market relations, environmental protection, workplace and community investment. In the process of composing this report we encountered a number of methodology and strategic challenges that reflected the size and diversity of our group and its operations. Within the methodology and guidelines framework, we attempted to tell the story on HEP group in a way that may be understandable to all our readers. It is considered a pilot-report and we will be grateful to hear our stakeholders' comments and advice. On behalf of the Management Board I express our gratitude to colleagues from HEP group who contributed to the composition of our sustainability report.

We, in the HEP group do not only wish to be a part of the positive changes in our economy, society and environmental protection, but are also ambitious to lead them.

A lot was initiated and achieved in 2013 and 2014, and we strongly believe that we will be able to prove progress in many sustainability areas in the next reporting period.

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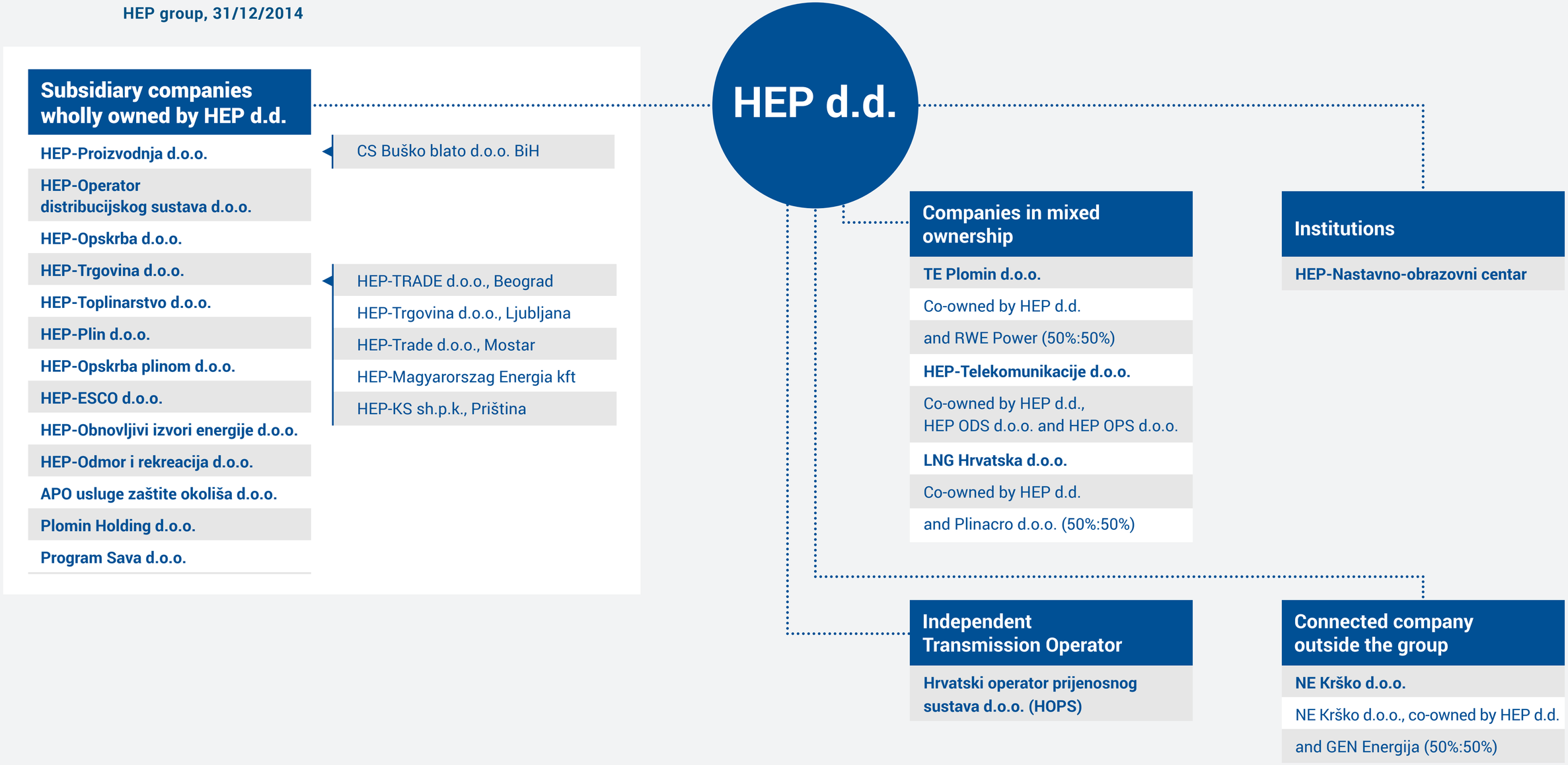
Organizational profile

2 Organizational profile

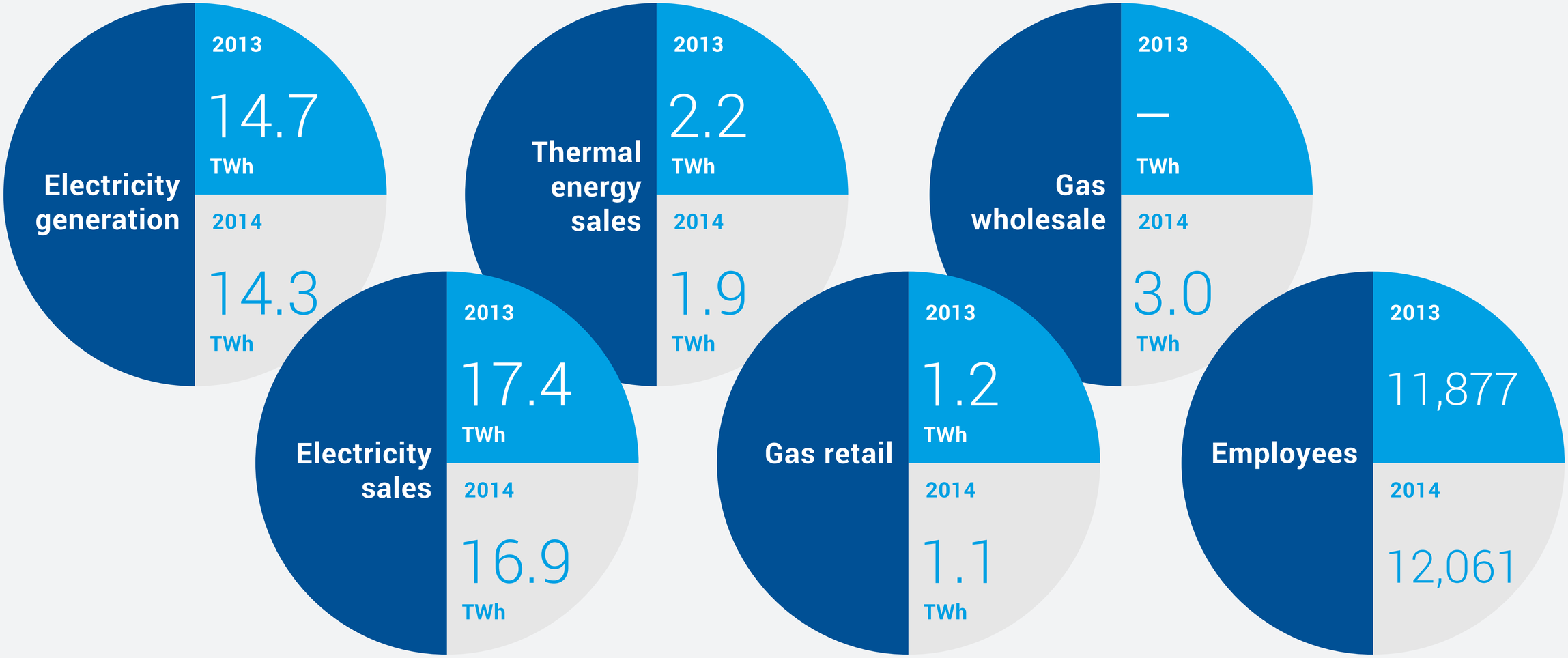
Founded under the name Hrvatska elektroprivreda in 1990, the company is a successor of power companies that have been active in Croatia for longer than a century, in the fields of generation, transmission and distribution of electricity. The companies were merged into HEP group, that is a group of connected, fully state-owned companies, since 2002. In the past few decades the corporation comprised the activities of thermal energy and gas supply. As one of the largest Croatian companies and the largest one owned by the state, HEP group is central to the strategic interests of the Republic of Croatia, with the business purpose to ensure stable and high-quality supply of electricity, based on the principles of sustainable development.

Hrvatska elektroprivreda d.d. (HEP d.d.) is the parent company of HEP group with the seat in Zagreb. HEP d.d. is the founder and the sole owner of subsidiary companies. In the reporting period, HEP d.d. held a 50 percent stake in TE Plomin and LNG Hrvatska and was a co-owner of HEP-Telekomunikacije (HEP Telecommunications), jointly with HEP-Operator distribucijskog sustava (HEP Distribution System Operator) and Hrvatski operator prijenosnog sustava (Croatian Transmission System Operator). HEP d.d. consolidates corporate functions of the group, directs, leads and coordinates generation, grid and other business operations of its subsidiaries with the goal to optimize their business processes. Besides its activities on the Croatian market, HEP group operates in the markets of Serbia, Slovenia, Bosnia and Herzegovina, Hungary and Kosovo, through its daugther company HEP-Trgovina (HEP Trade) in charge with purchase and sale of electricity. Additionally, C.S. Buško Blato, a daughter company of HEP-Proizvodnja (HEP Generation) is active in Bosnia and Herzegovina. Nuclear power plant Krško in Slovenia is co-owned by HEP d.d. and GEN Energija.

HEP group, 31/12/2014

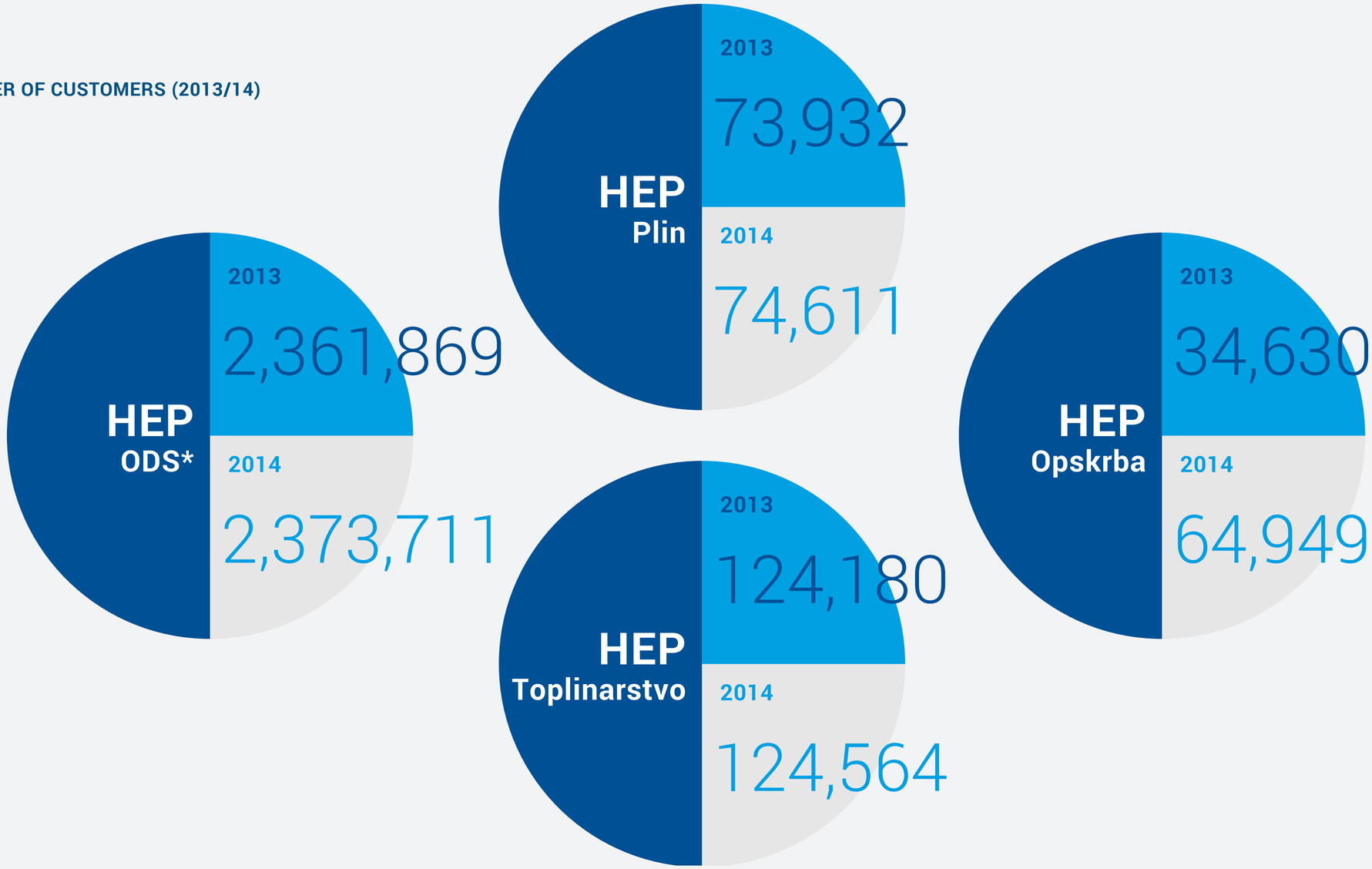


HEP GROUP IN NUMBERS (2013/14)



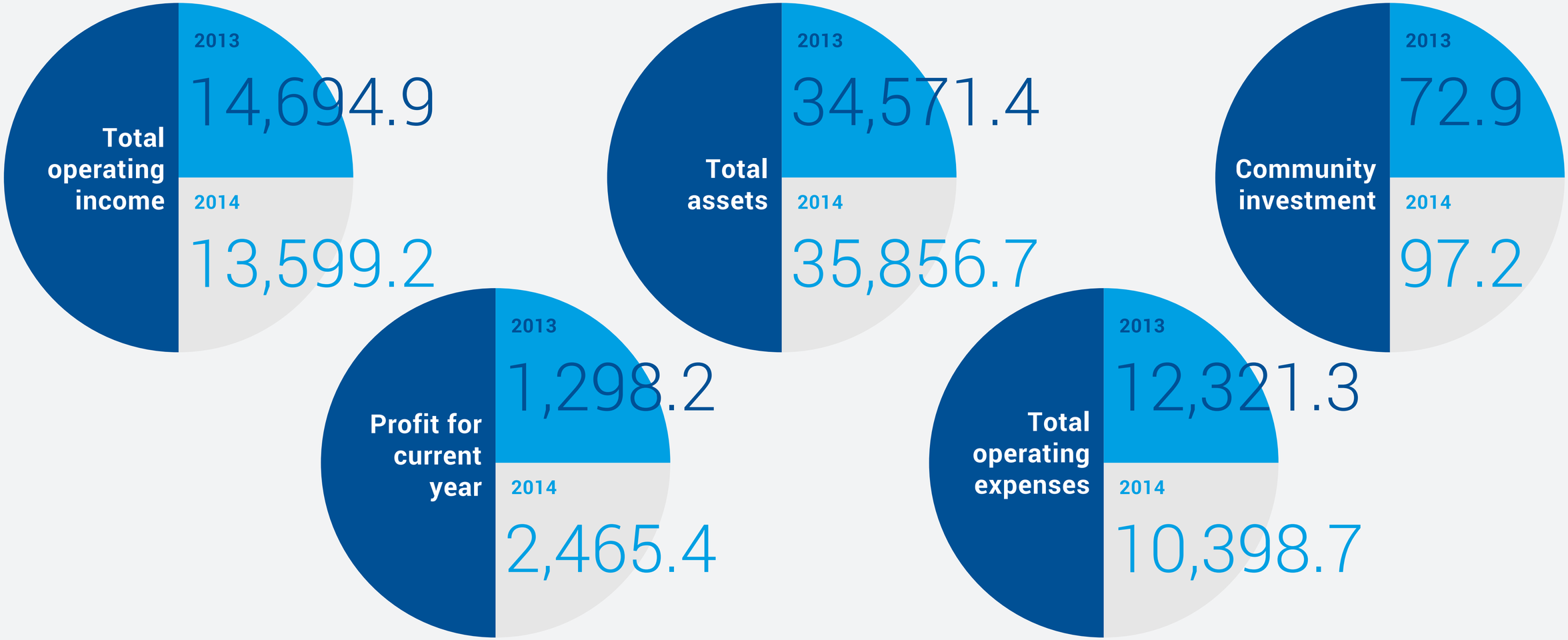
*data include HOPS (Croatian Transmission System Operator)

NUMBER OF CUSTOMERS (2013/14)



*data for HEP-ODS (HEP Distribution System Operator) relate to the total number of metering points in the distribution grid

FINANCIAL DATA (in mil. HRK)



*data include HOPS (Croatian Transmission System Operator)

Croatia has 26 hydropower plants, both run-of-river and storage. Hydropower plants comprise more than a half of sources in the structure of the electricity system, making Croatia one of the leading European countries in electrical power generation from renewable energy sources. HEP owns seven thermal power plants - condensing thermal power plants for the electricity generation: TE Sisak, TE Rijeka, TE Plomin 1 and KTE Jertovec; and combined heat and power plants: TE-TO Zagreb, EL-TO Zagreb and TE-TO Osijek.

In the reporting period HEP owned 50 percent of the second bloc of TPP Plomin 2. Pursuant to the ownership of the half of Krško Nuclear Power Plant, Croatian electricity system had at its disposal net available capacity of 338 MW. Thermal power plants and cogeneration thermal plants use gas and liquid fuel, while TPP Plomin 1 and TPP Plomin 2 use coal.

Total capacity, HEP group	
Run-of-river hydropower plants	403 MW
Storagehydropower plants	1,707 MW
Reversible-pumpedhydropower plants	(281 MW)
Small hydropower plants	16.74 MW
Condensingthermal plants	1,073 MW
Heat thermal plants	604 MW el 300 t/h steam/1,242 MWt
Nuclear power plant (50% NE Krško)	338 MW
Integrated photovoltaic power plants	0.2 MW
Total - installed capacity for electricity generataion	**4,184 MWe**
Total – installed capacity for heat energy gerenration	300 t/h steam /1,242 MWt

HYDROPOWER PLANTS

Storage HPP	Available capacity (MW) / (-MW pumping regime)	Run-of-river	Avaliable capacity (MW)
HE Zakučac	522*	HE Varaždin	92.5
RHE Velebit	276 (-240)	HE Dubrava	79.8
HE Orlovac	237	HE Čakovec	77.4
HE Senj	216	HE Gojak	55.5
HE Dubrovnik	108+120**	HE Lešće	41.2
HE Vinodol	90	HE Miljacka	24
HE Peruća	61.2	HE Jaruga	7.2
HE Kraljevac	46.4	HE Golubić	6.5
HE Đale	40.8	HE Ozalj	5.5
HE Sklope	22.5	HE Lešće ABM	1.1
CS Buško blato	7.5/4.2/(-10.2/-4.8)	HE Krčić	0.3
CHE Fužine	4.6/(-5.7)	HE Rijeka	36.8
HE Zavrelje	2		
HE Zeleni vir	1.7		
RHE Lepenica	0.8 (-1.2)		

CS: pumping station CHE: pumped storage RHE: reversible pumped turbine ABM: bilogical minimum storage
* The capacity following the Unit A revitalization has still not been confirmed by acceptance testing.
**During the revitalization of HE Dubrovnik, shared 50%-50% generation was agreed with Elektroprivreda Republike Srpske.
*** Data on available capacity are the same for years 2013 and 2014, except for HE Peruča, where capacity was increased by 1.2 MW.

THERMAL POWER PLANTS

Thermal power plants	Net available capacity (MW,MWt,t/h)	Fuel
TE-TO Zagreb	422 / 743 / 360	oil / natural gas / extra light oil
TE Sisak	396 / 0 / 96	oil / natural gas
TE Rijeka	303	oil
TE Plomin 1	105	hard coal
EL-TO Zagreb	88,8 / 347 / 377	oil / natural gas
TE-TO Osijek	90 / 139 / 150	oil / natural gas / extra light oil
KTE Jertovec	74	natural gas /extra light oil
TE PLOMIN (B)*	192	hard coal / extra light oil

* Owned by TE Plomin d.o.o. (HEP : RWE Power - 50% : 50%); HEP-Proizvodnja d.o.o. – O&M contract
** Data on net available capacity are the same for 2013 and 2014.

Electricity balance (GWh)

	2013	2014	14/13 (%)
Electricity consupmtion in Croatia	17,296	16,922	-2.2
Electricity consumption HEP	16,618	14,962	-10.0
HPP generation	8,054	8,356	3.7
TPP generation	2,629	1,450	-44.8
NE Krško d.o.o.	2,518	3,030	20.3
TE Plomin d.o.o.	1,448	1,441	-0.5
Import	3,694	1,853	-49.2
Export	-2,347	-2,100	-10.5
Producers outside HEP group	18	19	5.6
Privileged power producers	649	913	40.7
Buyers outside HEP	678	1,960	189.1
Totally available electricity HEP	16,618	14,962	-10.0
Totally available electricity Croatia	17,296	16,922	2.2

Total number of customers according to companies

Companies	2013	2014
HEP ODS*	2,361,869	2,373,711
HEP Toplinarstvo	124,180	124,564
HEP Plin	124,834	114,945
HEP Opskrba	34,630	64,949

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2013

Universal service

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV																						-
SN- 35 kV																						-
SN- 10 kV							1								1		20					22
Total SN	-	-	-	-	-	-	1	-	-	-	-	-	-	-	1	-	20	-	-	-	-	22
Total high and medium voltage	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**20**	**-**	**-**	**-**	**-**	**22**
NN commercial (blue)			10			17	7	17	6	24		6			6			8		13	5	119
NN commercial (white)	59	8	21	19		2	37	1	2	3		13	26	8	5		3	2	11	10	5	235
NN commercial (red)	6	3	1	11		4	19			5		27					21	1				98
NN commercial (orange)																						-
Total NN commercial	65	11	32	30	-	23	63	18	8	32	-	46	26	8	11	-	24	11	11	23	10	452
NN public lighting																						-
NN residential (blue)	38,080	11,844	25,966	20,784	23,589	31,051	44,903	16,876	69,189	34,900	44,592	34,089	23,234	29,279	18,480	29,131	42,865	36,215	11,341	38,340	115,928	740,676
NN residential (white)	90,849	12,422	31,718	49,035	18,806	97,266	143,232	29,804	184,431	41,711	64,007	43,764	29,356	15,693	20,870	17,254	26,627	25,253	12,370	22,532	374,799	1,351,799
NN residential (black)						3,086	5	6														3,097
NN residential (orange)	411	12	2		3		1				4	6				5	2	6		17		469
Total NN residential	129,340	24,278	57,686	69,819	42,398	131,403	188,141	46,686	253,620	76,611	108,603	77,859	52,590	44,972	39,350	46,390	69,494	61,474	23,711	60,889	490,727	2,096,041
Total low voltage	**129,405**	**24,289**	**57,718**	**69,849**	**42,398**	**131,426**	**188,204**	**46,704**	**253,628**	**76,643**	**108,603**	**77,905**	**52,616**	**44,980**	**39,361**	**46,390**	**69,518**	**61,485**	**23,722**	**60,912**	**490,737**	**2,096,493**
TOTAL	**129,405**	**24,289**	**57,718**	**69,849**	**42,398**	**131,426**	**188,205**	**46,704**	**253,628**	**76,643**	**108,603**	**77,905**	**52,616**	**44,980**	**39,362**	**46,390**	**69,538**	**61,485**	**23,722**	**60,912**	**490,737**	**2,096,515**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2013

Guaranteed supply

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV																						-
SN- 35 kV						1			2				1								3	7
SN- 10 kV	28	9	35	14	9	19	21	9	24	5	26	16	5		5	6	3	11	4	7	40	296
Total SN	28	9	35	14	9	20	21	9	26	5	26	16	6	-	5	6	3	11	4	7	43	303
Total high and medium voltage	**28**	**9**	**35**	**14**	**9**	**20**	**21**	**9**	**26**	**5**	**26**	**16**	**6**	**-**	**5**	**6**	**3**	**11**	**4**	**7**	**43**	**303**
NN commercial (blue)	873	228	1,075	431	633	2,160	1,421	892	2,608	1,069	1,330	856	376	691	385	640	655	699	273	556	4,689	22,540
NN commercial (white)	4,111	444	1,653	2,110	1,015	6,375	6,918	1,727	10,355	2,227	2,879	2,082	873	939	859	1,212	1,061	1,243	1,036	1,243	16,314	66,676
NN commercial (red)	262	28	94	143	79	559	585	158	657	141	206	191	60	83	100	110	104	113	42	117	1,398	5,230
NN commercial (orange)																						-
Total NN commercial	5,246	700	2,822	2,684	1,727	9,094	8,924	2,777	13,620	3,437	4,415	3,129	1,309	1,713	1,344	1,962	1,820	2,055	1,351	1,916	22,401	94,446
NN public lighting	213	47	154	92	229	445	260	57	394	168	197	272	44	149	33	187	144	119	12	216	307	3,739
NN residential (blue)	1	2	22		4	53	21	3	29	3	9	5	4	12	1	19	5	1	2	4	16	216
NN residential (white)	5	6	61	19	7	1,195	74	15	346	3	72	38	17	28	18	22	9	6	9	13	107	2,070
NN residential (black)						1																1
NN residential (orange)																						-
Total NN residential	6	8	83	19	11	1,249	95	18	375	6	81	43	21	40	19	41	14	7	11	17	123	2,287
Total low voltage	**5,465**	**755**	**3,059**	**2,795**	**1,967**	**10,788**	**9,279**	**2,852**	**14,389**	**3,611**	**4,693**	**3,444**	**1,374**	**1,902**	**1,396**	**2,190**	**1,978**	**2,181**	**1,374**	**2,149**	**22,831**	**100,472**
TOTAL	**5,493**	**764**	**3,094**	**2,809**	**1,976**	**10,808**	**9,300**	**2,861**	**14,415**	**3,616**	**4,719**	**3,460**	**1,380**	**1,902**	**1,401**	**2,196**	**1,981**	**2,192**	**1,378**	**2,156**	**22,874**	**100,775**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2013

Market suppliers

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	-	-	-	-	-	2	4
SN- 35 kV	8	2	3	5	4	4	10	-	6	3	4	5	1	-	-	4	1	-	2	1	4	67
SN- 10 kV	153	29	72	87	22	204	126	48	108	32	79	82	40	11	60	45	62	65	30	28	339	1,722
Total SN	161	31	75	92	26	208	136	48	114	35	83	87	41	11	60	49	63	65	32	29	343	1,789
Total high and medium voltage	**161**	**31**	**75**	**92**	**26**	**208**	**136**	**48**	**115**	**35**	**83**	**87**	**42**	**11**	**60**	**49**	**63**	**65**	**32**	**29**	**345**	**1,793**
NN commercial (blue)	1,238	529	856	498	512	1,574	1,538	895	1,731	766	1,052	851	528	1,269	1,013	813	1,540	1,002	515	710	4,047	23,477
NN commercial (white)	4,183	793	1,585	2,600	894	4,538	6,144	1,539	7,382	1,503	2,009	1,820	1,361	1,221	1,723	1,295	2,187	1,691	1,032	1,461	11,544	58,505
NN commercial (red)	835	102	234	404	180	988	1.320	328	1,460	335	484	416	233	237	403	264	419	486	117	335	3.099	12.679
NN commercial (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN commercial	6,256	1,424	2,675	3,502	1,586	7,100	9,002	2,762	10,573	2,604	3,545	3,087	2,122	2,727	3,139	2,372	4,146	3,179	1,664	2,506	18,690	94,661
NN public lighting	1,146	264	505	557	315	1,418	1,342	395	1,718	713	874	921	608	553	425	463	1,006	583	429	468	3,375	18,078
NN residential (blue)	3,825	213	285	1,480	483	183	234	28	524	429	129	494	382	532	949	776	705	1,615	1,446	259	1,715	16,686
NN residential (white)	7,267	168	456	3,769	371	1,392	1,840	127	2,890	884	497	942	564	298	1,010	499	394	1,053	1,540	292	7,106	33,359
NN residential (black)	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
NN residential (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN residential	11,092	381	741	5,249	854	1,577	2,074	155	3,414	1,313	626	1,436	946	830	1,959	1,275	1,099	2,668	2,986	551	8,821	50,047
Total low voltage	**18,494**	**2,069**	**3,921**	**9,308**	**2,755**	**10,095**	**12,418**	**3,312**	**15,705**	**4,630**	**5,045**	**5,444**	**3,676**	**4,110**	**5,523**	**4,110**	**6,251**	**6,430**	**5,079**	**3,525**	**30,886**	**162,786**
TOTAL	**18,655**	**2,100**	**3,996**	**9,400**	**2,781**	**10,303**	**12,554**	**3,360**	**15,820**	**4,665**	**5,128**	**5,531**	**3,718**	**4,121**	**5,583**	**4,159**	**6,314**	**6,495**	**5,111**	**3,554**	**31,231**	**164,579**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2013

TOTAL

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	-	-	-	-	-	2	4
SN- 35 kV	8	2	3	5	4	5	10	-	8	3	4	5	2	-	-	4	1	-	2	1	7	74
SN- 10 kV	181	38	107	101	31	223	148	57	132	37	105	98	45	11	66	51	85	76	34	35	379	2,040
Total SN	189	40	110	106	35	228	158	57	140	40	109	103	47	11	66	55	86	76	36	36	386	2,114
Total high and medium voltage	**189**	**40**	**110**	**106**	**35**	**228**	**158**	**57**	**141**	**40**	**109**	**103**	**48**	**11**	**66**	**55**	**86**	**76**	**36**	**36**	**388**	**2,118**
NN commercial (blue)	2,111	757	1,941	929	1,145	3,751	2,966	1,804	4,345	1,859	2,382	1,713	904	1,960	1,404	1,453	2,195	1,709	788	1,279	8,741	46,136
NN commercial (white)	8,353	1,245	3,259	4,729	1,909	10,915	13,099	3,267	17,739	3,733	4,888	3,915	2,260	2,168	2,587	2,507	3,251	2,936	2,079	2,714	27,863	125,416
NN commercial (red)	1,103	133	329	558	259	1,551	1,924	486	2,117	481	690	634	293	320	503	374	544	600	159	452	4,497	18,007
NN commercial (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN commercial	11,567	2,135	5,529	6,216	3,313	16,217	17,989	5,557	24,201	6,073	7,960	6,262	3,457	4,448	4,494	4,334	5,990	5,245	3,026	4,445	41,101	189,559
NN public lighting	1,359	311	659	649	544	1,863	1,602	452	2,112	881	1,071	1,193	652	702	458	650	1,150	702	441	684	3,682	21,817
NN residential (blue)	41,906	12,059	26,273	22,264	24,076	31,287	45,158	16,907	69,742	35,332	44,730	34,588	23,620	29,823	19,430	29,926	43,575	37,831	12,789	38,603	117,659	757,578
NN residential (white)	98,121	12,596	32,235	52,823	19,184	99,853	145,146	29,946	187,667	42,598	64,576	44,744	29,937	16,019	21,898	17,775	27,030	26,312	13,919	22,837	382,012	1,387,228
NN residential (black)	-	-	-	-	-	3,089	5	6	-	-	-	-	-	-	-	-	-	-	-	-	-	3,100
NN residential (orange)	411	12	2	-	3	-	1	-	-	-	4	6	-	-	-	5	2	6	-	17	-	469
Total NN residential	140,438	24,667	58,510	75,087	43,263	134,229	190,310	46,859	257,409	77,930	109,310	79,338	53,557	45,842	41,328	47,706	70,607	64,149	26,708	61,457	499,671	2,148,375
Total low voltage	**153,364**	**27,113**	**64,698**	**81,952**	**47,120**	**152,309**	**209,901**	**52,868**	**283,722**	**84,884**	**118,341**	**86,793**	**57,666**	**50,992**	**46,280**	**52,690**	**77,747**	**70,096**	**30,175**	**66,586**	**544,454**	**2,359,751**
TOTAL	**153,553**	**27,153**	**64,808**	**82,058**	**47,155**	**152,537**	**210,059**	**52,925**	**283,863**	**84,924**	**118,450**	**86,896**	**57,714**	**51,003**	**46,346**	**52,745**	**77,833**	**70,172**	**30,211**	**66,622**	**544,842**	**2,361,869**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2014

Universal service

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV																						-
SN- 35 kV																						-
SN- 10 kV							1								1		20					22
Total SN	-	-	-	-	-	-	1	-	-	-	-	-	-	-	1	-	20	-	-	-	-	22
Total high and medium voltage	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**20**	**-**	**-**	**-**	**-**	**22**
NN commercial (blue)			10			17	7	17	5	24		5		1	6			8		13	5	118
NN commercial (white)	57	9	21	18		6	36		2	6		12	27	8	5		4	2	11	10	4	238
NN commercial (red)	6	3	1	11		4	20	1		5		27					20	1				99
NN commercial (orange)																						-
Total NN commercial	63	12	32	29	-	27	63	18	7	35	-	44	27	9	11	-	24	11	11	23	9	455
NN public lighting																						-
NN residential (blue)	34,410	10,773	23,236	19,072	23,179	29,891	43,545	16,587	67,150	33,466	43,555	32,741	21,487	27,184	17,430	26,862	38,712	34,638	10,772	36,992	110,332	702,014
NN residential (white)	83,475	11,430	28,990	45,394	18,929	95,274	139,289	29,232	181,935	41,360	64,301	42,324	27,175	14,673	19,792	16,166	24,299	24,395	11,779	21,786	357,439	1,299,437
NN residential (black)						3,044	1	6														3,051
NN residential (orange)	33	12	1		1		5				4	6				6	2			17		87
Total NN residential	117,918	22,215	52,227	64,466	42,109	128,209	182,840	45,825	249,085	74,826	107,860	75,071	48,662	41,857	37,222	43,034	63,013	59,033	22,551	58,795	467,771	2,004,589
Total low voltage	**117,981**	**22,227**	**52,259**	**64,495**	**42,109**	**128,236**	**182,903**	**45,843**	**249,092**	**74,861**	**107,860**	**75,115**	**48,689**	**41,866**	**37,233**	**43,034**	**63,037**	**59,044**	**22,562**	**58,818**	**467,780**	**2,005,044**
TOTAL	**117,981**	**22,227**	**52,259**	**64,495**	**42,109**	**128,236**	**182,904**	**45,843**	**249,092**	**74,861**	**107,860**	**75,115**	**48,689**	**41,866**	**37,234**	**43,034**	**63,057**	**59,044**	**22,562**	**58,818**	**467,780**	**2,005,066**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2014

Guaranteed supply

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV																						-
SN- 35 kV									1				1								1	3
SN- 10 kV	17	5	23	8	3	11	15	5	13	3	14	12	4	1	1	3	2	7		1	25	173
Total SN	17	5	23	8	3	11	15	5	14	3	14	12	5	1	1	3	2	7	-	1	26	176
Total high and medium voltage	**17**	**5**	**23**	**8**	**3**	**11**	**15**	**5**	**14**	**3**	**14**	**12**	**5**	**1**	**1**	**3**	**2**	**7**	**-**	**1**	**26**	**176**
NN commercial (blue)	611	171	917	310	451	1,640	933	686	1,980	755	1,016	599	234	491	310	401	460	491	167	380	3,326	16,329
NN commercial (white)	2,838	332	1,298	1,457	770	4,265	4,317	1,307	7,684	1,658	2,220	1,506	607	676	685	806	749	881	665	826	11,352	46,899
NN commercial (red)	158	19	65	51	55	283	303	88	385	85	145	102	40	62	50	74	55	99	18	74	810	3,021
NN commercial (orange)																						-
Total NN commercial	3,607	522	2,280	1,818	1,276	6,188	5,553	2,081	10,049	2,498	3,381	2,207	881	1,229	1,045	1,281	1,264	1,471	850	1,280	15,488	66,249
NN public lighting	156	4	47	56	76	285	77	63	191	94	145	193	42	110	33	66	141	39	4	107	100	2,029
NN residential (blue)	1	1	14		4	60	16		21		9			10		11	1	1	1		3	153
NN residential (white)	7	1	23	1		1,334	25		608		47	6		14		9	14	2			31	2,122
NN residential (black)																						-
NN residential (orange)																						-
Total NN residential	8	2	37	1	4	1,394	41	-	629	-	56	6	-	24	-	20	15	3	1	-	34	2,275
Total low voltage	**3,771**	**528**	**2,364**	**1,875**	**1,356**	**7,867**	**5,671**	**2,144**	**10,869**	**2,592**	**3,582**	**2,406**	**923**	**1,363**	**1,078**	**1,367**	**1,420**	**1,513**	**855**	**1,387**	**15,622**	**70,553**
TOTAL	**3,788**	**533**	**2,387**	**1,883**	**1,359**	**7,878**	**5,686**	**2,149**	**10,883**	**2,595**	**3,596**	**2,418**	**928**	**1,364**	**1,079**	**1,370**	**1,422**	**1,520**	**855**	**1,388**	**15,648**	**70,729**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2014

Market suppliers

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	-	-	-	-	-	2	4
SN- 35 kV	7	-	3	5	4	5	10	-	7	3	4	5	1	-	1	4	1	-	2	1	6	69
SN- 10 kV	165	33	83	98	26	207	135	53	119	36	90	88	43	11	65	50	62	70	32	35	359	1,860
Total SN	172	33	86	103	30	212	145	53	126	39	94	93	44	11	66	54	63	70	34	36	365	1,929
Total high and medium voltage	**172**	**33**	**86**	**103**	**30**	**212**	**145**	**53**	**127**	**39**	**94**	**93**	**45**	**11**	**66**	**54**	**63**	**70**	**34**	**36**	**367**	**1,933**
NN commercial (blue)	1,412	586	1,050	579	656	2,009	1,964	1,080	2,244	1,020	1,316	1,037	636	1,413	1,051	1,015	1,694	1,176	587	856	5,272	28,653
NN commercial (white)	5,633	926	1,945	3,293	1,167	6,636	8,749	2,082	10,224	2,103	2,841	2,444	1,650	1,504	1,940	1,761	2,515	2,128	1,377	1,892	16,756	79,566
NN commercial (red)	963	116	271	497	202	1,269	1,646	421	1,801	401	572	502	266	272	458	305	492	526	148	391	3,762	15,281
NN commercial (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN commercial	8,008	1,628	3,266	4,369	2,025	9,914	12,359	3,583	14,269	3,524	4,729	3,983	2,552	3,189	3,449	3,081	4,701	3,830	2,112	3,139	25,790	123,500
NN public lighting	1,209	311	613	596	480	1,586	1,908	390	1,950	791	928	1,016	635	594	1,953	586	1,027	674	440	610	3,608	21,905
NN residential (blue)	6,876	1,186	2,699	2,691	782	850	2,748	271	1,669	1,211	1,083	1,374	1,911	2,429	2,016	2,839	4,519	2,893	1,864	1,370	6,653	49,934
NN residential (white)	15,746	1,262	3,588	7,677	692	5,303	6,068	1,167	9,123	2,239	2,300	2,713	2,825	1,450	731	1,800	2,962	2,300	2,235	1,333	27,104	100,618
NN residential (black)	-	-	-	-	-	26	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26
NN residential (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN residential	22,622	2,448	6,287	10,368	1,474	6,179	8,816	1,438	10,792	3,450	3,383	4,087	4,736	3,879	2,747	4,639	7,481	5,193	4,099	2,703	33,757	150,578
Total low voltage	**31,839**	**4,387**	**10,166**	**15,333**	**3,979**	**17,679**	**23,083**	**5,411**	**27,011**	**7,765**	**9,040**	**9,086**	**7,923**	**7,662**	**8,149**	**8,306**	**13,209**	**9,697**	**6,651**	**6,452**	**63,155**	**295,983**
TOTAL	**32,011**	**4,420**	**10,252**	**15,436**	**4,009**	**17,891**	**23,228**	**5,464**	**27,138**	**7,804**	**9,134**	**9,179**	**7,968**	**7,673**	**8,215**	**8,360**	**13,272**	**9,767**	**6,685**	**6,488**	**63,522**	**297,916**

Customers of HEP-Operator distribucijskog sustava - number of metering points on December 31, 2014

TOTAL

Description	Elektro-slavonija Osijek	Elektra Požega	Elektra Sl. Brod	Elektra Vinkovci	Elektrolika Gospić	Elektroistra Pula	Elektro-primorje Rijeka	Elektrojug Dubrovnik	Elektro-dalmacija Split	Elektra Šibenik	Elektra Zadar	Elektra Karlovac	Elektra Sisak	Elektra Bjelovar	Elektra Čakovec	Elektra Koprivnica	Elektra Križ	Elektra Varaždin	Elektra Virovitica	Elektra Zabok	Elektra Zagreb	TOTAL
VN-110 kV	-	-	-	-	-	-	-	-	1	-	-	-	1	-	-	-	-	-	-	-	2	4
SN- 35 kV	7	-	3	5	4	5	10	-	8	3	4	5	2	-	1	4	1	-	2	1	7	72
SN- 10 kV	182	38	106	106	29	218	151	58	132	39	104	100	47	12	67	53	84	77	32	36	384	2,055
Total SN	189	38	109	111	33	223	161	58	140	42	108	105	49	12	68	57	85	77	34	37	391	2,127
Total high and medium voltage	**189**	**38**	**109**	**111**	**33**	**223**	**161**	**58**	**141**	**42**	**108**	**105**	**50**	**12**	**68**	**57**	**85**	**77**	**34**	**37**	**393**	**2,131**
NN commercial (blue)	2,023	757	1,977	889	1,107	3,666	2,904	1,783	4,229	1,799	2,332	1,641	870	1,905	1,367	1,416	2,154	1,675	754	1,249	8,603	45,100
NN commercial (white)	8,528	1,267	3,264	4,768	1,937	10,907	13,102	3,389	17,910	3,767	5,061	3,962	2,284	2,188	2,630	2,567	3,268	3,011	2,053	2,728	28,112	126,703
NN commercial (red)	1,127	138	337	559	257	1,556	1,969	510	2,186	491	717	631	306	334	508	379	567	626	166	465	4,572	18,401
NN commercial (orange)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total NN commercial	11,678	2,162	5,578	6,216	3,301	16,129	17,975	5,682	24,325	6,057	8,110	6,234	3,460	4,427	4,505	4,362	5,989	5,312	2,973	4,442	41,287	190,204
NN public lighting	1,365	315	660	652	556	1,871	1,985	453	2,141	885	1,073	1,209	677	704	1,986	652	1,168	713	444	717	3,708	23,934
NN residential (blue)	41,287	11,960	25,949	21,763	23,965	30,801	46,309	16,858	68,840	34,677	44,647	34,115	23,398	29,623	19,446	29,712	43,232	37,532	12,637	38,362	116,988	752,101
NN residential (white)	99,228	12,693	32,601	53,072	19,621	101,911	145,382	30,399	191,666	43,599	66,648	45,043	30,000	16,137	20,523	17,975	27,275	26,697	14,014	23,119	384,574	1,402,177
NN residential (black)	-	-	-	-	-	3,070	1	6	-	-	-	-	-	-	-	-	-	-	-	-	-	3,077
NN residential (orange)	33	12	1	-	1	-	5	-	-	-	4	6	-	-	-	6	2	-	-	17	-	87
Total NN residential	140,548	24,665	58,551	74,835	43,587	135,782	191,697	47,263	260,506	78,276	111,299	79,164	53,398	45,760	39,969	47,693	70,509	64,229	26,651	61,498	501,562	2,157,442
Total low voltage	**153,591**	**27,142**	**64,789**	**81,703**	**47,444**	**153,782**	**211,657**	**53,398**	**286,972**	**85,218**	**120,482**	**86,607**	**57,535**	**50,891**	**46,460**	**52,707**	**77,666**	**70,254**	**30,068**	**66,657**	**546,557**	**2,371,580**
TOTAL	**153,780**	**27,180**	**64,898**	**81,814**	**47,477**	**154,005**	**211,818**	**53,456**	**287,113**	**85,260**	**120,590**	**86,712**	**57,585**	**50,903**	**46,528**	**52,764**	**77,751**	**70,331**	**30,102**	**66,694**	**546,950**	**2,373,711**

Customers HEP-Opskrba

Customer category		2013	2014	14/13 (%)
Number of customers		34,630	64,949	87.6
Number of MP's per customer		2.6	1.9	-26.9
Sales of electricity per customer	MWh/ customer	211	99	-53.1
	kn/customer	83,526	36,859	-55.9

MP = metering point

Number of metering points

Customer category	2013	2014	14/13 (%)
High voltage	47	46	-2.1
Mediumvoltage	1,365	1,193	-12.6
Low voltage - commercial	79,614	91,300	14.7
Low voltage–public lighting	10,175	12,146	19.4
Low voltage - residential	17	20,655	
Total low voltage	**89,806**	**124,101**	**38.2**
Total	**91,218**	**125,340**	**37.4**

Customers HEP-Toplinarstvo

	2013	2014
Zagreb - District heating system		
Heat sales	1,315,079 MWh	1,107,354 MWh
Steam sales	451,495 t	362,149 t
Customers	91,376	91,745
Zagreb - Local boiler plants		
Heat sales	178,026 MWh	139,432 MWh
Customers	16,971	16,971
Sisak operative area		
Heat sales	61,507 MWh	51,579 MWh
Customers	4,134	4,140
Osijek operative area		
Heat sales	180,701 MWh	157,552 MWh
Steam sales	117,594 t	102,795 t
Customers	11,699	11,700

Customers HEP-Plin

Number of customers according to metering points (MP)

Operative area	No. of MP's 2013	No. of MP's 2014
Osijek - Baranja County	62,073	62,560
Požega - Slavonija County	8,049	8,145
Virovitica – Podravina County	3,810	3,828
Other counties	0	78
Total	73,932	74,611

Gas sale structure according to tariff models

Customer categories 2013	No. of MP's	Customer categories 2014	No. of MP's
TM1 - Residential	68,677	Residential TM1-TM4	69,255
TM2 - Commercial (under 1 m m3)	5,237	Commercial TM1-TM8 (under 1 m m3)	5,351
TM3 - Commercial (over 1 m m3)	18	Commercial TM9-TM12 (over 1 m m3)	5
Ukupno	73,932	Total	74,611

Tariff models were changed in 2014 compared to 2013.

Underground and overhead line lengths

Since the Croatian Transmission System Operator was unbundled since July 1, 2013 and has operated according to the ITO model in the reporting period, data on the length of underground and overhead transmission grid cannot be included in this report. Therefore, the report presents the line lengths according to voltage level and line type only for lines managed by HEP-Operater distribucijskog sustava:

	Lines 110 kV (km)			Lines 35, 30 kV (km)			Lines 20 kV (km)		
	OHL	Cable	Undersea	OHL	Cable	Undersea	OHL	Cable	Undersea
2013	23.3	4.8	5.8	3,334.7	1,320.6	132.2	3,221.8	3,276.0	2.6
2014	5.5	4.8	0	3,154.5	1,375.7	138.1	3,434.9	3,587.6	2.6

	Lines 10 kV (km)			Network 0,4 kV (km)			Residential connections (km)		
	OHL	Cable	Undersea	OHL bare	OHL insulated	Cable	OHL bare	OHL insulated	Cable
2013	17,829.4	10,918.2	239.6	19,521.7	26,905.8	17,464.9	3,797.3	17,258.7	10,471.3
2014	17,373.3	11,297.4	235.6	17,406.5	28,662.1	16,122.5	3,459.8	18,123.7	11,399.1

OHL = overhead

Our approach to management: quality, innovation, responsibility

3 Our approach to management: quality, innovation, responsibility

Corporate responsibility is incorporated in the foundations of HEP group corporate governance, identified in the company mission. Corporate sustainability in the sense of impacts on society, economy and environment is entwined in all governance processes of HEP group.

Mission

Secure and quality supply of energy to customers, with a high level of social responsibility.

Vision

Croatian energy leader with a growing share on the regional electricity generation, supply and trade market providing a secure and quality service based on the principles of environmentally friendly generation, energy efficiency and sustainable operation.

Fundamental values of HEP group

Competence and innovation

Our employees are the most valuable resource and support in achieving the company's mission and vision and in creating values. 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.

Environmental responsibility

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

Integrity

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

Compliant to the HEP group governance model, HEP d.d. manages operations and partly executes operative fuctions, directs, monitors and coordinates business activities in subsidiaries. Governing bodies of HEP d.d. are: Management Board, Supervisory Board and General Assembly which represents shareholders – the Republic of Croatia.

Management Board

Management Board in 2014

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

Management Board in 2013

Tomislav Šerić	President	Since May 10, 2013
Zlatko Koračević	President	Until May 10, 2013
Zvonko Ercegovac	Member	Since February 23, 2012
Ivan Matasić	Member	Since February 23, 2012
Krunoslava Grgić Bolješić	Member	Since February 23, 2012
Perica Jukić	Member	Since May 10, 2013
Rodoljub Lalić	Member	Until May 10, 2013
Željko Štromar	Member	Since December 16, 2013

Supervisory Board

Members of the Supervisory Board in 2013 and 2014

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

General Assembly

General Assembly is composed of the members representing the shareholders' interests:

Ivan Vrdoljak	Member	Since November 21, 2012

Doing business ethically

HEP group conducts business in compliance with the law and ethical norms, guided by the corporate Code of Ethics, adopted in 2002. HEP group amendedthe Code in 2010, ensuring its compliance with the requirements by the Anti-corruption program for state-owned companies, Code of Ethics of the Croatian Chamber of Economy and Corproate Governance Code (Zagreb Stock Exchange and the Croatian Financial Sevices Supervisory Agency – HANFA), since HEP issues corporate bonds.

In 2013 HEP conducted the Action plan to implement the Croatian Government Anti-corruption program for state-owned companies, with the goals to raise responsibility and transparency, strengthen corruption prevention and support zero-tolerance to corruption approach.

Advertisements on employment tenders are published on the corporate web site. Corruption prevention and ethical doing business educational material is available to all employees on the corporate intranet platform – Infohep.

Information officer for HEP group received 21 request to provide access to information in 2013 and all requests were resolved. In compliance with the Act on the Right of Access to Information, a report was composed on the implementation of legal provisions and submitted to the Information Commissioner of the Republic of Croatia. Information Commissioner for HEP group received 16 requests to access information in 2014, out of which 13 were resolved. No requests were forwarded to other public administration bodies.

Ethical Committee of HEP group is comprised by ethics commissioners from subsidiaries and the person in charge with governance compliance complaints. Contacts data, form to report unethical behavior and governance compliance irregularities are available on HEP intranet pages and on the official web page. Code of Ethics is also publicly available online (Croatian version).

According to the Act on the Preventing of Conflict of Interest in Public Office, presidents and members of management boards of the companies owned by the Republic of Croatia, including the companies incorporated in HEP group, cannot serve as members of the supervisory boards of the connected companies, with the exception of the companies whose founder is not directly Republic of Croatia and in which the state does not have a majority stake. In the reporting period, the Commission on Conflict of Interest passed five rulings against HEP on the breach of the conflict of interest provisions. The company immediately corrected irregularities and implemented the requested changes.

Professional contribution

Our experts contribute to various organizations and institutions by producing their expert and scientific papers and materials, participating in conferences, consultations, expert gatherings, symposia, workshops and seminars, as well as circular e-mail discsussions, contributing as board members of various associations and national committees.In this way, our employees exchange specialist knowledge and experience and are active members of the international energy community thus directly and in an organized way contribute to networking and implementation of the EU and energy community regulations. Therefore, our experts are important stakeholders in the process of creation of national energy policy, legal regulations, as well as all other activities contributing to the benefit of HEP and our customers.

HEP d.d. and subsidiaries in HEP group are collective members, while experts from HEP are individual members of a number of international organizations, institutions and associations:

- EURELECTRIC (Union of the Electricity Industry)
- IEEE (The Institute of Electrical and Electronic Engineers)
- CIGRE (International Council on Large Electric Systems)
- CEEP (Central Europe Energy Partners)
- ICOLD (International Commission of Large Dams)
- IHA (International Hydropower Association)
- CIRED (Congres International des Réseaux Electriques de Distribution)

- LWA (Live Working Association)
- EFET (European Federationof Energy Traders),
- IAEA (International Atomic Energy Agency),
- ENS (European Nuclear Society)
- UNICHAL (International Union of Heat Distributors),
- EUROHEAT & POWER (District Heating and Cooling and Combined Heat and Power Association)
- EWEA (The European Wind Energy Association)
- IIA GLOBAL (Institute of Internal Auditors, Florida, SAD), through HIIR – Institute of Internal Auditors of Croatia
- ISACA (Information Systems Auditand Control Association),through the Croatian branch, ISACA Chapter Croatia
- ISSA (International Social Security Association)
- ECLA (European Company Lawyers Association) and others

4

Our approach to sustainability

4 Our approach to sustainability

Challenges of organizational economic and social impact

HEP group is one of the largest and strategically most important corporate subjects in the Republic of Croatia. Our strategic role is significantly influenced by the energy sector we operate in – development, generation, transmission, trade, distribution of electrical and thermal energy, as well as natural gas. Energy sector not only has a significant impact on the sustainability of the Croatian economy, but also on the quality of life of citizens. Following regulatory changes, the HEP group subsidiaries are not sole market players in electricity supply. Important changes in market liberalization happened exactly in the reporting period, during 2013.

In the process of market liberalization we realized that we have to shift our sustainability from market share to quality issues, responsible customer relations and ethical participation on the market in order to enable fair play and competition development.

In the process of market liberalization we realized that we have to shift our sustainability from market share to quality issues, responsible customer relations and ethical participation on the market in order to enable fair play and competition development.

During the two reporting years, especially 2014, we strived to intensify customer communication. It was implemented mostly through media content and participation in public forums, expert gatherings and conferences in order to raise stakeholder awareness on market liberalization. The largest issues we confronted was the initially poor preparedness and very low level of education (understanding) of liberalization process (especially in residential segment). We invested continuously in market education, being aware that the CSR objectives in this segment should be amibitiously defined in several segments – reasonable dialogue development and exchange of opinions with competitors would contribute to the development of transparency of communication with customers, increase of supervision of ethical behavior on the market. As a considerable player, HEP shares responsibility for dialogue development in future. New market relations, along with the best European practices inspire us to invest more efforts in customer relations development, both individual and collective stakeholders, in the next reporting period.

In order to raise own competetiveness on domestic and foreign markets included launching serious preparations for the restructuring of HEP group. Restructuring was partially caused by regulatory provisions, such as the demand to unbundle Croatian Transmission System Operator – HOPS, which started operating according to Independent Transmission Operator model since July 1, 2013, which means that it operates as an independent legal entity devolved from the vertically integrated subject, i.e. the mother company Hrvatska elektroprivreda. During 2013 and 2014, preparations were underway to comply HEP-Operator distribucijskog sustava (distribution system operator) with the Energy Act and Electricity Market Act. The restructuring is caused also by the necessity to adapt the former large monopolist system to the changed market requirements and to improve the organizational efficiency, rejuvenate the organization and ensure investment in intellectual and working capital. Restructuring preparations were led in accordance with the international standards and through dialogue with key stakeholders – employee representatives and the unions.

By conducting successful business operation and realizing profit, HEP group ensures a good rating on the international capital markets and subsequently favourable conditions for financing its projects. In the reporting period HEP group successfully generated considerable profit, which was prerequisite to plan capital projects and investments. We informed stakeholders on all our plans and development projects. Information on our most important energy projects are available online and in our corporate newspaper HEP Vjesnik. This sustainability report was partially born from our desire to have a central point of open communication with our stakeholders.

Organizational reputation becomes increasingly important component of corporate brand value. It can be developed only by earning and strengthening trust of our key stakeholders. We can create trust exclusively by constantly investing in dialogue development and meaningful strategic care for society development or the needs of specific communities in which HEP group operates. Having in mind the nature of our industry, we are present in all communities. It is expected from HEP group to actively participate in social life of communities and to show long lasting committment to social responsibility.

HEP group remained a good partner in numerous local community programs in the reporting period, having supported their development plans, from infrastructure to the protection of cultural, historical and traditional heritage.

HEP group remained a good partner in numerous local community programs in the reporting period, having supported their development plans, from infrastructure to the protection of cultural, historical and traditional heritage.

Some of those programs has been developed and implemented in cooperation with stakeholders on the national level for a number of years. In 2014 we celebrated twentieth anniversary of our program Imam žicu! which supports scientific excellence of elementary and highschool students. With the purpose of helping realize the complete eradication of the one of the most prominent humanitarian problems in Croatia, HEP has participated and significantly invested in mine clearance activities since the Homeland War. Since 2011, HEP has been the largest individual donor of the Croatian Mine Action Center.

Besides community investment, we continuously develop stakeholder dialogue in all projects that are significant for particular local communities. HEP also contributed to science and new technologies development by engagement of our employees and experts and by participation in vital energy and ecnomic debates, thus having added value to public consultation processes.

To be a good partner to the local communities does not only reflect in conceiving and realizing development projects, but also in being consistent in responsible reactions and behavior of the organization, proving that we care about the local community benefits during difficult times. Extreme winter conditions, such as heavy snow and icy rain caused considerable damage to the electricity network in February 2014. Subsequently, about 15 thousand households or 23 thousand people remained without electricity. Two hundred fifty employees of Elektroprimorje and additional two hundred from other distribution areas spent days and nights in extreme weather conditions, frequently risked their own lives in inaccessible areas in order to repair the network and ensure electricity distribution. The reconstruction activities lasted longer than two weeks.

Our employees had a new chance to show their sense of responsibility and dedication only a few months later – in May, following disasterous floods in Posavina. Along with the painstaking work on the damage recovery, HEP immediately donated one million kuna to the Croatian Red Cross as the humanitarian aid to the endangered population. Owners of flooded houses or other objects were relieved of paying electricity bills from May to September 2014 (amounting to 3.2 million kuna). HEP also covered electricity costs for temporary residence of the flood victims. In total, HEP provided aid to the flooded areas amounting to around six million kuna.

Challenges of organizational impact on environment

As industrially intensive organization, HEP group faced numerous challenges in implementing environmental protection activities. Some of the challenges are technologically conditioned, such as the requirements to harmonize the existing production and distribution facilities with new legal provisions, necessity to replace old thermal plants with new ons using the best available techniques or investments in development and modernization of the existing production facilities and network. Some others are caused by new regulatory measures, international standards and conventions, such as the investments and adaptations relating to the European Union goals for decarbonization of the energy sector or recent environmental protection regulations, like the ecological network NATURA 2000. Republic of Croatia joined the EU Emissions Trading System already on January 1, 2013. By this, HEP was fully ready and implemented the emissions trading system six months before the accession to the unified market.

HEP was fully prepared for and implemented the emissions trading system six months before the accession to the unified market.

Additional challenges in environmental protection domain, but also in business growth are planning and development of renewable sources of energy, new energy efficiency projects, as well as the development and promotion of e-mobility. Finally, the increased standards and implementation of the good practice of stakeholder engagement in the process of planning and development of new energy facilities, enable HEP, as a responsible company, to utilize the opportunities of stakeholder engagement. In the reporting period we implemented high standards of informing, educating and public participation.

In planning and implementing activities of raising its business sustainability and social responsibility HEP group strived to timely recognize risks related to economic, social and environmental aspects and to handle them by active management. We are aware of the necessity for raising sustainability goals, designing and implementing a long-term CSR strategy and the development of dialogue platforms and stakeholder engagement. Our understanding of improvement opportunities in certain categories is described in the individual chapters of this report.

Included organizations

Sustainability report includes data for the reporting period of 2013 and 2014 and comprises the operations of the following companies of HEP group:

HEP d.d.
HEP-Proizvodnja d.o.o.
HEP-Operator distribucijskog sustava d.o.o.
HEP-Opskrba d.o.o.
HEP-Trgovina d.o.o.
HEP-Toplinarstvo d.o.o.
HEP-Plin d.o.o.
HEP-Telekomunikacije d.o.o.
HEP-Opskrba plinom d.o.o.
HEP-ESCO d.o.o.
APO usluge zaštite okoliša d.o.o.
HEP-Obnovljivi izvori energije d.o.o.
Program Sava d.o.o
HEP-Odmor i rekreacija d.o.o.
HEP-Nastavno obrazovni centar
Plomin Holding d.o.o.
TE Plomin d.o.o. (50% owned by HEP d.d.)

This report does not include the data for Hrvatski operator prijenosnog sustava d.o.o. (Croatian Transmission System Operator – HOPS), which is fully owned by Hrvatska elektroprivreda d.d., but started operating according to Independent Transmission Operator model since July 1, 2013. Data relating to HOPS are included only in the consolidated financial data, because the data were reported in the same way in Hrvatska elektroprivreda d.d. Annual Report.

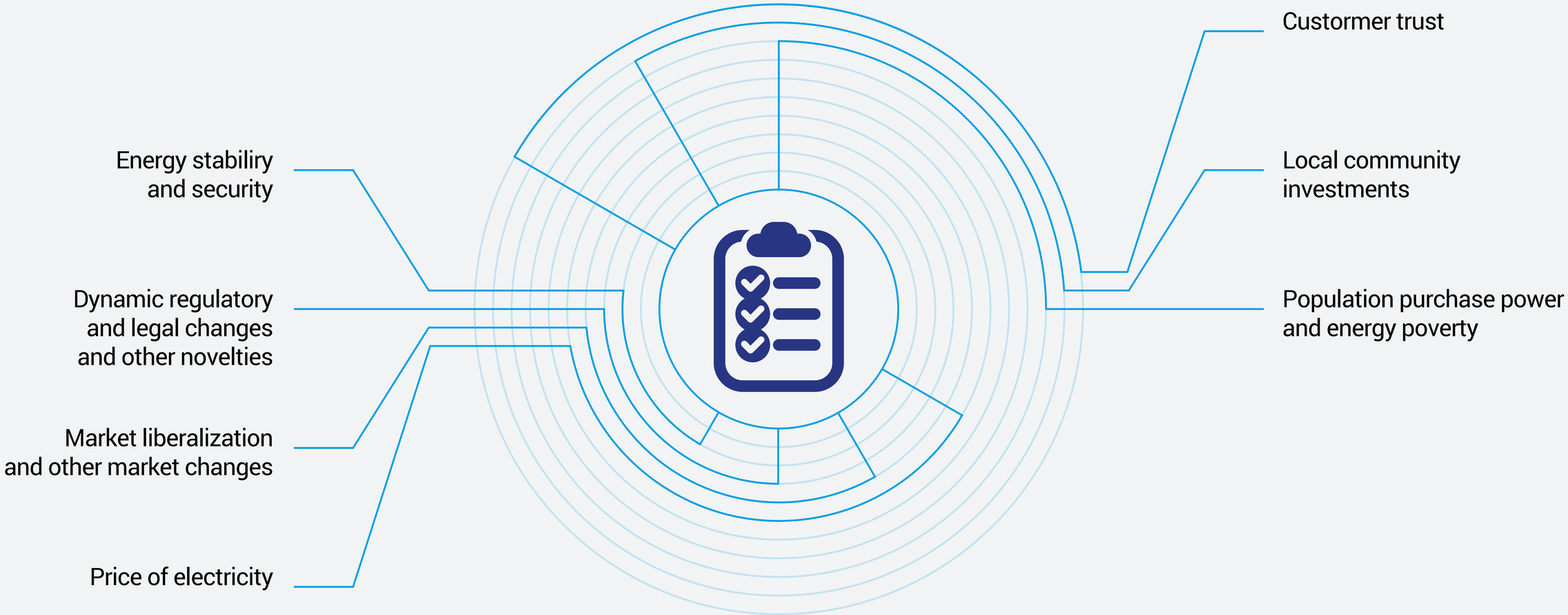
Material issues

Following GRI G4 reporting guidelines, HEP group organized a special Working Group (Reporting Team), which included over thirts employees and managers from various organizational units of HEP d.d. and its subsidiaries. A number of workshops were organized in which the Reporting Team members participated in various dialogue formats to assess organizational material issues, i.e. those impacts that may be significant for the long-term sustainability of HEP group, demand active management and stakeholder engagement. Debating on material issues, the members of the Reporting Team assessed that the definition of materiality in the context of HEP group should comprise all issues that are: vital to the business operations of the company, development and investments, market competitiveness, satisfaction, trust and loyalty of customers, governance processes, structure of generation facilities, environmental impact, company transformation, knowledge management and corporate reputation. Material issues were discussed within general aspects: economic and strategic influence, marketplace, environmental protection, workplace and society. The chapters of this report were organized to match these aspects.

Based on material issues, the Reporting Team selected aspects and indicators which were to be included in this report. Pursuant to material issues workshop outcomes, the Reporting Team evaluated the importance of each selected material issue, according to four major areas of impact: a) financial, investment and developmental, b) regulatory and political, c) social trends and stakeholders expectations and d) impact of technologies, innovation and professional development. Aspect boundaries were assessed comparing potential impact of material issues on specific secotral activities of HEP group. Assessment was based on numerical evaluations of each team memeber and the discussions on the impact of material issues within the organization and in its environment.

All team members participated in describing the selected material issues, which ensured trans-sectoral and multi-disciplinary approach in defining the meanings of material issues for HEP group, their material adequacy and which ways and methods can yield the best response to the challenges and opportunities caused by their impact in this and following reporting periods. Colleagues who participated in the Reporting Team are specialits and experts in various areas, holding different positions and functions within the company and contributed to the process with their differing experiences, which ensured a deep insight into how material issues may affect sustainable development plans and corporate social responsibility. In workshops we used creative techniques, such as World Café discussions to create an open dialogue in which all participants were welcome to equally contribute.

Material issues in market segment



HEP group is responsible for and has a high impact on the security and stability of electricity supply in the Republic of Croatia. Investing in infrastructure, as well as knowledge and innovation development is vital to achieve and maintain stable energy supply and to ensure system resilience to any market or technological anomalies and to continually transform to fulfill the needs and expectations of customers, stakeholders and shareholders. Electricity prices in Croatia are still lower than the European Union average. Market liberalization will continuously cause drop in energy prices. Regulatory and legal volatility influence our business on both strategic and operational levels, especially in those segments which demand precise forecasting due to long-term planning requirements, like energy sector. Therefore we need a proactive approach and dialogue with regulatory and state bodies and other key stakeholders, as well as active lobbying and participation in consultation processes related to policies.

Market liberalization and other market changes bring faster and swifter product development, which can be realized by designing new stakeholder cooperation initiatives on mutual market projects.

Market education can be incited by constructive cooperation with consumer associations. Local community investments should be developed as long-term partnerships, which is the condition to the creation of stakeholder relations policy, as well as the strategy of local community relations and philantropic policy. There is a great potential to develop joint projects with local communities. Stakeholders show comparatively little understanding of HEP group business operations, its subsidiaries and their functions. There is also a low level of trust in industries and organizations owned by the state. Customer trust depends on their knowledge of energy market, rules and procedures, processes, approaches and the expertise of HEP group. Living standard, public expenditure levels and spending habits influence market development. Solving the issues of energy poverty demands the establishment of a clear regulatory framework which will enable energy availability, both in terms of price and infrastructure.

Market liberalization and other market changes bring faster and swifter product development, which can be realized by designing new stakeholder cooperation initiatives on mutual market projects.

Material issues in economic and social segments

Strategic importance of HEP group for the Republic of Croatia conditions the responsibility for the development of energy and infrastructure projects. It includes a high level of awareness on changes as well as the planning of future according to expected challenges and opportunities and their active management. Important economic and social role of HEP group demands the fortification of the strategic direction which will attract investors and creditors. In other words, strengthening the organizational credibility and its competitive potential. HEP group operates on the entire territory of Croatia, is responsible for energy security and stability in all parts of the country, ensures investment dynamics and flow of capital in the country. The importance of market approach in volatile market conditions demands ability of swift adaptation to market requirements, regulatory changes and innovative solutions development. Besides, it is important to ensure stable governance processes, external risk management and potential negative impacts from the corporate surroundings, as well as active management of the gap bewteen positive and negative impacts. HEP group will adapt to new standards and trends.

Strategy and vision of HEP group envisage HEP as a strong and significant regional player that will offer energy and specific services on other markets in order to strengthen its position on foreign markets, increase income and strategic influence.

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Invigorating market competitiveness conditions the development of innovative products and services, along with contemporary marketing approach, honest and intensive communication with customers, but also stronger internal communication on objectives, processes and projects of companies within the group. Intensified stakeholder communication can create joint product and service development and design innovative market approach, in which HEP group has a chance to take regional leadership. Stability of human capital is ensured by secure labor conditions and trasparent collective bargaining. Companies within HEP group are among the most desirable employers in the coutry. Realizing motivating workplace with clear assessment rules and work quality criteria boosts and maintains an attractive organizational culture.

Competitiveness on labour market will depend on the ability to attract high quality employees who would appreciate opportunities for personal development or to prove their expertise, incite initiative and innovation, rather just to provide a safe employment. This can be achieved in cooperation with education and scientific organizations, as well as international excellence centers. Active knowledge management and transfer by combining practical work and science can enable HEP retain the best experts on the Croatian market. Traditional partnerships and joint projects with high schools and scientific institutes should be enriched by innovative methods of cooperation.

A unique value system on HEP group level, clear mission and vision, increase in employee satisfaction, loyalty and communion, energized feelings of pride and belonging to the organization can all be developed by constructing a healthy and strong corporate (organizational) culture. In order to achieve this, we should adhere to high standards of corporate governance based on processes and expertise. Processes should include clear, professional and transparent employee selection on all levels. Strong and well-branded corporate culture boosts reputation and fortifies relations with external stakeholders.

Material issues in environmental segment

Requests to introduce the highest standards in environmentall protection include the development of knowledge within HEP group. New stricter criteria for environmental assessment, monitoring and measures to protect environment and nature require substantial investment. Contemporary requirements related to energy efficiency, renewable energy development and alternative fuels use may incite innovation and implementation of the latest solutions.

HEP group intends to invest efforts in strategic management of carbon footprint issue, as well as the implementation of regulation on CO_2 emissions.

Environmental impact assessments last long and affect the investment realization plans. New standards and trends of public inclusion demand strategic approach and integration of communication in project development. As strategically important energy group, HEP is aware of its obligation to be the forerunner in energy efficiency and to educate and inform stakeholders on its advantages.

HEP group intends to continue investing efforts in strategic management of carbon footprint issue, as well as the implementation of regulation on CO_2 emissions.

Stakeholder engagement as a part of material issues management

HEP group understands the importance of gathering stakeholder opinions about its business operations, organizing dialogue about key topics, as well as the necessity to advance practice of stakeholder engagement in issues of special business concern. Stakeholder engagement, creating dialogue with them or asking for their opinions is organized in various ways, within various projects and within various sectors and companies in the group. In such a large and versatile group it is challenging to list all methods of employee engagement in the two-year period, especially because some forms of engament are planned, structured and formal, while others are performed ad-hoc, spontaneously, less formally and according to the current demands of the project.

Having in mind a very complex business range of activities, HEP group forms and maintains relations with significantly large numbers of stakeholders or interested groups and individuals, who are influenced by a part of group's operation or who have influence or show interest for particular business operations of HEP group. Our stakeholders are also groups or individuals with whom HEP group shares mutual interests or with whom we create various types of dialogue important for our economic, social or environmental sustainability.

Reporting Team discussed and listed the most important organizational stakeholders in interactive workshops. The major selection criteria was that stakeholders are those organizations or groups important to the business operations of HEP group or on whose sustainability or business HEP group has significant impact. We divided stakeholders accoding to their participation within aspects and we defined them according to the material issues.


Local communities: counties, cities, municipalities
Associations (international and national): expert associations, interest associations, Croatian Chamber of Economy, Croatian Employers' Association
Academic and scientific institutions: universities, scientific institutes, highshools
Internal stakeholders: employees, managers, unions, workers' councils, HEP war veteran association, HEP pensioners association
Shareholders representatives (General Assembly), Supervisory board
Regulatory bodies: Croatian Energy Regulatory Agency (HERA), Croatian CompetitionAgency (AZTN), Croatian Fianncial Services Supervisory Agency (HANFA)
Civil sector: consumer protection associations, environmental NGO's
Capital markets: investors, creditors, investment partners, rating agencies, Zagreb Stock Exchange
Government bodies: Croatian Government, Ministry of Economy, Ministry of Environmental and Nature Protection, Ministry of Finance, Ministry of Construction and Physical Planning, Ministry of Agriculture, Ministry of Health, Environmental Protection and Energy Efficiency Fund, Croatian Environment Agency, State Institute for Nature Protection, Croatian Water Management Company, State Administrative Office for State Property Management, Center for Monitoring Business Activities in the Energy Sector and Investments, Croatian Parliament
Media: national, local, expert
Market: commercial customers, residential customers, konkurencija, business partners, suppliersi

Stakeholder dialogue

Launching information and education campaigns, stakeholder communication, creating dialogue or engaging stakeholders in organizational processes was implemented in various ways during the reporting period. Diversity is conditioned by complexity and distinction of particular business activities within the group, as well as the external context or individual projects executed in the reporting period.

Some forms of stakeholders engagement, such as shareholders' representatives, government or regulatory bodies is continuously organized within corporate governance process, but also sometimes dictated by significant projects development. Methods of engagement are formal and working meetings, various types of consultations or engaging individuals in the processes of planning, execution or communication of projects or group programs. Similar approach is implemented in stakeholder communication on capital markets, which is continuous or ad-hoc, at the request of particular institutions.

Internal stakeholder dialogue is continuously organized on the internal information platform – intranet portal of HEP group, which was launched in 2011. Besides being a document sharing platform and information billboard, the intranet serves improvement of internal communication among companies, sectors, teams and projects. The platform allows interactive and two-way communication. Workers' representatives are engaged in meetings with unions and collective bargaining process. Employee engagement was conducted also by direct communication in meetings and other interaction methods.

Since a large scope of HEP business relates to the projects that have environmental impact, we pay special attention to develop stakeholder engagement in that segment. In covering environmental issues, we cooperate with expert communities (various profiles and scientific branches), authorized environmental expert companies (especially during various environmental impact assessment processes),

respective ministries and other state bodies, local communities on whose territories HEP has or intends to construct its facilities, NGO representatives dealing with environmental protection and various national and local media. Communicating environmental topics is very sensitive and we are aware it demands long-term investments. In the reporting period we developed several projects in which we did our best to implement the best practice of stakeholder engagement. Besides methods provided in relevant regulations, HEP group implemented various methods voluntarily, such as organizing scoping process in the EIA planning phase, information and education campaigns, organizing open days in facilities, organizing and participating in public discussions, debates and roundtables, organizing public surveys and others. Details on stakeholder engagement in the projects of higher importance to environmental protection are published in the chapter Society.

Various parts of HEP grupa were facing interesting market challenges in the reporting period. One of the largest was market liberalization in residential segment, which intensified since summer 2013 when stronger competition appeared in residential electricity supply. At that time HEP Opskrba conducted a customer satisfaction survey covering both residential and commercial segments. To a large extent the survey outcomes corroborated Reporting Team conclusions on HEP material issues. We also organized market dialogues in other ways like participating in public debates on relevant market issues, supporting such gatherings and coferences, organizing presentations on new technologies, communicating with customers through customer center and similar.

Dynamic market changes proved that, in spite of previous efforts, improvement is possible and there are numerous opportunities for stakeholder engagement, especially in customer communication quality increase and organization of information and education platforms.

Space for improvement in the next reporting period is expected in the area of customer relations.

Dynamic market changes proved that, in spite of previous efforts, improvement is possible and there are numerous opportunities for stakeholder engagement, especially in customer communication quality increase and organization of information and education platforms.

HEP group representatives actively participate in the work and consultations with international and domestic expert associations. Academic and scientific institutions are most frequently engaged in consultation formats, whereas HEP group also supports and participates in organizing expert and scientific conferences, seminars and public discussions. Media communication is conducted by usual professional methods. Large media interest for all aspects of HEP group business operations reflects in very dynamic relationship, while information exchange and dialogue are organized both in formal and informal ways.

Aware of the growing influence of stakeholders, we develop own initiatives, a field of numerous future opportunities. As a rule, we participate in various dialogue events organized by our stakeholderes, as in less formal interaction. The most important activities are covered in the organizational magazine – HEP Vjesnik, printed in 8,000 copies and available online. The magazine is primarily internal (employee) newspaper, but it is also distributed to various external stakeholders – government representatives, largest commercial customers and business partners, media, faculties, institutes, HEP pensioners. Vital stakeholder issues are included in Hrvatska elektroprivreda d.d. Annual Report, which, besides financial data, presents information related to social impact, environmental impact and workplace issues.

5

Market

5 Market

Development goals

Business optimization encompasses the alignment of key factors, such as business strategy, business model, organization, business processes, human resources, information technologies, governance methods and overall business system efficiency. It comprises of four basic elements:

> business optimization of HEP group,
> increase of business processes efficiency,
> introduction of new controlling elements and new working methods in key segments,
> compliance with EU regulations.

Development and investment cycle. Passing decisions on long-term investment in constructing new and reconstructing existing facilities is crucial for investing in HEP generation capacities. HEP has a number of potential projects, in diverse development phases on present or new locations and using various technologies. Implementing objective decision-making processes and strucutring investment feasibility, projects are ranked according to feasibility, profitability and priority interests of HEP.

Creating new products and services. New products in all segments, using previous experiences and customer data base indicators, introducing new services on smart grid principles, will be fundamental to keeping the dominant market share.

Regional approach. Loss of the part of domestic market imposes the necessity to intensify the foreign markets presence, especially in the region.

Economic aspects

HEP mission - secure and quality supply of energy to customers, with a high level of social responsibility was completely fulfilled in the reporting period.

Result by segments

Business result									million kn
	electricity			heat			gas		
	2013	2014	14/13	2013	2014	14/13	2013	2014	14/13
Operating income	13,428.40	11,767.10	-12.40%	830.4	741.8	-10.70%	436.1	1,090.20	150%
Profit (loss) from operations	2,543.00	3,265.30	28.40%	-166.6	-135.1	-18.90%	-2.8	70.2	

Electricity generation and procurement

2013

Power plants, wholly of partially owned by the Group, generated 14.7 TWh of electricity, i.e. 77 percent of total electricity turnover recorded by the Group in 2013. Due to good hydrology, the structure of electricity sources is significantly more favourable than the year before. Due to high energy values of water inflows, hydrogeneration recorded 8,054 GWh of electricity i.e. a 3.1 percent less compared to the record-high 2010 generation. Thermal generation was reduced by 13.2 percent compared to 2012 due to high generation costs, which resulted in optimized cost of electricity generation and procurement. A total of 4,304 GWh was procured from outside sources i.e. a 36.7 percent less compared to 2012, 649 GWh of which was purchased from HROTE (electricity generated from RES and cogeneration within the incentive system).

2014

Power plants wholly or partially owned by the Group generated 14.3 TWh of electricity, which is 84% of total electricity turnover recorded by the Group in 2014. Due to good hydrology, the cost structure of electricity sources was very favourable with historically highest hydro generation of 8,356 GWh of electricity produced, a 47 GWh increase in comparison with the highest generation recorded in 2010. Due to cost optimization of electricity generation, generation in gas-fired thermal power plants was lower resulting in 29.1% less electricity generated in comparison with 2013. A total of 2,768 GWh was procured outside the system, which is 35.7%less than during the previous year, of which 913 GWh was purchased by HROTE for the generation from renewable energy sources and cogenerations within the incentive system.

Electricity sales

2013

Domestic electricity sale amounted to 14.5 TWh, i.e. a 3.7% decrease compared to 2012. Domestic sale accounts for 95.5% of total electricity sale in Croatia. The share of the residential category in the structure of sold electricity is 42.9% (6,244 GWh), customers within the guaranteed sevice account for 9.5% (1,377 GWh), while the share of eligible customers is 47.6 percent (6,921 GWh). Sales abroad amounted to 2,227 GWh, which was a 74.7 percent increase compared to 2012.

2014

12.9 TWh of electricity was sold to domestic customers, which is an 11.2% decrease, i.e. 1.6 TWh less compared to the previous year, of which 0.6 TWh less sold to household customers and 1.0 TWh to business customers. HEP's sale to domestic customers accounts for 86.8% of total electricity sale in Croatia in 2014. In the structure of electricity sale to domestic customers, a share of residential customers accounts for 46.6% (5,634 GWh), commercial customers 49.4% (6,376 GWh) and commercial customers within guaranteed supply 7.0% (898 GWh). Foreign sale totals at 2,294 GWh, which is 3.0% more than in 2013.

Apart from lower electricity sale to domestic customers, the decrease of income from electricity was affected by lower sale prices for the supply of household customers within the universal service and commercial customers within the guaranteed supply, reduced as of October 1, 2013. Since July 1, 2014, commercial customers within the guaranteed supply have a higher price due to the implementation of the new methodology, under which the Croatian Energy Regulatory Agency sets the prices, which made the customers choose other market suppliers offering lower prices, resulting in a 34.8% lower price within the guaranteed supply in comparison with the previous year.

ELECTRICITY SALE (GWh)

	RESIDENTIAL CUSTOMERS	CUSTOMERS WITHIN GUARANTEED SERVICE	COMMERCIAL CUSTOMERS	EXPORT AND TRADE	TOTAL
2014	5, 634	898	6, 376	2, 294	**15, 202**
2013	6, 244	1, 377	6, 921	2, 227	**16,769**
2012	6, 465	1, 370	7, 269	1, 274	**16, 378**

Generation and sales of heat energy

2013

Production, distribution and supply of heat energy made an operating loss in 2013 of 175.9 million kuna. Compared to 2012, the loss decreased by 281.2 million kuna, primarily as a result of increased heat energy selling price as of December 13, 2012 when the average annual 36.8% tariff customer increase was approved.

In 2013, heat energy and process steam generation and procurement amounted to 2.54 TWh i.e. a 0.5 percent less compared to 2012. Heat energy consumption was 2.2 TWh (0.2 percent less compared to 2012).

Increased residential consumption (0.2%) was affected by weather during the heating season. Due to unfavourable economic circumstances, entrepreneurial consumption was reduced by 0.8 percent.

2014

Operational loss in 2014 amounted to 135.1 million kuna. Compared to the previous year the loss decreased by 31.5 million kuna primarily due to decrease in fuel and heat energy procurement costs, lower fuel prices and lower heat energy consumption.

In 2014, the generation of heat energy and process steam amounted to 2.2 TWh, which is 12.8% less than in 2013. It was affected by decreases consumption due to warm winter. The sale of heat energy amounted to 1.9 TWh or 15.5%, which is less than in 2013. The annual consumption of residential and commercial customers was lower by 15.0% and 17.0%, respectively.

Gas distribution and supply

2013

In 2013, the business made an operating loss of 2.8 million kuna compared to the 2.2. million profit realized in 2012.

As gas consumption is affected by weather during the heating season as well as general economic situation, due to mild winter and slow economic activity, gas sale in 2013 was decreased by 6.7% compared to 2012. Residential and commercial customers reduced their consumption by 7.2 and 6 percent, respectively.

Despite reduced consumption compared to 2012, income from gas sales increased by 2.6% due to increased average gas selling price by 9.7%. Increased gas selling price came into effect on May 1, 2012 by increasing the tariff item for gas distribution and introducing the fixed monthly charge.

2014

HEP group conducts the activity of retail gas distribution and customer supply. As of April 1, 2014, it has also conducted the activity of a wholesale market supplier. With regard to said business activities, the profit from operations amounted to HRK 70.2 m, whereas in 2013 there was a loss of HRK 2.8 m recorded.

The business of gas distribution and supply of retail customers is conducted in the following counties: Osijek-Baranja, Virovitica-Srijem and Požega-Slavonia. Having liberalized the gas market, HEP-Plin started supplying customers in other distribution areas (Zagreb, Varaždin, Bjelovar, Zadar).

Income from gas distribution and supply of retail customers amounted to 371.5 million kuna, which is 8.5% less than in 2013 due to decreased consumption and a slightly lower selling price. The consumption of retail

customers reduced by 8.1% compared to the previous year due to warm winter. The sale of gas to residential customers was lower by 17.3%, whereas the sale of gas to commercial customers increased by 6.1% due to increased sale along the HEP Gas distribution area and the sale to new customers in other distribution areas.

Pursuant to the decision by the Croatian Government, Hrvatska elektropriveda d.d. was appointed the supplier on the wholesale gas market in the period between April 1, 2014 until March 31, 2017. As the wholesale gas market supplier and under regulated conditions, it will sell gas to suppliers under the obligation of the public service of supply to residential customers and ensure a reliable and secure gas supply. The 2014 income from gas wholesale amounted to 689.6 million kuna.

Cooperation with suppliers

Procurement Department of HEP d.d. is in charge with executing public procurement processes within HEP d.d., for strategic and joint procurement on the level of HEP group and for participating in public procurement processes in subsidiaries.

Public procurement processes for the assessed values larger than the values provided by the declaration on the establishment of subsidiary, for which the subsidiaries are obliged to require the approval of their supervisory boards, the subsidiary has to request the appointment of one or more authorized representatives from HEP d.d., compliant to the Article 20, paragraph 1 of Procurement and Contracting Rules of HEP group, of 11 December 2014. As a state-owned company, Hrvatska elektroprivreda d.d. is subject to Public Procurement Act, which prescribes strict criteria for cooperation with suppliers in public procurement processes.

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Therfore the company recognizes direct contracters and subcontracters as the participants of its supply chain. We underline that HEP group requires information on types of offered commodities, as well as subcontractors, thus subcontractors are considered indirect corporate supply chain.

Procurement commodities in procurement procedures are divided into groups. The groups, if possible and functional, are defined according to regional principles, having in mind territorial dispersion, especially small and medium enterprises. The bidders may submit a joint offer in the procurement process, whereas the number of collective bidders and their subcontractors is not restricted.

Procurement prcedures in the reporting period (only HEP d.d. data)

Procedure	2013	2014
Public procurement	97	99
Low value procurement	232	1,865

For its own purposes, HEP group issues various kinds of reports aimed at creating data base of business partners, mostly according to contracted values and financial payments.

The project of introduction of qualification system provisioned by Public Procurement Act has not been executed yet, but the procedure for its establishment was initiated. The intention of HEP d.d. is to implement the qualification system to execute procurement procedures aiming at listing successful bidders with an option of subsequent divisions according to procurement object for which the particular bidders are qualified. This system will enable the introduction and definition of centralized procurement system by connecting parts of investments, budgets and HEP's demand for prod-

ucts and services, as well as programmed monitoring of processes. The end-result should be cost reductions. Based on such a system, it is expected that the quality level of suppliers will be levied, while the centralization of procurement should contribute better supervision of prices, that is:

- Supply chain management in a safe manner and direct risk management in procurement procedures,
- Decrease of procurement risks related to low-quality products, services and / or works
- Shorter terms of procurement of products, services and works,
- Definition of necessary and sufficient conditions of quality management and corporate strategy, direct influence on creating and maintaining standards of commercial subjects included in procurement procedures,
- Direct prevention of using business functions for personal advantage, i.e. indirect promotion of public procurement as a profession

Through its procurement procedures HEP d.d. introduces the practice of establishing reduction of real and potential negative impact on environment in its supply chain, i.e. criteria of „green public procurement.“ HEP representatives participated in the project „Procura +“ aimed at introduction and implementation of green public procurement, supported by European Commission. The goal of the project is to promote good practice of sustainable public procurement and professional knowledge implementation across European Union. By active participation in this program, HEP d.d. held several „green“ workshops for loacl communities. Two „green public procurement“ procedures were held, compliant to the project criteria (procurement of electric vehicles and electic vehicle charging stations. The procedures were evaluated as very environmentally friendly by European experts engaged on the project and were listed as good practice examples in other member states. Also, they were entered on web page GPP 2020 as one of the standards for sustainable public procurement.

Although the procurement processes were precisely described in the Public Procurement Act and in spite that HEP group as one of the largest corporations in Croatia with above average number of suppliers, it is very difficult to impose the requirements over legal provisions, we intend to continue supporting the development of sustainable procurement in the country and participate in stakeholder consultations on the best possible solutions to be entered in the future legal obligations.

HEP group recognizes positive effects of public procurement not only on our own business operations, but also on raising business standards in our long supply chain.

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Customer relations

Relations with the electricity customers: HEP-Operator distribucijskog sustava (ODS)

Within the public service of electricity supply (universal and guaranteed supply), at the end of 2014, HEP-ODS provided electricity supply to customers at 2.1 million metering points.

HEP-ODS has continually been raising the quality level of the services provided to its customers and improving its distribution network for the purpose of increasing the quality level of supplied electricity to all distribution network users.

The web site of HEP-ODS provides its customers with the possibility of obtaining most relevant information on one place. All other questions can be submitted to a single e-mail address. The „My Account“ application facilitates the submission of meter readings as well as provisional calculations, the overview of historical consumption and payment data. Customers can also view all announced interruptions in electricity supply for the entire Croatian territory.

Apart from on-line, customers can communicate with employees of local distribution areas by free phone numbers. Meter readings can be submited at any time to a free telephone answering machine at 0800 0555. In addition to these channels of communication, in each distribution area customers can communicate directly with employees with the purpose of submitting meter readings, getting information or filing a complaint.

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

Relations with the electricity customers: HEP-Opskrba

In conducting its business operations, HEP-Opskrba pays special attention to direct customer communication. Busisness priority of HEP-Opskrba is focused on customer satisfaction, which is realized by continuous adaptation and offering high quality services and innovative products based on sustainable development and corporate social responsibiility.

According to the research conducted by the Croatian Association for Energetics (published in February 2015), more than two thirds of the respondents thinks that HEP-Opskrba offers the best price and service quality ratio available on the market.

This was emphasized by the research conducted by PWC Consultancy, according to which HEP-Opskrba has the best customer center compared to other alternative market suppliers.

Key customers with their consumption exceeding 1GWh are served by a personal sales adviser. Other customers use the Customer Center. Direct contact is made at Meetings with Customers. These meetings aim at introducing new products and services to customers, informing them on electricity market trends domestically and regionally, explaining legislative changes and plans for furthering future cooperation.

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Focusing on increasing competitiveness, customers are offered the possibility of association to achieve better contractual terms. Customers mutually enter into an association agreement and select the association head i.e. a member of the association who negotiates supply terms on their behalf. This product is especially interesting to certain industrial segments such as shipyard, tourism, construction, wood industry and alike. In 2013, 44 such association agreements were concluded (including up to 20 companies per agreement).

In 2013, the new product called Hepi was launched. It focuses on the residential category and provides discounts ranging from 4.5 to 5.5 percent compared to the universal service price at the product launching moment. Those Hepi customers who opted for e-mail invoices, collect points for electricity consumed and thus achieve additional discounts and awards. The benefit of this approach compared to the competition is payment of electricity as consumed, one month delayed payment and the possibility of being exempt from supply fee payments.

The Hepi tariff is primarily contracted on-line, via the request form found on the web page. A large number of requests had also been submitted to the Customer Center. From the product launch to end 2013, 7,385 requests for entering into the supply contract for the residential category were received. 7,385 contracts were sent to customers for their signature, of which 3,539 were signed.

HEP-Opskrba customers can also view their data by using the „My Account“ web application, recording more than 23,000 visits in 2013. In the same period, 68,265 calls were made to the contact center. The Customer Center provides a complete service with regard to the Hepi product for households, including information provision, request submission, contract mailing and its filing into the Billing application as well as complaint resolution.

Special attention is paid to customer service quality with more than 94% of all customer queries being resolved on their first call in 2013 and over 96% in 2014. Customers can also contact HEP-Opskrba over the free phone number 0800 5255, by sending an e-mail to opskrba@hep.hr, and by calling the Billing and Invoicing Department. In 2014, the Customer Center recorded more than 145,000 incoming calls and replied to more than 17,000 customer e-mails. All information regarding the account balance, due liabilities and other issues are available non-stop on My Account application. Apart from the above, the customer is supplied with additional information through HEP Supply web page, the newsletter and its Facebook page.

Key accounts are taken care by sales advisers, trained for dealing with such an important customer portfolio, with almost daily communication and at mutual intiative. Traditional annual Meetings with HEP-Opskrba customers were organized in 2014 in Split, Rijeka, Osijek and Zagreb. They gathered more than 700 key customers.

Relations with heat energy customers: HEP-Toplinarstvo

HEP-Toplinarstvo continued to provide a quality and reliable heat energy supply to its end customers in 2013. The company also provided timely readings and billing of supplied heat energy. Its operation was focused on improving service quality by protecting customers' rights with regard to personal data protection, information access and consumer protection.

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

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

Along with the July 2014 bill, HEP District Heating sent to all its heat energy end customers in Zagreb, Osijek, Sisak, Velika Gorica, Samobor and Zaprešić letters concerning two most important obligations set under the Heat Energy Market Act: the obligation on adopting the decision on entering into the heat energy consumption agreement and the obligation on entering the heat energy consumption agreement with a heat energy distributor.

Supporting the creation of the market environment for doing business, HEP-Topllinarstvo informed its end customers of the possibility of concluding the heat energy consumption agreement with another legal or physical person entered into the heat energy distributor registry published on HERA's web site. Said letters also contain contact phone numbers and e-mail addresses through which end customers can communicate daily with HEP-Toplinarstvo employees regarding Act provisions.

Technical services at HEP-Toplinarstvo have systematically received, processed and replied in the shortest period possible to all customer queries, complaints and demands submitted by post, on-duty staff phone numbers, consumer phone numbers, e-mails, fax or in person. In view of new heat energy price elements and a new design of the heat energy bill as of September 2014, as yet another obligation resulting from the Act and by-laws regulating the heat business, HEP District Heating sent to all its end customers information on changes along with their September 2014 bills as well as new prices for their district heating systems.

HEP-Toplinarstvo has established great cooperation with other heat energy market stakeholders – the Ministry of Economy, HERA, city councils, media and others to provide the public with timely information of current events and changes on the heat energy market.

In the cooperation with residential building managers, four forums were held discussing the topic of the Heat Energy Market Act with the participation of over 1000 representatives of residential building co-owners as well as presentations held in Zagreb, Osijek, Sisak, Velika Gorica, Varaždin, Karlovac, Vukovar and Slavonski Brod.

HEP-Toplinarstvo has established great cooperation with other heat energy market stakeholders – the Ministry of Economy, HERA, city councils, media and others to provide the public with timely information of current events and changes on the heat energy market.

Relations with gas customers: HEP-Plin

Customer gas supply is conducted in line with the General Conditions for Natural Gas Customer Supply. Short gas supply interruptions in 2013 due to planned network work or connection of new customers were timely announced by direct written notes and in the media. Gas supply was timely read and billed.

As the majority of customers are supplied in line with the public service provision principles, purchased gas was billed according to regulated prices set by the Croatian Government. During 2013, the selling price for households remained unchanged (in comparison with its change for majority entrepreneurial customers on a monthly basis due to constant changes of the purchase price tied with oil, gas and USD currency trends). This made the billing of supplied gas more difficult.

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

During 2014, the selling price for households remained unchanged, while most business customers experienced monthly changes (due to constant changes of the purchase price tied with oil, gas and USD currency trends). This made the billing of supplied gas more difficult. The collection of payment from commercial customers was aggravated.

Complaint commissions

As required by the Consumer Protection Act, commissions are in place for customer complaints in 21 distribution areas of HEP-ODS, in HEP-Toplinarstvo and HEP-Plin. Commissions held regular sessions inspecting and solving customer complaints. Although the commissions are advisory, the subsidiaries act upon their decisions.

Number of complaints reviewed by HEP-ODS commissions in 2013/2014

	Reason for complaint															TOTAL		
	Billing			Faulty meter			Connection / Disconnection			Voltage circumstances			Other					
	total	accepted	refused	total	accepted	refused	total	accepted	refused	total	accepted	refused	total	accepted	refused	Total	Accepted	Refused
2013	349	64	285	17	6	11	3	0	3	0	0	0	14	0	14	383	70	313
2014	278	45	233	11	4	7	4	0	4	2	0	2	34	5	9	329	54	275

Number of complaints reviewed by HEP-Toplinarstvo commissions in 2013/2014

	Reason for complaint																		TOTAL		
	Quality of supply services			Quality of heat energy			Change in connected load			Change at metering point			Redistribution of supplied heat volume			Other reasons					
	total	accepted	refused	total	accepted	refused	total	accepted	refused	total	accepted	refused	total	accepted	refused	total	accepted	refused	Total	Accepted	Refused
2013	3	0	3	0	0	0	0	0	0	3	1	2	0	0	0	5	0	5	11	1	10
2014	4	0	4	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	5	0	5

Number of complaints reviewed by HEP-Plin in 2013/ 2014

	Total	Accepted	Refused
2013	2	0	2
2014	35	0	35

Number of complaints increased due to a longer period between two meter readings (readings for December was done between January 2 and 6, 2014, with average 35 days having passed since the previous reading, which caused somewhat higher bills). Higher bills were also caused by increased consumption – the average temperature in December was 1.8 degrees Celsius, while in December previous year it was 7.8 degrees.

HEP-Opskrba invests efforts to solve their complaints through agreements with customers, whereas in the case of disputes certified conciliators are used.

No cases of failures compliance with the regulations or voluntary codes related to marketing communications, including violations of advertising, promotion or sponsorship regulations, were recorded in the reporting period. There were no cases of sales of forbidden or contested products in the HEP group.

Reliability of electric energy supply

2013

No.	Distribution area	Planned interruptions			Forced interruptions			Total interruptions		
		SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)
1.	Zagreb	1.01	251.87	249.38	1.65	153.90	93.27	2.66	405.77	152.55
2.	Zabok	1.18	233.74	198.08	2.71	244.84	90.35	3.89	478.58	123.03
3.	Varaždin	2.41	236.40	98.09	4.66	296.53	63.63	7.07	532.93	75.38
4.	Čakovec	0.84	85.05	101.25	0.50	24.03	48.06	1.34	109.08	81.40
5.	Koprivnica	1.42	190.64	134.25	2.34	89.31	38.17	3.76	279.95	74.45
6.	Bjelovar	3.14	501.72	159.78	2.38	280.81	117.99	5.52	782.53	141.76
7.	Križ	2.69	399.10	148.36	2.75	235.18	85.52	5.44	634.28	116.60
8.	Osijek	2.47	361.07	146.18	2.77	262.10	94.62	5.24	623.17	118.93
9.	Vinkovci	2.43	342.62	141.00	2.69	204.61	76.06	5.12	547.23	106.88
10.	Slavonski Brod	2.55	388.22	152.24	3.19	176.78	55.42	5.74	565.00	98.43
11.	Pula	1.11	175.93	158.50	2.23	169.22	75.88	3.34	345.15	103.34
12.	Rijeka	0.85	136.29	160.34	2.08	203.52	97.85	2.93	339.81	115.98
13.	Split	2.14	249.28	116.49	2.55	292.82	114.83	4.69	542.10	115.59
14.	Zadar	2.08	239.95	115.36	4.54	303.73	66.90	6.62	543.68	82.13
15.	Šibenik	1.72	163.31	94.95	5.15	481.40	93.48	6.87	644.71	93.84
16.	Dubrovnik	1.49	270.55	181.58	4.04	233.75	57.86	5.53	504.30	91.19
17.	Karlovac	1.01	216.89	214.74	5.06	1,425.37	281.69	6.07	1,642.26	270.55
18.	Sisak	2.77	379.13	136.87	3.62	438.54	121.14	6.39	817.67	127.96
19.	Gospić	1.78	464.31	260.85	4.10	1,405.91	342.90	5.88	1,870.22	318.06
20.	Virovitica	1.21	73.98	61.14	0.93	147.73	158.85	2.14	221.71	103.60
21.	Požega	1.14	163.91	143.78	1.74	103.07	59.24	2.88	266.98	92.70
TOTAL		**1.63**	**253.47**	**155,50**	**2.69**	**305.99**	**113.75**	**4.32**	**559.46**	**129.50**

SAIFI (System Average Interruption Frequency Index) –the ratio between the total number customer interruptions and the total number of customers served;
SAIDI (System Average Interruption Duration Index) – the ratio of the sum of all customer interruption durations and total number of customers served;
CAIDI (Customer Average Interruption Duration Index) – ist the ratio of the sum of all customer interruption durations and the total number of customer interruptions.

Reliability of electric energy supply

2014

No.	Distribution area	Planned interruptions			Forced interruptions			Total interruptions		
		SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)
1.	Zagreb	1.17	253.62	216.77	1.42	123.82	87.20	2.59	377.44	145.73
2.	Zabok	1.45	359.75	248.10	3.13	336.04	107.36	4.58	695.79	151.92
3.	Varaždin	2.02	236.74	117.20	4.99	221.61	44.41	7.01	458.35	65.39
4.	Čakovec	1.01	87.78	86.91	0.84	47.48	56.52	1.85	135.26	73.11
5.	Koprivnica	1.76	230.64	131.05	1.79	79.31	44.31	3.55	309.95	87.31
6.	Bjelovar	2.65	429.63	162.12	3.20	426.45	133.27	5.85	856.08	146.34
7.	Križ	1.85	229.89	124.26	3.26	418.81	128.47	5.11	648.70	126.95
8.	Osijek	2.78	349.13	125.59	2.37	214.43	90.48	5.15	563.56	109.43
9.	Vinkovci	2.61	326.76	125.20	2.74	216.68	79.08	5.35	543.44	101.58
10.	Slavonski Brod	2.13	273.13	128.23	3.58	219.38	61.28	5.71	492.51	86.25
11.	Pula	0.97	148.05	152.63	1.83	157.08	85.84	2.80	305.13	108.98
12.	Rijeka	0.85	129.88	152.80	2.00	1,047.57	523.79	2.85	1,177.45	413.14
13.	Split	2.09	252.31	120.72	3.08	500.88	162.62	5.17	753.19	145.68
14.	Zadar	1.93	237.40	123.01	3.52	292.90	83.21	5.45	530.30	97.30
15.	Šibenik	1.13	110.81	98.06	4.09	437.92	107.07	5.22	548.73	105.12
16.	Dubrovnik	0.58	115.49	199.12	2.72	219.31	80.63	3.30	334.80	101.45
17.	Karlovac	1.57	309.49	197.13	5.14	1,587.98	308.95	6.71	1,897.47	282.78
18.	Sisak	2.39	476.73	199.47	4.79	563.70	117.68	7.18	1,040.43	144.91
19.	Gospić	2.00	495.25	247.63	3.10	853.54	275.34	5.10	1,348.79	264.47
20.	Virovitica	1.29	137.80	106.82	0.98	108.31	110.52	2.27	246.11	108.42
21.	Požega	2.08	277.61	133.47	7.45	324.96	43.62	9.53	602.57	63.23
TOTAL		**1.63**	**250.15**	**153.47**	**2.71**	**411.57**	**151.87**	**4.34**	**661.72**	**152.47**

SAIFI (System Average Interruption Frequency Index) –the ratio between the total number customer interruptions and the total number of customers served;
SAIDI (System Average Interruption Duration Index) – the ratio of the sum of all customer interruption durations and total number of customers served;
CAIDI (Customer Average Interruption Duration Index) – ist the ratio of the sum of all customer interruption durations and the total number of customer interruptions.

The importance of environmental impact management

6 The importance of environmental impact management

As one of the most significant production companies in Croatia, and taking in consideration the nature of its business and the number of employees, HEP is aware of its environmental impact. This is why the company strives to be a positive example of managing these impacts in order to prevent them, and undertakes measures to restore the initial state of the environment as best as possible, in case of pollution.

HEP group continuously invests in environmental protection, from educating its employees that focus on these issues, over investing in modernization of energy production facilities, to advancements in reporting to authorities, local communities and interested public.

Organization and coordination of environmental protection activities in HEP group pertains to the scope of work of Sustainable Development and Quality Increase Department of HEP d.d. In order to manage these impacts, the department cooperates with employees of HEP group subsidiaries in charge with environmental protection, while the support to the department is also provided by members of the Team for implementation of Kyoto Protocol stipulations and the Team for procurement of environmental permits.

All teams have been formed by the decision of HEP CEO because they stipulate cooperation of different experts and organizational segment of HEP group. Team for coordination and standardization of business procedures in the field of environmental protection is directed to all segments of environment HEP group influences. Scope of work for this team encompasses coordination of implementation of stipulations stemming from environmental protection legislation and business development of HEP group in the environmental protection segment.

HEP group consinuously invests in environmental protection, from educating its employees dealing with these issues, investing in the modernization of production facilities, to advancements in reporting to authorities, local communities and interested public.

Team for the procurement of environmental permits was founded with the goal to prepare preconditions for procurement of necessary permits provided by the Ministry of Environmental and Nature Protection, which are preconditions for the operation of thermal-energy facilities with the nominal heat energy higher than 50 MWt. Members of this team provide expert support to developers in the process of environmental permits procurement consisted of data preparation for elaborates, document audits and preparation of replies in the consultation process with the interested public. The Team will continue its work until all existing thermal energy facilities receive environmental permits, participate in their audits initiated by the authorized ministry and monitor adoption of new and amendments to existing regulation pertaining to environmental permits, as well as amendments to the documents containing best available techniques (BAT) for the alleviation of impact of thermal energy facilities on the environment.

Team for implementation of Kyoto Protocol stipulations was founded in order to prepare HEP for participation in the third phase of EU Emissions Trading System (EU-ETS), lasting from 2013 to 2021. This team's work resulted in successful completion of HEP's first two years of participation in EU-ETS, i.e. timely submission of emission units for all nine accounts of HEP operators open at EU Registry. After the successful inclusion of HEP in the EU-ETS, the Team now monitors changes in the trading system aimed at increasing the price of emission units and stronger encouragement of lowering greenhouse gas emissions, which demands adjustments and changes in the process of electricity and heat energy production.

In accordance with HEP group operations, the most important indicators of its impact are polluting emissions and produced waste quantity.

Energy

Considering energy, HEP does not only consider its generation, but also its own consumption. In the reporting period, HEP group undertook various measures aimed at monitoring and reduction of own consumption within and outside the organization. All HEP group members consumed a total of 62.8 GWh of electricity in their facilities in 2013 (via distribution network) and 58.9 GWh in 2014.

Although HEP group, taking in consideration its size and complexity, still does not have comparable data of own consumption of all types of energy, in accordance with stipulations of the Energy Efficiency Act and sublegal acts, HEP group initiated energy audits based on which the company will report about its consumption of all types of energy in the upcoming reports.

During 2013 and 2014 HEP group initiated projects which were, among other, aimed at increasing energy efficiency of its own production. TE-TO Zagreb is currently being equipped with heat accumulator that will increase efficiency of all production units on location. Reconstruction of Block C turbo aggregate regulating system had been conducted, as well as the reconstruction of Voith clutches cooling on network water circulation pumps. These interventions will increase Block C operating efficiency and thus affect decrease of fuel consumption and impact on certain environmental components. Furthermore, TE-TO Osijek has undertaken modification and reconstruction of raw water heating system aimed at improving waste heat energy, while outside illumination was replaced with a more energy efficient in TE Rijeka.

HEP-Toplinarstvo continued the project of revitalization of the backbone district heating system in Zagreb, Osijek and Sisak. Revitalization is being conducted with the use of pre-isolated pipes and will result in the decrease of heating losses, increase of supply reliability, drop in fuel consumption and decrease of polluting emission into air. Apart from this project, HEP has also modernized equipment in heat stations and continued the construction of heat and steam transmission systems in Dubrava quarter. Based on this modernization, the company plans to connect boiler rooms into CHS which will result in increased energy efficiency and decrease air emissions..

At the beginning of 2014, HEP-ESCO implemented a project of placing a photovoltaic system (nine photovoltaic integrated power plants on the rooftops of building owned by HEP group in Zagreb, Osijek, Čakovec, Šibenik, Split, Opatija, Zadar and Dubrovnik) in HEP group.

Installed power plants have total power of 207 kW and production potential of approximately 247,000 kWh annually. This project, aimed at production of electricity in the place of its use – HEP buildings – brings the company reduction of its environmental impact, in accordance with EU directives and Croatian regulation from the field of energy efficiency in construction.

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In 2014, HEP group initiated the reconstruction of its headquarters building in Zagreb, which included energy efficiency restoration of the façade with improvement of heat characteristics as well as exterior and interior reconstruction of the main entrance in order to restore overused parts and adjust settings for persons with limited mobility. HEP-ESCO conducted the energy assessment and energy certification of four buildings in HEP headquarters' complex from energy conservation standpoint as early as 2012, and conducted activities connected with investment estimation for construction restoration of external building envelope in 2013. Estimated conservation of heat energy is approximately 1,461,674 kWh a year, while cost savings amount to around 587,376 kuna a year (before VAT).

Within EU SUNSHINE project and development of ESCO monitor business system, HEP-ESCO successfully prepared and conducted installation and launch of remote reading for 10 pilot facilities in HEP. The remote reading system successfully combined readings from electricity, gas and heat energy meters, and installed temperature sensors for temperature monitoring in referent positions.

ZelEn – energy from renewable sources

In February 2014, HEP-Opskrba presented a unique product on the market, electricity generated exclusively from renewable energy sources, i.e. HEP's 26 certified hydropower plants. This is a product which enables HEP and Croatia to respond to a task of fulfilling energy and climate policy of the European Union, which also makes ZelEn an expression of our socially responsible and sustainable operation.

All funds collected by the sale of ZelEn HEP uses exclusively for financing renewable energy and energy efficiency projects to meet the needs of public institutions that care for socially sensitive population groups (children's homes, pensioners' homes, hospitals, schools etc.).

The product has been promoted in direct contact with customers, via presentations that showcase all advantages of green energy use as well as via zelen.hep.hr website and media reports.

ELEN – transportation of the future

HEP group carries the eMobility project in accordance with company goals and Croatia's Energy Development Strategy, with a desire to become the leading company in the region in the field of electric mobility, construction of electric vehicle power stations' infrastructure based on the concept of advanced electric energy networks. The concept enables integration of a higher number of distributed sources of electricity and loads, vehicle charging in the hours of lower burden on electric energy system and charging in the hours of high production from renewable sources (wind, solar, etc.). By constructing its own infrastructure, HEP wants to connect entire Croatia, connect to the European energy freeway and contribute to the decrease of CO2 emissions and environmental protection.

HEP guarantees that energy on its charging stations for electric vehicles was produced completely from renewable energy sources.

All funds collected by the sale of ZelEn HEP uses exclusively for financing renewable energy and energy efficiency projects to meet the needs of public institutions that care for socially sensitive population groups.

The project was presented at conferences, fairs, seminars, round tables and other events related to energy efficiency, use of renewables and electric vehicles. ELEN brand was created within this project, with a purpose to boost recognition of HEP's electric vehicle charging stations' network. With ELEN project, HEP plans to install publicly available charging stations on strategic positions on Croatian motorways, in the cities, and in private customers' locations. Since the project is still in its testing phase, charging is free of charge for all customers. Project website elen.hep.hr was awarded as the best web program by the GREENOVATION 2013 award.

For these two projects, as well for its total efforts in encouragement of sustainable development of national energy system and industry, HEP-Opskrba won the Croatian Energy Award in June 2014, awarded by the Energy Federation of Croatia.

Hepi

HEP group develops its products and services in a way to secure environmental efficiency demands, so it offered an innovative package of electricity supply services within its project entitled "Cheer Up Your Household with Hepi". This package, along with affordable price, enables citizens to pay according to actual consumption. This unique offer is the result of long term development of complex IT infrastructure which enables customers to read and report the meter status and e-billing which decreases paper and fuel consumption. Customers recognized the benefit of this initiative so more than 50 percent of Hepi customers use e-billing option.

Biodiversity protection

HEP continuously adjusts and develops its operations according to environmental and biodiversity protection principles in line with positive laws and expert and scientific trends in whose application it cooperates with scientific and authorized institutions.

Drava River hydropower plants

Hydropower plants Varaždin, Čakovec and Dubrava are all situated on the Drava River. As internationally important habitat for birds, all three plants are a part of Mura Regional Park. A part of HE Varaždin accumulation belongs to Slovenia, which pronounced this area an ornithology reserve named Ormoško jezero reserve.

The Drava River hydropower plants' accumulation became winter habitats and year-round habitats for many protected bird species, and as one of important winter habitats for European marsh birds, it is a part of NATURA 2000 European eco-network.

With a goal to sustain high level of biological and landscape diversity of marsh and water habitats, within the project dealing with fluvial deposits, HEP constructed an island for bird breeding in the HE Varaždin accumulation lake. In the realization of this project, HEP cooperated with State Institute for Nature Protection and BIOM Association. Additionally, it positioned viewing spots for bird watching along HE Varaždin and HE Dubrava accumulations.

In order to protect the river fauna, the Drava River hydropower plants finance planned increase of fish fund – trout, pikeperch, pike and carp – conducted by sporting and fishery associations from Međimurje and Varaždin counties. Analysis showed that a rare and endangered fish listed on the Red List of freshwater Croatian fish - European mud minnow – inhabits the left drainage canal of HE Dubrava.

The Drava River hydropower plants' accumulation became winter habitats and year-round habitats for many protected bird species, and as one of important winter habitats for European marsh birds, it is a part of NATURA 2000 European eco-network.

Coordination of electricity generation and preservation of all components of environment surrounding the Drava River hydropower plants is determined by the stipulations of Natural Resource Management Plan for this area. Some of the most important activities include regulation of water level and its quality in the places of hatching, incubation and early development of fish and reptile larvae, as well as rehabilitation of the previous arm of the Drava River. Removal of fluvial deposits and plants enabled migrations and hatching of fish into the Drava old arm, but also nesting of marsh birds, removal of invasive species such as zebra mussel, waterweed Elodea and water milfoil Myriophyllum within regular maintenance. Hand moving of meadows and drainage ditches was enabled with the goal to sustain critically endangered German tamarisk plant which is on the Red List of endangered plants and animals in Croatia, as well as military orchid and early spider orchid. Activities aimed at preservation of biodiversity also include monitoring of activities near HE Čakovec and HE Dubrava dams to preserve otter habitats.

Hydropower plants on the Cetina and Zrmanja rivers

Multiple hydropower plants are situated on the Cetina River – Peruća, Orlovac, Đale, Kraljevac (all within the eco-network area) and Zakučac. Previous acceptability assessment of the County was required for HE Orlovac facility for implementation of pipeline works, which was granted. HE Zakučac facility is within Protected Landscape area. In order to preserve fish fauna, the Cetina River hydropower plants finance fish fund increase - carp for Peruća accumulation and brown trout for other parts of Cetina basin, conducted by sporting and fishing association Cetina.

RHE Velebit is situated in the nature park near the Zrmanja River. HEP planed the cleaning of Opsenica accumulation. Considering the fact that it is situated in the nature park, HEP asked for previous acceptability assessment for this activity; positive decision was granted with the stipulation to take special care of protected fish species common minnow. Therefore, cleaning of the accumulation will include sporting and fishing association Pijor

which will devise protection and rehabilitation plan and participate in all phases of removal of fluvial deposits and accumulation cleaning. Testing of water quality is conducted for all facilities on Cetina River based on the stipulations water permit. Tests are conducted by Public Health Institute of Split-Dalmatia County, testing physical and chemical parameters as well as trophic levels.

Hydropower plants in Krka National Park

Four hydropower plants are parts of hydropower facilities on the Krka River: HE Jaruga (built in 1903), HE Miljacka (1906), HE Gloubić and MHE Krčić. HEs Jaruga and Miljacka, two oldest hydropower plants, are situated within the area of Krka National Park. All waterways that include HEP's hydropower plants are well cared for in terms of achieving balance between environmental protection and use of water for energy production, and the same pertains to the Krka River hydropower plants. Krka National park and the Krka River hydropower plants are also a part of NATURA 2000 eco-network, which proves that their operation is in harmony with nature.

TE-TO Zagreb and Savica Ornithology Reserve

Savica Lake Ornithology Reserve is situated in the close vicinity of TE-TO Zagreb. Savica consists of 12 interconnected lakes and was pronounced a significant ornithology reserve in 1991. It is cared for by sporting and fishing association Pešćenica, Croatian Ornithology Society, the City of Zagreb and TE-TO Zagreb. Savica is the only remaining natural marsh area in Zagreb and its surrounding, and its biodiversity importance is proved by many diverse species of birds. This area is a mosaic of lush groves and open waters rich in fish, insects and water vegetation and is thus an ideal feeding, resting and nesting ground for birds. A total of 180 species of birds have been spotted in the Savica area, which is nearly a half of Croatian bird fauna. Out of the 180 species, 18 are strictly protected on international level as well.

Savica is an old arm of Sava River which supplied it with water by 1965. After the great flood and the construction of river bank, Savica was left without its natural intake of water, so TE-TO Zagreb aliments the lake with clean cooling waters (approx. 2,000 m3/h) which are taken from Sava River and thus enables development of flora and fauna. Value of Savica Lake lays in the education of younger generations about environmental protection, which was recognized by the State Institute for Nature Protection and Croatian Ornithology Society, which use Savica Lake to organize bird watching and bird ringing.

Protection and ringing of white stork

HEP signed an Agreement on Cooperation in the implementation of measures for protection of protected species white stork (Ciconia ciconia) with the authorized institution for nature protection. According to data for 2013, as many as 903 stork nests have been identified on poles of HEP's distribution network. Considering the fact that there are between 1,100 and 1,300 nesting stork couples in entire Croatia, it can be concluded that the majority of them builds their nests on HEP's poles. Based on the agreement, HEP-Operator distribucijskog sustava has been implementing proscribed measures for the last ten years in order to protect white stork in its distribution areas which include populations of nesting storks.

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In order to enable safe nesting conditions for storks, HEP undertakes the following protection measures: installation of carriers for nests, maintenance of carriers, as well as relocation of nests to separately positioned poles. These activities have become an integral part of our operations and are regularly and responsibly conducted by our employees who show great understanding and interest in participation in protection of this protected bird species. In these activities, HEP regularly cooperates with experts from State Institute for Nature Protection, Croatian Academy of Sciences and Arts Ornithology Institute, public institutions for protected areas and BIOM Association.

Other than securing conditions for safe nesting of white storks on electro-distribution network, major number of distribution areas participate in the project encompassing stork population monitoring and ringing in cooperation with Croatian Academy of Sciences and Arts Ornithology Institute, as well as with authorized institutions for environmental protection, providing support by securing hydraulic lift and equipment necessary for the implementation of this project.

Protection of birds and small mammals from electrocution

Although protection of birds and small mammals from electrocution has been systematically conducted for years, these activities have significantly intensified in 2013 and 2014 due to new legal obligations. After NATURA 2000 eco-network establishment, Rulebook on preservation goals and basic measures for bird protection in eco-network area has been adopted in 2014 (National Gazette 15/14), posing especially significant obligations for HEP-ODS; based on this rulebook, HEP-ODS has to plan and develop electricity infrastructure in a way to prevent electrocution of birds on medium voltage power lines and obligation to prevent harm to birds on sections of existing power lines which prove to have higher risk from electrocution.

HEP identified all potentially risky medium voltage overhead power lines within NATURA 2000 areas important for birds and established increased monitoring to prevent harm in these areas.

Measures for the protection of birds and small mammals are conducted in all HEP-ODS distribution areas and are accompanied by investment worth over a million kuna annually in isolation material and equipment. These measures also include cooperation with various associations and institutions for environmental protection like the Ministry of Environmental and Nature Protection, State Institute for Environmental Protection, BIOM Association, while citizens also contribute with useful information.

Distribution area Elektroprimorje Rijeka is a good example of such cooperation; detail maps of micro locations of endangered species' habitats and their migration routes have been made there in cooperation with institutions and eco-associations. Areas of most common harm for protected and rare birds have been established and given priority in protection of facilities and network. On the island of Cres alone, measures to protect birds from electrocution have been implemented on 50 potentially risky locations, while plans for further implementation of such measures have been adopted as well.

Emissions into air

Emissions of pollutants into air are mostly connected with the operations of thermal energy facilities TE Plomin 1 and 2, TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek, TE Sisak, KTE Jertovec and TE Rijeka, while the rest comes from HEP-Toplinarstvo boiler facilities for city heating and boiler facilities for own heating purposes.

Compared to 2012, emissions of almost all pollutants from thermal energy facilities into air in 2013 have decreased thanks to increase of environmentally more acceptable natural gas in the production of electricity, heat energy and industrial steam compared to liquid fuel. In addition, since January 1, 2012, HEP procures low-sulfur liquid fuel exclusively; this resulted in decrease of pollutant emissions into air as well.

Similar to 2013, in 2014 all kinds of pollutants have been decreased due to the increase of natural gas in the production of energy, as well as due to increased engagement of hydropower plants influenced by favorable hydrological conditions. The only exception are emissions of solid particles which increased because of HEP's obligation to use its liquid fuel reserves by the end of 2015.

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Direct and indirect greenhouse gas (GHG) emissions

Greenhouse gas CO2 is produced by fossil fuel (coal, liquid fuels and natural gas) combustion in the process of electricity, heat energy and industrial steam production. CO2 sources are HEP's thermal energy production facilities and thermal energy for heat energy production facilities (TE Plomin 1, TE Plomin 2, TE Rijeka, TE Sisak, TE-TO Zagreb, EL-TO Zagreb, KTE Jertovec and TE-TO Osijek), boiler facilities for heat energy production used for city heating (Zagreb, Zaprešić, Samobor, Velika Gorica and Osijek), as well as boiler facilities used for own heating.

GHG emission intensity (tCO_2/GWh)

	Hydropower plants/GWh	Thermal power plants/GWh	Nuclear power plant /GWh	Procurement/ GWh	CO2/t	tCO2/GWh
2013	8,054	4,078	3,030	4,304	3,490,584	179
2014	8,356	2,891	2,518	2,768	2,947,102	178

The table indicates total CO2 emissions from HEP's sources in 2013 and 2014. All HEP sources nominal heat energy larger than 20 MW, and there are nine of them (along with eight thermal power plants and thermal power plants for heat energy generation, Osijek Facility managed by HEP-Toplinarstvo is also obligatory of emission trading), have been included in EU-ETS since January 1, 2013. All HEP sources in EU-ETS have permits for GHG emissions given by the authorized Ministry of Environmental Protection and Nature. CO2 emissions from fuel combustion are calculated according to Annex VI of the Guidebook for development of GHG Monitoring Plan from facilities, by multiplying total amount of consumed fuel according to types, lower heating value, CO2 emission factor and oxidation factor. HEP sources of CO2 emissions in EU-ETS are obligated to deliver reports on emissions and verification report to the Agency for Environmental Protection by March 31 of the current year for the year before. Verification report is created by verifier, i.e. competent and independent authorized body responsible for the work

on reports in verification process in accordance with detailed demands posed by member stated set in Annex V of the Directive on establishing a scheme for greenhouse gas emission allowance trading (2003/87/EC). Verification report is a standardized procedure ensuring reliability, accuracy and authenticity of GHG emissions report and its adjustment with proscribed directions on monitoring and reporting. EU-ETS tributaries have to procure GHG emission allowances in quantities matching the quantities stated in the verification report. HEP's thermal energy facilities (TE-TO Zagreb, EL-TO Zagreb, TE Sisak, TE-O Osijek managed by HEP-Proizvodnja and Osijek Facility managed by HEP-Toplinarstvo) have been allocated GHG emission allowances free of charge, which have been transferred to central heating system and transfer of technology steam to so-called "carbon leakage" facilities, or those facilities that could be dislocated to countries that are not EU-ETS tributaries due to the price of GHG emission allowances. Rules on emission allowances allocation on EU level are proscribed by the Decision 2009/278, whose stipulations have been transferred into the Rulebook on allocation of GHG emission allowances free of charge to facilities (National Gazette 43/12). Facility operators are obligated to deliver data necessary for this allocation once a year to the Ministry of Environmental Protection and Nature.

Free GHG emission allowances for HEP facilities in 2013 and 2014

Facility	Number of free GHG emission allowances	
	2013	2014
Pogon Osijek	45	402
TE-TO Zagreb	200,475	176,365
EL-TO Zagreb	167,026	143,701
TE-TO Osijek	59,365	50,913
TE Sisak	12,021	9,028
TOTAL	**438,932**	**380,409**

Purchased emission units have to be submitted by the tributaries to accounts of facility operators open in the EU Registry of GHG by April 30, of the current year for the previous year. By the decision of HEP Management Board (from November 2012), system of GHG emission units' trading has been set up and obligations of certain organizational units within HEP group have been determined.

First two years of HEP's participation in the EU-ETS were successfully concluded and are the result of excellent co-operation between sectors and HEP group member companies, which is realized through a committee (founded in March 2013) with a goal to instruct HEP-Trgovina, in charge of sale and purchase of emission units in HEP group. Considering that the price of emission units is influenced by a series of factors (demand and supply ratio on the market, weather circumstances, economic surroundings and political decisions), in order to forecast CO2 emission quantities and planning of financial assets for the purchase of emission units, PLEXOS market simulator is used in this process. HEP reports once a year to the Ministry of Environmental Protection and Nature on emissions of GHG SF6 (sulfur hexafluoride) found in equipment (transformers).

Other emissions

Sources of NOx (nitrogen oxides), SO2 (sulfur oxides), CO (carbon monoxide) and particles are HEP's thermal power plants, thermal power plants for the production of heat energy, boiler facilities for city heating and boiler facilities for own heating. Measuring of pollutant emissions into the air are conducted by first, occasional, continuous and special monitoring on blowhole/smokestack. Frequency of measuring pollutant emissions into air from particular blowholes/smokestacks is regulated by law: emissions of pollutants from HEP's thermal power plants and thermal power plants for heat energy production are monitored continuously by automatic measuring systems (AMS), with data transferred online into information system on pollutant emissions monitoring led by the Agency for Environmental Protection. Emissions from HEP-Toplinarstvo boiler facilities for city heating and boiler facilities for own heating of HEP-ODS are occasionally measured.

Continuous and occasional measuring, calibration of continuous measuring devices and parameters of waste gases status are proscribed by norms.

Considering emissions of agents damaging for ozone layer, air conditioners and fire extinguishers that contain these agents are regularly serviced by companies authorized by the Ministry of Environmental and Nature Protection. Authorized services are obligated to have inquest registers on collected and/or taken used quantities of agents damaging for ozone layer, manipulation of these agents and quantities of taken unused, recovered or renewed agents. These data are delivered by the authorized service to the Agency for Environmental Protection by January 31 of the current year for the year before on proscribed templates.

Materials

Considering used materials, in the generation of electricity the key role pertains to the fuel that powers generation facilities.

In its production network, HEP strongly relies on water powered generation in its hydropower plants, and aims to increase other capacities for energy generation from renewable sources. However, HEP uses fuels that present burden on the environment – liquid fuels, natural gas and coal – in its thermal power plants. Consumption of these fuels has been decreased in 2014 due to favorable weather conditions.

Fuel type	2013	2014
Liquid fuel/ x10^{3}t	50	32
Natural gas/ x106m^3	620	385
Coal/ x10^{3}t	933	919

In its generation network, HEP strongly relies on water powered generation in its hydropower plants, and aims to increase other capacities for energy generation from renewable sources.

Water management and waste waters

All HEP's hydropower plants obtained concessions for the use of water power for electricity generation. Integral parts of these concessions are concession conditions, i.e. water permits for the use of waters. All thermal energy generation facilities (thermal power plants and thermal power plants for the generation of heat energy) obtained concessions for receiving waters used in process of electricity and heat energy generation as well as cooling waters. HEP's hydropower plants, thermal power plants and thermal power plants for the production of heat energy report on received quantities of water to Croatian Waters in monthly and annual reports. Concession conditions and conditions in water permits are proscribed for water protection; in accordance with these conditions HEP's hydropower plants conduct the following activities:

- Monthly testing of water quality in its accumulations conducted by authorized laboratories
- Periodical testing of quality of underground and ground waters in hydro accumulation systems (flumes and gutters, accumulations, drainage canals, hinterland waters, drained basins) conducted by authorized laboratories and scientific institutions
- Create and conduct stipulations from operative plans of intervening measures in case of extraordinary and sudden water pollution
- Secure steady flow in quantities proscribed for every hydropower plant separately with a goal of watercourse eco-system protection
- Secure implementation of stipulations on accumulations proscribed by Croatian Waters

In order to protect own facilities and improve water quality, HEP's hydropower plants have been removing and managing mixed waste (fluvial deposits) which accumulates at entrance devices and facility railings in times of high waters. As much as 2,500 to 4,500 tons of waste accumulates at facility railings each year, so removal of these deposits demands significant financial investments.

Hydropower plants are not producers of this waste; however, HEP – although it is not obligated by law – finances removal and management of this waste completely.

Thermal energy facilities obtained IPPC permits which also stipulate conditions for emission of waste waters. Those facilities that have yet to obtain IPPC permits operate under water permits for emission of waste waters. In accordance with IPPC permit decisions, water permits and concession conditions, thermal energy facilities undertake the following activities:

> Monthly testing of waste water quality (composite samples) on control measurement shafts conducted by authorized laboratories
> Keeping of inquest registers of waste water quantities emitted
> Measuring temperatures and quantities of emitted cooling waters
> Measuring waste water outflows
> Testing and checking water impermeability of constructions for waste water outflow and purification
> Create and conduct stipulations from operative plans of intervening measures in case of extraordinary and sudden water pollution

Hydropower plants are not producers of fluvial deposits which accumulate at entrance devices and facility railings; however, HEP - although it is not obligated by law - finances removal and management of this waste completely.

Once a year, HEP reports on sources, types, quantities, quality and manners of waste water emissions, as well as on devices for purification of waste waters. These reports are transferred to electronic data base of the Environmental Pollution Registry run by the Agency for Environmental Protection.

Demineralized water is used in the process of heat and electricity production, while a certain amount of condensate forms as a by-product, which is collected and led into condensate containers of 500m3 in volume. Collected condensate is adducted from containers by pumps into facility for polluted condensate treatment (PONK) where demineralized water is prepared in the process of ionic replacement. This facility, of 85m3/h capacity, was constructed within the facility for production of demineralized water KPV in TE-TO Zagreb, which began operations in August 2013 and has been operating occasionally, depending on the quantities of collected condensate. Heat energy of the condensate is also used in the production process by carrying heat into the system of demineralized and feeding water, with decrease of quantities of well water and quantities of emitted waste waters.

During the reporting period, there have not been cases of water or protected areas pollution by HEP waste waters.

Water sources significantly affected by withdrawal

Water supply for Plomin thermal power plants is based on the use of water from source called Bubić Burrow as well as water from public water supply network. Bubić Burrow has abundance of approximately 100 l/s and is situated in concession regime of HEP use in the concession amount of 44 l/s (1,387,584 m^3 per year). The source secures water for technological needs of thermal power plants (demineralization, cooling, and fire prevention system). During 2013, 708,810 m^3 of water were withdrawn from the source, as well as 732,820 m^3 in 2014.

Bubić Burrow is situated within the power plants' area and used to withdraw water and store in St. Matej water reservoir of 500 m^3 capacity (2x250 m^3) on 84 meters above sea level. Submersible pumps are used to maintain St. Matej water reservoirs full, securing hydrostatic network pressure of approximately 6 bars. Pumps are supplied by water from pressure pipeline DN 250, with the possibility of filling one or both tanks at the same time, while they are emptied with the use of gravitational pipeline DN 200. Apart from filling the tank pump, tanks in Bubić Burrow can pump water directly into the gravitational pipeline. Raw water reservoirs are also connected with water supply network of Labin by DN 250 pipeline in order to secure reserve supply system.

These combinations can secure various options for uninterrupted supply of raw water necessary in the production process and fire prevention.

Quality of streams (Posert/Raša and Boljunčica waterways) and sources of underground waters (Plomin, Kožljak and Bubić Burrow) and continuously monitored according to Croatian Waters and Istria County programs, as well as according to TE Plomin 1 and 2 programs, which are implemented by authorized Public Health Institute of Istria County.

Waste

Sustainable Waste Management Act came into power in 2013 (National Gazette 94/13), announcing the adoption of a series of new by-laws that need to be incorporated into the existing system of HEP waste management. Several years long trend of waste management system continued in the reporting period, with investments into existing and new temporary waste depots and employee education. Construction, reconstruction and furbishment of temporary depots and their equipping with waste selection containers continued in all HEP group companies and facilities, while data on waste incurrence and flow are recorded on proscribed templates and in Waste Application within HEP's Environmental Protection Information System, which was created by IT and TK Sector according the idea of Sustainable Development and Quality Improvement Sector in HEP.

In 2013, HEP recorded a total of 1,565 tons of hazardous and 101,705 tons of non-hazardous waste.

Decreased quantities of waste are the result of continuous advancement of waste management system in HEP, waste selection in the place of incurrence, setting up temporary waste depots, and increase of monitoring quality and education of HEP employees.

All waste was consigned to companies authorized by the Ministry of Environmental Protection and Nature and county bodies in charge of environmental protection.

A total of 1,964 tons of hazardous and 109,698 tons of non-hazardous waste were produced by HEP group in 2014. Increase in quantities was a result of write-off of exhausted equipment and materials, renewal of vehicle park and cleaning of liquid fuel tanks and oil pits. All waste was consigned to companies authorized for collection, handling and treatment of waste for further treatment and management.

Decreased quantities of waste are the result of continuous advancement of waste management system in HEP, waste selection in the place of incurrence, setting up temporary waste depots, and increase of monitoring quality and education of HEP employees.

The only HEP's landfill is situated on Plomin thermal power plants' location and this is internal landfill for non-hazardous waste. This landfill is intended exclusively for disposal of own waste produced in the process of electricity production from coal – ash from furnace railing, dust and deposit from boiler (slag), flying ash from coal combustion, solid calcium based reaction waste which is produced in de-sulfurization of smoke gases (plaster), sludgy calcium based reaction waste produced in de-sulfurization of smoke gases and sludge from other treated industrial waste waters. Waste produced in Plomin thermal power plants is managed in accordance with waste management hierarchy with a goal to decrease amounts of deposited waste. Flying ash, plaster and slag are deposited on the non-hazardous waste landfill only when Holcim cement factory cannot take them over in cases of decreased production, repairs or operational delays.

Entire quantity of sludgy calcium based reaction waste produced in de-sulfurization of smoke gases and sludge from other treated industrial waste waters are deposited internally on the non-hazardous waste landfill because there is no interest on the market for these products. Plomin landfill obtained construction permit in 2000, granted based on conducted rehabilitation of the landfill and is permitted to receive non-hazardous waste produced on location for depositing. The permit was given by Istria County Administrative Division for Sustainable Development.

Once a year HEP reports on quantities of produced waste via Environmental Pollution Registry run by the Agency for Environmental Protection.

Chemical products management and soil protection

All HEP's thermal power plants and thermal power plants for the production of heat energy obtained Decisions on the use of hazardous chemical products according to Chemicals Act, for those materials that are used in water preparation for production of heat energy and electricity and regeneration of ionic replacers in chemical water preparatory works.

Regular testing of water impermeability of oil pits and pipelines are regularly conducted in HEP's switchyards and substations; planning and implementation of rehabilitation is adjusted to the testing results. All HEP's hydro and thermal power plants and thermal power plants for heat energy production are also tested for impermeability on all water constructions for waste water drainage as well as temporary waste depots.

HEP runs a register of chemicals it imports for business purposes or uses in production within internal environmental database INFO-ZOK. Before amendments to legal regulation, HEP delivered data on quantities and types of used chemicals to Croatian Institute for Toxicology and Antidoping once a year. HEP employees that handle chemicals and responsible individuals are regularly educated for this work, according to Croatian Institute for Toxicology and Antidoping programs.

Facility operator that determines existence of hazardous products in their area is obligated to introduce them into Safety Management System and undertake preventive measures necessary to decrease occurrence risk and prevent major accidents, as well as measures for limiting effect of major accidents to people, property and environment.

All HEP's thermal power plants and thermal power plants for the production of heat energy have introduced systems of safety management and signed policies preventing major incidents. Depending on the quantities of hazardous materials, TE Rijeka, TE-TO Sisak, TE-TO Zagreb, EL-TO Zagreb and TE-TO Osijek pertain to a higher category of facilities and are obligated to develop safety reports. KTE Jertovec and TE Plomin are facilities of lower category and are obligated to develop operating plans of protection and rescue.

Investments in environmental protection

The most important investments in 2013 and 2014 were in development of waste management systems in HEP facilities as well as projects aimed at protection of nature and environment.

Total expenditures for environmental protection projects in HEP group amounted to 154.13 million kuna in 2014, and 101.08 million kuna in 2013.

Expenditures of regular operations considering environmental protection increased due to HEP joining EU-ETS.

Total expenditures for environmental protection projects in HEP group amounted to 154.13 million kuna in 2014, and 101.08 million kuna in 2013.

Some other achievements…

	Achievements 2013/14
TE Sisak	> Control measuring of the system for continuous monitoring of pollutant emissions into air from Block A boilers, as well as occasional measuring of emissions into air from Block A boilers and auxiliary boilers. > Initiated installation of device for waste water flow measuring, device for measuring the flow of received water and released cooling water from facilities as well as cleaning of the device for waste water and drainage system treatment. Collection of condensate from steam heating from main heating units was conducted within the project of HEP-Toplinarstvo steam network revitalization. Condensate is returned to TE Sisak and used to fuel auxiliary steam boilers, with constant monitoring of its quality, which decreases quantities of feeding water for auxiliary boilers. > Part of internal drainage system was reconstructed in 2013 in order to achieve structural stability and functionality, i.e. impermeability. System reconstruction included main collector, drainage of mixed, technological, sanitary, rainfall and oily waste waters, as well as septic tank. Device for measuring flow of waste waters and device for measuring the flow of received water and released cooling water from facilities was concluded.

	Achievements 2013/14
TE Plomin	> System of adaptive regulators in electro filters for the decrease of flying ash concentrations on TE Plomin 1 blowhole was adapted in 2013 > Temporary waste management was updated. > In order to adjust TE Plomin with best available techniques by 2018, according to measures stipulated in the IPPC permit, acoustic model of existing situation was developed, along with conflict and strategic map of noise in order to decrease noise on facility boundaries. > Based on the project encompassing deliver, installation and launch of equipment for eco-measuring as the precondition of increased energy efficiency, better use of raw materials and auxiliary materials, and decrease of environmental impact, HEP secured protocol monitoring on Plomin plants' location for seven measuring spots, four connecting spots to water network, a source of fresh water and seawater drainage streams from TE Plomin 1 and 2. > In order to meet limit values for NOx emissions, after the conclusion of transitional period of adjustment with Directive on industrial emissions in accordance with Croatian EU Accession Contract (after January 1, 2018), construction of DeNOx facility was initiated in 2014 on the second block of TE Plomin. This investment was worth 17.3 million euro.

	Achievements 2013/14
TE-TO Zagreb	> Replacement of all eight combined burners (gas and liquid fuel), eight firestarter burners, safety and regulation reinforcement on gas, liquid fuel, steam for blow offs and burning air, as well as replacement of measuring equipment in the field, installation of new system for burner management and their connection with Block C management system were all conducted in 2013. Reconstruction of steam pipeline boilers VK5 and VK6 was also conducted, in order to achieve more efficient combustion followed by reduced pollutant emissions into air. > New chemical preparation of water was also initiated in 2013; this is a fully automatized facility with microprocessor management technology. Facility for treatment of pure condensate and their return into demineralized water system for boiler supply, which decreases quantities of raw water intake and drainage water into public water network. > Device for measuring pollutant emissions into air on the main smokestack was replaced in 2014 (200 m), while reconstruction of oily water separation within liquid fuel management process is underway.
TE-TO Osijek	> In order to prevent spillage of turbine oil from outer tank into the ground, impermeable bundwall was installed in 2014. Area for decanting was secured in order to prevent spilling of chemicals into the ground during transfer from cisterns into tanks.

	Achievements 2013/14
KTE Jertovec	> Occasional measuring of pollutant emissions into air from gas turbines were conducted in 2013. Certain parts of sewage system were tested and reconstructed that same year.
Hidroelektrane	> Construction of building for protection of watercourse from pollution on HE Dubrava drainage canal was initiated in HE North production area in 2013, while in 2014, HEP undertook removal of deposits from HE Varaždin accumulation lake in order to maintain safety and bring accumulation to its original state, which is a continuing process. > Considering HE South production area, oil pits were cleaned in HE Peruća and HE Orlovac in 2013, and were tested for impermeability, while a device for detecting oil in the system and drainage pools was installed in HE Zakučac, together with oil separators. HE Jaruga, situated within Krka National Park, saw replacement of oil switches with oil free. > Removal of fluvial deposits, their separation, treatment and management continued on all watercourses occupied by HEP hydropower plants.

Certificates from the environmental protection field

“Green” certificates

Certified “green energy” is produced in HEP’s 26 hydropower plants, which make more than a half of Croatian electricity production system.

All HEP’s hydropower plants were certified by TÜV SÜD company for energy production from renewable sources.

Management systems according to ISO norms

HEP initiated preparations for introduction of environmental management system based on international norm ISO 14001 at the end of 2002.

The first HEP facility to introduce and certify environmental management system based on ISO norm was TE-TO Zagreb.

Based on acquired experiences, HEP continued to introduce environmental management system based on international norm ISO 14001 integrated with quality management system according to ISO 9001 in all thermal power plants, thermal power plants for heat energy production and hydropower plants.

Environmental management system based on international norm ISO 14001 was introduced in the first HEP-ODS distribution area, Elektra Zagreb, in 2007, followed by the introduction of environmental management system based on international norm ISO 14001 in all distribution areas.

ISO 14001 in HEP-Proizvodnja

Since 2005 till the end of 2014, all thermal power plants and thermal power plants for heating energy production – TE Plomin 1, TE Plomin 2, TE Rijeka, TE Sisak, TE-TO Zagreb, EL-TO Zagreb, KTE Jertovec and TE-TO Osijek – introduced and certified integrated environmental management systems based on international norm ISO 14001, as well as quality management systems based on norm ISO 9001.

All hydropower plants from HE North production area with headquarters in Varaždin and facilities HE Varaždin, HE Dubrava and HE Čakovec, HE West production area with headquarters in Rijeka and facilities HE Ozalj, HE Gojak, HE Lešće, HE Vinodol, HE Rijeka and HE Senj, introduced and certified integrated environmental management systems based on international norm ISO 14001, as well as quality management systems based on norm ISO 9001.

Integrated environmental and quality management systems are currently introduced in HE South production area with headquarters in Split and HE Dubrovnik facility.

ISO 14001 in HEP-Operator distribucijskog sustava

All distribution areas, introduced and certified integrated environmental management systems based on international norm ISO 14001 in the period between 2007 and 2012..

Radioactive waste and used nuclear fuel management

Management of radioactive waste and spent nuclear fuel is obligation of the Republic of Croatia; in 2007, Fund for financing degradation and management of radioactive waste and spent nuclear fuel from Krško nuclear power plant was founded with the main task to collect, secure and increase the value of funds aimed at financing degradation of Krško nuclear power plant, management of low and mid-level radioactive waste as well as spent nuclear fuel, in accordance with the Croatian Strategy of radioactive waste and spent nuclear fuel management.

HEP is obligated to secure funds for the Fund in the amount of 14.25 million euro annually, which was defined by the existing Degradation Program. Since the beginning of its operations, the Fund received 1,159.7 million kuna, i.e. 157.1 million euro, while its assets amounted to 1,387.8 million on December 31, 2014, or 181.1 million euro.

Directive 2011/70/EUROATOM obligates EU members to manage radioactive waste and spent nuclear fuel, which means Croatia is also obligated to manage its radioactive waste (which includes institutional waste and radioactive waste in existing, temporary depots for low and mid-level radioactive waste, i.e. not only waste produced in Krško). Croatian Parliament adopted Strategy of radioactive waste, used sources and spent nuclear fuel management in October 2014. This strategy, among other, defines basic guidelines and goals for management of institutional radioactive waste in Croatia, radioactive waste and spent nuclear fuel from Krško, as well as guidelines and goals pertaining to rehabilitation of locations with natural radioactive materials.

In order to systemize management of this kind of waste, Croatia will form Radioactive Waste Management Centre, with detailed research works initiated on the same location in order to construct the future depot for radioactive waste in general, including radioactive waste from Krško nuclear power plant.

Croatia will form Radioactive Waste Management Centre, with detailed research works initiated on the same location in order to construct the future depot for radioactive waste in general, including radioactive waste from Krško nuclear power plant.

At the moment, all radioactive waste and spent nuclear fuel are being stored on NE Krško location. In 2014, NE Krško stored 124 packages for radioactive waste of 34.4 m3 in total volume. In accordance with standing practice, pressing of compressible waste in supercompactor is conducted as soon as it is produced and is prepared as a delivery of waste for combustion at outsourced company providing this service. A total of 350 barrels of combustible waste was sent for incineration in 2014; total volume of radioactive waste in temporary depot amounted to 2,258.4 m3 on December 31, 2014. Fuel pool contained 1,096 used combustible elements from 36 previous combustion cycles. Total mass of spent combustible material amounted to 448 tons.

Krško nuclear power plant was granted extended life cycle by 2043. Considering that the spent fuel pool has space for 1,709 combustible elements (which was originally supposed to be enough for operations by 2023), the owners decided to initiate a project aimed at dry storage of spent nuclear fuel as the best solution for increased nuclear safety and storage capacity. This project is not a part of Degradation Program and will be financed from NE Krško assets.

Environment in numbers

Hep group nvestment in environmental and nature protection in 2013 and 2014 (in thousands of kuna)

Environmental protection area	Cost of regular operations 2013	Invest-ments 2013	Cost of regular operations 2014	Invest-ments 2014
Air and climate	5,360	130	56,023	69
Waste waters	1,507	66	3,392	195
Waste	7,924	3,643	8,640	4,083
Protection of soil and underground waters	557	51	1,488	64
Noise and vibrations	18	0	19	0
Nature and landscape protection	6,854	4,118	6,143	4,725
Protection from radiation	45	0	38	0
Research and development	117	518	41	1,140
Other (mostly fees in regular operations)	61,807	8,378	67,720	348
Total	**84,180**	**16,904**	**143,504**	**10,625**
Total (regular operations + investments)	**101,084**		**154,129**	

Pollutant emissions into air from HEP group sources (2012-2014 in tons)

Year	NO_x t/year	SO^2 t/year	Solid particles (PM10) t/year	CO^2 t/year
2012	5,156	8,055	179	3,726,274
2013	5,286	6,025	93	3,490,584
2014	4,779	3,747	145	2,947,102
2014/2013 (%)	**-9.6**	**-37.8**	**55.2**	**-15.6**

Hazardous and non-hazardous waste quantities (2012-2014 in tons)

Year	Hazardous waste/ t	Non-hazardous waste / t
2012	2,259	103,519
2013	1,565	101,705
2014	1,964	109,698
2014/2013 %	**25.5**	**7.9**

COMBINED DATA ON WATER INTAKE AND WASTE WATER DISCHARGE FOR THERMAL POWER PLANTS IN 2013 (m^3)

Facility	Source	Water quantity (m^3)	Waste water	Treatment system	Discharge	Water quantity (m^3)
TE Plomin	Bubić Burrow	708,810	technological waters	treatment of waste water, neutralization and depositing device	Čepić canal - sea	166,407
			rainfall from coal depot	lamellar settler		
			oily waters	oil separation		
	Bubić Burrow (+ public water supply system)	11,108	sanitary waters	BIO device		4,975
	Sea (cooling water)	427,503,780	cooling waters	no treatment		278,545,283
TE Rijeka	Public water supply system	52,094	technological waters	treatment of waste water, neutralization and depositing device	Sea	4,714
			oily waters	oil separation		
	Public water supply system	4,800	sanitary waters	BIO device		3,720
	Sea (cooling water)	15,264,000	cooling waters	no treatment		15,264,000
TE-TO Sisak	Sava	252,404	technological waters	treatment of waste water, neutralization and depositing device	Sava	7,986
			oily waters	oil separation		
	Public water supply system	8,208	sanitary waters	no treatment		6,566
	Sava (cooling water)	3,278,042	cooling waters	no treatment		3,278,042
TE-TO Zagreb	Wells (+public water supply system)	1,063,778	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	482,632
			oily waters	oil separation		
			sanitary waters	no treatment		
	Sava (cooling water)	88,859,200	cooling waters	no treatment	Sava	71,087,360
					Savica Lake	17,771,840
EL-TO Zagreb	Wells	1,009,842	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	129,812
			oily waters	oil separation		
	Public water supply system	4,417	sanitary waters	no treatment		
TE-TO Osijek	Drava	357,812	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	163,596
			oily waters	oil separation		
	Public water supply system	2,581	sanitary waters	no treatment		
			clean rainfall water	no treatment	Palčić canal	1,479
KTE Jertovec	Krapina	13,972	technological waters	treatment of waste water, neutralization and depositing device	Jertovec stream	8,786
			oily waters	oil separation		
	Public water supply system	1,914	sanitary waters	no treatment		

COMBINED DATA ON WATER INTAKE AND WASTE WATER DISCHARGE FOR THERMAL POWER PLANTS IN 2013 (m^3)

Facility	Source	Water quantity (m^3)	Waste water	Treatment system	Discharge	Water quantity (m^3)
TE Plomin	Bubić Burrow	733,180	technological waters	treatment of waste water, neutralization and depositing device	Čepić canal - sea	167,262
			rainfall from coal depot	lamellar settler		
			oily waters	oil separation		
	Bubić Burrow (+ public water supply system)	13,763	sanitary waters	BIO device		4,528
	Sea (cooling water)	400,986,360	cooling waters	no treatment		260,641,132
TE Rijeka	Public water supply system	32,812	technological waters	treatment of waste water, neutralization and depositing device	Sea	2,498
			oily waters	oil separation		
	Public water supply system	6,000	sanitary waters	BIO device		3,760
	Sea (cooling water)	0	cooling waters	no treatment		0
TE-TO Sisak	Sava	244,370	technological waters	treatment of waste water, neutralization and depositing device	Sava	6,754
			oily waters	oil separation		
	Public water supply system	5,622	sanitary waters	no treatment		4,496
	Sava (cooling water)	0	cooling waters	no treatment		0
TE-TO Zagreb	Wells (+public water supply system)	955,707	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	436,269
			oily waters	oil separation		
			sanitary waters	no treatment		
	Sava (cooling water)	55,233,000	cooling waters	no treatment	Sava	44,186,400
					Savica Lake	11,046,600
EL-TO Zagreb	Wells	950,299	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	155,298
			oily waters	oil separation		
	Public water supply system	5,706	sanitary waters	no treatment		
TE-TO Osijek	Drava	377,178	technological waters	treatment of waste water, neutralization and depositing device	City sewage system	172,804
			oily waters	oil separation		
	Public water supply system	30,743	sanitary waters	no treatment		
			clean rainfall water	no treatment	Palčić canal	15,170
KTE Jertovec	Krapina	14,732	technological waters	treatment of waste water, neutralization and depositing device	Jertovec stream	8,649
			oily waters	oil separation		
	Public water supply system	2,019	S sanitary waters	no treatment		

Workplace: our people

7 Workplace: our people

Number of employees by HEP group subsidiaries (on December, 31)

HEP GROUP TOTAL (without HOPS-a)	
2013	2014
10,877	11,006
CHANGE 129	

HEP-Operator distribucijskog sustava d.o.o.	
2013	2014
7,531	7,627
CHANGE 96	

HEP-Plin d.o.o.	
2013	2014
134	143
CHANGE 9	

HEP-Telekomunikacije d.o.o.	
2013	2014
0	26
CHANGE 26	

HEP-Odmor i rekreacija d.o.o.	
2013	2014
12	12
CHANGE 0	

HEP-Proizvodnja d.o.o.	
2013	2014
2,182	2,184
CHANGE 2	

HEP-Opskrba d.o.o.	
2013	2014
75	73
CHANGE -2	

HEP-ESCO d.o.o.	
2013	2014
22	22
CHANGE 0	

HEP-Obnovljivi izvori energije d.o.o.	
2013	2014
9	9
CHANGE 0	

HEP d.d.	
2013	2014
460	451
CHANGE -9	

Crpna stanica Buško blato d.o.o.	
2013	2014
42	42
CHANGE 0	

APO d.o.o.	
2013	2014
20	17
CHANGE -3	

Program Sava d.o.o.	
2013	2014
8	8
CHANGE 0	

HEP-Toplinarstvo d.o.o.	
2013	2014
347	345
CHANGE -2	

HEP-Trgovina d.o.o.	
2013	2014
23	27
CHANGE 4	

HEP-NOC Velika	
2013	2014
12	12
CHANGE 0	

HEP-Opskrba plinom d.o.o.	
2013	2014
0	8
CHANGE 8	

Management bodies structure and employee structure by gender, age, minority affiliation or other diversity indicators

	MANAGERS						ALL EMPLOYEES					
	<30	30-50	>50	MALE	FEMALE	TOTAL	<30	30-50	>50	MALE	FEMALE	TOTAL
2014	0	73	44	94	23	117	473	5,251	5,282	8,634	2,372	11,006
	0%	61.86%	38.14%	79.66%	20.34%	100%	4,30%	47.70%	48.00%	78.45%	21.55%	100%
2013	<30	30-50	>50	MALE	FEMALE	TOTAL	<30	30-50	>50	MALE	FEMALE	TOTAL
	0	65	47	88	24	112	385	5,351	5,141	8,534	2,343	10,877
	0%	57.52%	42.48%	77.88%	22.12%	100%	3,54%	49.20%	47.26%	78.46%	21.54%	100%

QUALIFICATION STRUCTURE

QUALIFICATION		2013		2014
DSc and MSc	1.8%	199	1.8%	203
BSc	15.6%	1,693	16.6%	1,824
Assoc. degree	8.0%	874	8.0%	881
Secondary school	44.7%	4,858	44.9%	4,939
Elementary/semi-skilled	4.5%	492	4.3%	478
Highly skilled	13.8%	1,501	13.1%	1,446
Skilled	11.7%	1,267	11.3%	1,241
TOTAL	100%	10,877	100%	11,006

AGE STRUCTURE

AGE	NO. OF EMPLOYEES 2013	NO. OF EMPLOYEES 2014
under 20	1	7
20-25	28	68
25-30	356	398
30-35	702	702
35-40	1,405	1,316
40-45	1,502	1,526
45-50	1,742	1,707
50-55	2,189	2,042
55-60	2,114	2,171
60-65	838	1,069
TOTAL	10,877	11,006

	AVERAGE BEGINNERS GROSS SALARY IN HEP GROUP	AVERAGE GROSS MINIMUM SALARY IN HEP GROUP
2014	MALE **8,689.32**	MALE **6,279.80**
2014	FEMALE **6,280.57**	FEMALE **5,769.73**
2013	MALE **6,346.08**	MALE **5,911.58**
2013	FEMALE **7,844.60**	FEMALE **5,327.92**

Differences in minimum salaries between male and female workforce occured due to diversity of jobs within HEP group which were rewarded predominatly to male or female employees. The differences in salaries relate exclusively to various jobs and are not connected with gender differences.

On December 31, 2014, 10,904 out of the total of 11,006 employees were employed on a permanent basis and 97 on a temporary basis (of which 86 trainees on a temporary basis), while 5 employees were on unpaid leave. The vast majority of employees were covered by Collective Agreement - 10,815 or 99.61% in 2013 and 10,964 or 99.77% in 2014. In April 2013 the new Collective Agreement was concluded between HEP group and two representative trade unions, in effect from April 1, 2013 until March 31, 2014. The currently valid Collective Agreement wascontracted for the period from October 1, 2014 until June 30, 2016. In the period not covered by the valid collective agreement (from April 1, 2014 until September 30, 2014), work relations and employment rights in HEP group companies were regulated under the subsidiaries' Operating Rules. Croatian citizens employed at Krško Nuclear Power Plant are employed and paid by NEK d.o.o., legal entity registered in the Republic of Slovenia. All managers in HEP group are Croatian citizens and are members of local communities of employment.

Pursuant to Article 153 of the Collective Agreement, the parties to the Collective Agreement set up the Joint Commission for the interpretation of the Agreement provisions. The commission met periodically, in accordance with the provisions of the Collective Agreement and depending on the requests for interpretation they received. Management informs employees on all changes significant to the business operations, but terms for providing such information are not prescribed by the Collective Agreement. In the HEP group subsidiaries with elected workers' councils, the companies respected their obligations to inform, consult and provide participatory decision-making in all issues relevant to the employees.

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

Human resources management

HEP group implements contemporrary practices of human resources management, aimed at attracting and developing competent employees who may add advantage ove competitors in the conditions of open market competition. Standardized processes of employing new workers and selecting scholarship recipients as well as introducing new employees to their work tasks i.e. monitoring their knowledge acquisition for independent work were set up. They function in a manner which facilitates the selection of best candidates as well as their fast and successful adaptation to work environment. All employees are enabled equal opportunities of professional and personal development, regardless of their gender or race and with respect for their cultural, religious, traditional and all other matrial or spiritual diversities. We are aware that in large corporations like HEP group occasional irregularity may happen in employee selection process. Such a case was recorded in mid 2014 and was immediately corrected. System improvements are expected in the next period, specifically aided by the project of HEP group transformation.

During 2014, HEP group, supported by consultants, initiated the preparations for operational and strategic transformation.

During 2014, HEP group, supported by consultants, initiated the preparations for operational and strategic transformation.

The project was presented to the managers of subsidiaries in HEP group, the departments of HEP d.d. and the union representatives in December 2014. During that year, employees were enabled individual meetings with the members of the project team, as well as to ask questions on the planned process. Employees were continuously informed on the project on the intranet platform, while the public was informed at the press conference, web page and in the corporate newspaper HEP Vjesnik.

Restructuring of business and operational structure of HEP-Operator Distribucijskog Sustava was performed in 2013. Rules and Regulations on the Organization and Systematization were implemented since March. The programs of corporate reorganization and redundancy management resulted in the decrease of employees in HEP-ODS by 1,521. Restructuring process preparations will be continued in 2015.

YEAR	Number of retirees
2015	80
2016	138
2017	199
2018	255
2019	376
2020	410
TOTAL	**1,458**

As a caring company that actively supports the employees to secure and improve their own retirement conditions and thus influence social security of employees and their families, Hrvatska elektroprivreda and HEP group subsidiaries have founded and sponsored HEP group own Closed Voluntary Pension Fund. HEP Pension Fund has been operating since 2006, managed by Croatia osiguranje Pension Fund. All employees of HEP group are eligible to enter HEP Pension Fund for designated or undesignated period. In order to encourage the employees to join HEP fund, the sponsoring company executes a one-time payment to the employee pension account, in the amount of 400 kuna. Besides, the employer company also pays to each fund member incentives amounting to the sponsoring company decision. Presently this amounts to 15 percent of employee's paid contribution, maximum 750 kuna net per year. The incentive payments are paid once a year to HEP Pension Fund. If they leave the company, employees may remain the members of HEP Pension Fund, but without the annual incentives to their own contributions.

Use of parental leaves in the reporting period

All employees who used parental leavee returned to HEP group afterwards. However, there were some employee transfers, exclusively within the group and in a way that persons who returned from parental leave received transfer to some other HEP group subsidiary. The tables present transfers within HEP group. Transfers in 2013 relate to HOPS unbundling.

2013	Labor contracts terminated	Number of parental leaves
HEP-ESCO d.o.o.	1	0
HEP-Obnovljivi izvori energije d.o.o.	2	2
HEP-Operator distribucijskog sustava d.o.o.	61	4
HEP-Operator prijenosnog sustava d.o.o.	8	8
HEP-Opskrba d.o.o.	4	0
HEP-Plin d.o.o.	1	0
HEP-Proizvodnja d.o.o.	8	2
HEP-Toplinarstvo d.o.o.	10	0
Hrvatska elektroprivreda d.d.	13	5
TOTAL	**108**	**21**

2014	Labor contracts terminated	Number of parental leaves
HEP-Operator distribucijskog sustava d.o.o.	27	0
HEP-Opskrba d.o.o.	3	0
HEP-Plin d.o.o.	1	0
HEP-Proizvodnja d.o.o.	3	0
HEP-Toplinarstvo d.o.o.	2	0
Hrvatska elektroprivreda d.d.	12	1
TOTAL	**48**	**1**

Education, professional trainings and benefits

Having in mind the necessity of life-long education which will contribute to the development of specific knowledge and skills required for successful conduct of operations and enable monitoring and implementation of contemporary trends in all segments of HEP group, the corporation invests significant means in employee educations, targeted professional specializations in Croatia and abroad (such as conferences, seminars or courses), as well as professional education related to specific workplace demands. In 2013 education investment amounted to 9.321.911 kuna, while in 2014 education investment amounted to 7,329,733 kuna.

Average hours of training	2013	2014	
Male	13.56	20.4	Gender
Female	4.64	11.9	
Employees	11.46	18.23	Category
Management	29.26	47.93	

Related to increasing challenges, demanding and competitive electricity market, the influence of new technologies on business, and changes in business environment, we assess that the employee flow reduction is crucial. The aim is to keep the most important employees who can achieve goals successfully, advance the business and realize excellence by implementing their interdisciplinary knowledge and methodical competences..

Therefore we continuously take care of education needs of our highly educated employees by enabling them to participate in targeted professional trainings in order to acquire specialized knowledge and skills from the areas crucial to company competitiveness (marketing, renewable energy sources, environmental protection etc.).

HEP group is continuously taking care of education needs of our highly educated employees by enabling them to participate in targeted professional trainings in order to acquire specialized knowledge and skills from the areas crucial to company competitiveness.

Internal education is regularly organized for interns and all interested employees, primarily aimed at developing soft skills (such as communication skills, business etiquette, presentation skills, business writing, problem resolution skills and selection interviews). In future, we will optimally harmonize education programs and individual education needs with development and business plans of HEP subsidiaries. Employees are expected to share their knowledge actively with colleagues and thus contribute to increase of internal competences. However, HEP group presently does not have a structured employee evaluation system.

Process of transformation is partially focused on keeping the know-how in HEP group. Therefore, in the process of project development, a list of key knowledge and experts was composed for the first time in organizational history. The project included the establishment of internal Competence Center to ensure that highly specialized and difficult to obtain knowledge remain available within the organization to the next generations of employees.

The application called „Education Database“ enables HEP group to have a unified platform containing the list of education performed, as well as merging education data and creating reports. According to the Guidelines on the Implementation of the Decision on Compulsory Use of Application, HR departments of subsidiaries ented data on employee education, type of education attended (postgraduate programs, education upgrade, re-qualification, specialization), on scholarships to highschool or university students, children of deceased HEP employees, as well as internship of highschool and university students. Data recorded are education type, name of the education program, costs, ways of payment, realization of employee’s obligation to complete the education and to remain workhin in HEP group, depending on education typee (with the monitoring of contractual obligations of education completion and payment of cost in the case of contract termination). The data are used for the purpose of various reports – annual reports, ratings, upon the authorized person’s request, participation in the surveys by respective organizations, following the fulfillment of education needs of employees (which is recorded in individual education cards), etc.

Following the provision of the Collective Agreement, employees have the right to paid leave in case of extraordinary situations, such as employee's wedding, birth of a child, death or sickness in the family, moving home and education or specialization. Besides, the Collective Agreement also provides various paid benefits, due to extreme work conditions, extraordinary or special circumstances. Employees are also entitled to seniority (loyalty) bonuses, financial aid in extraordinary conditions and one-off parenting aid.

Internal communication

Internal communication in a large system like HEP group poses specific challenges. Internal information platform – the internet portal of HEP group was launched in 2011. The platform is used to exchange information among subsidiaries, departments, teams and projects, as well as to share documents and publish informative and educational content.

Besides, the platform enables interactive and two-way communication. A part of the intranet portal reserved for publishing news and information is called Infohep. Happenings in HEP group or directly connected to HEP group are published on Infohep's central hub – the „News". The section „Employees" comprises statistics on employee figures, internal job advertisements, importandt documents related to employee rights and similar topics, while the section „Unions" is reserved for union news publishing. There is also a special hub „War Veterans" for employees of HEP group who participated in the Homeland War. Section „Announcements" pub-

lishes the overview of future expert and professional gatherings, coferences and other events of employees' interest. The hub „Around Us" brings news on legislative, energy in Croatia and the world, technologies and other topical issues. Finally, the hub „Holidays" the employees are preseneted the offer of summer holidays in the facilities owned by HEP-Odmor i rekreacija d.o.o. Special business partners' offers for employees of HEP are also published.

Informative and educational content is available to employees in the corporate magazine – HEP Vjesnik, printed in the circulation of 7,000 copies and available online on the corporate web page. The platform is used to exchange information among subsidiaries, departments, teams and projects, as well as to share documents and publish informative and educational content.

Employee engagement in the reporting period was also implemented in direct communication in meetings and various formal and informal interaction modes. Information on significant projects or issues strategically vital to the organization are conveyed in topical presentations for management and subsidiaries' project teams. In September 2013, members of the Management Board of HEP d.d. organized a road-show covering the cities of Split, Rijeka, Varaždin, Osijek and Zagreb, presenting the Business Program of HEP for 2013-2016 to HEP group managers and employees.

Health and safety

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

In 2013, a central Committee for Health and Safety was established in HEP, comprising occupational safety experts employed in HEP group subsidiaries, employee representatives, occupational medicine specialists, authorized person on behalf of HEP and the state inspector for health and safety. The Committee meets four times a year, called by authorized person in HEP or following certain events in the production process or heavy, collective or fatal casualty at work.

In 2013, there were 146 work injuries in HEP group, 19 serious and 127 light ones, while in 2014 there were 159 registered injuries, out of which 25 serious and 134 light. Work injuries are mainly the consequence of not applying basic or special protection rules at work. That is why increasing attention has been paid during the past few years to permanent education of employees at all levels on the significance of health and safety. In HEP group there are no jobs that have high frequency or high risk of specific illnesses.

Safe work education is conducted regularly with new employees or workers who changed their work position in line with legal obligations. Other trainings are conducted according to expressed needs by areas and plants, internally or externally by authorized companies, depending on the type of training. Exercises and simulations related to safety at work are regularly held in those parts of the group whose operations demand increased safety measures.Hazardous machines and devices specified in the List of Machines as well as the fire alarm and supression systems are tested according to testing schedule and deadlines as required by law.

Collective Agreement provides the employees the right to annual medical check-up, right to safety at work which is technicaly, technologically and scientifically advanced, the right to privacy respect in order to ensure prevention of discrimination, mobbing or sexual harassment.

We are especially proud of the large number of our blood donoring employees. HEP is probably the leading organization in Croatia in blood donoring participation.

Labor disputes

During 2013 HEP group recorded 14 initiated law suits related to labor issues. Two disputes were resolved in the reporting period. Six law suits were initiated in 2014 and were not resolved until the end of the year.

Nine lawsuits initiated before the reporting period were resolved – six in 2013 and three in 2014. No cases of discrimination were recorded in the reporting period.

Humanitarian activities and personal development

HEP group supports its employees in their humanitarian endeavors. We are especially proud of the large number of our blood donoring employees. We are probably the leading organization in Croatia in blood donoring participation. We are especially proud of the large number of our blood donoring employees. HEP is probably the leading organization in Croatia in blood donoring participation.

In cooperation with local blood transfusion centers, our employees are enabled to participate in blood donoring actions at their workplace. HEP group organizes holiday opportunities for its employees through its subsidiary HEP-Odmor i rekreacija (renamed to HEP-Upravljanje imovinom in 2015). This company supervises a number of facilities which offer a subventioned summer holidays capacity on the Adriatic coast for HEP group employees (in 2014; 13 facilities in 2013). Since recently, a part of these facilities is offered for the external commercial use. HEP group employees participate in an internal tender and can use up to 10 days of summer hollidays in these facilities, in the period between June 20 and September 8 each year.

Participation in social development and community investment

8 Participation in social development and community investment

HEP projects – informing and engaging stakeholders

Investing in facilities and production bring along changes on which interested and affected parties and other stakeholders should be informed and educated. In the reporting period, HEP undertook a number of activities related to its project development, in which stakeholders were engaged.

Stakeholder communication, organization of dialogues and their engagement was implemented in various ways during the reporting period, ranging from informative and educational campaigns, organization and participation in public presentations, expert or other gatherings, conferences, seminars, organization of meetings with particular stakeholder groups. Activities also included the organization of or support to various other thematic projects that were of stakeholders' interest. Stakeholder engagement was implemented also by organizing stakeholder visits to various facilities owned by HEP group or open day events.

Thermal Power Plant Plomin

Public presentation on the impact assessment study for the reconstruction of TPP Plomin, that is the replacement of the existing bloc 1 with the new one bloc C, was held at the end of 2011. However, having in mind some public opposition to the realization of TPP Plomin C, fueled with coal, HEP continued with regular and open public communication on all aspects and potential impacts of thermal power plant on the society, economy and the environment.

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HEP published a number od articles on the importance and status of development of Plomin C in its newspaper HEP Vjesnik. The articles covered the topics on project's acceptable environmental impact, financial feasibility and its importance for energy independence of Croatia. In cooperation with Večernji list and HRO CIGRE association organized a roundtable on April 19, 2013, focusing on the key aspects of the projects. The conclusions of the roundtable stated that the reconstruction of Plomin, having in mind the planned technology, was a financially profitable option, safe for public health and environment. Thermal power plant reconstruction was a subject at other energy and economic forums as an example of strategically important project for the development of Croatia.

HEP realized public communication on TPP Plomin C in cooperation with national and especially local media, providing information on the safety of the project. Stakeholder engagement and transparent information contributed to the project development: in mid May 2014, Croatian Government passed a decision proclaiming the reconstruction of thermal power plant Plomin a strategic project of the Republic of Croatia.

Aware of the importance of providing timely public information, HEP regularly communicated all essential changes in blocs 1 and 2, as well as information on maintenance and modernization procedures, ever since the initial construction of TPP Plomin and launch of its operation. HEP has maintained continuous contacts with local community representatives, having included them in decision-making processes as the most important stakeholders. Accordingly, in February 2014, HEP presented the contemporary investment in environmental protection in TPP Plomin to the representatives of the city of Labin, municipalities in Labin area, Istria County, County Institute for Public Health and the media, focusing on the sanation of slate and ash disposal site. In December 2014, HEP presented deNOX facility in TPP Plomin 2 to the representatives of local communities and other key stakeholders.

Hydropower plant Ombla

Bearing in mind the changed regulations related to the protection of nature, compared to the time when the project of construction of underground hydropower plant Ombla received a positive opinion on environmental acceptability, HEP proved to be a responsible company by having repeated some exploration works. During 2012 and 2014 HEP conducted extensive explorations on the project location and in the wider area, in order to assess the environmental acceptability of the construction of hydropower plant in Dubrovnik area.

HPP Ombla, like other hydropower plants owned by HEP, has been conceived as a strategic, stable and predictable source of renewable energy, which can contribute to the energy independence of the Republic of Croatia. Based on the exploratory activities, the project of HPP Ombla was improved by new technological solutions and measures of environmental protection in order to provide the best engeneering solution. In compliance with the conducted exploratory activities and expert documentation, HEP initiated the procedure of the acceptance of the acceptability for the ecologial network for HE Ombla.

All expert documentation related to the environmental protection, with the complete results of exploratory activities was published on HEP web page and available to stakeholders.

Besides publishing information on HPP Ombla project, HEP organized public presentations of the projects for the citizens of Dubrovnik.

Following the implementation of the procedure of preliminary assessment of the acceptability of HPP Ombla for ecological network, the Ministry of Environmental and Nature protection ordered HEP to undertake the Main assessment with the assessment of the acceptability for ecological network in December 2014, which intensified the activities on this project.

All expert documentation related to the environmental protection, with the complete results of exploratory activities was published on HEP web page and available to stakeholders.

HPP Kosinj and HPP Senj 2

In 2013 HEP requested the Ministry of Environmental and Natural Protection to issue instructions on the scope of the environmental impact assessment study for the projects of hydropower plants Kosinj and Senj. This was a voluntary decision by HEP to engage the relevant bodies (ministries of construction and spatial planning, agriculture, culture and economy; Park of Nature Velebit and local communities) and the interested stakeholders in the scoping process, that preceeds the environmental impact assessment, in order to develop the most extensive and complete study. The information on the request for the instructions on the scope of the environmental impact assessment study, together with environmental protection elaborates for HPP Kosinj and HPP Senj 2, were published on the web page of the Ministry of Environmental and Nature Protection. Following the received opinions by the relevant bodies, the Ministry passed the decision on the scope of the study.

HEP presented the projects to the local population and local community representatives in Senj, Gospić, Otočac and Gornji Kosinj in February 2013.

The intention of public presentations was to encourage local communities to express their opinions, comments and expectations related to the project in its early phase. Subsequently, their participation helped amend the prescribed scope of the study on environmental impact assessment.

Having in mind the sensitivity of the project, which includes the plans to flood two villages to create a reservoir for the future hydropower plant, HEP conducted the public survey among the inhabitants of the villages of Gornji Kosinj and Mlakva. The survey was conducted in July 2013, during St. Anne, when the Kosinj hosts also the locals who live in other parts of the country and even abroad in order to interview the largest possible scope of affected population. The survey was completed during August and September 2013. Additional talks were conducted with people who own holiday houses in the Kosinj area, during August and September 2013 in Zagreb.

The intention of public presentations was to encourage local communities to express their opinions, comments and expectations related to the project in its early phase. Subsequently, their participation helped amend the prescribed scope of the study on environmental impact assessment.

CCP Osijek

During the planning of cogeneration combined gas heat and power plant in Osijek, HEP engaged the local community. At the end of October 2013, together with partner companies, HEP presented the project in Osijek. The conclusion of the presentation event was that such a facility was essential to the city of Osijek and Eastern Slavonia region, because it would enable complete long-term needs for electricity and heat supply. The plant can also serve as a regulator in the electricity system for the safe supply of electricity not only for the eastern part of Croatia, but also for the neighboring countries. Multi-disciplinary presentations by experts in Osijek were the part of an early public information and stakeholder engagement in the development of this large and valuable investment project. Public presentation of the environmental impact assessment study and the elaborate for the main assessment of the acceptability for ecological network was held in Osijek on April 3, 2014.

Program Sava

Zagreb on the Sava provides a complete solution for protection, development and utilization of the Sava river from Slovenian border to the town of Sisak. The new concept of the program was developed in 2013 and was awarded 1.5 million euro funding by the European Union for the technical support to invest in the feasibility study and the environmental impact assessment. The new concept comprises the stabilization of underground flows, river navigability, exploitation of the spatial potential in Zagreb and energy utilization of the river from the Slovenian border to the city of Sisak. Management model of the project was established in the early phases enabling expert and scientific verification and stakeholder engagement. Program concept was presented at thirty expert gatherings, seminars and conferences. Expert Council gathering experts, academic and NGO representatives was active during 2013 and 2014, with the purpose of encompassing monitoring of program development and ensuring continuous two-way expert public communication.

Web page www.zagrebnasavi.hr was launched in 2013 to provide full information on the development process to public.

The process of sustainability assessment of the program was launched by the visit of two British sustainability experts in February 2014. The process was conducted according to the Hydropower sustainability assessment protocol. Namely, Zagreb on the Sava is the first program in the world which underwent the sustainability assessment in the early stage of development in order to establish the guidelines for future project development.

The assessment lasted until late August 2014, and was performed by the accredited experts from the Intenrational Hydropower Association. Program sustainability was evaluated in several categories and fully financed from the EU project Hydro 4LIFE. During the evaluation, the international experts visited all locations of planned facilities and interviewed several dozens of stakeholders. Program sustainability assessment will be continued in the next phases as well.

The Protocol was jointly developed by the World Bank, Worldwide Fund for Nature (WWF), The Nature Conservancy, Transparency International, Citi Institutional Clients Group and the environmental protection ministries of several countries. In compliance with the method, independent accredited experts evaluate individual projects according to the globally valid criteria. The purpose of this joint project is to select sustainable projects with low investment risks. Zagreb on the Sava was the first such project int he world that was evaluated in the early stage of development.

In March 2014, more than 50 students from four Zagreb faculties, gathered in multi-disciplinary groups and 15 mentors participated in the development of urban spatial solutions for the banks of the Sava river in Zagreb, according to the new concept of the Program. Eight papers, published in a catalogue, comprised eight spatial units from Podsused to Ivanja Reka. All of them focused on the expansion of sports and recreational opportunities and various public content, as well as the preservation of the green belt along the Sava river.

Zagreb on the Sava is the first program in the world which underwent the sustainability assessment in the early stage of development in order to establish the guidelines for future project development.

Students shared the opinion that the space should not be used for new residential projects and suggested the development of bird reserves, aquapark construction, golf courses, rafts with cafe bars and clubs and similar facilities. Student workshop and the catalogue of papers were jointly developed by the Society of Architects from Zagreb, Faculty of Architecture Zagreb and the company Program Sava, the developer of the program Zagreb on the Sava river.

Public presentation of the strategic environmental assessment study for the Program of protection, adjustment and utilization of the Sava river and its hinterland from the Slovenian border to the city of Sisak was held on March 31, 2014.

Other stakeholder engagement projects

Public presentation of various projects of HEP group were held in the reporting period. Stakeholders were engaged in compliance to the regulations. Public presentation of the elaborate for the main assessment of acceptability for ecological network for Drežničko polje retention was held in April 2014. Public presentation of the environmental impact assessment study for the new combined cogeneration power and heat plant E in CHPDH Zagreb was held in May 2014. Several public presentations were held in connection to the integrated pollution prevention and control (IPPC) permits for thermal power plants, such as TPP Plomin 1 and 2 (public presentations were held on July 17 and 18, 2014) and CHPDH Zagreb in December 2013. Following the public presentation a meeting was held with the community board of Savica-Šanci, who visited the entire location of CHPDH Zagreb and discussed all issues and cooperation opportunities. Board members were informed on facility operations and visited the plant, especially the areas that were marked as having an impact on everyday life of the community.

Damage management related to extreme weather conditions

Weather is unpredictable and extreme weather conditions may surpise even the most prepared systems. During 2014, two events caused significant damage in Croatia, but HEP, with timely reaction, recovered the electricity supply in the stricken areas.

At the beginning of February 2014, severe ice and snow storms damaged 510 of electricity lines in Gorski Kotar – the half of the entire network in the area. Freezing rain caused icy envelope on the conductors, even up to 20 cm in diameter, which caused 40 times larger pressure than in normal condidtions.

During the storm, 15 thousand households, that is 23 thousand inhabitants suffered the loss of electricity. The caused damage amounted to 84.4 million kuna, which was the damage in the history of HEP after the war-related operations.

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In spite extreme conditions, more than 400 workers of HEP-ODS spent three weeks on network reconstruction and the recovery of electricity supply. They were aided by teams of Hrvatske šume (Croatian Forests) and Hrvatska gorska služba spašavanja (Croatian Mountain Rescue Service - HGSS). Direct damage that HEP reported in compliance to the criteria of European Union Solidarity Fund amounted to 54.4 million kuna.

Following the disasterous floods in Vukovar-Srijem County in May 2014, HEP-Operator distribucijskog sustava – Elektra Vinkovci spent extensive activities to protect people and property in the area, with the primary task to recover the electricity supply for 3.550 objects in the network which suffered dramatic damage in the flood. Damage to the electricity distribution networks and connections amounted to around 12 million kuna.

Forecasting and preparations to handle potential dangers to electricity supply is a part of daily work of HEP group. In January 2013, activities were undertaken to prevent floods in large watercourses in Lika region, i.e. hydro-energy system Senj. During high water levels and floods, Elektrolika workers managed to maintain electricity network of the Kosinj area in operation.

Electricity supply had to be recovered after the snow stoms in January 2013 in the Karlovac area, as well as the areas of Velika Gorica, Zadar and the Zadar archipelago in November 2013. In both cases, HEP teams have swiftly and efficiently removed the supply failure.

Energy efficiency projects

In compliance to the EU Directive 27/2012, in order to fullfil the preconditions for the installation of local separators and consumption meters, as well as the installation of heating output regulators in all residential and commercial facilities connceted to the heating network, HEP-Toplinarstvo conducted numerous activities to timely inform and consult their end-buyers on this obligation. In November 2013, the company added a leaflet to their bills, containing the information on the obligation of the installation of local separators, consumption meters and heating output regulators, pursuant to the Thermal Energy Market Act, as well as on all deadlines for installation of such appliances. The leaflets contained contact numbers and e-mail address available for the questions of end-buyers, related to the installation of appliances. Information on local separators and advice on how to save heat energy were published on the web page of HEP-Toplinarstvo. The topic was frequently communicated in the public media

.

In cooperation with the Ministry of Economy and the Croatian Energy Regulatory Agency (HERA), HEP-Toplinarstvo participated in public meetings and presentations for the residential housing owners during 2013. The meetings discussed the provisions of the new Thermal Energy Market Act, including the obligatory installation of local separators, consumption meters and heating output regulators in order to optimize consumption and to ensure heat energy saving. Workshops and meetings were organized in Zagreb, Osijek, Sisak, Velika Gorica, Karlovac, Vukovar, Slavonski Brod and Rijeka.

Fees to cities and municipalities

Fees for spatial use by electricity generation facitilites are paid to cities and municipalities according to the Decision by the Croatian Government. The fee for particular generating facility is calculated by multiplying the set fee calculating coefficient by the amount of the electricity produced. The plant located in two or more local communities, cities or municipalities, the fee is divided to each local community, relative to the area used by the facility. Only in the case of TE Plomin 1 and 2, the right to the fee was expanded from the municipality of Kršan and the city of Labin to the neighboring municipalities of Pićan, Raša and Sveta Nedelja.

A significant increase of fee occured in 2014, due to the increased coefficient to calculate the fee, compliant to the new Government decision in July 2013.

ENVIRONMENTAL FEES FOR POWER PLANTS SPATIAL USE IN 2013 AND 2014 / HRK

	City / Municipality	%	2013	2014
HEP PROIZVODNJA d.o.o.			**56,246,577**	**74,919,142**
HYDROPOWER PLANT DEPARTMENT			**39,483,497**	**63,393,362**
Production area HPP NORTH			**7,458,017**	**13,445,246**
HE Varaždin			**2,827,916**	**5,058,006**
	Varaždin	14%	395,908	708,121
	Sračinec	22%	622,142	1,112,761
	Petrijanec	39%	1,102,887	1,972,622
	Cestica	25%	706,979	1,264,502
HE Čakovec			**2,346,914**	**4,063,752**
	Orehovica	5%	117,346	203,188
	Čakovec	26%	610,198	1,056,575
	Nedelišće	8%	187,753	325,100
	Varaždin	9%	211,222	365,738
	Trnovec Bartolovečki	48%	1,126,519	1,950,601
	Sveti Đurđ	4%	93,877	162,550
HE Dubrava			**2,283,187**	**4,323,488**
	Prelog	43%	981,770	1,859,100
	Sveta Marija	12%	273,982	518,819
	D. Vidovec	2%	45,664	86,470
	D. Dubrava	3%	68,496	129,705
	Sveti Đurđ	24%	547,965	1,037,637
	Mali Bukovec	2%	45,664	86,470
	Veliki Bukovec	14%	319,646	605,288

	City / Municipality	%	2013	2014
Production area HPP WEST			**10,154,364**	**19,469,234**
HE Rijeka			**592,620**	**892,650**
	Rijeka	64%	379,277	571,296
	Jelenje	36%	213,343	321,354
HE Vinodol			**1,109,251**	**1,915,287**
HE Vinodol			1,065,937	1,831,586
	Vinodolska	22%	234,506	402,949
	Lokve	35%	373,078	641,055
	Fužine	40%	426,375	732,635
	Kraljevica	3%	31,978	54,948
HE Zeleni Vir	Skrad	100%	43,314	83,701
HE Senj i Sklope			**6,467,556**	**12,737,468**
HE Senj			5,889,839	11,702,141
	Senj	18%	1,060,171	2,106,385
	Otočac	29%	1,708,053	3,393,621
	Perušić	29%	1,708,053	3,393,621
	Gospić	24%	1,413,561	2,808,514
HE Sklope			577,717	1,035,327
	Perušić	20%	115,543	207,065
	Gospić	80%	462,174	828,261
HE Gojak	**Ogulin**	**100%**	**1,247,168**	**2,508,590**
HE Ozalj	**Ozalj**	**100%**	**131,301**	**252,579**
HE Lešće UKUPNO			**606,468**	**1,162,660**
	Ogulin	32%	194,439	372,051
	Generalski stol	23%	140,025	267,412
	Bosiljevo	45%	272,004	523,197

	City / Municipality	%	2013	2014
HE Lešće			**531,753**	**1,086,325**
	Ogulin	32%	170,491	347,624
	Generalski stol	23%	122,783	249,855
	Bosiljevo	45%	238,478	488,846
ABM Lešće			**74,715**	**76,335**
	Ogulin	32%	23,948	24,427
	Generalski stol	23%	17,242	17,557
	Bosiljevo	45%	33,525	34,351
Production area HPP SOUTH			**18,983,535**	**27,381,881**
RHE Velebit			**3,129,193**	**4,643,101**
	Obrovac	39%	1,220,385	1,810,809
	Gračac	8%	250,335	371,448
	Lovinac	41%	1,282,969	1,903,671
	Jasenice	12%	375,503	557,172
HE Đale			**844,942**	**1,004,531**
	Trilj	26%	219,685	261,178
	Vrlika	29%	245,033	291,314
	Hrvace	20%	168,988	200,906
	Otok	25%	211,235	251,133
HE Kraljevac			**609,744**	**610,668**
	Omiš	10%	60,974	61,067
	Zadvarje	90%	548,770	549,601
HE Orlovac			**2,276,003**	**2,599,912**
	Otok	67%	1,524,922	1,741,941
	Trilj	33%	751,081	857,971

	City / Municipality	%	2013	2014
HE Zakučac			**10,311,114**	**15,938,757**
	Vrlika	22%	2,268,445	3,506,527
	Hrvace	14%	1,443,556	2,231,426
	Otok	19%	1,959,112	3,028,364
	Omiš	21%	2,165,334	3,347,139
	Trilj	24%	2,474,667	3,825,302
HE Peruća			**1,058,417**	**1,401,362**
	Vrlika	60%	635,050	840,817
	Hrvace	40%	423,367	560,545
HE na Krki			**754,120**	**1,183,550**
HE Miljacka			473,676	735,918
	Promina	50%	236,838	367,959
	Ervenik	22%	104,209	161,902
	Kistanje	28%	132,629	206,057
HE Jaruga			174,307	277,137
	Skradin	38%	66,237	105,312
	Drniš	50%	87,153	138,568
	Šibenik	12%	20,917	33,256
HE Golubić	Knin	100%	100,054	157,827
HE Krčić	Knin	100%	6,083	12,668
HE Dubrovnik			**2,887,582**	**3,097,002**
HE Dubrovnik			**2,868,724**	**3,045,646**
	Konavle	35%	1,004,054	1,065,976
	Župa	65%	1,864,671	1,979,670
HE Zavrelje	Župa	100%	18,857	51,356

	City / Municipality	%	2013	2014
THERMAL POWER PLANT DEPARTMENT			**16,763,079**	**11,525,781**
TE Sisak	Sisak	100%	187,895	0
TE Rijeka	Kostrena	100%	329,167	0
TE Plomin			4,647,402	5,510,839
	Kršan	50%	3,200,584	2,755,419
	Labin	26%	806,502	1,432,818
	Raša	8%	213,439	440,867
	Pićan	8%	213,439	440,867
	Sveta Nedelja	8%	213,439	440,867
KTE Jertovec	Konjšćina	100%	12,670	12,943
TE TO Zagreb	Grad Zagreb	100%	8,735,818	3,099,071
TE TO Osijek			663,539	814,243
TE TO Osijek	Osijek	100%	439,209	567,431
PTE Osijek	Osijek	100%	224,330	246,812
EL TO Zagreb	Grad Zagreb	100%	2,186,588	2,088,685
TE Plomin d.o.o.			**8,863,553**	**11,454,249**
	Kršan	50%	6,218,090	5,727,124
	Labin	26%	1,485,965	2,978,105
	Raša	8%	386,499	916,340
	Pićan	8%	386,499	916,340
	Sveta Nedelja	8%	386,499	916,340
HEP GROUP			**65,110,129**	**86,373,391**

HEP group and the community

For light and safe step on the joint way

When a company has as significant impact on the society as Hrvatska elekropriveda has, there are numerous fields in which it can support projects aimed at increasing life quality and developing skills and knowledge. Therefore, since 2010, HEP organized annual tenders for granting donations branded “Light on the Joint Way”. The tender attracts more than a thousand applications each year. Decision on the allocation of funds is brought based on the estimation of project’s quality and originality, degree of benefit for the local or wider community, as well as on efficient and responsible funds handling. In 2013, HEP co-financed projects and programs of 348 associations, clubs and institutions, while 373 projects secured funds in 2014. In the reporting period HEP secured 5 million kuna in order to support various initiatives directed at work with youth, environmental protection, art and culture and development of science and society. Since the beginning of this program, HEP invested 11.5 million kuna in these projects.

HEP does not grant donations only through its public tender; the company cooperates with a series of other organizations it holds important. For example, as an investment in its employees, HEP supports the work of HEP Pensioners’ Associations Federation and HEP Croatian War Veterans’ Association 1990-1995.

Particularly significant program, within which the company invested and donated more than 73 million kuna from 1998 to 2014, is program of humanitarian demining of mine-infested surfaces backlogged from the Homeland War across the Republic of Croatia.

Particularly significant program, within which the company invested and donated more than 73 million kuna, from 1998 to 2014, is program of humanitarian demining of mine-infested surfaces backlogged from of the Homeland War across the Republic of Croatia.

Many HEP power facilities (power plants, substations) and hundreds of kilometers of electrical network were also exposed to mining, so HEP, during and especially immediately after the war, invested significant funds in demining its facilities and networks, which provided the use of cleaned surfaces for other purpose as well, primarily for agriculture. Since 2011, HEP has the largest single donor of Croatian Mine Action Center. Donations are used for realization of demining projects according to the security priorities from the Demining Plan of the Croatian Government, so, HEP contributes to achievement of one of the most important national projects, important for the security of the population and economic development in the areas which are infested by mines. In 2013 HEP has allocated 2.2 million kuna for demining of agricultural areas in the northern part of the Antunovac municipality near Osijek, while in 2014 marked the end of demining process of arable land in the municipality of Stari Jankovci for which donated 2 million kuna.

For development of new power

For twenty years HEP has recognized and awarded primary and high school students who have achieved success in the natural science competitions through the award branded as “Imam žicu!”. Mathematics and physics award was established in 1995 as a part of the centennial celebration of Hrvatska elektroprivreda, while from 2005 it has been awarded to all the best young electrical technicians. The winners of money prize amounting to individual award of HRK 2,500 are all students who win the first prize in the national competitions in mathematics and physics or through public display of experimental work in physics for the previous school year. For mathematicians, it applies to students of 5th to 8th grades of primary schools and all secondary school students, while physicist category includes students of 7th and 8th grades of primary schools and all secondary school students. The award is also given to those students of secondary vocational schools, for winning the first three places in the national competitions in basic

For twenty years HEP has recognized and awarded primary and high school students who have achieved success in the natural science competitions through the award branded as “Imam žicu!”.

electrical engineering and measurements (1st and 2nd class) and for competitors from 3rd grade who are studying for electrical mechanic (or electrician/electrical fitter).

Since the establishment of the award in 1995, more than 600 students have received HEP award “Imam žicu!”, while 77 pupils from primary and high schools received the prize in 2013 and 2014.

In order to encourage acquiring knowledge from the environment protection area, at the early age, since 1998 HEP has been involved in Eco-school project, implemented by by European Foundation for Environmental Education, founded within the Council of Europe, as a sponsor-donor of the eco-schools: Electromechanical Vocational School Varaždin, Primary school “Konjščina”, Primary school “Stanovi Zadar”, Primary school “Kostrena”, Primary school “Kalnik”, kindergarten “Cricket and Ant” Tribalj.

There is also room for HEP contribution in higher education; in 2013 and 2014 HEP gave support for the international exchange of technical sciences students of IAESTE Croatia association from Osijek. HEP supports the Faculty of Electrical Engineering in acquiring professional journals and in financing annual membership fees in the International professional association of electrical engineers and electronics, and it also supports in encouraging and rewarding excellence in students. So, at the ceremony of the Day of the Faculty in Osijek in May 2014, HEP awarded sophomore Tomislav Košorog as the best student of electrical engineering. Faculty of Electrical Engineering in Osijek is continually rewarding and thus promoting their good students, and HEP is accompanying the Faculty for the years as one of the largest employers of graduate engineers of Electrical Engineering.

HEP realized similar collaboration with the Faculty of Electrical Engineering and Computer Science in Zagreb, through support of annual award “Josip Lončar” called the Bronze Plaque which was awarded to Bruno Jurišić as the best student in 2013, while year later it was awarded to student Marijana Pongrašić.

Also, HEP signed an agreement on cooperation in scientific research, development and educational projects in 2012 with the Faculty of Electrical Engineering and Computer Science and the Faculty of Mechanical Engineering and Naval Architecture, University of Zagreb.

HEP has given support to Zagreb Faculty of Electrical Engineering and Computing to participate in professional conferences - Conference IEEE EUROCON in 2013 and in 2014, and in the international student`s meeting - Elektrijada held in Hungary in 2014.

HEP-ESCO has also worked on cooperation with academic institutions; in August 2014, together with the Faculty of Mechanical Engineering and Naval Architecture University of Zagreb started cooperation on the research project "Smart regulation of KGH building system". The project will demonstrate the potential of methodology and application of advanced control at existing HGK systems in buildings. The project was designed as a pilot project in a typical HEP d.d. office building, in Kupska street in Zagreb. Since the pilot building represents a typical office building in Croatia, the study results will directly apply to a number of existing buildings within the services of Sector for systematic energy management in the area of optimization of energy consumption. The project serves as a first step towards development of advanced control for a wide range of buildings, and for the application of dynamic optimization ("Model predictive control") that offers even greater potential for energy savings.

Two phases of the project have been completed, particularly the study on current situation and development of methodology of experimental measurements, while the third phase, experimental measurements, is implementing together with the fourth phase, development of a computer model of the building.

For environmental protection and renewable energy

HEP-Opskrba pays special attention to the development of renewable energy sources; the company has set aside funds raised by selling Zelen product, certified electricity produced exclusively from renewable sources, for investments

In 2014 HEP-Opskrba started the initiative “100 green trees” with the aim to landscape and plant hundreds of trees along with 26 certified HEP hydropower plants, through which joined the UN Billion Tree Campaign.

into energy efficiency and renewable sources, integrated in buildings, which will achieve measurable reductions in greenhouse effects gases. Thus, after conducted competition, in collaboration with HEP-ESCO, the company brought decision to award the first donation for an energy efficiency project to Children's Home Ivana Brlić Mažuranić from Lovran in 2014. Since higher proportion of energy generated from renewable sources comes from HEP hydropower plants, in 2014, HEP Opskrba started the initiative "100 green trees" with the aim to landscape and plant hundreds of trees along with 26 certified HEP hydropower plants, through which joined the UN Billion Tree Campaign. It began by planting five cypresses beside hydropower plant Ozalj. HEP Opskrba is the winner of GEENNOVATION 2014 for the best overall program of Croatian green economy for ZelEn project and the holder of the trademark GREEN MARK, for featuring sustainable "green" services, products or technology used to create added value, and their promotion, increasing competitiveness and marketability.

Apart from development of its own competence for the promotion of energy efficiency, HEP group continued working with consumers to raise the awareness level on this important issue. On HEP web page and Facebook page consumers can find more information and tips on how they can affect, through personal consumption, electricity cost reduction.

Also, HEP-Opskrba sales advisors take every opportunity to underline importance of energy efficiency and offer its customers energy advice in collaboration with HEP-ESCO. In addition to direct contact with customers, HEP-Opskrba promotes ESCP projects on the Annual buyers' meeting and during participation on trade fairs and conferences, corporate presentations and on the website.

Negawatt Forum held in May 2014, organized by HEP-ESCO and HEP Opskrba, is the first Croatian conference on the sustainable energy. (Negawatt is a term invented by Amory Lovins, co-founder of the American Institute Rocky Mountain, in 1989 in order to describe the amount of saved energy in watts (W), as a direct result of enhancement of energy efficiency).

“Velebit degenia” for the excellence in media reporting on environmental protection

APO, a HEP group subsidiary, in cooperation with the Croatian Journalists’ Association, has been awarding “Velebit degenia”, for the last 16 years, a unique journalism prize which is awarded for environmental protection. In April, on the occasion of Earth Day the award was presented to journalist Marina Kelava (H-alter) and Matija Tonković (Hrvatski radio). In 2013, as an incentive for socially responsible journalism, the award was presented to journalist Sergej Županić (print media, web portals and agencies category) and to journalist and editor Lidija Komes (radio journalism category) and Tena Perišin (TV journalism category).

For the new beginning when nature shows its teeth

Besides business activities focused on sooner normalization of electricity supply, HEP helped with donations residents of Easter Slavonia, Posavina, affected with disastrous flood on May 17, 2014.

Croatian Red Cross received the donation worth HRK 1 million as aid to the population of flooded areas, while HEP-ODS donated also HRK 1 million to the Municipalities Gunja, Drenovci and Vrbanja in order to finance recovery work on electrical installations in the flooded areas of these municipalities. Donation to household electricity buyers settled the costs of electricity in the amount of HRK 1.7 million, while additional HEP donation settled the cost of electricity in container settlements, which served to accommodate residents who were damaged in the flood, which amounted to approximately HRK 1 million. HEP also financially helped in landscaping children’s playground in Gunja.

Report profile

9 Report profile

Having in mind responsibility to our stakeholders, HEP group has published extensive annual reports for over a decade. Besides financial data, our annual reports present data on some of our non-financial impacts. This sustainability report presents a large step towards systematic and strategic consideration of economic, social and environmental impacts of all HEP group members. Our first all-encompassing sustainability report comprises data for 2013 and 2014. The report was created according to core option of G4 guidelines by the Global Reporting Initiative.

Impressum

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