



HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Consolidated financial statements

As of 31 December 2013

Together with Independent Auditor's Report

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Responsibility for the Consolidated Financial Statements

The Management Board of the Company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: "the Company") is responsible for ensuring that the consolidated annual financial statements for the year 2013 are prepared in accordance with the Accounting Act (Official gazette No 109/07, 54/13) and the International Financial Reporting Standards effective in the European Union, to give a truthful and objective review of the consolidated financial position, the consolidated results of operations, the consolidated changes in equity and the consolidated cash flows of the Company for that period.

After making enquiries, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has drawn up consolidated financial statements under the assumption that the Company is a going concern.

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

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

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

Signed on behalf of the Management Board:

Tomislav Šerić

President of the Board

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

Independent Auditor's Report

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

1. We have audited the accompanying annual consolidated financial statements of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter "the Company") for the year ended 31 December 2013, which comprise the consolidated Balance Sheet / consolidated Statement of Financial Position as of that date; consolidated Statement of Comprehensive Income; the consolidated Statement of Changes in Equity; the consolidated Cash Flows Statement for the year then ended; and the accompanying Notes to the consolidated Financial Statements which concisely set out the principal accounting policies and other explanations.

Responsibility of the Company's Management for the consolidated financial statements

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

Responsibility of the Auditor

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

An audit includes performing of procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the consolidated Financial Statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the Financial Statements in order to conduct audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company's management, as well as evaluating the overall presentation of the consolidated Financial Statements.

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

Opinion

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

Emphasis of matter

5. As described in the note 28 to the consolidated financial statements, the Company in consolidated Balance Sheet/consolidated Statement of Financial Position at 31 December 2013 has reported a liability in the amount of HRK 668,377 thousand in respect of a clearing debt regarding a payment under a letter of credit on the basis of the consent of the Ministry of finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of finance regarding the clearing debt, up to the issuance of our Independent auditor's report it has not been clearly defined as either is a loan or a government grant.

Opinion on the adjustment to other legal and regulatory requirements

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

Opinion on adjustment to Annual statement

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

In Zagreb, 30 April 2014

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

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

Zdenko Balen, member of the
Management

Marijana Pranjić, member of the
Management

Ines Rožić, certified auditor

Dubravka Tršinar, certified auditor

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

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

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

Consolidated Statement of Comprehensive Income (continued)

For the year ended 31 December 2013

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

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

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

Tomislav Šerić

President of the Board

Ivan Matasić

Member of the Board

Consolidated Balance Sheet/consolidated Statement of Financial Position

As at 31 December 2013

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

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

Consolidated Balance Sheet/consolidated Statement of Financial Position (continued)

As at 31 December 2013

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

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

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

Tomislav Šerić

President of the Board

Ivan Matasić

Member of the Board

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital	Capital reserves	Retained earnings	Equity attributable to the equity holder of the parent	Non- controlling interest	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance at 1 January 2012	19.792.159	(438.957)	5.851	19.359.053	62.847	19.421.900
Effect of restatement	-	-	510.956	510.956	-	510.956
Balance at 1 January 2012 Restated	19.792.159	(438.957)	516.807	19.870.009	62.847	19.932.856
Allocation of retained earnings	-	438.957	(438.957)	-	-	-
Transferred loss of Trgovina	-	-	1	1	-	1
Surpluses and deficit of land	-	-	7.559	7.559	-	7.559
The effect of IFRIC 18	-	-	6.405	6.405	-	6.405
Profit for the current year	-	-	27.101	27.101	8.707	35.808
Translation differences	-	-	(1)	(1)	165	164
Janaf shares fair value	-	6.046	-	6.046	-	6.046
Total comprehensive income of the current year	-	6.046	27.100	33.146	8.872	42.018
Non-controlling interest	-	-	-	-	(11.514)	(11.514)
Distribution of dividend RWE	-	-	-	-	(12.922)	(12.922)
Balance 31 December 2012	19.792.159	6.046	118.915	19.917.120	47.283	19.964.403
Foreign exchange differences of Trgovina	-	-	(271)	(271)	-	(271)
Surpluses and deficit of land	-	-	1.622	1.622	-	1.622
Profit for the current year	-	-	1.295.207	1.295.207	5.948	1.301.155
Translation differences	-	-	-	-	401	401
Janaf shares fair value	-	(3.429)	-	(3.429)	-	(3.429)
Total comprehensive income of the current year	-	(3.429)	1.295.207	1.291.778	6.349	1.298.127
Non-controlling interest	-	-	-	-	(8.707)	(8.707)
Distribution of dividend RWE	-	-	-	-	(12.948)	(12.948)
Balance 31 December 2013	19.792.159	2.617	1.415.473	21.210.249	31.977	21.242.226

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

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

President of the Board

Ivan Matasić

Member of the Board

Consolidated Statement of cash flows

For the year ended 31 December 2013

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

Consolidated Statement of cash flows (continued)

For the year ended 31 December 2013

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

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

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

Tomislav Šerić

President of the Board

Ivan Matasić

Member of the Board

Notes to the consolidated financial statements

For the year ended 31 December 2013

1. GENERAL

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

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

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

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

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

Energy laws

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

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

Generation of electric energy, supply of electric energy, trade with electric energy are performed as market activities as is defined by regulations which regulate energetic activities and trading at energy market.

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

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

1. GENERAL (continued)

Energy laws (continued)

In April 2012, the Government of the Republic of Croatia promulgated a Decision on The Electricity Generation Tariff Model, with the exemption of eligible customers, with no tariff item amounts; The Electricity Transmission Tariff Model, with no tariff item amounts; The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts. The Group has been applying the tariff models since 1 May 2012.

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

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

1. GENERAL (continued)

Governance and management

General assembly

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

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

Supervisory Board

Members of Supervisory Board in 2013

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

Members of Supervisory Board in 2012

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

1. GENERAL (continued)

Management Board in 2013

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

Management Board in 2012

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

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Presentation of the financial statements

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

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

The financial statements have been prepared on the historical cost basis, except for certain long-term property and certain financial instruments that are presented in revalued amounts. The financial statements are presented in thousands of Croatian kuna (HRK '000), since that is the currency in which the majority of the Group's transactions are denominated.

Basis of accounting

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

The Group's financial statements are prepared in thousands of Croatian kuna (HRK'000).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **IFRS 13 „Fair Value Measurement”**, published on May 2011 (effective for annual periods beginning on or after 1 January 2013)
- **Alterations and amendments to IFRS 1 “First –time Adoption of IFRS”** – proclaimed in March 2012, which deal with the state loans count at interest rates lower than market during the traversing to IFRS (effective for annual periods beginning on or after 1 January 2013),
- **Alterations and amendments and to IFRS 7 “Financial Instruments - Disclosures”** – proclaimed in December 2011, by which is prescribed the disclosure of extended information on the set-off of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Alterations and amendment to IAS 1 “Presentation of Financial Statements”** - revising the way of presentation of the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Alterations and amendments to IAS 19 “Employees’ Benefits”** – finishing of the procedure for the count of employees' benefits after the cessation of job (applies to annual periods beginning on or after 1 January 2013)
- **IFRIC 20 ”Stripping costs in the production phase of a surface mine“**(applies to annual periods beginning on or after 1 January 2013),
- **Alterations and amendments of various standards and interpretations under the name “Annual improvements in the period 2009 – 2011”** which were published in May 2012 and which relate to the disclosed alterations and amendments since 2009 till 2011 and primarily have the influence to five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34), with the consequent alterations and amendments and the supplements of various other standards (applied to annual periods beginning on or after 1 January 2013),

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations issued but not yet adopted

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations issued but not yet adopted (continued)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The basis for the preparation of the Group's financial statement

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

Principles and methods of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Reporting currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

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

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

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

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

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

Investments in jointly controlled entities

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

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

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

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement and other employee benefit costs

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

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

	2013 and 2012
Pension insurance contributions	20%
Health insurance contributions *	13%
Employment Fund contribution	1,7%
Occupational injury	0,5%

* the rate is applied since 1 May 2012

The Group companies have the obligation to withhold the pension insurance contributions from the employees' gross salaries.

Contributions on behalf of the employer and the employees are recognised as cost in the period in which they are incurred (see Note 6).

Retirement benefits and jubilee awards

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

Jubilee bonuses

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits and jubilee awards (continued)

Severance payments

A new Collective Agreement was adopted as of 1 April 2013 (which covers all the HEP Group members), under which the employees are entitled to a retirement benefit to the extent of 1/8 of the average gross monthly salary earned in the period of three months prior to the retirement for each completed year of continuous employment at the employer. The effective date of the Collective contract is until 31 March 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, and each change in the estimate is counted on the basis of new expectations and has the effect in the current and the future periods.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

Impairment of tangible and intangible assets

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

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

Intangible assets

Intangible fixed assets include patents, trademarks and licenses and are carried at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over a period from 5 (licences and informatics programs).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

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

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

Finance and operating leases

The Group as lessee

The Group has no significant finance lease arrangements and no significant operating lease arrangements were entered during 2013 and 2012. Amounts payable under operating leases are recognised as expense on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade debtors and prepayments

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

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

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

Ageing of past due	Allowance 2013 and 2012
31-60 days	1.5%
61-90 days	3%
91-180 days	9%
181-365 days	30%
Over one year	90%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

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

Cash and cash equivalents

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

Borrowing costs

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period as finance cost except for differences arising on the retranslation of non-monetary assets available for sale, in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

Current tax

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

Deferred tax

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax for the period

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

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

Financial assets

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

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

Effective interest method

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

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

Financial assets available for sale

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

Provisions

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates in the preparation of the financial statements

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

Revenue recognition

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

Revenue from the sale of electricity is recognised according to the best Management estimate of the actual energy consumed based on the energy data and tariff items under the cost-recovery models called Electricity Transmission Tariff Model With No Tariff Amounts and The Electricity Distribution Tariff Model, with no tariff amounts; and the Electricity Supply Tariff Model, with the exemption of eligible customers, with no tariff amounts till 30 September 2013 and the Methodology for determining of the amounts of tariff items for the supply of electric energy in the frame of universal service since 1 October 2013. The recognition of revenues is based on Decision of the Government of the Republic of Croatia on the level of tariff items from April 2012 and the Decision of HEP Operator distribucijskog sustava d.o.o. on the level of tariff items for the supply of electric energy in the frame of universal service from September 2013. Revenues for the supply of privileged customers are recognized at prices according to Methodology of count of electric energy for privileged buyers in category of entrepreneurs of the HEP Opskrba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from connection fees

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

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

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

Segmental disclosures

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgments in applying accounting policies

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

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

Useful lives of property, plant and equipment

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

Fair value of financial assets and interest-rate swap

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

Provisions for environmental protection

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

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

Over / under billed revenue adjustment

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgments in applying accounting estimates (continued)

Over / under billed revenue adjustment (continued)

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

Impairment of non-current assets

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

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amounts of deferred tax assets at 31 December 2013 amounted to HRK 255,884 thousand and 31 December 2012 amounted to HRK 224,904 thousand (see Note 9).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for jubilee awards and retirement bonuses amounted to HRK 271,527 thousand at 31 December 2013 and HRK 331,147 thousand at 31 December 2012 (see Note 26).

Consequences of certain legal actions

There are a number of legal actions involving the Group, which have arisen from the regular course of their operations. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded (see Note 26).

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Critical judgments in applying accounting estimates (continued)

Re-measurement of the Janaf shares and investment property at fair value

During 2013 and 2012, the Group measured the Jadranski naftovod shares and the investment properties at fair value.

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Correction of value

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

For the following reasons are performed the corrections of the former reporting periods.

The inflow of the corrections to the observed periods is shown, as follows:

Corrections in the financial statements as at 1 January 2012

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Adjustments in financial statements at 31 December 2012

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

4. SEGMENT INFORMATION

The Group generates income from its operations in a single geographical area – the Republic of Croatia.

The Group's reportable segments are separated as follows: electricity (generation, transmission, distribution and sale of electricity), heating (distribution and sale of heating power), and gas (distribution and sale of gas). Each segment's operating profit or loss includes all revenue and expenses directly attributable to the reporting business segments. Information about segment financial income, expense and income tax is not provided on a segment level, as the segments are disclosed based on operating profit.

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

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

Total unallocated assets include investments in NPPK, a part of property, plant and equipment, and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and various other liabilities.

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

4. SEGMENT INFORMATION (continued)

Information on the largest customers

In 2013 electricity sales amount to HRK 11,947,939 thousand (HRK 11,630,275 thousand in 2012).

Heating energy sales for the year 2013 amount to HRK 763,461 thousand (HRK 582,352 thousand in 2012).

In 2013 gas sales amount to HRK 406,167 thousand (HRK 395,956 thousand in 2012).

Territorial business analysis

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

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

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

5. OTHER OPERATING INCOME

	2013 HRK'000	2012 HRK'000 Restated
Service for connection to network	349,864	365,869
Income from assets received free of charge	233,050	233,362
Subsequent collection of receivables previously with the provision made (Note 20)	90,064	119,555
Services rendered	132,106	155,657
Capitalised assets	95,988	99,693
Penalty interest	107,097	77,418
Income from sale of materials	40,812	61,968
Income from sale of cross – border transmission capacity	61,041	43,047
Income from electricity in transit – foreign	40,044	3,497
Income from cancellation of costs for severance pays on the basis of cancellation of working contract	204,712	-
Reversal of long-term provisions – vacation	11,489	432
Reversal of long-term provisions for retirement benefits and jubilee awards	62,666	28,935
Reversal of long-term provisions – court costs	25,259	87,407
Income from reversal of other provisions	28,529	49,634
Income of excises to the invoiced electric energy and gas	16,749	-
Income in respect of the electricity bill reminders	5,493	13,392
Income from balancing energy	-	8,537
Income in respect of court costs on claims	7,022	6,996
Income upon count of fee for SO2 from previous year	232	4,427
Income upon count of fee for CO2 from previous year	229	3,477
Inventory surplus – fixed assets	3,079	77
Income from sale of tangible assets	5,375	2,362
Recovery of receivables previously written-off	6,000	2,155
Other	50,450	39,965
	1,577,350	1,407,862

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

6. STAFF COSTS

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

Total staff costs:

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

Directors' and executives' remuneration:

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

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

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

7. OTHER OPERATING EXPENSES

	2013 HRK'000	2012 HRK'000 Restated
Maintenance costs (service and material)	(550,142)	(580,204)
Value provision of trade receivables (Note 20)	(277,866)	(250,972)
Gas costs	(361,296)	(361,070)
General and administrative expenses	(259,342)	(331,541)
Collective services and material	(106,409)	(165,386)
Cost of materials	(83,888)	(87,508)
Compensation for less taken -over quantities of gas than the contracted	(144,859)	(20,296)
Purchase of emission units of CO2	(98,661)	-
Excises for electric energy and gas	(16,841)	-
Value adjustment of inventories	(48,347)	(904)
Compensations of costs of employees (Note 6)	(128,388)	(146,309)
Other material employees' rights (Note 6)	(518,370)	(83,691)
NPPK – decommissioning expenses according to government decision	(107,937)	(106,835)
Contributions, taxes and fees to the state	(87,121)	(87,396)
Litigation provisions	(196,837)	(40,079)
Contributions and concession for water	(71,310)	(64,961)
Provision for unused vacation days	(552)	(1,359)
Fee for the usage of power plant facilities	(76,043)	(37,401)
Compensation for water-purification and drainage	(16,301)	(15,503)
Write-off of long-term tangible assets	(32,150)	(14,328)
Purchase value of sold materials	(29,870)	(50,045)
Calculation and collection costs	(36,973)	(39,743)
Provisions for retirement bonuses and jubilee awards	(3,065)	(2,450)
Provisions for severance pays on the basis of working contract cancellation	(133,092)	(249,174)
Provisions for other costs to workers	-	(28,087)
Insurance premiums	(23,943)	(24,418)
Fee for environmental protection	(4,591)	(18,210)
Damages and indemnifications	(19,556)	(49,632)
Written-off unsued receivables	(13,691)	(7,242)
Provision for decomission of thermo-electric power plants	(8,427)	(4,297)
Other	(42,613)	(47,079)
	(3,498,481)	(2,916,120)

8. FINANCIAL REVENUE AND COSTS

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

9. INCOME TAX

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

Adjustment of deferred tax assets is as follows:

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

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

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

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

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

9. INCOME TAX(continued)

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

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

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

As of 31 December 2013 and 2012 the Group did not recognise deferred tax assets arising from tax losses carried forward at certain subsidiaries because the availability of future taxable profit against which the unused tax losses can be utilized is not certain.

9. INCOME TAX(continued)

The Croatian Tax Authorities have not performed a review of the income tax returns of the Group and its subsidiaries, except the shortened monitoring in 2013. In accordance with local regulations, the Tax Authority may at any time inspect the books and records of any Group company within 3 years following the year in which the tax liability is reported and may impose additional tax assessments and penalties. The Group Management is not aware of any circumstances that may give rise to a potential material liability in this respect.

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

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

10. PROPERTY, PLANT AND EQUIPMENT

HRK'000	Land and buildings	Furniture and equipment	Assets under construction	Total
COST				
At 1 January 2012	34,894,667	34,269,521	3,092,220	72,256,408
Restated 1 January 2012	556,111	427,058	-	983,169
At 1 January 2012, restated	35,450,778	34,696,579	3,092,220	73,239,577
Transfers	(14,864)	14,085	954	175
Additions	14,065	165,473	2,401,000	2,580,538
Capitalized interest	-	-	17,717	17,717
Transfers from assets under construction	435,837	1,121,448	(1,595,798)	(38,513)
Inventory surpluses	10,422	5,092	-	15,514
Disposals	(48,827)	(269,809)	(1,091)	(319,727)
At 31 December 2012	35,847,411	35,732,868	3,915,002	75,495,281
Transfers	14,917	(16,194)	-	(1,277)
Additions	15,030	115,911	2,028,152	2,159,093
Capitalized interest	-	-	4,333	4,333
Legal cases' provisions	-	-	4,642	4,642
Transfers from assets under construction	539,876	1,314,060	(1,872,068)	(18,132)
Inventory surpluses	3,916	4,322	-	8,238
Disposals	(46,501)	(235,843)	(17,248)	(299,592)
At 31 December 2013	36,374,649	36,915,124	4,062,813	77,352,586
ACCUMULATED DEPRECIATION				
At 1 January 2012	22,425,127	22,348,449	-	44,773,576
Restated 1 January 2012	25,025	19,218	-	44,243
At 1 January 2012, restated	22,450,152	22,367,667	-	44,817,819
Transfers	(14,101)	12,855	-	(1,246)
Charge for the year	721,503	1,034,554	-	1,756,057
Removal from books by sale	(44,990)	(258,099)	-	(303,089)
Inventory surpluses	1,611	5,014	-	6,625
At 31 December 2012	23,114,175	23,161,991	-	46,276,166
Transfers	5,116	(5,408)	-	(292)
Charge for the year	720,421	1,053,833	-	1,774,254
Removal from books by sale	(43,718)	(224,586)	-	(268,304)
Inventory surpluses	745	2,591	-	3,336
At 31 December 2013	23,796,739	23,988,421	-	47,785,160
CARRYING AMOUNT				
At 31 December 2013	12,577,910	12,926,703	4,062,813	29,567,426
At 31 December 2012, restated	12,733,236	12,570,877	3,915,002	29,219,115
At 1 January 2012, restated	13,000,626	12,328,912	3,092,220	28,421,758

10. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

11. INTANGIBLE ASSETS

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

12. INVESTMENT PROPERTIES

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

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

13. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

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

14. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO

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

Investment background

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

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

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

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

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

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

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

Current status

According to the above stated Agreement, the decommissioning of NPPK will be a joint obligation of both parties. Each party will provide half of the funds necessary to prepare the decommissioning plan and to cover the cost of implementation of the plan. In addition, each party will form a separate fund to allocate the funds for this purpose in the amounts estimated by the decommissioning plans. According to the current Programme for the decommissioning of the Nuclear Power Plant Krško and disposal of nuclear waste, HEP d.d. is obliged to pay in the fund EUR 14,250 thousand per year. From 2004 to 2013, the Company disclosed radioactive waste disposal and decommissioning provisions in the amount of HRK 1,050,933 thousand, which is also the amount it paid onto the Fund's account in the period from 2006 to 2013.

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

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

Extracted financial information

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

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

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

15. INVESTMENT IN TPP PLOMIN

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

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

In accordance with the Joint Venture Agreement, RWE contributed an equal amount of cash over the period of construction. The initial cash contribution of HRK 50 thousand was allocated as share capital and the remainder to reserves. The RWE capital contributed is distributed back to RWE over the term of the joint venture of 15 years, starting from the date of operation of the power plant at 30 April 2000.

In 2013 the distribution of RWE invested equity amounted to HRK 12,948 thousand (2012: HRK 12,922 thousand). The remaining undistributed RWE invested capital amounted to HRK 25,979 thousand at 31 December 2013 (2012: HRK 38,526 thousand).

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

During the period of construction, the accrued cumulative interest on the RWE capital amounted to HRK 54,717 thousand (EUR 7,536 thousand) and is payable on a straight-line basis during the period of exploitation. At 31 December 2013, accrued undistributed interest amounted to HRK 5,116 thousand (2012: HRK 8,846 thousand).

The RWE annual return on invested capital, effectively a preferred dividend, is paid out from net profit of Plomin. The rate for 2013 and 2012 is 17%. In 2013, dividends for 2012 are not paid according to the decision of the Company, but is stated in the figure of short-term liabilities and amounts to HRK 8,707 thousand (note 32); in 2012 is paid- off the amount of HRK 11,514 thousand which relates to the net income for 2011.

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

The joint venture partners entered into a number of agreements necessary for power plant operations, including: operation and maintenance agreements, a joint use and supply agreement and a power purchase agreement ('PPA').

The PPA agreement regulates the sale of electric energy to the Group by Plomin d.o.o. HEP d.d. is obliged to purchase all energy produced by TE Plomin d.o.o. at prices calculated in accordance with specified formulas in the PPA, which are designed to cover all costs of operations of Plomin, and ensure the guaranteed return on capital to RWE.

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

15. INVESTMENT IN TPP PLOMIN (continued)

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

16. LONG-TERM LOAN RECEIVABLES AND DEPOSITS

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

Loans given to third parties are as follows:

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

17. INVESTMENTS AVAILABLE FOR SALE AND OTHER INVESTMENTS

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

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

Changes in investments available for sale are presented below:

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

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

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

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

In 2013 and 2012 fair value was determined by notification of the Central clearing deposit company as of 31 December. The market value of Jadranski naftovod shares as of 31 December 2013 is HRK 2,290 and 2012 HRK 2,370. The fair valuation of the investment in Jadranski naftovod as of 31 December 2013 has decreased the investment value by HRK 4,318 thousand (2012: increased by 7,558 thousand). The fair valuation in 2013 and 2012 was performed through reserves.

On 1 June 2010 HEP d.d. and Plinacro d.o.o. concluded the Articles of Incorporation of LNG Hrvatska d.o.o., a liquefied natural gas company. In 2011 is increased basic capital from HRK 20 thousand to HRK 220 thousand, and in 2012 to HRK 1,730 thousand, so the HEP is the owner of a portion in the amount of 50%, and the Plinacro d.o.o. is the owner of the other part of the portion. The Company is additionally capitalized by Plinacro d.o.o. in the amount of HRK 22,600 thousand as is recorded at Trade court dated 4 February 2013. The basic capital of the Company LNG Hrvatska d.o.o. amounts to HRK 24,330 thousand.

18. OTHER NON-CURRENT ASSETS

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

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

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

Repayment of interest is done along with the repayment of invested funds from RWE Power and it started after the electric power plant was finished. In 2013 the total amount repaid was EUR 502 thousand equivalent to HRK 3,817 thousand (in 2012 EUR 502 thousand, equivalent to HRK 3,809 thousand).

As at 31 December 2013 deferred expense for the interest amounted to EUR 670 thousand equivalent to HRK 5,116 thousand (2012: EUR 1,173 thousand, equivalent to HRK 8,846 thousand). The related exchange differences are included in the financial revenue or financial cost for the year in which they arise.

19. INVENTORIES

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

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

20. TRADE RECEIVABLES

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

20. TRADE RECEIVABLES (continued)

Ageing analysis of receivables not impaired is as follows:

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

Movements in impairment allowance were as follows:

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

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

21. OTHER SHORT-TERM RECEIVABLES

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

The Company in August 2013 has concluded the contract on short-term loan with legal entity with public authorities in the amount of HRK 90,000 thousand for a period of one year with an interest rate at the level of the discount rate of the HNB.

Correction of income from households as at 31 December 2013 was obtained by the count of logarithmic curve using the losses in the network of 8.68% in the amount of HRK 58,207 thousand, while for the year which ended 31 December 2012 the stated percentage of losses, used in the count has amounted 8.85%. The result is the increase of income in the amount of HRK 77,632 thousand in relation to previous year. Cancelled is the liability for the accounted income in the amount of HRK 19,425 thousand and is recorded the receivables in the amount of HRK 58,207 thousand (Note 32).

22. CASH AND CASH EQUIVALENTS

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

23. CAPITAL AND RESERVES

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

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

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

Capital reserves

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

Retained earnings

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

24. LONG-TERM BORROWINGS

	Interest rates	31 December 2013 HRK'000	31 December 2012 HRK'000 Restated	1 January 2012 HRK'000 Restated
Domestic bank borrowings	EURIBOR+ (1.00%- 5.35%)	1,853,007	1,961,548	1,681,140
Foreign bank borrowings	Fixed 2.71%	23,588	25,585	2,042,011
Financial lease	Fixed 5.6%	25,898	-	-
Loan from RWE		1,279	5,055	8,828
Total		1,903,772	1,992,188	3,731,979
Deferred loan origination fees		(5,841)	(20,474)	(22,777)
Total long-term borrowings		1,897,931	1,971,714	3,709,202
Current portion		(208,838)	(132,084)	(1,174,713)
Current portion of financial lease (Note 32.)		(2,675)		
Long-term portion		1,686,418	1,839,630	2,534,489

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

New sources of funds

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

Loans in use

During 2013 is further utilized the long-term loan approved by KfW Entwicklungsbank in the amount of EUR 50 million for the financing of the projects of subsidiaries HEP ESCO d.o.o and HEP Obnovljivi izvori energije d.o.o. By signing the ammendment 1 of the Loan agreement, in November 2013 are finalized the negotiations with the KfW Bank on the new assignment and reallocation of loan assets for new projects and to new companies of the HEP Group. A time-limit is extended from 31 December 2013 to 31 December 2017. The loan balance of KfW Bank as at 31 December 2013 amounts to EUR 3.1 million and the unutilized loan part amounts to EUR 46.9 million.

24. LONG-TERM BORROWINGS (continued)

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

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

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

As at 31 December 2013 all the covenants were met.

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

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

25. LONG-TERM LIABILITIES TO THE GOVERNMENT

The long-term debt to the Government in the amount of HRK 24,451 thousand in 2013 (2012: HRK 27,544 thousand) relates to the obligation arising on the sale of housing units to employees under the Government program, which was discontinued in 1996. According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected. According to the law, HEP d.d. has no liability to remit the funds, unless and until they are collected from the employee.

26. LONG-TERM PROVISIONS

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

The thermal power plant decommissioning provision in the amount of HRK 112,769 thousand represents a discounted value of the estimated decommissioning costs of the Group's thermal power plants.

Movements in the present value of defined benefit obligations in the current period were as follows:

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

26. LONG-TERM PROVISIONS (continued)

Provision for court disputes

The Group makes the provision for legal actions where it is assessed the unlikely outcome in favour of HEP d.d. Total amount of provision in 2013 amounts HRK 375,870 thousand (in 2012: HRK 204,292 thousand).

The most important court cases are provided against the HEP Proizvodnja d.o.o. and HEP d.d. HEP Proizvodnja d.o.o. conducts a dispute with Zagrebački Holding which provision in 2013 amounts to HRK 84,821 thousand and relates to the compensation for the waste water treatment plant.

The most important provision relates to the court case related to HEP Peruća which was started in 1995, for which was in 2012 brought the first instance decision in favour of the accuser. In regard to the complexity of the valuation and the estimation of proofs by side of the court, as well as high value of the procedure amounting to HRK 330,000 thousand and for possible partial success of the accuser, the assets are provided at the level of 50% of the value of dispute amounting to 165,000 thousand.

Retirement bonuses and jubilee awards

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

	Retirement benefits HRK'000	Jubilee awards HRK'000	Total u tisućama kuna
At 1 January 2013	285,739	45,408	331,147
Cost of current work	8,408	2,024	10,432
Interest expenses	11,451	1,925	13,376
Salaries paid	(11,644)	(6,466)	(18,110)
Benefits paid	-	-	-
Actuarial gains/(losses)	(62,043)	(3,275)	(65,318)
At 31 December 2013	231,911	39,616	271,527

The following assumptions were used in preparing the calculations:

- the termination rate is from 0% to 7.63% percent and is based on the statistical fluctuation rates for the Group in the period from 2006 to 2013.
- the probability of death by age and sex is based on Croatian Mortality Tables 2000 published by the Croatian Statistical Bureau. It is assumed that the population of employees of the Company represents average with respect to mortality and health status.
- we assumed the annual salary will not increase in 2014.
- the present value of the obligation was determined using a 5.4% discount rate for all the companies within the Group.

27. ISSUED BONDS

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

Bonds issued in the Republic of Croatia

Bonds in the amount of HRK 500,000 thousand, issued in 2006, are due in November 2013, totally are paid by one shot. Bonds in the amount of HRK 700,000, issued at the end of 2007, are repayable in 15 semi-annual installments, commencing three years from the date of issue, and bear interest at a fixed rate of 6.50 percent. The HEP d.d. bonds are listed on the Zagreb Stock Exchange.

Bonds issued abroad

In November 2012, the Company has issued bonds in the amount of USD 500,000 thousand at international capital market. Bonds have maturity of 5 years, in full mature in November 2017 and carry fixed interest of 6%. Bonds of HEP d.d. are inserted at the market of the Luxembourg stock-exchange and they are actively traded.

For the purpose of protection of currency risk, in the same time is concluded the contract on currency exchange (swap).

27. ISSUED BONDS (continued)

Currency swap

For the purpose of currency risk protection, i.e. change in movement of the dollar value, the Group has concluded the contract on currency swap, by which the dollar liability upon issued bonds abroad is transformed in euro and this for all period of bond duration, respectively till its outermost maturity date at 9 November 2017. According to contract, a six month interest rate which is paid by the Group is fixed and amounts 6.53%, while the interest rate which the Group demands as creditor from contractual parties according to swap is equal to fixed rate at which bonds are issued and amounts 6.00%.

On the basis of count of the financial institutions, the Group records movements of market value of the respective financial derivative at each date of the reporting period.

The Company connects the fair value of the currency swap to the calculation Mark-to-market ("MTM") value. The fair value of the currency swap as at 31 December 2013 in the amount of HRK 391,808 thousand is recorded as financial expense (Note 8.).

28. OTHER NON-CURRENT LIABILITIES

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

Deferred revenue is related to fixed assets contributed by customers and others without charge. The revenue is recognized into income over the same periods as the related assets are amortized, which applies to contracts for connection to the network concluded by 30 June 2009. After 1 July 2009 the connection fee is recognized as income in the amount of funds received from the customer in the period when the customer is connected to the grid or when permanent access to the delivery of the service is given.

At 31 December 2013 the Group reported a liability in the amount of HRK 668,377 thousand in respect of a clearing debt (2012: HRK 689,792 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of finance regarding the clearing debt, it has not been clearly defined as either a loan or a government grant.

29. SHORT-TERM BORROWINGS

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

Till July 2013 the Group has repaid all the existing short-term loans. However, for the purpose of providing for the solvency reserves in the following medium-term period, The Group during the year has concluded with domestic banks multi-purpose general contracts in total amount of HRK 1.0 billion.

The sources from the stated general contracts the Group may use for short-term loans, as well as the issuance of guarantees, letters of credit, letters of intention according to necessities of the Group's companies.

From previously mentioned medium-term multi-purpose lines, the Group has concluded short-term loans in the amount of HRK 295 million for current assets.

During the year is extended the general contract on supplier's factoring in the amount of EUR 50 million. Separate contracts from this general contract are extended for a further one year, thus the original time-limits for the return of liabilities toward suppliers have crossed over a period of one year, and the terms are acquired for the reclassification of the stated liabilities.

As at 31 December 2013 the Group has on its disposal the amount of HRK 629 million from short-term sources of financing.

30. LIABILITIES FOR TAXES AND CONTRIBUTIONS

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

31. LIABILITIES TO EMPLOYEES

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

32. ACCOUNTS PAYABLE AND OTHER PAYABLES

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

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

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

33. RELATED PARTY TRANSACTIONS

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

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

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

	31. December 2013 HRK'000	31. December 2012 HRK'000
NE Krško d.o.o.		
Liabilities for purchased electricity	63,373	61,119
Cost of purchased electricity	727,855	707,758

33. RELATED PARTY TRANSACTIONS (continued)

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

33. RELATED PARTY TRANSACTIONS (continued)

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

34. CONTINGENT LIABILITIES AND COMMITMENTS

In 2012, the Group established a provision for legal actions estimated to be ruled against HEP d.d.

The Group has long-term financial investments in the territory of Bosnia and Herzegovina, and Serbia, which in 1994 had a historical cost of HRK 1,243,970 thousand. At the time of the transformation of the Group into a joint stock company in 1994, this amount was excluded from the net asset value.

Operating commitments

As at 31 December 2013, as part of its investing activities, the Group has concluded contracts under which the construction of a number of significant facilities and other investments has commenced but has not been completed. In 2013 the value of unrealised contracts for the most significant projects amounts to approximately HRK thousand 1,300,391 thousand (2012: HRK 1,690,780 thousand).

Environmental matters

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

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

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

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

By the decision of the Management of HEP is maintained the greenhouse gas emission unit trade system in which are stated the liabilities and the time-limits of implementation of sector liabilities and the companies included in the HEP trading system. The agency for environmental protection has opened on the basis of the request of HEP, nine Accounts of plant operator into the register of the EU. The HEP accordingly to the emissions of CO₂ from thermo-energetic plants during 2013 has bought the emission units with a goal of fulfilment of obligations which arise from legal regulations.

34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

In 2013 is continued with the maintenance of informative system of environmental protection in HEP Group with a goal of combining data related to nature protection and environment.

Separation of the company HEP Operator prijenosnog sustava d.o.o. from the Group (Hrvatski operator prijenosnog sustava d.o.o.)

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

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

Assembly of Hrvatska elektroprivreda d.d. at 9 April 2013 has brought a decision on separation of the transmission system operators according to independent transmission operator model (ITO-Independent transmission Operator).

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

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

Supply at wholesale market of gas

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

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

35. SUBSIDIARIES

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

Subsidiary	Country	Interest in (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Thermal power generation and distribution
HEP-Trgovina d.o.o.	Croatia	100	Electrical energy trading
HEP-Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	50	Electricity generation
APO d.o.o., usluge zaštite okoliša	Croatia	100	Environmental protection services and radio active waste management
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure in area around Plomin
CS Buško Blato d.o.o.	BiH	100	Maintenance of hydro power plants
HEP-Odmor i rekreacija d.o.o.	Croatia	100	Accommodation and recreation services
HEP-NOC Velika	Croatia	100	Accommodation and training
HEP-Obnovljivi izvori energije d.o.o.	Croatia	100	Electricity generation
Program Sava d.o.o. za usluge	Croatia	100	Area arrangement, design, building and monitoring
HEP-Trgovina d.o.o. Brežice	Slovenija	100	Electrical energy trading
HEP- Magyarország Energia KFT	Mađarska	100	Electrical energy trading
HEP-Trade d.o.o., Mostar	BiH	100	Electrical energy trading
HEP-Trade d.o.o., Beograd	R Srbija	100	Electrical energy trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunication works

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

HEP-RVNP d.o.o. has changed its name in 2014 into Program Sava d.o.o..

36. FINANCIAL INSTRUMENTS

Capital risk management

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

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

Gearing ratio

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

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

Significant accounting policies

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

Categories of financial instruments

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

36. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives

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

Market risk

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

Foreign currency risk management

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

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

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

36. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis

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

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

36. FINANCIAL INSTRUMENTS (continued)

Interest rate risk management

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2013 would decrease/increase by HRK 12,349 thousand (2012: HRK 11,807 thousand), based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings, which accounted for 41.63% (2012: 37%); and
- The Group's sensitivity to interest rates has decreased during the current period mainly due to the reduction in variable rate of debt instruments.

Credit risk management

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

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

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

36. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

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

Liquidity and interest rate risk tables

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

Maturity of non-derivative financial assets

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
		HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2013							
Non-interest bearing		914,345	787,697	206,655	409,260	2,224	2,320,181
Variable interest rate instruments	7.00%	535	1,018	92,331	-	-	93,884
Total		914,880	788,715	298,986	409,260	2,224	2,414,065
2012							
Non-interest bearing		1,582,046	662,390	448,507	65,559	2,156	2,760,658
Variable interest rate instruments	5.00%	23	46	66	-	-	135
Total		1,582,069	662,436	448,573	65,559	2,156	2,760,793

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

36. FINANCIAL INSTRUMENTS (continued)

Liquidity and interest rate risk tables (continued)

Maturity of non-derivative financial liabilities

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
	%	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
2013							
Non-interest bearing		1,481,347	628,489	28,808	1,075,760	5,704	3,220,108
Variable interest rate instruments	3.17%	14,585	49,118	824,881	1,656,115	78,835	2,623,534
Fixed interest rate instruments	6.46%	473	45,774	315,464	3,921,980	25,510	4,309,201
Total		1,496,405	723,381	1,169,153	6,653,855	110,049	10,152,843
2012							
Non-interest bearing	-	1,337,387	881,754	470,775	707,064	536	3,397,516
Variable interest rate instruments	4.37%	14,532	52,140	543,036	1,792,940	387,757	2,790,405
Fixed interest rate instruments	5.60%	-	-	824,881	5,004,943	15,926	5,845,750
Total		1,351,919	933,894	1,838,692	7,504,947	404,219	12,033,671

The Group has access to financing facilities, the total unused amount of which is HRK 987,571 thousand at the reporting date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

36. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- fair value of derivative instruments is calculated using the listed price. Where such prices are not available, the analysis uses discounted cash flows using the current yield curve for the period of the instruments under optional derivatives, while the optional derivative used models for pricing options. Forward currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates for contracts with similar maturity. Interest rate swaps are valued at the present value of estimated future cash flows and discounted based on the current yield curve derived from quoted interest rates.

Fair value measurements recognized in the statement of financial position

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

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

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

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

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

Signed on behalf of the Group on 30 April 2014:

Tomislav Šerić

President of the Board

Ivan Matasić

Member of the Board