



**HRVATSKA ELEKTROPRIVREDA d.d., ZAGREB**

Unconsolidated annual financial statements  
together with Independent Auditor's Report  
for the year 2015

## Contents

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	Page
Responsibility for the financial statements	1
Independent Auditor's Report	2-4
Statement of comprehensive income	5-6
Balance sheet / Statement of financial position	7-8
Statement of changes in equity	9
Statement of cash flows	10-11
Notes to the financial statements	12-97

## Responsibility for the Financial Statements

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

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

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

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

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

Signed for and on behalf of the Management Board

Perica Jukić

President of the Management Board

Hrvatska elektroprivreda d.d.

Ulica grada Vukovara 37

10000 Zagreb

Republic of Croatia

29 April 2016

Tomislav Rosandić

Member of the Management Board

HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

## **INDEPENDENT AUDITOR'S REPORT**

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

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

### **Management's responsibility**

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

### **Auditor's responsibility**

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

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

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

## Opinion

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

## Emphasis of matter

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

6. As described in the Note 25 to the financial statements, at 31 December 2015, the Company stated clearing debt liability in the amount of HRK 842,162 thousand (31 December 2014: HRK 759,089 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance for the use of funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the Company and the Ministry of Finance regarding the clearing debt, until the issuance of our Independent Auditor's Report it has not been clearly defined whether it relates to a loan or a government grant.

7. As described in the Note 26 to the financial statements, provisions of the Water Management Act that came into force on 1 January 2010, raised a question on the ownership and legal status of the Company's property - reservoirs and ancillary facilities (canals, dams, etc.) used for generation of electricity from hydropower plants. Pursuant to the Water Act those property is defined as "Public water resources in general use as the property in ownership of the Republic of Croatia". The Republic of Croatia initiated several proceedings for registration of title to those properties, part of which were ruled in favour of the Republic of Croatia, part of them were rejected by the relevant courts, and part of them are in still in progress. The Company has filed a motion to the Constitutional Court for review of the constitutionality of Article 23 Paragraph 4 of the Water Act and for the cancelation of the same.

8. The Company's accompanying financial statements are prepared in accordance with International Financial Reporting Standards as adopted by EU and the requirements of Croatian laws and regulations, and the Company's investments in subsidiaries and associates are stated at cost. The Company has also prepared consolidated financial statements for the Company and its subsidiaries compiled on 29 April 2016. For a better understanding of the Company and the Group as a whole, users should read the consolidated financial statements together with these financial statements

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

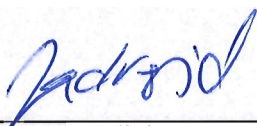
9. The Management Board is responsible for the preparation of the annual financial statements for the year ended 31 December 2015 in the prescribed form based on the Statute of structure and content of the annual financial statements (Official Gazette 38/08, 12/09, 130/10) and in accordance with other regulations governing the Company's operations ("Standard annual financial statements"). Financial information presented in the Company's standard annual financial statements are in accordance with the information presented in the Company's annual financial statements presented on pages 5 to 97 on which we have expressed our opinion as presented in the paragraph Opinion above.

**Opinion on compliance with the Annual Report**

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

In Zagreb, 29 April 2016

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



Irena Jadrešić, certified auditor



BDO Croatia d.o.o.  
za pružanje revizorskih, konzalting  
i računovodstvenih usluga  
Zagreb, J.F. Kennedy 6/b



Zdenko Balen, Management Board member



Statement of comprehensive income – HEP d.d.  
For the year ended 31 December 2015

	Note	2015 HRK '000	2014 HRK '000 <b>Restated</b>
Revenue from electricity sales	4	5,420,126	7,236,373
Revenue from electricity sales-related companies	30	67,812	151,366
Revenue from sale of gas	4	1,298,352	689,575
Revenue from sale of gas to HEP- Plin – related company	4,30	167,124	94,542
Operating income – related companies	30	939,645	952,705
<b>Income from sale</b>		<b>7,893,059</b>	<b>9,124,561</b>
Other operating income	4	499,648	161,352
<b>Total operating income</b>		<b>8,392,707</b>	<b>9,285,913</b>
Electricity purchase cost		(2,108,770)	(1,451,604)
Electricity supplies – related companies	30	(464,428)	(598,714)
Costs of gas sold	31	(1,352,038)	(717,721)
Staff cost	5	(89,101)	(87,498)
Depreciation and amortization costs	9,10	(96,558)	(118,816)
Costs of allowances for the generation, transmission and distribution of electricity - related companies	30	(2,526,392)	(4,948,470)
Other operating expenses	6	(477,429)	(457,055)
<b>Total operating expenses</b>		<b>(7,114,716)</b>	<b>(8,379,878)</b>
<b>Operating profit</b>		<b>1,277,991</b>	<b>906,035</b>
Financial income		1,124,158	2,145,449
Financial expenses		(601,129)	(1,632,876)
<b>Net profit from financial activities</b>	7	<b>523,029</b>	<b>512,573</b>
<b>Profit before taxation</b>		<b>1,801,020</b>	<b>1,418,608</b>
Corporate income tax expense	8	(176,681)	(209,556)
<b>Profit for the year</b>		<b>1,624,339</b>	<b>1,209,052</b>

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

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

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

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board



Tomislav Rosandić

Member of the Management Board




HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37



Balance sheet / statement of financial position – HEP d.d.  
As at 31 December 2015

ASSETS	Note	31 December	31 December	1 January
		2015	2014	2014
		HRK '000	HRK '000	HRK '000
			Restated	Restated
Non-current assets				
Property, plant and equipment	9, 13	1,410,174	2,079,105	2,020,750
Assets under construction	9	447,646	328,465	399,818
Intangible assets	10	22,244	16,435	13,397
Investment property	11	14,487	13,889	8,533
Prepayments for property, plant and equipment	12	21,454	4,287	6,418
Investment in NE Krško	13	1,754,419	1,754,419	1,754,419
Investment and receivables from TE Plomin	14	252,201	254,278	256,404
Investment in subsidiaries	32	6,032,580	5,325,094	4,026,353
Available-for-sale and other investments	15	245,838	192,223	125,166
Long-term loans and deposits	16	28,476	4,404	6,031
Receivables on long-term leases from related parties	30	13,239,929	14,501,373	14,457,420
Receivables on long-term loans from related parties	16, 30	79,129	94,929	110,729
Receivables on sub-leases from related parties	17	897,024	1,044,070	1,160,963
Other receivables	17	776	854	979
Derivative financial instruments	24	70,900	1,473	
Deferred tax assets	8	31,431	19,679	104,766
Total non-current assets		24,548,708	25,634,977	24,452,146
Current assets				
Inventories	18	753,624	673,279	89,980
Trade receivables	19	309,963	350,406	44,457
Current maturity of long-term receivables from related companies for rental	30	1,057,217	1,086,428	1,080,257
Current maturity of long-term rentals from related parties	16,17	148,223	154,219	125,355
Other short-term receivables	20	131,966	36,485	313,957
Receivables from related companies	30	6,180,063	4,074,125	5,457,238
Cash and cash equivalents	21	1,951,873	730,658	83,101
Total current assets		10,532,929	7,105,600	7,194,345
TOTAL ASSETS		35,081,637	32,740,577	31,646,491

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

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
		HRK '000	HRK '000	HRK '000
			<b>Restated</b>	<b>Restated</b>
Share capital	22	19,792,159	19,792,159	19,792,159
Revaluation reserves	22	100,836	54,947	2,617
Retained earnings	22	4,932,491	3,328,974	2,404,841
<b>Total equity</b>		<b>24,825,486</b>	<b>23,176,080</b>	<b>22,199,617</b>
Liabilities under issued bonds	24	4,223,883	3,194,986	3,278,893
Long-term loan liabilities	23	923,161	1,242,508	1,661,916
Other long-term liabilities	25	939,287	764,855	1,066,862
Long-term liabilities to related companies	30	-	5,758	5,758
Long-term provisions	26	211,589	222,871	217,729
Deferred tax liabilities	8	21,816	13,573	654
<b>Total non-current liabilities</b>		<b>6,319,736</b>	<b>5,444,551</b>	<b>6,231,812</b>
Trade payables	29	681,827	561,814	358,023
Current portion of long-term bonds issued	24	93,380	93,380	93,380
Current portion of long-term loans	23	383,525	416,349	208,838
Short-term loans	27	-	-	664,609
Taxes and contributions		114,512	91,813	224,296
Interests payable		45,692	38,247	41,110
Liabilities toward related companies	30	2,578,573	2,658,833	1,507,607
Liabilities to employees	28	21,061	6,248	6,009
Other short-term liabilities	29	17,845	253,262	111,190
<b>Total current liabilities</b>		<b>3,936,415</b>	<b>4,119,946</b>	<b>3,215,062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>35,081,637</b>	<b>32,740,577</b>	<b>31,646,491</b>

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

Signed on behalf of the Company on 29 April 2016:

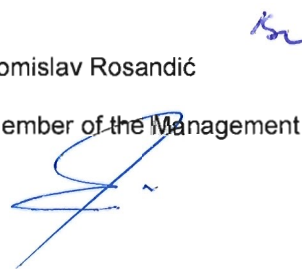
Perica Jukić

President of the Management Board



Tomislav Rosandić

Member of the Management Board



HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

Statement of changes in equity  
For the year ended 31 December 2015

	Share capital HRK '000	Revaluation reserves HRK '000	Retained earnings HRK '000	Total HRK '000
<b>Balance as at 1 January 2014, Restated</b>	<b>19,792,159</b>	<b>2,617</b>	<b>2,404,841</b>	<b>22,199,617</b>
Profit for the year	-	-	1,209,052	1,209,052
Other comprehensive income	-	52,330	-	52,330
<i>Total comprehensive income</i>	-	52,330	1,209,052	1,261,382
Payment of retained earnings	-	-	(284,919)	(284,919)
<b>Balance as at 31 December 2014, Restated</b>	<b>19,792,159</b>	<b>54,947</b>	<b>3,328,974</b>	<b>23,176,080</b>
Profit for the year	-	-	1,624,339	1,624,339
Other comprehensive income	-	45,889	-	45,889
<i>Total comprehensive income</i>	-	45,889	1,624,339	1,670,228
Effect of the merger	-	-	(20,822)	(20,822)
<b>Balance as at 31 December 2015</b>	<b>19,792,159</b>	<b>100,836</b>	<b>4,932,491</b>	<b>24,825,486</b>

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

**Statement of cash flows – HEP d.d.**  
For the year ended 31 December 2015

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000 <b>Restated</b>
<b>Cash flows from operating activities</b>		
Profit for the year	1,624,339	1,209,052
Corporate income tax expense recognized in profit	176,681	209,556
Net profit from financial activities	(523,029)	(512,573)
Depreciation of property, plant and equipment and intangible asset	96,558	118,816
(Decrease)/Increase in provisions	(11,282)	11,467
(Fair value of swap	(12,449)	393,281
Fair value of property investment	(598)	(5,356)
Fair value of shares in Toplinarstvo (heating)	-	(1,125,369)
Impairment of receivables	738	6,217
<i>Operating cash flows before movements in working capital</i>	<i>1,350,958</i>	<i>305,091</i>
Decrease/(Increase) in trade receivables	39,705	(312,166)
(Increase)/Decrease of receivables from related companies	(1,254,160)	707,272
(Increase) in inventories	(80,345)	(583,299)
(Increase)/Decrease in other current assets	(95,481)	226,764
Increase in trade payables	120,013	203,792
Increase/(Decrease) in other liabilities	(3,746)	(348,698)
(Decrease)/Increase of liabilities to subsidiaries	(86,018)	1,151,226
<b>Cash (used in)/generated from operations</b>	<b>(9,074)</b>	<b>1,349,982</b>
Corporate income tax paid	(341,799)	(105,455)
Interest paid	(281,842)	(396,036)
<b>NET CASH (USED IN) / FROM OPERATING ACTIVITIES</b>	<b>(632,715)</b>	<b>848,491</b>
<b>INVESTING ACTIVITIES</b>		
Interest receipts	196,620	213,746
Dividends from related companies	628,703	900,427
Sale of tangible assets to related companies	199,403	15,211

**Statement of cash flows – HEP d.d. (continued)**  
For the year ended 31 December 2015

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		<b>Restated</b>
Acquisition of property, plant and equipment	(211,672)	(114,486)
Cost of acquisition of other non-current assets	(21,917)	27,293
Collection of loan receivables from related companies	607,719	53,706
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>1,398,856</b>	<b>1,095,897</b>
<b>FINANCING ACTIVITIES</b>		
Payment of profit	-	(284,918)
Repayments of bonds issued	(2,900,335)	(93,380)
Receipts from bonds issued	3,703,533	-
Long-term loans received	66,722	58
Repayments of long-term loans	(414,846)	(253,983)
Repayments of short-term loans	-	(664,609)
<b>NET CASH FROM /(USED IN) FINANCING ACTIVITIES</b>	<b>455,074</b>	<b>(1,296,832)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,221,215</b>	<b>647,556</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>730,658</b>	<b>83,101</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>1,951,873</b>	<b>730,657</b>

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

HRVATSKA ELEKTROPRIVREDA d.d.  
Z A G R E B 3.2  
Ulica grada Vukovara 37

## 1. GENERAL

### Founding and development

Hrvatska elektroprivreda d.d. Zagreb (hereinafter: HEP d.d. or the Company) is registered in Zagreb with its headquarters at Ulica Grada Vukovara 37. The Company's principal activities are the generation, transmission and distribution of electricity. Since 1 July 2002 it began operating with subsidiary companies as the sole owner of companies that are engaged in the generation, transmission, distribution, supply and trade of electricity, and the distribution and supply of thermal power through the district heating systems in Zagreb, Osijek and Sisak as well as the distribution and supply of gas in the regions of Osijek-Baranja, Požega-Slavonia and Virovitica-Podravina counties.

HEP d.d. sells electricity to customers who have chosen HEP Opskrba as their supplier and HEP d.d. is responsible for tariff customer supplies and receiving payment from customers.

A new Law on the Electricity Market adopted in February 2013 determined further restructuring and adjustments of operations of HEP Group with European Union directives and guidelines.

Pursuant to the provisions of the Electricity Act (Official Gazette 22/2013) the Company as the ruling company within a vertically integrated organisation and the owner of the transmission system, separated the transmission operator system in accordance with the provisions of the Act.

At the start of July 2013, amendments were conducted to the HEP Operator Prijenosnog Sustava (now: Croatian Transmission System Operator d.o.o., abbreviated: HOPS d.o.o.) for the purpose of dividing it in accordance with the ITO model and pursuant to the Electricity Act and a decision by the HEP d.d. Assembly to select a model of an "independent transmission operator."

All these activities were conducted by the Company in accordance with valid laws, regulations and decisions by the Government of the Republic of Croatia (RH).

As at 31 December 2015 HEP d.d. employed 440 workers (2014: 451).

Business subjects that are part of the HEP Group are listed in the Note 32, while transactions with related parties are described in the Note 30 to the financial statements.

### Leases

During restructuring process, property, plant and equipment and intangible assets are leased to subsidiaries of the Company at carrying value. Leases of property, plant and equipment and intangible assets are classified as finance leases since all the risks and awards of the ownership are transferred to the lessee. Maturity date of lease is equal to remaining useful depreciation life of leased assets.

Lease liabilities are stated with the related companies within long-term liabilities. Leases bears interests to the extent that the Company has acquired funds by external financing for construction of the corresponding asset. The fair value of leases has not been estimated due to the specific organization of the HEP Group and with the aim of disclosing underlying assets at their original carrying value at which they were acquired by the Group.

Consequently, for a better understanding of the Company, the accompanying financial statements should be read in conjunction with the consolidated financial statements of the HEP Group.

## 1. GENERAL (continued)

### Revenue recognition

All revenue related to the sale and supply of electricity to HEP Opskrba customers are transferred from HEP Opskrba. All revenue related to the distribution of electricity to third parties and supply of electricity to customers within the universal services and guaranteed supplies are transferred to HEP d.d. from the HEP Operator distribucijskog sustava d.o.o. until 1 July 2014. All costs related to the sale of electricity to customers and the distribution and supply (until 1 July 2014) are also transferred to HEP d.d. as are all costs related to impairment of receivables.

Revenue related to the sale of electricity to customers households which are supplied within the framework of universal service and enterprise customers within a guaranteed supply as well as costs related to the sale, as of 1 July 2014 remain in HEP Operator distribucijskog sustava d.o.o.

The company HEP Operator distribucijskog sustava d.o.o. recognizes revenue for delivered electricity to household customers based on energy data of realized sales to customers and the amounts of tariff items based on the method of cost recovery in accordance with the Methodology for determining the amount of tariff items for electricity supply in the context of universal service and the Management Board decision on the amount of tariff items for electricity from 1 October 2013, and from 1 January 2015 of the Croatian Energy Regulatory Agency on the amount of tariff items for electricity supply in the context of universal service.

The company HEP Operator distribucijskog sustava d.o.o. recognizes revenue for delivered electricity to enterprise customers based on energy data of realized sales to customers and the amounts of tariff items in accordance with the Methodology for determining the amount of tariff items for a guaranteed supply of electricity and with Decision of the Croatian Energy Regulatory Agency on the amount of tariff items for a guaranteed supply of electricity.

Subsidiaries Hrvatski operator prijenosnog sustava d.o.o. and HEP Operator distribucijskog sustava d.o.o. recognizes revenue in the amount of delivered and transferred electricity based on energy data of realized sales to customers and the amounts of tariff items based on the method of cost recovery according to the Tariff System for power transmission, without the amount of tariff items and Tariff System for Electricity Distribution, without the amounts of tariff items. Revenue recognition is based on the Government Decree on tariff item dated April 2012.

The company HEP Proizvodnja d.o.o. recognizes revenue for the amount of electricity produced based on the fees according to energy data on delivered electricity and realized costs for the production of electricity increased by profit made on sale of electricity to end customers, network operators for the loss of electricity and the wholesale market.



## 1. GENERAL (continued)

### **General assembly**

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

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

### **Supervisory Board**

#### *Members of the Supervisory Board in 2015*

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

#### *Supervisory Board in 2014*

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

**1. GENERAL (continued)**

**Management Board**

*Management Board in 2015*

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

*Management Board in 2014*

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### ***Presentation of financial statements***

#### *a) Unconsolidated financial statements*

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

Exceptionally, in order to have a more appropriate presentation of the financial statements and to eliminate possible obscurity and misinterpretations, the Company deviated from the specific requirements of IFRS 11 "Joint Operations" (Note 13).

Management believes that the financial statements present fairly the financial position, financial performance and cash flows.

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

The financial statements have been prepared with the application of the basic accounting assumption of the occurrence of a business event and the assumption of the going concern concept.

#### *b) Consolidated financial statements*

The Company has prepared these financial statements in accordance with Croatian legislative regulations.

The Company has also prepared consolidated financial statements for the Company and its subsidiaries, which together with the Company comprise the Group, as at 31 December 2015 and for the year ended. The consolidated financial statements have been prepared in accordance with IFRS as adopted by EU and were approved by the Management Board on 29 April 2016. In the consolidated financial statements, subsidiaries (listed in the Note 32) – in which the Company has more than half of voting rights or in some other way controls their business, have been entirely consolidated. These financial statements should be read in conjunction with the consolidated financial statements of the HEP Group as at and for the year ended 31 December 2015, in order to obtain complete information about the Group's financial position, the results of its operations and changes to the Group's financial position overall.

### ***Basis of accounting***

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

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

### ***Adoption of new and revised International Financial Reporting Standards***

#### *Standards and Interpretations effective in the current period*

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

The adoption of these standards has no impact on the Company's financial statements for the year ended 31 December 2015.

#### ***New and revised IFRSs adopted by the EU in issue but not yet effective***

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

#### ***New and revised IFRSs issued by the IASB but not yet adopted by the EU***

*The following standards and amendments to the existing standards have not been adopted by the EU yet:*

- IFRS 9 Financial Instruments – in July 2014, IASB issued a final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments replacing IAS 39 Financial Instruments: Recognition and measurement and all other preceding versions IFRS 9. IFRS 9 is effective for the annual period beginning on or after 1 January 2018, earlier applications are permitted. The application of this standard will affect the classification and measurement of financial instruments.
- IFRS 14 Regulatory Deferral Accounts – this standard relates to subjects that operate on regulated markets and are applying IFRS for the first time. IFRS 14 is effective for the annual period beginning on or after 1 January 2016. The Company prepares its consolidated financial statements in accordance with IFRS and does not apply this standard.

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

- IFRS 15 Revenue from Contracts with Customers - IFRS 15 was issued in May 2014 and represents a new model in five steps that relate to revenue that results from contracts with customers. The Management Board perform detailed analysis about the possible effects of the mentioned standards on the Company's financial statements.
- Annual Improvements to IFRSs 2012–2014 Cycle
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 7 Financial Instruments: Disclosures (with consequential amendments to IFRS 1)
  - IAS 19 Employee Benefits
  - IAS 34 Interim Financial Reporting

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

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

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

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

### ***Investments in subsidiaries***

A subsidiary company is a company in which the Company (Parent company) has control over, meaning that it manages the financial and business policies by participating in the decision making regarding financial and business policies of the subsidiary. Investments in subsidiaries are stated at the end of the reporting period impaired for individual investment.

### ***Investments in associates***

Associates are companies in which the Company 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.

Investments in Associates are stated at cost with impairment value.

### ***Investments in joint arrangements***

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

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

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

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

Interest in joint ventures are measured using equity method.

In the consolidated financial statements the Company recognizes its investment in NE Krško d.o.o. as joint operation through its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations.

As described in the Note 13, in the unconsolidated financial statements the Company deviated from the specific requirements of IFRS 11 "Joint Operations" and recognizes its investment in NE Krško d.o.o. using equity method.

### ***Reporting currency***

The Company's financial statements are stated in Croatian kuna.

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

### **Employee benefits**

The Company has no defined post-retirement benefits for its employees or Management. Accordingly, no provision for these costs has been included. Legal pension and health insurance contributions are paid on behalf of the Group's employees. This obligation applies to all employees hired on the basis of employment contract. The contributions are paid at a certain percentage determined on the basis of gross salary.

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

#### *Health insurance contributions*

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

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

### **Retirement allowances and jubilee awards**

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

#### *Jubilee awards*

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

#### *Severance payments*

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



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

### ***Property, plant and equipment (hereinafter: PPE)***

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

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

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

	<b>2015 and 2014</b>
Buildings	20-50 years
Office and IT equipment	5-20 years
Vehicles	5 years
Office furniture	10 years

The cost of PPE comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing an asset to its working condition and location necessary for it to be capable of operating as intended by Management. Expenditures incurred after PPE have been put into operation are normally charged to profit or loss in the period in which the costs are incurred.

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

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

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

### ***Property, plant and equipment (continued)***

#### *Impairment of PPE and intangible assets*

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

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

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

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

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

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

### ***Intangible assets***

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

### ***Investment property***

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

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

### ***Finance and operating leases***

#### *The Group as lessee*

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

### ***Finance and operating leases***

#### *The Company as lessee*

The Company has no significant finance lease arrangements and there were no new significant operating lease arrangements concluded during 2015 and 2014. Operating lease payments are recognized as an on a straight line basis over the lease term.

#### *The Company as lessor*

Property, plant and equipment and intangible assets are leased out by Company to related companies based on the carrying amount (except for HOPS as of 1 July 2013). Leases of property, plant and equipment and intangible assets are classified as finance leases since all the risks and awards of the ownership are transferred to the lessee. Maturity date of lease is equal to remaining useful depreciation life of leased assets.

The leases bear interest to the extent that the Company has acquired external financing to construct the underlying assets. These properties are stated at cost in order to present the underlying assets at their carrying value at which the Company initially recognized them.

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

### *Trade receivables and prepayments*

Trade receivables are carried at cost less any impairment for bad and doubtful receivables.

The Management carries out impairment of bad and doubtful receivables based on review of the aging structure of all receivables as well as a review of significant individual amounts included in the receivables.

Given the uncertainty that some of receivables will be collected over longer period, the Company carries out impairment of unrecoverable amounts, based on a reasonable estimate and past experience as follows:

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

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

### *Inventories*

Inventories comprise material and small inventory and are carried at lower of cost and net realisable value. The Management carries out inventories write-off based on review of the ageing structure of all inventories as well as a review of significant individual amounts of inventories.

From 2013, inventories include CO<sub>2</sub> emission rights. After Croatia joined to the European system for greenhouse gas emissions trading (EU ETS), Hrvatska elektroprivreda as an electricity and thermal energy generator, is obligated to purchase greenhouse gas emission units in the amount corresponding to verified emissions of CO<sub>2</sub> generated from the fossil fuel combustion in thermal power plants, as a result of which CO<sub>2</sub> is emitted.

Companies are obligated to have defined quantities of CO<sub>2</sub> emission rights at 30 April (yearly cycle). Due to withdrawal of IFRIC 3 *Emission Rights* and insufficient provisions of IFRS, the Company has analyzed different accounting models for CO<sub>2</sub> emission rights, and among other EFRAG discussion papers. Occasionally, the Company trades with CO<sub>2</sub> emission rights. Due to that the Company recognize these emission rights as inventory.

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

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

Inventory costs for quantities of gas for direct delivery to customers are calculated using method of specific identification.

Cost comprise invoiced amount as well as all other costs directly attributable to bringing inventories to their present location and condition.

### ***Cash and cash equivalents***

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

### ***Borrowing costs***

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

All other borrowing costs are recognized as an expense in the period in which they incurred.

Interest expense is recognized on an accrual basis.

### ***Foreign currencies***

Separate financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

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

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

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

### ***Taxation***

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

#### *Current tax*

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

#### *Deferred tax*

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

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

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

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

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

### ***Financial assets***

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

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

#### *Effective interest method*

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

#### *Available-for-sale financial assets (AFS)*

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

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



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

### *Financial assets (continued)*

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

### *Loans and receivables*

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

### *Impairment of financial assets*

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

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

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

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

### *Investments*

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

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

### ***Financial liabilities***

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

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

### ***Derecognition of financial liabilities***

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

### ***Derivative financial instruments***

The Company entered into a cross currency swap agreement in order to manage its exposure to exchange rate risk. Further details on derivative financial instruments are disclosed in the Note 24.

Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period.

The Company brought Decision on measurement of the fair value of the cross currency swap according to the calculation of Mark-to-market ("MTM") value prepared by business banks. Profit or loss arising from fair value measurement is recognized in profit and loss.

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

### ***Provisions***

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

### ***Use of estimates in preparation of the financial statements***

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

### ***Revenue recognition***

Revenue is realized primarily from the sale of electricity to households, industrial and other customers within the Republic of Croatia who chose HEP Opskrba d.o.o. as supplier, the sale of electricity to related company and in the market, and compensation for administrative services for Group companies.

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

### 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

#### *Critical judgments when applying accounting policies*

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

#### *Useful lives of property, plant and equipment*

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

#### *Fair value of financial assets*

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

#### *Provisions for environment 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, 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 on 28 April 2006 issued a decree on the payment of funds for the decommissioning and disposal of radioactive waste and consumed nuclear fuel of the NPPK. Pursuant to Article 10, Par. 3 of the Law on the fund to finance the decommissioning and disposal of radioactive waste and consumed nuclear fuel from the Krško Nuclear Power Plant (Official Gazette 107/2007), on 24 December 2008 the Croatian government adopted an Ordinance on the amount, timeframe and method of payment of funds to finance the decommissioning and disposal of radioactive waste and consumed nuclear fuel from the Krško Nuclear Power Plant (Note 13).

#### *Recognition of revenues from sale of electricity - households*

As the collection is conducted through prepayments with actual calculation twice a year, the Company is estimating revenues from the sale of electricity. The estimate is based on the total generated and purchased energy quantities, which are corrected for losses in the distribution network based on logarithmic regression. After analyzing a number of different methods of approximation (five-year average, a linear approximation, etc.), the Management chosen method of logarithmic regression as the most appropriate.

The difference between initially estimated revenues and actual prepayments is recognized in the statement of financial position as other short-term liabilities or other short-term receivables.

The above was applicable until 1 July 2014. Since 1 July 2014, the same applies in a subsidiary HEP Operator distribucijskog sustava d.o.o..

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

#### *Critical judgments when applying accounting policies (continued)*

##### *Impairment of non-current assets*

The impairment calculation requires the estimate of value in use of the cash generating units. That value is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgments used in determining cash inflows and outflows. The Company did not have any impairments arisen from above mentioned projections.

##### *Availability of taxable profits for which deferred tax assets could be recognized*

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that the related tax benefit will be realised against future taxable profits. Measurement of the amount of deferred taxes that can be recognised, requires a significant level of judgement which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. Carrying amount of deferred tax assets as at 31 December 2015 amounted to HRK 31,431 thousand, as at 31 December 2014 to HRK 19,679 thousand (Note 8).

##### *Actuarial estimates used in determining severance payments and jubilee awards*

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty regarding those estimates. Provisions for jubilee awards and severance payments amounted to HRK 9,543 thousand as at 31 December 2015, to HRK 11,537 thousand as at 31 December 2014 (Note 26).

##### *Consequences of certain court disputes*

The Company is a subject to number of court disputes arising from operating activities. Provisions are made if there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation. Provisions for court disputes as at 31 December 2015 amounts to HRK 180,415 thousand, and as at 31 December 2014: HRK 189,703 thousand (Note 26).

##### *Fair value of shares in JANAF*

In 2015 and 2014 the Company valued its shares in the Jadranski naftovod (JANAF) at fair value.

The fair value in 2015 and 2014 was determined based on a notification of Central Clearing Deposit Agency regarding open balances as of 31 December. The market value of shares in JANAF at 31 December 2015 amounted to HRK 4,500 (2014: HRK 3,499) resulting in a increase of shares by HRK 54,037 thousand (2014: by HRK 65,262 thousand, see Note 15). The fair value in 2015 and 2014 was included in other comprehensive income.

## **2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

### ***Restatements***

#### **Investment in Nuclear Power Plant Krško d.o.o.**

Based on the adoption of International Financial Reporting Standards (IFRS) 11 Joint Arrangements, which replaced the International Accounting Standard (IAS) 31 Interests in joint ventures, investment in NEK is classified in accordance with IFRS 11 as a joint operation.

In 2015 the Company changed the policy of monitoring joint operation in NEK from the method of recognition of the Company's share in assets, liabilities, revenues and expenses in NEK in its financial statements, to the equity method. In order to eliminate possible concerns of individual government agencies (FINA, the Ministry of Finance, Central Bureau of Statistics, etc.) on the information in the separate financial statements of the Company, and in accordance with the provisions of IAS 1, point 19 and point 20, the Management Board adopted a decision to change that policy.

In its consolidated financial statements, the Company still recognizes its investment in NEK in accordance with IFRS 11.

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

Influence of restatement for the period observed is as follows:

#### *Restatements in the financial statements as at 1 January 2014*

#### *Balance sheet as at 1 January 2014*

	1/1/2014 before restatement HRK '000	NEK d.o.o. HRK '000	1/1/2014 after restatement HRK '000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3,418,320	(1,397,569)	2,020,751
Assets under construction	413,890	(14,072)	399,818
Investment property	10,305	(1,772)	8,533
Financial assets	0	1,754,419	1,754,419
Other receivables	1,457	(478)	979
	<b>24,111,618</b>	<b>340,528</b>	<b>24,452,146</b>
<b>CURRENT ASSETS</b>			
Inventories	341,148	(251,168)	89,980
Trade receivables	64,404	(19,947)	44,457
Other financial investments	191,514	(191,514)	0
Other short-term receivables	315,962	(2,005)	313,957
Cash and cash equivalents	83,190	(89)	83,101
	<b>7,659,068</b>	<b>(464,723)</b>	<b>7,194,345</b>
<b>TOTAL ASSETS</b>	<b>31,770,686</b>	<b>(124,195)</b>	<b>31,646,491</b>
<b>EQUITY AND LIABILITIES</b>			
Retained earnings / loss carried forward	2,329,760	75,081	2,404,841
<b>Equity attributable to Owners of the Parent</b>	<b>22,121,919</b>	<b>75,081</b>	<b>22,197,000</b>
<b>TOTAL EQUITY</b>	<b>22,124,536</b>	<b>75,081</b>	<b>22,199,617</b>
Long-term loans	1,697,507	(35,591)	1,661,916
Long-term provisions	244,314	(26,585)	217,729
Other non-current liabilities	1,066,770	(934)	1,065,836
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>6,294,922</b>	<b>(63,110)</b>	<b>6,231,812</b>
Trade payables	452,498	(94,475)	358,023
Short-term loans liabilities	684,925	(20,316)	664,609
Liabilities to employees	16,781	(10,772)	6,009
Other short-term liabilities	121,793	(10,603)	111,190
<b>TOTAL CURRENT LIABILITIES</b>	<b>3,351,228</b>	<b>(136,166)</b>	<b>3,215,062</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>31,770,686</b>	<b>(124,195)</b>	<b>31,646,491</b>



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

#### *Restatements in the financial statements as at 31 December 2014*

#### *Statement of comprehensive income for the year ended 31 December 2014*

	31/12/2014 before restatement HRK '000	NEK d.o.o. HRK '000	31/12/2014 after restatement HRK '000
Other operating income	166,446	(5,094)	161,353
<b>Total operating income</b>	<b>9,291,007</b>	<b>(5,094)</b>	<b>9,285,913</b>
			0
Electricity purchase cost	1,303,153	747,165	2,050,318
Fuel cost NEK d.o.o.	134,385	(134,385)	0
Staff cost	226,237	(138,739)	87,498
Depreciation and amortization	364,655	(245,839)	118,816
Other operating expenses	6,345,888	(222,641)	6,123,247
<b>Total operating expenses</b>	<b>8,374,318</b>	<b>5,561</b>	<b>8,379,879</b>
<b>Operating profit</b>	<b>916,689</b>	<b>(10,655)</b>	<b>906,034</b>
Financial income	2,147,192	(1,743)	2,145,449
Financial expenses	1,635,353	(2,477)	1,632,876
<b>Net (loss) from financial activities</b>	<b>511,839</b>	<b>734</b>	<b>512,573</b>
<b>Profit before taxation</b>	<b>1,428,528</b>	<b>(9,921)</b>	<b>1,418,607</b>
Corporate income tax expense	209,556	-	209,556
<b>Profit for the year</b>	<b>1,218,972</b>	<b>(9,921)</b>	<b>1,209,051</b>

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

#### Restatements in the financial statements as at 31 December 2014

#### Balance sheet as at 31 December 2014

	31/12/2014 before restatement HRK '000	NEK d.o.o. HRK '000	31/12/2014 after restatement HRK '000 Restated
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3,263,526	(1,184,421)	2,079,105
Assets under construction	391,867	(63,402)	328,465
Investment property	15,491	(1,602)	13,889
Financial assets	0	1,754,419	1,754,419
Other receivables	1,278	(424)	854
	<b>25,128,934</b>	<b>504,570</b>	<b>25,633,504</b>
<b>CURRENT ASSETS</b>			
Inventories	954,414	(281,135)	673,279
Trade receivables	392,907	(42,501)	350,406
Other financial investments	216,160	(216,160)	0
Other short-term receivables	39,990	(2,032)	37,958
Cash and cash equivalents	730,693	(35)	730,658
	<b>7,648,936</b>	<b>(541,863)</b>	<b>7,107,073</b>
<b>TOTAL ASSETS</b>	<b>32,777,870</b>	<b>(37,293)</b>	<b>32,740,577</b>
<b>EQUITY AND LIABILITIES</b>			
Retained earnings / loss carried forward	3,265,948	63,026	3,328,974
<b>Equity attributable to Owners of the Parent</b>	<b>23,058,107</b>	<b>63,026</b>	<b>23,121,133</b>
<b>TOTAL EQUITY</b>	<b>23,113,054</b>	<b>63,026</b>	<b>23,176,080</b>
Long-term loans	1,242,508	0	1,242,508
Long-term provisions	255,781	(32,910)	222,871
Other long-term liabilities	764,777	(894)	763,883
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>5,478,355</b>	<b>(33,804)</b>	<b>5,444,551</b>
Trade payables	577,709	(15,895)	561,814
Short-term loans	0	0	0
Liabilities to employees	16,868	(10,620)	6,248
Other short-term liabilities	293,262	(40,000)	253,262
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,186,461</b>	<b>(66,515)</b>	<b>4,119,946</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>32,777,870</b>	<b>(37,293)</b>	<b>32,740,577</b>

#### 4. SALES REVENUE

##### REVENUE FROM ELECTRICITY SALES

	2015 HRK '000	2014 HRK '000  <b>Restated</b>
Network/grid connection fees until 1 July 2014	-	1,642,163
Income from the sale of electricity to HEP ODS d.o.o.	2,476,573	2,697,549
Income from the sale of electricity to customers of HEP Opskrba d.o.o.	2,447,239	2,384,987
Income from the sale of electricity abroad	489,218	492,943
Income from the sale of electricity in the country	7,096	18,731
	<b>5,420,126</b>	<b>7,236,373</b>

Since 1 July 2014 HEP - Operator distribucijskog sustava d.o.o. charge a fee for electricity distribution to the customers, in its name and for its own account, and from 1 July 2014, the Company does not record income or expenses for fees for electricity distribution.

##### INCOME FROM GAS SUPPLY ON THE WHOLESALE MARKET

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

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

Income from gas supply – unrelated companies in 2015 amounts to HRK 1,298,352 thousand (2014: HRK 689,575 thousand). Income from gas supply – related companies in 2015 amounts to HRK 167,124 thousand (2014: HRK 94,542 thousand)

#### 4. SALES REVENUE (CONTINUED)

##### OTHER OPERATING INCOME

	<b>2015</b> HRK '000	<b>2014</b> HRK '000 <b>Restated</b>
Receivables collected and impaired in previous years	30,837	68,250
Interest on arrears from customers	26,927	33,035
Income from services	29,219	27,441
Income from the sale of tangible assets	49,411	992
Income from reversal of long-term provisions	21,335	-
Write-off of liabilities	1,231	2,862
Income in respect of court resolution (Note 13)	328,926	-
Other operating expenses	11,762	28,772
	<b>499,648</b>	<b>161,352</b>

#### 5. STAFF COSTS

	<b>2015</b> HRK '000	<b>2014</b> HRK '000 <b>Restated</b>
Net salaries in the Company	50,308	48,435
Costs of taxes and contributions from salaries of the Company	25,755	26,588
Contribution on gross salaries	13,038	12,475
	<b>89,101</b>	<b>87,498</b>

##### Total staff costs:

	<b>2015</b> HRK '000	<b>2014</b> HRK '000 <b>Restated</b>
Gross salaries	89,101	87,498
Reimbursement of costs to employees (Note 6)	5,879	5,727
Material rights of employees (Note 6)	2,643	2,725
	<b>97,623</b>	<b>95,950</b>

## 5. STAFF COSTS (CONTINUED)

Reimbursement of costs to employees includes commuting costs in the amount of HRK 2,119 thousand (2014: HRK 2,200 thousand), daily allowances and travelling expenses in the amount of HRK 1,964 thousand (2014: HRK 1,631 thousand) and other similar expenses.

Employee benefit costs include retirement bonuses for early retirement, jubilee awards and appropriate assistance. The costs of retirement bonuses in 2014 amounted to HRK 868 thousand (2013: HRK 1,076 thousand).

### Remuneration for members of the Board and executive directors of the Company:

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		<b>Restated</b>
Gross salaries	6,903	8,305
Benefits in kind	1,015	1,378
Contributions for pension insurance	1,583	1,914
	<b>9,501</b>	<b>11,597</b>

## 6. OTHER OPERATING EXPENSES

	2015 HRK '000	2014 HRK '000
		Restated
Impairment for bad and doubtful accounts	40,710	64,264
Costs for HEP d.d. from de-commissioning NEK	108,681	108,719
Costs pursuant to services within subsidiary companies	32,232	34,941
Costs of services	91,039	69,170
Purchase of CO2 emission units	118,174	97,206
Taxes, contributions and allowances	8,298	8,313
Bank fees, payment operations fees and charges for loans	5,470	5,831
Receipts in kind (Note 5)	1,796	1,896
Travel allowance and transport costs (Note 5)	4,083	3,831
Insurance premiums	7,461	9,324
Write-off of unpaid receivables	-	4,338
Other material rights of employees (Note 5)	2,643	2,725
Costs of material	5,596	6,039
Provisions for severance packages and other staff costs	-	19,624
Provisions for legal disputes	954	3,772
Unwritten-off value of disposed of equipment	15,351	88
Compensation for damages	10,623	-
Other operating costs	24,318	16,974
	<b>477,429</b>	<b>457,055</b>

## 7. FINANCIAL INCOME AND EXPENSES

	2015 HRK '000	2014 HRK '000
		<b>Restated</b>
<b>Financial income</b>		
Interest	196,620	213,746
Foreign currency exchange gains	29,966	11,897
Dividend from subsidiary and associated companies	893,703	1,523,307
Income from dividend	3,094	3,000
Fair value swap (Note 24)	-	393,281
Other financial income	775	218
<b>Total financial income</b>	<b>1,124,158</b>	<b>2,145,449</b>
<b>Financial expenses</b>		
Interests	(281,841)	(402,089)
Foreign exchange losses	(156,241)	(111,398)
Fair value swap	(12,449)	-
Bond repurchase	(147,829)	-
Fair value of shares	(1,002)	(73)
Fair value of shares in Toplinarstvo d.o.o.	-	(1,125,369)
Other financial expenses	(1,767)	-
<b>Total financial expenses</b>	<b>(601,129)</b>	<b>(1,638,929)</b>
Less: Capitalised borrowing costs	-	6,053
<b>Financial expenses recognized in the statement of comprehensive income</b>	<b>(601,129)</b>	<b>(1,632,876)</b>
<b>Net profit from financial activities</b>	<b>523,029</b>	<b>512,573</b>

## 8. CORPORATE INCOME TAX EXPENSE

Pursuant to tax legislation and regulations in RH the Company is subject to taxes. The tax base is determined as the differences between amounts of income and expenses in the period and increased for expenses that a non-deductible. The income tax rate is 20%.

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		<b>Restated</b>
Current tax	188,433	124,469
Deferred tax expense relating to the origination and reversal of temporary differences	(11,752)	85,087
<b>Corporate income tax</b>	<b>176,681</b>	<b>209,556</b>

Adjustments of deferred tax assets are shown as follows:

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		<b>Restated</b>
Balance at 1 January	19,679	104,766
Increase in differed tax assets	11,752	(85,087)
<b>Balance at 31 December</b>	<b>31,431</b>	<b>19,679</b>

Deferred tax assets have arisen from tax unrecognized provisions for jubilee awards, severance payments and other staff costs, value adjustments of investment material inventory, doubtful receivables and deferred tax assets for tax loss carried forward.

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

	<b>2015</b>	<b>2014</b>
	HRK '000	HRK '000
		<b>Restated</b>
Profit before tax	1,801,020	1,418,607
<b>Tax based on tax rate in Croatia (20%)</b>	<b>360,204</b>	<b>283,721</b>
Tax unrecognised (income) / expenses	(179,325)	(74,165)
Tax effect of losses carried forward	(4,198)	-
<b>Tax (income) / expenses for the year</b>	<b>176,681</b>	<b>209,556</b>
Effective tax rate	10%	15%



## 8. CORPORATE INCOME TAX EXPENSE (continued)

The effects of non-deductible (income) / expense consists of income from dividends, reversed receivables impairment, Stated aid for education and reduction of profit for other income.

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

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

	<b>At 1 January 2014</b>	Entered (debited) / in favour of the income statement	<b>At 31 December 2014</b>	Entered (debited) / in favour of the income statement	<b>At 31 December 2015</b>
	<b>Restated</b>		<b>Restated</b>		
Provisions for jubilee awards and retirement bonuses	<b>5,899</b>	(3,592)	<b>2,307</b>	(399)	<b>1,908</b>
Fair value adjustment - JANAF	<b>6,154</b>	-	<b>6,154</b>	-	<b>6,154</b>
Unrecognised tax value adjustment of receivables and interest	<b>8,877</b>	(3,133)	<b>5,744</b>	(4,224)	<b>1,520</b>
Provisions for costs of wind power plants	<b>4,326</b>	-	<b>4,326</b>	-	<b>4,326</b>
Provisions for Swap fair value adjustment	<b>78,362</b>	(78,362)	-	16,375	<b>16,375</b>
Other	<b>1,148</b>	-	<b>1,148</b>	-	<b>1,148</b>
	<b>104,766</b>	<b>(85,087)</b>	<b>19,679</b>	<b>11,752</b>	<b>31,431</b>

**9. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Fixtures and equipment	Assets under construction	Total
	HRK '000	HRK '000	HRK '000	HRK '000
<b>COST</b>				
<b>At 1 January 2014, Restated</b>	<b>850,868</b>	<b>1,732,166</b>	<b>399,818</b>	<b>2,982,852</b>
Additions	122,255	50,161	(68,928)	103,488
Transfer to related companies	-	(322)	(2,425)	(2,747)
Disposals	-	(2,278)	-	(2,278)
<b>At 31 December 2014, Restated</b>	<b>973,123</b>	<b>1,779,727</b>	<b>328,465</b>	<b>3,081,315</b>
Additions	16,457	20,184	145,989	182,630
Transfer to related companies	(463,192)	(325,664)	(13,953)	(802,809)
Disposals	(57)	(8,544)	(12,855)	(21,456)
<b>At 31 December 2015</b>	<b>526,331</b>	<b>1,465,703</b>	<b>447,646</b>	<b>2,439,680</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2014, Restated</b>	<b>192,490</b>	<b>369,794</b>	<b>-</b>	<b>562,284</b>
Depreciation costs for the year	30,902	83,076	-	113,978
Disposals	-	(2,229)	-	(2,229)
Impairment	-	(288)	-	(288)
<b>At 31 December 2014, Restated</b>	<b>223,392</b>	<b>450,353</b>	<b>-</b>	<b>673,745</b>
Depreciation costs for the year	24,196	66,295	-	90,491
Disposals	(57)	(6,291)	-	(6,348)
Impairment	(107,050)	(68,978)	-	(176,028)
<b>At 31 December 2015</b>	<b>140,481</b>	<b>441,379</b>	<b>-</b>	<b>581,860</b>
<b>CARRYING AMOUNT</b>				
<b>At 31 December 2015</b>	<b>385,850</b>	<b>1,024,324</b>	<b>447,646</b>	<b>1,857,820</b>
<b>At 31 December 2014, Restated</b>	<b>749,731</b>	<b>1,329,374</b>	<b>328,465</b>	<b>2,407,570</b>
<b>At 1 January 2014, Restated</b>	<b>658,378</b>	<b>1,362,372</b>	<b>399,818</b>	<b>2,420,568</b>

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

The Company is in the process of registering ownership of property at municipal courts in the Republic of Croatia. To this date no disputes have been lodged related to the Company's ownership.

Investments in progress at 31 December 2015 in the company amounted to HRK 447,646 thousand and the most significant relate to investment in the EDM/ECM projects amounting to HRK 85,730 thousand, investments in preparatory works for the construction of the TE-Plomin power plant amount to HRK 190,949 thousand, investments in preparatory works for the construction of the HE Ombla power plant amount to HRK 45,807 thousand, cogeneration plants on forest biomass BE-TO Sisak in the amount of HRK 36,353 thousand and BE-TO Osijek in the amount of HRK 36,089 thousand.

# 10. INTANGIBLE ASSETS

	<b>Patents and licences HRK '000 Restated</b>
<b>COST</b>	
<b>At 1 January 2014, Restated</b>	<b>73,278</b>
Additions	7,942
Transfer between related companies	(69)
Disposals	(79)
<b>At 31 December 2014, Restated</b>	<b>81,072</b>
Additions	11,875
Transfer between related companies	-
Disposals	-
<b>At 31 December 2015</b>	<b>92,947</b>
<b>ACCUMULATED DEPRECIATION</b>	
<b>At 1 January 2014, Restated</b>	<b>59,881</b>
Depreciation costs for the year	4,838
Impairment	(79)
Disposals	(3)
<b>At 31 December 2014, Restated</b>	<b>64,637</b>
Depreciation costs for the year	6,066
Impairment	-
Disposals	-
<b>At 31 December 2015</b>	<b>70,703</b>
<b>CARRYING AMOUNT</b>	
<b>At 31 December 2015</b>	<b>22,244</b>
<b>At 31 December 2014, Restated</b>	<b>16,435</b>
<b>At 1 January 2014, Restated</b>	<b>13,397</b>

# 11. INVESTMENT PROPERTY

As of 31 December 2015, 2014 and 2013 investment property comprise properties held for the purposes of earning rentals and/or capital appreciation, and are carried at fair value by reference to the best management estimate. The fair value comprise estimated market price at the end of the reporting period. All investment properties are owned by HEP d.d.

	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000</b>	<b>1 January 2014 HRK '000</b>
		<b>Restated</b>	<b>Restated</b>
Investment property	<b>14,487</b>	<b>13,889</b>	<b>8,533</b>
	<b>14,487</b>	<b>13,889</b>	<b>8,533</b>

# 12. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000</b>	<b>1 January 2014 HRK '000</b>
		<b>Restated</b>	<b>Restated</b>
Đuro Đaković Holding d.d.	19,787	-	-
JSC Tehnopromexport –Te	56	52	118
Litostroj Slovenia	160	284	2,174
Voith Austria	16	689	1,887
Prepayments within the Group for connections	830	1,563	2,040
Other	605	1,699	199
	<b>21,454</b>	<b>4,287</b>	<b>6,418</b>

### **13. INVESTMENT IN THE NUCLEAR POWER PLANT KRŠKO**

#### **Investment background**

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

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

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

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

The Agreement was also clearly defined obligation towards the Croatian half of disposal of radioactive waste and used nuclear fuel from NEK. Each country/government has an obligation to provide half of the funds necessary to prepare the decommissioning plan and cost of the program. Each side will allocate fund for this purpose into a separate fund in the amounts estimated by the decommissioning program. According to the current program of decommissioning and disposal of radioactive waste and spent nuclear fuel, HEP d.d. is a contributor to the Fund in the amount of EUR 14,250 thousand per year.

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

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

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

#### **Current status**

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

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

##### **Extension of useful life of NEK**

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

##### **Resolution of an international arbitration dispute**

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

Compensation was paid in December 2015 and January 2016.

##### **Accounting of NEK joint operation**

As described in the Note 3, joint operation in NEK is recognized in the financial statements by using the equity method (in 2014 the Company recognizes its share in assets, liabilities, revenues and expenses of NEK in its financial statements).

The application of the requirements of IFRS 11 has resulted in a number of issues and concerns, as well as misinterpretation by some of users of the financial statements.

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

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

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

**Financial effect from deviation as at 31 December 2015**

**Statement of comprehensive income for the year ended 31 December 2015**

	<b>31 Dec 2015</b>		<b>31 Dec 2015</b>
	HRK 000	HRK 000	HRK 000
	<b>HEP d.d.</b>	<b>NEK d.o.o.</b>	<b>HEP d.d. + NEK d.o.o.</b>
<b>Total operating income</b>	<b>8,392,707</b>	<b>4,977</b>	<b>8,397,684</b>
<b>Total operating expenses</b>	<b>(7,114,716)</b>	<b>(6,583)</b>	<b>(7,121,299)</b>
<b>Operating profit</b>	<b>1,277,991</b>	<b>(1,606)</b>	<b>1,276,385</b>
<b>Net profit from financial activities</b>	<b>523,029</b>	<b>1,606</b>	<b>524,635</b>
<b>Profit before taxation</b>	<b>1,801,020</b>	<b>0</b>	<b>1,801,020</b>
Corporate income tax expense	(176,681)	0	(176,681)
<b>Profit for the year</b>	<b>1,624,339</b>	<b>0</b>	<b>1,624,339</b>



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

Financial effect from deviation as at 31 December 2015

Balance sheet as at 31 December 2015

	31 Dec 2015		31 Dec 2015
	HRK 000	HRK 000	HRK 000
	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,410,950	1,137,262	2,548,212
Financial assets	1,754,419	(1,687,198)	67,221
Other non-current assets	21,383,339	-	21,383,339
<b>Total non-current assets</b>	<b>24,548,708</b>	<b>(549,936)</b>	<b>23,998,772</b>
<b>Current assets</b>	<b>10,532,929</b>	<b>658,880</b>	<b>11,191,809</b>
<b>TOTAL ASSETS</b>	<b>35,081,637</b>	<b>108,944</b>	<b>35,190,581</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>24,825,486</b>	<b>-</b>	<b>24,825,486</b>
<b>Non-current liabilities</b>	<b>6,319,736</b>	<b>32,223</b>	<b>6,351,959</b>
<b>Current liabilities</b>	<b>3,936,415</b>	<b>76,721</b>	<b>4,013,136</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>35,081,637</b>	<b>108,944</b>	<b>35,190,581</b>

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

Extract from financial statements

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

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

#### 14. INVESTMENT IN THE TE PLOMIN

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
Investment in TE Plomin d.o.o.	179,188	179,138	179,138
Long-term receivables	-	-	42,289
Receivables for long-term lease	75,140	77,267	79,393
	<b>254,328</b>	<b>256,405</b>	<b>300,820</b>
Current portion (Note 30)	(2,127)	(2,127)	(44,416)
	<b>252,201</b>	<b>254,278</b>	<b>256,404</b>

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

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

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

The Company paid all liabilities to RWE.

#### Extract from financial statements

In table below is shown an extract from financial statements of TE Plomin at 31 December 2015 and 2014:

	31 December 2015 HRK '000	31 December 2014 HRK '000
Property, plant and equipment	205,688	187,183
Capital and reserves	181,584	195,310
Gross sales	645,363	747,784
Operating profit	15,911	30,323
Net profit	3,357	3,092
Cash flows from operating activities	115,347	24,197

# 15. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
Available-for-sale investments	244,773	191,158	124,101
Other investments	1,065	1,065	1,065
	<b>245,838</b>	<b>192,223</b>	<b>125,166</b>

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

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
Opening balance	191,158	124,101	128,288
Fair value of investments through equity	54,131	65,230	(4,286)
Fair value of investments through income statement	(1,002)	(73)	-
Investments in shares	486	1,900	99
	<b>244,773</b>	<b>191,158</b>	<b>124,101</b>

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
<b>Investments in securities:</b>			
Jadranski Naftovod d.d.	242,915	188,878	123,616
Viktor Lenac d.d.	115	128	166
Đuro Đaković d.d.	5	5	5
Kraš d.d.	3	2	2
Pevec d.d.	312	312	312
Jadran d.d.	364	202	-
Industrogradnja grupa d.d.	490	328	-
Optima Telekom d.d.	223	1,099	-
Institut IGH d.d.	98	149	-
Međimurje beton d.d.	154	43	-
HTP Korčula	59	12	-
Other	35	-	-
	<b>244,773</b>	<b>191,158</b>	<b>124,101</b>

**15. AVAILABLE-FOR-SALE AND OTHER INVESTMENTS (continued)**

	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000	HRK '000
<b>Other investments:</b>		<b>Restated</b>	<b>Restated</b>
Geopodravina d.o.o.	200	200	200
LNG Hrvatska d.o.o.	865	865	865
	<u>1,065</u>	<u>1,065</u>	<u>1,065</u>

In December 2008, HEP d.d. acquired 53,981 shares of Jadranski Naftovod d.d. under a Decision of the Croatian Government, with a nominal value of HRK 2,700 per share i.e. the total nominal value of HRK 145,748,700. By Decision of the Management Board, shares of Jadranski Naftovod were classified as available for sale. Transfer of shares was registered at Central Depository Agency on 19 March 2009.

In 2015 and 2014 fair value was determined by a market value from Zagreb Stock Exchange as of 31 December. The market price of one share of Jadranski Naftovod as of 31 December 2015 was HRK 4,500 and as of 31 December 2014 was HRK 3,499. By fair valuation of the investment in Jadranski Naftovod as of 31 December 2015 total amount of investment was increased by HRK 54,036 thousand (2014: increased by HRK 65,262 thousand). The fair valuation in 2015 and 2014 was recognised through equity (revaluation reserves), and adjusted for 20% by increasing deferred tax liabilities.

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

Based on the pre-bankruptcy settlement agreements with debtors for electricity, heating and gas sold, the Company has become a stakeholder companies by converting their outstanding debts into shares (equity) in the amount of HRK 1,735 thousand.

## 16. LONG TERM LOANS AND DEPOSITS

### Loans given to third parties:

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
City of Pregrada	259	333	459
City of Dubrovnik	2,707	4,207	5,707
LNG Hrvatska d.o.o.	25,840	-	-
Current portion	(330)	(136)	(135)
	<b>28,476</b>	<b>4,404</b>	<b>6,031</b>

In 2013 HEP d.d. concluded an agreement with the City of Dubrovnik to re-schedule of loan receivables until 2017 pursuant to a court ruling.

### Loans issued to related companies

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
HEP-Toplinarstvo d.o.o.	94,800	110,600	126,400
HEP- Opskrba d.o.o	129	129	129
	<b>94,929</b>	<b>110,729</b>	<b>126,529</b>
Current portion	(15,800)	(15,800)	(15,800)
	<b>79,129</b>	<b>94,929</b>	<b>110,729</b>

These loans were issued with the following terms:

Beneficiary	Year loan approved	Interest rate	Repay-ment period	Loan amount HRK '000	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014. HRK '000 Restated
HEP-Toplinarstvo d.o.o.	2007	4%	15 years with 5 year grace period	158,000	94,800	110,600	126,400
HEP- Opskrba d.o.o.	2007	1 month ZIBOR+ 3.5%	4 years	1,010	129	129	129
<b>Total</b>				<b>159,010</b>	<b>94,929</b>	<b>110,729</b>	<b>126,529</b>

# 17. RECEIVABLES FROM SUB-LOANS FROM RELATED COMPANIES

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
Receivables for sub-loans HEP ESCO d.o.o. – long term portion	55,350	55,350	55,350
Receivables for sub-loans HEP OIE d.o.o.	-	5,758	5,758
Receivables for sub-loans HOPS d.o.o.	973,767	1,121,245	1,209,275
	<b>1,029,117</b>	<b>1,182,353</b>	<b>1,270,383</b>
Current portion	(132,093)	(138,283)	(109,420)
	<b>897,024</b>	<b>1,044,070</b>	<b>1,160,963</b>

## Sub-loans

HEP d.d. and KfW Entwicklungsbank concluded an agreement in 2008. The loan contract amounted to EUR 50 million to finance projects by subsidiary companies - HEP ESCO and HEP Obnovljivi izvori energije d.o.o. The basic terms of the loan are: 5 year period of use, quarterly repayment of the principal over a period of 10 years after the expiry of the period of use. An amendment signed to the loan contract in November 2013 marked the completion of negotiations with KfW Bank to reschedule the location of the loan funds to a new project by HEP-a d.d. and HEP ESCO and HEP Obnovljivi izvori energije d.o.o. The period of use was extended from 31 December 2013 to 31 December 2017. Receivables for sub-loans to HEP-ESCO d.o.o. are based on contracts between HEP d.d. and financial institutions intended to finance energy efficiency projects. HEP d.d. issued the funds from the purpose loan for a sub-loan to HEP-ESCO d.o.o. under the same terms. Considering that bonds were released from the said funds for other loans, temporarily returned loans to finance the said projects, receivables for sub-loans are now classified with the same commercial terms as the bonds issued. As at 31 December 2012 a lease agreement with Hrvatski Operator prijenosnog sustava d.o.o. was cancelled for the lease of property, plant and equipment for the amount of the property which in accordance with the provisions of the Law on the Electricity Market is necessary to conduct the business of transmission and the assets were transferred to the ownership of Hrvatski Operator prijenosnog sustava d.o.o. The unpaid portion of the loan that financed Hrvatski Operator prijenosnog sustava d.o.o. assets, closed all Hrvatski Operator prijenosnog sustava d.o.o. liabilities based on a lease agreement and transferred to long-term loan liabilities under the same terms that the Company has for contracts with banks.

## OTHER RECEIVABLES

### Housing loans

As at 31 December 2015 receivables from housing loans amounted to HRK 776 thousand (2014: HRK 854 thousand, 2013: HRK 979 thousand).

Prior to 1996, the Company had sold apartments/flats in its ownership to its employees, the sale of which was regulated by the laws of Republic of Croatia. These flats were usually sold on credit, and the related receivables, which are secured and bear interest at rates below market, are repayable on a monthly basis over periods of 20-35 years. The housing loan receivables are stated in the financial statements at their discounted net present values, determined using an interest rate of 7.0%. The liability to the State, which represent 65% of the value of sold apartments, is included in other non-current liabilities (Note 25). The receivables are secured by mortgages over the sold apartments.

## 18. INVENTORIES

	31 December 2015 HRK '000	31 December 2014 HRK '000 <b>Restated</b>	1 January 2014 HRK '000 <b>Restated</b>
Inventories of gas for wholesale	439,951	432,559	-
CO2 emission units	297,128	219,270	67,613
Inventories of investment materials	15,476	20,197	21,821
Inventories of other materials	1,069	1,253	546
	<u>753,624</u>	<u>673,279</u>	<u>89,980</u>

## 19. TRADE RECEIVABLES

	31 December 2015 HRK '000	31 December 2014 HRK '000 <b>Restated</b>	1 January 2014 HRK '000 <b>Restated</b>
Trade receivables in the country	136,309	145,873	146,580
Trade receivables of gas on the wholesale market	274,862	300,373	-
Receivables for electricity from abroad	29,038	33,668	21,168
	<u>440,209</u>	<u>479,914</u>	<u>167,748</u>
Impairment of receivables	(130,246)	(129,508)	(123,291)
	<u>309,963</u>	<u>350,406</u>	<u>44,457</u>



## 19. TRADE RECEIVABLES (continued)

Aging structure of unimpaired trade receivables in 2015 and 2014:

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
Undue	285,818	327,332	25,057
Up to 30 days	13,216	14,583	951
31-60 days	2,454	2,038	292
61-90 days	1,659	1,920	4
91-180 days	5,858	2,808	18,153
181-365 days	958	504	-
More than 365 days		1,221	-
	<b>309,963</b>	<b>350,406</b>	<b>44,457</b>

Movements in impairments were as follows:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
Balance at 1 January	129,508	123,291	121,311
Impairment of trade receivables	2,474	11,384	4,875
Reversal of impairments	(1,736)	(5,167)	(2,895)
	<b>130,246</b>	<b>129,508</b>	<b>123,291</b>

**20. OTHER SHORT-TERM RECEIVABLES**

	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000 Restated</b>	<b>1 January 2014 HRK '000 Restated</b>
Receivables for corporate income tax	76,987	-	111,010
Income calculated from the sale of electricity to households	-	-	58,207
Receivables from short-term loans from unrelated companies	-	10,500	90,000
Receivables from short-term loans to related companies	-	500	-
Advance payments to suppliers	4,531	1,314	47
Receivables from interest	702	62	2,955
Receivables from VAT	-	908	39,853
Receivables from the state	118	181	146
Receivables from deposits	26,088	9,297	386
Prepaid costs	10,676	9,497	8,680
Other receivables	12,864	4,226	2,673
	<b>131,966</b>	<b>36,485</b>	<b>313,957</b>

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

**21. CASH AND CASH EQUIVALENTS**

	<b>31 December</b>	<b>31 December</b>	<b>1 January</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
Short-term term deposits (daily)	116,503	376,066	56,053
Current accounts – Foreign currency	403,170	162,316	8,287
Current accounts - HRK	185,986	191,326	17,846
Current accounts for special purposes	926	934	902
Deposits with a maturity up to 90 days	1,245,279	-	-
Petty cash - HRK	9	16	13
	<b>1,951,873</b>	<b>730,658</b>	<b>83,101</b>

## 22. EQUITY AND RESERVES

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

### Reserves

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
Opening balance	54,947	2,617	6,046
Other comprehensive income/(loss), JANAF	45,889	52,330	(3,429)
	<b>100,836</b>	<b>54,947</b>	<b>2,617</b>

### Retained earnings

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
Opening balance	3,328,974	2,404,841	1,657,100
Merger effects	(20,822)	-	-
Dividends paid	-	(284,919)	-
Profit of the year	1,624,339	1,209,052	747,741
	<b>4,932,491</b>	<b>3,328,974</b>	<b>2,404,841</b>

By decision of the General Assembly dated 5 June, part of the profit for 2013 was transferred to legal reserves amounting to HRK 37,387 thousand, retained earnings amounting to HRK 425,436 thousand and payment to the owner amounting to HRK 284,919 thousand.

On 15 May 2015, subsidiary APO d.o.o., was merged to the Company.

## 23. LONG-TERM LOAN LIABILITIES

	Interest rate	31 December 2015	31 December 2014	1 January 2014
		HRK '000	HRK '000	HRK '000
			<b>Restated</b>	<b>Restated</b>
Domestic bank loans	EURIBOR + (1.17% 5.52% )	1,219,772	1,640,285	1,853,007
Foreign bank loans	2,71% fixed	90,296	23,183	23,588
<b>Total long-term loan liabilities</b>		<b>1,310,068</b>	<b>1,663,468</b>	<b>1,876,595</b>
Deferred loan originated fees		(3,382)	(4,611)	(5,841)
<b>Total long-term loan liabilities</b>		<b>1,306,686</b>	<b>1,658,857</b>	<b>1,870,754</b>
Current portion		(383,525)	(416,349)	(208,838)
<b>Long-term portion – HEP</b>		<b>923,161</b>	<b>1,242,508</b>	<b>1,661,916</b>
<b>Total liabilities for long-term loans</b>		<b>923,161</b>	<b>1,242,508</b>	<b>1,661,916</b>

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

### New financing sources

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

### Loans in use

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

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

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

	<b>Amount</b>
	HRK '000
2016	383,525
2017	412,889
2018	433,271
2019	80,383
	<b><u>1,310,068</u></b>

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

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

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

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

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

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

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

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

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

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

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

CURRENCY	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000	HRK '000
EUR	171,586	217,121	245,703

## 24. LIABILITIES FOR ISSUED BONDS

	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Nominal value of bonds in the country	186,410	279,790	373,170
Discounted value	(84)	(170)	(286)
Current maturity on bonds	(93,380)	(93,380)	(93,380)
	<b>92,946</b>	<b>186,240</b>	<b>279,504</b>
Value of bonds as at 1 January 2015 - issued abroad in 2012	3,008,746	2,999,389	2,963,252
Bond repurchase (83.37%)	(2,806,955)	-	-
Exchange differences	296,826	9,357	36,137
<b>Bonds issued in 2012</b>	<b>498,617</b>	<b>3,008,746</b>	<b>2,999,389</b>
Nominal value of bonds from 2015 issued abroad	3,703,533	-	-
Exchange differences	3,455	-	-
Discounted value	(50,941)	-	-
	<b>3,656,047</b>	-	-
Accrued bond expenses	(23,727)	-	-
<b>Bonds issued in 2015</b>	<b>3,632,320</b>	-	-
<b>Total liabilities for issued bonds</b>	<b>4,223,883</b>	<b>3,194,986</b>	<b>3,278,893</b>

### Bonds issued in the Republic of Croatia

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



## **24. LIABILITIES FOR ISSUED BONDS (continued)**

### **Bonds issued abroad**

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

#### *Cross currency swap*

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

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

#### *Refinancing*

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

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

#### *The new bond issue*

In October 2015, the Company issued new corporate bonds in the amount of USD 550,000 thousand with maturity of 7 years, fixed interest rate of 5.875% per annum and the issue price of 98.594%.

Bonds issued in 2015, are mainly used for the repurchase of 83.37% of the bonds issued in 2012 (i.e. the repurchase of USD 416,852 thousand). The remaining issue is intended to finance the Company's business. Bonds are listed at Luxembourg stock - exchange and they are actively traded.

#### *Cross currency swap*

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

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

## 24. LIABILITIES FOR ISSUED BONDS (continued)

### *Derivative financial instruments*

#### **Cross currency swap**

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

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

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

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

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

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

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

On 31 December 2015, using this measuring method, the Company stated fair value of liabilities by bonds issued in 2015 in the amount of HRK 81,876 thousand (Note 25).

## 25. OTHER NON-CURRENT LIABILITIES

	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000	HRK '000
		Restated	Restated
Long-term liabilities for assets financed from clearing debt	842,162	759,089	668,377
Cross currency swap (Note 24)	81,876	-	391,808
Long-term liabilities to the State	923	972	1,026
Other	14,326	4,794	5,651
<b>Other non-current liabilities</b>	<b>939,287</b>	<b>764,855</b>	<b>1,066,862</b>

### Clearing debt

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

Long-term liabilities to the State in the amount of HRK 923 thousand (2014: HRK 972 thousand; 2013: HRK 1,026 thousand) relate to the sale of apartments to employees in accordance with the State program that was discontinued in 1996. According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the State at such time as the proceeds were collected. According to the law, HEP d.d. has no liability to allocate the funds until they are collected from the employee.

## 26. PROVISIONS

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
Provisions for severance payments and jubilee awards	9,543	11,537	8,695
Provisions for court disputes	180,415	189,703	187,403
Other provisions	21,631	21,631	21,631
<b>Total provisions</b>	<b>211,589</b>	<b>222,871</b>	<b>217,729</b>

### Provisions for court disputes

Provisions for court disputes relate to cases where possible outcome has been determined as uncertain or negative. Total amount of provisions for court disputes as at 31 December 2015 amounts to HRK 180,415 thousand (2014: HRK 189,703 thousand). Most significant provision relate to the litigation related to HE Peruča (hydropower plant Peruča) which started in 1995, for which a first Instance ruling was issued in 2012 and was ruled in favour of the plaintiff. Litigation case value amounts to HRK 330,000 thousand, and provisions are recorded at 50% of case value, i.e. HRK 165,000 thousand. Other significant provisions relate to Kartner sparkass amounting to HRK 9,903 thousand.

### Water Management Act

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

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

**26. PROVISIONS AND OTHER LONG-TERM LIABILITIES (continued)**

Movements in long-term provisions are stated as follows:

	<b>Retirement bonuses</b> HRK '000	<b>Jubilee awards</b> HRK '000	<b>Court disputes</b> HRK '000	<b>Other provisions</b> HRK '000	<b>Total</b> HRK '000
<b>At 1 January 2014, Restated</b>	<b>7,801</b>	<b>894</b>	<b>187,403</b>	<b>21,631</b>	<b>217,729</b>
Additional provisions	2,955	464	3,722	-	7,141
Decrease in provisions based on payment	(364)	(213)	-	-	(577)
Decrease in provisions based on estimate	-	-	(1,422)	-	(1,422)
<b>At 31 December 2014, Restated</b>	<b>10,392</b>	<b>1,145</b>	<b>189,703</b>	<b>21,631</b>	<b>222,871</b>
Additional provisions	-	148	954	-	1,102
Decrease in provisions based on payment	(616)	(177)	(10,242)	-	(11,035)
Decrease in provisions based on estimate	(1,349)	-	-	-	(1,349)
<b>At 31 December 2015</b>	<b>8,427</b>	<b>1,116</b>	<b>180,415</b>	<b>21,631</b>	<b>211,589</b>

## 26. PROVISIONS AND OTHER LONG-TERM LIABILITIES (continued)

Movements in the present value of the defined employee's benefits during the current period were as follows:

	<b>Retirement bonuses</b>	<b>Jubilee awards</b>	<b>Total</b>
	HRK '000	HRK '000	HRK '000
<b>At 1 January 2014, Restated</b>	<b>7,801</b>	<b>894</b>	<b>8,695</b>
Cost of services	420	75	495
Interest expense	384	41	425
Benefits paid	(364)	(213)	(577)
Past service cost	348	45	393
Actuarial gain/(loss)	1,803	303	2,106
<b>At 31 December 2014, Restated</b>	<b>10,392</b>	<b>1,145</b>	<b>11,537</b>
Cost of services	377	81	458
Interest expense	317	41	358
Benefits paid	(616)	(177)	(793)
Past service cost	703	121	824
Actuarial gain/(loss)	(2,746)	(95)	(2,841)
<b>At 31 December 2015</b>	<b>8,427</b>	<b>1,116</b>	<b>9,543</b>

Provisions for retirement bonuses and jubilee awards are based on calculations by a certified actuary.

The following assumptions were used in preparing the calculations:

- The termination rate is 4.88% and is based on the statistical fluctuation rates for the Company in the period from 2006 to 2015.
- The probability of death by age and sex is based on 2000-2002 Croatian Mortality Tables published by the Croatian Bureau of Statistics. It is assumed that the population of employees of the Company represents average with respect to mortality and health status.
- It is assumed that in 2015 there will be no annual salary growth.

Present value of the obligation was determined using a 4.1% discount rate.

## 27. SHORT-TERM LOAN LIABILITIES

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
Loans from domestic banks and subsidiaries of foreign banks, denominated in various currencies under following conditions: Interest rate EURIBOR/TZ MF + margin (2.75 p.p.– 3.20 p.p.)			
• Secured by bills of exchange	-	-	295,000
Other short-term loans	-	-	369,609
<b>Total short-term loan liabilities</b>	<b>-</b>	<b>-</b>	<b>664,609</b>

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

During 2015, due to good liquidity, the Company did not concluded short-term loans from preapproved mid-term multipurpose overdraft agreements. Also, the Company has signed reverse factoring agreement in the amount of EUR 50 million with maturity until 31 December 2016.

As of 31 December 2015 the Company has available the amount of up to HRK 1,304 million from short-term financing sources.

## 28. TAXES AND CONTRIBUTIONS

	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		Restated	Restated
Net salaries	4,027	3,779	3,573
Contributions	2,370	2,188	2,220
Other liabilities	14,664	281	216
	<b>21,061</b>	<b>6,248</b>	<b>6,009</b>

## 29. TRADE PAYABLES AND OTHER LIABILITIES

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
<b>TRADE PAYABLES</b>			
Domestic trade payables	512,196	441,729	132,897
Foreign trade payables	18,110	10,782	74,434
Liabilities toward suppliers for electricity within EU and abroad	139,330	96,303	133,598
Liabilities toward suppliers within the EU	12,191	13,000	17,094
	<b>681,827</b>	<b>561,814</b>	<b>358,023</b>

	31 December 2015 HRK '000	31 December 2014 HRK '000 Restated	1 January 2014 HRK '000 Restated
<b>OTHER LIABILITIES</b>			
Accrued expenses for unused vacations	3,023	3,566	3,354
Accrued expenses for severance payments	807	37,600	21,030
Accrued expenses to HAC	-	77,775	77,775
Accrued default interest	-	123,135	-
Liabilities for insurance premiums	500	2,495	2,936
Other liabilities	13,515	8,691	6,095
	<b>17,845</b>	<b>253,262</b>	<b>111,190</b>



### 30. RELATED PARTY TRANSACTIONS

Related party transactions relate to subsidiaries in sole ownership of the Company and to NE Krško d.o.o. where HEP d.d. has a 50% ownership.

Related party transactions are stated as follows:

/i/ Company's revenues arise from re-invoiced income of related companies for electricity sales, accounting, legal and other similar services, as well as based on the lease of business premises. The amount of these revenues from related companies is determined on the basis of the following sizes: the value of assets of related company, the cost of employees and the total cost of the related company.

/ii/ Interest on long-term lease of property, plant and equipment and intangible assets are charged to tenants based on loans that were used for construction of those assets and are stated as interest income from related companies.

/iii/ Costs with related companies arise from rendered services of production, transmission and distribution of electricity. Costs for services of transmission and distribution and losses in distribution network are invoiced on a monthly basis in accordance with the provisions and tariffs set by the Croatian Energy Regulatory Agency ("HERA").

/iv/ Short-term receivables from related companies arise from the sale of fuel, materials and spare parts, for the electricity sold by the company HEP Operator distribucijskog sustava d.o.o., HEP Opskrba d.o.o., HEP Operator prijenosnog sustava, for the cost of the Company's common functions as well as for investments in progress financed by the Company. After completion of the construction, those assets are transferred to related companies as a finance lease.

/v/ Long-term receivables from related companies arise from financial lease of property, plant and equipment to related companies. Lease is paid monthly according to depreciation of leased assets. The Company also has receivables from related companies for apartments sold to employees.

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

### 30. RELATED PARTY TRANSACTIONS (continued)

	2015. HRK '000	2014. HRK '000
		<b>Restated</b>
<b>Operating income</b>		
Income from the sale of electricity to companies	12,404	26,518
Income from the sale of electricity HEP Energija d.o.o. Ljubljana	17,500	43,904
Income from the sale of electricity HEP-Trgovina Hungary	-	63,726
Income from the sale of electricity HEP Trade d.o.o. Belgrade	21,097	3,434
Income from the sale of electricity HEP Trade d.o.o. Mostar	124	485
Income from the sale of electricity to HOPS	16,687	13,299
<b>Income from the sale of electricity – related companies</b>	<b>67,812</b>	<b>151,366</b>
<b>Income from the sale of gas to HEP plin – related company</b>	<b>167,124</b>	<b>94,542</b>
Income from invoiced losses on distribution network	649,792	680,469
Income from conducting administrative services	152,803	140,183
Revenues from balancing energy	3,277	4,349
Income from lease of business premises	9,417	8,453
Income from the sale of CO2 emission units	110,188	96,363
Other income	14,168	22,888
<b>Operating income – related companies</b>	<b>939,645</b>	<b>952,705</b>
	<b>1,174,581</b>	<b>1,198,613</b>
<b>Financial income</b>		
Income from interest on lease of property	141,475	149,116
Income from interest on loans to related companies	82,037	61,212
	<b>223,512</b>	<b>210,328</b>
<b>Expenses for electricity supplies – related companies</b>		
TE Plomin d.o.o.	458,122	568,214
HEP Energija d.o.o. Ljubljana	3	8,935
HEP Trgovina Magyarorszag energija Kft	-	19,999
HEP Trgovina Belgrade d.o.o.	5,027	1,182
HEP Trade d.o.o. Mostar	727	
HOPS d.o.o.	549	384
	<b>464,428</b>	<b>598,714</b>

**30. RELATED PARTY TRANSACTIONS (continued)**

	<b>2015.</b> HRK '000	<b>2014.</b> HRK '000 <b>Restated</b>
<b>Expenses</b>		
- HEP Proizvodnja d.o.o. - fee for electricity generation	2,161,351	2,953,528
- HEP Operator distribucijskog sustava d.o.o. - fee for distribution of electricity until 1.7.2014	-	1,716,595
- HEP Opskrba – fee for electricity supply	43,008	36,685
- HEP Opskrba – fee for electricity supply from OIE	255,210	211,503
- HEP Trade d.o.o. – fee for optimisation of electricity source structure	11,124	11,282
-HEP Opskrba plinom d.o.o. – costs for gas supplies	5,058	1,885
-HOPS d.o.o. – costs - HEP for losses in transmission grid	142	1,623
- Costs based on electricity balancing	50,499	15,369
	<b><u>2,526,392</u></b>	<b><u>4,948,470</u></b>

Costs from balancing energy in 2015 in the amount of HRK 50,499 thousand (2014: HRK 15,369 thousand) and the income from balancing energy amounting to HRK 3,277 thousand in 2015 (2014: HRK 4,349 thousand) are realised based on sales/purchase energy balancing between the Company, Hrvatski Operator prijenosnog sustava d.o.o. and supplier pursuant to the valid Rules of balancing of the Energy System.

**30. RELATED PARTY TRANSACTIONS (continued)**

<b>Long-term receivables</b>	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000 Restated</b>	<b>1 January 2014 HRK '000 Restated</b>
<b>Receivables from assets - long-term leases</b>			
- HEP Operator distribucijskog sustava d.o.o.	6,889,940	8,256,942	8,185,780
- HEP Proizvodnja d.o.o.	6,371,366	6,285,376	6,309,023
- HEP Toplinarstvo d.o.o.	745,212	762,873	777,117
- HEP Upravljanje imovinom d.o.o.	112,457	111,966	111,092
- HEP Plin d.o.o.	144,681	136,820	122,277
- HEP Noc d.o.o.	12,484	12,588	12,851
- HEP Opskrba d.o.o.	4,231	1,791	1,148
- HEP Trgovina d.o.o.	755	368	427
- HEP Esco d.o.o.	1,987	1,606	1,321
- HEP Obnovljivi izvori energije d.o.o.	-	2,756	338
- Program Sava d.o.o.	325	-	-
-HEP Opskrba plinom d.o.o.	301	-	-
	<b>14,283,739</b>	<b>15,573,086</b>	<b>15,521,374</b>
<b>Receivables for sold flats</b>			
- HEP Operator distribucijskog sustava d.o.o.	7,353	7,911	8,634
- HEP Proizvodnja d.o.o.	4,386	4,817	5,514
- Hrvatski operator prijenosnog sustava d.o.o.	1,457	1,716	1,805
- HEP Toplinarstvo d.o.o.	211	271	350
	<b>13,407</b>	<b>14,715</b>	<b>16,303</b>
	<b>14,297,146</b>	<b>15,587,801</b>	<b>15,537,677</b>
Current portion of lease	(1,057,217)	(1,086,428)	(1,080,257)
<b>Receivables for long-term lease – related companies</b>	<b>13,239,929</b>	<b>14,501,373</b>	<b>14,457,420</b>
<b>Receivables for long-term loans – related companies</b>	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
(See Note 16)	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
HEP-Toplinarstvo d.o.o.	94.800	110.600	126.400
HEP-Opskrba d.o.o.	129	129	129
	<b>94.929</b>	<b>110.729</b>	<b>126.529</b>

**30. RELATED PARTY TRANSACTIONS (continued)**

Current portion	(15,800)	(15,800)	(15,800)
	<u>79,129</u>	<u>94,929</u>	<u>110,729</u>
<b>Total long-term receivables</b>	<b>13,319,058</b>	<b>14,596,302</b>	<b>14,568,149</b>

	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000</b>	<b>1 January 2014 HRK '000</b>
<b>Short-term receivables</b>		<b>Restated</b>	<b>Restated</b>
Receivables from HEP Operator distribucijskog sustava d.o.o. for sold electricity and interest	277,777	249,531	392,829
Receivables from HEP Operator distribucijskog sustava d.o.o. for losses on distribution grid	85,459	119,048	114,989
Receivables from HEP Opskrba do.o. for sold electricity and interest	456,977	421,195	443,766
Receivables from Hrvatski operator prijenosnog sustava d.o.o. losses on distribution network	37,047	36,513	24,292
Receivables from HEP Energija d.o.o. Ljubljana	9,203	220	10,151
Receivables from HEP Magyarorszag d.o.o. for sold electricity	-	-	6,053
Receivables from HEP Trade d.o.o. Belgrade for sold electricity	3,007	72	-
Receivables from balancing energy – HEP d.d.	2,837	5,436	7,598
	<u>872,307</u>	<u>832,015</u>	<u>999,678</u>

**Costs of common functions**

- HEP Proizvodnja d.o.o.	604	7,017	47,006
- HEP Operator distribucijskog sustava d.o.o.	6,634	5,281	145,203
- Hrvatski operator prijenosnog sustava d.o.o.	-	-	9,803
- HEP Toplinarstvo d.o.o.	1,232	207	29,205
- HEP Plin d.o.o.	12,843	17,961	14,072
- HEP Upravljanje imovinom d.o.o.	9,720	7,083	5,296
- HEP Trgovina d.o.o.	2,066	3,608	989
- HEP Opskrba d.o.o.	2,679	5,458	2,145
- HEP NOC	11	557	224
- HEP OIE d.o.o.	-	636	646
- HEP ESCO d.o.o.	659	735	464
- Program Sava d.o.o.	1,180	419	29
-HEP Telekomunikacije d.o.o.	1,342	627	-
-Opskrba plinom d.o.o.	541	626	-
	<u>39,511</u>	<u>50,215</u>	<u>255,082</u>

**30. RELATED PARTY TRANSACTIONS**

	<b>31 December 2015 HRK '000</b>	<b>31 December 2014 HRK '000</b>	<b>1 January 2014 HRK '000</b>
		<b>Restated</b>	<b>Restated</b>
<b>Short-term receivables from lease of long-term assets</b>			
- HEP Proizvodnja d.o.o.	39,026	88,312	273,725
- HEP Toplinarstvo d.o.o.	8,260	23,355	276,415
- HEP Operator distribucijskog sustava d.o.o.	288,464	771,235	899,659
- HEP Plin d.o.o.	33,394	48,102	40,220
- HEP Upravljanje imovinom d.o.o.	22,247	20,025	17,152
- HEP NOC	9,967	9,528	8,604
- HEP Trgovina d.o.o.	61	170	7
- HEP Obnovljivi izvori energije d.o.o.	-	111	75
- HEP Opskrba d.o.o.	205	427	214
- HEP Esco d.o.o.	98	85	160
	<b>401,722</b>	<b>961,350</b>	<b>1,516,231</b>
<b>Other short-term receivables</b>	<b>168,713</b>	<b>250,428</b>	<b>236,742</b>

### 30. RELATED PARTY TRANSACTIONS (continued)

Receivables from paid investments and other receivables	31 December 2015 HRK '000	31 December 2014 HRK '000	1 January 2014 HRK '000
		<b>Restated</b>	<b>Restated</b>
- HEP Proizvodnja d.o.o.	2,389,041	2,369,902	2,601,099
- Hrvatski operator prijenosnog sustava d.o.o.	84,223	45,855	22,518
- HEP Operator distribucijskog sustava d.o.o.	1,439,150	(1,190,175)	(928,108)
- HEP Toplinarstvo d.o.o.	86,563	37,955	7,809
- HEP Plin d.o.o.	39,339	44,462	3,309
- HEP ESCO d.o.o.	1,028	911	715
- HEP Noc d.o.o.	840	706	576
- HEP OIE d.o.o.	-	883	8,076
- HEP Upravljanje imovinom d.o.o.	34,332	31,157	29,238
- HEP Opskrba d.o.o.	450	798	829
- Program Sava d.o.o.	8,736	8,792	8,756
-HEP Trgovina d.o.o.	-	3,699	3,699
-HEP Telekomunikacije d.o.o.	1	1,553	1
-HEP Opskrba plinom d.o.o.	41	16	-
-Plomin Holding d.o.o.	1,350	-	-
-Hrvatski centar za čistiju proizvodnju	1,192	-	-
	<b>4,086,286</b>	<b>1,356,514</b>	<b>1,758,517</b>
<b>Receivables for sold investments and other materials</b>			
- HEP Operator distribucijskog sustava d.o.o.	313,473	313,473	313,473
- HEP Proizvodnja d.o.o.	257,847	257,847	257,847
- HEP Plin d.o.o.	2,680	2,680	2,680
- HEP Toplinarstvo d.o.o.	99	99	99
	<b>574,099</b>	<b>574,099</b>	<b>574,099</b>
<b>Other receivables</b>			
- HEP Plin d.o.o.	18,195	17,550	17,222
- HEP Noc d.o.o.	13,564	11,225	9,212
	<b>31,759</b>	<b>28,775</b>	<b>26,434</b>
<b>Receivables from TE Plomin d.o.o.</b>			
- Current portions of long-term receivables (Note 14)	2,127	2,127	44,416
- Other receivables	532	532	532
	<b>2,659</b>	<b>2,659</b>	<b>44,948</b>
<b>Receivables for short-term loans</b>			
HEP Energija d.o.o. Ljubljana	-	-	11,649
HEP Magyarorszag Energia Kft	-	-	11,650
HEP Trade d.o.o. Belgrade	2,313	1,392	7,740
HEP KS sh.p.k. Priština	694	714	2,012
APO d.o.o.	-	15,964	12,456
	<b>3,007</b>	<b>18,070</b>	<b>45,507</b>
	<b>6,180,063</b>	<b>4,074,125</b>	<b>5,457,238</b>

**30. RELATED PARTY TRANSACTIONS (continued)**

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
<b>Long-term liabilities</b>			
HEP OIE d.o.o.	-	5,758	5,758
<b>Total long-term liabilities</b>	<b>-</b>	<b>5,758</b>	<b>5,758</b>
<b>Short-term liabilities</b>			
- HEP Operator distribucijskog sustava d.o.o.– electricity distribution	-	-	351,271
- HEP ODS d.o.o. supply fees	-	-	24,393
- HEP Opskrba fees for supply of electricity	11,339	466	1,090
- HEP Proizvodnja d.o.o. – fees for production of electricity	603,632	650,438	370,566
- HEP Opskrba fees for supplies from OIE	24,553	40,677	16,364
- HEP Trgovina for services of optimising electricity source structure	134	1,751	1,375
Liabilities for energy balancing	-	-	25,956
-HEP Opskrba plinom d.o.o.	987	1,315	-
-HOPS – liabilities for for losses on transmission network	-	218	-
-HEP Proizvodnja – liabilities HEP-a d.d. based on the cession agreement	966,235	966,235	-
- Other	21,436	15,130	14,012
	<b>1,628,316</b>	<b>1,676,230</b>	<b>805,027</b>



**30. RELATED PARTY TRANSACTIONS (continued)**

	31 December 2015	31 December 2014	1 January 2014
	HRK '000	HRK '000 <b>Restated</b>	HRK '000 <b>Restated</b>
<b>Other liabilities</b>			
- Liabilities toward HEP ODS d.o.o. – payments for connections	193,309	396,134	289,810
- Liabilities toward HEP ODS d.o.o. – allocated funds for HOPS and HROTE	289,224	296,430	239,969
- Liabilities toward HEP ODS d.o.o. – miscellaneous	343,392	93,992	34,401
- Liabilities toward Hrvatski operator prijenosnog sustava d.o.o.	-	-	50,074
- Liabilities toward HEP Proizvodnji d.o.o.	-	7,129	6,366
- Liabilities toward other companies	50,784	41,881	9,101
	<b>876,709</b>	<b>835,566</b>	<b>629,721</b>
- TE Plomin d.o.o. for electricity delivered	73,418	147,037	61,376
- HEP Energija d.o.o. Ljubljana for electricity delivered	-	-	7,417
-HEP MagyarorszagEnergiakft for electricity delivered	130	-	4,066
	<b>73,548</b>	<b>147,037</b>	<b>72,859</b>
<b>Total short-term liabilities</b>	<b>2,578,573</b>	<b>2,658,833</b>	<b>1,507,607</b>

Transactions with NE Krško d.o.o. are shown as follows:

	31 December 2015	31 December 2014	31 December 2013
	HRK '000	HRK '000 <b>Restated</b>	HRK '000 <b>Restated</b>
<b>NE Krško d.o.o.</b>			
Liabilities for purchased electricity	62,497	62,830	63,373
Costs of purchased electricity	664,425	747,165	727,855

**30. RELATED PARTY TRANSACTIONS (continued)**

	Sales revenue		Purchase costs	
	2015	2014	2015	2014
	HRK '000	HRK '000	HRK '000	HRK '000
		Restated		Restated
<b>Companies partially owned by the State</b>				
INA-Industrija nafte d.d.	86,922	98,406	1,536,463	1,169,699
Hrvatske Željeznice	71,784	76,241	-	-
Croatia osiguranje d.d.	-	3,758	225	8,455
Hrvatska pošta d.d.	1	9,511	16,447	24,920
Ministry of Defence RH	-	5,825	-	-
Hrvatske šume d.o.o.	-	1,469	2,607	3,408
Jadrolinija d.o.o.	-	304	-	-
Narodne novine d.d.	1,241	1,288	163	199
Hrvatska radio televizija	5,941	7,799	67	53
Plinacro d.o.o.	-	1,461	79,132	88,534
Plovput d.d.	-	321	-	-
Croatia Airlines d.d.	426	592	-	5
Petrokemija Kutina d.d.	16,971	106	-	-
Ministry of Foreign Affairs	-	227	-	-
Ministry of the Interior	-	4,737	-	-
Elementary and high schools	9,914	33,617	-	-
Judicial institutions	86	3,126	-	-
Colleges and universities	4,709	11,037	366	-
Legislative, executive and other bodies of Republic of Croatia	4,578	12,562	-	-
Health institutions and organizations	34,898	61,800	-	99
Other users	1,175	4,630	14,173	2,695
Prirodni plin d.o.o.	-	-	-	473,334
	<b>238,646</b>	<b>338,817</b>	<b>1,649,643</b>	<b>1,771,401</b>

**30. RELATED PARTY TRANSACTIONS (continued)**

	Amount of receivables			Amount of liabilities		
	31	31	1 January	31	31	1 January
	December	December	2014	December	December	2014
	2015	2014	2014	2015	2014	2014
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
		Restated	Restated		Restated	Restated
<b>Companies partially owned by the State</b>						
Finance Ministry	-	-	39,853	-	-	-
INA-Industrija nafte d.d.	-	-	-	128,506	153,584	71
Croatia osiguranje d.d.	-	-	-	47	1,986	2,941
Hrvatska pošta d.d.	-	-	-	1,419	20	8,715
Narodne novine d.d.	-	-	-	7	2	17
Other users	92	204	270	26,020	14,388	10,867
	<b>92</b>	<b>204</b>	<b>40,123</b>	<b>155,999</b>	<b>169,980</b>	<b>22,611</b>

### **31. CONTINGENT LIABILITIES AND COMMITMENTS**

#### **Court disputes**

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

#### **Operating commitments**

As part of regular investment activities, at 31 December 2015 the Company had concluded agreements for investments in various facilities and equipment that has commenced but has not been completed. In 2015 the value of the most significant contracted investments in progress amounted to HRK 351,387 thousand (2014: HRK 70,093 thousand).

The Company also has shares in HEP - Proizvodnja d.o.o, HEP- Toplinarstvo d.o.o., HEP ESCO d.o.o. and HEP Upravljanje imovinom d.o.o., which have recorded operational losses and the Company is ready to facilitate the necessary funds to enable these companies to continue operations and execute all their due liabilities.

#### **Environmental and nature protection**

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

The Company's environmental expenditure monitoring system (RETZOK) introduced in 2004, monitors all investments for the environmental and nature protection.

### **31. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

A request has been submitted to the Ministry of Environmental Protection, Physical Planning and Construction to unify environmental protection conditions. Part of thermal-power plants have obtained environmental licenses – TE-TO Sisak- blocks A, B and C, TE-TO Osijek, TE Jertovec, TE Rijeka and Pogon Osijek HEP-Toplinarstvo d.o.o., and for other plants procedures are still in progress.

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

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

#### **Gas supply at wholesale market**

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

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

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

### 32. SUBSIDIARIES

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

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

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

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

### 32. SUBSIDIARIES (continued)

Movements on investments are stated as follows:

	31 December 2015 HRK '000	31 December 2014 HRK '000  Restated	1 January 2014 HRK '000  Restated
Balance at 1 January	5,325,094	4,026,353	6,398
Investment in HOPS d.o.o.	-	-	3,372,385
Investment in NOVENERG d.o.o.	380	-	-
Investment of reinvested profit in Hrvatski operator prijenosnog sustava d.o.o.	265,000	348,880	-
Investment of reinvested profit in HEP Operator distribucijski sustav d.o.o.	-	274,000	441,375
Investment in capital reserves HEP Operator distribucijskog sustava d.o.o.	444,304	-	-
Investment in HEP-Telekomunikacije d.o.o.	-	-	201,195
Investment in Plomin Holding d.o.o.	-	-	5,000
Investment in HEP Toplinarstvo d.o.o.	-	675,841	-
Investment in Opskrba plinom d.o.o.	-	20	-
Merger of APO-a	(2,198)	-	-
	<b>6,032,580</b>	<b>5,325,094</b>	<b>4,026,353</b>

	31 December 2015 HRK '000	31 December 2014 HRK '000  Restated	1 January 2014 HRK '000  Restated
HEP - Proizvodnja d.o.o.	40	20	20
Hrvatski operator prijenosnog sustava d.o.o.	3,986,324	3,721,325	3,372,445
HEP - Operator distribucijskog sustava d.o.o.	1,159,700	715,395	441,395
HEP - Opskrba d.o.o.	20	20	20
HEP -Toplinarstvo d.o.o.	675,881	675,881	40
HEP - Plin d.o.o.	20	20	20
APO d.o.o.	-	2,198	2,198
HEP ESCO d.o.o.	3,920	3,920	3,920
HEP - Odmor i rekreacija d.o.o.	20	20	20
HEP - NOC d.o.o.	-	20	20
HEP - Obnovljivi izvori energije d.o.o.	-	20	20
HEP-Trgovina d.o.o.	20	20	20
Program Sava d.o.o.	20	20	20
HEP-Telekomunikacije d.o.o.	201,195	201,195	201,195
Plomin Holding d.o.o.	5,000	5,000	5,000
HEP Opskrba plinom d.o.o.	20	20	-
NOVENERG d.o.o.	380	-	-
Hrvatski centar za čistiju proizvodnju	20	-	-
	<b>6,032,580</b>	<b>5,325,094</b>	<b>4,026,353</b>

**33. FINANCIAL RISK MANAGEMENT****Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consist of debt, which includes loans and issued bonds disclosed in the Notes 23, 24 and 27, cash and cash equivalents and equity attributable to Owners of the parent, comprising of share capital, legal and other reserves and retained earnings.

**Gearing ratio**

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

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
Debt	5,623,949	4,947,223	5,907,636
Cash and cash equivalents	(1,951,873)	(730,693)	(83,101)
Net debt	3,672,076	4,216,530	5,824,535
Equity	24,825,486	23,176,080	22,199,617
Net debt to equity ratio	<b>15%</b>	<b>18%</b>	<b>26%</b>

**Significant accounting policies**

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

**Categories of financial instruments**

	<b>31 December 2015</b>	<b>31 December 2014</b>	<b>1 January 2014</b>
	HRK '000	HRK '000	HRK '000
		<b>Restated</b>	<b>Restated</b>
<b>Financial assets</b>			
Available-for-sale	245,838	192,223	125,166
At fair value through profit or loss	70,900	1,473	-
Loans and receivables (including cash and cash equivalents)	9,691,524	6,421,735	6,944,676
Other non-current assets	14,245,334	15,645,630	15,736,120
<b>Financial liabilities</b>			
At fair value through profit or loss	81,876	-	391,808
Non-current liabilities	6,004,455	5,208,107	5,621,621
Current liabilities	3,797,012	3,980,719	2,960,373
Other assets mostly relate to long-term loan receivables from related companies for lease of property.			



### 33. FINANCIAL RISK MANAGEMENT (continued)

#### **Financial risk management objectives**

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

#### **Market risk management**

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

#### **Foreign currency risk management**

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

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

	<b>Assets</b>			<b>Liabilities</b>		
	<b>31 December</b>	<b>31 December</b>	<b>1 January 2014</b>	<b>31 December</b>	<b>31 December</b>	<b>1 January</b>
	<b>2015</b>	<b>2014</b>		<b>2015</b>	<b>2014</b>	<b>2014</b>
	<i>HRK '000</i>	<i>HRK '000</i>	<i>HRK '000</i>	<i>HRK '000</i>	<i>HRK '000</i>	<i>HRK '000</i>
European						
Union (EUR)	179,994	20,037	4,894	747,354	625,407	720,133
USD	10,407	10	-	226	83	158

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### **Foreign currency sensitivity analysis**

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

	<b>2015</b>	<b>2014</b>	<b>1 January 2014</b>
	<i>HRK '000</i>	<i>HRK '000</i>	<i>HRK '000</i>
<b>EUR change effect</b>			
Profit or loss	433,182	463,803	546,275
<b>USD change effect</b>			
Profit or loss	(7,118)	46	88

### **33. FINANCIAL RISK MANAGEMENT (continued)**

#### ***Interest rate risk management***

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

#### ***Interest rate sensitivity analysis***

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

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

- The Company's profit for the year ended 31 December 2015 would decrease by HRK 3,881 thousand (2014: HRK 5,440 thousand) based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its floating interest rate loans representing 21.4% of all interest bearing loans in 2015 (2014: 33.1%); and
- the Company's sensitivity to interest rates would decrease during current period mainly due to decrease in floating interest rate.

#### ***Credit risk management***

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

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

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

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### *Liquidity risk management*

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

#### *Liquidity and interest rate risk tables*

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

#### *Maturity of non-derivative financial assets*

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>2015</b>							
Interest free		3,074,224	1,764,866	1,741,348	1,921,787	68,923	8,571,148
Floating interest bearing	1.51%	10,505	20,787	93,859	136,422	-	261,573
Fixed interest bearing	5.21%	-	9,807	54,198	302,207	455,733	821,945
Fixed interest bearing	6.50%	100,548	201,096	897,048	4,794,768	9,435,486	15,428,946
<b>Total</b>		<b>3,185,277</b>	<b>1,996,556</b>	<b>2,786,453</b>	<b>7,155,184</b>	<b>9,960,142</b>	<b>25,083,612</b>
<b>2014, Restated</b>							
Interest free		1,868,493	968,377	2,032,578	577,769	-	5,447,217
Floating interest bearing	1.75%	13,839	20,879	98,996	442,501	-	576,215
Fixed interest bearing	6.02%	130	20,877	81,233	713,352	47,301	862,893
Fixed interest bearing	6.50%	103,543	207,088	924,912	4,942,175	10,752,124	16,929,842
<b>Total</b>		<b>1,986,005</b>	<b>1,217,221</b>	<b>3,137,719</b>	<b>6,675,797</b>	<b>10,799,425</b>	<b>23,816,167</b>

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk management (continued)

##### Maturity of non-derivative financial liabilities

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

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
		HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
<b>2015</b>							
Interest free		1,682,085	1,377,143	246,864	938,364	-	4,244,456
Floating interest bearing	2.31%	73,876	30,315	308,418	863,662	-	1,276,271
Fixed interest bearing	5.03%	-	-	316,375	1,438,377	4,066,660	5,821,412
<b>Total</b>		<b>1,755,961</b>	<b>1,407,458</b>	<b>871,657</b>	<b>3,240,403</b>	<b>4,066,660</b>	<b>11,342,139</b>
<b>2014, Restated</b>							
Interest free		1,159,954	1,148,600	966,235	764,777	-	4,039,566
Floating interest bearing	2.60%	81,010	54,902	323,469	1,440,099	-	1,899,480
Fixed interest bearing	6.50%	-	-	309,681	3,618,371	11,214	3,939,266
<b>Total</b>		<b>1,240,964</b>	<b>1,203,502</b>	<b>1,599,385</b>	<b>5,823,247</b>	<b>11,214</b>	<b>9,878,312</b>

The Company has access to sources of financing. The total unused amount at the end of the reporting period was HRK 1,595,051 thousand. The Company expects to meet its other obligations from operating cash flows and proceeds from matured financial assets.

### 33. FINANCIAL RISK MANAGEMENT (continued)

#### *Fair value of financial instruments*

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

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

#### *Fair value measurements recognized in the statement of financial position*

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

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

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

### 33. FINANCIAL RISK MANAGEMENT (continued)

	1 <sup>st</sup> level HRK '000	2 <sup>nd</sup> level HRK '000	3 <sup>rd</sup> level HRK '000	Total HRK '000
<b>2015</b>				
Available-for-sale assets	245,838	-	-	<b>245,838</b>
Derivative financial assets	-	-	70,900	<b>70,900</b>
Derivative financial liabilities	-	-	81,876	<b>81,876</b>
Investment property	-	14,487	-	<b>14,487</b>
<b>2014, Restated</b>				
Available-for-sale assets	192,223	-	-	<b>192,223</b>
Derivative financial assets	-	-	1,473	<b>1,473</b>
Investment property	-	13,889	-	<b>13,889</b>

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

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

Signed on behalf of the Company on 29 April 2016:

Perica Jukić

President of the Management Board

Tomislav Rosandić

Member of the Management Board

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