



**HRVATSKA ELEKTROPRIVREDA d.d.
and subsidiary companies (HEP Group)**

Summarized consolidated financial statements

for the period ended

30 June 2014

HEP GROUP

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Report on review to the financial information of the accounting period within year

To the owner of Hrvatska elektroprivreda d.d.:

Introduction

We have audited the accompanying summarized consolidated statement of financial position of the company Hrvatska elektroprivreda d.d. and subsidiary companies (hereinafter: the Group) at 30 June 2014 and summarized consolidated income statement, summarized consolidated statement of comprehensive income, summarized consolidated statement of changes in equity and summarized consolidated statement of cash flows for six month period then ended, as well as summarized significant accounting policies and notes to the financial statements, which commonly represent summarized consolidated financial statements of interperiod.

Management Board is responsible for the preparation and the fair presentation of this financial information of the interperiod in accordance with International accounting standard 34 "Financial reporting on the period during the year".

Our obligation is to express the conclusion on this summarized financial information of interperiod based on our review.

Scope of review

Review is performed in accordance with International standard for engagements of reviews 2410, "Review in financial information of the interperiod which is performed by independent auditor of the subject". Review in financial information of the interperiod consists of making requests, fundamentally to persons responsible for financial and accounting problems, and also the application of analytical and other procedures of the review. Review is significantly lower in the scope of audit performed in accordance with International auditing standards and consequently it does not enable us to obtain the conviction to be aware all significant issues which might be observed in audit. In accordance with this, we do not express audit opinion.

Conclusion

Based on our review, nothing has drawn our attention which would cause to trust that the enclosed summarized consolidated financial statements of interperiod doesn't give a truthful and fairly presentation of the financial position of the Group at 30 June 2014 and its financial results and the cash flows for then finalized six month period in accordance with International accounting standard 34 "Financial reporting in periods during the year".

Special emphasis

As described in note 14 to the summarized consolidated financial statements, the Group as at 30 June 2014 has the stated liability for the clearing debt in the amount of HRK 669,976 thousand which relates to the payment of letter of credit, on the basis of Consent of the Ministry of Finance on utilization of assets on the basis of inter-banking agreement. Regarding that, there is no other document which would regulate the relation between the Group and the Ministry of Finance, and in respect of the stated clearing debt, till the date of issuance of this Statement has not been defined whether it is dealt with a loan or a state subsidy.

In Zagreb, 29 August 2014

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Summarized consolidated income statement - HEP Group

For six-month period ending 30 June 2014

	Note	For six-month period ending	
		30 June 2014	30 June 2013
		HRK'000 Unaudited	HRK'000 Unaudited
Revenue from electricity sales	3	5,236,859	6,264,580
Revenue from thermal power sales	3	374,844	440,863
Revenue from gas sales	3,4	337,436	227,494
Other operating income	5	556,183	766,562
Total operating income		6,505,322	7,699,499
Electricity purchase cost	6	(854,024)	(1,190,008)
Fuel costs	6	(917,625)	(1,354,948)
Staff costs		(836,591)	(882,696)
Depreciation and amortization expense		(900,423)	(886,872)
Other operating expenses	7	(1,267,692)	(2,036,445)
Total operating expenses		(4,776,355)	(6,350,969)
Profit from operations		1,728,967	1,348,530
Financial revenue		75,031	81,970
Financial costs		(162,075)	(434,643)
Net loss from financial activities		(87,044)	(352,673)
Profit before tax		1,641,923	995,857
(Profit tax)/Tax income	8	(364,241)	(233,573)
Profit of the current year		1,277,682	762,284
Attributable to:			
Equity holder		1,275,772	758,959
Non-controlling interest		1,910	3,325
		1,277,682	762,284

The accompanying accounting policies and notes form an integral part of summarized consolidated income statement.

Summarized consolidated statement of comprehensive Income - HEP Group

At 30 June 2014

	Note	For six-month period ending	
		30 June 2014	30 June 2013
		HRK'000	HRK'000
		Unaudited	Unaudited
Profit for the current year		<u>1,277,682</u>	<u>762,284</u>
Foreign translation differences		(225)	(233)
Fair valuation adjustment of Janaf shares		10,230	-
Other comprehensive income / (loss)		<u>10,005</u>	<u>(233)</u>
Total comprehensive income for the current year		<u>1,287,687</u>	<u>762,051</u>
Total comprehensive income attributable to:			
Equity holder		1,286,003	758,959
Non-controlling interest		1,684	3,092
		<u>1,287,687</u>	<u>762,051</u>

The accompanying accounting policies and notes form an integral part of summarized consolidated comprehensive income statement.

Summarized consolidated statement of financial position – HEP Group

At 30 June 2014

ASSETS	Note	30 June 2014	31 December 2013
		HRK'000	HRK'000
		Unaudited	Audited
Non-current assets			
Property, plant and equipment		24,990,862	25,504,613
Capital work in progress	10	4,352,370	4,062,813
Intangible assets		58,985	69,433
Investment property		232,044	231,285
Prepayments for tangible property	9	47,907	57,288
Investment in NPP Krško		1,754,419	1,754,419
Long-term loan receivables and deposits		6,160	6,160
Assets held for sale and other investments		135,562	125,166
Other non-current assets		64,940	58,812
Deferred tax assets		256,911	255,884
Total non-current assets		31,900,160	32,125,873
Current assets			
Inventories		1,177,408	903,236
Trade receivables		1,585,849	1,780,129
Other short-term receivables		498,121	490,929
Cash and cash equivalents		713,125	260,755
		3,974,503	3,435,049
TOTAL ASSETS		35,874,663	35,560,922

Summarized consolidated statement of financial position – HEP Group (continued)

At 30 June 2014

CAPITAL AND LIABILITIES	Note	30 June 2014	31 December 2013
		HRK'000 Unaudited	HRK'000 Audited
Share capital	11	19,792,159	19,792,159
Capital reserves	11	12,848	2,617
Retained earnings	11	2,406,236	1,415,473
Equity attributable to equity holder		22,211,243	21,210,249
Non-controlling interest	11	33,661	31,977
Total equity		22,244,904	21,242,226
Long-term borrowings	12	1,444,742	1,686,418
Long-term liabilities to the state		23,069	24,451
Long-term provisions	13	775,385	781,797
Bonds issued		3,206,239	3,278,893
Other long-term liabilities	14	4,909,811	5,037,592
Deferred tax liability		648	654
Total non-current liabilities		10,359,894	10,809,805
Trade payables		1,035,780	1,485,965
Current portion of long-term bonds issued		93,380	93,380
Current portion of long-term borrowings	12	367,361	208,838
Short-term borrowings	15	132,069	672,338
Taxes and contributions payable		276,447	35,540
Profit payable		284,918	-
Interest payable		39,174	41,132
Liabilities to employees		125,089	135,168
Other short-term payables		915,647	836,530
Total current liabilities		3,269,865	3,508,891
TOTAL CAPITAL AND LIABILITIES		35,874,663	35,560,922

The accompanying accounting policies and notes form an integral part of summarized consolidated statement of financial position.

Summarized consolidated statement of changes in equity - HEP Group

For six-month period ending with 30 June 2014

	Share capital	Capital reserves	Retained earnings/ (Accumulated losses)	Equity attributable to the equity holder of the parent	Non-controlling interest	Total equity
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
Balance 1 January 2013	19,792,159	6,046	(356,648)	19,441,557	47,283	19,488,840
Adjustments	-	-	8,653	8,653	-	8,653
Profit of the current period	-	-	758,959	758,959	3,325	762,284
Translation differences	-	-	-	-	(231)	(231)
Janaf shares fair value	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(233)	(233)
Total comprehensive income of the current period	-	-	758,959	758,959	3,093	762,052
Distribution of dividends to RWE	-	-	-	-	(8,707)	(8,707)
Pay-off of interest to RWE	-	-	-	-	(12,948)	(12,948)
Balance 30 June 2013, Unaudited	19,792,159	6,046	410,964	20,209,169	28,721	20,237,890
Balance 1 January 2014	19,792,159	2,617	1,415,473	21,210,249	31,977	21,242,226
Payment of dividends	-	-	(284,918)	(284,918)	-	(284,918)
Translation differences HEP Traovina	-	-	(91)	(91)	-	(91)
Profit of the current period	-	-	1,275,772	1,275,772	1,910	1,277,682
<i>Translation differences</i>	-	1	-	1	(226)	(225)
<i>Janaf shares fair value</i>	-	10,230	-	10,230	-	10,230
Other comprehensive income	-	10,231	-	10,231	(226)	10,005
Total comprehensive income of the current period	-	10,231	1,275,772	1,286,003	1,684	1,287,687
Distribution of dividends to RWE	-	-	-	-	-	-
Pay-off of interest to RWE	-	-	-	-	-	-
Balance 30 June 2014, Unaudited	19,792,159	12,848	2,406,236	22,211,243	33,661	22,244,904

The accompanying accounting policies and notes form an integral part of summarized consolidated statement of changes in equity.

Summarized consolidated statement of cash flows - HEP Group

For six-month period ending with 30 June 2014

	Six-month period ending	
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the period	1,277,682	762,284
Adjusted for:		
Profit tax expense/(Tax income) recognised in profit	364,241	233,573
Net loss from financial activities	73,130	352,673
Fair value of swap	13,914	(240,077)
Depreciation of long term tangible and intangible property	900,423	886,872
Increase in provisions for bad and doubtful receivables	120,264	110,511
Net book value of alienated long-term tangible property	8,598	13,521
Decrease in provision for inventories	6,523	-
Increase in provisions	(6,412)	163,849
<i>Operating cash flows before movements in working capital</i>	<u>2,758,363</u>	<u>2,283,206</u>
(Increase) in trade receivables	74,016	(30,437)
(Increase)/ decrease in inventories	(280,695)	(51,761)
(Increase)/ decrease in other current assets	17,285	(40,033)
Decrease in trade payables	(450,185)	(1,032,535)
Increase in other short-term liabilities	84,764	20,931
Increase in profit payable	284,918	-
Increase/ (decrease) in other long-term liabilities	(143,083)	137,174
Cash generated from operations	<u>2,345,383</u>	<u>1,286,545</u>
(Profit tax paid)/ Profit tax return	(427,408)	(77,734)
Interest paid	(148,388)	(173,892)
NET CASH FROM OPERATING ACTIVITIES	<u>1,769,587</u>	<u>1,034,919</u>
INVESTING ACTIVITIES		
Interest received	5,981	3,561
Acquisition of property, plant and equipment	(674,275)	(739,383)
Increase in intangible property	-	-
Increase in other long term property	2,224	12,527
Change in the non-controlling interest and dividends payment to RWE	(226)	(21,653)
NET CASH FLOW FROM INVESTING ACTIVITIES	<u>(666,296)</u>	<u>(744,948)</u>

Summarized consolidated statement of cash flows - HEP Group (continued)

For six-month period ending with 30 June 2014

	Six-month period ending	
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
FINANCING ACTIVITIES		
Repayments of bonds issued	(46,690)	(46,690)
Long-term loans raised	-	476
Repayment of long-term loans	(66,281)	(67,936)
Short-term loans raised	-	183,000
Repayment of short-term loans	(537,950)	(583,000)
NET CASH FLOW FROM FINANCING ACTIVITIES	(650,921)	(514,150)
NET DECREASE IN CASH AND CASH EQUIVALENTS	452,370	(224,179)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	260,755	605,025
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	713,125	380,846

The accompanying accounting policies and notes form an integral part of summarized consolidated statement of cash flows.

1. BASIS FOR PREPARATION

Financial statements are prepared in accordance with International accounting standard 34 "Financial reporting on interperiods during the year." Preparation of unaudited summarized consolidated financial statements for a six-month period conclusively with 30 June 2014 requires from Management to give assessments and suppositions which inflow the stated amounts of assets and liabilities and the disclosure of unpredictable assets and unpredictable liabilities at the date of the financial statements, as well as the stated income and expenses during the reporting period. Estimates are based on information which was available on the date of preparation of financial statements and the actual amounts may differ from the estimated. Assessments and suppositions which were the basis for estimates continuously are revised. Changes in accounting estimates are recognized in a period to which the change inflows, if inflows only to this period, or again in the future period if has the inflow to the current and the future period.

Annual financial statements of Hrvatska elektroprivreda d.d. and its subsidiary companies (under common name "HEP Group") are composed in accordance with International financial reporting standards (IFRS) promulgated by the International Accounting Standards Board (IASB), accepted in the European Union. Summarized consolidated financial statements of the six-month period are composed in accordance with International accounting standard 34 "Financial reporting in periods during the year" (IAS 34) which is issued by IASB. Summarized consolidated financial statements for a six-month period conclusively with 30 June 2014 are prepared according to the same accounting policies which are used for the financial statements for the year ended 31 December 2013.

Certain information which otherwise are disclosed in the financial statements composed according to IFRS-s which are promulgated by IASB are condensed or omitted, according to IAS 34. Statement on financial position at 31 December 2013 is carried out from revised financial statements, but does not include all items which should be necessarily disclosed according to IFRS-s which brings IASB. The Group deems that information stated in these financial statements is identical in the sense that do not mislead to wrong conclusions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HEP Group carries accounting records in Croatian language, in Kuna and in accordance with Croatian legal regulations and the accounting principles and also the practice which is observed by the companies in Croatia. Accounting records of subsidiary companies in Croatia and abroad are managed according to effective regulations of the respective countries.

Financial statements of the HEP Group are prepared on the principle of historical cost; financial investments are carried out at fair value. Historical cost is based mainly at fair value of a fee given in exchange for property.

Some new standards and interpretations in effect are for the financial year which starts at 1 January 2014, while are, except as is stated in addition, to the enclosed unaudited summarized consolidated financial statements for a six-month period conclusively by 30 June 2014, applied the way of presentation, valuation methods and the accounting policies used in the preparation of the financial statements of the HEP Group for the year ended 31 December 2013.

The following alterations and amendments of the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **IFRS 10 „Consolidated financial statements”** published on May 2011 and amended in 2012, supersedes the previous version of IAS 27 (2008) “Consolidated and Separated Financial Statements”, (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 11 „Joint Arrangements”**, published on May 2011 and amended in 2012, superseded previous version of IAS 31 “Interests in Joint Ventures” (effective for annual periods beginning on or after 1 January 2013)
- **IFRS 12 „Disclosure of Interests in Other Entities ”**, published on May 2011 and amended in 2012 (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 “Separate Financial Statements”** (altered and amended in 2011), consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 “Consolidated Financial Statements”, (effective IAS 27 (altered and amended in 2011) applied for annual periods beginning on or after 1 January 2013),
- **IAS 28 “Investments in Associates and Joint Ventures”** (altered and amended in 2011). This version supersedes IAS 28 (2003) “Investments in Associates” (effective IAS 28 (altered and amended in 2011) is applied for annual periods beginning on or after 1 January 2013).
- **IFRIC 21 „Duties“ – ”** proclaimed in May 2013, (in effect for the annual periods which start at or after 1 January 2014).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of stated alterations and amendments of the existing standards and interpretations did not bring to significant changes of accounting policies of the HEP Group.

Issued but not yet adopted standards and interpretations

At the date of issuing of these financial statements, were promulgated, but not yet into effect the following standards, alterations and interpretations:

- **IFRS 9 „Financial instruments”** (applied to annual periods beginning on or after 1 January 2015)
- **Alterations and amendments to IFRS 9 „Financial instruments – classification and measurement“** – proclaimed in December 2011, by which is prescribed the disclosure of information on the first application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Alterations and amendments of IAS 32 “Financial instruments - disclosures”** – published in December 2011, by which is prescribed the disclosure of expanded information on the set-off of financial property and financial liabilities (applied to annual periods beginning on or after 1 January 2014)

Management Board of the HEP Group has decided , the stated standards, alterations and interpretations not to be applied before their date of entering into effect and predicts that their adoption will not significantly inflow to the financial statements of the Group in a period of their first application.

3. SEGMENT INFORMATION

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

The Group's reportable segments are separated as follows: electricity (generation, transmission, distribution and sale of electricity), heating (generation, distribution and sale of heating power), and gas (distribution and sale of gas).

Each segment's operating profit or loss includes all revenue and expenses directly attributable to the definite reporting business segments. Information about financial income, expenses and profit tax is not provided on a segment level, because the basis for presentation of segments is the operating profit.

	Electricity		Heating		Gas		Group	
							Six-month period ending 30 June	
	2014	2013	2014	2013	2014	2013	2014	2013
	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000	HRK'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenue	5,236,859	6,264,580	374,844	440,863	337,436	227,494	5,949,139	6,932,937
Other income allocated to segments	505,458	700,474	33,320	29,210	17,405	9,625	556,183	766,562
Profit/(loss) from regular operations							1,728,967	1,348,530
Net financial expense							(87,044)	(352,673)
Tax income / (Profit tax)							(364,241)	(233,573)
Net profit/(loss)							1,277,682	762,284

Segment assets consist primarily of property, plant and equipment, receivables, cash and inventories. Segment liabilities consist of trade and other payables. Non-segment assets and liabilities consist of assets and liabilities that cannot be reasonably attributed to the reporting business segments. Total unallocated assets include investments in NPPK (NE Krško d.o.o.), a part of property, plant and equipment and unallocated financial assets. Total unallocated liabilities include long-term loans and short-term loans as well as various other liabilities.

	Total segment assets		Total segment liabilities	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	HRK'000	HRK'000	HRK'000	HRK'000
	Unaudited	Audited	Unaudited	Audited
Electricity	29,531,837	29,709,614	6,177,437	6,481,463
Heating	1,081,498	1,227,066	153,320	178,558
Gas	641,889	347,338	247,883	153,035
Unallocated	4,619,439	4,276,904	7,051,119	7,505,640
Total Group	35,874,663	35,560,922	13,629,759	14,318,696

3. SEGMENT INFORMATION (continued)

Territorial business analysis

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

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

	Six month period ending	
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
Croatia	5,000,980	5,769,229
European Union member states	212,290	339,590
Other countries –non-European Union member states	23,589	155,761
	<u>5,236,859</u>	<u>6,264,580</u>

As a result of lower sales of electricity to domestic customers due to above-average temperatures in the winter months, reducing the price to customers within the universal service and the guaranteed supply from 1 October 2013, losing part of customers who have taken other suppliers and lower export of surplus electricity produced in hydropower, in the first half of 2014 are generated revenues from electricity sales in the amount of HRK 5,236,859 thousand, while in the same period last year amounted to HRK 6,264,580 thousand.

4. GAS SALES

On 27 February 2014, by the decision of the Government, HEP d.d. is determined as supplier in the wholesale gas market in the period to 31 March 2017.

Supplier in the wholesale market (HEP d.d.) from 1 April sells gas to suppliers in the public services for household customers under regulated conditions, and is obliged to provide a reliable and secure supply of gas.

Revenue from gas sales to external customers in HEP d.d. amounts to HRK 155,879 thousand. Revenue from gas sales to external customers in HEP-Plin d.o.o. amounts to HRK 181,557 thousand. The cost of gas sales to external customers amounted to HRK 72,056 thousand and HRK 9,277 thousand for HEP-Plin d.o.o. (Note 7).

5. OTHER OPERATING INCOME

	Six month period ending	
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
Income from assets received free of charge	115,836	115,191
Reversal of costs for the pay-offs according to the collective contract	-	204,712
Service for connection to network	119,215	84,108
Subsequent collection of receivables previously provided for	55,316	45,107
Other services rendered	47,115	61,620
Capitalised assets	28,859	30,318
Penalty interest	26,515	51,070
Income from sale of materials	17,972	21,649
Income from sale of cross – border transmission capacity	37,899	25,902
Income from electricity in transit – foreign	14,700	23,843
Reversal of long-term provisions for severance pays and jubilee awards	24,023	27,253
Reversal of long-term provisions – court costs	12,578	11,521
Income from reversal of other provisions	4,594	28,447
Revenues from excise taxes on invoiced access to Electricity and Gas power	14,392	-
Income in respect of the electricity bill reminders	2,795	2,793
Income in respect of court costs on claims	4,595	3,854
Income from sale of tangible assets	1,080	4,069
Collected receivables previously written off	6,541	454
Other	22,158	24,651
	556,183	766,562

6. FLUCTUATIONS IN OPERATIONS

The demand for electricity and thermal energy, as well as natural gas is characterized by fluctuations which have an inflow to the total results of operations of the HEP Group, and may be as a result of weather conditions, economic conditions in which they operate and the activities of other suppliers outside the Group and the price that they offer to customers.

Total operating expenses are influenced by hydrological conditions and market prices of production and supply of electric power and consumer demand for energy.

The bigger generation of electric energy in hydro-electric power plants decreases the import and the production in thermo-electric power plants and vice versa.

Also lower customer's consumption effects reduction of imports and production in thermal power plants.

As a result of lower sales of electricity to domestic customers due to above-average temperatures in the winter months, reducing the price to customers within the universal service and the guaranteed supply of 1 October 2013, losing part of customers who have taken other suppliers and lower export surplus electricity produced in hydropower, in the first half of 2014 are generated revenues from electricity sales in the amount of HRK 5,236,859 thousand, while in the same period last year are generated revenues from electricity sales in the amount of HRK 6,264,580 thousand.

Due to the continuation of the exceptionally favourable hydrological conditions in the first half of 2014 and high hydropower production, but also above mentioned lower sales, is reduced supply of electricity on the market and the production of thermal power plants, which has resulted in lower costs realized with the reference to the same period in previous year.

In the first half of 2014, costs of electricity purchases amounted to HRK 854,024 thousand, while in the period that ended on June 30, 2013 the same amounted to HRK 1,190,008 thousand. The cost of fuel in the first half of this year amounted to HRK 917,625 thousand and during the same period last year amounted to HRK 1,354,948 thousand.

7. OTHER OPERATING EXPENSES

	Six-month period ending	
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
Maintenance costs (service and material)	198,807	195,908
Provisions for bad and doubtful receivables	120,264	110,512
Gas purchase costs	142,209	207,649
Cost of sales gas to suppliers (Note 4)	81,333	-
General and administrative expenses	136,376	121,665
Collectible services and material	52,382	51,180
Refund of costs to employees	55,703	67,238
Costs of material	37,340	37,030
Other material employee's rights	26,563	359,910
NPPK (Krško) – decommissioning expense according to Government's decision	54,256	53,612
Contributions, taxes and amends to the state	43,265	43,283
Litigation provisions	12,599	183,983
Contributions and concessions for water	36,643	68,756
Provisions for non utilized holidays	25,342	15,243
Fee for the usage of power plant facilities	46,915	36,603
Write-off of non-current assets	8,641	13,250
Purchase value of sold materials	11,965	16,250
Calculation and collection costs	17,952	20,592
Provisions for retirement bonuses and jubilee awards	13,225	13,725
Provisions for severance pays on the basis of working contract cancellation	-	210,317
Refund for the less taken over quantities than stipulated	669	85,205
Insurance premiums	11,748	12,167
Fee for environmental protection	976	4,576
Other	132,519	107,791
	1,267,692	2,036,445

8. INCOME TAX

Tax expense and current taxes during the six-month period are accounted on the basis of real results and the tax rate of 20% for the period conclusively at 30 June 2014 and 2013.

9. PREPAYMENTS FOR TANGIBLE ASSETS AND CAPITAL EXPENDITURES

	30 June 2014	31 December 2013
	HRK'000	HRK'000
	Unaudited	Audited
JSC Tehnopromexport – TE Sisak	21,936	25,182
Končar GIM	7,679	10,311
Litostroj Slovenia	549	2,174
VOITH Siemens, Austria	1,798	1,887
Končar inženjering Zagreb	2,290	2,732
Spegra Inženjering	2,593	2,836
Đuro Đaković holding	3,291	4,361
Other	7,771	7,805
	47,907	57,288

10. INVESTMENTS IN PROGRESS

Increase in the Group's investment in the first half of the year refers to the following group of investments and the Group's companies:

Preparation of investment in the amount of HRK 19,785 thousand.

Replacement and reconstruction of energy facilities in the amount of HRK 206,735 thousand. The most significant investments relate to HEP Proizvodnja d.o.o. amounting to HRK 66,048 thousand, Hrvatski Operator prijenosnog sustava d.o.o. in the amount of HRK 44,544 thousand and HEP ODS d.o.o. in the amount of HRK 92,359 thousand.

Revitalization of energy facilities in the amount of HRK 87,031 thousand, and the most important is related to HEP Proizvodnja d.o.o. in the amount of HRK 74,325 thousand.

Construction of new facilities in the amount of HRK 157,634 thousand. The most significant investments relate to the HEP Proizvodnja d.o.o. in the amount of HRK 31,813 thousand, Hrvatski Operator Prijenosnog sustava d.o.o. in the amount of HRK 35,316 thousand and HEP ODS d.o.o. in the amount of HRK 78,647 thousand. Investments in power requirements and connection in the amount of HRK 152,072 thousand relating to Hrvatski Operator prijenosnog sustava d.o.o. in the amount of HRK 22,373 thousand and HEP ODS d.o.o. in the amount of HRK 129,699 thousand.

11. CAPITAL AND RESERVES

The share capital was first registered on 12 December 1994 in German marks (DEM) and amounted to DEM 5,784,832 thousand. On 19 July 1995, the share capital was reregistered in Croatian Kuna in the amount of HRK 19,792,159 thousand. The share capital consists of 10,995,644 ordinary shares, with a nominal value of HRK 1,800.00 each.

Retained earnings in the amount of HRK 2,406,236 thousand comprises of current profit of the period which is subscribed to the owner and amounts to HRK 1,275,772 thousand, reserves from net income in the amount of HRK 243,947 thousand as well as the retained earnings in the amount of HRK 886,517 thousand.

The non-controlling interest attributable to RWE amounts to HRK 33,661 thousand, of which HRK 1,910 thousand represents dividends for the current period.

12. LONG-TERM BORROWINGS

	Interest rate	30 June 2014	31 December 2013
		HRK'000	HRK'000
		Unaudited	Audited
	(EURIBOR + 1%-5.35%)		
Domestic bank borrowings		1,771,273	1,853,007
Foreign bank borrowings	Fixed at 2.71%	23,383	23,588
Financial lease	Fixed at 5.60%	24,278	25,898
Loan from RWE		1,279	1,279
Total		1,820,213	1,903,772
Deferred loan origination fees		(5,226)	(5,841)
Total long-term borrowings		1,814,987	1,897,931
Current portion		(367,361)	(208,838)
Current portion of financial lease		(2,884)	(2,675)
Long-term portion		1,444,742	1,686,418

12. LONG-TERM BORROWINGS (continued)

New sources of funds

In the first half of 2014 the Group has not concluded new long term loans. For the financing of the investment plan and operations in 2014 the Group has utilized own funds and funds from loans in use.

Loans in use

During first six months of 2014 the Group continued utilisation of the long-term loan approved in 2008 by KfW Entwicklungsbank in the amount of EUR 50,000 thousand for the financing of the projects of subsidiaries HEP ESCO d.o.o and HEP Obnovljivi izvori energije d.o.o. The key lending terms and conditions are as follows: 5-year utilisation period; quarterly repayment of principal over a period of 10 years following the expiry of the utilisation period. In late 2013, the company agreed the extension of the term of the loan by the end of 2017 and the reallocation of unutilized funds remaining to HEP d.d. and HEP ESCO. At 30 June 2014 the KfW loan balance was EUR 3,088,334.32, of which EUR 46,911,665.68 were unutilised.

According to some contracted loans, the Group is required to meet the required level of financial indicators: net value of tangible assets (equity), EBITDA coverage and net liabilities / debt for borrowings. At 30 June 2014 the Group has met all contractual financial indicators.

13. LONG-TERM PROVISIONS

	30 June 2014	31 December 2013
	HRK'000	HRK'000
	Unaudited	Audited
Litigation provision	375,891	375,870
Provision for retirement bonuses	219,548	231,911
Provision for jubilee awards	41,181	39,616
Provision for the de-commissioning of thermal power plants	117,134	112,769
Provision for electricity purchased from wind power plants	21,631	21,631
	<u>775,385</u>	<u>781,797</u>

The thermal power plant decommissioning provision in the amount of HRK 117,134 thousand represents a discounted value of the estimated decommissioning costs of the Group's thermal power plants.

13. LONG-TERM PROVISIONS (continued)

The Group makes provisions for litigation costs that are assessed not likely to be finalized in favour of HEP. During 2013, the Company made provision in the amount of HRK 165,000 thousand for litigation related to HE Peruća. The Company believes that the plaintiffs have no chance of success in their entirety, but given the long duration of the procedure and the complexity of the case, as well as the possibility of eventual partial success of plaintiff, the company made provision of 50% of the value of the dispute.

14. OTHER NON-CURRENT LIABILITIES

	30 June 2014	31 December 2013
	HRK'000	HRK'000
	Unaudited	Audited
Deferred income for property financed by third parties	3,860,642	3,975,988
Long term liabilities for assets financed by clearing debt	669,976	668,377
Fair value of interest swap	377,895	391,808
Other	1,298	1,419
	<u>4,909,811</u>	<u>5,037,592</u>

At 30 June 2014 the Group reported a liability in the amount of HRK 669,976 thousand in respect of a clearing debt (31 December 2013: HRK 668,377 thousand) regarding a payment under a letter of credit on the basis of the Consent of the Ministry of Finance with the use of the funds pursuant to an interbank agreement. As there is no other document that would regulate the relationship between the HEP Group and the Ministry of Finance regarding the clearing debt, it has not been clearly defined as either is a loan or a government grant.

15. SHORT-TERM BORROWINGS

In period from 1 January 2014 to 30 June 2014, the Group used short-term revolving loans from domestic banks for current operations.

As at 30 June 2014 the liability upon short-term loans amounts to HRK 132,069 thousand.

New funding sources

The Group has not contracted a new short-term loans / lines in the first six months of 2014 as THE Group during 2013, agreed with banks multipurpose medium term loans / lines contracted for 3 years to be used for the issuance of guarantees, letters of credit and for short-term loans for future business.

In order to establish long-term financing of working conditions and financial performance for the period ahead, the Group during the first half of 2014 initiated the process of testing the capital market and money market through demands for indicative bank offers.

Conducting activities of contracting and implementation will depend upon the received offers on the conditions of the capital market and the money market and the real needs of the Group.

16. SUPPLIERS

In 2014, HEP d.d. is purchasing gas from suppliers Prirodni plin d.o.o. and Prvo plinarsko društvo d.o.o. and is invoicing to the company HEP- Proizvodnja d.o.o.. Payables for gas purchased for HEP- Proizvodnja d.o.o. on June 30, 2014 amounts to HRK 38,404 thousand.

17. RELATED PARTY TRANSACTIONS

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

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

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

	30 June 2014	31 December 2013
	HRK'000	HRK'000
	Unaudited	Audited
NE Krško		
Liabilities for purchased electricity	61,428	63,373
		Six-month period ending
	30 June 2014	30 June 2013
	HRK'000	HRK'000
	Unaudited	Unaudited
Costs of purchased electricity	372,385	373,527

17. RELATED PARTY TRANSACTIONS (continued)

HRK'000	Sale revenues		Purchases	
	Six-month period ending		Six-month period ending	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
	Unaudited	Unaudited	Unaudited	Unaudited
Enterprises controlled by the Government	HRK'000	HRK'000	HRK'000	HRK'000
Hrvatske Željeznice	52,367	43,042	1,626	35,655
INA d.d.	60,564	74,265	329,131	29,037
Prirodni Plin	-	-	378,079	1,083,432
Plinacro	1,268	1,164	34,392	14,706
Croatia osiguranje	2,582	3,389	7,443	8,618
Hrvatska pošta	11,650	11,820	17,821	22,369
Hrvatske šume	1,861	4,051	2,712	2,854
Jadrolinija	304	595	261	283
Narodne novine	787	848	1,946	2,854
Hrvatska radiotelevizija	6,811	6,857	519	584
Plovput	275	294	140	83
Croatia Airlines	384	402	61	-
Petrokemija Kutina	10,855	5,783	30	10
Ministry of Foreign Affairs	227	256	-	-
Ministry of Defense	12,188	14,058	-	-
Ministry of Interior	6,962	13,363	-	-
Elementary and secondary schools	45,233	49,924	17	11
Judicial institutions	4,672	6,675	46	53
Colleges and universities	15,581	18,808	736	1,676
Legislative, executive and other bodies of the Republic of Croatia	13,777	15,248	3,142	3,116
Health institutions and organisations	58,890	51,844	754	2,333
Other users	6,159	10,877	1,853	3,765
TOTAL	313,397	333,563	780,709	1,211,439

17. RELATED PARTY TRANSACTIONS (continued)

	Receivables		Payables	
	30 June 2014 Unaudited	31 December 2013 Audited	30 June 2014 Unaudited	31 December 2013 Audited
HRK'000				
Enterprises controlled by the Government	HRK'000	HRK'000	HRK'000	HRK'000
Hrvatske Željeznice	35,731	79,781	273	39,792
INA d.d.	13,671	18,298	128,843	11,075
Prirodni Plin	37	-	15,779	153,148
Plinacro	353	400	8,332	8,670
Croatia osiguranje	533	611	3,663	5,119
Hrvatska pošta	2,575	3,211	3,697	8,786
Hrvatske šume	275	530	1	49
Jadrolinija	155	57	231	1,274
Narodne novine	349	163	557	1,226
Hrvatska radiotelevizija	2,401	2,399	31	147
Plovput	48	74	122	51
Croatia Airlines	131	217	-	-
Petrokemija Kutina	4,362	9,488	-	-
Ministry of Defense	1,936	4,090	-	-
Ministry of Interior	1,068	6,592	-	-
Elementary and secondary schools	10,248	20,491	-	-
Judicial institutions	832	4,532	-	-
Colleges and universities	2,912	4,619	-	-
Legislative, executive and other bodies of the Republic of Croatia	3,213	5,572	-	-
Health institutions and organizations	22,973	27,855	-	-
Other users	2,943	4,191	2,278	3,513
TOTAL	106,746	193,171	163,807	232,850

18. SUBSIDIARIES

At 30 June 2014 the Group in its ownership had the following subsidiaries:

Subsidiary	Country	Owners hip portion in (%)	Main activity
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity generation and heating
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Thermal power generation and distribution
HEP-Trgovina d.o.o.	Croatia	100	Electrical energy trading and optimization of power plants production
HEP-Plin d.o.o.	Croatia	100	Gas distribution
TE Plomin d.o.o.	Croatia	50	Electricity generation
APO d.o.o., environmental protection services	Croatia	100	Environmental protection services and special waste management
HEP ESCO d.o.o.	Croatia	100	Financing of energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Development of infrastructure in area around Plomin
CS Buško Blato d.o.o.	Bosnia and Herzegovina	100	Maintenance of hydro power plants
HEP-Odmor i rekreacija d.o.o.	Croatia	100	Accommodation and recreation services
HEP-NOC Velika	Croatia	100	Accommodation and training
HEP-Obnovljivi izvori energije d.o.o.	Croatia	100	Electricity generation
Program Sava d.o.o. za usluge	Croatia	100	Spatial planning, design, construction and supervision
HEP-Trgovina d.o.o. Brežice	Slovenia	100	Electricity trading
HEP- Magyarorszag Energia KFT	Hungary	100	Electricity trading
HEP-Trade d.o.o., Mostar	Bosnia and Herzegovina	100	Electricity trading
HEP-Trade d.o.o., Belgrade	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

The majority of these subsidiaries were created for the purpose of reorganization and re-structuring the core business activities driven by the new energy legislation, which came into effect as of 1 January 2002, as described in Note 1, HEP-Telekomunikacije d.o.o. in 2013 and HEP – Opskrba plinom d.o.o. in 2014.

HEP- RVNP d.o.o. changed its name in 2014 to Program Save d.o.o. za usluge.

19. MANAGEMENT MEMBERS' CHANGE

On June 5, 2014, Mr. Ante Ramljak, Member of the Supervisory Board of HEP d.d. was relieved of duty. At the session of the General Assembly of HEP d.d. held on June 5, 2014, Mr. Juraj Bukša was elected as the new Member of the Supervisory Board of HEP d.d.

20. APPROVAL OF THE FINANCIAL STATEMENTS

Summarized consolidated financial statements for six-month period ending with 30 June 2014 were approved by the Management Board and authorised for issue on 27 August 2014.

Signed on behalf of the Group on 29 August 2014:

Tomislav Šerić

President of the Management Board

Ivan Matasić

Member of the Management Board