HRVATSKA ELEKTROPRIVREDA d.d. Zagreb

Annual Consolidated Financial Statements
and Independent Auditors' Report
for the year 2021

The English version is a translation of the original in Croatian for information purposes only. In case of a discrepancy, the Croatian original will prevail.

Contents

Responsibility for the annual consolidated financial statements

The Management Board of Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 (the "Company") and its subsidiaries (the "Group") is obliged to ensure that the annual consolidated financial statements of the Group for 2021 are prepared in accordance with the applicable Croatian Accounting Act and the International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union ("IFRS"), so as to provide a true and fair view of consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Group for that period.

Based on the conducted research, the Management Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management Board has prepared annual consolidated financial statements under the going concern assumption.

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

- selection and consistent application of appropriate accounting policies in accordance with applicable financial reporting standards;
- making reasonable and prudent judgments and estimates;
- preparation of annual consolidated financial statements with the assumption of going concern, unless the assumption is inappropriate.

The Management Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the consolidated financial position, consolidated results of operations, consolidated changes in equity and consolidated cash flows of the Group, and their compliance with the Accounting Act. The Management Board is also responsible for safeguarding the assets of the Group and therefore for taking reasonable measures to prevent and detect fraud and other irregularities.

Signed on behalf of the Management Board:

Petar Sprčić Member of the Management Board	Tomislav Šambić Member of the Management Board	Frane Barbarić President of the Management Board
		HRVATSKA ELEKTROPRIVREDA d. ZAGREB 3. Ulica grada Vukovara 37

Hrvatska elektroprivreda d.d.

Ulica grada Vukovara 37

10000 Zagreb

Republic of Croatia

In Zagreb, 25 April 2022

INDEPENDENT AUDITORS' REPORT

To the shareholder of the company Hrvatska elektroprivreda d.d.

Audit report on the annual consolidated financial statements

Opinion

We performed the audit of the annual consolidated financial statements of Hrvatska elektroprivreda d.d. Zagreb, Ulica grada Vukovara 37 (the "Company") and its subsidiaries (the "Group"), for the year ended 31 December 2021, which include the Consolidated Statement of financial position as at 31 December 2021, the Consolidated Statement of profit and loss, Consolidated Statement of other comprehensive income, Consolidated Statement of changes in equity and Consolidated Statement of cash flows for the year then ended, and Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual consolidated financial statements present a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and the consolidated financial performance and consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards established by the European Commission. and published in the Official Journal of the European Union.

Basis for Opinion

We conducted our audit in accordance with International Auditing Standards ("IASs"). Our responsibilities under these standards are described in detail in our Independent Auditors' Report in the section *Auditor's responsibilities for the audit of the consolidated annual financial statements*. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Emphasis of matter

We draw attention to Note 32 to the Consolidated financial statements which describes the liability for clearing debt in the amount of HRK 800,215 thousand (31 December 2020 in the amount of HRK 739,447 thousand) arising from payments under letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. Our opinion has not been modified in this respect.

We draw your attention to Note 38 to the consolidated financial statements, which emphasizes the need to initiate the procedure of registration of rights in the land register and harmonization with the provisions of the Act amending the Water Act. Our opinion has not been modified in this respect.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, have been of the utmost importance in our audit of the annual consolidated financial statements for the current period and include the identified significant risks of material misstatement due to error or fraud with the greatest impact on our audit strategy, resources and time spent by the engaged audit team.

We have dealt with these matters in the context of our audit of financial statements as a whole and in the formation of our opinion about them, and we do not give a separate opinion on these issues.

We have determined that the matters below are key audit matters to be disclosed in our Independent Auditors' Report.

Key audit matter	How we addressed the key audit matter
Legal disputes and contingent liabilities Given that the Group is exposed to significant legal claims, we have turned our attention to this area. Any stated liability or disclosed contingent liability, or non-disclosure in the financial statements, is inherently uncertain and depends on several significant assumptions and judgments. These are potentially significant amounts for which the determination of the amounts to be disclosed in the consolidated financial statements is, if applicable, subject to subjective assessment. In addition, the Management Board assesses the future outcomes and amounts of contingent liabilities that may arise as a result of these legal disputes in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. **Related disclosures in the accompanying annual consolidated financial statements** See notes 2, 3 and 31 in the accompanying consolidated annual financial statements.	**Our audit procedures related to this area included, but were not limited to:** - Receiving and analysing attorneys' responses to our written inquiries to attorneys and discussing specific issues with them; - Critical review of the used assumptions and estimates pertaining to the claims. This includes considering estimates of the probability of adverse outcomes of court proceedings and the accuracy of the calculation of the related amounts of required provisions in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets; - Assessment of the adequacy of the disclosure in the notes to the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Key Audit Matters (continued)

Key audit matter	How we addressed the key audit matter
Recognition of revenue from the sale of electricity to customers of universal service (household customers) Revenue from the sale of electricity is recognized based on the best estimate of the quantity of electricity delivered in accordance with IFRS 15 - Revenue from Contracts with Customers. Meter readings and actual calculation of electricity supplied to household customers are performed twice a year, which is why the Group recognizes revenues from sales of electricity to households based on the consumption of the previous billing period, which is adjusted for the value of total electricity produced and purchased by the distribution network. The total amount of energy produced and purchased is adjusted for losses in the distribution network calculated on the basis of logarithmic regression. We focused on this area as it includes significant estimates related to the recognition of revenue from the sale of electricity at the reporting date, and revenue recognition is one of the most significant financial information. **Related disclosures in the accompanying annual consolidated financial statements** See notes 2, 3, 5, 24 and 36 in the accompanying consolidated annual financial statements.	**Our audit procedures related to this area included, but were not limited to:** - Gaining an understanding of the process of reading electricity consumption, estimating the future consumption that will be charged to households, and the model of estimating recognized revenues and the related calculation of losses in the distribution network; - Gaining an understanding of key management controls related to the estimation of electricity sales revenue; - Assessment of the reasonableness of key assumptions used in the estimation model including the quantities of electricity sold, the price and the associated losses in the distribution network; - Test of mathematical accuracy of the model for estimating revenues from electricity sales, calculated losses and deferred revenues; - Assistance of an IT expert who checked the consistency and reliability of information transfer, assessment of system reliability, including internally performed independent assessment of unaccounted revenues using data on quantities and prices obtained by the Group and comparison of the results with the Group's estimates; - Assessment of the adequacy of the Group's disclosures related to the recognition of revenues from the sale of electricity to customers of universal service (household customers).

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Other matters

The audit of the annual consolidated financial statements of the Group for the year ended 31 December 2020 was performed by the audit companies BDO CROATIA d.o.o., Zagreb and FACT Revizija d.o.o., Zagreb, which expressed in their Independent auditors' report from 29 April 2021 a positive opinion on these annual unconsolidated financial statements.

We draw attention to Note 38 to the annual consolidated financial statements which, in accordance with point (b) of paragraph 8 of Article 21a of the current Accounting Act, lists the website where the separate non-financial report of the Group will be published within the prescribed period. Our opinion has not been modified in this respect.

Other information in the Annual Report and the separate non-financial report

Management Board is responsible for other information. Other information includes information included in the Annual Report, but does not include the annual consolidated financial statements and our Independent Auditors' Report, which we received before the date of this Independent Auditors' Report and a separate non-financial report that we expect to be made available after that date.

Our opinion on the annual consolidated financial statements does not include other information.

In relation to our audit of the annual consolidated financial statements, it is our responsibility to read other information and consider whether the other information is materially inconsistent with the annual consolidated financial statements or our audit findings or otherwise appear to be materially misstated. The non-financial report presents the non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act.

When we read a separate non-financial report, if we conclude that there is a material misstatement in it, we are required to communicate the matter to those charged with governance of the Group.

Regarding the Management Report and the Statement on the Application of the Corporate Governance Code, we also carried out the procedures required by the Croatian Accounting Act (the "Accounting Act"). These procedures include considering:

- whether the Group's Management Report has been prepared in accordance with Articles 21 and 24 of the Accounting Act and whether the Management Report has been prepared in all material respects in accordance with the accompanying annual consolidated financial statements;
- whether the specific information in the Statement on the Application of the Corporate Governance Code required under Article 22, paragraph 1, items 3 and 4 of the Accounting Act ("relevant parts of the Statement on the Application of the Corporate Governance Code") has been prepared in accordance with Article 22 of the Accounting Act.
- whether the Statement on the Application of the Corporate Governance Code includes disclosures in accordance with Article 22, paragraph 1, items 2,5, and 6 of the Accounting Act.

Based on the procedures required to be performed as part of our audit of the annual consolidated financial statements and the above procedures, in our opinion:

- The information contained in the Group's Management Report and the relevant parts of the Statement of Application of the Corporate Governance Code for the financial year for which the consolidated financial statements have been prepared is consistent, in all material respects, with the Group's annual consolidated financial statements set out on pages 11 to 91 and the opinion as set out in the Opinion section above;

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Other information in the Annual Report and the separate non-financial report (continued)

- The Management Report and the relevant parts of the Statement on the Application of the Corporate Governance Code have been prepared, in all relevant respects, in accordance with Articles 21, 22 and 24 of the Accounting Act;
- The statement on the Application of the Corporate Governance Code shall include the information required by Article 22, paragraph 1, items 2, 5, and 6 of the Accounting Act.

Furthermore, taking into account the knowledge and understanding of the Group's operations and the environment in which it operates, which we acquired during our audit, we are required to report whether we have identified material misstatements in the Management Report and Corporate Governance Statement. In that sense, we have nothing to report.

Responsibilities of the Management Board and those charged with governance for the annual financial statements

Management Board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRSs, and for those internal controls that the Management Board determines are necessary to enable the preparation of annual consolidated financial statements that are free from material misstatement due to fraud or error.

In preparing the annual consolidated financial statements, Management Board is responsible for evaluation of the Group's ability to continue operations assuming going concern principle, disclosure, if applicable, issues related to going concern, and using accounting based on going concern principle, unless the Management board intends to liquidate the Group or discontinue its business or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process established by the Group.

Auditors' Responsibility for the audit of consolidated annual financial statements

Our goals are to obtain reasonable assurance about whether the annual consolidated financial statements, as a whole, are free from material misstatement as a result of fraud or error, and to issue an independent auditors' report that includes our opinion. Reasonable assurance is a higher level of assurance, but this is no guarantee that an audit performed in accordance with IAS will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered as important, if it can reasonably be expected that, individually or in aggregate, they affect the economic decisions of users made based on these annual consolidated financial statements.

As an integral part of the audit report in accordance with ISA, we make professional judgments and maintain professional scepticism throughout the audit process. In addition, we:

- Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal controls relevant to the audit 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 Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Auditors' Responsibility for the audit of consolidated annual financial statements (continued)

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual consolidated financial statements, including disclosures, as well as whether the annual consolidated financial statements reflect the transactions and events which they are based on in a way that achieves a fair presentation.

We communicate with those charged with governance, among other issues, the intended scope and timing of audit and important audit findings, including any significant deficiencies in internal controls identified during our audit.

We also make a statement to those charged with governance that we have complied with the relevant ethical requirements regarding independence and that we will communicate with them any relationship and other matters that may reasonably be considered to affect our independence as well as, where applicable, on related safeguards.

Among the issues communicated to those charged with governance, we identify those issues that are the most important in auditing the annual consolidated financial statements of the current period and therefore present the key audit matters. We describe these matters in our Independent Auditors' Report, unless the law or regulation prevents the matters from being publicly disclosed, or when we decide, in extremely rare circumstances, that the matter should not be reported in our Independent Auditors' Report because the negative consequences of the disclosure could reasonably be expected to outweigh the benefits of public interest from such communication.

Grant Thornton revizija d.o.o. and RSM Croatia d.o.o. are jointly responsible for performing the audit and for the audit opinion, according to the requirements of the Audit Act applicable in Croatia.

Statement on other legal requirements

On 27 September 2021, we were appointed by the General Assembly of the Company, based on the proposal of the Management Board and the Supervisory Board, to audit the annual consolidated financial statements for 2021.

The audit companies Grant Thornton revizija d.o.o., Zagreb, and RSM Croatia d.o.o., Koprivnica, have been engaged in performing the legal audit of the annual consolidated financial statements of the Group for the first time in 2021, which is a one-year engagement.

In the audit of the Group's annual consolidated financial statements for 2021, we determined the materiality for the financial statements as a whole in the amount of HRK 133,000 thousand, which represents approximately 0,9% of the average realized revenue for the last three years.

Our audit opinion is consistent with the supplementary report for the Company's Audit Board drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Statement on other legal requirements (continued)

During the period between the starting date of the audited annual consolidated financial statements of the Group for 2021 and the date of this Independent Auditors' Report, we did not provide prohibited non-audit services to the Group and did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Group.

Report based on the requirements of the Delegated Directive (EU) 2018/815 on amendments of Directive 2004/109/EC of the European Parliament and Council regarding regulatory technical standards for the specification of a single electronic reporting format

Auditor's assurance report on compliance of the annual consolidated financial statements (hereinafter: financial statements), prepared in accordance with the provisions of article 462, paragraph 5 of the Capital Market Act (Official Gazette, no. 65/18, 17/20 and 83/21) by applying the requirements of the Delegated Regulation (EU) 2018/815 determining a single electronic reporting format for issuers (hereinafter: ESEF Regulation).

We performed our engagement with expressing reasonable assurance on whether the financial statements prepared for public disclosure purposes based on article 462, paragraph 5 of the Capital Market Act, included in the electronic file *hrvatskaelektroprivreda-2021-12-31-hr*, are prepared, in all material aspects, in accordance with the requirements of the ESEF Regulation.

Responsibilities of Management and Those Charged with Governance

The Company's Management is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation. The Company's Management is further responsible for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material non-compliance, whether due to fraud or error, with the reporting requirements of the ESEF Regulation.

Management is also responsible for:

- public disclosure of the financial statements included in the annual report in the valid XHTML format, and

- the selection and use of XBRL tags in compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for monitoring the preparation of the financial statements in the ESEF format as part of the financial reporting process.

Responsibilities of the Auditor

Our responsibility is to express a conclusion, based on obtained audit evidence, about whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We performed our engagement with expressing reasonable assurance in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.with the requirements of the ESEF Regulation. We performed our engagement with expressing reasonable assurance in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

Report based on the requirements of the ESEF Regulation (continued)

Performed procedures

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high degree of assurance, however it does not guarantee that the scope of testing will reveal any significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we performed the following activities:

- we have read the requirements of the ESEF Regulation,
- we have obtained an understanding of the Group's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation, whether due to fraud or error; and
- based on this we have designed and performed procedures responsive to estimated risks, and to obtain a reasonable assurance for expressing our conclusion.

The objective of our procedures was to assess as to whether:

- the financial statements included in the unconsolidated and consolidated annual financial statements have been prepared in the valid XHTML format,
- data, included in the unconsolidated and consolidated annual financial statements as required by the ESEF Regulation, are tagged and whether all tags meet the following requirements:
- use of XBRL tagging language,
- use of basic taxonomy elements stated in the ESEF Regulation with the closest accounting meaning, unless an additional taxonomy element was created in accordance with Appendix IV. of the ESEF Regulations,
- tags comply with the common tagging rules as required by the ESEF Regulation.

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

Conclusion

Based on the procedures performed and evidence obtained, in our opinion, the financial statements presented in the ESEF format, contained in the above mentioned electronic file and based on the provisions of article 462, paragraph 5 of the Act on Market Capital prepared for public disclosure purposes comply, in all material aspects, with the requirements of articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2021.

In addition to this conclusion and the opinion contained in this Independent Auditors' Report on the accompanying consolidated financial statements and the Management report for the year ended 31 December 2021, we do not express an opinion on information contained in this presentations or on other information included in the previously mentioned file.

INDEPENDENT AUDITORS' REPORT (continued)

Audit report on the annual consolidated financial statements (continued)

The partners engaged in the audit of the Group's annual consolidated financial statements for 2021, which results in this Independent Auditors' Report, are the certified auditor Ivica Smiljan for Grant Thornton revizija d.o.o. and certified auditor Ivan Horvat for RSM Croatia d.o.o.

Zagreb,

25 April 2022

Grant Thornton revizija d.o.o.
Ulica grada Vukovara 284
10000 Zagreb

Ivica Smiljan, certified auditor

Ivica Smiljan, Director

Grant Thornton

Grant Thornton revizija d.o.o.
HR - 10000 Zagreb

Koprivnica,

25 April 2022

RSM Croatia d.o.o.
Ulica Josipa Vargovića 2
48000 Koprivnica

Ivan Horvat, certified auditor

Ivan Horvat, Director

RSM

RSM Croatia d.o.o.
revizorska tvrtka
48000 Koprivnica, Josipa Vargovića 2

Consolidated Statement of profit or loss

for the year ended 31 December 2021

in '000 HRK	**Notes**	**2021**	**2020**
Continuing operations			
Income from sales	5	14.855.856	13.079.840
Other operating income	6	1.113.730	1.292.746
Total operating revenue		**15.969.586**	**14.372.586**
Cost of procurement of materials and energy	7	(6.713.191)	(4.865.961)
Staff costs	8	(2.127.689)	(2.032.743)
Depreciation, amortization expense	12,13,15	(2.269.343)	(2.211.210)
Other operating expenses	9	(3.690.383)	(3.103.898)
Total operating costs		**(14.800.606)**	**(12.213.812)**
Operating profit		**1.168.980**	**2.158.774**
Financial income	10	369.058	157.633
Financial expenses	10	(292.729)	(502.077)
Net profit/(loss) from financial activities		**76.329**	**(344.444)**
Pre-tax profit		**1.245.309**	**1.814.330**
Income tax expense	11	(225.808)	(350.555)
Profit for the year		**1.019.501**	**1.463.775**
Attributable comprehensive profit:			
To the owner of the parent capital		1.017.360	1.465.144
Non-controlling interests		2.141	(1.369)

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

Consolidated Statement of other comprehensive income

for the year ended 31 December 2021

in '000 HRK	**2021**	**2020**
Profit for the year	**1.019.501**	**1.463.775**
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange rate differences from foreign business translation	(4.168)	19.725
Reserves	-	-
	(4.168)	**19.725**
Items that will not be reclassified to profit or loss		
Changes in the value of financial assets at fair value through other comprehensive income (equity instruments)	37.019	(17.744)
	37.019	**(17.744)**
Other comprehensive income / (loss), net	**32.851**	**1.981**
Total comprehensive income for the current year net	**1.052.352**	**1.465.756**
Total comprehensive income attributable:		
To the owner of the parent capital	1.050.211	1.467.125
Non-controlling interests	2.141	(1.369)

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

Consolidated Statement of financial position

as at 31 December 2021

in '000 HRK	**Note**	**31 Dec 2021**	**31 Dec 2020**
ASSETS			
Fixed assets			
Property, plant and equipment	12	35.390.069	34.660.768
Assets with the right of use	13	17.473	18.853
Investment property	14	367.970	342.607
Intangible assets	15	301.562	253.249
Goodwill	15	69.906	49.155
Investments calculated using the equity method	17	8.040	7.540
Financial assets at fair value through other comprehensive income	18	276.465	233.315
Financial assets measured at amortized cost			
Long-term loans given	19	4.343	4.227
Other financial assets	20	63.501	69.863
Other non-current receivables	21	50.922	56.294
Deferred tax assets	11	810.551	879.620
Total fixed assets		**37.360.802**	**36.575.491**
Current assets			
Inventories	22	1.584.320	1.608.847
Financial assets measured at amortized cost			
Trade receivables	23	2.429.221	1.965.276
Other current receivables	24	1.100.951	808.369
Financial assets measured at fair value through profit or loss	25	165.233	167.055
Cash and cash equivalents	26	4.265.828	3.514.428
Total current assets		**9.545.553**	**8.063.975**
TOTAL ASSETS		**46.906.355**	**44.639.466**

Consolidated Statement of financial position (continued)

as at 31 December 2021

in '000 HRK	**Note**	**31 Dec 2021**	**31 Dec 2020**
EQUITY AND LIABILITIES			
Share Capital	27	19.792.159	19.792.159
Provisions		130.822	92.930
Retained earnings	27	6.668.993	6.491.752
Capital attributed to the owner of the parent		**26.591.974**	**26.376.841**
Non-controlling interest		68.132	36.176
Total equity		**26.660.106**	**26.413.017**
Financial liabilities measured at amortized cost			
Liabilities under issued bonds	28	-	3.497.668
Long-term loan liabilities	29	915.687	654.755
Other long-term liabilities	32	7.313.583	7.511.190
Lease liabilities	30	10.883	12.140
Provisions	31	1.405.623	1.331.676
Deferred tax liabilities	11	24.355	17.767
Total long-term liabilities		**9.670.131**	**13.025.196**
Financial liabilities measured at amortized cost			
Trade payables	33	2.727.183	1.897.946
Current portion of issued bonds	28	3.444.830	-
Current portion of long-term loans	29	91.808	67.723
Short-term loan liabilities	29	99.852	-
Current portion of loan liabilities	30	7.554	7.685
Liabilities for taxes and contributions	34	175.901	78.809
Income tax liabilities		60.751	114.408
Liabilities to employees	35	177.275	168.518
Other current liabilities	36	3.790.964	2.866.164
Total short-term liabilities		**10.576.118**	**5.201.253**
TOTAL EQUITY AND LIABILITIES		**46.906.355**	**44.639.466**

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

Consolidated Statement of changes in equity

for the year ended 31 December 2021

in '000 HRK	**Share Capital**	**Reserves**	**Retained earnings / (loss carried forward)**	**Equity attributed to the owner of the parent company**	**Non-controlling interest**	**Total principal**
Balance at 1 Jan 2020	**19.792.159**	**109.283**	**5.671.268**	**25.572.710**	**37.545**	**25.610.255**
Profit for the current year	-	-	1.465.144	1.465.144	(1.369)	1.463.775
Other comprehensive income	-	(17.744)	19.725	1.981	-	1.981
Total comprehensive income	-	*(17.744)*	*1.484.869*	*1.467.125*	*(1.369)*	*1.465.756*
Dividend payment to the owner	-	-	(664.385)	(664.385)	-	(664.385)
Other adjustments	-	1.391	-	1.391	-	1.391
Balance at 31 Dec 2020	**19.792.159**	**92.930**	**6.491.752**	**26.376.841**	**36.176**	**26.413.017**
Profit for the current year	-	-	1.017.360	1.017.360	2.141	1.019.501
Other comprehensive income	-	37.019	(4.168)	32.851	-	32.851
Total comprehensive income	-	*37.019*	*1.013.192*	*1.050.211*	*2.141*	1.052.352
Dividend payment to the owner	-	-	(840.621)	(840.621)	-	(840.621)
Recapitalization - Plinacro d.o.o.	-	-	5.543	5.543	29.815	35.358
Other adjustments	-	873	(873)	-	-	-
Balance at 31 Dec 2021	**19.792.159**	**130.822**	**6.668.993**	**26.591.974**	**68.132**	**26.660.106**

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

Consolidated statement of cash flows

for the year ended 31 December 2021

in '000 HRK	**2021**	**2020**
OPERATING ACTIVITIES		
Pre-tax profit	1.245.309	1.814.330
Interest income	(5.673)	(14.184)
Interest expense	188.361	181.760
Net foreign exchange differences	60.667	(8.465)
Fair valuation of investment property	(25.363)	(11.869)
Depreciation of property, plant and equipment, property with rights of use, and amortization of intangible assets	2.269.343	2.211.210
Expense from the alienation of property	46.913	43.558
Value adjustment of property, plant and equipment and intangible assets	53.215	113.886
Value adjustment of receivables	77.467	(262.103)
Value adjustment of inventories	(19.033)	11.450
Increase in provisions	73.947	136.276
Change in fair value of cross-currency swap	(294.608)	214.049
Cash flow from operating activities before changes in working capital	*3.670.545*	*4.429.898*
Decrease in trade receivables	(541.412)	466.642
Decrease / (Increase) in inventories	43.560	148.965
(Increase) / Decrease in other fixed assets	9.246	(40.146)
(Increase) in other current assets	(292.582)	(112.413)
(Decrease) in trade payables	763.787	(337.180)
Increase in other short-term liabilities	1.080.452	794.715
Increase of other long-term liabilities	109.883	184.255
Cash generated from operations	**4.843.479**	**5.534.736**
Paid income taxes	(274.921)	(268.835)
Interest paid	(193.172)	(184.298)
NET CASH FROM OPERATING ACTIVITIES	**4.375.386**	**5.081.603**
INVESTING ACTIVITIES		
Expenses for acquisition of subsidiaries, net of acquired cash	(53.347)	(96.502)
Interest receipts	25.205	33.142
Receipts from collection of granted loans	3.252	4.149
Expenditures for the purchase of real estate, plant and equipment	(3.081.634)	(4.426.661)
NET CASH FROM INVESTING ACTIVITIES	**(3.106.524)**	**(4.485.872)**

Consolidated statement of cash flows (continued)

for the year ended 31 December 2021

in '000 HRK	**2021**	**2020**
FINANCING ACTIVITIES		
Receipts from long-term loans	371.064	354.577
Receipts from short-term loans	99.852	-
Expenditures for repayment of long - term loans	(84.300)	(39.810)
Lease principal repayment expenses	(8.781)	(7.667)
Expenses for repayment of issued bonds	(54.676)	(76.173)
Dividend payment expenses	(840.621)	(664.385)
Receipts from cash funds	-	-
NET CASH FROM FINANCING ACTIVITIES	**(517.462)**	**(433.458)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**751.400**	**162.273**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**3.514.428**	**3.352.155**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4.265.828**	**3.514.428**

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

1. GENERAL

The Hrvatska elektroprivreda Zagreb Group (hereinafter “the Group”) consists of the parent company Hrvatska elektroprivreda d.d, Zagreb (hereinafter “HEP d.d” or “the Company”) and subsidiaries listed in Note 39.

HEP d.d is registered in Zagreb, Ulica grada Vukovara 37. The core business of the Group is the production, transmission and distribution of electricity and the control of the electricity system. In addition to the above core activities, the Group is also engaged in the production and distribution of thermal energy through the central heating system in Zagreb, Osijek and Sisak, gas sales on the wholesale market, and gas distribution in the counties of Osijek-Baranja, Požega-Slavonia and Virovitica-Podravina.

The Group bases all its activities on the applicable laws, regulations and decisions of the Government of the Republic of Croatia.

As at 31 December 2021, the Group had 11,778 employees (2020:11,668) without the Krško d.o.o Nuclear Power Plant. The number of employees in the Krško Nuclear Power Plant d.o.o. is 644 employees (2020: 630).

The sole owner of the Company is the Republic of Croatia.

These consolidated financial statements are presented in Croatian kuna, which is also the Group's functional currency.

Laws regulating energy activities

The energy sector of the Republic of Croatia is regulated by the Energy Act (Official Gazette, 120/12, 14/14, 102/15, 68/18) and the Energy Regulation Act (Official Gazette 120/12, 68/18). Special laws regulate certain energy markets, namely: the electricity market, gas, heat, renewable energy sources and high-efficiency cogeneration, and energy efficiency.

Special laws currently in force are:

• Electricity Market Act (Official Gazette 111/21),
• Gas Market Act (Official Gazette 18/18, 23/20),
• Thermal Energy Market Act (Official Gazette 80/13, 14/14, 86/19),
• Energy Efficiency Act (Official Gazette 127/14, 116/18, 25/20, 41/21),
• Law on Renewable Energy Sources and High-Efficiency Cogeneration (Official Gazette 138/21).

In order to harmonize national legislation with directives and regulations from the so-called. "Clean Energy Package" adopted in 2019 at EU level, in 2021 the Act on Amendments to the Energy Efficiency Act was amended and adopted on 9 April 2021. The Croatian Parliament passed two new Acts, on 1 October 2021, the Electricity Market Act, and on 8 December 2021, the Renewable Energy Sources and High-Efficiency Cogeneration Act.

The adoption of the Act on Amendments to the Act on the Establishment of Infrastructure for Alternative Fuels is underway, which is important for the Group due to the fact that significant investments in electromobility are underway and significant revenues are expected in the future. The said Act defines the operation of publicly available charging points and the rights and obligations of the operator providing charging services for electric cars at the specified charging points (the said activity is not considered an energy activity within the meaning of the new Electricity Market Act). These Laws define further liberalization of energy markets and it will be necessary to harmonize the Group's operations with new regulations, both legal and a number of sub-legal ones that need to be adopted or amended during 2022.

1. GENERAL (continued)

According to the provisions of the new Electricity Market Act, HEP d.d. as the parent company and its subsidiaries continue to perform electricity activities that are performed as public services for electricity in the Republic of Croatia: electricity distribution and supply of electricity that is performed as a universal service and as a guaranteed service. Electricity generation, electricity supply and electricity trade are performed as market activities and are defined under the legal regulations governing trading on the electricity market. Electricity transmission is a public service provided by HOPS d.o.o. which is owned by HEP d.d. but is an independent company in terms of vertical integration of the Group, and has the obligation to transform into a joint stock company without changing the ownership structure.

In accordance with the Electricity Market Act, every customer has still the right to freely choose a market supplier. Customers from the household category are entitled to electricity supply within the universal service if they do not choose a market supplier. Entrepreneurial customers who have been left without a market supplier can use the guaranteed supply service.

Electricity supply is carried out according to the previously mentioned Act, and the rules and provisions governing market relations. Energy entities are free to contract the quantity and price of delivered electricity. Electricity supply that is performed as a guaranteed service is performed as a public service under regulated conditions to customers other than households, which, under certain conditions, remain without the supplier.

Electricity supply, which is performed as a universal service, is performed also as a public service to household customers who have the right to such a supply and freely choose it or use it automatically.

The Electricity Market Act introduces a large number of new concepts and institutes, as well as activities and energy entities such as storage and aggregation of electricity and the organization of the energy community of citizens or a closed distribution system. Furthermore, advanced networks, charging points for electric vehicles, contracts with dynamic pricing of electricity and consumption management are defined. The new market model implies an increased share of variable and decentralized RES production, increased dependence between the electricity and heating and cooling sectors, and the active role of end customers through individual or aggregate market presence through consumption response programs, energy storage and own energy production.

A new market framework is extremely important for the Group, which enables the development of new business models and the planning of new investments, especially in renewable energy sources and efficient cogeneration. Of particular interest to the Group is the integration of new energy storage technologies, which is prescribed by the new legal framework, as well as the energy activity of aggregation, which will help ensure the flexibility of the electricity system.

The Law on Renewable Energy Sources and High-Efficiency Cogeneration has taken an additional step towards greater use of new technologies that use renewable energy sources, especially when it comes to space heating and / or hot water or cooling, due to the fact that heating and cooling is based on the use of heated wood in households. The Act prescribes the procedure for the adoption and amendments to the Integrated National Energy and Climate Plan for the Republic of Croatia. The national target for the use of energy from renewable sources of 36.6% of the share of RES in the final gross energy consumption by 2030 is prescribed. A report on the progress in the promotion and use of energy from renewable sources, which the Republic of Croatia is obliged to submit to the European Commission, is defined. The notion of consumers of own renewable energy is introduced, as well as renewable energy communities that have legal personality and have the right to produce, consume, store and share / sell renewable energy, inter alia through renewable energy purchase agreements, or sell it on energy markets either directly or by aggregation.

1. GENERAL (continued)

The Act on Amendments to the Act on Energy Efficiency regulates the area of efficient use of energy, adoption of plans at local, regional and national level for improving energy efficiency and their implementation, energy efficiency measures, energy efficiency obligations, obligations of the energy regulatory body, transmission system operators, distribution system operators and energy market operators in connection with the transmission, i.e. transport and distribution of energy, obligations of energy distributors, energy and / or water suppliers, in particular energy services, energy savings and consumer rights in the application of energy measures efficiency. For the Group, the system of savings obligations in the final consumption of electricity, gas and heat, i.e. potential costs related to non-compliance with the prescribed obligations, is extremely important. The parent company and its subsidiaries harmonize the organization and operations of the Group in accordance with the adopted or amended laws and deadlines prescribed by those laws, i.e. under the legal acts that will follow.

Pursuant to the Methodology for Determining the Amount of Tariff Items for Electricity Distribution and the Methodology for Determining the Amount of Tariff Items for Electricity Transmission from December 2015, in 2021 other tariff items adopted in January 2019 are still in force. In December 2021, requests were submitted by the Transmission Operator and the Distribution System Operator to change tariff items, and HERA issued a new Decision on the amount of tariff items for electricity transmission and a Decision on the amount of tariff items for electricity distribution (Official Gazette, No. 138 / 21). According to the above Decisions, the applicable tariffs remain unchanged for the first quarter of 2022, and the correction or increase was approved from 1 April 2022.

Pursuant to the Electricity Market Act, the decision on the amount of tariff items for electricity supply within the universal service is made by HEP ELEKTRA d.o.o., and for electricity supply within the guaranteed supply the decision is made by HERA, based on the Methodology for determining the amount of tariff items for guaranteed electricity supply adopted on 1 March 2019. As before, HERA revised the amounts of tariff items on a quarterly basis in accordance with the Methodology, and in September adopted the Decision on the amount of tariff items for guaranteed electricity supply (Official Gazette, No. 100/21), for the last quarter or for the period of 1 October to 31 December 2021. Tariff items are determined by applying the reference electricity price determined on the basis of data from the regionally relevant Hungarian stock exchange HUDEX (https://hudex.hu) on the highest average prices of basic and peak electricity from futures contracts (futures) for the next first and the next three quarters.

General assembly

The General Assembly consists of members representing the interests of the sole shareholder - the Republic of Croatia:

Tomislav Ćorić	Member	Member since 15 February 2018

Supervisory Board

Members of the Supervisory Board in 2021

Goran Granić	President	President since 18 January 2018
Jelena Zrinski Berger	Member	Member since 18 January 2018
Lukša Lulić	Member	Member since 9 November 2018
Ivo Ivančić	Member	Member since 9 November 2018
Meri Uvodić	Member	Member since 4 December 2018

Members of the Supervisory Board in 2020

Goran Granić	President	President since 18 January 2018
Jelena Zrinski Berger	Member	Member since 18 January 2018
Lukša Lulić	Member	Member since 9 November 2018
Ivo Ivančić	Member	Member since 9 November 2018
Meri Uvodić	Member	Member since 4 December 2018

1. GENERAL (continued)

Management Board

Management in 2021

Frane Barbarić	President	President since 1 January 2018
Saša Dujmić	Member	Member since 4 December 2014 until 31 December 2021
Nikola Rukavina	Member	Member since 1 January 2018 until 31 December 2021
Marko Ćosić	Member	Member since 1 January 2018 until 31 December 2021
Petar Sprčić	Member	Member since 1 January 2018
Tomislav Šambić	Member	Member since 1 January 2018

Management in 2020

Frane Barbarić	President	President since 1 January 2018
Saša Dujmić	Member	Member since 4 December 2014
Nikola Rukavina	Member	Member since 1 January 2018
Marko Ćosić	Member	Member since 1 January 2018
Petar Sprčić	Member	Member since 1 January 2018
Tomislav Šambić	Member	Member since 1 January 2018

Basis of preparation

The consolidated financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) established by the European Commission and published in the Official Journal of the European Union. The annual consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments and investments in real estate, which are measured at fair value. All amounts disclosed in the consolidated financial statements are presented in thousands of Croatian kunas, unless otherwise stated. The Group keeps accounting records in the Croatian language, in HRK and in accordance with Croatian legal regulations and accounting principles and the practices followed by companies in Croatia.

The annual consolidated financial statements have been prepared on an accrual basis under the going concern assumption.

Principles and methods of consolidation

The consolidated annual financial statements of the Company represent the sum of assets, liabilities, capital and reserves and the results of the Group's operations for the completed annual period. The consolidated annual financial statements consist of the financial statements of the Company and the entities it controls - its subsidiaries. Subsidiaries within the Group are listed in Note 39. The Company has control over an entity if, based on its participation in it, it is exposed to a variable return, i.e. it has rights to them and the ability to influence the return by its dominance in that entity. The company has a 100% share and voting rights in all subsidiaries and is their sole member and has the power to appoint management and can manage the financial and business decisions of the company. The exception is the company LNG Hrvatska d.o.o. in which the Company has a 75% stake. The inclusion of subsidiaries in the consolidation starts from the date on which the Company as a parent acquires control over that company and ends when the Company as a parent loses control over it.

Where necessary, adjustments have been made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group. All significant transactions and balances between the Group's member companies have been eliminated on consolidation. Non-controlling interests in the net assets of consolidated subsidiaries are presented in these consolidated financial statements separately from the Company's interests in them. Non-controlling interests include the amount of the interest at the date of the business combination and the interest in the changes in equity since the date of the business combination that belongs to the non-controlling interests. The gain or loss and any portion of other comprehensive income are attributed to shareholders of the parent and non-controlling interests, even if this results in a negative amount of non-controlling interest.

1. GENERAL (continued)

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with shareholders in the group. The change in ownership interest results in adjusting the carrying amount of majority and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any compensation paid or received is recognized in a special reserve within equity attributable to owners.

If the Company loses control of a subsidiary, it derecognises related assets (including goodwill) and liabilities, non-controlling interest and other components of equity, and any realized gain or loss is recognized in profit or loss. Any remaining investment is recognized at fair value.

Business combinations

The Group uses the acquisition method for business combinations. The acquisition fee may include the following:

- Fair value of assets transferred
- Shares issued by the Group
- Fair value of potential consideration
- The fair value of the previous interest in the acquired company
- Liabilities to the owners of the acquired company

The assets and liabilities of the acquired company are valued at their fair values upon acquisition. Upon initial acquisition, the Group measures non-controlling interests at fair value or at a value equal to their proportional share in the acquired net assets.

Acquisition-related costs are recognized in the statement of profit or loss in the period in which they are incurred.

The difference between the acquisition fee and the fair value of the acquired net assets is recognized as goodwill if the acquisition fee is greater than the fair value of the acquired net assets or as a favourable purchase effect if the acquisition fee is less than the fair value of the acquired net assets. A favourable purchase is recognized in the consolidated statement of profit or loss in the period in which the company is acquired.

If the acquisition is carried out in stages, the value of the previous interest in the company is measured at fair value at the time of acquisition. The gain or loss arising from the measurement of a previous interest is recognized in the consolidated statement of profit or loss.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The adopted accounting policies are in accordance with the accounting policies of the previous financial year, except for the amendments stated hereinafter resulting from amendments of the International Financial Reporting standards (IFRS) adopted by the Group since 1 January 2021, which had no significant impact on the Group's financial statements. The Group has not early adopted any standard or interpretation or amendments to existing standards published by the IFRS Interpretations Committee ("Committee"), which have not entered into force.

(a) Standards and interpretations that are in force in the current period

• Interest Rate Benchmark Reform — Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the International Accounting Standards Board (IASB) published the "Interest Rate Benchmark Reform – Phase 2", amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to the reform of interbank offered rates (IBOR). The amendments provide for temporary reliefs related to the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR). The amendments provide in particular a practical facilitation in the accounting of changes in the basis for determining the contractual cash flows of financial assets and liabilities which require an adjustment of the effective interest rate, equivalent to the movement of the market interest rate. Also, the amendments include relieves in the form of cessation of hedge accounting, including a temporary facility that eliminates the need to meet the criteria of separate recognition when a risk-free instrument is designated as a hedge component.

The reform also amended IFRS 7 Financial Instruments: Disclosures that provide users of financial statements with an understanding of the effects of the interest rate harmonization reform on the Group's financial instruments and risk management strategy. Although the application is retroactive, the Company is not obliged to revise previous periods. The amendments did not have an impact on the Group's financial statements.

• IFRS 4 – Insurance contracts (Amendments)

Amendments to IFRS 4 Insurance Contracts change the fixed expiry date of the temporary exemption from the application of IFRS 9 Financial Instruments, and companies are required to apply IFRS 9 for annual periods beginning on or after 1 January 2023. The amendments did not have an impact on the Group's financial statements.

• IFRS 16 Leases - Covid-19-Related Rent Concessions (Amendments)

The amendments apply retroactively for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted only in financial statements not yet approved for publication as of 28 May 2020. The IFRS Committee has amended the standard to provide relief to tenants from the application of the guidelines on accounting of lease modifications from IFRS 16 regarding lease relieves resulting from the direct impact of the COVID-19 pandemic for leasee, allowing them to make any changes in lease payments. resulting from the impact of COVID-19 are treated in the same way as they would record a change in accordance with IFRS 16, if the change is not a modification of the lease, but only if all of the following conditions are met:

- A change in the lease payment results in a revised rental fee that is substantially the same or less than the rental fee immediately prior to the change.
- Any reduction in rental payments only affects payments that were originally due on or before 30 June 2021.
- There are no significant changes in other rental conditions.

The amendments did not have an impact on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Standards that are issued, but not yet in force and not early adopted

• IFRS 17 Insurance contracts

The standard becomes effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have already been adopted. On its meeting in March 2020, the IFRS Committee postponed the application of the standard until 2023. IFRS 17 Insurance Contracts establishes the principles of recognition, measurement, presentation and disclosure of issued insurance contracts. In addition, the standard requires the application of similar principles to reinsurance contracts and issued investment contracts with discretionary participation features. The aim is to ensure that all relevant information is disclosed by the Group in order to accurately present such agreements. Such information provides users of the financial statements with a basis for assessing the impact of insurance contracts, within the scope of IFRS 17, on the Company's financial position, financial performance and cash flows. The standard has not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an impact on the Group's financial statements.

• IFRS 17 Insurance contracts (Amendments)

Amendments to IFRS 17 are effective, retroactively, for annual periods beginning on or after 1 January 2023, whichever is earlier. The amendments are aimed at assisting companies in implementing the standards. They are specifically designed to reduce costs by simplifying certain requirements of the standard, facilitating the explanation of financial results as well as facilitating the transition by delaying the application of the standard until 2023 and providing additional relief to reduce the effort required in the first application of IFRS 17. Management has assessed that the application of the standard will not have an impact on the Group's financial statements.

• IFRS 17 Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted under IFRS 17. For companies with initial application of IFRS 17 and IFRS 9 simultaneously, the amendment provides a transitional option for "Classification overlap" related to comparative information for financial assets. A company that applies classification overlap to financial assets presents comparative information as if the classification and measurement requirements of IFRS 9 had been applied to those assets. Also, when applying the classification overlap to financial assets, the Group is not required to apply impairment requirements under IFRS 9. This amendment is aimed at helping companies to avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts and thus improve the usefulness of comparative information for users of financial statements. The amendments have not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an impact on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments relate to the correction of the identified inconsistency between the requirements of IFRS 10 and IAS 28 related to the sale or contribution of assets between an investor and its associate or joint venture. As a principal result of the amendment, total profit or loss is recognized when the transaction involves business (whether or not the business relates to a subsidiary). Partial profit or loss is recognized when the transaction involves assets that do not represent the Group's operations, even when those assets are located in a subsidiary. In December 2015, the IFRS Committee postponed the date of application of these amendments indefinitely, depending on the outcome of the research project of the equity method of accounting. The amendments have not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an impact on the Group's financial statements.

• IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments were initially intended to apply for annual periods beginning on or after 1 January 2022, with earlier application permitted. However, in response to the COVID-19 pandemic, the IFRS Committee postponed its application for one year, i.e. on 1 January 2023, in order to give companies more time to implement the classification changes resulting from the amendments.

The amendment seeks to encourage consistency in the application of the standard by helping companies determine whether debts and other liabilities with an uncertain settlement date should be classified in the statement of financial position as long-term or short-term liabilities. The amendments affect the presentation of liabilities in the statement of financial position, but do not change the existing requirements for measuring or recognizing assets, liabilities, income or expenses, or the information that the company discloses in the notes related to these positions. In addition to the above, the amendments clarify the requirements for the classification of debts that the company can settle by issuing equity instruments.

In November 2021, the IFRS Board issued a draft standard clarifying the treatment of covenant-related liabilities after the reporting date. In particular, the Board proposes a limited scope of amendments to IAS 1 that reverses the 2020 amendments that required companies to classify short-term, related covenant commitments with which the Group must comply only within 12 months of the reporting date if covenants are not met at the end of the reporting period. Instead, the draft proposal requires companies to present separately all long-term liabilities with related covenants with which compliance is required only within 12 months after the reporting period. Furthermore, if companies do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. This proposed standard is applicable for annual periods beginning on or after 1 January 2024 and must be applied retroactively in accordance with IAS 8. Earlier application is permitted. Accordingly, the Committee also proposed postponing the date of application of the 2020 amendments in such a way that companies are not required to change current practice before the proposed amendments start to apply. These amendments, including the draft standard, have not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an impact on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and annual improvement of IFRS from the 2018-2020 cycle (Amendments)

The amendments shall apply for annual periods beginning on or after 1 January 2022, whichever is the earlier. The IFRS Committee has issued amendments to IFRSs of limited scope as follows:

- IFRS 3 Business Combinations (Amendments) includes updated references to the conceptual framework for financial reporting without change of accounting requirements for business combinations.
- IAS 16 Property, Plant and Equipment Amendments) prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specifies which costs the Company includes in determining the cost of performing a contract to assess whether the contract is onerous.
- Annual improvements 2018-2020 include minor amendments of IAS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial instruments, IAS 41 Agriculture and accompanying illustrative examples of IFRS 16 Leases.

Management has assessed that the application of the standard will not have an impact on the company's financial statements.

• IFRS 16 Leases - Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments)

The amendments are effective for annual periods beginning on or after 1 April 2021, with prior application permitted only in the financial statements not yet authorized for issue at the date of issue of the amendment.
In March 2021, the IFRS Committee amended the conditions related to practical benefits to tenants, which arose as a direct result of the COVID-19 pandemic, from the application of the guidelines on accounting for lease modifications from IFRS 16.

Subsequent to the amendments, the practical allowances now apply to leases for which any reduction in the lease payment affects only payments originally due on or before 30 June 2022, provided that all other conditions for the application of the practical allowance are met. Management has assessed that the application of the standard will not have an effect on the Group's financial statements.

• IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)

The amendments apply to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. The amendments provide guidance on the application of judgments about materiality to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose “significant” accounting policies with the requirement to disclose “material” accounting policies. Guidelines and illustrative examples have also been added to assist in the application of the materiality concept when making judgments about accounting policy disclosures. The amendments have not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an effect on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of accounting estimates (Amendments)

The amendments apply to annual periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occurred on or after the beginning of that period. The amendments introduce a new definition of accounting estimates, defining them as monetary amounts in the financial statements subject to measurement uncertainty. Also, the amendments clarify changes in accounting estimates and their differentiation from changes in accounting policies and the correction of errors. Management has assessed that the application of the standard will not have an effect on the Group's financial statements.

• IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)

The amendments apply to annual reporting periods beginning on or after 1 January 2023, with earlier application permitted. In May 2021, the IFRS Board issued amendments to IAS 12 that narrow the scope of the exemption from IAS 12 related to initial recognition and determine how companies account for deferred tax on transactions such as leases and dismantling liabilities. In accordance with the amendments, the exemption of initial recognition does not apply to transactions that in the case of initial recognition lead to equal amounts of taxable and deductible temporary differences. The exception applies only if the recognition of leased assets and liabilities (or liabilities and assets for dismantling) leads to taxable and deductible temporary differences that are not equal. The amendments have not yet been adopted at European Union level. Management has assessed that the application of the standard will not have an effect on the Group's financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies

Investments in joint ventures

Under IFRS 11 Joint Operations are classified as either joint management or joint ventures. Classification depends on the contractual rights and obligations of each investor, not on the legal structure of the mutual agreement.

Joint ventures are classified in accordance with IFRS 11, in:

- joint management - a joint transaction in which the parties that have joint control over the transaction have rights to assets and liabilities based on financial obligations from the transaction in question
- joint venture - a joint venture in which the parties that have joint control over the transaction have rights to the net assets of the transaction in question.

In classifying investments in joint ventures, the Group considers:

- structure of joint business
- a legal form of joint business structured through separate legal entities
- contractual terms of the joint venture
- all other facts and circumstances (including any other contractual arrangements).

Interests in joint ventures are stated using the equity method.

The Group calculates its investment in joint management by recognizing its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations.

The Group has identified investment in the Krško Nuclear Power Plant as joint management (Note 16).

Costs of pension benefits and other employee benefits

The Group does not manage defined benefit plans after retirement for its employees and managers. Accordingly, there are no provisions for these costs. The Group has an obligation to pay contributions to pension and health insurance funds for its employees in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract. These contributions are paid in a certain percentage amount determined based on gross salary.

	2021 and 2020
Pension contribution	20%
Contribution to health insurance	16.5%

Group members are required to suspend contributions from employees' gross salaries. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred (see Note 8).

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Severance pay and jubilee awards

The Group pays employees jubilee awards and one-time severance pay upon retirement. The liability and cost of these benefits are determined using the projected unit credit method. Using the projected unit credit method, each period of service is considered as the basis for an additional unit of entitlement to benefits and each unit is measured separately until the final liability is created. The liability is determined at the present value of estimated future cash outflows by applying a discount rate similar to the interest rate on government bonds in the Republic of Croatia where the currencies and maturities are in accordance with the currencies and the estimated duration of the benefit obligation. Liabilities and costs of these fees were calculated by a certified actuary.

Jubilee awards

The Group pays its employees some long-term benefits (jubilee awards) and severance pay upon retirement. The award for long-term work amounts to HRK 1,500 to 5,500 net for work in the Group from 10 to 45 years of continuous employment with the employer.

Severance payments

As of 1 January 2020 the Collective Agreement (which applies to all members of the HEP Group) is in force, based on which every employee is entitled to a severance pay in the amount of 1/8 of the gross average monthly salary of an employee earned for the previous three months before the termination of the employment contract, and for each completed year of continuous employment with the employer. In July 2021, an addendum to the Collective Agreement was concluded by which, amongst others, the validity term of the Collective Agreement has been prolonged to 31 December 2023.

Property, plant and equipment

Property, plant and equipment are stated at cost less any allowance for impairment and any impairment losses. Land is stated at cost less any impairment losses. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, and any changes in the estimate are calculated based on new expectations and have an effect in current and future periods. Property, plant and equipment in use are depreciated using the straight-line method on the following basis: Land is not depreciated.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

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

Buildings	**2021 and 2020**
Hydropower plants (dams and embankments, buildings and other structures and ancillary facilities)	20 – 50 years
Thermal power plants (buildings and other constructions)	33 – 50 years
Facilities and plants for transmission and distribution of electricity (substations, overhead and cable lines, dispatch centres, etc.)	20 – 40 years
Hot water pipelines, steam pipelines and other buildings for the production and transmission of thermal energy	33 years
Gas pipelines until 2014	20 – 25 years
Gas pipelines since 2014	40 years
Administrative buildings	50 years
Plant and equipment	
Plants in hydroelectric power plants	10 – 33 years
Plants in thermal power plants	6 – 25 years
Electricity transmission plants (electrical part of substations and transformers, electrical part of lines)	15 – 40 years
Electricity distribution plants (electrical part of substations and transformers, electrical part of lines, measuring instruments, meters and other equipment)	8 – 40 years
Thermal stations, hot water pipes and other equipment	15 – 30 years
Gas meters and other gas network equipment	5 – 20 years
Other equipment and means of transport	
IT	5 – 20 years
Computer software licenses	5 years
Telecommunications equipment	5 – 20 years
Motor vehicles	5 – 8 years
Office furniture	10 years

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The cost of property, plant and equipment includes the purchase price of the property, plus customs duties and non-refundable taxes, and all direct costs of bringing the property to its working condition and location. Expenses incurred after putting property, plant and equipment into use are charged to the consolidated statement of profit or loss in the period in which they are incurred.

In situations where it is clear that the costs have resulted in an increase in the future economic benefits expected to be obtained from the use of the item of property, plant and equipment above its originally estimated capacity, they are capitalized as an additional cost of property, plant and equipment. Costs eligible for capitalization include the costs of periodic, pre-planned major inspections and overhauls necessary for further operations.

Gains or losses arising from the disposal or withdrawal of an item of property, plant and equipment are determined as the difference between the proceeds from the sale and the carrying amount of the asset and are recognized in profit or loss in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets

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

Impairment of intangible assets with indefinite useful lives and assets that are not in use is assessed annually and whenever there is an indication that the value of the asset may be impaired.

The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing value in use, the estimated future cash inflows are reduced to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately as an expense in the statement of profit or loss. Upon subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of the asset, with the higher carrying amount not exceeding the carrying amount that would have been determined if no previous loss had been recognize for the asset (cash-generating unit) due to impairment. A reversal of an impairment loss is recognized immediately in profit or loss.

Intangible assets

Fixed intangible assets include licenses and are stated at cost less accumulated amortization. It is amortised on a straight-line basis over a period of 5 years.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Investment property

Investment property is property held to earn rentals and / or increase the market value of assets, including assets under construction for those purposes, initially measured at cost, which includes transaction costs. After initial recognition, investment property is measured at fair value. Gains and losses on changes in the fair value of investment property are included in profit or loss in the period in which they incur. Investments in real estate are derecognised, i.e. they are derecognised by sale or permanent withdrawal, as well as when no future economic benefits are expected from its disposal. Any gain or loss arising on the derecognition of the property, determined as the difference between the net proceeds from the sale and the net carrying amount of the property, is included in profit or loss in the period in which the property is derecognised.

Group as a tenant

All leases are calculated by recognizing assets with the right of use and lease obligations, except for:

- Low value leases; and
- Leases whose lease term ends within a period of 12 months from the date of first application or less.

The lease liability is calculated at the present value of the contractual future payments to the lessor over the term of the lease, less the discount rate determined in relation to the rate inherent in the lease, unless it is (as is usually the case) easy to determine, when it uses the incremental borrowing rate of HEP Group at the beginning of the lease. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or a rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which it relates.

At the date of initial recognition, the carrying amount of the lease obligation includes:

- the amounts expected to be paid by the lessee on the basis of residual value guarantees;
- the price of the execution of the purchase option if it is certain that the lessee will use that option; and
- payment of penalties for termination of the lease if the lease period reflects that the lessee will take advantage of the possibility of termination of the lease.

Assets with the right of use are initially measured at the amount of the lease liability, less any lease incentives received and increased by:

- all lease payments made on or before the start date of the lease;
- all initial direct costs; and
- the amount of the provision recognized if the Company contractually bears the costs of dismantling, removing or rebuilding the location of the property.

The right to use is reduced by the accumulated depreciation calculated on a straight-line basis over the term of the lease, or the remaining economic life of the asset, if it is considered to be shorter than the lease term.

The useful life of the asset with the right of use is shown as follows:

	2021 and 2020
Business premises and land	2-25 years
Vehicles and equipment	2-5 years

After the initial measurement, the lease liability increases to reflect interest on lease obligations and decreases to reflect lease payments made.

The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in the index or rate, or when there is a change in the estimate of the term of any lease.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Inventories

Inventories contain mainly materials and small inventory and are stated at the lower of cost and net expected sales value. Management adjusts the value of inventories based on an overview of the overall age structure of inventories, and based on an overview of significant, individual amounts included in inventories.

Inventories also contain CO_2 emission units. By including the Republic of Croatia in the European Greenhouse Gas Emissions Trading System (EU ETS), Hrvatska elektroprivreda d.d, which performs the activity of electricity and heat production, has the obligation to purchase greenhouse gas emission units in quantities corresponding to verified CO_2 emissions from fossil fuel combustion from thermal power plants resulting in CO_2 emissions.

Companies are required to obtain sufficient CO_2 emission rights by 30 April (annual cycle). Due to the withdrawal of IFRIC 3 and insufficient provisions in IFRS, the Group has analysed various accounting models for CO_2 emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO_2 emission rights. Therefore, the Group recognizes emission allowances as inventories.

Inventories also include energy savings inventories. With the entry into force of the amendments to the Energy Efficiency Act, for the members of the HEP Group, energy suppliers, there is an obligation to achieve energy savings in final consumption. For the redistribution of realized savings from HEP Group member companies that are not liable to HEP Group member companies that are liable to realize savings, the Methodology for distribution and purchase of energy savings was adopted. The methodology defines the manner of distribution of energy savings realized in non-liable companies and the surplus of realized savings in liable companies, as well as the conditions for mutual redemption of savings for the current business year. HEP d.d. as the appointed holder of the consolidated Report on realized energy savings, disposes of the savings that are the subject of this Methodology and, on the basis of the same, redistributes them to the liable companies.

Inventories also contain gas for trading on the wholesale market and are stated at the lower of cost determined on the basis of the weighted average price and the net expected sales value (Note 22).

For quantities of gas delivered directly to customers, the method of specific identification of their individual costs is used to calculate the cost of inventory.

Acquisition cost includes the invoiced amount and other costs incurred directly in connection with bringing inventory to a specific location and usable condition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits and other short-term liquid investments with a maturity of up to three months that are currently convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or construction of a qualifying asset constitute the cost of acquiring the asset until the asset is ready for its intended use. A qualifying asset is an asset that requires a certain amount of time to be ready for its intended use. Investment income earned on the temporary investment of earmarked credit assets while they are being spent on a qualifying asset is deducted from borrowing costs that can be capitalized. All other borrowing costs are recognized as an expense in the period in which they are incurred. Interest expense is recognized in the period to which the interest relates. If work on qualifying assets is suspended, the cost of borrowing for the period in which the work is discontinued is not capitalized.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Foreign currencies

The individual financial statements of each entity of the Group are presented in the currency of the primary economic environment in which the entity operates, the so-called functional currency. The results and financial position of each entity within the Group are presented in the consolidated financial statements in Croatian Kuna (HRK), which is also the presentation currency of the consolidated financial statements.

In the financial statements of individual Group companies, business changes denominated in foreign currencies are translated into the entity's functional currency at the exchange rate ruling at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency of the entity at the year-end exchange rate. Non-monetary items that are measured in terms of fair value in a foreign currency are translated using the exchange rates as at the dates of the fair values. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items and their recalculation are recognized in the consolidated statement of profit or loss for the period. Foreign exchange differences arising on the translation of non-monetary assets at fair value are recognized in the consolidated statement of profit or loss as a finance cost.

Foreign exchange differences arising from the translation of foreign subsidiaries are recognized in other comprehensive income and accumulated as a separate reserve in equity. The accumulated reserve is reclassified to equity when the foreign subsidiary is sold.

Taxation

The cost of income tax is the sum of current tax and changes in deferred tax during the year.

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that there will be available taxable profits against which those deductible temporary differences can be utilized. Deferred tax liabilities and deferred tax assets are not recognized for temporary differences arising from goodwill or on initial recognition of other assets and liabilities, except in the case of a business combination, in transactions that do not affect tax or accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered. Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax laws that have been enacted or substantively enacted by the reporting date. The calculation of deferred tax liabilities and assets maintains the amount expected to be incurred or recovered at the reporting date in the amount of the carrying amount of the Group's assets and liabilities.

Deferred tax is recognized as an expense or income in the consolidated statement of profit or loss, unless it relates to items recorded directly in other comprehensive income, in which case deferred tax is also recognized in other comprehensive income or when the tax arises from initial recognition. in a business combination. In the case of a business combination, taxes are taken into account when calculating goodwill or determining the excess of the buyer's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the buyer over cost.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Financial assets

The Group recognizes financial assets in its consolidated financial statements when it becomes a party to the contractual provisions of the instrument. Depending on the business model for asset management and the contractual characteristics of the cash flows of financial assets, the Group measures financial assets at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

Asset items are classified and measured as shown below:

Description	Business model / measurement
Long-term assets	
Long-term loans given	Held for collection / amortized cost
Total financial assets at fair value through other comprehensive income	Strategic investments / fair value through other comprehensive income
Other financial assets (Long-term receivables)	Held for collection / amortized cost
Short-term assets	
Trade receivables	Held for collection / amortized cost
Other current receivables	Held for collection / amortized cost
Cash and cash equivalents	Held for collection / amortized cost

The Group's business models reflect the way in which the Group manages its assets with a view to generating cash flows, whether the Group's objective is solely to collect contractual cash flows from assets (held for collection) or to collect both contractual cash flows and cash flows from selling assets (held for collection and sale). Strategic equity investments are irreversibly measured through other comprehensive income. All other financial assets are measured at fair value through profit or loss.

i) Financial assets at fair value through other comprehensive income

This group of assets consists of equity instruments held by the Group that are traded in an active market. Changes in fair value are recognized in other comprehensive income (FVOCI) without subsequent reclassification to profit or loss. If an equity instrument is sold, the accumulated revaluation reserve is reclassified to retained earnings. Dividends on these financial assets are recognized in the statement of profit or loss.

ii) Loans granted

The Group's loans are held within a business model aimed at holding financial assets to collect contractual cash flows. Contractual cash flows are only those that represent repayments of principal and interest based on that amount of principal.

Loans are measured at amortized cost. Measurement at amortized cost implies the following:

- Interest income is calculated using the effective interest method, which is applied to the gross carrying amount of the asset. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or a shorter period, if appropriate.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Financial assets (continued)

iii) Trade and other receivables

Trade and other receivables are held with the strategy of collecting contracted cash flows. Trade receivables that do not have a significant financial component on initial recognition are measured in accordance with IFRS 15 at their transaction price.

iv) Impairment

The Group recognizes impairment of financial assets based on expected credit losses. At each reporting date, the Group measures expected credit losses and recognizes them in the financial statements. Expected credit losses from financial instruments are measured in a way that reflects:

- An unbiased and weighted amount of probability determined by estimating the range of possible outcomes,
- The time value of money,
- Reasonable and acceptable information about past events, current conditions and forecasts of future economic conditions.

For the purposes of calculating the expected credit loss, the financial assets portfolio is divided into three stages: Tier 1, Tier 2 and Tier 3. If no impairment is determined on the date of first recognition, financial assets are included in Tier 1, and subsequent reclassification to Tiers 2 and 3 depends on the increase in credit risk per financial instrument after initial recognition, i.e. on the credit quality of the financial instrument.

The Group applies a simplified approach to measure expected credit losses on trade receivables. To measure expected credit losses, trade receivables are grouped based on similar credit risk and age structure. Expected credit loss rates are based on historical credit losses that occurred during the three years prior to the end of the reporting period. Historical loss rates are then adjusted for current and future information on macroeconomic factors affecting the Group's customers.

v) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or transfers the financial asset and the transfer qualifies for derecognition.

A Group transfers financial assets if, and only if, it either transfers contractual rights to receive cash flows from financial assets, or retains contractual rights to receive cash flows from financial assets, but assumes a contractual obligation to pay cash flows to one or more recipients in the arrangement.

When the Group transfers financial assets, it is required to assess the extent to which it retains the risks and rewards of ownership of the financial assets. In this case, when all the risks and rewards of ownership are transferred, the Group derecognises the financial asset and recognizes separately as an asset or liability all rights and obligations that have been incurred or retained in the transfer. If almost all the risks and rewards of ownership of financial assets are retained, the Group continues to recognize financial assets. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, the Group determines whether control of the financial asset is retained. If control over financial assets is not retained, the Group derecognises the financial asset and recognizes separately as an asset or liability all rights and obligations that have arisen or been retained under the transfer. If control is retained, the Group continues to recognize financial assets to the extent that it continues to participate in those financial assets.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Derivative financial instruments

The Group uses derivative financial instruments to reduce its exposure to currency risk. In addition, the Group concluded a Cross Currency Swap Agreement by which the dollar bond liability was converted into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. More information on derivative financial instruments is disclosed in Note 40.

Derivative financial instruments are initially recognized at fair value at the date the contract is entered into. After initial recognition, they are measured at fair value with changes recognized in the income statement.

Commodity contracts

In accordance with IFRS 9 certain commodity contracts are treated as financial instruments and fall within the scope of the standard. Contracts for the purchase and sale of goods entered into by the Group ensure the physical delivery of quantities intended for consumption or sale as part of the Group's normal operations; such contracts are therefore excluded from the scope of the standard.

In particular, forward purchases and sales for physical delivery of energy that are entered into as part of the Group's normal operations are not considered to fall within the scope of IFRS 9. This is evidenced by meeting the following conditions:

/i/ Physical delivery of contracted quantities;
/ ii / Purchased or sold quantities meet the requirements of the Group's operations;
/ iii / A contract cannot be considered a written option as defined in IFRS 9.

The Group therefore considers that the transactions agreed to balance the volume between energy purchases and sales are part of its ordinary activities as an integrated energy company and therefore do not fall within the scope of IFRS 9.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost. All financial liabilities are initially recognized at fair value plus related transaction costs. Financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Derecognition

The Group derecognises the liabilities in the consolidated financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor on materially different terms, or the terms of the existing obligation are significantly changed, such change or modification is treated as a termination of the original obligation and recognition of a new obligation and the difference between booked values is recognized in consolidated statement of profit or loss profit and loss.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Provisions

A provision is recognized only if the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be determined reliably. Provisions are reviewed at each reporting date and adjusted to reflect the latest best estimates. If the effect of the time value of money is significant, the amount of the provision is the present value of the costs that are expected to be required to settle the obligation. In the case of discounting, the increase in provisions that reflects the passage of time is recognized as an interest expense (Note 10).

Revenue recognition

Operating income is generated primarily from the sale of electricity, heat and gas to households and industrial and other customers in the Republic of Croatia.

In accordance with the new IFRS 15, the Company applies a five-step model regarding the recognition of contracts with customers;

1) Identification of the contract with the customer(s)
2) Identification of the separate performance obligations in the contract
3) Determination of the transaction price
4) Allocation of the transaction price to the separate performance obligations
5) Recognition of revenue as each performance obligation is satisfied

Revenue is recognized for each separate liability in the contract in the amount of the transaction price. The transaction price is the amount of fees in the contract that the Group expects to be entitled to in exchange for the transfer of the promised goods or services to the customer.

Part of the revenue from the sale of electricity to customers in households is recognized based on the best estimate of the amount of energy delivered. As the actual calculation of delivered quantities of energy to customers in the household category is performed twice a year, the Group bases its revenues from electricity sales on the total produced and purchased quantities of electricity on the distribution network corrected for losses on the distribution network based on logarithmic regression. From the entry into force of the Act Amending the Electricity Market Act (OG 102/2015), the regulation of prices for public electricity supply to households within the universal service ceases and the amounts of tariff items for electricity supply are issued by the supplier who has the obligation to provide public service. Accordingly, the Group recognizes revenue based on prices determined by a tariff approved by the regulatory agency, i.e. by a decision of a company that has an obligation to provide a public service (HEP Elektra d.o.o.). The price of electricity supply for household customers who have concluded a supply contract with HEP Opskrba d.o.o. is determined according to the HEPI tariff model.

Revenue from the sale of heat to households and enterprises in the Republic of Croatia is recognized when the customer acquires control of the product, i.e. when the heat is delivered to customers and if it is probable that the Group will receive compensation.

Revenue from the sale of gas is recognized when the customer acquires control of the product, i.e. when the gas is delivered to customers and if it is probable that the Company will receive compensation. The price of gas for users of public supply and guaranteed supply services is prescribed by decisions on the amount of tariff items determined on the basis of methodologies for determining the amount of tariff items for public service of gas supply and guaranteed supply, issued by the Croatian Energy Regulatory Agency (HERA). For customers in the category of household - market supply and the category of entrepreneurship, the price is determined on the basis of a contract with a fixed and / or variable price, depending on market circumstances and the purchase price of gas.

2. CHANGES IN ACCOUNTING POLICIES AND PUBLICATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Summary of significant accounting policies (continued)

Revenues from connection fees

In accordance with IFRS 15 Revenue from Contracts with Customers, effective from 1 January 2018 revenue from connection to the network is systematically allocated over the useful life of the asset (connection), and the fee received from customers for connection to the network is recorded as deferred income and recognized as income for the period at the same time as the depreciation of the connection to which it relates.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position (events for which adjustments are required in the financial statements) as at the reporting date are recorded in the financial statements. Post-reporting events that do not require adjustments in the financial statements are disclosed in the notes when the amounts are significant.

Segmental analysis

The Group has fully adopted IFRS 8 “Operating Segments” and discloses segment data, as the Group's debt instruments are traded in regulated markets. (Note 5).

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities. Future events are possible that will cause changes in the assumptions based on which the estimates are given, and thus changes in the estimates themselves. The effect of any change in estimate will be reflected in the consolidated financial statements when it can be determined. The estimates are detailed in the accompanying notes and the most significant of these relate to the following:

Lifespan of property, plant and equipment

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

The Group benefits from the economic benefits embodied in the asset, which are diminished by economic and technological aging. Accordingly, in the process of determining the useful life of assets, in addition to assessing the expected physical utilization, it is necessary to consider changes in market demand, which will cause faster economic obsolescence and more intensive development of new technologies. The useful lives of property, plant and equipment will be reviewed periodically to reflect any changes in circumstances since the previous assessment. Changes in estimates, if any, will be reflected through the revised depreciation expense over the remaining, revised useful life.

Provisions for power plant decommissioning

The Management Board estimates the cost of provisions for the decommissioning of the Krško NPP and the Group's thermal power plants based on applicable laws and regulations and its own experience. The provision also includes activities related to environmental protection that need to be carried out during the decommissioning of production facilities.

The amount of provisions for the decommissioning of thermal power plants represents the discounted value of the estimated cost of decommissioning of the Group's thermal power plants (Note 31). Significant assumptions are the discount rate and decommissioning costs.

Decommissioning of the Krško nuclear power plant

Funds for the decommissioning of NPP Krško are provided for in accordance with the Decree on the amount, deadline and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of NPP Krško (OG 155/08; Note 16).

Recognition of revenue from the sale of electricity to customers of universal service (household customers)

Since the collection takes place through an advance payment system with actual billing twice a year, the Group estimates revenues from the sale of electricity. The estimate is based on the total amount of electricity produced in such a way that the amount produced, i.e. procured, is reduced by the estimated losses on the distribution network. After analysing several different approximation methods (five-year average, linear approximation, etc.), the Administration chose logarithmic regression as the most appropriate.

The difference between previously estimated income and actual payments is recognized in the consolidated statement of financial position as other current liabilities or other current receivables.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of property, plant and equipment

Impairment calculation requires an estimate of the value in use of cash-generating units. This value was measured based on the discounted cash flow projection. The most significant variables for determining cash flow are discounted rates, forward values, the time for which cash flow projections are made, and the assumptions and judgments used to determine cash inflows and outflows.

Availability of taxable profit for which deferred tax assets can be recognized

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The determination of deferred tax assets requires the application of significant judgments, based on the determination of the probable time of occurrence and the amount of future taxable profit, together with the future planned tax strategy (Note 11).

Actuarial estimates used to calculate retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include making assumptions about discounted rates, future increases in income and mortality, or fluctuation rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty (Note 31).

Consequences of certain legal disputes

The Group is a party to a number of lawsuits arising from ordinary activities. Provisions are recorded if there is a present obligation as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably (Note 31).

Expected loss model

With the application of IFRS 9, the expected credit loss (ECL) model is introduced. The measurement of expected credit loss from impairment is based on reasonable and supportive information that is available without undue cost and effort and that includes information about past events, current and projected future conditions and circumstances. The Group recognizes a 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when a commitment or guarantee has been made). For the purposes of calculating the ECL model, the financial assets portfolio is divided into three levels: Tier 1, Tier 2 and Tier 3. At the date of first recognition, financial assets are included in tier 1, and subsequent reclassification to tiers 2 and 3 depends on the increase in credit risk per financial instrument after initial recognition, i.e. on the credit quality of the financial instrument. A simplified approach is applied to trade receivables, whereby expected credit losses are recognized for the entire period of the receivable.

4. THE IMPACT OF THE EARTHQUAKE AND COVID-19 PANDEMIC ON THE GROUP'S OPERATIONS

Since the beginning of the pandemic, the HEP Group has been implementing special business measures to prevent the spread of coronavirus disease, in accordance with the decisions of the National Civil Protection Headquarters, and to ensure the continued smooth operation of all business processes of the HEP Group while protecting the health of workers and business partners.
As the HEP Group represents a strategic infrastructure system for the Republic of Croatia, and is one of the largest economic entities in Croatia, with a large number of dependent companies in the domestic, maximum efforts have been made to ensure uninterrupted operations in all business segments, primarily through regular production, transmission, distribution and supply of energy.
Since the beginning of the pandemic, the HEP Group has been analysing energy consumption and modelling scenarios for the impact of the decline in total economic activity on consumption and receipts from the sale of energy from the production portfolio.
Despite the introduction of extraordinary measures of assistance to natural persons adopted by the Government of the Republic of Croatia, which relate, inter alia, to the delay in the execution of foreclosures and forcible collection; receivables from customers were mostly realized within the agreed deadlines and the adopted measures have not had a significant impact on business and financial position of the HEP Group. The HEP Group did not use state aids provided by the measures of the Government of the Republic of Croatia as revenues did not decrease significantly despite the slowdown in economic activities.
Given that it is uncertain how long the pandemic will last and it is impossible to predict what impacts it will have, both in domestic and foreign markets, at this time it is not possible to fully assess all the negative impacts on the operations of the HEP Group. Notwithstanding the above, the current level of indebtedness and the secured level of liquidity of the HEP Group as well as the strong market position in all activities show that the HEP Group is prepared to face the challenges expected in the coming period. The HEP Group will continue to actively monitor economic developments and take all measures to protect the interests of all stakeholders while maintaining a stable financial position.

Furthermore, significant events include the devastating earthquake of 29 December 2020, which hit central Croatia and caused numerous breakdowns and damage to the electricity network and HEP's facilities for the production of electricity and heat. All on-duty HEP services have made every effort to eliminate faults as soon as possible with the aim of complete normalization of electricity supply, and have provided power to most of the area affected by the earthquake in record time. The damage to assets did not have a significant impact on the positions of the financial statements of the HEP Group for 2021, given that these are assets whose total net book value in the business books is not material. Despite the economic disruptions caused by the COVID-19 virus pandemic and the devastating earthquakes, a stable financial position, optimization of business processes, and quality strategic management enabled the neutralization of negative economic trends on the operations of the HEP Group.

In accordance with the conclusions of the Government of the Republic of Croatia, Hrvatska elektroprivreda issued appropriate decisions prescribing the obligation to write off receivables in the amount of a single account and / or advance payments for the period January-December 2021 for the earthquake-affected areas. Pursuant to the above, the Managements and Supervisory Boards of the companies made a decision to write off receivables from end customers of the household category in the earthquake-affected areas of the Counties of Sisak-Moslavina, Zagreb and Karlovac for the period January-December 2021. Write-off of receivables was recorded on extraordinary expenses, and it reduced receivables from customers.

5. SALES REVENUES - SEGMENT INFORMATION

The Group's operating revenues are generated mostly in the Republic of Croatia.

The Group's reporting segments are divided into the following: electricity (generation, transmission, distribution and sale of electricity), district heating (production, distribution and sale of heat) and gas (distribution and sale of gas).

Profit or loss of each segment is the result of all income and expenses that are directly related to a particular segment. Information on financial income, i.e. expenses and income tax are not presented at the segment level, because the basis for presenting the segment is operating profit.

	Electricity		**Heating**		**Gas**		**Other**		**Group**	
in '000 HRK	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Income from core business	13,412,480	11,494,494	707,913	674,143	735,463	911,203	-	-	14,855,856	13,079,840
Income of other segments	907,174	838,947	57,217	48,222	104,736	338,400	44,603	67,177	1,113,730	1,292,746
Operating profit /(loss)	**1,679,666**	**2,061,479**	**(376,225)**	**(147,215)**	**(21,790)**	**360,729**	**(112,671)**	**(116,219)**	**1,168,980**	**2,158,774**
Net financial income									76,329	(344,444)
Income tax									(225,808)	(350,555)
Net profit									**1,019,501**	**1,463,775**

The segment's 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 represent assets and liabilities that cannot reasonably be allocated to operating segments. Total unallocated assets include investments in NPP Krško, part of real estate, plant and equipment and unallocated financial assets. Total unallocated liabilities include long-term loans, short-term loans and other miscellaneous liabilities.

in '000 HRK	**Total segment assets**		**Total segment liabilities**	
	2021	**2020**	**2021**	**2020**
Electricity	33,383,387	32,928,839	10,629,845	9,572,561
Heating	1,418,359	1,390,741	202,421	198,123
Gas	642,970	550,903	112,112	117,381
Unallocated	11,461,639	9,768,983	9,301,871	8,338,384
Total Group	**46,906,355**	**44,639,466**	**20,246,249**	**18,226,449**

5. SALES REVENUES - SEGMENT INFORMATION (continued)

Revenue from electricity sales in 2021 amounts to HRK 13,412,480 thousand (in 2020: HRK 11,494,494 thousand).

Revenue from the sale of thermal energy in 2021 amounts to HRK 707,913 thousand (in 2020 HRK 674,143 thousand).

Revenue from gas sales in 2021 relates to the sale of gas on the wholesale market in the amount of HRK 19,494 thousand and to the sale of gas to gas supply customers and capacity lease services of LNG in the total amount of HRK 715,969 thousand (in 2020 gas sales on the wholesale market amounted to HRK 475,608 thousand and sales of gas to gas supply customers HRK 435,595 thousand).

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.

The following is a territorial analysis of revenues generated by the Group from active parts of operations from external electricity customers:

in '000 HRK	**2021**	**2020**
Croatia	11,939,668	10,639,887
European Union countries	1,374,729	765,308
Third countries	98,083	89,299
	13,412,480	**11,494,494**

6. OTHER OPERATING INCOME

in '000 HRK	**2021**	**2020**
Income from property financed from the connection fee	402,456	395,977
Revenues from external services	81,459	117,440
Collected value-adjusted receivables (Note 23)	76,872	53,505
Revenues from sales of materials	74,978	44,163
Over calculated last year fee on CO_2 emissions for electricity generation	31,193	19,646
Penalty charges	28,456	27,087
	16,951	18,564
Revenues from cancellation of raw material, material and spare part inventories	12,998	-
Revenue from cancellation of other provisions	11,646	-
Revenues based on court costs on lawsuits	10,281	9,540
Revenues from cancellation of long-term provisions - decommissioning of thermal power plant	5,530	-
Collected written-off receivables	2,738	327,014
Pre-bankruptcy receivables collected	1,507	2,424
Gains from sale of tangible assets	1,234	368
Other operating income NPP Krško	10,281	14,323
Other	345,150	262,695
	1,113,730	**1,292,746**

Other income consists of income from the use of own products in the amount of HRK 94,809 thousand (2020: HRK 113,005 thousand), unrealized gains from the fair valuation of tangible assets in the amount of HRK 13,420 thousand (2020: HRK 7,847 thousand), the income from investments of HRK 54,914 thousand (2020: HRK 47,720 thousand), excise duties in the amount of HRK 50,272 thousand (2020: HRK 46,378 thousand) and other operating income.

7. MATERIAL AND ENERGY PROCUREMENT COSTS

in '000 HRK	**2021**	**2020**
The cost of purchasing electricity	3,638,814	2,394,595
Fuel cost	2,401,591	1,500,970
Gas supply costs - market supply	408,449	193,824
Cost of purchased material	186,560	182,047
The cost of purchasing gas for sale in the wholesale market	77,777	594,525
	6,713,191	**4,865,961**

Procurement of electricity and gas refers to procurement outside the system for sale on the wholesale market and end customers.

Procurement of fuel (coal, liquid fuel and gas) refers to procurement outside the electricity generation system in thermal power plants.

8. EMPLOYEE COSTS

in '000 HRK	**2021**	**2020**
Net salaries	1,231,579	1,158,820
Net salaries NPP Krško	111,093	108,114
Tax and contribution costs	735,402	721,299
Costs of taxes and contributions from the salaries of NPP Krško	49,615	44,510
	2,127,689	**2,032,743**

As at 31 December 2021, the Group had 11,778 employees (2020: 11,668) without Krško Nuclear Power Plant d.o.o. The number of employees in Krško Nuclear Power Plant d.o.o. is 644 employees (2020: 630).

Total contributions for pension funds amounted to HRK 340,822 thousand during 2021 (2020: HRK 325,543 thousand).

Remuneration to members of the Management Board and executive directors of the Group companies:

in '000 HRK	**2021**	**2020**
Gross salaries	35,979	34,601
Pension insurance contributions	7,714	7,446
Other benefits	2,642	2,810
	46,335	**44,857**

Compensation for Supervisory Board members:

in '000 HRK	**2021**	**2020**
Fees	351	463
Taxes and contributions	62	28
	413	**491**

9. OTHER OPERATING EXPENSES

in '000 HRK	**2021**	**2020**
Cost of CO^2 emission units	810,136	454,357
Maintenance costs	725,247	636,238
Costs of external services and materials	580,159	504,608
Billable services and materials	207,354	172,858
Other material rights of employees	159,131	137,871
Value adjustment of trade receivables (Note 23)	154,339	118,416
Employee cost compensation	108,612	105,175
NPP Krško – costs of decommissioning as per Government decision	107,076	107,651
Fee for the use of power plant space	106,824	89,448
Unclaimed receivables written off	104,701	36,115
Contributions, taxes and fees to the state	101,768	97,853
Contributions and concessions for water	82,667	77,778
Value adjustment of property plant and equipment	53,215	114,280
Write-off of property, plant and equipment	51,131	42,025
Cost of materials sold	47,241	27,383
Provisions for severance pay and jubilee awards	42,574	69,748
Billing and collection costs	27,443	25,593
Other provisions	26,777	7,917
Banking fees	21,865	18,368
Insurance premiums	14,245	9,463
Fee for water purification and drainage	11,823	12,630
Damages	8,820	20,770
Provisions for litigation	7,622	60,482
Provision for decommissioning of thermal power plants	7,603	7,575
Provisions for unused vacations	4,157	4,715
Procurement of energy savings	616	801
Value adjustment of inventories	-	11,451
Value adjustment of long-term intangible assets	-	201
Other expenses	120,132	135,915
Capitalized borrowing costs (fees)	(2,895)	(3,787)
	3,690,383	**3,103,898**

Billable services and materials in 2021 amount to HRK 207,354 thousand (2020: HRK 172,858 thousand). The increase of HRK 34,496 thousand mainly relates to costs for billable services incurred during the implementation of energy efficiency projects.

Compensation of employees includes transportation costs to work in 2021 in the amount of HRK 77,141 thousand (2020: HRK 75,323 thousand), per diems and travel expenses in 2021 in the amount of HRK 17,611 thousand (2020: HRK 13,203 thousand), supplementary health insurance in the amount of HRK 5,682 thousand (2020: HRK 8,177 thousand) and other similar expenses in 2021 in the amount of HRK 8,178 thousand (2020: HRK 8,472 thousand). Costs of other material rights of employees include fees under the Collective Agreement. Most of them relate to payments under the Collective Agreement in the amount of HRK 105,345 thousand, and to a lesser extent to solidarity benefits, benefits for separated life, assistance to children and others.

10. FINANCIAL INCOME / EXPENSES

in '000 HRK	**2021**	**2020**
Financial income		
Positive exchange rate differences	48,827	115,408
Net interest income	5,559	12,958
Change in fair value of cross-currency swap	299,160	-
Revenue from futures trading	-	1,432
Dividend income	4,399	3,999
Other financial income	10,052	21,506
NPP Krško - interest	114	1,226
Unrealized gains	947	1,104
Total financial income	**369,058**	**157,633**
Financial expenses		
Negative exchange rate differences	(109,494)	(106,943)
Interest expense	(185,925)	(179,466)
Change in fair value of cross-currency swap	(2,108)	(215,919)
Other financial expenses	(824)	(2,537)
NPP Krško - interest	(2,436)	(2,294)
Total financial expenses	**(300,787)**	**(507,159)**
Capitalized borrowing costs	8,058	5,082
Financial expenses recognized in the statement of profit or loss	**(292,729)**	**(502,077)**
Net financial gain/(loss)	**76,329**	**(344,444)**

Other financial income mostly consists of income from negative goodwill arising from the purchase of the company M Vizija d.o.o. in 2021 in the amount of HRK 1,159 thousand, and collected issued guarantees in 2021 in the amount of HRK 7,971 thousand.

11. INCOME TAX

in '000 HRK	**2021**	**2020**
Current tax	(156,740)	(318,968)
Deferred tax recognized in profit or loss	(69,068)	(31,587)
Income tax	**(225,808)**	**(350,555)**

The adjustment of deferred tax assets is as follows:

in '000 HRK	**2021**	**2020**
Balance at 1 January	879,620	913,208
Cancellation of deferred tax assets	(128,088)	(134,229)
Recognition of deferred tax assets	59,019	100,641
Balance at 31 December	**810,551**	**879,620**

Deferred tax assets arise from non-tax-deductible provisions for jubilee awards and severance pay for retirement, value adjustments that are not tax deductible and other provisions.

The reconciliation between income taxes and profit or loss in the statement of profit or loss is shown as follows:

in '000 HRK	**2021**	**2020**
Pre-tax profit	1,245,309	1,814,330
Income tax at the tax rate in use in the Republic of Croatia (18%)	**(224,156)**	**(326,579)**
The effect of non-taxable income	100,770	105,731
The effect of non-tax-deductible expenses	(39,036)	(92,788)
The effect of the difference in the tax rate of subsidiaries abroad	(117)	654
Previously unrecognized tax losses used	4,047	-
Loss-making companies	1,752	(5,986)
Tax effects of temporary differences	(69,068)	(31,587)
Income tax	**(225,808)**	**(350,555)**
Effective tax rate	18%	19%

Most of the Group's subsidiaries are liable to pay income tax in accordance with the tax laws and regulations of the Republic of Croatia. Subsidiaries within the Group reported tax losses in the amount of HRK 244,525 thousand (2020: HRK 191,586 thousand), while the Group calculated income tax in the amount of HRK 156,740 thousand (2020: HRK 318,968 thousand) and deferred tax assets in the amount of HRK 69,068 thousand (2020: HRK 31,587 thousand).

Realized tax losses can be transferred and recognized as a deductible item in the calculation of taxes in subsequent tax periods until their statutory expiration date, which is 5 years from the end of the year in which the tax losses occurred.

11. INCOME TAX (continued)

The Group's tax losses and their expiration dates are shown in the following table:

Year of tax loss	Total tax loss of the Group	Year of termination of transfer possibilities
	in '000 HRK	
2017	9,243	2022
2018	32,334	2023
2019	54,227	2024
2020	69,561	2025
2021	79,160	2026
	244,525	

Group companies that operate continuously at a loss do not recognize deferred tax assets. The Company makes a profit and has no tax losses to carry over. In accordance with Croatian regulations, it is not possible to use tax losses on a consolidated basis. Each individual company determines its tax liability.

As at 31 December 2021, deferred tax assets arising from transferred tax losses in the amount of HRK 5,381 thousand were not recognized.

In accordance with tax regulations, the Tax Administration may at any time review the books and records of the Company and its subsidiaries for a period of three years after the end of the year in which the tax liability is stated, and may impose additional tax liabilities and penalties. The Company's management is not aware of any circumstances that could lead to potential significant liabilities in this regard.

In 2021, there was no tax supervision in the Group's subsidiaries.

11. INCOME TAX (continued)

The table below summarizes the changes in deferred tax assets during the year:

in '000 HRK	Value adjustment of inventories	Provisions for jubilee awards and severance payments	Depreciation above prescribed rates	Provisions for MTM bonds	Value adjustment of real estate, plant and equipment	Carried forward tax losses	Other	Total
1 Jan 2020	**48,815**	**123,584**	**14,831**	**14,492**	**320,819**	**-**	**390,668**	**913,209**
Booked to the credit and debit of the current year's profit and loss account	1,748	12,512	(598)	38,866	(8,085)	-	(78,031)	(33,588)
31 Dec 2020.	**50,563**	**136,096**	**14,233**	**53,358**	**312,734**	**-**	**312,637**	**879,621**
1 Jan 2021	**50,563**	**136,096**	**14,233**	**53,358**	**312,734**	**-**	**312,637**	**879,621**
Booked to the credit and debit of the current year's profit and loss account	(2,635)	7,314	(1,046)	(53,358)	(19,844)	5,381	(4,882)	(69,070)
31 Dec 2021	**47,928**	**143,410**	**13,187**	**-**	**292,890**	**5,381**	**307,755**	**810,551**

The item “Other” mainly refers to the recognition of deferred tax assets due to the adoption of IFRS 15. With the adoption of IFRS 15, revenues from electricity connections are deferred over the duration of the contract and are recognized over time.

The deferred tax liability relates to the fair value of JANAF shares through other comprehensive income in the amount of HRK 19,763 thousand (2020: HRK 13,175 thousand) and deferred liability arising in previous periods from the transfer of assets from business to non-business assets (transfer of assets from IAS 16 to IAS 40), on the basis of which a deferred tax liability in the amount of HRK 4,592 thousand was recorded (2020: HRK 4,592 thousand).

12. PROPERTY, PLANT AND EQUIPMENT

in '000 HRK	Land and buildings	Inventory and equipment	Tangible assets under construction	Advances	Total
PURCHASE VALUE					
On 1 January 2020	**40,629,371**	**52,150,804**	**3,120,646**	**147,338**	**96,048,159**
Transfers	(17,340)	11,251	1,452	-	(4,637)
Additions	23,700	1,948,776	2,166,056	(85,280)	4,053,252
Additions NEK	-	-	218,152	364	218,516
Increase through acquisitions and mergers	152,338	4,002	22,964	30	179,334
Allocation of goodwill to real estate	17,617	-	-	-	17,617
Activation of ongoing investments	499,752	1,301,252	(1,812,217)	-	(11,213)
Activation of investments in progress by NEK	415	23,374	(23,789)	-	-
Disposals	(86,570)	(354,311)	(26,453)	-	(467,334)
On 31 December 2020	**41,219,283**	**55,085,148**	**3,666,811**	**62,452**	**100,033,694**
Transfers	376,009	(377,786)	(3,371)	-	(5,148)
Additions	12,372	223,185	2,484,352	44,926	2,764,835
Additions NEK	-	-	239,673	(87)	239,586
Increase through acquisitions and mergers	44,150	16,517	492	-	61,159
Allocation of goodwill to real estate	-	-	-	-	-
Activation of ongoing investments	546,781	1,579,414	(2,148,067)	-	(21,872)
Activation of investments in progress by NEK	18,974	229,498	(248,472)	-	-
Disposals	(68,829)	(540,132)	(10,658)	-	(619,619)
On 31 December 2021	**42,148,740**	**56,215,844**	**3,980,760**	**107,291**	**102,452,635**
ACCUMULATED DEPRECIATION					
On 1 January 2020	**28,927,894**	**34,540,055**	**-**	**-**	**63,467,949**
Depreciation expense for the year	661,948	1,236,721	-	-	1,898,669
Depreciation expense for the year for NEK	27,165	211,926	-	-	239,091
Impairment	23,246	90,640	-	-	113,886
Mergers	72,791	3,349	-	-	76,140
Transfers	(16,771)	17,945	-	-	1,174
Deregistered by alienation	(76,387)	(347,596)		-	(423,983)
On 31 December 2020	**29,619,886**	**35,753,040**	**-**	**-**	**65,372,926**
Depreciation expense for the year	683,387	1,359,060	-	-	2,042,447
Depreciation expense for the year for NEK	27,247	128,443	-	-	155,690
Impairment	7,938	30,102	-	-	38,040
Mergers	23,746	3,789	-	-	27,535
Transfers	8,543	(9,817)	-	-	(1,275)
Deregistered by alienation	(64,432)	(508,365)	-	-	(572,797)
On 31 December 2021	**30,306,315**	**36,756,252**	**-**	**-**	**67,062,566**
CARRYING AMOUNT					
As at 31 December 2021	**11,842,425**	**19,462,592**	**3,980,760**	**107,291**	**35,390,069**
As at 31 December 2020	**11,599,397**	**19,332,108**	**3,666,811**	**62,452**	**34,660,768**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group owns a large number of properties, however the ownership of individual properties has not been fully resolved. The Group is in the process of registering ownership of the Group's real estate. Due to the large number of properties, there is a possibility that not all properties owned by the Group are recorded in the business books. There is also a possibility that real estate where the Group has no registered ownership is recorded in the business books.

On 27 June 2013, the Management Board of the Company issued a Decision on measures and activities related to resolving the ownership status of the Company's real estate and subsidiaries.

The Decision sets tasks and deadlines for the purpose of submitting proposals to the competent land registry courts for the purpose of registering property rights. Activities on arranging the land registry will continue in 2022.

As at 31 December 2021, property, plant and equipment were not given as collateral for bonds issued and loans received.

13. RIGHT OF USE ASSETS

in '000 HRK	**Land and buildings**	**Inventory and equipment**	**Total**
PURCHASE VALUE			
On 1 Jan 2020	**22,362**	**4,241**	**26,603**
Increases	5,841	1,339	7,180
Reductions	(795)	-	(795)
On 31 Dec 2020	**27,408**	**5,580**	**32,988**
On 1 Jan 2021	**27,408**	**5,580**	**32,988**
Increases	8,359	254	8,613
Reductions	(632)	(1,359)	(1,991)
On 31 Dec 2021	**35,135**	**4,475**	**39,610**
ACCUMULATED DEPRECIATION			
On 1 Jan 2020	**6,290**	**820**	**7,110**
Depreciation expense for the year	6,751	1,088	7,839
Increases / Decreases	(30)	11	(19)
Lease cancellation	(795)	-	(795)
On 31 Dec 2020	**12,216**	**1,919**	**14,135**
On 1 Jan 2021	**12,216**	**1,919**	**14,135**
Depreciation expense for the year	7,672	1,064	8,736
Increases / Decreases	78	-	78
Lease cancellation	-	(812)	(812)
On 31 Dec 2021	**19,966**	**2,171**	**22,137**
CARRYING AMOUNT			
On 31 Dec 2021	**15,169**	**2,304**	**17,473**
On 31 Dec 2020	**15,192**	**3,661**	**18,853**

14. INVESTMENT PROPERTY

As at 31 December 2021 and 2020, investments in real estate include real estate held to earn rental income and/or increase the value of capital, and are stated at fair value. Fair value includes the estimated market price at the end of the reporting period. All real estate investments are owned by the Group.

The assessment of the fair value of real estate was performed by official appraisers or internal services of the Group, the assessment of which is based on available data on the market price of real estate in suitable positions. These prices were collected from various sources, including available statistics from the Central Bureau of Statistics, the Real Estate Agency, the Croatian Chamber of Commerce, and others. These values of average realized prices are adjusted for the characteristics and specifics of individual properties.

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
At fair value		
Fair value	**342,607**	**330,738**
Net change in value based on fair value adjustment	25,363	7,847
Procurement investment	-	4,022
Year-end balance at fair value	**367,970**	**342,607**

As at 31 December 2021, there are no real estate investments pledged as collateral.

At the end of the reporting period, no significant capital expenditures were contracted without being recognized as liabilities.

15. GOODWILL AND INTANGIBLE ASSETS

in '000 HRK	**Goodwill**	**Licenses, software**	**Intangible assets under construction**	**Total**
PURCHASE VALUE				
Balance on 31 Dec 2019	**59,444**	**934,412**	**44,020**	**1,037,876**
Postings	-	2,653	1,912	4,565
Increase	7,328	41,010	29,441	77,779
Increase by merger	-	2,488	-	2,488
Activation of assets under construction	-	12,492	(1,279)	11,213
Alienations	-	(18,491)	-	(18,491)
Allocation of goodwill to real estate	(17,617)	-	-	(17,617)
Balance on 31 Dec 2020	**49,155**	**974,564**	**74,094**	**1,097,813**
Postings	-	(598)	(2,683)	(3,281)
Increase	20,751	77,659	1,060	99,470
Increase by merger	-	1,400	-	1,400
Activation of assets under construction	-	36,674	(2,232)	34,442
Alienations	-	(12,801)	-	(12,801)
Allocation of goodwill to real estate	-	-	-	-
Balance on 31 Dec 2021	**69,906**	**1,076,898**	**70,239**	**1,217,043**
ACCUMULATED DEPRECIATION				
Balance on 31 Dec 2019	**-**	**746,878**	**-**	**746,878**
Postings	-	(105)	-	(105)
Depreciation expense for the year	-	65,611	-	65,611
Mergers	-	1,309	-	1,309
Alienations	-	(18,284)	-	(18,284)
Balance on 31 Dec 2020	**-**	**795,409**	**-**	**795,409**
Postings	-	(375)	-	(375)
Depreciation expense for the year	-	62,437	-	62,437
Mergers	-	814	-	814
Alienations	-	(12,710)	-	(12,710)
Balance on 31 Dec 2021	**-**	**845,575**	**-**	**845,575**
CARRYING AMOUNT				
On 31 Dec 2020	**49,155**	**179,155**	**74,094**	**302,404**
On 31 Dec 2021	**69,906**	**231,323**	**70,239**	**371,468**

Goodwill was created by the acquisition of the companies Energetski park Korlat d.o.o., Plin VTC d.o.o., Sunčana elektrana Poreč d.o.o., PPD - Opskrba kućanstava d.o.o., Sunčana elektrana Vis d.o.o. and Ornatus d.o.o. in previous years and is entirely allocated to these companies. In 2021, Goodwill is increased due to acquisition of the companies GP Krapina d.o.o. and Darkom DP d.o.o. as well as increase of Goodwill of the company E.P. Korlat d.o.o. Goodwill refers to the good market position of the mentioned companies and the expected synergy with HEP Group that will arise after the acquisition.

15. GOODWILL AND INTANGIBLE ASSETS (continued)

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Goodwill		
Energetski park Korlat d.o.o.	45,625	31,083
Plin VTC d.o.o.	10,474	10,474
Sunčana elektrana Poreč d.o.o.	270	270
PPD – Opskrba kućanstava d.o.o.	2,432	2,432
Sunčana elektrana Vis d.o.o.	2,872	2,872
Ornatus d.o.o.	2,024	2,024
GP Krapina d.o.o.	3,036	-
Darkom DP d.o.o.	3,173	-
	69,906	**49,155**

16. INVESTMENT IN NPP KRŠKO

Investment history

At the end of 2001, the Contract was signed between the Government of the Republic of Croatia and the Government of the Republic of Slovenia to regulate the status and other legal affairs related to the investment, exploitation and decommissioning of Krško Nuclear Power Plant (NEK) and the Contract between HEP d.d. and ELES GEN d.o.o. The treaty was ratified by the Parliament of the Republic of Croatia in mid-2002 and entered into force on 11 March 2003 after being ratified by the Parliament of the Republic of Slovenia on 25 February 2003.

This contract recognizes the previously revoked ownership rights of HEP d.d in the newly formed company NE Krško in the amount of 50% of the share in the power plant. Both sides agreed that the life of the power plant is at least until 2023. The produced electricity is delivered in a ratio of 50:50 for both contracting parties, and the price of the delivered energy is determined according to the actual production costs.

The agreement also clearly defines, for the first time, the obligation of the Republic of Croatia to dispose of half of the radioactive waste and spent nuclear fuel from the Krško NPP. Each state has an obligation to provide half of the necessary funds to finance the costs of developing the decommissioning program and the costs of implementing the program. Each Party shall allocate funds for these purposes to its separate fund in the amounts provided for in the decommissioning programs. In accordance with the current Program for the Decommissioning of NPP Krško and Disposal of Radioactive Waste and Spent Nuclear Fuel, HEP d.d is obliged to pay funds to the Fund in the amount of EUR 14,250 thousand per year.

Current situation

Payments into the Fund for financing the decommissioning of NPP Krško

Pursuant to the Decree on the amount, deadline and manner of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP adopted by the Government of the Republic of Croatia on 24 December 2008, HEP d.d. paid into the Fund for financing the decommissioning of NPP Krško the amount of HRK 1,907,974 thousand during the period from 2006 to the end of 2021 (HRK 107,076 in 2021). The amount of the payment is determined by the document Decommissioning Program from 2004. The current annual liability in the amount of EUR 14,250 thousand is paid into the Fund on a quarterly basis. On 14 July 2020, the Interstate Commission adopted the Third Revision of the Krško NPP Decommissioning and Radioactive Waste Disposal Program, according to which the payment of HEP d.d. will be decreased from EUR 14,250 thousand to EUR 9,760 thousand per year. The precondition for this is the entry into force of the Act on Amendments to the Fund for Financing the Decommissioning and Disposal of Radioactive Waste and Spent Nuclear Fuel of the NPP Krško and the relevant bylaws (decrees). The Croatian Parliament adopted the Act on 11 February 2022, and the adoption of a new Decree on the amount and payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of NPP Krško is expected in the second quarter of 2022.

Life extension

After NE Krško received an operating permit from the Slovenian Nuclear Safety Administration without a time limit in 2012, at the beginning of 2016, HEP d.d. and GEN energija d.o.o. decided to extend the operating life of the power plant until 2043. The decision was made with the consent of the Interstate Commission for NPP Krško and was preceded by an economic study on the profitability of investments in long-term operation of the power plant. On 2 October 2020, the Environmental Agency of the Republic of Slovenia (ARSO) issued a decision deciding that in order to extend the life of the Krško NPP, it is necessary to perform an environmental impact assessment and obtain Environmental Consent (EC). The process of obtaining an EC, in accordance with the Convention on Environmental Impact Assessment in a Transboundary Area, also includes a transboundary environmental impact assessment procedure. The administrative procedure for obtaining the EC will be led by the ARSO. The Environmental Impact Report for life extension of NPP Krško from 40 to 60 years in public discussion.

Accounting monitoring of the joint venture of NPP Krško

The joint investment into NPP Krško is recognized in the Company’s financial statements by applying the equity method. In the consolidated financial statements, the Group applies the method of joint management of assets and liabilities and presents its share in each asset and each liability, income and expense in accordance with IFRS 11. The following table shows an excerpt from the financial statements of NPP Krško d.o.o. in 100% amounts as at 31 December 2021 and 31 December 2020:

16. INVESTMENT IN NPP KRŠKO (continued)

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Property, plant and equipment	3,263,344	3,103,524
Equity and reserves	3,620,162	3,586,499
Gross sales revenue	1,350,382	1,512,462
Cash flow from operating activities	517,723	498,386
Profit for the year	-	-

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Investments calculated using the equity method:		
Investment in Male hidre d.o.o.	3,040	3,040
Investment in Cropex d.o.o.	5,000	4,500
	8,040	**7,540**

The following table shows an excerpt from the financial statements of companies that are accounted for using the 100% equity method as at 31 December 2021 and 31 December 2020.

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Cropex d.o.o.		
Property, plant and equipment	74	45
Equity and reserves	10,611	9,036
Sales income	9,874	9,354
Loss for the financial year	2,383	4,137

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Initial balance of assets at fair value through other comprehensive income	**233,315**	**255,007**
Changes in the fair value of assets	43,150	(21,692)
Closing balance of assets at fair value through other comprehensive income	**276,465**	**233,315**

Changes in financial assets at fair value through other comprehensive income shown in the table above are presented in gross amount.

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Investments through other comprehensive income (equity securities)		
Jadranski Naftovod d.d.	275,303	232,119
VIS d.d.	3	3
Đuro Đaković d.d.	5	5
Elektrometal d.d.	40	40
Međimurje beton d.d.	-	152
Pominvest d.d.	-	35
Konstruktor Inženjering d.d. u stečaju	233	233
Helios Faros	27	18
Other	854	710
Total investments through other comprehensive income	**276,465**	**233,315**

In 2021 and 2020, the fair valuation was made on the basis of the notification of the Central Depository and Clearing Company on the account balance as at 31 December. The market price of the share of Jadranski naftovod d.d. as at 31 December 2021 amounts to HRK 5,100, and as at 31 December 2020 to HRK 4,300. Through fair valuation of investments in Jadranski naftovod d.d. as at 31 December 2021, the value of investments increased by HRK 43,185 thousand, and as at 31 December 2020, it decreased by HRK 21,592 thousand. The effect of fair valuation in 2021 and 2020 was conducted through reserves.

19. LONG-TERM LOANS GRANTED

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Receivables on housing loans	2,515	4,173
Receivables for granted loans	1,805	-
Receivables for granted loans to NPP Krško	23	54
Long-term portion	**4,343**	**4,227**

Prior to 1996, the Group sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of these assets was mainly on credit and sales receivables, which have an interest rate lower than the market rate, are repaid monthly over a period of 20 to 35 years. Receivables from the sale of apartments were transferred to newly established affiliates on 1 July 2002. These receivables are stated in the consolidated financial statements at a discounted net present value. Liabilities to the state, which represent 65% of the value of apartments sold, are stated in other long-term liabilities (Note 32). Receivables are secured by mortgages on sold apartments.

20. OTHER FINANCIAL ASSETS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Share of HOPS d.o.o. in unrelated companies	5,612	5,612
Share of Plomin Holding d.o.o. in companies	57,889	64,251
	63,501	**69,863**

In 2021, Plomin Holding d.o.o. has shares in the companies Velebit Pro Sol d.o.o. in the amount of HRK 49,386 thousand and Peharda izgradnja d.o.o. in the amount of HRK 8,503 thousand. In 2020, Plomin Holding d.o.o. concluded a Share Purchase Agreement for these companies according to which the share was paid in instalments during 2020. The Group has no control over these companies at the balance sheet date.

21. OTHER NON-CURRENT RECEIVABLES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Trade receivables from energy efficiency projects - long-term portion	50,893	56,235
Other receivables	29	59
	50,922	**56,294**

Receivables from customers of energy efficiency projects relate to energy efficiency projects performed for its customers by HEP-ESCO d.o.o. After the implementation of the project, the customers are issued an invoice for the total value of the project, which is repaid from the savings, in monthly annuities. In order to ensure investments in energy efficiency projects, an assessment of the creditworthiness of potential clients is made, while the Project Performance Agreement obliges clients to submit collaterals.

22. INVENTORIES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Fuel and chemicals	207,767	122,939
Electrical and mechanical materials	620,587	435,836
Spare parts	209,111	224,707
Building material	12,944	17,639
Wholesale gas supplies	73,165	34,256
Stocks of CO2 emission units	415,129	668,336
Energy-saving in final consumption	28,499	13,070
Other inventories	65,638	50,804
Nuclear fuel stocks NPP Krško	92,445	198,221
Other material stocks NPP Krško	119,910	122,947
	1,845,195	**1,888,755**
Value adjustment of obsolete material and spare parts	(260,875)	(279,908)
	1,584,320	**1,608,847**

The table below shows the changes in the value adjustment of inventories during the year:

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Balance at 1 January	**279,908**	**268,458**
Credited to and debited to the profit and loss for the year	(19,033)	11,450
Balance at 31 December	**260,875**	**279,908**

23. TRADE RECEIVABLES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Electricity - economy	1,652,080	1,404,205
Electricity - households	535,610	499,210
Electricity - abroad	121,997	185,418
Thermal energy, gas and services	796,394	567,978
Trade receivables NPP Krško	9,057	10,353
Other	100,915	50,824
	3,216,053	**2,717,988**
Expected credit losses	(786,832)	(752,712)
	2,429,221	**1,965,276**

The table below shows the age structure of outstanding trade receivables:

31 Dec 2021	Undue	Up to 30 days	From 31-60 days	From 61-90 days	From 91-180 days	From 181-365 days	365 and more days	**Total**
Gross book value of trade receivables	1,824,798	337,019	113,331	53,915	58,406	41,210	787,374	**3,216,053**
Expected credit losses	(15,125)	(18,546)	(26,818)	(1,396)	(2,981)	(5,976)	(715,990)	**(786,832)**

31 Dec 2020	Undue	Up to 30 days	From 31-60 days	From 61-90 days	From 91-180 days	From 181-365 days	365 and more days	**Total**
Gross book value of trade receivables	1,422,394	288,717	104,923	54,209	56,826	32,941	757,978	**2,717,988**
Expected credit losses	(28,448)	(3,147)	(1,574)	(1,626)	(5,114)	(9,882)	(702,921)	**(752,712)**

23. TRADE RECEIVABLES (continued)

The changes in impairment adjustments were as follows:

in '000 HRK	**2021**	**2020**
Balance at 1 January	**752,712**	**1,083,983**
Change in expected credit losses	(43,347)	(69,168)
Write-off of receivables	154,339	118,416
Reprogrammed receivables collected	-	(327,014)
Corrected receivables collected	(76,872)	(53,505)
Balance at 31 December	**786,832**	**752,712**

24. OTHER CURRENT RECEIVABLES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Income tax receivables	175,015	110,446
VAT receivables	165,602	97,011
Advances for working capital	310,644	305,186
Receivables from the state for employees	5,237	4,468
Deposits and time deposits for a period longer than 3 months	87,387	63,973
Deposits and time deposits for a period longer than 3 months NPP Krško	82,726	94,256
Receivables of HEP-ESCO d.o.o. from the beneficiaries of the energy efficiency project	17,256	9,318
Receivables for sold apartments	3,154	4,050
Receivables for invoiced RES - HROTE fee	18,534	25,511
Receivables for calculated income from the sale of electricity to households	-	38,340
Receivables for borrowed gas to joint users of LNG terminals	166,596	-
Other receivables NPP Krško	4,262	2,416
Other current receivables	64,538	53,394
	1,100,951	**808,369**

The average weighted interest rate on deposits is 0.1193181% (2020: 0.033045%).

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Share in investment funds - foreign currency	64,015	66,012
Share in investment funds - kuna	101,218	101,043
	165,233	**167,055**

26. CASH AND CASH EQUIVALENTS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Kuna accounts	2,315,468	2,527,996
Foreign currency accounts	565,512	340,131
Allocated funds	34,850	76,508
Cash in hand - Kuna	151	207
Deposits with a maturity of up to 90 days	717,299	106,609
Daily time deposits	534,988	371,851
Transaction and foreign currency account - NPP Krško	97,560	91,126
	4,265,828	**3,514,428**

Structure of foreign currency accounts by currency:

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
EUR	552,930	289,465
USD	6,580	45,795
KM	2,940	2,826
Other currencies	3,062	2,045
	565,512	**340,131**

27. SHARE CAPITAL

The share capital is denominated in Croatian kuna in the amount of HRK 19,792,159 thousand and consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800.
Retained earnings in the amount of HRK 6,668,993 thousand (2020: HRK 6,491,752 thousand) include profit reserves in the amount of HRK 613,124 thousand (2020: HRK 543,072 thousand), retained earnings in the amount of HRK 5,038,509 thousand (HRK 4,483,536 thousand in 2020) and current year profit attributed to the owner in the amount of HRK 1,017,360 thousand (2020: HRK 1,465,144 thousand).

28. LIABILITIES UNDER ISSUED BONDS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Value of bonds abroad from 2015	3,645,961	3,593,024
Exchange rate difference	(9,576)	45,793
Discount value	7,400	7,144
	3,643,785	**3,645,961**
Cost allocation by bond	-	(6,365)
Current maturity of bonds issued in 2015	**(3,643,785)**	**-**
Bonds issued in 2015	**-**	**3,639,596**
Repurchase - investment in bonds 1 January	(141,928)	(64,482)
Repurchase - investment in bonds during the year	(54,676)	(76,172)
Exchange rate difference	542	(1,274)
	(196,062)	**(141,928)**
Current portion of receivables for repurchased bonds	196,062	-
	-	**(141,928)**
Total liabilities under issued bonds	**-**	**3,497,668**

Current portions	31 Dec 2021	31 Dec 2020
Current portion of bonds issued in 2015	3,643,785	-
Current portion of receivables of repurchased bonds	(196,062)	-
Accrued costs based on bonds issued in 2015	(2,893)	-
Total current portions	**3,444,830**	**-**

Bonds issued abroad in 2015

In October 2015, the Company issued corporate bonds in the amount of $ 550,000 thousand, with a discount, with a maturity of 7 years and a fixed interest rate of 5.875% per annum. Bonds issued in 2015 were mostly used for repurchasing of 83-37% of the amount of bonds issued in 2012 (i.e. repurchase of $ 416,852 thousand). The remaining amount of the issue was intended to finance the Company's business activities. The bond is listed on the Luxembourg Stock Exchange and is actively traded. The fair value of bonds, less the repurchased amount of bonds with a nominal value of $ 29,615 thousand as at 31 December 2021 amounts to $ 538,674 thousand (equivalent to HRK 3,578,706 thousand).

During 2021, the Group repurchased on two occasions its own bonds on the secondary market in the total amount of HRK 54,676 thousand, which reduced the total book value of the corporate bond as at 31 December 2021 by this repurchase.

28. LIABILITIES UNDER ISSUED BONDS (continued)

Derivative financial instruments

Currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the dollar exchange rate, the Group concluded a Cross currency swap agreement by which the dollar bond liability was converted into a euro liability for the entire life of the bonds, i.e. until maturity on 23 October 2022.

According to the currency exchange agreement from 2015, the annual interest rate paid by the Group is fixed and amounts to 4.851% (weighted interest rate) and is payable semi-annually (the interest rate also includes the cost of exchange or swap).

The purpose of the Cross currency swap agreement is to reduce currency risk and credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Group's business results.

The Group's fair value of derivative financial instruments is linked to the Mark to market value "MTM", according to official calculations of banks, for the reporting period.

The positive value of "MTM" is recorded as a receivable, i.e. it forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and forms the financial expense of the reporting period. Upon the final maturity of a derivative financial instrument, the receivable or liability in question will be reversed to the expense or expense of the Group.

As at 31 December 2021, using the mentioned calculation method, the fair value of liabilities for bonds issued in the 2015 was HRK 2,730 thousand (2020: HRK 296,430 thousand; Note 32).

29. LIABILITIES UNDER LONG-TERM LOANS

in '000 HRK	Interest rates	**31 Dec 2021**	**31 Dec 2020**
Loans from domestic banks		300,630	-
Loans from foreign banks	Fixed / Variable	552,206	540,015
Financial leasing	Fixed	-	-
Loans from participating interest companies		-	27,687
Loans NPP Krško		157,297	157,710
Total long-term loan liabilities		**1,010,133**	**725,412**
Differentiation of loan fees		(2,638)	(2,934)
Total long-term loan liabilities		**1,007,495**	**722,478**
Current loan maturity		(76,078)	(53,879)
Current maturity of long-term loans of NPP Krško		(15,730)	-
Current maturity of loans of companies related to the participating interest		-	(13,844)
Total current maturity of long-term loans		**(91,808)**	**(67,723)**
Long-term maturity		**915,687**	**654,755**

Short-term loan liabilities	**31 Dec 2021**	**31 Dec 2020**
PBZ -HOPS d.o.o.-revolving loan (6,7 mil €)	50,365	**-**
ESB-Factoring (HOPS d.o.o.)	49,487	-
Total short-term loan liabilities	**99,852**	**-**

The Group contracted loans with domestic and foreign banks with applicable variable and fixed interest rates, which in 2021 ranged from 0.42% to 2.48%.

Loans from domestic banks are secured by bills of exchange and promissory notes. As at 31 December 2021, the Group has no debt covered by the State guarantee.

Since 2019, the Group has a contractual loan with Plinacro d.o.o., which is contracted with the company LNG Hrvatska d.o.o. The said loan was the subject of a recapitalization and the receivable of Plinacro d.o.o. was entered into equity and on 31 December 2021, LNG Hrvatska d.o.o. has no liabilities for loans and credits.

In 2021, the loan of Privredna banka Zagreb d.d., which was approved to NPP Krško and 50% of the value of the said loan, is stated on the balance sheet date at an interest rate of 1%.

In 2021, within loans from domestic banks a loan from Privredna banka Zagreb d.d. is disclosed, which was approved to HEP d.d. and a loan granted by Privredna banka Zagreb d.d. to DARKOM d.o.o. (later assumed by the co-debtor DARKOM DISTRIBUCIJA PLINA d.o.o.).

In 2021, the short-term revolving loan of Privredna banka Zagreb d.d., which was granted to HOPS d.o.o., is disclosed.

29. LIABILITIES UNDER LONG-TERM LOANS (continued)

Loans in use

To finance the investment plan and operating activities in 2021, the Group used its own funds and funds from the loan in use.

On 24 July 2018, a Loan Agreement was signed with the EBRD and the EIB for the purpose of financing the construction project of KKE EL-TO Zagreb in the amount of EUR 130 million, of which EUR 87 million relates to the EBRD, and to the EIB EUR 43 million. The EBRD loan consists of two tranches, namely Tranche A (EUR 43,5 million) provided by the EBRD independently and Tranche B (EUR 43,5 million) in which the commercial banks' union participates. The use of the loan was agreed until 24 January 2023.

On 17 December 2021, a Loan Agreement was signed with Privredna banka Zagreb in the amount of HRK 1,314 million and with Zagrebačka banka signed on 23 December 2021 on the same amount, for general business purposes, with a maturity of 5 years, one-time repayment at a fixed interest rate of 0.42%.

On 30 May 2019, a long-term loan agreement was signed between Privredna banka Zagreb and DARKOM d.o.o. in the amount of HRK 3 million for working capital and for closing liabilities to suppliers at a fixed interest rate of 3.5%. On 10 July 2020, the co-debtor, DARKOM DISTRIBUCIJA PLINA d.o.o., took over the liability under this loan.

On 27 December 2021, a Loan Agreement with the European Investment Bank (EIB) was signed with the purpose of refunding already invested funds in projects of the OIE segment in the amount of EUR 63 million.

On 29 December 2021, a short-term revolving loan agreement was signed between HOPS d.o.o. and Privredna banka Zagreb d.d. in the amount of EUR 6.7 million. The loan was used in the total amount on 30 December 2021. The used amount of the loan is subject to regular interest at the rate of the three-month EURIBOR plus an interest margin of 0.2 percentage points, annually, variable.

In December 2018, the use of loans from the EBRD and the EIB began to finance the construction project KKE EL-TO Zagreb.

During 2021, there was one withdrawal on these loans; in March in the total amount of EUR 9.3 million The EBRD loan was used in the amount of EUR 6.3 million, and the EIB loan in the amount of EUR 3 million..

As at 31 December 2021, the balance of used long-term loans amounts to EUR 42.3 million from the EBRD and EUR 21.4 million from the EIB. The use of the loan was agreed until 24 January 2023.

Repayment plan for principal of long-term loans maturing in the next five years:

	in '000 HRK
2022	91,808
2023	95,601
2024	65,604
2025	366,550
2026	66,550
After 2026	321,382
	1,007,495

29. LIABILITIES UNDER LONG-TERM LOANS (continued)

Loans from domestic banks are secured by bills of exchange and promissory notes, except the loans with Zagrebačka banka the loans of EBRD EUR 87,000 thousand and EIB EUR 43,000 thousand, which are contracted with financial guarantees in the form of financial indicators according to which the Group is obliged to meet certain prescribed levels of the following indicators on an annual and semi-annual basis: net financial debt / EBITDA, EBITDA / net financial expenses, net financial debt / total net value.

The main objective of the Group related to the risks posed by financial indicators is to protect the Group from possible breach of contractual obligations, i.e. premature maturities of contracted credit indebtedness.

The contracted financial indicators are monitored and calculated based on the projected statement of financial position and income statement.

The Group prepares preliminary calculations of financial indicators in the forthcoming medium-term period and monitors their trend.

If the projections of the balance sheet and the statement of comprehensive income at the end of the financial year show the possibility of overdraft on a particular financial indicator, the Group is obliged to inform the bank of the possibility of breach of contract and promptly ask the bank to waiver.

In case the bank does not approve the "waiver", the possible scenario is premature maturity of the debt, which poses a liquidity risk for the Group.

Management believes that in the event of overdraft on an individual indicator, the Group may obtain a “waiver” from creditors, as payment of liabilities to financial institutions is a priority liability of the Group and the Group has never been late in paying liabilities to financial institutions.

Due to all the above, the Management Board estimates that the possibility of premature maturity of loan liabilities as a result of overdraft on financial indicators, as well as the Group's exposure to credit risk, liquidity risk and market risk that may arise as a result of overdraft on financial indicators, is minimal.

As at 31 December 2021, the Group met all contracted financial indicators.

The Group's total exposure based on contracted credit indebtedness related to financial indicators as at 31 December 2021 amounts to EUR 63,708 thousand.

29. LIABILITIES UNDER LONG-TERM LOANS (continued)

The following is an overview of long-term loans denominated in foreign currencies (in thousands):

Currency	**31 Dec 2021**	**31 Dec 2020**
EUR	94,384	92,575

For the purpose of securing liquidity reserves in the next medium-term period, the Group has concluded multi-purpose framework agreements with domestic banks as at 31 December 2021 in the total amount of up to HRK 1 billion.

The Group may use the funds from these frameworks for short-term loans, and the issuance of guarantees, letters of credit, letters of intent in accordance with the needs of the Group companies. During 2021, short-term lines were used exclusively for the purpose of issuing guarantees, letters of credit and letters of intent, and they did business equally with all banks.

From the aforementioned medium-term multi-purpose frameworks, in 2021 the Group did not have the need to conclude short-term loans due to good liquidity.

As at 31 December 2021, the total amount of available funds from the short-term framework amounts to HRK 669,7 thousand.

30. LEASE LIABILITIES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Long-term liabilities for rental properties	9,697	9,803
Long-term liabilities for car rental	842	1,547
Long-term liabilities for equipment rental	344	790
	10,883	**12,140**
Current maturity of long-term lease liabilities	7,554	7,685
Lease liabilities	**18,437**	**19,825**

The lease liability is calculated at the present value of the contractual future payments to the lessor over the term of the lease, less the discount rate determined in relation to the rate inherent in the lease unless it is (as is usually the case) not easy to determine. In that case, the incremental borrowing rate of the HEP Group at the beginning of the lease is used. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or rate. In this case, the initial calculation of lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which it relates.

31. PROVISIONS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Provisions for litigation	313,542	319,107
Provisions for severance pay	707,117	665,237
Provisions for severance pay and jubilee fees of Krško NPP	45,546	46,020
Provisions for jubilee awards	43,153	43,184
Provision for decommissioning of a thermal power plant	230,256	220,649
Provision for delivered electricity from wind power	21,631	21,631
Provisions - other - NPP Krško	1,033	15,848
Other long-term provisions for value adjustment of tangible assets	43,345	**-**
	1,405,623	**1,331,676**

The amount of provisions for decommissioning costs of thermal power plants in the amount of HRK 230,256 thousand (in 2020 HRK 220,649 thousand) represents the discounted value of the estimated cost of decommissioning of the Group's thermal power plants.

The table below summarizes the changes in provisions during the presented period:

in '000 HRK	**Provisions for litigation**	**Provisions for severance pay**	**Provisions for jubilee awards**	**Provisions for thermal power plant decommissioning**	**Other**	**Total**
On 1 January 2020	**277,189**	**638,077**	**44,086**	**213,073**	**22,975**	**1,195,400**
Additional provisions	60,482	90,686	4,629	7,576	14,504	177,877
Reduction of provisions based on payment	-	(17,506)	(5,531)	-	-	(23,037)
Reduction of provisions based on estimates	(18,564)	-	-	-	-	(18,564)
					-	
On 31 December 2020	**319,107**	**711,257**	**43,184**	**220,649**	**37,479**	**1,331,676**
Additional provisions	11,386	68,315	4,818	15,137	43,345	143,001
Reduction of provisions based on payment	-	(26,909)	(4,849)	-	(14,815)	(46,573)
Reduction of provisions based on estimates	(16,951)	-	-	(5,530)	-	(22,481)
On 31 December 2021	**313,542**	**752,663**	**43,153**	**230,256**	**66,009**	**1,405,623**

31. PROVISIONS (continued)

Provisions for litigations

The Group reserves costs for litigation that is estimated to be unlikely to be resolved in favour of the Company and its subsidiaries. The most significant litigation relates to disputes where the defendant is the Company. In the Company, the most significant provisions relate to the dispute related to HPP Peruća, which began in 1995, for which a first-instance verdict was rendered in 2012 in favour of the plaintiff. The value of the dispute is around HRK 330,000 thousand, and funds in the amount of 50% of the value of the dispute in the amount of HRK 165,000 thousand have been reserved.

In 2021, there were no changes that would indicate the need to change the amount of provisions.

Other major disputes of the Company relate to Autocesta Rijeka – Zagreb (Rijeka - Zagreb Motorway), where funds in the amount of 50% of the value of the dispute in the amount of HRK 10,203 thousand are reserved.

Several lawsuits are being filed against the company HEP - Proizvodnja doo, for which the company has made a provision. The most significant of them are: litigation for damages caused by fire in HPP Dubrovnik in the amount of HRK 15 million, litigation for damages in HPP Lešće in the amount of HRK 10 million, litigation with the municipality of Tomislavgrad in the amount of HRK 14 million.

Provisions for severance pay and jubilee awards

Changes in the present value of defined liabilities based on employee benefits in the current period are shown below:

in '000 HRK	**Severance payments**	**Jubilee awards**	**Total**
On 1 January 2020	**634,835**	**44,086**	**678,921**
NPP Krško	3,242	-	3,242
Total as at 1 January 2020	**638,077**	**44,086**	**682,163**
Running costs	28,027	2,595	30,622
Interest expense	3,251	208	3,459
Paid income	(17,506)	(5,531)	(23,037)
Past labour costs	2,888	281	3,169
Actuarial (gains/losses)	53,901	1,545	55,446
On 31 December 2020	**708,638**	**43,184**	**751,822**
NPP Krško	2,619	-	2,619
Total as at 31 December 2020	**711,257**	**43,184**	**754,441**
Running costs	30,648	2,942	33,590
Interest expense	2,665	158	2,823
Paid income	(26,434)	(4,849)	(31,283)
Past labour costs	1,856	107	1,963
Actuarial (gains / losses)	33,146	1,611	34,757
On 31 December 2021	**753,138**	**43,153**	**796,291**
NPP Krško	(475)	-	(475)
Total as at 31 December 2021	**752,663**	**43,153**	**795,816**

31. PROVISIONS (continued)

The following assumptions were used in making the calculations:

- The termination rate ranges from 0% to 8.7% and is based on statistics on employee turnover in the Group in the past five years
- The probability of death by age and sex was derived from the Mortality Tables for Croatia in the period from 2010 to 2012 published by the Central Bureau of Statistics of the Republic of Croatia. It is assumed that the Group's employees are among the average population in terms of mortality and health status.
- The planned growth of annual salaries is 2%.
- The following discount rates were applied to calculate the present value of the liability:
  - 1.65% (HEP-Trgovina d.o.o., HEP-Telekomunikacije d.o.o.)
  - 1.45% (HEP-Plin d.o.o.)
  - 1.4% (HEP-Opskrba d.o.o., HEP ELEKTRA d.o.o., HEP-Upravljanje imovinom d.o.o., LNG Hrvatska d.o.o.)
  - 1.2% (HEP ESCO d.o.o.)
  - 1.1% (HEP-Toplinarstvo d.o.o., HEP d.d., HEP NOC, HEP-VHS Zaprešić d.o.o.)
  - 0.3% (HEP-Proizvodnja d.o.o., HEP-Operator distribucijskog sustava d.o.o.)

32. OTHER LONG-TERM LIABILITIES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Deferred income for property financed by others	6.473.115	6.458.886
Liabilities for assets financed from clearing debt	800.215	739.447
Liabilities to the state	3.992	5.714
Derivative financial liabilities by swap transactions (Note 28)	-	296.430
Other long-term liabilities	36.261	10.713
	7.313.583	**7.511.190**

Deferred income refers to income for received property or property financed from the connection fee. Income from these assets is recognized at the same time as the depreciation of the tangible assets to which it relates.

As at 31 December 2021, the Group discloses a liability for clearing debt in the amount of HRK 800,215 thousand (2020: HRK 739,447 thousand), which relates to payments from letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of Russia Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. The process of negotiations on the manner of settling the assumed debt between the competent ministry and the Group is ongoing.

Long-term liabilities to the state in the amount of HRK 3,992 thousand in 2021 (2020: HRK 5,714 thousand) relate to the sale of apartments to employees in accordance with the state program that was abolished in 1996. According to legal regulations, 65% of the income from the sale of apartments to employees was paid to the state upon receipt of funds. By law, the Group and its subsidiaries have no obligation to remit funds before collecting them from employees.

33. TRADE PAYABLES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Accounts payable in the country	1,690,270	1,603,231
Accounts payable outside EU	823,644	105,411
Accounts payable within EU	181,499	187,743
Trade payables - NPP Krško	31,770	1,561
TOTAL	**2,727,183**	**1,897,946**

34. LIABILITIES FOR TAXES AND CONTRIBUTIONS

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
VAT liabilities	120,229	12,928
Utility and other fees	21,447	37,386
Contributions on salaries	22,925	21,985
Taxes and contributions on material rights of employees	7,976	3,536
Other	3,324	2,974
TOTAL	**175,901**	**78,809**

35. LIABILITIES TO EMPLOYEES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Net salaries	99,717	95,671
Liabilities for contributions and taxes	41,950	40,028
Liabilities for severance pay for retirement	7,488	3,231
Wage liabilities NPP Krško	12,189	13,907
Other	15,931	15,681
TOTAL	**177,275**	**168,518**

36. OTHER CURRENT LIABILITIES

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Liabilities for received advances for connections	729,922	479,128
Liabilities for other advances received	243,882	272,157
Deferred LNG income from grants	1,449,659	1,243,193
Calculated costs for CO_2 emissions	810,011	454,276
Interest liabilities	17,647	31,046
Calculated costs of unused vacations	85,410	81,361
Calculated income from the sale of electricity to households	46,231	-
Liabilities for calculated solidarity compensation	15,635	14,884
Liabilities for renewable energy charges	136,294	126,502
Gas purchase on financial market (stock exchange)	3,108	-
Other accrued expenses	181,502	69,889
Liabilities of NPP Krško	36,095	42,134
Other liabilities	35,568	51,594
TOTAL	**3,790,964**	**2,866,164**

HEP's thermal power plants with a nominal input power of more than 20 MW are from 1.1.2013 in the European System of Greenhouse Gas Emissions (EU-ETS). 8 HEP accounts have been opened in the EU Register - TPP Plomin, TPP Rijeka, TPP Zagreb, EL-TO Zagreb, TE-TO Sisak, TE-TO Osijek and KTE Jertovec. The Osijek plant of HEP-Toplinarstvo was excluded from the EU-ETS based on article 40 of the Act on Climate Changes and ozone layer protection (OG 127/19).
During the 3rd trading period, the price of emission allowances changed and increased significantly until the end of the period ended on 31 January 2020. The growth of emission prices continued at the beginning of the 4th trading period and in accordance with the EU policy aimed at significantly reducing greenhouse gas emissions by 2030, or completely decarbonizing the energy sector by 2050, the price of emission units will rise.
In the 4th trading period, which will last from 2021 to 2030, the rule continues that there is no free allocation of emission allowances for electricity produced, but for now, until 2026, the European Commission will continue to allocate free emission allowances to heat producers for part of the produced electricity. thermal energy, based on the report submitted by HEP to the competent Ministry of Environmental Protection.
The growth of emission unit prices affects the production price of energy, and the operation of individual thermal power plants depends on it, and the lack of energy produced from TPPs and CHPs is compensated by production from other sources, depending on meteorological conditions and/or imports. The Group manages the risk of price volatility of allowances by selecting the method of their purchase, in order to define quantities and prices for a certain period in the future.

HEP's EU-ETS plants submitted to the EU Register emission allowances in the quantities of verified emissions for 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021.

Accordingly, the costs of purchasing greenhouse gas emissions consist of the amount of CO2 emitted (eq) and the unit price of emission units that the Group calculates on accrued costs and deferred revenue (calculated costs) and expenses for the period in the year in which the greenhouse gas emissions occurred.

Accrued revenues from the sale of electricity to households in the amount of HRK 46,231 thousand in 2021 (Note 36) and HRK 38,340 thousand in 2020 (Note 24) are based on the calculation of the correction of household income obtained by calculating the logarithmic curve. The correction of household income as of 31 December 2021 was obtained by calculating the logarithmic curve using network losses of 7.71% while for the year ended 31 December 2020, the stated percentage of losses used in the calculation was 8.11 %. In 2021, the result of the correction is a decrease in revenue in the amount of HRK 84,571 thousand compared to 2020, and after this correction, a liability in the amount of HRK 43,231 thousand was stated. In 2020, the result was an increase in revenue in the amount of HRK 42,056 thousand compared to 2019, and a receivable in the amount of HRK 38,340 thousand was reported.

37. RELATED PARTY RELATIONS

The company has a 50% share in the capital of NPP Krško. Although the investment in NPP Krško is shown in the financial statements as joint assets (joint operations), since NPP Krško is a separate legal entity, we disclose transactions between NPP Krško and the Company here.

The produced electricity in NPP Krško is delivered to HEP in the amount of 50% of the total produced quantities at a price determined by the total production costs.

Receivables and liabilities and income and expenses with related parties are presented in the following table:

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
NPP Krško		
Liabilities for purchased electricity	56,962	61,458
Costs of purchased electricity	664,839	742,042

Remuneration of the Management Board is explained in Note 8.

	Revenues		**Expenditures**	
in '000 HRK	**2021**	**2020**	**2021**	**2020**
Companies that are partially owned by the State				
Croatian Railways Group Company	109,806	106,180	14	57
Plinacro d.o.o.	3,382	2,966	83,707	71,836
Hrvatska pošta d.d.	16,727	22,128	45,088	46,673
Hrvatske šume d.o.o.	5,642	5,931	7,541	9,082
Jadrolinija d.o.o.	1,705	1,236	544	462
Narodne novine d.d.	2,224	1,994	1,938	4,629
Hrvatska radio televizija	13,433	12,529	1,614	1,570
Plovput d.d.	112	660	287	197
Croatia Airlines d.d.	827	652	12	78
Ministry of Defense of the Republic of Croatia	21,127	17,823	-	-
Ministry of Internal Affairs	28,095	26,837	5	-
Primary and secondary schools	51,057	44,225	4	18
Judicial institutions	7,767	7,219	28	46
Colleges and universities	26,985	24,129	992	1,519
Legislative bodies of the Republic of Croatia	20,781	20,587	4,492	5,887
Health facilities	132,920	120,322	638	595
HROTE d.o.o.	380,492	332,588	717,589	752,492
TOTAL	**823,082**	**748,006**	**864,493**	**895,141**

37. RELATED PARTY RELATIONS (continued)

	Receivables		Liabilities	
in '000 HRK	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Companies that are partially owned by the State				
Croatian Railways Group Company	27,999	29,309	-	7
Plinacro d.o.o.	1,006	569	13,475	7,552
Hrvatska pošta d.d.	726	3,342	8,822	12,228
Hrvatske šume d.o.o.	1,001	960	3,005	421
Jadrolinija d.o.o.	231	309	37	25
Narodne novine d.d.	733	562	329	506
Hrvatska radio televizija	2,283	2,023	11	21
Plovput d.d.	126	34	32	41
Croatia Airlines d.d.	111	81	-	36
Ministry of Defense of the Republic of Croatia	1,691	4,499	-	-
Ministry of Internal Affairs	4,861	3,460	-	-
Primary and secondary schools	12,362	11,035	-	-
Judicial institutions	1,119	1,062	-	-
Colleges and universities	4,645	4,215	-	-
Legislative bodies of the Republic of Croatia	3,023	3,092	-	-
Health facilities	57,498	55,625	-	-
HROTE d.o.o.	82,649	43,347	80,383	67,089
TOTAL	**202,064**	**163,524**	**106,094**	**87,926**

38. CONTINGENT LIABILITIES AND COMMITMENTS

Disputes

The Group entered provisions for legal disputes that were estimated to be unlikely to be resolved in favour of HEP d.d. and its subsidiaries.

The Group has long-term investments in the territory of Bosnia and Herzegovina and Serbia, in the amount of HRK 1,243,970 thousand. During the conversion of the Company into a joint stock company in 1994 this amount was excluded from the net asset value.

The Group has long-term investments in non-business assets in the territory of Bosnia and Herzegovina and Montenegro in the amount of HRK 722 thousand, which is excluded from the net asset value.

Operating liabilities

As part of regular investment activities, the Group had concluded contracts as at 31 December 2021 according to which investments in various facilities and equipment have begun but not been completed. In 2021, the value of contracted work in progress for the most significant projects amounted to HRK 3,066,835 thousand (2020: HRK 2,957,214 thousand).

Environmental protection

The Group continuously monitors and analyses the impact of its business processes on the environment. The most important indicators of such impacts are emissions of pollutants into the air and the amount of generated industrial waste, about which the Group timely and objectively reports to the relevant institutions, local governments and the interested public. The Group reports on its impacts on the environment, economy and society through non-financial sustainability reports prepared according to the guidelines of the GRI-Global Reporting Initiative, and from 2017 according to the GRI standard guidelines and publishes them on its website http://www.hep.hr/on-hep-group/publications/report-on-sustainability/1401. The employees dealing with nature and environmental protection are additionally trained in seminars and workshops, within which they are informed about the obligations and activities arising from the provisions of legislation in the field of nature and environmental protection.

All HEP thermal power plants with a rated thermal input of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry of Environmental Protection and Energy. By the decision of the Management Board of the Company in 2012, the greenhouse gas emissions trading system was established, and the Republic of Croatia and HEP joined the European Greenhouse Gas Emissions Trading System (EU-ETS) on 1 January 2013. Based on the Company's request, the Croatian Environment and Nature Agency (merged with the Ministry of Environmental Protection and Energy since 1 January 2019) opened nine Plant Operator Accounts in the EU register. The plant Osijek-HEP-Toplinarstvo was excluded from EU-ETS based on article 40 of the Act on Climate Changes and Ozon Layer Protection (OG 127/19).

The Group has successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2020, and for 2021 the data on verified CO2 emissions have been entered. The European Commission should confirm the entry of emission allowances in the EU Register by 30 April of the current year for the previous year. The European Commission has provided HEP's thermal power plants - heating plants - TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek and TE-TO Sisak free emission allowances for the production of f thermal energy which is transferred to the central heating system (CTS) and energy that is delivered by the so-called "Carbon leakage" plants, i.e. plants for which there is a risk that they will move their production to countries that are not EU-ETS bonds and part of the energy they hand over to the so-called non-carbon leakage plants, i.e. plants for which there is no such risk. Free emission allowances are allocated by the European Commission on the basis of the Reference Data Report (so-called NIMsBL) and on the basis of the Monitoring Methodology Plan, and the allocated quantities are subject to changes depending on heat production for the previous year in accordance with the reports submitted by the operators to the competent Ministry. HEP reports on the quantities of allocated free emission units within the non-financial reports https://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401 and in the section Environment - Air and Climate Protection https:// www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-promjene/emisije-staklenickih-plinova/158.
On 1 January 2021, the fourth period of the EU-ETS began, which will last until 2030.

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

In 2021, the non-financial sustainability report for 2020 for the HEP Group according to the guidelines of the Global Reporting Initiative Standard (GRI Standard) was completed. The Sustainability Report is published on the Company's website in Croatian and English. The non-financial report on sustainability from 2020 is not published as a separate report but integrated with the business report and is called the Business and Sustainability Report. In order to reduce waste and save natural resources, the report was not printed, but published only in digital form.

Report on the status of preparation of the non-financial report on the Group's sustainability for 2021

The preparation of a non-financial report on the HEP Group's sustainability for 2021 is underway. In accordance with the provisions of the Accounting Act, the non-financial report will be published on HEP's website within legal deadlines. The report will be published, as well as the previous four non-financial reports on sustainability at the following link http://www.hep.hr/on-hep-group/publications/report-on-sustainability/1401. Based on the Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 and delegated regulations in the report for 2021 data on shares in the turnover of CAPEX and OPEX will be published which refer to sustainable activities and are applicable for the HEP Group. The practice of publishing the consolidated business report and the non-financial sustainability report started in 2020 will continue

In compiling the report, the HEP Group uses the guidelines of the Global Reporting Initiative Standard (GRI Standard) and the indicators in the said standard - general and standard indicators and the sector supplement for the energy sector.

Indicative content of the 2021 sustainability report:

- Editorial by the President of the Management Board
- HEP's approach to sustainability, including goals, the way in which sustainability is implemented and responsible business, how they are integrated into business policies, description of sustainability risks
- Material topics (description and impact assessments), sustainability framework according to the goals of sustainable development of the United Nations
- Stakeholder analysis. Stakeholder involvement. Explanation of report boundaries.
- Business transparency including management approach, principles of corporate governance, ethical business, expertise and work responsibility, transparency of communication and information (all according to the required GRI indicators). Responsibility in the work environment, data related to employees (and prescribed by GRI indicators), safety and protection at work. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- Market access. HEP Group in market operations. General approach. Business and responsibility, especially for HEP Group companies. Describes the most important trends related to market operations, supply chain, according to the requirements of GRI indicators. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- Caring for the environment. Data on environmental protection, investments, projects, initiatives. The data are listed according to the areas of environmental protection (business segments). Data are given according to GRI indicators.
- Investing in the community. Various forms of community investment, cooperation with stakeholders, dialogue, information and educational campaigns, initiatives aimed at cooperation and the like are described. The chapter also includes representative stories and case studies describing the accountability and sustainability approach.
- List of indicators.

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Management systems according to ISO standards:

- HEP-Proizvodnja d.o.o. has introduced and certified an integrated environmental, quality and energy management system in accordance with international standards ISO 14001: 2015 and ISO 9001: 2015 and ISO 50001: 2018 and, with its 35 components, is among the largest environmental, quality and energy management systems in The Republic of Croatia. Effective quality, environmental and energy management is part of the business strategy of HEP-Proizvodnja d.o.o. in the production of electricity and heat and the provision of ancillary services to the electricity system. Certification according to ISO 14001: 2015, ISO 9001: 2015 and ISO 50001: 2018 was carried out and confirmed by the certification house TÜV Croatia d.o.o.
- As one of the largest production companies in Croatia, and considering the activities in which the number of employees is engaged, HEP-Proizvodnja d.o.o. is aware of its impact on the environment, and considering the introduced environmental, quality and energy management systems, it has adopted an Environmental, Quality Management Policy. and energy with which it has opted for achieving maximum operational readiness and reliability of production capacities with the implementation of environmental protection measures and increasing the share of electricity and heat production in the regional market based on the principles of environmentally friendly production, energy efficiency and sustainable business.
- Hrvatska elektroprivreda d.d has become the holder of the certificate of the integrated quality management system, environmental protection, energy and health and safety at work according to the international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. At the same time, the Company HEP-Upravljanje imovinom d.o.o. in the segment of operations the form an inseparable whole with HEP d.d., also has become the holder of the certificate also according to international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. In addition to other system documents that require standards, the Management Board of HEP d.d has adopted an umbrella document - Quality Policy, Environmental Protection, Energy Management and Health and Safety at Work of HEP d.d and HEP - Property Management Ltd. (PDF), which expresses its commitment to maintenance and continuous improvement of the integrated management system.
- The customer service of HEP-Opskrba doo with its exceptional commitment and high level of service provided was the first in Croatia to receive the ISO 9001:2015 certificate for the quality of service. The ISO 9001: 2015 recertification process was conducted in 2021 for the fourth time (certification house Bureau Veritas), thus further confirming the quality of Customer Service.
- The protection of workers' health and safety, environmental protection and efficient energy management are part of the business strategy of HEP - Distribution System Operator doo (HEP ODS). The environmental management system according to the international standard ISO 14001 is the first management system certified at the level of 21 distribution areas and HEP-ODS headquarters in 2013. In 2018, the transition of this system to the requirements of the new ISO 14001:2015 standard was successfully implemented. The occupational health and safety management system was established in 2015 and in 2017 it was successfully certified for the first time according to the OHSAS 18001:2007. In 2019, the transition of this system to the requirements of the ISO 45001:2018 2018 standard was successfully implemented. The basic commitment of HEP-ODS in energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network through the implemented energy management system according to ISO 50001:2011 which is confirmed by TÜV Croatia doo
- The introduction of an integrated quality management system, environmental protection and energy in HEP - Toplinarstvo d.o.o. Quality management systems according to the ISO 9001: 2015 standard and the environment according to ISO 14001: 2015 have been introduced, and the introduction of an energy management system according to ISO 50001: 2011 is in progress.

HEP Opskrba was the first on the electricity market in the Republic of Croatia to offer a unique product – ZelEn, i.e. green energy obtained exclusively from renewable sources. The origin of electricity used by the customers of ZelEn is proven by the abolition of a sufficient number of guarantees of the origin of electricity in the registry of guarantees of origin of electricity kept by the Croatian Energy Market Operator (HROTE).

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Water Act

The Water Act, which entered into force on 1 January 2010 raised the issue of property status; accumulation lakes and ancillary facilities (canals, embankments, etc.), which is used for the production of electricity from hydropower plants for the reason that they are defined as a public water resource in general use owned by the Republic of Croatia. HEP Group acquired the said property through toll collection from their previous owners, by uniting an extremely large number of plots, which were submerged by the construction of the dam and thus an accumulation was created. Several proceedings are underway to register the ownership of the Republic of Croatia on these properties, part of which was carried out in favour of the Republic of Croatia, part of the request for registration of ownership of the Republic of Croatia was rejected by the competent courts, and one is pending.

In May 2018, the Act on Amendments to the Water Act (OG No. 46/18) entered into force, according to which the Republic of Croatia establishes the right to build for constructed water structures for the production of electricity built and invested by HEP d.d, that is, its predecessors, in favour of HEP d.d, free of charge for a period of 99 years. An exception to the establishment of building rights is provided for parts of water structures that consist of reservoirs, inflow and outflow channels and tunnels. During the construction right in question, HEP d.d acquires the right to manage the public good / land on which the buildings for the production of electricity were built, as well as the accumulations and supply and drainage canals and tunnels on behalf of the Republic of Croatia. The right of management includes, inter alia, the right to use the real estate in question.

In order to implement the provisions of the Act on Amendments to the Water Act (OG No. 46/18), HEP d.d is obliged to initiate relevant procedures for registration of these rights in the land register and to obtain an appropriate subdivision study which must be harmonized with Croatian Waters and which will be the basis for the issuance of a tabular document for the registration of construction rights over the buildings in question. An appropriate subdivision study will also be the basis for the correct classification of fixed assets between the groups of intangible and tangible assets, which is currently recorded in the business books of HEP Group in the total amount as tangible assets.

All of the above will have an impact on the classification of assets within the groups of intangible and tangible assets and, accordingly, on the change in the useful life of the part of assets that consequently affects the present value of assets in the Statement of Financial Position and depreciation expense in the income statement. However, a material impact on the financial statements as a whole is not expected.

38. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Wholesale gas market supply

The Act on Amendments to the Gas Market Act (OG 16/17) appointed Hrvatska elektroprivreda - a joint stock company as a supplier on the wholesale gas market from 1 April 2017 until the tender for the selection of suppliers on the wholesale gas market. The supplier in the wholesale market sells gas to suppliers in the public service for the needs of customers from the category of households at a regulated selling price and is obliged to ensure a reliable and secure gas supply.

The Gas Market Act (OG 18/18, 23/20) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. In February 2019, HERA made a decision by determining HEP d.d. as OVT for the period of one regulatory year, from 1 April 2019 to 31 March 2020. The selling price for the same period was determined as well in the amount of HRK 0.1985 / kWh. The OVT is obliged to sell gas to public service suppliers (OOJU) under the gas supply contract in line with the regulated conditions and at a price less than or equal to the reference gas price, for the needs of end customers from the category of households using the public supply service and is obliged to ensure a reliable and secure gas supply. In addition to the sale of gas to OOJU, OVT has the right to sell gas for the purpose of maintaining the technical safety of the gas system. In October 2019, HERA made a decision to appoint OVT for the period from 1 April 2020 to 31 March 2021, appointing HEP d.d. as OVT. Pursuant to the Decision of the Management Board no. 5-14.1 / 2020 of 13 February 2020, the selling price of gas for the period from 1 April 2020 to 31 March 2021 was HRK 0.1825 / kWh.

According to the Amendments to the Rules for the Use of the Gas Storage System (OG 26/20) in the period from 1 April 2020 to 31 March 2021, the method of allocating SBU for the needs of the public gas supply service is defined on a proportional basis.

The cost of purchasing gas for market supply in 2021 amounts to HRK 408,449 thousand (in 2020: HRK 193,824), and the cost of purchasing gas for sale on the wholesale market in 2021 is HRK 77,777 thousand (2020: HRK 594,525 thousand) (Note 7).

39. SUBSIDIARIES

As at 31 December 2021, the Company owned the following subsidiaries:

Subsidiary	Country	Ownership share (%)	Core Business
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
HEP-Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Infrastructure development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Recreation services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o. Mostar	BIH	100	Electricity trading
HEP Energjia sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o. Serbia	R Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
Sunčana elektrana Poreč d.o.o.	Croatia	100	Production of electricity
Sunčana elektrana Vis d.o.o.	Croatia	100	Production of electricity
Ornatus d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	75	Liquefied natural gas business
Nuklearna elektrana Krško d.o.o.	Croatia	50	Production of electricity
GP Krapina d.o.o.	Croatia	100	Gas distribution and supply
Darkom DP d.o.o.	Croatia	100	Gas distribution

Most of these subsidiaries were established as part of the reorganization and restructuring of the core business under the new energy laws that entered into force on 1 January 2002 (Note 1).

The company Croatian Center for Cleaner Production started the liquidation procedure on 9 November 2017 and was liquidated on 7 March 2019.

During 2019, the following companies entered the consolidation of HEP Group for the first time: PLIN VTC doo whose sole owner is HEP Plin doo since April 2019 Energetski Park Korlat d.o.o. whose sole owner is HEP d.d since April 2019, while the company Plomin Holding doo became the sole owner of Elektrana Sabadin d.o.o. In June 2019 (the company Elektrane Sabadin doo changed its name to Sunčana Elektrana Poreč doo), IE - Nekretnine d.d, whose sole owner is the company HEP d.d since July 2019. Furthermore, on 1 April 2019, HEP d.d became the majority owner of LNG Hrvatska doo, and 1 April 2019 is the date of acquisition of control over the subsidiary and from that date LNG Hrvatska d.o.o. is included in the consolidation of the Group. In previous periods, investments in the company LNG Hrvatska doo were recognized and subsequently measured by the equity method.

39. SUBSIDIARIES (continued)

During 2020, the following companies were acquired in the Group: Prvo Plinarsko Društvo - Distribucija plina d.o.o. and Prvo Plinarsko Društvo - Opskrba kućanstava d.o.o. whose sole owner is the company HEP-Plin d.o.o. from March 2020; Ornatus d.o.o. whose sole owner is the company Plomin Holding d.o.o. from August 2020 and Sunčana elektrana Vis d.o.o. whose sole owner is HEP d.d. from September 2020.

IE-Nekretnine d.d. was merged with HEP d.d. in June 2020. The companies Prvo Plinarsko Društvo - Distribucija plina d.o.o., Prvo Plinarsko Društvo - Opskrba kućanstava d.o.o. and Plin VTC d.o.o. were merged with HEP-Plin d.o.o. during July 2020.

During 2021, the following companies were acquired in the Group: GP Krapina d.o.o. whose sole owner is HEP Plin d.o.o. from March 2021 and Darko DP d.o.o. whose sole owner is HEP Plin d.o.o. from June 2021. M Vizija d.o.o. was merged with SE Poreč d.o.o. in October 2021. In December 2021, the company LNG Hrvatska d.o.o. was recapitalized by Plinacro d.o.o. by increasing the share capital of LNG Hrvatska d.o.o. for new business shares in rights and money. Following the recapitalization, Plinacro d.o.o. has business shares representing 25% of ownership and HEP d.d. 75% ownership.

40. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages capital to ensure that the Group will be able to continue with indefinite life while at the same time increasing returns to owners through optimizing the debt-to-equity ratio.

The Group's funding structure consists of debt, which includes loans and bonds issued in Notes 28 and 29, cash and cash equivalents and equity attributable to owners, which consists of share capital, legal and other reserves and retained earnings.

Indebtedness indicator

The Management Board monitors the structure of funding sources on a semi-annual basis. As part of this monitoring, Management considers the cost of funding and the risks associated with each of the classes of funding sources. The year-end debt-to-equity ratio can be shown as follows:

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Debt	4,470,762	4,239,971
Cash and cash equivalents	(4,265,828)	(3,514,428)
Net debt	204,934	725,543
Capital	26,591,974	26,376,841
Net debt to equity ratio	**1%**	**3%**

Categories of financial instruments

in '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Financial assets		
Financial assets at fair value through other comprehensive income	276,465	233,315
Trade receivables	2,429,221	1,965,276
Cash and cash equivalents	4,265,828	3,514,428
Loans given	174,456	162,456
Financial liabilities		
Liabilities under issued bonds	-	3,497,668
Loan liabilities	1,007,495	722,478
Derivatives	-	296,430
Accounts payable	2,727,183	1,897,946
Lease liabilities	18,437	19,825

40. FINANCIAL RISK MANAGEMENT (continued)

Financial risk management goals

The treasury function within the HEP Group provides support to companies, coordinates access to domestic and international money and capital markets, monitors and manages financial risk related to the Group's operations through internal risk reports that analyse exposure by degree and degree of risk impact. 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

Market risk exposure is monitored and managed through sensitivity analysis. There were no changes in the Group's exposure to market risk or the way the risk is managed and measured.

Currency risk management

The Group performs certain transactions denominated in foreign currencies, which give rise to exposure to changes in foreign exchange rates. The exchange rate exposure is managed within the approved policy parameters using foreign exchange contracts.

The carrying amount of the Group's cash and liabilities denominated in foreign currencies at the reporting date is as follows:

	Assets		Liabilities	
in '000 HRK	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
European Union (EUR)	231,567	209,867	714,582	681,633
USD	33,485	29,885	143,221	135,993

Foreign currency sensitivity analysis

The Group is exposed to currency risk in the event of changes in the exchange rates of the euro (EUR) and the US dollar (USD). The following table presents an analysis of the effects of changes in the exchange rate of the kuna through an increase or decrease in value by 10% against the euro and the US dollar. The 10% rate is used in the Management Board's internal reporting on foreign exchange risk and represents the Management Board's assessment of reasonably possible changes in foreign exchange rates. The analysis is performed only for receivables and liabilities denominated in foreign currency and represents the adjustment of their value at the end of the period for a change in the exchange rate of 10%. Sensitivity analysis also includes external loans denominated in a currency other than the currency of the lender or borrower. The positive / negative amount below in the table indicates an increase in profit or other components of capital when the kuna would strengthen by 10%. against the relevant currency. In the event of a 10% depreciation of the kuna against the relevant currency, the effect would be the same, but in a negative amount.

in '000 HRK	**2021**	**2020**
Impact of changes in the EUR exchange rate		
Profit or loss	(363,091)	(355,565)
Impact of changes in the USD exchange rate		
Profit or loss	(72,903)	(65,140)

Interest rate risk management

The Group is exposed to interest rate risk because it enters into loan agreements with variable interest rates. The Group's exposure to interest rates on financial assets and liabilities is presented in detail under the subheading *Liquidity risk management.* The Group manages this risk by maintaining an appropriate fixed and floating rate loan ratio in its loan portfolio.

40. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity analysis

An analysis of the effects of changes in interest rates was performed for financial instruments for which the Group is exposed to interest rate risk at the date of the consolidated statement of financial position. For variable interest rates, the analysis was made on the assumption that the outstanding amount of liabilities at the date of the consolidated statement of financial position was outstanding throughout the year. The rate change of 50 base units is used for the purposes of internal reporting to the Management Board on interest rate risk and represents the Management Board's assessment of reasonably possible changes in interest rates.

In case of increase or decrease of interest rates by 50 base units, and all other variables remain unchanged:

- Profit for the year ended 31 December 2021 would be reduced by HRK 1,842 thousand (2020: HRK 1,589 thousand), based on interest rate risk exposure. This can be mainly attributed to the Group's exposure to interest rates on floating rate loans; 8.18% of the Group's indebtedness is at a variable interest rate (2020: 7.49%)
- the Group's sensitivity to interest rates increased during the current period due to a slight increase of the share of borrowings contracted at variable interest rates in total debt

Credit risk management

Credit risk refers to the risk that the other party will fail to meet its contractual obligations resulting in a financial loss to the Group. The Group is the largest producer of electricity in the Republic of Croatia and as such, has a public obligation to provide its services to all consumers, at all locations in the country, regardless of the credit risk associated with certain consumers. Trade receivables, net, are distributed to a significant number of customers, in different industries and geographical areas.

The Group has no significant credit risk exposure to any customer or company of customers with similar characteristics. A group defines customers to have similar characteristics if they are related persons.

Credit risk related to trade receivables relates primarily to receivables from economic entities, especially those in a difficult financial situation. Credit risks related to claims on households are limited due to the possibility of disconnection from the supply network. The carrying amount of financial assets presented in the consolidated financial statements, net of impairment losses, represents the Group's maximum exposure to credit risk without taking into account the value of collateral collected.

Liquidity risk management

The ultimate responsibility for liquidity risk management lies with the Company's Management Board, which has built an appropriate liquidity risk management framework to manage the short-term, medium-term and long-term liquidity management needs of the Group. The Group manages this risk by maintaining adequate reserves, loans from banks and other sources of financing, by constantly monitoring projected and actual cash flows and comparing the maturity profiles of financial assets and liabilities.

40. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management

Maturity of non-derivative financial liabilities

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

in'000 HRK	**Average Weighted Effective Interest** %	**Up to 1 month**	**From 1 to 3 months**	**From 3 months up to 1 year**	**Od 1 do 5 g.**	**Over 5 years**	**Total**
31 Dec 2021							
Liabilities under issued bonds	4.851%	-	-	3,622,664	-	-	3,622,664
Liabilities under loans	1.12%	23,841	8,649	70,444	628,621	336,628	1,068,183
Liabilities to suppliers		1,784,245	851,957	90,981	-	-	2,727,183
Lease liabilities		596	1,192	5,766	10,833	-	18,387
Total		**1,808,682**	**861,798**	**3,789,855**	**639,454**	**336,628**	**7,436,417**
31 Dec 2020							
Liabilities under issued bonds	4.85%	-	-	177,833	3,724,974	-	3,902,807
Liabilities under loans	1.42%	14,442	787	69,450	326,403	277,977	689,059
Liabilities to suppliers		1,144,579	700,163	53,204	-	-	1,897,946
Lease liabilities		4,138	1,722	7,756	6,209	-	19,825
Total		**1,163,159**	**702,672**	**308,243**	**4,057,586**	**277,977**	**6,509,637**

The Group has access to funding sources. The total unused amount at the end of the reporting period is HRK 3,958,691 thousand. The Group expects to settle its other liabilities from operating cash flows, inflows from maturing financial assets, and from loan financing sources.

Fair value of financial instruments

The fair value of financial assets and financial liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions that are traded in active liquid markets is determined by reference to the quoted market price.
- 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 existing market transactions.
- The fair value of derivative instruments is calculated using the quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the period of non-derivative financial instruments is used.

40. FINANCIAL RISK MANAGEMENT (continued)

Fair value indicators recognized in the statement of financial position

The table analyses financial instruments that, after initial recognition, have been reduced to fair value, classified into three groups in accordance with IFRS 13:

1. level of available indicators - fair value indicators are derived from (unadjusted) prices quoted in active markets for identical assets and identical liabilities
2. level of available indicators - fair value indicators are derived from data other than quoted prices from level 1 and relate to the observed asset or liability (i.e. their prices) or indirectly (derived from prices)
3. level of indicators - indicators derived using valuation methods in which data on assets or liabilities that are not based on available market data (unavailable input data) are used as input data.

The Group has decided that the measurement of the fair value of a currency swap is linked to the value of "Mark To Market (MTM)" in accordance with the calculation of commercial banks. The positive value of "MTM" is recorded as a receivable, i.e. it forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and also forms the financial expense of the reporting period. Upon the final maturity of a derivative financial instrument, the receivable or liability in question will be reversed to the expense or expense of the Group.

Fair value levels recognized in the consolidated statement of financial position:

in '000 HRK	Level 1	Level 2	Level 3	**Total**
31 Dec 2021				
Financial assets at fair value through other comprehensive income	276,465	-	-	**276,465**
Financial assets measured at fair value through profit or loss	165,233	-	-	**165,233**
Investment property	-	367,970	-	**367,970**
31 Dec 2020				
Financial assets at fair value through other comprehensive income	233,315	-	-	**233,315**
Financial assets measured at fair value through profit or loss	167,055	-	-	**167,055**
Derivative financial liabilities	-	-	296,430	**296,430**
Investment property	-	342,607	-	**342,607**

During the year there was no transfer between levels for re-measurement of fair value.

41. BUSINESS COMBINATIONS

In March 2021, the Group acquired a 100 percent stake and voting rights in the companies GP Krapina d.o.o., and in June 2021 a 100 percent stake and voting rights in the company Darkom DP d.o.o. whereby the Group gained control and the said companies became subsidiaries. In October 2021, the company M Vizija d.o.o. merged with the company SE Poreč d.o.o. In May and December 2021, the share in the company E.P. Korlat d.o.o. has been increased. The total acquisition fee relates to the items:

1) fair value of shares in acquired companies
2) other (money, receivables, shares)

The transaction had the following effects:

in '000 HRK	**Acquisition fee**	**Fair value of net assets**	**Goodwill**
GP Krapina d.o.o.	4,400	1,364	3,036
Darkom DP d.o.o.	3,500	326	3,174
M Vizija d.o.o.	14,307	15,466	(1,159)
E.P. Korlat d.o.o.	45,634	9	45,625

The assets and liabilities recognized as a result of the acquisition are as follows:

in '000 HRK	**GP Krapina d.o.o.**	**Darkom DP d.o.o.**	**M Vizija d.o.o.**	**E.P. Korlat d.o.o.**
Property, plant and equipment	15,289	3,882	15,351	10
Inventories	263	465	-	-
Trade receivables	10,824	1,362	389	-
Other receivables	325	99	95	6
Other assets	508	43	-	-
Cash and cash equivalents	84	91	452	12
Trade payables	7,905	2,758	79	19
Liabilities to employees	207	86	-	-
Other current liabilities	9,539	1,909	742	-
Non-current liabilities	8,278	863	-	-
Minority interests	-	-	-	-
Net assets	**1,364**	**326**	**15,466**	**9**
Acquisition cost	**4,400**	**3,500**	**14,307**	**45,634**
Goodwill	3,036	3,174	(1,159)	45,625

There are no material differences in accounting policies between the Group and the acquired companies.

42. OTHER DISCLOSURES

The contracted statutory audit services of the Group's financial statements for 2021 were contracted in the amount of HRK 1,550 thousand (2020: HRK 1,894 thousand), while services related to the review of limited reports on interim financial information (30 June 2021), and audits of financial statements prepared for regulatory purposes (31 December 2020) were contracted in the amount of HRK 283 thousand.

The contracted fee for tax consulting services for 2021 amounts HRK 150 thousand (2020: HRK 150 thousand).

43. EVENTS AFTER THE REPORTING DATE

The beginning of the Russian military activities on the territory of Ukraine in February 2022 and the introduction of sanctions by the European Union to Russia may consequently have a significant direct or indirect impact on the economy of the Republic of Croatia. Since the HEP Group represents an infrastructural system, which is of strategic importance for the Republic of Croatia, and also being one of the largest economic entities in Croatia on which a large number of companies largely depend, it is extremely important in these crisis conditions to ensure regular operations and orderly production, distribution and full energy supply.

Considering the overall operations of HEP Group, it can be concluded that the current conflict in Russia and Ukraine should not have a major impact on the continuation of the Group's operations as we do not have our own assets and do not carry out significant trade activities on this territory. The HEP Group has good diversification in the area of energy supply routes and has provided several alternative supply routes in order to ensure a secure supply of electricity and gas to its customers.

Since the beginning of the conflict, the Group has been analysing energy procurement and consumption and modelling scenarios for optimizing energy procurement with regard to rising prices of input parameters and a possible decline in overall economic activity and poorer collection. Thanks to the successful operations so far and the implemented optimization measures, the Group has a satisfactory amount of financial resources that enable regular operations in the short term.

Although it is currently impossible to fully estimate the overall negative impact on the Group's operations at the level of the entire 2022 and subsequent periods, it can be assumed that these events will have an impact on the expected level of growth and development of the Group. However, with regard to the stable business operations so far and the undertaken optimization measures, it is realistic to expect that difficulties will be overcome and no significant impacts on financial positions are expected.

The Group will continue to actively monitor economic developments and take all measures to protect the interests of all stakeholders and maintain a stable financial position.

44. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were adopted by the Company's Management Board and approved for issue on 25 April 2022.

Signed on behalf of the Company on 25 April 2022:

Petar Sprčić Member of the Management Board	Tomislav Šambić Member of the Management Board	Frane Barbarić President of the Management Board

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