



**HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB**

Annual Consolidated Financial Statements
and Independent Auditors' Report
for the year 2022

This version of the Annual Financial Statements and Independent Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version takes precedence over translation.

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Responsibility for the annual consolidated financial statements

The Management Board of the Group Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 and its subsidiaries, (hereinafter: the Group) is obliged to ensure that the annual consolidated financial statements of the Group for the year 2022 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS), so that they provide a true and objective presentation of the unconsolidated financial position, unconsolidated operating results, unconsolidated changes in equity and unconsolidated cash flows of the Group for that period.

Based on the research conducted, the Management Board justifiably expects that the Group has adequate funds to continue operations in the foreseeable future. Accordingly, the Management Board prepared annual consolidated financial statements under the assumption of going concern.

In preparation of annual financial statements, the Management Board is responsible for:

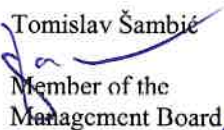
- selection and consistent application of appropriate accounting policies in accordance with applicable financial reporting standards;
- making reasonable and prudent judgments and assessments;
- preparation of annual unconsolidated financial statements with the assumption of going concern, unless the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

The Management Board is responsible for keeping proper accounting records, which will at any time, with acceptable accuracy, reflect the unconsolidated financial position, unconsolidated operating results, unconsolidated cash flows and unconsolidated changes in equity, as well as their compliance with the International Financial Reporting Standards adopted by the European Union ("IFRS"). Management Board is also responsible for safeguarding the Group's assets, and therefore for taking reasonable measures to prevent and detect fraud and other illegalities.

Signed on behalf of the Management Board:


Petar Sprčić

Member of the
Management Board


Tomislav Šambić

Member of the
Management Board


Vice Oršulić

Member of the
Management Board


Frane Barbarić

President of the
Management Board

Hrvatska elektroprivreda d.d.
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Croatia

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

In Zagreb, 7 June 2023

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Management of the Group HRVATSKA ELEKTROPRIVREDA d.d., Zagreb

Report on the audit of the consolidated annual financial statements

Qualified Opinion

We audited the annual consolidated financial statements for the year ended 31 December 2022 of the Group HRVATSKA ELEKTROPRIVREDA d.d., Ulica grada Vukovara 37, Zagreb (the "Group") and its subsidiaries (the „Group“), which include the consolidated Statement of Financial Position as at 31 December 2022, consolidated Statement of Profit or Loss, consolidated Statement of Other Comprehensive Income, consolidated Statement of Cash Flows and consolidated Statement of Changes in Equity for the then ended year and notes to the annual financial statements, including significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion, the attached annual unconsolidated financial statements fairly present in all material respects the consolidated financial position of the Group as at 31 December 2022, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS).

Basis for Qualified Opinion

As explained in Note 4.1. to the annual consolidated financial statements, the Group described the negative effects of the application of the Regulation on eliminating disturbances in the domestic energy market ("the Regulation") on the Group's consolidated statement of profit or loss for the year 2022 and for the period from 1 January 1 to 31 March 2023. The Group did not recognize the effects of the Regulation from 1 January to 31 March 2023 as a provision in accordance with International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") in the annual consolidated financial statements for 2022. We were not able to determine the effects of the provisions, as well as their impact on the consolidated operating results and the consolidated financial position of the Group for 2022 and on 31 December 2022.

We conducted our audit in accordance with International Auditing Standards (IAS). Our responsibilities under these standards are described in more detail in our auditors' report in the *Auditors' Responsibilities for the Audit of Annual Financial Statements* section. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including the International Standards of Independence issued by the International Ethics Standards Board for Accountants (IESBA) (IESBA Code), as well as in accordance with ethical requirements relevant to our audit of the annual unconsolidated financial statements; and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

INDEPENDENT AUDITORS' REPORT (continued)**Report on the audit of the consolidated annual financial statements (continued)****Emphasis of Matter**

/i/ At the session held on 16 March 2023, the Government of the Republic of Croatia adopted the Regulation on eliminating disturbances in the domestic energy market, which, among other things, regulates special measures for the trade in electricity, thermal energy and gas, the manner and conditions of price formation, security of supply and supervision on the implementation of the Regulation, with application in the period from 1 April to 30 September 2023 for electricity, and until 31 March 2024 for thermal energy and gas. According to Article 12 of the same Regulation, the Government of the Republic of Croatia undertook the obligation to take the necessary measures to ensure the sustainability of the Group's operations and investment potential. As of the date of this Report, the measures have not been agreed upon with the Government of the Republic of Croatia, and thus their impact on the Group's operations for 2022 and future periods is not known. Considering the negative effects of the application of the previous Regulation on the Group's financial results and operations in 2022, as stated in note 4.1, we draw attention to the uncertainty of the effect of the new Regulation on the Group's operations and results in 2023. Our qualified opinion has not been modified on this matter.

/ii/ We draw attention to Note 33 to the annual consolidated financial statements, which describes the obligation for the clearing debt in the amount of HRK 850,863 thousand (as of 31 December 2021, in the amount of HRK 800,216 thousand), which arose from payments from the letter of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation dated 24 July 2006 and the Agreement of the Ministry of Finance on the use of funds from the interbank agreement. Our qualified opinion has not been modified on this matter.

/iii/ We draw attention to Note 40 to the annual consolidated financial statements, in which the need to initiate the procedure for registering rights in the land register and compliance with the provisions of the Act on Amendments to the Water Act (Official Gazette No. 46/2018) is highlighted. Our qualified opinion has not been modified on this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the consolidated annual financial statements for the current period. These matters were addressed in the context of our audit of the consolidated annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion thereon.

INDEPENDENT AUDITORS' REPORT (continued)

Report on the audit of the consolidated annual financial statements (continued)

Key Audit Matters (continued)

| Key audit matter | How we addressed the key audit matter |
|---|--|
| <p>Recognition of income from the sale of electricity to universal service customers (household customers)</p> <p>Revenues from the sale of electricity are recognized based on the best estimate of the amount of electricity delivered in accordance with IFRS 15 - Revenue from Contracts with Customers. Meter reading and the actual calculation of the amount of electricity delivered to customers in the household category is done twice a year because the Group does not have the option of automatic meter reading. The Group bases the recognized income from the sale of electricity for households on the consumption of the previous accounting period, which is corrected for the value of the total amount of electricity produced and purchased on the distribution network. At the same time, the total amount of energy produced and purchased is adjusted for losses on the distribution network calculated on the basis of logarithmic regression, which in 2022 amounted to 7.11%, while in 2021 they amounted to 7.71%. The application of the logarithmic regression model chosen by the Management as the most appropriate model for calculating losses on the distribution network resulted in a decrease in revenue in 2022 in the amount of HRK 11,782 thousand, and after the aforementioned correction, a liability was reported in the amount of HRK 34,449 thousand.</p> <p>We focused on this area because it includes significant estimates related to the recognition of income from the sale of electricity on the reporting date, and the recognition of income represents one of the most significant financial information.</p> <p>Related disclosures in the consolidated annual financial statements</p> <p>See Notes 2, 3, 5 and 23 in the accompanying annual consolidated financial statements.</p> | <p>Our audit procedures related to this area included, among others:</p> <ul style="list-style-type: none"> - Gaining an understanding of the process of reading electricity consumption, estimating future consumption that will be charged to households, and the model for estimating recognized income and the related calculation of losses on the distribution network; - Gaining an understanding of key management controls related to the estimation of income from the sale of electricity; - Assessment of the reasonableness of the key assumptions used in the assessment model including the quantities of electricity sold, prices and related losses on the distribution network; - Mathematical accuracy test of the model for estimating income from the sale of electricity, calculated losses and deferred income; - The help of an IT expert who checked the consistency and reliability of information transmission, and system reliability assessment, including an internally made independent assessment of unaccounted income using data on quantities and prices obtained by the Group and comparing the results thus obtained with the estimates made by the Group; - Assessment of the adequacy of the Group's disclosures related to the recognition of income from the sale of electricity to universal service customers (household customers). |

INDEPENDENT AUDITORS' REPORT (continued)

Report on the audit of the consolidated annual financial statements (continued)

Key Audit Matters (continued)

| Key audit matter | How we addressed the key audit matter |
|---|--|
| <p>Litigation and Contingent Liabilities</p> <p>Given that the Group is exposed to significant legal claims, we focused our attention on this issue. Any stated liability or announced contingent liability, i.e. the non-disclosure thereof in the annual unconsolidated financial statements is inherently uncertain and depends on a number of significant assumptions and judgments. These are potentially significant amounts where the determination of the amount to be presented and published in the annual non-consolidated financial statements, if applicable, is subject to subjective assessment. In addition to the above, the Management Board assesses future outcomes and amounts of contingent liabilities that may arise as a result of these lawsuits in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.</p> <p>Related disclosures in the consolidated annual financial statements</p> <p>See Notes 2, 3 and 32 in the annual consolidated financial statements.</p> | <p>Our audit procedures related to this area included, among others:</p> <ul style="list-style-type: none"> - Review of the system for recording and conducting legal disputes, determining the necessary level of provisions on 31 December 2022 and gathering information about hired legal advisors; - Receiving and reviewing attorneys' responses to our written inquiries addressed to attorneys and discussing certain issues with attorneys and the Group; - Critical review of used assumptions and estimates related to claims. The aforementioned includes consideration of the assessment of the probability of occurrence of unfavourable outcomes of court proceedings and the accuracy of the calculation of the amounts of necessary provisions related to them in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets; - Assessment of the appropriateness of disclosures in the Notes to the annual financial statements. |

Other Matters

The Group's annual consolidated financial statements for the year ended 31 December 2021 were audited by two mutually independent auditing firms RSM Croatia d.o.o., Koprivnica and Grant Thornton revizija d.o.o., Zagreb, which expressed an unmodified opinion on those annual unconsolidated financial statements on 25 April 2022.

Other Information

The Management Board is responsible for other information. Other information includes the Management's Report and the Non-Financial report included in the Annual Report, but does not include consolidated financial statements and our auditors' report thereon. Our qualified opinion on the annual consolidated financial statements does not include other information.

In connection with our audit of the annual consolidated financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our audit knowledge or otherwise appears to be materially misstated.

With regard to the Management Report and the Non-Financial Report, we also performed the procedures prescribed by the Accounting Act. These procedures include checking whether the Management Report is prepared in accordance with Article 21 of the Accounting Act and whether the Non-Financial Report is prepared in accordance with Article 21a of the Accounting Act.

INDEPENDENT AUDITORS' REPORT (continued)

Report on the audit of the consolidated annual financial statements (continued)

Other information (continued)

Based on the procedures performed, to the extent that we are able to assess, we report that:

1. the information in the attached Management Report is harmonized, in all significant respects, with the attached annual consolidated financial statements;
2. the attached Management Report is compiled in accordance with Article 21 of the Accounting Act; and
3. the attached Non-financial Report is compiled in accordance with Article 21a of the Accounting Act

Based on the knowledge and understanding of the Group's operations and its environment acquired within the audit of the annual consolidated financial statements, we are obliged to report if we have established that there are significant misstatements in the attached Management Report and Non-Financial Report. In this sense, we have nothing to report.

Responsibilities of the Management and Those Charged with Governance for the consolidated annual financial statements

The Management Board is responsible for the preparation and fair presentation of annual consolidated financial statements in accordance with IFRS and for such internal controls as Management determines are necessary to enable the preparation of annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual unconsolidated financial statements, Management is responsible for evaluating the Group's ability to continue as a going concern, disclosing, if applicable, matters related to going concern, and using the going concern basis of accounting, unless Management intends to liquidate the Group or cease operations or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of annual consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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

INDEPENDENT AUDITORS' REPORT (continued)

Report on the audit of the unconsolidated annual financial statements (continued)

Auditors' responsibilities for the audit of annual unconsolidated financial statements (continued)

- 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.
- 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 consolidated annual financial statements, including disclosures, and whether the consolidated annual financial statements reflect the transactions and events on which they are based in a manner that achieves a fair presentation

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with them all relationships and other matters that may reasonably be considered to influence our independence, and where applicable, related safeguards.

Among the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our Independent Auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Independent Auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT (continued)

Report on other legal and regulatory requirements

Report based on requirements from Regulation (EU) no. 537/2014

1. On 23 December 2022, based on the proposal of the Supervisory Board, the Group's Assembly appointed us as auditors of the Group's annual consolidated and consolidated financial statements for 2022, which represents our first year of engagement.
2. Our audit opinion is consistent with the additional report for the Audit Committee of the Group drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.
3. During the period between the initial date of the Group's audited annual consolidated financial statements for 2022 and the date of this report, we did not provide the Group with prohibited non-audit services and did not provide services for the design and implementation of internal control or risk management procedures related to the preparation in the business year prior to the aforementioned period and/or the control of financial information or the design and implementation of technological systems for financial information, and in performing the audit we preserved independence in relation to the Group. In addition to the statutory audit, PKF FACT revizija d.o.o. provided the Group and its subsidiaries under its control with permitted non-audit services in accordance with ISRS 4400 (amended) - Engagements for agreed-upon procedures, about which we issued reports on 22 December 2021 and 12 May 2022.

We obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on these annual consolidated financial statements. We are responsible for directing, supervising and performing the Group's audit. We are solely responsible for our audit opinion.

In Zagreb, 7 June 2023



Jeni Krstičević
Certified Auditor



Irena Kovačić
Member of the Management
Board

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ZAGREB, OIB: 66538066056
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Zadarska ulica 80
10000 Zagreb



Darko Karić
Certified Auditor



Darko Karić
Director



Audit d.o.o.
Trg J. Kennedy 6b
10000 Zagreb

Consolidated Statement of Profit or Loss
for the year ended 31 December 2022

| <i>in HRK '000</i> | Notes | 2022 | 2021 |
|--|----------|---------------------|---------------------|
| <i>Continuing operations</i> | | | |
| Income from sales | 5 | 24,085,275 | 14,855,856 |
| Other operating income | 6 | 1,230,525 | 1,114,889 |
| Total operating revenue | | 25,315,800 | 15,970,745 |
| Cost of procurement of materials and energy | 7 | (20,382,517) | (6,713,191) |
| Staff costs | 8 | (2,171,100) | (2,127,689) |
| Depreciation, amortization expense | 12,13,15 | (2,322,674) | (2,269,343) |
| Other operating expenses | 9 | (7,074,988) | (3,690,383) |
| Total operating costs | | (31,951,279) | (14,800,606) |
| Operating profit | | (6,635,479) | 1,170,139 |
| Financial income | 10 | 6,496 | 319,072 |
| Financial expenses | 10 | (309,514) | (243,902) |
| Net profit/(loss) from financial activities | | (303,018) | 75,170 |
| Pre-tax profit | | (6,938,497) | 1,245,309 |
| Income tax expense | 11 | 1,215,759 | (225,808) |
| Profit for the year | | (5,722,738) | 1,019,501 |
| Attributable comprehensive profit: | | | |
| To the owner of the parent capital | | (5,724,449) | 1,017,360 |
| Non-controlling interests | | 1,711 | 2,141 |

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

Consolidated Statement of Other Comprehensive Income
for the year ended 31 December 2022

| <i>in HRK '000</i> | 2022 | 2021 |
|--|--------------------|------------------|
| Profit for the year | (5,722,738) | 1,019,501 |
| Other comprehensive income | | |
| <i>Items that can be reclassified to profit or loss</i> | | |
| Exchange rate differences from foreign business translation | 2,178 | (4,168) |
| | 2,178 | (4,168) |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Changes in the value of financial assets at fair value through other comprehensive income (equity instruments) | 36,576 | 37,019 |
| | 36,576 | 37,019 |
| Other comprehensive income / (loss), net | 38,754 | 32,851 |
| Total comprehensive income for the current year, net | (5,683,984) | 1,052,352 |
| Total comprehensive income attributable: | | |
| To the owner of the parent capital | (5,685,695) | 1,050,211 |
| Non-controlling interests | 1,711 | 2,141 |

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

Consolidated Statement of Financial Position
as at 31 December 2022

| <i>in HRK '000</i> | Note | 31 Dec 2022 | 31 Dec 2021 |
|---|------|--------------------|--------------------|
| ASSETS | | | |
| Fixed assets | | | |
| Property, plant and equipment | 12 | 36,266,763 | 35,390,069 |
| Assets with the right of use | 13 | 20,597 | 17,473 |
| Investment property | 14 | 433,103 | 367,970 |
| Intangible assets | 15 | 424,087 | 301,562 |
| Goodwill | 15 | 73,506 | 69,906 |
| Investments calculated using the equity method | 17 | 175,591 | 65,929 |
| Financial assets at fair value through other comprehensive income | 18 | 319,586 | 276,465 |
| <i>Financial assets measured at amortized cost</i> | 19 | 25,409 | 4,343 |
| Long-term loans given | 20 | 5,628 | 5,612 |
| Other financial assets | 21 | 66,995 | 50,922 |
| Other non-current receivables | 11 | 2,090,879 | 805,013 |
| Total fixed assets | | 39,902,144 | 37,355,264 |
| Current assets | | | |
| Inventories | 22 | 4,578,217 | 1,584,320 |
| <i>Financial assets measured at amortized cost</i> | 23 | 3,518,152 | 2,429,221 |
| Trade receivables | 25 | - | 167,963 |
| Other current receivables | 24 | 896,896 | 1,067,340 |
| Financial assets measured at fair value through profit or loss | 26 | 52,566 | 30,881 |
| Cash and cash equivalents | 27 | 3,089,341 | 4,265,828 |
| Total current assets | | 12,135,172 | 9,545,553 |
| TOTAL ASSETS | | 52,037,316 | 46,900,817 |

Consolidated Statement of Financial Position (continued)

as at 31 December 2022

| <i>in HRK '000</i> | Note | 31 Dec 2022 | 31 Dec 2021 |
|--|------|-------------------|-------------------|
| EQUITY AND LIABILITIES | | | |
| Share Capital | 28 | 19,792,159 | 19,792,159 |
| Provisions | | 167,398 | 130,822 |
| Retained earnings | 28 | 946,722 | 6,668,993 |
| Capital attributed to the owner of the parent | | 20,906,279 | 26,591,974 |
| Non-controlling interest | | 69,843 | 68,132 |
| Total equity | | 20,976,122 | 26,660,106 |
| | | | |
| Long-term loan liabilities | 30 | 11,340,468 | 915,687 |
| Other long-term liabilities | 33 | 8,026,639 | 7,313,583 |
| Lease liabilities | 31 | 14,106 | 10,883 |
| Provisions | 32 | 1,410,316 | 1,405,623 |
| Deferred tax liability | 11 | 25,404 | 18,817 |
| Total long-term liabilities | | 20,816,933 | 9,664,593 |
| | | | |
| Trade payables | 34 | 4,526,838 | 2,727,183 |
| Current maturity of issued bonds | 29 | - | 3,444,830 |
| Current maturity of long-term loans | 30 | 170,713 | 91,808 |
| Short-term loan liabilities | 30 | 118,182 | 99,852 |
| Short-term part of lease liabilities | 31 | 7,473 | 7,554 |
| Obligations for taxes and contributions | 35 | 192,850 | 175,901 |
| Liability for profit tax | | 49,860 | 60,751 |
| Liabilities to employees | 36 | 186,483 | 177,275 |
| Accrued expenses and deferred income | 37 | 3,298,295 | 2,587,680 |
| Other short-term liabilities | 38 | 1,693,567 | 1,203,284 |
| Total short-term liabilities | | 10,244,261 | 10,576,118 |
| TOTAL EQUITY AND LIABILITIES | | 52,037,316 | 46,900,817 |

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022

| <i>in HRK '000</i> | Share Capital | Reserve s | Retained earnings / (loss carried forward) | Equity attributed to the owner of the parent Group | Non- controlling interest | Total principal |
|---------------------------------------|-------------------|----------------|--|---|---------------------------------|--------------------|
| Balance at 1 Jan 2021 | 19,792,159 | 92,930 | 6,491,752 | 26,376,841 | 36,176 | 26,413,017 |
| Profit of 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 |
| <i>Total comprehensive income</i> | - | <i>37,019</i> | <i>1,013,192</i> | <i>1,050,211</i> | <i>2,141</i> | <i>1,052,352</i> |
| Dividend payment | - | - | (840,621) | (840,621) | - | (840,621) |
| Recapitalization – LNG and others | - | 873 | 4,670 | 5,543 | 29,815 | 35,358 |
| Balance at 31 Dec 2021 | 19,792,159 | 130,822 | 6,668,993 | 26,591,974 | 68,132 | 26,660,106 |
| Profit of the current year | - | - | (5,724,449) | (5,724,449) | 1,711 | (5,722,738) |
| Other comprehensive income | - | 36,576 | 2,178 | 38,754 | - | 38,754 |
| <i>Total comprehensive income</i> | - | <i>36,576</i> | <i>(5,722,271)</i> | <i>(5,685,695)</i> | <i>1,711</i> | <i>(5,683,984)</i> |
| Balance at 31 Dec 2022 | 19,792,159 | 167,398 | 946,722 | 20,906,279 | 69,843 | 20,976,122 |

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2022

in HRK '000

| | 2022 | 2021 |
|---|--------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Pre-tax profit | (6,938,497) | 1,245,309 |
| Interest income | (2,103) | (5,673) |
| Interest expense | 256,306 | 188,361 |
| Net foreign exchange differences | 52,763 | 60,667 |
| Fair valuation of investment property | (65,133) | (25,363) |
| Depreciation of property, plant and equipment, property with rights of use, and amortization of intangible assets | 2,322,674 | 2,269,343 |
| Expense from the alienation of property | 15,811 | 46,913 |
| Value adjustment of property, plant and equipment and intangible assets | 59,166 | 53,215 |
| Value adjustment of receivables | 19,657 | 77,467 |
| Value adjustment of inventories | 8,966 | (19,033) |
| Increase in provisions | 4,693 | 73,947 |
| Change in fair value of cross-currency swap | 165,233 | (294,608) |
| <i>Cash flow from operating activities before changes in working capital</i> | <i>(4,100,464)</i> | <i>3,670,545</i> |
| Decrease in trade receivables | (1,108,588) | (541,412) |
| Decrease / (Increase) in inventories | (3,002,863) | 43,560 |
| (Increase) / Decrease in other fixed assets | (149,941) | 9,246 |
| (Increase) in other current assets | 151,489 | (292,582) |
| (Decrease) in trade payables | 1,792,849 | 763,787 |
| Increase in other short-term liabilities | 1,357,635 | 1,141,221 |
| Increase of other long-term liabilities | 690,201 | 49,114 |
| Cash generated from operations | (4,369,682) | 4,843,479 |
| Paid income taxes | (232,346) | (274,921) |
| Interest paid | (238,681) | (193,172) |
| NET CASH FROM OPERATING ACTIVITIES | (4,840,709) | 4,375,386 |
| INVESTING ACTIVITIES | | |
| Expenses for acquisition of subsidiaries, net of acquired cash | (60,356) | (53,347) |
| Interest receipts | 55,894 | 25,205 |
| Receipts from collection of granted loans | 2,345 | 3,252 |
| Expenditures for the purchase of real estate, plant and equipment | (3,412,269) | (3,081,634) |
| NET CASH FROM INVESTING ACTIVITIES | (3,414,386) | (3,106,524) |

Consolidated Statement of Cash Flows
for the year ended 31 December 2022

in HRK '000

| | 2022 | 2021 |
|---|--------------------|------------------|
| FINANCING ACTIVITIES | | |
| Receipts from long-term loans | 10,596,767 | 371,064 |
| Receipts from short-term loans | 18,330 | 99,852 |
| Expenditures for repayment of long - term loans | (102,435) | (84,300) |
| Lease principal repayment expenses | (9,084) | (8,781) |
| Expenses for repayment of issued bonds | (3,652,678) | (54,676) |
| Dividend payment expenses | 227,708 | - |
| Receipts from cash funds | - | (840,621) |
| NET CASH FROM FINANCING ACTIVITIES | 7,078,608 | (517,462) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (1,176,487) | 751,400 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 4,265,828 | 3,514,428 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 3,089,341 | 4,265,828 |

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

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

1. GENERAL

HEP Group Zagreb (hereinafter referred to as the "Group") consists of the parent Group Hrvatska elektroprivreda d.d., Zagreb (hereinafter referred to as "HEP d.d." or the "Group") and subsidiaries listed in note 41.

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37. The core activity of the Group is the production, transmission and distribution of electricity and control of the electricity system. In addition to the aforementioned core activities, the Group also deals with the production and distribution of thermal energy through the central heating system in Zagreb, Osijek and Sisak, and the distribution of gas in the Osijek-Baranja, Požega-Slavonija, Virovitica-Podravina and Vukovar-Srijem counties.

Additionally, with the decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia from June 2022, HEP d.d. is responsible for the procurement and storage of sufficient quantities of gas for the needs of the Republic of Croatia, while based on the Regulation on eliminating disturbances on the domestic energy market, HEP d.d. responsible for the procurement of gas produced in the Republic of Croatia in the period from 1 October 2022. until 31 March 2024 and sale to gas distributors for the purpose of settling losses for gas distribution, for customers of thermal energy from an independent heating system, public service for the needs of customers from the household category and for gas customers from the category of public institutions.

The Group bases all its activities on valid laws, regulations and decisions of the Government of the Republic of Croatia. As of 31 December 2022, the group had 11,782 employees (2021: 11,778) excluding Nuklearna elektrana Krško d.o.o. The number of employees in Nuklearna elektrana Krško d.o.o. is 648 (2021: 644).

The ultimate owner of the Group is the Republic of Croatia. These annual consolidated financial statements are presented in Croatian kuna, which is also the functional currency of the Group.

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).

According to the provisions of the Electricity Market Act of 2021 (hereinafter: EMA) HEP d.d. as the governing Group and its subsidiaries continue to perform electric power activities that are performed as public services for electricity in the Republic of Croatia: distribution of electricity and supply of electricity that is performed as a universal service and as a guaranteed service. Electricity production, electricity supply and electricity trade are performed as market activities and are defined under legal regulations that regulate trading on the wholesale and retail electricity market. Electricity transmission is a public service performed by the Group HOPS d.d. which is owned by HEP d.d. but it is an independent Group in terms of vertical integration of the Group, and the transformation into a joint-stock Group without changing the ownership structure was carried out in accordance with EMA.

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

1. GENERAL (continued)

The Renewable Energy Sources and High-Efficiency Cogeneration Act (hereinafter: RESHEC) made 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 because the fact is that always a large share of renewable energy sources for heating and cooling is based on the use of heated wood in households. The law prescribes the procedure for adopting and amending the Integrated National Energy and Climate Plan for the Republic of Croatia. RESHEC stipulates the national goal of using energy from renewable sources of 36.6% share of RES in the final gross energy consumption by 2030. At the same time, the obligation to submit a report on the progress in promoting and using energy from renewable sources that the Republic of Croatia must submit to the European Commission is defined.

The concept of consumers of their own renewable energy is introduced, as well as communities of renewable energy that have legal personality and have the right to produce, consume, store and mutually share/sell renewable energy, through contracts for the purchase of renewable energy, or sell it on energy markets directly or through aggregation.

The Law on Amendments to the Energy Efficiency Act (hereinafter: EEA) regulates the area of efficient energy use, adoption of plans at the local, regional and national levels for improving energy efficiency and their implementation, energy efficiency measures, energy obligations efficiency, obligations of the energy regulatory body, transmission system operator, distribution system operator and energy market operator in connection with the transmission, i.e. transport and distribution of energy, obligations of energy distributors, energy and/or water suppliers, and especially energy service activities, determination of energy savings and consumer rights in the application of energy efficiency measures. For the Group, the system of obligations to save in the final consumption of electricity, gas and heat, or potential costs/penalties related to non-fulfilment of prescribed obligations, is extremely important.

In May 2022, the Law on Amendments to the Law on the Establishment of Infrastructure for Alternative Fuels was passed, which is significant for the Group due to existing and new investments in electro mobility and income on that basis.

Among the strategic documents, the Ten-Year Plan for the Development of the Distribution Network of HEP ODS (2022-2031), the National Energy Efficiency Action Plan 2022-2024 were adopted, as well as the Croatian strategy for hydrogen from 2021 to 2050.

The parent Group and subsidiaries harmonize the organization and operations of the Group in accordance with the adopted or amended laws and the deadlines prescribed by those laws, i.e. under the legal acts that followed during 2022 and which still need to be passed in 2023.

The global economic and energy crisis caused by the COVID 19 pandemic and the Russian invasion of Ukraine caused difficulties and disruptions in the functioning of the EU energy market and defined the European intervention regulatory direction during 2022. In this sense, in May 2022, the European Commission presented the REPower EU plan, a kind of response to the existing crisis, i.e. the necessary transformation of the European energy system. The proposed measures are aimed at saving energy, diversifying the energy supply and accelerating the implementation of renewable energy projects with the goal of achieving zero CO₂ emissions by 2050. In October 2022, the Commission also adopted the Decree on emergency intervention to resolve the issue of high energy prices, which was transposed into Croatian legislation through the Decree on the Act on Emergency Intervention to resolve the issue of high electricity prices (Official Gazette 156/22), and refers to the adoption of measures for the application of the upper limit of market revenues and the distribution of surplus revenues from congestion to end customers of electricity.

According to the above, in 2022 in the Republic of Croatia, a number of regulations were adopted by which the State tries to mitigate price disturbances in the market of electricity, gas, and thermal energy. Thus, for example, the Spring package of measures limited the increase in the price of HEP's electricity for household customers (to 9.6%); gas for households (at 20%) through a price subsidy, gas for micro/small/medium enterprises with a consumption of up to 10 GWh/year (at 22%) through vouchers, and for both categories through a reduction of the VAT rate on gas - to 5% for the period from 1 April 2022 until 31 March 2023. The application of the reduced VAT rate of 5% was extended from 1 April 2023 to 31 March 2024.

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

1. GENERAL (continued)

Furthermore, as part of the autumn package of measures, the Regulation on eliminating disturbances on the domestic energy market (Official Gazette 104/22, 106/22, 121/22, 156/22) and the Decision on the price and allocation of natural gas capacity that Hrvatska elektroprivreda d.d. took over from natural gas producers (Official Gazette 122/22), which regulate special measures for the trade in electricity and gas, the manner and conditions of price formation for certain categories of customers of electricity and thermal energy and gas, supervision over the application of prices determined by this Decree, and special conditions for performing energy activities, whose measures have a direct impact on the operations of HEP Group companies. These decrees, due to disturbances in the domestic energy market, ensure stable prices of electricity and thermal energy, for the category of household customers and customers from the business category in accordance with EMA, i.e. for all final customers of thermal energy on thermal systems, except for thermal energy used in technological purposes (hot water or steam) as a temporary measure for a period of six months, i.e. until 31 March 2023, for certain categories of customers at certain energy companies.

From the by-laws in 2022, the Croatian Energy Regulatory Agency (HERA) adopted the Methodology for determining the amount of tariff items for guaranteed electricity supply (Official Gazette 20/22) on the basis of which it publishes the tariff amounts quarterly and, accordingly, for the last quarter of 2022, it adopted a Decision on the amount of tariff items for guaranteed electricity supply (Official Gazette 100/22), then the Methodology for determining the amount of tariff items for electricity distribution (Official Gazette 84/22) and the Methodology for determining the amount of tariff items for electricity transmission (Official Gazette 84/22) and Methodology for determining the fee for connection to the electric power network (Official Gazette 84/22).

In addition to the above, during 2022, HERA also adopted the Ordinance on general conditions for the use of the network and electricity supply (Official Gazette 100/22), the Rules on changing suppliers and aggregators (Official Gazette 84/22) and the Ordinance on quality conditions for electricity supply (Official Gazette 84/22).

General assembly

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

| | | |
|-----------------|--------|--|
| Davor Filipović | Member | Member since 6 May 2022 |
| Tomislav Čorić | Member | Member from 15 February 2018 to 5 May 2022 |

Supervisory Board

Members of the Supervisory Board in 2022

| | | |
|-----------------------|-----------|---|
| 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 from 9 November 2018 to 8 September 2022 |
| Meri Uvodić | Member | Member since 4 December 2018 |

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 |

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

1. GENERAL (continued)

Management Board

Management Board in 2022

| | | |
|-----------------|-----------------------------------|--------------------------------|
| Frane Barbarić | President of the Management Board | President since 1 January 2018 |
| Petar Sprčić | Member of the Management Board | Member since 1 January 2018 |
| Tomislav Šambić | Member of the Management Board | Member since 1 January 2018 |

Management Board in 2021

| | | |
|-----------------|-----------------------------------|---|
| Frane Barbarić | President of the Management Board | President since 1 January 2018 |
| Saša Dujmić | Member of the Management Board | Member from 4 December 2014 to 31 December 2021 |
| Nikola Rukavina | Member of the Management Board | Member from 1 January 2018 to 31 December 2021 |
| Marko Čosić | Member of the Management Board | Member from 1 January 2018 to 31 December 2021 |
| Petar Sprčić | Member of the Management Board | Member since 1 January 2018 |
| Tomislav Šambić | Member of the Management Board | Member since 1 January 2018 |

Basis of preparation

The annual consolidated financial statements for 2022 were prepared in accordance with the International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union (IFRS). The annual consolidated financial statements are prepared according to the historical cost principle, with the exception of certain financial instruments and investment property that are measured at fair values. All amounts published in the annual consolidated financial statements are presented in thousands of Croatian kuna, unless otherwise stated. The Group keeps accounting records in the Croatian language, in kuna and in accordance with Croatian laws and accounting principles and practices followed by companies in Croatia.

The annual consolidated financial statements have been compiled on the accrual basis, assuming the going concern principle.

Principles and methods of consolidation

The annual consolidated financial statements of the Group represent the sum of assets, liabilities, capital and reserves and the results of the Group's operations for the completed annual period. The annual consolidated financial statements consist of the annual financial statements of the Group and the entities it controls - its subsidiaries. Subsidiaries within the Group are listed in note 41. The Group has control over the entity if, based on its participation in it, it is exposed to variable returns, i.e. it has rights to them and the ability to influence the return through its dominance in that entity. The Group has 100 per cent share and voting rights in all subsidiaries and is their only member and has the power to appoint management and can manage the Group's financial and business decisions. The exception is LNG Hrvatska d.o.o. in which the Group has a 75% stake. The inclusion of subsidiaries in the consolidation starts from the date on which the parent Group acquires control over that Group and ends when the parent Group loses control over it.

If necessary, adjustments were made to the annual financial statements of subsidiaries in order to harmonize their accounting policies with those used by the Group. All significant transactions and balances between Group member companies were eliminated during consolidation. In these annual consolidated financial statements, non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's interests in them. Non-controlling interests include the amount of shares on the date of the business combination and the share of capital changes since the date of the business combination that belongs to non-controlling interests. Profit or loss and any portion of other comprehensive income are attributed to the shareholders of the parent and non-controlling interests, even if this results in a negative amount of the non-controlling interest.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

1. GENERAL (continued)

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

If the Group loses control over a subsidiary, it ceases to recognize 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 the potential consideration
- Fair value of the previous share in the acquired Group
- Obligations towards the owners of the acquired Group

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

Costs related to the acquisition are recognized in the profit or loss account in the period in which they were incurred.

The difference between the acquisition consideration and the fair value of the acquired net assets is recognized as goodwill if the acquisition consideration is greater than the fair value of the acquired net assets or as the effect of a bargain purchase if the acquisition consideration 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 Group was acquired.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES 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 changes listed below, which are the result of amendments to the International Financial Reporting Standards (IFRS) adopted by the Group from 1 January 2022, which did not have a significant impact on the Group's financial statements. The Group has not previously adopted any standards or interpretations or amendments to existing standards that have been published by the International Financial Reporting Standards Board (the "Board" or "IASB") without entering into force.

(a) Adoption of new and amended International Financial Reporting Standards ("IFRS") and interpretations

First application of new and amendments to existing standards in force for the current reporting period

In the current reporting period, the following amendments to existing standards published by the International Accounting Standards Board ("IASB") and adopted by the European Union are in force:

- Annual Improvements to IFRS from the 2018-2020 cycle – (effective for annual periods beginning on or after 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Contract Performance Cost): The amendments define which costs should be included in an entity's assessment of contract impairment (effective for annual periods beginning on or after 1 January 2022)
- IAS 16 Property, Plant and Equipment (amendment - Income before intended use): The amendment prohibits the reduction of acquisition costs for realized receipts of sold effects produced when bringing plant and equipment into working condition for the intended use. Instead of the current practice, the entity will recognize both the income and expenses generated by the trial operation through the profit or loss account (effective for annual periods starting on or after 1 January 2022);
- IFRS 3 "Business Combinations" - link to the conceptual reporting framework (effective for annual periods beginning on or after 1 January 2022)

The Group is currently evaluating the impact of the new standards and interpretations on its annual financial statements. It is not expected that the new standards and interpretations will significantly affect the annual financial statements of the Group.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

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

Standards and interpretations issued by the International Accounting Standards Board, which are not yet effective

At the date of approval of these financial statements, the following amendments to existing standards published by IASB and adopted in the European Union were published, but not in effect:

- IAS 1 Presentation of Financial Statements and IFRS Statement of Practice 2 (Amendment – Disclosure of Accounting Policies) (effective for annual periods beginning on or after 1 January 2023);
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment - Definition of Accounting Estimates) (effective for annual periods beginning on or after 1 January 2023);
- IFRS 17 – Insurance Contracts and Amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- IAS 12 Income tax (amendment – Deferred tax relating to assets and liabilities arising from a single transaction) (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023).

New standards and amendments to existing standards published by IASB, but not yet adopted in the European Union

The IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and changes to existing standards, on the adoption of which the European Union has not yet made a decision on 31 December 2022 (the effective dates listed below refer to IFRSs issued by IASB):

- Amendments to IFRS 16 Leases: Lease liability on sale with leaseback (effective for annual periods beginning on or after 1 January 2024);
- IFRS 17 – Insurance Contracts and amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 Presentation of Financial Statements (amendment - Classification of short-term and long-term liabilities) (effective for annual periods beginning on or after 1 January 2024);
- Amendments to IAS 1 Presentation of Financial Statements (amendment – Long-term liabilities with covenants) (effective for annual periods beginning on or after 1 January 2024).

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

(b) Summary of significant accounting policies

Investments in joint ventures

Under IFRS 11 Joint Operations are classified as either joint management or joint ventures. The 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 liabilities from the transaction in question
- Joint venture - a joint operation in which the parties that have joint control over the transaction and have rights to the net assets of the transaction in question.

In classifying investments in joint operations, the Group considers

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

Interests in joint ventures are stated using the equity method. The Group accounts for its investment in joint management in such a way that it recognizes its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations.

The group identified the 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 is obliged to pay contributions to pension and health insurance funds 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 on the basis of gross salary

| | 2022 | 2021 |
|--------------------------------|-------------|-------------|
| Pension insurance contribution | 20% | 20% |
| Health insurance contribution | 16.5% | 16.5% |

The members of the Group are obliged to suspend contributions from the gross salaries of employees. Contributions in the name of the employee and in the name of the employer are calculated as an expense of the period in which they were incurred (see note 8).

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

(b) Summary of significant accounting policies (continued)

Pension benefits and jubilee awards

The Group pays jubilee awards and one-time severance pay to employees upon retirement. The liability and cost of these benefits are determined using the projected credit unit method. Using the projected credit unit 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 benefits for long-term work (jubilee awards) and severance pay upon retirement. The award for long-term work amounts from 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, according to which every employee is entitled to net severance pay in the amount of 1/8 of the gross average monthly salary paid to an employee 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, i.e. no longer than three months after the expiration of the time for which it was concluded, i.e. until 31 March 2024.

Property, plant and equipment

Property, plant and equipment are stated at purchase value less value adjustments and any impairment losses. Land is stated at cost less any impairment loss. Estimated useful life, residual value and depreciation methods are reviewed at the end of each year, and any change in estimate is calculated based on new expectations and has an effect in the current and future periods. Land is not depreciated.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

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

(b) 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:

| | 2022 and 2021 |
|---|----------------------|
| Buildings | |
| 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 |
| Telecommunications equipment | 5 – 20 years |
| Motor vehicles | 5 – 8 years |
| Office furniture | 10 years |

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

(b) 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, including customs duties and non-refundable taxes, and all direct costs of bringing the property to its working condition and place of use. Expenses incurred after putting property, plant and equipment into use are charged to the 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 of 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.

The gain or loss arising from the disposal or withdrawal of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss.

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 so that any impairment loss can be determined. 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 an indefinite useful life and assets not in use are 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.

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 recognized for this asset (cash-generating unit) due to impairment. A reversal of an impairment loss is recognized immediately as income.

Intangible assets

Non-current intangible assets are mostly licenses and are stated at cost less accumulated amortization. It is depreciated on a straight-line basis over a period of 2-28 years.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

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

(b) 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 arise. Investment property is derecognised, i.e. they are derecognised by sale or permanent withdrawal from use, as well as when no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property is determined as the difference between the net disposal proceeds and the net carrying amount of the property in question and is included in profit or loss in the period in which the property is derecognised.

Group as a lessee

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 or less from the date of first application.

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 this case the incremental borrowing rate of 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 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 they relate.

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

- amounts expected to be paid by the lessee under residual value guarantees;
- the cost of executing the purchase option if it is certain that the lessee will use that option; and
- payment of fines for termination of the lease if the lease period reflects that the lessee will take the opportunity to terminate the lease

Right-of-use assets 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 lease start date;
- all initial direct costs; and
- the amount of the provision recognized in the event that the Company contractually bears the costs of dismantling, removing or rebuilding the site.

Right-of-use asset 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 right-of-use asset is shown as follows:

| | 2022 and 2021 |
|----------------------------|----------------------|
| Business premises and land | 2-25 years |
| Vehicles and equipment | 2-5 years |

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

(b) Summary of significant accounting policies (continued)

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

Inventories

Inventories contain mainly materials and small inventory, and are stated at the lower of cost and net expected sales value. Management makes adjustments to 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 CO₂ emission units. By including the Republic of Croatia in the European Union Emissions Trading System (EU ETS), the Company, which performs the activity of electricity and heat production, has the obligation to purchase GHG emission units in quantities corresponding to verified combustion CO₂ emissions of fossil fuels from thermal power plants that emit CO₂. Companies are required to acquire sufficient CO₂ emission rights by 30 April (annual cycle). Due to the withdrawal of IFRIC 3 and insufficient provisions in IFRS, the Company has analysed various accounting models for CO₂ emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO₂ emission rights. Therefore, the Company recognizes emission rights 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 onto 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, as the appointed holder of the consolidated Report on realized energy savings, has disposal over the savings that are the subject of this Methodology and, reallocates them to liable companies.

Inventories contain gas that the Company purchases on the market for the needs of HEP Proizvodnja d.o.o. and HEP Plin d.o.o. Acquisition cost includes the invoiced amount and other costs incurred directly in bringing the inventory to a specific location and usable condition. Inventories also include the gas that HEP acquired on the basis of the Decision on securing gas supplies on the territory of the Republic of Croatia (Official Gazette 63/2022), by which the Government of the Republic of Croatia tasked HEP to secure gas supplies on the territory of the Republic of Croatia in the amount of 270.83 million m³ and to inject the quantity in question into the system. gas warehouses of the company Podzemno skladište plina d.o.o. This gas from the Decision is available to HEP d.d. in accordance with the orders of the Crisis Team responsible for the implementation of the Intervention Plan on measures to protect the security of the gas supply of the Republic of Croatia. The Ministry of Economy and Sustainable Development will provide funds to HEP d.d. to cover the difference between the purchase and market sales price of gas from this Decision, storage costs and financing costs.

Inventories also include the gas available to HEP based on Article 5.a of the Regulation amending and supplementing the regulation on eliminating disturbances in the domestic energy market (Official Gazette 106/2022) for the needs of: gas distributors for the purpose of settling losses for gas distribution, for thermal energy buyers from an independent heating system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. Pursuant to the Decree on Amendments to the Decree on Eliminating Disruptions on the Domestic Energy Market (Official Gazette 121/2022), the gas producer (INA) is obliged to sell all the gas that is the subject of this Decree to HEP, and HEP is obliged, if the amount of gas produced is greater out of necessity, to store gas in the company Podzemno skladište plina d.o.o. in accordance with the technical and technological capabilities of the warehouse.

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

(b) Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise 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 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 funds while they are spent on a qualifying asset is deducted from borrowing costs that can be capitalized. 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 DISCLOSURES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) 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 companies of the Group, business changes expressed in foreign currency are translated into the entity's functional currency at the exchange rate valid on the day of the transaction. On each reporting date, monetary assets and liabilities expressed in foreign currency are translated into the entity's functional currency at the exchange rate valid at the end of the year. Non-monetary items stated at fair value in a foreign currency are recalculated using the exchange rates valid on the fair value measurement date. Non-monetary items expressed in foreign currency at historical cost are not recalculated. Exchange rate differences arising from the settlement of monetary items and their recalculation are reported in the consolidated statement of profit or loss for the period. Exchange rate differences arising from the translation of non-monetary assets stated at fair value are reported in the consolidated income statement of the period as a financial expense.

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

Taxation

Profit tax expense is the sum of current tax and changes in deferred tax during the year.

Current tax

The current tax liability is based on the taxable profit for the year. Taxable profit differs from net profit for the period shown in the consolidated statement of profit or loss because it does not include items of income and expenses that are taxable or non-taxable in other years, as well as items that are never taxable or deductible. The current tax liability of the Group is calculated by applying the tax rates that are in force, that is, in the process of adoption on the reporting date.

Deferred tax

Deferred tax is the amount for which it is expected that a liability or return will arise based on the difference between the book value of assets and liabilities in the consolidated financial statements and the corresponding tax base used to calculate taxable profit, and is calculated using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax liabilities and deferred tax assets are not recognized for temporary differences arising from goodwill or the initial recognition of other assets and liabilities, except for business mergers, in transactions that do not affect either tax or accounting profit.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that a sufficient amount of taxable profit will be available to recover all or part of the tax asset. Deferred tax is calculated according to the tax rates that are expected to be applied in the period in which the liability will be settled or the asset will be realized, based on the tax laws that are in force or in the process of being adopted by the reporting date. The calculation of deferred tax liabilities and assets maintains the amount for which it is expected that a liability or return will arise on the reporting date equal to the book value of the Group's assets and liabilities. Deferred tax is recorded as an expense or income in the consolidated statement of profit or loss unless it relates to items that are recorded directly in other comprehensive income, in which case the deferred tax is also reported in other comprehensive income or when the tax arises from initial recognition in a business merger. In the case of a business combination, taxes are taken into account when calculating goodwill or determining the excess of the buyer's share in the net fair value of identifiable assets, liabilities and potential liabilities of the buyer in relation to cost.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

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

(b) Summary of significant accounting policies (continued)

Financial assets

The Group recognizes a financial asset in its annual 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 features of cash flows of financial assets, the Group measures financial assets at amortized cost, fair value through other comprehensive income or fair value through the statement of profit or loss.

Assets are classified and measured as shown below:

| DESCRIPTION | Business model / Measurement |
|---|---|
| Fixed assets | |
| Long-term loans granted | Holding for collection / amortized cost |
| Financial assets at fair value through other comprehensive income | Strategic investments / fair value through other comprehensive income |
| Other financial assets (Long-term receivables) | Holding for collection / amortized cost |
| Current assets | |
| Trade receivables | Holding for collection / amortized cost |
| Other short-term receivables | Holding for collection / amortized cost |
| Cash and cash equivalents | Holding for collection / amortized cost |

The Group's business models reflect the way in which the Group manages assets with the goal of generating cash flows, regardless of whether the Group's goal is solely to collect contractual cash flows from assets (held for collection) or to collect both contractual cash flows and cash flows resulting from the sale of assets (holding for collection and sale). Strategic equity investments are irreversibly measured through other comprehensive income. All other financial assets are measured at fair value through the statement of 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 on an active market. Changes in fair value are recognized in other comprehensive income (FVOCI) without subsequent reclassification to the statement of profit or loss. In case the equity instrument is sold, the accumulated revaluation reserve is reclassified to retained earnings. Dividends from 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 that aims to hold financial assets in order to collect contractual cash flows. Contractual cash flows are only those that represent principal and interest repayments based on that principal amount.

Loans granted are measured at amortized cost. Measurement at amortized cost implies the following;

- Interest income is calculated using the effective interest rate method, and the same is applied to the gross book value of assets during calculation. The effective interest method is a method of calculating the cost of amortization of financial assets and the distribution of interest income over the corresponding period. The effective interest rate is the rate at which future cash receipts are discounted over the expected life of the financial asset, or a shorter period, if more appropriate.

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

(b) Summary of significant accounting policies (continued)

Financial assets (continued)

iii) Trade and other receivables

Trade receivables and other short-term receivables are held with the strategy of collecting contractual cash flows. Trade receivables that do not have a significant financial component at 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. On each reporting date, the Group measures expected credit losses and recognizes them in the annual consolidated financial statements. Expected credit losses from financial instruments are measured in a way that reflects:

- An unbiased and weighted amount of probabilities determined by evaluating the range of possible outcomes,
- Time value of money,
- Reasonable and acceptable information about past events, current conditions and predictions of future economic conditions.

For the purposes of calculating the expected credit loss, the portfolio of financial assets is divided into three levels: Level 1, Level 2 and Level 3. If no impairment has been determined on the date of first recognition, the financial asset is included in Level 1, and the subsequent reclassification to Levels 2 and 3 depends on the increase in credit risk per financial instrument after initial recognition, that is, on the credit quality of the financial instrument.

The Group applies a simplified approach to measuring 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 incurred during the three-year period 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 derecognizes financial assets when contractual rights to cash flows from financial assets expire or transfers financial assets and the transfer meets the conditions for derecognition.

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

When the Group transfers financial assets, it is obliged to assess the extent to which it retains the risks and benefits of ownership of the financial assets. In this case, when all risks and benefits of ownership are transferred, the Group ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that arose or were retained within the framework of the transfer. If almost all the risks and benefits of ownership of the financial asset are retained, the Group continues to recognize the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether control over the financial asset is retained. If control over financial assets is not retained, the Group ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that arose or were retained within the framework of the transfer. If control is retained, the Group continues to recognize financial assets to the extent that it still participates in those financial assets.

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

(b) Summary of significant accounting policies (continued)

Derivative financial instruments

The Group used derivative financial instruments in order to reduce exposure to currency risk. Following on from the above, the Group concluded a Cross Currency Swap Agreement, which converted the dollar liability on the bonds into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. Upon the final maturity of the bonds, the swap was fully realized and as of 31 December 2022, the Group no longer has contracted derivative financial instruments. More information on derivative financial instruments is published in note 42.

Derivative financial instruments are initially recognized at fair value on the date of the conclusion of the contract. After initial recognition, they are measured at fair value with changes recognized in the statement of profit and loss.

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 associated transaction costs. Financial liabilities include accounts payable and other liabilities, bank overdrafts and loans and advances.

Subsequent measurement

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

Derecognition

The Group stops recognizing liabilities in the annual consolidated financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor under significantly different terms, or the terms of existing liabilities are significantly changed, such change or modification is treated as the termination of the original liability and the recognition of a new liability, and the difference in the corresponding book values is recognized in the consolidated statement of profit and loss.

Provisions

A provision is recognized only if the Group has a present liability (legal or constructive) as a result of a past event and it is probable that the settlement of the liability will require an outflow of resources with economic benefits and the amount of the liability can be determined reliably. Provisions are reviewed at each reporting date and adjusted according to 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 expected to be required to settle the liability. In the case of discounting, the increase in provisions reflecting the passage of time is recognized as interest expense (note 10).

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

(b) Summary of significant accounting policies (continued)

Revenue recognition

Operating income is achieved primarily through the sale of electricity, thermal energy and gas to household and business customers in the Republic of Croatia.

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

- 1) Identify the contract with a customer.
- 2) Determine the transaction price.
- 3) Identify the performance obligations in the contract.
- 4) Allocate the transaction price to performance obligations.
- 5) Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenues are recognized for each separate obligation in the contract in the amount of the transaction price. The transaction price is the amount of contractual fees to which the Group expects to be entitled in exchange for the transfer of the customer's promised goods or services.

Part of the income from the sale of electricity to household customers is recognized based on the best estimate of the delivered energy quantity. As the actual calculation of the delivered quantities of energy for customers in the household category with advance payment is performed twice a year, the Group bases its income from the sale of electricity on the purchased quantities of electricity on the distribution network corrected for losses on the distribution network based on logarithmic regression. Since the entry into force of the Law on Amendments to the Electricity Market Act (Official Gazette 102/2015), the regulation of prices for the public service of electricity supply to households within the framework of the universal service ceases and the amounts of tariff items for the supply of electricity are determined by the supplier who has the obligation to provide the public service.

Accordingly, the Group recognizes revenues based on the prices determined by the tariff approved by the regulatory agency, that is, by the decision of the company that has the obligation to provide a public service (HEP Elektra d.o.o.).

Supplier under public service obligation (HEP Elektra d.o.o.) applied the same tariff items for universal supply from 2015 to 31 March 2022.

The *spring package* of measures of the Government of the Republic of Croatia from February 2022 limited the increase in the price of HEP's electricity for household customers, and as of 1 April 2022, new tariff items for electricity supply ("energy price") are being applied, which defines the supplier responsible for the obligation of public electricity supply service (HEP Elektra d.o.o.).

As of 1 April the tariff items for the use of the network (charge for the use of the transmission network and charge for the use of the distribution network) will also change, based on the request submitted by the Croatian transmission system operator d.o.o. and HEP Operator distribucijskog sustava d.o.o., based on the decision of the Croatian Energy Regulatory Agency from December 2021.

The price of electricity supply for household customers who concluded a supply contract with HEP Opskrba d.o.o. is determined according to the Hepi price list, which is harmonized with the changes in the tariff items for the universal service from 1 April 2022.

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

(b) Summary of significant accounting policies (continued)

Revenue recognition (continued)

The Government of the Republic of Croatia at its 147th session held on 8 September 2022. adopted the Autumn package of measures for the protection of households and the economy from rising prices, which continued the limitation of rising prices of electricity, gas and thermal energy by adopting the Regulation on eliminating disturbances in the domestic energy market NN 104/2022 (hereinafter: the Regulation) which, due to disturbances on the domestic energy market, regulate special measures for electricity trade, the manner and conditions of price formation for certain categories of electricity and thermal energy buyers and supervision over the application of prices determined by this Regulation.

Due to disruptions on the domestic energy market, the Regulation ensures stable prices of electricity and thermal energy for the category of household customers and customers from the business category in accordance with the Electricity Market Act, i.e. for all final customers of thermal energy on thermal systems, except for thermal energy used in technological purposes (hot water, warm water or steam).

The regulation is set as a temporary measure for a period of six months, from October 1, 2022 to March 31, 2023. On the basis of the Regulation, for electricity in the specified period, the prices of working energy for household customers were determined in the ranges from and up to 2.5 MWh of six-month electricity consumption based on tariff items that apply from April 1, 2022. For entrepreneurship, for public institutions and customers with a six-month electricity consumption of up to 250 MWh, the prices are determined based on the tariff items for the single-tariff/two-tariff model of household customers on the universal service, which apply from April 1, 2022. For customers with a six-month consumption of electricity from 250 MWh to 2.5 GWh, the price is 180 EUR/MWh, and above 2.5 GWh - 230 EUR/MWh.

For the year 2022, during the period of validity of the Regulation (from October 1 to December 31), the Group reports revenues according to prices calculated according to valid tariff items/methodologies and market prices, as well as extraordinary expenses related to the costs of selling electricity to customers at prices determined by the Regulation.

Warmth

Revenue from the sale of thermal energy to households and business customers in the Republic of Croatia is recognized at the moment when the customer acquires control over the product, i.e. when the thermal energy is delivered to customers and if it is likely that the Group will receive compensation.

Pursuant to the mentioned Regulation valid from October 1, 2022, the final price of delivered thermal energy, which includes fees and value added tax, for final customers of thermal energy on thermal systems, except for thermal energy used for technological purposes (hot water, hot water or steam) remains unchanged in the heating season 2022/2023 in relation to the final prices valid on the date of adoption of the Regulation.

Pursuant to the Regulation, for the period of validity of the Regulation, HEP-Toplinarstvo realizes receivables from the Ministry of Economy and Sustainable Development for sold thermal energy based on the difference between the price of the input energy source (fuel), the price of greenhouse gas emission units and the final price for the heating season 2021/2022, which includes value-added tax.

For the year 2022, during the period of validity of the Regulation (from 1 October to 31 December), the Group does not separately report revenues from the sale of thermal energy in accordance with the Regulation, but receivables from the Ministry of Economy are recorded separately from receivables from end customers.

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

(b) Summary of significant accounting policies (continued)

Revenue recognition (continued)

Gas

Revenue from the sale of gas is recognized at the moment when the customer acquires control over the product, i.e. when the gas is delivered to customers and it is probable that the Group will receive compensation. The price of gas for users of the public supply service and guaranteed supply is prescribed by decisions on the amount of tariff items determined on the basis of the methodologies for determining the amount of tariff items for the public service of gas supply and guaranteed supply, issued by the Croatian Energy Regulatory Agency (HERA). For customers of the category household - market supply and the category business, 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.

In March 2022, through a public tender conducted by HERA, HEP-Plin d.o.o. was designated as the guaranteed gas supplier for the Republic of Croatia for the period from 10 March 2022 to 30 September 2024. In this period the company is obliged to calculate and charge for the delivered gas to the end customer who was left without a supplier according to the tariff items for guaranteed supply determined by HERA's decisions based on the Methodology for determining the amount of tariff items for the public gas supply service and guaranteed supply.

The spring package of measures, with application from 1 April 2022, includes subsidies for the cost of gas to households with application from 1 April 2022 to 31 March 2023. It includes the proposal to amend the VAT Act, which reduces the VAT rate on gas from the current 25% to 5%, and the decision to subsidize the price of gas.

With the decision on subsidizing a part of the end price of gas supply to household customers and non-household end customers with an annual gas consumption of up to 10 GWh from 9 March 2022, the end price without VAT is subsidized to household customers in the amount of HRK 0.10/kWh, and to non-household customers in the amount of HRK 0.15/kWh through a support voucher.

As part of the autumn package of measures, the Regulation on Amendments and Supplements to the Regulation on Elimination of Disruptions in the Domestic Energy Market (Official Gazette 106/22) was adopted by the Government of the Republic of Croatia on 14 September 2022, and which, due to disturbances in the domestic energy market, regulates special measures for gas trade, the method and conditions of gas price formation, ensuring the conditions for the security of gas supply for certain categories of gas buyers and special conditions for performing energy activities with gas.

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

(b) Summary of significant accounting policies (continued)

Revenue recognition (continued)

The selling price of gas for the supply of gas to end customers on the retail market from 1 October to 31 December 2022 is based on the valid tariff items for the public gas supply service (household customers) in accordance with the Decision on the amount of tariff items for the public gas supply service for the period from 1 October to 31 December 2022 and for the period from 1 January to 31 March 2023 (Official Gazette 108/22), Decision on subsidizing part of the final price of gas supply for end customers of the household category and end customers who are not household with an annual gas consumption of up to 10 GWh from 9 March 2022 and valid tariff items for distribution compensation in accordance with the Decision on the amount of tariff items for gas distribution (Official Gazette 108/22).

For the year 2022, during the period of validity of the Regulation and accompanying decisions (from 1 April to 31 December), the Group does not separately report revenues from the sale of gas in accordance with the Regulation, but receivables from the Ministry of Economy are recorded separately from receivables from end customers.

Income from connection fees

Income from connection to the network is systematically distributed over the useful life of the asset (connection), and the compensation received from customers for connection to the network is recorded as deferred income and recognized as income for the period simultaneously with the depreciation of the connection to which it refers.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Compilation of consolidated financial statements in accordance with International Financial Reporting Standards requires the Management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, income and expenses and the disclosure of contingent liabilities. Events are possible in the future that will cause changes in the assumptions on the basis of which the estimates were given, and thus changes in the estimates themselves. The effect of any change in the estimate will be reflected in the consolidated financial statements when it can be determined. The estimates are presented in detail in the accompanying notes and the most significant among them refer to the following:

Useful life 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 uses the economic benefits contained in the assets, which decrease due to economic and technological ageing. Accordingly, in the process of determining the useful life of the asset, in addition to the assessment of 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 estimate. Changes in estimates, if any, will be reflected in the revised depreciation expense over the remaining revised useful life.

Provision for power plant decommissioning

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

The amount of provisions for the decommissioning of thermal power plants represents the discounted value of the estimated cost of decommissioning the Group's thermal power plants (note 32). Significant assumptions are the discount rate and decommissioning costs.

Decommissioning of the Krško nuclear power plant

Funds for the decommissioning of the Krško NPP are reserved in accordance with the Regulation on the amount, term and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP (Official Gazette 155/08; note 16).

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

Since billing 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, or purchased, is reduced by the estimated losses on the distribution network. After analysing several different approximation methods (five-year average, linear approximation, etc.), the Management 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 short-term liabilities or other current receivables.

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

Impairment of property, plant and equipment

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

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 possible that a profit will be realized that will enable the use of the related tax benefit. Determining deferred tax assets that can be recognized requires the application of significant judgments, which are based on determining the probable timing and 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 discount rates, future increases in income and mortality or turnover rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty (note 32).

Consequences of certain court cases

The Group is a party to numerous court cases arising from regular operations. Provisions are recorded if there is a present liability as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that the settlement of the liability will require an outflow of resources and if the amount of the liability can be reliably estimated (note 32).

Expected loss model

With the application of IFRS 9, the expected credit loss (ECL) model is introduced. The measurement of expected credit impairment loss is based on reasonable and supportable information that is available without undue cost and effort, and that includes information about past events, current and anticipated 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 assumed). For the purposes of calculating the ECL model, the portfolio of financial assets is divided into three levels: Level 1, Level 2 and Level 3. On the date of first recognition, financial assets are included in Level 1, and subsequent reclassification to Levels 2 and 3 depends on the increase in credit risk by 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 receivables.

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022

4.1. IMPACT OF THE REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET

Electricity

/i/ Legal basis and measures until 30 September 2022

The Group has a significant market share and delivers energy as a public service to end users and plays the role of a guaranteed supplier, maintains critical energy infrastructure in the Republic of Croatia and is a key factor in the security of energy supply.

From the second half of 2021, European energy markets are faced with extreme price volatility driven by geopolitical tensions, market uncertainty around gas supply and reduced hydropower and nuclear power generation, and the purchase prices of electricity, gas, coal and CO₂ emission units during 2022 recorded record high levels.

The formation of sales prices and the procurement of energy and energy products in the period leading up to the adoption of the Regulation on the elimination of disturbances on the domestic energy market (Official Gazette 104/22, 106/22, 121/22, 156/22; "Regulation") were characterized by the described circumstances.

The year 2022 was hydrologically the most unfavourable year in the past decade, and hydropower plants produced 4.9 TWh of electricity, which is 24% less than the ten-year average of hydropower plant production. The lower production of hydroelectric power plants was replaced by greater procurement of electricity on the market and greater production of thermal power plants at extremely high prices.

Taking into account the described circumstances, each of the members of the Group separately considered the possibilities and options of harmonizing sales prices.

Hrvatski operator prijenosnog sustava d.d. i HEP-Operator distribucijskog sustava d.o.o. on 30 September 2021 submitted a request for an increase in tariff items for the distribution and transmission of electricity. On 13 December 2021, the Croatian Energy Regulatory Agency made decisions on the amount of tariff items for the use of the distribution and transmission network, which, as of 1 April 2022, will increase the fee for the use of the distribution network by an average of 4.9%, and for the transmission by 5.7% .

For customers in the economy category of the supplier HEP-Opkrba d.o.o., the price of electricity is formed in accordance with contractual conditions and internal methodology that takes into account market prices and trends. In harmonizing the prices of HEP-Opkrba d.o.o. was partly limited by existing contracts.

HEP ELEKTRA d.o.o. to customers within the guaranteed supply (business category customers who did not sign a supply contract or who, under certain conditions, were left without a supplier) determines the price of electricity according to the Decision of the Croatian Energy Regulatory Agency in accordance with the Methodology for determining the amount of tariff items for guaranteed electricity supply. Tariff items are determined using the reference price of electricity, which is calculated based on the prices of basic and peak electricity from forward contracts for the future and the three following quarters from the regionally relevant Hungarian stock exchange (HUDEX).

In accordance with the package of measures of the Government of the Republic of Croatia from February 2022, from 1 April 2022, HEP ELEKTRA d.o.o. minimally increased the selling prices of electricity to customers in the household category by 15%, while HEP-Opkrba d.o.o. equalized its prices with the price list of HEP ELEKTRA d.o.o.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022 (continued)

4.1. IMPACT OF THE REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

/ii/ Legal basis and measures from 30 September 2022

Special measures for trade and the formation of electricity prices are prescribed for the period from 1 October 2022 to 31 March 2023.

Electricity prices are determined by the decree as shown in the table below:

| Category | | Consumption ¹ | Price | Tariff model | Tariff (high/low) | EUR/kWh |
|------------|---|--------------------------|--|---------------|-------------------|----------|
| HOUSEHOLDS | | < 2,5 MWh ² | based on the tariff items that apply from 1 April 2022 | single tariff | JT | 0,070276 |
| | | | | dual tariff | VT | 0,074789 |
| | | | | | NT | 0,036697 |
| | | > 2,5 MWh | based on the tariff items that apply from 1 April 2022 increased by 50% | | | |
| ECONOMY | - public institutions ³ and private entities | < 250 MWh | based on the tariff items for the one-tariff/two-tariff model of household customers on the universal service, which apply from 1 April 2022 | single tariff | JT | 0,070276 |
| | | | | dual tariff | VT | 0,074789 |
| | | | | | NT | 0,036697 |
| | - private entities with consumption | > 250 MWh < 2,5 GWh | 0,18 EUR/kWh | | | 0,18 |
| | - private entities | > 2,5 GWh | 0,23 EUR/kWh | | | 0,23 |

¹ six-month consumption

² in the table, the consumption classes are shown in a larger unit of measurement than is established by the Regulation on eliminating disturbances in the domestic energy market, in which consumption limits are determined in kWh

³ kindergartens, schools, colleges, retirement homes, non-governmental organizations, institutes, religious communities, municipalities, cities, state institutions, utility companies, etc. (regardless of six-month consumption)

Pursuant to Art. 3. paragraph 1 of the Regulation, in the event that before the entry into force of the Regulation, a contract for the supply of electricity was concluded, in which the contracted price is lower than the price specified in Art. 2 of the Regulation, electricity is billed to the customer at the price specified in the contract.

The Regulation regulated the behaviour of Group companies in the period of application and authorized the General Assembly of the company HEP d.d. for the implementation of measures in accordance with Art. 5, paragraph 5 of the Regulation.

Pursuant to Art. 5, paragraph 1 of the Regulation, companies Hrvatski operator prijenosnog sustava d.d. and HEP-Operator distribucijskog sustava d.o.o. will not submit a request to the Croatian Energy Regulatory Agency to change tariff items in the period from 1 October 2022 to 31 March 2023.

Pursuant to Art. 6 of the Regulation, the company HEP-Operator distribucijskog sustava d.o.o. is in charge of reading the meter status for customers from art. 2, paragraphs 1, 2, and 3 of the Regulation and providing each customer with data on their electricity consumption for the period from 1 October 2021 to 31 March 2022.

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022 (continued)

4.1. IMPACT OF THE REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

Company HEP-Operator distribucijskog sustava d.o.o. performs meter reading based on the Ordinance on general conditions for the use of the network and electricity supply (Official Gazette 100/2022). The system operator is obliged to read the meter balance of network users with a monthly billing period, with the exception of the end customer from Article 65 of these General Terms and Conditions, on the last day of the calendar month, with a permissible deviation of 6/+2 days. The system operator recalculates the reading of the meter balance on the last day of the calendar month in proportion to the number of days of deviation. The system operator is obliged to read the meter balance of the end customer with a semi-annual accounting period, including end customers from Article 65 of these General Terms and Conditions, on the last day of the last month of the semi-annual accounting period with a permissible deviation of 15/+5 days.

According to the order of the Regulation, the company HEP-Operator distribucijskog sustava d.o.o. has undertaken all reading activities in accordance with its capabilities.

Thermal energy

/iii/ Legal basis and measures in 2022

Special measures for trade and formation of thermal energy prices are prescribed for the period from 1 October 2022 to 31 March 2023.

For the heating season 2022/2023, the Croatian Energy Regulatory Agency has determined the unit price for the production of thermal energy for central heating systems and for closed heating systems based on the data provided by the energy entity on the price of input energy and the price of greenhouse gas emission units.

On the basis of the unit amounts, the Government of the Republic of Croatia decided on the amount of the difference between the unit prices determined by the decision of the Croatian Energy Regulatory Agency and the final price of delivered thermal energy, which includes fees and value-added tax, for final customers of thermal energy on thermal systems.

Thermal energy suppliers are obliged to issue invoices for the supplied thermal energy to the end customers of thermal energy on a monthly basis, in such a way as to show the difference.

At the end of the accounting month, thermal energy suppliers submit to the Ministry of Economy and Sustainable Development a request for compensation for the difference for all their end customers.

Gas

/iv/ Legal basis and measures in 2022

The spring package of measures limits the increase in the final price of gas to household customers and part of business customers by an average of 20%, while the remaining part of the price is subsidized in the period from 1 April 2022 to 31 March 2023. With the decision on subsidizing the price of gas, the final price is subsidized for household customers in the amount of HRK 0.10/kWh, and for business customers with an annual consumption of up to 10 GWh in the amount of HRK 0.15/kWh, through support vouchers.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022 (continued)

4.1. IMPACT OF THE REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

/v/ Recognized effects on the annual financial statements for 2022

In HRK '000

| ELECTRICITY | | I-VI 2022 | VII-IX 2022 | X-XII 2022 | Total |
|-------------|--|------------|-------------|------------|------------|
| 1. | Income from the sale of electricity | 5,848,959 | 5,133,187 | 5,736,890 | 16,719,036 |
| 2. | Costs of production and procurement of electricity | 7,394,633 | 7,378,525 | 8,172,409 | 22,945,567 |
| 3. | Difference between income from sales and costs of production and purchase of electricity (1.-2.) | -1,545,674 | -2,245,338 | -2,435,519 | -6,226,531 |
| 4. | Other income | 3,035,106 | 1,555,903 | 1,466,794 | 6,057,803 |
| 5. | Other expenses | 2,246,105 | 1,244,283 | 1,549,718 | 5,040,106 |
| 6. | RESULT (3.+4.-5.) | -756,673 | -1,933,718 | -2,518,443 | -5,208,834 |

| THERMAL ENERGY | | I-VI 2022 | VII-IX 2022 | X-XII 2022 | Total |
|----------------|--|-----------|-------------|------------|------------|
| 1. | Revenues from the sale of thermal energy | 385,412 | 83,241 | 404,274 | 872,927 |
| 2. | Costs of production and purchase of thermal energy | 879,582 | 247,731 | 929,636 | 2,056,950 |
| 3. | The difference between income from sales and costs of production and procurement of thermal energy (1.-2.) | -494,170 | -164,490 | -525,362 | -1,184,023 |
| 4. | Other income | 26,008 | 12,353 | 18,278 | 56,639 |
| 5. | Other expenses | 106,253 | 54,412 | 28,983 | 189,647 |
| 6. | RESULT (3.+4.-5.) | -574,415 | -206,549 | -536,067 | -1,317,031 |

| GAS | | I-VI 2022 | VII-IX 2022 | X-XII 2022 | Total |
|-----|--|-----------|-------------|------------|-----------|
| 1. | Revenues from the sale of gas | 513,160 | 165,638 | 756,131 | 1,434,929 |
| 2. | Gas procurement costs | 499,834 | 116,103 | 521,505 | 1,137,442 |
| 3. | The difference between sales revenue and gas procurement costs | 13,326 | 49,535 | 234,626 | 297,487 |
| 4. | Other income | 52,721 | 25,567 | 43,285 | 121,573 |
| 5. | Other expenses | 170,359 | 90,527 | 148,130 | 409,016 |
| 6. | RESULT (3.+4.-5.) | -104,312 | -15,425 | 129,781 | 10,044 |

| OTHER | | I-VI 2022 | VII-IX 2022 | X-XII 2022 | Total |
|-------|----------------|-----------|-------------|------------|----------|
| 1. | Other income | 27,485 | 5,497 | 19,911 | 52,893 |
| 2. | Other expenses | 84,042 | 34,663 | 53,846 | 172,551 |
| 3. | RESULT (1.-2.) | -56,557 | -29,166 | -33,935 | -119,658 |

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022 (continued)

4.1. IMPACT OF THE REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

/vi/ Charged amount of state support to customers with a regulated price for electricity

The decree limits the electricity prices for business customers, and the difference to the price from the contract is recorded in business expenses, which resulted in an increase in other expenses in 2022 in the amount of HRK 1,827,101 thousand. The total cost of the Regulation, taking into account internal relations, amounts to HRK 1,854,614 thousand.

The Regulation does not provide for compensation to HEP for the realized price difference due to the application of the Regulation, which is compensated to suppliers who are not members of the HEP group.

/vii/ Charged amount of state support to customers with a regulated price for thermal energy

Based on the Regulation, the price of thermal energy for customers on closed/central heating systems remains unchanged in the 2022/2023 heating season and the total amount of state support to end customers for the year 2022 is HRK 163,922 thousand. The total loss of heating activity in 2022 is HRK 1,317,031 thousand.

/viii/ Effect of the effects of the Regulation in the period from 1 January to 31 March 2023

The effect of the Regulation in the period from 1 January to 31 March 2023 is not included in the profit and loss account within the provisions for negative effects under contracts.

According to preliminary financial reports, the cost of the Electricity Regulation is estimated at EUR 291,531 thousand, including internal relations EUR 292,332 thousand. The final calculation of the costs of the Regulation will be known after the expiration of all prescribed deadlines for customer complaints.

According to the preliminary financial reports, the loss in the heating business amounts to EUR 86,805 thousand. The loss is a consequence of the multi-year retention of unit prices and the insufficient increase of tariff items for the heating season 2022/2023 and cannot be considered in the total amount as an effect of the effects of the Regulation.

4.2. IMPACT OF THE CONFLICT IN UKRAINE ON THE GROUP'S OPERATIONS

The start of Russian military activities on the territory of Ukraine in February 2022 and the introduction of sanctions by the European Union against Russia will consequently have a significant direct or indirect impact on the economy of the Republic of Croatia. Given that the HEP Group represents an infrastructure system of strategic importance for the Republic of Croatia and is one of the largest economic entities in Croatia on which the operations of a large number of companies depend to a great extent, it was important for the Group to ensure uninterrupted regular operations and orderly production, distribution and supply of energy products in full.

The current conflict on the territory of Ukraine does not have a major direct impact on the continuation of the Group's operations, as the Group does not have its own assets in that area and has not carried out significant trade activities related to Ukraine and the Russian Federation. Thanks to the successful operations to date and the implemented optimization measures, the Group has a sufficient amount of cash resources that enable regular operations in the short term.

4. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2022 (continued)

4.2. IMPACT OF THE CONFLICT IN UKRAINE ON THE GROUP'S OPERATIONS (continued)

The indirect effects of Russia's military activities on the territory of Ukraine had as an indirect consequence the adoption of:

- Regulations on eliminating disturbances on the domestic energy market (Official Gazette No. 104/2022, 106/2022, 121/2022 and 156/2022)
- Regulation on elimination of disturbances on the domestic energy market (Official Gazette No. 31/2023).

The impact of Russia's military activities on the territory of Ukraine, through disruptions in supply chains and the emergence of inflation, were taken into account when assessing the continuity of operations.

The Management has determined that there are no material uncertainties in connection with the going concern operation and considers it appropriate to adopt the accounting principle of going concern in the preparation of the annual consolidated financial statements.

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

4.3. IMPACT OF COVID

Compared to the previous two years (2020 and 2021), when the COVID-19 pandemic had a significant and negative impact on the global economy and, consequently, on the Company's operations through a reduction in planned business income and an increase in costs as a result of protecting the health of employees and preventing the spread of epidemic, as well as the costs of raw materials and supplies, due to disruptions in supply chains. In 2022, the aforementioned COVID-19 pandemic did not have a significant impact on the Group's operations.

The impact of COVID-19, through disruptions in supply chains and the emergence of inflation, was taken into account when assessing the going concern.

The Management has determined that there are no material uncertainties in connection with the going concern operation and considers it appropriate to adopt the accounting principle of going concern in the preparation of the annual consolidated financial statements.

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

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

5. SALES REVENUE – SEGMENT INFORMATION

The Group's operating income is mostly generated in the Republic of Croatia.

The reporting segments of the Group are divided into the following: electricity (production, transmission, distribution and sale of electricity), heating (production, distribution and sale of thermal energy), gas (distribution and sale of gas) and other.

The profit or loss of each segment is the result of all income and expenses directly related to a specific segment. Information on financial income, i.e. expenses and income tax is not shown at the segment level, because the basis for showing the segment is operating profit.

| | Electricity | | Heating | | Gas | | Other | | | |
|----------------------------------|--------------------|------------------|--------------------|------------------|---------------|-----------------|------------------|------------------|--------------------|------------------|
| <i>In HRK '000</i> | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Income from core business | 21,777,419 | 13,412,480 | 872,927 | 707,913 | 1,434,929 | 735,463 | - | - | 24,085,275 | 14,855,856 |
| Income of other segments | 999,420 | 908,333 | 56,639 | 57,217 | 121,573 | 104,736 | 52,893 | 44,603 | 1,230,525 | 1,114,889 |
| Operating profit / (loss) | (5,208,834) | 1,680,825 | (1,317,031) | (376,225) | 10,044 | (21,790) | (119,658) | (112,671) | (6,635,479) | 1,170,139 |
| Net financial income | | | | | | | | | (303,018) | 75,170 |
| Income tax | | | | | | | | | 1,215,759 | (225,808) |
| Net profit | | | | | | | | | (5,722,738) | 1,019,501 |

The segment's assets consist primarily of property, plant and equipment, receivables, cash and inventories. The segment's liabilities consist of payables to suppliers and other liabilities. Assets and liabilities that do not belong to segments represent assets and liabilities that cannot be reasonably allocated to business segments. Total undistributed assets include investment in NPP Krško, part of property, plant and equipment and undistributed financial assets. Total unallocated liabilities include long-term loans, short-term loans and other miscellaneous liabilities.

| <i>in HRK '000</i> | Total segment assets | | Total segment liabilities | |
|--------------------|----------------------|-------------------|---------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Electricity | 35,482,236 | 33,383,387 | 13,078,203 | 10,629,845 |
| Heating | 1,418,711 | 1,418,359 | 275,297 | 202,421 |
| Gas | 2,837,744 | 2,454,292 | 1,675,295 | 1,656,144 |
| Unallocated | 12,298,625 | 9,644,779 | 16,032,399 | 7,752,301 |
| Total Group | 52,037,316 | 46,900,817 | 31,061,194 | 20,240,711 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

5. SALES REVENUE – SEGMENT INFORMATION (continued)

Income from electricity sales in 2022 amounts to HRK 21,777,419 thousand (in 2021 HRK 13,412,480 thousand).

Income from the sale of thermal energy in 2022 amounts to HRK 872,927 thousand (HRK 707,913 thousand in 2021).

Income from gas sales in 2022 refers to income from gas sales to gas supply customers in the amount of HRK 1,111,773 thousand (in 2021 HRK 541,775 thousand), income from LNG terminal capacity leasing service in the amount of HRK 207,232 thousand (in 2021 HRK 174,194 thousand), and income from the sale of gas according to the Decree of the Government of the Republic of Croatia in the amount of HRK 115,924 thousand (in 2021, income from the sale of gas on the wholesale market in the amount of HRK 19,494 thousand).

Territorial 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 the revenues that the Group achieved from the active parts of the business from external customers of electricity:

| <i>in HRK '000</i> | 2022 | 2021 |
|--------------------------|-------------------|-------------------|
| Croatia | 18,681,845 | 11,939,668 |
| European Union Countries | 2,948,755 | 1,374,729 |
| Third Countries | 146,819 | 98,083 |
| | 21,777,419 | 13,412,480 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

6. OTHER OPERATING INCOME

| <i>in HRK '000</i> | 2022 | 2021 |
|---|------------------|------------------|
| Income from assets financed from the connection fee | 409,638 | 402,456 |
| Income from external services (energy efficiency projects, customer services, non-standard services) | 104,642 | 81,459 |
| Collected value-adjusted receivables (note 23) | 62,474 | 76,872 |
| Income from the sale of materials | 89,421 | 74,978 |
| Over calculated last-year CO2 emissions fees for electricity production | 49,033 | 31,193 |
| Default interest | 29,600 | 28,456 |
| Income from the cancellation of long-term provisions for litigation | 43,206 | 16,951 |
| Income from the cancellation of provisions for payments under the collective agreement | 31,677 | - |
| Income from the cancellation of impairment in inventories of raw materials, materials and spare parts | - | 12,998 |
| Income from cancellation of other provisions | 10,883 | 11,646 |
| Income based on court costs for lawsuits | 9,236 | 10,281 |
| Income from cancellation of long-term provisions - decommissioning of TPP | - | 5,530 |
| Collected written-off receivables | 1,317 | 2,738 |
| Collected receivables from pre-bankruptcy | 1,518 | 1,507 |
| Gains from the sale of tangible assets | 1,933 | 1,234 |
| Income from negative goodwill | 4,539 | 1,159 |
| Other business income - NPP Krško | 17,197 | 10,281 |
| Other income | 364,211 | 345,150 |
| | 1,230,525 | 1,114,889 |

Other income consists of income from the use of own products in the amount of HRK 100,033 thousand (in 2021: HRK 94,809 thousand), unrealized gains from fair valuation of investment property in the amount of HRK 38,274 thousand (2021: HRK 13,420 thousand), investment income HRK 7,713 thousand (2021: HRK 54,914 thousand), income from grants in the amount of HRK 93,826 thousand (2021: HRK 88,526 thousand), income from penalties, etc. in the amount of HRK 35,970 (2021: HRK 13,533 thousand) and other operating income.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

7. MATERIAL AND ENERGY PROCUREMENT COSTS

| <i>in HRK '000</i> | 2022 | 2021 |
|--|-------------------|------------------|
| The cost of purchasing electricity | 11,267,639 | 3,638,814 |
| Fuel cost | 7,782,210 | 2,401,591 |
| Gas supply costs - market supply | 947,875 | 408,449 |
| Cost of purchased material | 195,224 | 186,560 |
| The cost of purchasing gas for sale in the wholesalemkt | - | 77,777 |
| Purchase value of sold gas - Decree of the Government of the Republic of Croatia /i/ | 189,569 | - |
| | 20,382,517 | 6,713,191 |

Procurement of electricity and gas refers to procurement outside the system for the needs of supplying end customers.

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

/i/

The Regulation of the Government of the Republic of Croatia on Amendments to the Regulation on Eliminating Disturbances in the Domestic Energy Market of 14 September 2022 stipulates that the natural gas producer INA d.d., in the period from 1 October 2022 to 31 March 2024, is obliged to sell natural gas produced in the Republic of Croatia to HEP at a price of HRK 0.3086/kWh (EUR 0.0410/kWh), with the aim of securing inventories and increasing the availability of natural gas in the Republic of Croatia.

On the basis of the aforementioned Regulation, the Government passed a Decision on the price and distribution of the capacity of natural gas that HEP d.d. took over from the natural gas producer (Official Gazette 122/22), thus defining the gas quantities for certain categories of customers and the prices at which HEP d.d. supplies gas from 1 October 2022.

In the period from 1 October 2022 to 31 December 2022, 614 GWh of gas were sold to customers, the purchase value of which is HRK 189,569 thousand.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

8. EMPLOYEE COSTS

| <i>in HRK '000</i> | 2022 | 2021 |
|---|------------------|------------------|
| Net salaries | 1,244,314 | 1,231,579 |
| Net salaries NPP Krško | 125,503 | 111,093 |
| Tax and contribution costs | 748,377 | 735,402 |
| Costs of taxes and contributions from the salaries of NPP Krško | 52,906 | 49,615 |
| | 2,171,100 | 2,127,689 |

As of 31 December 2022, the Group had 11,782 employees (2021: 11,778) excluding NPP Krško d.o.o. The number of employees in NPP Krško d.o.o. is 648 (2021: 644).

Total contributions to pension funds amounted to HRK 345,235 thousand during 2022 (2021: HRK 340,822 thousand).

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

| <i>in HRK '000</i> | 2022 | 2021 |
|---------------------------------|---------------|---------------|
| Gross salaries | 35,645 | 35,979 |
| Pension insurance contributions | 7,619 | 7,714 |
| Other benefits | 2,602 | 2,642 |
| | 45,866 | 46,335 |

Compensation for Supervisory Board members:

| <i>in HRK '000</i> | 2022 | 2021 |
|-------------------------|-------------|-------------|
| Fees | 279 | 351 |
| Taxes and contributions | 92 | 62 |
| | 371 | 413 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

9. OTHER OPERATING EXPENSES

| <i>in HRK '000</i> | 2022 | 2021 |
|---|------------------|------------------|
| The cost of CO2 emission units | 1,777,108 | 810,136 |
| Maintenance costs | 746,955 | 725,247 |
| Costs of external services and materials | 607,414 | 580,159 |
| Billable services and material /i/ | 702,722 | 207,354 |
| Other material rights of employees | 193,589 | 159,131 |
| Reimbursement of employee expenses /ii/ | 117,327 | 108,612 |
| Value adjustments and write-offs of receivables /iii/ | 299,458 | 363,386 |
| Purchase value of the material sold | 64,283 | 47,241 |
| Costs of decommissioning the Krško NPP | 107,450 | 107,076 |
| Fee for use of power plant space | 91,497 | 106,824 |
| Contributions, taxes and fees to the state | 107,658 | 101,768 |
| Contributions and water concessions | 81,739 | 82,667 |
| Provision for retirement benefits and jubilee awards | 3,346 | 42,574 |
| Calculation and collection costs | 26,824 | 27,443 |
| Reserves for volatility - LNG | 53,410 | 26,777 |
| Bank fees | 35,330 | 21,865 |
| Insurance premiums | 15,540 | 14,245 |
| Fee for water purification and drainage | 10,493 | 11,823 |
| Compensation for damages | 6,287 | 8,820 |
| Provisions for court cases | 3,824 | 7,622 |
| Provision for decommissioning of thermal power plants | 12,417 | 7,603 |
| Provision for unused vacations | 3,142 | 4,157 |
| Procurement of energy savings | 21,762 | 616 |
| Costs in accordance with the Regulation of the Government of the Republic of Croatia /iv/ | 1,827,101 | - |
| Other costs | 160,096 | 120,132 |
| Capitalized borrowing costs (fees) | (1,784) | (2,895) |
| | 7,074,988 | 3,690,383 |

/i/ Billable services and materials in 2022 amount to HRK 702,722 thousand (2021: HRK 207,354 thousand). The increase of HRK 495,368 thousand mostly refers to the costs of cross-border transmission capacity services (HOPS d.d.)

/ii/ Reimbursements of expenses to employees include transportation costs to work in 2022 in the amount of HRK 81,312 thousand (2021: HRK 77,141 thousand), per diems and travel expenses in 2022 in the amount of HRK 20,527 thousand (2021: HRK 17,611 thousand), supplementary health insurance for 2022 in the amount of HRK 6,998 thousand (2021: HRK 5,682 thousand) and other similar costs in 2022 in the amount of HRK 8,490 thousand (2021: HRK 8,178 thousand). The costs of other material rights of employees include compensation according to the Collective Agreement. They mostly refer to payments under the Collective Agreement in the amount of HRK 125,209 thousand for the year 2022 (HRK 105,345 thousand in 2021), and to a lesser extent to solidarity benefits, allowances for separate living, child support and other.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

9. OTHER OPERATING EXPENSES (continued)

/iii/

| | | |
|---|---------|---------|
| Value adjustment of trade receivables (note 23) | 141,163 | 154,339 |
| Value adjustment of property, plant and equipment | 59,662 | 53,215 |
| Write-off of real estate, plant and equipment | 31,000 | 51,131 |
| Value adjustment of inventories | 8,966 | - |
| Unclaimed receivables written off | 58,667 | 104,701 |

/iv/ On 8 September 2022, the Government of the Republic of Croatia adopted the Regulation on eliminating disturbances on the domestic energy market, which regulates special measures for electricity trade, the method and conditions of price formation for certain categories of electricity and thermal energy customers in the period from 1 October 2022 until 31 March 2023. The difference between the price charged to end customers in accordance with the Regulation and the contracted price is recorded under other operating expenses in the amount of HRK 1,827.1 million.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

10. FINANCIAL INCOME / EXPENSES

in HRK '000

| | 2022 | 2021 |
|---|------------------|------------------|
| Financial income | | |
| Net interest income | 1,787 | 5,559 |
| Change in fair value of cross-currency swap | - | 299,160 |
| Dividend income | 4,150 | 4,399 |
| Other financial income | 243 | 9,393 |
| NPP Krško - interest | 316 | 114 |
| Unrealized gains | - | 447 |
| Total financial income | 6,496 | 319,072 |
| Financial expenses | | |
| Negative exchange rate differences | (52,763) | (60,667) |
| Interest expense | (252,712) | (185,925) |
| Change in fair value of cross-currency swap | (6,819) | (2,108) |
| Other financial expenses | (250) | (824) |
| NPP Krško - interest | (3,593) | (2,436) |
| Total financial expenses | (316,137) | (251,960) |
| Capitalized borrowing costs | 6,623 | 8,058 |
| Financial expenses recognized in the statement of profit or loss | (309,514) | (243,902) |
| Net financial gain/(loss) | (303,018) | 75,170 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

11. PROFIT TAX

| <i>in HRK '000</i> | 2022 | 2021 |
|---|------------------|------------------|
| Current tax | (70,107) | (156,740) |
| Deferred tax recognized in profit or loss | 1,285,866 | (69,068) |
| Income tax | 1,215,759 | (225,808) |

The adjustment of deferred tax assets is as follows:

| <i>in HRK '000</i> | 2022 | 2021 |
|-------------------------------------|------------------|----------------|
| Balance at 1 January | 805,013 | 874,082 |
| Cancellation of deferred tax assets | (53,022) | (128,088) |
| Recognition of deferred tax assets | 1,338,888 | 59,019 |
| Balance at 31 December | 2,090,879 | 805,013 |

Deferred tax assets were created from tax losses carried forward, tax-unrecognized provisions for jubilee awards and severance pay for regular retirement, value adjustments that are not tax-recognized and other provisions.

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

| <i>in HRK '000</i> | 2022 | 2021 |
|---|------------------|------------------|
| Pre-tax profit | (6,938,497) | 1,245,309 |
| Income tax at the tax rate in use in the Republic of Croatia (18%) | 1,248,929 | (224,156) |
| The effect of non-taxable income | (123,704) | 100,770 |
| The effect of non-tax-deductible expenses | (11,416) | (39,036) |
| The effect of the difference in the tax rate of subsidiaries abroad | 92 | (117) |
| Previously unrecognized tax losses used | 351 | 4,047 |
| Extra profit tax (33%) | (7,269) | - |
| Loss-making companies | (1,177,090) | 1,752 |
| Tax effects of temporary differences | 1,285,866 | (69,068) |
| Profit Tax | 1,215,759 | (225,808) |
| Effective tax rate | 18% | 18% |

Most of the Group's subsidiaries are liable for profit 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 7,683,483 thousand (2021: HRK 244,525 thousand), while the Group calculated profit tax in the amount of HRK 113,685 thousand (2021: HRK 156,740 thousand) and deferred tax assets in the amount of HRK 1,328,708 thousand (2021: HRK 69,068 thousand).

Realized tax losses can be carried forward and recognized as a deductible item when calculating taxes in future tax periods until their legally established expiration date, which is 5 years from the end of the year in which the tax losses occurred.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

11. PROFIT 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 |
|-------------------------|------------------------------------|--|
| <i>in HRK '000</i> | | |
| 2018 | 32,334 | 2023 |
| 2019 | 54,227 | 2024 |
| 2020 | 69,561 | 2025 |
| 2021 | 79,160 | 2026 |
| 2022 | 7,448,201 | 2027 |
| 7,683,483 | | |

Companies in the Group that continuously operate at a loss do not recognize deferred tax assets. In accordance with Croatian regulations, it is not possible to use tax losses on a consolidated basis. Each individual company determines its tax liability.

On 31 December 2022, deferred tax assets resulting from tax losses carried forward were recognized in the amount of HRK 1,323,014 thousand.

In accordance with tax regulations, the Tax Administration may at any time inspect the books and records of the Company and its subsidiaries within a period of three years after the end of the year in which the tax liability was declared and may impose additional tax liabilities and fines. The Company's Management is not aware of any circumstances that could lead to potentially significant liabilities in this regard.

In 2022, tax supervision began in HEP d.d.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

11. PROFIT TAX (continued)

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

| <i>in HRK '000</i> | Value adjustment of inventories | Provisions for jubilee awards and severance payments | Depreciation above prescribed rates | Provisions for MTM bonds | Value adjustment of property plant and equipment | Carried forward tax losses | Other | Total |
|---|---------------------------------------|---|--|--------------------------------|--|----------------------------------|----------------|------------------|
| 1 Jan 2021 | 50,563 | 136,096 | 14,233 | 53,358 | 312,734 | - | 307,099 | 874,083 |
| Booked to the credit and debit of the current year's profit and loss account | (2,635) | 4,716 | (1,046) | (53,358) | (19,876) | 5,413 | (2,284) | (69,070) |
| 31 Dec 2021 | 47,928 | 140,812 | 13,187 | - | 292,858 | 5,413 | 304,815 | 805,013 |
| 1 Jan 2022 | 47,928 | 140,812 | 13,187 | - | 292,858 | 5,413 | 304,815 | 805,013 |
| Booked to the credit and debit of the current year's profit and loss account | 1,420 | (4,936) | 207 | - | (18,036) | 1,317,601 | (10,390) | 1,285,866 |
| 31 Dec 2022 | 49,348 | 135,876 | 13,394 | - | 274,822 | 1,323,014 | 294,425 | 2,090,879 |

The item "Other" mostly 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 for the duration of the contract and are recognized over time.

The deferred tax liability refers to the fair valuation of JANAF's shares through other comprehensive income in the amount of HRK 20,812 thousand (2021: HRK 14,225 thousand) and the deferred liability arising in previous periods during the transfer of assets from business to non-business assets (transfer of assets with IAS 16 to IAS 40), based on which a deferred tax liability in the amount of HRK 4,592 thousand (2021: HRK 4,592 thousand) was recorded.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT

| <i>in HRK '000</i> | Land | Buildings | Inventory and equipment | Tangible assets under construction | Advances | Total |
|---|------------------|-------------------|-------------------------------|--|----------------|--------------------|
| PURCHASE VALUE | | | | | | |
| On 1 January 2021 | 1,054,869 | 40,164,414 | 55,085,148 | 3,666,811 | 62,452 | 100,033,694 |
| Transfers | (37) | 376,046 | (377,786) | (3,371) | - | (5,148) |
| Additions | 1,879 | 10,493 | 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 |
| Activation of ongoing investments | 2,066 | 544,715 | 1,579,414 | (2,148,067) | - | (21,872) |
| Capitalisation of borrowing costs | - | - | - | 10,953 | - | 10,953 |
| Activation of investments in progress by NEK | | 18,974 | 229,498 | (248,472) | - | - |
| Disposals | (556) | (68,273) | (540,132) | (21,611) | - | (630,572) |
| On 31 December 2021 | 1,058,221 | 41,090,519 | 56,215,844 | 3,980,760 | 107,291 | 102,452,635 |
| Transfers | 87 | 13,910 | (19,936) | (195) | - | (6,134) |
| Additions | 1,080 | 5,623 | 83,975 | 2,967,411 | 30,404 | 3,088,493 |
| Additions NEK | - | - | - | 212,355 | (122) | 212,233 |
| Increase through acquisitions and mergers | 2,202 | 6,065 | 257 | - | - | 8,524 |
| Allocation of goodwill to realestate | | | | | | |
| Activation of ongoing investments | 6,707 | 883,028 | 1,213,022 | (2,207,854) | - | (105,097) |
| Capitalisation of borrowing costs | - | - | - | 8,417 | - | 8,417 |
| Activation of investments in progress by NEK | 1,555 | 107,240 | 129,003 | (237,798) | - | - |
| Disposals | (154) | (61,626) | (387,228) | (10,552) | - | (459,560) |
| On 31 December 2022 | 1,069,698 | 42,044,759 | 57,234,937 | 4,712,544 | 137,573 | 105,199,511 |
| ACCUMULATED DEPRECIATION | | | | | | |
| On 1 January 2021 | - | 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) | - | - | (1,274) |
| Deregistered by alienation | - | (64,433) | (508,365) | - | - | (572,798) |
| On 31 December 2021 | - | 30,306,314 | 36,756,252 | - | - | 67,062,566 |
| Depreciation expense for the year | - | 665,251 | 1,411,111 | - | - | 2,076,362 |
| Depreciation expense for the year for NEK | - | 28,444 | 139,464 | - | - | 167,908 |
| Impairment | - | 4,606 | 54,560 | - | - | 59,166 |
| Mergers | - | 2,640 | 253 | - | - | 2,893 |
| Transfers | - | 10,469 | (11,268) | - | - | (799) |
| Deregistered by alienation | - | (55,693) | (379,655) | - | - | (435,348) |
| On 31 December 2022 | - | 30,962,031 | 37,970,717 | - | - | 68,932,748 |
| CARRYING AMOUNT | | | | | | |
| As at 31 December 2022 | 1,069,698 | 11,082,728 | 19,264,220 | 4,712,544 | 137,573 | 36,266,763 |
| As at 31 December 2021 | 1,058,221 | 10,784,205 | 19,459,592 | 3,980,760 | 107,291 | 35,390,069 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group is the owner of 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 property. 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 the possibility that property, where the Group does not have registered ownership, is recorded in the business books.

On 27 June 2013, the Company's Management passed the Decision on measures and activities related to resolving the ownership status of the property belonging to the Company and its subsidiaries.

In the Decision, tasks and deadlines are set for the purpose of submitting a proposal to the competent land registry courts for the purpose of registering ownership rights. Activities on the arrangement of the land registry will continue in 2023.

As of 31 December 2022, property, plant and equipment were not given as collateral for issued bonds and received loans.

13. RIGHT-OF-USE ASSETS

| <i>in HRK '000</i> | Land and buildings | Inventory and equipment | Total |
|-----------------------------------|-------------------------------|--|---------------|
| PURCHASE VALUE | | | |
| On 1 January 2021 | 27,408 | 5,580 | 32,988 |
| Increases | 8,359 | 254 | 8,613 |
| Reductions | (632) | (1,359) | (1,991) |
| On 31 December 2021 | 35,135 | 4,475 | 39,610 |
| On 1 January 2022 | 35,135 | 4,475 | 39,610 |
| Increases | 7,005 | 4,951 | 11,956 |
| Reductions | (5,152) | (1,511) | (6,663) |
| On 31 December 2022 | 36,988 | 7,915 | 44,903 |
| ACCUMULATED DEPRECIATION | | | |
| On 1 January 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 December 2021 | 19,966 | 2,171 | 22,137 |
| On 1 January 2021 | 19,966 | 2,171 | 22,137 |
| Depreciation expense for the year | 7,627 | 1,589 | 9,216 |
| Increases / Decreases | (1,570) | (340) | (1,910) |
| Lease cancellation | (5,137) | - | (5,137) |
| On 31 December 2022 | 20,886 | 3,420 | 24,306 |
| CARRYING AMOUNT | | | |
| On 31 December 2022 | 16,102 | 4,495 | 20,597 |
| On 31 December 2021 | 15,169 | 2,304 | 17,473 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

14. INVESTMENT PROPERTY

As of 31 December 2022 and 2021, investment property includes real property owned for the purpose of generating rental income and/or capital appreciation and is stated at fair value. Fair value includes the estimated market price at the end of the reporting period. All investment property is owned by the Group.

The assessment of the fair value of the property was carried out by official appraisers or internal services of the Group, whose assessment 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 National Bureau of Statistics, the Real Estate Agency, HGK and similar. These values of the average realized prices are adjusted for the characteristics and specifics of individual property.

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| At fair value | | |
| Fair value | 367,970 | 342,607 |
| Net change in value based on fair value adjustment | 45,089 | 25,363 |
| Procurement investment | 20,044 | - |
| Year-end balance at fair value | 433,103 | 367,970 |

As of 31 December 2022, there is no investment property given as collateral.

At the end of the reporting period, there were no significant capital expenditures contracted that were not recognized as liabilities.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

15. GOODWILL AND INTANGIBLE ASSETS

| <i>in HRK '000</i> | Goodwill | Licenses, software | Intangible assets under construction | Total |
|---|-----------------|-------------------------------|---|------------------|
| PURCHASE VALUE | | | | |
| 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) |
| Balance on 31 Dec 2021 | 69,906 | 1,076,898 | 70,239 | 1,217,043 |
| Postings | - | 278 | (3) | 275 |
| Increase | 3,600 | 4,825 | 101,839 | 110,264 |
| Activation of assets under construction | - | 136,105 | (51,368) | 84,737 |
| Alienations | - | (30,953) | - | (30,953) |
| Balance on 31 Dec 2022 | 73,506 | 1,187,153 | 120,707 | 1,381,366 |
| AKUMULIRANA AMORTIZACIJA | | | | |
| 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 |
| Postings | - | 198 | - | 198 |
| Depreciation expense for the year | - | 68,937 | - | 68,937 |
| Alienations | - | (30,937) | - | (30,937) |
| Balance on 31 Dec 2022 | - | 883,773 | - | 883,773 |
| CARRYING AMOUNT | | | | |
| On 31 Dec 2022 | 73,506 | 303,380 | 120,707 | 497,593 |
| 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., Ornatus d.o.o., GP Krapina d.o.o. and Darkom DP d.o.o. in previous years, and it was fully allocated to these companies. In 2022, goodwill was increased by increasing the 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 the Group that will arise after the acquisition.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

15. GOODWILL AND INTANGIBLE ASSETS (continued)

in HRK '000

| | 31 Dec 2022 | 31 Dec 2021 |
|---------------------------------|--------------------|--------------------|
| Goodwill | | |
| Energetski park Korlat d.o.o. | 49,225 | 45,625 |
| 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 | 3,036 |
| Darkom DP d.o.o. | 3,173 | 3,173 |
| | 73,506 | 69,906 |

16. INVESTMENT IN NPP KRŠKO

Investment history

At the end of 2001, the Government of the Republic of Croatia and the Government of the Republic of Slovenia signed an Agreement on the regulation of status and other legal relations related to investment, exploitation and decommissioning of the Krško NPP, and Articles of Association between HEP d.d. and ELES GEN d.o.o. The agreement was ratified by the Parliament of the Republic of Croatia in mid-2002 and entered into force on 11 March 2003 after it was ratified by the Parliament of the Republic of Slovenia on 25 February 2003.

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

The contract also clearly defined 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 the 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 will allocate the funds for the specified purposes to its own separate fund in the amounts provided for in the decommissioning programs. In accordance with the valid Program for the decommissioning of the Krško NPP 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 state

Payments to the Fund for financing the decommissioning of NPP Krško

On the basis of the Regulation on the amount, term and method 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. from 2006 until the end of 2022 paid into the Fund for financing the decommissioning of NPP Krško the amount of HRK 2,015,324 thousand or EUR 271 million (HRK 107,450 thousand or EUR 14.25 million in 2022). The payment amount is determined by the document Decommissioning Program from 2004. In accordance with the aforementioned Regulation, the annual obligation in the amount of EUR 14,250 thousand was paid into the Fund quarterly. On 14 July 2020, the Interstate Commission adopted the Third Revision of the Program for the Decommissioning of the Krško Nuclear Power Plant and Disposal of Radioactive Waste, according to which HEP will pay a smaller annual amount in the future. On 29 December 2022, at its session, the Government of the Republic of Croatia adopted a new Regulation (Official Gazette 156/2022) according to which the payment of HEP d.d. was reduced from EUR 14,250 thousand per year (EUR 3,562 thousand quarterly) to EUR 9,760 thousand per year (EUR 2,440 thousand quarterly). Additionally, due to the overpaid amount of EUR 11,225 thousand, HEP d.d. will pay an even further reduced amount in the next ten quarters, until the middle of 2025, that is, the next 10 quarterly instalments will amount to EUR 1,317.5 thousand (for the year 2023, this means a total payment obligation of EUR 5,270 thousand).

Life extension

After NPP Krško received an operating permit without a time limit from the Administration of the Republic of Slovenia for Nuclear Safety in 2012, in early 2016 HEP d.d. and GEN energy d.o.o. made a decision 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 the preparation of an economic study on the profitability of investing in the long-term operation of the power plant. On 2 October 2020, the Agency of the Republic of Slovenia for the Environment (ARSO) issued a decision in which it decided that in order to extend the life of the NPP, it is necessary to carry out an environmental impact assessment and obtain an Environmental Consent (EC). The procedure for obtaining the EC was carried out in accordance with the Convention on environmental impact assessment in the cross-border area, and it also included the cross-border environmental impact assessment procedure. The administrative procedure for obtaining EC was led by ARSO. An environmental impact report had been prepared and on 13 January 2023, the Ministry of Environmental Protection and Spatial Planning of the Republic of Slovenia issued an environmental consent to the Krško Nuclear Power Plant to extend its useful life until 2043.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

16. INVESTMENT IN NPP KRŠKO (continued)

Accounting of the joint venture NPP Krško

The joint investment in NPP Krško is recognized in the Company's financial statements using the equity method. In the consolidated financial statements, the Company applies the method of joint management of assets and liabilities and reports the Company's share in each asset and each liability, income and expenditure in accordance with IFRS 11. The following table shows an extract from the financial statements of NPP Krško d.o.o. in 100% amounts on 31 December 2022 and 31 December 2021:

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|-------------------------------------|--------------------|--------------------|
| Property, plant and equipment | 3,359,388 | 3,263,344 |
| Equity and reserves | 3,623,744 | 3,620,162 |
| Gross sales revenue | 1,420,992 | 1,350,382 |
| Cash flow from operating activities | 316,877 | 517,723 |
| Profit for the year | - | - |

17. INVESTMENTS CALCULATED USING THE EQUITY METHOD

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Investments calculated using the equity method: | | |
| Investment in Male hidre d.o.o. | 3,040 | 3,040 |
| Investment in Cropex d.o.o. | 4,750 | 5,000 |
| Share of Plomin Holding d.o.o. in companies /i/ | 167,801 | 57,889 |
| | 175,591 | 65,929 |

The following table shows an excerpt from the financial statements of companies managed using the equity method in 100% amounts as of 31 December 2022 and 31 December 2021.

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|-------------------------------|--------------------|--------------------|
| Cropex d.o.o. | | |
| Property, plant and equipment | 79 | 74 |
| Equity and reserves | 9,218 | 10,611 |
| Sales income | 11,387 | 9,874 |
| Loss for the financial year | (218) | 2,383 |

/i/ The company Plomin Holding d.o.o. in 2022, he has shares in the companies Velebit Pro Sol d.o.o. in the amount of HRK 49,386 thousand, the company OIE grupa d.o.o. in the amount of HRK 74,492 thousand and Jambrek Vinica d.o.o. in the amount of HRK 43,923 thousand.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Initial balance of assets at fair value through other comprehensive income | 276,465 | 233,315 |
| Changes in the fair value of assets | 43,121 | 43,150 |
| Closing balance of assets at fair value through other comprehensive income | 319,586 | 276,465 |

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

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Investments through other comprehensive income (equity securities) | | |
| Jadranski Naftovod d.d. | 318,488 | 275,303 |
| VIS d.d. | 3 | 3 |
| Đuro Đaković d.d. | 5 | 5 |
| Elektrometal d.d. | - | 40 |
| Konstruktor Inženjering d.d. – in bancrupcy | 233 | 233 |
| Helios Faros | 14 | 27 |
| Other | 843 | 854 |
| Total investments through other comprehensive income | 319,586 | 276,465 |

In 2022 and 2021, the fair valuation was made based on the notification of the Central Clearing Depository Company on the balance of the account as of 31 December. The market price of the share of Jadranski naftovod d.d. on 31 December 2022 was HRK 5,900, and on 31 December 2021, HRK 5,100. Through fair valuation of investments in Jadranski naftovod d.d. on 31 December 2022, the value of the investment increased by HRK 43,185 thousand, and on 31 December 2021, it increased by HRK 43,185 thousand. The effect of fair valuation in 2022 and 2021 was implemented through reserves.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

19. LONG-TERM LOANS GRANTED

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Receivables from housing loans /i/ | 1,991 | 2,515 |
| Receivables for granted loans - Male hidre d.o.o. | 23,399 | 1,805 |
| Receivables for loans granted to NPP Krško | 19 | 23 |
| Long-term portion | 25,409 | 4,343 |

/i/ Before 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 the newly established associated companies on 1 July 2002. The aforementioned receivables are presented in the consolidated financial statements at the discounted net present value. The liability to the state, which represents 65% of the value of the sold apartments, is shown in other long-term liabilities (note 33). Receivables are secured by mortgages on sold apartments.

20. OTHER FINANCIAL ASSETS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Share of HOPS d.o.o. in unrelated companies | 5,628 | 5,612 |
| | 5,628 | 5,612 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

21. OTHER NON-CURRENT RECEIVABLES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Trade receivables from energy efficiency projects - long-term portion | 66,980 | 50,893 |
| Other receivables | 15 | 29 |
| | 66,995 | 50,922 |

Receivables from customers of energy efficiency projects refer to energy efficiency projects carried out by HEP-ESCO d.o.o. for its clients. After the implementation of the projects, customers are issued an invoice for the total value of the project, which is repaid from savings, in monthly annuities. In order to secure investments in energy efficiency projects, a credit rating of potential clients is prepared, while the contract for the execution of the project obliges the clients to submit payment insurance instruments.

22. INVENTORIES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Fuel and chemicals | 805,365 | 207,767 |
| Strategic gas inventories | 2,097,739 | - |
| Electrical and mechanical materials | 713,385 | 620,587 |
| Spare parts | 208,091 | 209,111 |
| Building material | 17,095 | 12,944 |
| Wholesale gas supplies | 464,574 | 73,165 |
| Gas inventories under the Government Regulation | 200,544 | - |
| Stocks of CO2 emission units | 9,674 | 415,129 |
| Energy-saving in final consumption | 13,070 | 28,499 |
| Other inventories | 61,751 | 65,638 |
| Nuclear fuel stocks NPP Krško | 140,307 | 92,445 |
| Other material stocks NPP Krško | 116,463 | 119,910 |
| | 4,848,058 | 1,845,195 |
| Value adjustment of obsolete material and spare parts | (269,841) | (260,875) |
| | 4,578,217 | 1,584,320 |

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

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Balance at 1 January | 260,875 | 279,908 |
| Credited to and debited to the profit and loss for the year | 8,966 | (19,033) |
| Balance at 31 December | 269,841 | 260,875 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

23. TRADE RECEIVABLES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Electricity - economy | 2,013,605 | 1,652,080 |
| Electricity - households | 726,401 | 535,610 |
| Electricity - abroad | 361,813 | 121,997 |
| Električna energija – E filling stations | 312 | - |
| Thermal energy, gas and services | 1,043,171 | 796,394 |
| Trade receivables NPP Krško | 23,913 | 9,057 |
| Other | 125,320 | 100,915 |
| | 4,294,535 | 3,216,053 |
| Expected credit losses | (776,383) | (786,832) |
| TOTAL | 3,518,152 | 2,429,221 |

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

| 31 Dec 2022 | Undue | Up to 30 days | 31 – 60 days | 61 – 90 days | 91-180 days | 181-365 days | Over 365 days | Total |
|--|-----------|---------------|--------------|--------------|-------------|--------------|---------------|------------------|
| Gross book value Of trade receivables | 2,900,691 | 386,271 | 57,364 | 60,251 | 67,485 | 40,735 | 781,738 | 4,294,535 |
| Expected credit losses | (21,994) | (3,506) | (1,300) | (1,909) | (3,859) | (6,687) | (737,128) | (776,383) |
| 31 Dec 2021 | Undue | Up to 30 days | 31 – 60 days | 61 – 90 days | 91-180 days | 181-365 days | Over 365 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) |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

23. TRADE RECEIVABLES (continued)

The changes in impairment adjustments were as follows:

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|----------------------------------|--------------------|--------------------|
| Balance at 1 January | 786,832 | 752,712 |
| Change in expected credit losses | (73,451) | (43,347) |
| Write-off of receivables | 125,476 | 154,339 |
| Corrected receivables collected | (62,474) | (76,872) |
| Balance at 31 December | 776,383 | 786,832 |

24. OTHER CURRENT RECEIVABLES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Income tax receivables | 179,037 | 175,015 |
| VAT receivables | 122,537 | 165,602 |
| Advances for working capital | 4,110 | 310,644 |
| Receivables from the state for employees | 5,391 | 5,237 |
| Deposits and time deposits for a period longer than 3 months | 91,757 | 87,387 |
| Deposits and time deposits for a period longer than 3 months | 52,750 | 82,726 |
| NPP Krško | | |
| Receivables of HEP-ESCO d.o.o. from the beneficiaries of the energy efficiency project | 17,698 | 17,256 |
| Receivables for sold apartments | 2,250 | 3,154 |
| Receivables for invoiced RES - HROTE fee | - | 18,534 |
| Receivables for borrowed gas to joint users of LNG terminals | 147,002 | 166,596 |
| Receivables from the state - subsidies by Government Decision (gas and heat) | 228,127 | - |
| Other receivables NPP Krško | 4,724 | 4,262 |
| Other current receivables | 41,513 | 30,927 |
| | 896,896 | 1,067,340 |

The average weighted interest rate on deposits is 0.0203% (2021: 0.1193181%).

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Share in investment funds - foreign currency | - | 64,015 |
| Share in investment funds - kuna | - | 101,218 |
| Non-due income from swap transactions (bonds) | - | 2,730 |
| | - | 167,963 |

26. PREPAID EXPENSES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|-------------------------------------|--------------------|--------------------|
| Prepaid business expenses | 13,478 | 19,670 |
| Prepaid expenses-rental of capacity | 34,360 | 5,995 |
| Other accrued expenses | 1,409 | 158 |
| Accrued income | 3,319 | 5,058 |
| | 52,566 | 30,881 |

27. CASH AND CASH EQUIVALENTS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Kuna accounts | 2,269,080 | 2,315,468 |
| Foreign currency accounts | 411,169 | 565,512 |
| Allocated funds | 24,689 | 34,850 |
| Cash in hand - Kuna | 28 | 151 |
| Deposits with a maturity of up to 90 days | 231,694 | 717,299 |
| Daily time deposits | 90,127 | 534,988 |
| Transaction and foreign currency account - NPP Krško | 62,554 | 97,560 |
| | 3,089,341 | 4,265,828 |

Structure of foreign currency accounts by currency:

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--------------------|--------------------|--------------------|
| EUR | 393,288 | 552,930 |
| USD | 7,769 | 6,580 |
| KM | 5,026 | 2,940 |
| Other currencies | 5,086 | 3,062 |
| | 411,169 | 565,512 |

28. CAPITAL

The share capital is expressed in Croatian kunas 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 profit in the amount of HRK 946,722 thousand (2021: HRK 6,668,993 thousand) includes profit reserves in the amount of HRK 667,510 thousand (2021: HRK 613,124 thousand), retained profit in the amount of HRK 6,003,661 thousand (2021: HRK 5,038,509 thousand) and the loss of the current year attributed to the owner in the amount of HRK 5,724,449 thousand (2021: profit in the amount of HRK 1,017,360 thousand).

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

29. LIABILITIES UNDER ISSUED BONDS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Value of bonds abroad from 2015 | 3,643,785 | 3,645,961 |
| Exchange rate difference | 2,920 | (9,576) |
| Discount value | 5,973 | 7,400 |
| | 3,652,678 | 3,643,785 |
| Current maturity of bonds issued in 2015 | (3,652,678) | (3,643,785) |
| Bonds issued in 2015 | - | - |
| Long-term liabilities | | |
| Repurchase - investment in bonds 1 January | (196,062) | (141,928) |
| Repurchase - investment in bonds during the year | - | (54,676) |
| Exchange rate difference | (31,646) | 542 |
| Current maturity of receivables from purchased bonds | - | 196,062 |
| Payment of principal on purchased bonds | 227,708 | - |
| Total long-term liabilities for issued bonds | - | - |
| Current portions | 31 Dec 2022 | 31 Dec 2021 |
| Current portion of bonds issued in 2015 | 3,652,678 | 3,643,785 |
| Bond repayment | (3,652,678) | - |
| 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 Group issued corporate bonds in the amount of USD 550,000 thousand, with a discount, maturity of 7 years and a fixed interest rate of 5,875% per year. Bonds issued in 2015 were mostly used for the repurchase of 83.37% of the amount of bonds issued in 2012 (or repurchase of USD 416,852 thousand). The remaining amount of the issue was intended to finance the Group's business activities. The bond was listed on the market of the Luxembourg Stock Exchange and was actively traded. During 2022, the Group did not buy its own bonds on the secondary market. Bonds issued in 2015 with a final maturity of 23 October 2022 were fully repaid on the maturity date.

29. LIABILITIES UNDER ISSUED BONDS (continued)

Derivative financial instruments

Cross-currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the USD exchange rate, the Group concluded a Cross Currency Swap Agreement, which converted the USD liability under the bonds into a EUR liability, for the entire duration of the bonds, i.e. until the final 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 the currency risk and the recommendations of credit agencies on the importance of strategic management of currency risks in order to reduce their impact on the Group's business results.

The Group associates the fair value of derivative financial instruments with the calculation of Mark to market value - MTM, according to the official calculations of the banks, for the reporting period.

The positive value of MTM is recorded as a claim and 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 the derivative financial instrument, the receivable or liability in question will be cancelled at the expense of expenses or in favour of the Group's income.

With the final maturity of the bonds issued in 2015, the fair value of MTM was written off (on 31 December 2021 it was HRK 296,430 thousand).

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

30. LIABILITIES UNDER LONG-TERM AND SHORT TERM LOANS

| <i>in HRK '000</i> | Interest rates | 31 Dec 2022 | 31 Dec 2021 |
|--|------------------|--------------------|--------------------|
| Loans from domestic banks | Fixed / Variable | 10,295,280 | 300,630 |
| Loans from foreign banks | Fixed / Variable | 1,076,350 | 552,206 |
| Loans NPP Krško | Fixed | 141,893 | 157,297 |
| Total long-term loan liabilities | | 11,513,523 | 1,010,133 |
| Differentiation of loan fees | | (2,342) | (2,638) |
| Total long-term loan liabilities | | 11,511,181 | 1,007,495 |
| Current loan maturity | | (154,947) | (76,078) |
| Current maturity of long-term loans of NPP Krško | | (15,766) | (15,730) |
| Total current maturity of long-term loans | | (170,713) | (91,808) |
| Long-term maturity | | 11,340,468 | 915,687 |
| Short-term loan liabilities | | | |
| | | 31 Dec 2022 | 31 Dec 2021 |
| PBZ - HOPS d.d.- Revolving loan (6,7 mil €) | Variable | 50,089 | 50,365 |
| ESB - Factoring (HOPS d.d.) | Fixed | 68,093 | 49,487 |
| Total short-term loan liabilities | | 118,182 | 99,852 |

30. LIABILITIES UNDER LONG-TERM AND SHORT TERM LOANS (continued)

The Group contracted loans with domestic and foreign banks with applicable variable and fixed interest rates ranging from 0.4% to 4.29% in 2022.

In 2022, loans from domestic banks include loans from Privredna banka Zagreb d.d., Zagrebačka banka d.d., OTP banka d.d. and Club loans granted to HEP d.d. for securing strategic gas supplies and purchasing energy products.

In 2022, loans from foreign banks include loans from KFW, EBRD and EIB that were granted to HEP d.d.

In 2022, a loan from Privredna banka Zagreb d.d. was reported, which was approved to the company NPP Krško and 50% of the value of the said loan was shown on the date of the financial position report.

In 2022 reported were: the long-term loan of Erste&Steiermarkische Bank d.d., the short-term revolving loan of Privredna banka Zagreb d.d. and factoring from Erste&Steiermarkische Bank d.d. which were approved to HOPS d.d.

New sources of funding

To finance the investment plan and regular operations in 2022, the Group used its own funds and funds from loans in use.

On 29 March 2022, a loan agreement was signed between the company HOPS d.d. and Erste & Steiermarkische Bank d.d. in the amount of HRK 77,230 thousand for investments with amortizing repayment with a fixed interest rate of 0.4%.

On 31 May 2022, two loan agreements were signed with OTP banka in the total amount of HRK 1,314,000 thousand for general business purposes: HRK 929,000 thousand with a one-time repayment due on the fifth anniversary of the signing of the contract, at an interest rate of 0.62% and HRK 385,000 with amortizing repayment at a fixed interest rate of 0.42%.

On 4 July 2022, HEP d.d. signed an agreement on a medium-term revolving loan with HEP-Distributive System Operator d.o.o. in the amount of HRK 700,000 thousand for the purpose of more efficient management of the cash flows of Group members and ensuring faster realization of additional liquidity reserves.

On 25 July a long-term Club loan was signed with domestic commercial banks in the amount of up to EUR 400,000 thousand for the purpose of securing gas supplies on the territory of the Republic of Croatia with a one-time repayment at a variable interest rate of 6M Euribor + 0.90%, and a Club revolving loan in the amount of up to EUR 600,000 thousand for the purpose of securing the purchase of part of the energy sources in order to ensure a reliable and safe supply of energy in the territory of the Republic of Croatia at a variable interest rate of 6M Euribor + 1.15%.

On 8 November 2022, a loan agreement was signed with Erste & Steiermarkische Bank d.d. in the amount of EUR 100,000 thousand for general business purposes with a one-time repayment on the fifth anniversary of the signing of the contract at a variable interest rate of 6 M Euribor + 0.75%.

On 11 November 2022, the Agreement on a long-term foreign currency loan was signed with Privredna banka Zagreb d.d. in the amount of EUR 150,000 thousand for general business purposes with a one-time repayment on the fifth anniversary of the signing of the contract at a variable interest rate of 3 M Euribor + 1.13%.

As of 31 December 2022, the Group has two loans covered by guarantees from the Republic of Croatia, a guarantee that covers 100% of the liability under the long-term club loan of EUR 400,000 thousand and a guarantee that covers 80% of the obligations under the club revolving loan of EUR 600,000 thousand.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

30. LIABILITIES UNDER LONG-TERM AND SHORT TERM LOANS (continued)

Loans in use

As of 31 December 2022, the Group has long-term loans in use with the development banks EBRD and EIB for financing the KKE EL-TO Zagreb construction project, a long-term Club loan of EUR 400,000 thousand to secure strategic gas supplies, a Club revolving loan of EUR 600,000 for the purchase of electricity, gas and LNG, revolving loan from HEP-Operator distribucijskog sustava d.o.o. and loans from Privredna banka Zagreb d.d. and Erste&Steiermarkische Bank d.d..

The use of loans from the development banks EBRD and EIB was contracted until 24 January 2023, and at the end of 2022, an extension of the deadline for the use of loan funds was requested, and the extension was approved until 24 January 2024, in accordance with the new dynamics of project implementation.

As of 31 December 2022, the balance of used loans of the Group amounts to HRK 6,910,534 thousand.

As of 31 December 2022, the Group has at its disposal an unused amount of HRK 3,487,076 thousand.

A repayment plan for the principals of long-term loans due in the next five years:

| | <i>in HRK '000</i> |
|------------|-------------------------------|
| 2023 | 170,713 |
| 2024 | 6,472,249 |
| 2025 | 191,683 |
| 2026 | 2,858,562 |
| 2027 | 1,103,714 |
| After 2027 | 714,260 |
| | 11,511,181 |

Loans from domestic banks are secured by promissory notes except for loans with Zagrebačka banka d.d., Privredna banka Zagreb d.d. and Erste & Steiermarkische Bank d.d. where financial guarantees have been contracted in the form of financial indicators according to which the Group is obliged to meet certain prescribed levels of indicators on an annual basis.

For loans from foreign banks EBRD and EIB, financial guarantees have been agreed 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 in relation to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net debt to net tangible assets.

The main goal of the Group related to the risks carried by financial indicators is to protect the Group from possible violations of contractual obligations, i.e. early maturities of contracted credit liabilities. The agreed financial indicators are monitored and calculated on the basis of annual and semi-annual financial statements.

The Group prepares preliminary calculations of financial indicators based on the projected balance sheet and profit and loss account in the coming 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 business year show the possibility of exceeding a particular financial indicator, the Group informs the bank of the possibility of a breach of the contract and requests the bank's consent in a timely manner for a "waiver", i.e. exemption from the calculation of financial indicators. In the event that the bank does not approve the waiver, a possible scenario is early maturity of the debt, which represents a liquidity risk for the Group.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

30. LIABILITIES UNDER LONG-TERM AND SHORT TERM LOANS (continued)

The following is an overview of long-term loans expressed in foreign currencies (in '000):

| Currency | 31 Dec 2022 | 31 Dec 2021 |
|-----------------|--------------------|--------------------|
| EUR | 995,378 | 94,384 |

In order to ensure liquidity reserves in the coming medium-term period, the Group has concluded multi-purpose framework agreements with domestic banks on 31 December 2022, in the total amount of up to HRK 809,282 thousand.

The Group can use funds from the aforementioned frameworks for short-term loans, as well as issuing guarantees, letters of credit, and letters of intent in accordance with the needs of the Group's companies. During 2022, short-term lines were used exclusively for the purposes of issuing guarantees, letters of credit and letters of intent, and business was conducted equally with all banks.

From the previously mentioned medium-term multipurpose frameworks, the Group did not need to conclude short-term loans during 2022.

As of 31 December 2022, the total amount of funds available from the short-term framework is HRK 461,323 thousand.

31. LEASE LIABILITIES

| in HRK '000 | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Long-term liabilities for rental properties | 10,647 | 9,697 |
| Long-term liabilities for car rental | 3,459 | 842 |
| Long-term liabilities for equipment rental | - | 344 |
| | 14,106 | 10,883 |
| Current maturity of long-term lease liabilities | 7,473 | 7,554 |
| | 21,579 | 18,437 |

The lease liability is calculated according to the present value of the agreed future payments to the lessor during the term of the lease, less a discount rate that is determined in relation to the rate inherent in the lease, unless (as is usually the case) it is not easy to determine, in which case uses the Group's incremental borrowing rate 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 rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged for the term of the lease. Other variable lease payments represent an expense in the period to which it relates.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

32. PROVISIONS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Provisions for litigation | 274,161 | 313,542 |
| Provisions for retirement benefits | 685,894 | 707,117 |
| Provisions for severance pay and jubilee benefits NPP Krško | 48,472 | 45,546 |
| Provisions for jubilee awards | 36,046 | 43,153 |
| Provisions for decommissioning of the thermal power plant | 245,287 | 230,256 |
| Provision for delivered electricity from wind farms | 21,631 | 21,631 |
| Other provisions - NPP Krško | 910 | 1,033 |
| Provisions for volatility - LNG | 97,915 | 43,345 |
| | 1,410,316 | 1,405,623 |

The amount of provisions for the costs of decommissioning thermal power plants in the amount of HRK 245,287 thousand (HRK 230,256 thousand in 2021) represents the discounted value of the estimated cost of decommissioning the Group's thermal power plants. The periods are determined for each object separately and range from 2026 to 2040.

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

| <i>in HRK '000</i> | Provisions for litigation | Provisions for severance pay | Provisions for jubilee awards | Provisions for thermal power plant decommissioning | Other | Total |
|---|--|---|--|---|----------------|------------------|
| On 31 Dec 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 Dec 2021 | 313,542 | 752,663 | 43,153 | 230,256 | 66,009 | 1,405,623 |
| Additional provisions | 3,825 | 17,010 | - | 15,031 | 54,570 | 90,436 |
| Reduction of provisions based on payment | - | (35,307) | (5,447) | - | - | (40,754) |
| Reduction of provisions based on estimates | (43,206) | - | (1,660) | - | (123) | (44,989) |
| On 31 Dec 2022 | 274,161 | 734,366 | 36,046 | 245,287 | 120,456 | 1,410,316 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

32. PROVISIONS (continued)

Provisions for litigation

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

In 2022, there were no changes that would indicate the need to change the amount of the provision.

The Company's other major disputes relate to the Rijeka-Zagreb highway, where funds have been reserved in the amount of 50% of the value of the dispute in the amount of HRK 10,203 thousand. Against the Company HEP - Proizvodnja d.o.o. there are several court cases for which the Company has made a reservation. The most significant of them are: the lawsuit for compensation for damage caused by the fire in HPP Dubrovnik in the amount of HRK 15 million, the lawsuit for compensation for damage in HPP Lešće in the amount of HRK 10 million, the lawsuit with the municipality of Tomislavgrad in the amount of HRK 16 million.

Provisions for retirement and jubilee awards

Changes in the present value of defined liabilities based on the income of employees in the current period are presented below:

| <i>in HRK '000</i> | Severance payments | Jubilee awards | Total |
|-------------------------------------|-------------------------------|-----------------------|----------------|
| On 1 January 2021 | 708,638 | 43,184 | 751,822 |
| NPP Krško | 2,619 | - | 2,619 |
| Total as at 1 January 2021 | 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 |
| Running costs | 29,172 | 2,332 | 31,504 |
| Interest expense | 21,341 | 1,097 | 22,438 |
| Paid income | (35,307) | (5,447) | (40,754) |
| Past labour costs | 3,823 | 256 | 4,079 |
| Actuarial (gains / losses) | (40,252) | (5,345) | (45,597) |
| On 31 December 2022 | 731,440 | 36,046 | 767,486 |
| NPP Krško | 2,926 | - | 2,926 |
| Total as at 31 December 2022 | 734,366 | 36,046 | 770,412 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

32. PROVISIONS (continued)

The following assumptions were used when making the calculations:

- The employment termination rate ranges from 0% to 8.7%, and is based on statistical data on employee turnover in the Group over the last 5 years
- Probability of death by age and gender is derived from the Mortality Tables for Croatia in the period 2010-2012, published by the State Statistical Office of the Republic of Croatia. It is assumed that the Group's employees are included in the average population in terms of mortality and health status.
- Planned annual salary growth is 4.5%.
- The following discount rates were applied to calculate the present value of the liability:
 - 3.80% (HEP- Opskrba d.o.o., HEP Elektra d.o.o., HEP Plin d.o.o., HEP Upravljanje imovinom d.o.o., HEP NOC d.o.o.)
 - 3.7% (HEP-ESCO d.o.o., HEP Trgovina d.o.o., LNG Hrvatska d.o.o.)
 - 3.6% (HEP-VHS Zaprešić d.o.o.)
 - 3.5% (HEP d.o.d., HEP Toplinarstvo d.o.o., HEP Telekomunikacije d.o.o.)
 - 3.3% (HEP-Proizvodnja d.o.o., HEP ODS d.o.o.)

33. OTHER LONG-TERM LIABILITIES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Deferred income for property financed by others | 7,132,514 | 6,473,115 |
| Liabilities for assets financed from clearing debt | 850,863 | 800,215 |
| Liabilities to the state | 3,070 | 3,992 |
| Other long-term liabilities | 40,192 | 36,261 |
| | 8,026,639 | 7,313,583 |

/i/ Deferred income relates to revenues for assets received or assets financed from the connection fee. Income from this asset is recognized simultaneously with the depreciation of the tangible asset to which it relates.

/ii/ As of 31 December 2022, the Group has a stated liability for clearing debt in the amount of HRK 850,863 thousand (2021: HRK 800,215 thousand), which relates to payment from letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation from 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from the interbank agreement. The process of negotiations regarding the settlement of the assumed debt between the competent ministry and the Group is ongoing.

/iii/ Long-term liabilities to the state in the amount of HRK 3,070 thousand in 2022 (2021: HRK 3,992 thousand) refer 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. According to the law, the Group and its subsidiaries are not obliged to remit funds before collecting them from employees.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

34. TRADE PAYABLES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---------------------------------|--------------------|--------------------|
| Accounts payable in the country | 3,493,476 | 1,690,270 |
| Accounts payable outside EU | 238,446 | 823,644 |
| Accounts payable within EU | 713,800 | 181,499 |
| Trade payables - NPP Krško | 81,116 | 31,770 |
| TOTAL | 4,526,838 | 2,727,183 |

35. LIABILITIES FOR TAXES AND CONTRIBUTIONS

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| VAT liabilities | 107,810 | 120,229 |
| Utility and other fees | 49,202 | 21,447 |
| Contributions on salaries | 22,578 | 22,925 |
| Taxes and contributions on material rights of employees | 8,512 | 7,976 |
| Other | 4,748 | 3,324 |
| TOTAL | 192,850 | 175,901 |

36. LIABILITIES TO EMPLOYEES

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|--|--------------------|--------------------|
| Net salaries | 98,151 | 99,717 |
| Liabilities for contributions and taxes | 41,497 | 41,950 |
| Liabilities for severance pay for retirement | 8,058 | 7,488 |
| Wage liabilities NPP Krško | 17,414 | 12,189 |
| Other | 21,363 | 15,931 |
| TOTAL | 186,483 | 177,275 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

37. ACCRUED EXPENSES AND DEFERRED INCOME

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Deferred revenue LNG from subsidies | 1,361,133 | 1,449,659 |
| Accrued expenses for CO2 emissions | 1,755,756 | 810,011 |
| Deferred income from EU fund donations | 10,373 | 10,345 |
| Accrued expenses of unused vacations | 88,570 | 85,410 |
| Accrued income from the sale of electricity to households | 34,449 | 46,231 |
| Purchase of gas on the financial market (stock exchange) | - | 181,502 |
| Other accrued expenses | 48,014 | 4,522 |
| | 3,298,295 | 2,587,680 |

HEP's thermal energy plants with a nominal input heat power greater than 20 MW are from 1 January 2013 in the European System of Greenhouse Gas Emission Units (EU-ETS). 8 HEP accounts have been opened in the EU Registry - TE Plomin, TE Rijeka, TE-TO Zagreb, EL-TO Zagreb, TE-TO Sisak, TE-TO Osijek and KTE Jertovec. The Osijek HEP-Toplinarstvo plant was excluded from the EU-ETS on the basis of Article 40 of the Act on Climate Change and Ozone Layer Protection (Official Gazette 127/19).

During the 3rd trading period, the price of emission units changed and increased significantly until the end of the period that ended on 31 January 2020. The growth in the price of emission units continued at the beginning of the 4th trading period and, in accordance with the EU policy, which aims to significantly reduce greenhouse gas emissions gases by 2030, i.e. to completely decarbonize 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 that there is no free allocation of emission units for produced electricity continues, but for now until 2026, the European Commission will continue to allocate free emission units to heat energy producers for part of the produced thermal energy, based on the report that HEP submits to the competent Ministry for Environmental Protection.

The increase in the price of emission units affects the production price of energy, and the operation of individual thermal energy plants depends on it, and the lack of energy produced from TE and TE-TO is compensated by production from other sources, depending on meteorological conditions and/or imports. The Group manages the risk of volatility in the prices of emission units by choosing the method of their purchase, in order to define the quantities and prices for a certain period in the future.

HEP's EU-ETS plants submitted to the Register of EU emission units in the quantities of verified emissions for the years 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2022.

Pursuant to the aforementioned, the costs of purchasing greenhouse gas emissions consist of the amount of emitted CO2 (eq) and the unit price of emission units, which the Group calculates on passive time accruals (calculated costs) and expenses of the period in the year in which the emission of greenhouse gases occurred.

The calculated income from the sale of electricity to households in the amount of HRK 34,449 thousand in 2022 (HRK 46,231 thousand in 2021) is based on the calculation of the correction of income from households obtained by calculating the logarithmic curve. The correction of household income on 31 December 2022 was obtained by calculating a logarithmic curve using losses in the network of 7.11%, while for the year ended on 31 December 2021, the stated percentage of losses used in the calculation was 7.71%. In 2022, the result of the correction is a decrease in income in the amount of HRK 11,782 thousand compared to 2021, and after the aforementioned correction, a liability in the amount of HRK 34,449 thousand was shown. In 2021, the result was a decrease in income in the amount of HRK 84,571 thousand compared to 2020, and a liability in the amount of HRK 46,231 thousand was reported.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

38. OTHER SHORT-TERM LIABILITIES

in HRK '000

| | 31 Dec 2022 | 31 Dec 2021 |
|---|--------------------|--------------------|
| Liabilities for received advances for connections | 937,971 | 729,922 |
| Liabilities for other advances received | 398,110 | 243,882 |
| Interest liabilities | 59,832 | 17,647 |
| Liabilities for calculated joint compensation | 17,552 | 15,635 |
| Liabilities for fees for renewable sources | 244,056 | 136,294 |
| Liabilities NPP Krško | 13,792 | 36,095 |
| Other liabilities | 22,254 | 23,809 |
| | 1,693,567 | 1,203,284 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

39. RELATED PARTY TRANSACTIONS

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 a joint asset (joint operations), due to the fact that NPP Krško is a separate legal entity, here we report transactions between NPP Krško and the Company.

The electricity produced 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 as well as income and expenses with related companies are presented in the following table:

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---------------------------------------|--------------------|--------------------|
| NPP Krško | | |
| Liabilities for purchased electricity | 35,651 | 56,962 |
| Costs of purchased electricity | 693,737 | 664,839 |

Remuneration of the Management Board is explained in Note 8.

| <i>in HRK '000</i> | Revenues | | Expenditures | |
|--|------------------|----------------|---------------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Companies that are partially owned by the State | | | | |
| Companies of the Croatian Railways Group | 152,141 | 109,806 | 233 | 14 |
| Plinacro d.o.o. | 4,894 | 3,382 | 121,235 | 83,707 |
| Hrvatska pošta d.d. | 16,279 | 16,727 | 58,755 | 45,088 |
| Hrvatske šume d.o.o. | 6,170 | 5,642 | 15,128 | 7,541 |
| Jadrolinija d.o.o. | 3,497 | 1,705 | 525 | 544 |
| Narodne novine d.d. | 3,198 | 2,224 | 2,142 | 1,938 |
| Croatian Radio Television | 24,511 | 13,433 | 1,670 | 1,614 |
| Plovput d.d. | 1,181 | 112 | 1,073 | 287 |
| Croatia Airlines d.d. | - | 827 | - | 12 |
| Ministry of Defense of the Republic of Croatia | 18,950 | 21,127 | - | - |
| Ministry of Internal Affairs | 40,673 | 28,095 | 11 | 5 |
| Primary and secondary schools | 64,914 | 51,057 | - | 4 |
| Judicial institutions | 13,035 | 7,767 | 15 | 28 |
| Universities and polytechnics | 54,781 | 26,985 | 1,114 | 992 |
| Legislative bodies of the Republic of Croatia | 50,080 | 20,781 | 1,590 | 4,492 |
| Health institution | 132,698 | 132,920 | 577 | 638 |
| HROTE d.o.o. | 450,189 | 380,492 | 694,770 | 717,589 |
| Others | - | - | 2,573 | - |
| TOTAL | 1,037,191 | 823,082 | 901,411 | 864,493 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

39. RELATED PARTY TRANSACTIONS (continued)

| <i>in HRK '000</i> | Receivables | | Liabilities | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 31 Dec 2022 | 31 Dec 2022 | 31 Dec 2022 | 31 Dec 2021 |
| Companies that are partially owned by the State | | | | |
| Companies of the Hrvatske Željeznica group | 36,573 | 27,999 | 3 | - |
| Plinacro d.o.o. | 971 | 1,006 | 84,193 | 13,475 |
| Hrvatska pošta d.d. | 1,428 | 726 | 15,156 | 8,822 |
| Hrvatske šume d.o.o. | 843 | 1,001 | 3,363 | 3,005 |
| Jadrolinija d.o.o. | 161 | 231 | 27 | 37 |
| Narodne novine d.d. | 658 | 733 | 209 | 329 |
| Croatian Radio Television | 3,239 | 2,283 | 52 | 11 |
| Plovput d.d. | 149 | 126 | 48 | 32 |
| Croatia Airlines d.d. | | 111 | - | - |
| Ministry of Defense of the Republic of Croatia | 2,068 | 1,691 | - | - |
| Ministry of Internal Affairs | 5,699 | 4,861 | - | - |
| Primary and secondary schools | 10,731 | 12,362 | - | - |
| Judicial institutions | 2,099 | 1,119 | - | - |
| Universities and polytechnics | 7,198 | 4,645 | - | - |
| Legislative bodies of the Republic of Croatia | 2,179 | 3,023 | - | - |
| Health institution | 36,637 | 57,498 | - | - |
| HROTE d.o.o. | 4,523 | 82,649 | 96,087 | 80,383 |
| TOTAL | 115,156 | 202,064 | 199,138 | 106,094 |

40. CONTINGENCIES AND COMMITMENTS

Disputes

The Group booked provisions for court cases that were estimated to be unlikely to be resolved in favour of HEP d.d. and 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-operating assets on the territory of Bosnia and Herzegovina and Montenegro in the amount of HRK 722 thousand, which are excluded from the net asset value.

Operational liabilities

As part of regular investment activities, the Group concluded contracts on 31 December 2022, according to which investments in various facilities and equipment were started, but not completed. In 2022, the value of contracted unfinished works for the most significant projects amounted to HRK 2,696,585 thousand (2021: HRK 3,066,835 thousand).

Environmental Protection

The Group continuously monitors and analyzes the impact of its business processes on the environment. The most important indicators of such impacts are emissions of polluting substances into the air and the amount of production waste generated, which the Group reports on in a timely and objective manner to competent institutions, local self-government units and the interested public. The Group reports on its impacts on the environment, economy and society in the framework of non-financial sustainability reports prepared according to the guidelines of the GRI-Global Reporting Initiative, and since 2017 according to the GRI standard guidelines. Sustainability reports have been published since 2015 on the HEP Group website <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401>. Employees engaged in nature and environmental protection are additionally trained at seminars and workshops, where they are informed about the obligations and activities arising from the provisions of legal regulations in the field of nature and environmental protection. All of HEP's thermal energy plants with a nominal input heat output of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry for Environmental Protection. By the decision of the Company's Management Board in 2012, a trading system for greenhouse gas emission units was established, and the Republic of Croatia and HEP joined the European System for Trading Greenhouse Gas Emission Units (EU-ETS) on 1 January 2013. The Croatian Environment and Nature Agency (as of 1 January 2019 attached to the Ministry of Environmental Protection and Energy, and now the Ministry of Energy and Sustainable Development) opened, based on the Company's request, nine plant operator accounts in the EU registry. The Osijek HEP-Toplinarstvo plant was excluded from the EU-ETS based on Article 40 of the Act on Climate Change and Ozone Layer Protection (Official Gazette 127/19).

The Group successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2021, and for 2022, data on verified CO₂ emissions were entered, which were also confirmed by verifiers. Based on the confirmation of the verifier, HEP should transfer the emission units to the accounts in the EU Registry no later than 30 April 2023. The European Commission provided HEP's thermal power plants - heating plants - TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek and TE-TO Sisak with free emission units for the production of thermal energy that they transfer to the central heating system (CTS) and the energy that they transfer 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 deliver to the so-called non-carbon leakage plants, i.e. plants for which this risk does not exist. Free emission units are allocated 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 change depending on the production of thermal energy for the previous year in accordance with the reports submitted by the operators to the competent ministry. In March 2023, HEP returned 2,700 excessively allocated free emission units to the TE-TO Sisak plant based on the Decision of the European Commission for the years 2021 and 2022. HEP reports on the amounts of free emission units allocated in the framework of non-financial reports <http://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-projmene/emisije-staklenickih-plinova/158](https://www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-projmene/emisije-staklenickih-plinova/158).

On 1 January 2021, the fourth period of the EU-ETS began, which will last until 2030.

40. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

In 2022, the 2021 Business and Sustainability Report for the Group was completed according to the guidelines of the Global Reporting Initiative Standard (GRI Standard). The sustainability report was published on the Company's website in Croatian and English. From 2020, the non-financial sustainability report is not published as an independent report but integrated with the business report and is called the Business and Sustainability Report. In order to reduce the amount of waste and save natural resources, the report was not printed, but was published only in digital form.

Report on the status of the preparation of the non-financial report on the sustainability of the HEP Group for the year 2022

The preparation of the Report on the operations and sustainability of the Group for 2022 is underway. In accordance with the provisions of the current Accounting Act, the non-financial report will be published on HEP's website within the given deadlines. The report will be published like the previous eight sustainability reports at the following link <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401>. In the report for the year 2022, in accordance with Regulation (EU) 2020/852 on the establishment of a framework for facilitating sustainable investments and amending Regulation (EU) 2019/2088 and delegated regulations, data on the shares of turnover, CAPEX and OPEX related to sustainable activities, and are applicable to the Group. The practice of publishing a consolidated business report and a non-financial sustainability report, which began in 2020, will continue.

In preparing the report, the group uses the guidelines of the Global Reporting Initiative Standard (GRI Standard) and the indicators in the specified standard - general and standard indicators and a sectoral supplement for the field of energy.

Outline content of the sustainability report for 2022:

- 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.

40. CONTINGENCIES AND COMMITMENTS (continued)

Reporting according to Environmental, Social and Governance Criteria ("ESG Criteria")

- a further step forward in the excellence of non-financial reporting is reporting according to the so-called environmental, social and management criteria. Environmental, Social and Governance Criteria ("ESG criteria") on the basis of which companies receive an evaluation of the so-called ESG rating ("ESG rating") and can negotiate cheaper borrowing on the capital market (lower interest rates) and increase the Company's reputation in the public
- in cooperation with the Finance Department, market research was done and companies were found that can evaluate companies according to ESG criteria, materials were prepared for the Board, a decision was made and the method of selecting companies for EDG rating is currently being determined

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, ISO 50001: 2018 and ISO 45001:2018 was carried out and confirmed by the certification house TÜV Nord Adriatic 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-Opisrba 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.

40. CONTINGENCIES AND COMMITMENTS (continued)

- 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 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 50001:2018 which is confirmed by TÜV NORD Adriatic d.o.o.
- In HEP Toplinarstvo d.o.o. in October 2021, the recertification of the quality management and environmental protection system and the certification of the energy management system in accordance with the norms ISO 9001:2015, ISO 14001:2015 and ISO 50001:2018 were successfully performed.

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).

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.

Notes to the consolidated financial statements (continued)
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41. SUBSIDIARIES

As at 31 December 2022, the Company owned the following subsidiaries:

| Subsidiary | Country | Ownership share (%) | Core Business |
|---|----------------|----------------------------|---|
| HEP-Proizvodnja d.o.o. | Croatia | 100 | Production of electricity and heat |
| Hrvatski operator prijenosnog sustava d.d. | Croatia | 100 | Electricity transmission |
| HEP-Operator distribucijskog sustava d.o.o. | Croatia | 100 | Distribution of electricity |
| 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 of energy efficiency projects |
| Plomin Holding d.o.o. | Croatia | 100 | Development of the infrastructure of the surrounding area of Plomin |
| CS Buško Blato d.o.o. | BiH | 100 | Maintenance of hydropower plant equipment |
| HEP-Upravljanje imovinom d.o.o. | Croatia | 100 | Rest and recreation services |
| HEP NOC Velika | Croatia | 100 | Accommodation and education services |
| HEP-Trgovina d.o.o. | Croatia | 100 | Electricity trade and optimization of power plant operation |
| HEP Energija d.o.o. Ljubljana | Slovenia | 100 | Electricity trading |
| HEP Energija d.o.o. Mostar | BIH | 100 | Electricity trading |
| HEP Energija sh.p.k. | Kosovo | 100 | Electricity trading |
| HEP Energija d.o.o. Srbija | R Serbia | 100 | Electricity trading |
| HEP-Telekomunikacije d.o.o. | Croatia | 100 | Telecommunications jobs |
| HEP-VHS Zaprešić d.o.o. | Croatia | 100 | Design and construction of a multipurpose hydrotechnical 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 | Business with liquefied natural gas |
| Nuklearna elektrana Krško d.o.o. | Slovenia | 50 | Production of electricity |
| Peharda izgradnja d.o.o. | Croatia | 100 | Construction of residential and non-residential buildings |

Most of the listed subsidiaries were established within the framework of the reorganization and restructuring of the core business according to the new energy laws that entered into force on 1 January 2002 (note 1).

During 2021, the following companies were acquired in the Group: GP Krapina d.o.o. whose exclusive owner is HEP Plin d.o.o. from March 2021 and Darkom DP d.o.o. whose exclusive owner is HEP Plin d.o.o. from June 2021. Company 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. After implementing the recapitalization, Plinacro d.o.o. has business shares representing 25% of ownership and HEP d.d. 75% ownership.

Company GP Krapina d.o.o. and Darkom DP d.o.o. were merged with HEP Plin d.o.o. in January 2022. In January 2022, the company Peharda izgradnja d.o.o. was acquired. whose exclusive owner is Plomin Holding d.o.o. In May 2022, the company Pakrac plin d.o.o. was acquired. whose exclusive owner is the company HEP Plin d.o.o. In November 2022, the company Pakrac plin d.o.o. was merged with HEP Plin d.o.o.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

42. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages capital to ensure that the Group will be able to continue with an unlimited life of operations while at the same time increasing the return to owners through optimizing the ratio of debt to equity.

The structure of the Group's sources of financing consists of debt, which includes loans and issued bonds presented in notes 29 and 30, cash and cash equivalents, and capital attributable to owners, which consists of share capital, legal and other reserves and retained earnings.

Debt indicator

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

| <i>in HRK '000</i> | 31 Dec 2022 | 31 Dec 2021 |
|---------------------------------|--------------------|--------------------|
| Debt | 11,650,942 | 4,470,762 |
| Cash and cash equivalents | (3,089,341) | (4,265,828) |
| Net debt | 8,561,601 | 204,934 |
| Capital | 20,906,279 | 26,591,974 |
| Net debt to equity ratio | 40.95% | 1% |

Categories of financial instruments

| | 31 Dec 2022 | 31 Dec 2021 |
|--------------------|--------------------|--------------------|
| <i>in HRK '000</i> | | |

Financial assets

| | | |
|---|-----------|-----------|
| Financial assets at fair value through other comprehensive income | 319,586 | 276,465 |
| Trade receivables | 3,518,152 | 2,429,221 |
| Cash and cash equivalents | 3,089,341 | 4,265,828 |
| Loans given | 169,916 | 174,456 |

Financial liabilities

| | | |
|-----------------------------|------------|-----------|
| Long-term loan liabilities | 11,511,181 | 1,007,495 |
| Short-term loan liabilities | 118,182 | 99,852 |
| Trade payables | 4,526,838 | 2,727,183 |
| Lease liability | 21,579 | 18,437 |

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

42. FINANCIAL RISK MANAGEMENT (continued)

Objectives of financial risk management

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

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

Currency risk management

The Group carries out certain transactions denominated in foreign currencies, on the basis of which it is exposed to changes in the exchange rate of foreign currencies. Currency exposure is managed within approved policy parameters through the use of currency exchange contracts.

The book value of the Group's cash assets and liabilities denominated in foreign currency on the reporting date is as follows:

| <i>In '000</i> | Assets | | Liabilities | |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 Dec 2022 | 31 Dec 2021 | 31 Dec 2022 | 31 Dec 2021 |
| European Union (EUR) | 210,383 | 231,567 | 1,272,237 | 714,582 |
| USD | 1,100 | 33,485 | 120,451 | 143,221 |

Foreign currency sensitivity analysis

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

| <i>in HRK '000</i> | 2022 | 2021 |
|---|-------------|-------------|
| Impact of changes in the EUR exchange rate | | |
| Profit or loss | (800,054) | (363,091) |
| Impact of changes in the USD exchange rate | | |
| Profit or loss | (84,310) | (72,903) |

42. FINANCIAL RISK MANAGEMENT (continued)

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.

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:

- The loss for the year ending 31 December 2022 would increase by the amount of HRK 33,488 thousand (2021: profit would decrease by HRK 1,842 thousand), based on interest rate risk exposure. This is mainly attributable to the Group's interest rate exposure on floating rate loans; 57.59% of the Group's debt is at a variable interest rate (2021: 8.18%)
- The sensitivity of the Group to the interest rate increased during the current period due to the increase in the share of loans contracted at a variable interest rate in the total debt and due to the increase in reference interest rates on the market

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

42. 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.

| <i>in HRK '000</i> | Average weighted effective interest rate % | Up to 1 month | 1 – 3 months | 3 months – 1 year | 1 – 5 years | over 5 years | Total |
|------------------------------|--|------------------|-----------------|----------------------|-------------------|-----------------|-------------------|
| 31 December 2022 | | | | | | | |
| Loan liabilities | 2.46% | 35,040 | 78,795 | 414,527 | 10,898,646 | 778,438 | 12,205,446 |
| Trade payables | | 3,191,990 | 714,737 | 620,111 | - | - | 4,526,838 |
| Lease liabilities | | 735 | 1,382 | 7,311 | 10,002 | 2,149 | 21,579 |
| Total | | 3,227,765 | 794,914 | 1,041,949 | 10,908,648 | 780,587 | 16,753,863 |
| 31 December 2021 | | | | | | | |
| Liabilities for issued bonds | 4.851% | - | - | 3,622,664 | - | - | 3,622,664 |
| Loan liabilities | 1.12% | 23,841 | 8,649 | 70,444 | 628,621 | 336,628 | 1,068,183 |
| Trade payables | | 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 |

The Group has access to funding sources. The total unused amount at the end of the reporting period is HRK 3,487,076 thousand. The Group expects to settle its other obligations from operating cash flows, inflows from overdue financial assets and from sources of financing.

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.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

42. 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 canceled at the expense of expenses or in favour of income of the Group.

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

| <i>in HRK '000</i> | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|----------------|
| 31 Dec 2022 | | | | |
| Financial assets at fair value through other comprehensive income | 319,586 | - | - | 319,586 |
| Investment property | - | 433,103 | - | 433,103 |
| 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 | 167,963 | - | - | 165,233 |
| Investment property | - | 367,970 | - | 367,970 |

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

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2022

43. BUSINESS COMBINATIONS

On 28 January 2022, the Group acquired 100 per cent of shares and voting rights in the company Peharda izgradnja d.o.o. by which the Group gained control and the mentioned company became a subsidiary. The total consideration for the acquisition is HRK 8,554 thousand. On 28 May 2022, the Group acquired 100 per cent of the shares and voting rights in the company Pakrac plin d.o.o. by which the Group gained control and the mentioned company became a subsidiary. The total consideration for the acquisition is HRK 3,000 thousand. On 31 July 2022, the share in the company E.P. Korlat d.o.o. was increased. In November 2022, the company Pakrac plin d.o.o. was merged with HEP Plin d.o.o. The total acquisition fee refers to the following items:

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

The transaction had the following effects:

| <i>in HRK '000</i> | Consideration for acquisition | Fair value of net assets | Goodwill |
|--------------------------|--|-------------------------------------|-----------------|
| Pakrac plin d.o.o. | 3,000 | 4,760 | (1,760) |
| E.P. Korlat d.o.o. | 49,234 | 9 | 49,225 |
| Peharda izgradnja d.o.o. | 8,554 | 11,333 | (2,779) |

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

| <i>in HRK '000</i> | Peharda izgradnja d.o.o. | Pakrac plin d.o.o. | E.P. Korlat d.o.o. |
|-------------------------------|---|-------------------------------|-------------------------------|
| Property, plant and equipment | 10,365 | 3,828 | 10 |
| Inventories | - | 113 | - |
| Trade receivables | 15 | 683 | - |
| Other receivables | 96 | 19 | 6 |
| Other assets | 1,074 | - | - |
| Cash and cash equivalents | 103 | 317 | 12 |
| Trade payables | 71 | 117 | 19 |
| Liabilities to employees | - | 55 | - |
| Other short-term liabilities | 249 | 28 | - |
| Net assets | 11,333 | 4,760 | 9 |
| Acquisition cost | 8,554 | 3,000 | 49,234 |
| Goodwill | (2,779) | (1,760) | 49,225 |

44. OTHER DISCLOSURES

The contracted services for the statutory audit of the financial statements of the Group's companies for 2022 were contracted in the amount of HRK 1,220 thousand (2021: HRK 1,550 thousand), and the services related to the review of abridged reports on financial information for the half-year (30 June 2022) were contracted in the amount of HRK 142 thousand.

The agreed tax consulting fee for 2022 is HRK 150,000 (2021: HRK 150,000).

45. EVENTS AFTER THE REPORTING DATE

REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET

On 16 March 2023, the Government of the Republic of Croatia adopted the Regulation on elimination of disturbances in the domestic energy market (Official Gazette 31/23; "new Regulation") which, due to disturbances in the domestic energy market, regulates special measures for:

- electricity trade, the method and conditions of price formation for certain categories of electricity customers, supervision over the application of the prices determined by this Regulation in the period from 1 April 2023 to 30 September 2023
- the method and conditions of price formation for certain categories of thermal energy buyers, supervision over the application of prices determined by this Regulation in the period from 1 April 2023 to 31 March 2024,
- regulate special measures for gas trade, the method and conditions of gas price formation, ensuring conditions for the security of gas supply for certain categories of gas buyers, and special conditions for performing energy activities with gas in the period from 1 April 2023 to 31 March 2024,

The General Assembly of HEP d.d. is authorized to ensure the implementation of measures in accordance with Art. 6, paragraph 5 of the new Regulation.

/i/ Electricity

Special measures for trade and the formation of electricity prices are prescribed for the period from 1 April to 30 September 2023.

Electricity prices are determined by the Regulation as shown in the table below:

| Category | | Consumption ¹ | Price | Tariff model | Tariff (high/low) | EUR/kWh |
|------------|---|--------------------------|--|---------------|-------------------|----------|
| HOUSEHOLDS | | < 2,5 MWh ² | based on the tariff items that apply from 1 April 2022 | single tariff | JT | 0,070276 |
| | | | | dual tariff | VT | 0,074789 |
| | | | | | NT | 0,036697 |
| | | > 2,5 MWh | based on the tariff items that apply from 1 April 2022 increased by 50% | | | |
| ECONOMY | - public institutions ³ and private entities | < 250 MWh | based on the tariff items for the one-tariff/two-tariff model of household customers on the universal service, which apply from 1 April 2022 | single tariff | JT | 0,070276 |
| | | | | dual tariff | VT | 0,074789 |
| | | | | | NT | 0,036697 |
| | - private entities with consumption | > 250 MWh < 2,5 GWh | 0,18 EUR/kWh | | | 0,18 |
| | - private entities | > 2,5 GWh | 0,23 EUR/kWh | | | 0,23 |

¹ six-month consumption

² in the table, the consumption classes are shown in a larger unit of measurement than is established by the Regulation on eliminating disturbances in the domestic energy market, in which consumption limits are determined in kWh

³ kindergartens, schools, colleges, retirement homes, non-governmental organizations, institutes, religious communities, municipalities, cities, state institutions, utility companies, etc. (regardless of six-month consumption)

45. EVENTS AFTER THE REPORTING DATE (continued)

REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

Pursuant to Art. 4. paragraph 1 of the Regulation, in the event that before the entry into force of the Regulation, a contract for the supply of electricity was concluded, in which the contracted price is lower than the price specified in Art. 3 of the Regulation, electricity is billed to the customer at the price specified in the contract.

Pursuant to Art. 6, of the Regulation, companies Hrvatski operator prijenosnog sustava d.d. and HEP-Operator distribucijskog sustava d.o.o. will not submit a request to the Croatian Energy Regulatory Agency to change tariff items in the period from 1 October 2023 to 31 March 2024.

Pursuant to Art. 9 of the Regulation, the company HEP-Operator distribucijskog sustava d.o.o. is in charge of reading the meter status for customers from art. 3, paragraphs 1, 2, and 3 of the Regulation and providing each customer with data on their electricity consumption for the period from 1 October 2022 to 31 March 2023 within 30 days.

Company HEP-Operator distribucijskog sustava d.o.o. performs meter reading based on the Ordinance on general conditions for the use of the network and electricity supply (Official Gazette 100/2022). The system operator is obliged to read the meter balance of network users with a monthly billing period, with the exception of the end customer from Article 65 of these General Terms and Conditions, on the last day of the calendar month, with a permissible deviation of 6/+2 days. The system operator recalculates the reading of the meter balance on the last day of the calendar month in proportion to the number of days of deviation. The system operator is obliged to read the meter balance of the end customer with a semi-annual accounting period, including end customers from Article 65 of these General Terms and Conditions, on the last day of the last month of the semi-annual accounting period with a permissible deviation of 15/+5 days.

According to the order of the Regulation, the company HHEP-Operator distribucijskog sustava d.o.o. has undertaken all reading activities in accordance with its capabilities.

Thermal energy

Special measures for trade and formation of thermal energy prices are prescribed for the period from 1 October 2023 to 31 March 2024.

Pursuant to Art. 5, paragraph 1, the Croatian Energy Regulatory Agency will, until 30 September 2023, for the period from 1 October 2023 to 31 March 2024, determine the unit price for the production of thermal energy for central heating systems and for closed heating systems based on the data provided by the energy entity on the price of input energy and the price of greenhouse gas emission units.

On the basis of the unit amounts, the Government of the Republic of Croatia decided on the amount of the difference between the unit prices determined by the Art 5, par. 2 and 4, and the final price of delivered thermal energy, which includes fees and value-added tax, for final customers of thermal energy on thermal systems.

Thermal energy suppliers are obliged to issue invoices for the supplied thermal energy to the end customers of thermal energy on a monthly basis, in such a way as to show the difference.

At the end of the accounting month, thermal energy suppliers and distributors submit to the Ministry of Economy and Sustainable Development a request for compensation for the difference for all their end customers.

45. EVENTS AFTER THE REPORTING DATE (continued)

REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET (continued)

/iii/ Gas

Special measures for trade and price formation for natural gas are temporary and are prescribed for the period from 1 April 2023 to 31 March 2024. Pursuant to Article 8. paragraph 3 of the new Regulation, with natural gas from Art. 8, paragraph 1 of the new Regulation disposes of HEP d.d. for the needs and in the manner determined by Art. 7 of the new Regulation.

/iv/ Recognized impacts of the new Regulation on the annual financial statements for 2022

The effect of the new Regulation in the period from 1 April to 30 September 2023 for electricity, i.e. from 1 April 2023 to 31 March 2024 for thermal energy, is not included in the profit and loss account within the provisions for the effects of adverse of the contract.

The new Regulation limits electricity prices, and the effect is estimated to be in the range of EUR 400 to 600 million¹. The loss of heating activity is estimated at EUR 100 to 200 million. The loss is the result of many years of retention of unit prices and cannot be considered as an effect of the Regulation in the total amount.

Due to the subjectivity of the assumptions used, unavailable input data and market volatility, the group companies did not recognize provisions for negative effects of contracts under the new Regulation and included the amount of the obtained estimates in the annual financial statements for 2022.

The effect of both Regulations on the Group's operations is significant on the financial result of the operation since the costs arising from the application of the measures of the Government of the Republic of Croatia to the companies of the Group were not compensated in the profit and loss account, nor were compensatory measures adopted by the date of publication of the Annual Financial Statements.

Due to the previous solvency and liquidity of the Group, the effect of the old and new Regulations did not affect the sustainability of the business, but it significantly affected the results of the business.

To the company HEP d.d. due to liquidity assurance, on 30 March 2023, an equity loan in the amount of EUR 400,000,000 was approved.

The described measure ensured the liquidity of the Group after the adoption of the Regulation but did not affect the rehabilitation of the results or the solvency of the group.

Pursuant to Art. 12 of the new Regulation, the Government of the Republic of Croatia will take the necessary measures to ensure the sustainability of operations and the investment potential of HEP d.d.

HEP ELEKTRA d.o.o. and HEP-Opkrba d.o.o., submitted on 18 May 2022, a request for compensation for the difference between the amount of calculated working energy at contracted prices and calculated working energy at prices determined by the Regulation, for electricity delivered to customers in the period from 1 April 2023 to 30 April 2023 to the Ministry of Economy and Sustainable Development.

¹ The assessment of the effect is calculated as the difference between the price determined by the Regulation and commercial contracts for customers who enter into contracts under market conditions and prices simulated in accordance with the Methodology for determining the amount of tariff items for guaranteed electricity supply for customers on guaranteed supply. The estimate is based on the planned consumption of the end customers of the HEP Group suppliers and electricity prices from the regionally relevant Hungarian power exchange.

45. EVENTS AFTER THE REPORTING DATE (continued)

REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET(continued)

The Management will continue to actively monitor the liquidity and solvency of the Group and take all measures towards the owner in order to protect the financial position and rehabilitate the losses that the Regulation had on the results of the Group's operations in 2022.

INTRODUCTION OF THE EURO AS AN OFFICIAL AND FUNCTIONAL CURRENCY


On 12 July 2022, the Council (EU) 2022/1211 adopted the Decision on the adoption of the euro in Croatia on 1 January 2023, which established that the Republic of Croatia meets all the necessary conditions for the introduction of the euro as the official currency in the Republic of Croatia. On the same day, the Council of the European Union adopted Council Regulation (EU) 2022/1208 amending Regulation (EC) no. 2866/98 regarding the euro conversion rate for Croatia, which established that the conversion rate is set at 7.53450 for one euro. In the Official Gazette no. 85/2022 the Government of the Republic of Croatia announced the Decision on the announcement of the introduction of the euro as the official currency in the Republic of Croatia. Thus, the euro became the functional currency of the Company from 1 January 2023, using a fixed conversion rate of 1 EUR = 7.53450 HRK. All transactions starting on 1 January 2023 are reported and settled in euros, and the annual financial statements for 2023 (together with comparative data for 2022) will be prepared in euros.

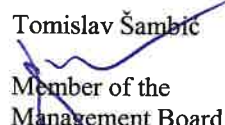
Due to the change in the functional currency, the Group is obliged to carry out all the necessary adjustments and conversions from kuna to euros, including the adjustment of the share capital, which it is obliged to carry out during the first change in the articles of association of the companies, the status change of the companies or the change of one of the business shares in the companies.

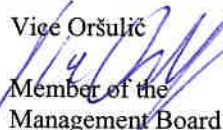
46. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

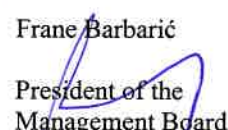
The consolidated financial statements were adopted by the Company's Management Board and approved for their issuance on 7 June 2023.

Signed on behalf of the Group on 7 June 2023:


Petar Sprčić
Member of the
Management Board


Tomislav Šambić
Member of the
Management Board


Vice Oršulić
Member of the
Management Board


Frane Barbarić
President of the
Management Board

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