



**HRVATSKA ELEKTROPRIVREDA d.d.  
ZAGREB**

Unconsolidated Annual financial statements  
and Independent Auditors' Report  
for the year 2020

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## Responsibility for the Annual financial statements

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The Management Board of the company Hrvatska Elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: "the Company") is responsible for ensuring that the unconsolidated annual financial statements for the year 2020, are prepared in accordance with the applicable Croatian Accounting act and International Financial Reporting Standards as determined by the European Commission and published in the Official Journal of the EU, to give a true and fair view of the financial position, the results of operations, changes in equity and cash flows of the Company for that period.

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

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

- selection and consistent application of suitable accounting policies in accordance with the applicable financial reporting framework;
- giving reasonable and prudent judgments and estimates; and
- using the going concern basis of accounting in preparation of annual financial statements, unless it is inappropriate to presume so.

The Management Board is responsible for keeping the proper accounting records, which at any time, with reasonable certainty, present the financial position, the results of operations, changes in equity and cash flows of the Company, and also their compliance with the Accounting Act. The Management Board is also responsible for safe keeping the assets of the Company and for taking reasonable steps for prevention and detection of fraud and other irregularities.

Signed for and on behalf of the Management Board:

Marko Čosić



Member

Nikola Rukavina



Member

Petar Sprčić



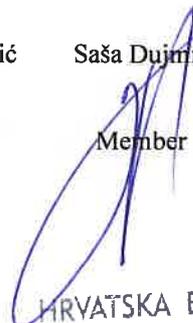
Member

Tomislav Šambić



Member

Saša Dujmić



Member

Frane Barbarić



President

e  
Hrvatska elektroprivreda d.d.  
Ulica grada Vukovara 37  
10000 Zagreb  
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HRVATSKA ELEKTROPRIVREDA d.d.  
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Ulica grada Vukovara 37

29 April 2021



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## INDEPENDENT AUDITORS' REPORT

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

Report on the audit of the unconsolidated annual financial statements

### Opinion

We have audited the unconsolidated annual financial statements of the company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 (the "Company") for the year ended 31 December 2020, which comprises of the Unconsolidated Statement of financial position (Balance Sheet) as at 31 December 2020, Unconsolidated Statement of profit or loss, Unconsolidated Statement of other comprehensive income, Unconsolidated Statement of changes in equity and Unconsolidated Statement of cash flows of the Company for the year then ended, and Notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanations.

In our opinion, the accompanying unconsolidated annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its unconsolidated financial performance and unconsolidated cash flows of the Company for the year then ended in accordance with the International Financial Reporting Standards (the "IFRS"), determined by the European Commission and published in the Official Journal of the EU.

### Basis for Opinion

We conducted our audit in accordance with the International Auditing Standards (ISAs). Our responsibilities under those standards are further described in our Independent Auditors' report under section *Auditors' responsibilities for the audit of the unconsolidated annual financial statements*. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we obtained are sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter

The Company has prepared the annual consolidated financial statement of the Company, and in order to better understand the operations of the Company as whole, users should read the annual consolidated financial statements of the Company related to these annual unconsolidated financial statements.

We draw attention to Note 29 to the unconsolidated financial statements describing the clearing debt in the amount of HRK 739,447 thousand (31 December 2019 in the amount of HRK 800,982 thousand) arising from payments under letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from this interbank agreement. Our opinion has not been modified in this respect.

We draw attention to Note 34 to the unconsolidated financial statements, which highlight the need to initiate the procedure of registration of rights in the land register and harmonization with the provisions of the Act Amending the Water Act (Official Gazette No. 46/2018). Our opinion has not been modified in this regard.



**INDEPENDENT AUDITORS' REPORT (continued)**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, are of most significance in our audit of the unconsolidated annual financial statements for the current period, and include the most significant recognized risks of significant misstatement due to error or fraud with the greatest impact on our audit strategy, the allocation of our available resources, and the time spent by the engaged audit team.

These matters were addressed in the context of our audit of the unconsolidated annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below as the key audit matters to be communicated in our Independent Auditors' report:

Key audit matter	How we addressed the key audit matter
<p><b>Valuation of investments in subsidiaries and joint ventures</b>                      In the annual unconsolidated financial statements as at 31 December 2020, the Company had investments in subsidiaries in the amount of HRK 9,962,011 thousand. Impairment of investments in subsidiaries is a key audit matter because it involves significant estimates. Determining the valuation of individual investments in subsidiaries requires the Company's Management Board to use various assumptions, projections and forecasts related to future cash flows, applied discount rates and growth rates to calculate the expected future operations of subsidiaries.</p> <p><b>Related disclosures in the annual financial statements</b>                      See Notes 2, 4, 11 and 17 in the accompanying annual financial statements.</p>	<p><b>Our auditing procedures, related to this area included, among other:</b></p> <ul style="list-style-type: none"> <li>- We reviewed the collected financial information used in considering the existence of investment impairment indicators;</li> <li>- We reviewed the prepared projections and forecasts of business results based on the expectations of the management of subsidiaries;</li> <li>- We have assessed the reasonableness of the key assumptions used in the valuation model of investments in subsidiaries and joint ventures, in particular, projections of operating cash flows, discount rates and estimates of long-term growth rates;</li> <li>- We compared key assumptions with external information and with estimates made by ourselves;</li> <li>- We tested the mathematical accuracy of the model for estimating the value of investments in subsidiaries and joint ventures;</li> <li>- We performed a sensitivity test of the valuation model for investments in subsidiaries and joint ventures to change in key assumptions;</li> <li>- We reviewed the related notes and assessed the appropriateness of the disclosures related to investments in subsidiaries and joint ventures.</li> </ul>

**INDEPENDENT AUDITORS' REPORT (continued)**

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

**Key Audit Matters (continued)**

Key audit matter	How we addressed the key audit matter
<p><b>Contingent liabilities and legal disputes</b></p> <p>Since the Company is exposed to significant legal claims, we have focused our attention on this area. Any liability or contingent liability disclosed, or their non-disclosures in the financial statements, are inherently uncertain and depend on a number of significant assumptions and judgments. These are potentially significant amounts of which the determination of the amount for disclosure in the financial statements, if applicable, is subject to a subjective assessment. According to that, the Management Board estimates future outcomes and amounts of contingent liabilities that may arise as a result of these claims, in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.</p> <p><b>Related disclosures in the annual financial statements</b></p> <p>See Notes 2, 4 and 31 in the accompanying unconsolidated annual financial statements</p>	<p><b>Our auditing procedures, related to this area included, among other:</b></p> <ul style="list-style-type: none"> <li>- Receiving and analysing the attorneys' responses to our written inquiries and considering certain issues with them;</li> <li>- Critical review of the used assumptions and estimates pertaining to the claims. This includes assessing the likelihood of unfavourable outcome of court proceedings and the reliability of the assessment of the related amount of provisions in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets;</li> <li>- Assessment of the adequacy of disclosure in the unconsolidated financial statements,</li> </ul>

**Other matters**

We draw your attention to Note 34 to the unconsolidated financial statements which, in accordance with point (b), paragraph 8, Article 21a of the Labour Act, list the website where the separate non-financial report of the Group will be published within the prescribed period. Our opinion has not been modified in this regard.

**Other Information in the Annual Report and separate Non-financial report**

The Management Board is responsible for other information. Other information include information contained in the Annual report, but do not include the annual financial statements and our Independent auditors' report on them which we received before the date of this Independent Auditor's Report and a separate non-financial report that we expect to be made available after that date.

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

In relation with our audit of the unconsolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated; as well as whether the separate nonfinancial report presents the non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act.

## INDEPENDENT AUDITORS' REPORT (continued)

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

#### Other Information in the Annual Report and separate Non-financial report (continued)

When we read a separate nonfinancial report, if we find that there is a significant misstatement in it, we are required to inform the Management and those charged with governance of the Company.

Regarding the Management Report and the Corporate Governance Statement, we carried out the procedures required by the Croatian Accounting Act. These procedures include considering:

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

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

- The information contained in the Company's Management Report and the relevant parts of the Corporate Governance Statement for the financial year for which the unconsolidated financial statements have been prepared are harmonized, in all significant respects, with the annual unconsolidated financial statements of the Company presented on pages 9 to 79 on which we expressed our opinion as set out in the Opinion section above;
- The Management Report and the relevant parts of the Corporate Governance Statement have been prepared, in all significant respects, in accordance with Articles 21 and 22 of the Accounting Act;
- Corporate Governance Statement includes the information required by Article 22, paragraph 1, items 2, 5 and 6 of the Accounting Act

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

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

The Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS; and internal controls which the Management determines as necessary to enable the preparation of unconsolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

## INDEPENDENT AUDITORS' REPORT (continued)

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

#### Responsibilities of the Management and Those Charged with Governance for the unconsolidated annual financial statements (continued)

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditors' responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated 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 unconsolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 unconsolidated 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated annual financial statements, including disclosures, and whether the unconsolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **INDEPENDENT AUDITORS' REPORT (continued)**

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

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

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.

BDO Croatia d.o.o. and FACT Revizija d.o.o. jointly responsible for performing the audit and for the audit opinion, according to the requirements of the Audit Act applicable in Croatia.

#### **Report on Compliance with Other Legal Requirements**

On 28 September 2020, we were appointed by the General Assembly of the Company, based on the proposal of the Supervisory Board, to audit the annual unconsolidated financial statements for 2020.

At the date of this Independent Auditors' Report BDO Croatia d.o.o. is continuously engaged in performing the legal audit of the annual unconsolidated financial statements of the Company for 2012 until the audit of the annual unconsolidated financial statements of the Company for 2020, which totals 9 years, while FACT revizija d.o.o. is engaged for the legal audit of the annual unconsolidated financial statements of the Company since 2019, which is a two-year engagement.

In the audit of the Company's annual unconsolidated financial statements for 2020, we determined the significance for the financial statements as a whole in the amount of HRK 117,500 thousand, which represents approximately 1.5% of the realized sales revenue for 2020, due to fluctuations in profit before tax in the current and previous periods.

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

**INDEPENDENT AUDITORS' REPORT (continued)****Report on the audit of the unconsolidated annual financial statements (continued)****Report on Compliance with Other Legal Requirements (continued)**

During the period between the initial date of the audited unconsolidated annual financial statements of the Company for the year 2020 and the date of this Report, we did not provide the Company with prohibited non-scheduled services, and in the business year prior to the aforementioned period, did not provide services for the design and implementation of internal control procedures or risk management related to preparation and/or control of financial information or the design and implementation of technological systems for financial information, and we have maintained independence in relation to the Company.

The partners engaged in the audit of the Company's annual unconsolidated financial statements for 2020, which results in this Independent Auditors' Report, are the certified auditor Ivan Štimac for BDO Croatia d.o.o. and certified auditor Jeni Krstičević for FACT Revizija d.o.o.

Zagreb,

29 April 2021

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

  
Ivan Štimac, Certified Auditor  
Vedrana Stipić, Member of the  
Management Board

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

Zagreb,

29 April 2021

FACT Revizija d.o.o.  
Zadarska 80  
10000 Zagreb

  
Jeni Krstičević, Certified Auditor  
Daniela Šunjić, President of the  
Management Board

**FACT revizija d.o.o.**  
ZAGREB, OIB: 66538066056

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**Unconsolidated Statement of profit or loss – HEP d.d.**  
**For the year ended 31 December 2020**

<i>In '000 HRK</i>	Note	2020	2019
<i>Continuing operations</i>			
Sales revenue	6	4,103,807	5,233,779
Sales revenue - affiliated companies	33	3,733,409	3,811,352
Other operating income	7	356,130	66,981
Other operating income - affiliated companies	33	203,538	203,126
<b>Total operating income</b>		<b>8,396,884</b>	<b>9,315,238</b>
The cost of electricity purchase	8	(2,490,006)	(3,157,663)
Electricity purchase - affiliated companies	33	(3,335,487)	(3,544,565)
Cost of gas purchase - market supply	34	(233)	(2,096)
Cost of gas purchase for sale in the wholesale market	34	(594,525)	(1,152,889)
Employee costs	9	(109,013)	(104,100)
Depreciation	13,14,15	(59,750)	(60,004)
Costs of fees and services-affiliated companies	33	(462,658)	(355,529)
Other operating expenses	10	(371,562)	(403,198)
<b>Total operating expenses</b>		<b>(7,423,234)</b>	<b>(8,780,044)</b>
<b>Operating profit</b>		<b>973,650</b>	<b>535,194</b>
Financial income	11,33	1,037,153	1,204,647
Financial expenses	11,33	(475,663)	(511,557)
<b>Net profit from financial activities</b>	11	<b>561,490</b>	<b>693,090</b>
<b>Profit before tax</b>		<b>1,535,140</b>	<b>1,228,284</b>
Corporate income tax	12	(134,104)	(120,976)
<b>Profit for the year</b>		<b>1,401,036</b>	<b>1,107,308</b>

The accompanying notes form an integral part of these financial statements

Signed on behalf of the Company on 29 April 2021:

  
 Marko Čosić  
 Member

  
 Nikola Rukavina  
 Member

  
 Petar Sprčić  
 Member

  
 Tomislav Šambić  
 Member

  
 Saša Dujmić  
 Member

  
 Frane Barbarić  
 President

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

**Unconsolidated Statement of other comprehensive income – HEP d.d.**  
**For the year ended 31 December 2020**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>Profit for the year</b>	<b>1,401,036</b>	<b>1,107,308</b>
<b>Other comprehensive income</b>		
Changes in the value of financial assets at fair value through other comprehensive income	(17,706)	46,701
<i>Total items that will not be reclassified to profit or loss</i>	<i>(17,706)</i>	<i>46,701</i>
<b>Other comprehensive income, net</b>	<b>(17,706)</b>	<b>46,701</b>
<b>Total comprehensive income for the year, net</b>	<b>1,383,330</b>	<b>1,154,009</b>

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

Signed on behalf of the Company on 29 April 2021:

  
Marko Čosić  
Member

  
Nikola Rukavina  
Member

  
Petar Sprčić  
Member

  
Tomislav Šambić  
Member

  
Saša Dujmić  
Member

  
Frane Barbarić  
President

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

**Unconsolidated Statement of financial position / Balance sheet – HEP d.d.**  
**As at 31 December 2020**

<i>In '000 HRK</i>	Note	31 Dec 2020	31 Dec 2019
<b>ASSETS</b>			
<b>Fixed assets</b>			
Property, plant and equipment	13	1,123,193	622,296
Real estate investments	16	19,804	19,491
Assets with the right to use	14	7,980	6,577
Intangible assets	15	133,636	139,764
Investments in subsidiaries and joint ventures	17	9,962,011	9,735,948
Financial assets at fair value through other comprehensive income	18	232,605	254,195
<i>Financial assets measured at amortized cost</i>			
Long-term loans granted	19,33	17,462,165	17,063,550
Other long-term receivables	20	207	274
Deferred tax assets	12	72,363	91,755
<b>Total fixed assets</b>		<b><u>29,013,964</u></b>	<b><u>27,933,850</u></b>
<b>Current assets</b>			
Inventories	21	717,899	943,494
<i>Financial assets measured at amortized cost</i>			
Trade receivables	22	104,619	252,279
Current maturities of long-term loans granted	19,33	1,380,928	1,310,487
Other current receivables	23	370,450	346,434
Receivables from affiliated companies	33	2,674,325	2,779,582
Financial assets at fair value through profit or loss	24	167,055	165,185
Cash and cash equivalents	25	1,579,060	1,375,389
<b>Total current assets</b>		<b><u>6,994,336</u></b>	<b><u>7,172,850</u></b>
<b>TOTAL ASSETS</b>		<b><u>36,008,300</u></b>	<b><u>35,106,700</u></b>

**Unconsolidated Statement of financial position / Balance sheet – HEP d.d.**  
**As at 31 December 2020**

<i>In '000 HRK</i>	Note	31 Dec 2020	31 Dec 2019
<b>CAPITAL AND LIABILITIES</b>			
Share capital	26	19,792,159	19,792,159
Revaluation reserves		72,050	88,365
Retained earnings		7,015,351	6,278,355
<b>Total capital</b>		<b>26,879,560</b>	<b>26,158,879</b>
<i>Financial liabilities measured at amortized cost</i>			
Liabilities under issued bonds	27	3,497,668	3,518,704
Liabilities for long-term loans	28	483,202	182,210
Other long-term liabilities	29	1,046,686	892,848
Lease liabilities	30	7,241	5,717
Long-term provisions	31	227,721	223,593
Deferred tax liability	12	13,175	18,454
<b>Total long-term liabilities</b>		<b>5,275,693</b>	<b>4,841,526</b>
<i>Financial liabilities measured at amortized cost</i>			
Current maturity of long-term loans	28	53,879	36,285
Liabilities to affiliated companies	33	3,220,359	3,569,685
Corporate income tax liability	12	46,521	27,934
Other liabilities	32	531,199	471,371
Current maturity of lease liabilities	30	1,089	1,020
<b>Total short-term liabilities</b>		<b>3,853,047</b>	<b>4,106,295</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>36,008,300</b>	<b>35,106,700</b>

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

Signed on behalf of the Company on 29 April 2021:

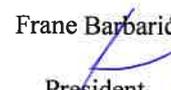
  
 Marko Čosić  
 Member

  
 Nikola Rukavina  
 Member

  
 Petar Sprčić  
 Member

  
 Tomislav Šambić  
 Member

  
 Saša Dujmić  
 Member

  
 Frane Barbarić  
 President

  
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 Z A G R E B  
 Ulica grada Vukovara 37

**Unconsolidated Statement of changes in equity – HEP d.d.**  
**For the year ended 31 December 2020**

<i>In '000 HRK</i>	<b>Share capital</b>	<b>Revaluation reserves</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>19,792,159</b>	<b>40,407</b>	<b>5,384,690</b>	<b>25,217,256</b>
Profit for the current year	-	-	1,107,308	1,107,308
Other comprehensive income	-	47,958	(1,257)	46,701
<i>Total comprehensive income</i>	-	<b>47,958</b>	<b>1,106,051</b>	<b>1,154,009</b>
Dividend paid	-	-	(212,386)	(212,386)
<b>Balance at 31 December 2019</b>	<b>19,792,159</b>	<b>88,365</b>	<b>6,278,355</b>	<b>26,158,879</b>
Profit for the current year	-	-	1,401,036	1,401,036
Other comprehensive income	-	(17,706)	-	(17,706)
<i>Total comprehensive income</i>	-	(17,706)	<b>1,401,036</b>	<b>1,383,330</b>
Merger effects	-	-	345	345
Dividend paid	-	-	(664,385)	(664,385)
Other adjustments	-	1,391	-	1,391
<b>Balance at 31 December 2020</b>	<b>19,792,159</b>	<b>72,050</b>	<b>7,015,351</b>	<b>26,879,560</b>

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

Signed on behalf of the Company on 29 April 2021:

Marko Čosić  
Member

Nikola Rukavina  
Member

Petar Sprčić  
Member

Tomislav Šambić  
Member

Saša Dujmić  
Member

Frane Barbarić  
President

HRVATSKA ELEKTROPRIVREDA d.o.o.  
ZAGREB  
Ulica grada Vukovara 37

## Unconsolidated Statement of cash flows – HEP d.d.

For the year ended 31 December 2020

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	1,535,140	1,228,284
Interest income	(123,386)	(115,630)
Interest expense	167,281	174,980
Net exchange rate differences	27,176	28,854
Depreciation and amortisation of property, plant, equipment, intangible assets and equipment with the right to use	59,750	60,004
Increase in provisions	4,128	2,349
Change in the fair value of cross-currency swaps and financial assets through profit or loss	214,049	(226,744)
Dividend income	(804,704)	(828,297)
Value adjustment of receivables	(325,039)	(341)
Value adjustment and loss from the sale of tangible fixed assets	2,575	335
The merger of IE Nekretnine	345	
<i>Cash flow from operating activities before changes in working capital</i>	<u>702,420</u>	<u>323,794</u>
(Increase)/Decrease in trade receivables	(177,379)	50,644
Decrease of receivables from affiliated companies	1,087,435	962,913
Decrease/(Increase) in inventory	225,595	(304,888)
(Increase) in other current assets	(24,013)	(220,394)
Increase/(Decrease) in trade payables	298,124	(269,035)
(Decrease)/Increase in other liabilities	(243,067)	5,830
(Decrease)/Increase in liabilities to subsidiaries	349,326	497,945
(Decrease)/Increase in other long-term liabilities	(62,081)	13,754
Cash from business	<u>2,156,360</u>	<u>1,060,563</u>
Income tax paid	(98,124)	(76,952)
Interest paid	<u>(183,632)</u>	<u>(177,611)</u>
<b>CASH FROM OPERATING ACTIVITIES</b>	<b><u>1,874,603</u></b>	<b><u>806,000</u></b>
<b>INVESTING ACTIVITIES</b>		
Interest receipts	311	10,020
Dividend receipts from affiliated companies	119,167	44,759
Expenditures for increasing the share capital of a subsidiary	(236,338)	(406,346)
Expenditures for the purchase of real estate, plant and equipment	(545,905)	(190,944)
Expenditures for acquisition of other fixed assets	67	116
Receipts from repayment of loans to affiliated companies	-	50,551
Money gained by merger	1,654	-
Receipts from collection of granted loans	272,716	-
Expenditures on loans granted	(860,910)	-
<b>CASH FROM INVESTING ACTIVITIES</b>	<b><u>(1,249,238)</u></b>	<b><u>(491,844)</u></b>

## Unconsolidated Statement of cash flows – HEP d.d. (continued)

For the year ended 31 December 2020

<i>In '000 HRK</i>	2020	2019
<b>FINANCING ACTIVITIES</b>		
Receipts from received long-term loans	352,603	-
Expenditures for repayment of long - term loans	(36,805)	(112,521)
Lease principal repayment expenses	(1,376)	(1,182)
Dividend payment expenses	(664,385)	(212,386)
Receipts from cash funds	-	14,825
Expenses for repayment of issued bonds	(76,173)	(64,346)
Receipts from sale of property, plant and equipment	4,442	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>(421,694)</b>	<b>(375,610)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>203,671</b>	<b>(61,454)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>1,375,389</b>	<b>1,436,843</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>1,579,060</b>	<b>1,375,389</b>

The accompanying notes form an integral part of these financial statements

Signed on behalf of the Company on 29 April 2021:

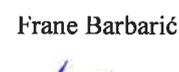
  
Marko Čosić  
Member

  
Nikola Rukavina  
Member

  
Petar Sprčić  
Member

  
Tomislav Šambić  
Member

  
Saša Dujmić  
Member

  
Frane Barbarić  
President

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

## **1. GENERAL**

### *Foundation and development*

Hrvatska elektroprivreda (hereinafter HEP d.d. or the Company) is a joint stock company with its registered office in Zagreb, Ulica grada Vukovara 37, established in 1994, by reorganizing the former Public Company Hrvatska elektroprivreda s.p.o. and is its legal successor. In the registry file, the identification number of the entity (MBS) is 080004306, and in the Central Bureau of Statistics, the identification number is 3557049, OIB 28921978587.

The share capital of the company is HRK 19,792,159 thousand, and it is divided into 10,995,644 ordinary shares of series A1 with a nominal amount of HRK 1,800.00. Shares of Hrvatska elektroprivreda d.d. are 100% owned by the Republic of Croatia.

The Company manages operations and performs part of the activities, which are, in accordance with the applicable regulations and the Company's Articles of Association and the Rules of Procedure, described in the Decision on the duties of members of the Management Board of HEP d.d. according to corporate functions and activities. In addition to corporate functions, the Company directs, coordinates and monitors activities in subsidiaries in accordance with the Agreements on Mutual Relations. The Company is the owner of all assets that are contractually transferred to the management of affiliates or subsidiaries, performs the function of HEP Group corporate governance and provides conditions for the secure and reliable supply of electricity, heat and natural gas to customers.

In addition to corporate functions, HEP d.d. strategically directs, coordinates and monitors production, network and other activities in subsidiaries with the aim of harmonizing the core business activities of manufacturing subsidiaries, i.e. optimizing the production process.

The basic internal organization of the Company follows the approach of corporate governance and the powers of the Company for individual activities. Within the HEP Group, companies that perform regulated activities are clearly separated (management, accounting and legal) from unregulated activities.

The basic internal organization of the Company consists of the following organizational units:

- Management Board of HEP d.d.
- Corporate Security
- Capital Investment
- Strategy and Development
- Finance and Treasury
- Accounting
- Controlling
- Corporate Communications
- Procurement
- Human Resources
- Legal Affairs
- Internal Audit
- Information and Communication Technologies
- Market and marketing strategy
- EU and Regulatory Affairs

As at 31 December 2020 HEP d.d. had 503 employees (31 December 2019: 495). The qualification structure of employees as at 31 December 2020 was as follows: PhD 8, Master 43, Bachelor 291, College 49, High school 107, Primary school 1 and Skilled worker 4.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**1. GENERAL (continued)**

**General Assembly**

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

Tomislav Ćorić	Member	Member since 15 February 2018
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**Supervisory Board**

*Members of Supervisory Board in 2020*

Goran Granić	President	President 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
Jelena Zrinski Berger	Member	Member since 18 January 2018

*Members of Supervisory Board in 2019*

Goran Granić	President	President 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
Jelena Zrinski Berger	Member	Member since 18 January 2018

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**1. GENERAL (continued)**

**Management Board**

*Management Board in 2020*

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

*Management Board in 2019*

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

**Basis of preparation**

*a) Unconsolidated financial statements*

The unconsolidated financial statements for 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), determined by the European Commission and published in the Official Journal of the EU.

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

The financial statements have been prepared on the historical cost basis, except for certain financial instruments and investment property that are presented at fair value. All amounts in the financial statements are presented in thousands of Croatian Kuna (HRK '000) as the Company's functional currency, unless otherwise stated. The Company keeps accounting records in Croatian language, in Croatian Kuna, and in accordance with Croatian legal requirements and accounting principles and practices applied by legal entities in Croatia.

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

*b) Consolidated financial statements*

The Company has prepared these financial statements in accordance with Croatian legislative regulations. The Company has also prepared consolidated financial statements for the Company and its subsidiaries, which together with the Company comprise the Group, as at 31 December 2020 and for the year then ended. The consolidated financial statements have been prepared in accordance with IFRS. In the consolidated financial statements, subsidiaries (listed in the Note 32) – where the Company has more than half of voting rights or in some other way controls their business, have been entirely consolidated. These financial statements should be read in conjunction with the consolidated financial statements of the HEP Group as at and for the year ended 31 December 2020, in order to obtain complete information about the Group's financial position, its performance results and changes to the financial position of Group as a whole.

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

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

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of materiality, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020)
- **Amendments to IFRS 3 “Business Combinations”** - Definition of Operations, adopted in the European Union on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of funds that occur on or after the beginning of that period)
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Reform of reference interest rates, adopted in the European Union on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020)
- **Amendments to IFRS 16 “Leases”** - Lease relief in the context of the COVID-19 Pandemic (adopted in the European Union on 9 October 2020, effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020) \*
- **Amendments to the reference to the Conceptual Framework in IFRS**, adopted in the European Union on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to existing standards did not lead to significant changes in the Company's financial statements.

### *Standards and amendments to existing standards published by the IASB and adopted in the European Union, but not yet in force*

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

- **Amendments to IFRS 4 “Insurance Contracts”** - Extension of the temporary exemption from IFRS 9, adopted in the European Union on 16 December 2020 (the expiry date of the temporary exemption from IFRS 9 has been moved from 1 January 2021. for annual periods beginning on or after 1 January 2023)
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7: “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16: “Leases”** - Reform of reference interest rates - Phase 2, adopted in the European Union on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

### *Standards and amendments to the existing standards issued by IASB and not yet adopted by the EU*

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 amendments to existing standards, the adoption of which the European Union has not yet decided on 29 April 2021, relate to IFRSs issued by the IASB:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided to postpone the adoption of this transitional standard until its final version is published

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

### *Standards and amendments to the existing standards issued by IASB and not yet adopted by the EU (continued)*

- **IFRS 17 “Insurance Contracts”**, including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023)
- **Amendments to IAS 1 “Presentation of Financial Statements”** - classification of short-term and long-term liabilities (effective for annual periods beginning on or after 1 January 2023)
- **Amendments to IAS 16 “Property, Plant and Equipment”** - revenue before intended use (effective for annual periods beginning on or after 1 January 2022)
- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - harmful contracts - costs of meeting contractual obligations (effective for annual periods beginning on or after 1 January 2022)
- **Amendments to IFRS 3 “Business Combinations”** - references to the conceptual framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022)
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Interests in Associates and Joint Ventures”** - sale or investment of assets between an investor and its associate or joint venture and further amendments (initial effective date is deferred until the completion of a research project on the application of the equity method)
- **Amendments to various standards due to “Revision of IFRS from the 2018-2020 cycle”**, resulting from the project of annual revision of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily to eliminate inconsistencies and clarify the text (Amendments to IFRS 1, IFRS 9 and IAS 41 effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 is for illustrative purposes only and does not specify the effective date.).

The Company expects that the adoption of these new standards and amendments to existing standards will not lead to significant changes in the Company’s financial statements in the period of the first application of the standards. Hedge accounting for a portfolio of financial assets and liabilities whose principles have not yet been adopted by the European Union is still not regulated. According to the Company’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities in accordance with **IAS 39: “Financial Instruments: Recognition and Measurement”** would not result in a material change in the financial statements if applied at the balance sheet date.

### *Investments in subsidiaries*

Subsidiaries are companies in which the Company or the Parent Company has control. The Company has control over an entity if, based on its participation in it, it is exposed to a variable return, i.e. it has rights to them and the ability to influence the return by its dominance in that entity. Investments in subsidiaries are stated at the end of the reporting period at cost adjusted for impairment and any changes in the Company’s share of the net assets of the subsidiary.

### *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 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.

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

In classifying investments in joint operations, the Company 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 company has identified an investment in LNG Hrvatska d.o.o. as a joint venture.

In the consolidated financial statements, the Company classifies its investment in NE Krško d.o.o. as joint management and recognizes its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations. As described in Note 17, in the separate unconsolidated financial statements the Company deviated from the requirements of IFRS 11 and for investments in NE Krško d.o.o. applies the equity method.

### ***Costs of pension benefits and other employee benefits***

The Company does not manage defined benefit plans after retirement for its employees and managers. Accordingly, there are no provisions for these costs.

The company 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.

	<b>2020</b>	<b>2019</b>
Pension insurance contribution	20%	20%
Health insurance contribution	16.5%	16.5%

The company is obliged to suspend contributions from the gross salary of employees. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred (Note 9).

### ***Pension benefits and jubilee awards***

The company 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 company 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 Company from 10 to 45 years of continuous employment with the employer.

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

*Pension benefits and jubilee awards (continued)*

*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. This Collective Agreement is valid until 31 December 2021.

*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 5 years.

*Property, plant and equipment*

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

	<b>2020 and 2019</b>
Buildings	20-50 years
Office and IT equipment	5-20 years
Motor vehicles	5 years
Office furniture	10 years

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.

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

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

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 Company 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

### ***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.

### ***Leases***

#### ***Company 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.

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

### *Leases (continued)*

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

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

- all lease payments made on or before the 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.

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

	<b>2020 and 2019</b>
Business premises and land	2-25 years
Vehicles	2-5 years

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

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

### *The Company as lessor*

Property, plant and equipment and intangible assets are leased from the Company to affiliated companies on the basis of their carrying amount (except HOPS as of 1 July 2013 and HEP Telekomunikacija). Leases of property, plant, equipment and intangible assets are classified as finance leases because the lessee accepts almost all the benefits and risks of ownership. Leases bear interest only up to the extent to which the lessor has obtained funds to finance the asset in question from external sources. These assets are stated at a cost in order to present the fixed assets in question at their carrying amount at which the Company originally reported them.

### *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.

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

### ***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.

All other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs in 2020 amounted to HRK 8,869 thousand (HRK 6,420 thousand in 2019). The capitalization rate used in determining the borrowing costs eligible for capitalization is 3.78%.

### ***Foreign currencies***

The Company's unconsolidated financial statements are presented in the currency of the primary economic environment in which the entity operates, the so-called functional currency. In the Company's financial statements, business changes expressed in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rate. Non-monetary items that are measured in terms of fair value in a foreign currency are translated using the exchange rates as at the dates of the fair value estimation.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items and their recalculation are recognized in the income statement in the period. Foreign exchange differences arising on the translation of non-monetary assets at fair value are recognized in the income statement as a financial expense.

### **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 CO<sub>2</sub> 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 CO<sub>2</sub> emissions of fossil fuels from thermal power plants that emit CO<sub>2</sub>.

Companies are required to acquire sufficient CO<sub>2</sub> 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 CO<sub>2</sub> emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO<sub>2</sub> 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 also include gas for trading on the wholesale market, and are stated at the lower of cost determined on the basis of the weighted average price and the net expected sales value (Note 21).

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

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

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

*Taxation*

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

*Current tax*

Current tax liability is based on taxable profit for the year. Taxable profit differs from the net profit for the period presented in the statement of profit or loss because it does not include items of income and expense that are taxable or non-taxable in other years, as well as items that are never taxable nor deductible. The Company's current tax liability is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

*Deferred tax*

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

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

Deferred tax is recognized as an expense or income in the statement of comprehensive income unless it relates to items recorded directly in other comprehensive income, in which case deferred tax is also recognized in other comprehensive income or when the tax arises from initial recognition in the business merger.

The calculation of deferred tax liabilities and assets reflects the amount that is expected to be incurred or recovered at the reporting date in the carrying amount of the Company's assets and liabilities.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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

*Financial assets*

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

Asset items are classified and measured as shown below:

DESCRIPTION	Business model / measurement
<b>Fixed assets</b>	
Long-term loans granted	Held for collection / amortized cost
Finance lease receivables	Held for collection / amortized cost
Financial assets at fair value through other comprehensive income	Strategic investments / fair value through other comprehensive income
Other long-term receivables	Held for collection / amortized cost
<b>Current assets</b>	
Trade receivables and other receivables	Held for collection / amortized cost
Receivables from affiliated companies	Held for collection / amortized cost
Other current receivables	Held for collection / amortized cost
Cash and cash equivalents	Held for collection / amortized cost

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

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

### *Financial assets (continued)*

#### *i) Financial assets at fair value through other comprehensive income*

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

#### *ii) Loans granted and receivables from finance leases*

Loans granted and receivables under finance leases of the Company are held within a business model aimed at holding financial assets to collect contractual cash flows. Contractual cash flows are only those that represent repayments of principal and interest based on that amount of principal.

Loans granted and receivables under finance leases are measured at amortized cost. Measurement at amortized cost includes the following;

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

#### *iii) Trade and other receivables*

Trade receivables and other short-term receivables are held with a contractual cash flow collection strategy. Trade receivables that do not have a significant financial component on initial recognition are measured in accordance with IFRS 15 at their transaction price

#### *iv) Impairment*

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

- Impartial and weighted probability amount determined by estimating the range of possible outcomes,
- Time value of money,
- Reasonable and acceptable data on past events, current conditions and forecasts of future economic conditions.

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

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

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

### *Financial assets (continued)*

#### *v) Derecognition of financial assets*

The Company derecognises a financial asset when;

- The contractual rights to cash flows from financial assets expire,
- Transfers financial assets and the transfer qualifies for derecognition.

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

When the Company transfers financial assets, it is required to assess the extent to which it retains the risks and rewards of ownership of the financial assets. In this case, when all risks and rewards of ownership are transferred, the Company ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or are retained in the transfer. If almost all risks and rewards of ownership of financial assets are retained, the Company continues to recognize financial assets. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, the Company determines whether control of the financial assets has been retained.

If control over financial assets is not retained, the Company ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that have arisen or have been retained in the transfer. If control is retained, the Company continues to recognize financial assets to the extent that it continues to participate in those financial assets.

#### *Derivative financial instruments*

The Company uses derivative financial instruments to reduce its exposure to currency risk. In addition to the above, the Company concluded a Cross Currency Swap Agreement by which the dollar liability on bonds was converted into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. More information on derivative financial instruments is disclosed in Note 27.

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

#### *Commodity contracts*

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

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

- Physical delivery of contracted quantities;
- Purchased or sold quantities meet the requirements of the Group's operations;
- A contract cannot be considered a written option defined by IFRS 9.

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

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

### ***Financial liabilities***

#### *Initial recognition and measurement*

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

#### *Subsequent measurement*

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

#### *Derecognition*

The Company ceases to recognize liabilities in the financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor on substantially different terms, or the terms of the existing liability are significantly changed, such change or modification is treated as a termination of the original obligation and as recognition of a new obligation. The difference in the corresponding carrying amounts is recognized in the statement of profit or loss.

### ***Provisions***

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

### ***Revenue recognition***

Operating revenues are generated primarily through the sale of electricity to households, industrial and other customers in the Republic of Croatia which have chosen HEP Opskrba d.o.o. as their supplier; by selling electricity to affiliated companies and on the market, by selling gas to affiliated companies and on the market, and by a fee for performing administrative services for the Group companies.

Regarding the recognition of contracts with customers, the Company applies a five-step model;

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

Revenue is recognized for each separate liability in the contract in the amount of the transaction price. The transaction price is the amount of fees in the contract that the Company expects to be entitled to in exchange for the transfer of the promised goods or services to the customer. The Company recognizes revenue when it has made a liability and when the revenue can be measured reliably.

Revenue from the sale of electricity and gas is recognized when the Company delivers energy to the customer, when significant risk and benefits of ownership are transferred to the customer, and when there is no significant uncertainty about the sale, related costs or possible returns. Delivery is made when the products are shipped to a specific location, the risks of loss are transferred to the customer and when one of the following is determined: the customer accepts the products in accordance with the contract or the deadline for acceptance of products has expired or the Company has objective evidence that all acceptance criteria are met. Sales revenue is reported based on the price from the sales contract, less the agreed discounts and refunds at the time of sales.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**3. RECLASSIFICATION OF COMPARATIVE PERIODS**

**Changes in comparative financial statements**

In the comparative financial statements for 2019, certain items have been reclassified to bring the financial information in line with the financial statements for 2020. The reclassification did not affect the statement of profit or loss from the previous period.

**Statement of profit or loss**

*for the year ending 31 December 2019*

<i>In '000 HRK</i>	Report 2019	Reclassification	Restated
Sales revenue	5,233,779	-	5,233,779
Sales revenues - affiliated companies	3,811,352	-	3,811,352
Other operating income	66,981	-	66,981
Other operating income - affiliated companies	203,126	-	203,126
<b>Total operating income</b>	<b>9,315,238</b>	<b>-</b>	<b>9,315,238</b>
The cost of electricity purchase	(3,157,663)	-	(3,157,663)
Electricity purchase - affiliated companies	(73,240)	(3,471,325)	(3,544,565)
Cost of gas purchase - market supply	(2,096)	-	(2,096)
The cost of gas purchase for sale in the wholesale market	(1,152,889)	-	(1,152,889)
Employee costs	(104,100)	-	(104,100)
Depreciation	(60,004)	-	(60,004)
Costs of fees and services-affiliated companies	(3,553,587)	3,198,058	(355,529)
Other operating expenses	(676,465)	273,267	(403,198)
<b>Total operating expenses</b>	<b>(8,780,044)</b>	<b>-</b>	<b>(8,780,044)</b>
<b>Operating profit</b>	<b>535,194</b>	<b>-</b>	<b>535,194</b>
Financial income	1,204,647	-	1,204,647
Financial expenses	(511,557)	-	(511,557)
<b>Net profit from financial activities</b>	<b>693,090</b>	<b>-</b>	<b>693,090</b>
<b>Profit before tax</b>	<b>1,228,284</b>	<b>-</b>	<b>1,228,284</b>
Corporate income tax	(120,976)	-	(120,976)
<b>Profit for the year</b>	<b>1,107,308</b>	<b>-</b>	<b>1,107,308</b>

The item *Electricity purchase - affiliated companies* increased by HRK 3,471,325 thousand. At the same time, the *Costs of fees and services-affiliated companies* in the amount of HRK 3,198,058 thousand and the item *Other operating expenses* in the amount of HRK 273,267 thousand were reduced. This amount consists of costs related to the purchase of electricity and costs of selling CO2 emission units to companies that have been reclassified to another position within operating expenses. These changes did not affect the amount of total operating expenses and were made with the aim of greater transparency in reporting

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES**

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

##### *The lifespan of property, plant and equipment*

As explained in Note 4, the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

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

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

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Determining deferred tax assets requires the application of significant judgments, which are based on determining the probable time of occurrence and the amount of future taxable profit, together with the future planned tax strategy. The carrying amount of deferred tax assets as at 31 December 2020 amounts to HRK 57,870 thousand, and as at 31 December 2019 to HRK 91,775 thousand (Note 12).

##### *Actuarial estimates used to calculate retirement benefits*

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

##### *Consequences of certain legal disputes*

The Company is a party to numerous legal disputes arising from ordinary activities. Provisions are recorded if there is a present obligation as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that an outflow of resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions for legal disputes as at 31 December 2020 amount to HRK 179,431 thousand, and as at 31 December 2019 to HRK 177,695 thousand (Note 31).

##### *Expected loss model*

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

#### **4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)**

##### *Estimation of share value*

Given the diversity of core activities within the group, the Company continuously conducts internal market analysis by segments of core activities in order to identify potential market disturbances in a timely manner and thus reduce the risk of impairment of assets from its portfolio of activities. According to the above and in accordance with the provisions of International Accounting Standard 36 "Impairment of Assets", the Company continuously, at the end of each reporting period, assesses whether there are certain indicators that would affect the impairment of assets, performs measures to measure the recoverable amount, or reviews the value of recorded shares in affiliated companies.

#### **5. THE IMPACT OF THE EARTHQUAKE AND COVID-19 PANDEMIC ON THE COMPANY'S OPERATIONS**

The existence of the new coronavirus (Covid-19) was confirmed in early 2020 and quickly spread to mainland China, Europe, and the United States, causing a global health crisis and disruptions in business and economic activity. The global health crisis has affected the economy of most countries, including the economy of the Republic of Croatia, and these countries have had to take a number of measures to mitigate its economic consequences. Since the beginning of the pandemic, the Company has been implementing special business measures to prevent the spread of coronavirus disease, in accordance with the decisions of the National Civil Protection Headquarters, and to ensure the continued smooth operation of all business processes of the Company while protecting the health of workers and business partners. The pandemic has greatly affected the slowdown of the Croatian economy since mid-March 2020, which the HEP d.d. recognized in a timely manner and to which it adequately responded through the optimization of its operations, which is proven by the financial results of 2020. As the Company represents a strategic infrastructure system for the Republic of Croatia, and is one of the largest economic entities in Croatia, with a large number of dependent companies in the domestic, maximum efforts have been made to ensure uninterrupted operations in all business segments, primarily through regular production, transmission, distribution and supply of energy. In this situation of the COVID-19 pandemic, the Company remains one of the main drivers of Croatian economic development, especially through a significant investment plan. By maintaining the planned level of investments and making all efforts to implement the plan, the Company will directly contribute to the gross domestic product. Thus, the Company will remain one of the key factors in the stability of the system with the aim of reducing the economic crisis and the potential recession that follows. Since the beginning of the pandemic, the Company has been analysing energy consumption and modelling scenarios for the impact of the decline in total economic activity on consumption and receipts from the sale of energy from the production portfolio. Analysis shows that the decline in economic activity during the "lockdown" period had an impact on the reduction of total consumption and on the change in the structure of consumption in terms of reducing consumption of business customers and increasing consumption by customers in the household category. This decrease in total consumption was not significant for the Company's operations and therefore did not significantly affect the positions of the financial statements. Despite the introduction of extraordinary measures of assistance to natural persons adopted by the Government of the Republic of Croatia, which relate, inter alia, to the delay in the execution of foreclosures and forcible collection; receivables from customers were mostly realized within the agreed deadlines and the adopted measures have not had a significant impact on business and financial position of the Company. The Company did not use state aid provided by the measures of the Government of the Republic of Croatia as revenues did not decrease significantly despite the slowdown in economic activities. Given that it is uncertain how long the pandemic will last and it is impossible to predict what impacts it will have, both in domestic and foreign markets, at this time it is not possible to fully assess all the negative impacts on the operations of the Company. Notwithstanding the above, the current level of indebtedness and the secured level of liquidity of the Company as well as the strong market position in all activities show that the Company is prepared to face the challenges expected in the coming period. The Company will continue to actively monitor economic developments and take all measures to protect the interests of all stakeholders while maintaining a stable financial position.

Furthermore, significant events include the devastating earthquake of March 2020, which hit the city of Zagreb and its surroundings, and the devastating earthquake of December 2020, which hit Sisak-Moslavina County. The devastating earthquake that hit Zagreb on 22 March 2020, caused damage and breakdowns in the electricity and heating network and in the Elektrana-heating plant facility. With the exceptional efforts of HEP employees, the supply of electricity and heat to customers in the Zagreb area was normalized in a short period of time. The earthquake that hit Petrinja and central Croatia on 29 December 2020, caused numerous breakdowns and damage to the electricity network and HEP's facilities for the production of electricity and heat. All on-duty HEP services have made every effort to eliminate faults as soon as possible with the aim of complete normalization of electricity supply, and have provided power to most of the area affected by the earthquake in record time. The damage to assets did not have a significant impact on the positions of the financial statements of the Company for 2020, given that these are assets whose total net book value in the business books is not material. Despite the economic disruptions caused by the COVID-19 virus pandemic and the

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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devastating earthquakes, a stable financial position, optimization of business processes, and quality strategic management enabled the neutralization of negative economic trends on the operations of the Company.

**6. SALES REVENUES**

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

**/ i / REVENUE FROM THE SALE OF ELECTRICITY**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Revenue from the sale of electricity to customers of HEP Opskrba d.o.o.	3,182,948	3,378,137
Revenue from the sale of electricity abroad	380,433	809,732
Revenue from electricity the sale of electricity in the country	<u>64,625</u>	<u>71,688</u>
	<b>3,628,006</b>	<b>4,259,557</b>

The largest part of the income from the sale of electricity is the income from the sale of electricity to the customers of HEP Opskrba d.o.o. which is realized on the basis of the Agreement on mutual relations for electric power activities in accordance with which HEP-Opskrba d.o.o. in its own name, and for the account of HEP sells electricity to end customers and the sales revenue is shown in the records of HEP. HEP Opskrba d.o.o. operates in the open market and supplies end customers in the household and business categories with electricity.

**/ ii / REVENUE FROM GAS SALES ON THE WHOLESALE MARKET**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Revenue from gas sales - market supply	193	2,366
Revenue from gas sales in the wholesale market	<u>475,608</u>	<u>971,856</u>
	<b>475,801</b>	<b>974,222</b>
	<b>4,103,807</b>	<b>5,233,779</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**6. SALES REVENUES (continued)**

**/ ii / REVENUE FROM GAS SALES ON THE WHOLESALE MARKET (continued)**

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

The Gas Market Act (OG 18/18) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. HERA conducted tenders for the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021 (15 May and 13 June 2018). As no bids were received for the tenders, in accordance with the provisions of the Act, on 27 June 2018, HERA, in consultation with the Ministry of Environmental Protection and Energy, appointed HEP d.d. as a supplier on the wholesale market for a shorter period of time than provided by law, i.e. from 1 August 2018 to 31 March 2019. Also, HERA conducted a public tender for the selection of OVT in the period from 25 January 2019 to 5 February 2019 for the period from 1 April 2019 to 31 March 2021. No bids were received for the tender and it was again decided on determining the OVT for the period from 1 April 2019 to 31 March 2020, appointing HEP d.d. as OVT. In October 2019, HERA made a decision to appoint OVT for the period from 1 April 2020 to 31 March 2021, appointing HEP d.d. as OVT.

Based on the Act on Amendments to the Gas Market Act, the Government of the Republic of Croatia, at its session held on 28 February 2017, adopted a Decision on the gas price according to which a supplier in the wholesale gas market is obliged to sell gas to suppliers in the public gas supply service; which is 0.1809 kn / kWh for households. Until 31 July 2018, the selling price of gas was determined by Decisions of the Government of the Republic of Croatia, and from 1 August 2018 it is determined by Methodology for determining tariff items for the public gas supply service and guaranteed supply (OG 34/18). In accordance with the Methodology, for the period from 1 August 2018 to 31 March 2019, the selling price also did not change compared to the current one, and amounted to HRK 0.1809 / kWh. In accordance with the Methodology, the selling price of gas for the period from 1 April 2019 to 31 March 2020 is 0.1985 HRK / kWh. Pursuant to the Decision of the Management Board No. 5-14.1 / 2020 of 13 February 2020, the selling price of gas for the period from 1 April 2020 to 31 March 2021 is HRK 0.1825 / kWh.

As of 1 April 2017, the natural gas producer's obligation to supply gas was abolished, as well as the regulated price at which it was obliged to sell gas to the supplier on the wholesale gas market for the needs of customers using the public supply service.

Pursuant to the Act on Amendments to the Gas Market Act, HEP d.d., as the appointed supplier on the wholesale market, was granted 60%, i.e. 61 packages of storage capacity in the underground gas storage in the period from 1 April 2017 to 31 March 2022. According to the Amendments to the Rules for the Use of the Gas Storage System, the method of allocating SBU for the needs of the public gas supply service on a proportional basis has been defined.

**7. OTHER OPERATING INCOME**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Written-off receivables under accounting policy	1,087	13
Written-off receivables collected (Petrokemija)	326,000	4,000
Collected receivables under the pre-bankruptcy settlement	45	198
Collection of sued receivables	-	8,584
Collection of sued and written off receivables	3,605	7,632
Default interest from customers	10,858	12,457
Profit from sale of real estate, plant and equipment	368	3,070
Income from cancellation of long-term provisions	166	11,408
Unrealized gains on fair value of tangible assets	313	6,290
Revenue based on the use of own products and services	548	469
Other operating income	13,140	12,860
	<b>356,130</b>	<b>66,981</b>

Other operating income mostly consists of revenues from assets financed from EU funds (HRK 3,221 thousand), revenues from EU donations (HRK 1,499 thousand), revenues from the lease of space for telecommunications equipment (HRK 1,644 thousand), write-off of liabilities (HRK 1,179 thousand), and other operating income.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**8. COST OF ELECTRICITY PURCHASE**

Expenses for the purchase of electricity shown in the Statement of profit or loss for 2020 amount to HRK 2,490,006 thousand (2019: HRK 3,157,663 thousand), and relate to the purchase of electricity for the supply of end customers and sales on the wholesale market.

Due to the corona virus pandemic, which led to the cessation of part of economic activities and, consequently, a reduction in electricity consumption of business customers and lower purchase prices, compared to the previous year, the cost of electricity purchase is lower by 667,657 thousand kuna.

Electricity and gas are traded bilaterally and on stock exchanges. For the purchase of electricity and gas, futures contracts are concluded for which deviations of market prices from the contracted ones are calculated daily. Amounts of price adjustments are included in cost of deliveries.

**9. EMPLOYEE COSTS**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Net salaries	63,547	60,445
Taxes and contributions	45,466	43,655
	<u>109,013</u>	<u>104,100</u>

The number of employees as at 31 December 2020 was 503 (31 December 2019: 495 employees).

Total contributions for pension funds amounted to HRK 18,900 thousand during 2020 (2019: HRK 18,029 thousand).

**Remuneration to members of the Management Board and executive directors of the Company:**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Gross salaries	8,363	8,271
Contributions in kind	800	1,024
Contributions	1,833	1,859
	<u>10,996</u>	<u>11,154</u>

The number of members of the Management Board as at 31 December 2020 was 7 (31 December 2019: 7), and the number of executive directors of the Company was 15 (31 December 2019: 15)

**Remuneration to members of the Supervisory Board:**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Fees	168	168
Taxes and contributions	107	108
	<u>275</u>	<u>276</u>

The number of members of the Supervisory Board as at 31 December 2020 was 5 (31 December 2019: 5).

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**10. OTHER OPERATING EXPENSES**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Value adjustment of trade receivables according to accounting policies	17	1,139
Value adjustment from customers of Opskrba d.o.o.	5,681	8,421
The cost of HEP d.d. for decommissioning NEK d.o.o. (Note 17)	107,652	105,618
Costs of services and materials within subsidiaries	43,375	42,153
Cost of external services and materials	134,522	126,656
Taxes, contributions and fees	11,602	12,667
Bank charges, payment charges and loan fees	9,619	10,406
Receipts in kind	1,435	1,795
Per diems and transportation costs to work	3,193	4,855
Insurance premiums	5,205	6,531
Unclaimed receivables written-off	1,061	100
Other material rights of employees	6,838	5,575
Material costs	3,864	24,725
Provisions for severance pay and other employee costs	2,391	3,521
Provisions for unused vacations	-	144
Provision for litigation	1,846	10,203
Compensation based on a lawsuit	1,425	195
Energy used for production	-	9,964
Other operating expenses	<u>35,623</u>	<u>33,495</u>
Capitalized borrowing costs	<u>(3,787)</u>	<u>(4,965)</u>
<b>Total other operating expenses</b>	<b>371,562</b>	<b>403,198</b>

Compensation of employees includes transportation costs to work during 2020 in the amount of HRK 2,310 thousand (2019: HRK 2,234 thousand), per diems and travel expenses in the amount of HRK 883 thousand (2019: HRK 2,621 thousand) and other similar costs.

Other material rights of employees include early retirement benefits, jubilee awards and occasional benefits.

Other operating expenses mainly consist of donations in the amount of 2% of revenue HRK 11,753 thousand (2019: HRK 14,407 thousand).

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**11. FINANCIAL INCOME AND EXPENSES**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Financial income		
Interest income	123,386	115,630
Positive exchange rate differences	99,290	24,156
Dividends from subsidiaries and affiliates	804,704	828,297
Dividend income	3,999	4,654
Fair value of cross-currency swap	-	226,744
Income from futures trading	1,432	-
Other financial income	4,342	5,166
	<u>1,037,153</u>	<u>1,204,647</u>
<b>Total financial income</b>		
<b>Financial expenses</b>		
Interest expense	(177,445)	(176,435)
Negative exchange rate differences	(72,114)	(53,010)
Fair value of cross-currency swap	(215,919)	-
Value adjustment of shares	-	(270,059)
Other financial expenses	(15,267)	(13,508)
	<u>5,082</u>	<u>1,455</u>
<b>Capitalized borrowing costs</b>		
<b>Total financial expenses</b>	<u>(475,663)</u>	<u>(511,557)</u>
<b>Net profit from financial activities</b>	<u>561,490</u>	<u>693,090</u>

**12. CORPORATE INCOME TAX**

The company is a taxpayer, in accordance with the tax laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period and is increased by expenses that are not tax deductible. The income tax rate is 18%.

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Current tax	(116,713)	(79,831)
Deferred tax recognized in profit or loss	(17,391)	(41,145)
	<u>(134,104)</u>	<u>(120,976)</u>
<b>Corporate income tax</b>		

The adjustment of deferred tax assets is as follows:

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Balance at 1 January	91,755	132,900
Increase in deferred tax assets	(19,392)	(41,145)
	<u>72,363</u>	<u>91,755</u>
Balance at 31 December		

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**12. CORPORATE INCOME TAX (continued)**

Deferred tax assets arose from the fair valuation of derivative financial instruments (SWAP), provisions for severance pay and jubilee awards, provisions for value adjustments of investment material inventories and fair valuation of land.

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

<i>In '000 HRK</i>	<u>2020</u>	<u>2019</u>
Profit before tax	1,535,140	1,228,284
Income tax determined by the tax rate applicable in the Republic of Croatia (18%)	<b>(276,325)</b>	<b>(221,091)</b>
The effect of non-taxable income	204,549	192,545
The effect of non-tax deductible expenses	(44,937)	(51,285)
<b>Tax expense for the current year</b>	<b>(116,713)</b>	<b>(79,831)</b>
Effective tax rate	(7.60)	(6.50)

The effects of non-tax deductible expenses mainly consist of interest between related parties, value adjustment of trade receivables and receivables from pre-bankruptcy, provisioning costs and increase in profit for other expenses while the effects of non-taxable income consist for the most part of dividend income, collected and previously corrected receivables, state aid for education and reduction of profit for other income.

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

Corporate income tax liability amounts to HRK 46,521 thousand (2019: HRK 27,934 thousand).

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

<i>In '000 HRK</i>	<b>31 Dec 2019</b>	(Debited) /credited to profit and loss	<b>31 Dec 2020</b>
Provisions for jubilee awards and severance pay	<b>4,314</b>	430	<b>4,744</b>
Fair valuations of JANAF	<b>5,538</b>	-	<b>5,538</b>
Provision the cost of wind power	<b>3,894</b>	-	<b>3,894</b>
Provision for fair value of swap	<b>14,492</b>	38,866	<b>53,358</b>
Provision for fair value of shares	<b>206</b>	-	<b>206</b>
Provision for Petrokemija	<b>58,680</b>	(58,680)	-
Other	<b>4,631</b>	(8)	<b>4,623</b>
	<u><b>91,755</b></u>	<u><b>(19,392)</b></u>	<u><b>72,363</b></u>

Deferred tax liability relates to 18% of the fair value of JANAF shares through other comprehensive income, in the amount of HRK 13,175 thousand (2019: HRK 18,454 thousand).

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**13. PROPERTY, PLANT AND EQUIPMENT**

<i>In '000 HRK</i>	<b>Land and buildings</b>	<b>Inventory and equipment</b>	<b>Tangible assets in preparation</b>	<b>Advances</b>	<b>Total</b>
<b>PURCHASE VALUE</b>					
<b>1 January 2019</b>	<b>352,595</b>	<b>417,282</b>	<b>121,886</b>	<b>91,844</b>	<b>983,607</b>
Increases	801	24,293	121,697	13,867	160,658
Transfer to affiliated companies	(60,617)	(162,933)	(7,955)	-	(231,505)
Alienation (sale, expenditure, deficit)	(16)	(24,474)	(3,072)	-	(27,562)
<b>31 December 2019</b>	<b>292,763</b>	<b>254,168</b>	<b>232,556</b>	<b>105,711</b>	<b>885,198</b>
Increases	10,712	23,700	476,305	6,621	517,338
Increase by transfer from affiliated company	107	273	-	-	380
Increase by merging	25,366	94	-	-	25,460
Transfer to affiliated companies	(3,520)	(207)	(2,063)	-	(5,790)
Alienation (sale, expenditure, deficit)	(3,568)	(3,108)	-	-	(6,676)
<b>31 December 2020</b>	<b>321,860</b>	<b>274,920</b>	<b>706,798</b>	<b>112,332</b>	<b>1,415,910</b>
<b>ACCUMULATED DEPRECIATION</b>					
<b>1 January 2019</b>	<b>106,242</b>	<b>195,943</b>	<b>-</b>	<b>-</b>	<b>302,769</b>
Depreciation expense for the year	5,565	23,738	-	-	29,303
Alienation (sale, expenditure, deficit)	-	(24,459)	-	-	(24,459)
Accumulated depreciation of assets transferred to a subsidiary	(32,530)	(11,597)	-	-	(44,127)
<b>31 December 2019</b>	<b>79,277</b>	<b>183,625</b>	<b>-</b>	<b>-</b>	<b>262,902</b>
Depreciation expense for the year	5,153	18,711	-	-	23,864
Alienation (sale, expenditure, deficit)	(33)	(2,642)	-	-	(2,675)
Accumulated depreciation of assets transferred to a subsidiary	33	195	-	-	228
Accumulated depreciation of the merged company	8,355	43	-	-	8,398
<b>31 December 2020</b>	<b>92,785</b>	<b>199,932</b>	<b>-</b>	<b>-</b>	<b>292,717</b>
<b>CARRYING AMOUNT</b>					
<b>31 December 2019</b>	<b>213,486</b>	<b>70,543</b>	<b>232,556</b>	<b>105,711</b>	<b>622,296</b>
<b>31 December 2020</b>	<b>229,075</b>	<b>74,988</b>	<b>706,798</b>	<b>112,332</b>	<b>1,123,193</b>

Ongoing investments (tangible assets in preparation) in the Company amount to HRK 706,798 thousand as at 31 December 2020. The most significant ones relate to investments in EL-TO Zagreb - replacement of block A in the amount of HRK 444,583 thousand, investment for HPP Kosinj in the amount of HRK 88,817 thousand, e-mobility 33,965, investment in SE Cres 22,556, technical protection system HRK 15,300 thousand, information technology 14,014 HRK thousand, information security system HRK 11,712 thousand. Investments in 2019 amounted to HRK 232,556 thousand, of which the most significant were EL-TO Zagreb - replacement of block A, HPP Kosinj and the EDM / ECM project. As at 31 December 2020, property, plant and equipment were not pledged as collateral for bonds issued and loans received.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**14. ASSETS WITH THE RIGHT OF USE**

*In '000 HRK*

	<b>Land and buildings</b>	<b>Inventory and equipment</b>	<b>Total</b>
<b>PURCHASE VALUE</b>			
<b>1 January 2019</b>	<b>6,011</b>	<b>-</b>	<b>6,011</b>
Increases	49	1,673	1,722
<b>31 December 2019</b>	<b>6,060</b>	<b>1,673</b>	<b>7,733</b>
Increases	2,499	-	2,499
<b>31 December 2020</b>	<b>8,559</b>	<b>1,673</b>	<b>10,232</b>
<b>ACCUMULATED DEPRECIATION</b>			
<b>1 January 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>31 December 2019.</b>	<b>905</b>	<b>251</b>	<b>1,156</b>
Depreciation expense for the year	856	335	1,191
Deregistration/termination of lease	(95)	-	(95)
<b>31 December 2020</b>	<b>1,666</b>	<b>586</b>	<b>2,252</b>
<b>CARRYING AMOUNT</b>			
<b>31 December 2019</b>	<b>5,155</b>	<b>1,422</b>	<b>6,577</b>
<b>31 December 2020</b>	<b>6,893</b>	<b>1,087</b>	<b>7,980</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**15. INTANGIBLE ASSETS**

<i>In '000 HRK</i>	<b>Software</b>	<b>Licences</b>	<b>Intangible assets in preparation</b>	<b>Total</b>
<b>PURCHASE VALUE</b>				
<b>1 January 2019</b>	<b>234,645</b>	<b>2,819</b>	<b>24,917</b>	<b>262,381</b>
Increases	21,983	3,050	5,253	30,286
Derecognition based on transfer of assets	-	(234)	-	(234)
Posting	-	1,591	-	1,591
<b>31 December 2019</b>	<b>256,628</b>	<b>7,226</b>	<b>30,170</b>	<b>294,024</b>
Increases	15,712	9,062	3,832	28,606
<b>31 December 2020</b>	<b>272,340</b>	<b>16,288</b>	<b>34,002</b>	<b>322,630</b>
<b>ACCUMULATED DEPRECIATION</b>				
<b>1 January 2019</b>	<b>94,232</b>	<b>2,066</b>	<b>-</b>	<b>96,298</b>
Depreciation of the current year	29,079	466	-	29,545
Increase based on asset transfer	-	497	-	497
<b>31 December 2019</b>	<b>151,071</b>	<b>3,189</b>	<b>-</b>	<b>154,260</b>
Depreciation of the current year	33,771	924	-	34,695
Increase based on property transfer	39	-	-	39
<b>31 December 2020</b>	<b>184,881</b>	<b>4,113</b>	<b>-</b>	<b>188,994</b>
<b>Net carrying value</b>				
<b>31 December 2019</b>	<b>105,557</b>	<b>4,037</b>	<b>30,170</b>	<b>139,764</b>
<b>31 December 2020</b>	<b>87,459</b>	<b>12,175</b>	<b>34,002</b>	<b>133,636</b>

Ongoing investments (intangible assets in preparation) as at 31 December 2020 in the Company amount to HRK 34,002 thousand, and relate to investments in computer software and licenses.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**16. INVESTMENT PROPERTY**

As at 31 December 2020, investments in real estate include real estate held for the purpose of earning rent and/or increasing the value of capital and are stated at fair value. Fair value includes the estimated market price at the end of the reporting period. Investment property is accounted for using the fair value method

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Investment in property</b>		
<b>At 31 Dec 2019</b>	<b>19,491</b>	<b>19,491</b>
Net changes in fair value (Note 7)	313	-
<b>At 31 Dec 2020</b>	<b>19,804</b>	<b>19,491</b>

The assessment of the fair value of the real estate was performed by official appraisers or internal services of HEP d.d. whose assessment is based on available data on the market price of real estate in suitable locations.

As at 31 December 2020, there are no investments in real estate pledged as collateral.

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

**17. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE SHARE METHOD**

Investments in shares of companies disclosed in the Statement of Financial Position as at 31 December 2020 consist of investments shown in the table

<i>in '000 HRK</i>	<b>Ownership share %</b>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Subsidiaries</b>			
HEP - Proizvodnja d.o.o.	100	40	40
Hrvatski operator prijenosnog sustava d.o.o.	100	4,954,151	4,954,151
HEP - Operator distribucijskog sustava d.o.o.	100	1,802,041	1,802,041
HEP - Opskrba d.o.o.	100	20	20
HEP - Toplinarstvo d.o.o.	100	623,000	623,000
HEP - Plin d.o.o.	100	20	20
HEP ESCO d.o.o.	100	18,960	18,960
HEP - Upravljanje imovinom d.o.o.	100	14,297	14,297
HEP - Trgovina d.o.o.	100	40	40
HEP - Telekomunikacije d.o.o.	79.94	333,598	258,798
Plomin Holding d.o.o.	100	16,106	16,106
HEP - Elektra d.o.o.	100	20	20
Energetski park Korlat d.o.o.	100	31,092	31,092
IE-Nekretnine d.d.	100	-	19,661
SUNČANA ELEKTRANA VIS d.o.o.	100	31,362	-
		<b>7,824,747</b>	<b>7,738,246</b>
<b>Investment in joint ventures</b>			
NE Krško /i/	50	1,890,941	1,754,419
LNG Hrvatska d.o.o. /ii/	84.18	243,283	243,283
		<b>2,134,224</b>	<b>1,997,702</b>

**Investments calculated using the equity method**

Male hidre d.o.o.	49	3,040	-
		<b>3,040</b>	<b>-</b>

**Total subsidiaries and joint ventures and investments calculated using the equity method**

**9,962,011**      **9,735,948**

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**17. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE SHARE METHOD (continued)**

Changes in investments are as follows:

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>Balance at 1 January</b>	9,735,948	9,578,649
Increase of share capital of HOPS d.o.o.	-	19,432
HEP-Toplinarstvo d.o.o.	-	(141,361)
HEP Telekomunikacije d.o.o.	74,800	-
Plomin Holding d.o.o.	-	16,086
HEP - VHS Zaprešić d.o.o.	-	(20)
HEP Upravljanje imovinom d.o.o.	-	(3,698)
Energetski park Korlat d.o.o.	-	31,092
LNG Hrvatska d.o.o.	-	216,107
IE-Nekretnine d.d.	(19,661)	19,661
SUNČANA ELEKTRANA VIS d.o.o.	31,362	-
Male hidre d.o.o.	3,040	-
NE Krško	136,522	-
<b>Balance at 31 December</b>	<b>9,962,011</b>	<b>9,735,948</b>

**/i/ INVESTMENT IN NE KRŠKO**

**Payments to the NE Krško Decommissioning Financing Fund**

Pursuant to the Decree on the amount, deadline and manner of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the NE Krško, adopted by the Government of the Republic of Croatia on 24 December 2008, HEP d.d. from 2006 until the end of 2020, paid the amount of HRK 1,800,798 thousand to the Krško NPP Decommissioning Financing Fund (HTK 107,652 thousand in 2020.). The amount of payment is determined by the document Decommissioning Program from 2004. The current annual liability in the amount of EUR 14,250 thousand is paid into the Fund on a quarterly basis. On 14 July 2020 The Interstate Commission adopted the Third Revision of the NE Krško Decommissioning and Radioactive Waste Disposal Program, according to which HEP will pay a smaller annual amount in the future. It is expected that the amendment to the bylaws will be adopted in the first half of 2021 and thus the payment of HEP d.d. decreased from EUR 14,250 thousand per year (EUR 3,562 thousand quarterly) to EUR 9,760 thousand per year (EUR 2,440 thousand quarterly).

**Life extension**

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

**Accounting monitoring of joint investment in NE Krško**

Joint ventures in NE Krško are 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 presents the Company's share in each asset and each liability, income and expense in accordance with IFRS 11.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**17. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE SHARE METHOD (continued)**

**/i/ INVESTMENT IN NE KRŠKO (continued)**

The following table shows an excerpt from the financial statements of NE Krško in 100% amounts as at 31 December 2020 and 31 December 2019

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Property, plant and equipment	3,103,524	3,105,654
Capital and reserves	3,586,499	3,274,006
Sales income	1,512,462	1,291,302
Cash flow from operating activities	498,386	334,916
Profit / loss for the current year	-	-

**Financial effect of derogations**

**Profit and loss account for the year ended 31 Dec 2019**

<i>In '000 HRK</i>	<b>HEP d.d.</b>	<b>NEK d.o.o.</b>	<b>HEP d.d. + NEK d.o.o.</b>
<b>Total operating income</b>	<b>9,315,238</b>	<b>49,590</b>	<b>9,364,828</b>
<b>Total operating expenses</b>	<b>(8,780,044)</b>	<b>(48,322)</b>	<b>(8,828,366)</b>
<b>Operating profit / loss</b>	<b>535,194</b>	<b>1,268</b>	<b>536,462</b>
<b>Net profit / loss from financial activities</b>	<b>693,090</b>	<b>(1,268)</b>	<b>691,822</b>
<b>Profit before tax</b>	<b>1,228,284</b>	<b>-</b>	<b>1,228,284</b>
Profit tax	(120,976)	-	(120,976)
<b>Profit for the current year</b>	<b>1,107,308</b>	<b>-</b>	<b>1,107,308</b>

**Profit and loss account for the year ended 31 Dec 2020**

<i>In '000 HRK</i>	<b>HEP d.d.</b>	<b>NEK d.o.o.</b>	<b>HEP d.d. + NEK d.o.o.</b>
<b>Total operating income</b>	<b>8,396,884</b>	<b>14,324</b>	<b>8,411,208</b>
<b>Total operating expenses</b>	<b>(7,423,234)</b>	<b>(12,749)</b>	<b>(7,435,983)</b>
<b>Operating profit / loss</b>	<b>973,650</b>	<b>1,575</b>	<b>975,225</b>
<b>Net profit / loss from financial activities</b>	<b>561,490</b>	<b>(1,575)</b>	<b>559,915</b>
<b>Profit before tax</b>	<b>1,535,140</b>	<b>-</b>	<b>1,535,140</b>
Profit tax	(134,104)	-	(134,104)
<b>Profit for the current year</b>	<b>1,401,036</b>	<b>-</b>	<b>1,401,036</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**17. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE SHARE METHOD (continued)**

/i/ INVESTMENT IN NE KRŠKO (continued)

Financial effect of derogations (continued)

Statement of financial position as of 31 Dec 2019

<i>In '000 HRK</i>	<b>HEP d.d.</b>	<b>NEK d.o.o.</b>	<b>HEP d.d. + NEK d.o.o.</b>
<b>ASSETS</b>			
<b>Fixed assets</b>			
Property, plant and equipment	473,062	1,552,722	2,025,784
Financial assets	1,754,419	(1,636,899)	117,520
Other fixed assets	25,706,369	-	25,706,369
<b>Total fixed assets</b>	<b>27,933,850</b>	<b>(84,177)</b>	<b>27,849,673</b>
<b>Current assets</b>	<b>7,172,850</b>	<b>325,104</b>	<b>7,497,954</b>
<b>TOTAL ASSETS</b>	<b>35,106,700</b>	<b>240,927</b>	<b>35,347,627</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Total capital</b>	<b>26,158,879</b>	<b>-</b>	<b>26,158,879</b>
<b>Long term liabilities</b>	<b>4,841,526</b>	<b>201,146</b>	<b>5,042,672</b>
<b>Short-term liabilities</b>	<b>4,106,295</b>	<b>39,781</b>	<b>4,146,076</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>35,106,700</b>	<b>240,927</b>	<b>35,347,627</b>

Statement of financial position as of 31 Dec 2020

<i>In '000 HRK</i>	<b>HEP d.d.</b>	<b>NEK d.o.o.</b>	<b>HEP d.d. + NEK d.o.o.</b>
<b>ASSETS</b>			
<b>Fixed assets</b>			
Property, plant and equipment	323,866	1,551,709	1,875,575
Financial assets	1,890,941	(1,793,196)	97,745
Other fixed assets	26,784,664	-	26,784,664
<b>Total fixed assets</b>	<b>28,999,471</b>	<b>(241,487)</b>	<b>28,757,984</b>
<b>Current assets</b>	<b>6,994,336</b>	<b>519,320</b>	<b>7,513,657</b>
<b>TOTAL ASSETS</b>	<b>35,993,807</b>	<b>277,833</b>	<b>36,271,641</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Total capital</b>	<b>26,880,511</b>	<b>-</b>	<b>26,880,511</b>
<b>Long term liabilities</b>	<b>5,274,742</b>	<b>220,231</b>	<b>5,494,973</b>
<b>Short-term liabilities</b>	<b>3,838,554</b>	<b>57,602</b>	<b>3,896,157</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>35,993,807</b>	<b>277,833</b>	<b>36,271,641</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**17. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE SHARE METHOD (continued)**

**/ii/ INVESTMENT IN LNG HRVATSKA**

Hrvatska elektroprivreda d.d. (hereinafter: HEP d.d.) and Plinacro d.o.o. concluded on 1 June 2010 the Company Agreement on the establishment of the company LNG HRVATSKA d.o.o. for liquefied natural gas business by which the company LNG HRVATSKA d.o.o. became the holder of the LNG terminal project on Krk. Based on the Articles of Association of HEP d.d. and Plinacro d.o.o. became members and co-owners of LNG HRVATSKA d.o.o. and each with 50% management and property rights. By the decision of the Management Board of 21 February 2019, HEP, as a co-founder of the company LNG HRVATSKA d.o.o. increased the share capital in that company for a new business share in the amount of HRK 216,107 thousand so that it now amounts to 84.18%. Pursuant to the decision of the Government of the Republic of Croatia on declaring the LNG terminal project (construction of a liquefied natural gas reception terminal on the island of Krk, Omišalj Municipality) a strategic investment project of the Republic of Croatia (OG 78/15) of 16 July 2015, the LNG terminal construction project was declared strategic investment project of the Republic of Croatia. In November 2015, the European Commission adopted a list of projects of common interest (PCI) containing a list of key energy infrastructure projects, including the LNG terminal on the island of Krk. LNG Croatia has concluded agreements with INEA (Innovation and Networks Executive Agency) for co-financing project and permit documentation and a contract for co-financing works. The Liquefied Natural Gas Terminal Act (OG 57/18), adopted by the Parliament on 18 June 2018, established that the construction of an LNG terminal is in the interest of the Republic of Croatia, and the company LNG Hrvatska d.o.o. which will realize the project.

**/iii/ INVESTMENT IN IE-NEKRETNINE d.d.**

On 1 June 2020, the status change of the merger of IE-Nekretnine d.d to Hrvatska elektroprivreda d.d. was recorded.

**Balance sheet at the date of merger**

<i>In '000 HRK</i>	<b>31 May 2020</b>
<b>ASSETS</b>	
Fixed assets	17,017
Current assets	2,074
<b>TOTAL ASSETS</b>	<b><u>19,091</u></b>
<b>CAPITAL AND LIABILITIES</b>	
Share capital	2,455
Reserves and retained earnings	14,610
Long term liabilities	2,001
Short-term liabilities	25
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b><u>19,091</u></b>

The effect of the merger on equity amounts to HRK 345 thousand, and relates to the profit of the Company IE Nekretnine from the acquisition date to the merger date.

**18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>Opening balance</b>	<b>254,195</b>	<b>196,710</b>
Fair valuation of investments through other comprehensive income (Janaf)	(21,592)	58,299
Fair valuation of investments through other comprehensive income and other	<u>2</u>	<u>(814)</u>
<b>Closing balance</b>	<b>232,605</b>	<b>254,195</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Investments in securities:</b>		
Jadranski Naftovod d.d.	232,119	253,711
Đuro Đaković Aparati d.d.	5	5
Elektrometal d.d.	40	40
Međimurje beton d.d.	153	153
Konstruktor inženjering d.d.-u stečaju	233	233
Pominvest d.d.	35	35
Helios Faros d.d.	18	18
Vis d.d.	2	-
	<b>232,605</b>	<b>254,195</b>

**19. LONG-TERM LOANS GRANTED**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Companies within the group - finance leases (Note 33)	17,479,035	17,686,363
Companies within the group - loan /i/	895,197	225,214
Companies within the group - sub-loans /ii/	468,861	462,460
	<b>18,843,093</b>	<b>18,374,037</b>
Current maturity	(1,380,928)	(1,310,487)
	<b>17,462,165</b>	<b>17,063,550</b>

Property, plant and equipment and intangible assets are leased from the Company to affiliated companies based on their carrying amount (except HOPS as of 1 July 2013 and HEP Telekomunikacije). Leases of property, plant, equipment and intangible assets are classified as finance leases because the lessee accepts almost all the benefits and risks of ownership. Leases bear interest only up to the extent that the lessor has obtained funds to finance the asset in question from external sources. These assets are stated at cost with the aim of presenting the fixed assets in question at their carrying amount at which the Company initially reported them.

**/i/ Loans granted to companies within the Group**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
HEP-Toplinarstvo d.o.o.	15,800	31,600
HEP-Plin d.o.o.	91,561	14,036
Plomin Holding d.o.o.	67,848	10,200
LNG Hrvatska d.o.o.	36,218	35,765
Energetski park Korlat d.o.o.	426,890	91,430
Plin VTC d.o.o.	-	7,454
HEP-Telekomunikacije d.o.o.	-	34,729
HEP Opskrba d.o.o.	13,014	-
HOPS d.o.o.	226,335	-
Ornatus d.o.o.	15,844	-
SUNČANA ELEKTRANA VIS d.o.o.	1,687	-
	<b>895,197</b>	<b>225,214</b>
Current maturity	(127,494)	(60,260)
	<b>767,703</b>	<b>164,954</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**19. LONG-TERM LOAND GRANTED (continued)**

**/i/ Loans granted to companies within the Group (continued)**

Loans were granted under following conditions

User	Year of approval:	Interest rate	Payment term	Approved loan amount	31 Dec 2020	31 Dec 2019
				In '000 HRK	In '000 HRK	In '000 HRK
HEP Toplinarstvo d.o.o.	2007	4% fixed	15 years with 5 years grace period	158,000	15,800	31,600
LNG Hrvatska d.o.o.	2015	3% until 29 Oct 2020 3.42% from 29 Oct 2020	31 Dec 2022	63,684	36,218	35,765
HEP-Telekomunikacije d.o.o.	2018	3%	31 Mar 2022	do 74,000	-	34,729
Energetski park Korlat d.o.o.	2019	3.42%	one-time, no later than 30 Jun 2024	600,000	426,890	91,430
HEP Plin d.o.o.	2019	3.42%	5 years	7,657	6,640	7,454
HEP Plin d.o.o.	2019	3.42%	3 years	19,650	8,421	14,036
HEP Plin d.o.o.	2020	3.42%	5 years	76,500	76,500	-
Plomin Holding d.o.o.	2019	3.42%	5 years	10,200	-	10,200
Plomin Holding d.o.o.	2020	3.42%	5 years	66,540	63,748	-
Plomin Holding d.o.o.	2020	3.42%	5 years	4,100	4,100	-
HEP Opskrba d.o.o.	2020	3%	5 years	13,014	13,014	-
Ornatus d.o.o.	2020	3.42%	5 years	22,500	15,844	-
SUNČANA ELEKTRANA VIS d.o.o.	2020	3.42%	4 years with 1 year grace period	1,947	1,687	-
Hrvatski operator prijenosnog sustava d.o.o.	2020	1.7% fixed	31 Dec 2023	141,780	106,335	-
Hrvatski operator prijenosnog sustava d.o.o.	2020	1.72% fixed	30 Apr 2025	176,865	120,000	-
<b>Total</b>				<b>1,436,437</b>	<b>895,197</b>	<b>225,214</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**19. LONG-TERM LOANS GRANTED (continued)**

**/ii/ Receivables for sub-loans from companies within the Group**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Receivable for sub-loan HEP ESCO d.o.o. – long-term portion	41,388	41,235
Receivable for sub-loan HOPS d.o.o.	427,473	421,225
	<b>468,861</b>	<b>462,460</b>
Current maturity	(2,489)	(2,458)
	<b>466,372</b>	<b>460,002</b>

Loan receivables from HEP-ESCO d.o.o. are based on agreements concluded between the Company and financial institutions intended for the financing of energy efficiency projects. The Company has provided funds from special-purpose loans to the sub-loan HEP-ESCO d.o.o. under the same conditions. Given that the proceeds from the issuance of bonds, among other loans, were used to repay loans to finance these projects, receivables for sub-loans are now characterized by the same commercial conditions as for issued bonds. On 30 June 2020 HEP d.d. and HEP-ESCO d.o.o. signed a contract on assuming obligations under issued bonds no. 6/2020 and Sub-Loan Agreement no. 5/2020. These agreements define the mutual rights and obligations arising from the issued Eurobonds of HEP d.d. in the amount of USD 550 million and a loan approved by the German development bank KfW, given that part of these liabilities, in certain percentages of participation in these financial arrangements, was lent to HEP-ESCO d.o.o. under the same financing conditions. HEP-ESCO undertakes to repay the allocated part of the principal and interest on these sub loans. Contract on assuming obligations under issued bonds no. 2/2016 concluded on 22 March 2016 between the Company and HOPS d.o.o., defined the mutual rights and obligations arising from the issued bonds of the Company in the amount of USD 550,000,000.00. HOPS d.o.o. undertakes to repay the allocated part of the principal and interest on the issued bonds.

**20. OTHER NON-CURRENT RECEIVABLES**

**Housing loans**

Receivables on housing loans as at 31 December 2020 amount to HRK 207 thousand (2019: HRK 274 thousand). Prior to 1996, the Company 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 the 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 are stated in the financial statements at discounted net present value. Liabilities to the state, which represent 65% of the value of apartments sold, are stated in other long-term liabilities (Note 30). Receivables are secured by mortgages on sold apartments.

**21. INVENTORIES**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Wholesale gas supplies	34,256	400,886
CO2 emission units	668,336	528,494
Stocks of energy savings in final consumption	13,070	10,314
Inventories of investment material	1,630	3,165
Inventories of other material	607	635
	<b>717,899</b>	<b>943,494</b>
Adjustment of receivables	(6,272)	(6,281)
	<b>717,899</b>	<b>943,494</b>

The note below shows changes in the value adjustment of inventories over the years:

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>At 1 January</b>	<b>6,281</b>	<b>6,314</b>
Credited/debited to the current year's profit or loss	(9)	(33)
<b>At 31 December</b>	<b>6,272</b>	<b>6,281</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**22. TRADE RECEIVABLES**

*In '000 HRK*

	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Trade receivables in the country	130,343	456,841
Receivables from gas customers in the wholesale market	17,768	220,264
Receivables for electricity from abroad	84,414	32,511
	<b>232,525</b>	<b>709,616</b>
Impairment of receivables	(127,906)	(457,337)
	<b>104,619</b>	<b>252,279</b>

*In '000 HRK*

**Trade receivables**

	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
EUR	11,201	4,368
Other	39	6
	<b>11,240</b>	<b>4,374</b>

The table below shows the age structure of receivables and the corresponding rate of expected credit loss for each age group.

<b>31 December 2019</b>	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	191-365 days	Over 365 days	<b>Total</b>
Gross book value of trade receivables	239,447	6,620	1,340	826	2,109	3,076	456,198	<b>709,616</b>
Expected credit losses	-	-	(20)	(25)	(190)	(923)	(456,179)	<b>(457,337)</b>

<b>31 December 2020</b>	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	191-365 days	Over 365 days	<b>Total</b>
Gross book value of trade receivables	97,304	5,235	2,141	5	9	28	127,803	<b>232,525</b>
Expected credit losses	(19)	(57)	(32)	-	(1)	(8)	(127,789)	(127,906)

Changes in allowance for impairment were as follows:

*In '000 HRK*

	<b>2020</b>	<b>2019</b>
<b>Balance on 1 January</b>	457,337	461,677
Increase in impairment of receivables	(1,087)	(13)
Decrease in impairment of receivables	17	1,139
Postings	(1,300)	(1,366)
Write-off of uncollected receivables	(1,061)	(100)
Reprogrammed receivables collected	(326,000)	(4,000)
<b>Balance on 31 December</b>	<b>127,906</b>	<b>457,337</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**23. OTHER CURRENT RECEIVABLES**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Advances to suppliers	261,072	227,204
Short-term guarantees given	41,157	23,171
Interest receivables	15	50
Receivables for given deposits	50,457	57,570
Prepaid costs	16,130	19,800
Receivables from the state	104	144
Other receivables	1,515	630
Receivables for taxes and contributions	-	17,865
	<b>370,450</b>	<b>346,434</b>

Receivables for given deposits relate to funds deposited for business purposes.

Prepaid expenses in 2020 mostly refer to prepaid sponsorships HRK 10,870 thousand, lease of capacity HRK 4,693 thousand, and other HRK 567 thousand. (annual subscriptions to magazines, annual insurance costs of ENC devices).

**24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Units in investment funds - foreign currency	66,012	64,686
Units in investment funds - kuna	101,043	100,499
	<b>167,055</b>	<b>165,185</b>

The increase in the value of shares is a result of the change in the fair value of investments in funds in 2020 and amounts to HRK 1,870 thousand (2019: HRK 4,733 thousand), Note 10: Other financial income.

**25. CASH AND CASH EQUIVALENTS**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Giro accounts in kuna	926,293	657,897
Short-term deposits (daily deposits)	371,852	384,103
Foreign currency accounts	192,784	265,216
Deposits with a maturity of up to 90 days	87,992	65,985
Allocated funds	124	2,176
Cash in hand - HRK	15	12
	<b>1,579,060</b>	<b>1,375,389</b>

HEP d.d. has an open kuna giro account in Privredna banka d.d., Zagrebačka banka d.d., Hrvatska poštanska banka d.d., Erste & Steiermarkische bank d.d., Raiffeisen bank d.d. and OTP Bank d.d.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**25. CASH AND CASH EQUIVALENTS (continued)**

**Structure of foreign currency accounts:**

<i>In '000 HRK</i>	<u>31 Dec 2020</u>	<u>31 Dec 2019</u>
EUR	186,873	262,957
USD	5,911	2,212
GBP	-	15
Other currencies	-	32
	<u>192,784</u>	<u>265,216</u>

**26. SHARE CAPITAL**

In 2020, the share capital was expressed in Croatian kuna in the amount of HRK 19,792,159 thousand (2019 in the same amount) and consisted of 10,995,644 ordinary shares with a nominal value of HRK 1,800.

**27. LIABILITIES UNDER ISSUED BONDS**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Value of bonds abroad from 2015	3,583,024	3,573,685
Exchange rate difference	45,793	12,140
<b>Discount value</b>	<u>7,144</u>	<u>7,199</u>
7	<u>3,645,961</u>	<u>3,593,024</u>
Cost allocation by bond	<u>(6,365)</u>	<u>(9,838)</u>
<b>Bonds issued in 2015</b>	<b>3,639,596</b>	<b>3,583,186</b>
<b>Investments in bonds 1.1.</b>	<b>(64,482)</b>	<b>-</b>
Investments in bonds during the year	(76,172)	(64,261)
Exchange rate difference	(1,274)	(221)
<b>Total liabilities under issued bonds</b>	<b>3,497,668</b>	<b>3,518,704</b>

**Bonds issued abroad in 2015**

In October 2015, the Company issued corporate bonds in the amount of \$ 550,000 thousand, with a discount, with a maturity of 7 years and a fixed interest rate of 5,875% per annum.

Bonds issued in 2015 were mostly used for repurchase of 83.37% of the amount of bonds issued in 2012 (i.e. repurchase of \$ 416,852 thousand). The remaining amount of the issue is intended to finance the Company's business activities.

The bond is listed on the Luxembourg Stock Exchange and is actively traded.

The stated value of the discount on bonds issued in 2015 is the annual amount of the discount.

The fair value of bonds as at 31 December 2020 amounts to HRK 3,497,668 thousand.

During 2020, the Company repeatedly purchased its own bonds on the secondary market in the total amount of HRK 77,446 thousand, which reduced the total book value of the corporate bond as at 31 December 2020.

The fair value of bonds, less the repurchased amount of bonds with a nominal value of \$ 21,075 thousand as at 31 December 2020 amounts to \$ 575,534 thousand (equivalent to HRK 4,337,743 thousand).

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**27. LIABILITIES UNDER ISSUED BONDS (continued)**

*Derivative financial instruments*

**Currency swap**

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

According to the currency exchange agreement from 2015, the annual interest rate paid by the Company is fixed and amounts to 4,851% (weighted interest rate) and is payable semi-annually (the interest rate also includes the cost of exchange or swap).

The purpose of the Cross currency swap agreement is to reduce currency risk and credit agencies' recommendations on the importance of strategic currency risk management in order to reduce their impact on the Company's business results. The Company links the fair value of derivative financial instruments to the calculation of Mark to market value "MTM", according to official calculations of banks, for the reporting period.

The positive value of "MTM" is recorded as a receivable, i.e. it forms the financial income of the period, and the negative value of "MTM" is recorded as a liability and also 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 or credited to the income of the Company.

As at 31 December 2020 the fair value of liabilities in the amount of HRK 296,430 thousand was stated for bonds issued in 2015 (2019: HRK 80,511 thousand; note 30).

**28. LIABILITIES UNDER LONG-TERM LOANS**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Loans from foreign banks	540,015	221,725
<b>Total long-term loan liabilities</b>	<b>540,015</b>	<b>221,725</b>
Differentiation of loan fees	(2,934)	(3,230)
<b>Total long-term loan liabilities</b>	<b>537,081</b>	<b>218,495</b>
Current maturity	(53,879)	(36,285)
<b>Long-term part of HEP</b>	<b>483,202</b>	<b>182,210</b>
<b>Total liabilities under long-term loans</b>	<b>483,202</b>	<b>182,210</b>

The Company contracted loans with domestic and foreign banks with applicable variable and fixed interest rates, which in 2020 ranged from 0.44% to 2.48%.

**New sources of funding**

To finance the investment plan and regular operations in 2020, the Company used its own funds and funds from loans in use.

On 24 July 2018, a Loan Agreement was signed with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) for the purpose of financing the construction project KKE EL-TO Zagreb in the amount of EUR 130 million, of which The EBRD has EUR 87 million and the EIB EUR 43 million. The EBRD loan consists of two tranches, namely Tranche A (EUR 43.5 million) provided by the EBRD independently and Tranche B (EUR 43.5 million) in which the commercial banks' union participates.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**28. LIABILITIES UNDER LONG-TERM LOANS (continued)**

**Loans in use**

In December 2018, the use of loans from the EBRD and the EIB began for the purpose of financing the construction project KKE EL-TO Zagreb. On 31 December 2020 the balance of used long-term loans amounts to EUR 38,5 million from the EBRD and EUR 18,52 million from the EIB. The use of the loan was agreed until 20 July 2021.

During 2020, there were two withdrawals on these loans; in April in the total amount of EUR 37.3 million and in September in the amount of EUR 9.5 million. In April 2020, the EBRD loan was used in the amount of EUR 25.2 million, and the EIB loan in the amount of EUR 12.1 million. In September 2020, the EBRD loan was used in the amount of EUR 6.4 million, and the EIB loan in the amount of EUR 3.1 million.

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

	<i>(In '000 HRK)</i>
2021	53,879
2022	71,137
2023	74,946
2024	43,868
2025	43,868
After 2025	249,383
	<hr/>
	<b>537,081</b>

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

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

he contracted financial indicators are monitored and calculated based on the projected Statement of Financial Position and Profit and Loss Account.

As at 31 December 2020, the Company met all contracted financial indicators.

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

In order to secure liquidity reserves in the next medium-term period, the Company has concluded multi-purpose framework agreements with domestic banks, in the total amount of HRK 1 billion. The Company may use the funds from these frameworks for short-term loans, as well as the issuance of guarantees, letters of credit, and letters of intent in accordance with the needs of HEP Group companies. During 2020, short-term funds were used exclusively for the purpose of issuing guarantees and opening letters of credit, and they did business equally with all banks.

From the previously mentioned medium-term multi-purpose frameworks, during 2020 there was no need for short-term loans due to good liquidity.

On 31 December 2019 the total amount of available funds from the short-term framework amounts to HRK 884,217 thousand.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**29. OTHER LONG-TERM LIABILITIES**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Long-term liabilities for assets financed from clearing debt	739,447	800,982
Derivative financial liabilities on swap transactions (Note 27)	296,430	80,511
Long-term liabilities to the state	659	694
Other	10,150	10,661
<b>Other long-term liabilities</b>	<b>1,046,686</b>	<b>892,848</b>

As at 31 December 2020, the Company has a stated liability for clearing debt in the amount of HRK 739,447 thousand (2019: HRK 800,982 thousand), which relates to payments from letters of credit, based on the Consent of the Ministry of Finance on the use of funds based on interbank Agreement. Since there is no other document that would regulate the relationship between the Company and the Ministry of Finance in relation to the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

Long-term liabilities to the state in the amount of HRK 659 thousand (2019: HRK 694 thousand) relate to the sale of apartments to employees in accordance with the state program that was abolished in 1996. According to the legal regulations, 65% of the income from the sale of apartments to employees was paid to the state upon receipt of funds. By law, the Company has no obligation to remit funds before collecting them from employees.

**30. LEASE LIABILITIES**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Long-term real estate lease liabilities	6,445	4,589
Long-term car lease liabilities	796	1,128
	<b>7,241</b>	<b>5,717</b>
Current maturity of long-term lease liabilities	<b>1,089</b>	<b>1,020</b>
<b>Lease liabilities</b>	<b>8,330</b>	<b>6,737</b>

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 the HEP Group at the beginning of the lease is used. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or rate. In this case, the initial calculation of lease liability assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which they relate.

**31. PROVISIONS**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Provisions for severance pay and jubilee awards	26,659	24,267
Provisions for litigation	179,431	177,695
Other provisions	21,631	21,631
<b>Total provisions</b>	<b>227,721</b>	<b>223,593</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**31. PROVISIONS (continued)**

**Provisions for litigation**

The Company reserves costs for litigation that has been judged not to have a probable result in favour of the Company. The total amount of provisions as at 31 December 2020 amounts to HRK 179,431 thousand (2019: HRK 177,695 thousand). The most significant provisions relate to a dispute related to HPP Peruća that began in 1995, for which a first-instance verdict was rendered in 2012 in favour of the plaintiff. The value of the dispute is around HRK 350 million, and funds in the amount of HRK 165,000 thousand have been reserved. Other major disputes relate to the Rijeka - Zagreb Motorway (i.e. Hrvatske autoceste d.o.o., as legal successor), funds in the amount HRK 10,203 thousand have also been reserved.

**Changes in liabilities for long-term provisions are as follows:**

<i>In '000 HRK</i>	<b>Severance</b>	<b>Jubilee awards</b>	<b>Legal disputes</b>	<b>Other provisions</b>	<b>Total</b>
<b>At 1 January 2019.</b>	<b>19,511</b>	<b>1,235</b>	<b>178,867</b>	<b>21,631</b>	<b>221,244</b>
Additional provisions	3,471	50	10,203	-	<b>13,724</b>
Reduction of provisions based on estimates	-	-	(11,375)	-	<b>(11,375)</b>
<b>At 31 December 2019</b>	<b>22,982</b>	<b>1,285</b>	<b>177,695</b>	<b>21,631</b>	<b>223,593</b>
Additional provisions	2,340	52	1,846	-	<b>4,238</b>
Reduction of provisions based on estimates	-	-	(110)	-	<b>(110)</b>
<b>At 31 December 2020</b>	<b>25,322</b>	<b>1,337</b>	<b>179,431</b>	<b>21,631</b>	<b>227,721</b>

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

<i>In '000 HRK</i>	<b>Severance</b>	<b>Jubilee awards</b>	<b>Total</b>
At 1 January 2019	<b>19,511</b>	<b>1,235</b>	<b>20,746</b>
Service costs	1,230	109	1,339
Interest expense	130	7	137
Benefits paid	(466)	(204)	(670)
Past service cost	440	25	465
Actuarial gains / losses	2,137	113	2,250
At 31 December 2019	<b>22,982</b>	<b>1,285</b>	<b>24,267</b>
Service costs	1,359	114	1,473
Interest expense	143	7	150
Benefits paid	(1,660)	(127)	(1,787)
Past service cost	17	4	21
Actuarial gains / losses	2,481	54	2,535
At 31 December 2020	<b>25,322</b>	<b>1,337</b>	<b>26,659</b>

Provisions for severance pay and jubilee awards are based on a calculation by a certified actuary.

The following assumptions were used in the calculation:

- Termination rate of employment is 5.00%, and is based on statistical data on employee turnover in the Company in the previous five years
- Probability of death by age and sex is derived from the Mortality Tables for Croatia 2010-2012, published by the Central Bureau of Statistics of the Republic of Croatia. It is assumed that the Company's employees are included in the average population in terms of mortality and health status.
- We assumed that the annual salary would increase by 2%.

The present value of the liability was calculated using a discount rate of 0.6% per annum.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**32. OTHER LIABILITIES**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
Trade payables /i/	453,686	395,013
Liabilities for taxes and contributions	6,921	-
Interest liabilities	27,520	33,649
Liabilities to employees /ii/	9,105	8,102
Other liabilities /iii/	33,967	34,607
	<b>531,199</b>	<b>471,371</b>
<i>/i/ Liabilities to suppliers</i>		
Liabilities to suppliers in the country	236,396	256,614
Liabilities to suppliers abroad	6,976	2,682
Liabilities to electricity suppliers within the EU and abroad	141,082	118,250
Liabilities to suppliers within the EU	69,232	17,467
	<b>453,686</b>	<b>395,013</b>
<i>/ii/ Liabilities to employees</i>		
Liabilities for net salaries	5,337	4,749
Liabilities for contributions	2,593	2,525
Other liabilities	1,175	828
	<b>9,105</b>	<b>8,102</b>
<i>/iii/ Other liabilities</i>		
Accrued expenses for unused annual leave	4,665	4,707
Liabilities for insurance premiums	3,749	1,840
Deferred income from donations from EU funds	12,479	14,161
Other accrued expenses	388	664
Other liabilities	12,686	13,235
	<b>33,967</b>	<b>34,607</b>

Other liabilities mainly consist of sponsorship liabilities in the amount of HRK 6,993 thousand, liabilities for received guarantees in the amount of HRK 1,726 thousand, liabilities for fees and commissions on loans in the amount of HRK 1,014 thousand and fees for payment of bills at the post office or FINA in the amount of HRK 1,069 thousand.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES**

As at 31 December 2020, the Company owned the following subsidiaries:

<b>Subsidiary</b>	<b>Country</b>	<b>Share (%)</b>	<b>Primary operation</b>
HEP-Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	100	Electricity transmission
HEP-Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP-Opskrba d.o.o.	Croatia	100	Electricity supply
HEP-Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
HEP-Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Infrastructure development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP Energija d.o.o.	Slovenia	100	Electricity trading
HEP Energija d.o.o.	BiH	100	Electricity trading
HEP Energija sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o.	Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	79.94	Telecommunications
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
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
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity
LNG Hrvatska d.o.o.	Croatia	84.18	Liquefied natural gas operations
Male hidre d.o.o.	Croatia	49	Production of electricity

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

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

IE-Nekretnine d.d. was merged with HEP d.d. in June 2020. Companies Prvo Plinarsko Društvo - Distribucija plina d.o.o., Prvo Plinarsko Društvo - Opskrba kućanstava d.o.o. and Plin VTC d.o.o. were merged with HEP-Plin d.o.o. during July 2020. The company Male hidre d.o.o. was established in July 2020 as a joint project company by HEP d.d. and Končar-renewable sources d.o.o.

HEP's investment in the share capital of the new company (49%) was in kind, and the investment of Končar-renewable sources d.o.o. in the share capital of the new company (51%) was in cash.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

Relations with affiliated companies refer to subsidiaries and NE Krško d.o.o. and LNG Hrvatska d.o.o. Relationships with these companies are listed below:

/ i / Revenues of the Company are generated on the basis of pre-invoiced revenues to the related Company from the sale of electricity, except for customers of universal service (households) and guaranteed supply, fees for accounting, legal and similar services and lease of business premises. The amount of these revenues from affiliated companies is determined on the basis of the following values: the value of the assets of the affiliated company, the costs of employees and the total costs of the affiliated company.

/ ii / Interest on long-term leases of property, plant and equipment and intangible assets is calculated to lessees according to the loans used for the construction of the property and is stated in interest income with associated companies.

/ iii / Costs with affiliated companies are incurred for the electricity taken over and the electricity supply fee. The costs for the performed services are invoiced monthly in accordance with the provisions and tariffs prescribed by HERA.

/ iv / Short-term receivables from associated companies arose from the sale of fuel, materials and spare parts, for sold electricity to HEP Elektra d.o.o. and for customers of HEP Opskrba d.o.o., for sold losses on the distribution network to HEP Distribution System Operator d.o.o., on the transmission network to HOPS d.o.o., for administrative costs of the Company and for ongoing investments financed in the Company. Upon completion of construction, the said property is transferred to affiliated companies for lease.

/ v / Long-term receivables from affiliated companies arose on the basis of financial lease of real estate, plant and equipment to affiliated companies. The rent is paid monthly according to the depreciation of the leased property, increased by interest on long-term loans from which the property is financed. The Company also has receivables from affiliated companies for apartments sold to employees.

Receivables and liabilities and income and expenses from other related companies are listed in the table below:

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>Operating income</b>		
Revenues from the sale of electricity to HEP Elektra d.o.o.	2,182,526	2,195,006
Revenues from invoicing el. energy to cover losses in the distribution network	564,671	668,232
Revenues from invoicing el. energy to cover losses in the transmission network	61,943	129,556
Revenues from the sale of electricity to HEP Group companies	54,377	55,944
Revenue from balancing electricity	21,902	-
Revenues from the sale of electricity to HEP Energija d.o.o. Ljubljana	263,516	282,770
Revenues from the sale of electricity to HEP Energija d.o.o. Belgrade	8,851	14,914
Revenues from the sale of electricity to HEP Energija d.o.o. Mostar	8,650	15,884
Revenues from sales of electricity to HEP Energija SH.P.K. Kosovo	28,132	14,518
Revenue from the sale of electricity to HEP Proizvodnja d.o.o.	-	6,140
<b>Revenue from electricity sales - affiliated companies</b>	<b>3,194,568</b>	<b>3,382,964</b>
<b>Revenue from gas sales to HEP Plin - affiliated company</b>	<b>138,914</b>	<b>141,973</b>
<b>Revenue from the sale of thermal energy HEP Proizvodnja d.o.o.</b>	<b>-</b>	<b>3,350</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
Revenue from sales to companies - other	-	39
Income from intra-group investment services	12,252	6,195
Revenue based on services and sales of materials within the group	1,918	3,342
Revenues based on services within the group - restaurant	89	222
Revenue from sales of CO2 emission units	385,668	273,267
<b>Other sales revenues - related parties</b>	<b>399,927</b>	<b>283,065</b>
<b>Sales revenues - related parties</b>	<b>3,733,409</b>	<b>3,811,352</b>
Revenues from the performance of administrative services	175,649	164,799
Income from renting office space	16,137	14,673
Revenues from the sale of energy savings to companies	11,752	23,654
<b>Other operating income - affiliated companies</b>	<b>203,538</b>	<b>203,126</b>
HEP Energija d.o.o. Ljubljana	6,325	7,194
HEP Energija d.o.o. Beograd	7	-
HEP Energija d.o.o. Mostar	1,747	65,555
HEP Energija sh.p.k.	-	491
Procurement of electricity - HEP Proizvodnja d.o.o.	3,014,749	2,934,574
Procurement of el. energy from RES - HEP Opskrba d.o.o.	285,953	448,207
Balancing electricity - HOPS d.o.o.	26,706	88,544
<b>Expenditures for electricity supply - affiliated companies</b>	<b>3,335,487</b>	<b>3,544,565</b>
Cost of sales of CO2 emission units	385,668	273,267
Electricity supply fee - HEP Opskrba d.o.o.	55,831	60,325
Fee for electricity and gas trading services -HEP Trgovina d.o.o.	17,139	16,518
Fee for gas supply services -HEP Trgovina d.o.o.	4,020	5,419
<b>Costs of fees and services - affiliated companies</b>	<b>462,658</b>	<b>355,529</b>
<b>Costs of fees and services-related companies</b>	<b>3,798,145</b>	<b>3,900,094</b>

The costs of balancing electricity in 2020 amount to HRK 26,706 thousand (2019: HRK 88,544 thousand), and are realized on the basis of the sale or purchase of balancing electricity in accordance with the applicable Rules on balancing the electricity system.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

**FINANCIAL INCOME AND EXPENSES WITH AFFILIATES**

<i>In '000 HRK</i>	<b>2020</b>	<b>2019</b>
<b>Financial income from affiliated companies</b>		
Interest income on leased assets	80,988	79,144
Interest income on loans	29,673	26,067
Positive exchange rate differences	10,828	2,419
Dividends from subsidiaries and associates	804,704	828,297
Other financial income	879	876
	<hr/>	<hr/>
<b>Total financial income from affiliated companies</b>	<b>927,072</b>	<b>936,803</b>
<b>Financial expenses with affiliated companies</b>		
Interest expense - IFRS 16	(226)	(252)
Negative exchange rate differences	(1)	-
Value adjustment of shares	-	(270,059)
	<hr/>	<hr/>
<b>Total financial expenses with affiliated companies</b>	<b>(227)</b>	<b>(270,311)</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Non-current receivables</b>		
<b>Receivables for long-term lease assets</b>		
HEP Operator distribucijskog sustava d.o.o.	8,053,189	8,051,436
HEP Proizvodnja d.o.o.	8,142,283	8,407,017
HEP Toplinarstvo d.o.o.	920,482	868,492
HEP Upravljanje imovinom d.o.o.	150,934	147,263
HEP Plin d.o.o.	183,700	182,950
HEP Noc d.o.o.	11,143	11,450
HEP Opskrba d.o.o.	1,669	1,475
HEP Trgovina d.o.o.	863	781
HEP Esco d.o.o.	2,060	2,566
HEP Elektra d.o.o.	5,105	4,563
VHS Zaprešić d.o.o.	-	19
	<b>17,471,428</b>	<b>17,678,012</b>

The table below shows the expected undiscounted cash flows from finance lease receivables over the next 5 years.

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Expected receipts under finance lease</b>		
Year 1	1,250,945	1,247,770
Year 2	1,250,945	1,247,770
Year 3	1,250,945	1,247,770
Year 4	1,250,945	1,247,770
Year 5	1,250,945	1,247,770
After year 5	11,216,703	11,439,162
	<b>17,471,428</b>	<b>17,678,012</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Receivables for apartments sold</b>		
HEP Operator distribucijskog sustava d.o.o.	4,290	4,728
HEP Proizvodnja d.o.o.	2,800	2,983
Hrvatski operator prijenosnog sustava d.o.o.	428	539
HEP Toplinarstvo d.o.o.	89	101
	<u>7,607</u>	<u>8,351</u>
	<u><b>17,479,035</b></u>	<u><b>17,686,363</b></u>
Current lease maturity	<u>(1,250,945)</u>	<u>(1,247,770)</u>
<b>Long-term lease receivables from affiliated companies</b>	<u><b>16,228,090</b></u>	<u><b>16,438,593</b></u>
<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Receivables from long-term loans from affiliated companies</b> (Note 19)		
HEP-Toplinarstvo d.o.o.	15,800	31,600
HEP Plin d.o.o.	91,561	14,036
Plomin Holding d.o.o.	67,848	10,200
Energetski park Korlat d.o.o.	426,890	91,430
LNG Hrvatska d.o.o.	36,218	35,765
HEP-Telekomunikacije d.o.o.	-	34,729
Plin VTC d.o.o.	-	7,454
HEP Opskrba d.o.o.	13,014	-
Hrvatski operator prijenosnog sustava d.o.o.	226,335	-
Ornatus d.o.o.	15,844	-
SUNČANA ELEKTRANA VIS d.o.o.	1,687	-
	<u>895,197</u>	<u>225,214</u>
	<u>(127,494)</u>	<u>(60,259)</u>
<b>Current maturities</b>	<u><b>767,703</b></u>	<u><b>164,955</b></u>
<b>Receivables from long-term sub-loans from affiliated companies</b> (Note 19)		
Receivable for sub-loan HEP ESCO d.o.o.	41,388	41,235
Receivable for sub-loan HOPS d.o.o.	427,473	421,225
	<u>468,861</u>	<u>462,460</u>
<b>Current maturity</b>	<u>(2,489)</u>	<u>(2,458)</u>
	<u><b>466,372</b></u>	<u><b>460,002</b></u>
<b>Total non-current receivables</b>	<u><b>17,462,165</b></u>	<u><b>17,063,550</b></u>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Current receivables</b>		
Receivables from HEP Elektra d.o.o. for electricity sold	413,848	395,141
Receivables from HEP Operator distribucijskog sustava d.o.o. for losses in the distribution network	175,622	167,614
Receivables from HEP Opskrba d.o.o. for electricity sold	461,548	489,117
Receivables from HEP Proizvodnja d.o.o. for electricity sold	-	-
Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	4,996	24,467
Receivables from HEP Energija d.o.o. Ljubljana	69,406	77,155
Receivables from HEP Energija d.o.o. Belgrade for sold electricity	3,358	3,746
Receivables from HEP Energija d.o.o. Mostar for sold electricity	3,366	3,563
Receivables of HEP d.d. from HEP- Energije SH.P.K. Kosovo for electricity	5,997	8,346
Receivables for balancing electricity - HOPS d.o.o.	24,196	-
Other receivables	11,004	11,242
	<b>1,173,341</b>	<b>1,180,391</b>
<b>Receivables for administrative expenses</b>		
HEP Proizvodnja d.o.o.	-	7,466
HEP Operator distribucijskog sustava d.o.o.	29,694	21,605
HEP Toplinarstvo d.o.o.	1,337	1,559
HEP Plin d.o.o.	5,509	3,733
HEP Upravljanje imovinom d.o.o.	365	7,309
HEP Trgovina d.o.o.	436	2,145
HEP Opskrba d.o.o.	3,736	3,202
HEP ESCO d.o.o.	795	255
HEP Telekomunikacije d.o.o.	-	267
HEP Elektra d.o.o.	2,546	3,181
VHS Zaprešić d.o.o.	56	483
Energetski park Korlat d.o.o.	55	587
	<b>44,529</b>	<b>51,792</b>
<b>Current receivables based on lease of business premises</b>		
HEP Proizvodnja d.o.o.	30,526	56,837
HEP Toplinarstvo d.o.o.	3,101	7,456
HEP Operator distribucijskog sustava d.o.o.	18,462	138,375
HEP Plin d.o.o.	14,237	9,232
HEP Upravljanje imovinom d.o.o.	348	6,535
HEP NOC	-	-
HEP Trgovina d.o.o.	-	227
HEP Opskrba d.o.o.	-	244
HEP Esco d.o.o.	105	258
HEP Elektra d.o.o.	-	102
	<b>66,779</b>	<b>219,266</b>
<b>Other current receivables</b>	<b>319,492</b>	<b>152,806</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<u>31 Dec 2020</u>	<u>31 Dec 2019</u>
<b>Receivables for paid investments and other receivables</b>		
HEP Proizvodnja d.o.o.	191,632	180,318
Hrvatski operator prijenosnog sustava d.o.o.	31,531	74,269
HEP Operator distribucijskog sustava d.o.o.	323,919	255,567
HEP Toplinarstvo d.o.o.	59,656	89,789
HEP Plin d.o.o.	34,498	25,408
HEP ESCO d.o.o.	11,473	11,829
HEP Noc d.o.o.	1,235	1,310
Trgovina d.o.o.	41	44
HEP Upravljanje imovinom d.o.o.	5,350	3,989
HEP Opskrba d.o.o.	22,528	22,850
HEP Telekomunikacije d.o.o.	-	-
Plomin Holding d.o.o.	-	1,350
Energetski park Korlat d.o.o.	-	908
	<b>681,863</b>	<b>667,631</b>
<b>Receivables for investment and other material sold</b>		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	<b>316,153</b>	<b>316,153</b>
<b>Other receivables</b>		
HEP Plin d.o.o.	22,210	30,939
HOPS d.o.o.	-	32,845
	<b>22,210</b>	<b>63,784</b>
<b>Receivables for short-term loans granted</b>		
HEP Energija d.o.o. Beograd	1,357	1,340
HEP Energija sh.p.k. Kosovo	603	1,533
LNG Hrvatska d.o.o.	-	124,886
HEO ESCO d.o.o.	47,998	-
	<b>49,958</b>	<b>127,759</b>
<b>Receivables from affiliated companies</b>	<b>2,674,325</b>	<b>2,779,582</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>Short-term liabilities</b>		
HEP Proizvodnja for electricity	820,639	1,384,373
Energetski park Korlat d.o.o. for electricity	5,335	-
SUNČANA ELEKTRANA VIS d.o.o. for electricity	49	-
HEP Opskrba for compensation from RES procurement	30,141	54,873
HEP Opskrba for electricity supply compensation	166	15,617
HEP Trgovina for trading fee	6,151	1,266
HOPS d.o.o. - Liabilities for balancing energy	2,464	34,628
Liabilities under guarantees of electricity origin-HEP Proizvodnja d.o.o.	123	213
HEP Proizvodnja - liability based on the assignment agreement	810,952	810,952
Other	15,318	48,737
	<b>1,691,338</b>	<b>2,350,659</b>
<b>Other liabilities</b>		
HEP Operator distribucijskog sustava d.o.o.		
- for paid connections fees	167,739	172,076
- for cash paid into the treasury	9,207	139,896
- for customer payments and paid investments from sub-accounts	19,152	79,648
HEP Elektra d.o.o. for cash paid into the treasury	782,141	767,274
HEP Proizvodnja d.o.o.-remitted advance profit for 2018.	550,000	-
Liabilities to other companies for customer payments and investments paid from sub-accounts	782	53,555
	<b>1,529,021</b>	<b>1,212,449</b>
HEP Energija d.o.o. Ljubljana for electricity delivered	-	1,254
HEP Energija d.o.o. Mostar	-	5,323
	-	<b>6,577</b>
<b>Total short-term liabilities</b>	<b>3,220,359</b>	<b>3,569,685</b>

Relations with the associated company NE Krško d.o.o. are shown in the following table:

<i>In '000 HRK</i>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
<b>NE Krško d.o.o.</b>		
Liabilities for purchased electricity	61,458	51,158
Cost of purchased electricity	742,042	596,260

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**33. RELATIONS WITH AFFILIATED COMPANIES (continued)**

<i>In '000 HRK</i>	Sales revenue		Procurement cost	
	2020	2019	2020	2019
<b>Companies that are majority owned by the State</b>				
Hrvatske Željeznice	79,478	82,938	-	-
Hrvatska pošta d.d.	12,205	13,873	9,095	11,766
Hrvatske šume d.o.o.	2,091	2,289	5,572	5,337
Jadrolinija d.o.o.	740	665	25	-
Narodne novine d.d.	1,881	1,848	609	272
Hrvatska radio televizija	6,584	7,198	89	820
Plinacro d.o.o.	2,065	2,946	34,529	59,927
Plovput d.d.	660	765	-	-
Croatia Airlines d.d.	427	445	-	-
Ministry of Interior	15,859	14,446	-	-
Primary and secondary schools	19,753	23,248	-	-
Judicial institutions	5,213	4,851	-	-
Colleges and universities	13,625	14,722	1,081	1,365
Legislative, executive and other governmental bodies	11,301	12,102	-	-
Health institutions	50,719	70,797	-	-
Other users	-	3	-	2,530
HROTE d.o.o.	-	16,343	252,330	38,365
	<b>222,601</b>	<b>269,479</b>	<b>303,330</b>	<b>120,382</b>
<i>In '000 HRK</i>	Receivables		Liabilities	
	2020	2019	2020	2019
<b>Companies that are majority owned by the State</b>				
Hrvatska pošta d.d.	-	-	763	915
Narodne novine d.d.	-	-	84	11
Plinacro d.o.o.	-	-	1,171	8,094
HROTE d.o.o.	-	-	10,431	3,879
Other users	59	111	2,702	7,434
	<b>59</b>	<b>111</b>	<b>15,151</b>	<b>20,333</b>

### **34. CONTINGENCIES AND COMMITMENTS**

#### **Legal disputes**

In 2020, the Company registered provisions for legal disputes which were estimated to be unlikely to be resolved in favour of HEP d.d. and subsidiaries. The company has long-term investments in the territory of Bosnia and Herzegovina and Serbia, the value of which at cost from 1994 amounts to 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 Company has long-term investments in non-business assets in the territory of Bosnia and Herzegovina and Montenegro in the amount of HRK 722 thousand, which is excluded from the net asset value.

#### **Operating liabilities**

As part of regular investment activities, as at 31 December 2020, the Company had concluded contracts according to which investments in various facilities and equipment began but were not completed. The value of contracted and unfinished works for the most significant projects amounted to HRK 1,081,672 thousand (2019: HRK 1,061,378 thousand).

As a shareholder in the companies HEP - Toplinarstvo d.o.o. and HEP Upravljanje imovinom d.o.o. which record operating losses are ready to provide all the funds necessary for the companies to continue to operate and fulfil their maturity obligations.

#### **34. CONTINGENCIES AND COMMITMENTS (continued)**

##### **Environmental Protection**

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

The company has a system for monitoring environmental protection expenditures (RETZOK), which has been monitoring nature and environmental protection expenditures since 2004.

All HEP thermal power plants with a rated thermal input of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry of Environmental Protection and Energy. By the decision of the Management Board of the Company in 2012, the greenhouse gas emissions trading system was established, and the Republic of Croatia and HEP joined the European Union Emissions Trading System (EU-ETS) on 1 January 2013. Based on the Company's request, the Croatian Environment and Nature Agency (merged with the Ministry of Environmental Protection and Energy on 1 January 2019) opened nine Plant Operator Accounts in the EU register. The company has successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2019, and for 2020, data on verified CO<sub>2</sub> emissions have been entered and verified. The European Commission confirms the entry of emission allowances in the EU Register by 30 April of the current year for the previous year.

HEP's thermal power plants - heating plants - TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek and TE-TO Sisak and Osijek plant in HEP-Toplinarstvo since joining the EU-ETS, i.e. 1.1.2013. are entitled to the allocation of free greenhouse gas emission allowances. Free emission allowances are allocated by the European Commission to HEP's plants in the EU-ETS for the production of thermal energy that they transfer to the central heating system (CTS) and energy that is delivered by the so-called "Carbon leakage" plants, i.e. plants for which there is a risk that they will move their production to countries that are not EU-ETS bonds and part of the energy they hand over to the so-called non-carbon leakage plants, i.e. plants for which there is no such risk. Free emission allowances are allocated by the European Commission on the basis of the Reference Data Report (so-called NIMsBL) and on the basis of the Monitoring Methodology Plan, and the allocated quantities are subject to changes depending on heat production for the previous year submitted by the operators by the 15 January of the current year for the previous calendar year. The European Commission submits those to HEP's accounts by the end of February of the current year for the previous calendar year. HEP reports on the quantities of allocated free emission units within the non-financial reports <https://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401> and in the section Environment - Air and Climate Protection <https://www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-promjene/emisije-staklenickih-plinova/158>.

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

In 2020, the non-financial sustainability report for 2019 for the HEP according to the guidelines of the Global Reporting Initiative Standard (GRI Standard) was completed. The Sustainability Report is published on the Company's website in Croatian and English. The non-financial report on sustainability from 2020 is not published as a separate report but integrated with the business report and is called the Business and Sustainability Report for 2019. In order to reduce waste and save natural resources, the report was not printed, but published only in digital form.

##### **Report on the status of preparation of the non-financial report on the Group's sustainability for 2020**

The preparation of a separate non-financial report on the Group's sustainability for 2020 is underway. In accordance with the provisions of the Accounting Act (OG 78/15, 120/16 and 116/18), the non-financial report will be published on HEP's website within legal deadlines. The report will be published, as well as the previous four non-financial reports on sustainability at the following link <http://www.hep.hr/on-hep-group/publications/report-on-sustainability/1401>.

The practice of publishing the consolidated business report and the non-financial sustainability report started in 2020 will continue.

### **34. CONTINGENCIES AND COMMITMENTS (continued)**

#### **Environmental Protection (continued)**

HEP participated in the project "Improved Sustainability Corporate Disclosure Policies". The project was launched by the European Climate Initiative (EUKI) and aimed at analysing non-financial sustainability reports, assessing and providing guidance for improvement to improve data quality and business transparency. HEP received recommendations for improvement in the field of risk management, corporate governance and setting goals in the field of reducing emissions into the environment and the impact on biodiversity. The recommendations and guidelines obtained in this assessment will be used in the preparation of the non-financial report on sustainability for 2020.

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

Indicative content of the 2020 sustainability report:

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

Reporting according to environmental, social and management criteria of Environmental, Social and Governance Criteria ("ESG criteria")

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

#### **34. CONTINGENCIES AND COMMITMENTS (continued)**

Management systems according to ISO standards:

- HEP-Proizvodnja d.o.o. has introduced and certified an integrated environmental, quality and energy management system in accordance with international standards ISO 14001: 2015 and ISO 9001: 2015 and ISO 50001: 2018 and, with its 35 components, is among the largest environmental, quality and energy management systems in The Republic of Croatia. Effective quality, environmental and energy management is part of the business strategy of HEP-Proizvodnja d.o.o. in the production of electricity and heat and the provision of ancillary services to the electricity system. Certification according to ISO 14001: 2015, ISO 9001: 2015 and ISO 50001: 2018 was carried out and confirmed by the certification house TÜV Croatia d.o.o.
- As one of the largest production companies in Croatia, and considering the activities in which the number of employees is engaged, HEP-Proizvodnja doo 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 dd 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 dd has adopted an umbrella document - Quality Policy, Environmental Protection, Energy Management and Health and Safety at Work of HEP dd 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-Opkrba doo with its exceptional commitment and high level of service provided was the first in Croatia to receive the ISO 9001:2015 certificate for the quality of service. The ISO 9001: 2015 recertification process was conducted in 2021 for the fourth time (certification house Bureau Veritas), thus further confirming the quality of Customer Service.
- The protection of workers' health and safety, environmental protection and efficient energy management are part of the business strategy of HEP - Distribution System Operator doo (HEP ODS). The environmental management system according to the international standard ISO 14001 is the first management system certified at the level of 21 distribution areas and HEP-ODS headquarters in 2013. In 2018 the transition of this system to the requirements of the new ISO 14001:2015 standard was successfully implemented. The occupational health and safety management system was established in 2015 and in 2017 it was successfully certified for the first time according to the OHSAS 18001:2007. In 2019 the transition of this system to the requirements of the ISO 45001:2018 2018 standard was successfully implemented. The basic commitment of HEP-ODS in energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network through the implemented energy management system according to ISO 50001:2011 which is confirmed by TÜV Croatia doo
- The introduction of an integrated quality management system, environmental protection and energy in HEP - Toplinarstvo d.o.o. Quality management systems according to the ISO 9001: 2015 standard and the environment according to ISO 14001: 2015 have been introduced, and the introduction of an energy management system according to ISO 50001: 2011 is in progress.

#### Certified green energy

Certified green energy is produced in 26 hydropower plants of HEP, which make up more than half of the production capacities of the Croatian electricity system.

All HEP hydropower plants have a TÜV SÜD certificate on the production of electricity from renewable sources - green energy.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**34. CONTINGENCIES AND COMMITMENTS (continued)**

***Wholesale gas market supply***

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

The Gas Market Act (OG 18/18) prescribes the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021, after which the role of suppliers in the wholesale market is abolished. HERA conducted tenders for the selection of suppliers in the wholesale market for the period from 1 August 2018 to 31 March 2021 (15 May and 13 June 2018). As no bids were received for the tenders, in accordance with the provisions of the Act, on 27 June 2018, HERA, in consultation with the Ministry of Environmental Protection and Energy, appointed HEP d.d. for a supplier on the wholesale market for a shorter period of time than provided by law, i.e. from 1 August 2018 to 31 March 2019. HERA conducted a public tender for the selection of suppliers in the wholesale market in the period from 25 January 2019 to 5 February 2019 for the period from 1 April 2019 to 31 March 2021. No bid was received for the tender and it was again determined the decision on determining the OVT for the period from 1 April 2019 to 31 March 2020, that HEP dd will be a supplier in the wholesale gas market. In October 2019, HERA made a decision on determining the OVT for the period from 1 April 2020 to 31 March 2021, appointing HEP d.d. for OVT. Until 31 July 2018, the selling price of gas was determined by Decisions of the Government of the Republic of Croatia, and from 1 August 2018 it is determined through the Methodology for Determining Tariff Items for the Public Gas Supply Service and Guaranteed Supply (OG 34/18). The selling price for the period from 1 April 2019 to 31 March 2020 was HRK 0.1985 / kWh. Pursuant to the Decision of the Management Board No. 5-14.1 / 2020 of 13 February 2020, the selling price of gas for the period from 1 April 2020 to 31 March 2021 is HRK 0.1825 / kWh.

The Law on Amendments to the Gas Market Act, from 1 April 2017, abolished the obligation to supply natural gas to the natural gas producer as well as the regulated price at which it was obliged to sell gas to the supplier on the wholesale gas market for the needs of customers using the public supply service.

In the period from 1 April 2014 to 31 March 2015, HEP dd, as a supplier on the wholesale market, contracted a lease of capacity of 3,600 million kWh, in the period from 1 April 2015 to 31 March 2016, 3,550 million kWh, in the period from 1 April 2016 to 31 March 2017, 3,500 million kWh while in the period from 1 April 2017 to 31 March 2022, a contracted capacity of 3,050 million kWh. According to the amendments to the Rules for the Use of the Gas Storage System, the method of allocating the SBU for the needs of the public gas supply service on a proportional basis has been defined.

*In '000 HRK*

	<u>2020</u>	<u>2019</u>
<b>Cost of gas - market supply</b>		
Cost of gas - market supply	233	2,096
The cost of gas for sale in the wholesale market	594,525	1,152,889

### **34. CONTINGENCIES AND COMMITMENTS (continued)**

#### *Water Act*

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

In May 2018, the Act on Amendments to the Water Act (OG No. 46/18) entered into force, according to which the Republic of Croatia establishes the right to build for constructed water structures for the production of electricity built and invested by HEP dd, that is, its predecessors, in favour of HEP dd, 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 dd 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 dd 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.

### **35. FINANCIAL RISK MANAGEMENT**

#### *Capital risk management*

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

The capital structure of the Company consists of debt, which includes loans and issued bonds disclosed in the Notes 27 and 28, cash and cash equivalents and equity attributable to owners of the parent, comprising of share capital, legal and other reserves and retained earnings.

#### *Gearing ratio*

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

<i>In '000 HRK</i>	<u>31 Dec 2020</u>	<u>31 Dec 2019</u>
Debt	4,043,079	3,743,936
Cash and cash equivalents	(1,579,060)	(1,375,389)
Net debt	2,464,019	2,368,547
Capital	26,879,560	26,158,879
<b>Net debt to equity ratio</b>	<b>9%</b>	<b>9%</b>

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**35. FINANCIAL RISK MANAGEMENT (continued)**

*Categories of financial instruments*  
*In '000 HRK*

	<u>31 Dec 2020</u>	<u>31 Dec 2019</u>
<b>Financial assets</b>		
Financial assets at fair value through other comprehensive income	232,605	254,195
Loans given	18,843,093	18,374,037
Receivables from customers and related companies	2,778,944	3,031,861
Cash and cash equivalents	1,579,060	1,375,389
Other long-term and short-term receivables	370,657	346,707
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss	296,430	80,511
Liabilities under issued bonds	3,497,668	3,518,704
Liabilities for long-term loans	537,081	218,495
Liabilities to affiliated companies	3,220,359	3,569,685
Lease liabilities	8,330	6,737
Other liabilities	1,231,372	1,240,797

Other assets mostly relate to long-term loan receivables from related companies for lease of property.

**Financial risk management objectives**

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

**Market risk**

The activities of the Company are primarily exposed to the financial risk of exchange rate and interest rates fluctuations (see below). Market risk exposure is monitored and managed through sensitivity analysis. There have been no changes in the Company's exposure to market risks or in the manner in which the Company manages and measures the risk.

**Foreign currency risk management**

The Company undertakes certain transactions denominated in foreign currencies and thus the Company is exposed to foreign currency risk. Foreign currency risk exposure is managed within approved policy parameters utilizing cross currency swap contracts. The carrying amounts of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

<i>In '000 HRK</i>	<b>Assets</b>		<b>Liabilities</b>	
	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>	<b>31 Dec 2020</b>	<b>31 Dec 2019</b>
EUR	161,981	163,102	574,546	556,030
USD	23,379	10,115		120,530

**Foreign currency sensitivity analysis**

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

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**35. FINANCIAL RISK MANAGEMENT (continued)**

<i>In '000 HRK</i>	<u>2020</u>	<u>2019</u>
<b>EUR change effect</b>		
Gain or loss	(310,946)	(292,440)
<b>USD change effect</b>		
Gain or loss	(59,593)	(73,425)

***Interest rate risk management***

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

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

- The Company's profit for the year ended 31 December 2020 would increase by HRK 3,514 thousand (2018: HRK 1,613 thousand) based on exposure to interest rate risk. This is mainly attributable to the Group's exposure to interest rates on its floating interest rate loans representing 7.15% of all interest-bearing loans (2019: 1.29%); and
- the Group's sensitivity to interest rates decreased during the current period due to the reduced share of borrowings contracted at variable interest rates in total debt and due to low reference interest rates on the market.
- During 2020, HEP d.d. approved loans to HEP Group members, which is why interest receivables on loans increased compared to 2019.

***Credit risk management***

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

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

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

***Liquidity risk management***

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

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**35. FINANCIAL RISK MANAGEMENT (continued)**

*Liquidity and interest rate risk tables*

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

**Maturity of non-derivative financial assets**

<i>In '000 HRK</i>	<b>Weighted average effective interest rate</b>	<b>Less than 1 month</b>	<b>1 - 3 months</b>	<b>3 -12 months</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>31 Dec 2020</b>							
Financial liabilities at fair value through profit or loss		-	-	-	296,430	-	296,430
Liabilities under issued bonds	4.85%	-	-	177,833	3,724,974	-	3,902,807
Liabilities for long-term loans	1.44%	4,107	-	68,658	257,996	180,276	511,037
Liabilities to affiliated companies		1,275,830	1,394,529	550,000	-	-	3,220,359
Lease liabilities		-	-	1,089	7,241	-	8,330
Other liabilities		457,264	678	23,264	750,166	-	1,231,372
<b>Total</b>		<b>1,737,201</b>	<b>1,395,207</b>	<b>820,844</b>	<b>5,036,807</b>	<b>180,276</b>	<b>9,170,335</b>
<b>31 Dec 2019</b>							
Financial liabilities at fair value through profit or loss		-	-	-	80,511	-	80,511
Liabilities under issued bonds	4.85%	-	-	172,175	3,893,409	-	4,065,584
Liabilities for long-term loans	0.93%	701	-	37,590	139,284	52,999	230,574
Liabilities to affiliated companies		1,926,293	861,531	781,861	-	-	3,569,685
Lease liabilities		-	-	1,019	5,718	-	6,737
Other liabilities		395,740	1,492	31,430	812,135	-	1,240,797
<b>Total</b>		<b>2,322,734</b>	<b>863,023</b>	<b>1,024,075</b>	<b>5,103,231</b>	<b>52,999</b>	<b>9,193,888</b>

The Company has access to sources of funding. The total unused amount at the end of the reporting period is HRK 1,434,235 thousand. The Company expects to settle its other liabilities from operating cash flows and inflows from maturing financial assets.

*Fair value of financial instruments*

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Fair value of derivative instruments is calculated using the listed price. Where such prices are not available, the analysis uses discounted cash flows by applying the current yield curve for the period of non-derivative instruments.

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

**35. FINANCIAL RISK MANAGEMENT (continued)**

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

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

Level 1 inputs – inputs are quoted prices in active market for identical assets or liabilities that the entity can access at the measurement date

Level 2 inputs – are inputs other than quoted market prices included within Level 1, that are observable for the asset or liability either directly or indirectly, and

Level 3 inputs – inputs are unobservable inputs for the asset or liability (entry data unavailable)

The Company has decided that the measurement of the fair value of the 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 the derivative financial instrument, the receivable or liability in question will be cancelled at the expense or as income of the Company.

<i>In '000 HRK</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>2019</b>				
Financial assets at fair value through other comprehensive income	254,195	-	-	<b>254,195</b>
Financial assets at fair value through profit or loss	165,185	-	-	<b>165,185</b>
Derivative financial liabilities	-	-	80,511	<b>80,511</b>
Investment property	-	19,491	-	<b>19,491</b>
<b>2020</b>				
Financial assets at fair value through other comprehensive income	232,605	-	-	<b>232,605</b>
Financial assets at fair value through profit or loss	167,055	-	-	<b>167,055</b>
Derivative financial liabilities	-	-	296,430	<b>296,430</b>
Investment property	-	19,804	-	<b>19,804</b>

**36. OTHER DISCLOSURES**

The auditors of HEP Group's financial statements provided contracted statutory audit services in the amount of HRK 1,894 thousand IN 2020 (2019: HRK 1,533 thousand), as well as services related to the costs of access to interim financial information (30 June 2020), and audits of financial statements prepared for regulatory purposes (31 December 2019) in the amount of HRK 270 thousand.

Tax consulting fees in 2020 amounted to HRK 142 thousand (2019: HRK 150 thousand).

In 2020, the Company has the following financial liabilities that are not included in the balance sheet: promissory notes given in the amount of HRK 63,261 thousand (2019: HRK 62,978 thousand), guarantees given in the amount of HRK 130,121 thousand (2019: HRK 141,828 thousand) and warranties in the amount of HRK 416,616 thousand (2019: 439,578).

**Notes to the unconsolidated financial statements – HEP d.d. (continued)**  
**For the year ended 31 December 2020**

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**37. EVENTS AFTER THE REPORTING DATE**

After 31 December 2020, there were no events that would significantly affect the Company's annual financial statements for 2020, which should, consequently, be published.

**38. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were adopted by the Management Board and approved for issue on 29 April 2021.

Signed on behalf of the Company on 29 April 2021

Marko Ćosić



Member

Nikola Rukavina



Member

Petar Sprčić



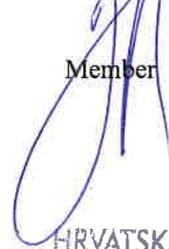
Member

Tomislav Šambić



Member

Saša Dujmić



Member

Frane Barbarić



President

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