HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB

Unconsolidated Annual financial statements
and Independent Auditors' Report
for the year 2021

Contents

Responsibility for the Annual financial statements

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 2021, 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:

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

HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB 3.2
Ulica grada Vukovara 37

Hrvatska elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb
Croatia

25 April 2022

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 2021, which comprises the Unconsolidated Statement of financial position (Balance Sheet) as at 31 December 2021, Unconsolidated Statement of profit or loss, Unconsolidated Statement of other comprehensive income, Unconsolidated Statement of cash flows and Unconsolidated Statement of changes in equity 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 2021, 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, 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 27 to the unconsolidated financial statements describing the clearing debt in the amount of HRK 800,216 thousand (31 December 2020 in the amount of HRK 739,447 thousand) arising from payments under letters of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation of 24 July 2006 and the Consent of the Ministry of Finance on the use of funds from this interbank agreement. Our opinion has not been modified in this respect.

We draw attention to Note 32 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. 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
Valuation of investments in subsidiaries and joint ventures In the annual unconsolidated financial statements as at 31 December 2021, the Company had investments in subsidiaries in the amount of HRK 9,997,158 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. **Related disclosures in the annual financial statements** See Notes 2, 3, 10 and 16 in the accompanying annual financial statements.	**Our auditing procedures, related to this area included, among other:** - We reviewed the collected financial information used in considering the existence of investment impairment indicators; - We reviewed the prepared projections and forecasts of business results based on the expectations of the management of subsidiaries; - 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; - We compared key assumptions with external information and with estimates made by ourselves; - We tested the mathematical accuracy of the model for estimating the value of investments in subsidiaries and joint ventures; - We performed a sensitivity test of the valuation model for investments in subsidiaries and joint ventures to change in key assumptions; - We reviewed the related notes and assessed the appropriateness of the disclosures related to investments in subsidiaries and joint ventures.

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
Contingent liabilities and legal disputes 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 unconsolidated 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. **Related disclosures in the accompanying annual unconsolidated financial statements** See Notes 2, 4 and 29 in the accompanying unconsolidated annual financial statements	**Our auditing procedures, related to this area included, among other:** - Receiving and analysing the attorneys' responses to our written inquiries and considering certain issues with them; - 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; - Assessment of the adequacy of disclosure in the annual unconsolidated financial statements,

Other matters

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

We draw your attention to Note 32 to the annual unconsolidated financial statements which, in accordance with point (b), paragraph 8, Article 21a of the relevant Accounting 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 unconsolidated financial statements and our Independent auditors' report on them which we received before the date of this Independent Auditors’ Report and a separate non-financial report that we expect to be made available after that date. Our opinion on the 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 non-financial report presents the non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act.

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 reading the separate non-financial report, and 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 83 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.

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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.

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

Report on Compliance with Other Legal Requirements

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

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

In the audit of the Company's annual unconsolidated financial statements for 2021, we determined the materiality for the financial statements as a whole in the amount of HRK 104,000 thousand, which represents approximately 1% of the average realized revenue for the last three years.

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

INDEPENDENT AUDITORS' REPORT (continued)

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 2021 and the date of this Independent Auditors' 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.

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

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

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

Responsibilities of Management and Those Charged with Governance

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

Management is also responsible for:

- public disclosure of the financial statements included in the annual report in the valid XHTML format, and
- the selection and use of XBRL tags in compliance with the requirements of the ESEF Regulation.

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

Responsibilities of the Auditor

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

INDEPENDENT AUDITORS' REPORT

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

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

Performed procedures

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

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

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

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

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

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

Conclusion

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

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

INDEPENDENT AUDITORS' REPORT

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

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

Zagreb,

25 April 2022

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

Ivica Smiljan, Certified Auditor

Ivica Smiljan, Director

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

Koprivnica,

25 April 2022

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

Ivan Horvat, Certified Auditor

Ivan Horvat, Director

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Unconsolidated Statement of profit or loss – HEP d.d.
For the year ended 31 December 2021

In '000 HRK	**Note**	**2021**	**2020**
Continuing operations			
Sales revenue	5	4,750,048	4,103,807
Sales revenue - affiliated companies	31	4,008,481	3,733,409
Other operating income	6	57,706	356,130
Other operating income - affiliated companies	31	224,760	203,538
Total operating income		**9,040,995**	**8,396,884**
The cost of electricity purchase	7	(3,457,333)	(2,490,006)
Electricity purchase - affiliated companies	31	(4,300,028)	(3,335,487)
Cost of gas purchase - market supply and public service	32	(27,060)	(233)
Cost of gas purchase for sale in the wholesale market	32	(77,778)	(594,525)
Employee costs	8	(113,391)	(109,013)
Depreciation	12,13,14	(63,982)	(59,750)
Costs of fees and services-affiliated companies	31	(541,993)	(462,658)
Other operating expenses	9	(412,824)	(371,562)
Total operating expenses		**(8,994,389)**	**(7,423,234)**
Operating profit		**46,606**	**973,650**
Financial income	10	1,338,215	1,037,153
Financial expenses	10	(275,508)	(475,663)
Net profit from financial activities	10	**1,062,707**	**561,490**
Profit before tax		**1,109,313**	**1,535,140**
Corporate income tax	11	(49,244)	(134,104)
Profit for the year		**1,060,069**	**1,401,036**

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

Unconsolidated Statement of other comprehensive income – HEP d.d.
For the year ended 31 December 2021

In '000 HRK	**2021**	**2020**
Profit for the year	**1,060,069**	**1,401,036**
Other comprehensive income		
Changes in the value of financial assets at fair value through other comprehensive income	36,877	(17,706)
Total items that will not be reclassified to profit or loss	*36,877*	*(17,706)*
Other comprehensive income, net	**36,877**	**(17,706)**
Total comprehensive income for the year, net	**1,096,946**	**1,383,330**

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

Unconsolidated Statement of financial position / Balance sheet – HEP d.d.
As at 31 December 2021

In '000 HRK	Note	31 Dec 2021	31 Dec 2020
ASSETS			
Fixed assets			
Property, plant and equipment	12	1,421,858	1,123,193
Real estate investments	15	23,514	19,804
Assets with the right to use	13	6,785	7,980
Intangible assets	14	143,541	133,636
Investments in subsidiaries and joint ventures and investments charged by applying the equity method	16	9,997,158	9,962,011
Financial assets at fair value through other comprehensive income	17	275,611	232,605
Financial assets measured at amortized cost			
Long-term loans granted	31	16,726,579	17,462,165
Other long-term receivables	18	140	207
Deferred tax assets	11	23,119	72,363
Total fixed assets		**28,618,305**	**29,013,964**
Current assets			
Inventories	19	520,543	717,899
Financial assets measured at amortized cost			
Trade receivables	20	132,089	104,619
Current portion of long-term loans granted	31	1,847,166	1,380,928
Other current receivables	21	651,061	370,450
Receivables from affiliated companies	31	3,585,041	2,674,325
Financial assets at fair value through profit or loss	22	165,233	167,055
Cash and cash equivalents	23	2,798,910	1,579,060
Total current assets		**9,700,043**	**6,994,336**
TOTAL ASSETS		**38,318,348**	**36,008,300**

Unconsolidated Statement of financial position / Balance sheet – HEP d.d.
As at 31 December 2021

In '000 HRK	**Note**	**31 Dec 2021**	**31 Dec 2020**
EQUITY AND LIABILITIES			
Share capital	24	19,792,159	19,792,159
Revaluation reserves		109,799	72,050
Retained earnings		7,233,926	7,015,351
Total equity		**27,135,884**	**26,879,560**
Financial liabilities measured at amortized cost			
Liabilities under issued bonds	25	-	3,497,668
Liabilities for long-term loans	26	773,490	483,202
Other long-term liabilities	27	810,493	1,046,686
Lease liabilities	28	6,087	7,241
Provisions	29	228,162	227,721
Deferred tax liability	11	19,764	13,175
Total long-term liabilities		**1,837,996**	**5,275,693**
Financial liabilities measured at amortized cost			
Current portion of long-term loans	26	76,078	53,879
Current portion of bonds	25	3,444,830	-
Liabilities to affiliated companies	31	4,273,387	3,220,359
Corporate income tax liability	11	-	46,521
Other liabilities	30	1,549,036	531,199
Current portion of lease liabilities	28	1,137	1,089
Total short-term liabilities		**9,344,468**	**3,853,047**
TOTAL EQUITY AND LIABILITIES		**38,318,348**	**36,008,300**

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

Unconsolidated Statement of changes in equity – HEP d.d.
For the year ended 31 December 2021

In '000 HRK	**Share capital**	**Revaluation reserves**	**Retained earnings**	**Total**
Balance at 1 January 2020	**19,792,159**	**88,365**	**6,278,355**	**26,158,879**
Profit for the current year	-	-	1,401,036	1,401,036
Other comprehensive income	-	(17,706)	-	(17,706)
Total comprehensive income	**-**	***(17,706)***	***1,401,036***	***1,383,330***
Merger effects	**-**	**-**	**345**	**345**
Dividend paid	**-**	**-**	**(664,385)**	**(664,385)**
Other adjustments	**-**	**1,391**		**1,391**
Balance at 31 December 2020	**19,792,159**	**72,050**	**7,015,351**	**26,879,560**
Profit for the current year	-	-	1,060,069	1,060,069
Other comprehensive income	-	37,749	(872)	36,877
Total comprehensive income	-	*37,749*	*1,059,197*	*1,096,946*
Merger effects	-	-	-	-
Dividend paid	-	-	(840,622)	(840,622)
Other adjustments	-	-		-
Balance at 31 December 2021	**19,792,159**	**109,799**	**7,233,926**	**27,135,884**

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

Unconsolidated Statement of cash flows – HEP d.d.

For the year ended 31 December 2021

In '000 HRK	**2021**	**2020**
OPERATING ACTIVITIES		
Profit before tax	1,109,313	1,535,140
Interest income	(131,271)	(123,386)
Interest expense	184,026	167,281
Net exchange rate differences	(42,950)	(27,716)
Depreciation and amortisation of property, plant, equipment, intangible assets and equipment with the right to use	63,982	59,750
Increase in provisions	441	4,128
Change in the fair value of cross-currency swaps and financial assets through profit or loss	(291,878)	214,049
Dividend income	(855,186)	(804,704)
Value adjustment of receivables	(8,519)	(325,039)
Value adjustment and gains/loss from the sale of tangible fixed assets	(4,904)	2,572
The merger of IE Nekretnine	-	345
Cash flow from operating activities before changes in working capital	*23,055*	*702,420*
(Increase) in trade receivables	(35,989)	(177,379)
Decrease of receivables from affiliated companies	332,667	1,087,435
Decrease in inventory	197,356	225,595
(Increase) in other current assets	(142,301)	(24,013)
Increase in trade payables	751,250	298,124
Increase/(Decrease) in other liabilities	209,913	(243,067)
Increase in liabilities to subsidiaries	1,053,028	349,326
Increase/(Decrease) in other long-term liabilities	55,685	(62,081)
Cash from business	**2,444,664**	**2,156,360**
Income tax paid	(59,742)	(98,124)
Interest paid	(189,221)	(183,632)
CASH FROM OPERATING ACTIVITIES	**2,195,701**	**1,874,603**
INVESTING ACTIVITIES		
Interest receipts	1,844	311
Dividend receipts from affiliated companies	51,165	119,167
Expenditures for increasing the share capital of a subsidiary	(35,147)	(236,338)
Expenditures for the purchase of real estate, plant and equipment	(391,321)	(545,905)
Receipts from acquisition of other fixed assets	67	67
Money gained by merger	-	1,654
Receipts from collection of granted loans	334,197	272,716
Expenditures on loans granted	(355,094)	(860,910)
Receipts from the sale of non-current tangible assets	785	4,442
CASH FROM INVESTING ACTIVITIES	**(393,504)**	**(1,244,796)**

In '000 HRK	**2021**	**2020**
FINANCING ACTIVITIES		
Receipts from received long-term loans	370,434	352,603
Expenditures for repayment of long - term loans	(56,200)	(36,805)
Lease principal repayment expenses	(1,284)	(1,376)
Dividend payment expenses	(840,622)	(664,385)
Receipts from cash funds	15,000	-
Cash fund expenditures	(15,000)	-
Expenses for repayment of issued bonds	(54,676)	(76,173)
NET CASH FROM FINANCING ACTIVITIES	**(582,348)**	**(426,136)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,219,850**	**203,671**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,579,060**	**1,375,389**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**2,798,910**	**1,579,060**

The accompanying notes form an integral part of these financial statements

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 2021 HEP d.d. had 505 employees (31 December 2020: 503).
The qualification structure of employees as at 31 December 2021 was as follows: PhD 7, Master 40, Bachelor 294, College 53, High school 107, Primary school 1 and Skilled worker 3.

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

Supervisory Board

Members of Supervisory Board in 2021

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 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

1. GENERAL (continued)

Management Board

Management Board in 2021

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

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

Basis of preparation

a) Unconsolidated annual financial statements

The financial statements for 2021 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 Kunas, 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 HEP Group, as at 31 December 2021 and for the year then ended. The consolidated financial statements have been prepared in accordance with IFRS determined by the European Commission and published in the Official Journal of the EU. In the consolidated financial statements, subsidiaries (listed in the Note 31) – 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 2021, in order to obtain complete information about the HEP Group's financial position, its performance results and changes to the financial position of the HEP Group as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes of accounting policies and disclosures

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

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

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

In August 2020, the International Accounting Standards Board (IASB) published the "Interest Rate Benchmark Reform – Phase 2", amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to the reform of interbank offered rates (IBOR). The amendments provide for temporary reliefs related to the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative near-risk-free interest rate (RFR). The amendments provide in particular a practical facilitation in the accounting of changes in the basis for determining the contractual cash flows of financial assets and liabilities which require an adjustment of the effective interest rate, equivalent to the movement of the market interest rate. Also, the amendments include relieves in the form of cessation of hedge accounting, including a temporary facility that eliminates the need to meet the criteria of separate recognition when a risk-free instrument is designated as a hedge component.
The reform also amended IFRS 7 Financial Instruments: Disclosures that provide users of financial statements with an understanding of the effects of the interest rate harmonization reform on the Company's financial instruments and risk management strategy. Although the application is retroactive, the Company is not obliged to revise previous periods. The amendments did not have an impact on the Company's financial statements.

• IFRS 4 – Insurance contracts (Amendments)

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

• IFRS 17 Insurance contracts

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

• IFRS 17 Insurance contracts (Amendments)

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

• IFRS 16 Leases - Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments)
The amendments are effective for annual periods beginning on or after 1 April 2021, with prior application permitted only in the financial statements not yet authorized for issue at the date of issue of the amendment.
In March 2021, the IFRS Committee amended the conditions related to practical benefits to tenants, which arose as a direct result of the COVID-19 pandemic, from the application of the guidelines on accounting for lease modifications from IFRS 16.
Subsequent to the amendments, the practical allowances now apply to leases for which any reduction in the lease payment affects only payments originally due on or before 30 June 2022, provided that all other conditions for the application of the practical allowance are met. Management has assessed that the application of the standard will not have an effect on the company's financial statements.

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

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

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 16, 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.

	2021	**2020**
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 8).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension benefits and jubilee awards (continued)

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.

Severance payments

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

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:

	2021 and 2020
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:

	2021 and 2020
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 2021 amounted to HRK 10,953 thousand (HRK 8,869 thousand in 2020). The capitalization rate used in determining the borrowing costs eligible for capitalization is 18.74%.

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 CO2 emission units. By including the Republic of Croatia in the European Union Emissions Trading System (EU ETS), the Company, which performs the activity of electricity and heat production, has the obligation to purchase GHG emission units in quantities corresponding to verified combustion CO2 emissions of fossil fuels from thermal power plants that emit CO2.

Companies are required to acquire sufficient CO2 emission rights by 30 April (annual cycle). Due to the withdrawal of IFRIC 3 and insufficient provisions in IFRS, the Company has analysed various accounting models for CO2 emission allowances, including EFRAG's discussion papers. Occasionally, the Group trades CO2 emission rights. Therefore, the Company recognizes emission rights as inventories.

Inventories also include energy savings inventories. With the entry into force of the amendments to the Energy Efficiency Act, for the members of the HEP Group, energy suppliers, there is an obligation to achieve energy savings in final consumption. For the redistribution of realized savings from HEP Group member companies that are not liable onto HEP Group member companies that are liable to realize savings, the Methodology for distribution and purchase of energy savings was adopted. The methodology defines the manner of distribution of energy savings realized in non-liable companies and the surplus of realized savings in liable companies, as well as the conditions for mutual redemption of savings for the current business year. HEP, as the appointed holder of the consolidated Report on realized energy savings, has disposal over the savings that are the subject of this Methodology and, reallocates them to liable companies.
Inventories 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 19).
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.

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:

D E S C R I P T I O N	Business model / measurement
Fixed assets	
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
Current assets	
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 25.
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.

3. 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 this Note, 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 2021 amounts to HRK 23,119 thousand, and as at 31 December 2020 to HRK 72,363 thousand (Note 11).

Actuarial estimates used to calculate retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include making assumptions about discounted rates, future increases in income and mortality, or fluctuation rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty (Note 29).

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 2021 amount to HRK 179,377 thousand, and as at 31 December 2020 to HRK 179,431 thousand (Note 29).

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.

3. 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.

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

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

In accordance with the conclusions of the Government of the Republic of Croatia, Hrvatska elektroprivreda issued appropriate decisions prescribing the obligation to write off receivables in the amount of a single account and / or advance payments for the period January-December 2021 for the earthquake-affected areas. Pursuant to the above, the Supervisory Board of HEP-Opskrba made a decision to write off receivables from end customers of the household category in the earthquake-affected areas of the Counties of Sisak-Moslavina, Zagreb and Karlovac for the period January-December 2021, in the amount of HRK 2,080 thousand. Write-off of receivables was recorded on extraordinary expenses, and it reduced receivables from customers. Extraordinary expenses were, based on the Agreement on Mutual Relations, transferred to HEP d.d.

5. SALES REVENUES

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

/ i / REVENUE FROM THE SALE OF ELECTRICITY

In '000 HRK	**2021**	**2020**
Revenue from the sale of electricity to customers of HEP Opskrba d.o.o.	3,464,701	3,182,948
Revenue from the sale of electricity abroad	914,932	380,433
Revenue from electricity the sale of electricity in the country	327,352	64,625
	4,706,985	**3,628,006**

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

In '000 HRK	**2021**	**2020**
Revenue from gas sales - market supply	23,568	193
Revenue from gas sales in the wholesale market	19,495	475,608
	43,063	**475,801**
Total revenue from sale	**4,750,048**	**4,103,807**

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

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

6. OTHER OPERATING INCOME

In '000 HRK	**2021**	**2020**
Unrealized gains on fair value of tangible assets	10,038	313
Default interest from customers	9,389	10,858
Collection of sued and written off receivables	4,146	3,605
Sales - abroad	3,233	-
Profit from sale of real estate, plant and equipment	1,404	368
Income from cancellation of long-term provisions	915	166
Revenue based on the use of own products and services	734	548
Collected receivables under the pre-bankruptcy settlement	30	45
Written-off receivables collected (Petrokemija)	-	326,000
Written-off receivables under accounting policy	-	1,087
Other operating income	27,817	13,140
	57,706	**356,130**

Other operating income in 2021 mostly consists of revenues from assets financed from EU funds (HRK 3,708 thousand), revenues from EU donations (HRK 2,155 thousand), revenues from the lease of space for telecommunications equipment (HRK 1,637 thousand), and other operating income.

7. COST OF ELECTRICITY PURCHASE

Expenses for the purchase of electricity shown in the Statement of profit or loss for 2021 amount to HRK 3,457,333 thousand (2020: HRK 2,490,006 thousand), and relate to the purchase of electricity for the supply of end customers, coverage of electricity losses in the transmission and distribution network and sales on the wholesale market.

Expenses for the purchase of electricity are higher by HRK 967,327 thousand as compared to the previous year due to the increase in electricity prices on the market and higher purchase prices.

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.

8. EMPLOYEE COSTS

In '000 HRK	**2021**	**2020**
Net salaries	67,836	63,547
Taxes and contributions	45,555	45,466
	113,391	**109,013**

The number of employees as at 31 December 2021 was 505 (31 December 2020: 503 employees).
Total contributions for pension funds amounted to HRK 19,659 thousand during 2021 (2020: HRK 18,900 thousand).

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

In '000 HRK	**2021**	**2020**
Gross salaries	8,816	8,363
Contributions in kind	755	800
Contributions	1,914	1,833
	11,485	**10,996**

The number of members of the Management Board as at 31 December 2021 was 7 (31 December 2020: 7), and the number of executive directors of the Company was 15 (31 December 2020: 15)

Remuneration to members of the Supervisory Board:

In '000 HRK	**2021**	**2020**
Fees	168	168
Taxes and contributions	92	107
	260	**275**

The number of members of the Supervisory Board as at 31 December 2021 was 5 (31 December 2020: 5).

9. OTHER OPERATING EXPENSES

In '000 HRK	**2021**	**2020**
Cost of external services and materials	143,001	134,522
The cost of HEP d.d. for decommissioning NEK d.o.o. (Note 16)	107,076	107,652
Costs of services and materials within subsidiaries	55,790	43,375
Bank charges, payment charges and loan fees	14,058	9,619
Taxes, contributions and fees	13,979	11,602
Value adjustment from customers of Opskrba d.o.o.	11,265	5,681
Other material rights of employees	6,925	6,838
Insurance premiums	4,615	5,205
Material costs	4,494	3,864
Unclaimed receivables written-off	4,485	1,061
Per diems and transportation costs to work	3,654	3,193
Value adjustment of trade receivables according to accounting policies	1,429	17
Receipts in kind	1,199	1,435
Provisions for severance pay and other employee costs	798	2,391
Provisions for unused vacations	526	-
Compensation based on a lawsuit	149	1,425
Provision for litigation	-	1,846
Other operating expenses	42,276	35,623
Capitalized borrowing costs	(2,895)	(3,787)
Total other operating expenses	**412,824**	**371,562**

Compensation of employees includes transportation costs to work during 2021 in the amount of HRK 2,334 thousand (2020: HRK 2,310 thousand), per diems and travel expenses in the amount of HRK 1,320 thousand (2020: HRK 883 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 14,623 thousand (2020: HRK 11,753 thousand).

10. FINANCIAL INCOME AND EXPENSES

In '000 HRK	**2021**	**2020**
Financial income		
Dividends from subsidiaries and affiliates	850,787	804,704
Fair value of cross-currency swap	299,160	-
Interest income	131,271	123,386
Positive exchange rate differences	43,089	99,290
Dividend income	4,399	3,999
Income from futures trading	-	1,432
Other financial income	9,509	4,342
Total financial income	**1,338,215**	**1,037,153**
Financial expenses		
Interest expense	(184,026)	(177,445)
Negative exchange rate differences	(86,039)	(72,114)
Fair value of cross-currency swap	-	(215,919)
Value adjustment of shares	(2,108)	-
Other financial expenses	(11,393)	(15,267)
Capitalized borrowing costs	8,058	5,082
Total financial expenses	**(275,508)**	**(475,663)**
Net profit from financial activities	**1,062,707**	**561,490**

11. 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. Income tax was calculated by applying the legal income tax rates in the Republic of Croatia which amount to 18%.

In '000 HRK	**2021**	**2020**
Current tax	-	(116,713)
Deferred tax recognized in profit or loss	(49,244)	(17,391)
Corporate income tax	**(49,244)**	**(134,104)**

The adjustment of deferred tax assets is as follows:

In '000 HRK	**2021**	**2020**
Balance at 1 January	72,363	91,755
Increase in deferred tax assets	(49,244)	(19,392)
Balance at 31 December	**23,119**	**72,363**

11. CORPORATE INCOME TAX (continued)

Deferred tax assets arose mainly from the fair valuation of derivative financial instruments (SWAP), provisions for severance pay and jubilee awards, provisions for tax loss

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

In '000 HRK	**2021**	**2020**
Profit before tax	1,109,313	1,535,140
Income tax determined by the tax rate applicable in the Republic of Croatia (18%)	**(199,676)**	**(276,325)**
The effect of non-taxable income	209,563	204,549
The effect of non-tax deductible expenses	(4,517)	(44,937)
Tax expense for the current year	**5,369**	**(116,713)**
Effective tax rate	0.48	(7.60)

The effects of non-tax deductible expenses mainly consist of value adjustment of trade receivables based on accounting policies 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.

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

In '000 HRK	**31 Dec 2020**	(Debited) /credited to profit and loss	**31 Dec 2021**
Provisions for jubilee awards and severance pay	**4,744**	144	**4,744**
Fair valuations of JANAF	**5,538**	-	**5,538**
Provision the cost of wind power	**3,894**	-	**3,894**
Provision for fair value of swap	**53,358**	(53,358)	**-**
Provision for fair value of shares	**206**	(206)	**-**
Provision for tax loss	**-**	5,369	**5,369**
Other	**4,623**	(1,193)	**3,429**
	72,363	**(49,244)**	**23,119**

The deferred tax liability relates mainly to 18% of the fair value of JANAF shares through other comprehensive income, in the amount of HRK 19,764 thousand (2020: HRK 13,175 thousand).

12. PROPERTY, PLANT AND EQUIPMENT

In '000 HRK	Land and buildings	Inventory and equipment	Tangible assets in preparation	Advances	Total
PURCHASE VALUE					
1 January 2020	**352,595**	**417,282**	**121,886**	**91,844**	**983,607**
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)
31 December 2020	**321,860**	**274,920**	**706,798**	**112,332**	**1,415,910**
Increases	253	54,463	267,883	15,413	-
Increase by transfer from affiliated company	10	304	-	-	-
Transfer to affiliated companies	(127)	(238)	(9,959)	-	-
Alienation (sale, expenditure, deficit)	(136)	(2,009)	-	-	-
31 December 2021	**321,860**	**327,440**	**964,722**	**127,745**	**1,415,910**
ACCUMULATED DEPRECIATION					
1 January 2020	**79,277**	**183,625**	**-**	**-**	**262,902**
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
31 December 2020	**92,785**	**199,932**	**-**	**-**	**292,717**
Depreciation expense for the year	5,491	23,590	-	-	29,081
Alienation (sale, expenditure, deficit)	-	(2,009)	-	-	(2009)
Transfer of assets between HEP and subsidiaries	-	120	-	-	120
31 December 2021	**98,276**	**221,633**	**-**	**-**	**319,909**
CARRYING AMOUNT					
31 December 2020	**229,075**	**74,988**	**706,798**	**112,332**	**1,123,193**
31 December 2021	**223,584**	**105,807**	**964,722**	**127,745**	**1,421,858**

Ongoing investments (tangible assets in preparation) in the Company amount to HRK 964,722 thousand as at 31 December 2021. They mainly consist of investments in EL-TO Zagreb - replacement of block A in the amount of HRK 597,728 thousand, EL-TO Zagreb – plant building in the amount of HRK 19,975 thousand, HES Kosinj in the amount of HRK 150,095 thousand, HE Senj in the amount of HRK 26,985 thousand, e-mobility HRK 20,003 thousand, SE Cres HRK 24,908 thousand, and information technology HRK 17,366 thousand.

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

13. ASSETS WITH THE RIGHT OF USE

In '000 HRK	**Land and buildings**	**Inventory and equipment**	**Total**
PURCHASE VALUE			
1 January 2020	**6,060**	**1673**	**7,733**
Increases	2,499	**-**	**2,499**
31 December 2020	**8,559**	**1,673**	**10,232**
Increases	**-**	**-**	**-**
31 December 2021	**8,559**	**1,673**	**10,232**
ACCUMULATED DEPRECIATION			
1 January 2020	**905**	**251**	**1,156**
Depreciation expense for the year	856	335	(95)
Deregistration/termination of lease	(95)	-	(95)
31 December 2020	**1,666**	**586**	**2,252**
Depreciation expense for the year	860	335	1,195
Deregistration/termination of lease	-	-	-
31 December 2021	**2,526**	**921**	**3,447**
CARRYING AMOUNT			
31 December 2020	**6,893**	**1,087**	**7,980**
31 December 2021	**6,033**	**752**	**6,785**

14. INTANGIBLE ASSETS

In '000 HRK	**Software**	**Licences**	**Intangible assets in preparation**	**Total**
PURCHASE VALUE				
1 January 2020	**256,628**	**7,226**	**30,170**	**294,024**
Increases	15,712	9,062	3,832	28,606
Derecognition based on transfer of assets	-	-	-	-
Posting	-	-	-	-
31 December 2020	**272,340**	**16,288**	**34,002**	**322,630**
Increases	40,706	4,601	988	46,295
Derecognition based on transfer of assets	-	-	(2,684)	-
31 December 2021	**313,046**	**20,889**	**32,306**	**368,925**
ACCUMULATED DEPRECIATION				
1 January 2020	**151,071**	**3,189**	**-**	**154,260**
Depreciation of the current year	33,771	924	-	34,695
Increase based on asset transfer	39	-	-	39
31 December 2020	**184,881**	**4,113**	**-**	**188,994**
Depreciation of the current year	32,525	1,181	-	33,706
Increase based on asset transfer	-	-	-	-
31 December 2021	**217,406**	**5,294**	**-**	**222,700**
Net carrying value				
31 December 2020	87,459	12,175	34,002	133,636
31 December 2021	**95,640**	**15,595**	**32,306**	**146,225**

Ongoing investments (intangible assets in preparation) as at 31 December 2021 in the Company amount to HRK 32,306 thousand, and relate to investments in computer software and licenses.

15. INVESTMENT PROPERTY

As at 31 December 2021, 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.

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Investment in property		
At 31 Dec 2020	**19,804**	**19,491**
Net changes in fair value	3,710	313
At 31 Dec 2021	**23,514**	**19,804**

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 2021, 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.

16. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE EQUITY METHOD

Investments in shares of companies disclosed in the Statement of Financial Position as at 31 December 2021 consist of investments shown in the table:

in '000 HRK	**Ownership share %**	**31 Dec 2021**	**31 Dec 2020**
Subsidiaries			
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	333,598
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	45,634	31,092
SUNČANA ELEKTRANA VIS d.o.o.	100	31,362	31,362
		7,839,289	**7,824,747**
Investment in joint ventures			
NE Krško /i/	50	1,911,546	1,890,941
LNG Hrvatska d.o.o. /ii/	75	243,283	243,283
		2,154,829	**2,134,224**
Investments calculated using the equity method			
Male hidre d.o.o.	49	3,040	3,040
		3,040	**3,040**
Total subsidiaries and joint ventures and investments calculated using the equity method		**9,997,158**	**9,962,011**

16. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE EQUITY METHOD (continued)

Changes in investments are as follows:

In '000 HRK	**2021**	**2020**
Balance at 1 January	9,962,011	9,735,948
HEP Telekomunikacije d.o.o.	-	74,800
Energetski park Korlat d.o.o.	14,542	-
IE-Nekretnine d.d.	-	(19,661)
SUNČANA ELEKTRANA VIS d.o.o.	-	31,362
Male hidre d.o.o.	-	3,040
NE Krško	20,605	136,522
Balance at 31 December	**9,997,158**	**9,962,011**

/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 1,907,874 thousand to the Krško NPP Decommissioning Financing Fund (HRK 107,076 thousand in 2021.). 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 quarter of 2022 as the adoption of amendments to the aforementioned law was pending 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. The Environmental Impact Report is prepared and the obtaining of the EC is in process. Currently, the Environmental Impact Report is under public discussion.

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.

16. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE EQUITY 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 2021 and 31 December 2020.

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Property, plant and equipment	3,263,345	3,103,524
Capital and reserves	3,620,162	3,586,499
Sales income	1,350,381	1,512,462
Cash flow from operating activities	517,723	498,386
Profit / loss for the current year	-	-

Financial effect of derogations

Profit and loss account for the year ended 31 Dec 2020

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

Profit and loss account for the year ended 31 Dec 2021

In '000 HRK	**HEP d.d**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
Total operating income	**9,040,995**	**10,281**	**9,051,276**
Total operating expenses	**(8,994,389)**	**(7,485)**	**(9,001,874)**
Operating profit / loss	**46,606**	**2,796**	**49,402**
Net profit / loss from financial activities	**1,062,707**	**(2,796)**	**1,059,911**
Profit before tax	**1,109,313**	**-**	**1,109,313**
Profit tax	(49,244)	-	(49,244)
Profit for the current year	**1,060,069**	**-**	**1,060,069**

16. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE EQUITY METHOD (continued)

/i/ INVESTMENT IN NE KRŠKO (continued)

Financial effect of derogations (continued)

Statement of financial position as of 31 Dec 2020

In '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
ASSETS			
Fixed assets			
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
Total fixed assets	**28,999,471**	**(241,487)**	**28,757,984**
Current assets	**6,994,336**	**519,320**	**7,513,657**
TOTAL ASSETS	**35,993,807**	**277,833**	**36,271,641**
CAPITAL AND LIABILITIES			
Total capital	**26,880,511**	**-**	**26,880,511**
Long term liabilities	**5,274,742**	**220,231**	**5,494,973**
Short-term liabilities	**3,838,554**	**57,602**	**3,896,157**
TOTAL CAPITAL AND LIABILITIES	**35,993,807**	**277,833**	**36,271,641**

Statement of financial position as of 31 Dec 2021

In '000 HRK	**HEP d.d.**	**NEK d.o.o.**	**HEP d.d. + NEK d.o.o.**
ASSETS			
Fixed assets			
Property, plant and equipment	352,904	1,631,672	1,984,576
Financial assets	1,911,546	(1,810,057)	101,489
Other fixed assets	26,353,855	-	26,353,855
Total fixed assets	**28,618,305**	**(178,385)**	**28,439,920**
Current assets	**9,700,043**	**405,960**	**10,106,003**
TOTAL ASSETS	**38,318,348**	**227,575**	**38,545,923**
CAPITAL AND LIABILITIES			
Total capital	**27,135,884**	**-**	**27,135,884**
Long term liabilities	**1,837,996**	**188,753**	**2,026,749**
Short-term liabilities	**9,344,468**	**38,822**	**9,383,290**
TOTAL CAPITAL AND LIABILITIES	**38,318,348**	**227,575**	**38,545,923**

16. INVESTMENTS IN SUBSIDIARIES AND JOINT OPERATIONS AND INVESTMENTS ACCOUNTED USING THE EQUITY 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%. By the decision of the General Assembly of the company LNG HRVATSKA d.o.o. from 3 January 2021 the share capital of the company was increased from the amount of HRK 289,018,600.00 by the amount of HRK 35,358,500.00, to the amount of HRK 324,377,100.00 by contribution of rights and by paying a new contribution in cash by the shareholder PLINACRO d.o.o. The share of HEP as at 31 December 2021 amounts to 75%.
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 HRVATSKA d.o.o. 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.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

In '000 HRK	**2021**	**2020**
Opening balance	**232,605**	**254,195**
Fair valuation of investments through other comprehensive income (Janaf)	43,184	(21,592)
Fair valuation of investments through other comprehensive income and other	(178)	2
Closing balance	**275,611**	**232,605**

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Investments in securities:		
Jadranski Naftovod d.d.	275,303	232,119
Đuro Đaković Aparati d.d.	5	5
Elektrometal d.d.	40	40
Međimurje beton d.d.	0	153
Konstruktor inženjering d.d.-in liquidation	233	233
Pominvest d.d.	0	35
Helios Faros d.d.	27	18
Vis d.d.	3	2
	275,611	**232,605**

The fair valuation was carried out based on the notification of the Central Depository and Clearing Company on the account balance as of 31 December 2021. The fair valuation effect was conducted through reserves.

18. OTHER NON-CURRENT RECEIVABLES

Housing loans
Receivables on housing loans as at 31 December 2021 amount to HRK 140 thousand (2020: HRK 207 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 27). Receivables are secured by mortgages on sold apartments.

19. INVENTORIES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Wholesale gas supplies	73,165	34,256
CO2 emission units	415,129	668,336
Stocks of energy savings in final consumption	28,499	13,070
Inventories of investment material	3,336	1,630
Inventories of other material	601	607
	520,730	**717,899**
Value adjustment of receivables	(187)	(6,272)
	520,543	**717,899**

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

In '000 HRK	**2021**	**2020**
At 1 January	**6,272**	**6,281**
Write-off of inventories	(171)	-
Credited/debited to the current year's profit or loss	(5,914)	(9)
At 31 December	**187**	**6,272**

20. TRADE RECEIVABLES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Trade receivables in the country	245,626	130,343
Receivables from gas customers in the wholesale market	1,567	17,768
Receivables for electricity from abroad	12,844	84,414
	260,037	**232,525**
Impairment of receivables	(127,948)	(127,906)
	132,089	**104,619**

In '000 HRK **Trade receivables**	**31 Dec 2021**	**31 Dec 2020**
EUR	1,708	11,201
Other	-	39

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

31 December 2021	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	191-365 days	Over 365 days	**Total**
Gross book value of trade receivables	131,891	57	4	3	14	1,603	126,465	**260,037**
Expected credit losses	(1,279)	(1)	-	-	(1)	(202)	(126,465)	**(127,948)**

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

Changes in allowance for impairment were as follows:

In '000 HRK	**2021**	**2020**
Balance on 1 January	127,906	457,337
Increase in impairment of receivables	-	(1,087)
Decrease in impairment of receivables	1,429	17
Postings	(1,296)	(1,300)
Write-off of uncollected receivables	(91)	(1,061)
Reprogrammed receivables collected	-	(326,000)
Balance on 31 December	**127,948**	**127,906**

21. OTHER CURRENT RECEIVABLES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Derivative financial assets (Note 25)	2,730	-
Advances to suppliers	290,987	261,072
Short-term guarantees given	17,552	41,157
Interest receivables	54	15
Receivables for given deposits (due more than 90 days)	56,498	50,457
Receivables for gas borrowed to common users of LNG terminals	166,596	-
Prepaid costs	20,540	16,130
Receivables from the state	153	104
Other receivables	4,331	1,515
Receivables for taxes and contributions	91,620	-
	651,061	**370,450**

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

Prepaid expenses in 2021 mostly refer to prepaid sponsorships HRK 9,270 thousand, lease of capacity HRK 5,995 thousand, prepaid costs CO2 HRK 5,222 thousand, and other HRK 52 thousand. (annual subscriptions to magazines, annual insurance costs of ENC devices).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

23. CASH AND CASH EQUIVALENTS

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Giro accounts in kuna	1,090,834	926,293
Short-term deposits (daily deposits)	534,988	371,852
Foreign currency accounts	469,384	192,784
Deposits with a maturity of up to 90 days	703,240	87,992
Allocated funds	459	124
Cash in hand - HRK	5	15
	2,798,910	**1,579,060**

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.

23. CASH AND CASH EQUIVALENTS (continued)

Structure of foreign currency accounts:

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
EUR	70,841	186,873
USD	990	5,911
Other currencies	154	-

24. SHARE CAPITAL

In 2021, the share capital was expressed in Croatian kuna in the amount of HRK 19,792,159 thousand (2020 in the same amount) and consisted of 10,995,644 ordinary shares with a nominal value of HRK 1,800.

Retained earnings in the amount of HRK 7,233,926 thousand (2020: HRK 7,015,351 thousand) comprises *Reserves from profit* in the amount of HRK 613,119 thousand (2020: 543,067 thousand), *Retained earnings* in the amount of HRK 5,560,738 thousand (2020: HRK 5,071,248 thousand) and *Profit for the year* in the amount of HRK 1,060,069 thousand (2020: HRK 1,401,036 thousand).

25. LIABILITIES UNDER ISSUED BONDS

Long-term liabilities

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Value of bonds abroad from 2015	3,645,941	3,583,024
Exchange rate difference	(9,576)	45,793
Discount value	7,400	7,144
	3,643,785	**3,645,961**
Cost allocation by bond	-	(6,365)
Current portion of bonds issued in 2015	(3,643,785)	-
Bonds issued in 2015	**0**	**3,639,596**
Investments in bonds 1.1.	**(141,928)**	**(64,482)**
Investments in bonds during the year	(54,676)	(76,172)
Exchange rate difference	542	(1,274)
Current portion of receivables for purchased bonds	196,062	-
Total long-term liabilities under issued bonds	**0**	**3,497,668**

Short-term liabilities

Current portion of bonds issued in 2015	3,643,785	-
Current portion of purchased bonds	(196,062)	-
Accrued costs of bonds issued in 2015	(2,893)	-
Total short-term liabilities under issued bonds	**3,444,830**	-

25. LIABILITIES UNDER ISSUED BONDS (continued)

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 2021 amounts to HRK 3,444,830 thousand.

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

The fair value of bonds, less the repurchased amount of bonds with a nominal value of $ 29,615 thousand as at 31 December 2021 amounts to $ 538,674 thousand (equivalent to HRK 3,578,706 thousand).

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 2021, based on the stated calculation method, the fair value of liabilities in the amount of HRK 2,730 thousand was stated for bonds issued in 2015 (2020: HRK 296,430 thousand; note 27).

26. LIABILITIES UNDER LONG-TERM LOANS

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Loans from domestic banks	300,000	-
Loans from foreign banks	552,206	540,015
Total long-term loan liabilities	**852,206**	**540,015**
Differentiation of loan fees	(2,638)	(2,934)
Total long-term loan liabilities	**849,568**	**537,081**
Current portions	(76,078)	(53,879)
Total liabilities under long-term loans	**773,490**	**483,202**

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

New sources of funding

To finance the investment plan and regular operations in 2021, 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.

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

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

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 2021 the balance of used long-term loans amounts to EUR 42,3 million from the EBRD and EUR 21,4 million from the EIB. The use of the loan was agreed until 24 January 2023.

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

26. LIABILITIES UNDER LONG-TERM LOANS (continued)

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

	(*In '000 HRK*)
2022	76,078
2023	79,871
2024	49,874
2025	350,820
2026	50,820
After 2026	242,105
	849,568

Loans from domestic banks are secured by bills of exchange and promissory notes, while the loans with Zagrebačka banka and with the development banks EBRD and EIB are contracted with 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: net 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.

The contracted financial indicators are monitored and calculated based on the projected Statement of Financial Position and Profit and Loss Account.
As at 31 December 2021, 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 2021, short-term funds were used exclusively for the purpose of issuing guarantees, letters of credit, and letters of intent, and they did business equally with all banks.

From the previously mentioned medium-term multi-purpose frameworks, during 2021 there was no need for short-term loans due to good liquidity.

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

27. OTHER LONG-TERM LIABILITIES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Long-term liabilities for assets financed from clearing debt	800,216	739,447
Derivative financial liabilities on swap transactions (Note 25)	-	296,430
Long-term liabilities to the state	615	659
Other	9,662	10,150
Other long-term liabilities	**810,493**	**1,046,686**

As at 31 December 2021, the Company has a stated liability for clearing debt in the amount of HRK 800,216 thousand (2020: HRK 739,447 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 615 thousand (2020: HRK 659 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.

28. LEASE LIABILITIES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Long-term real estate lease liabilities	5,638	6,445
Long-term car lease liabilities	449	796
	6,087	**7,241**
Current portion of long-term lease liabilities	1,137	1,089
Lease liabilities	**7,224**	**8,330**

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.

29. PROVISIONS

In '000 HRK	**31 Dec 2021.**	**31 Dec 2020**
Provisions for severance pay and jubilee awards	27,154	26,659
Provisions for litigation	179,377	179,431
Other provisions	21,631	21,631
Total provisions	**228,162**	**227,721**

29. PROVISIONS (continued)

Provisions for litigation

The Company makes provisions of costs for litigations that were deemed unlikely to have an outcome in favour of the Company. The total amount of provisions as at 31 December 2021 amounts to HRK 179,377 thousand (2020: HRK 179,431 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 Autocesta Rijeka Zagreb d.d. (the Rijeka - Zagreb Motorway), i.e. Hrvatske autoceste d.o.o., as legal successor, for which provisions have been made in the amount of the expected outflow in case of loss of the litigation in the amount of HRK 10,203 thousand.

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

In '000 HRK	**Severance**	**Jubilee awards**	**Legal disputes**	**Other provisions**	**Total**
At 1 January 2020	**22,982**	**1,285**	**177,695**	**21,631**	**223,593**
Additional provisions	2,340	52	1,846	-	**4,238**
Reduction of provisions based on estimates	-	-	(110)	-	**(110)**
At 31 December 2020.	**25,322**	**1,337**	**179,431**	**21,631**	**227,721**
Additional provisions	452	43	-	-	**495**
Reduction of provisions based on estimates	-	-	-	-	**-**
At 31 December 2021	**25,774**	**1,380**	**179,377**	**21,631**	**228,162**

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

In '000 HRK	**Severance**	**Jubilee awards**	**Total**
At 1 January 2020	**22,982**	**1,285**	**24,267**
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	**25,322**	**1,337**	**26,659**
Service costs	1,342	117	1,459
Interest expense	266	14	280
Benefits paid	(1,109)	(119)	(1,228)
Past service cost	100	15	115
Actuarial gains / losses	(146)	15	(131)
At 31 December 2021	**25,775**	**1,379**	**27,154**

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 4.8%, 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 1.1% per annum.

30. OTHER LIABILITIES

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Trade payables /i/	1,204,936	453,686
Liabilities for taxes and contributions	111,185	6,921
Interest liabilities	17,647	27,520
Liabilities to employees /ii/	9,464	9,105
Other liabilities /iii/	205,804	33,967
	1,549,036	**531,199**
/i/ Liabilities to suppliers		
Liabilities to suppliers in the country	353,354	236,396
Liabilities to suppliers abroad	599,477	6,976
Liabilities to electricity suppliers within the EU and abroad	196,856	141,082
Liabilities to suppliers within the EU	55,249	69,232
	1,204,936	**453,686**
/ii/ Liabilities to employees		
Liabilities for net salaries	5,617	5,337
Liabilities for contributions	2,748	2,593
Other liabilities	1,099	1,175
	9,464	**9,105**
/iii/ Other liabilities		
Accrued expenses for unused annual leave	5,192	4,665
Deferred income-gas purchase on the financial market (stock) /iv/	181,502	-
Liabilities for insurance premiums	3,463	3,749
Deferred income from donations from EU funds	7,648	12,479
Other accrued expenses	5	388
Other liabilities	7,994	12,686
	205,804	**33,967**

Other liabilities mainly consist of sponsorship liabilities in the amount of HRK 1,191 thousand, liabilities for received guarantees in the amount of HRK 2,848 thousand, liabilities for fees and commissions on loans in the amount of HRK 949 thousand and fees for payment of bills at the post office or FINA in the amount of HRK 929 thousand.

/iv/ Deferred income – gas purchase on the financial market (stock) in the amount of HRK 181,520 thousand in 2021 was disclosed in the previous year within the note of inventories in the amount of HRK 13,791 thousand.

31. RELATIONS WITH AFFILIATED COMPANIES

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

Subsidiary	Country	Share (%)	Primary operation
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
HEP Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP - Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP - Telekomunikacije d.o.o.	Croatia	79,94	Telecommunications
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	75	Liquefied natural gas operations
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity
Other affiliated companies of HEP d.d. within the HEP Group:			
CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o.	BIH	100	Electricity trading
HEP Energjia sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o.	Serbia	100	Electricity trading
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
Male hidre d.o.o.	Croatia	49	Production of electricity
HEP - VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Gradska plinara Krapina d.o.o.	Croatia	100	Gas distribution and supply
Darkom DP d.o.o.	Croatia	100	Gas distribution

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

During 2021, the following companies were acquired in the HEP Group: GP Krapina d.o.o. whose sole owner is the company HEP-Plin d.o.o. since April 2021, Darkom DP d.o.o. whose sole owner is the company HEP-Plin d.o.o. since July 2021. The company M Vizija d.o.o. was merged to the company SE Poreč d.o.o. in October 2021.

31. 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 recharged 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 Operator distribucijskog sustava 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:

In '000 HRK	**2021**	**2020**
Operating income		
Revenues from the sale of electricity to HEP Elektra d.o.o.	2,411,822	2,182,526
Revenues from invoicing el. energy to cover losses in the distribution network	657,512	564,671
Revenues from the sale of electricity to HEP Energija d.o.o. Ljubljana	270,520	263,516
Revenues from the sale of electricity to HEP Group companies	74,464	54,377
Revenues from invoicing el. energy to cover losses in the transmission network	50,136	61,943
Revenues from the sale of electricity to HEP Energija d.o.o. Belgrade	17,254	8,851
Revenue from balancing electricity	16,296	21,902
Revenues from the sale of electricity to HEP Energija d.o.o. Mostar	11,253	8,650
Revenues from sales of electricity to HEP Energija SH.P.K. Kosovo	-	28,132
Revenue from electricity sales - affiliated companies	**3,509,257**	**3,194,568**
Revenue from gas sales to HEP Plin - affiliated company	**69,171**	**138,914**

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

In '000 HRK	**2021**	**2020**
Revenue from sales of CO2 emission units	426,714	385,668
Revenue based on services and sales of materials within the group	2,735	1,918
Income from intra-group investment services	535	12,252
Revenues based on services within the group - restaurant	69	89
Other sales revenues - related parties	**430,053**	**399,927**
Sales revenues - related parties	**4,008,481**	**3,733,409**
Revenues from the performance of administrative services	200,573	175,649
Income from renting office space	17,197	16,137
Revenues from the sale of energy savings to companies	6,990	11,752
Other operating income - affiliated companies	**224,760**	**203,538**
Procurement of electricity – HEP Proizvodnja d.o.o.	3,863,151	3,014,749
Procurement of el. energy from RES - HEP Opskrba d.o.o.	294,016	285,953
Balancing electricity - HOPS d.o.o.	137,428	26,706
HEP Energija d.o.o. Mostar	3,090	1,747
HEP Energija d.o.o. Ljubljana	2,343	6,325
HEP Energija d.o.o. Belgrade	-	7
Expenditures for electricity procurement – affiliated companies	**4,300,028**	**3,335,487**
Cost of sales of CO2 emission units	426,714	385,668
Electricity supply fee - HEP Opskrba d.o.o.	58,562	55,831
Gas procurement for public service providers (OOJU)	37,759	-
Fee for electricity and gas trading services -HEP Trgovina d.o.o.	15,663	17,139
Gas procurement HEP Trgovina – public service	2,447	-
Fee for gas supply services -HEP Trgovina d.o.o	848	4,020
Costs of fees and services - affiliated companies	**541,993**	**462,658**
Costs of fees and services- affiliated companies	**4,842,021**	**3,798,145**

The costs of balancing electricity in 2021 amount to HRK 137,428 thousand (2020: HRK 26,706 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.

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

FINANCIAL INCOME AND EXPENSES WITH AFFILIATES

In '000 HRK	**2021**	**2020**
Financial income from affiliated companies		
Dividends from subsidiaries and associates	850,787	804,704
Interest income on leased assets	80,123	80,988
Interest income on loans	50,757	29,673
Positive exchange rate differences	-	10,828
Other financial income	876	879
Total financial income from affiliated companies	**982,543**	**927,072**
Financial expenses with affiliated companies		
Interest expense - IFRS 16	(195)	(226)
Negative exchange rate differences	(88)	(1)
Total financial expenses with affiliated companies	**(283)**	**(227)**

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Non-current receivables		
Receivables for long-term lease assets		
HEP Operator distribucijskog sustava d.o.o.	7,963,339	8,053,189
HEP Proizvodnja d.o.o.	7,979,302	8,142,283
HEP Toplinarstvo d.o.o.	892,525	920,482
HEP Upravljanje imovinom d.o.o.	167,604	150,934
HEP Plin d.o.o.	214,699	183,700
HEP Noc d.o.o.	10,773	11,143
HEP Opskrba d.o.o.	1,331	1,669
HEP Trgovina d.o.o.	952	863
HEP ESCO d.o.o.	1,558	2,060
HEP Elektra d.o.o.	5,388	5,105
	17,237,471	**17,471,428**

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	1,411	4,290
HEP Proizvodnja d.o.o.	390	2,800
Hrvatski operator prijenosnog sustava d.o.o.	312	428
HEP Toplinarstvo d.o.o.	77	89
	2,190	**7,607**
	17,239,661	**17,479,035**
Current portion of leases	(1,247,710)	(1,250,945)
Receivables for long-term lease from affiliated companies	**15,991,951**	**16,228,090**

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

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Expected receipts under finance lease		
Year 1	1,247,710	1,250,945
Year 2	1,247,710	1,250,945
Year 3	1,247,710	1,250,945
Year 4	1,247,710	1,250,945
Year 5	1,247,710	1,250,945
After year 5	10,998,921	11,216,703
	17,237,471	**17,471,428**

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Receivables from long-term loans from affiliated companies		
Energetski park Korlat d.o.o.	385,890	426,890
Hrvatski operator prijenosnog sustava d.o.o.	278,344	226,335
Plomin Holding d.o.o.	75,893	67,848
HEP Plin d.o.o.	75,571	91,561
HEP ESCO d.o.o.	20,200	-
Ornatus d.o.o.	15,844	15,844
HEP Opskrba d.o.o.	13,014	13,014
SUNČANA ELEKTRANA VIS d.o.o.	1,499	1,687
HEP-Toplinarstvo d.o.o.	-	15,800
LNG Hrvatska d.o.o.	-	36,218
	866,255	**895,197**
Current portion	(135,915)	(127,494)
	730,340	**767,703**
Receivables from long-term loans from affiliated companies		
Receivable for sub-loan HOPS d.o.o.	427,226	427,473
Receivable for sub-loan HEP ESCO d.o.o.	38,797	41,388
	466,023	**468,861**
Current portion	(463,541)	(2,489)
	2,482	**466,372**

Loan receivables to HEP-ESCO d.o.o. is based on the contracts concluded between the Company and financial institutions for the purpose of financing energy efficiency projects. The Company gave the funds from the special-purpose loans as sub-loans to HEP-ESCO d.o.o. under the same conditions. Given that from the funds of issued bonds, among other loans, prematurely repaid 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 between the companies HEP d.d. and HEP-ESCO d.o.o. a contract on assuming obligations on issued bonds no. 6/2020 and s Sub-Loan Agreement no. 5/2020 was concluded. These agreements define mutual rights and obligations arising from issued Eurobonds of HEP d.d. in the amount of $ 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 as a sub-loan 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 $ 550,000,000.00. HOPS d.o.o. undertakes to repay the allocated part of the principal and interest on the issued bonds.

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

Loan receivables from companies with participating interests		
Male hidre d.o.o.	1,806	-
	1,806	**-**
Total long-term receivables/loans	**18,573,745**	**18,843,093**
Total current portion	**(1,847,166)**	**(1,380,928)**
Total long-term loans given	**16,726,579**	**17,462,165**

Property, plant and equipment and intangible assets are leased by the Company to affiliated companies on the basis of their carrying amount (excluding HOPS as of 1 July 2013 and HEP Telekomunikacija). Leases of property, plant and 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 cost with the aim of presenting the fixed assets in question at their carrying amount at which the Company originally reported them.

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

Loans given to companies within the HEP Group (overview)

These loans were given on the following conditions:

Loan beneficiary:	*Year of approval*	*Interest rate*	*Maturity*	*Loan amount approved*	*31 December 2021*	*31 December 2020*
				In '000 HRK	*In '000 HRK*	*In '000 HRK*
HEP Toplinarstvo d.o.o.	*2007*	*4% fixed*	*15 years with grace period of 5 years*	*158,000*	*-*	*15,800*
LNG Hrvatska d.o.o.	*2015*	*3% to 29.10.2020 3.42% since 29.10.2020*	*31 December 2022*	*63,684*	*-*	*36,218*
HEP-Telekomunikacije d.o.o.	*2018*	*3%*	*31 March 2022*	*do 74,000*	*-*	*-*
Energetski park Korlat d.o.o.	*2019*	*3,42%*	*One-time, until 30 June 2024 at the latest*	*600,000*	*385,890*	*426,890*
HEP Plin d.o.o.	*2019*	*3.42%*	*5 years*	*7,657*	*5,826*	*6,640*
HEP Plin d.o.o.	*2019*	*3.42%*	*3 years*	*19,650*	*2,807*	*8,421*
HEP Plin d.o.o.	*2020*	*3.42%*	*5 years*	*76,500*	*66,938*	*76,500*
Plomin Holding d.o.o.	*2019*	*3.42%*	*5 years*	*10,200*	*-*	*-*
Plomin Holding d.o.o.	*2020*	*3.42%*	*5 years*	*66,540*	*65,632*	*63,748*
Plomin Holding d.o.o.	*2020*	*3.42%*	*5 years*	*4,100*	*4,100*	*4,100*
Plomin Holding d.o.o.	*2021*	*3%*	*5 years*	*9,329*	*6,161*	*-*
HEP Opskrba d.o.o.	*2020*	*3%*	*5 years*	*13,014*	*13,014*	*13,014*
Ornatus d.o.o.	*2020*	*3.42%*	*5 years*	*22,500*	*15,844*	*15,844*
HEP ESCO d.o.o.	*2020*	*3%*	*1 year*	*1,947*	*1,499*	*-*
SUNČANA ELEKTRANA VIS d.o.o.	*2020*	*3.42%*	*4 years with grace period of 1 year*	*1,947*	*1,499*	*1,687*
Hrvatski operator prijenosnog sustava d.o.o.	*2020*	*1.7% fixed*	*31 December 2023*	*141,780*	*70,890*	*106,335*
Hrvatski operator prijenosnog sustava d.o.o.	*2020*	*1.72% fixed*	*30 April 2025*	*176,865*	*154,757*	*120,000*
Hrvatski operator prijenosnog sustava d.o.o.	*2021*	*1.10% fixed*	*4 years with grace period of 6 months*	*52,697*	*52,697*	*-*
Total				***1,518,663***	***866,255***	***895,197***

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

Receivables from affiliates (short-term):

In '000 HRK

	31 Dec 2021	31 Dec 2020
Current receivables		
Receivables from HEP Elektra d.o.o. for electricity sold	475,093	413,848
Receivables from HEP Operator distribucijskog sustava d.o.o. for losses in the distribution network	208,812	175,622
Receivables from HEP Opskrba d.o.o. for electricity sold	542,576	461,548
Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	4,810	4,996
Receivables from HEP Energija d.o.o. Ljubljana	71,955	69,406
Receivables from HEP Energija d.o.o. Belgrade for electricity sold	4,713	3,358
Receivables from HEP Energija d.o.o. Mostar for electricity sold	1,908	3,366
Receivables of HEP d.d. from HEP- Energjia SH.P.K. Kosovo for electricity.	-	5,997
Receivables for balancing electricity - HOPS d.o.o.	4,707	24,196
Other receivables	13,587	11,004
	1,328,161	**1,173,341**
Receivables for administrative expenses		
HEP Proizvodnja d.o.o.	18,020	-
HEP Operator distribucijskog sustava d.o.o.	24,564	29,694
HEP Toplinarstvo d.o.o.	1,739	1,337
HEP Plin d.o.o.	8,932	5,509
HEP Upravljanje imovinom d.o.o.	5,025	365
HEP Trgovina d.o.o.	1,442	436
HEP Opskrba d.o.o.	5,080	3,736
HEP ESCO d.o.o.	210	795
HEP Telekomunikacije d.o.o.	760	-
HEP Elektra d.o.o.	5,579	2,546
VHS Zaprešić d.o.o.	95	56
Energetski park Korlat d.o.o.	108	55
	71,554	**44,529**
Current receivables based on lease of business premises		
HEP Proizvodnja d.o.o.	55,137	30,526
HEP Toplinarstvo d.o.o.	14,278	3,101
HEP Operator distribucijskog sustava d.o.o.	128,278	18,462
HEP Plin d.o.o.	13,526	14,237
HEP Upravljanje imovinom d.o.o.	3,293	348
HEP ESCO d.o.o.	-	105
	214,512	**66,779**
Other current receivables	**764,133**	**319,492**

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Receivables for paid investments and other receivables		
HEP Proizvodnja d.o.o.	158,760	191,632
Hrvatski operator prijenosnog sustava d.o.o.	28,297	31,531
HEP Operator distribucijskog sustava d.o.o.	476,397	323,919
HEP Toplinarstvo d.o.o.	81,860	59,656
HEP Plin d.o.o	58,091	34,498
HEP ESCO d.o.o.	956	11,473
HEP Noc d.o.o.	1,203	1,235
HEP Trgovina d.o.o.	41	41
HEP Upravljanje imovinom d.o.o.	6,573	5,350
HEP Opskrba d.o.o.	22,585	22,528
HEP Elektra d.o.o.	132	-
	834,895	**681,863**
Receivables for investment and other material sold		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	316,153	**316,153**
Other receivables		
HEP Plin d.o.o.	19,402	22,210
Hrvatski operator prijenosnog sustava d.o.o.	2,126	-
	21,528	**22,210**
Receivables for short-term loans granted		
HEP Energija d.o.o. Beograd	1,353	1,357
HEP Energjia sh.p.k. Kosovo	752	603
HEP ESCO d.o.o.	32,000	47,998
	34,105	**49,958**
Receivables from affiliated companies (total):	**3,585,041**	**2,674,325**

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Short-term liabilities		
HEP Proizvodnja d.o.o. for electricity	1,605,033	820,639
Energetski park Korlat d.o.o. for electricity	35,196	5,335
SUNČANA ELEKTRANA POREČ d.o.o.	96	-
SUNČANA ELEKTRANA VIS d.o.o. for electricity	155	49
HEP Opskrba d.o.o. for compensation from RES procurement	34,308	30,141
HEP Opskrba d.o.o. for electricity supply compensation	-	166
HEP Trgovina d.o.o. for trading fee	378	6,151
HOPS d.o.o. - Liabilities for balancing energy	104,486	2,464
Liabilities under guarantees of electricity origin-HEP Proizvodnja d.o.o.	142	123
HEP Proizvodnja - liability based on the assignment agreement	810,952	810,952
Other	30,745	15,318
	2,621,491	**1,691,338**
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- for paid connections fees	163,909	167,739
- for cash paid into the treasury	558,740	9,207
- for customer payments and paid investments from sub-accounts	23,621	19,152
HEP Elektra d.o.o. for cash paid into the treasury	871,182	782,141
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	34,433	782
	1,651,885	**1,529,021**
HEP Energija d.o.o. Ljubljana for electricity delivered	11	-
	11	**-**
Total short-term liabilities	**4,273,387**	**3,220,359**

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

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
NE Krško d.o.o.		
Liabilities for purchased electricity	56,962	61,458
Cost of purchased electricity	664,839	742,042

31. RELATIONS WITH AFFILIATED COMPANIES (continued)

	Sales revenue		Procurement cost	
In '000 HRK	**2021**	**2020**	**2021**	**2020**
Companies that are majority owned by the State				
Hrvatske Željeznice	82,651	79,478	-	-
Hrvatska pošta d.d.	4,638	12,205	8,587	9,095
Hrvatske šume d.o.o.	2,910	2,091	2,697	5,572
Jadrolinija d.o.o.	834	740	,	25
Narodne novine d.d.	2,106	1,881	318	609
Hrvatska radio televizija	7,573	6,584	72	89
Plinacro d.o.o.	3,381	2,065	31,083	34,529
Plovput d.d.	112	660	,	-
Croatia Airlines d.d.	592	427	,	-
Ministry of the Interior	16,546	15,859	,	-
Primary and secondary schools	18,198	19,753	,	-
Judicial institutions	5,609	5,213	,	-
Colleges and universities	15,372	13,625	482	1,081
Legislative, executive and other governmental bodies of the Rep. of Croatia	10,477	11,301	,	-
Health institutions and organizations	47,740	50,719	,	-
HROTE d.o.o.	-	-	165,203	252,330
	218,739	**222,601**	**208,442**	**303,330**

	Receivables		Liabilities	
In '000 HRK	**2021**	**2020**	**2021**	**2020**
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	-	763
Narodne novine d.d.	-	-	49	84
Plinacro d.o.o.	-	-	6,028	1,171
HROTE d.o.o.	-	-	14,715	10,431
Other users	127	59	661	2,702
	127	**59**	**21,453**	**15,151**

32. CONTINGENCIES AND COMMITMENTS

Legal disputes

In 2021, the Company recorded 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 2021, 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 976,901 thousand (2020: HRK 1,081,672 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.

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.

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 plant Osijek-HEP-Toplinarstvo has been excluded from EU-ETS based on article 40 on the Act on Climate Changes and Ozon Layer Protection (OG 127/19).

The company has successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2020, and for 2021, data on verified CO2 emissions have been entered and verified. The European Commission has to confirm the entry of emission allowances in the EU Register by 30 April of the current year for the previous year.

The European Commission has provided HEP's thermal power plants - heating plants - TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek and TE-TO Sisak free emission allowances for the production of f thermal energy which is transferred to the central heating system (CTS) and energy that is delivered by the so-called "Carbon leakage" plants, i.e. plants for which there is a risk that they will move their production to countries that are not EU-ETS bonds and part of the energy they hand over to the so-called non-carbon leakage plants, i.e. plants for which there is no such risk. Free emission allowances are allocated by the European Commission on the basis of the Reference Data Report (so-called NIMsBL) and on the basis of the Monitoring Methodology Plan, and the allocated quantities are subject to changes depending on heat production for the previous year in accordance with the reports submitted by the operators to the competent Ministry.

HEP reports on the quantities of allocated free emission units within the non-financial reports https://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401 and in the section Environment - Air and Climate Protection https://www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-promjene/emisije-staklenickih-plinova/158.

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

32. CONTINGENCIES AND COMMITMENTS (continued)

Environmental Protection (continued)

In 2021, the non-financial sustainability report for 2020 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. 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 HEP Group's sustainability for 2021

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

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

Indicative content of the 2021 sustainability report:

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

32. CONTINGENCIES AND COMMITMENTS (continued)

Environmental Protection (continued)

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.

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 d.d has become the holder of the certificate of the integrated quality management system, environmental protection, energy and health and safety at work according to the international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. At the same time, the Company HEP-Upravljanje imovinom d.o.o. in the segment of operations the form an inseparable whole with HEP d.d., also has become the holder of the certificate also according to international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. In addition to other system documents that require standards, the Management Board of HEP d.d has adopted an umbrella document - Quality Policy, Environmental Protection, Energy Management and Health and Safety at Work of HEP d.d and HEP - Property Management Ltd. (PDF), which expresses its commitment to maintenance and continuous improvement of the integrated management system.
- The customer service of HEP-Opskrba doo with its exceptional commitment and high level of service provided was the first in Croatia to receive the ISO 9001:2015 certificate for the quality of service. The ISO 9001: 2015 recertification process was conducted in 2021 for the fourth time (certification house Bureau Veritas), thus further confirming the quality of Customer Service.
- The protection of workers' health and safety, environmental protection and efficient energy management are part of the business strategy of HEP - Distribution System Operator doo (HEP ODS). The environmental management system according to the international standard ISO 14001 is the first management system certified at the level of 21 distribution areas and HEP-ODS headquarters in 2013. In 2018 the transition of this system to the requirements of the new ISO 14001:2015 standard was successfully implemented. The occupational health and safety management system was established in 2015 and in 2017 it was successfully certified for the first time according to the OHSAS 18001:2007. In 2019 the transition of this system to the requirements of the ISO 45001:2018 2018 standard was successfully implemented. The basic commitment of HEP-ODS in energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network through the implemented energy management system according to ISO 50001:2011 which is confirmed by a certificate of TÜV Croatia d.o.o.

32. CONTINGENCIES AND COMMITMENTS (continued)

Environmental Protection (continued)

- The introduction of an integrated quality management system, environmental protection and energy in HEP - Toplinarstvo d.o.o. Quality management systems according to the ISO 9001: 2015 standard and the environment according to ISO 14001: 2015 have been introduced, and the introduction of an energy management system according to ISO 50001: 2011 is in progress.

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

Wholesale gas market supply

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

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

In '000 HRK	**2021**	**2020**
Cost of gas - market supply		
Cost of gas - market supply and public service	27,060	233
The cost of gas for sale in the wholesale market	77,778	594,525

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.

32. CONTINGENCIES AND COMMITMENTS (continued)

Water Act (continued)

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

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

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

33. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The capital structure of the Company consists of debt, which includes loans and issued bonds disclosed in the Notes 25 and 26, 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:

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Debt	4,294,398	4,043,079
Cash and cash equivalents	(2,798,910)	(1,579,060)
Net debt	1,495,488	2,464,019
Capital	27,135,884	26,879,560
Net debt to equity ratio	**5.5%**	**9%**

Categories of financial instruments

In '000 HRK	**31 Dec 2021**	**31 Dec 2020**
Financial assets		
Financial assets at fair value through other comprehensive income	275,611	232,605
Loans given	18,573,745	18,843,093
Receivables from customers and related companies	3,717,130	2,778,944
Cash and cash equivalents	2,798,910	1,579,060
Other long-term and short-term receivables	651,201	370,657
Financial liabilities		
Financial liabilities at fair value through profit or loss	-	296,430
Liabilities under issued bonds	3,444,830	3,497,668
Liabilities for long-term loans	849,568	537,081
Liabilities to affiliated companies	4,273,387	3,220,359
Lease liabilities	7,224	8,330
Other liabilities	2,359,529	1,231,372

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.

33. FINANCIAL RISK MANAGEMENT (continued)

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:

	Assets		**Liabilities**	
In '000 HRK	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
EUR	172,543	161,981	149,472	574,546
USD	33,485	23,379		

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.

33. FINANCIAL RISK MANAGEMENT (continued)

In '000 HRK	2021	2020
EUR change effect		
Gain or loss	(401,967)	(310,946)
USD change effect		
Gain or loss	(57,781)	(59,593)

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 2021 would increase by HRK 3,118 thousand (2020: HRK 3,514 thousand) based on exposure to interest rate risk. This is mainly attributable to the HEP Group's exposure to interest rates on its floating interest rate loans representing 7.40% of all interest-bearing loans (2020: 7.15%); 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 2021, HEP d.d. approved loans to HEP Group members, which is why interest receivables on loans increased compared to 2020.

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.

The carrying amount of financial assets presented in the 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.

33. 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

In '000 HRK	**Weighted average effective interest rate**	**Less than 1 month**	**1 - 3 months**	**3 -12 months**	**1 - 5 years**	**Over 5 years**	**Total**
31 Dec 2021							
Liabilities under issued bonds	4.85%	-	-	3,622,664	-	-	3,622,664
Liabilities for long-term loans	1.34%	23,841	-	61,814	561,141	255,817	902,613
Liabilities to affiliated companies		2,064,213	1,510,306	698,868	-	-	4,273,387
Lease liabilities		-	-	1,137	6,087	-	7,224
Other liabilities		1,210,023	638	11,922	810,493	-	2,033,076
Total		**3,298,077**	**1,510,944**	**4,396,405**	**1,377,721**	**255,817**	**10,838,964**
31 Dec 2020							
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
Total		**1,737,201**	**1,395,207**	**820,844**	**5,036,807**	**180,276**	**9,170,335**

The Company has access to sources of funding. The total unused amount at the end of the reporting period is HRK 3,958,691 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.

33. 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.

In '000 HRK	**Level 1**	**Level 2**	**Level 3**	**Total**
2020				
Financial assets at fair value through other comprehensive income	232,605	-	-	**232,605**
Financial assets at fair value through profit or loss	167,055	-	-	**167,055**
Derivative financial liabilities	-	-	296,430	**296,430**
Investment property	-	19,804	-	**19,804**
2021				
Financial assets at fair value through other comprehensive income	275,611	-	-	**275,611**
Financial assets at fair value through profit or loss	165,233	-	-	**167,233**
Derivative financial liabilities	-	-	-	**-**
Investment property	-	23,514	-	**23,514**

34. OTHER DISCLOSURES

The auditors of HEP Group's financial statements provided contracted statutory audit services in the amount of HRK 1,550 thousand in 2021 (2020: HRK 1,894 thousand), as well as services related to the costs of access to interim financial information (30 June 2021), and audits of financial statements prepared for regulatory purposes (31 December 2020) in the amount of HRK 283 thousand.

Tax consulting fees in 2021 amounted to HRK 150 thousand (2020: HRK 150 thousand).

In 2021, the Company has the following financial liabilities that are not included in the balance sheet: promissory notes given in the amount of HRK 63,202 thousand (2020: HRK 63,261 thousand), guarantees given in the amount of HRK 330,560 thousand (2020: HRK 130,121 thousand) and warranties in the amount of HRK 415,563 thousand (2020: 416,616).

35. EVENTS AFTER THE REPORTING DATE

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

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

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

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

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

36. APPROVAL OF FINANCIAL STATEMENTS

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

Signed on behalf of the Company on 25 April 2022

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

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