



**HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB**

**Annual Unconsolidated Financial Statements and
Independent Auditors' Report
for the year 2023**

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

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Responsibility for the Annual Unconsolidated Financial Statements

The Management Board of the Company Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37, (hereinafter: the Company) is obliged to ensure that the annual unconsolidated financial statements of the Company for the year 2023 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS), so that they provide a true and objective presentation of the unconsolidated financial position, unconsolidated operating results, unconsolidated changes in equity and unconsolidated cash flows of the Company for that period.

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

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

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

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

Petar Sprčić

Member of the
Management Board



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

17 June 2024

Tomislav Šambić

Member of the Management
Board



HRVATSKA ELEKTROPRIVREDA d.d.

Z A G R E B 3.2

Ulica grada Vukovara 37

Vice Oršulić

President of the Management
Board



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PKF FACT revizija d.o.o.
Zadarska 80
10000 Zagreb

Tel: +385 91 2395 835
E-mail: ured@pkf.hr

Moore Audit Croatia d.o.o.
Trg Johna Fitzgeralda
Kennedyja 6B
10000 Zagreb
Tel: +385 (0) 1 3667 994
E-mail: audit-
revizija@audit.hr

INDEPENDENT AUDITORS' REPORT

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

Report on the audit of the unconsolidated annual financial statements

Opinion

We audited the annual unconsolidated financial statements for the year ended 31 December 2023 of the Company HRVATSKA ELEKTROPRIVREDA d.d., Ulica grada Vukovara 37, Zagreb (the "Company"), which include the unconsolidated Statement of Financial Position as of 31 December 2023, 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 annual financial statements, including significant accounting policies.

In our opinion, the attached annual unconsolidated financial statements fairly present in all material respects the unconsolidated financial position of the Company as at 31 December 2023, its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS).

Basis for Opinion

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

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

/i/ We draw attention to Note 27 to the annual unconsolidated financial statements, which describes the obligation for the clearing debt in the amount of EUR 109,004 thousand (as of 31 December 2022, in the amount of EUR 112,929 thousand), which arose from payments from the letter of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation dated 24 July 2006 and the Agreement of the Ministry of Finance on the use of funds from the interbank agreement. Our opinion has not been modified on this matter.

/ii/ We draw attention to Note 33 to the annual unconsolidated financial statements, in which the need to initiate the procedure for registering rights in the land register and compliance with the provisions of the Act on Amendments to the Water Act (Official Gazette No. 46/18, 47/23) is highlighted. Our opinion has not been modified on this matter.

/iii/ The Company has prepared the annual consolidated financial statements, and for a better understanding of the Company's operations as whole, users should read the annual consolidated financial statements together with these annual unconsolidated financial statements.

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. 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 thereon.

INDEPENDENT AUDITORS' REPORT (continued)

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

Key Audit Matters (continued)

Key audit matter	How we addressed the key audit matter
<p>Valuation of investments in subsidiaries</p> <p>In the annual unconsolidated financial statements as of 31 December 2023, the Company reported investments in subsidiaries in the amount of EUR 1,149,954 thousand. Impairment of the value of investments in subsidiaries is a key audit matter because it involves significant assessments, especially in circumstances of disturbances in the energy market and the complex organizational structure of the Company. Determining the valuation of individual investments in subsidiaries requires the Company's Management to use various assumptions, projections and forecasts related to future cash flows, applied discount rates and growth rates in order to calculate the expected future operations of subsidiaries.</p> <p>Related disclosures in the annual unconsolidated financial statements</p> <p>See Notes 2, 4, 11 and 17 in the annual unconsolidated financial statements.</p>	<p>Our audit procedures related to this area included, among others:</p> <ul style="list-style-type: none"> - Review of the collected financial information used in considering the existence of indicators of investment impairment; - Review of the prepared projection and forecast of business results based on the expectations of the management of subsidiaries; - Assessment of the rationality of key assumptions and assessments used in the model for calculating the recoverable value of investments in subsidiaries and joint ventures; - Comparison of key assumptions with external information and with our own estimates; - Sensitivity test of the valuation model for investments in subsidiaries and joint ventures to changes in key assumptions; - Critical evaluation of the selected model used in independent calculations of recoverable value and fair value of subsidiaries where impairment indicators are recognized; - We have reviewed the related notes and evaluated the appropriateness of the disclosures related to investments in subsidiaries and joint ventures
<p>Litigation and Contingent Liabilities</p> <p>Given that the Company is exposed to significant legal claims, we focused our attention on this issue. Any stated liability or announced contingent liability, i.e. the non-disclosure thereof in the annual unconsolidated financial statements is inherently uncertain and depends on a number of significant assumptions and judgments. These are potentially significant amounts where the determination of the amount to be presented and published in the annual non-consolidated financial statements, if applicable, is subject to subjective assessment. In relation to the above, the Management Board assesses future outcomes and amounts of contingent liabilities that may arise as a result of these lawsuits in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.</p> <p>Related disclosures in the annual unconsolidated financial statements</p> <p>See Notes 2, 4 and 29 in the annual unconsolidated financial statements.</p>	<p>Our audit procedures related to this area included, among others:</p> <ul style="list-style-type: none"> - Review of the system for recording and conducting legal disputes, determining the necessary level of provisions on 31 December 2023 and gathering information about hired legal advisors; - Receiving and reviewing attorneys' responses to our written inquiries addressed to attorneys and discussing certain issues with attorneys and the Company; - Critical review of applied assumptions and estimates related to claims. The aforementioned includes consideration of the assessment of the probability of occurrence of unfavourable outcomes of court proceedings and the accuracy of the calculation of the amounts of necessary provisions related to them in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets; - Assessment of the appropriateness of disclosures in the Notes to the annual financial statements

INDEPENDENT AUDITORS' REPORT (continued)

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

Other Information

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

Auditors' responsibilities for the audit of annual unconsolidated financial statements

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 fairly reflect transactions and events they were based on.

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

Report on other legal and regulatory requirements

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

1. On 28 September 2023, based on the proposal of the Supervisory Board, the Company's Assembly appointed us as auditors of the Company's annual unconsolidated and consolidated financial statements for 2023, which represents our second year of engagement.
2. Our audit opinion is consistent with the additional report for the Audit Committee of the Company drawn up in accordance with the provisions of Article 11 of Regulation (EU) no. 537/2014.
3. During the period between the initial date of the Company's audited annual unconsolidated financial statements for 2023 and the date of this report, we did not provide the Company with prohibited non-audit services and did not provide services for the design and implementation of internal control or risk management procedures related to the preparation in the business year prior to the aforementioned period and/or the control of financial information or the design and implementation of technological systems for financial information, and in performing the audit we preserved independence in relation to the Company. In addition to the statutory audit, PKF FACT revizija d.o.o. provided the Company and its subsidiaries under its control with permitted non-audit services in accordance with ISRS 4400 (amended) - Engagements for agreed-upon procedures, about which we issued reports on 22 December 2021 and 12 May 2022.

Zagreb, 17 June 2024


Jeni Krstićević, Certified Auditor

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

Jeni Krstićević, President of the
Management Board

PKF FACT revizija d.o.o.

Zadarska ulica 80

10000 Zagreb


Darko Karić, Certified Auditor


Darko Karić, Director

Moore Audit Croatia d.o.o.

Trg J. Kennedy 6b

10000 Zagreb

Unconsolidated Statement of Profit or Loss – HEP d.d.
for the year ended 31 December 2023

<i>in EUR '000</i>	Note	2023	2022 <i>restated</i>
<i>Continuing operations</i>			
Sales revenue	6	1,931,454	1,269,537
Sales revenue - affiliated companies	32	1,349,538	1,050,043
Other operating income	7	302,463	10,658
Other operating income - affiliated companies	32	34,275	29,158
Total operating income		3,617,730	2,359,396
Procurement of electricity	8	(1,172,334)	(1,403,783)
Procurement of electricity - affiliated companies	32	(1,610,906)	(1,437,948)
Procurement of gas – market supply and public service	33	(324,055)	(32,887)
Employee benefits	9	(15,867)	(15,289)
Depreciation expense	13,14,15	(13,499)	(9,846)
Costs of fees and services - affiliated companies	32	(270,848)	(122,098)
Other operating expenses	10	(192,762)	(272,443)
Total operating expenses		(3,600,271)	(3,294,294)
Operating (loss)/profit		17,459	(934,898)
Financial income	11	43,941	115,814
Financial expenses	11	(102,324)	(36,420)
(Loss)/Profit before tax		(40,924)	(855,504)
Profit tax	12	(6,208)	171,790
(Loss)/profit of the current year		(47,132)	(683,714)

The accompanying notes are an integral part of these annual unconsolidated financial statements.

**Unconsolidated Statement of Other Comprehensive Income – HEP d.d.
for the year ended 31 December 2023**

<i>in EUR '000</i>	2023	2022 <i>restated</i>
	<hr/>	<hr/>
(Loss)/profit of the current year	(47,132)	(683,714)
Other comprehensive income		
Changes in the value of equity investments at fair value through other comprehensive income, net of tax	1,448	4,858
Translation of the current year's loss into functional currency	-	237
<i>Total items that will not be reclassified to profit or loss</i>	<hr/> 1,448	<hr/> 5,095
Other comprehensive income net	1,448	5,095
Total comprehensive (loss)/profit of the current year	(45,684)	(678,619)

The accompanying notes are an integral part of these annual unconsolidated financial statements.

Unconsolidated Statement of Financial Position – HEP d.d.
as at 31 December 2023

<i>in EUR '000</i>	Note	31 December 2023	31 December 2022 <i>restated</i>	1 January 2022
ASSETS				
Fixed assets				
Property, plant and equipment	13	290,615	231,918	189,066
Investment property	16	6,566	6,276	3,127
Right-of-use assets	14	592	742	902
Intangible assets	15	37,622	33,247	19,087
Investments in subsidiaries and joint ventures, investments calculated using the equity method	17	1,436,352	1,341,202	1,329,330
Financial assets at fair value through other comprehensive income	18	44,838	42,305	36,648
Long-term loans granted	32	2,156,484	2,210,265	2,224,147
Other long-term receivables	19	6	10	19
Deferred tax assets	12	167,855	174,063	2,338
Total fixed assets		4,140,930	4,040,028	3,804,664
Current assets				
Inventories	20	246,457	370,630	69,217
Trade receivables	21	18,966	17,013	17,564
Current maturity of given long-term loans	32	174,012	184,586	245,619
Other short-term receivables	22	648,989	35,019	83,478
Receivables from affiliated companies	32	779,528	834,947	476,706
Financial assets at fair value through profit or loss		-	-	22,334
Prepaid expenses	23	3,063	5,736	2,731
Cash and cash equivalents	24	249,857	161,982	372,173
Total current assets		2,120,872	1,609,913	1,289,822
TOTAL ASSETS		6,261,802	5,649,941	5,094,486

Unconsolidated Statement of Financial Position – HEP d.d. (continued)
as at 31 December 2023

<i>in EUR '000</i>	Note	31 December 2023	31 December 2022 <i>restated</i>	1 January 2022
EQUITY AND LIABILITIES				
Share capital	25	2,627,959	2,626,871	2,631,780
Fair value reserves	25	21,114	19,666	14,600
Retained earnings		228,173	276,393	961,901
Total equity		2,877,246	2,922,930	3,608,281
Liabilities for long-term loans	26	1,299,324	1,481,224	102,852
Other long-term liabilities	27	110,254	114,234	107,772
Lease liabilities	28	523	652	809
Provisions	29	31,059	106,629	30,339
Deferred tax liability	12	3,848	2,761	1,892
Total long-term liabilities		1,445,008	1,705,500	243,664
Current maturity of long-term loans	26	917,591	18,515	10,116
Current maturity of bonds		-	-	458,062
Liabilities to affiliated companies	32	797,176	629,459	568,236
Accrued expenses and deferred income	30	11,605	7,279	25,842
Other liabilities	31	213,053	366,100	180,134
Current maturity of lease liabilities	28	123	158	151
Total short-term liabilities		1,939,548	1,021,511	1,242,541
TOTAL EQUITY AND LIABILITIES		6,261,802	5,649,941	5,094,486

The accompanying notes are an integral part of these annual unconsolidated financial statements.

Unconsolidated Statement of Changes in Equity – HEP d.d.
for the year ended 31 December 2023

<i>in EUR '000</i>	Share capital	Fair value reserves	Retained earnings	Total
Balance on 1 January 2022	2,631,780	14,600	961,901	3,608,281
Current year loss - Restated	-	-	(683,714)	(683,714)
Other comprehensive income	-	4,858	-	4,858
Translation into functional currency-loss	-	237	-	237
Total comprehensive loss	-	5,095	(683,714)	(678,619)
Translation into functional currency - other	(4,909)	(29)	(1,794)	(6,732)
Balance on 31 December 2022 - restated	2,626,871	19,666	276,393	2,922,930
Current year loss	-	-	(47,132)	(47,132)
Other comprehensive income	-	1,448	-	1,448
Adjustment of share capital	1,088	-	(1,088)	-
Total comprehensive loss	-	1,448	(47,132)	(45,684)
Balance on 31 December 2023	2,627,959	21,114	228,173	2,877,246

The accompanying notes are an integral part of these annual unconsolidated financial statements.

Unconsolidated Statement of Cash Flows – HEP d.d.
for the year ended 31 December 2023

<i>in EUR '000</i>	2023	2022 <i>Restated</i>
OPERATING ACTIVITIES		
Profit before tax	(40,924)	(855,504)
Interest income	(5,310)	(14,657)
Interest expense	71,819	33,283
Net exchange differences	(160)	2,479
Depreciation of property, plant and equipment, intangible assets and right-of-use assets	13,499	9,846
Change in provisions	(75,570)	76,347
Change in financial assets through profit or loss	6,999	1,255
Income from dividends	(34,547)	(101,056)
Value adjustment of receivables	762	570
Value adjustment and loss/gain from the sale of tangible fixed assets	(365)	(3,398)
<i>Cash flow from operating activities before changes in working capital</i>	<i>(63,797)</i>	<i>(850,835)</i>
(Increase) in trade receivables	(1,191)	(51)
(Increase)/decrease in receivables from affiliated companies	207,518	(122,620)
(Increase)/decrease in inventory	124,173	(301,542)
Decrease/(increase) in other current assets	(642,594)	58,094
(Decrease)/Increase in trade payables	(182,674)	185,851
(Decrease)/increase in other liabilities	(5,564)	(44,746)
Increase in liabilities towards subsidiaries	167,717	62,283
(Decrease) in other long-term liabilities	(56)	(59)
Cash from operations	(396,468)	(1,013,625)
Paid profit tax	-	(5,163)
Interest paid	(37,166)	(31,604)
CASH FROM OPERATING ACTIVITIES	(433,634)	(1,050,392)
INVESTING ACTIVITIES		
Interest income	719	177
Receipts from dividends from affiliated companies	2,504	-
Expenditures for increasing the share capital of a subsidiary	(127,146)	(14,352)
Expenditures for acquisition of property, plant and equipment	(76,058)	(70,599)
Receipts from the acquisition of other fixed assets	4	9
Receipts from the collection of given loans	7,769	5,736
Expenditure on loans granted	(3,438)	(33,493)
Proceeds from the sale of tangible fixed assets	99	252
CASH FROM INVESTING ACTIVITIES	(195,547)	(112,270)

Unconsolidated Statement of Cash Flows – HEP d.d. (continued)
for the year ended 31 December 2023

<i>in EUR '000</i>	2023	2022 <i>restated</i>
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FINANCING ACTIVITIES		
Receipts from received long-term loans	736,219	1,396,182
Expenditures for repayment of long-term loans	(19,082)	(10,442)
Expenses for repayment of the principal of leases	(81)	(98)
Receipts from monetary funds	-	21,400
Expenditures for monetary funds	-	(484,794)
Expenditures for repayment of bonds	-	30,223
Receipts from purchased bonds	<hr/>	<hr/>
	717,056	952,471
NET CASH FROM FINANCING ACTIVITIES		
	87,875	(210,191)
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,982	372,173
CASH AND CASH EQUIVALENTS AT THE BEGINNING		
OF THE YEAR	249,857	161,982

The accompanying notes are an integral part of these annual unconsolidated financial statements

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. for the year ended 31 December 2023

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 EUR 2,627,959 thousand, and it is divided into 10,995,644 ordinary shares of series A1 with a nominal amount of EUR 239. 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

HEP d.d. had 504 employees on 31 December 2023 (31 December 2022: 508).

The qualification structure of employees on 31 December, 2023 was as follows: PhD 7, Master 34, Bachelor 296, College 54, High school 108, Primary school 1 and Skilled worker 4.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued) for the year ended 31 December 2023

1. GENERAL (continued)

General Assembly

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

Damir Habijan	Member	Member since 23 December 2023
Davor Filipović	Member	Member from 6 May 2022 to 13 December 2023

Supervisory Board

Members of the Supervisory Board in 2023

Anton Kovačev	President	President from 15 June 2023
Goran Granić	President	President from 18 January 2018 to 28 March 2023
Mladen Zeljko	Member	Member since 10 December 2023
Jelena Zrinski Berger	Member	Member since 18 January 2018
Lukša Lulić	Member	Member since 9 November 2018
Meri Uvodić	Member	Member since 4 December 2018

Members of the Supervisory Board in 2022

Goran Granić	President	President from 15 June 2023
Jelena Zrinski Berger	Member	President from 18 January 2018 to 28 March 2023
Lukša Lulić	Member	Member since 10 December 2023
Ivo Ivančić	Member	Member since 18 January 2018
Meri Uvodić	Member	Member since 9 November 2018

Management Board

Management Board in 2022

Vice Oršulić	President of the Management Board	President from 9 December 2023
Frane Barbarić	President of the Management Board	President from 1 January 2018 to 8 December 2023
Petar Sprčić	Member of the Management Board	Member since 1 January 2018
Tomislav Šambić	Member of the Management Board	Member since 1 January 2018

Management Board in 2022

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued) for the year ended 31 December 2023

1. GENERAL (continued)

Basis of preparation

a) Unconsolidated annual financial statements

The Company's annual unconsolidated financial statements for 2023 were prepared in accordance with the Accounting Act (OG 75/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22, 82/23), and in accordance with the Ordinance on the structure and content of annual financial statements (OG 95/16, 144/20).

Exceptionally, to present the annual unconsolidated financial statements more appropriately and eliminate possible ambiguities in the annual unconsolidated financial statements and their misinterpretation, a certain requirement of IFRS 11 "Joint Operations" was deviated from.

The annual unconsolidated financial statements are prepared according to the historical cost principle, with the exception of certain financial instruments and investments in property, which are stated at fair value.

Unless otherwise stated, all amounts published in the annual unconsolidated financial statements are presented in thousands of Euro, which is also the functional currency of the Company.

The Company keeps accounting records in the Croatian language, in euro and in accordance with Croatian legal regulations and accounting principles and practices followed by companies in Croatia.

The annual unconsolidated financial statements are prepared on an accrual basis, assuming the going concern concept.

b) Annual unconsolidated financial statements

The Company has compiled these annual financial statements in accordance with Croatian legislation.

The Company has also prepared annual consolidated financial statements for the Company and its subsidiaries, which together constitute the HEP Group, as of 31 December 2023 and for the year then ended, prepared in accordance with International Financial Reporting Standards adopted by the European Union. In the annual consolidated financial statements, subsidiaries (listed in Note 32) - which represent all companies over which the Company, directly or indirectly, has more than half of the voting rights or otherwise has control over their operations, are fully consolidated. Users of these annual unconsolidated financial statements should read them together with the annual consolidated financial statements of HEP Group as of and for the year ended 31 December 2023 in order to obtain complete information about the financial position of HEP Group, the results of its operations and changes in the financial position of HEP Group as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies and disclosures

The adopted accounting policies follow the accounting policies of the previous financial year, except for the changes mentioned below, which are the result of amendments to the International Financial Reporting Standards (IFRS) adopted by the Company from 1 January 2023, which did not have a significant impact on the annual unconsolidated financial statements. The Company has not previously adopted any standards, interpretations or amendments to existing standards published by the International Financial Reporting Standards Board (the "Board") without entering into force.

New and amended standards and interpretations

Standards and interpretations in force for the current reporting period

Amendments to IAS 1: Presentation of Financial Statements and publication of accounting policies.

On 12 February 2021, the IASB published amendments to IAS 1 that apply on or after 1 January 2023. Earlier application is allowed.

These amendments bring changes to points 117-122 of IAS 1. Presentation of Financial Statements in which the emphasis is on:

- the request for disclosure of significant accounting policies;
- an explanation of how the entity identifies significant accounting policies to be disclosed with the aim of assisting companies in improving the disclosure of accounting policies for primary users of financial statements.

The Company estimates that these changes do not have a significant impact on the Company's annual unconsolidated financial statements.

Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimate

These amendments introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. Earlier application is allowed.

The Company estimates that these changes do not have a significant impact on the Company's annual unconsolidated financial statements.

Amendments to IAS 12 Income Taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments clarify how entities account for deferred tax on transactions such as leases and retirement obligations. The main change is the exemption from initial recognition specified in IAS 12.15(b) and IAS 12.24. Accordingly, the exemption from initial recognition does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise upon initial recognition.

Entities shall apply the amendments to IAS 12 no later than the beginning of their first financial year beginning on or after 1 January 2023.

The Company estimates that these changes do not have a significant impact on the Company's annual unconsolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IFRS 17: Insurance Contracts

IFRS 17 completely replaces the current IFRS 4, and the full application of the new standard becomes effective for annual periods beginning on or after 1 January 2023.

IFRS 17 applies to all insurance contracts issued by the entity (including reinsurance contracts), reinsurance contracts held by the entity, and investment contracts with profit sharing based on a discretionary decision.

Under the provisions of IFRS 17, an insurance contract is a contract based on which one party (the issuer) assumes a significant insurance risk from another party (the policyholder) and agrees to pay the policyholder compensation if the policyholder suffers damage due to a certain uncertain future event (insured event). This definition is similar to that in IFRS 4 and has not changed substantially.

The Company estimates that this standard has no impact on the Company's annual unconsolidated financial statements.

Amendments to IAS 12 Income Taxes: International tax reform – pillar two

In March 2022, the OECD published technical guidance on its global minimum tax of 15% which was agreed as the second 'pillar' of the project to address the tax challenges arising from the digitization of the economy.

The amendments to IAS 12 provide exceptions to the requirement in IAS 12 that an entity does not recognize and disclose information about deferred tax assets and liabilities related to the second OECD pillar, income tax. The entity must announce that it has applied the exception. Disclosure requirement according to which the entity must separately disclose its current tax expenses (income) related to the second pillar of income tax.

This amendment enters into force and is applied in the financial statements for the periods beginning on 1 January 2023 and after.

The Company estimates that these changes have no impact on the Company's annual unconsolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Amendment to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments

In May 2023, the IASB published amendments to IAS 7 and IFRS 7 that require the disclosure of certain information about supplier financial arrangements (also called "reverse factoring").

Entities will need to consolidate the information they report about the arrangements, however, they should separate information about dissimilar terms and conditions, disclose explanatory information when the range of payment due dates is wide, and disclose the type and effect of non-monetary changes necessary for comparability between periods. All entities that use supplier financial arrangements in their business will have to include new disclosures in their reports if they are significant.

The Company estimates that these changes will not have a significant impact on the Company's annual unconsolidated financial statements.

The standard has not yet been adopted for application in the EU.

Amendment to IAS 1 Presentation of Financial Statements: distinction between short-term and long-term

These changes specify and supplement the provisions on the distinction between short-term and long-term liabilities, especially those that include covenants.

If an entity's right to a deferral depends on the entity meeting certain conditions, such conditions affect the existence of that right at the end of the reporting period, if the entity is required to meet the condition at or before the end of the reporting period. The subject's right to postponement does not depend on compliance with the conditions after the reporting period.

The Company estimates that these changes will not have a significant impact on the Company's annual unconsolidated financial statements.

The standard has been approved for use in the EU after 1 January 2024.

Amendments to IFRS 16 Leases: Leasebacks

In March 2021, the IASB published amendments to IFRS 16 that supplement the requirements for the accounting treatment of sale-leaseback transactions.

Additions require the seller-lessee to subsequently measure the lease liability arising from the leaseback transaction so that it does not recognize any gain or loss related to the right-of-use it retains.

The amendments do not change the general rules on sale-leaseback transactions under IFRS 16 and are therefore expected to affect only a limited number of market entities.

The Company estimates that these changes will not have a significant impact on the Company's annual unconsolidated financial statements.

The standard has been approved for use in the EU after 1 January 2024

Amendments to IAS 21 Effects of Changes in Foreign Exchange rates - lack of substitutability

The International Accounting Standards Board (IASB) has published 'Lack of substitutability (amendments to IAS 21)' which provides guidance on determining when a currency is substitutable and how to determine the exchange rate when it is not.

The Company estimates that these changes will not have a significant impact on the Company's annual unconsolidated financial statements.

The standard has not yet been adopted for application in the EU.

The significant accounting policies listed below have been applied consistently for all periods included in these statements unless otherwise stated.

Where the accounting policies coincide with the accounting principles of the International Financial Reporting Standards (hereinafter: "IFRS" or "Standards"), certain Standards may be referred to in the description of the Company's accounting policies. Unless otherwise stated, these are the Standards that were in force on 31 December 2023.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Investments in joint ventures

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

Joint management - a joint transaction in which the parties that have joint control over the transaction have rights to assets and liabilities based on financial liabilities from the transaction in question

Joint venture - a joint operation in which the parties that have joint control over the transaction and have rights to the net assets of the transaction in question.

In classifying investments in joint operations, the Company considers

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

Interests in joint ventures are stated using the equity method. The Company has identified an investment in LNG Hrvatska d.o.o. as a joint venture.

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

Costs of pension benefits and other employee benefits

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

The Company is obliged to pay contributions to pension and health insurance funds in Croatia in accordance with legal regulations. This obligation applies to all persons who are employed under an employment contract.

These contributions are paid in a certain percentage amount determined on the basis of gross salary

	2023	2022
Pension insurance contribution	20%	20%
Health insurance contribution	16.5%	16.5%

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of pension benefits and other employee benefits (continued)

Pension benefits and jubilee awards

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

Jubilee awards

The Company pays its employees some benefits for long-term work (jubilee awards) and severance pay upon retirement. The award for long-term work amounts from EUR 199.09 to EUR 729.98 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. On 4 October 2023, a new Collective Agreement was signed, which is valid for a maximum of three months after the expiration of the period for which it was concluded, i.e., until 31 March 2026.

Intangible assets

Non-current intangible assets are mostly licenses and are stated at cost less accumulated amortization. It is depreciated on a straight-line basis over a period of 2-10 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:

	2023 and 2022
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 right-of-use assets and lease liabilities, 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

Right-of-use assets are initially measured at the amount of the lease liability, less any lease incentives received and increased by:

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

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

The useful life of the right-of-use asset is determined by the duration of the lease agreement, and is shown as follows:

	2023 and 2022
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 2023 amounted to EUR 1,742 thousand (EUR 1,118 thousand in 2022). The capitalization rate used in determining the borrowing costs eligible for capitalization is 21.24%.

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 Company trades CO₂ emission rights. Therefore, the Company recognizes emission rights as inventories.

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

Inventories contain gas that the Company purchases on the market for the needs of HEP Proizvodnja d.o.o. and HEP Plin d.o.o. Acquisition cost includes the invoiced amount and other costs incurred directly in bringing the inventory to a specific location and usable condition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

Inventories also include the gas that HEP acquired on the basis of the Decision on securing gas supplies on the territory of the Republic of Croatia (OG 63/2022), by which the Government of the Republic of Croatia tasked HEP to secure gas supplies on the territory of the Republic of Croatia in the amount of 270.83 million m³ and to inject the quantity in question into the system. gas warehouses of the company Podzemno skladište plina d.o.o.

Inventories also include the gas that HEP acquired on the basis of the Decision on securing gas supplies on the territory of the Republic of Croatia (OG 63/2022), by which the Government of the Republic of Croatia tasked HEP to secure gas supplies on the territory of the Republic of Croatia in the amount of 270.83 million m³ and to inject the quantity in question into the system. gas warehouses of the company Podzemno skladište plina d.o.o. The costs of storage, transport, interest and compensation for the loan for the creation of the Republic of Croatia's inventories are, by the Decision, covered by the state budget of the Republic of Croatia.

In March 2023, the Government of the Republic of Croatia adopted a new Decision on securing gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024. (Official Gazette 37/23) which extends the use of storage capacities until 31 March 2024. The decision defines the categories of customers to whom gas is supplied from the Republic of Croatia for the needs of public service customers in the household category, for customers of thermal energy from an independent heating system and for other protected gas customers from the Regulation on the criteria for acquiring the status of a protected customer in conditions of crisis in gas supply (Official Gazette 65/15).

Inventories also include the gas available to HEP based on Article 5.a of the *Regulation amending and supplementing the regulation on eliminating disturbances in the domestic energy market* (OG 106/2022) for the needs of: gas distributors for the purpose of settling losses for gas distribution, for thermal energy buyers from an independent heating system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. In March 2023, the Government of the Republic of Croatia adopted a new *Decree on eliminating disturbances in the domestic energy market* (Official Gazette 31/23), which expanded the categories of customers to whom HEP d.d. is obliged to sell gas procured based on Regulation 106/22 to the operator of the transport system to settle gas losses in the transport system and for operational consumption of technological facilities of the transport system.

Given the high capacity of warehouses, as one of the elements of security of gas supply, in July 2023 the Regulation on Amendments and Supplements to the *Regulation on Elimination of Disruptions in the Domestic Energy Market* (Official Gazette 74/23) was adopted, this ended the INA's obligation of gas delivery on 7 July 2023.

Taxation

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

Current tax

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

Deferred tax

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that a sufficient amount of taxable profit will be available to recover all or part of the tax asset. Deferred tax is calculated according to the tax rates that are expected to be applied in the period in which the liability will be settled or the asset will be realized, based on the tax laws that are in force or in the process of being adopted by the reporting date. The calculation of deferred tax liabilities and assets maintains the amount for which it is expected that a liability or return will arise on the reporting date equal to the book value of the Company's assets and liabilities.

Deferred tax is recorded as an expense or income in the unconsolidated statement of profit or loss unless it relates to items that are recorded directly in other comprehensive income, in which case the deferred tax is also reported in other comprehensive income or when the tax arises from initial recognition in a business merger. The calculation of deferred tax liabilities and assets maintains the amount for which it is expected that a liability or return will arise on the reporting date equal to the book value of the Company's assets and liabilities.

Financial assets

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

Assets are classified and measured as shown below:

DESCRIPTION	Business model / measurement
Fixed assets	
Long-term loans granted	Holding for collection / amortized cost
Financial lease receivables	Holding 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	Holding for collection / amortized cost
Current assets	
Receivables from customers and other receivables	Holding for collection / amortized cost
Receivables from affiliated companies	Holding for collection / amortized cost
Other short-term receivables	Holding for collection / amortized cost

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

i) Financial assets at fair value through other comprehensive income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

ii) Loans granted and receivables from financial lease

The Company's loans are held within a business model that aims to hold financial assets in order to collect contractual cash flows. Contractual cash flows are only those that represent principal and interest repayments based on that principal amount.

Loans granted and receivables from financial lease are measured at amortized cost. Measurement at amortized cost implies the following;

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

iii) Trade and other receivables

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

iv) Impairment

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

v) Derecognition of financial assets

The Company derecognizes financial assets when

- contractual rights to cash flows from financial assets expire
- financial assets are transferred and the transfer meets the conditions for derecognition.

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

When the Company transfers financial assets, it is obliged to assess the extent to which it retains the risks and benefits of ownership of the financial assets. In this case, when all risks and benefits of ownership are transferred, the Company ceases to recognize financial assets and recognizes separately as assets or liabilities all rights and obligations that arose or were retained within the framework of the transfer. If almost all the risks and benefits of ownership of the financial asset are retained, the Company continues to recognize the financial asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company determines whether control over the financial asset is 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 arose or were retained within the framework of the transfer. If control is retained, the Company continues to recognize financial assets to the extent that it still participates in those financial assets.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost. All financial liabilities are initially recognized at fair value plus associated transaction costs. Financial liabilities include accounts payable and other liabilities, bank overdrafts and loans and advances.

Subsequent measurement

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

Derecognition

The Company stops recognizing liabilities in the annual unconsolidated financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor under significantly different terms, or the terms of existing liabilities are significantly changed, such change or modification is treated as the termination of the original liability and the recognition of a new liability, and the difference in the corresponding book values is recognized in the unconsolidated statement of profit and 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 the settlement of the liability will require an outflow of resources with economic benefits and the amount of the liability can be determined reliably. Provisions are reviewed at each reporting date and adjusted according to the latest best estimates. If the effect of the time value of money is significant, the amount of the provision is the present value of the costs expected to be required to settle the liability. In the case of discounting, the increase in provisions reflecting the passage of time is recognized as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Operating revenue is generated primarily from the sale of electricity to households and businesses in the Republic of Croatia that have chosen HEP Opskrba d.o.o. for the supplier, by selling electricity to related companies and on the market, by selling gas to related companies and on the market, as well as compensation for administrative services for HEP Group companies.

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

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

Revenues are recognized for each separate obligation in the contract in the amount of the transaction price. The transaction price is the amount of contractual fees to which the Company expects to be entitled in exchange for the transfer of the customer's promised goods or services. The Company recognizes income at the moment when it has fulfilled the obligation and when the income can be reliably measured.

Revenues from the sale of electricity and gas are recognized when the Company delivers energy to the customer, when significant risks and benefits of ownership are transferred to the customer, and when there is no significant uncertainty regarding the sale, associated costs or possible return of goods. Delivery is made when the products are shipped to a certain location, the risks of loss are transferred to the customer and when one of the following is established: the customer accepts the products in accordance with the contract or the deadline for accepting the products has passed or the Company has objective evidence that all acceptance criteria have been met satisfied. Sales revenue is reported based on the price from the sales contract, less the agreed discounts and refunds at the time of submission.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

Functional and reporting currency

The annual unconsolidated financial statements are prepared in euro, representing the primary currency of the economic environment in which the Company operates ("functional currency"), and rounded to the nearest thousand. The official exchange rate on 31 December 2022 was HRK 7.53450 for EUR 1, and the average exchange rate for 2022 was HRK 7.531624 for EUR 1.

Items included in the Company's annual unconsolidated financial statements are presented in the currency of the primary economic environment in which the Company operates (functional currency).

Given that the Republic of Croatia introduced the euro as its official currency on 1 January 2023, per the Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia, the Company, to prepare the annual unconsolidated financial statements for the year ended 31 December 2023 changed the presentation currency from kuna to euro, and the annual financial statements for the year ended 31 December 2023 were the first to be prepared in euros. From 1 January 2023, the euro is also the functional currency of the Company (until 1 January 2023, it was HRK).

These annual unconsolidated financial statements are presented in thousands of euros. Comparative data for the previous year were converted from Croatian kuna to euro using a conversion rate of HEK 7.53450 for EUR 1 in the unconsolidated Statement of Financial Position as of 31 December 2022 and HRK 7.520447 for EUR 1 in the unconsolidated Statement of Financial Position on 1 January 2022, i.e., the average exchange rate of HRK 7.531624 for EUR 1 in the unconsolidated Statement of Comprehensive Income for 2022. In the unconsolidated Statement of Changes in Equity, the data as of 1 January 2022 were converted from Croatian kunas to euros using the conversion rate of HRK 7.520447 for EUR 1.

Other reporting matters

The Company prepared annual unconsolidated financial statements following the Ordinance and the structure of annual financial statements (form GFI-POD).

Certain positions in the audited annual unconsolidated financial statements have been reclassified following IFRS and do not differ significantly from the positions stated in the prescribed annual financial statements.

3. COMPARABLE DATA AND REVISION OF OPENING BALANCES

During 2023, the Company established the corrections mentioned below related to previous periods, which is why the Management believes such corrections contribute to a more appropriate accounting presentation of the annual unconsolidated financial statements. The Management considered the significance of the changes and concluded that it is sufficient for the Company to show the impact of the changes only in those notes on which the changes have an impact. Concerning revisions of earlier periods, and following the requirement of International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors, in its annual unconsolidated Statement of the Financial Position the Company presented the situation for the earliest presented period, i.e. 1 January 2022.

The overall effect of the aforementioned corrections on the reported operating result for 2022 is shown as follows by item in the annual unconsolidated financial statements:

- a) Revised previously published amounts-items of the Statement of Comprehensive Income for the year 2022

<i>in EUR '000</i>	2022 previously revised	Revision amount	2022 revised
Other operating expenses	(196,121)	(76,322)	(272,443)
Total operating expenses	(3,217,972)	(76,322)	(3,294,294)
(Loss) from business operations	(858,576)	(76,322)	(934,898)
(Loss) before tax	(779,182)	(76,322)	(855,504)
Profit tax	158,052	13,738	171,790
(Loss) of the current year	(621,130)	(62,584)	(683,714)

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

3. COMPARABLE DATA AND REVISION OF OPENING BALANCES (continued)

b) Revised previously published amounts-items of the Statement of Financial Position as of 31 December 2022

<i>in EUR '000</i>	31 December 2022 previously revised	Revision amount	2022 revised
ASSETS			
Fixed assets			
Deferred tax assets	160,325	13,738	174,063
Total fixed assets	4,026,290	13,738	4,040,028
TOTAL ASSETS	5,636,203	13,738	5,649,941
CAPITAL AND LIABILITIES			
Retained earnings	339,214	(62,584)	276,630
Total capital	2,985,514	(62,584)	2,922,930
Provisions	30,307	76,322	106,629
Total long-term liabilities	1,629,178	76,322	1,705,500
TOTAL CAPITAL AND LIABILITIES	5,636,203	13,738	5,649,941

Provisions for the negative effects of the application of the Regulation on eliminating disturbances in the domestic energy market ("Regulation")

In 2023, a revision was made to the accounting error in the recording of the provision for the negative effects of the application of the Regulation on the elimination of disturbances in the domestic energy market ("Regulation"), which referred to the period from 1 January to 31 March 2023. In the unconsolidated statement of profit or loss for 2022, the Company disclosed provisions following International Accounting Standard 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") for all individual contracts of the business category HEP Opskrba that were in force on 31 December 2022. The Company determined the difference between the selling price (according to the Regulation) and the purchase price (cost price) of electricity for the entire duration of the contract and recorded in the consolidated Statement of Profit or Loss EUR 76,322 thousand of provisioning costs and in the unconsolidated Statement of Financial Position as of 31 December 2022, the obligation to reserve the same amount. The Company also recorded a deferred tax asset of EUR 13,738 thousand in the unconsolidated Statement of Financial Position as of 31 December 2022 as 18% of tax-unrecognized provisioning costs for the negative effects of the application of the Regulation on the elimination of disturbances in the domestic energy market ("Regulation").

4. SIGNIFICANT ACCOUNTING ESTIMATES

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

Useful life of property, plant and equipment

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

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

Deferred tax assets are recognized for all unused tax losses to the extent that it is possible that a profit will be realized that will enable the use of the related tax benefit. Determining deferred tax assets that can be recognized requires the application of significant judgments, which are based on determining the probable timing and amount of future taxable profit, together with the future planned tax strategy. The carrying value of deferred tax assets on 31 December 2023 is EUR 167,855 thousand, and on 31 December 2022, it was EUR 174,063 (Note 12).

Actuarial estimates used to calculate retirement benefits

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

Consequences of certain court cases

The Company is a party to numerous court cases arising from regular operations. Provisions are recorded if there is a present liability as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that the settlement of the liability will require an outflow of resources and if the amount of the liability can be reliably estimated. Provisions for legal disputes on 31 December 2023 amount EUR 24,632 thousand, and on 31 December 2022, EUR 23,737 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 impairment loss is based on reasonable and supportable information that is available without undue cost and effort, and that includes information about past events, current and anticipated future conditions and circumstances. The 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 assumed). For the purposes of calculating the ECL model, the portfolio of financial assets is divided into three levels: Level 1, Level 2 and Level 3. On the date of first recognition, financial assets are included in Level 1, and subsequent reclassification to Levels 2 and 3 depends on the increase in credit risk by financial instrument after initial recognition, i.e. on the credit quality of the financial instrument. A simplified approach is applied to trade receivables, whereby expected credit losses are recognized for the entire period of the receivables.

4. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Assessment of share value

Given the variety of core activities within the Company, the Company continuously conducts internal market analyses by segments of core activities in order to determine potential market disruptions in a timely manner and thus reduce the risks of a decrease in the value 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 assesses at the end of each reporting period whether there are certain indicators that would affect the impairment of assets, carries out activities to measure the recoverable amount, i.e. reviews the value of recorded business shares in related companies.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2023

5.1. IMPACT OF THE DECREE ON ELIMINATING DISTURBANCES TO THE DOMESTIC ENERGY MARKET

In 2022, the Government of the Republic of Croatia, in response to the energy crisis, adopted a series of measures to ensure sufficient quantities and availability of gas and limited prices of electricity, thermal energy and gas for end customers. The adopted measures were temporary, lasting until 31 March 2023.

As the trend of high prices for electricity and energy products continued in 2023, the Government of the Republic of Croatia continued with measures to protect households and the economy from rising prices, and a new Regulation on eliminating disturbances in the domestic energy market was adopted (Official Gazette 31/23, 74/23, 107/23, 122/23) with a duration from 1 April 2023 to 31 March 2024.

Electricity

/i/ Legal foundation and measures undertaken in 2023

Special measures for trade and the formation of electricity prices were prescribed for the period from 1 October 2022 to 31 March 2024.

Limiting the growth of household electricity prices

The price of working energy was determined in the amount of EUR 0.070276/kWh for customers from the household category following the regulation regulating the electricity market at a single tariff, i.e. for customers from the household category with a higher and lower tariff in the amount of EUR 0.074789/ kWh in the higher tariff (VT) and in the amount of EUR 0.036697/kWh in the lower tariff (NT), up to the amount of 2,500 kWh of the total six-month electricity consumption for the period from 1 April to 30 September 2023, and for the period from 1 October 2023, up to 3,000 kWh of total six-month consumption.

If customers exceed the six-month consumption of 2,500 kWh/3,000 kWh, electricity is calculated at a 50% higher price for the difference in consumption.

Limiting the growth of electricity prices for the public and non-profit sector

For kindergartens, schools, colleges, libraries, museums, hospitals, health institutions, homes for the elderly and infirm, associations, religious communities, municipalities, cities and counties, cheaper electricity is provided at the level of the universal household service (previous paragraph), regardless of their total six-month electricity consumption.

Limiting the growth of electricity prices for entrepreneurs

> up to 250,000 kWh of total six-month electricity consumption - the price of working energy is determined in the amount of EUR 0.070276 /kWh for customers from the business category following the regulation regulating the electricity market at a single tariff, i.e. for customers with a higher and lower tariff in the amount of EUR 0.074789 /kWh in the higher tariff (VT) and in the amount of EUR 0.036697 /kWh in the lower tariff (NT)

> for the difference in energy consumption from 250,000 kWh to 2,500,000 kWh of the total six-month consumption, a single maximum price of 0.18 EUR/kWh is applied for the period from 1 April to 30 September 2023, while for the period from 1 October 2023 the price agreed with the electricity supplier is applied.

> for the difference in energy consumption above 2,500,000 kWh of the total six-month consumption, a single maximum price of 0.23 EUR/kWh is applied for the period from 1 April to 30 September 2023. while for the period from 1 October 2023. the price agreed with the electricity supplier is applied

At the end of the accounting month, electricity suppliers submit a request for compensation for the difference between the contracted prices and the prices determined by the Regulation for all their end customers to the Ministry of Economy and Sustainable Development. The difference is recognized at most in the amount of up to EUR 180/MWh for the period from 1 April to 30 September 2023, and for the period from 1 October 2023 in the maximum amount of up to 150 EUR/MWh.

In the first quarter of 2023, suppliers within the HEP Group did not have the right to compensation for the difference, but subsequently, by the Decision of the Government of the Republic of Croatia on the compensation of the price of electricity to Hrvatska elektroprivreda d.d. and implementation activities from 14 March 2024, brought them to the same position as other electricity suppliers for business customers for the period 1 October 2022 to 31 March 2023.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2023 (continued)

Gas

/ii/ Legal foundation and measures undertaken in 2023

Supplying end customers with gas

The measures of the Government of the Republic of Croatia were in force from 2022 until 31 March 2023. Those were, with minor changes, extended until 31 March 2024.

The final price of gas supply for end-customers from the household category is subsidized up to the amount of the gas price difference of 0.0277 EUR/kWh up to the amount determined by the Methodology for determining the amount of tariff items for the public gas supply service and guaranteed supply that applies for the period from 4 January 2023 to 31 March 2024, without value added tax.

The final price of gas supply for non-household customers is subsidized in the amount of 0.0199 EUR/kWh without value added tax.

At the end of the accounting month, gas suppliers submit a request for a refund of subsidies for all their end customers to the Fund for Environmental Protection and Energy Efficiency.

Due to disturbances to the market and high gas prices, in April 2023 HERA adopted Amendments to the Methodology for determining the amount of tariff items for the public service of gas supply and guaranteed supply (Official Gazette 38/2023), which changed the formula for calculating the cost of gas procurement exceptionally for the regulatory years 2023/2024. and 2024.

Gas produced in the Republic of Croatia

Until 6 July 2023 natural gas producer company INA – Industrija nafte d.d. was obliged to secure gas supplies and increase the availability of natural gas in the Republic of Croatia, to sell all natural gas produced in the Republic of Croatia to HEP d.d.

HEP d.d. disposes of this gas for the needs of gas distributors to settle losses for gas distribution, transport system operators to settle gas losses in the transport system and for operational consumption of technological facilities of the transport system, customers of heat energy from an independent heat system, public service for the needs of customers from category household, and for gas buyers from the category entrepreneurship, public and non-profit sector.

The price was specified at which INA – Industrija nafte d.d. sells gas to HEP d.d., as well as prices for each category of customers to whom HEP d.d. sells the specified gas, and the prices at which suppliers under the public service obligation and guaranteed gas suppliers are obliged to sell gas to customers in the category of household in the public service and to customers in the category of entrepreneurship, public and non-profit sector.

The gas reserves of the Government of the Republic of Croatia

By the Decision to secure gas supplies on the territory of the Republic of Croatia from 3 June 2022, HEP d.d. was tasked with ensuring a sufficient supply of gas; for the period from 1 April 2022 to 31 March 2023, HEP d.d. was responsible for providing gas quantities in the amount of 270.83 million m³ and, by the filling curve determined by the Crisis Team responsible for the implementation of the Intervention Plan on measures to protect the security of the gas supply of the Republic of Croatia, to deposit the gas in the Okoli underground gas storage.

The gas supply of HEP d.d. is available for the needs of public service customers in the household category, customers of thermal energy from an independent heating system, other protected gas customers from the Regulation on the criteria for acquiring the status of a protected customer in conditions of crises in the gas supply, and for the needs of end customers of thermal energy at closed, central heat systems, i.e. for the needs of heat energy customers in independent heat systems, including heat energy suppliers and to settle gas losses in the transport system of the transport system operator for the heating season 2023/2024, in the period from 1 November 2023 to 31 March 2024.

The gas storage capacities in the part where the purchased quantities of gas are stored remain at the disposal of HEP d.d. until 31 March 2024.

The state budget of the Republic of Croatia will provide funds to HEP d.d. to cover the difference between the purchase and sale price of gas and the costs of storing the purchased quantities until 31 March 2024.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2023 (continued)

Heat

/iii/ Legal foundation and measures undertaken in 2023

The measures of the Government of the Republic of Croatia were in force from 2022 until 31 March 2023. Those were, with minor changes, extended until 31 March 2024.

For the heating season 2023/2024, the Croatian Energy Regulatory Agency (HERA) has determined the unit price for the production of thermal energy for central heating systems and for closed heating systems based on the data provided by the energy entity on the price of input energy and the price of greenhouse gas emission units.

The unit price is the difference between the price of the input energy source (fuel), the price of greenhouse gas emission units and the final price for the heating season 2023/2024, which includes value-added tax, taking into account funds paid from 1 October 2022 to 30 September 2023 on behalf of the difference determined based on the unit price for the heating season 2022/2023. The price of energy input for the period from 1 October 2023 until 31 March 2024 is limited for natural gas to the amount of the final gas supply price determined by the valid Methodology for determining the amount of tariff items for the public gas supply service and guaranteed supply, which is also applied to the quantities of gas needed to supply customers on central heating systems that use technological steam in technological purposes.

Thermal energy suppliers are obliged to issue invoices for the supplied thermal energy to the end customers of thermal energy on a monthly basis, in such a way as to show the specified difference and reduce the invoice by that amount.

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

The price of heating - thermal energy for all heating systems in the heating season 2023/2024, remains unchanged.

/iv/ Charged amount of state support to customers with a regulated price

The amount of state support charged for electricity amounts to EUR 801,251,237.61, of which EUR 254,175,783.36 is based on the Regulation on eliminating disturbances on the domestic energy market (Official Gazette 31/23, 74/23, 107/23, 122/ 23) in the period from 1 April 1 to 31 December 2023, and the amount of EUR 547,075,454.25 based on the Decision of the Government of the Republic of Croatia on compensation for the difference in the price of electricity to Hrvatska elektroprivreda d.d. and implementation activities for the period from 1 October 2022 to 31 March 2023.

For gas, the amount of state support charged is EUR 22,229,889.03 based on the Decision to subsidize part of the final price of gas supply for end-customers in the household category and non-household end-customers with an annual gas consumption of up to 10 GWh for the period 1 January to 31 December 2023

The amount of state support charged for thermal energy is EUR 47,037,055.41, based on the Regulation on elimination of disturbances on the domestic energy market (Official Gazette 104/22, 106/22, 121/22, 156/22) for the period from 1 January to 31 March 2023 and based on the Regulation on elimination of disturbances on the domestic energy market (Official Gazette 31/23, 74/23, 107/23, 122/23) for the period from 1 April to 31 December 2023.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

6. SALES REVENUE

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

/ i / REVENUE FROM THE SALE OF ELECTRICITY

<i>in EUR '000</i>	2023	2022
Revenue from the sale of electricity to end customers	1,399,657	966,024
Revenue from the sale of electricity abroad	326,191	178,883
Revenue from electricity the sale of electricity in the country	106,538	104,548
	1,832,386	1,249,455

The largest part of the income from the sale of electricity is the income from the sale of electricity to 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 on behalf of HEP, it sells electricity to end customers, and the revenue from the sale is reported in the Company's business books. HEP Opskrba d.o.o. operates on the open market and supplies end customers in the household and economy categories with electricity.

/ ii / REVENUE FROM GAS SALES

<i>in EUR '000</i>	2023	2022
Income from the sale of surplus gas purchased for HEP companies	16,084	-
Income from the sale of gas balancing energy	7,843	4,776
Income from the sale of gas abroad (i)	19,267	626
Income from gas sales - economy - procurement and transport	42	-
Income from the deviation of gas nominations - Decree of the Government of the Republic of Croatia	12	-
Income from the sale of gas - Decree of the Government of the Republic of Croatia (ii)	55,820	14,680
Income from the sale of gas - market supply	99,068	20,082
Total sales revenue	1,931,454	1,269,537

(i) The decision on the provision of gas supplies from 2022 in the territory of the Republic of Croatia and the Regulation on the removal of disturbances on the domestic energy market have secured part of the needs of the HEP group, for which gas procurement was previously contracted, i.e. part of the gas for the needs of the company HEP-Plin d.o.o. (for the needs of gas distributors to settle losses for gas distribution, for customers of thermal energy from an independent heating system, public service for the needs of customers from the household category and gas customers from the economy category from Article 3, paragraph 3 of the Regulation) and the company HEP- Proizvodnja d.o.o. (for the needs of end customers of thermal energy on closed and central heating systems) which resulted in gas surpluses. Also, during the summer months, the realized gas consumption was significantly lower than planned, and the start of trial operation of the new Block L in EL-TO Zagreb, which was scheduled for mid-2023, was postponed, so the previously procured quantities of gas could not be used for the operation of the mentioned block. Therefore, from June to November 2023, surplus gas was sold on the bilateral market on a weekly and daily basis. Monthly cross-border transport capacity on the Croatian-Hungarian border was leased for November and December 2023, and surplus gas was sold during November and December 2023.

(ii) Pursuant to Article 5.a paragraph 4. Regulation on Amendments to the Regulation on Eliminating Disturbances in the Domestic Energy Market (OG 106/2022) HEP disposes of gas purchased from INA and uses it for the needs of: gas distributors for the purpose of settling losses for gas distribution, for customers of thermal energy from an independent thermal system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. Pursuant to the Regulation on Amendments to the Regulation on Eliminating Disruptions on the Domestic Energy Market (OG 121/2022), the gas producer (INA) is obliged to sell all the gas that is the subject of this Regulation to HEP, and HEP is obliged, if the amount of gas produced is greater if necessary, store gas in Podzemno skladište plina d.o.o. in accordance with the technical and technological capabilities of the warehouse. Due to the high capacity of the warehouse, on 7 July 2023, INA's obligation to deliver gas ended.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

7. OTHER OPERATING INCOME

<i>in EUR '000</i>	2023	2022
Unrealized gains on fair value of tangible assets	113	29
Default interest from customers	2,159	1,306
Collection of sued and written off receivables	209	584
Income from sale of property, plant and equipment	83	284
Income from cancellation of long-term provisions (i)	77,174	131
Revenue based on the use of own products and services	-	14
Written-off receivables under accounting policy	115	164
Income based on the Decision of the Government of the Republic of Croatia - the difference between the purchase price and the market sale price of gas (ii)	66,487	-
Income from the reimbursement of costs for gas supplies according to the Decision of the Government of the Republic of Croatia (MOE)	14,207	-
Income from compensating the difference in the price of electricity for the economy from 1 October 2022 to 31 March 2023. by Decision of the Government of the Republic of Croatia - market supply (iii)	137,205	-
Write-off of liabilities	2,175	-
Income from BE-TO penalty	-	3,724
Income from EU donations	594	678
Income from neutrality fee calculation (HROTE)	787	1,978
Other operating income (iv)	1,155	1,766
	302,463	10,658

(i) In 2023, a correction was made to the accounting error in the recording of the provision for the negative effects of the application of the Regulation on elimination of disturbances in the domestic energy market ("Regulation"), which referred to the period from 1 January to 31 March 2023. In the unconsolidated statement of profit or loss for 2022, the Company disclosed provisions following International Standard 37 - Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") for all individual contracts of the business category HEP Opskrba that were in force on 31 December 2022. The Company determined the difference between the selling price (according to the Regulation) and the purchase price (cost price) of electricity for the entire duration of the contract and recorded in the unconsolidated statement of profit or loss EUR 76,322 thousand of provisioning costs and in the unconsolidated statement of financial position as of 31 December 2022, the liability to reserve the same amount.

(ii) The Decision of the Government of the Republic of Croatia (Official Gazette 37/23) defines the categories of customers to whom gas is supplied from the Republic of Croatia for the needs of public service, customers of the household category, customers of thermal energy from an independent heating system and for other protected gas customers from the Regulation on criteria for acquiring the status of protected customer in conditions of crisis in gas supply (Official Gazette 65/15).

The Republic of Croatia undertakes to compensate the difference between the purchase and sale price of gas for the gas sold to customers according to the Decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia.

(iii) On 14 March 2024, the Government of the Republic of Croatia adopted a Decision on compensation for the difference between the contracted price of electricity and the price charged to customers in the economy category in accordance with the Regulation on eliminating disturbances on the domestic energy market, for the period from 1 October 2022 to 31 March 2023 in the amount of EUR 137,205 thousand.

(iv) Other operating income in 2023 mostly consists of income from restaurants EUR 221 thousand (2022: EUR 178 thousand), income from rents EUR 200 thousand (2022: EUR 72 thousand), income based on Government Regulation of the Republic of Croatia EUR 108 thousand (2022: EUR 58 thousand), income from renting space for telecommunications equipment: EUR 215 thousand (2022: EUR 217 thousand) and other operating income.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

8. COST OF ELECTRICITY PROCUREMENT

The costs of electricity procurement shown in the Statement of Profit or Loss for the year 2023 amount to EUR 1,172,334 thousand (2022: EUR 1,403,783 thousand), and refer to the procurement of electricity to supply end customers, cover electricity losses in transmission and distribution network and sale on the wholesale market.

Due to lower prices, electricity procurement costs are lower by EUR 231,449 thousand compared to the previous year.

Electricity and gas trade is carried out bilaterally and on stock exchanges.

9. EMPLOYEE BENEFITS

<i>in EUR '000</i>	2023	2022
Net salaries	9,452	9,138
Taxes and contributions	6,415	6,151
	15,867	15,289

The number of employees on 31 December 2023 was 504 (31 December 2022: 508 employees).

Total contributions to pension funds amounted to EUR 2,743 thousand during 2023 (2022: EUR 2,645 thousand).

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

<i>in EUR '000</i>	2023	2022
Gross salaries	1,010	1,021
Contributions in kind	84	77
Contributions	219	219
	1,313	1,317

The number of members of the Management Board as of 31 December 2023 was 3 (31 December 2022: 3), and the number of executive directors of the Company was 13 (31 December 2022: 15)

Remuneration to the members of the Supervisory Board:

<i>In EUR '000</i>	2023	2022
Fees	18	22
Taxes and contributions	9	12
	27	34

The number of supervisory board members as of 31 December 2023 was 5 (31 December 2022: 5).

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

10. OTHER OPERATING EXPENSES

<i>in EUR '000</i>	2023	2022 <i>restated</i>
Cost of external services and materials	20,981	20,135
Cost of HEP d.d. for decommissioning NEK d.o.o. (Note 17)	5,270	14,267
Costs of services and materials within subsidiaries	10,122	11,550
Bank charges, payment charges and loan fees	2,953	3,653
Taxes, contributions and fees	2,711	1,898
Value adjustment and write-off of receivables from customers (i)	1,333	1,602
Other material rights of employees (ii)	2,574	1,815
Insurance premiums	416	536
Material costs	636	604
Compensation based on a lawsuit	-	260
Provision for litigation	1,589	61
Provision for negative effects of the application of the Regulation	-	76,322
Donations in the value of 2% of the income	1,092	1,191
Costs in accordance with the Regulation of the Government of the Republic of Croatia - market supply - Economy (iii)	-	133,717
Costs under the Decree of the Government of the Republic of Croatia dated 1.4. and 1.10.2023 market supply Entrepreneurship (iv)	140,069	-
Financing of rehabilitation programs	1,059	2,809
Write-off of tangible fixed assets	-	1,083
Business association membership fees	1,433	750
Other operating expenses	629	427
Capitalized borrowing costs	(105)	(237)
	192,762	272,443

(i) Value adjustment and write-off of trade receivables of EUR 1,333 thousand (2022: EUR 1,602 thousand) includes value adjustment of trade receivables according to accounting policies of EUR 150 thousand (2022: EUR 312 thousand), value adjustment from customers of HEP Opskrba d.o.o. in the amount of EUR 935 thousand (2022: EUR 1,007 thousand and written off unpaid receivables of EUR 247 thousand (2022: EUR 282 thousand)).

(ii) Reimbursements of expenses and other rights to employees include transportation costs to work during 2023 in the amount of EUR 334 thousand (2022: EUR 328 thousand), per diems and travel expenses in the amount of EUR 238 thousand (2022: EUR 208 thousand), receipts in kind of EUR 191 thousand (2022: EUR 155 thousand), other material rights of employees of EUR 1,810 thousand (2022: EUR 998 thousand). In 2023, the Company did not have a provision for severance pay and unused annual leave (2022: EUR 125 thousand). The costs of the material rights of employees include severance pay for early retirement, jubilee awards and occasional benefits.

(iii) Pursuant to the Regulation on elimination of disturbances in the domestic energy market (Official Gazette 104/2022), which, due to disturbances in the domestic energy market, regulates special measures for electricity trade, the method and conditions of price formation for certain categories of electricity and thermal energy buyers, supervision over the application the price determined by this Regulation, and the special conditions for performing energy activities, the electricity supplier who is a member of the HEP Group has no right to compensation for the difference between the price of electricity according to this Regulation and the contracted price. The measures under this Regulation were temporary and were prescribed for the period from 1 October 2022 to 31 March 2023.

(iv) On 8 September 2022, the Government of the Republic of Croatia adopted the Decree on the removal of disturbances on the domestic energy market, which regulates special measures for electricity trade, the method and conditions of price formation for certain categories of electricity and thermal energy customers.

On 19 October 2023, the Regulation on Amendments to the Regulation on the Elimination of Disruptions on the Domestic Energy Market was adopted, which recognizes to HEP the difference between the contracted price of electricity and the price charged to customers of the business category following the Regulation, in the maximum amount of up to EUR 180/MWh in the period from 1 April to 30 September 2023, and with subsequent amendments to the Regulation of up to EUR 150/MWh in the period from 1 October 2023 to the end of the year.

The rest of the price difference, which is not reimbursed to the supplier, represents a cost to HEP of EUR 140,069 thousand.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

11. FINANCIAL INCOME AND EXPENSES

<i>in EUR '000</i>	2023	2022
Financial income		
Dividends from subsidiaries and associated companies	33,925	100,516
Interest income	5,310	14,657
Positive exchange rate differences	160	-
Dividend income	622	540
Revenues based on the currency clause - clearing debt	3,924	-
Other financial income	-	101
Total financial income	43,941	115,814
Financial expenses		
Interest expense	(71,819)	(33,284)
Negative exchange rate differences	-	(2,479)
Fair value of the cross-currency swap	-	(362)
Unrealized losses from the decrease in the value of shares in Investment funds	-	(543)
Unrealized losses from fair valuation of shares	(32,142)	-
Other financial expenses	-	(633)
Capitalized borrowing costs	1,637	881
Net (loss)/gain from financial activities	(102,324)	(36,420)
	(58,383)	79,394

12. PROFIT 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 of the period and is increased by expenses that are not recognized for tax purposes. Profit tax calculated by applying the legal profit tax rate in the Republic of Croatia is 18%.

<i>in EUR '000</i>	2023	2022 <i>restated</i>
Deferred tax recognized in profit or loss	6,208	171,790
Profit tax	6,208	171,790

The adjustment of deferred tax assets is as follows:

<i>in EUR '000</i>	2023	2022 <i>restated</i>
Balance at 1 January	174,063	2,338
(Decrease) Increase in deferred tax assets	(6,208)	171,790
Translation to functional currency	-	(65)
Balance at 31 December	167,855	174,063

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

12. PROFIT TAX (continued)

Deferred tax assets were created for the most part from tax losses, provisions for severance pay and jubilee bonuses, fair valuation of financial and material assets.

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

<i>in EUR '000</i>	2023	2022 <i>restated</i>
(Loss) before tax	(40,924)	(855,504)
Income tax determined by the tax rate applicable in the Republic of Croatia (18%)	7,366	153,991
The effect of non-taxable income	6,313	18,252
The effect of non-tax deductible expenses	(6,243)	(14,205)
Tax expense for the current year	7,436	158,038
Effective tax rate	(18,17)	(18,47)

The effects of non-taxable expenses mostly consist of the value adjustment of trade receivables according to accounting policies, provisioning costs and profit increases for other expenses, while the effects of non-taxable income consist mostly of income from dividends, collected and previously corrected receivables, state aid for education and profit reductions for other income.

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

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

<i>in EUR '000</i>	31 December 2022 - revised	(Debited) /credited to profit and loss	31 December 2023
Provisions for jubilee awards and severance pay	666	(26)	640
Provision the cost of wind power	517	-	517
Value adjustments of trade receivables	-	110	110
Value adjustment of inventories: raw and other materials	-	1	1
Provisions for the negative effects of Regulation 1 based on the Decision of the Government of the Republic of Croatia (1.1.-31.3.2023)	13,738	(13,738)	-
Tax loss	158,038	7,436	165,474
Other	1,104	9	1,113
	174,063	(6,208)	167,855

The deferred tax liability relates mostly to 18% of the fair valuation of JANAF shares through other comprehensive income, in the amount of EUR 4,583 thousand (2022: EUR 2,762 thousand).

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT

<i>in EUR '000</i>	Land	Buildings	Inventory and equipment	Tangible assets under construction	Advances	Total
PURCHASE VALUE						
1 January 2022	8,571	34,227	43,540	128,280	16,987	231,605
Increases	48	4,380	3,168	40,773	1,207	49,576
Increase in income from an affiliate	21	1,067	284	-	-	1,372
Transfer to affiliates	(14)	(644)	(150)	(681)	-	(1,489)
Disposal (sale, expense, deficit)	(19)	(12)	(1,154)	(1,084)	-	(2,269)
Translation into functional currency	(16)	(64)	(81)	(256)	(32)	(449)
31 December 2022	8,591	38,954	45,607	167,032	18,162	278,346
Increases	1	-	89	77,112	6,852	84,054
Increase in income from an affiliate	11	255	12,988	1,742	-	14,996
Transfer to affiliates	-	(303)	(118)	(18,782)	(14,579)	(33,782)
Disposal (sale, expense, deficit)	(12)	(89)	(1,548)	-	-	(1,649)
31 December 2023	8,591	38,817	57,018	227,104	10,435	341,965
ACCUMULATED DEPRECIATION						
1 January 2022	-	13,068	29,471	-	-	42,539
Depreciation expense for the year	-	776	3,622	-	-	4,398
Disposal (sale, expense, deficit)	-	(12)	(1,145)	-	-	(1,157)
Transfer of assets between HEP and subsidiaries	-	585	144	-	-	729
Translation into functional currency	-	(25)	(56)	-	-	(81)
31 December 2022	-	14,392	32,036	-	-	46,428
Depreciation expense for the year	-	817	5,280	-	-	6,097
Disposal (sale, expense, deficit)	-	(75)	(1,462)	-	-	(1,537)
Transfer of assets between HEP and subsidiaries	-	229	133	-	-	362
31 December 2023	-	15,363	35,987	-	-	51,350
CARRYING AVALUE						
31 December 2022	8,591	24,562	13,571	167,032	18,162	231,918
31 December 2023	8,591	23,454	21,031	227,104	10,435	290,615

Investments in progress (tangible assets under construction) as of 31 December 2023 amount to EUR 227,104 thousand. They mainly consist of investments in EL-TO Zagreb - replacement of block A of EUR 128,129 thousand, EL-TO Zagreb - power plant of EUR 23,722 thousand, HPP Kosinj of 44,423 EUR thousand, HPP Senj of EUR 9,172 thousand, solar power plants EUR 9,151 thousand and information technology EUR 11,258 thousand.

As of 31 December 2023, property, plant and equipment were not given as collateral for received loans.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

14. RIGHT-OF-USE ASSETS

in EUR '000

	Land and buildings	Inventory and equipment	Total
PURCHASE VALUE			
1 January 2022	1,138	222	1,360
Increases	-	-	-
Translation into functional currency	(2)	-	(2)
31 December 2022	1,136	222	1,358
Reductions	(12)	(3)	(15)
31 December 2023	1,124	219	1,343
ACCUMULATED DEPRECIATION			
1 January 2022	336	122	458
Depreciation expense for the year	114	44	158
31 December 2022	450	166	616
Depreciation expense for the year	109	44	153
Deregistration/termination of lease	(18)	-	(18)
31 December 2023	541	210	751
CARRYING VALUE			
31 December 2022	686	56	742
31 December 2023	583	9	592

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

15. INTANGIBLE ASSETS

in EUR '000

	Software	Licences	Intangible assets under construction	Total
PURCHASE VALUE				
1 January 2022	41,626	2,778	4,295	48,699
Increases and commissioning	16,365	-	3,125	19,490
Transfer to subsidiary	-	-	(1)	(1)
Translation into functional currency	(83)	(6)	(7)	(96)
31 December 2022	57,908	2,772	7,412	68,092
Increases and commissioning	13,776	242	6,055	20,073
Deregistration based on asset transfer	-	-	(8,426)	(8,426)
Transfer to a subsidiary	-	-	(23)	(23)
31 December 2023	71,684	3,014	5,018	79,716
ACCUMULATED AMORTIZATION				
On January 1, 2022	28,908	704	-	29,612
Amortisation of the current year	4,774	516	-	5,290
Translation into functional currency	(55)	(2)	-	(57)
31 December 2022	33,627	1,218	-	34,845
Amortisation of the current year	6,720	529	-	7,249
31 December 2023	40,347	1,747	-	42,094
Net carrying value				
31 December 2022	24,281	1,554	7,412	33,247
31 December 2023	31,337	1,267	5,018	37,622

Investments in progress (intangible assets under construction) as of 31 December 2023 amount to EUR 5,018 thousand, and most of them relate to investments in computer software and licenses.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

16. INVESTMENT PROPERTY

As of 31 December 2023, investment property includes property owned for the purpose of generating income from rents and/or capital appreciation and is stated at fair value. Fair value includes the estimated market price at the end of the reporting period. Investment property is accounted for using the fair value method.

<i>in EUR '000</i>	31 December 2023	31 December 2022
Investments in property		
Fair value on 1 January	6,276	3,127
Net changes in fair value	290	495
Classification of assets into investment property	-	2,661
Translation into functional currency	-	(7)
On 31 December	6,566	6,276

The assessment of the fair value of the property was carried out by official appraisers whose assessment is based on available data on the market price of real estate in suitable locations.

As of 31 December 2023, there is no investment property given as collateral.

17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD

Investments in shares of companies shown in the Statement of Financial Position as of 31 December 2023 consist of the investments shown in the table

<i>in EUR '000</i>	Ownership share %	31 December 2023	31 December 2022
Subsidiaries			
HEP - Proizvodnja d.o.o.	100	5	5
Hrvatski operator prijenosnog sustava d.o.o.	100	657,529	657,529
HEP - Operator distribucijskog sustava d.o.o.	100	239,172	239,172
HEP - Opskrba d.o.o.	100	3	3
HEP - Toplinarstvo d.o.o.	100	122,851	82,686
HEP - Plin d.o.o.	100	3	3
HEP ESCO d.o.o.	100	2,517	2,516
HEP - Upravljanje imovinom d.o.o.	100	3,631	1,898
HEP - Trgovina d.o.o.	100	5	5
HEP - Telekomunikacije d.o.o.	79.94	44,276	44,276
Plomin Holding d.o.o.	100	16,012	16,012
HEP - Elektra d.o.o.	100	53,110	3
Energetski park Korlat d.o.o.	100	6,678	6,534
SUNČANA ELEKTRANA VIS d.o.o.	100	4,162	4,162
		1,149,954	1,054,804
Investment in joint ventures			
NE Krško /i/	50	253,706	253,706
LNG Hrvatska d.o.o. /ii/	75	32,289	32,289
		285,995	285,995
Investments calculated using the equity method			
Male hidre d.o.o.	49	403	403
		403	403
Total subsidiaries and joint ventures and investments calculated using the equity method		1,436,352	1,341,202

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD (continued)

Changes in investments are as follows:

<i>in EUR '000</i>	2023	2022
Balance on 1 January	1,341,202	1,329,330
HEP Toplinarstvo d.o.o.	40,163	-
Plomin Holding d.o.o.	-	13,874
HEP Upravljanje imovinom d.o.o.	1,734	-
Energetski park Korlat d.o.o.	146	478
HEP Elektra d.o.o.	53,107	-
Translation into functional currency	-	(2,480)
Balance on 31 December	1,436,352	1,341,202

The decision of the HEP Management on the intention to increase the share capital:

- On 13 July 2023 HEP d.d., as the sole founder of HEP Toplinarstvo d.o.o., increased the share capital of HEP Toplinarstvo d.o.o. by cash payment in the total amount of EUR 70,777 thousand. The estimated value of shares in the company HEP Toplinarstvo d.o.o. on 31 December 2023 amounts to EUR 122,850 thousand, and a reduction of EUR 30,614 thousand was recorded.
- On 21 September 2023, HEP d.d., as the sole founder of the company HEP Upravljanje imovinom d.o.o., increased the share capital of the company HEP Upravljanje imovinom d.o.o. by paying in cash the total amount of EUR 3,262 thousand. The estimated value of the shares in the company HEP Upravljanje imovinom d.o.o. on 31 December 2023 amounts to EUR 3,632 thousand and a reduction of EUR 1,528 thousand was recorded.
- On 6 July 2023, HEP d.d., as the sole founder of HEP Elektra d.o.o. increased the share capital of HEP Elektra d.o.o. by cash payment in the total amount of EUR 53,107 thousand.

/i/ INVESTMENT IN NPP KRŠKO

Payments to the Fund for financing the decommissioning of NPP Krško

On the basis of the Regulation on the amount, term and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP, adopted by the Government of the Republic of Croatia on 24 December 2008, HEP d.d. from 2006 until the end of 2023 paid into the Fund for financing the decommissioning of NPP Krško the amount of EUR 276,025. The payment amount is determined by the document Decommissioning Program from 2004. In accordance with the aforementioned Regulation, the annual obligation in the amount of EUR 14,250 thousand was paid into the Fund quarterly. On 14 July 2020, the Interstate Commission adopted the Third Revision of the Program for the Decommissioning of the Krško Nuclear Power Plant and Disposal of Radioactive Waste, according to which HEP will pay a smaller annual amount in the future. On 29 December 2022, at its session, the Government of the Republic of Croatia adopted a new Regulation (OG 156/2022) according to which the payment of HEP d.d. was reduced from EUR 14,250 thousand per year (EUR 3,562 thousand quarterly) to EUR 9,760 thousand per year (EUR 2,440 thousand quarterly). Additionally, due to the overpaid amount of EUR 11,225 thousand, HEP d.d. will pay an even further reduced amount in the next ten quarters, until the middle of 2025, that is, the next 10 quarterly instalments will amount to EUR 1,317.5 thousand (for the year 2023, this means a total payment obligation of EUR 5,270 thousand).

17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD (continued)

/i/ INVESTMENT IN NPP KRŠKO (continued)

Life extension

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

Accounting of the joint venture NPP Krško

The joint investment in NPP Krško is recognized in the Company's annual unconsolidated financial statements using the equity method.

In the annual unconsolidated financial statements, the Company applies the method of joint management of assets and liabilities and reports the Company's share in each asset and each liability, income and expenditure in accordance with IFRS 11.

The following table shows an excerpt from the financial statements of NE Krško in 100% amounts as at 31 December 2023 and 31 December 2022.

<i>in EUR '000</i>	31 December 2023	31 December 2022
Property, plant and equipment	416,171	445,867
Capital and reserves	478,960	480,953
Sales income	236,369	184,109
Cash flow from operating activities	65,724	69,783
Profit/(loss) for the current year	-	-

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD (continued)

/i/ INVESTMENT IN NPP KRŠKO (continued)

Financial effect of derogations

Profit and loss account for the year ended 31 Dec 2022

in EUR '000

	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
Total operating income	2,359,396	2,283	2,361,679
Total operating expenses	(3,294,294)	(1,784)	(3,296,078)
Operating profit / (loss)	(934,898)	499	(934,399)
Net profit / (loss) from financial activities	79,394	(499)	78,895
Loss before tax	(855,504)	-	(855,504)
Profit tax	171,790	-	171,790
Loss for the current year	(683,714)	-	(683,714)

Profit and loss account for the year ended 31 Dec 2023

in EUR '000

	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
Total operating income	3,617,730	1,376	3,619,106
Total operating expenses	(3,600,271)	(1,324)	(3,601,595)
Operating profit	17,459	52	17,511
Net loss from financial activities	(58,383)	(52)	(58,435)
Loss before tax	(40,924)	-	(40,924)
Profit tax	(6,208)	-	(6,208)
Loss for the current year	(47,132)	-	(47,132)

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD (continued)

/i/ INVESTMENT IN NPP KRŠKO (continued)

Financial effect of derogations (continued)

Statement of financial position as of 31 Dec 2022

in EUR '000

ASSETS

Fixed assets

Property, plant and equipment	231,918	222,936	454,854
Financial assets	253,706	(240,477)	13,229
Other fixed assets	3,554,404	-	3,554,404

Total fixed assets	4,040,028	(17,541)	4,022,487
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Current assets	1,609,913	53,183	1,663,096
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TOTAL ASSETS	5,649,941	35,642	5,685,583
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CAPITAL AND LIABILITIES

Total capital	2,922,930	-	2,922,930
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Long term liabilities	1,705,500	23,374	1,728,874
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Short-term liabilities	1,021,511	12,268	1,033,779
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TOTAL CAPITAL AND LIABILITIES	5,649,941	35,642	5,685,583
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Statement of financial position as of 31 Dec 2023

in EUR '000

ASSETS

Fixed assets

Property, plant and equipment	290,615	208,087	498,702
Financial assets	253,706	(239,480)	14,226
Other fixed assets	3,596,609	-	3,596,609

Total fixed assets	4,140,930	(31,393)	4,109,537
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Current assets	2,120,872	66,431	2,187,303
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TOTAL ASSETS	6,261,802	35,038	6,296,840
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CAPITAL AND LIABILITIES

Total capital	2,877,246	-	2,877,246
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Long term liabilities	1,445,008	22,900	1,467,908
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Short-term liabilities	1,939,548	12,138	1,951,686
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TOTAL CAPITAL AND LIABILITIES	6,261,802	35,038	6,296,840
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17. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES AND INVESTMENTS CALCULATED USING THE EQUITY METHOD (continued)

/ii/ INVESTMENT IN LNG HRVATSKA

Hrvatska elektroprivreda d.d. (hereinafter: HEP) and Plinacro d.o.o. concluded on 1 June 2010, the Agreement on the establishment of the company LNG HRVATSKA d.o.o. for operations with liquefied natural gas, by which the company LNG HRVATSKA d.o.o. became the holder of the LNG terminal project on Krk. Based on this Agreement HEP d.d. and Plinacro d.o.o. have become members and co-owners of LNG HRVATSKA d.o.o. each with 50% membership, management and property rights. By the decision of the Management Board dated 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 EUR 28,682 thousand, or 84.18%. By decision of the Assembly of LNG HRVATSKA d.o.o. from 3 December 2021, the company's share capital was increased from the amount of EUR 38,359 by the amount of EUR 4,693 to the amount of EUR 43,052 by entry of rights and the payment of a new contribution in money by a member of the company PLINACRO d.o.o. By the decision of the Assembly of the Company dated 16 May 2023, the contract was amended and the share capital was harmonized with euros and amounts to EUR 43,052,230. The share of HEP on 31 December 2022 is 75%. and it remained unchanged on 31 December 2023.

In accordance with the decision of the Government of the Republic of Croatia on the declaration of the LNG terminal project (construction of a receiving terminal for liquefied natural gas on the island of Krk, Municipality of Omišalj) as 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), which contains a list of key energy infrastructure projects, including the LNG terminal on the island of Krk. LNG Croatia has signed contracts with INEA (Innovation and Networks Executive Agency) for the project and permit documentation co-financing and the contract for co-financing of construction.

The Act on Liquefied Natural Gas Terminals (OG 57/18), which was 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 LNG Hrvatska d.o.o. was designated as the investment holder of the project. It will implement the project and maintain and manage it in a safe and reliable manner. In accordance with the decisions of the Government of the Republic of Croatia, the project was planned to be implemented in phases, in such a way that a floating terminal will be implemented in the first phase and a land terminal in the second phase.

LNG Croatia d.o.o. started operating the Terminal on 1 January 2021, and in 2022 increased its technical capacity by 0.3 billion m³ of natural gas per year. The floating terminal for FG on the island of Krk has a geopolitical and strategic dimension in the context of strengthening the European energy market and the security of gas supply to the countries of the European Union, especially the countries of Southeastern Europe. The production of natural gas in the Republic of Croatia is in constant decline, and the events in Europe in 2022 have shown the disadvantages of relying on the supply of gas from only one source.

For this reason, the Government of the Republic of Croatia at its session on 18 August 2022 (Official Gazette 96/22) passed the Decision to increase the security of gas supply by building the Zlobin – Bosiljevo gas pipeline and increasing the capacity of the LNG terminal to 6.1 billion m³ of gas per year. The objectives of this Decision are to ensure and maximize energy independence, continuity and security of gas supply to the Republic of Croatia, households and businesses in neighbouring EU member states. For the project to be implemented in a timely and successful manner, the decision in question defined that LNG Hrvatska d.o.o. is granted EUR 25 million to cover the project's capital expenditures. The importance of the Terminal, as well as its profitability and usefulness, has been repeatedly proven through the Terminal's previous work.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>in EUR '000</i>	2023	2022
Opening balance	42,305	36,648
Fair valuation of investments through other comprehensive income (Janaf)	-	5,733
Fair valuation of investments through other comprehensive income and other	2,533	(7)
Translation to functional currency	-	(69)
Closing balance	44,838	42,305

<i>in EUR '000</i>	31 December 2023	31 December 2022
Investments in securities:		
Jadranski Naftovod d.d.	44,804	42,271
Đuro Đaković Aparati d.d.	1	1
Konstruktor inženjering d.d.-u stečaju	31	31
Helios Faros d.d.	2	2
	44,838	42,305

The fair valuation was made based on the notification of the Central Clearing Depository Agency and Hrvatska poštanska banka d.d. on the account balance as of 31 December.

19. OTHER LONG-TERM RECEIVABLES

Housing loans

Receivables for housing loans as of 31 December 2023, amount to EUR 6 thousand (2022: EUR 10 thousand). Before 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 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 presented in the financial statements at the discounted net present value. The liability to the state, which represents 65% of the value of the sold apartments, is shown in other long-term liabilities (Note 27). Receivables are secured by mortgages on sold apartments.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

20. INVENTORIES

in EUR '000

	31 December 2023	31 December 2022
Wholesale gas supplies	54,912	61,660
CO2 emission units	4,467	1,284
Stocks of energy savings in final consumption (i)	1,735	1,735
Inventories of investment material	531	866
Gas inventories according to the Regulation of the Government of the Republic of Croatia (ii)	30,132	26,617
Strategic gas inventories according to the Decision of the Government of the Republic of Croatia (iii)	154,639	278,417
Inventories of other material	77	82
	246,493	370,661
Value adjustment of receivables	(36)	(31)
	246,457	370,630

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

<i>in EUR '000</i>	2023	2022
At 1 January	31	25
Write-off of inventories	5	6
At 31 December	36	31

(i) In order to fulfil the obligations established in Art. 7 2012/27/EU of the European Parliament and the Council on energy efficiency, achieving energy savings in immediate energy consumption and reducing the financial liabilities of the HEP Group in connection with unrealized savings, the Board of the HEP company adopted Decision no. 52-7.1/2018. which established the Energy Saving System in the HEP Group and Decision no. 17-7.1/2020. which approves the Methodology for the distribution and purchase of energy savings. In addition, the HEP Group member companies concluded an Agreement on the transfer or purchase of energy savings within the HEP Group. This Agreement regulates the mutual relations between HEP and its subsidiaries in the system of redistribution and purchase of energy savings, and in order to fulfil the system of energy efficiency obligations in accordance with the Energy Efficiency Act and to achieve common goals, coordinated by the HEP Management Board and mutual cooperation in conducting business between subsidiaries.

(ii) Inventories include gas that HEP disposes of based on Article 5.a of the *Regulation on Amendments and Supplements to the Regulation on Elimination of Disturbances in the Domestic Energy Market (OG 106/2022)* for the needs of: gas distributors for the purpose of settling losses for gas distribution, for heat energy buyers from independent heat system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. Pursuant to the Decree on Amendments to the *Regulation on Eliminating Disruptions on the Domestic Energy Market (OG 121/2022)*, the gas producer (INA) is obliged to sell all the gas that is the subject of this Regulation to HEP, and HEP is obliged, if the amount of gas produced is greater than necessary, store gas in Podzemno skladište plina d.o.o. in accordance with the technical and technological capabilities of the warehouse. Given the high capacity of warehouses, as one of the elements of security of gas supply, in July 2023 the Regulation on Amendments and Supplements to the Regulation on Elimination of Disruptions in the Domestic Energy Market (Official Gazette 74/23) was adopted, which ended INA's obligation on 7 July 2023.

(iii) Inventories also include the gas that HEP acquired on the basis of the Decision on securing gas supplies on the territory of the Republic of Croatia (OG 63/2022), by which the Government of the Republic of Croatia tasked HEP with securing gas supplies on the territory of the Republic of Croatia in the amount of 270.83 million m³ and to inject the relevant quantity into the system PSP gas storage. This gas from the Decision is available to HEP d.d. in accordance with the orders of the Crisis Team responsible for the implementation of the Intervention Plan on measures to protect the security of the gas supply of the Republic of Croatia. The Ministry of Economy and Sustainable Development will provide funds to HEP d.d. to cover the difference between the purchase and market sales price of gas from this Decision, storage costs and financing costs.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

21. TRADE RECEIVABLES

in EUR '000

	31 December 2023	31 December 2022
Trade receivables in the country	29,946	30,351
Receivables from gas customers in the wholesale market	180	180
Receivables for electricity from abroad	5,836	3,507
	35,962	34,038
Impairment of receivables	(16,996)	(17,025)
Total trade receivables	18,966	17,013

	31 December 2023	31 December 2022
<i>in EUR '000</i>		
Trade receivables abroad		
EUR	5,836	3,507
Other	-	-

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

31 December 2023	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 365 days	Total
Gross book value of trade receivables	17,934	1,171	12	1	34	10	16,800	35,962
Expected credit losses	(173)	(11)	(1)	(-)	(2)	(9)	(16,800)	(16,996)
31 December 2022	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 365 days	Total
Gross book value of trade receivables	11,839	5,297	28	10	3	4	16,857	34,038
Expected credit losses	(115)	(51)	(1)	(-)	(-)	(1)	(16,857)	(17,025)

Changes in allowance for impairment were as follows:

<i>in EUR '000</i>	2023	2022
Balance on 1 January	17,025	17,013
Increase in impairment of receivables	(115)	(164)
Decrease in impairment of receivables	150	312
Write-off	(64)	(98)
Write-off of uncollected receivables	-	(6)
Translation to functional currency	-	(32)
Balance on 31 December	16,996	17,025

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

22. OTHER SHORT-TERM RECEIVABLES

<i>in EUR '000</i>	31 December 2023.	31 December 2022
Advances to suppliers	28	40
Short-term guarantees given	1	1
Interest receivables	176	26
Receivables for given deposits (due more than 90 days)	9,090	8,735
Receivables for gas borrowed to common users of LNG terminals	16,716	19,511
Receivables from the state	74,996	20
Receivables from MINGOR for compensation of the difference in the price of electricity. for the economy for the period 1 October 2022-31 March 2023. by decision of the Government of the Republic of Croatia	547,075	-
Other receivables	907	2,813
Receivables for profit tax	-	3,873
	648,989	35,019

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

23. PREPAID EXPENSES

<i>in EUR '000</i>	31 December 2023	31 December 2022
Capacity lease	1,559	4,560
Sponsorships	1,294	1,117
Toll – ENC	8	9
Insurance premiums	42	4
Subscriptions to official newsletters and magazines	-	1
Other	160	45
	3,063	5,736

24. CASH AND CASH EQUIVALENTS

<i>in EUR '000</i>	31 December 2023	31 December 2022
Giro accounts	145,750	119,307
Short-term deposits (daily deposits)	75,689	11,962
Foreign currency accounts	95	1,034
Deposits with a maturity of up to 90 days	26,771	28,527
Allocated funds	1,550	1,152
Cash in hand	2	-
	249,857	161,982

HEP d.d. has an open 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., OTP banka d.d. and Nova Hrvatska banka d.d

Structure of foreign currency accounts::

<i>in EUR '000</i>	31 December 2023	31 December 2022
USD	93	1,031
Other currencies	2	3
	95	1,034

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

25. CAPITAL

In 2023, the share capital is expressed in euros in the amount of EUR 2,627,959 thousand (31 December 2022 in the amount of EUR 2,626,871 thousand) and consists of 10,995,644 ordinary shares with a nominal value of EUR 239.

Retained profit of EUR 228,173 thousand (31 December 2022: EUR 276,393 thousand) includes Reserves from profit in the amount of EUR 87,322 thousand (31 December 2022: EUR 88,410 thousand), Retained earnings of EUR 187,983 thousand (31 December 2022: EUR 871,697 thousand) and Loss of the current year of EUR 47,132 thousand (31 December 2022: EUR 683,714 thousand).

Fair value reserves of EUR 20,877 thousand (31 December 2022: EUR 19,666 thousand) refer to cumulative changes in the value of investments in shares that are recorded at fair value through other comprehensive income.

26. LONG-TERM LOAN LIABILITIES

<i>in EUR '000</i>	31 December 2023	31 December 2022
Loans from domestic banks	1,660,806	1,357,193
Loans from foreign banks	156,381	142,857
Shareholder loan /i/	400,000	-
Total long-term loan liabilities	2,217,187	1,500,050
Allocation of fees by loans	(272)	(311)
Total long-term loan liabilities	2,216,915	1,499,739
Current maturity	(917,591)	(18,515)
Total liabilities for long-term loans	1,299,324	1,481,224

The Company contracted loans with domestic and foreign banks with applicable variable and fixed interest rates that ranged from 0.42% to 5.46% in 2023.

New sources of financing

To finance the investment plan and regular operations in 2023, the Company used its funds and funds from loans in use.

/i/ On 3 April 2023, the Company signed a Shareholder Loan Agreement with the Ministry of Economy and Sustainable Development for EUR 400,000 thousand to ensure the necessary stabilization of the business with a repayment period of two years from the use of the last tranche and with the possibility of repayment by conversion to the share capital of HEP d.d. role in rights.

On 28 December 2023, the Company signed Addendum I to the Agreement on a medium-term revolving loan with HEP-Operator distribucijskog sustava d.o.o. in the amount by which the loan of EUR 92,906 thousand was increased by an additional EUR 50,000 thousand to the amount of EUR 142,906 thousand for more efficient management of cash flows of Group members and ensuring faster realization of additional liquidity reserves (Note 32 – short-term liabilities).

As of 31 December 2023, the Company has two loans covered by guarantees from the Republic of Croatia, a guarantee that covers 100% of the liabilities under the long-term club loan of EUR 400,000 thousand and a guarantee that covers 80% of the liabilities under the club revolving loan of EUR 600,000 thousand.

26. LONG-TERM LOAN LIABILITIES (continued)

Loans in use

As of 31 December 2023, the Company has long-term loans in use with the development banks EBRD and EIB to finance the KKE EL-TO Zagreb construction project.

The use of loans from the development banks EBRD and EIB was contracted until January 2024, and at the end of 2023, an extension of the term for the use of loan funds was requested and the extension was approved until January 2025 following the new dynamics of project implementation.

As of 31 December 2023, the balance of used long-term loans of the Company amounts to EUR 2,216,915 thousand.

As of 31 December 2023, the Company has at its disposal an unused amount of long-term loans of EUR 20,595 thousand.

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

in EUR '000

2024	917,591
2025	424,016
2026	378,403
2027	396,752
2028	17,065
After 2028	83,088
	2,216,915

Loans from domestic banks are secured by promissory notes, while loans with Zagrebačka banka d.d., Privredna banka Zagreb d.d. and Erste&Steiermarkische Bank d.d. are secured with financial guarantees in the form of financial indicators according to which the Company is obliged to meet certain prescribed levels of indicators on an annual basis. For loans from foreign banks EBRD and EIB, financial guarantees have been agreed in the form of financial indicators according to which the Company is obliged to meet certain prescribed levels of the following indicators on an annual and semi-annual basis: net financial debt related to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net debt to net tangible assets.

The Company's main goal related to the risks carried by financial indicators is to protect the Company from possible violations of contractual obligations, i.e. premature maturities of contracted credit liabilities.

The agreed financial indicators are monitored and calculated based on annual and half-yearly financial statements.

The Company prepares preliminary calculations of financial indicators based on the projected balance sheet and profit and loss account in the coming medium-term period and monitors their trend.

If the projections of the balance sheet and the statement of comprehensive income at the end of the business year show the possibility of exceeding a particular financial indicator, the Company informs the bank about the possibility of a breach of contract and requests the bank's consent promptly for a "waiver", i.e. exemption from the calculation of financial indicators.

If the bank does not approve the waiver, a possible scenario is the premature maturity of the debt, which represents a liquidity risk for the Company.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

26. LONG-TERM LOAN LIABILITIES (continued)

The Company has obtained waivers from the banks EBRD, EIB, Erste&Steiermarkische bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d. for the period until 31 December 2023 (including 31 December 2023). Subsequently, Erste&Steiermarkische bank d.d., Privredna banka Zagreb d.d. and Zagrebačka banka d.d. requested exemptions from the calculation of financial indicators for a new period until 31 December 2024 (including 31 December 2024) or with the EBRD and EIB until 30 June 2025. (including 30 June 2025)

To ensure liquidity reserves in the upcoming medium-term period, the Company has concluded multi-purpose framework agreements with domestic banks on 31 December 2023, in the total amount of up to EUR 125,645 thousand.

The Company can use funds from the aforementioned frameworks for short-term loans, as well as issuing guarantees, letters of credit, and letters of intent per the needs of Group members. During 2023, short-term lines were used exclusively to issue guarantees, letters of credit and letters of intent, and business was conducted equally with all banks.

From the previously mentioned short-term multi-purpose frameworks, the Company did not need to conclude short-term loans during 2023.

As of 31 December 2023, the total amount of funds available from the short-term framework is EUR 83,984 thousand.

27. OTHER LONG-TERM LIABILITIES

<i>in EUR '000</i>	31 December 2023	31 December 2022
Long-term liabilities for assets financed from clearing debt (i)	109,004	112,929
Long-term liabilities to the state (ii)	73	76
Other	1,177	1,229
Other long-term liabilities	110,254	114,234

/i/ As of 31 December 2023, the Company has a stated liability for clearing debt of EUR 109,004 thousand (2022: EUR 112,929 thousand), which refers to payments from letters of credit, based on the Consent of the Ministry of Finance on the use of funds based on an interbank agreement. Given that there is no other document that would regulate the relationship between the Company and the Ministry of Finance, and regarding the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

/ii/ Long-term liabilities to the state in the amount of EUR 73 thousand (2022: EUR 76 thousand) refer to the sale of apartments to employees per the state program abolished in 1996. According to legal regulations, 65% of the collected funds from the sale of apartments to employees are paid to the state upon receipt. According to the law, the Company is not obliged to remit the funds before collecting them from the employees.

28. LEASE LIABILITIES

<i>in EUR '000</i>	31 December 2023	31 December 2022
Long-term real estate lease liabilities	523	640
Long-term car lease liabilities	-	12
	523	652
Current portion of long-term lease liabilities	123	158
Lease liabilities	646	810

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

28. LEASE LIABILITIES (continued)

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

29. PROVISIONS

<i>in EUR '000</i>	31 December 2023	31 December 2022 <i>restated</i>
Provisions for severance pay and jubilee awards	3,556	3,699
Provisions for litigation (i)	24,632	23,737
Other provisions (ii)	2,871	79,193
Total provisions	31,059	106,629

/i/ The Company reserves costs for court cases for which it is estimated that a resolution in favour of the Company is unlikely. The total amount of the provision as of 31 December 2023 is EUR 24,632 thousand (2022: EUR 23,737 thousand). The most significant provisions relate to the dispute related to HPP Peruča, which was started in 1995, for which a first-instance verdict was rendered in favour of the plaintiff in 2012. The value of the dispute is around EUR 43.8 million, and funds have been reserved in the amount of the expected outflow in the event of losing the dispute in the amount of EUR 21,899 thousand. Other major disputes relate to the company Autocesta Rijeka Zagreb d.d., i.e. the company Hrvatske autoceste d.o.o. as a legal successor, for which a provision was made in the amount of the expected outflow in case of losing the dispute of EUR 2,080 thousand.

/ii/ Other provisions of EUR 2,871 thousand refer entirely to the provision of costs based on the Management Board's Decision from 2011 for the delivered electricity from the Vrataraša wind farm test operation. Other provisions in 2022 were increased for the negative effects of Regulation 1 of EUR 76,322 thousand.

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

<i>in EUR '000</i>	Severance	Jubilee awards	Legal disputes	Other provisions	Total
At 1 January 2022	3,427	183	23,852	2,877	30,339
Additional provisions	794	11	61	76,322	77,188
Reduction of provisions based on estimates	(683)	(27)	(132)	-	(842)
Translation into functional currency	(6)	-	(44)	(6)	(56)
At 31 December 2022	3,532	167	23,737	79,193	106,629
Additional provisions	-	-	1,589	-	1,589
Reduction of provisions based on estimates	(139)	(4)	(694)	(76,322)	(77,159)
At 31 December 2023	3,393	163	24,632	2,871	31,059

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

29. PROVISIONS (continued)

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

	Severance	Jubilee awards	Total
<i>in EUR '000</i>			
At 1 January 2022	3,427	183	3,610
Service costs	184	13	197
Interest expense	113	5	118
Benefits paid	(173)	(20)	(193)
Past service cost	42	3	45
Actuarial gains / losses	(56)	(17)	(73)
Translation into functional currency	(5)	-	(5)
At 31 December 2022	3,532	167	3,699
Service costs	167	13	180
Interest expense	109	5	114
Benefits paid	(262)	(30)	(292)
Past service cost	49	4	53
Actuarial gains / losses	(202)	4	(198)
At 31 December 2023	3,393	163	3,556

The provision for severance pay and jubilee bonuses is based on the calculation of an authorized actuary.

The following assumptions were used when making the calculations:

- The employment termination rate is 4.5%, and is based on statistical data on employee turnover in the Company over the last 5 years
- Probability of death by age and gender is derived from the Mortality Tables for Croatia in the period 2010-2012, published by the State Statistical Office of the Republic of Croatia. It is assumed that the Company's employees are included in the average population in terms of mortality and health status.

The present value of the liability was calculated using the discount rate of 3.85% annually.

30. ACCRUED EXPENSES AND DEFERRED INCOME

<i>in EUR '000</i>	<u>31 December 2023</u>	<u>31 December 2022</u>
Gas by Decision of the Government of the Republic of Croatia (9,464	5,543
EU funds	1,436	1,017
Unused vacation	705	719
	11,605	7,279

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

31. OTHER LIABILITIES

<i>in EUR '000</i>	31 December 2023	31 December 2022
Trade payables /i/	163,099	345,773
Liabilities for taxes and contributions	11,253	2,334
Interest liabilities (ii)	35,579	7,897
Liabilities to employees (iii)	1,235	1,266
Other liabilities (iv)	1,887	8,830
	213,053	366,100
<i>/i/ Trade payables</i>		
Liabilities to suppliers in the country	77,253	249,901
Liabilities to suppliers abroad	52	476
Liabilities to electricity suppliers within the EU and abroad	85,396	93,092
Liabilities to suppliers within the EU	398	2,304
	163,099	345,773
<i>(ii) Interest liabilities</i>		
Loan interest liabilities - PBZ	20,038	6,715
Loan interest liabilities - ZABA	369	369
Loan interest liabilities – ERSTE	1,509	-
Loan interest liabilities – OTP	81	-
Loan interest liabilities - MINGOR	11,801	-
Loan interest liabilities – EBRD	1,180	354
Loan interest liabilities - EIB	601	459
	35,579	7,897
<i>(iii) Liabilities to employees</i>		
Liabilities for net salaries	729	733
Liabilities for contributions	337	354
Other liabilities	169	179
	1,235	1,266
<i>(iv) Other liabilities</i>		
Liabilities for insurance premiums	354	289
Liabilities for received short-term guarantees	499	7,882
Liabilities to state institutions	605	-
Liabilities based on sponsorship	236	129
Other liabilities	193	530
	1,887	8,830

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS

As at 31 December 2023, 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.d.	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 Energija 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
Male hidre d.o.o.	Croatia	49	Production of electricity
HEP - VHS Zaprešić d.o.o.	Croatia	100	Production of electricity

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

Company GP Krapina d.o.o. and Darkom DP d.o.o. were merged with HEP Plin d.o.o. in January 2022. At the same time, the company Peharda izgradnja d.o.o. was acquired by Plomin Holding d.o.o.

In May 2022, the company Pakrac plin d.o.o. was acquired by HEP Plin d.o.o. In November 2022, the company Pakrac plin d.o.o. was merged with HEP Plin d.o.o.

In July 2023, the company Velebit Pro Sol d.o.o. became part of the HEP Group, exclusively owned by Plomin Holding d.o.o. In November 2023, the company Velebit Pro Sol d.o.o. was annexed to the company Sunčana Elektrana Poreč d.o.o., owned by Plomin Holding d.o.o. and companies Ornatus d.o.o. and Peharda izgradnja d.o.o. were merged with Sunčana elektrana Poreč d.o.o. in October 2023.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

Relations with affiliated companies refer to subsidiaries and to NPP Krško d.o.o. and LNG Hrvatska d.o.o.

Relations with the mentioned companies are listed below

- (i) The Company's revenues are based on pre-invoiced revenues to affiliated companies from the sale of electricity, except for customers of universal service (households) and guaranteed supply, fees for performing accounting, legal and similar services, as well as on the basis of renting business premises. The amount of the mentioned income from affiliated companies is determined based on the following values: the value of the assets of the affiliated company, the costs of employees and the total expenses of the affiliated company.
- (ii) Interests on long-term leases of property, plant and equipment and intangible assets are charged to lessees according to loans used for the construction of assets and are reported in interest income with affiliated companies.
- (iii) Costs with affiliated companies are incurred for the taken electricity and compensation for electricity supply. The costs for the services provided are invoiced monthly in accordance with the provisions and tariffs prescribed by HERA.
- (iv) Short-term receivables from affiliated companies are based on the sale of fuel, materials and spare parts, for the electricity sold 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 Hrvatski operator prijenosnog sustava d.d., for the company's administrative costs and for ongoing investments financed by the Company. After the completion of construction, the said property is transferred to related companies for lease.
- (v) Long-term receivables with affiliated companies are based on the financial leasing of property, plant and equipment to affiliated companies. The rent is paid monthly according to the depreciation of the rented property, plus interest on long-term loans from which the property was financed. The company also has receivables from affiliated companies for apartments sold to employees

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

<i>in EUR '000</i>	2023	2022
Operating income		
Revenues from the sale of electricity to HEP Elektra d.o.o.	686,648	610,169
Revenues from invoicing el. energy to cover losses in the distribution network	80,719	112,783
Revenues from the sale of electricity to HEP Energija d.o.o. Ljubljana	179,634	127,083
Revenues from the sale of electricity to HEP Group companies	17,266	29,311
Revenues from invoicing el. energy to cover losses in the transmission network	2,172	3,815
Revenues from the sale of electricity to HEP Energija d.o.o. Belgrade	-	2,177
Revenue from balancing electricity	2,019	38,711
Revenues from the sale of electricity to HEP Energija d.o.o. Mostar	21,505	11,203
Revenue from electricity sales - affiliated companies	989,963	935,252
Income from the sale of gas - Regulation of the Government of the Republic of Croatia	102,131	12,530
Revenue from gas sales - affiliated company	102,131	12,530

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

in EUR '000

	2023	2022
Revenue from sales of CO2 emission units	255,806	101,966
Revenue based on services and sales of materials within the group	1,556	234
Income from intra-group investment services	54	46
Revenues based on services within the group - restaurant	28	15
Other sales revenues - related parties	257,444	102,261
Sales revenues - related parties	1,349,538	1,050,043
Revenues from the performance of administrative services	30,385	26,104
Income from renting office space	2,595	2,284
Revenues in accordance with the Regulation of the Government of the Republic of Croatia - market supply Economy	522	265
Revenues from the sale of energy savings to companies	773	505
Other operating income - affiliated companies	34,275	29,158
Operating expenses		
Procurement of electricity – HEP Proizvodnja d.o.o.	1,485,434	1,273,485
Procurement of electricity – Energetski park Korlat d.o.o.	32,200	33,426
Procurement of electricity – Ornatus d.o.o. – merged with Sunčana elektrana Poreč (October 2023)	291	1,227
Procurement of electricity – Sunčana elektrana Poreč d.o.o.	418	421
Procurement of electricity – Sunčana elektrana Vis d.o.o.	304	1,327
Procurement of electricity from RES – HEP Opskrba d.o.o.	53,389	52,168
Electricity balancing - HOPS d.d.	18,965	65,599
HEP Energija d.o.o. Mostar	19,905	9,005
HEP Energija d.o.o. Beograd	-	1,290
Expenditures for electricity procurement – affiliated companies	1,610,906	1,437,948
Cost of sales of CO2 emission units	255,806	101,966
Electricity supply fee - HEP Opskrba d.o.o.	9,006	10,518
Gas procurement for public service providers (OOJU)	3,128	6,872
Fee for electricity and gas trading services -HEP Trgovina d.o.o.	2,908	2,742
Costs of fees and services - affiliated companies	270,848	122,098
Costs of fees and services - affiliated companies	1,881,754	1,560,046

/i/ The costs of balancing electricity in 2023 amount to EUR 18,965 thousand (2022: EUR 65,599 thousand), and are generated from the sale or purchase of balancing electricity following the current Rules on Balancing the Electric Power System.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

FINANCIAL INCOME AND EXPENSES FROM RELATED PARTIES

in EUR '000

	2023	2022
Financial income from related parties		
Dividends from subsidiaries and associates	33,925	100,516
Interest income on leased assets	1,189	9,298
Interest income on loans	3,587	5,263
Positive exchange rate differences	-	254
Other financial income	-	94
Total financial income from related parties	38,701	115,425
Financial expenses with related parties		
Interest expense - IFRS 16	(15)	(22)
Negative exchange rate differences	-	(1)
Total financial expenses with related parties	(15)	(23)

RECEIVABLES FROM RELATED PARTIES

in EUR '000

	31 December 2023	31 December 2022
Non-current receivables		
Receivables for long-term lease assets		
HEP Operator distribucijskog sustava d.o.o.	1,061,088	1,044,229
HEP Proizvodnja d.o.o.	976,964	1,025,317
HEP Toplinarstvo d.o.o.	124,309	124,405
HEP Upravljanje imovinom d.o.o.	23,174	22,916
HEP Plin d.o.o.	33,508	30,157
HEP NOC d.o.o.	1,344	1,379
HEP Opskrba d.o.o.	231	182
HEP Trgovina d.o.o.	100	112
HEP ESCO d.o.o.	146	189
HEP Elektra d.o.o.	481	654
	2.221.345	2.249.540

in EUR '000

	31 December 2023	31 December 2022
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	96	156
HEP Proizvodnja d.o.o.	31	57
Hrvatski operator prijenosnog sustava d.d.	19	29
HEP Toplinarstvo d.o.o.	9	10
	155	252
	2,221,500	2,249,792
Current portion of leases	(164,117)	(164,887)
Receivables for long-term lease from related parties	2,057,383	2,084,905

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

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

<i>in EUR '000</i>	<u>31 December 2023</u>	<u>31 December 2022</u>
Expected receipts under finance lease		
Year 1	164,117	164,887
Year 2	164,117	164,887
Year 3	164,117	164,887
Year 4	164,117	164,887
Year 5	164,117	164,887
After year 5	1,400,760	1,425,105
	<u>2,221,345</u>	<u>2,249,540</u>

<i>in EUR '000</i>	<u>31 December 2023</u>	<u>31 December 2022</u>
Receivables from long-term loans from related parties		
Energetski park Korlat d.o.o.	-	23,281
Hrvatski operator prijenosnog sustava d.d.	69,228	81,549
Plomin Holding d.o.o.	15,626	15,716
HEP Plin d.o.o.	6,903	8,280
HEP ESCO d.o.o.	6,525	8,357
HEP Opskrba d.o.o.	1,727	1,727
SUNČANA ELEKTRANA VIS d.o.o.	845	988
HEP Telekomunikacije d.o.o.	2,775	1,725
	<u>103,629</u>	<u>141,623</u>
Current portion	<u>(9,895)</u>	<u>(19,369)</u>
	93,734	122,254

Receivables from long-term loans related parties

Receivables for sub loan - HEP ESCO d.o.o.	<u>-</u>	<u>330</u>
	-	330
Current maturity	<u>-</u>	<u>(330)</u>
	-	-

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

Receivables for a loan from HEP-ESCO d.o.o. are based on contracts concluded between the Company and financial institutions intended for financing energy efficiency projects. The Company sub-loaned funds from dedicated loans to HEP-ESCO d.o.o. under the same conditions. On 30 June 2020, companies HEP d.d. and HEP-ESCO d.o.o. signed the Sub loan Agreement no. 5/2020. The aforementioned agreement defines mutual rights and obligations arising from the loan approved by the German development bank KfW, given that part of the aforementioned obligations, in certain percentages of participation in these financial arrangements, was sub loaned to HEP-ESCO d.o.o. under the same financing conditions, HEP-ESCO undertakes to return the allocated part of the principal and interest for these sub-loans.

On 30 December 2023, HEP-ESCO d.o.o. settled its liabilities under the Sub loan Agreement no. 5/2020.

in EUR '000

	<u>31 December 2023</u>	<u>31 December 2022</u>
Loan receivables from companies with participating interests		
Male hidre d.o.o.	5,367	3,106
	<hr/> 5,367	<hr/> 3,106
Total long-term receivables/loans	2,330,496	2,394,851
Total current portion	(174,012)	(184,586)
Total long-term loans given	<hr/> 2,156,484	<hr/> 2,210,265

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

Loans given to companies within the HEP Group (overview)

These loans were given on the following conditions:

<i>Loan beneficiary:</i>	<i>Year of approval</i>	<i>Interest rate</i>	<i>Maturity</i>	<i>Loan amount approved</i> <i>in EUR '000</i>	<i>31 December 2023</i> <i>in EUR '000</i>	<i>31 December 2022</i> <i>in EUR '000</i>
HEP-Telekomunikacije d.o.o.	2018	3%	31 March 2022	9,821	2,775	1,725
Energetski park Korlat d.o.o.	2019	3.42%	one time, no later than 30 June 2024	79,634	-	23,281
HEP Plin d.o.o.	2019	3.42%	5 years	1,016	557	665
HEP Plin d.o.o.	2020	3.42%	5 years	10,153	6,346	7,615
Plomin Holding d.o.o.	2022	3%	5 years	17,308	15,626	15,716
HEP Opskrba d.o.o.	2020	3%	5 years	1,727	1,727	1,727
HEP ESCO d.o.o.	2021	3%	3 years	2,681	-	2,682
HEP ESCO d.o.o.	2022	3%	3 years	2,032	2,024	1,175
HEP ESCO d.o.o.	2022	3%	5 years	4,500	4,501	4,500
SUNČANA ELEKTRANA VIS d.o.o.	2020	3.42%	4 years with a grace period of 1 year	258	99	149
SUNČANA ELEKTRANA VIS d.o.o.	2022	3%	5 years	1,564	746	839
Hrvatski operator prijenosnog sustava d.d.	2020	1.7% fixed	31 December 2023	18,817	-	4,704
Hrvatski operator prijenosnog sustava d.d.	2020	1.72% fixed	30 April 2025	23,474	8,803	14,671
Hrvatski operator prijenosnog sustava d.d.	2021	1.10% fixed	4 years with a grace period of 6 months	6,994	3,497	5,246
Hrvatski operator prijenosnog sustava d.d.	2022	3% fixed	5 years	56,928	56,928	56,928
Total				236,907	103,629	141,623

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

Receivables from related parties (short-term):

in EUR '000

	31 December 2023	31 December 2022
Current receivables		
Receivables from HEP Elektra d.o.o. for electricity sold	222,688	151,564
Receivables from HEP Operator distribucijskog sustava d.o.o. for losses in the distribution network	13,336	24,743
Receivables from HEP Opskrba d.o.o. for electricity sold	148,851	116,882
Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	208	366
Receivables from HEP Energija d.o.o. Ljubljana	45,677	39,272
Receivables from HEP Energija d.o.o. Belgrade for electricity sold	-	625
Receivables from HEP Energija d.o.o. Mostar for electricity sold	566	2,532
Receivables for balancing electricity	6,043	38,696
Other receivables	3,489	3,499
	440,858	378,179
Receivables for administrative expenses		
HEP Proizvodnja d.o.o.	-	2,250
HEP Operator distribucijskog sustava d.o.o.	3,857	2,132
HEP Toplinarstvo d.o.o.	265	1,239
HEP Plin d.o.o.	268	1,128
HEP Upravljanje imovinom d.o.o.	68	1,072
HEP Trgovina d.o.o.	260	45
HEP Opskrba d.o.o.	535	666
HEP ESCO d.o.o.	115	44
HEP Telekomunikacije d.o.o.	25	46
HEP Elektra d.o.o.	3,084	554
VHS Zaprešić d.o.o.	13	6
Energetski park Korlat d.o.o.	22	32
	8,512	9,214
Current receivables based on lease of business premises		
HEP Proizvodnja d.o.o.	4,904	11,136
HEP Toplinarstvo d.o.o.	1,944	11,829
HEP Operator distribucijskog sustava d.o.o.	16,285	16,845
HEP Plin d.o.o.	695	1,950
HEP Upravljanje imovinom d.o.o.	153	1,019
HEP Trgovina d.o.o.	5	4
HEP Opskrba d.o.o.	3	8
HEP ESCO d.o.o.	9	-
HEP Elektra d.o.o.	8	38
	24,006	42,829
Other current receivables	102,738	182,603

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

in EUR '000

	31 December 2023	31 December 2022
Receivables for paid investments and other receivables		
HEP Proizvodnja d.o.o.	52,735	36,574
Hrvatski operator prijenosnog sustava d.d.	2,601	3,340
HEP Operator distribucijskog sustava d.d.	87,588	88,655
HEP Toplinarstvo d.o.o.	12,791	11,179
HEP Plin d.o.o.	3,794	7,010
HEP ESCO d.o.o.	135	117
HEP NOC d.o.o.	198	185
HEP Trgovina d.o.o.	5	6
HEP Opskrba d.o.o.	2,954	2,997
HEP Upravljanje imovinom d.o.o.	1,604	1,357
HEP Elektra d.o.o.	28	28
	164,433	151,448
Receivables for investment and other material sold		
HEP Operator distribucijskog sustava d.o.o.	-	41,605
HEP Plin d.o.o.	356	356
	356	41,961
Other receivables		
HEP Plin d.o.o.	2,618	3,402
SE Vis d.o.o.	843	-
HEP Telekomunikacije d.o.o.	-	581
HEP ESCO d.o.o.	2,088	1,557
Energetski park Korlat d.o.o.	32,811	9,375
	38,360	14,915
Receivables for short-term loans granted		
HEP Energija d.o.o. Beograd	80	80
HEP Energija sh.p.k. Kosovo	185	150
HEP ESCO d.o.o.	-	2,951
Hrvatski operator prijenosnog sustava d.d.	-	10,617
	265	13,798
Receivables from related parties (total)	779,528	834,947

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

<i>in EUR '000</i>	31 December 2023	31 December 2022
Short-term liabilities		
HEP Proizvodnja d.o.o. for electricity	240,904	277,712
Energetski park Korlat d.o.o. for electricity	3,145	3,216
SUNČANA ELEKTRANA POREČ d.o.o.	106	23
Ornatus d.o.o. for electricity	-	26
SUNČANA ELEKTRANA VIS d.o.o. for electricity	9	32
HEP Opskrba d.o.o. for compensation from RES procurement	3,139	4,215
HEP Opskrba d.o.o. for electricity supply compensation	3,597	3,826
HEP Trgovina d.o.o. for trading fee	16	110
HEP Elektra d.o.o. for compensating the difference in price - decree of the Government of the Republic of Croatia	258,124	-
HOPS d.o.o. - Liabilities for balancing energy	1,104	36,015
Liabilities under guarantees of electricity origin-HEP Proizvodnja d.o.o.	30	37
Liabilities for guarantee of electricity origin. – Energetski park Korlat d.o.o.	109	40
HEP Proizvodnja - liability based on the assignment agreement	107,632	107,630
Other	3,173	2,158
	621,088	435,040
Liabilities to HEP ODS d.o.o. (i)	75,000	-
	75,000	-
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- for paid connections fees	20,183	20,912
- for cash paid into the treasury	19,029	65,955
- for customer payments and paid investments from sub-accounts	2,114	5,190
HEP Elektra d.o.o. for cash paid into the treasury	39,527	83,751
Liabilities to other companies for customer payments and investments paid from sub-accounts	20,113	17,137
	100,966	192,945
HEP Energija d.o.o. Beograd for electricity delivered	-	104
HEP Energija d.o.o. Mostar for electricity delivered	122	1,370
	122	1,474
Total short-term liabilities	797,176	629,459

- (i) On 28 December 2023, the Company signed Addendum I to the Agreement on a medium-term revolving loan with HEP-Operator distribucijskog sistema d.o.o. by which the loan of EUR 92,906 thousand increased by an additional EUR 50,000 thousand to the amount of EUR 142,906 thousand for more efficient cash flow management of the Group members and ensuring faster realization of additional reserves.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

32. RELATED PARTY TRANSACTIONS (continued)

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

in EUR '000

	31 December 2023	31 December 2022
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NE Krško d.o.o.

Liabilities for purchased electricity	12,438	4,732
Cost of purchased electricity	118,185	92,110

<i>in EUR '000</i>	Sales revenue		Procurement cost	
	2023	2022	2023	2022
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	1,069	1,047
Hrvatske šume d.o.o.	-	-	466	243
Jadrolinija d.o.o.	-	-	-	-
Narodne novine d.d.	-	-	16	41
Hrvatska radio televizija	-	-	10	10
Plinacro d.o.o.	4,390	-	10,761	8,056
Ministry of the Interior	19	25	-	-
Universities and colleges	-	-	41	48
Health institutions and organizations	8	8	-	-
Other users	-	-	817	342
HROTE d.o.o.	8,020	6,714	9,585	12,101
	12,437	6,747	22,765	21,888

<i>in EUR '000</i>	Receivables		Liabilities	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	92	103
Narodne novine d.d.	-	-	1	2
Plinacro d.o.o.	1,082	-	1,881	1,610
HROTE d.o.o.	147	599	413	94
Other users	16	15	205	136
	1,245	614	2,592	1,945

33. CONTINGENCIES AND COMMITMENTS

Disputes

In 2023, the Company booked provisions for court cases that 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, in the amount of EUR 165,103 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-operating assets on the territory of Bosnia and Herzegovina and Montenegro in the amount of EUR 96 thousand, which are excluded from the net asset value.

Operational liabilities

As part of regular investment activities, the Company concluded contracts on 31 December 2023, according to which investments in various facilities and equipment were started, but not completed. The value of contracted unfinished works for the most significant projects amounted to EUR 103,234 thousand (2022: EUR 137,984 thousand).

The Company is a shareholder in the companies HEP - Toplinarstvo d.o.o., HEP Upravljanje imovinom d.o.o. and HEP Elektra d.o.o. which record losses from operations, and is ready to provide all the funds necessary for these companies to continue operating and fulfil their due liabilities..

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 polluting substances into the air and the amount of production waste generated, which the Company reports on in a timely and objective manner to competent institutions, local self-government units and the interested public. The Company reports on its impacts on the environment, economy and society in the framework of non-financial sustainability reports prepared according to the guidelines of the GRI-Global Reporting Initiative, and since 2017 according to the GRI standard guidelines. Sustainability reports have been published since 2015 on the HEP Company website <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401>. Employees engaged in nature and environmental protection are additionally trained at seminars and workshops, where they are informed about the obligations and activities arising from the provisions of legal regulations in the field of nature and environmental protection. All of HEP's thermal energy plants with a nominal input heat output of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry for Environmental Protection. All of HEP's thermal power plants with a rated input thermal power of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry for Environmental Protection. On 31 December 2023, the environmental permits for the Rijeka TPP and Jertovec TPP plants were no longer valid, due to the expiration of the Exemption for a limited lifetime. Per the above, the Management of HEP d.d. made two new Decisions; The decision to terminate the operation of the 320 MW unit at the Rijeka Thermal Power Plant and the Decision to limit the power of the gas turbine units PT1 and PT2 at the KTE Jertovec. An amendment to the environmental permit for EL-TO Zagreb was requested, for GVE permission for PT1 and PT2 at the level of the existing Exemption for heating plants (expired on 31 December 2022), but only until the time of commissioning of the new block L.

By the decision of the Company's Management Board in 2012, a trading system for greenhouse gas emission units were established, and the Republic of Croatia and HEP joined the European System for Trading Greenhouse Gas Emission Units (EU-ETS) on 1 January 2013. The Croatian Environment and Nature Agency (as of 1 January 2019 attached to the Ministry of Environmental Protection and Energy, and now the Ministry of Energy and Sustainable Development) opened, based on the Company's request, nine plant operator accounts in the EU registry. The Osijek HEP-Toplinarstvo plant was excluded from the EU-ETS based on Article 40 of the Act on Climate Change and Ozone Layer Protection (OG 127/19).

In March 2023, HEP returned 2,700 excessively allocated free emission units to the TE-TO Sisak plant based on the Decision of the European Commission for the years 2021 and 2022. HEP reports on the amounts of free emission units allocated in the framework of non-financial reports <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401> and in the section Environment - Air and climate protection <https://www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-projmene/emisije-staklenickih-plinova/158>.

33. CONTINGENCIES AND COMMITMENTS (continued)

Environmental Protection (continued)

In April, the total CO₂ emission units were submitted to the EU Registry for 2022. The total CO₂ emissions for the year 2022 amounted to 3,051,909 tons, for the EU Registry it was necessary to submit 2,890,371 EUAs, and the cost was EUR 255,805,754. For comparison, the average price at which HEP-Trgovina d.o.o. bought EUA in 2021 was EUR 39.60, while in 2022 it was EUR 91.19. HEP-Proizvodnja d.o.o. does not participate in the strategy of purchasing emission units, but is obliged to cover all incurred costs. Compared to the year 2022, there was a reduction in CO₂ emissions into the air due to a reduced total production of thermal energy from the plant.

In 2023, the 2022 Business and Sustainability Report for the Company was completed according to the guidelines of the Global Reporting Initiative Standard (GRI Standard). The sustainability report was published on the Company's website in Croatian and English. From 2020, the non-financial sustainability report is not published as an independent report but integrated with the business report and is called the Business and Sustainability Report. In order to reduce the amount of waste and save natural resources, the report was not printed, but was published only in digital form.

Report on the status of the preparation of the non-financial report on the sustainability of the HEP Group for the year 2023

The report on the operations and sustainability of the HEP Group for the year 2023 was prepared by the Controlling Department. The Department for Strategy and Development edits the environmental part of the Report, which includes a detailed presentation of environmental indicators - a presentation of data on environmental protection, investments and projects related to specific activity segments and compliance with GRI indicators. The chapter also includes representative stories and case studies describing the approach to accountability and sustainability. Under the provisions of the current Accounting Act, the Report was published on HEP's website within the given deadline. The Report is published as well as the previous nine sustainability reports at the following link <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401>

In cooperation with the Controlling Department, the Management is conducting market research and the search for companies that can assess the compliance of activities with the EU Taxonomy for the entire HEP Group, as well as consultants who will participate in the preparatory activities for the new reporting era according to the CRSD Directive, according to which the HEP Group must report from 1 January 2025.

Management systems according to ISO standards

HEP d.d., HEP upravljanje imovinom i HEP Proizvodnja have integrated and certified management systems according to ISO standards 9001:2015, 14001:2015, 5000:2018 and 45001:2018. HEP Toplinarstvo has introduced and certified integrated quality, environmental and energy management systems, and HEP Operator distribucijskog sustava has introduced and certified environmental, quality and occupational health and safety management systems.

HEP d.d. has introduced and certified information and cyber security management system according to ISO standard 27001:2018. The management of HEP d.d. adopted and published the Quality, Environmental Protection, Energy Management and Occupational Health and Safety Policy for HEP d.d. companies. and HEP Upravljanje imovinom d.o.o. The management boards of HEP Proizvodnja, HEP Operator distribucijskog sustava and HEP Toplinarstvo adopted and published their policies for integrated systems according to ISO standards, and HEP Opskrba for quality management.

All 26 hydropower plants of HEP have a TUV SUD certificate for the production of electricity from renewable sources - green energy.

Policies and certificates are publicly published on our website. Compliance with the requirements of legal regulations and with other requirements that HEP Group companies have undertaken to fulfil is analysed and evaluated based on the established procedure for the application of legal and other requirements-

<https://www.hep.hr/o-hep-grupi/sustavi-upravljanja-prema-iso-normama/170>

33. CONTINGENCIES AND COMMITMENTS (continued)

HEP Opskrba was the first on the electricity market in the Republic of Croatia to offer a unique product – ZelEn. It is green energy obtained exclusively from renewable sources. The origin of the electricity used by ZelEn customers is proven by cancelling a sufficient number of guarantees of the electricity origin in the register of guarantees of electricity origin maintained by the Croatian Energy Market Operator (HROTE). Funds collected from the sale of ZelEn are collected in a special fund and are intended exclusively for investment in energy efficiency projects and renewable energy sources integrated into buildings used by public sector institutions in education, healthcare and social welfare activities. These projects are implemented by HEP ESCO, a member of the HEP Group. As part of the fifth donation cycle, two projects were realized in the area of Varaždin County; in the School of Electrical Engineering in Varaždin, by installing a heat pump, a step was taken towards a more modern and efficient heating system, replacing the existing gas boilers. The project will enable an annual saving of about 280 thousand kWh of energy from a fossil source, which will result in a reduction of CO₂ emissions by approximately 62 tons. Another donated project enabled the Potočić Kindergarten in Jalžabet to build a 15kW photovoltaic power plant, which thus got its own renewable source of electricity. The annual production of the solar power plant will amount to 10.7 thousand kWh of electricity, which will enable annual savings of more than 4 thousand kWh of electricity from conventional sources and a reduction of CO₂ emissions by 0.64 tons. In 2023, customers of HEP Opskrba were invoiced for 1,174,654 MWh (customers with contracts for ZelEn), and an additional 1,646,989 MWh were invoiced for green public procurement. In 2023, 422,355 MWh of green energy was delivered to customers of HEP Energija in Slovenia.

Environmental incidents

In 2023, there were no environmental incidents.

According to the announcement of the County Operations Centre of the Primorje-Gorski Kotar County, the remediation of pollution from the extraordinary event of fuel oil leakage at the Rijeka Thermal Power Plant from November 2022 was completed in December 2023.

Regulatory compliance and inspections

In 2023, Assessments of compliance with legal requirements and relevant requests of interested parties at the level of thermal power plants and GHE for 2023 were prepared. Also, the representative of the Company for the Integrated Management System (IMS) keeps records of the applicable legislation and other requirements related to the IMS and informs the coordinators/representatives for the IMS at the plant locations and production areas of all changes.

In the previous period, there were no deviations from legal regulations. Given the frequent changes in environmental legislation, HEP-Proizvodnja d.o.o. undertakes timely activities related to obtaining permits, concessions, implementation of projects and other activities arising from legal regulations and requirements of competent authorities.

Environmental protection inspections were carried out at CS Lič and RHE Velebit. No irregularities were found during the inspections.

In March 2023, an inspection was carried out at HPP Senj by the water inspection. A misdemeanour report was issued, after which an audit was conducted of all documents for reporting data to Hrvatske vode. Data are sent regularly. An inspection in the field of fire protection was also carried out at HPP Senj. Observations from supervision have been successfully resolved.

In HPP Dubrovnik and TE Plomin, water inspections were carried out. There were no reported irregularities.

By extending the Decision, the Water Inspection ordered KTE Jertovec to rehabilitate the internal drainage system and obtain proof of water tightness of the rehabilitated parts by 30 March 2024.

In 2023, the HPP Đale was subject to regular fire prevention supervision, electric power inspection supervision, as well as inspection supervision of pressurized equipment. No measures were imposed during the inspections.

Coordinated inspections, including environmental protection, civil protection, fire protection, occupational safety, safety management systems, sanitary inspection, pressure equipment inspection and electric power inspection, were carried out at the Sisak TE-TO, Osijek TE-TO and TE Rijeka.

Observations from the supervision in the area of fire protection and explosives and the area of pressurized equipment in TE-TO Sisak have been resolved.

33. CONTINGENCIES AND COMMITMENTS (continued)

In TE-TO Osijek, the electric power inspection had a request to implement the measure (without an administrative decision issued), which was carried out within the deadline.

Irregularities from the supervision of fire protection and occupational safety at TE Rijeka were eliminated within the given deadline. The inspection of the Seveso plant resulted in the recommendation for the revision of the internal documentation defining the maintenance procedures for the fuel tanks. The recommendation was accepted and implemented through the ISO system.

In TE-TO Zagreb, inspection supervision of the trading system of emission units of greenhouse gases and stationary sources of pollutants in the air was carried out. Based on the supervision, no administrative proceedings were initiated.

In May 2023, a part of the EL-TO Zagreb plant was flooded due to the rupture of a water pipe on the subcontractor's route. The flood was successfully repaired without major material damage.

<i>in EUR '000</i>	2023	2022
Cost of gas		
Cost of gas - market supply and public service	91,302	7,718
Procurement of gas for sale - Government regulation	91,275	14,175
Procurement of gas from storage for sale to HEP Group companies - Government regulation	115,324	10,994
The cost of gas for sale to the CTS production – Government regulation	26,154	-
Cost of gas – market supply	324,055	32,887

The purchase value of gas sold from storage to HEP companies increased compared to 2022 since in 2023, the sale of gas procured based on the Decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia started in 2023 (Official Gazette 63/22).

Decision OG 37/23 defines the categories of customers to whom gas is supplied from the Republic of Croatia for the needs of public service: customers in the household category, customers of thermal energy from an independent heating system and other protected gas customers from the Regulation on the criteria for acquiring the status of a protected customer in conditions of crisis conditions in gas supply NN 65/15.

Water Act

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

In May 2018, the Act on Amendments to the Water Act (OG No. 46/18) entered into force, according to which the Republic of Croatia establishes the right to build for constructed water structures for the production of electricity built and invested by HEP d.d, that is, its predecessors, in favour of HEP d.d, free of charge for a period of 99 years. An exception to the establishment of building rights is provided for parts of water structures that consist of reservoirs, inflow and outflow channels and tunnels. During the construction right in question, HEP d.d acquires the right to manage the public good / land on which the buildings for the production of electricity were built, as well as the accumulations and supply and drainage canals and tunnels on behalf of the Republic of Croatia. The right of management includes, inter alia, the right to use the real estate in question. In order to implement the provisions of the Act on Amendments to the Water Act (OG No. 46/18), HEP d.d is obliged to initiate relevant procedures for registration of these rights in the land register and to obtain an appropriate subdivision study which must be harmonized with Croatian Waters and which will be the basis for the issuance of a tabular document for the registration of construction rights over the buildings in question. An appropriate subdivision study will also be the basis for the correct classification of fixed assets between the groups of intangible and tangible assets, which is currently recorded in the business books of HEP Group in the total amount as tangible assets.

33. CONTINGENCIES AND COMMITMENTS (continued)

Water Act (continued)

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. Amendments to the Water Act, which came into effect on 4 May 2023 (Official Gazette 47/23), did not make any changes related to water structures for the electricity production.

34. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The structure of the Company's sources of financing consists of debt, which includes loans and issued bonds presented in note 26, cash and cash equivalents, and capital attributable to owners, which consists of share capital, legal and other reserves and retained earnings.

Debt indicator

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

<i>in EUR '000</i>	31 December 2023	31 December 2022
Debt	2,216,915	1,499,739
Cash and cash equivalents	(249,857)	(161,982)
Net debt	1,967,058	1,337,757
Capital	2,877,246	2,922,930
Net debt to equity ratio	68.37%	45.77%

Categories of financial instruments

<i>In EUR '000</i>	31 December 2023	31 December 2022
Financial assets		
Financial assets at fair value through other comprehensive income	44,838	42,305
Loans given	2,330,496	2,394,851
Receivables from customers and related companies	798,494	851,960
Cash and cash equivalents	249,857	161,982
Other long-term and short-term receivables	652,052	40,755
Financial liabilities		
Liabilities for long-term loans	2,216,915	1,499,739
Liabilities to affiliated companies	797,176	629,459
Lease liabilities	646	810
Other liabilities	334,912	487,613

34. FINANCIAL RISK MANAGEMENT (continued)

Objectives of financial risk management

The treasury function within the Company provides business support to companies, coordinates access to domestic and international money and capital markets, monitors and manages financial risk related to the operations of Company companies through internal risk reports that analyse exposure by degree and impact of risk. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Market risk

The Company's activities are primarily exposed to the financial risk of changes in foreign currency exchange rates and interest rates (see below). Exposure to market risk is monitored and managed through sensitivity analysis. There were no changes in the Company's exposure to market risk or the way risk is managed and measured.

Currency risk management

The Company carries out certain transactions denominated in foreign currencies, on the basis of which it is exposed to changes in the exchange rate of foreign currencies. Currency exposure is managed within approved policy parameters through the use of currency exchange contracts. The book value of the Company's cash assets and liabilities denominated in foreign currency at the reporting date is as follows:

<i>in EUR '000</i>	Assets		Liabilities	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
EUR	-	177,823	-	1,198,894
USD	102	1,100	120,451	120,451

Foreign currency sensitivity analysis

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

34. FINANCIAL RISK MANAGEMENT (continued)

<i>in '000 EUR</i>	<u>2023</u>	<u>2022</u>
EUR change effect		
Gain or loss	-	(769,326)
USD change effect		
Gain or loss	9,901	(84,314)

Interest rate risk management

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

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

- The loss for the year ended 31 December 2023 would increase by EUR 5,817 thousand (2022: EUR 4,080 thousand), based on exposure to interest rate risk. This is mainly attributable to the Company's interest rate exposure on floating rate loans; 52.51% of the Company's debt is at a variable interest rate (2022: 58.83%)
- The Company's interest rate sensitivity increased during the current period due to the increase in the share of loans contracted at a variable interest rate in the total debt and due to the increase in reference interest rates on the market

Credit risk management

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

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

Credit risk related to trade receivables relates primarily to receivables from economic entities, especially those in a difficult financial situation. Credit risks related to claims on households are limited due to the possibility of disconnection from the supply network.

The carrying amount of financial assets presented in the unconsolidated financial statements, net of impairment losses, represents the Company's maximum exposure to credit risk without taking into account the value of collateral collected.

Liquidity risk management

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

34. FINANCIAL RISK MANAGEMENT (continued)

Tables for interest and liquidity risk

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

Maturity of non-derivative financial assets

<i>in EUR '000</i>	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
31 Dec 2023							
Liabilities for long-term loans	3.61%	922,295	52,069	59,362	1,280,628	91,213	2,405,567
Liabilities to affiliated companies		207,739	451,632	137,805	-	-	797,176
Lease liabilities		12	21	163	450	-	646
Other liabilities		197,447	1,287	-	110,198	-	308,932
Total		1,327,493	505,009	197,330	1,391,276	91,213	3,512,321
31 Dec 2022							
Liabilities for long-term loans	2.50%	4,651	8,239	37,028	1,430,383	94,759	1,575,060
Liabilities to affiliated companies		235,897	393,562	-	-	-	629,459
Lease liabilities		13	13	288	496	-	810
Other liabilities		336,176	17,495	61	114,173	-	467,905
Total		576,737	419,309	37,377	1,545,052	94,759	2,673,234

The Company has access to funding sources. The total unused amount at the end of the reporting period is EUR 20,595 thousand. The Company expects to settle its other obligations from operating cash flows, inflows from overdue financial assets and from sources of financing..

Fair value of financial instruments

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

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

The fair value of derivative instruments is calculated using the quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the period of non-derivative financial instruments is used.

34. FINANCIAL RISK MANAGEMENT (continued)

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2023

Fair value indicators recognized in the statement of financial position

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

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

<i>in EUR '000</i>	Level 1	Level 2	Level 3	Total
31 December 2023				
Financial assets at fair value through other comprehensive income	44,838	-	-	44,838
Investment property	-	6,566	-	6,566
31 December 2022				
Financial assets at fair value through other comprehensive income	42,305	-	-	42,305
Investment property	-	6,276	-	6,276

35. OTHER DISCLOSURES

The contracted services of the statutory audit of the annual financial statements of the Group's companies for 2023 were contracted for EUR 244 thousand (2022: EUR 162 thousand).

The agreed tax consulting fee for 2023 is EUR 20 thousand (2022: EUR 20 thousand).

In 2023, the Company has the following financial liabilities that are not included in the balance sheet: promissory notes issued in the amount of EUR 782,196 thousand (2022: EUR 8,176 thousand), guarantees given in the amount of EUR 42,833 thousand (2022: EUR 46,584 thousand) and warranties of EUR 1,858 thousand (2022: EUR 1,858 thousand).

36. EVENTS AFTER THE REPORTING DATE

On 14 March 2024, the Government of the Republic of Croatia adopted a Decree amending and supplementing the Decree on eliminating disturbances in the domestic energy market (Official Gazette 32/24), which extends special measures from the Decree of 16 March 2023 (Official Gazette 31/23) as follows:

- electricity trade - method and conditions of price formation for certain categories of electricity customers, supervision over the application of prices determined by the Decree until 30 September 2024,
- the manner and conditions of price formation for certain categories of thermal energy customers, supervision over the application of prices determined by the Decree until 30 September 2024,
- gas trade - method and conditions for gas price formation, ensuring conditions for security of gas supply for certain categories of gas buyers, and special conditions for performing energy activities with gas until 30 September 2024.

According to the Decree on Amendments to the Decree on Eliminating Disturbances in the Domestic Energy Market (Official Gazette 32/24), Article 7 of the Decree of 16 March 2023 regarding natural gas is amended and the following is established:

- Natural gas at the disposal of the company Hrvatska elektroprivreda d.d., following the Decision to secure gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024. (Official Gazette 37/23) can, at the user's request, be used for the needs of end customers of thermal energy on closed and central heating systems, i.e. for the needs of customers of thermal energy in independent heating systems, including thermal energy suppliers, gas distributors to settle losses for distribution, and gas buyers from the business category as defined by Article 3, Paragraph 3 of the Decree of 16 March 2023 (Official Gazette 31/23)
- The company Hrvatska elektroprivreda d.d. is obliged to sell natural gas in the period from 1 August 2023 to 30 September 2024: for the needs of customers of heat energy from an independent heating system, for the needs of end customers of heat energy on closed and central heating systems, and to the company HEP-PLIN d.o.o. for the needs of gas buyers from the business category from Article 3, paragraph 3 of the Decree of 16 March 2023 (Official Gazette 31/23) in the amount determined by the gas procurement price from the methodology from Article 5, paragraph 9 of the Decree of 16 March 2023 (Official Gazette 31/23) increased by a share of 76% of the cost of gas supply determined for an individual distribution area based on a tender for the selection of a supplier under a public service obligation
- The company Hrvatska elektroprivreda d.d. is obliged to sell natural gas in the period from 1 August 2023 to 30 September 2024, in the amount determined by the gas procurement price from the methodology referred to in Article 5, Paragraph 9 of the Regulation of 16 March 2023, to gas distributors to settle losses for distribution of gas increased by the average cost of gas supply for all distribution areas of 0.0071 EUR/kWh
- The gas price at which the company HEP-PLIN d.o.o. is obliged to sell gas to customers from the business category from Article 3, paragraph 3 of the Regulation of 16 March 2023 and for the needs of end customers of thermal energy on closed and central heating systems, is equal to the price of gas for households that use the public gas supply service on an individual distribution area, following the valid decision of the Croatian Energy Regulatory Agency
- in case of insufficient gas quantities, Hrvatska elektroprivreda d.d. is obliged to secure and deliver the necessary quantities of natural gas and has the right to compensation in the amount of the difference between the purchase price of natural gas and the price determined by the methodology from Article 5 paragraph 9 of the Regulation of 16 March 2023 (Official Gazette 31/23) by the Ministry of Economy and Sustainable Development

In addition to the above, after 31 December 2023, there were no events that would significantly affect the annual unconsolidated financial statements, which should therefore be published.

37. APPROVAL OF ANNUAL UNCONSOLIDATED FINANCIAL STATEMENTS

The annual unconsolidated financial statements were adopted by the Company's Management Board and approved for their issuance on 17 June 2024.

Signed on behalf of the Company on 17 June 2024:

Petar Sprčić

Member of the
Management
Board



Tomislav Šambić

Member of the
Management Board



Vice Oršulić

President of the Management Board



HRVATSKA ELEKTROPRIVREDA d.d.

Z A G R E B 3.2

Ulica grada Vukovara 37