HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB

Annual Consolidated Financial Statements and Independent Auditors' Report for the year 2025

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

Contents

Responsibility for the annual consolidated financial statements

The Management Board of Hrvatska elektroprivreda d.d., Zagreb, Ulica grada Vukovara 37 and its subsidiaries, (hereinafter: the Group) is obliged to ensure that the annual consolidated financial statements of the Group for the year 2025 are prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS), so that they provide a true and fair presentation of the consolidated financial position, consolidated operating results, consolidated changes in equity and consolidated cash flows of the Group for that period.

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

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

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

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

Signed on behalf of the Management Board:

Petar Sprčić	Tomislav Šambić	Ante Elez	Ivica Vukoja	Vice Oršulić
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

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

HRVATSKA ELEKTROPRIVREDA d.d.
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Ulica grada Vukovara 37

In Zagreb, 12 May 2026

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INDEPENDENT AUDITORS' REPORT

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

Report on the audit of the consolidated annual financial statements

Opinion

We audited the annual consolidated financial statements for the year ended 31 December 2025 of the Company HRVATSKA ELEKTROPRIVREDA d.d., Ulica grada Vukovara 37, Zagreb ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated Statement of Financial Position as of 31 December 2025, consolidated Statement of Profit or Loss, consolidated Statement of Other Comprehensive Income, consolidated Statement of Cash Flows and consolidated Statement of Changes in Equity for the year then ended and notes to the annual financial statements, including significant accounting policies.

In our opinion, the attached annual consolidated financial statements fairly present in all material respects the consolidated financial position of the Group as of 31 December 2025, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS).

Basis for 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 Group in accordance with the International Code of Ethics for Professional Accountants, including the International Standards of Independence issued by the International Ethics Standards Board for Accountants (IESBA) (IESBA Code), as well as in accordance with ethical requirements relevant to our audit of the annual consolidated financial statements in the Republic of Croatia. 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.

Emphasis of Matter

We draw attention to Note 39 to the annual consolidated financial statements, which highlights the need to initiate the procedure for registering rights in the land register and to comply with the provisions of the Water Act (Official Gazette 66/19, 84/21, 47/23).
Our opinion has not been modified on this matter.

INDEPENDENT AUDITORS' REPORT (continued)

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

Key Audit Matters

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

Key audit matter	How we addressed the key audit matter
Sales revenue The Group reported sales revenue of EUR 2,995,884 thousand in its 2025 annual consolidated financial statements (for the year ended 31 December 2024: EUR 3,167,838 thousand). Sales revenue includes revenue from the sale of electrical energy, recognised based on estimates and readings of delivered electricity quantities in accordance with IFRS 15 – Revenue from Contracts with Customers. The Group has installed meters that enable real-time readings for some customers, while for other customers, readings and the actual billing of delivered electricity are performed during the year through direct inspection of meters. For customers without real-time readings, electricity consumption is estimated using models that contain data on consumption from the previous billing period and consumption habits, depending on the regions where customers are located (three regions) and the corresponding household consumption allocation models (general, seasonal, and linear models), taking into account expected external indicators related to the dynamics and level of consumption, all so that the estimate at the reporting date maintains the best possible picture of actual consumption. Sales revenue was selected as an area because it contains significant estimates related to revenue recognition at the reporting date, and the amount of sales revenue is among the most significant financial information items. Related disclosures in the corresponding annual consolidated financial statements: See Notes 2, 6, and 25 to the annual consolidated financial statements.	**Our audit procedures related to this area included, among others:** - Obtaining an understanding of the electricity revenue recognition process and documenting the flow of information involved in reporting electricity sales revenue; - Reviewing the electricity consumption estimation model that will be billed to households based on direct meter inspections performed during the year; - Obtaining an understanding of the electricity consumption reading process, documentation of readings performed, data entry, and the system for verifying the accuracy of data entry into the Group's information system; - Obtaining an understanding of management's key controls related to the estimation of electricity sales revenue; - Testing the effectiveness of internal controls related to electricity sales revenue recognition for the household segment and the business segment with the assistance of an IT specialist; - Assistance from an IT specialist who verified the consistency and reliability of information flow, assessed the reliability of the system, and the use of databases from the Group's information system for the household segment and the business segment; - Assessing the reasonableness of key assumptions used in the model for estimating the volume of electricity sold; - Assistance from a mathematical modelling specialist and verification of the mathematical accuracy of the electricity sales revenue estimation model; - Assessing the adequacy of the Group's disclosures related to electricity sales revenue recognition.

Other Information

The Management is responsible for the other information. The other information includes the information included in the Annual Report, but does not include the annual consolidated financial statements and our independent auditors' report thereon. Our opinion on the annual consolidated financial statements does not cover the other information.

INDEPENDENT AUDITORS' REPORT (continued)

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

Other information (continued)

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

Concerning the consolidated Management Report, we also performed procedures prescribed by the Accounting Act. These procedures include verifying whether the consolidated Management Report is prepared in accordance with Articles 22 and 24 of the Accounting Act.

Based on the procedures performed, to the extent we can assess it, we report that:

- The information in the attached consolidated Management Report is consistent, in all material respects, with the attached annual consolidated financial statements;
- The attached consolidated Management Report is prepared in accordance with Articles 22 and 24 of the Accounting Act.

Based on our knowledge and understanding of the Group's business and its environment obtained in the course of the audit of the annual consolidated financial statements, we are required to report if we have identified material misstatements in the Other Information. In this regard, we have nothing to report.

Responsibilities of the Management and Those Charged with Governance for the Consolidated Annual Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Annual Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 based on these consolidated 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:

INDEPENDENT AUDITORS' REPORT (continued)

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

Auditors' Responsibilities for the Audit of the Annual Consolidated Financial Statements (continued)

- We identify and assess the risks of material misstatement of the annual consolidated 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 that of one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- We obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditors' report to the related disclosures in the annual consolidated 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 independent auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure, and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the annual consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We are solely responsible for our independent audit opinion.

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 control 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From among the matters communicated with those charged with governance, we identify the matters that were most significant in the audit of the annual consolidated financial statements for 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 of the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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INDEPENDENT AUDITORS' REPORT (continued)

Report on other legal and regulatory requirements

1. Based on the proposal of the Company's Management and the Supervisory Board, the General Assembly of the Company appointed us on September 30, 2025, as auditors to issue a joint report on the Company's annual unconsolidated and consolidated financial statements for 2025 and 2026.
2. On the date of this report, we have been engaged to perform the statutory audit of the Company's annual unconsolidated and consolidated financial statements since the audit of the annual unconsolidated and consolidated financial statements for 2022, which represents a continuous engagement of four years.
3. Our audit opinion is consistent with the additional report for the Company's Audit Committee prepared in accordance with the provisions of Article 11 of Regulation (EU) No 537/2014.
4. During the period between the start date of the Group's audited annual consolidated financial statements for 2025 and the date of this report, we did not provide the Group with prohibited non-audit services. During the financial year before the aforementioned period, we did not provide services for designing and implementing internal control procedures or risk management related to the preparation and/or control of financial information, or for designing and implementing technological systems for financial information. We maintained independence from the Group in performing the audit.
5. For the financial year ended 31 December 2024, the Group was required to publish the Report on Corporate Tax Information based on Article 44 of the Accounting Act, and the Group published the same Report in accordance with Article 44 of the Accounting Act.

In Zagreb, 12 May 2026

Jeni Krstičević, Certified Auditor

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Jeni Krstičević, President of the Management Board

Darko Karić, Certified Auditor

Max Gelo, Member of the Management Board

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Consolidated Statement of Profit or Loss
for the year ended 31 December 2025

in EUR '000	**Notes**	**2025**	**2024**
Continuing operations			
Sales revenue	6	2,995,884	3,167,838
Other operating income	7	270,800	482,737
Total operating income		**3,266,684**	**3,650,575**
Cost of procurement of materials and energy	8	(1,617,683)	(1,773,426)
Employee expenses	9	(488,255)	(435,623)
Depreciation and amortisation expenses	13, 14, 16	(350,428)	(331,697)
Other operating expenses	10	(635,572)	(737,021)
Total operating expenses		**(3,091,938)**	**(3,277,767)**
Operating profit		**174,746**	**372,808**
Financial income	11	7,902	9,279
Financial expenses	11	(34,214)	(70,195)
Net loss from financial activities		**(26,312)**	**(60,916)**
Profit before tax		**148,434**	**311,892**
Profit tax	12	(26,269)	(57,230)
Profit for the current year		**122,165**	**254,662**
Attributable:			
To the owner of the Parent capital		121,897	254,305
Non-controlling interests		268	357

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

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2025

in EUR ‘000	**2025**	**2024**
Profit for the current year	**122,165**	**254,662**
Other comprehensive income		
Items that can be reclassified to profit or loss		
Changes in the fair value of equity instruments through other comprehensive income, net of tax	(1,560)	(109)
Actuarial gains/(losses) on defined benefit plans	(21,531)	501
Other items that will not be reclassified	-	(125)
Total items that will not be reclassified to profit or loss	**(23,091)**	**267**
Other comprehensive income, net	**(23,091)**	**267**
Total comprehensive income for the current year, net	**99,074**	**254,929**
Total comprehensive income attributable:		
To the owner of the Parent capital	**98,806**	**254,572**
Non-controlling interests	**268**	**357**

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

Consolidated Statement of Financial Position

as of 31 December 2025

in EUR ‘000	Note	31 December 2025	31 December 2024
ASSETS			
Fixed assets			
Property, plant and equipment	13	5,489,950	5,132,952
Right-of-use assets	14	3,961	4,079
Investment property	15	75,867	68,353
Intangible assets	16	61,248	54,841
Goodwill	17	10,154	10,154
Investments accounted for using the equity method	19	2,612	1,849
Financial assets at fair value through other comprehensive income	20	43,202	45,704
Long-term loans granted	21	13,153	16,202
Other financial assets	22	16,443	16,443
Non-current receivables	23	1,155	2,547
Deferred tax assets	12	257,136	249,873
Total fixed assets		**5,974,881**	**5,602,997**
Current assets			
Inventories	24	295,480	311,811
Trade receivables	25	411,785	412,670
Other current receivables	26	180,542	294,686
Cash and cash equivalents	27	472,022	483,255
Total current assets		**1,359,829**	**1,502,422**
TOTAL ASSETS		**7,334,710**	**7,105,419**

in EUR '000	**Note**	**31 December 2025**	**31 December 2024**
EQUITY AND LIABILITIES			
Equity	28		
Share capital		2,627,959	2,627,959
Fair value reserves		(2,687)	20,404
Revaluation reserves		2,773	2,773
Reserves from profit		102,712	89,858
Retained earnings/(loss carried forward)		321,091	88,252
Profit of the current year		121,897	254,305
Capital attributed to the owners of the Parent company		**3,173,745**	**3,083,551**
Non-controlling interests		10,178	9,910
Total equity		**3,183,923**	**3,093,461**
Non-current liabilities			
Non-current loan liabilities	29	912,817	1,440,653
Other long-term liabilities	33	3,254	3,290
Lease liabilities	30	3,167	3,121
Provisions	31	240,312	231,071
Deferred income for assets financed by others	32	1,483,765	1,275,634
Deferred tax liability	12	4,016	4,454
Total non-current liabilities		**2,647,331**	**2,958,223**
Current liabilities			
Trade payables	34	423,512	380,359
Current maturity of non-current loans	29	398,546	28,159
Current portion of lease liabilities	30	961	1,053
Liabilities for taxes and contributions	35	37,367	57,001
Liabilities to employees	36	37,801	32,949
Current maturity of deferred income for assets financed by others	32	56,187	52,411
Other current liabilities	37	549,082	501,803
Total current liabilities		**1,503,456**	**1,053,735**
TOTAL EQUITY AND LIABILITIES		**7,334,710**	**7,105,419**

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2025

in EUR '000	Share capital	Fair value reserves	Revaluation reserves	Reserves from profit	Retained earnings/(loss carried forward)	Profitof the current year	Capital attributable to the owners of the Parent	Non-controlling interests	Total equity
Balance as of 1 January 2024	**2,627,959**	**20,012**	**2,773**	**87,506**	**(25,559)**	**116,288**	**2.828,979**	**9,553**	**2,838,532**
Schedule of the previous year's loss	-	-	-	-	116,288	(116,288)	-	-	-
Profit for the current year	-	-	-	-	-	254,305	254,305	357	254,662
Other comprehensive income	-	392	-	-	(125)	-	267	-	267
Total comprehensive income	-	*392*	-	-	*(125)*	*254,305*	*254,572*	*357*	*254,929*
Transfer to legal reserves	-	-	-	2,352	(2,352)	-	-	-	-
Balance as of 31 December 2024	**2,627,959**	**20,404**	**2,773**	**89,858**	**88,252**	**254,305**	**3,083,551**	**9,910**	**3,093,461**
Schedule of the previous year's profit	-	-	-	-	254,305	(254,305)	-	-	-
Profit for the current year	-	-	-	-	-	121,897	121,897	268	122,165
Other comprehensive income	-	(23,091)	-	-	-	-	(23,091)	-	(23,091)
Total comprehensive income	-	*(23,091)*	-	-	-	*121,897*	*98,806*	*268*	*99,074*
Payment in favour of the State Budget	-	-	-	-	(7,816)	-	(7,816)	-	(7,816)
Transfer to legal reserves	-	-	-	12,854	(12,854)	-	-	-	-
Correction of errors of prior periods	-	-	-	-	(796)	-	(796)	-	(796)
Balance as of 31 December 2025	**2,627,959**	**(2,687)**	**2,773**	**102,712**	**321,091**	**121,897**	**3,173,745**	**10,178**	**3,183,923**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2025

in EUR ‘000	**2025**	**2024**
OPERATING ACTIVITIES		
Profit before tax	148,434	311,892
Interest income	(5,519)	(6,959)
Interest expense	33,984	68,201
Net foreign exchange differences	55	6,135
Gains from fair value measurement of investment properties	(3,760)	(6,349)
Depreciation of property, plant and equipment, right-of-use assets, and amortisation of intangible assets	350,428	331,697
Expense from the alienation of property	12,214	6,491
Value adjustment of property, plant and equipment and intangible assets	2,927	23,919
Value adjustment of receivables	(7,370)	(4,329)
Value adjustment of inventories	1,958	17,554
Increase/(decrease) in provisions	9,241	28,856
Dividend income	(1,573)	(1,689)
Cash flow from operating activities before changes in workingcapital	*541,019*	*775,419*
Decrease in trade receivables	8,255	33,420
Decrease in inventories	14,373	155,039
Decrease/(increase) in other fixed assets	1,088	(10,456)
Decrease in other current assets	114,144	485,086
Increase in trade payables	24,523	13,471
Increase/(decrease) in other current liabilities	70,577	(26,496)
Increase/(decrease) of other long-term liabilities	184,637	(28,757)
Cash generated from operations	**958,616**	**1,396,726**
Paid profit taxes	(56,174)	(29,858)
Interest paid	(46,022)	(82,150)
NET CASH FROM OPERATING ACTIVITIES	**856,420**	**1,284,718**
INVESTING ACTIVITIES		
Cash receipts from interest	7,289	9,055
Cash receipts from dividends	1,573	1,689
Cash receipts from repayment of loans granted	62	141
Cash payments for the acquisition of property, plant and equipment	(710,344)	(559,406)
NET CASH FROM INVESTING ACTIVITIES	**(701,420)**	**(548,521)**

in EUR '000	**2025**	**2024**
FINANCING ACTIVITIES		
Cash receipts from long-term loans	420,876	-
Expenditures for repayment of non-current loans	(578,160)	(771,733)
Expenditures for repayment of current loans	-	(8,591)
Lease principal repayment expenses	(1,133)	(1,086)
Dividend payment to the State Budget	(7,816)	-
NET CASH FROM FINANCING ACTIVITIES	**(166,233)**	**(781,410)**
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(11,233)**	**(45,213)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**483,255**	**528,468**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**472,022**	**483,255**

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

1. GENERAL

HEP Group Zagreb (hereinafter referred to as “the Group") consists of the parent Hrvatska elektroprivreda d.d., Zagreb (hereinafter referred to as "HEP d.d." or “the Company") and subsidiaries listed in Note 40.

HEP d.d. is registered in Zagreb, Ulica grada Vukovara 37, Court Registration Number (MBS): 080004306, Tax Identification Number (OIB): 28921978587. The core activity of the Group is the production, transmission, and distribution of electricity, and the control of the electricity system. In addition to the aforementioned core activities, the Group also engages in the production and distribution of thermal energy through the central heating systems in Zagreb, Osijek and Sisak, and the distribution of gas in the Osijek-Baranja, Požega-Slavonija, Virovitica-Podravina and Vukovar-Srijem counties.

In addition, under the Decision of the Government of the Republic of Croatia on ensuring gas reserves on the territory of the Republic of Croatia (June 2022), HEP d.d. was tasked with procuring and storing sufficient quantities of gas for the Republic of Croatia's needs. These reserves were sold by the end of September 2024. Pursuant to the Decree on removing disruptions in the domestic energy market, HEP d.d. was tasked with procuring gas produced in the Republic of Croatia, selling it to specified customer categories, and procuring the missing quantities of natural gas for those categories. The inventory of gas produced in the Republic of Croatia was sold by the end of March 2024. During 2025, HEP d.d. procured sufficient quantities and ensured the delivery of gas to customers in accordance with the Decree.

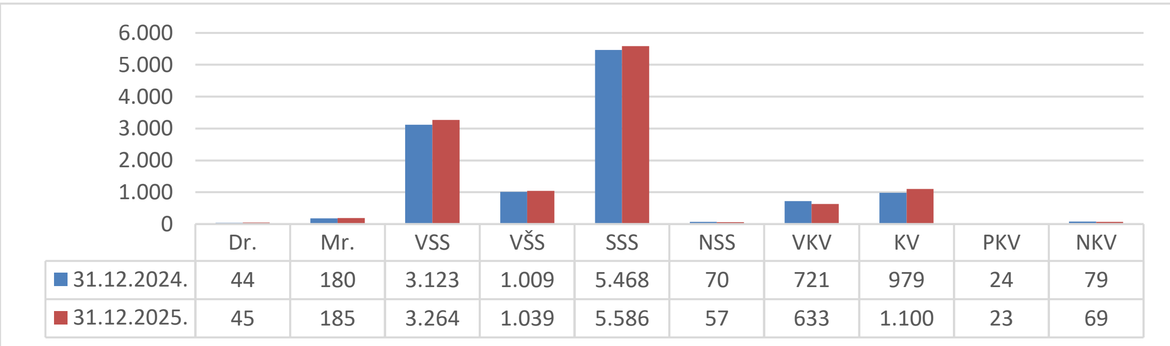
All of the Group’s activities are based on applicable laws, regulations, and decisions of the Government of the Republic of Croatia.

As of 31 December 2025, the Group had 12,001 employees (as of 31 December 2024: 11,697), excluding Nuklearna elektrana Krško d.o.o. The number of employees at Nuklearna elektrana Krško d.o.o. was 687 (as of 31 December 2024: 656).

An analysis of employees by educational attainment is shown below:

Qualification structure of workers

	31 December 2025	31 December 2024
PhD.	45	44
Master	185	180
University	3,264	3,123
College	1,039	1,009
High school	5,586	5,468
Low skilled	57	70
High skilled	633	721
Skilled	1,100	979
Semi-skilled	23	24
Unskilled	69	79
	12,001	**11,697**



The ultimate owner of the Group is the Republic of Croatia. These annual consolidated financial statements are presented in thousands of euros, which is also the Group's functional currency.

1. GENERAL (continued)

A group of undertakings is classified as small, medium, or large based on indicators determined on a consolidated basis as of the last day of the financial year preceding the financial year for which the annual consolidated financial statements are prepared. The indicators used to classify a group of undertakings are total assets, net revenue, and average number of employees. A large group of undertakings is a group that, on a consolidated basis, exceeds the threshold indicators in at least two of the following three conditions:

1. Total assets of EUR 25,000,000.00
2. Net revenue of EUR 50,000,000.00
3. Average number of employees during the financial year: 250 employees.

The HEP Group is a large group of undertakings based on the following indicators determined on a consolidated basis:

	2024	2023
Total assets	7,105,419 thousand EUR	7,673,459 thousand EUR
Net revenue	3,167,838 thousand EUR	4,041,905 thousand EUR
Average number of employees during the financial year	11,469	11,591

Laws regulating energy activities

The energy sector of the Republic of Croatia is regulated by the overarching Energy Act (OG 120/12, 14/14, 95/15, 102/15, 68/18) and the Act on Regulation of Energy Activities (OG 120/12, 68/18). Specific sectors of the energy market are regulated by special laws: the electricity, gas, and thermal energy markets; renewable energy sources; high-efficiency cogeneration; and energy efficiency. The currently valid special laws are:

- Market of Electricity Act (OG 111/21, 83/23, 17/25)
- Gas Market Act (OG 18/18, 23/20)
- Thermal Energy Market Act (OG 80/13, 14/14, 102/14, 95/15, 76/18, 86/19, 67/25)
- Energy Efficiency Act (OG 155/25)
- Renewable Energy Sources and High-Efficiency Cogeneration Act (OG 138/21, 83/23, 78/25)

According to the provisions of the 2021 Market of Electricity Act (hereinafter: ZOTEE), HEP d.d., as the parent company and its subsidiary companies, continue to perform electricity activities carried out as public services for electricity in the Republic of Croatia: distribution of electricity and supply of electricity performed as universal service and as guaranteed service. Electricity production, supply, and trading are conducted as market activities and are defined by implementing regulations governing trading in the wholesale and retail electricity markets. Electricity transmission is a public service performed by HOPS d.d., which is owned by HEP d.d. but is an independent company in terms of the Group's vertical integration, and the transformation into a joint-stock company, without changes in ownership structure, was carried out in accordance with ZOTEE.

The Market of Electricity Act introduced numerous new concepts, institutions, activities, and energy entities, such as electricity storage and aggregation, as well as the organisation of citizen energy communities and closed distribution systems. Furthermore, smart grids, electric vehicle charging points, contracts with dynamic electricity pricing, and demand-side management are defined. The new market model implies an increased share of variable, decentralised production from renewable energy sources, greater interdependence between the electricity sector and the heating and cooling sector, and active roles for final customers through individual or aggregated participation in markets via demand response programs, energy storage, and self-generation.

1. GENERAL (continued)

Laws regulating energy activities (continued)

The Renewable Energy Sources and High-Efficiency Cogeneration Act (hereinafter: ZOIEVUK) represents an additional step toward greater use of new technologies utilising renewable energy sources, particularly in space heating and/or hot water or cooling, since a large share of renewable energy for heating and cooling still relies on firewood used in households. The Act prescribes the procedure for adopting and amending the Integrated National Energy and Climate Plan (NECP) for the Republic of Croatia. The updated NECP sets an ambitious national target for renewable energy use: a 42.5% share of gross direct energy consumption by 2030. It also defines the obligation to submit progress reports on the promotion and use of renewable energy to the European Commission. The Act introduces the concept of a consumer of their own renewable energy, as well as renewable energy communities, which have legal personality and the right to produce, consume, store, and share/sell renewable energy among themselves, including through renewable energy purchase agreements, or to sell it directly on energy markets or via aggregation.

In 2023, both ZOTEE and ZOIEVUK were revised, partially removing obstacles and accelerating administrative procedures to facilitate the greater use of renewable energy sources, including measures to promote the consumption of domestically produced energy from renewable sources and within citizen energy communities.

Namely, ZOTEE defines the establishment of a citizen energy community and its status in the electricity market, allowing it to participate in all electricity markets, directly or via aggregation, in accordance with the rules governing individual electricity markets, with all rights and obligations of the energy community relative to other market participants. One recognised obstacle in the existing ZOTEE was the limitation that citizen energy communities could be formed only around a single transformer station, which meant members were confined to a single settlement, street, or building. Therefore, the amendment introduced a change allowing citizen energy communities to be established throughout the territory of the Republic of Croatia, provided that the delivery-side connection power does not exceed the total connection power of all community members on the uptake side. Likewise, to simplify and accelerate administrative procedures, the validity period of the issued energy permit is clearly defined and extended from 5 to 7 years, providing additional legal certainty for project holders regarding validity periods and the issuance of energy permits. A novelty is that the public tender for issuing an energy permit is no longer published in the Official Journal of the European Union.

The amendments and supplements to the Renewable Energy Sources and High-Efficiency Cogeneration Act from May 2025 prescribe the registration procedure for renewable energy communities, including entry and maintenance of the register of renewable energy communities. The Act further stipulates that support for energy from renewable sources produced via waste incineration shall not be granted if obligations for separate waste collection are not met. Additionally, the amendments define sustainability criteria and greenhouse gas emission savings for biofuels, liquid biofuels, and biomass fuels; verify compliance with these criteria; and calculate the impact of biofuels, liquid biofuels, and biomass fuels on greenhouse gases.

The Act requires the adoption of a plan to designate dedicated areas for network and storage infrastructure needed to integrate renewable energy into the electricity system. A producer or project holder for electricity production from renewables may, as part of their facility, have an energy storage facility for their own needs for delayed energy delivery to the grid as part of the production facility, located within the facility's scope, on the construction plot where the connection facility is located, or in immediate proximity to the connection facility, in accordance with the spatial plan and/or regulations in the fields of spatial planning and construction, provided it does not pose a threat to environmental and nature protection, water resources, or fire protection. Energy permits are not required for such storage facilities.

The Act also defines new rules for electricity production for own needs and self-supply, as well as a new incentive framework to promote and facilitate the development of the consumption of own energy from renewable sources, particularly in the area of energy sharing. Under the new system (from January 1, 2026), all customers who take energy from the supplier are guaranteed equal treatment in access to the distribution network and network tariffs. All charges and fees, including network tariffs, must reflect actual costs and be proportionate and non-discriminatory.

1. GENERAL (continued)

Laws regulating energy activities (continued)

The key change is the abolition of net metering for new users, while existing net metering users are retained for up to 10 years from the issuance of the permanent operation certificate. Instead of net metering, net billing is introduced, in which the value of injected energy is applied to reduce the bill, and the network usage fee is calculated based on the total electricity drawn from the grid. A novelty is that, for public service providers and households producing for their own consumption, electricity production from renewable sources located behind other accounting metering points (at a remote location) is also considered production for own consumption, provided that the accounting metering points belong to the same consumer of their own renewable energy. Fees and charges will not be calculated for own electricity production that remains on the energy self-consumer's premises, thereby promoting energy storage at the production site.

The new Energy Efficiency Act from December 2025 transposes Directive (EU) 2023/1791 of the European Parliament and of the Council of 13 September 2023 on energy efficiency and amending Regulation (EU) 2023/955 into Croatian legislation. The purpose of this Act is to reduce the negative impacts of the energy sector on the environment, improve energy supply security, reduce fossil fuel use, assist energy-poor citizens in the energy transition, and reduce costs for companies implementing energy-efficiency measures. For the first time, this Act prescribes the mandatory application of the "energy efficiency first" principle in designing policies for strategic planning and development management, in designing energy efficiency plans at national, regional, and local levels, and in making investment decisions on strategic investment projects and large investment projects exceeding EUR 100 million. The Act also defines the application of the "energy efficiency first" principle in concluding public procurement contracts and concession contracts.

For the Republic of Croatia, the energy consumption target for 2030 is 5.88 Mtoe, as set in the Integrated National Energy and Climate Plan for the period 2021–2030. Energy suppliers realise energy savings that reduce energy consumption and achieve the energy consumption target under the energy efficiency obligation scheme and alternative policy measures. The energy savings obligation scheme requires energy suppliers to achieve energy savings above the permitted threshold. Energy suppliers can fulfil their energy savings obligation by implementing energy savings measures themselves or by purchasing energy savings.

The Act defines the obligation to introduce an energy management system or to conduct energy audits for "energy-intensive enterprises," rather than "large enterprises" as previously. Energy-intensive enterprises are those that consume more than 10 TJ of energy on average annually. The obligation for energy-intensive enterprises is to introduce an energy management system or conduct energy audits.

Under the energy efficiency obligation scheme, the fee for unachieved energy savings that energy suppliers must pay to the Environmental Protection and Energy Efficiency Fund is significantly reduced. A possibility for voluntary payment of the fee for unachieved energy savings by energy suppliers under the obligation scheme is introduced, allowing suppliers to fulfil part or all of their determined energy savings obligation. The Environmental Protection and Energy Efficiency Fund must invest the funds collected from energy suppliers in household energy efficiency. This will assist all households in the energy transition and introduce special programs to help energy-poor households.

In May 2022, the Act on Amendments and Supplements to the Act on Establishing Infrastructure for Alternative Fuels was adopted, which is significant for the Group due to existing and new investments in electromobility and the associated revenue.

In 2023, at the EU level, the new Regulation (EU) 2023/1804 of the European Parliament and of the Council of 13 September 2023 on deploying alternative fuels infrastructure and repealing Directive 2014/94/EU was adopted, which is directly applicable in member states and has the force of national law. The Regulation prescribes the availability of a basic level of recharging and alternative-fuel refuelling infrastructure for road, maritime, and air transport across the entire European Union.

Among the significant targets, it mandates that for every battery electric vehicle registered in a given member state, a charging power of 1.3 kW be available from publicly accessible electric charging infrastructure. Additionally, from 2025 onwards, every 60 kilometres along the Trans-European Transport Network (TEN-T) must have fast-charging stations with a power output of at least 150 kW.

1. GENERAL (continued)

Laws regulating energy activities (continued)

The parent company and subsidiary companies continuously align the Group's organisation and operations with applicable laws and deadlines prescribed by those laws, as well as with implementing acts that have been adopted and will be adopted in 2026.

The continuation of the global economic and energy crisis during 2024 caused further difficulties and disruptions in the functioning of the energy market. In the Republic of Croatia, the intervention regulatory direction continued throughout 2025. Proposed measures primarily focus on energy savings, diversification of energy supply, and accelerating the realisation of renewable energy projects, to achieve net-zero CO_2 emissions by 2050.

The Decree on Removing Disruptions in the Domestic Energy Market (OG 31/23), adopted in 2023 to mitigate price disruptions in the electricity, gas, and thermal energy markets, remained in force in a slightly amended form during 2025. In 2025, amendments to the Decree on Removing Disruptions in the Domestic Energy Market (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25, 121/25, 122/25) were adopted, continuing special measures in the retail electricity, thermal energy, and gas markets, as well as the methods and conditions for price formation for certain categories of electricity, thermal energy, and gas customers, with measures that directly impact the Group's operations. In 2025, energy prices gradually increased due to the partial relaxation of government measures and reduced subsidies. Although prices rose, they remained below market levels thanks to the continued application of the Decree on Removing Disruptions in the Domestic Energy Market, whose validity has been extended until March 31, 2026. According to the IX Package of Measures of the Government of the Republic of Croatia, electricity prices increased by approximately 6.5% from November 1, 2025. An additional price increase from January 1, 2026, averaged 3.5%, resulting from the Croatian Energy Regulatory Agency's (HERA) decision to increase tariff items for electricity transmission and distribution (network charges).

Among implementing regulations adopted or amended during 2025 are the following: the Decree on the Share in Net Delivered Electricity of Privileged Producers that Electricity Suppliers Are Obligated to Accept from the Electricity Market Operator for 2026 (OG 156/25), the Rulebook on General Conditions for Network Use and Electricity Supply (OG 100/22, 134/24, 19/25), the Rules on the Register of Renewable Energy Communities (OG 11/25), the Decision on the Amount of Tariff Items for Electricity Transmission (OG 150/25), and the Decision on the Amount of Tariff Items for Electricity Distribution (OG 150/25).

HERA regularly determines tariff item amounts for customers in the entrepreneurship category within the public electricity supply service, quarterly, based on the Methodology for Determining the Amount of Tariff Items for Guaranteed Electricity Supply (OG 20/22). Accordingly, for the fourth quarter of 2025, HERA adopted the Decision on the Amount of Tariff Items for Guaranteed Electricity Supply (OG 119/25).

1. GENERAL (continued)

General Assembly

The General Assembly consists of members who represent the interests of the sole shareholder – the Republic of Croatia:

Ante Šušnjar	Member	Member since 17 May 2024
Damir Habijan	Member	Member from 21 December 2023 until 16 May 2024

Supervisory Board

Members of the Supervisory Board in 2025

Anton Kovačev	President	President since 15 June 2023
Mladen Zeljko	Member	Member since 10 December 2023
Jelena Zrinski Berger	Member	Member since 18 January 2018
Lukša Lulić	Member	Deputy President since 17 December 2024
Meri Uvodić	Member	Member since 4 December 2018 until 1 April 2025
Ante Barać	Member	Member since 2 April 2025

The mandates of the Chairman and members of the Supervisory Board were valid throughout 2025, except for the mandate of member Meri Uvodić, which expired on April 1, 2025.

Members of the Supervisory Board in 2024

Anton Kovačev	President	President since 15 June 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 until 16 December 2024 Deputy President since 17 December 2024
Meri Uvodić	Member	Member since 4 December 2018

Management Board

Members of the Management Board in 2025

Vice Oršulić	President	President since 9 December 2023
Petar Sprčić	Member	Member since 1 January 2018
Tomislav Šambić	Member	Member since 1 January 2018
Ivica Vukoja	Member	Member since 9 December 2024
Ante Elez	Member	Member since 2 December 2024

The mandates of the Chairman and members of the Management Board were valid throughout 2025.

Members of the Management Board in 2024

Vice Oršulić	President	President since 9 December 2023
Petar Sprčić	Member	Member since 1 January 2018
Tomislav Šambić	Member	Member since 1 January 2018
Ivica Vukoja	Member	Member since 9 January 2024
Ante Elez	Member	Member since 2 January 2024

1. GENERAL (continued)

Basis of preparation

The annual consolidated financial statements for 2025 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and have also been prepared in accordance with the Accounting Act (OG 85/24, 145/24, 151/25) and in accordance with the Ordinance on the structure and content of annual financial statements (OG 107/25).

The annual consolidated financial statements are prepared in accordance with the historical cost principle, except for certain financial instruments and investment property, which are measured at fair value.

Unless otherwise stated, all amounts published in the annual consolidated financial statements are presented in thousands of Euros.

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

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

Functional and reporting currency

The annual consolidated financial statements are prepared in the euro, the primary currency of the economic environment in which the Group operates ("functional currency"), and are rounded to the nearest thousand.

Other reporting matters

The Group prepared the annual consolidated financial statements in accordance with the Rulebook on the Structure and Content of Annual Financial Statements (form GFI-POD).

Certain items in the audited annual consolidated financial statements have been reclassified in accordance with IFRS and do not significantly differ from the items listed in the prescribed annual consolidated financial statements (form GFI-POD).

Principles and methods of consolidation

The annual consolidated financial statements of the Group represent the sum of the Group's assets, liabilities, capital and reserves, and the results of the Group's operations for the completed annual period. The annual consolidated financial statements consist of the annual financial statements of the Company and the entities it controls - its subsidiaries. Subsidiaries within the Group are listed in Note 40. The Company has control over the entity if, based on its participation in it, it is exposed to variable returns, i.e., it has rights to them and the ability to influence those returns through its dominance in that entity. The Company has 100 per cent shareholding and voting rights in all subsidiaries, is their sole member, has the power to appoint management, and can manage the Group's financial and business decisions. The exceptions are LNG Hrvatska d.o.o., in which the Company has a 75% stake, and NE Krško d.o.o., in which the Company has a 50% stake. The inclusion of subsidiaries in the consolidation begins on the date the Parent Company acquires control over the subsidiary and ends when the Parent Company loses control.

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

1. GENERAL (continued)

Principles and methods of consolidation (continued)

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

If the Group loses control over a subsidiary, it ceases to recognise related assets (including goodwill), liabilities, non-controlling interest, and other components of equity, and any realised gain or loss is recognised in profit or loss. Any remaining investment is recognised at fair value.

Business combinations

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

- Fair value of assets transferred
- Shares issued by the Group
- Fair value of the potential consideration
- Fair value of the previous share in the acquired company
- Obligations towards the owners of the acquired company

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

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

The difference between the acquisition consideration and the fair value of the acquired net assets is recognised as goodwill if the acquisition consideration exceeds the fair value of the acquired net assets, or as the effect of a bargain purchase if the acquisition consideration is less than the fair value of the acquired net assets. A favourable purchase is recognised in the consolidated statement of profit or loss in the period in which the company was acquired.

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

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

(a) Application of new and amended IFRS/IAS

The accounting policies adopted are the same as those applied in the previous financial year, except for standards, amendments to standards, and interpretations that entered into force after January 1, 2025. Below is only the new standard, its amendment, and interpretation that are significant for the Group's operations:

Standards and interpretations effective in the current period

- *Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: The amendment defines that a currency is considered exchangeable into another currency if an entity can obtain that other currency within a timeframe that includes normal administrative delays through a market or exchange mechanism in which the transaction would result in enforceable rights and obligations. When a currency is not exchangeable, the entity is required to estimate the spot rate at the measurement date. The amendment also provides guidance on determining the exchange rate in such circumstances, as well as on the required related disclosures when the market rate is not available. The amendments include guidance on identifying situations when a currency is exchangeable and how to determine the exchange rate when it is not.*

This amendment to the standard has no significant impact on the Group's annual consolidated financial statements.

Standards and interpretations not effective in the current period

New standards and amendments to standards have been published that are not yet in force (applicable for periods beginning on January 1, 2026, or thereafter):

- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: Contracts relating to electricity dependent on natural factors
- Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: Classification and measurement of financial instruments
- Annual Improvements – Volume 11 – includes certain amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7

These amendments are not expected to have a significant effect on the Group's annual consolidated financial statements.

New standards and amendments to standards that are not yet in force and have not yet been approved by the EU (applicable for periods beginning on January 1, 2027, or thereafter)

- *IFRS 18 Presentation and Disclosure in Annual Financial Statements: Issued in April 2024, it replaces IAS 1 and will result in significant consequential amendments to IFRS accounting standards, including IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (renamed from Annual Financial Statements). Although IFRS 18 will not affect the recognition and measurement of items in annual separate or consolidated financial statements, it is expected to have a significant impact on the presentation and disclosure of certain items. These changes include categorisation and subtotals in the statement of profit or loss, aggregation/disaggregation and labelling of information, and disclosure of management performance measures defined by management.*
- *IFRS 19 Subsidiaries Without Public Accountability: Disclosures and Amendments*
- *Amendments to IAS 21 – Exchange Rates in Cases of Hyperinflationary Currencies*

Management is still assessing the effects of the new and amended standards.

Except for the effects of IFRS 18, which will have a significant impact on presentation, primarily of operating performance, the new standards and interpretations are not expected to have a significant effect on the Group's annual consolidated financial statements.

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

(b) Summary of significant accounting policies

Investments in joint ventures

Under IFRS 11, Joint Arrangements are classified as either joint management (joint operation) or joint ventures. Classification depends on the contractual rights and obligations of each investor, not on the legal structure of the joint arrangement.

Joint ventures are classified under IFRS 11 as:

- Joint operation – a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- Joint venture – a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets relating to the arrangement.

In classifying investments in joint arrangements, the Group considers:

- The structure of the joint arrangement,
- The legal form of the joint arrangement is structured through separate legal entities,
- The contractual terms of the joint arrangement,
- Any other facts and circumstances (including any other contractual arrangements).

Interests in joint ventures are accounted for using the equity method.

The Group accounts for its investment in joint management by recognising its share of assets, liabilities, revenue, and expenses in accordance with its contractual rights and obligations.

The Group has identified its investment in NE Krško d.o.o. (note 18) as a joint operation.

Costs of pension benefits and other employee benefits

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

	2025 and 2024
Pension insurance contribution	20%
Health insurance contribution	16.5%

The members of the Group are obliged to suspend contributions from employees' gross salaries. Contributions in the name of the employee and in the name of the employer are calculated as an expense of the period in which they were incurred (Note 9).

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

(b) Summary of significant accounting policies (continued

Pension benefits and jubilee awards

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

Jubilee awards

In 2025, the Group paid its employees long-service benefits (jubilee awards) and severance payments upon retirement. The long-service award ranges from 280 to 730 euros net for 10 to 45 years of continuous employment with the employer within the Group. In December 2025, a new Collective Agreement was concluded for a fixed term until 31 December 2027, with the provisions of Article 90 applying from March 1, 2026.

Severance payments

Effective January 1, 2024, a Collective Agreement (applicable to all HEP Group subsidiaries) is in force, under which each employee is entitled, upon retirement, to a severance payment amounting to 1/8 of the gross average monthly salary paid to the employee for the three months preceding the termination of the employment contract, for each completed year of continuous employment with the employer. In December 2025, a new Collective Agreement was concluded for a fixed term until 31 December 2027, applicable from January 1, 2026, except for the provisions of Article 90, which apply from March 1, 2026.

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

(b) Summary of significant accounting policies (continued)

Property, plant and equipment

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

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

	2025 and 2024
Buildings	
Hydropower plants (dams and embankments, buildings and other structures and ancillary facilities)	20 – 50 years
Thermal power plants (buildings and other constructions)	33 – 50 years
Facilities and plants for transmission and distribution of electricity (substations, overhead and cable lines, dispatch centres, etc.)	20 – 40 years
Hot water pipelines, steam pipelines and other buildings for the production and transmission of thermal energy	33 years
Gas pipelines until 2014	20 – 25 years
Gas pipelines since 2014	40 years
Wind power plant facilities (foundations, plateaus, etc.)	25 years
Solar power plant facilities (fixed supporting structure)	30 years
Administrative buildings	50 years
Plant and equipment	
Plants in hydroelectric power plants	10 – 33 years
Plants in thermal power plants	6 – 25 years
Electricity transmission plants (electrical part of substations and transformers, electrical part of lines)	15 – 40 years
Electricity distribution plants (electrical part of substations and transformers, electrical part of lines, measuring instruments, meters and other equipment)	8 – 40 years
Thermal stations, hot water pipes and other equipment	15 – 30 years
Gas meters and other gas network equipment	5 – 20 years
Wind power plant equipment	10 – 20 years
Solar power plant equipment	8 – 30 years
Other equipment and means of transport	
IT	5 – 20 years
Telecommunications equipment	5 – 20 years
Motor vehicles	5 – 20 years
Office furniture	10 years

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

(b) Summary of significant accounting policies (continued)

Property, plant and equipment (continued)

The cost of property, plant and equipment includes the acquisition cost of the asset, including duties and non-refundable taxes, and all direct costs necessary to bring the asset to its working condition and location for use. Costs incurred after property, plant and equipment are put into use are recognised as expenses in the consolidated statement of profit or loss for the period in which they are incurred.

In situations where it is unequivocally clear that costs have resulted in an increase in future economic benefits expected to be realised through the use of an item of property, plant and equipment beyond its originally assessed performance capabilities, such costs are capitalised as additional cost of property, plant and equipment. Costs eligible for capitalisation include the costs of periodic, planned major inspections and overhauls necessary for continued operations.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from the sale and the carrying amount of the asset. It is recognised as a gain or loss.

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indicators of impairment losses on such assets. If such indicators exist, the asset's recoverable amount is estimated to determine the extent of any impairment loss. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

The recoverable amount is the higher of the asset's net selling price or its value in use. For the purpose of measuring value in use, estimated future cash flows are discounted 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 lower than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised immediately as an expense in the consolidated statement of profit or loss. In the subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of that asset, with the increased carrying amount not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. The reversal of an impairment loss is recognised immediately as income.

Intangible assets

Non-current intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method based on the following basis

	2025 and 2024
Licences	2 – 5 years
Servitudes and construction rights	5 – 30 years
Software application system	10 years
Concessions for coastal use	28 years
Energy efficiency projects	7 – 10 years
Investments for acquiring material rights	5 – 25 years
Investments in third-party assets	25 years
Other	5 years

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

(b) Summary of significant accounting policies (continued)

Investment property

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

Leases

Group as a lessee

All leases are calculated by recognising the right-of-use assets and lease liabilities, except for:

- Low value leases; and
- Leases with a lease term ending 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, HEP Group's incremental borrowing rate 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 throughout the lease. Other variable lease payments are recognised as an expense in the period to which they relate.

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

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

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

- all lease payments made on or before the lease start date;
- all initial direct costs; and
- the amount of the provision recognised if the Group contractually bears the costs of dismantling, removing or rebuilding the site.

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

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

	2025 and 2024
Business premises and land	2 – 25 years
Vehicles and equipment	2 – 5 years

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

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

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

(b) Summary of significant accounting policies (continued))

Inventories

Inventories mainly consist of materials and small tools, and are stated at the lower of cost and net realisable value. Management performs inventory write-downs based on a review of the overall age structure of inventories and significant individual amounts included in inventories. Inventory consumption is calculated using the weighted average cost method.

Inventories also include CO_2 emission allowances. Following Croatia's inclusion in the European Union Emissions Trading System (EU ETS) for greenhouse gas emission allowances, companies engaged in the production of electricity and thermal energy are obligated to purchase greenhouse gas emission allowances in an amount corresponding to their verified CO_2 emissions resulting from the combustion of fossil fuels in thermal power plants, which emit CO_2.

In accordance with the ETS Directive transposed into the Croatian Act on Climate Change and Ozone Layer Protection, companies are required to obtain sufficient CO_2 emission rights by September 30 (annual cycle). Due to the withdrawal of IFRIC 3 and the absence of specific provisions in IFRS, the Group has analysed various accounting models for CO_2 emission rights, including EFRAG discussion papers. The Group occasionally trades in CO_2 emission rights. Therefore, the Group recognises emission rights as inventories.

Inventories also include energy savings. With the entry into force of the amendments to the Energy Efficiency Act, HEP Group subsidiaries that are energy suppliers became obligated to achieve energy savings in final consumption. For the redistribution of achieved savings from HEP Group subsidiaries that are not obligated to achieve savings to HEP Group subsidiaries that are obligated, a Methodology for the Distribution and Purchase of Energy Savings has been adopted. This Methodology defines the method for distributing energy savings achieved by non-obligated entities and excess savings achieved by obligated entities, as well as the conditions for mutual purchase of savings for the current business year. HEP d.d., as the designated holder of the consolidated Report on Achieved Energy Savings, manages the savings covered by this Methodology and redistributes them to obligated entities based on it.

Inventories also include gas purchased by HEP d.d. on the market for the needs of HEP-Proizvodnja d.o.o. and HEP-Plina d.o.o. The value of inventories includes the acquisition cost of the gas, increased by associated costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, 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 are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset constitute the cost of acquiring the asset until the asset is ready for its intended use. A qualifying asset is an asset that requires a certain amount of time to be ready for its intended use. Investment income earned on the temporary investment of earmarked credit funds while they are spent on a qualifying asset is deducted from borrowing costs that can be capitalised. If work on qualifying assets is suspended, the borrowing cost for the period during which the work is discontinued is not capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred. Borrowing costs of qualifying assets in 2025 are capitalised in full.

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

(b) Summary of significant accounting policies (continued))

Foreign currencies

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that a sufficient amount of taxable profit will be available to recover all or part of the tax asset. Deferred tax is calculated according to the tax rates that are expected to be applied in the period in which the liability will be settled, or the asset will be realised, 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 reflects the amount expected to arise on the reporting date for a liability or return, equal to the carrying value of the Group's assets and liabilities.

Deferred tax is recorded as an expense or income in the consolidated statement of profit or loss unless it relates to items that are recorded directly in other comprehensive income, in which case the deferred tax is also reported in other comprehensive income or when the tax arises from initial recognition in a business merger. In the case of a business combination, taxes are considered when calculating goodwill or determining the excess of the buyer's share of the net fair value of identifiable assets, liabilities, and potential liabilities over cost. The calculation of deferred tax liabilities and assets reflects the amounts expected to arise or be recovered at the reporting date, measured against the carrying amounts of the Group's assets and liabilities.

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

(b) Summary of significant accounting policies (continued)

Financial assets

The Group recognises a financial asset in its annual consolidated financial statements when it becomes a party to the contractual provisions of the instrument. Depending on the business model for asset management and the contractual cash flow characteristics of financial assets, the Group measures financial assets at amortised 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	Held-for collection / amortised cost
Financial assets at fair value through other comprehensive income	Strategic investments / fair value through other comprehensive income
Other financial assets (Non-current receivables)	Held-for collection / amortised cost
Current assets	
Trade receivables	Held-for collection / amortised cost
Other current receivables	Held-for collection / amortised cost
Cash and cash equivalents	Held-for collection / amortised cost

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

i) Financial assets at fair value through other comprehensive income

This group of assets consists of equity instruments held by the Group that are traded on an active market. Changes in fair value are recognised in other comprehensive income (FVOCI) and do not subsequently reclassify to profit or loss. If an equity instrument is sold, the accumulated revaluation reserve is reclassified to retained earnings. Dividends from this financial asset are recognised in profit or loss. This group also includes equity instruments held by the Group that are not traded on an active market.

ii) Loans granted

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

Loans granted are measured at amortised cost. Measurement at amortised 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 amortisation 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 current 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 at their transaction price in accordance with IFRS 15.

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

(b) Summary of significant accounting policies (continued)

Financial assets (continued)

iv) Impairment

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

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

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

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

v) Derecognition of financial assets

The Group derecognises financial assets when contractual rights to cash flows from financial assets expire, or when it transfers financial assets and the transfer meets the conditions for derecognition.

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

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

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

(b) Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortised cost. All financial liabilities are initially recognised at fair value plus associated transaction costs. Financial liabilities include trade payables, other liabilities, bank overdrafts, and loans and advances.

Subsequent measurement

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

Derecognition

The Group stops recognising liabilities in the annual consolidated financial statements when and only when the liability is settled. When an existing financial liability is replaced by another by the same creditor under significantly different terms, or the terms of existing liabilities are significantly changed, such a 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 carrying values is recognised in the consolidated statement of profit and loss.

Provisions

A provision is recognised only if the Group has a present liability (legal or constructive) as a result of a past event, the settlement of the liability will probably 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 recognised as interest expense (Note 11).

Revenue recognition

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

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

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

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

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

(b) Summary of significant accounting policies (continued)

Revenue recognition (continued)

Electricity

The Group recognises revenue based on prices determined by the tariff approved by the regulatory agency, a company decision, or a Regulation of the Government of the Republic of Croatia.
During 2025, the Regulation on Remedying Distortions in the Domestic Energy Market (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25, 121/25, and 122/25) was in force. Due to distortions in the domestic energy market, this Regulation established special measures for the trade of electricity, thermal energy, and gas, as well as the method and conditions for price formation for certain categories of electricity, thermal energy, and gas customers, and oversight over the application of prices determined by this Regulation.

At the end of the billing month, electricity suppliers submit a request to the Ministry of Economy for reimbursement of the difference between the contracted prices and the prices determined by the Regulation for all their end customers. The difference is recognised up to a maximum of EUR 120/MWh until March 31, 2025, and up to a maximum of EUR 140/MWh from April 1, 2025.

For 2025, the Group does not separately present revenue from electricity sales in accordance with the Regulation; instead, receivables from the Ministry of Economy are recorded separately from receivables from end customers. The difference between the costs of electricity sold to customers at prices determined by the Regulation and the receivables from the Ministry of Economy for those costs is recorded as an operating expense.

Thermal energy

Revenue from the sale of thermal energy to households and business customers in the Republic of Croatia is recognised when the customer acquires control of the product, i.e., when the thermal energy is delivered to the customer, and it is probable that the Group will receive payment.

In accordance with the Regulation effective from October 1, 2022, the final price of delivered thermal energy, which includes fees and value-added tax (VAT), for end customers of thermal energy on thermal systems, except for thermal energy used for technological purposes (hot water, heated water, or steam), remained unchanged for the heating season 2022/2023 and the heating season 2023/2024, compared to the final prices valid on the date of adoption of the Regulation. Furthermore, in accordance with the Regulation on Amendments to the Regulation on Remedying Distortions in the Domestic Energy Market, the final price of delivered thermal energy, which includes fees and VAT, for end customers of thermal energy on thermal systems, except for thermal energy used for technological purposes (hot water, heated water, or steam), may increase by up to 10% for the period from October 1, 2024, to September 30, 2025, compared to the final prices valid on the date of entry into force of the Regulation on Remedying Distortions in the Domestic Energy Market.

In accordance with the Regulation on Amendments to the Regulation on Remedying Distortions in the Domestic Energy Market (OG 121/2025), the final price of delivered thermal energy, which includes fees and VAT, for end customers of thermal energy on thermal systems, except for thermal energy used for technological purposes (hot water, heated water, or steam), may increase by 10% for the period from October 1, 2025, to March 31, 2026, compared to the final prices valid on September 30, 2025.

In accordance with the Regulation, HEP-Toplinarstvo d.o.o. obtains receivables from the Ministry of Economy, for the period of validity of the Regulation, for sold thermal energy based on the difference between the unit price determined by the Croatian Energy Regulatory Agency (hereinafter: HERA), which is based on the price of input energy (fuel) and the price of greenhouse gas emission allowances, and the final price for the heating season 2022/2023 for the period until September 30, 2023, the final price for the heating season 2023/2024 for the period from October 1, 2023, to September 30, 2024, or the final price for the heating season 2024/2025 for the period from October 1, 2024, which includes value-added tax.

For 2025, the Group does not separately present revenue from the sale of thermal energy to end customers in accordance with the Regulation; instead, receivables from end customers and from the Ministry of Economy are recorded separately. For 2025, the Group separately presents revenue from the sale of thermal energy to end customers in accordance with the Regulation, based on the actual costs of thermal energy production.

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

(b) Summary of significant accounting policies (continued)

Revenue recognition (continued)

Gas

Revenue from the sale of gas is recognised when the customer acquires control of the product, i.e., when the gas is delivered to the customer, and it is probable that the Group will receive payment. The gas price for public supply and guaranteed supply users is prescribed by decisions on the amount of tariff items determined based on the methodologies for determining tariff item amounts for the public gas supply service and guaranteed supply, adopted by the Croatian Energy Regulatory Agency (HERA). For customers in the business category, the price is determined by a contract with fixed and/or variable components, depending on market conditions and the gas procurement price.

In September 2024, HEP-Plina d.o.o.'s role as the guaranteed gas supplier for the Republic of Croatia was extended through a public tender conducted by HERA, for the period from October 1, 2024, to September 30, 2027. During this period, HEP-Plina d.o.o. is obligated to calculate and charge the delivered gas to the end customer who has lost their supplier, according to the tariff items for guaranteed supply determined by HERA's decisions based on the Methodology for determining the amount of tariff items for the public gas supply service and guaranteed supply.

The VAT rate on gas supplies, including fees related to such supply, for the period from April 1, 2022, to March 31, 2026, is 5%.

At its meeting held on September 6, 2024, the Government of the Republic of Croatia adopted the Decision on subsidising part of the final gas supply price for end customers in the household category. This Decision establishes the amount and procedure for subsidising a portion of the final gas supply price for household-category end customers from October 1, 2024, to March 31, 2025. At its meeting on September 16, 2025, the Government of the Republic of Croatia adopted the Decision on Amendments to the Decision on subsidising part of the final gas supply price for household-category end customers. The amount of the subsidy for the final gas supply price for the period from October 1, 2025, to March 31, 2026, is determined by distribution areas.

The Croatian Energy Regulatory Agency (HERA) has adopted a series of decisions related to tariff items. These include the Decision on the amount of tariff items for the public gas supply service for the period from October 1 to 31 December 2025, and for the period from January 1 to September 30, 2026 (OG 122/25), and the Decision on the amount of tariff items for guaranteed gas supply for end customers who are not households for the period from January 1 to March 31, 2026 (OG 153/25).

Income from connection fees

Revenue from a network connection is systematically allocated over the useful life of the asset (the connection), and the payment received from customers for the connection is recorded as deferred revenue and recognised as revenue for the period, simultaneously with the amortisation of the connection to which it relates.

3. COMPARATIVE DATA

To improve the clarity of the annual consolidated financial statements, the Group reclassified certain items in the prior period.
The reclassifications were applied retroactively in the prior comparative period and are presented below:

a) Consolidated Statement of Financial Position

in EUR '000	**Notes**	**Previous balance 31 December 2024**	**Change**	**Adjusted balance 31 December 2024**
ASSETS				
Non-current assets				
Investments accounted for using the equity method	19	18,292	(16,443)	1,849
Financial assets at fair value through other comprehensive income	20	44,922	782	45,704
Other financial assets	22	782	15,661	16,443
Current assets				
Other current assets	26	286,290	8,396	294,686
Prepaid expenses for future periods		8,396	(8,396)	-
LIABILITIES				
Non-current liabilities				
Deferred income for assets financed by others	32	-	1,275,634	1,275,634
Other non-current liabilities	33	1,171,296	(1,168,006)	3,290
Current liabilities				
Current portion of deferred income for assets financed by others	32	-	52,411	52,411
Deferred payment of expenses and income for future periods		343,277	(343,277)	-
Other current liabilities	37	318,565	183,238	501,803

b) Consolidated Statement of Profit or Loss

in EUR '000	**Notes**	**Previous balance 31 December 2024**	**Change**	**Adjusted balance 31 December 2024**
Staff costs	9	(356,623)	(79,000)	(435,623)
Other operating expenses	10	(816,021)	79,000	(737,021)

Reclassification was carried out to improve the clarity of the annual consolidated financial statements.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of annual consolidated financial statements in accordance with International Financial Reporting Standards requires Management to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as the disclosure of potential liabilities. Future events may occur that will cause changes in the assumptions underlying those estimates and, consequently, in the estimates themselves. The effect of any change in an estimate will be reflected in the annual consolidated financial statements when it can be determined. Estimates are detailed in the corresponding notes, and the most significant among them relate to the following:

Useful lives of property, plant and equipment

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

The Group uses the economic benefits embodied in the assets, which diminish due to economic and technological ageing. Accordingly, in determining the useful life of assets, in addition to estimating expected physical utilisation, it is necessary to consider changes in market demand, which will accelerate economic obsolescence and intensify the 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 through revised depreciation expense over the remaining, revised useful life.

Provisions for power plant decommissioning

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

The amount of the provision for thermal power plant decommissioning represents the discounted value of the estimated decommissioning cost of the Group's thermal power plants (note 31). Significant assumptions include the discount rate and decommissioning costs

Decommissioning of the Krško Nuclear Power Plant

Funds for the decommissioning of the Krško NPP are reserved in accordance with the Ordinance on the amount, deadline, and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP (note 18).

Impairment of property, plant and equipment

The impairment calculation requires estimating the value in use of cash-generating units. This value is measured based on discounted cash flow projections. The most significant variables in determining cash flow are discount rates, terminal values, the period over which cash flow projections are made, and the assumptions and judgments used to estimate cash inflows and outflows.

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the attached tax benefit can be utilised. Determining the deferred tax assets that can be recognised requires the application of significant judgments, based on assessing the probable timing and amount of future taxable profit, together with the future planned tax strategy (note 12).

Actuarial estimates used for calculating retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include setting assumptions about discount rates, future salary increases, and the turnover rate. Due to the long-term nature of these plans, these estimates are subject to uncertainty (note 31).

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

Consequences of certain litigation

The Group is party to numerous litigation cases arising from ordinary operations. Provisions are recorded if there is a present obligation resulting from a past event (considering all available evidence, including the opinion of legal experts), where it is probable that settling the obligation will require an outflow of resources, and if the amount of the obligation can be reliably estimated (note 31)

Expected loss model

With the adoption of IFRS 9, the expected credit loss (ECL) model is introduced. The measurement of expected credit losses for impairment is based on reasonable and supportable information available without undue cost or effort, including information about past events, current conditions, and forecasted future conditions and circumstances. The Group recognises either a 12-month ECL or a lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the obligation or guarantee was assumed). For the purposes of calculating the ECL model, the portfolio of financial assets is divided into three stages: Stage 1, Stage 2, and Stage 3. On the date of initial recognition, financial assets are included in Stage 1, and subsequent reclassification to Stages 2 and 3 depends on the increase in credit risk after initial recognition or on the financial instrument's credit quality.

Goodwill

As explained in note 2, goodwill is not amortised but is tested for impairment at least annually, or more frequently if there are indicators of impairment. Goodwill is allocated to cash-generating units or groups of cash-generating units expected to benefit from the business combination.

Estimating the recoverable amount of goodwill requires significant judgments and assumptions by Management, particularly regarding expected future cash flows, discount rates, and long-term growth rates. Changes in these assumptions can have a significant impact on the determined recoverable amount and the potential need to recognise goodwill impairment.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2025

IMPACT OF THE REGULATION ON REMEDYING DISTORTIONS IN THE DOMESTIC ENERGY MARKET

During 2022, in response to the energy crisis, the Government of the Republic of Croatia adopted a series of temporary measures aimed at ensuring sufficient quantities and availability of gas and at limiting electricity, thermal energy, and gas prices for end customers. These measures were in force until March 31, 2023. Given the continuation of high electricity and other energy prices, the Government continued to implement protective measures for households and the economy throughout 2023 and 2024. Accordingly, regulations were adopted covering the periods from April 1 to September 30, 2023 (OG 31/23 and 74/23), from October 1, 2023, to March 31, 2024 (OG 107/23 and 122/23), from April 1 to September 30, 2024 (OG 32/24), and from October 1, 2024, to March 31, 2025 (OG 104/24 and 132/24). In 2025, new regulations were adopted, valid for the period from April 1 to September 30, 2025 (OG 56/25) and from October 1, 2025, to March 31, 2026 (OG 121/25 and 122/25).

<u>*Electricity*</u>

/i/ Legal basis and measures taken for action in 2025

Capping the growth of electricity prices for households
Until October 31, 2025, the working energy price was set at EUR 0.079412 per kWh for household customers in accordance with the regulation governing the electricity market under a single tariff, or for household customers with higher and lower tariffs at EUR 0.084512 per kWh in the higher tariff (VT) and EUR 0.041468 per kWh in the lower tariff (NT). For the period from November 1, 2025, to March 31, 2026, the working energy price was set at EUR 0.091324 per kWh for household customers under the single-tariff regulation, or for customers with higher and lower tariffs at EUR 0.097189 per kWh in the higher tariff (VT) and EUR 0.047688 per kWh in the lower tariff (NT) for household customers, up to a total six-month electricity consumption of 3,000 kWh.
Until September 30, 2025, if household customers exceeded the six-month consumption limit of 3,000 kWh, the excess electricity consumption was calculated at a price increased by 50%. From October 1, 2025, if customers exceed the six-month consumption limit of 3,000 kWh, the excess electricity consumption is calculated at a price 35% higher.

Capping the growth of electricity prices for the public and non-profit sector
In accordance with the regulation governing the electricity market, for kindergartens, schools, universities, libraries, museums, hospitals, healthcare facilities, homes for the elderly and infirm, associations, religious communities, municipalities, cities, and counties, regardless of their total six-month electricity consumption, until September 30, 2025, the working energy price was set at EUR 0.079412 per kWh for customers under a single tariff, or for customers with higher and lower tariffs at EUR 0.084512 per kWh in the higher tariff (VT) and EUR 0.041468 per kWh in the lower tariff (NT). For the period from October 1, 2025, to March 31, 2026, the working energy price was set at EUR 0.091324 per kWh for customers under a single tariff, or for customers with higher and lower tariffs at EUR 0.097189 per kWh in the higher tariff (VT) and EUR 0.047688 per kWh in the lower tariff (NT).

Capping the growth of electricity prices for entrepreneurs
Up to a total six-month electricity consumption of 250,000 kWh, until September 30, 2025, the working energy price was set at EUR 0.079412 per kWh for customers in the entrepreneurship category in accordance with the regulation governing the electricity market under a single tariff, or for customers with higher and lower tariffs at EUR 0.084512 per kWh in the higher tariff (VT) and EUR 0.041468 per kWh in the lower tariff (NT). For the period from October 1, 2025, to March 31, 2026, the working energy price was set at EUR 0.091324 per kWh for customers in the entrepreneurship category under the single-tariff regulation, or for entrepreneurship-category customers up to 250,000 kWh of total six-month electricity consumption, with higher and lower tariffs at EUR 0.097189 per kWh in the higher tariff (VT) and EUR 0.047688 per kWh in the lower tariff (NT).

For six-month consumption exceeding 250,000 kWh, the agreed price with the electricity supplier applies to customers in the entrepreneurship category. After the end of the billing month, electricity suppliers submit a request to the Ministry of Economy and Sustainable Development for reimbursement of the difference between the agreed prices and the prices set by the Regulation for all their end customers. The difference is recognised at up to EUR 120 per MWh until March 31, 2025, and at up to EUR 140 per MWh from April 1, 2025.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2025 (continued)

IMPACT OF THE REGULATION ON REMEDYING DISTORTIONS IN THE DOMESTIC ENERGY MARKET (continued)

<u>*Electricity(continued)*</u>

/i/ Legal basis and measures taken for action in 2025 (continued)

Covering technical losses of electricity
System operators are reimbursed, upon submission of a request, for the difference between the agreed price and/or the price achieved on the Croatian Electricity Exchange d.o.o. and the price set by the Regulation.
In accordance with the provisions of the Regulation (OG 104/24 and 132/24), for the period from October 1, 2024, to March 31, 2025, a fixed energy price of EUR 0.079412 per kWh, up to a maximum of EUR 120 per MWh, is prescribed. For the period from April 1, 2025, to September 30, 2025 (OG 56/25), a fixed energy price for covering losses of EUR 0.079412 per kWh up to a maximum of EUR 140 per MWh is prescribed. For the period from October 1, 2025, to March 31, 2026 (OG 121/25 and 122/25), a fixed energy price for covering losses of EUR 0.091324 per kWh up to a maximum of EUR 140 per MWh is prescribed.

<u>*Gas*</u>

/ii/ Legal basis and measures taken for action in 2025

Supply of gas to end customers
Until March 31, 2025, the measures of the Government of the Republic of Croatia introduced in 2022, 2023, and 2024 were in force and, through amendments to the prevailing Regulation with minor adjustments, were extended until March 31, 2026. The Croatian Energy Regulatory Agency (HERA) adopted a series of decisions related to tariff items. The Decision on the amount of tariff items for the public gas supply service for the period from October 1 to 31 December 2025, and for the period from January 1 to September 30, 2026 (OG 122/25), as well as the Decision on the amount of tariff items for guaranteed gas supply to end customers who are not households for the period from January 1 to March 31, 2026 (OG 153/25), were adopted.

Based on HERA's decision of September 5, 2024, which extended the Company's status as a guaranteed gas supplier for the period from October 1, 2024, to September 30, 2027, HEP-PLIN d.o.o. provided guaranteed gas supply services during 2025, ensuring continuous supply to end customers who lost their supplier.

Gas under the Regulation on Amendments and Supplements to the Regulation on Remedying Distortions in the Domestic Energy Market
To ensure sufficient gas reserves on the territory of the Republic of Croatia, the Government adopted the Decision on Securing Gas Reserves on the Territory of the Republic of Croatia in June 2022, and in September 2022, adopted the Regulation on Amendments and Supplements to the Regulation on Remedying Distortions in the Domestic Energy Market to secure gas reserves and increase the availability of natural gas in the Republic of Croatia. Based on these regulations, HEP d.d. was obligated to procure and sell natural gas to the prescribed categories of customers. The gas reserves procured on this basis were sold in 2024.

In accordance with the amendments to the Regulation of September 6, 2024, in the event of insufficient quantities of natural gas, HEP d.d. is obligated, from October 1, 2024, to secure and supply the required quantities of natural gas for certain categories of customers. The application period of the Regulation has been extended. It is also prescribed that for the supplied quantities of gas, HEP d.d. has the right to reimbursement of funds in the amount of the difference between the cost of procuring gas for guaranteed supply and the procurement price of gas for the public gas supply service from the Methodology for Determining the Amount of Tariff Items for the Public Gas Supply Service and Guaranteed Supply.

5. IMPACT OF SIGNIFICANT BUSINESS EVENTS ON THE ANNUAL FINANCIAL STATEMENTS FOR 2025 (continued)

IMPACT OF THE REGULATION ON REMEDYING DISTORTIONS IN THE DOMESTIC ENERGY MARKET (continued)

<u>*Thermal energy*</u>

/iii/ Legal basis and measures taken for action in 2025

From October 1, 2024, to September 30, 2025, with minor amendments, the Regulation (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25) remained in force. Based on the new measures, the final price of delivered thermal energy, which includes fees and value-added tax, for final customers of thermal energy in heating systems, except for thermal energy used for technological purposes (hot water, heated water, or steam), could increase by up to 10% for the period from October 1, 2024, to March 31, 2025 (extended to September 30, 2025), compared to the final prices valid on the date of entry into force of the Regulation on Remedying Distortions in the Domestic Energy Market (OG 104/22, 106/22, 121/22 and 156/22). The final price of delivered thermal energy increased in such a way that all items that formed the final price increased linearly.

The last amendment to the Regulation on Amendments to the Regulation on Remedying Distortions in the Domestic Energy Market was adopted on September 17, 2025 (OG 121/25). The Regulation allows that, for the period from October 1, 2025, to March 31, 2026, producers of thermal energy and distributors of thermal energy in central heating systems may submit a request to the Croatian Energy Regulatory Agency (HERA) to increase the amount of the tariff item for energy for thermal energy production and/or the tariff item for energy for thermal energy distribution by up to 15%. In this case, the final price of delivered thermal energy, which includes fees and value-added tax, for final customers of thermal energy in central heating systems, except for thermal energy used for technological purposes (hot water, heated water, or steam), may increase by up to 10% for the period from October 1, 2025, to March 31, 2026, compared to the final prices valid on September 30, 2025 (OG 56/25).

In accordance with this last amendment to the Regulation and the prevailing Methodologies for Determining the Amount of Tariff Items for Thermal Energy Production and Distribution (OG 56/14), HEP-Toplinarstvo d.o.o. submitted requests to HERA on September 26, 2025, for changes to the tariff items for the activity of production in the central heating systems of Samobor and Velika Gorica, and for the activity of distribution in the central heating systems of Zagreb, Osijek, Sisak, Samobor and Velika Gorica.

HERA adopted Decisions on the amount of tariff items for thermal energy production and distribution for central heating systems on September 30, 2025, based on the submitted requests from HEP-Proizvodnja d.o.o. and HEP-Toplinarstvo d.o.o., in accordance with the Methodologies for Determining the Amount of Tariff Items for Thermal Energy Production and Distribution (OG 56/14) and the Regulation.
Based on the submitted requests and in accordance with the provisions of the Regulation, the tariff items for thermal energy production and distribution were increased by up to 15% compared to the 2024/2025 heating season, while the final price of delivered thermal energy increased by up to 10% compared to the final prices valid on September 30, 2025. The final price of delivered thermal energy, which includes fees and value-added tax for final customers of thermal energy in central heating systems who use technological steam for technological purposes (hot water, heated water, or steam), may increase by up to 2.5% compared to the final prices valid on September 30, 2025.

/iv/ Billable amount of state aid to customers with regulated prices

For electricity, the billable amount of state aid amounts to 201,345 thousand euros based on the Regulation on Remedying Distortions in the Domestic Energy Market (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25 and 121/25) for the period from January 1 to 31 December 2025.

For gas, the billable amount of state aid amounts to 7,583 thousand euros based on the Decision on Subsidizing Part of the Final Price of Gas Supply for Final Customers in the Household Category from October 1, 2024, to March 31, 2025, and amendments to the Decision on Subsidizing Part of the Final Price of Gas Supply for Final Customers in the Household Category for the period from October 1, 2025, to March 31, 2026. Distribution areas determine the amount.

6. SALES REVENUE – SEGMENT INFORMATION

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

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

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

	Electricity		**Heating**		**Gas**		**Other**		**Total**	
in EUR '000	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**
Income from core business	2,722,091	2,839,927	108,818	92,489	164,975	235,422	-	-	2,995,884	3,167,838
Income of other segments	222,995	229,064	15,121	130,043	29,248	119,902	3,436	3,728	270,800	482,737
Operating profit /(loss)	**334,635**	**424,578**	**(87,743)**	**16,704**	**(51,666)**	**(52,290)**	**(20,480)**	**(16,184)**	**174,746**	**372,808**
Net financial loss									(26,312)	(60,916)
Profit tax									(26,269)	(57,230)
Net profit									**122,165**	**254,662**

The segment's assets consist primarily of property, plant and equipment, receivables, cash and inventories. The segment's liabilities consist of trade payables and other liabilities. Assets and liabilities that do not belong to any segment are those that cannot be reasonably allocated to business segments. Total undistributed assets include investment in NE Krško, part of property, plant and equipment and undistributed financial assets. Total unallocated liabilities include non-current loans, current loans and other miscellaneous liabilities.

in EUR '000	**Total segment assets**		**Total segment liabilities**	
	31 December 2025	**31 December 2024**	**31 December 2025**	**31 December 2024**
Electricity	5,353,968	5,004,541	2,208,586	1,862,909
Heating	265,646	265,373	71,589	72,430
Gas	352,969	356,787	236,385	232,828
Unallocated	1,351,035	1,478,718	1,623,135	1,843,791
Total Group	**7,323,618**	**7,105,419**	**4,139,695**	**4,011,958**

Revenues from gas sales activities were as follows:

in EUR '000	**2025**	**2024**
Revenue from gas sales – gas supply	130,550	172,925
Revenue from leasing LNG terminal capacity	27,128	30,295
Revenue from gas sales pursuant to the Decision of the Government of the Republic of Croatia	7,297	15,778
Revenue from gas sales pursuant to the Regulation of the Government of the Republic of Croatia	-	16,424
	164,975	**235,422**

6. SALES REVENUE – SEGMENT INFORMATION (continued)

Territorial analysis

The Group operates in Europe, including countries that are members of the European Union and those that are not.

The following is a territorial analysis of the revenues that the Group achieved from the active parts of the business from external customers:

in EUR '000	**2025**	**2024**
REVENUE FROM SALE OF ELECTRICITY		
Republic of Croatia	2,335,972	2,409,640
Other European Union Member States	373,576	414,726
Outside the European Union	12,543	15,561
	2,722,091	**2,839,927**
REVENUE FROM SALE OF GAS		
Republic of Croatia	156,487	204,294
Other European Union Member States	8,488	31,128
	164,975	**235,422**
REVENUE FROM SALE OF HEAT ENERGY		
Republic of Croatia	108,818	92,489
	108,818	**92,489**
	2,995,884	**3,167,838**

7. OTHER OPERATING INCOME

in EUR '000	**2025**	**2024**
Income from assets financed from connection fees	60,778	57,976
Revenue from external services (energy efficiency projects, customer services, non-standard services)	12,774	11,082
Collected value-adjusted receivables (Note 25)	8,442	9,093
Revenue from sales of materials	8,846	6,604
Revenue from the sale of tangible assets	459	-
Overcalculated compensation in the previous year for CO_2 emissions for electricity production	8,681	35,999
Default interest	5,567	5,214
Revenue from the reversal of long-term provisions for legal disputes	24,423	3,795
Revenue from the reversal of provisions for payments under the collective agreement	1,755	-
Revenue from reversal of other provisions	4,729	2,871
Revenue based on legal costs from lawsuits	1,265	1,492
Revenue from reversal of long-term provisions - decommissioning of thermal power plants	638	552
Revenue from grants from the EU and the Croatian state budget	15,719	15,041
Revenue from assets financed by EU projects – HOPS d.d.	6,058	2,369
Collected written-off receivables	87	206
Collected written-off receivables according to accounting policy	636	3,098
Collected pre-bankruptcy receivables	336	167
Unrealised gains from fair valuation of tangible assets	3,760	6,349
Revenue based on the Regulation of the Government of the Republic of Croatia - coverage of losses of HOPS d.d.	7,977	14,860
Revenue based on the Regulation of the Government of the Republic of Croatia - coverage of heat losses in distribution	-	6
Revenues based on the Regulation of the Government of the Republic of Croatia - compensation for the difference in actual heat production costs /i/	-	119,325
Revenues based on the Regulation of the Government of the Republic of Croatia - coverage of losses of HEP ODS d.o.o.	37,689	49,414
Revenues based on the Decision of the Government of the Republic of Croatia - difference between the purchase and market selling price of gas /ii/	-	97,409
Reimbursed costs based on the Decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia	-	748
Revenue from compensation for the gas price difference for losses, 1 April 2024 – 31 March 2025 (Regulation of the Government of the Republic of Croatia)	550	-
Revenue from compensation for the gas price difference for losses, 1 April 2025 – 30 September 2025 (Regulation of the Government of the Republic of Croatia)	155	-
Revenue pursuant to the Regulation of the Government of the Republic of Croatia – compensation for the gas price difference from 1 October 2024 /iii/	11,631	-
Other income */iv/*	47,845	39,067
	270,800	**482,737**

/i/ In 2024, in accordance with the Regulation, as part of HERA's Decisions on determining the unit price for heat energy production for central and closed heat systems for the 2024/2025 heating season, a revision and analysis of the actual heat energy production costs was carried out.
This relates to the payment of the difference amount between the final unit prices for central heat systems and closed heat systems versus the final prices of supplied heat energy, for which HEP-Toplinarstvo d.o.o. reduced invoices to final heat energy customers for the period from October 2022 to March 2024, as well as for covering heat losses in distribution.

7. OTHER OPERATING INCOME (continued)

Pursuant to the aforementioned HERA Decisions, HEP-Toplinarstvo d.o.o. obtained additional receivables from the Ministry of Economy for sold heat energy relating to the period from October 2022 to March 2024, based on which revenues were recognised in 2024 of EUR 119,325 thousand.

/ii/ In 2024, the Government of the Republic of Croatia Decision (OG 37/23) and the amendments to the Regulation on Remedying Distortions in the Domestic Energy Market (OG 32/24, 104/24) defined the customer categories supplied with gas from the Republic of Croatia gas reserves for the public service of household customers, for other protected gas customers under the Regulation on Criteria for Acquiring Protected Customer Status in Crisis Supply Conditions (OG 65/15), for final customers of heat energy in closed and central heat systems, for customers of heat energy in independent heat systems (including heat energy suppliers), gas distributors for covering distribution losses, and for public institutions.
The Republic of Croatia undertook to compensate the difference between the procurement and sales price of gas for gas sold pursuant to the Government Decision on Ensuring Gas Reserves in the Territory of the Republic of Croatia. The Decision on Ensuring Gas Reserves applied to the period from 1 April 2023 to 31 March 2024; therefore, in 2025, no revenue was generated under this basis.

/iii/ In 2025, in accordance with the Regulation on Amendments to the Regulation on Remedying Distortions in the Domestic Energy Market, HEP d.d., in the event of insufficient quantities of gas from the Republic of Croatia's gas reserves, is obliged to secure and supply the required quantities of gas to customers. For insufficient quantities of gas, that is, quantities supplied from its own portfolio, HEP d.d. is entitled to compensation equal to the difference between the gas procurement cost for guaranteed supply and the gas procurement price for the public gas supply service.

/iv/ Other income

in EUR '000	**2025**	**2024**
Income from the use of own products	19,435	13,622
Income from rents	4,157	3,438
Income from donations	2,520	145
Income from collected penalties	711	360
Income from damage compensation	827	4,427
Income from the sale of non-operating assets	7,755	323
Income from investment services	2,654	2,262
Income from write-off of liabilities and surpluses	2,283	2,390
Other income	7,503	12,100
	47,845	**39,067**

8. COST OF PROCUREMENT OF ENERGY AND MATERIALS

in EUR '000	**2025**	**2024**
Cost of electricity purchase /i/	1,016,478	927,899
Cost of fuel /ii/	377,881	471,494
Cost of gas purchase – market supply /iii/	128,196	150,063
Cost of purchased materials	40,287	31,228
Cost of gas sold – Government Regulation /iv/	54,841	192,742
	1,617,683	**1,773,426**

/i/ Electricity procurement costs for 2025 amount to EUR 1,016,478 thousand (2024: EUR 927,899 thousand) and relate to the procurement of electricity for supplying final customers and covering electricity losses in the transmission and distribution network.

Electricity procurement costs increased by EUR 88,579 thousand compared to the previous year, driven by higher electricity procurement prices.

Electricity and gas trading is conducted bilaterally and on exchanges.

/ii/ Fuel costs (coal, wood chips, and gas) relate to procurements outside the system for the production of electricity and heat energy in thermal power plants.

/iii/ Gas procurement relates to procurements outside the system for the purpose of supplying final customers.

/iv/ In accordance with the Regulation on Remedying Distortions in the Domestic Energy Market (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25, 121/25, and 122/25), HEP d.d. was obliged to secure quantities of natural gas for final customers of heat energy in central and closed heat systems, for customers of heat energy in independent heat systems (including heat energy suppliers), gas distributors for covering distribution losses, and natural gas customers from the entrepreneurship category under Article 3, paragraph 3 of the Regulation. Since the entire quantity of gas procured under the Regulation was consumed by 31 March 2024, and the gas procured under the Decision on Ensuring Gas Reserves was utilised by 30 September 2024, HEP d.d. procured the required quantities and ensured gas supply for customers pursuant to the Regulation during 2024 and 2025.

9. EMPLOYEE BENEFITS

Total employee costs were as follows:

in EUR '000	**2025**	**2024**
Gross salaries /i/	408,829	356,623
Other material rights of employees /ii/	55,447	48,020
Reimbursement of employee expenses /iii/	20,093	17,800
Costs of retirement benefits and jubilee awards	1,743	10,281
Costs for unused annual leave	2,143	2,899
	488,255	**435,623**

/i/ Gross salaries:

in EUR '000	**2025**	**2024**
Net salaries	232,072	201,827
Net salaries NE Krško	21,684	20,940
Tax and contribution costs	145,102	124,921
Costs of taxes and contributions from the salaries of NEKrško	9,971	8,935
	408,829	**356,623**

/ii/ Costs of other material rights of employees include allowances pursuant to the Collective Agreement. They mostly relate to payments under the Collective Agreement for jubilee awards, occasion-based awards, and awards to workers, amounting to EUR 38,320 thousand for 2025 (2024: EUR 31,803 thousand), and to a lesser extent to solidarity assistance, allowances for separate living, assistance to children, and other items.

/iii/ Reimbursement of employee expenses

in EUR '000	**2025**	**2024**
Costs of commuting to work	12,275	11,469
Costs of per diems and travel expenses	4,362	3,502
Costs of supplementary health insurance	1,502	1,010
Other costs	1,954	1,819
	20,093	**17,800**

As of 31 December 2025, the Group had 12,001 employees (31 December 2024: 11,697), excluding Krško Nuclear Power Plant d.o.o. The number of employees at Krško Nuclear Power Plant d.o.o. was 687 (as of 31 December 2024: 656).

Total contributions to pension funds amounted to EUR 64,954 thousand during 2025 (2024: EUR 56,439 thousand).

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

in EUR '000	**2025**	**2024**
Gross salaries	6,402	4,998
Other benefits	451	377
	6,853	**5,375**

Remuneration for Supervisory Board members:

in EUR '000	**2025**	**2024**
Remuneration	48	46
Taxes and contributions	14	13
	62	**59**

10. OTHER OPERATING EXPENSES

in EUR '000	**2025**	**2024**
Cost of CO_2 emission units	159,934	154,891
Maintenance costs	141,089	126,284
Costs of external services and materials	104,877	97,125
Billable services and materials	53,151	73,291
Value adjustments and write-offs of receivables /i/	39,132	77,334
Cost of materials sold	5,786	5,396
Costs of decommissioning of the NE Krško	7,515	5,270
Compensation for the use of the power plant premises	10,183	12,227
Contributions, taxes and fees to the State	16,451	17,207
Contributions and concessions for water	11,863	11,902
Costs of calculation and collection	3,595	3,427
Provisions for volatility - LNG	-	9,310
Banking fees	3,907	4,100
Insurance premiums	2,740	2,542
Compensation for water treatment and drainage	1,578	1,823
Compensation for damages	5,292	2,980
Provisions for legal disputes	5,547	6,893
Provisions for the decommissioning of thermal power plants	3,229	3,768
Procurement of energy savings	1,230	97
Subsequently determined the costs of previous years	5,311	1,074
Costs in accordance with the Regulation of the Government of the Republic of Croatia /ii/	33,132	96,907
Other expenses	20,201	23,344
Capitalised borrowing costs (compensations)	(171)	(171)
	635,572	**737,021**

/i/ Value adjustments and write-offs of receivables

in EUR '000	**2025**	**2024**
Value adjustment of receivables from customers (note 25)	17,625	17,792
Value adjustment of property, plant and equipment	2,927	24,690
Write-off of property, plant and equipment	4,775	7,540
Value adjustment of inventory (note 24)	1,958	17,554
Written-off unlitigated receivables	11,824	9,700
Value adjustment of other receivables	23	58
	39,132	**77,334**

/ii/ On 8 September 2022, the Government of the Republic of Croatia adopted the Regulation on Remedying Distortions in the Domestic Energy Market, which governs special measures for electricity trading and the method and conditions for forming prices for certain categories of electricity and heat energy customers.

On 19 October 2023, the Regulation on Amendments and Supplements to the Regulation on Remedying Distortions in the Domestic Energy Market was adopted, under which the HEP Group is recognised for the difference between the contracted electricity price and the price calculated for the entrepreneurship category customers pursuant to the Regulation, up to a maximum of EUR 180/MWh for the period from 1 April to 30 September 2023. Subsequent amendments to the Regulation set this limit at up to EUR 150/MWh for the period from 1 October 2023 to 30 September 2024, EUR 120/MWh for the period from 1 October 2024 to 31 March 2025, and EUR 140/MWh for the period from 1 April 2025 to the end of the year.

The remaining difference in price that is not compensated to the supplier represents a Group cost amounting to EUR 33,132 thousand (2024: EUR 96,907 thousand).

11. FINANCIAL INCOME AND EXPENSES

in EUR '000	**2025**	**2024**
Financial income		
Interest income	4,944	6,221
Dividend income from equity securities	1,573	1,689
Unrealised gains	763	556
NE Krško – interest	575	738
Other financial income	47	75
Total financial income	**7,902**	**9,279**
Financial expenses		
Negative exchange rate differences	(55)	(1,099)
Interest expense	(33,574)	(67,751)
NE Krško – interest	(410)	(450)
Decommissioning of power plants (decommissioning)	(2,796)	-
Other financial expenses	-	(5,036)
Total financial expenses	**(36,835)**	**(74,336)**
Capitalised borrowing costs	2,621	4,141
Finance expenses recognised in the statement of profit or loss	**(34,214)**	**(70,195)**
Net financial loss	**(26,312)**	**(60,916)**

12. PROFIT TAX

in EUR '000	**2025**	**2024**
Current tax	(28,384)	(38,725)
Deferred tax recognised in profit or loss	2,115	(18,505)
Profit tax	**(26,269)**	**(57,230)**

The adjustment of deferred tax assets is as follows:

in EUR '000	**31 December 2025**	**31 December 2024**
Balance as of 1 January	**249,873**	**268,378**
Cancellation of deferred tax assets	(22,452)	(42,452)
Recognition of deferred tax assets	29,715	23,947
Balance as of 31 December	**257,136**	**249,873**

Deferred tax assets arise from tax loss carried forward, tax-deductible provisions for jubilee awards and severance pay for regular retirement, adjustments to the value of trade receivables and inventories that are not tax-deductible, and other provisions.

12. PROFIT TAX (continued)

The reconciliation between income tax and profit reported in the consolidated statement of profit or loss is presented as follows:

in EUR '000	**2025**	**2024**
Profit before tax	148,434	311,892
Profit tax at the tax rate in use in the Republic of Croatia (18%)	**(26,718)**	**(56,141)**
The effect of non-taxable income	(13,597)	33,788
The effect of non-tax-deductible expenses	1,103	(10,653)
The effect of the difference in the tax rate of subsidiaries abroad	(86)	(95)
Previously unrecognised tax losses used	-	2,641
Tax loss	10,914	(8,265)
Tax effects of temporary differences	2,115	(18,505)
Profit Tax	**(26,269)**	**(57,230)**
Effective tax rate	18%	18%

Most of the Group's subsidiaries are taxpayers of corporate income tax in accordance with the tax laws and regulations of the Republic of Croatia. The Group's subsidiaries reported tax losses amounting to EUR 1,154,468 thousand (2024: EUR 1,128,382 thousand), while the Group recorded corporate income tax amounting to EUR 28,384 thousand (2024: EUR 38,725 thousand) and recognised deferred taxes in the consolidated statement of profit or loss amounting to EUR 2,115 thousand (2024: EUR 18,505 thousand).

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

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

Year of tax loss	**Total tax loss of the Group**	**Year of termination of transfer possibilities**
	in EUR '000	
2021	10,510	2026
2022	988,924	2027
2023	64,093	2028
2024	55,619	2029
2025	35,322	2030
	1,154,468	

Companies in the Group that have consistently operated at a loss do not recognise deferred tax assets. In accordance with Croatian regulations, it is not possible to utilise tax losses on a consolidated basis. Each company determines its own tax liability.

As of 31 December 2025, deferred tax assets arising from carried-forward tax losses were recognised in the amount of EUR 150,299 thousand.

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

12. PROFIT TAX (continued)

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

in EUR '000	**Value adjustment of inventories**	**Provisions for jubilee awards and severance payments**	**Depreciation above prescribed rates**	**Value adjustment of property, plant and equipment**	**Carried forward tax losses**	**Other**	**Total**
As of 1 January 2024	**7,270**	**18,611**	**1,781**	**33,395**	**169,062**	**38,259**	**268,378**
Booked to the credit and debit of the current year's statement of profit and loss	2,855	1,801	1,193	(152)	(22,288)	(1,914)	(18,505)
As of 31 December 2024	**10,125**	**20,412**	**2,974**	**33,243**	**146,774**	**36,345**	**249,873**
As of 1 January 2025	**10,125**	**20,412**	**2,974**	**33,243**	**146,774**	**36,345**	**249,873**
Booked as a credit or debit to the current year's statement of profit or loss	300	207	(51)	(3,051)	3,525	1,185	2,115
Booked through other comprehensive income	-	4,646	-	-	-	502	5,148
As of 31 December 2025	**10,425**	**25,265**	**2,923**	**30,192**	**150,299**	**38,032**	**257,136**

The item "Other" primarily relates to the recognition of deferred tax assets following the adoption of IFRS 15. With the adoption of IFRS 15, revenue from electricity connections is deferred over the contract term and recognised over time.

The deferred tax liability amounts to EUR 4,016 thousand (2024: EUR 4,454 thousand) and primarily relates to the fair valuation of JANAF shares recognised in other comprehensive income.

13. PROPERTY, PLANT AND EQUIPMENT

in EUR '000 **PURCHASE VALUE**	**Land**	**Buildings**	**Inventory and equipment**	**Tangible assets under construction**	**Prepay-ments**	**Total**
As of 1 January 2024	**142,817**	**5,704,363**	**7,816,235**	**713,170**	**12,872**	**14,389,457**
Transfer	234	(1,571)	(505)	(2)	-	(1,844)
Increases	139	498	23,383	474,186	(7,404)	490,802
Increases NE Krško	-	-	-	22,533	65	22,598
Activation of investments under construction /i/	2,944	131,615	288,271	(429,572)	-	(6,742)
Capitalisation of borrowing costs	-	-	-	4,312	-	4,312
Activation of investments under construction NE Krško	-	2,705	8,116	(10,821)	-	-
Disposals	(1,281)	(12,603)	(77,486)	(1,710)	-	(93,080)
As of 31 December 2024	**144,853**	**5,825,007**	**8,058,014**	**772,096**	**5,533**	**14,805,503**
Transfer	(2)	(384)	(266)	(4,189)	-	(4,841)
Increases	8,407	33	12,906	647,659	2,647	671,652
Increases NE Krško	-	-	-	39,519	(42)	39,477
Activation of investments under construction /i/	1,224	114,137	346,472	(468,169)	-	(6,336)
Decommissioning	-	-	475	-	-	475
Capitalisation of borrowing costs	-	-	-	2,792	-	2,792
Activation of investments under construction NE Krško	-	2,720	19,193	(21,913)	-	-
Disposals	(4,230)	(5,387)	(153,099)	(4,936)	-	(167,652)
As of 31 December 2025	**150,252**	**5,936,126**	**8,283,695**	**962,859**	**8,138**	**15,341,070**
ACCUMULATED DEPRECIATION						
As of 1 January 2024	**-**	**4,193,739**	**5,227,255**	**-**	**-**	**9,420,994**
Depreciation expense for the year	-	88,526	198,516	-	-	287,042
Depreciation expense for the year for NE Krško	-	4,372	24,454	-	-	28,826
Impairment of values under IAS 36	-	779	23,140	-	-	23,919
Transfers	-	(1,884)	259	-	-	(1,625)
Disposal	-	(12,214)	(74,391)	-	-	(86,605)
As of 31 December 2024	**-**	**4,273,318**	**5,399,233**	**-**	**-**	**9,672,551**
Depreciation expense for the year	-	89,796	208,001	-	-	297,797
Depreciation expense for the year for NE Krško	-	4,447	29,275	-	-	33,722
Impairment of values under IAS 36	-	1,855	1,072	-	-	2,927
Transfers	-	(787)	360	-	-	(427)
Disposal	-	(5,200)	(150,250)	-	-	(155,450)
As of 31 December 2025	**-**	**4,363,429**	**5,487,691**	**-**	**-**	**9,851,120**
CARRYING VALUE						
As of 31 December 2024	**144,853**	**1,551,689**	**2,658,781**	**772,096**	**5,533**	**5,132,952**
As of 31 December 2025	**150,252**	**1,572,697**	**2,796,004**	**962,859**	**8,138**	**5,489,950**

/i/ Tangible assets in progress amounting to EUR 468,169 thousand (31 December 2024: EUR 429,572 thousand) are capitalised as tangible assets items in the amount of EUR 461,833 thousand (31 December 2024: EUR 422,830 thousand), while the remainder amounting to EUR 6,336 thousand (31 December 2024: EUR 6,742 thousand) is capitalised as intangible assets (note 16).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company owns a large number of real estate properties; however, ownership of certain properties is not fully registered in the ownership books. Due to the large number of these properties, not all of the Company's real estate may be recorded in the Company's books. There is also a possibility that real estate properties where the Company does not have registered ownership are recorded in the business books.

HEP Group companies and their specialist departments are continuously working on resolving the ownership status of these properties and their registration in the land registers. Activities to regulate the land register situation continued in 2025. The activities in question are carried out through registration proposals, land register correction procedures, lawsuits, land register renewals, cadastral surveys, etc.

As of 31 December 2025, there are no property, plant and equipment items encumbered by mortgages.

14. RIGHT-OF-USE ASSETS

in EUR '000 PURCHASE VALUE	Land and buildings	Inventory and equipment	Total
As of 1 January 2024	**4,338**	**1,064**	**5,402**
Increases	1,873	-	1,873
Decreases	(365)	(264)	(629)
NE Krško	-	119	119
As of 31 December 2024	**5,846**	**919**	**6,765**
Increases	1,256	-	1,256
Decreases	(454)	(576)	(1.030)
NE Krško	-	1	1
As of 31 December 2025	**6,648**	**344**	**6,992**
ACCUMULATED DEPRECIATION			
As of 1 January 2024	**1,494**	**509**	**2,003**
Depreciation expense for the year	1,078	20	1,098
Depreciation expense for the year – NE Krško	-	4	4
Decreases	(4)	(1)	(5)
Lease derecognition	(150)	(264)	(414)
As of 31 December 2024	**2,418**	**268**	**2,686**
Depreciation expense for the year	1,141	10	1,151
Decreases	(747)	(59)	(806)
As of 31 December 2025	**2,812**	**219**	**3,031**
CARRYING VALUE			
As of 31 December 2024	**3,428**	**651**	**4,079**
As of 31 December 2025	**3,836**	**125**	**3,961**

15. INVESTMENT PROPERTY

As of 31 December 2025, investment properties include properties held for rental income and/or capital appreciation and are measured using the fair value method in accordance with accounting policy. Fair value includes the estimated market price at the end of the reporting period. The Group owns all investment properties.

The fair value of properties was assessed by official appraisers or the Group's internal services, whose assessments are based on available market data for properties in appropriate locations. These prices were collected from various sources, including available statistics from the Central Bureau of Statistics, the Real Estate Agency, the Chamber of Commerce and Industry, and similar sources. These average realised price values are adjusted for the characteristics and specificities of individual properties.

in EUR '000	**31 December 2025**	**31 December 2024**
Fair value	**68,353**	**61,642**
Net change in value based on fair value adjustments.	3,760	6,349
Increases - Classification of assets into investment property	3,754	362
Balance at the end of the year at fair value	**75,867**	**68,353**

As of 31 December 2025, there is no investment property given as collateral.

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

16. INTANGIBLE ASSETS

in EUR '000	Licences, software	Intangible assets under construction	Total
PURCHASE VALUE			
As of 1 January 2024	**175,492**	**6,395**	**181,887**
Transfer	(182)	-	(182)
Increase	424	8,732	9,156
Activation of assets under construction (*Note 13 /i/*)	16,532	(9,790)	6,742
Disposals	(1,101)	-	(1,101)
As of 31 December 2024	**191,165**	**5,337**	**196,502**
Transfer	2	-	2
Increase	592	17,245	17,837
Activation of assets under construction (*Note 13 /i/*)	25,222	(18,886)	6,336
Disposals	(2,771)	-	(2,771)
As of 31 December 2025	**214,210**	**3,696**	**217,906**
ACCUMULATED AMORTISATION			
As of 1 January 2024	**127,979**	**-**	**127,979**
Amortisation expense for the year	14,727	-	14,727
Transfers	41	-	41
Disposals	(1,086)	-	(1,086)
As of 31 December 2024	**141,661**	**-**	**141,661**
Amortisation expense for the year	17,758	-	17,758
Transfers	(2)	-	(2)
Disposals	(2,759)	-	(2,759)
As of 31 December 2025	**156,658**	**-**	**156,658**
CARRYING VALUE			
As of 31 December 2024	**49,504**	**5,337**	**54,841**
As of 31 December 2025	**57,552**	**3,696**	**61,248**

17. GOODWILL

in EUR '000

Goodwill	**31 December 2025**	**31 December 2024**
Energetski park Korlat d.o.o.	6,931	6,931
Plin VTC d.o.o.	1,390	1,390
Sunčana elektrana Poreč d.o.o.	36	36
PPD – Opskrba kućanstava d.o.o.	323	323
Sunčana elektrana Vis d.o.o.	381	381
Ornatus d.o.o.	269	269
GP Krapina d.o.o.	403	403
Darkom DP d.o.o.	421	421
	10,154	**10,154**

Goodwill impairment test

In accordance with the provisions of International Accounting Standard 36 Impairment of Assets, at the end of each reporting period, the Group shall determine whether there are indicators that any asset may be impaired. If such an indicator exists, the Group shall estimate the asset's recoverable amount.

Based on the annual goodwill impairment testing performed for the aforementioned companies/business units in the Group's annual consolidated financial statements, it was determined that the calculated recoverable amount, i.e., value in use, exceeds the carrying amount of the asset.

The recoverable amount was calculated based on value in use, determined as the present value of future cash flows expected to arise from the asset.

Since the calculated recoverable amounts (value in use) for the aforementioned companies/business units are higher than the carrying amount, the conditions for goodwill impairment as at 31 December 2025 have not been met.

18. INVESTMENT IN NE KRŠKO

Investment history

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

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

The contract also clearly defined, for the first time, the Republic of Croatia's obligation to dispose of half of the radioactive waste and spent nuclear fuel from NE Krško. Each state is obligated to provide half of the necessary funds to finance the development and implementation of the decommissioning program. Each party will allocate the funds for the specified purposes to its own separate fund in the amounts provided for in the decommissioning programs. In accordance with the valid Program for the decommissioning of the NE Krško and disposal of radioactive waste and spent nuclear fuel, HEP d.d. is obliged to pay funds to the Fund in the amount of EUR 14,250 thousand per year.

Current state

Payments to the Fund for financing the decommissioning of NE Krško

Based on 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 NE Krško, adopted by the Government of the Republic of Croatia on 24 December 2008, HEP d.d. from 2006 until the end of 2025 paid into the Fund for financing the decommissioning of NE Krško the amount of EUR 288,810 thousand. The payment amount is determined by the 2004 Decommissioning Program.

In accordance with the aforementioned Regulation, the annual obligation of 14,250 thousand euros was paid to the Fund quarterly. On 14 July 2020, the Interstate Commission adopted the Third Revision of the Krško Nuclear Power Plant Decommissioning and Radioactive Waste Management Program, according to which HEP d.d. will pay a lower annual amount in the future. On 29 December 2022, the Government of the Republic of Croatia adopted a new Regulation (OG 156/22), according to which the payment of HEP d.d. was reduced from EUR 14,250 thousand per year (EUR 3,562.5 thousand per quarter) to EUR 9,760 thousand per year (EUR 2,440 thousand per quarter). In addition, due to the overpayment of EUR 11,225 thousand, HEP d.d. will pay an additional reduced amount in the next ten quarters, until mid-2025, i.e. the next 10 quarterly instalments will amount to EUR 1,317.5 thousand (for 2025, HEP paid a total obligation of EUR 7,515 thousand (two reduced instalments of EUR 1,317.5 thousand and two full instalments of EUR 2,440 thousand). In 2026, HEP will pay Fund the full projected amount of EUR 9,760 thousand, i.e., 4 instalments of EUR 2,440 thousand each.

Life extension

After NE Krško received an operating license without a time limit from the Nuclear Safety Authority of the Republic of Slovenia in 2012, HEP d.d. and GEN energija d.o.o. decided in early 2016 to extend the power plant's operating life until 2043. The decision was made with the consent of the Interstate Commission for the NE Krško and preceded by an economic study on the profitability of investments in the long-term operation of the power plant. On 2 October 2020, the Environmental Agency of the Republic of Slovenia (ARSO) issued a decision requiring an environmental impact assessment and an Environmental Consent (ES) to extend the life of the NE Krško. The procedure for obtaining the ES was carried out in accordance with the Convention on Environmental Impact Assessment in Transboundary Areas and included a transboundary EIA procedure. ARSO led the administrative process to obtain the ES.

An environmental impact report has been prepared, and the Ministry of Environmental Protection and Spatial Planning of the Republic of Slovenia issued an environmental permit (environmental consent) on 13 January 2023 for NE Krško to extend its life until 2043.

18. INVESTMENT IN NE KRŠKO (continued)

Life extension (continued)

The NE Krško has completed all regulatory processes necessary for the extension of its lifetime, including obtaining a positive decision from the regulatory body on the III Periodic Safety Review, and thus formally met all conditions for continued operation after 2023. The Krško Nuclear Power Plant has already completed the first two years of its extended operating lifetime. Given global experience, especially in the USA, as well as the operating experience of NE Krško and the condition of the plant itself, the possibility of extending the lifetime from 60 to 80 years (from 2043 to 2063) has begun to be considered. Pursuant to the NE Krško Supervisory Board's decision, a pre-feasibility study is currently being prepared for the aforementioned additional life extension.

Accounting of the joint venture NE Krško

The joint investment in NE Krško is recognised in the Company's financial statements using the equity method. In the consolidated financial statements, the Company applies the joint management of assets and liabilities method. It reports the Company's share of each asset and liability, and of income and expenditure, in accordance with IFRS 11. The following table shows an extract from the financial statements of NE Krško d.o.o. in 100% amounts on 31 December 2025 and 31 December 2024.

in EUR '000	**31 December 2025**	**31 December 2024**
Property, plant and equipment	415,224	403,715
Equity and reserves	479,234	479,964
Sales revenue	237,143	224,367
Cash flow from operating activities	44,758	85,514
Profit for the year	-	-

19. INVESTMENT CALCULATED USING THE EQUITY METHOD

in EUR '000	**31 December 2025**	**31 December 2024**
Investments calculated using the equity method:		
Investment in Male hidre d.o.o.	403	403
Investment in Cropex d.o.o.	2,209	1,446
	2,612	**1,849**

The following table shows an excerpt from the financial statements of companies managed using the equity method in 100% amounts as of 31 December 2025 and 31 December 2024.

in EUR '000	**31 December 2025**	**31 December 2024**
Cropex d.o.o.		
Property, plant and equipment	15	14
Equity and reserves	4,348	3,169
Sales income	3,207	2,614
Profit for the current year	1,430	1,372
Male Hidre d.o.o.		
Property, plant and equipment	403	403
Equity and reserves	659	739
Sales income	-	-
Loss for the current year	(80)	(13)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in EUR '000	**31 December 2025**	**31 December 2024**
Initial balance of assets at fair value through other comprehensive income	**45,704**	**45,034**
Changes in the fair value of assets	(2,502)	670
Closing balance of assets at fair value through other comprehensive income	**43,202**	**45,704**

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

in EUR '000	**31 December 2025**	**31 December 2024**
Investments through other comprehensive income (equity securities)		
Jadranski Naftovod d.d.	42,105	44,534
Đuro Đaković d.d.	-	1
Konstruktor Inženjering d.d. in bankruptcy	-	31
Helios Faros	-	2
Other	315	354
Total investments through other comprehensive income	**42,420**	**44,922**

Fair valuation was determined based on the notification of the Central Clearing and Depository Company on the account balance as of 31 December.

The market price of a share of Jadranski naftovod d.d. as of 31 December 2025 is EUR 780, and as of 31 December 2024, it is EUR 825. The fair valuation of the investment in Jadranski naftovod d.d. as of 31 December 2025 decreased by EUR 2,429 thousand, and as of 31 December 2024, it increased by EUR 270 thousand. The effect of fair valuation in 2025 and 2024 was carried through reserves.

Investments through other comprehensive income (equity interests in unrelated companies)

Share of HOPS d.o.o. in unrelated companies		**31 December 2025**	**31 December 2024**
JAO S.A.	3.84 %	336	336
TSCNET Services GmbH	6.25 %	371	371
SEE CAO d.o.o.	12.5 %	40	40
		747	**747**
Share of NEK in PSK d.o.o.		35	35
TOTAL		**782**	**782**

21. LONG-TERM LOANS GRANTED

in EUR '000	**31 December 2025**	**31 December 2024**
Receivables from housing loans /i/	126	125
Receivables for granted loans - Male hidre d.o.o.	13,027	16,075
Receivables for loans granted to NE Krško	-	2
Long-term portion	**13,153**	**16,202**

/i/ Before 1996, the Group sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of these assets was mainly on credit, and sales receivables, which bear interest rates lower than the market rate, are repaid monthly over 20 to 35 years. Receivables from the sale of apartments were transferred to the newly established associated companies on 1 July 2002. The aforementioned receivables are presented in the consolidated financial statements at the discounted net present value. The receivables are secured by mortgages on the apartments sold. The liability to the state, which represents 65% of the value of the apartments sold, is shown under other long-term liabilities (note 33).

22. OTHER FINANCIAL ASSETS

in EUR '000	**31 December 2025**	**31 December 2024**
Advances for shares in unrelated companies		
OIE grupa d.o.o.	10,613	10,613
Jabmrek Vinica d.o.o.	5,830	5,830
	16,443	**16,443**

23. LONG-TERM RECEIVABLES

in EUR '000	**31 December 2025**	**31 December 2024**
Receivables from customers of energy efficiency projects – long-term portion /i/	1,150	2,547
Other receivables	5	-
	1,155	**2,547**

/i/ Receivables from customers of energy efficiency projects refer to energy efficiency projects carried out by HEP-ESCO d.o.o. for its clients. After the projects are implemented, customers are issued an invoice for the total project value, which is repaid from savings in monthly annuities.

24. INVENTORIES

in EUR '000	**31 December 2025**	**31 December 2024**
Inventories of fuel and chemicals	58,583	67,942
Electrical and mechanical equipment	154,998	130,145
Spare parts	31,403	29,700
Building material	1,936	2,155
Gas supplies for energy fuel	30,421	42,085
Inventories of CO_2 emission units	25,530	41,831
Inventories of energy savings in final consumption	-	842
Nuclear fuel inventories NE Krško	22,998	28,323
Other inventories of materials NE Krško	16,193	15,109
Other inventories	11,617	9,920
	353,679	**368,052**
Value adjustment of obsolete material and spare parts	(58,199)	(56,241)
	295,480	**311,811**

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

in EUR '000	**31 December 2025**	**31 December 2024**
Balance as of 1 January	**56,241**	**38,687**
Credited to and debited to the profit and loss for the year	1,958	17,554
Balance as of 31 December	**58,199**	**56,241**

25. TRADE RECEIVABLES

in EUR '000	**31 December 2025**	**31 December 2024**
Electricity – economy	213,649	224,130
Electricity – households	147,978	127,467
Electricity – abroad	24,061	35,758
Electricity – E filling stations	138	126
Thermal energy, gas and services	105,543	111,591
Trade receivables Ne Krško	2,782	1,659
Other	10,179	11,854
	504,330	**512,585**
Expected credit losses	(92,545)	(99,915)
	411,785	**412,670**

25. TRADE RECEIVABLES (continued)

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

31 December 2025	Undue	Up to 30 days	31 – 60 days	61 – 90 days	91-180 days	181-365 days	Over 365 days	**Total**
Gross carrying value of trade receivables	339,719	43,384	10,445	4,379	5,814	12,457	88,132	**504,330**
Expected credit losses	(2,771)	(429)	(224)	(119)	(283)	(705)	(88,014)	**(92,545)**

31 December 2024	Undue	Up to 30 days	31 – 60 days	61 – 90 days	91-180 days	181-365 days	Over 365 days	**Total**
Gross carrying value of trade receivables	345,877	40,154	9,377	6,407	5,708	10,009	95,053	**512,585**
Expected credit losses	(2,776)	(398)	(204)	(189)	(339)	(1,106)	(94,903)	**(99,915)**

The changes in impairment adjustments were as follows:

in EUR '000	**31 December 2025**	**31 December 2024**
Balance as of 1 January	**99,915**	**104,244**
Change in expected credit losses	(16,553)	(13,028)
Write-off of receivables	17,625	17,792
Corrected receivables collected	(8,442)	(9,093)
Balance as of 31 December	**92,545**	**99,915**

26. OTHER CURRENT RECEIVABLES

in EUR ‘000	**31 December 2025**	**31 December 2024**
Receivables for profit tax	17,327	4,928
Receivables for VAT	18,995	25,719
Prepayments for working capital	432	971
Receivables from the State for employees	842	573
Deposits and term funds for a term longer than 3 months /i/	12,825	12,862
Loans granted to entities with joint/related participating interests and the current portion due	5,500	-
Deposits and term funds for a term longer than 3 months NE Krško	23,500	38,000
Receivables of HEP-ESCO d.o.o. from the users of the energy efficiency project	1,369	2,071
Receivables for sold apartments	63	116
Receivables from MoE for the subsidised part of the gas price	1,383	3,596
Receivables from MoE for the subsidised part of the heat price	-	248
Receivables from MoE for the difference in the price of purchased electricity for losses (Regulation of the Government of the Republic of Croatia)	7,818	7,250
Receivables from MoE based on actual heat production costs	11,469	11,469
Receivables from MoE for the subsidised part of the price of electricity - Regulation 1 April 2023	-	6
Receivables from MoE for the subsidised part of the price of electricity - Regulation 1 October 2023	-	32
Receivables from MoE for the subsidised part of the electricity price - Regulation 1 April 2024.	-	38
Receivables from MoE for the subsidised part of the electricity price - Regulation 1 October 2024.	-	11,246
Receivables from MoE for the subsidised part of the electricity price - Regulation 1 October 2025	20,272	-
Receivables from MoE 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 /ii/	-	131,635
Receivables from the Republic of Croatia for co-financing of EU projects (HOPS d.d.)	42,023	25,872
Prepaid business expenses /iii/	3,815	3,000
Prepaid expenses – capacity rental for cross-border electricity transmission	2,570	3,193
Other costs to be allocated	857	1,099
Not-yet-collected business revenue /iv/	2,745	2,078
Other current receivables	6,737	8,684
	180,542	**294,686**

/i/ The average weighted interest rate on deposits is 1.42% (2024: 3.15%).

/ii/ On 14 March 2024, the Government of the Republic of Croatia adopted a Decision on compensation for the difference between the contracted electricity price and the price charged to customers in the entrepreneurial category in accordance with the Regulation on the elimination of disturbances in the domestic energy market, for the period from 1 October 2022 to 31 March 2023, in accordance with which the Group reported a receivable in the amount of EUR 547,075 thousand as of 31 December 2023. As of 31 December 2024, the Group claims EUR 131,635 thousand on the same basis. In 2025, the receivable was collected

*/iii/*Prepaid business expenses consist of insurance premiums, subscriptions to magazines, prepaid toll charges (ENC devices), prepaid sponsorship expenses, and other expenses.

/iv/ Not-yet-collected business revenue mostly refers to accrued revenue from uninvoiced gas in the amount of EUR 2,051 thousand (as at 31 December 2024, it mostly referred to estimated revenue from the ITC mechanism in the amount of EUR 1,434 thousand).

27. CASH AND CASH EQUIVALENTS

in EUR '000	**31 December 2025**	**31 December 2024**
Giro accounts	216,078	278,989
Foreign currency accounts	1,216	995
Allocated funds	33,807	10,247
Cash in hand	11	11
Deposits with a maturity of up to 90 days	194,433	139,111
Daily time deposits	26,421	51,079
Transaction and foreign currency account - NE Krško	56	2,823
	472,022	**483,255**

Structure of foreign currency accounts by currency:

in EUR '000	**31 December 2025**	**31 December 2024**
USD	526	217
KM	563	762
Other currencies	127	16
	1,216	**995**

28. EQUITY

/i/ As of 31 December 2025, *the issued (subscribed) share capital* amounts to EUR 2,627,959 thousand (as at 31 December 2024, at the same amount) and consists of 10,995,644 ordinary shares with a nominal value of EUR 239 each, wholly owned by the Republic of Croatia.

/ii/ Fair value reserves, with a negative amount of EUR 2,687 thousand (31 December 2024: EUR 20,404 thousand), relate to cumulative changes in the value of equity investments and changes in actuarial calculations that are recognised and measured at fair value through other comprehensive income.

/iii/ Revaluation reserves in the amount of EUR 2,773 thousand (31 December 2024: EUR 2,773 thousand) relate to reserves arising from the revaluation of non-current assets.

/iv/ Retained earnings reserves amounting to EUR 102,712 thousand (31 December 2024: EUR 89,858 thousand) consist of legal reserves in the amount of EUR 94,226 thousand (31 December 2024: EUR 81,372 thousand) and other reserves in the amount of EUR 8,486 thousand (31 December 2024: EUR 8,486 thousand).

/v/ Retained earnings as of 31 December 2025, amounting to EUR 321,091 thousand (31 December 2024: EUR 88,252 thousand), represent profit brought forward from prior accounting periods.

/vi/ Profit for the current year, as of 31 December 2025, amounting to EUR 121,897 thousand (31 December 2024: EUR 254,305 thousand), represents profit from ordinary operations.

/vii/ Non-controlling interest of EUR 10,178 thousand (31 December 2024: EUR 9,910 thousand) relates to the ownership interest in the company LNG Hrvatska d.o.o. held by company Plinacro d.o.o, amounting to 25%.

29. LIABILITIES UNDER NON-CURRENT AND CURRENT LOANS

in EUR '000	Interest rates	**31 December 2024**	**31 December 2024**
Loans from domestic banks	Fixed/Variable	1,144,332	1,309,156
Loans from foreign banks	Fixed/Variable	155,199	145,565
Loans NE Krško	Fixed	12,555	14,648
		1,312,086	**1,469,369**
Allocation of fees for loans		(723)	(557)
Total non-current loan liabilities		**1,311,363**	**1,468,812**
Current loan maturity		(396,453)	(26,066)
The current maturity of the non-current loan NE Krško		(2,093)	(2,093)
Total current maturities of non-current loans		**(398,546)**	**(28,159)**
Total current loan liabilities		**912,817**	**1,440,653**

For funding the investment plan and ongoing operations in 2025, the Group used its own funds and credit facilities.

The Group entered into loan agreements with domestic and foreign banks with applicable variable and fixed interest rates, which in 2025 ranged from 0.40% to 3.7%.

In 2025, for loans from domestic banks, the Group recognised loans under bilateral agreements with Privredna banka Zagreb d.d., Zagrebačka banka d.d., OTP banka d.d., and Erste & Steiermärkische Bank d.d as well as a long-term club (syndicated) loan.

In 2025, for loans from foreign banks, the Group recognised loans under bilateral agreements with the European Bank for Reconstruction and Development and the European Investment Bank.

In 2025, the Group recognised the Privredna banka Zagreb d.d. loan approved for NE Krško, and 50% of the value of the aforementioned loan as at the date of the consolidated statement of financial position.

In 2025, a long-term loan granted by Erste&Steiermarkische Bank d.d. to HOPS d.d. was also recognised.

29. LIABILITIES UNDER NON-CURRENT AND CURRENT LOANS (continued)

New sources of funding

On 19 December 2025, a long-term club loan agreement was signed for an amount of up to EUR 400,000 thousand for a term of 7 years, with amortising repayment at a fixed interest rate with the following banks: Erste&Steiermärkische Bank d.d., Croatian Bank for Reconstruction and Development, Hrvatska poštanska banka d.d., Privredna banka Zagreb d.d., Intesa Sanpaolo Bank d.d., Raiffeisenbank Austria d.d., and Zagrebačka banka d.d. The club loan of EUR 400,000 thousand was contracted for the purpose of refinancing the EUR 600,000 thousand club revolving loan and for general business purposes, and it was contracted without a state guarantee.

On 24 December 2025, the EUR 600,000 thousand club revolving loan was repaid.

During 2025, the conditions were met to draw down funds from the European Bank for Reconstruction and Development and the European Investment Bank to finance the Kiepach/HEP Go Green project.

Loans in use

As of 31 December 2025, the Group has long-term loans in use from the European Bank for Reconstruction and Development and the European Investment Bank to finance the KKE EL-TO Zagreb construction project and the Kiepach/HEP Go Green project.

For the KKE EL-TO project, the loan drawdown period with the European Bank for Reconstruction and Development has been extended until the end of 2026, and with the European Investment Bank until mid-2027, in accordance with the new project implementation schedule.

For the Kiepach/HEP Go Green project, the loan drawdown period with the development banks is contracted for a term of 3 years from the date of signing the agreement, i.e., until November 2027.

As of 31 December 2025, the Group has a balance of long-term loans in use of EUR 91,792 thousand and an undrawn amount of long-term loans available of EUR 61,719 thousand.

Repayment plan for principal of non-current loans maturing in the next five years:

	in EUR '000
2026	398,446
2027	464,216
2028	105,695
2029	81,490
2030	77,321
After 2030	184,195
	1,311,363

Loans from domestic banks are secured by promissory notes and bills of exchange; for bilateral and club loan agreements, financial covenants have also been entered into, requiring the Group to meet prescribed levels of financial indicators annually.

For loans from foreign banks (the European Bank for Reconstruction and Development and the European Investment Bank), financial covenants are set as financial indicators that the Group is required to satisfy on an annual and semi-annual basis.

During 2025, the Group reported a state guarantee for the club revolving loan of EUR 600,000 thousand, covering 80% of the loan liabilities, as well as two state guarantees for the proper settlement of long-term liabilities under loans from foreign development banks for the Kiepach/HEP Go Green project, which cover 80% of the liabilities for both loans and remain in effect until the final maturity of the loans.

The Group's primary objective regarding financial covenant risks is to protect the Group from potential breaches of contractual obligations, i.e., early maturity of contracted debt.

Contracted financial covenants are monitored and calculated based on consolidated annual and semi-annual financial statements.

29. LIABILITIES UNDER NON-CURRENT AND CURRENT LOANS (continued)

Loans in use (continued)

The Group prepares preliminary calculations of financial covenants based on the projected consolidated statement of financial position and the projected consolidated statement of profit or loss and other comprehensive income for the upcoming medium-term period, and monitors their trend.

If the projections of the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income at the end of the financial year indicate the possibility of exceeding an individual financial covenant, the Group informs the bank of the potential covenant breach and timely requests the bank's consent for a "waiver", i.e., an exemption from the calculation of the financial covenants.

If the bank does not approve the "waiver", a possible outcome is early debt maturity, which poses a liquidity risk for the Group.

Up to and including 30 June 2025, the Group had obtained a "waiver", i.e., an exemption from the calculation of financial covenants, with the European Bank for Reconstruction and Development and the European Investment Bank.

To secure liquidity reserves in the next short-term period, as of 31 December 2025 the Group has entered into multi-purpose facility agreements with domestic banks in a total amount of up to EUR 152,000 thousand.

Under these facilities, the Group may use funds for short-term loans and for the issuance of guarantees, letters of credit and letters of intent in line with the needs of the Group's companies. During 2025, the short-term lines were used exclusively for issuing guarantees and letters of credit, and business was conducted evenly across all banks.

Regarding the short-term multi-purpose facilities mentioned above, the Group did not need to take out short-term loans in 2025.

As of 31 December 2025, the total amount of available funds under the short-term facilities is EUR 111,588 thousand, of which EUR 40,887 thousand has been drawn down.

30. LEASE LIABILITIES

in EUR '000	**31 December 2025**	**31 December 2024**
Non-current liabilities for rental properties	3,076	3,027
Non-current liabilities for car rental	91	94
	3,167	**3,121**
Current maturity of non-current lease liabilities	961	1,053
Total lease liabilities	**4,128**	**4,174**

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 it uses the Group's incremental borrowing rate at the beginning of the lease. Variable lease payments are included in the calculation of lease liabilities only if they depend on an index or rate. In this case, the initial calculation of the lease liability assumes that the variable element will remain unchanged over the lease term. Other variable lease payments represent an expense in the period to which they relate.

31. PROVISIONS

in EUR '000	**31 December 2025**	**31 December 2024**
Provisions for lawsuits	21,244	40,140
Provisions for severance pay	130,004	104,444
Provisions for jubilee awards	6,350	4,847
Provisions for severance pay (NE Krško)	6,312	5,862
Provisions for jubilee awards (NE Krško)	1,461	1,381
Provision for decommissioning of power plants /i/	42,255	36,393
Provisions for mediation costs	-	5,038
Provisions for volatility – LNG	32,580	32,855
Other provisions (NE Krško)	106	111
	240,312	**231,071**

/i/ The amount of provisions for power plant decommissioning costs mostly relates to provisions for thermal power plant decommissioning costs in the amount of EUR 40,070 thousand (2024: EUR 34,873 thousand) and represents the discounted value of the estimated cost of decommissioning the Group's thermal power plants. The periods are determined for each facility separately and range from 2026 to 2050.

In 2024, the rate at which provisions were discounted was 4,45%, and in 2025, a new discount rate for thermal power plant decommissioning of 3.21% was used in accordance with the Croatian Bank for Reconstruction and Development (HBOR).

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

in EUR '000	**Provisions for legal disputes**	**Provisionsfor retirement severance pay**	**Provisions for jubilee awards**	**Provisions for power plant decommissioning**	**Other**	**Total**
As of 1 January 2024	**37,042**	**100,829**	**6,227**	**33,033**	**25,084**	**202,215**
Additional provisions based on estimates	6,893	-	-	3,360	2,167	12,420
Reduction of provisions due to payments	-	(9,708)	(909)	-	-	(10,617)
Increase/(decrease) in provisions due to estimates	(3,795)	19,185	910	-	10,753	27,053
As of 31 December 2024	**40,140**	**110,306**	**6,228**	**36,393**	**38,004**	**231,071**
Additional provisions based on estimates	5,639	9,714	2,355	6,025	990	24,723
Reduction of provisions due to payments	(2,072)	(9,880)	(918)	-	(5,045)	(17,915)
Increase/(decrease) in provisions due to estimates	(22,463)	26,176	146	(163)	(1,263)	2,433
As of 31 December 2025	**21,244**	**136,316**	**7,811**	**42,255**	**32,686**	**240,312**

31. PROVISIONS (continued)

Provisions for legal disputes

The Group provides for costs relating to legal disputes for which it is assessed that a positive outcome in favour of the Company and its subsidiaries is not probable.
The most significant provisions as at 31 December 2024 in the Company HEP d.d. related to the dispute concerning HE Peruča, amounting to EUR 21,899 thousand.
As at 31 December 2025, the provision for the above dispute was released because the County Court in Split issued two judgments (Gž-3412/2024 dated 27 February 2025 and Gž-1718/2025 dated 10 September 2025) in which the claimants were definitively dismissed in full on all asserted grounds. It is also noted that, against both judgments of the County Court in Split, the claimants have filed motions seeking permission for revision.

Several legal disputes are also being pursued against HEP - Proizvodnja d.o.o., for which the company has made provisions. The most significant of these include (i) the legal dispute for compensation for damages caused by a fire at HE Dubrovnik, amounting to EUR 1,991 thousand, and (ii) the legal dispute for compensation for damages at HE Lešće, amounting to EUR 1,327 thousand.

The Group is potentially exposed to an obligation to calculate interest on the legal disputes provided; however, due to significant uncertainty regarding both the amount and the timing of settlement, it is not possible to make a reasonable and reliable estimate of the potential financial impact. Accordingly, any potential costs are not considered significant.

Provisions for retirement and jubilee awards

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

in EUR ‘000	**Severance payments**	**Jubilee awards**	**Total**
As of 1 January 2024, HEP Group	94,202	4,795	98,997
As of 1 January 2024, NE Krško	6,627	1,432	8,059
TOTAL AS OF 1 JANUARY 2024	**100,829**	**6,227**	**107,056**
Running costs	4,295	343	4,638
Interest expenses	2,845	190	3,035
Paid benefits	(8,898)	(781)	(9,679)
Past work costs	540	26	566
Actuarial gains/losses	11,460	274	11,734
As of 31 December 2024, HEP Group	**111,071**	**6,279**	**117,350**
Decreases in the year NE Krško	(765)	(51)	(816)
TOTAL AS OF 31 DECEMBER 2024	**110,306**	**6,228**	**116,534**
As of 1 January 2025, HEP Group	104,444	4,847	109,291
As of 1 January 2025, NE Krško	5,862	1,381	7,243
TOTAL AS OF 1 JANUARY 2025	**110,306**	**6,228**	**116,534**
Running costs	5,625	622	6,247
Interest expenses	3,337	154	3,491
Paid benefits	(9,510)	(760)	(10,270)
Past work costs	297	1,341	1,638
Actuarial gains/losses	25,811	146	25,957
On 31 December 2025, HEP Group	**135,866**	**7,731**	**143,597**
Increases in the year NE Krško	450	80	530
TOTAL AS OF 31 DECEMBER 2025	**136,316**	**7,811**	**144,127**

31. PROVISIONS (continued)

The following assumptions were used when making the calculations:

- The attrition rate ranges from 0% to 6.5% and is based on statistical data on employee turnover in the Group over the past 5 years.
- The planned annual salary growth is 10% for 2026, 6% for 2027, and 2% for subsequent years.
- The following discount rates were applied to calculate the present value of the liability:
  - 3,6 % (HEP Trgovina d.o.o.)
  - 3,5 % (HEP-Opskrba d.o.o., HEP d.d., HEP ELEKTRA d.o.o., HEP-ESCO d.o.o., HEP-Upravljanje imovinom d.o.o., HEP-Telekomunikacije d.o.o., LNG Hrvatska d.o.o., Plomin Holding d.o.o.)
  - 3,3 % (HEP-Toplinarstvo d.o.o., HEP-Plin d.o.o., HEP Nastavno obrazovni centar)
  - 3,25 % (HEP-Proizvodnja d.o.o., HEP-Operator distribucijskog sustava d.o.o.)
  - 2,8 % (HEP-VHS Zaprešić d.o.o.)

32. DEFERRED INCOME FOR ASSETS FINANCED BY OTHERS

in EUR '000	**31 December 2025**	**31 December 2024**
Deferred income for assets financed by others /i/	1,391,838	1,168,006
Deferred income – LNG grants	145,362	156,720
Deferred income from EU fund donations	2,752	3,319
	1,539,952	**1,328,045**
Current portion of deferred income	**(56,187)**	**(52,411)**
	1,483,765	**1,275,634**

Deferred income refers to income from assets received or assets financed from connection fees. Income from these assets is recognised simultaneously with the depreciation of the related fixed assets.

33. OTHER NON-CURRENT LIABILITIES

in EUR '000	**31 December 2025**	**31 December 2024**
Liabilities to the State for sold apartments	91	126
Liabilities for received guarantees and deposits	1,120	1,000
Trade payables	1,071	1,124
Other long-term liabilities /i/	972	1,040
	3,254	**3,290**

/i/ Other long-term liabilities primarily relate to the liability of EP Korlat d.o.o. for the repayment of the easement fee in the amount of EUR 893 thousand (2024: EUR 961 thousand)

34. TRADE PAYABLES

in EUR '000	**31 December 2025**	**31 December 2024**
Trade payables in the country	354,288	291,600
Trade payables outside the EU	14,902	17,974
Trade payables within the EU	35,009	48,564
Trade payables – NE Krško	19,313	22,221
	423,512	**380,359**

35. LIABILITIES FOR TAXES AND CONTRIBUTIONS

in EUR '000	**31 December 2025**	**31 December 2024**
VAT liabilities	12,080	19.767
Communal and other charges/fees	4,804	5,427
Payroll contributions	4,617	3,972
Taxes and contributions on employees' benefits	2,604	2,489
Corporate income tax liability	12,782	24,837
Other	480	509
	37,367	**57,001**

36. LIABILITIES TO EMPLOYEES

in EUR '000	**31 December 2025**	**31 December 2024**
Net salaries	19,947	17,282
Liabilities for contributions and taxes	8,833	7,419
Liabilities for severance pay for retirement	2,561	2,490
Wage liabilities NE Krško	2,699	2,501
Other	3,761	3,257
	37,801	**32,949**

37. OTHER CURRENT LIABILITIES

in EUR '000	**31 December 2025**	**31 December 2024**
Liabilities for advance payments received for connections	213,050	183,128
Liabilities for other advance payments received	79,867	59,340
Liabilities for interest	4,978	17,711
Liabilities for accrued solidarity contribution	2,654	2,581
Liabilities for fees for renewable energy sources	20,033	19,360
Accrued costs for CO_2 emissions /i/	159,617	152,318
Accrued costs for unused annual leave	17,113	14,959
Deferred income for capacity increase (LNG) /ii/	25,000	15,000
Other accrued expenses	12,533	5,758
Other liabilities /iii//	14,237	31,648
	549,082	**501,803**

/i/ HEP's thermal power plants with a rated thermal input of more than 20 MW have been included in the European Union Emissions Trading System (EU-ETS) since 1 January 2013. Eight HEP accounts have been opened in the EU Registry for – TE Plomin, TE Rijeka, TE-TO Zagreb, EL-TO Zagreb, TE-TO Sisak, TE-TO Osijek and KTE Jertovec. The Osijek plant of HEP-Toplinarstvo was excluded from the EU-ETS based on Article 40 of the Act on Climate Change and Ozone Layer Protection (OG 127/19).

During the 3rd trading period, the price of emission units increased significantly until the end of the period on 31 January 2020. The growth in the price of emission units continued at the beginning of the 4th trading period, in line with EU policy, which aims to significantly reduce greenhouse gas emissions by 2030, i.e., to decarbonise the energy sector by 2050 completely. Based on the above, further growth in emission allowance prices is expected.

37. OTHER CURRENT LIABILITIES (continued)

U 4. In the 4th trading period, which will last from 2021 to 2030, there will be no free allocation of emission units for produced electricity, but until 2026, the European Commission will continue to allocate free emission units to thermal energy producers for a portion of the produced thermal energy, based on reports submitted by HEP to the competent ministry for environmental protection.
The increase in emission unit prices affects the production price of energy, on which the operation of individual thermal energy plants depends. The lack of energy produced from thermal power plants is compensated by production from other sources, depending on meteorological conditions and/or imports. The Group manages the risk of volatility in emission unit prices by choosing the purchase method to define quantities and prices for a specified future period.
HEP's EU-ETS facilities submitted emission units to the EU Registry in quantities of verified emissions for 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024 and 2025.

Accordingly, the costs of purchasing greenhouse gas emissions consist of the quantity of CO_2 emitted (eq) and the unit price of emission units, which the Group records in deferred income (accrued expenses) and in the period's expenses for the year in which the greenhouse gas emissions occurred.

/ii/ In 2023, the company LNG Hrvatska d.o.o. received EUR 15,000 thousand in grants for the capacity increase of the LNG (liquefied natural gas) terminal, pursuant to a decision by the Government of the Republic of Croatia. In 2025, the company received the remaining portion of the grants under the National Recovery and Resilience Plan 2021–2026, with the payment of the approved grants fully realised for a total amount of EUR 25,000 thousand.

/iii/ Other liabilities primarily relate to liabilities for gas borrowed from joint users of the LNG terminal in the amount of EUR 7,509 thousand (2024: EUR 25,391 thousand).

38. RELATED PARTY TRANSACTIONS

The Company has a 50% share in the capital of the NE Krško. Although the investment in NE Krško is presented in the financial statements as a joint asset (joint operations), because NE Krško is a separate legal entity, we present transactions between NE Krško and the Company here.

The electricity produced at NE Krško is delivered to HEP at 50% of the total production quantity, at a price determined by total production costs.

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

in EUR '000	**31 December 2025**	**31 December 2024**
NE Krško		
Liabilities for purchased electricity	10,055	4,480
Costs of purchased electricity	118,571	112,184

in EUR '000	**Income**		**Expenses**	
	2025	**2024**	**2025**	**2024**
Companies that the State partially owns				
Companies of the Croatian Railways Group	19,337	18,241	42	10
Plinacro d.o.o.	626	3,024	16,213	17,700
Hrvatska pošta d.d.	2,666	3,366	12,679	11,497
Hrvatske šume d.o.o.	1,099	1,239	1,962	1,344
Jadrolinija d.o.o.	219	215	64	84
Narodne novine d.d.	350	374	279	194
Croatian Radio Television	1,764	1,902	707	225
Plovput d.d.	103	105	185	339
Croatia Airlines d.d.	136	135	6	2
Ministry of Defence of the Republic of Croatia	1,476	1,324	-	-
Ministry of the Interior	4,161	3,951	-	-
Elementary and secondary schools	8,225	6,853	-	2
Judicial institutions	1,344	1,216	10	1
Universities and polytechnics	4,907	5,259	199	146
Legislative bodies of the Republic of Croatia	1,703	1,784	460	441
Health institutions	24,160	22,767	34	59
HROTE d.o.o.	18,857	16,052	63,895	62,485
Others	-	-	4,723	3,913
TOTAL	**91,133**	**87,807**	**101,458**	**98,442**

38. RELATED PARTY TRANSACTIONS (continued)

in EUR '000	Receivables		Liabilities	
	31 December 2025	**31 December 2024**	**31 December 2025**	**31 December 2024**
Companies that the State partially owns				
Companies of the Croatian Railways Group	5,822	4,768	1	-
Plinacro d.o.o.	145	133	2,815	2,529
Hrvatska pošta d.d.	618	572	3,417	3,920
Hrvatske šume d.o.o.	202	278	189	337
Jadrolinija d.o.o.	16	26	1	3
Narodne novine d.d.	86	87	23	139
Croatian Radio Television	151	320	-	4
Plovput d.d.	21	18	204	4
Croatia Airlines d.d.	17	16	-	-
Ministry of Defence of the Republic of Croatia	472	257	-	-
Ministry of the Interior	831	724	-	-
Elementary and secondary schools	1,539	1,064	-	-
Judicial institutions	185	156	-	-
Universities and polytechnics	767	1,033	-	-
Legislative bodies of the Republic of Croatia	334	236	-	-
Health institutions	9,141	9,243	-	-
HROTE d.o.o.	2,015	2,964	25,478	27,200
TOTAL	**22,362**	**21,895**	**32,128**	**34,136**

39. CONTINGENCIES AND COMMITMENTS

Legal disputes

The Group has recognised provisions for legal disputes for which it is assessed that it is not probable that they will be resolved in favour of HEP d.d. and its subsidiaries.

The Group has long-term investments in Bosnia and Herzegovina and Serbia, totalling EUR 165,103 thousand. During the Company's transformation into a joint-stock company in 1994, this amount was excluded from the net asset value.

The Group has long-term investments in non-operating assets in Bosnia and Herzegovina and Montenegro totalling EUR 96 thousand, which are excluded from the net asset value.

Operational liabilities

As part of regular investment activities, the Group had concluded contracts as of 31 December 2025 under which investments in various facilities and equipment had begun but were not yet complete. The value of contracted but unfinished works for the most significant projects amounted to EUR 428,252 thousand (2024: EUR 438,404 thousand).

39. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection

HEP Group continuously monitors and analyses the environmental impact of its business processes. The most important indicators of such impacts are air pollutant emissions and the amount of waste produced, which are reported in a timely and objective manner to competent institutions, local self-government units, and the interested public. The HEP Group reports on its impacts on the environment, the economy and society in the framework of the Business and Sustainability Report, which is prepared in accordance with current guidelines and regulations on corporate reporting. Reports on operations and sustainability have been published on the HEP Group website since 2015: http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401. Employees engaged in nature and environmental protection are additionally trained through seminars and workshops, where they are informed about the obligations and activities arising from legal regulations in this field.

All HEP thermal power plants with a nominal thermal input of more than 50 MW have obtained Decisions on Environmental Permits from the competent Ministry of Environmental Protection.

As of 31 December 2023, the exemptions for limited lifespans for the Rijeka Thermal Power Plant and the Jertovec Thermal Power Plant expired, and thus the environmental permits for the main activity, i.e., fuel combustion for plants with a capacity of more than 50 MWtg. Accordingly, the HEP Management Board has adopted two new Decisions:

· Decision on the termination of the operation of the 320 MW unit at TE Rijeka
· Decision on limiting the power of gas turbine units PT1 and PT2 in KTE Jertovec.

To date, the Decisions on the revocation of the environmental permit have not yet been received from the competent Ministry; therefore, the conditions of the environmental permit for the discharge of wastewater remain valid, as Hrvatske vode cannot process the Requests for obtaining water permits and issue new water permits until the relevant Decision is submitted by the Ministry of Environmental Protection and Green Transition of the Republic of Croatia.

In June 2025, an amendment to the environmental permit for TE-TO Osijek was obtained to extend the exemption from compliance with stricter emission limit values for particulate matter at BE-TO Osijek until 31 December 2026. By that time, the installation of an electrostatic precipitator is planned.

A partial Decision was issued in March regarding the Application submitted to amend the environmental permit for the EL-TO Zagreb facility. The Application was rejected in part due to the revision of the emission limit values for NOx at discharge points PT1 and PT2. These gas turbines may continue operating only up to 500 hours per year (above this threshold, emission limit values must be complied with).

Environmental protection measures are being implemented in all plants in accordance with the requirements of the existing environmental permits; however, given the new conditions stipulated in the environmental permits effective from 1 January 2025, some facilities are exceeding the emission limit values specified therein. Consequently, all necessary actions and activities will need to be undertaken to adapt the facilities to these conditions to ensure continued operation.

TE Plomin has a valid environmental permit, and the permit has been aligned with the requirements of Commission Implementing Decision (EU) 2021/2336 on the establishment of conclusions with the best available techniques (BAT). As of 1 January 2024, measurements show that the emission limit values (ELVs) for the chemical element boron in wastewater are exceeded, in accordance with the conditions set out in the environmental permit. For this reason, a feasibility study and an environmental protection study have been prepared, which show that it is not possible to reduce the current high boron concentration to below 1 mg/l using any available technological method. In accordance with EU and the Republic of Croatia regulations, the ELV for boron is not prescribed for plants that generate electricity using coal as fuel. A request to amend the environmental permit for TE Plomin 2 was submitted to the Ministry; however, it was rejected on 23 October 2024, after which HEP Proizvodnja filed a lawsuit before the competent Constitutional Court. For the Plomin Thermal Power Plant, a request was submitted to the Ministry of Environmental Protection and Green Transition on 5 December 2024 for an extension of the exemption from the application of limit values for boron emissions in wastewater according to the conditions of the environmental permit until the end of 2030, due to the intention to conduct test measurements in the pilot plant and construct the plant. By the end of 2025, no response had been received from the Ministry regarding the extension of the deadline for applying the boron emission limit value.

39. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

By a decision of the Management Board in 2012, a greenhouse gas emissions allowance trading system was established, and the Republic of Croatia and HEP joined the European Emissions Trading System (EU-ETS). On 1 January 2013, the Croatian Agency for the Environment and Nature opened nine plant operator accounts in the EU registry. A company engaged in the production of electricity and heat is obligated to purchase greenhouse gas emission allowances in an amount corresponding to the verified CO_2 emissions resulting from the combustion of fossil fuels in thermal power plants that emit CO_2.

The Osijek plant of HEP-Toplinarstva d.o.o. has opted out of the EU-ETS in accordance with Article 40 of the Act on Climate Change and Ozone Layer Protection (OG 127/19, 67/25). BE-TO Osijek and BE-TO Sisak have obtained certificates demonstrating the sustainability of forest biomass under the SURE (Sustainable Resources Verification Scheme) for electricity production from biomass (Scope ID 5101) and heat production from biomass (Scope ID 5102), issued by TUV Nord. These were recertified in December 2025 and are confirmed for 2026.

In 2025, all biomass procured and used was sustainable, eliminating the need to purchase CO_2 emission allowances, as the primary biomass suppliers—Hrvatske šume, Weitzer Production, and Međimurjeplet—are also certified under the SURE scheme and provide Proof of Sustainability (PoS) documents with each batch delivered to the BE-TO facilities.

In September 2025, total CO_2 emission allowances for 2024 were surrendered in the EU Registry. Total CO_2 emissions for 2024 amounted to 2,141,384 tonnes, with a total cost of EUR 146,897 thousand. Compared with the previous year, CO_2 emissions decreased due to lower electricity production at TE Plomin.

Report on the status of the preparation of the Report on Business and Sustainability of the HEP Group for the year 2025

In accordance with the provisions of the Accounting Act and the requirements of the Corporate Sustainability Reporting Directive (CSRD), the Group was initially required to begin sustainability reporting in compliance with the European Sustainability Reporting Standards (ESRS) for the financial year starting 1 January 2025 (with the report to be published in 2026), whereby the Sustainability Report would form an integral part of the consolidated Management Report.

However, considering the entry into force of the EU “Omnibus” package, which provides for a two-year delay in the application of sustainability reporting obligations for certain categories of companies, including the Group, the reporting obligation under ESRS standards has been shifted to a later period, requiring the Group to report in accordance with ESRS starting from 1 January 2027 (with the report to be published in 2028).

In the meantime, the HEP Group is continuing with intensive preparatory activities, including:

- development of an ESG strategy,
- assessment of the alignment of activities with the EU Taxonomy,
- development and implementation of a double materiality methodology,
- establishment of internal processes and controls for future reporting.

These activities are being conducted to ensure timely, high-quality preparation for the future sustainability reporting obligation in accordance with the CSRD and ESRS standards.

Management systems according to ISO standards

HEP d.d., HEP-Upravljanje imovinom d.o.o., and HEP-Proizvodnja d.o.o. have integrated and certified management systems in accordance with ISO 9001:2015, 14001:2015, 5000:2018, and 45001:2018. HEP-Toplinarstvo d.o.o. has implemented and certified integrated quality, environmental and energy management systems, and HEP-Operator distribucijskog sustava d.o.o. has implemented and certified environmental, quality and occupational health and safety management systems.

39. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

Management systems according to ISO standards (continued)

HEP d.d. has implemented and certified an information and cybersecurity management system according to ISO standard 27001:2018. The Management Board of HEP d.d. has adopted and published the Quality, Environmental, Energy and Occupational Health and Safety Policy for HEP d.d. and HEP-Upravljanje imovinom d.o.o.
The management boards of HEP-Proizvodnja d.o.o., HEP-Operator distribucijskog sustava d.o.o., and HEP-Toplinarstvo d.o.o. have adopted and published their policies for integrated systems in accordance with ISO standards, and HEP-Opskrba d.o.o. has adopted a quality management policy.

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

The policies and certificates are publicly published on our website. Compliance with legal requirements and other requirements that HEP Group companies have committed to fulfilling is analysed and assessed 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

In 2025, HEP-Opskrba d.o.o. and Hrvatska elektroprivreda d.d. issued a public call for donations for projects in the fields of energy efficiency, building-integrated renewable energy sources, and systematic energy management for public sector institutions caring for socially vulnerable categories of the population, with a total value of EUR 150 thousand. Projects with complete implementation documentation for energy efficiency measures and the highest projected energy savings were selected for support. Accordingly, based on the proposal of the Committee for the Control of Dedicated Use of Funds from the "ZelEn" product fee, Hrvatska elektroprivreda d.d. and HEP-Opskrba d.o.o. awarded funds to the following applicants:

1. Područna škola za djecu s teškoćama (school for children with disabilities), Ulica kralja Tomislava 5, Đurđevac
2. Dječji vrtić Potočić (kindergarten), Belajske Poljice 105/B, Duga Resa
3. Dom zdravlja Virovitičko-podravske županije (health center), Ispostava Orahovica, Stjepana Mlakara 1, Orahovica
4. Caritas Zagrebačke nadbiskupije (care home for children and adults), Brezovička cesta 98, Brezovica
5. Tehnička škola Čakovec (technical school), Športska ulica 5, Čakovec

In 2025, 987,050 MWh was invoiced in the amount of EUR 1,393 thousand (customers with ZelEn contracts), and an additional 1,589,693 MWh was invoiced in the amount of EUR 2,328 thousand for green public procurement.

Environmental incidents

In 2025, there were no environmental incidents.

Regulatory compliance and inspections

In July 2025, an inspection concerning fire protection was conducted at TE Rijeka, followed by an inspection regarding civil protection in October 2025. No irregularities were found during these inspections.

39. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

Regulatory compliance and inspections (continued)

In EL-TO Zagreb, during June 2025, the Environmental Protection Inspectorate arrived pursuant to a decision dated 31 December 2024. The Inspectorate was presented with all evidence of actions taken in accordance with the Decision issued, which confirmed that all measures set out in the December 2024 Decision had been carried out. In October 2025, the State Inspectorate of the Republic of Croatia received a citizen complaint regarding noise from the EL-TO Zagreb plant site. The sanitary inspector was provided with a report on environmental noise testing, which indicates that the equivalent noise level complies with the acoustic requirements. Inspections were carried out at TE-TO Zagreb in the areas of trading greenhouse gas emission units, control of the handling of refrigerating and air-conditioning equipment and equipment containing substances that damage the ozone layer, and firefighting. No irregularities or comments were found during the inspections.

In 2025, four inspections were carried out at PP HE Zapad in the area of occupational health and safety (HE Sklope, CHE Fužine, at the Retencija Drežničko Polje site, and at the Vitunj fish farm), as well as two inspections in the area of fire protection (at the GHE Senj plant, Grabova location, and at the locations of the Gusić polje floodgate, the Šumečica floodgate, and the Gornja Švica floodgate). No irregularities were found during the inspections.

In Elektra Bjelovar, 5 inspections were carried out by a senior nature protection inspector to control white stork nests. No irregularities were found during the inspections. In Elektra Požega, an inspection was carried out by the State Inspectorate, Požega Branch, regarding compliance with the provisions of the Environmental Protection Act, the Air Protection Act, the Climate Change Act, the protection of the ozone layer, the Waste Management Act, and the associated bylaws. No irregularities were found during the inspection.

Due to a report regarding inappropriate handling of waste, an inspection was carried out in Elektroprimorje Rijeka by the State Inspectorate, the Environmental Protection and Water Inspectorate Service, from the Rijeka Branch Office, based on the left-over waste surge arrester leads at a metal transmission tower after an intervention to repair a fault at the head of the 20 kV Hrasta–TS Miholašćica line tower, and on the remaining part of a wooden tower with metal brackets and supporting insulators at an unidentified location in the northern part of the island of Cres. The waste from the first location was removed, and photo documentation was submitted to the inspector within the prescribed deadline. The accompanying documents were also submitted to the inspector for 2025, including those from the company Metis d.d., which is responsible for waste disposal, and from the company Sekundar d.o.o., which is responsible for the recovery of waste generated at Elektroprimorje Rijeka. Since the second location with the leftover heads of old towers could not be reliably identified, it will be determined during periodic inspections of the transmission lines in the northern area of Cres. During all periodic transmission line inspections, an inspection record is prepared that lists all irregularities along the route, including waste handling.

An inspection was carried out in Elektra Karlovac by the State Inspectorate, Karlovac Branch Office, regarding an extraordinary event of oil leakage at the material storage location at the 35 kV Ogulin substation, originating from a standby transformer as a result of a breach due to the theft of metal parts of the transformer, which had previously been the subject of a police investigation. The oil that spread onto the surrounding land and partially onto an unclassified road was promptly remediated by JVP Ogulin by covering it with sawdust and sand to prevent further spread of contamination. After the transformer was removed, the concrete base was fully remediated and degreased, and the surrounding oil-contaminated aggregate/firm base was also covered with sawdust. The earthen base was excavated mechanically and manually to a depth of 20 cm; the cleaned surface was backfilled with a new compacted layer, and the collected contaminated soil was placed in IBC plastic containers. Approximately 30 m^2 of contaminated soil was disposed of through an authorised hazardous waste disposer, Metis d.d., together with the related documentation.

On 28 October 2025, the Company's Head Office, in response to a telephone inquiry and request from a senior environmental protection inspector of the State Inspectorate, from the Central Office of the Sector for Environmental Protection Supervision, Nature Protection and Water Inspectorate Supervision, submitted the accompanying documents for waste to HEP Operator distribucijskog sustava d.o.o. for waste delivered to the company 3 K.F. d.o.o. in the period after 18 July 2025, from the following locations within the distribution area of Elektra Zagreb: TJ Dugo Selo (from the central storage location, from the location of TJ Sveti Ivan Zelina, and from the Autopark location) — for waste delivered KB 150101 from 14 August 2025 and for waste delivered KB 150101 from 15 October 2025.

39. CONTINGENCIES AND COMMITMENTS (continued)

Water Act

The Water Act, which entered into force on 1 January 2010, raised the issue of property status; accumulation lakes and ancillary facilities (canals, embankments, etc.), which are 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 its previous owners, by uniting an extremely large number of plots that were submerged by the construction of the dam, thereby creating an accumulation. Several proceedings are underway to register the Republic of Croatia's ownership of these properties: part 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 part is pending.

In May 2018, the Act on Amendments to the Water Act (OG 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 consisting 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. All of the above is also covered by the new Water Act, which entered into force in June 2019 (OG 66/19).

To implement the provisions of the applicable Water Act, the Company is required to initiate the relevant procedures for registering the aforementioned rights in the land registry and to obtain an appropriate parcellation (survey) plan, which must be coordinated with Croatian Waters and will serve as the basis for issuing the land-registry instrument for registering the right of superficies over the structures in question. The appropriate parcellation plan will also serve as the basis for the correct classification of long-term assets between the categories of intangible and tangible assets, which are currently recorded in the Group's accounting books in their entirety as tangible assets.

All of the above will impact the classification of assets within the groups of intangible and tangible assets and, accordingly, the useful life of the part of the assets, which in turn affects the present value of assets in the Consolidated Statement of Financial Position and depreciation expense in the Consolidated Statement of Profit or Loss. However, a material impact on the financial statements as a whole is not expected. Following the amendments to the Water Act, which came into effect in July 2021 and May 2023 (OG 84/21, 47/23), there were no amendments related to water structures for electricity production.

40. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 31 December 2025, the Company had the following subsidiaries and associates under its direct and indirect ownership:

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
CS Buško Blato d.o.o.	Bosnia and Herzegovina	100	Maintenance of hydropower plant equipment
HEP-Upravljanje imovinom d.o.o.	Croatia	100	Rest and recreation services
HEP Nastavno obrazovni centar	Croatia	100	Accommodation and education services
HEP-Trgovina d.o.o.	Croatia	100	Electricity trade and optimisation of power plant operation
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o. Mostar	Bosnia and Herzegovina	100	Electricity trading
HEP Energija sh.p.k. Priština	Kosovo	100	Electricity trading
HEP Energija d.o.o. Beograd	Republic of Serbia	100	Electricity trading
HEP-Telekomunikacije d.o.o.	Croatia	100	Telecommunications jobs
HEP-VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydrotechnical system
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
Sunčana elektrana Poreč d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	75	Business with liquefied natural gas
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

Most of the above-mentioned subsidiaries were established as part of the reorganisation and restructuring of the core business in accordance with the new energy laws that came into force on 1 January 2002 (Note 1).

In October 2024, the company Sunčana elektrana Vis d.o.o. was merged with HEP d.d. By an annex to the lease agreement, HEP d.d. handed over the Vis solar power plant to HEP-Proizvodnja d.o.o. for management and maintenance.

41. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages capital to ensure it can continue operating indefinitely and to increase returns to owners by optimising the debt-to-equity ratio.

The structure of the Group's sources of financing comprises debt, including loans, presented in note 29; cash and cash equivalents; and capital attributable to owners, comprising share capital, legal and other reserves, and retained earnings.

Gearing ratio

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

in EUR '000	**31 December 2025**	**31 December 2024**
Debt	1,315,491	1,472,986
Cash and cash equivalents	(472,022)	(483,255)
Net debt	843,469	989,731
Equity	3,173,745	3,083,551
Net debt to equity ratio	**26.58%**	**32.10%**

Categories of financial instruments

in EUR '000	**31 December 2025**	**31 December 2024**
Financial assets		
Financial assets at fair value through other comprehensive income	43,202	45,704
Trade receivables	411,785	412,670
Cash and cash equivalents	472,022	483,255
Loans given	54,978	67,064
Financial liabilities		
Non-current loan liabilities	1,311,363	1,468,812
Trade payables	423,512	380,359
Lease liability	4,128	4,174

Objectives of financial risk management

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

Market risk

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

41. FINANCIAL RISK MANAGEMENT (continued)

Currency risk management

The Group carries out certain transactions denominated in foreign currencies, as a result of which it is exposed to changes in foreign exchange rates. Currency exposure is managed within approved policy parameters through currency exchange contracts.

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

	Assets		**Liabilities**	
In thousands	**31 December 2025**	**31 December 2024**	**31 December 2025**	**31 December 2024**
USD	641	231	6,542	7.634

Foreign currency sensitivity analysis

The Group 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 10% change in the euro exchange rate relative 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. It represents an adjustment to their value at the end of the period due to a 10% change in the exchange rate. A positive/negative amount lower in the table indicates an increase in profit or other components of capital if the euro were to strengthen by 10% in relation to the relevant currency. In the event of a 10% weakening of the euro against the relevant currency, the effect would be the same, but in a negative amount.

in EUR '000	**2025**	**2024**
Impact of changes in the USD exchange rate		
Profit or loss	456	644

Interest rate risk management

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

Interest rate sensitivity analysis

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

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

- The profit for the year that ended on 31 December 2025 would increase or decrease by the amount of EUR 1,560 thousand (2024: EUR 4,249 thousand), based on exposure to interest rate risk. This is mainly attributable to the Group's interest rate exposure on floating rate loans; 23.70% of the Group's debt is at a variable interest rate (2024: 57.86%).
- The sensitivity of the Group to the interest rate decreased during the current period due to the decrease in the reference interest rates in the market.

41. FINANCIAL RISK MANAGEMENT (continued)

Credit risk management

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

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

Credit risk related to trade receivables relates primarily to receivables from economic entities, especially those in a difficult financial situation. Credit risk related to household claims is limited by the possibility of disconnection from the supply network. The carrying amount of financial assets presented in the consolidated financial statements, net of impairment losses, represents the Group's maximum exposure to credit risk, excluding the value of collateral collected.

Liquidity risk management

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

Maturity of non-derivative financial liabilities

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

in EUR '000	**Average weighted effective interest rate** %	**Up to 1 month**	**1 – 3 months**	**3 months – 1 year**	**1 – 5 years**	**over 5 years**	**Total**
31 December 2025							
Loan liabilities	1.85	7,007	6,131	409,726	757,770	210,832	1,391,466
Trade payables		222,992	175,863	24,657	-	-	423,512
Lease liabilities		86	118	757	2,414	753	4,128
Total		**230,085**	**182,112**	**435,140**	**760,184**	**211,585**	**1,819,106**
31 December 2024							
Loan liabilities	2.47	7,328	14,267	43,532	1,419,031	76,276	1,560,434
Trade payables		242,162	118,855	19,342	-	-	380,359
Lease liabilities		88	133	832	2,110	1,011	4,174
Total		**249,578**	**133,255**	**63,706**	**1,421,141**	**77,287**	**1,944,967**

The Group has access to sources of financing. The total unused amount at the end of the reporting period is EUR 173,307 thousand. The Group expects to settle its remaining liabilities from operating cash flows, inflows from maturing financial assets and from credit sources of financing.

41. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management (continued)

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 generallyaccepted 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 notavailable, discounted cash flow analysis using the applicable yield curve for the period of non-derivative financial instruments is used.

Fair value indicators recognised 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:

Level 1 of available indicators - fair value indicators are derived from (unadjusted) prices quoted in active markets for identical assets and identical liabilities
Level 2 of available indicators - fair value indicators are derived from data other than quoted prices from level1 and relate to the observed asset or liability (i.e. their prices) or indirectly (derived from prices)
Level 3 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.

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

in EUR '000	Level 1	Level 2	Level 3	**Total**
31 December 2025				
Financial assets at fair value through other comprehensive income	43,202	-	-	**43,202**
Investment property	-	75,867	-	**75,867**
31 December 2024				
Financial assets at fair value through other comprehensive income	45,704	-	-	**45,704**
Investment property	-	68,353	-	**68,353**

There were no transfers between levels for fair value remeasurements during the year.

42. BUSINESS COMBINATIONS

In 2024, the share in the company Energetski Park Korlat d.o.o. was increased.

The total acquisition consideration relates to the following items:

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

The transaction had the following effects:

In EUR '000	**Acquisition fee**	**Fair value of net assets**	**Goodwill**
Energetski park Korlat d.o.o.	6,932	(1)	6,931

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

In EUR '000	Energetski Park Korlat d.o.o.
Property, plant and equipment	1
Inventories	-
Trade receivables	-
Other receivables	1
Other assets	-
Cash and cash equivalents	2
Trade payables	3
Employee payables	-
Other current liabilities	-
Net assets	1
Cost of acquisition	6,932
Goodwill	6,931

There were no acquisitions of new companies in 2025.

43. OTHER DISCLOSURES

The contracted statutory audit services for the Group's annual financial statements for 2025 amount to EUR 174 thousand (2024: EUR 258 thousand).

The contracted fee for tax advisory services for 2025 amounts to EUR 25 thousand (2024: EUR 25 thousand).

As at 31 December 2025, the Group has the following financial obligations not included in the consolidated statement of financial position: issued promissory notes for payment security in the amount of EUR 2,032,441 thousand (31 December 2024: EUR 2,939,438 thousand), issued promissory notes for proper performance of work in the amount of EUR 1,333 thousand (31 December 2024: EUR 1,359 thousand), issued guarantees for payment security and proper performance of work in the amount of EUR 56,966 thousand (31 December 2024: EUR 42,645 thousand), and issued warranties in the amount of EUR 1,858 thousand (31 December 2024: EUR 1,858 thousand).

44. EVENTS AFTER THE DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

On 23 March 2026, the Government of the Republic of Croatia adopted the Regulation on Amendments to the Regulation on Eliminating Disruptions in the Domestic Energy Market (OG 29/26), which extends the special measures from the Regulation (OG 31/23, 74/23, 107/23, 122/23, 32/24, 104/24, 132/24, 56/25, 121/25, and 122/25) as follows:

- Electricity trading – the method and terms of price formation for certain categories of electricity customers, supervision of the application of prices determined by the Regulation, and special terms of business operation – until 30 September 2026;
- Thermal energy trading – the method and terms of price formation for certain categories of thermal energy customers, supervision of the application of prices determined by the Regulation, and special terms of business operation – until 30 September 2026;
- Gas trading – the method and terms of gas price formation, ensuring conditions for the security of gas supply for certain categories of gas customers, and special terms of business operation – until 30 September 2026.

The Regulation establishes the following key special measures:

- For the period from 1 April 2026 to 30 September 2026, the price of active energy is determined in the amount of 0.091324 EUR/kWh for customers in the household category in accordance with the regulation governing the electricity market under a single-rate tariff, or for customers with a higher and lower tariff in the amount of 0.097189 EUR/kWh in the higher tariff (HT) and in the amount of 0.047688 EUR/kWh in the lower tariff (LT), up to 3,000 kWh of total six-month electricity consumption;
- For the period from 1 April 2026 to 30 September 2026, the price of active energy is determined in the amount of 0.091324 EUR/kWh for customers in the business category in accordance with the regulation governing the electricity market under a single-rate tariff, or for customers in the business category up to 250,000 kWh of total six-month electricity consumption for customers with a higher and lower tariff in the amount of 0.097189 EUR/kWh in the higher tariff (HT) and in the amount of 0.047688 EUR/kWh in the lower tariff (LT), and for the difference of electricity consumed above 250,000 kWh of six-month consumption, the price contracted with the electricity supplier shall apply to customers in the business category;
- For the period from 1 April 2026 to 30 September 2026, the price of active energy in the amount of 0.091324 EUR/kWh for customers under a single-rate tariff, or for customers with a higher and lower tariff in the amount of 0.097189 EUR/kWh in the higher tariff (HT) and in the amount of 0.047688 EUR/kWh in the lower tariff (LT) in accordance with the regulation governing the electricity market, shall apply to customers in the business category from Article 3, Paragraph 3 of the Regulation, regardless of their total six-month electricity consumption;
- The guaranteed gas supplier or an entity associated with it is obliged, at the request of an energy entity, to provide quantities of natural gas for gas distributors for the purpose of settling distribution losses and for gas customers in the business category from Article 3, Paragraph 3 of the Regulation. Energy entities wishing to exercise this right are obliged to submit a request by 1 April 2026 to the guaranteed supplier or an entity associated with it;
- Customers from the business category from Article 3, Paragraph 2 of the Regulation, excluding customers in the business category from Article 3, Paragraph 3 of the Regulation who, as of 1 April 2026, are using the guaranteed gas supply based on the rights from the Regulation on Eliminating Disruptions in the Domestic Energy Market, may continue to exercise that right until the conclusion of a gas supply contract based on market principles, and no later than 30 September 2026;
- The guaranteed gas supplier or an entity associated with it is obliged to sell natural gas in the period from 1 October 2024 to 30 September 2026 for the needs of gas distributors for the purpose of settling gas distribution losses in an amount determined by the gas procurement price in accordance with the valid methodology for determining the amounts of tariff items for the public service of gas supply and guaranteed supply, increased by the average cost of gas supply determined for all distribution areas in the amount of 0.0084 EUR/kWh.

44. EVENTS AFTER THE DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

Status changes in the year 2026

On 12 February 2026, the Management Board of the company Hrvatska elektroprivreda d.d. adopted the Decision on the intention to carry out a status change of merging the company PLOMIN HOLDING d.o.o. into the company Hrvatska elektroprivreda d.d., and the company HEP-VHS Zaprešić d.o.o. into the company HEP-Proizvodnja d.o.o.

Before carrying out this status change, the company PLOMIN HOLDING d.o.o. will affect the merger of two dependent companies from its portfolio, SUNČANA ELEKTRANA POREČ d.o.o. and the company JAMBREK VINICA d.o.o. A third dependent company, OIE grupa d.o.o., will subsequently be merged in its entirety directly into the company Hrvatska elektroprivreda d.d.

Termination of business

On 26 March 2026, the company HEP Energija sh.p.k. Pristina officially ceased operations.

Impact of the conflict in the Middle East

Given that the conflict in the Middle East began on 28 February 2026, the Group is currently unable to reliably assess its possible impact on financial results and cash flows in future periods.

In addition, after 31 December 2025, there were no events that would have significantly affected the annual consolidated financial statements, and which should therefore be disclosed.

45. APPROVAL OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The annual consolidated financial statements were adopted by the Company's Management Board and approved for issue on 12 May 2026.

Petar Sprčić	Tomislav Šambić	Ante Elez	Ivica Vukoja	Vice Oršulić
			IVukoja	
Member of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board	President of the Management Board

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