



**HRVATSKA ELEKTROPRIVREDA d.d.
ZAGREB**

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

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

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Responsibility for the Annual Unconsolidated Financial Statements

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

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

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


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

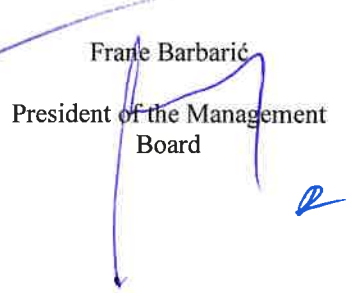
The Management Board is responsible for keeping proper accounting records, which will at any time, with acceptable accuracy, reflect the unconsolidated financial position, unconsolidated operating results, unconsolidated cash flows and unconsolidated changes in equity, as well as their compliance with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

Signed on behalf of the Management Board:


Petar Sprčić
Member of the
Management Board


Tomislav Šambić
Member of the
Management Board


Vice Oršulić
Member of the
Management Board


Frane Barbarić
President of the Management
Board

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

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

7 June 2023

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

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

Audit d.o.o.
Trg Johna Fitzgeralda Kennedyja 6B
10000 Zagreb

Tel: +385 (0) 1 3667 994
E-mail: audit-revizija@audit.hr

INDEPENDENT AUDITORS' REPORT

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

Report on the audit of the unconsolidated annual financial statements

Qualified Opinion

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

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

Basis for Qualified Opinion

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

Emphasis of Matter

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

/ii/ We draw attention to Note 28 to the annual consolidated financial statements, which describes the obligation for the clearing debt in the amount of HRK 850,863 thousand (as of 31 December 2021, in the amount of HRK 800,216 thousand), which arose from payments from the letter of credit, based on the Agreement between the Government of the Republic of Croatia and the Government of the Russian Federation dated 24 July 2006 and the Agreement of the Ministry of Finance on the use of funds from the interbank agreement. Our qualified opinion has not been modified on this matter.

/iii/ We draw attention to Note 34 to the annual unconsolidated financial statements, in which the need to initiate the procedure for registering rights in the land register and compliance with the provisions of the Act on Amendments to the Water Act (Official Gazette No. 46/2018) is highlighted. Our qualified opinion has not been modified on this matter.

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

Key Audit Matters

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

INDEPENDENT AUDITORS' REPORT (continued)

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

Key Audit Matters (continued)

Key audit matter	How we addressed the key audit matter
<p>Valuation of investments in subsidiaries</p> <p>In the annual unconsolidated financial statements as of 31 December 2022, the Company reported investments in subsidiaries in the amount of HRK 7,947,421 thousand. Impairment of the value of investments in subsidiaries is a key audit matter because it involves significant assessments, especially in conditions of disturbances in the energy market and the complex organizational structure of the Company. Determining the valuation of individual investments in subsidiaries requires the Company's Management to use various assumptions, projections and forecasts related to future cash flows, applied discount rates and growth rates in order to calculate the expected future operations of subsidiaries.</p> <p>Related disclosures in the annual unconsolidated financial statements</p> <p>See Notes 2, 3, 10 and 16 in the annual unconsolidated financial statements.</p>	<p>Our audit procedures related to this area included, among others:</p> <ul style="list-style-type: none"> - Review of the collected financial information used in considering the existence of indicators of investment impairment; - Review of the prepared projection and forecast of business results based on the expectations of the management of subsidiaries; - Assessment of the reasonableness of key assumptions and assessments used in the model for calculating the recoverable value of investments in subsidiaries and joint ventures; - Comparison of key assumptions with external information and with estimates we made ourselves; - Sensitivity test of the valuation model for investments in subsidiaries and joint ventures to changes in key assumptions; - Critical evaluation of the selected model used in independent calculations of recoverable value and fair value of subsidiaries where impairment indicators are recognized; - We have reviewed the related notes and evaluated the appropriateness of the disclosures related to investments in subsidiaries and joint ventures.
<p>Litigation and Contingent Liabilities</p> <p>Given that the Company is exposed to significant legal claims, we focused our attention on this issue. Any stated liability or announced contingent liability, i.e. the non-disclosure thereof in the annual unconsolidated financial statements is inherently uncertain and depends on a number of significant assumptions and judgments. These are potentially significant amounts where the determination of the amount to be presented and published in the annual non-consolidated financial statements, if applicable, is subject to subjective assessment. In addition to the above, the Management Board assesses future outcomes and amounts of contingent liabilities that may arise as a result of these lawsuits in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.</p> <p>Related disclosures in the annual unconsolidated financial statements</p> <p>See Notes 2, 3 and 30 in the annual unconsolidated financial statements.</p>	<p>Our audit procedures related to this area included, among others:</p> <p>Review of the system for recording and conducting legal disputes, determining the necessary level of provisions on 31 December 2022 and gathering information about hired legal advisors;</p> <p>Receiving and reviewing attorneys' responses to our written inquiries addressed to attorneys and discussing certain issues with attorneys and the Company;</p> <p>Critical review of used assumptions and estimates related to claims. The aforementioned includes consideration of the assessment of the probability of occurrence of unfavourable outcomes of court proceedings and the accuracy of the calculation of the amounts of necessary provisions related to them in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets;</p> <p>Assessment of the appropriateness of disclosures in the Notes to the annual financial statements.</p>

INDEPENDENT AUDITORS' REPORT (continued)

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

Other Matters

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

Other Information

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

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

Auditors' responsibilities for the audit of annual unconsolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the unconsolidated annual financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the unconsolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated annual financial statements, including disclosures, and whether the unconsolidated annual financial statements

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

Report on other legal and regulatory requirements

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

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

Zagreb, 7 June 2023



Jeni Krstičević
Certified Auditor



Irena Kovačić
Member of the Management Board

PKF FACT revizija d.o.o.
ZAGREB, OIB: 66538066056
4

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



Darko Karić
Certified Auditor



Darko Karić
Director



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

**Unconsolidated Statement of Profit or Loss – HEP d.d.
for the year ended 31 December 2022**

<i>HRK '000</i>	Note	2022	2021
<i>Continuing operations</i>			
Sales revenue	5	9,561,671	4,750,048
Sales revenue - affiliated companies	33	7,908,529	4,008,481
Other operating income	6	80,274	57,706
Other operating income - affiliated companies	33	219,612	224,760
Total operating income		17,770,086	9,040,995
Procurement of electricity	7	(10,572,762)	(3,457,333)
Procurement of electricity - affiliated companies	33	(10,830,083)	(4,300,028)
Procurement of gas – market supply and public service	34	(247,696)	(27,060)
Procurement of gas for sale on the wholesale market	34	-	(77,778)
Employee benefits	8	(115,152)	(113,391)
Depreciation expense	12,13,14	(74,156)	(63,982)
Costs of fees and services - affiliated companies	33	(919,597)	(541,993)
Other operating expenses	9	(1,477,109)	(412,824)
Total operating expenses		(24,236,555)	(8,994,389)
Operating (loss)/profit		(6,466,469)	46,606
Financial income	10	872,269	1,295,126
Financial expenses	10	(274,305)	(232,419)
(Loss)/Profit before tax		(5,868,505)	1,109,313
Profit tax	11	1,190,388	(49,244)
(Loss)/profit of the current year		(4,678,117)	1,060,069

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

**Unconsolidated Statement of Other Comprehensive Income – HEP d.d.
for the year ended 31 December 2022**

<i>HRK '000</i>	<u>2022</u>	<u>2021</u>
(Loss)/profit of the current year	(4,678,117)	1,060,069
Other comprehensive income		
Changes in the value of equity investments at fair value through other comprehensive income, net of tax	36,586	36,877
<i>Total items that will not be reclassified to profit or loss</i>	<u>36,586</u>	<u>36,877</u>
Other comprehensive income net	36,586	36,877
Total comprehensive (loss)/profit of the current year	(4,641,531)	1,096,946

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

Unconsolidated Statement of Financial Position – HEP d.d.
as at 31 December 2022

<i>HRK '000</i>	Note	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
ASSETS			
Fixed assets			
Property, plant and equipment	12	1,747,385	1,421,858
Investment property	15	47,289	23,514
Right-of-use assets	13	5,589	6,785
Intangible assets	14	250,502	143,541
Investments in subsidiaries and joint ventures, investments calculated using the equity method	16	10,105,290	9,997,158
Financial assets at fair value through other comprehensive income	17	318,743	275,611
Long-term loans granted	33	16,653,245	16,726,579
Other long-term receivables	18	74	140
Deferred tax assets	11	1,207,969	17,581
Total fixed assets		30,336,086	28,612,767
Current assets			
Inventories	19	2,792,511	520,543
Trade receivables	20	128,185	132,089
Current maturity of given long-term loans	33	1,390,760	1,847,166
Other short-term receivables	21	263,849	627,791
Receivables from affiliated companies	33	6,290,914	3,585,041
Financial assets at fair value through profit or loss	22	-	167,963
Prepaid expenses	23	43,215	20,540
Cash and cash equivalents	24	1,220,453	2,798,910
Total current assets		12,129,887	9,700,043
TOTAL ASSETS		42,465,973	38,312,810

Unconsolidated Statement of Financial Position – HEP d.d. (continued)
as at 31 December 2022

<i>HRK '000</i>	Note	31 Dec 2022	31 Dec 2021
EQUITY AND LIABILITIES			
Share capital	25	19,792,159	19,792,159
Revaluation reserves	25	146,385	109,799
Retained earnings		2,555,809	7,233,926
Total equity		22,494,353	27,135,884
Liabilities for long-term loans	27	11,160,280	773,490
Other long-term liabilities	28	860,698	810,493
Lease liabilities	29	4,909	6,087
Provisions	30	228,347	228,162
Deferred tax liability	11	20,812	14,226
Total long-term liabilities		12,275,046	1,832,458
Current maturity of long-term loans	27	139,501	76,078
Current maturity of bonds	26	-	3,444,830
Liabilities to affiliated companies	33	4,742,661	4,273,387
Accrued expenses and deferred income	31	54,842	194,347
Other liabilities	32	2,758,379	1,354,689
Current maturity of lease liabilities	29	1,191	1,137
Total short-term liabilities		7,696,574	9,344,468
TOTAL EQUITY AND LIABILITIES		42,465,973	38,312,810

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

Unconsolidated Statement of Changes in Equity – HEP d.d.
for the year ended 31 December 2022

<i>HRK '000</i>	Share capital	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2021	19,792,159	72,050	7,015,351	26,879,560
Profit of the current year	-	-	1,060,069	1,060,069
Other comprehensive income	-	37,749	(872)	36,877
<i>Total comprehensive income</i>	-	37,749	1,059,197	1,096,946
Dividend paid	-	-	(840,622)	(840,622)
Balance at 31 December 2021	19,792,159	109,799	7,233,926	27,135,884
Current year loss	-	-	(4,678,117)	(4,678,117)
Other comprehensive income	-	36,586	-	36,586
<i>Total comprehensive income</i>	-	36,586	(4,678,117)	(4,641,531)
Balance at 31 December 2021	19,792,159	146,385	2,555,809	22,494,353

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

Unconsolidated Statement of Cash Flows – HEP d.d.
for the year ended 31 December 2022

<i>HRK '000</i>	2022	2021
OPERATING ACTIVITIES		
Profit before tax	(5,868,505)	1,109,313
Interest income	(110,394)	(131,271)
Interest expense	250,678	184,026
Net exchange differences	(18,668)	(42,950)
Depreciation of property, plant and equipment, intangible assets and right-of-use assets	74,156	63,982
Increase in provisions	185	441
Change in fair value of cross-currency swap and financial assets through profit or loss	9,457	(291,878)
Income from dividends	(761,115)	(855,186)
Value adjustment of receivables	(4,292)	(8,519)
Value adjustment and loss/gain from the sale of tangible fixed assets	(25,593)	(4,904)
<i>Cash flow from operating activities before changes in working capital</i>	<i>(6,454,091)</i>	<i>23,054</i>
(Increase) in trade receivables	(388)	(35,989)
(Increase)/decrease in receivables from affiliated companies	(923,882)	332,667
(Increase)/decrease in inventory	(2,271,968)	197,356
Decrease/(increase) in other current assets	437,710	(142,301)
Increase in trade payables	1,400,298	751,250
(Decrease)/increase in other liabilities	(288,437)	270,684
Increase in liabilities towards subsidiaries	469,274	1,053,028
Decrease in other long-term liabilities	(442)	(5,084)
Cash from operations	(7,631,926)	2,444,665
Paid profit tax	(38,904)	(59,742)
Interest paid	(238,120)	(189,221)
CASH FROM OPERATING ACTIVITIES	(7,908,950)	2,195,702
INVESTING ACTIVITIES		
Interest income	1,337	1,844
Receipts from dividends from affiliated companies	-	51,165
Expenditures for increasing the share capital of a subsidiary	(108,132)	(35,147)
Expenditures for acquisition of real property, plant and equipment	(531,925)	(391,321)
Receipts from the acquisition of other fixed assets	66	67
Receipts from the collection of given loans	43,217	334,197
Expenditure on loans granted	(252,355)	(355,094)
Proceeds from the sale of tangible fixed assets	1,902	785
CASH FROM INVESTING ACTIVITIES	(845,890)	(393,504)

Unconsolidated Statement of Cash Flows – HEP d.d. (continued)
for the year ended 31 December 2022

<i>HRK '000</i>	2022	2021
FINANCING ACTIVITIES		
Receipts from received long-term loans	10,519,537	370,434
Expenditures for repayment of long-term loans	(78,678)	(56,200)
Expenses for repayment of the principal of leases	(742)	(1,284)
Expenses for the payment of dividends	-	(840,622)
Receipts from monetary funds	161,236	15,000
Expenditures for monetary funds	-	(15,000)
Expenditures for repayment of bonds	(3,652,678)	-
Receipts from purchased bonds	227,708	-
Expenditures for the redemption of issued bonds	-	(54,676)
NET CASH FROM FINANCING ACTIVITIES	7,176,383	(582,348)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,578,457)	1,219,850
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,798,910	1,579,060
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,220,453	2,798,910

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. for the year ended 31 December 2022

1. GENERAL

Foundation and development

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

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

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

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

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

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

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

HEP d.d. had 508 employees on 31 December 2022 (31 December 2021: 505).

The qualification structure of employees on 31 December, 2022 was as follows: PhD 6, Master 36, Bachelor 307, College 52, High school 103, Primary school 1 and Skilled worker 3.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued) for the year ended 31 December 2022

1. GENERAL (continued)

General Assembly

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

Tomislav Ćorić	Member	Member from 14 February 2018 to 5 May 2022
Davor Filipović	Member	Member since 6 May 2022

Supervisory Board

Members of Supervisory Board in 2022

Goran Granić	President	President since 18 January 2018
Lukša Lulić	Member	Member since 9 November 2018
Ivo Ivančić	Member	Member from 9 November 2018 until 8 September 2022
Meri Uvodić	Member	Member since 4 December 2018
Jelena Zrinski Berger	Member	Member since 18 January 2018

Members of Supervisory Board in 2021

Goran Granić	President	President since 18 January 2018
Lukša Lulić	Member	Member since 9 November 2018
Ivo Ivančić	Member	Member from 9 November 2018
Meri Uvodić	Member	Member since 4 December 2018
Jelena Zrinski Berger	Member	Member since 18 January 2018

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

1. GENERAL (continued)

Management Board

Management Board in 2022

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

Management Board in 2021

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

Basis of preparation

a) Unconsolidated annual financial statements

The Company's annual unconsolidated financial statements for 2022 were prepared in accordance with the Accounting Act and the International Financial Reporting Standards in force in the European Union (IFRS).

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

The annual unconsolidated financial statements are prepared according to the historical cost principle, with the exception of certain financial instruments and investments in property, which are stated at fair value. Unless otherwise stated, all amounts published in the annual unconsolidated financial statements are presented in thousands of Croatian kuna, which is also the functional currency of the Company. The Company keeps accounting records in the Croatian language, in kuna and in accordance with Croatian legal regulations and accounting principles and practices followed by companies in Croatia. The annual unconsolidated financial statements are prepared on an accrual basis, assuming the going concern concept.

b) Annual consolidated financial statements

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

The Company has also prepared annual consolidated financial statements for the Company and its subsidiaries, which together constitute the HEP Group, as of 31 December 2022 and for the year then ended, prepared in accordance with International Financial Reporting Standards adopted by the European Union. In the annual consolidated financial statements, subsidiaries (listed in Note 33) - which represent all companies over which the Company, directly or indirectly, has more than half of the voting rights or otherwise has control over their operations, are fully consolidated. Users of these annual unconsolidated financial statements should read them together with the annual consolidated financial statements of HEP Group as of and for the year ended 31 December 2022 in order to obtain complete information about the financial position of HEP Group, the results of its operations and changes in the financial position of HEP Group as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies and disclosures

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

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

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

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

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

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

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

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

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

The IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and changes to existing standards,

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued) for the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

on the adoption of which the European Union has not yet made a decision on 31 December 2022 (the effective dates listed below refer to IFRSs issued by IASB):

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

Investments in subsidiaries

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

Investments in joint ventures

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

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

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

In classifying investments in joint operations, the Company considers

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

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

In the consolidated financial statements, the Company classifies its investment in NE Krško d.o.o. as joint management and recognizes its share of assets, liabilities, income and expenses in accordance with its contractual rights and obligations. As described in Note 16, in the separate unconsolidated financial statements the Company deviated from the requirements of IFRS 11 and for investments in NE Krško d.o.o. applies the equity method.

Costs of pension benefits and other employee benefits

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

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of pension benefits and other employee benefits (continued)

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

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

The Company is obliged to suspend contributions from the gross salary of employees. Contributions on behalf of the employee and on behalf of the employer are calculated as an expense in the period in which they are incurred (Note 8).

Pension benefits and jubilee awards

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

Jubilee awards

The Company pays its employees some benefits for long-term work (jubilee awards) and severance pay upon retirement. The award for long-term work amounts from HRK 1,500 to 5,500 net for work in the Company from 10 to 45 years of continuous employment with the employer.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued) for the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension benefits and jubilee awards (continued)

Severance payments

As of 1 January 2020, the Collective Agreement (which applies to all members of the HEP Group) is in force, according to which every employee is entitled to net severance pay in the amount of 1/8 of the gross average monthly salary paid to an employee three months before the termination of the employment contract, and for each completed year of continuous employment with the employer. In July 2021, an addendum to the Collective Agreement was concluded by which, amongst others, the validity term of the Collective Agreement has been prolonged to 31 December 2023, i.e. no longer than three months after the expiration of the time for which it was concluded, i.e. until 31 March 2024.

Intangible assets

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

Property, plant and equipment

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

	2022 and 2021
Buildings	20-50 years
Office and IT equipment	5-20 years
Motor vehicles	5 years
Office furniture	10 years

The cost of property, plant and equipment includes the purchase price of the property, including customs duties and non-refundable taxes, and all direct costs of bringing the property to its working condition and place of use. Expenses incurred after putting property, plant and equipment into use are charged to the statement of profit or loss in the period in which they are incurred.

In situations where it is clear that the costs have resulted in an increase of the future economic benefits expected to be obtained from the use of the item of property, plant and equipment above its originally estimated capacity, they are capitalized as an additional cost of property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Costs eligible for capitalization include the costs of periodic, pre-planned major inspections and overhauls necessary for further operations.

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

Impairment of property, plant and equipment and intangible assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated so that any impairment loss can be determined. If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing value in use, the estimated future cash inflows are reduced to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of that asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately as an expense.

Upon subsequent reversal of an impairment loss, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated recoverable amount of the asset, with the higher carrying amount not exceeding the carrying amount that would have been determined if no previous loss had been recognized for this asset (cash-generating unit) due to impairment. A reversal of an impairment loss is recognized immediately as income.

Investment property

Investment property is property held to earn rentals and/or increase the market value of assets, including assets under construction for those purposes, initially measured at cost, which includes transaction costs. After initial recognition, investment property is measured at fair value. Gains and losses on changes in the fair value of investment property are included in profit or loss in the period in which they arise.

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

Leases

Company as a lessee

All leases are calculated by recognizing assets with the right of use and lease obligations, except for:

- Low value leases; and
- Leases whose lease term ends within a period of 12 months or less from the date of first application.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

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

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

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

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

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

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

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

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

The Company as lessor

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term liquid investments with a maturity of up to three months that are currently convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

All other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs in 2022 amounted to HRK 8,417 thousand (HRK 10,953 thousand in 2021). The capitalization rate used in determining the borrowing costs eligible for capitalization is 14.39%.

Foreign currencies

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

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

Inventories

Inventories contain mainly materials and small inventory, and are stated at the lower of cost and net expected sales value. Management makes adjustments to the value of inventories based on an overview of the overall age structure of inventories, and based on an overview of significant, individual amounts included in inventories.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

Assets are classified and measured as shown below:

DESCRIPTION	Business model / measurement
Fixed assets	
Long-term loans granted	Holding for collection / amortized cost
Financial lease receivables	Holding for collection / amortized cost
Financial assets at fair value through other comprehensive income	Strategic investments / fair value through other comprehensive income
Other long-term receivables	Holding for collection / amortized cost
Current assets	
Receivables from customers and other receivables	Holding for collection / amortized cost
Receivables from affiliated companies	Holding for collection / amortized cost
Other short-term receivables	Holding for collection / amortized cost
Cash and cash equivalents	Holding for collection / amortized cost

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

i) Financial assets at fair value through other comprehensive income

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

ii) Loans granted and receivables from financial lease

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

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

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

iii) Trade and other receivables

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

iv) Impairment

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

v) Derecognition of financial assets

The Company derecognizes financial assets when contractual rights to cash flows from financial assets expire or transfers financial assets and the transfer meets the conditions for derecognition.

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

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

Derivative financial instruments

The Company used derivative financial instruments in order to reduce exposure to currency risk. Following on from the above, the Company concluded a Cross Currency Swap Agreement, which converted the dollar liability on the bonds into a euro liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022. Upon the final maturity of the bonds, the swap was fully realized and as of 31 December 2022, the Company no longer has contracted derivative financial instruments. More information on derivative financial instruments is published in note 26.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Derecognition

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

Provisions

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

Revenue recognition

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Useful life of property, plant and equipment

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

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

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

Deferred tax assets are recognized for all unused tax losses to the extent that it is possible that a profit will be realized that will enable the use of the related tax benefit. Determining deferred tax assets that can be recognized requires the application of significant judgments, which are based on determining the probable timing and amount of future taxable profit, together with the future planned tax strategy. The carrying value of deferred tax assets on 31 December 2022 is HRK 1,265,250 thousand, and on 31 December 2021, it was HRK 23,119 thousand (note 11).

Actuarial estimates used to calculate retirement benefits

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates include making assumptions about discount rates, future increases in income and mortality or turnover rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty (note 30).

Consequences of certain court cases

The Company is a party to numerous court cases arising from regular operations. Provisions are recorded if there is a present liability as a result of a past event (taking into account all available evidence including the opinion of legal experts) where it is probable that the settlement of the liability will require an outflow of resources and if the amount of the liability can be reliably estimated. Provisions for legal disputes on 31 December 2022 amount to HRK 178,843 thousand, and on 31 December 2021, HRK 179,377 thousand (note 30).

Expected loss model

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

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Assessment of share value

Given the variety of core activities within the Company, the Company continuously conducts internal market analyses by segments of core activities in order to determine potential market disruptions in a timely manner and thus reduce the risks of a decrease in the value of assets from its portfolio of activities. According to the above and in accordance with the provisions of International Accounting Standard 36 "Impairment of assets", the Company continuously assesses at the end of each reporting period whether there are certain indicators that would affect the impairment of assets, carries out activities to measure the recoverable amount, i.e. reviews the value of recorded business shares in related companies.

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

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

Electricity

/i/ Legal basis and measures until 30 September 2022

Hrvatska elektroprivreda d.d. (hereinafter HEP d.d. or the Company) is the governing company, founder and sole owner of the HEP Group companies, unifies the management of subsidiaries with the core business of production, distribution and supply of electricity and heat, distribution and supply of gas.

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

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

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

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

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

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

/ii/ Legal basis and measures from 30 September 2022

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

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

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

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

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

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

¹ six-month consumption

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

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

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

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

Gas

/iii/ Legal basis and measures in 2022

In order to ensure sufficient gas supplies on the territory of the Republic of Croatia, on 3 June 2022, the Government of the Republic of Croatia adopted the Decision on securing gas supplies on the territory of the Republic of Croatia (OG 63/22), which tasked HEP d.d. to acquire and inject 270.83 million m³ of gas into the underground gas storage in Okoli. For the procurement of the required amount of gas, a club loan of EUR 400.0 million was secured, for which the Republic of Croatia issued a state guarantee. Strategic gas HEP d.d. disposes in accordance with the orders of the Crisis Team responsible for the implementation of the Intervention Plan on measures to protect the security of the gas supply of the Republic of Croatia (OG 127/22). The purpose of the Intervention Plan is to eliminate or mitigate the impact of disruptions in gas supply and to resolve situations in which gas supply can no longer be guaranteed to all customers on the domestic market. Given that there were no crisis situations that, according to the Intervention Plan, would lead to the level of alarm or the level of a state of emergency, the national security of the gas supply of the Republic of Croatia was not threatened, and there was no need to use strategic gas stocks in 2022.

Notes to the consolidated financial statements (continued)

for the year ended 31 December 2022

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

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

As a follow-up to the Autumn package of measures to protect households and the economy from rising prices, which the Government of the Republic of Croatia presented on 8 September 2022, with the Decree amending and supplementing the Decree on eliminating disturbances in the energy market (OG 106/22), natural gas producer INA d.d. is obliged, in order to secure gas supplies and increase the availability of natural gas in the Republic of Croatia, in the period from 1 October 2022 to 31 March 2023, and sell all natural gas produced in the Republic of Croatia to Hrvatska elektroprivreda d.d. for the needs of gas distributors for the purpose of settlement of losses, for customers of thermal energy from an independent heating system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of the Regulation (institutions, associations, municipalities, cities, counties, religious communities, health institutions, preschool and school education institutions, universities, etc.). The decision on the price and distribution of the natural gas capacity of Hrvatska elektroprivreda d.d. took over from the natural gas producer (OG 122/22), the prices at which HEP d.d. is obliged to sell gas.

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

in HRK '000

ELECTRICITY		I-VI 2022.	VII-IX 2022.	X-XII 2022.	Total
1.	Income from the sale of electricity	5,881,110	4,907,889	5,636,929	16,425,928
2.	Costs of production and procurement of electricity	7,907,311	7,348,278	7,948,832	23,204,422
3.	Difference between income from sales and costs of production and purchase of electricity (1.-2.)	(2,026,201)	(2,440,389)	(2,311,904)	(6,778,494)
4.	Other income	674,562	8,137	7,682	690,381
5.	Other expenses				
6.	RESULT (3.+4.-5.)	(1,351,640)	(2,432,252)	(2,304,222)	(6,088,113)

GAS		I-VI 2022.	VII-IX 2022.	X-XII 2022.	Total
1.	Revenues from the sale of gas	26,218	6,730	212,669	245,618
2.	Gas procurement costs	98,270	-5,038	206,220	299,452
3.	RESULT (1.-2.)	(72,052)	11,768	6,449	(53,835)

OTHER INCOME AND EXPENSES		I-VI 2022.	VII-IX 2022.	X-XII 2022.	Total
1.	Other income	262,752	62,989	82,419	408,160
2.	Other expenses	395,976	156,093	180,613	732,681
3.	RESULT (1.-2.)	(133,224)	(93,104)	(98,194)	(324,522)

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

The Regulation limits the electricity prices for economy customers, and the difference in the price from the contract¹ is recorded in business expenses, which resulted in an increase in other expenses in 2022 in the amount of HRK 1,007,104 thousand. The total cost of the Regulation, taking into account internal relations, amounts to HRK 1,032,002 thousand. The Regulation does not provide for compensation to HEP for the realized price difference due to the application of the Regulation, which is compensated to suppliers who are not members of the HEP Company.

¹ for customers on guaranteed supply, the price determined by HERA's decision in accordance with the *Methodology for determining the amount of tariff items for guaranteed electricity supply*

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

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

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

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

According to preliminary financial reports, the cost of the Electricity Regulation is estimated at EUR 151,341 thousand, including internal relations EUR 151,532thousand. The final calculation of the costs of the Regulation will be known after the expiration of all prescribed deadlines for customer complaints.

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

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

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

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

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

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

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

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

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

4.3. IMPACT OF COVID

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

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

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

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

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

5. SALES REVENUE

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

/ i / REVENUE FROM THE SALE OF ELECTRICITY

<i>HRK '000</i>	2022	2021
Revenue from the sale of electricity to customers of HEP Opskrba d.o.o.	7,275,728	3,464,701
Revenue from the sale of electricity abroad	1,347,282	914,932
Revenue from electricity the sale of electricity in the country	787,416	327,352
	9,410,426	4,706,985

The largest part of the income from the sale of electricity is the income from the sale of electricity to customers of HEP Opskrba d.o.o. which is realized on the basis of the Agreement on mutual relations for electric power activities in accordance with which HEP-Opskrba d.o.o. in its own name, and on behalf of HEP, it sells electricity to end customers, and the revenue from the sale is reported in the Company's business books. HEP Opskrba d.o.o. operates on the open market and supplies end customers in the household and economy categories with electricity.

/ ii / REVENUE FROM GAS SALES ON THE WHOLESALE MARKET

<i>HRK '000</i>	2022	2021
Income from the sale of surplus gas purchased for HEP companies	-	8,125
Income from the sale of gas balancing energy	35,971	15,421
Income from the sale of gas abroad	4,711	22
Income from the sale of gas - Regulation of the Government of the Republic of Croatia (i)	110,563	-
	151,245	23,568
Income from the sale of gas - market supply		
Income from the sale of gas on the wholesale market (ii)	-	19,495
	151,245	43,063
Total revenue from sale	9,561,671	4,750,048

- (i) Pursuant to Article 5.a paragraph 4. *Regulation on Amendments to the Regulation on Eliminating Disturbances in the Domestic Energy Market (OG 106/2022)* HEP disposes of gas purchased from INA and uses it for the needs of: gas distributors for the purpose of settling losses for gas distribution, for customers of thermal energy from an independent thermal system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. Pursuant to the *Regulation on Amendments to the Regulation on Eliminating Disruptions on the Domestic Energy Market (OG 121/2022)*, the gas producer (INA) is obliged to sell all the gas that is the subject of this Regulation to HEP, and HEP is obliged, if the amount of gas produced is greater if necessary, store gas in Podzemno skladište plina d.o.o. in accordance with the technical and technological capabilities of the warehouse.
- (ii) The Gas Market Act (OG 18/18, 23/20) prescribes the selection of suppliers on the wholesale market (OVT) for the period from 1 August 2018 to 31 March 2021, after which the role of the OVT was abolished.

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

6. OTHER OPERATING INCOME

<i>HRK '000</i>	2022	2021
Unrealized gains on fair value of tangible assets	219	10,038
Default interest from customers	9,823	9,389
Collection of sued and written off receivables	4,399	4,146
Income from the sale of CO2 emission units abroad	-	3,233
Income from sale of property, plant and equipment	2,139	1,404
Income from cancellation of long-term provisions	990	915
Revenue based on the use of own products and services	107	734
Collected receivables under the pre-bankruptcy settlement	-	30
Written-off receivables under accounting policy	1,237	-
Income from BE-TO penalty	28,047	-
Income from EU donations	5,110	5,863
Income from neutrality fee calculation (HROTE)	14,899	3,494
Other operating income	13,304	18,460
	80,274	57,706

Other operating income in 2022 mostly consists of restaurant income HRK 1,345 thousand (2021: HRK 1,142 thousand), rental income HRK 542 thousand (2021 HRK 248 thousand), income based on the Government Regulation of the Republic of Croatia 440 thousand HRK (in 2021 there was no income of this type), income from renting space for telecommunications equipment HRK 1,639 thousand (2021 HRK 1,637 thousand) and other operating income.

7. PROCUREMENT OF ELECTRICITY

The costs of electricity procurement shown in the Statement of Profit or Loss for the year 2022 amount to HRK 10,572,762 thousand (2021: HRK 3,457,333 thousand), and relate to the procurement of electricity for the purpose of supplying end customers, covering electricity losses in transmission and distribution network and sale on the wholesale market.

Electricity procurement costs are HRK 7,115,429 thousand higher compared to the previous year due to the rise in electricity prices on the market and, consequently, higher procurement prices.

Electricity and gas trade is carried out bilaterally and on stock exchanges.
The amounts of price corrections are included in the purchase value of the delivery.

8. EMPLOYEE BENEFITS

<i>HRK '000</i>	2022	2021
Net salaries	68,827	67,836
Taxes and contributions	46,325	45,555
	115,152	113,391

The number of employees on 31 December 2022 was 508 (31 December 2021: 505 employees).
Total contributions to pension funds amounted to HRK 19,926 thousand in 2022 (2021: HRK 19,659 thousand).

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

8. EMPLOYEE BENEFITS (continued)

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

<i>HRK '000</i>	<u>2022</u>	<u>2021</u>
Gross salaries	7,687	8,816
Contributions in kind	578	755
Contributions	<u>1,653</u>	<u>1,914</u>
	9,918	11,485

The number of members of the Management Board as of 31 December 2022 was 3 (31 December 2021: 7), and the number of executive directors of the Company was 15 (31 December 2021: 15)

Remuneration to members of the Supervisory Board:

<i>HRK '000</i>	<u>2022</u>	<u>2021</u>
Fees	168	168
Taxes and contributions	<u>92</u>	<u>92</u>
	260	260

The number of supervisory board members as of 31 December 2022 was 5 (31 December 2021: 5).

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

9. OTHER OPERATING EXPENSES

<i>HRK '000</i>	2022	2021
Cost of external services and materials	151,647	143,001
Cost of HEP d.d. for decommissioning NEK d.o.o. (Note 16)	107,450	107,076
Costs of services and materials within subsidiaries	86,992	55,790
Bank charges, payment charges and loan fees	27,512	14,058
Taxes, contributions and fees	14,296	13,979
Value adjustment and write-off of receivables from customers (i)	12,064	17,179
Other material rights of employees (ii)	13,670	13,102
Insurance premiums	4,040	4,615
Material costs	4,552	4,494
Compensation based on a lawsuit	1,960	149
Provision for litigation	456	-
Donations in the value of 2% of the income	8,972	14,623
Costs in accordance with the Regulation of the Government of the Republic of Croatia - market supply - Economy (iii)	1,007,104	-
Financing of rehabilitation programs	21,156	-
Depreciation and write-off of tangible fixed assets	8,158	-
Other operating expenses	8,864	27,653
Capitalized borrowing costs	(1,784)	(2,895)
	1,477,109	412,824

(i) Value adjustment and write-off of trade receivables include value adjustment of trade receivables according to accounting policies in the amount of HRK 2,351 thousand (2021: HRK 1,429 thousand), value adjustment from customers HEP Opskrba d.o.o. in the amount of HRK 7,586 thousand (2021: HRK 11,265 thousand) and written off unpaid receivables in the amount of HRK 2,127 thousand (2021: HRK 4,458 thousand).

(ii) Reimbursements for expenses and other rights to employees include transportation costs to work during 2022 in the amount of HRK 2,475 thousand (2021: HRK 2,334 thousand), per diems and travel expenses in the amount of HRK 1,565 thousand (2021: HRK 1,320 thousand), receipts in kind in the amount of HRK 1,169 thousand (2021: HRK 1,199 thousand), other material rights of employees in the amount of HRK 7,517 thousand (2021: HRK 6,925 thousand) and provisions for severance pay and unused vacation in the amount of HRK 944 thousand (2021: HRK 1,324 thousand). The costs of the material rights of employees include severance pay for early retirement, jubilee awards and occasional benefits.

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

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

10. FINANCIAL INCOME AND EXPENSES

<i>HRK '000</i>	2022	2021
Financial income		
Dividends from subsidiaries and affiliates	757,047	850,787
Fair value of cross-currency swap	-	299,160
Interest income	110,394	131,271
Dividend income	4,068	4,399
Other financial income	760	9,509
Total financial income	872,269	1,295,126
Financial expenses		
Interest expense	(250,678)	(184,026)
Negative exchange rate differences	(18,668)	(42,950)
Fair value of cross-currency swap	(2,730)	-
Unrealized losses from the decrease in the value of shares in investment funds	(4,088)	(2,108)
Other financial expenses	(4,774)	(11,393)
Capitalized borrowing costs	6,633	8,058
Total financial expenses	(274,305)	(232,419)
Net profit from financial activities	597,964	1,062,707

11. PROFIT TAX

The Company is a taxpayer, in accordance with the tax laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses of the period and is increased by expenses that are not recognized for tax purposes. Profit tax calculated by applying the legal profit tax rate in the Republic of Croatia is 18%.

<i>HRK '000</i>	2022	2021
Current tax	-	-
Deferred tax recognized in profit or loss	1,190,388	(49,244)
PROFIT TAX	1,190,388	(49,244)

The adjustment of deferred tax assets is as follows:

<i>HRK '000</i>	2022	2021
Balance at 1 January	17,581	66,825
Increase in deferred tax assets	1,190,388	(49,244)
Balance at 31 December	1,207,969	17,581

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

11. PROFIT TAX (CONTINUED)

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

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

<i>HRK '000</i>	2022	2021
Profit before tax	(5,868,505)	1,109,313
Income tax determined by the tax rate applicable in the Republic of Croatia (18%)	1,056,331	(199,676)
The effect of non-taxable income	137,470	209,563
The effect of non-tax deductible expenses	(3,517)	(4,517)
Tax income for the current year	1,190,284	5,370
Effective tax rate	(20.28)	0.48

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

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

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

<i>HRK '000</i>	31 Dec 2021	(Debited) /credited to profit and loss	31 Dec 2022
Provisions for jubilee awards and severance pay	4,888	129	5,017
Provision the cost of wind power	3,894	-	3,894
Provision for fair value of shares	-	1	1
Provision for tax loss	5,369	1,190,285	1,195,654
Other	3,430	(27)	3,403
	17,581	1,190,388	1,207,969

The deferred tax liability mostly refers to 18% of the fair valuation of JANAF shares through other comprehensive income, in the amount of HRK 20,812 thousand (2021: HRK 14,226 thousand).

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

12. PROPERTY, PLANT AND EQUIPMENT

<i>HRK '000</i>	Land	Buildings	Inventory and equipment	Tangible assets under construction	Advances	Total
PURCHASE VALUE						
1 January 2021	64,456	257,404	274,920	706,798	112,332	1,415,910
Increases	253	-	54,463	267,883	15,413	338,012
Increase by transfer from affiliated company	10	-	304	-	-	314
Transfer to affiliated companies	(127)	-	(238)	(9,959)	-	(10,324)
Alienation (sale, expenditure, deficit)	(136)	-	(2,009)	-	-	(2,145)
31 December 2021	64,456	257,404	327,440	964,722	127,745	1,741,767
Increases	360	32,998	23,871	307,090	9,095	373,414
Increase by transfer from affiliated company	156	8,042	2,137	-	-	10,335
Transfer to affiliated companies	(103)	(4,851)	(1,132)	(5,132)	-	(11,218)
Alienation (sale, expenditure, deficit)	(146)	(88)	(8,697)	(8,168)	-	(17,099)
31 December 2022	64,723	293,505	343,619	1,258,512	136,840	2,097,199
ACCUMULATED DEPRECIATION						
1 January 2021	-	92,785	199,932	-	-	292,717
Depreciation expense for the year	-	5,491	23,590	-	-	29,081
Alienation (sale, expenditure, deficit)	-	-	(2,009)	-	-	(2,009)
Transfer of assets between HEP and subsidiaries	-	-	120	-	-	120
31 December 2021	-	98,276	221,633	-	-	319,909
Depreciation expense for the year	-	5,846	27,277	-	-	33,123
Alienation (sale, expenditure, deficit)	-	4,411	1,083	-	-	5,494
Transfer of assets between HEP and subsidiaries	-	(88)	(8,624)	-	-	(8,712)
31 December 2022	-	108,445	241,369	-	-	349,814
CARRYING AMOUNT						
31 December 2021	64,456	159,128	105,807	964,722	127,745	1,421,858
31 December 2022	64,723	185,060	102,250	1,258,512	136,840	1,747,385

Assets under construction as of 31 December 2022 amount to HRK 1,258,512 thousand. They mainly consist of investments in: EL-TO Zagreb - replacement of block A in the amount of HRK 772,907 thousand, EL-TO Zagreb - power plant in the amount of HRK 85,151 thousand, HPP Kosinj in the amount of HRK 206,010 thousand, HPP Senj in the amount of HRK 48,324 thousand HRK, information security system HRK 22,957 thousand, solar power plants HRK 30,836 thousand and IT technology HRK 111,623 thousand.

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

13. RIGHT-OF-USE ASSETS

<i>HRK '000</i>	Land and buildings	Inventory and equipment	Total
PURCHASE VALUE			
1 January 2021	8,559	1,673	10,232
Increases	-	-	-
31 December 2021	8,559	1,673	10,232
Increases	-	-	-
31 December 2022	8,559	1,673	10,232
ACCUMULATED DEPRECIATION			
1 January 2021	1,666	586	2,252
Depreciation expense for the year	860	335	1,195
Deregistration/termination of lease	-	-	-
31 December 2021	2,526	921	3,447
Depreciation expense for the year	861	335	1,196
Deregistration/termination of lease	-	-	-
31 December 2022	3,387	1,256	4,643
CARRYING AMOUNT			
31 December 2021	6,033	752	6,785
31 December 2022	5,172	417	5,589

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

14. INTANGIBLE ASSETS

<i>HRK '000</i>	Software	Licences	Intangible assets under construction	Total
PURCHASE VALUE				
1 January 2021	272,340	16,288	34,002	322,630
Increases	40,706	4,601	988	46,295
Derecognition based on transfer of assets	-	-	(2,684)	(2,684)
31 December 2021	313,046	20,889	32,306	366,241
Increase and transfer to use	123,261	-	23,543	146,804
Derecognition based on transfer of assets	-	-	(5)	(5)
31 December 2022	436,307	20,889	55,844	513,040
ACCUMULATED DEPRECIATION				
1 January 2021	184,881	4,113	-	188,994
Depreciation of the current year	32,525	1,181	-	33,706
Increase based on asset transfer	-	-	-	-
31 December 2021	217,406	5,294	-	222,700
Depreciation of the current year	35,954	3,884	-	39,838
31 December 2022	253,360	9,178	-	262,538
Net carrying value				
31 December 2021	95,640	15,595	32,306	143,541
31 December 2022	182,947	11,711	55,844	250,502

Intangible assets under construction as of 31 December 2022 amount to HRK 55,844 thousand, and most of them relate to investments in computer software and licenses.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

15. INVESTMENT PROPERTY

As of 31 December 2022, investment property includes property owned for the purpose of generating income from rents and/or capital appreciation and is stated at fair value. Fair value includes the estimated market price at the end of the reporting period. Investment property is accounted for using the fair value method

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Investment property		
At 31 Dec 2021	23,514	19,804
Net changes in fair value	3,731	3,710
Classification to investment property	20,044	-
At 31 Dec 2022	47,289	23,514

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

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

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

Investments in shares of companies shown in the Statement of Financial Position as of 31 December 2022 consist of the investments shown in the table

<i>HRK '000</i>	Ownership share %	31 Dec 2022	31 Dec 2021
Subsidiaries			
HEP - Proizvodnja d.o.o.	100	40	40
Hrvatski operator prijenosnog sustava d.o.o.	100	4,954,151	4,954,151
HEP - Operator distribucijskog sustava d.o.o.	100	1,802,041	1,802,041
HEP - Opskrba d.o.o.	100	20	20
HEP - Toplinarstvo d.o.o.	100	623,000	623,000
HEP - Plin d.o.o.	100	20	20
HEP ESCO d.o.o.	100	18,960	18,960
HEP - Upravljanje imovinom d.o.o.	100	14,297	14,297
HEP - Trgovina d.o.o.	100	40	40
HEP - Telekomunikacije d.o.o.	79.94	333,598	333,598
Plomin Holding d.o.o.	100	120,639	16,106
HEP - Elektra d.o.o.	100	20	20
Energetski park Korlat d.o.o.	100	49,233	45,634
SUNČANA ELEKTRANA VIS d.o.o.	100	31,362	31,362
		7,947,421	7,839,289
Investment in joint ventures			
NE Krško /i/	50	1,911,546	1,911,546
LNG Hrvatska d.o.o. /ii/	75	243,283	243,283
		2,154,829	2,154,829

Investments calculated using the equity method

Male hidre d.o.o.	49	3,040	3,040
		3,040	3,040

Total subsidiaries and joint ventures and investments calculated using the equity method		10,105,290	9,997,158
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Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

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

Changes in investments are as follows:

<i>HRK '000</i>	2022	2021
Balance at 1 January	9,997,158	9,962,011
Plomin Holding d.o.o.	104,533	-
Energetski park Korlat d.o.o.	3,599	14,542
NE Krško	-	20,605
Balance at 31 December	10,105,290	9,997,158

By the decision of the HEP Management Board dated 31 June 2022, on the intention to increase the share capital of Plomin holding d.o.o. HEP d.d., as the sole founder of Plomin holding d.o.o., by payment in cash in the total amount of HRK 104,533 thousand.

/i/ INVESTMENT IN NPP KRŠKO

Payments to the Fund for financing the decommissioning of NPP Krško

On the basis of the Regulation on the amount, term and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško NPP, adopted by the Government of the Republic of Croatia on 24 December 2008, HEP d.d. from 2006 until the end of 2022 paid into the Fund for financing the decommissioning of NPP Krško the amount of HRK 2,015,324 thousand or EUR 271 million (HRK 107,450 thousand or EUR 14.25 million in 2022). The payment amount is determined by the document Decommissioning Program from 2004. In accordance with the aforementioned Regulation, the annual obligation in the amount of EUR 14,250 thousand was paid into the Fund quarterly. On 14 July 2020, the Interstate Commission adopted the Third Revision of the Program for the Decommissioning of the Krško Nuclear Power Plant and Disposal of Radioactive Waste, according to which HEP will pay a smaller annual amount in the future. On 29 December 2022, at its session, the Government of the Republic of Croatia adopted a new Regulation (OG 156/2022) according to which the payment of HEP d.d. was reduced from EUR 14,250 thousand per year (EUR 3,562 thousand quarterly) to EUR 9,760 thousand per year (EUR 2,440 thousand quarterly). Additionally, due to the overpaid amount of EUR 11,225 thousand, HEP d.d. will pay an even further reduced amount in the next ten quarters, until the middle of 2025, that is, the next 10 quarterly instalments will amount to EUR 1,317.5 thousand (for the year 2023, this means a total payment obligation of EUR 5,270 thousand).

Life extension

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

Accounting of the joint venture NPP Krško

The joint investment in NPP Krško is recognized in the Company's financial statements using the equity method. In the unconsolidated financial statements, the Company applies the method of joint management of assets and liabilities and reports the Company's share in each asset and each liability, income and expenditure in accordance with IFRS 11.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

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

/i/ INVESTMENT IN NPP KRŠKO (continued)

The following table shows an excerpt from the financial statements of NE Krško in 100% amounts as at 31 December 2022 and 31 December 2021

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Property, plant and equipment	3,359,388	3,263,345
Capital and reserves	3,623,744	3,620,162
Sales income	1,420,992	1,350,381
Cash flow from operating activities	316,877	517,723
Profit / loss for the current year	-	-

Financial effect of derogations

Profit and loss account for the year ended 31 Dec 2021

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

Profit and loss account for the year ended 31 Dec 2022

<i>HRK '000</i>	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
Total operating income	17,770,086	17,197	17,787,283
Total operating expenses	(24,236,555)	(13,439)	(24,249,994)
Operating profit / loss	(6,466,469)	3,758	(6,462,711)
Net profit / loss from financial activities	597,964	(3,758)	594,206
Profit before tax	(5,868,505)	-	(5,868,505)
Profit tax	1,190,388	-	1,190,388
Profit for the current year	(4,678,117)	-	(4,678,117)

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

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

/i/ INVESTMENT IN NPP KRŠKO (continued)

Financial effect of derogations (continued)
Statement of financial position as of 31 Dec 2021

<i>HRK '000</i>	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
ASSETS			
Fixed assets			
Property, plant and equipment	352,904	1,631,672	1,984,576
Financial assets	1,911,546	(1,810,057)	101,489
Other fixed assets	26,348,317	-	26,348,317
Total fixed assets	28,612,767	(178,385)	28,434,382
Current assets	9,700,043	405,960	10,106,003
TOTAL ASSETS	38,312,810	227,575	38,540,385
CAPITAL AND LIABILITIES			
Total capital	27,135,884	-	27,135,884
Long term liabilities	1,832,458	188,753	2,021,211
Short-term liabilities	9,344,468	38,822	9,383,290
TOTAL CAPITAL AND LIABILITIES	38,312,810	227,575	38,540,385

Statement of financial position as of 31 Dec 2022

<i>HRK '000</i>	HEP d.d.	NEK d.o.o.	HEP d.d. + NEK d.o.o.
ASSETS			
Fixed assets			
Property, plant and equipment	399,321	1,679,713	2,079,034
Financial assets	1,911,546	(1,811,872)	99,674
Other fixed assets	28,025,219	-	28,025,219
Total fixed assets	30,336,086	(132,159)	30,203,927
Current assets	12,129,887	400,711	12,530,598
TOTAL ASSETS	42,465,973	268,552	42,734,525
CAPITAL AND LIABILITIES			
Total capital	22,494,353	-	22,494,353
Long term liabilities	12,275,046	176,115	12,451,161
Short-term liabilities	7,696,574	92,437	7,789,011
TOTAL CAPITAL AND LIABILITIES	42,465,973	268,552	42,734,525

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

/ii/ INVESTMENT IN LNG HRVATSKA

Hrvatska elektroprivreda d.d. (hereinafter: HEP) and Plinacro d.o.o. concluded on 1 June 2010, the Agreement on the establishment of the company LNG HRVATSKA d.o.o. for operations with liquefied natural gas, by which the company LNG HRVATSKA d.o.o. became the holder of the LNG terminal project on Krk. Based on this Agreement HEP d.d. and Plinacro d.o.o. have become members and co-owners of LNG HRVATSKA d.o.o. each with 50% membership, management and property rights. By the decision of the Management Board dated 21 February 2019, HEP, as a co-founder of the company LNG HRVATSKA d.o.o. increased the share capital in that company for a new business share in the amount of HRK 216,107 thousand, or 84.18%. By decision of the Assembly of LNG HRVATSKA d.o.o. from 3 December 2021, the company's share capital was increased from the amount of HRK 289,018,600.00, by the amount of HRK 35,358,500.00, to the amount of HRK 324,377,100.00 by entry of rights and the payment of a new contribution in money by a member of the company PLINACRO d.o.o. The share of HEP on 31 December 2021 is 75%. and it remained unchanged on 31 December 2022.

In accordance with the decision of the Government of the Republic of Croatia on the declaration of the LNG terminal project (construction of a receiving terminal for liquefied natural gas on the island of Krk, Municipality of Omišalj) as a strategic investment project of the Republic of Croatia (OG 78/15) of 16 July 2015; the LNG terminal construction project was declared strategic investment project of the Republic of Croatia. In November 2015, the European Commission adopted a list of projects of common interest (PCI), which contains a list of key energy infrastructure projects, including the LNG terminal on the island of Krk. LNG Croatia has signed contracts with INEA (Innovation and Networks Executive Agency) for the project and permit documentation co-financing and the contract for co-financing of construction.

The Act on Liquefied Natural Gas Terminals (OG 57/18), which was adopted by the Parliament on 18 June 2018, established that the construction of an LNG terminal is in the interest of the Republic of Croatia, and LNG Hrvatska d.o.o. was designated as the investment holder of the project. It will implement the project and maintain and manage it in a safe and reliable manner. In accordance with the decisions of the Government of the Republic of Croatia, the project was planned to be implemented in phases, in such a way that a floating terminal will be implemented in the first phase and a land terminal in the second phase.

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>HRK '000</i>	<u>2022</u>	<u>2021</u>
Opening balance	275,611	232,605
Fair valuation of investments through other comprehensive income (Janaf)	43,185	43,184
Fair valuation of investments through other comprehensive income and other	(53)	(178)
Closing balance	318,743	275,611
 <i>HRK '000</i>	 <u>31 Dec 2022</u>	 <u>31 Dec 2021</u>
Investments in securities:		
Jadranski Naftovod d.d.	318,488	275,303
Đuro Đaković Aparati d.d.	5	5
Elektrometal d.d.	0	40
Konstruktor inženjering d.d.-u stečaju	233	233
Helios Faros d.d.	14	27
Vis d.d.	3	3
	318,743	275,611

The fair valuation was made based on the notification of the Central Clearing Depository Company on the balance of the account as of 31 December..

18. OTHER LONG-TERM RECEIVABLES

Housing loans

Receivables for housing loans as of 31 December 2022, amount to HRK 74 thousand (2021: HRK 140 thousand). Before 1996, the Company sold its own apartments to its employees in accordance with the laws of the Republic of Croatia. The sale of these assets was mainly on credit and sales receivables, which have an interest rate lower than the market rate, are repaid monthly over a period of 20 to 35 years. Receivables from the sale of apartments are presented in the financial statements at the discounted net present value. The liability to the state, which represents 65% of the value of the sold apartments, is shown in other long-term liabilities (note 28). Receivables are secured by mortgages on sold apartments.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

19. INVENTORIES

HRK '000

	31 Dec 2022	31 Dec 2021
Wholesale gas supplies	464,574	73,165
CO2 emission units	9,674	415,129
Stocks of energy savings in final consumption	13,070	28,499
Inventories of investment material	6,524	3,336
Gas inventories according to the Regulation of the Government of the Republic of Croatia (ii)	200,544	-
Strategic gas inventories according to the Decision of the Government of the Republic of Croatia (iii)	2,097,739	-
Inventories of other material	616	601
	2,792,741	520,730
Value adjustment of receivables	(230)	(187)
	2,792,511	520,543

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

HRK '000

	2022	2021
At 1 January	187	6,272
Write-off of inventories	43	(171)
Credited/debited to the current year's profit or loss	-	(5,914)
At 31 December	230	187

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

(ii) Inventories include gas that HEP disposes of based on Article 5.a of the Regulation on Amendments and Supplements to the Regulation on Elimination of Disturbances in the Domestic Energy Market (OG 106/2022) for the needs of: gas distributors for the purpose of settling losses for gas distribution, for heat energy buyers from independent heat system, public service for the needs of customers from the household category, and for gas customers from the business category from Article 2, paragraph 3 of this Regulation. Pursuant to the Decree on Amendments to the Regulation on Eliminating Disruptions on the Domestic Energy Market (OG 121/2022), the gas producer (INA) is obliged to sell all the gas that is the subject of this Regulation to HEP, and HEP is obliged, if the amount of gas produced is greater if necessary, store gas in Podzemno skladište plina d.o.o. in accordance with the technical and technological capabilities of the warehouse.

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

20. TRADE RECEIVABLES

HRK '000

	31 Dec 2022	31 Dec 2021
Trade receivables in the country	228,678	245,626
Receivables from gas customers in the wholesale market	1,357	1,567
Receivables for electricity from abroad	26,427	12,844
	256,462	260,037
Impairment of receivables	(128,277)	(127,948)
	128,185	132,089

HRK '000

31 Dec 2022 **31 Dec 2021**

Trade receivables

EUR	3,507	1,708
Other	-	-

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

31 Dec 2022	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 365 days	Total
Gross book value of trade receivables	89,196	39,914	210	74	25	32	127,011	256,462
Expected credit losses	(865)	(387)	(5)	(2)	(3)	(4)	(127,011)	(128,277)

31 Dec 2021	Undue	Up to 30 days	31-60 days	61-90 days	91-180 days	181-365 days	Over 365 days	Total
Gross book value of trade receivables	131,891	57	4	3	14	1,603	126,465	260,037
Expected credit losses	(1,279)	(1)	-	-	(1)	(202)	(126,465)	(127,948)

Changes in allowance for impairment were as follows:

HRK '000

	2022	2021
Balance on 1 January	127,948	127,906
Increase in impairment of receivables	(1,237)	-
Decrease in impairment of receivables	2,351	1,429
Write-off of uncollected receivables	(740)	(1,296)
Reprogrammed receivables collected	(45)	(91)
Balance on 31 December	128,277	127,948

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

21. OTHER CURRENT RECEIVABLES

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Advances to suppliers	298	290,987
Short-term guarantees given	4	17,552
Interest receivables	198	54
Receivables for given deposits (due more than 90 days)	65,823	56,498
Receivables for gas borrowed to common users of LNG terminals	147,002	166,596
Receivables from the state	149	153
Other receivables	21,197	4,331
Receivables for taxes and contributions	29,178	91,620
	263,849	627,791

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Units in investment funds - foreign currency	-	64,015
Units in investment funds - kuna	-	101,218
Derivative financial instruments	-	2,730
	-	167,963

23. PREPAID EXPENSES

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Capacity lease	34,360	5,995
Sponsorships	8,417	9,270
Toll – ENC	66	52
Insurance premiums	28	-
Subscriptions to official newsletters and magazines	4	-
Other	340	5,223
	43,215	20,540

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

24. CASH AND CASH EQUIVALENTS

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Giro accounts in kuna	683,865	1,090,834
Short-term deposits (daily deposits)	90,127	534,988
Foreign currency accounts	222,846	469,384
Deposits with a maturity of up to 90 days	214,938	703,240
Allocated funds	8,676	459
Cash in hand - HRK	<u>1</u>	<u>5</u>
	1,220,453	2,798,910

HEP d.d. has a kuna giro account at Privredna banka d.d., Zagrebačka banka d.d., Hrvatska poštanska banka d.d., Erste&Steiermarkische bank d.d., Raiffeisen bank d.d., OTP banka d.d. and Nova Hrvatska banka d.d.

Structure of foreign currency accounts:

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
EUR	215,060	462,802
USD	7,769	6,579
Other currencies	<u>17</u>	<u>3</u>
	222,846	469,384

25. CAPITAL

In 2022, the share capital is expressed in Croatian kunas in the amount of HRK 19,792,159 thousand (2021 in the same amount) and consists of 10,995,644 ordinary shares with a nominal value of HRK 1,800.

Retained earnings in the amount of HRK 2,555,809 thousand (2021: HRK 7,233,926 thousand) include Reserves from profit in the amount of HRK 666,122 thousand (2021: HRK 613,119 thousand), Retained earnings in the amount of HRK 6,567,804 thousand (2021: HRK 5,560,738 thousand) and Loss of the current year in the amount of HRK 4,678,117 thousand (Profit in 2021: HRK 1,060,069 thousand).

Revaluation reserves in the amount of HRK 146,385 thousand (2021: HRK 109,799 thousand) refer to cumulative changes in the value of investments in shares that are recorded at fair value through other comprehensive income..

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

26. LIABILITIES UNDER ISSUED BONDS

Long-term liabilities

HRK '000	31 Dec 2022	31 Dec 2021
Value of bonds abroad from 2015	3,643,785	3,645,961
Exchange rate difference	2,920	(9,576)
Discount value	5,973	7,400
	<u>3,652,678</u>	<u>3,643,785</u>
Current portion of bonds issued in 2015	(3,652,678)	(3,643,785)
Bonds issued in 2015	-	-
Long-term liabilities under issued bonds		
Investments in bonds 1.1.	(196,062)	(141,928)
Investments in bonds during the year	-	(54,676)
Exchange rate difference	(31,646)	542
Current portion of receivables for purchased bonds	-	196,062
Payment of principal on purchased bonds	227,708	-
Total long-term liabilities under issued bonds	<u>-</u>	<u>-</u>
Short-term liabilities		
Current portion of bonds issued in 2015	3,652,678	3,643,785
Current portion of purchased bonds	(3,652,678)	-
Current maturity of repurchased bonds	-	(196,062)
Accrued costs of bonds issued in 2015	-	(2,893)
Total short-term liabilities under issued bonds	<u>-</u>	<u>3,444,830</u>

Bonds issued abroad in 2015

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

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

The bond was listed on the market of the Luxembourg Stock Exchange and was actively traded.

During 2022, the Company did not buy its own bonds on the secondary market.

Bonds issued in 2015 with a final maturity of 23 October 2022 were fully repaid on the maturity date.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

26. LIABILITIES UNDER ISSUED BONDS (continued)

Derivative financial instruments

Cross-currency swap

In order to reduce the exposure to currency risk, i.e. to protect the exposure to the movement of the USD exchange rate, the Company concluded a Cross Currency Swap Agreement, which converted the USD liability under the bonds into a EUR liability, for the entire duration of the bonds, i.e. until the final maturity on 23 October 2022.

According to the currency exchange agreement from 2015, the annual interest rate paid by the Company is fixed and amounts to 4,851% (weighted interest rate) and is payable semi-annually (the interest rate also includes the cost of exchange or swap). The purpose of the cross-currency swap agreement is to reduce the currency risk and the recommendations of credit agencies on the importance of strategic management of currency risks in order to reduce their impact on the Company's business results.

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

The positive value of MTM is recorded as a claim and forms the financial income of the period, and the negative value of MTM is recorded as a liability and forms the financial expense of the reporting period. Upon the final maturity of the derivative financial instrument, the receivable or liability in question will be cancelled at the expense of expenses or in favour of the Company's income.

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

27. LIABILITIES UNDER LONG-TERM LOANS

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Loans from domestic banks	10,225,773	300,000
Loans from foreign banks	1,076,350	552,206
Total long-term loan liabilities	11,302,123	852,206
Differentiation of loan fees	(2,342)	(2,638)
Total long-term loan liabilities	11,299,781	849,568
Current portions	(139,501)	(76,078)
Total liabilities under long-term loans	11,160,280	773,490

The Company contracted loans with domestic and foreign banks with applicable variable and fixed interest rates ranging from 0.42% to 4.29% in 2022.

New sources of funding

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

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

27. LIABILITIES UNDER LONG-TERM LOANS (continued)

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

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

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

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

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

Loans in use

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

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

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

As of 31 December 2022, the Company has at its disposal an unused amount of HRK 4,187,076 thousand.

	HRK '000
2023	139,501
2024	6,441,037
2025	160,471
2026	2,827,350
2027	1,080,225
After 2027	651,197
	<hr/>
	11,299,781

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

For loans from foreign banks EBRD and EIB, financial guarantees have been agreed in the form of financial indicators according to which the Company is obliged to meet certain prescribed levels of the following indicators on an annual and semi-annual basis: net financial debt in relation to EBITDA, the ratio of EBITDA to net financial expenses and the ratio of total net debt to net tangible assets.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

27. LIABILITIES UNDER LONG-TERM LOANS (continued)

The agreed financial indicators are monitored and calculated on the basis of annual and semi-annual financial statements.

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

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

In the event that the bank does not approve the waiver, a possible scenario is early maturity of the debt, which represents a liquidity risk for the Company.

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

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

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

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

28. OTHER LONG-TERM LIABILITIES

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Long-term liabilities for assets financed from clearing debt	850,863	800,216
Long-term liabilities to the state	571	615
Other	<u>9,264</u>	<u>9,662</u>
Other long-term liabilities	860,698	810,493

As of 31 December 2022, the Company has a stated liability for clearing debt in the amount of HRK 800,863 thousand (2021: HRK 800,216 thousand), which relates to payment from letters of credit, based on the Consent of the Ministry of Finance on the use of funds from the interbank agreement. Given that there is no other document that would regulate the relationship between the Company and the Ministry of Finance, and regarding the said clearing debt, it is not defined whether it is a loan or some other legal relationship.

Long-term liabilities to the state in the amount of HRK 571 thousand in 2022 (2021: HRK 615 thousand) refer to the sale of apartments to employees in accordance with the state program that was abolished in 1996. According to legal regulations, 65% of the income from the sale of apartments to employees was paid to the state upon receipt of funds. According to the law, the Company is not obliged to remit funds before collecting them from employees.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

29. LEASE LIABILITIES

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Long-term real estate lease liabilities	4,822	5,638
Long-term car lease liabilities	87	449
	4,909	6,087
Current portion of long-term lease liabilities	<u>1,191</u>	<u>1,137</u>
Lease liabilities	6,100	7,224

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

30. PROVISIONS

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Provisions for severance pay and jubilee awards	27,873	27,154
Provisions for litigation	178,843	179,377
Other provisions (i)	21,631	21,631
Total provisions	228,347	228,162

(i) Other provisions in the amount of HRK 21,631 thousand refer entirely to the provision of costs based on the Management Board's Decision from 2011 for the delivered electricity from the test run of the Vrataruša wind power plant.

Provisions for litigation

The Company provisions funds for court cases that are estimated to be unlikely to be resolved in favour of the Company. The total amount of provisions as of 31 December 2022 is HRK 178,843 thousand (2021: HRK 179,377 thousand). The most significant court cases refer to disputes where the defendant is the Company. In the Company, the most significant provisions relate to the dispute related to HPP Peruća which was started in 1995, for which in 2012 a first-instance verdict was rendered in favour of the plaintiff. The value of the dispute is about HRK 330,000 thousand, and funds have been reserved in the amount of 50% of the value of the dispute in the amount of HRK 165,000 thousand. The Company's other major disputes relate to the Rijeka-Zagreb highway, where funds have been reserved in the amount of 50% of the value of the dispute in the amount of HRK 10,203 thousand.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

30. PROVISIONS (continued)

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

<i>HRK '000</i>	Severance	Jubilee awards	Legal disputes	Other provisions	Total
At 1 January 2021	25,322	1,337	179,431	21,631	227,721
Additional provisions	452	43	-	-	495
Reduction of provisions based on estimates	-	-	(54)	-	(54)
At 31 December 2021	25,774	1,380	179,377	21,631	228,162
Additional provisions	5,984	83	456	-	6,523
Reduction of provisions based on estimates	(5,147)	(201)	(990)	-	(6,338)
At 31 December 2022	26,611	1,262	178,843	21,631	228,347

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

<i>HRK '000</i>	Severance	Jubilee awards	Total
At 1 January 2021	25,322	1,337	26,659
Service costs	1,342	117	1,459
Interest expense	266	14	280
Benefits paid	(1,109)	(119)	(1,228)
Past service cost	100	15	115
Actuarial gains / losses	(147)	16	(131)
At 31 December 2021	25,774	1,380	27,154
Service costs	1,390	100	1,490
Interest expense	853	39	892
Benefits paid	(1,301)	(149)	(1,450)
Past service cost	319	20	339
Actuarial gains / losses	(424)	(128)	(552)
At 31 December 2022	26,611	1,262	27,873

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

The following assumptions were used when making the calculations:

- The employment termination rate is 4.7%, and is based on statistical data on employee turnover in the Company over the last 5 years
- Probability of death by age and gender is derived from the Mortality Tables for Croatia in the period 2010-2012, published by the State Statistical Office of the Republic of Croatia. It is assumed that the Company's employees are included in the average population in terms of mortality and health status.
- Planned annual salary growth is 4.5%.

The present value of the liability was calculated using the discount rate of 3.5% annually.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

31. ACCRUED EXPENSES AND DEFERRED INCOME

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Gas by Decision of the Government of the Republic of Croatia (strategic stocks)	41,765	-
EU funds	7,660	7,648
Unused vacation	5,417	5,192
Hedge gas on the stock exchange	-	181,502
Other	-	5
	54,842	194,347

32. OTHER LIABILITIES

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Trade payables /i/	2,605,234	1,204,936
Liabilities for taxes and contributions	17,580	111,185
Interest liabilities (ii)	59,503	17,647
Liabilities to employees (iii)	9,532	9,464
Other liabilities (iv)	66,530	11,457
	2,758,379	1,354,689
/i/ Liabilities to suppliers		
Liabilities to suppliers in the country	1,882,881	353,354
Liabilities to suppliers abroad	3,584	599,477
Liabilities to electricity suppliers within the EU and abroad	701,403	196,856
Liabilities to suppliers within the EU	17,366	55,249
	2,605,234	1,204,936
(ii) Interest liabilities		
Loan interest liabilities - PBZ	50,592	31
Loan interest liabilities - ZABA	2,782	-
Loan interest liabilities - EBRD	2,669	2,318
Loan interest liabilities - KFW	-	1
Loan interest liabilities - EIB	3,460	1,408
Bond interest liabilities	-	13,889
	59,503	17,647
(iii) Liabilities to employees		
Liabilities for net salaries	5,522	5,617
Liabilities for contributions	2,666	2,748
Other liabilities	1,344	1,099
	9,532	9,464
(iv) Other liabilities		
Liabilities for insurance premiums	2,174	3,463
Liabilities for received short-term guarantees	59,387	2,848
Other liabilities	4,969	5,146
	66,530	11,457

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES

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

Subsidiary	Country	Share (%)	Primary operation
HEP - Proizvodnja d.o.o.	Croatia	100	Electricity and heat production
Hrvatski operator prijenosnog sustava d.d.	Croatia	100	Electricity transmission
HEP - Operator distribucijskog sustava d.o.o.	Croatia	100	Electricity distribution
HEP ELEKTRA d.o.o.	Croatia	100	Electricity supply
HEP - Opskrba d.o.o.	Croatia	100	Electricity supply
HEP - Toplinarstvo d.o.o.	Croatia	100	Production and distribution of thermal energy
HEP - Plin d.o.o.	Croatia	100	Gas distribution
HEP ESCO d.o.o.	Croatia	100	Financing energy efficiency projects
Plomin Holding d.o.o.	Croatia	100	Infrastructure development of the surrounding area of Plomin
HEP Upravljanje imovinom d.o.o.	Croatia	100	Hospitality and recreation services
HEP - Trgovina d.o.o.	Croatia	100	Electricity trade and power plant operation optimization
HEP - Telekomunikacije d.o.o.	Croatia	79.94	Telecommunications
Energetski park Korlat d.o.o.	Croatia	100	Production of electricity
LNG Hrvatska d.o.o.	Croatia	75	Liquefied natural gas operations
Nuklearna elektrana Krško d.o.o.	Slovenia	50	Production of electricity

Other affiliated companies of HEP d.d. within the HEP Group:

CS Buško Blato d.o.o.	BiH	100	Hydropower equipment maintenance
HEP NOC Velika	Croatia	100	Accommodation and education services
HEP Energija d.o.o. Ljubljana	Slovenia	100	Electricity trading
HEP Energija d.o.o.	BIH	100	Electricity trading
HEP Energija sh.p.k.	Kosovo	100	Electricity trading
HEP Energija d.o.o.	Serbia	100	Electricity trading
SUNČANA ELEKTRANA POREČ d.o.o.	Croatia	100	Production of electricity
SUNČANA ELEKTRANA VIS d.o.o.	Croatia	100	Production of electricity
Ornatus d.o.o.	Croatia	100	Production of electricity
Male hidre d.o.o.	Croatia	49	Production of electricity
HEP - VHS Zaprešić d.o.o.	Croatia	100	Design and construction of a multipurpose hydraulic system
Peharda izgradnja d.o.o.	Croatia	100	Construction of residential and non-residential buildings

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

During 2021, the following companies were acquired in the Group: GP Krapina d.o.o. whose exclusive owner is HEP Plin d.o.o. from March 2021 and Darkom DP d.o.o. whose exclusive owner is HEP Plin d.o.o. from June 2021. Company M Vizija d.o.o. was merged with SE Poreč d.o.o. in October 2021. In December 2021, the company LNG Hrvatska d.o.o. was recapitalized by Plinacro d.o.o. by increasing the share capital of LNG Hrvatska d.o.o. for new business shares in rights and money. After implementing the recapitalization, Plinacro d.o.o. has business shares representing 25% of ownership and HEP d.d. 75% ownership.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

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

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

Relations with the mentioned companies are listed below

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

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

HRK '000	2022	2021
Operating income		
Revenues from the sale of electricity to HEP Elektra d.o.o.	4,595,566	2,411,822
Revenues from invoicing el. energy to cover losses in the distribution network	849,440	657,512
Revenues from the sale of electricity to HEP Energija d.o.o. Ljubljana	957,140	270,520
Revenues from the sale of electricity to HEP Group companies	220,759	74,464
Revenues from invoicing el. energy to cover losses in the transmission network	28,733	50,136
Revenues from the sale of electricity to HEP Energija d.o.o. Belgrade	16,393	17,254
Revenue from balancing electricity	291,555	16,296
Revenues from the sale of electricity to HEP Energija d.o.o. Mostar	84,380	11,253
Revenue from electricity sales - affiliated companies	7,043,966	3,509,257
Income from the sale of gas to HEP Plin - affiliated company	-	69,171
Income from the sale of gas - Regulation of the Government of the Republic of Croatia	94,373	-
Revenue from gas sales - affiliated company	94,373	69,171

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

<i>HRK '000</i>	2022	2021
Revenue from sales of CO2 emission units	767,967	426,714
Revenue based on services and sales of materials within the group	1,765	2,735
Income from intra-group investment services	346	535
Revenues based on services within the group - restaurant	112	69
Other sales revenues - related parties	770,190	430,053
Sales revenues - related parties	7,908,529	4,008,481
Revenues from the performance of administrative services	196,607	200,573
Income from renting office space	17,203	17,197
Revenues in accordance with the Regulation of the Government of the Republic of Croatia - market supply Economy	1,998	-
Revenues from the sale of energy savings to companies	3,804	6,990
Other operating income - affiliated companies	219,612	224,760
Procurement of electricity – HEP Proizvodnja d.o.o.	9,591,409	3,863,151
Procurement of electricity – Energetski park Korlat d.o.o.	251,751	-
Procurement of electricity – Ornatus d.o.o.	9,245	-
Procurement of electricity – Sunčana elektrana Poreč d.o.o.	3,171	-
Procurement of electricity – Sunčana elektrana Vis d.o.o.	9,991	-
Procurement of electricity from RES – HEP Opskrba d.o.o.	392,912	294,016
Electricity balancing - HOPS d.d.	494,066	137,428
HEP Energija d.o.o. Mostar	67,824	3,090
HEP Energija d.o.o. Ljubljana	-	2,343
HEP Energija d.o.o. Beograd	9,714	-
Expenditures for electricity procurement – affiliated companies	10,830,083	4,300,028
Cost of sales of CO2 emission units	767,967	426,714
Electricity supply fee - HEP Opskrba d.o.o.	79,221	58,562
Gas procurement for public service providers (OOJU)	51,756	37,759
Fee for electricity and gas trading services -HEP Trgovina d.o.o.	20,653	15,663
Gas procurement HEP Trgovina – public service	-	2,447
Fee for gas supply services -HEP Trgovina d.o.o.	-	848
Costs of fees and services - affiliated companies	919,597	541,993
Costs of fees and services - affiliated companies	11,749,680	4,842,021

Costs from balancing electricity in 2022 amount to HRK 494,066 thousand (2021: HRK 137,428 thousand), and are realized based on the sale or purchase of balancing electricity in accordance with the current Rules on Balancing the Electric Power System.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

FINANCIAL INCOME AND EXPENSES WITH AFFILIATES

<i>HRK '000</i>	2022	2021
Financial income from affiliated companies		
Dividends from subsidiaries and associates	757,047	850,787
Interest income on leased assets	70,028	80,123
Interest income on loans	39,637	50,757
Positive exchange rate differences	1,914	-
Other financial income	711	876
Total financial income from affiliated companies	869,337	982,543
Financial expenses with affiliated companies		
Interest expense - IFRS 16	(164)	(195)
Negative exchange rate differences	(9)	(88)
Total financial expenses with affiliated companies	(173)	(283)

RECEIVABLES FROM AFFILIATED COMPANIES

<i>HRK '000</i>	31 Dec 2022	31 Dec 2021
Non-current receivables		
Receivables for long-term lease assets		
HEP Operator distribucijskog sustava d.o.o.	7,867,740	7,963,339
HEP Proizvodnja d.o.o.	7,725,254	7,979,302
HEP Toplinarstvo d.o.o.	937,330	892,525
HEP Upravljanje imovinom d.o.o.	172,663	167,604
HEP Plin d.o.o.	227,214	214,699
HEP Noc d.o.o.	10,389	10,773
HEP Opskrba d.o.o.	1,373	1,331
HEP Trgovina d.o.o.	847	952
HEP ESCO d.o.o.	1,425	1,558
HEP Elektra d.o.o.	4,925	5,388
	16,949,160	17,237,471
HRK '000	31 Dec 2022	31 Dec 2021
Receivables for apartments sold		
HEP Operator distribucijskog sustava d.o.o.	1,172	1,411
HEP Proizvodnja d.o.o.	429	390
Hrvatski operator prijenosnog sustava d.d.	218	312
HEP Toplinarstvo d.o.o.	73	77
	1,892	2,190
	16,951,052	17,239,661
Current portion of leases	(1,242,339)	(1,247,710)
Receivables for long-term lease from affiliated companies	15,708,713	15,991,951

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

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

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Expected receipts under finance lease		
Year 1	1,242,339	1,247,710
Year 2	1,242,339	1,247,710
Year 3	1,242,339	1,247,710
Year 4	1,242,339	1,247,710
Year 5	1,242,339	1,247,710
After year 5	10,737,465	10,998,921
	16,949,160	17,237,471

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Receivables from long-term loans from affiliated companies		
Energetski park Korlat d.o.o.	175,407	385,890
Hrvatski operator prijenosnog sustava d.d.	614,432	278,344
Plomin Holding d.o.o.	118,415	75,893
HEP Plin d.o.o.	62,388	75,571
HEP ESCO d.o.o.	62,964	20,200
Ornatus d.o.o.	-	15,844
HEP Opskrba d.o.o.	13,014	13,014
SUNČANA ELEKTRANA VIS d.o.o.	7,446	1,499
HEP Telekomunikacije d.o.o.	13,000	-
	1,067,066	866,255

Current portion	<u>(145,933)</u>	<u>(135,915)</u>
	921,133	730,340

Receivables from long-term loans from affiliated companies

Receivable for sub-loan HOPS d.o.o.	-	427,226
Receivable for sub-loan HEP ESCO d.o.o.	2,488	38,797
	2,488	466,023

Current portion	<u>(2,488)</u>	<u>(463,541)</u>
	-	2,482

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

Receivables for a loan from HEP-ESCO d.o.o. are based on contracts concluded between the Company and financial institutions intended for financing energy efficiency projects. The company sub-loaned funds from dedicated loans to HEP-ESCO d.o.o. under the same conditions. Given that, among other loans, loans for the financing of the mentioned projects were returned prematurely from the proceeds of the bond issue, the claims for sub-loans are now characterized by the same commercial conditions as for the issued bonds. On 30 June 2020, companies HEP d.d. and HEP-ESCO d.o.o. signed the Agreement on the assumption of obligations under issued bonds no. 6/2020 and Sub loan Agreement no. 5/2020. The aforementioned agreements define mutual rights and obligations arising from the issued Eurobonds of HEP d.d. in the amount of USD 550 million and a loan approved by the German development bank KfW, given that part of the aforementioned obligations, in certain percentages of participation in these financial arrangements, was sub loaned to HEP-ESCO d.o.o. under the same financing conditions. HEP-ESCO undertakes to return the allocated part of the principal and interest for these sub-loans. Agreement on the assumption of obligations under issued bonds no. 2/2016 concluded on 22 March 2016 between the Company and HOPS d.d., defined mutual rights and obligations arising from the issued bonds of the Company in the amount of USD 550 million. HOPS d.d. undertakes the obligation to return the allocated part of the principal and interest on the issued bonds.

On 21 October 2022, HEP-ESCO d.o.o. settled its liability under Agreement No. 6/2020.

On 30 November 2022, HOPS d.d. settled its liabilities under Agreement No. 2/2016.

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Loan receivables from companies with participating interests		
Male hidre d.o.o.	23,399	1,806
	<u>23,399</u>	<u>1,806</u>
Total long-term receivables/loans	18,044,005	18,573,745
Total current portion	(1,390,760)	(1,847,166)
Total long-term loans given	16,653,245	16,726,579

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

Loans given to companies within the HEP Group (overview)

These loans were given on the following conditions:

Loan beneficiary:	Year of approval	Interest rate	Maturity	Loan amount approved	31 December 2022	31 December 2021
				HRK '000	HRK '000	HRK '000
HEP-Telekomunikacije d.o.o.	2018	3%	31 March 2022	do 74,000	13,000	-
Energetski park Korlat d.o.o.	2019	3.42%	One-time, until 30 Jun 2024 at the latest	600,000	175,407	385,890
HEP Plin d.o.o.	2019	3.42%	5 years	7,657	5,013	5,826
HEP Plin d.o.o.	2019	3.42%	3 years	19,650	-	2,807
HEP Plin d.o.o.	2020	3.42%	5 years	76,500	57,375	66,938
Plomin Holding d.o.o.	2020	3.42%	5 years	66,540	-	65,632
Plomin Holding d.o.o.	2020	3.42%	5 years	4,100	-	4,100
Plomin Holding d.o.o.	2021	3%	5 years	9,329	-	6,161
Plomin Holding d.o.o.	2022	3%	5 years	130,407	118,415	-
HEP Opskrba d.o.o.	2020	3%	5 years	13,014	13,014	13,014
Ornatus d.o.o.	2020	3.42%	5 years	22,500	-	15,844
HEP ESCO d.o.o.	2021	3%	3 years	20,200	20,200	20,200
HEP ESCO d.o.o.	2022	3%	3 years	15,307	8,855	-
HEP ESCO d.o.o.	2022	3%	5 years	33,909	33,909	-
SUNČANA ELEKTRANA VIS d.o.o.	2020	3.42%	4 years with grace period of 1 year	1,947	1,124	1,499
SUNČANA ELEKTRANA VIS d.o.o.	2022	3%	5 years	11,783	6,322	-
Hrvatski operator prijenosnog sustava d.d.	2020	1.7% fixed	31 Dec 2023	141,780	35,445	70,890
Hrvatski operator prijenosnog sustava d.d.	2020	1.72% fixed	30 Apr 2025	176,865	110,541	154,757
Hrvatski operator prijenosnog sustava d.d.	2021	1.10% fixed	4 years with grace period of 6 months	52,697	39,523	52,697
Hrvatski operator prijenosnog sustava d.d.	2022	3% fixed	5 years	428,923	428,923	-
Total				1,907,108	1,067,066	866,255

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

Receivables from affiliates (short-term):

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Current receivables		
Receivables from HEP Elektra d.o.o. for electricity sold	1,141,956	475,093
Receivables from HEP Operator distribucijskog sustava d.o.o. for losses in the distribution network	186,425	208,812
Receivables from HEP Opskrba d.o.o. for electricity sold	880,647	542,576
Receivables from Hrvatski operator prijenosnog sustava d.o.o. for transmission network losses	2,757	4,810
Receivables from HEP Energija d.o.o. Ljubljana	295,894	71,955
Receivables from HEP Energija d.o.o. Belgrade for electricity sold	4,708	4,713
Receivables from HEP Energija d.o.o. Mostar for electricity sold	19,080	1,908
Receivables for balancing electricity	291,555	4,707
Other receivables	26,362	13,587
	2,849,384	1,328,161
Receivables for administrative expenses		
HEP Proizvodnja d.o.o.	16,952	18,020
HEP Operator distribucijskog sustava d.o.o.	16,061	24,564
HEP Toplinarstvo d.o.o.	9,332	1,739
HEP Plin d.o.o.	8,497	8,932
HEP Upravljanje imovinom d.o.o.	8,078	5,025
HEP Trgovina d.o.o.	340	1,442
HEP Opskrba d.o.o.	5,016	5,080
HEP ESCO d.o.o.	333	210
HEP Telekomunikacije d.o.o.	344	760
HEP Elektra d.o.o.	4,174	5,579
VHS Zaprešić d.o.o.	44	95
Energetski park Korlat d.o.o.	241	108
	69,412	71,554
Current receivables based on lease of business premises		
HEP Proizvodnja d.o.o.	83,904	55,137
HEP Toplinarstvo d.o.o.	89,128	14,278
HEP Operator distribucijskog sustava d.o.o.	126,919	128,278
HEP Plin d.o.o.	14,692	13,526
HEP Upravljanje imovinom d.o.o.	7,675	3,293
HEP Trgovina d.o.o.	32	-
HEP Opskrba d.o.o.	60	-
HEP Elektra d.o.o.	290	-
	322,700	214,512
Other current receivables	1,375,828	764,133

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Receivables for paid investments and other receivables		
HEP Proizvodnja d.o.o.	275,566	158,760
Hrvatski operator prijenosnog sustava d.d.	25,162	28,297
HEP Operator distribucijskog sustava d.d.	667,974	476,397
HEP Toplinarstvo d.o.o.	84,225	81,860
HEP Plin d.o.o.	52,820	58,091
HEP ESCO d.o.o.	882	956
HEP Noc d.o.o.	1,397	1,203
HEP Trgovina d.o.o.	42	41
HEP Opskrba d.o.o.	22,580	22,585
HEP Upravljanje imovinom d.o.o.	10,224	6,573
HEP Elektra d.o.o.	211	132
	1,141,083	834,895
Receivables for investment and other material sold		
HEP Operator distribucijskog sustava d.o.o.	313,473	313,473
HEP Plin d.o.o.	2,680	2,680
	316,153	316,153
Other receivables		
HEP Plin d.o.o.	25,635	19,402
Hrvatski operator prijenosnog sustava d.d.	-	2,126
HEP Telekomunikacije d.o.o.	4,379	-
HEP ESCO d.o.o.	11,732	-
Energetski park Korlat d.o.o.	70,638	-
	112,384	21,528
Receivables for short-term loans granted		
HEP Energija d.o.o. Beograd	603	1,353
HEP Energija sh.p.k. Kosovo	1,130	752
HEP ESCO d.o.o.	22,237	32,000
Hrvatski operator prijenosnog sustava d.d.	80,000	-
	103,970	34,105
Receivables from affiliated companies (total):	6,290,914	3,585,041

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Short-term liabilities		
HEP Proizvodnja d.o.o. for electricity	2,092,419	1,605,033
Energetski park Korlat d.o.o. for electricity	24,230	35,196
SUNČANA ELEKTRANA POREČ d.o.o.	175	96
Ornatus d.o.o. za električnu energiju	194	-
SUNČANA ELEKTRANA VIS d.o.o. for electricity	240	155
HEP Opskrba d.o.o. for compensation from RES procurement	31,761	34,308
HEP Opskrba d.o.o. for electricity supply compensation	28,825	-
HEP Trgovina d.o.o. for trading fee	827	378
HOPS d.o.o. - Liabilities for balancing energy	271,352	104,486
Liabilities under guarantees of electricity origin-HEP Proizvodnja d.o.o.	280	142
Liabilities for guarantee of electricity origin. – Energetski park Korlat d.o.o.	299	-
HEP Proizvodnja - liability based on the assignment agreement	810,952	810,952
Other	16,256	30,745
	3,277,810	2,621,491
Other liabilities		
HEP Operator distribucijskog sustava d.o.o.		
- for paid connections fees	157,560	163,909
- for cash paid into the treasury	496,938	558,740
- for customer payments and paid investments from sub-accounts	39,102	23,621
HEP Elektra d.o.o. for cash paid into the treasury	631,024	871,182
Liabilities to other companies for customer payments and investments paid from sub-accounts	129,122	34,433
	1,453,746	1,651,885
HEP Energija d.o.o. Ljubljana for electricity delivered	11,105	11
Total short-term liabilities	4,742,661	4,273,387

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

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
NPP Krško d.o.o.		
Liabilities for purchased electricity	35,651	56,962
Cost of purchased electricity	693,737	664,839

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

33. RELATIONS WITH AFFILIATED COMPANIES (continued)

<i>HRK '000</i>	Sales revenue		Procurement cost	
	2022	2021	2022	2021
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	7,886	8,587
Hrvatske šume d.o.o.	-	-	1,833	2,697
Jadrolinija d.o.o.	-	-	1	-
Narodne novine d.d.	-	-	306	318
Hrvatska radio televizija	-	-	72	72
Plinacro d.o.o.	-	-	60,673	31,083
Ministry of the Interior	188	192	-	-
Universities and colleges	-	-	358	482
Health institutions and organizations	60	21	-	-
Other users	-	-	2,573	-
HROTE d.o.o.	50,566	-	91,143	165,203
	50,814	213	164,845	208,442

<i>HRK '000</i>	Receivables		Liabilities	
	2022	2021	2022	2021
Companies that are majority owned by the State				
Hrvatska pošta d.d.	-	-	775	-
Narodne novine d.d.	-	-	18	49
Plinacro d.o.o.	-	-	12,134	6,028
HROTE d.o.o.	4,515	127	709	14,715
Other users	111	-	1,023	661
	4,626	127	14,659	21,453

34. CONTINGENCIES AND COMMITMENTS

Disputes

In 2022, the Company booked provisions for court cases that were estimated to be unlikely to be resolved in favour of HEP d.d. and subsidiaries. The Company has long-term investments in the territory of Bosnia and Herzegovina and Serbia, in the amount of HRK 1,243,970 thousand. During the conversion of the Company into a joint-stock company in 1994, this amount was excluded from the net asset value.

The Company has long-term investments in non-operating assets on the territory of Bosnia and Herzegovina and Montenegro in the amount of HRK 722 thousand, which are excluded from the net asset value.

Operational liabilities

As part of regular investment activities, the Company concluded contracts on 31 December 2022, according to which investments in various facilities and equipment were started, but not completed. In 2022, the value of contracted unfinished works for the most significant projects amounted to HRK 1,039,640 thousand (2021: HRK 976,901 thousand).

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

Environmental Protection

The Company continuously monitors and analyses the impact of its business processes on the environment. The most important indicators of such impacts are emissions of polluting substances into the air and the amount of production waste generated, which the Company reports on in a timely and objective manner to competent institutions, local self-government units and the interested public. The Company reports on its impacts on the environment, economy and society in the framework of non-financial sustainability reports prepared according to the guidelines of the GRI-Global Reporting Initiative, and since 2017 according to the GRI standard guidelines. Sustainability reports have been published since 2015 on the HEP Company website <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401>. Employees engaged in nature and environmental protection are additionally trained at seminars and workshops, where they are informed about the obligations and activities arising from the provisions of legal regulations in the field of nature and environmental protection.

All of HEP's thermal energy plants with a nominal input heat output of more than 50 MW have obtained Decisions on environmental permits from the competent Ministry for Environmental Protection. By the decision of the Company's Management Board in 2012, a trading system for greenhouse gas emission units was established, and the Republic of Croatia and HEP joined the European System for Trading Greenhouse Gas Emission Units (EU-ETS) on 1 January 2013. The Croatian Environment and Nature Agency (as of 1 January 2019 attached to the Ministry of Environmental Protection and Energy, and now the Ministry of Energy and Sustainable Development) opened, based on the Company's request, nine plant operator accounts in the EU registry. The Osijek HEP-Toplinarstvo plant was excluded from the EU-ETS based on Article 40 of the Act on Climate Change and Ozone Layer Protection (OG 127/19).

The Company successfully fulfilled the obligation to submit emission units to the EU Greenhouse Gas Register for 2021, and for 2022, data on verified CO₂ emissions were entered, which were also confirmed by verifiers. Based on the confirmation of the verifier, HEP should transfer the emission units to the accounts in the EU Registry no later than 30 April 2023. The European Commission provided HEP's thermal power plants - heating plants - TE-TO Zagreb, EL-TO Zagreb, TE-TO Osijek and TE-TO Sisak with free emission units for the production of thermal energy that they transfer to the central heating system (CTS) and the energy that they transfer so-called "carbon leakage" plants, i.e. plants for which there is a risk that they will move their production to countries that are not EU-ETS bonds, and part of the energy they deliver to the so-called non-carbon leakage plants, i.e. plants for which this risk does not exist. Free emission units are allocated on the basis of the Reference Data Report (so-called NIMsBL) and on the basis of the Monitoring Methodology Plan, and the allocated quantities are subject to change depending on the production of thermal energy for the previous year in accordance with the reports submitted by the operators to the competent ministry. In March 2023, HEP returned 2,700 excessively allocated free emission units to the TE-TO Sisak plant based on the Decision of the European Commission for the years 2021 and 2022. HEP reports on the amounts of free emission units allocated in the framework of non-financial reports <http://www.hep.hr/o-hep-grupi/publikacije/izvjesca-o-odrzivosti/1401> and in the section Environment - Air and climate protection [https:// www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-projmene/emisije-staklenickih-plinova/158](https://www.hep.hr/odrzivost-i-okolis/zastita-zraka-i-klimatske-projmene/emisije-staklenickih-plinova/158).

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

34. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

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

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

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

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

Outline content of the sustainability report for 2022:

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

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

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

34. CONTINGENCIES AND COMMITMENTS (continued)

Environmental protection (continued)

Management systems according to ISO standards:

- HEP-Proizvodnja d.o.o. has introduced and certified an integrated environmental, quality and energy management system in accordance with international standards ISO 14001: 2015 and ISO 9001: 2015 and ISO 50001: 2018 and, with its 35 components, is among the largest environmental, quality and energy management systems in The Republic of Croatia. Effective quality, environmental and energy management is part of the business strategy of HEP-Proizvodnja d.o.o. in the production of electricity and heat and the provision of ancillary services to the electricity system. Certification according to ISO 14001: 2015, ISO 9001: 2015, ISO 50001: 2018 and ISO 45001:2018 was carried out and confirmed by the certification house TÜV Nord Adriatic d.o.o.
- As one of the largest production companies in Croatia, and considering the activities in which the number of employees is engaged, HEP-Proizvodnja d.o.o. is aware of its impact on the environment, and considering the introduced environmental, quality and energy management systems, it has adopted an Environmental, Quality Management Policy. and energy with which it has opted for achieving maximum operational readiness and reliability of production capacities with the implementation of environmental protection measures and increasing the share of electricity and heat production in the regional market based on the principles of environmentally friendly production, energy efficiency and sustainable business.
- Hrvatska elektroprivreda d.d has become the holder of the certificate of the integrated quality management system, environmental protection, energy and health and safety at work according to the international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. At the same time, the Company HEP-Upravljanje imovinom d.o.o. in the segment of operations the form an inseparable whole with HEP d.d., also has become the holder of the certificate also according to international standards ISO 9001:2015, ISO 14001:2015, ISO 50001:2018 and ISO 45001:2018. In addition to other system documents that require standards, the Management Board of HEP d.d has adopted an umbrella document - Quality Policy, Environmental Protection, Energy Management and Health and Safety at Work of HEP d.d and HEP - Property Management Ltd. . Hrvatska elektroprivreda d.d. and HEP-Upravljanje imovinom d.o.o. are holders of the information security management system certificate according to the ISO 27001:2013 standard.
- The customer service of HEP-Opkrba doo with its exceptional commitment and high level of service provided was the first in Croatia to receive the ISO 9001:2015 certificate for the quality of service. The ISO 9001: 2015 recertification process was conducted in 2021 for the fourth time (certification house Bureau Veritas), thus further confirming the quality of Customer Service.
- The protection of workers' health and safety, environmental protection and efficient energy management are part of the business strategy of HEP - Distribution System Operator doo (HEP ODS). The environmental management system according to the international standard ISO 14001 is the first management system certified at the level of 21 distribution areas and HEP-ODS headquarters in 2013. In 2018, the transition of this system to the requirements of the new ISO 14001:2015 standard was successfully implemented. The occupational health and safety management system was established in 2015 and in 2017 it was successfully certified for the first time according to the OHSAS 18001:2007. In 2019, the transition of this system to the requirements of the ISO 45001:2018 2018 standard was successfully implemented. The basic commitment of HEP-ODS in energy management is to achieve permanent improvement of energy performance in all business facilities, equipment and devices, including the reduction of losses in the distribution network through the implemented energy management system according to ISO 50001:2018 which is confirmed by TÜV NORD Adriatic d.o.o.
- In HEP Toplinarstvo d.o.o. in October 2021, the recertification of the quality management and environmental protection system and the certification of the energy management system in accordance with the norms ISO 90001:2015, ISO 14001:2015 and ISO 50001:2018 were successfully performed.

34. CONTINGENCIES AND COMMITMENTS (continued)

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

Supply on the wholesale gas market

The Gas Market Act (OG 18/18, 23/20) prescribes the selection of suppliers on the wholesale market (OVT) for the period from 1 August 2018 to 31 March 2021, after which the role of the OVT was abolished.

HRK '000	2022	2021
Cost of gas - market supply		
Cost of gas - market supply and public service	58,127	27,060
Procurement of gas for sale - Regulation of the Government of the Republic of Croatia	106,763	-
Procurement of gas from storage for sale to HEP Group companies - Regulation of the Government of the Republic of Croatia	82,806	-
The cost of gas for sale in the wholesale market	-	77,778

Water Act

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

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

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

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT

Capital risk management

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

The structure of the Company's sources of financing consists of debt, which includes loans and issued bonds presented in notes 26 and 27, cash and cash equivalents, and capital attributable to owners, which consists of share capital, legal and other reserves and retained earnings.

Debt indicator

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

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Debt	11,299,781	4,294,398
Cash and cash equivalents	(1,220,453)	(2,798,910)
Net debt	10,079,328	1,495,488
Capital	22,494,353	27,135,884
Net debt to equity ratio	44.81%	5.5%

Categories of financial instruments

<i>HRK '000</i>	<u>31 Dec 2022</u>	<u>31 Dec 2021</u>
Financial assets		
Financial assets at fair value through other comprehensive income	318,743	275,611
Loans given	18,044,005	18,573,745
Receivables from customers and related companies	6,419,099	3,717,130
Cash and cash equivalents	1,220,453	2,798,910
Other long-term and short-term receivables	263,923	627,931
Financial liabilities		
Liabilities under issued bonds	-	3,444,830
Liabilities for long-term loans	11,291,781	849,568
Liabilities to affiliated companies	4,742,661	4,273,387
Lease liabilities	6,100	7,224
Other liabilities	3,673,919	2,359,529

Objectives of financial risk management

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

35. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

Currency risk management

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

	Assets		Liabilities	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
EUR	177,823	172,543	1,198,894	149,472
USD	1,100	33,485	120,451	

Foreign currency sensitivity analysis

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

35. FINANCIAL RISK MANAGEMENT (continued)

<i>HRK '000</i>	<u>2022</u>	<u>2021</u>
EUR change effect		
Gain or loss	(769,326)	(401,967)
USD change effect		
Gain or loss	(84,314)	(57,781)

Interest rate risk management

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

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

- The loss for the year ending 31 December 2022 would increase by the amount of HRK 30,738 thousand (2021: HRK 3,118 thousand), based on interest rate risk exposure. This is mainly attributable to the Company's interest rate exposure on floating rate loans; 58.53% of the Company's debt is at a variable interest rate (2021: 7.40%)
- The sensitivity of the Company to the interest rate increased during the current period due to the increase in the share of loans contracted at a variable interest rate in the total debt and due to the increase in reference interest rates on the market
- During 2022, the Company granted loans to members of the HEP Group, which is why the receivables for interest on loans increased compared to 2021.

Credit risk management

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

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

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

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

Liquidity risk management

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

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT (continued)

Tables for interest and liquidity risk

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

Maturity of non-derivative financial assets

HRK '000	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	Over 5 years	Total
31 Dec 2022							
Liabilities for long-term loans	2.50%	35,041	62,073	278,991	10,777,215	713,956	11,867,276
Liabilities to affiliated companies		1,777,365	2,965,296	-	-	-	4,742,661
Lease liabilities		98	98	2,173	3,731	-	6,100
Other liabilities		2,532,918	131,819	462	860,236	-	3,525,435
Total		4,345,422	3,159,286	281,626	11,641,182	713,956	20,141,472
31 Dec 2021							
Financial liabilities at fair value through profit or loss							
Liabilities under issued bonds	4.85%	-	-	3,622,664	-	-	3,622,664
Liabilities for long-term loans	1.34%	23,841	-	61,814	561,141	255,817	902,613
Liabilities to affiliated companies		2,064,213	1,510,306	698,868	-	-	4,273,387
Lease liabilities		-	-	1,137	6,087	-	7,224
Other liabilities		1,210,023	638	11,922	810,493	-	2,033,076
Total		3,298,077	1,510,944	4,396,405	1,377,721	255,817	10,838,964

The Company has access to funding sources. The total unused amount at the end of the reporting period is HRK 4,187,076 thousand. The Company expects to settle its other obligations from operating cash flows, inflows from overdue financial assets and from sources of financing..

Fair value of financial instruments

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

- The fair value of financial assets and financial liabilities with standard terms and conditions that are traded in active liquid markets is determined by reference to the quoted market price.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from existing market transactions.
- The fair value of derivative instruments is calculated using the quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the period of non-derivative financial instruments is used.

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

35. FINANCIAL RISK MANAGEMENT (continued)

Fair value indicators recognized in the statement of financial position

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

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

HRK '000	Level 1	Level 2	Level 3	Total
31 Dec 2021				
Financial assets at fair value through other comprehensive income	275,611	-	-	275,611
Financial assets at fair value through profit or loss	165,233	-	-	165,233
Investment property	-	23,514	-	23,514
31 Dec 2022				
Financial assets at fair value through profit or loss	318,743	-	-	318,743
Investment property	-	47,289	-	47,289

36. OTHER DISCLOSURES

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

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

In 2022, the Company has the following financial liabilities that are not included in the balance sheet: promissory notes issued in the amount of HRK 61,604 thousand (2021: HRK 63,202 thousand), guarantees given in the amount of HRK 350,978 thousand (2021: HRK 330,360 thousand) and warranties in the amount of HRK 14,000 thousand (2021: HRK 415,563 thousand).

Notes to the Annual Unconsolidated Financial Statements – HEP d.d. (continued)
for the year ended 31 December 2022

37. EVENTS AFTER THE REPORTING DATE

REGULATION ON ELIMINATION OF DISTURBANCE ON THE DOMESTIC ENERGY MARKET

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

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

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

/i/ Electricity

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

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

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

¹ six-month consumption

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

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

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

37. EVENTS AFTER THE REPORTING DATE (continued)

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

/ii/ Gas

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

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

The effect of the new Regulation in the period from 1 April to 30 September 2023 for electricity, is not included in the profit and loss account within the provisions for the negative effects of contracts.

The new Regulation limits electricity prices, and the effect is estimated to be in the range of EUR 298 to 400 million².

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

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

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

An equity loan in the amount of EUR 400,000,000 to the Company HEP d.d. due to liquidity assurance, on 30 March 2023,

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

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

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

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

² The assessment of the effect is calculated as the difference between the price determined by the Regulation and commercial contracts for customers who enter into contracts under market conditions. The estimate is based on the planned consumption of the end customers of the HEP Opkrba d.o.o. and electricity prices from the regionally relevant Hungarian power exchange.

37. EVENTS AFTER THE REPORTING DATE (continued)

INTRODUCTION OF THE EURO AS AN OFFICIAL AND FUNCTIONAL CURRENCY

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

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

38. APPROVAL OF ANNUAL FINANCIAL STATEMENTS


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

Signed on behalf of the Company on 7 June 2023:


Petar Sprčić
Member of the
Management Board


Tomislav Šambić
Member of the
Management Board


Vice Oršulić
Member of the
Management Board


Frane Barbarić
President of the
Management Board

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