

ANNUAL BUSINESS  
AND SUSTAINABILITY  
REPORT



Connecting  
you to network

# 2022



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# 1



## A WORD BY THE MANAGING DIRECTOR



The stability and development of the distribution network with as little impact on the environment as possible and without jeopardizing social prosperity and the existence of future generations is achieved by the implementation of adopted practices of corporate governance and sustainable development. HEP ODS implements and participates in numerous projects focused on the preservation of biological diversity, and as part of its corporate social responsibility it continues to employ workers in the areas of special national interest.







Dear readers,

this is the annual report for 2022, which for the first time includes the report on sustainability, whereby HEP ODS, although a regulated activity, shows its openness and confirms its commitment to corporate social responsibility and business sustainability.

The past year 2022 was marked by an energy crisis that affected numerous segments of life and all areas of business. The beginning of the war in Ukraine significantly destabilized the global energy market and led to the rise in prices of all energy products.

**Despite unfavourable circumstances, we have ensured a stable position of our company and a high level of network infrastructure security through its continuous investments. Successful implementation of projects and investment plans as well as the monitoring and the improvement of supply quality indicators are important activities in distribution network development, which, regardless of all the challenges, continued to be carried out in 2022.**

At the beginning of the year, the Government of the Republic of Croatia prepared a package of measures for mitigating the rise of prices caused by the increase in energy prices with the aim of protecting the standard of Croatian citizens, ensuring the functioning of public institutions and maintaining the continuity of economic growth. Under the Regulation on Elimination of Disturbances on Domestic Energy Market special measures for electricity trade were established as well as the method and conditions of price formation for specific categories of electricity customers, whereby the role of HEP ODS was to provide network users with an access to consumption and control of electricity consumption, in order for the Government's measures to fulfill their purpose.

In the process of developing an advanced network infrastructure, we continued with the implementation of a complex multi-year project to modernize the distribution network with the aim of equipping all network users' metering points with advanced meters by the end of 2030. The project of introducing advanced networks has increased the efficiency of electricity distribution, the number of users with access to the advanced network, the integration of distributed sources and the reduction of losses.

It can be said that this project has opened new funding sources, while the experience gained proved to be particularly important in the extraordinary circumstances that befell us during the earthquake, due to which the distribution network suffered enormous damage, and for the rehabilitation of which we were prepared to withdraw funds from the EU Solidarity Fund.

The rehabilitation of the earthquake affected areas proved that HEP ODS is a stable and reliable energy company, by successfully resolving an extremely large number of requests for energy facility rehabilitation and carrying out the construction of damaged energy infrastructure in Sisak-Moslavina County. In addition to the rehabilitation of the earthquake-affected areas, the procurement of goods and services proved to be a challenge in highly volatile circumstances due to aforementioned global disruptions.

In addition to ensuring a sufficient amount of energy for network users, HEP ODS was also involved in numerous projects of planning and implementing sustainable solutions that were in line with the requirements of the upcoming green energy transition. Adopted management and sustainable development practices strive to achieve the stability and development of the distribution network with as little impact on the environment as possible and without jeopardizing social prosperity and the existence of future generations. Guided by examples of good practice in environmental protection, HEP ODS implements and participates in numerous projects to preserve biological diversity, while in the segment of corporate social responsibility and care for the community, it continues to employ workers in areas of special government interest. Based on the experience gathered in the previous several challenging years, we believe we can successfully deliver planned goals, while keeping in mind the opening of new development perspectives in the interest of our users and all parts of the Republic of Croatia.

Chief Executive Officer  
Nikola Šulentić

## BUSINESS OPERATIONS

Business operations of HEP ODS in 2022 were carried out in an unstable economic environment characterized by pronounced inflationary pressures and increased global political uncertainty caused by the Russian aggression on Ukraine with subsequent disruptions in supply chains, high prices of goods, works, services, and especially energy. Climate change with record droughts and devastating floods further contributed to inflationary pressures.

During 2022, economic activities continued to grow, which consequently resulted in the 1.5% increase of electricity demand by business customers, while the milder winter and the increase in energy prices led to a 2% decrease in household consumption. Earned income from the fee for the usage of the distribution network increased by 4.7% compared to 2021, due to the increased tariff item amounts for the distribution of electricity under the Decision of the Croatian Energy Regulatory Agency (HERA) as of 1 April 2022.

According to financial indicators, total revenues in the amount of HRK 4,276.6 million and total expenses in the amount of HRK 4,217.1 million were recorded, which resulted in profit before taxes of HRK 59.5 million. HRK 1,139.1 million was invested in fixed assets, while HRK 250.8 million was allocated to the maintenance of existing assets.

The year 2023 will be marked by an uncertain geopolitical situation, the impact of rising inflation and the rise in the prices of energy, commodity and works, and in particular by the adjustment of business operations to Croatia's entry into the eurozone. As the events are closely monitored and the risks and the possibilities of mitigating them assessed, despite the mentioned challenges, HEP ODS will make maximum efforts in order to achieve good financial results.

## INVESTMENTS

HEP ODS is responsible for the development of the distribution network which ensures its long-term ability to meet reasonable electricity distribution requirements. Systematic long-term planning of distribution network development is achieved through the regular preparation of the distribution network ten-year development plans. Said plans detail the necessary investments in the initial three-year and one-year periods.

The 2022 investment year was marked by significant investments in the repair of damage caused by earthquakes and natural disasters in 2020, as well as investments under the Smart Grid Pilot Project.

## RELIABILITY OF ELECTRICITY SUPPLY

**The reliability of electricity supply for network users represents its most important aspect. Therefore the improvement of the reliability of electricity supply is an important indicator used in the operation, planning, construction and renovation of the distribution network.**

HEP ODS continuously improves the reliability of electricity supply in the distribution network. Special efforts were invested in the automation of the distribution network and the improvement of software support for the monitoring of power supply reliability, integration of the DISPO application in HEP ODS information systems, and activities of detailed analyses of power outages in order to improve the indicators.

Focused on creating requirements for advanced operation and management of the distribution system, HEP ODS continuously invests in process, information and communication systems, as well as in active cooperation with the transmission system operator and network users, which will set preconditions for the usage of distribution flexibility and the provision of ancillary system services, thereby further improving electricity supply reliability.



## REDUCTION OF LOSSES

Reduction of electricity losses is one of the key factors that shows the efficiency and quality of electricity distribution in HEP ODS.

**By using an advanced approach to reducing losses in the distribution network, significant funds were invested in the modernization and maintenance of the network, as one of the strategic goals of HEP ODS.**

Losses generated in 2022 amounted to 1,199 GWh or 7.13% of the total energy input in the distribution network, while the total cost of electricity purchase for covering losses amounted to HRK 849.4 million. Had electricity used for covering losses been procured at market prices in 2022, the total cost would have amounted to HRK 2,610.8 million. In view of the above, HEP ODS achieved significant financial savings of HRK 1,761 million.

## SAP IMPLEMENTATION

The SAP system is an important system on the electricity market in the Republic of Croatia. The implementation of SAP has ensured the application compatibility of all participants in the electricity market. Several HEP ODS in-house business applications were replaced by one thus ensuring better support for the implementation of business processes.

The SAP system in HEP ODS includes business processes from the functional areas of network access, field activities, operation, metering and management of metering devices, management of load curves, support to the electricity market, calculation of the network usage fees, warehouse operations, customer relations, economic affairs and asset management.

In 2022, in accordance with the Rulebook on General Conditions for the Use of the Network and Electricity Supply and the Rules for the Application of Equivalent Load Curves, all households with a semi-annual billing period in the Republic of Croatia switched to uneven monthly consumption, that is, monthly financial obligations (non-linear installments). By abandoning the equal projected monthly consumption, it became easier to determine the coefficient of losses in the application of equivalent load curves. From early 2022, measured curves of businesses equipped with interval meters have been applied in the calculation of performance, including metering points under 20 kW.

## CYBERSECURITY

Taking into account the importance of critical infrastructure, the possibility of a cascading effect on other organizations, as well as the time and circumstances in which we live, it is necessary to take care of cybersecurity and business continuity.

HEP ODS, as an essential service operator, pays special attention to the cybersecurity of its key systems and regularly checks the compliance of essential service operators with the provisions of the Act on Cybersecurity of Operators of Essential Services and Digital Service Providers, i.e. the Regulation on Cybersecurity of Operators of Essential Services and Digital Service Providers.

At the beginning of 2022, a regular annual audit on the compliance of "Essential Service Operators with the Cybersecurity Act Provisions" was carried out by an authorized external auditor. The compliance check was implemented on the basis of compliance and content testing.

**HEP ODS has been continuously working on increasing the level of cybersecurity and reducing security risks through the implementation of adequate security controls, as well as on raising the awareness of its employees of its importance.**



## USERS AND INFORMATIONS

HEP ODS has been continuously planning and implementing communication activities as well as providing clear and up-to-date information related to the use of the network and distribution of electricity to over 2.5 million network users.



Direct communication with the users is carried out daily by free info phones and e-mails, as well as by user's personal visits to counters in almost 80 locations on the territory of the Republic of Croatia.

The HEP ODS website provides the access to the following:

- information and forms necessary for accessing the network
- information and forms necessary for the implementation of services at existing metering points
- information for customers with own production
- information on the supplier switch process
- information about planned network works that may lead to a temporary interruption in the supply of electricity - No Electricity
- tips for electricity savings and recommendations for the safe use of electrical appliances directed at customers.

The needs of network users in the power sector are changing, whereby the digital transformation of business operations is a necessary response to new challenges. Apart from the primary element ie the quality of electricity distribution, the satisfaction of network user communication is another important goal of HEP ODS.

User communication with household customers is carried out via the My Network application, while household users whose connection capacity (demand side) exceeds 20 kW, all business users with an installed interval meter, and all electricity producers on the distribution network are provided a communication channel via the Meter Data portal. The HEP ODS My Network application allows users who register through the e-Citizens system to receive meter readings, review readings and consumption (kWh) in the previous periods, receive information about the expected date of the next regular calculation, information about temporary interruptions in electricity supply, and submit requests, while meter readings can be submitted via the application without registration.

Customer support services were improved by educating and training workers specializing in this activity for this type of work according to clearly formed rules, thereby standardizing the procedure and harmonizing the access practice in all distribution areas as well as improving the quality of communication with network users, which is extremely important in the activities of HEP ODS.

## WORK SAFETY

HEP ODS pays special attention to achieving safe and healthy working conditions, and the protection of health and work safety. The goals of occupational health and safety, based on the improvement of the Worker Health and Safety Management System (SUZZS), the acquisition and maintenance of the workers' SUZZS necessary competences, and the acquisition of equipment for eliminating or reducing work-related risks have been defined. The aim and purpose of the above is to reduce the number of work-related injuries, occupational illnesses and other work-related illnesses.

**The company applies, maintains and improves the Occupational Health and Safety Management System, which is based on the requirements of the international ISO 45001:2018 standard, thus establishing a strong mechanism for continuous improvement of good practices in terms of a systematic management of occupational health and safety.**



The year 2022 was characterized by adapting to and overcoming the challenges of the pandemic and by implementing planned activities aimed at the protection of health and safety of workers according to the requirements of the international ISO 45001:2018 standard.

## ENVIRONMENTAL PROTECTION

In accordance with the current laws, environmental protection and reduction of the negative impacts of electric power infrastructure on biodiversity are part of the Company's business strategy. The workers in charge of environmental protection were active in taking care of all parts of the environment, especially the protection of birds, waste and water management, and the prevention of accidents with a potential adverse effect on the environment. With another certification awarded by the international Environmental Management System according to the ISO 14001 standard, HEP ODS continued to invest significant resources in environmental protection and biodiversity conservation, which further strengthened its status as a modern and socially responsible company.





# 2



## ABOUT US



HEP ODS is responsible for the operation, maintenance, construction and development of the distribution network, from its interface with the transmission network to all network users' billing and metering points. In addition to the aforementioned tasks, HEP ODS also fulfills the responsibilities of the system operator in connection with the operation of the retail electricity market.





## 2.1 HEP ODS AT A GLANCE



### COMPANY DATA

HEP ODS	<b>21</b> distribution areas
Surface area	<b>56,594</b> km <sup>2</sup>
Company head office	<b>Ulica grada Vukovara 37</b> , Zagreb
Equity and reserves	<b>HRK 1,872.2</b> m
Total assets	<b>HRK 19,025.1</b> m
Profit before tax	<b>HRK 59.5</b> m
Total income	<b>HRK 4,276.6</b> m
Total expenditure	<b>HRK 4,217.1</b> m
Number of workers	<b>6,879</b>

Length of network	<b>141,937</b> km
Substations	<b>27,028</b>
Installed transformation capacity	<b>23,694</b> MVA
Billing metering points	<b>2,514,084</b>
Distributed sources	<b>7,005</b>
Connection capacity of distributed sources	<b>593.7</b> MW
Sale of electricity	<b>15,617</b> GWh
Electricity losses	<b>7.13</b> %
Peak load	<b>2,999</b> MW
Electricity production	<b>1,691</b> GWh
SAIDI	<b>258.3</b> min
SAIFI	<b>2.46</b> interruptions

### BASIC INFORMATION ABOUT DISTRIBUTION NETWORK

## 2.2 COMPANY PROFILE

HEP-Distribucija d.o.o. (HEP Distribution), a company for the distribution and supply of electricity, was founded on 21 June 2002, with its head office at 37 Ulica grada Vukovara in Zagreb. On 19 December 2005, HEP-Distribucija d.o.o. changed its name to HEP-Operator distribucijskog sustava d.o.o. (HEP ODS) (HEP Distribution System Operator - DSO).

HEP ODS, as a key entity on the electricity market in the Republic of Croatia, carries out the regulated activity of electricity distribution. HEP ODS is responsible for the operation, maintenance, construction and development of the distribution network, from the interface with the transmission network to all network user's billing and metering points. In addition to the above-mentioned tasks, HEP ODS also fulfills the obligations of the system operator related to the operation of the retail electricity market, in an impartial, objective and transparent manner.

In accordance with the Electricity Market Act, HEP ODS is in particular responsible for the following:

- Keeping a register of billing metering points of each balance group for delivery points on the distribution network
- Maintaining metering equipment and collecting and processing metering data from the network users' metering points
- Managing and maintaining, building and modernizing, improving and developing the distribution network with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity
- Undertaking prescribed safety measures while using the distribution network
- Ensuring impartiality towards distribution network users, and especially towards associated undertakings within a vertically integrated entity
- Providing clear and precise information to distribution network users necessary for efficient access to the network and the use of the distribution network, while protecting confidential information and data; ensuring access to the network and the use of the distribution network according to regulated, transparent and impartial principles
- Adopting the rules and price list of non-standard distribution system operator services and publishing them in an appropriate manner
- Analyzing the losses in the distribution network on an annual basis, including the assessment of technical losses and of unauthorized electricity consumption and, if necessary, creating and implementing measures to reduce losses
- Providing electricity to cover losses in the distribution network under market principles.

### MEMBERSHIP ASSOCIATIONS

**HO CIRED** – Croatian branch of the International Electricity Distribution Conference

**HRO CIGRE** – International Council for Large Power Systems

**HGK** – Croatian Chamber of Commerce

**MIPRO** – International Conference for Information, Communication and Electronic Technology

**IPMA Hrvatska** – member of the international project management organization

**EU DSO Entity** – Association of European Distribution System Operators

**EURELECTRIC (Union of the Electricity Industry)** – Union of the Electricity Industry

### MISSION

Reliable and high-quality distribution of electricity to all network users, with a high degree of social responsibility and sustainable economic growth.



### VISION

The transformation of the distribution network into a flexible and smart network, as well as the environmentally-friendly operation of the distribution system, which enables the provision of high-quality and modern energy services with an emphasis on renewable energy sources.



### VALUES

Guided by a number of new challenges that include the sustainable development and integration of distributed energy sources as well as the increasing expectations of network users, we have established a set of positive beliefs that include principles of business management. By providing workers with a sense of importance and purpose, we have strengthened the dissemination of social goals, making them a part of everyday decisions and work.



### INNOVATION

Safe operation of the advanced network and system stability are the core tasks of the Company that lead to green energy by planning to link the electric vehicle charging infrastructure and integrate local storage capacities, while achieving system flexibility, and the operation of advanced network as well as advanced metering system.



### RESPONSIBILITY

HEP ODS ensures reliable distribution of electricity to all its users. Constant investments in the network construction, operation and maintenance have resulted in efficiency with a high level of safety and reliability across the entire territory of the Republic of Croatia while taking care of our workers, the environment and energy efficiency.



### CHALLENGES

Faced with the changes brought about by the energy transition, in order to ensure the reliable and safe development of the distribution network, we are faced with increasing demands that must be met in a short time frame, related to regulatory changes, the increasing number of a share of distributed renewable production connected to the distribution network, as well as a growing number of active customers interested in new services on the electric power market.





## 2.3 COMPANY POSITION WITHIN HEP GROUP

Hrvatska elektroprivreda (HEP Group) is a national energy company, which has been engaged in the production, distribution and supply of electricity for more than a century, while also taking on the distribution and supply of heat and natural gas in the last few decades.

HEP Group is organized as a concern ie a group of dependent companies (daughter companies).

HEP ODS is the largest company within HEP Group. The companies are linked by both ownership and management structure.

HEP ODS, as a company engaged in the distribution of electricity, is a key stakeholder in the Group that fulfills the purpose of its activity for its users and the market in accordance with market dynamics and upcoming changes.



## HEP GROUP

Dependent companies	Core activity
HEP-Proizvodnja d.o.o.	Production of electricity and heat
Hrvatski operator prijenosnog sustava d.o.o. <sup>1</sup>	Electricity transmission
<b>HEP-Operator distribucijskog sustava d.o.o.</b>	<b>Electricity distribution</b>
HEP ELEKTRA d.o.o.	Electricity supply of customers as a public service
HEP - Opskrba d.o.o.	Electricity supply
HEP-TOPLINARSTVO d.o.o.	Production and distribution of heat
HEP-PLIN d.o.o. <sup>2</sup>	Gas distribution and supply
HEP-Trgovina d.o.o.	Electricity trade and optimization of power plant operations
HEP - ESCO d.o.o.	Implementation and funding of energy efficiency projects
PLOMIN HOLDING d.o.o.	Development of local infrastructure in the vicinity of Plomin TPP
CS Buško Blato d.o.o.	Maintenance of hydro equipment
HEP - Upravljanje imovinom d.o.o.	Management of non-operating assets and tourism
<b>HEP-Nastavno obrazovni centar</b>	<b>Training, professional development and accommodation services</b>
HEP - VHS Zaprešić d.o.o.	Design and construction of multi-purpose hydrotechnical system
HEP Energija d.o.o. Beograd	Electricity trading
HEP Energija d.o.o. Ljubljana	Electricity trading
HEP Energija d.o.o. Mostar	Electricity trading
HEP Energija sh.p.k. Priština	Electricity trading
ENERGETSKI PARK KORLAT d.o.o.	Electricity production
HEP-TELEKOMUNIKACIJE d.o.o.	Telecommunication services
SUNČANA ELEKTRANA POREČ d.o.o.	Electricity production
SUNČANA ELEKTRANA VIS d.o.o.	Electricity production
ORNATUS d.o.o.	Electricity production
Nuklearna elektrana Krško d.o.o. <sup>3</sup>	Electricity production
LNG HRVATSKA d.o.o. <sup>4</sup>	LNG operations
Peharda izgradnja d.o.o. <sup>5</sup>	Construction of residential and non-residential buildings

1. As of 1 July 2013, HOPS operates under the independent transmission operator model (ITO)

2. GP Krapina d.o.o. and Darkom DP d.o.o., acquired in 2021, were merged with HEP Plin d.o.o. in January 2022. Pakrac plin d.o.o. was taken over in May 2022, and in November 2022 merged with HEP Plin d.o.o., which is its sole owner

3. In consolidated financial statements, the share in NE Krško d.o.o. is shown by the method of joint asset and liabilities management. HEP Group's share is shown for each asset and liability across income and expenditure.

4. Joint venture with Plinacro d.o.o. (75%:25%)

5. Peharda izgradnja d.o.o. was acquired in January 2022 by Plomin Holding d.o.o. as its sole owner.



## DISTRIBUTION AREAS OF HEP ODS



## BASIC DATA ABOUT DISTRIBUTION AREAS

### ELEKTRA ZAGREB

Number of metering points	576,831
Peak load	715 MW
Length of network	18,314 km
Number of substations	3,811
Installed transformation capacity	4,861 MVA
Number of connected distributed sources	1,017
Connection capacity of distributed sources	24,599 kW
Number of workers	846

### ELEKTRA KOPRIVNICA

Number of metering points	54,764
Peak load	69 MW
Length of network	5,048 km
Number of substations	744
Installed transformation capacity	487 MVA
Number of connected distributed sources	237
Connection capacity of distributed sources	16,460 kW
Number of workers	160

### ELEKTRA ZABOK

Number of metering points	68,887
Peak load	78 MW
Length of network	5,808 km
Number of substations	940
Installed transformation capacity	572 MVA
Number of connected distributed sources	210
Connection capacity of distributed sources	13,961 kW
Number of workers	207

### ELEKTRA BJELOVAR

Number of metering points	51,000
Peak load	62 MW
Length of network	4,307 km
Number of substations	813
Installed transformation capacity	383 MVA
Number of connected distributed sources	260
Connection capacity of distributed sources	25,003 kW
Number of workers	157

### ELEKTRA VARAŽDIN

Number of metering points	73,226
Peak load	93 MW
Length of network	4,341 km
Number of substations	937
Installed transformation capacity	752 MVA
Number of connected distributed sources	462
Connection capacity of distributed sources	28,105 kW
Number of workers	200

### ELEKTRA KRIŽ

Number of metering points	78,716
Peak load	87 MW
Length of network	5,574 km
Number of substations	1,390
Installed transformation capacity	698 MVA
Number of connected distributed sources	283
Connection capacity of distributed sources	20,336 kW
Number of workers	253

### ELEKTRA ČAKOVEC

Number of metering points	48,923
Peak load	75 MW
Length of network	3,218 km
Number of substations	545
Installed transformation capacity	447 MVA
Number of connected distributed sources	305
Connection capacity of distributed sources	19,143 kW
Number of workers	129

### ELEKTROSLAVONIJA OSIJEK

Number of metering points	154,948
Peak load	158 MW
Length of network	8,492 km
Number of substations	1,640
Installed transformation capacity	1,578 MVA
Number of connected distributed sources	778
Connection capacity of distributed sources	58,951 kW
Number of workers	453

#### ELEKTRA VINKOVCI

Number of metering points	<b>82,665</b>
Peak load	<b>81 MW</b>
Length of network	<b>5,019 km</b>
Number of substations	<b>862</b>
Installed transformation capacity	<b>773 MVA</b>
Number of connected distributed sources	<b>433</b>
Connection capacity of distributed sources	<b>38,423 kW</b>
Number of workers	<b>299</b>

#### ELEKTRODALMACIJA SPLIT

Number of metering points	<b>312,138</b>
Peak load	<b>449 MW</b>
Length of network	<b>13,694 km</b>
Number of substations	<b>2,791</b>
Installed transformation capacity	<b>3,344 MVA</b>
Number of connected distributed sources	<b>497</b>
Connection capacity of distributed sources	<b>33,388 kW</b>
Number of workers	<b>801</b>

#### ELEKTRA KARLOVAC

Number of metering points	<b>88,625</b>
Peak load	<b>95 MW</b>
Length of network	<b>7,458 km</b>
Number of substations	<b>1,544</b>
Installed transformation capacity	<b>728 MVA</b>
Number of connected distributed sources	<b>215</b>
Connection capacity of distributed sources	<b>29,076 kW</b>
Number of workers	<b>224</b>

#### ELEKTRA VIROVITICA

Number of metering points	<b>30,504</b>
Peak load	<b>34 MW</b>
Length of network	<b>2,589 km</b>
Number of substations	<b>495</b>
Installed transformation capacity	<b>329 MVA</b>
Number of connected distributed sources	<b>134</b>
Connection capacity of distributed sources	<b>27,259 kW</b>
Number of workers	<b>109</b>

#### ELEKTRA SLAVONSKI BROS

Number of metering points	<b>66,287</b>
Peak load	<b>65 MW</b>
Length of network	<b>3,442 km</b>
Number of substations	<b>766</b>
Installed transformation capacity	<b>628 MVA</b>
Number of connected distributed sources	<b>272</b>
Connection capacity of distributed sources	<b>17,215 kW</b>
Number of workers	<b>191</b>

#### ELEKTRA ZADAR

Number of metering points	<b>140,836</b>
Peak load	<b>209 MW</b>
Length of network	<b>9,497 km</b>
Number of substations	<b>1,287</b>
Installed transformation capacity	<b>1,316 MVA</b>
Number of connected distributed sources	<b>285</b>
Connection capacity of distributed sources	<b>42,871 kW</b>
Number of workers	<b>274</b>

#### ELEKTRA SISAK

Number of metering points	<b>59,957</b>
Peak load	<b>58 MW</b>
Length of network	<b>5,551 km</b>
Number of substations	<b>1,544</b>
Installed transformation capacity	<b>728 MVA</b>
Number of connected distributed sources	<b>124</b>
Connection capacity of distributed sources	<b>11,973 kW</b>
Number of workers	<b>224</b>

#### ELEKTRA POŽEGA

Number of metering points	<b>27,396</b>
Peak load	<b>23 MW</b>
Length of network	<b>2,087 km</b>
Number of substations	<b>447</b>
Installed transformation capacity	<b>232 MVA</b>
Number of connected distributed sources	<b>107</b>
Connection capacity of distributed sources	<b>5,118 kW</b>
Number of workers	<b>115</b>

#### ELEKTROISTRA PULA

Number of metering points	<b>172,814</b>
Peak load	<b>296 MW</b>
Length of network	<b>8,932 km</b>
Number of substations	<b>2,170</b>
Installed transformation capacity	<b>1,701 MVA</b>
Number of connected distributed sources	<b>378</b>
Connection capacity of distributed sources	<b>14,118 kW</b>
Number of workers	<b>334</b>

#### ELEKTRA ŠIBENIK

Number of metering points	<b>92,385</b>
Peak load	<b>116 MW</b>
Length of network	<b>7,463 km</b>
Number of substations	<b>1,103</b>
Installed transformation capacity	<b>908 MVA</b>
Number of connected distributed sources	<b>245</b>
Connection capacity of distributed sources	<b>107,267 kW</b>
Number of workers	<b>244</b>

#### ELEKTROLIKA GOSPIĆ

Number of metering points	<b>50,741</b>
Peak load	<b>76 MW</b>
Length of network	<b>6,170 km</b>
Number of substations	<b>1,130</b>
Installed transformation capacity	<b>567 MVA</b>
Number of connected distributed sources	<b>72</b>
Connection capacity of distributed sources	<b>12,919 kW</b>
Number of workers	<b>224</b>

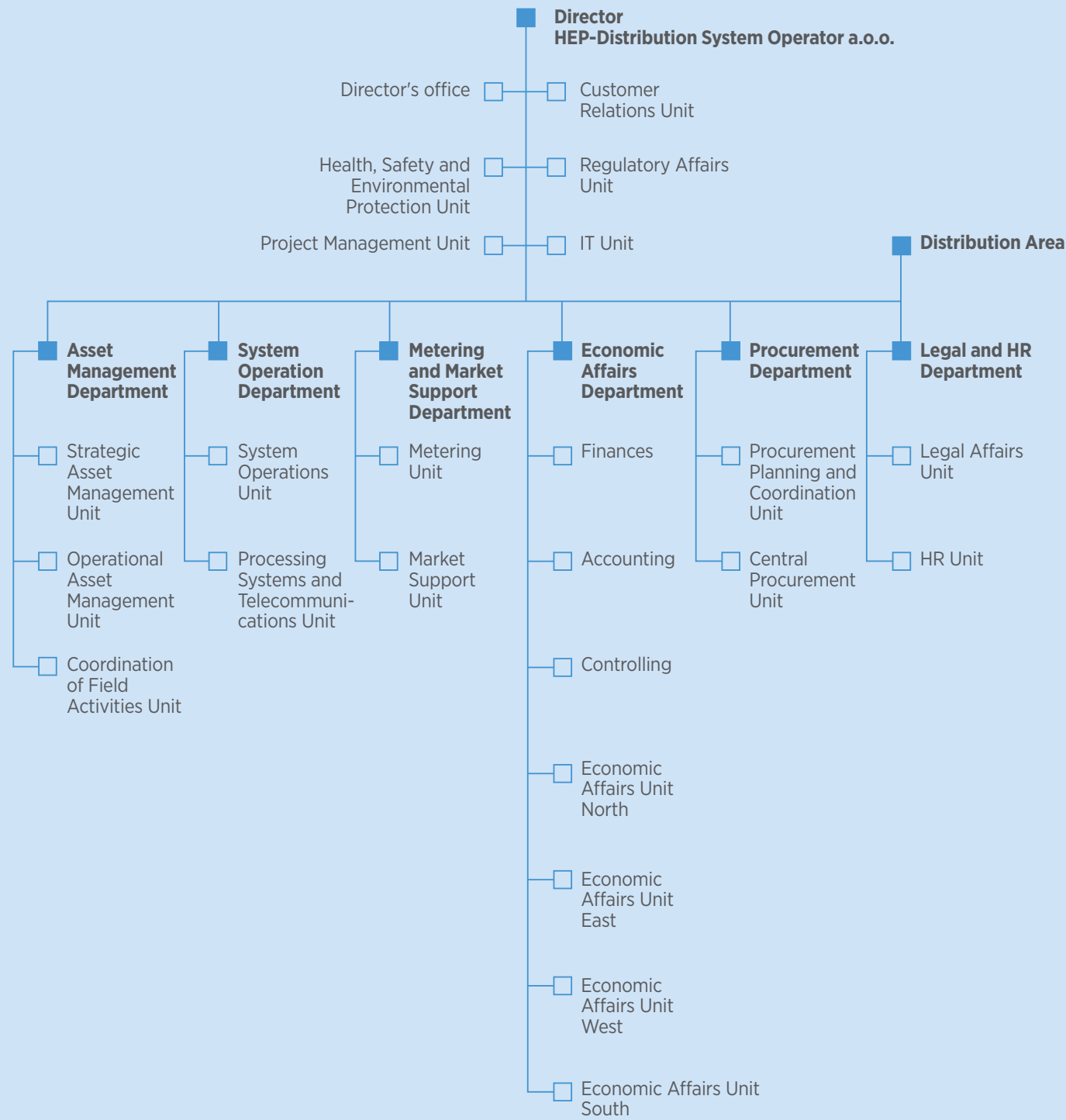
#### ELEKTROPRIMORJE RIJEKA

Number of metering points	<b>224,611</b>
Peak load	<b>302 MW</b>
Length of network	<b>11,085 km</b>
Number of substations	<b>2,023</b>
Installed transformation capacity	<b>2,105 MVA</b>
Number of connected distributed sources	<b>600</b>
Connection capacity of distributed sources	<b>34,673 kW</b>
Number of workers	<b>425</b>

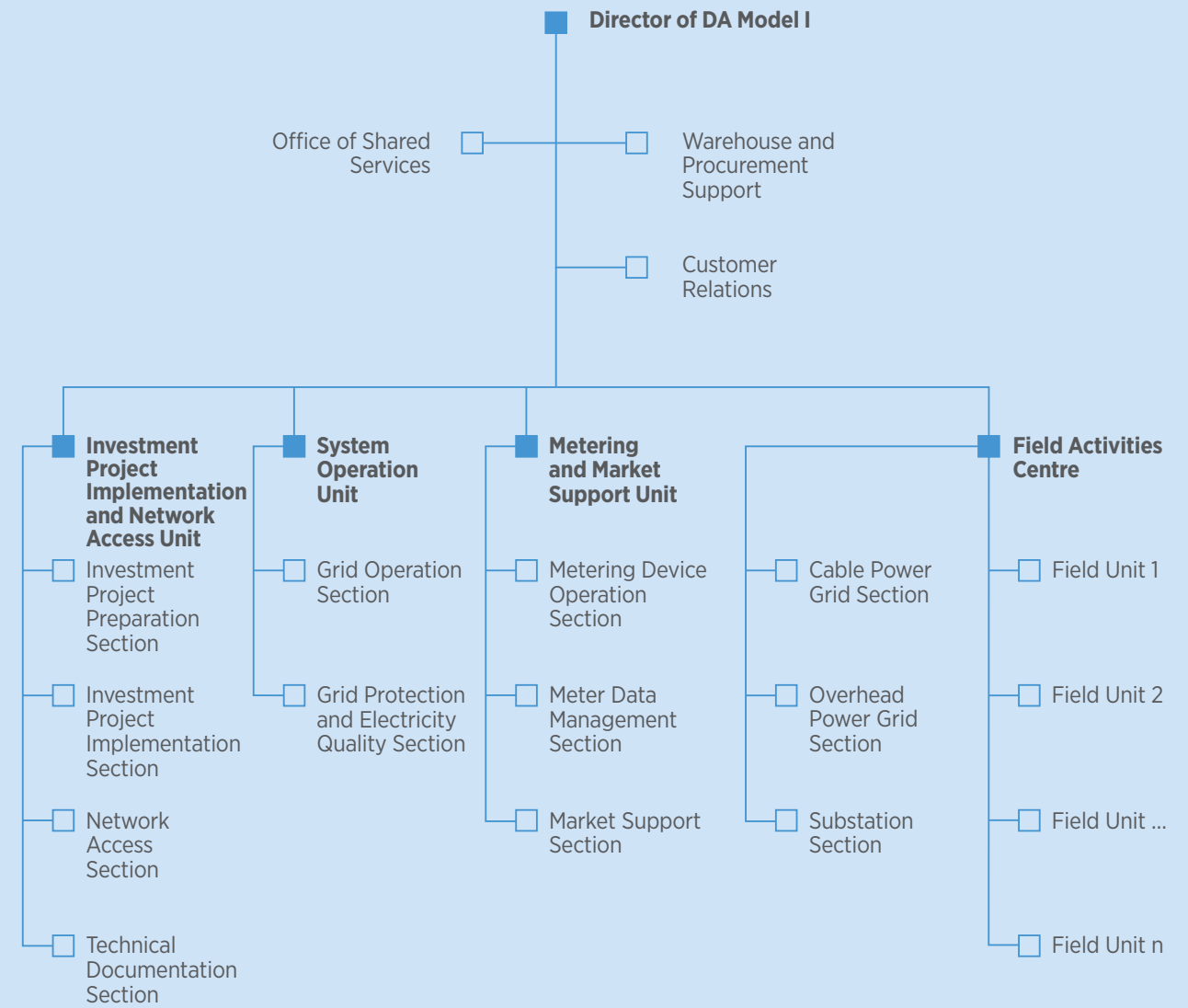
#### ELEKTROJUG DUBROVNIK

Number of metering points	<b>57,794</b>
Peak load	<b>110 MW</b>
Length of network	<b>3,847 km</b>
Number of substations	<b>575</b>
Installed transformation capacity	<b>783 MVA</b>
Number of connected distributed sources	<b>91</b>
Connection capacity of distributed sources	<b>2,847 kW</b>
Number of workers	<b>188</b>

## ORGANIZATIONAL STRUCTURE

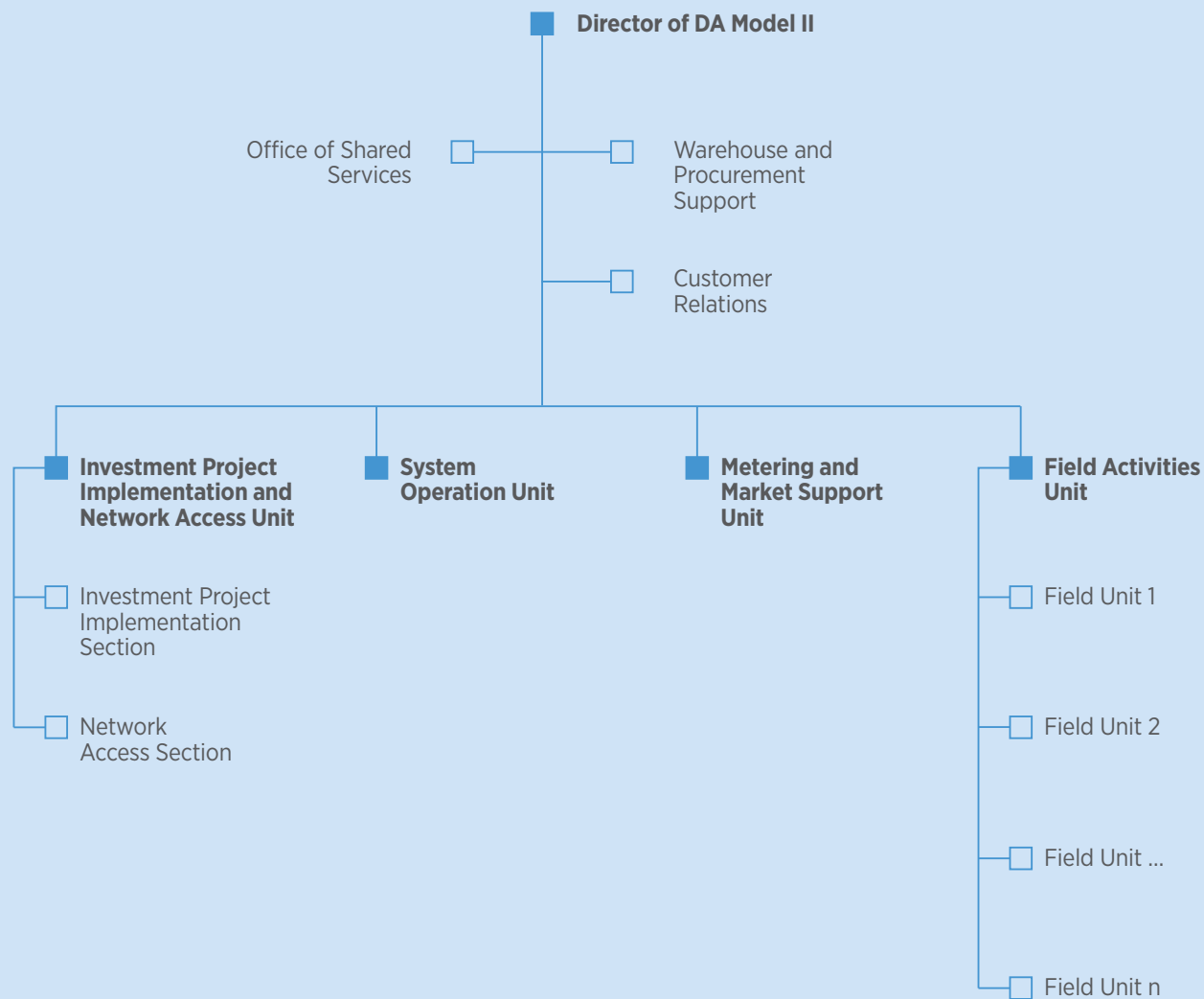


## ORGANIZATIONAL STRUCTURE OF DISTRIBUTION AREA MODEL I.





## ORGANIZATIONAL STRUCTURE OF DISTRIBUTION AREA MODEL II.



## 2.4 LEGISLATIVE FRAMEWORK

**As a key participant in the retail electricity market in the Republic of Croatia, HEP ODS is obligated to harmonize its operations with the new regulatory framework in a timely manner, including further development of the distribution network and improvement of service quality.**

The Electricity Market Act (ZOTEE), which entered into force in late October 2021, transposes all the provisions of Directive (EU) 2019/944 of the European Parliament and of the Council on common rules for the internal electricity market and amending Directive 2012/27/EU. Following its entry into force, a number of by-laws was adopted. Another piece of legislation important for the implementation of green transition is the Act on Renewable Energy Sources and High-Efficiency Cogeneration, which was adopted in accordance with Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources.

The relations with the electricity market participants will become increasingly complex and demanding in the coming period and will have a direct or indirect impact on all business areas. HEP ODS will face one of the most demanding periods, i.e. the obligation of accelerated business adjustment, at the technological, organizational and personnel levels. Special attention will need to be paid to the definition and establishment of mutual relations with new entities (aggregators, active customers, energy communities of citizens, operators of electric vehicle charging stations, operators of electricity storage facilities and operators of closed distribution systems) and to a timely harmonization of IT systems.

HEP ODS is facing a challenging and interactive period of responding to new changes and securing its potential in the energy transition.

### KEY REGULATIONS

Business operations of HEP ODS are regulated by key legislative, secondary and internal acts:

- The Energy Act
- The Electricity Market Act
- The Act on the Regulation of Energy Activities
- The Act on Renewable Energy Sources and High-Efficiency Cogeneration
- The Energy Efficiency Act
- The Act on Cybersecurity of Essential Service Operators and Digital Service Providers
- General EU regulation on personal data protection
- Methodology for setting the amount of tariff items for electricity distribution
- Decision on the amount of tariff items for electricity distribution
- Rulebook on general conditions for the use of the network and electricity supply
- Rulebook on quality conditions of electricity supply
- Rules on supplier and aggregator switching
- Ordinance on issuing energy consents and determining conditions and deadlines for power grid connection
- Methodology for determining the power grid connection charge

- Rules on electricity market organization
- Balancing Rules
- Grid Code
- Rules on the connection to the distribution network
- Rules for the application of standard load curves
- Rules of distribution system operator's non-standard services

Primary and secondary pieces of electricity distribution-related legislation adopted in 2022 include the following:

- Act on the Establishment of Infrastructure for Alternative Fuels ([Official Gazette, nos. 120/16, 63/22](#))
- Regulation on Elimination of Disturbances on Domestic Energy Market ([Official Gazette, no. 104/22](#))
- Ordinance on the criteria for acquiring the status of a vulnerable energy customer from networked systems ([Official Gazette, nos. 95/15, 31/22](#))
- Ordinance on the monthly amount of compensation for vulnerable energy customers, the method of participating in the settlement of the costs of energy of the fee users and the actions of the Croatian Institute for Social Work ([Official Gazette, no. 31/22](#))
- Rulebook on general conditions for the use of the network and electricity supply ([Official Gazette, no. 100/22](#))
- Rules on supplier and aggregator switching ([Official Gazette, no. 84/22](#))
- Rulebook on quality conditions of electricity supply ([Official Gazette, no. 84/22](#))
- Rulebook on the system for monitoring, measuring and verifying energy savings ([Official Gazette, nos. 98/21, 30/22, 96/23](#))
- Criteria for issuing consent for the construction and operation of direct lines ([Official Gazette, no. 85/22](#))
- Methodology for setting tariff item amounts for guaranteed electricity supply ([Official Gazette, no. 20/22](#))
- Methodology for setting tariff item amounts for electricity distribution ([Official Gazette, no. 84/22](#))
- Methodology for setting tariff item amounts for electricity transmission ([Official Gazette, no. 84/22](#))
- Methodology for setting the power grid connection charge ([Official Gazette, no. 84/22](#))

## 2.5 REGULATORY FRAMEWORK

HEP ODS is subject to laws and regulations, tariffs and other regulatory aspects of its business activities. The introduction of new legislative and secondary regulations, or amendments to the existing ones, affects operations, annual results and key performance indicators. We are monitoring priority regulatory topics in the electricity market and coordinate the making of and the submission of required reports to the regulatory agency.

## NEW REGULATIONS

During 2022, HEP ODS drafted a proposal of the new Rules for the connection to the distribution network, and participated in preparing or amending a number of energy regulations and strategic documents, of which the following must be highlighted:

- Rulebook on general conditions for the use of the network and electricity supply
- Methodology for setting tariff item amounts for electricity distribution
- Methodology for setting the power grid connection charge
- Rules on supplier and aggregator switch
- Rulebook on quality conditions of electricity supply

## 2.6 REPORTS SUBMITTED TO HERA

### REPORT ON THE IMPLEMENTATION OF ACTIVITIES, RESPONSIBILITIES AND DUTIES UNDER THE ELECTRICITY MARKET ACT

HEP ODS is a regulated energy entity which carried out the energy activity of electricity distribution during 2022 in accordance with the responsibilities and duties set under the Electricity Market Act. Through its 21 distribution areas HEP ODS is responsible for the operation, maintenance, development and construction of the distribution network in the Republic of Croatia.

In accordance with HERA's instructions, a 25 chapter report on the implementation of all its activities, responsibilities and duties set under the Electricity Market Act was made. It provides a detailed overview of business indicators regarding:

- the consumption of end customers' metering points
- the number of metering points and the sale of electricity by suppliers
- completed investments
- lines and substations data
- power plants connected to the distribution network
- the work of the consumer complaints committee
- the number of metering points by meter type and the number of installed meters
- revenues generated by the application of valid tariff items
- the number and consumption of metering points by category and tariff model by distribution area
- the number of supplier switching instances
- temporary disconnection of power supply due to non-payment
- the number of self-supply facility users.

In conclusion, a special overview of the 2022 operations and expectations for the next period is given. The report was submitted to HERA and published on the HEP ODS website.

## REPORT ON THE REALIZATION OF THE ANNUAL ENERGY PURCHASE PLAN TO COVER LOSSES IN THE DISTRIBUTION NETWORK

HEP ODS is systematically working on the improvement of all processes related to the planning and procurement of electricity to cover losses, including the monitoring of price trends on the electricity market, in order to initiate the procurement process at the most favourable moment.

Article 70, paragraph 13 of the Electricity Market Act stipulates that HEP ODS shall submit to the Croatian Energy Regulatory Agency for its approval an estimate of the amount and total cost of electricity purchased for covering electricity losses in the distribution network for the following year by 30 September of the current year together with the following data and information:

- the estimated amount of electricity losses and the method of its determination
- purchased quantities and the method, rate, unit prices and other related procurement costs together with concluded contracts
- planned quantities and the method, rate, unit prices and other associated procurement costs
- method of setting the planned unit price
- total planned cost for covering electricity losses.

In line with the above, the losses recorded in 2022 amounted to 1,199 GWh, which is lower than the 2022 plan of 1,310 GWh. In 2022, in accordance with the Rulebook on general conditions for the use of the network and the supply of electricity, all households with a semi-annual billing period in the Republic of Croatia switched to uneven monthly consumption, i.e. monthly financial obligations. By abandoning the obligation of even projected monthly consumption, it became easier to determine the coefficient of losses in the application of standard load curves. The total cost of energy purchased for covering losses in 2022 was HRK 849.4 million. Having in mind all of the above, and especially a significant price increase on the electricity market, HEP ODS achieved notable financial savings of around HRK 1.76 billion.

## REPORT ON THE IMPLEMENTATION OF ACTIVITIES FROM ARTICLE 73, PARAGRAPH 1 OF THE ELECTRICITY MARKET ACT

The energy activity of electricity distribution is carried out as a public service, which must be available at all times to all customers and energy entities at a regulated price and according to regulated conditions of access and use of service, respecting safety, regularity and quality of service, environmental protection, efficiency of energy use and climate protection. It is carried out according to legally set principles of public work and the supervision by authorities.

HEP ODS shall act in a transparent, objective and impartial manner towards all participants on the electricity market and network users.

The 2022 Report on the implementation of its activities from Article 73, paragraph 1 of the Electricity Market Act was prepared in accordance with the principles of transparency, objectivity and impartiality.

## REPORT ON COMPLIANCE PROGRAMME MONITORING

HEP ODS adopted the Compliance Programme in accordance with the provisions of the Electricity Market Act. Under the decision of the Company's director, a Committee was appointed to monitor the HEP ODS Compliance Programme.

The Programme establishes measures that exclude the possibility of biased management, as well as measures for appropriate monitoring of its compliance. Also, the Programme establishes special obligations of the Company employees and the Commission.

The Company shall ensure impartiality towards all electricity market participants, in particular towards associated entities within a vertically integrated entity, in accordance with applicable regulations. In terms of organization, and in relation to HEP d.d. as the governing company, HEP ODS is a dependent, which in terms of its legal form, organization and structure is independent from HEP d.d., as well as from other dependent companies within HEP Group.

The Report on the monitoring of the HEP ODS compliance programme for 2022 was prepared. The Report was submitted to HERA and published on the HEP ODS website.

The Report assessed that in 2022 the Company acted in accordance with the Compliance Programme.





## ANNUAL REPORT ON SECURITY OF SUPPLY IN DISTRIBUTION SYSTEM

Pursuant to the provisions of the Electricity Market Act, HEP ODS publishes the Annual Report on Security of Supply in the Distribution System.

The 2022 Report contains:

- description of basic features of the distribution power system
- provision of necessary energy volumes
- production overview of power plants connected to the distribution network
- flexibility of distribution network users and provision of ancillary services to the system
- description of electricity losses in the distribution system
- achieved indicators of power supply reliability in the distribution network
- data on major interruptions in the supply of electricity
- security of supply measures
- a view at security of supply in the future period.

In conclusion, it was stated that HEP ODS continuously monitors key performance indicators of power supply reliability in the distribution system in order to observe and improve its performance in increasing distribution system power supply reliability. HEP ODS undertakes activities with the aim of drafting the Rules on non-frequency ancillary services for the distribution system and the Rules on congestion management in the distribution system, and makes preparations for Distribution System Grid Code in the part that refers to the technical conditions for the provision of non-frequency ancillary and flexibility services, with the aim of creating the necessary preconditions for the application of distribution system flexibility. HEP ODS cooperates directly with HOPS on the development and improvement of the Contingency Plan for risks in the electricity sector, whereby it assumes its part of obligations and responsibilities for preserving the regular operation and integrity of the national and European power system.

The annual report on the security of supply in the distribution system for the year 2022 was submitted to HERA and published on the HEP ODS website.

## REPORT ON POWER QUALITY OF ELECTRICITY SUPPLY

In 2022, HERA adopted the Rulebook on electric power quality regarding the supply quality in the area of service quality, power supply reliability and voltage quality, under which the following has been regulated:

- indicators of electricity supply quality
- the method of measuring, collecting and publishing electricity supply quality indicators
- exceptional events regarding the quality of electricity supply
- general, minimum and guaranteed quality standards of electricity supply
- the method of regulating the quality of electricity supply depending on the selected method of tariff regulation
- financial compensation (hereinafter: remuneration) based on guaranteed quality standards of electricity supply
- the method, rate and scope of reporting and submitting data to the Croatian Energy Regulatory Agency (hereinafter: the Agency) on the quality of electricity supply

- content of the transmission system operator's annual report on the quality of electricity supply
- content of the distribution system operator's annual report on the quality of electricity supply; and
- content of the supplier's annual report on the quality of services.

The quality conditions set an obligation for the distribution system operator in terms of keeping electronic records in which all data and documents on the quality of services necessary for the calculation and verification of service quality indicators are entered and stored, as well as data on service quality complaints, remuneration requests, and paid remuneration due to failure to reach the level of guaranteed service quality standards. Service quality indicators are calculated based on data from electronic records.

The Company publishes on its website an annual report on the quality of electricity supply by 30 April of the current year for the previous calendar year.

The report on the quality of electricity supply for 2022 was prepared and published on the HEP ODS website. The Report contains maximum available data, in accordance with the valid Quality Conditions. Based on the experience gained, the Company will continue with the systematic maintenance and improvement of electronic records, i.e. to improve the existing IT support and undertake the necessary operational and organizational measures in order to ensure the maximum credibility of data and improve the quality of electricity supply.

## REPORT ON REALIZATION OF HEP ODS INVESTMENT PLAN

In accordance with the Methodology for setting tariff item amounts for electricity distribution, HEP ODS prepared and submitted to HERA the Report on HEP ODS investment plan delivery for the year 2022.

The report contains:

- Investment Plan funding
- realization of the Investment Plan by activities
- report on the execution status of key projects.

## STATEMENT ON THE IMPLEMENTATION OF DUTIES PRESCRIBED BY THE ENERGY MARKET ACT

In accordance with the Energy Efficiency Act, HEP ODS carries out its duties related to systematic energy management and energy efficiency. Preservation and protection of the environment and nature, as well as efficient energy management, is part of the business strategy of HEP ODS, which has decided to establish, apply and permanently improve the environmental and energy management system according to the requirements of the international ISO 14001 and ISO 50001 standards. HEP ODS, aware of its impact on the environment, and with regard to the introduced environmental and energy management systems, has adopted the Environmental and Energy Management Policy.

A Statement on the implementation of duties set in Articles 15, 17, 18 and 22 of the Energy Efficiency Act was prepared and submitted to HERA.

## 2.7 FINANCIAL INDICATORS

Business operations in 2022 were largely characterized by changes in the market of commodities, works and services, significant geopolitical uncertainty and, consequently, pronounced inflationary trends. High volatility of energy prices represented an additional challenge for business operations and ultimately led to a significant increase of expenses and a decrease of profit compared to 2021.

During 2022, economic growth continued, but the total electricity demand remained equal to 2021. However, income earned from the distribution network usage fee increased by 4.7% compared to 2021, due to the increase in the price of tariff items for the distribution of electricity in accordance with the HERA Decision of 1 April 2022.

At the beginning of the year, the Government of the Republic of Croatia prepared a package of measures for mitigating the rise of prices caused by the increase in energy prices, the implementation of which began on 1 April 2022. Due to the continuation and escalation of global disturbances on the world market, the Government adopted a new package of measures in autumn with the aim of additionally protecting the standard of citizens, ensuring the functioning of public institutions and maintaining high economic growth. The Regulation on Elimination of Disturbances on Domestic Energy Market set special measures for electricity trade, as well as the method and conditions of price formation for specific categories of electricity buyers. The implementation of said Regulation represented an additional challenge in organizing the work of various business areas directly affecting income generated by HEP ODS.

Activities in the business area of distribution network development were marked by an increase in economic activities, which resulted in an increased number of payments for new network connection fees and an increase of connection capacity, as well as in investments in the reconstruction of the electric power distribution network after the earthquake.

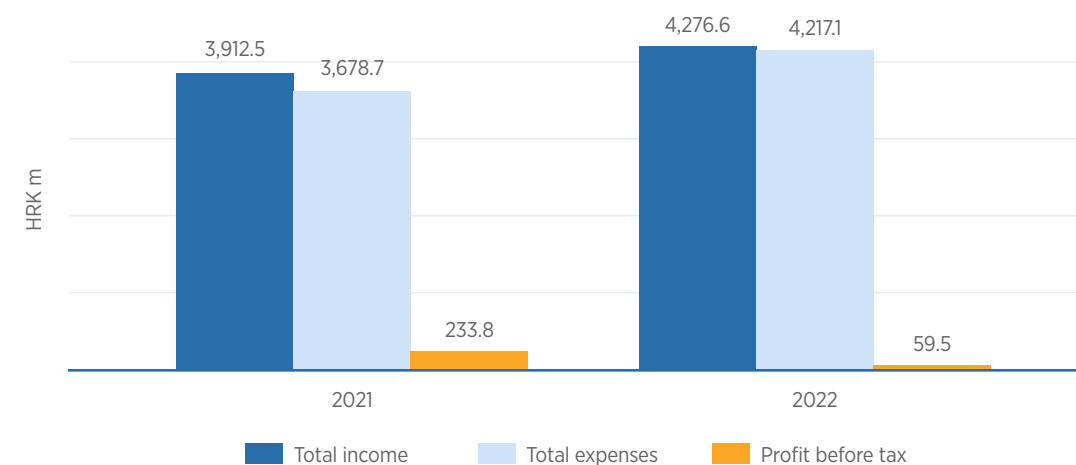
### FINANCIAL PERFORMANCE

Total revenue of HEP ODS in 2022 amounted to HRK 4,276.6 million, which was an increase by HRK 364.1 million, or 9.3% compared to 2021. Total expenses amounted to HRK 4,217.1 million, a rise by HRK 538.4 million, or 14.6%. The faster growth of total expenses in relation to revenues led to a decrease in earned profit before tax, amounting to HRK 59.5 million.

### BASIC OPERATING INDICATORS

DESCRIPTION	Unit	2021	2022	% 22/21
Total revenue	HRK m	3,912.5	4,276.6	9.3%
Total expenses	HRK m	3,678.7	4,217.1	14.6%
Profit/loss before taxes	HRK m	233.8	59.5	-74.6%
Electricity distribution	GWh	15,609	15,617	0.1%
Number of metering points		2,484,575	2,514,048	1.2%
Receivables from network users	HRK m	217.3	170.1	-21.7%
Trade liabilities	HRK m	473.7	634.7	34.0%
Reserves	HRK m	495.9	596.2	20.2%
No. of workers		6,898	6,879	-0.3%
Investments	HRK m	1,072.5	1,139.1	6.2%

### OPERATING PERFORMANCE

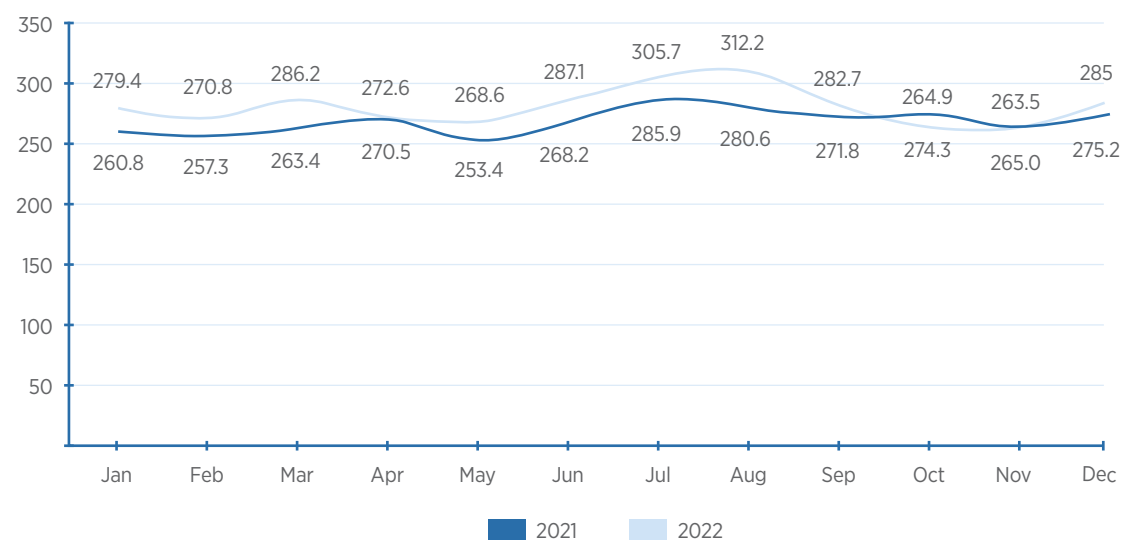


The main reason for the significant decrease of profit by 74.6% compared to 2021, despite the increase in generated income, is a high rise of expenses, especially of electricity costs to cover losses.

## INCOME

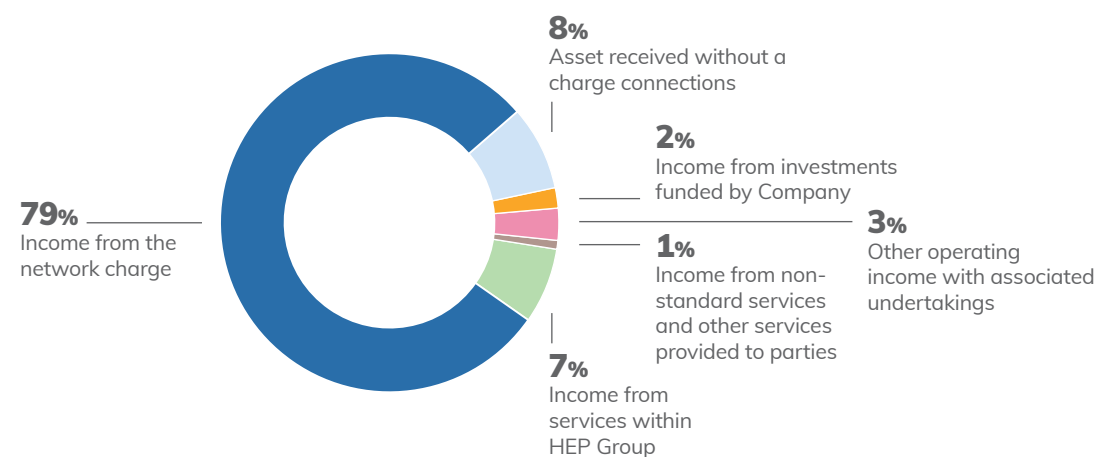
The most significant income of HEP ODS is the income earned from the distribution network usage fee. Said income was generated in the amount of HRK 3,378.7 million, which was by HRK 152.2 million higher than in 2021, primarily due to the increase in the price of tariff items for the distribution of electricity as of 1 April 2022 according to the Decision of the Croatian Energy Regulatory Agency. Income from the fee for the usage of the distribution network by customer category is divided into business and household customers, who account for 50.3% and 49.7% of the revenue, respectively.

### INCOME FROM THE DISTRIBUTION NETWORK USAGE FEE (in HRK million)



Income from the connection charge, as the second highest income of HEP ODS, increased by 2.7% compared to 2021 amounting to HRK 334.4 million.

### SHARE OF INCOME BY SEGMENTS IN TOTAL REVENUE



## EXPENSES

Total expenses of HRK 4,217.1 million increased by 14.6% or HRK 538.4 million in comparison with 2021.

Among financially significant costs in the total expenses of HEP ODS, the cost of electricity to cover losses stand out. Natural losses decreased by 1.1%, but their financial value increased by HRK 192 million or 29.2% than in 2021. The increase in the cost of losses was particularly influenced by the Agreement for supply of remaining electricity to cover losses in the distribution network and the extreme volatility of electricity prices on the market. The unit monthly price for the remaining electricity is determined as the sum of the offered (fixed) unit price and part of the unit monthly price in the second imbalance settlement, which has been constantly and significantly increasing from June 2021.

Compared to the previous year, staff costs, including workers' material rights, increased by HRK 35.8 million in accordance with the provisions of the Collective Agreement for Hrvatska elektroprivreda.

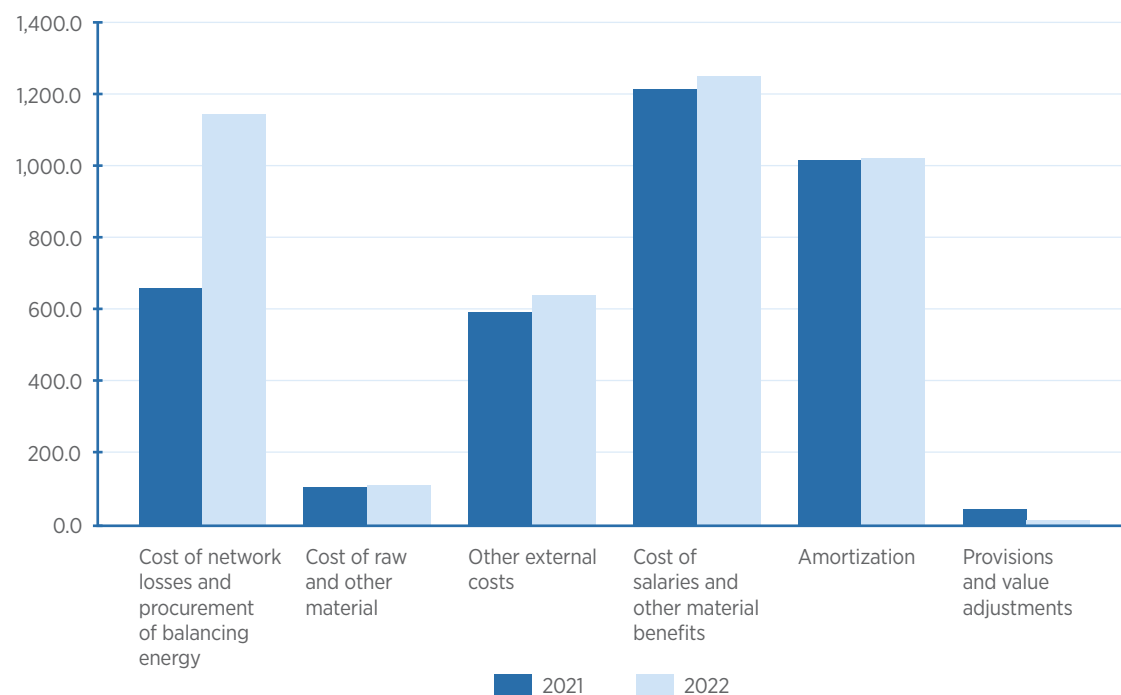
In terms of more significant expenses and compared to 2021, value adjustments and provisions were reduced by HRK 32.4 million, which includes provisions for jubilee awards, severance payments and litigation under accounting policies, as well as value adjustments of trade receivables as per HEP Group accounting policies.

In accordance with the Agreement on Mutual Relations with HEP ODS, HEP d.d. as a parent company manages the financial policy for HEP ODS and implements the borrowing strategy. Financial expenses were reduced by HRK 5.4 million compared to 2021, amounting to HRK 35.1 million. In 2022, there was no need for new borrowings.

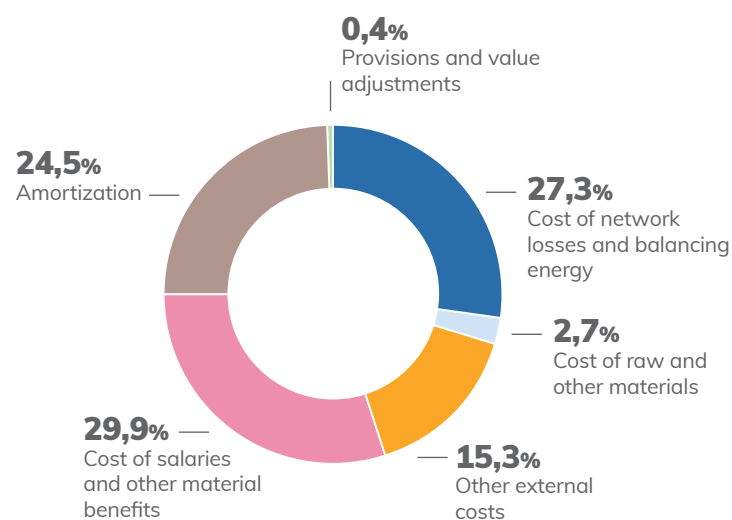
Under the conclusions of the Government of the Republic of Croatia, HEP ODS wrote off receivables for the distribution network usage fee in the earthquake-affected areas of Sisak-Moslavina, Zagreb and Karlovac counties, which was entered as an extraordinary expenditure of HRK 14.3 million.



## COMPARISON OF OPERATING COSTS



## SHARE OF COST IN TOTAL EXPENSES BY SEGMENTS (in HRK million)



## INCOME STATEMENT

	2021	2022
	HRK m	HRK m
<b>OPERATING INCOME</b>		
Income from sale	3,256.3	3,415.3
Income from sale – associated companies	179.4	329.2
Other operating income – associated companies	1.1	1.5
Other operating income	470.0	530.4
<b>Total operating income</b>	<b>3,908.8</b>	<b>4,276.4</b>
<b>OPERATING EXPENSES</b>		
Cost of network losses and procurement of balancing energy	657.7	1,141.0
Cost of services	268.5	303.3
Cost of staff	1,065.3	1,074.0
Amortization cost	1,016.9	1,022.7
Administrative costs – associated companies	181.3	190.3
Other operating cost	448.5	450.6
<b>Total operating expenses</b>	<b>3,638.2</b>	<b>4,181.9</b>
<b>Operating profit</b>	<b>270.6</b>	<b>94.4</b>
Financial income	3.7	0.2
Financial expenses	40.5	35.2
<b>Net financial loss</b>	<b>-36.8</b>	<b>-3,0</b>
<b>Profit before taxes</b>	<b>233.8</b>	<b>59.5</b>
Corporate tax	41.2	10.2
<b>Profit for the current year</b>	<b>192.6</b>	<b>49.3</b>

## FINANCIAL POSITION OF THE COMPANY

Balance sheet - abridged	31 December 2021		31 December 2022		22/21 (%)
	HRK m	share	HRK m	share	
Fixed assets	15,238.2	84%	15,552.2	82%	1.5%
Current assets	2,939.3	16%	3,472.8	18%	18.2%
<b>Total assets</b>	<b>18,267.4</b>	<b>100%</b>	<b>19,025.1</b>	<b>100%</b>	<b>4.1%</b>
Equity and reserves	2,015.6	11%	1,872.2	10%	-7.1%
Long-term provisions	495.0	3%	477.3	3%	-3.6%
Long-term liabilities and deferred income	12,333.1	68%	12,454.9	65%	1.0%
Short-term liabilities	3,423.8	19%	4,220.6	22%	23.3%
<b>Total liabilities and equity</b>	<b>18,267.4</b>	<b>100%</b>	<b>19,025.1</b>	<b>100%</b>	<b>4.1%</b>



## ASSETS

As of 31 December 2022, total assets amounted to HRK 19,025.1 million, an increase by HRK 757.7 million compared to 2021. Fixed assets accounted for 82% of asset value. The value of current assets is HRK 3,472.8 million, an increase by HRK 533.5 million compared to 2021. The increase in current assets was, for the most part, impacted by an increase in cash of HRK 382 million, an increase in the value of inventories of HRK 100.3 million, and an increase in short-term receivables from associated undertakings of HRK 70 million.

## EQUITY AND LIABILITIES

The equity of HEP ODS at the end of 2022 in the amount of HRK 1,872.2 million consists of:

- subscribed capital in the amount of HRK 699.4 million
- share in the associated undertaking HEP Telekomunikacije d.o.o. of HRK 15.9 million
- capital reserves based on the transfer of ownership of buildings and equipment taken over from Hrvatske autocesta d.o.o. in the amount of HRK 1,086.7 million
- revaluation reserves based on the revaluation of fixed assets in the amount of HRK 20.9 million
- realized profit of the current year (after taxation) in the amount of HRK 49.3 million.

Long-term provisions amounted to HRK 477.3 million, which was a decrease by HRK 17.7 million due to the reduction of provisions for severance pays, in accordance with accounting policies.

Long-term liabilities, including deferred income, amounted to HRK 12,454.9 million accounting for 65% of total liabilities and equity of HEP ODS. Long-term liabilities include, for the most part, liabilities to HEP d.d. based on the financial lease of real property, plants and equipment. Long-term rental obligations were reduced by HRK 95.6 million compared to 2021 as a result of changes in fixed assets - real property, plants and equipment.

Short-term liabilities amounted to HRK 4,220.6 million. The largest share of short-term liabilities in the amount of HRK 2,547 million consists of:

- liabilities to associated undertakings under the Mutual Relations Agreement
- liabilities under the Agreement on the purchase and sale of electricity to cover losses, concluded between HEP d.d. and HEP ODS
- liabilities arising from the laws and regulations governing the energy sector: the Electricity Market Act, Rules on Electricity Market Organization, Methodology for Determining Prices for the Calculation of Balancing Electricity and the Electricity Balancing Rules adopted by HOPS d.o.o.

Other short-term liabilities towards HEP d.d. refer to HEP ODS obligations arising for the most part from the purchase of materials, plants and equipment for investments financed by HEP d.d. After the completion of construction, the erected property is transferred to HEP ODS as a financial lease under the Lease Agreement. The increase in short-term liabilities to associated undertakings of HRK 181.8 million compared to 2021 is related to the simultaneous increase in receivables from associated undertakings within HEP Group.

Short-term liabilities for advances mostly include liabilities for connection charges.

Deferred income amounted to HRK 5,201.6 million, an increase by HRK 214.6 million compared to 2021, mostly referring to income from property financed from the connection charge. Income from the distribution network connection charge is systematically distributed over the useful life of the connection asset, and the fee received from customers for connection to the distribution network is recorded as deferred income and recognized as income for the period simultaneously with the depreciation of the connection to which it refers.

## 2.8 REPORT BY INDEPENDENT AUDITORS

To the owner of HEP-Operator distribucijskog sustava d.o.o.  
Audit report on annual financial statements

### OPINION

We have audited the annual financial statements of HEP-Operator distribucijskog sustava d.o.o., Zagreb, Ulica grada Vukovara 37 ("the Company") for the year ended 31 December 2022, which consist of the Statement of financial position as at 31 December 2022, Statement of profit or loss, Statement of other comprehensive income, Statement of cash flows and Statement of changes in equity for the year then ended, as well as the corresponding Notes to financial statements, including a summary of significant accounting policies.

In our opinion, the attached annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS).

### BASIS FOR OPINION

We conducted our audit in accordance with International Auditing Standards (IAS). Our responsibilities under these standards are further described in our Auditor's Report under section Auditor's Responsibilities for the audit of Financial Statements. 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) and ethical requirements relevant to our audit of the financial statements in the Republic of Croatia. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

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

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

We have determined the matters described below as key audit matters to be communicated in our Independent Auditor's report.

### KEY AUDIT MATTER

Valuation of assets under construction and advances

In its annual financial statements on 31 December 2022, the Company reported assets under preparation in the amount of HRK 1,225,130 thousand.

One of the basic tasks of the Company is the maintenance, development and construction of the distribution network for reliable and sufficient supply of users. Investments in the distribution network are based on the ten-year development plan. These are multi-year, technically complex projects of great financial value, the completion of which within the planned time and financial framework depends, among other things, on coordination with HEP d.d. and the Croatian transmission system operator d.o.o., Zagreb regarding the dynamics of construction and financing. This also affects the complexity of activating the investment and the start of the depreciation calculation.

We consider this area to be a key audit matter considering the importance of investments in the Company's financial statements.

See notes 2, 3 and 15 in the annual financial statements.

#### Recognition of operating income

In the statement of comprehensive income, operating income is shown in the amount of HRK 4,276,357 thousand.

Operating income is mostly generated based on the distribution network usage fee and connection charges.

Income consists of the fair value of compensation received or receivables for products sold, goods and services performed in the regular course of business. The Company recognizes revenue when the amount of revenue can be reliably measured, when the Company has future economic benefits and when specific criteria for the Company's activity are met.

Income is subject to significant risk due to the complexity of the system for recording, identifying and recognizing income.

Related disclosures in the corresponding annual financial statements:

See notes 2, 5 and 6 in the annual financial statements.

### HOW THE KEY AUDIT MATTER WAS ADDRESSED

**Our audit procedures included, among others:**

- The analysis of the minutes of the Management Board and the Supervisory Board meetings regarding information related to investment plans and decisions on investment projects;
- Assessment of compliance of the policy of recognition of real property, plants and equipment with relevant financial reporting standards;
- Review of investment projects according to the selected sample by reviewing contracts, incoming invoices and records of deliveries;
- The analysis of the explanations of expert departments on the current status and expected completion of ongoing investment projects;
- The review of the required disclosures related to property, plants and equipment in the financial statements to determine their accuracy and completeness

**Our audit procedures included:**

- Examination of design, implementation and effectiveness of internal controls related to the cycle of revenue recognition and evaluated controls in IT systems that support revenue entries;
- Assessing the revenue recognition policy, including whether the policy is consistent with the revenue accounting standard;
- Testing income account entries with the aim of identifying unusual or irregular items;
- Conduct of detail tests on the selected sample, in order to make sure of the accuracy of income calculation and the correctness of their recognition in the accounting period;
- We considered the security and consistency of the transfer of financial information to the business books and conducted tests of controls of operating income;
- Checking, on the basis of the sample, the correctness of the statement of income for the corresponding periods;
- Comparison of received external confirmations of the amount of open trade receivables on the reporting date and the balance shown in the Company's business books on the same date;
- Verification of the compliance of the revenue recognition policy with IFRS, revision of the related notes and assessment of the appropriateness of revenue disclosures.



## OTHER MATTERS

The Company's annual financial statements for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those annual financial statements on 21 April 2022.

## OTHER INFORMATION IN THE ANNUAL REPORT

The Management is responsible for other information. Other information include information contained in the Annual Report, but do not include the annual financial statements and our Independent auditor's report thereon, which we received before the date of this Independent Auditor's Report. Our opinion on the annual financial statements does not include other information.

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

Regarding the Management Report, we also carried out the procedures prescribed by the Accounting Act. These procedures verify the harmonization of the Management Report with Article 21 of the Accounting Act.

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

1. information in the attached Management Report is harmonized, in all significant aspects, with the attached financial statements;
2. the Management Report prepared in accordance with Article 21 of the Accounting Act is attached.

Based on the knowledge and understanding of the Company's operations and its environment acquired within the framework of the audit of financial statements, we are obliged to report if we have established any 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 ANNUAL FINANCIAL REPORTS

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

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

## RESPONSIBILITIES OF AUDITOR FOR THE AUDIT OF ANNUAL FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Independent auditor's 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 IAS 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 consolidated annual financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 prudence 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 auditor's report to the related disclosures in the consolidated 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 consolidated annual financial statements, including disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement of our compliance with relevant ethical requirements regarding independence, and we commit to communicate with them on 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 define those that were of the highest significance in the audit of the consolidated annual financial statements of the current period and are therefore considered key audit matters. We describe these matters in our Independent Auditor's report unless law or regulation precludes public disclosure thereof or when, in extremely rare circumstances, we determine that a matter should not be communicated in our Independent Auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report based on the requirements of the Regulation (EU) no. 537/2014

1. Based on the proposal of the Supervisory Board, we were appointed auditors of the 2022 annual financial statements by the Company's Assembly on 23 December 2022, which represents our first year of engagement.
2. Our audit opinion is consistent with the additional report for the Supervisory Board of the Company drawn up in accordance with the provisions of Article 11 of the Regulation (EU) no. 537/2014.
3. During the period between the initial date of the Company's audited financial statements for the year 2022 and the date of this report, we did not provide prohibited non-audit services to the Company, and we did not provide design and implementation services for internal control procedures or risk management related to the preparation and/or 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 Zagreb, 7 June 2023

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

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





# 3

## NETWORK AND USERS



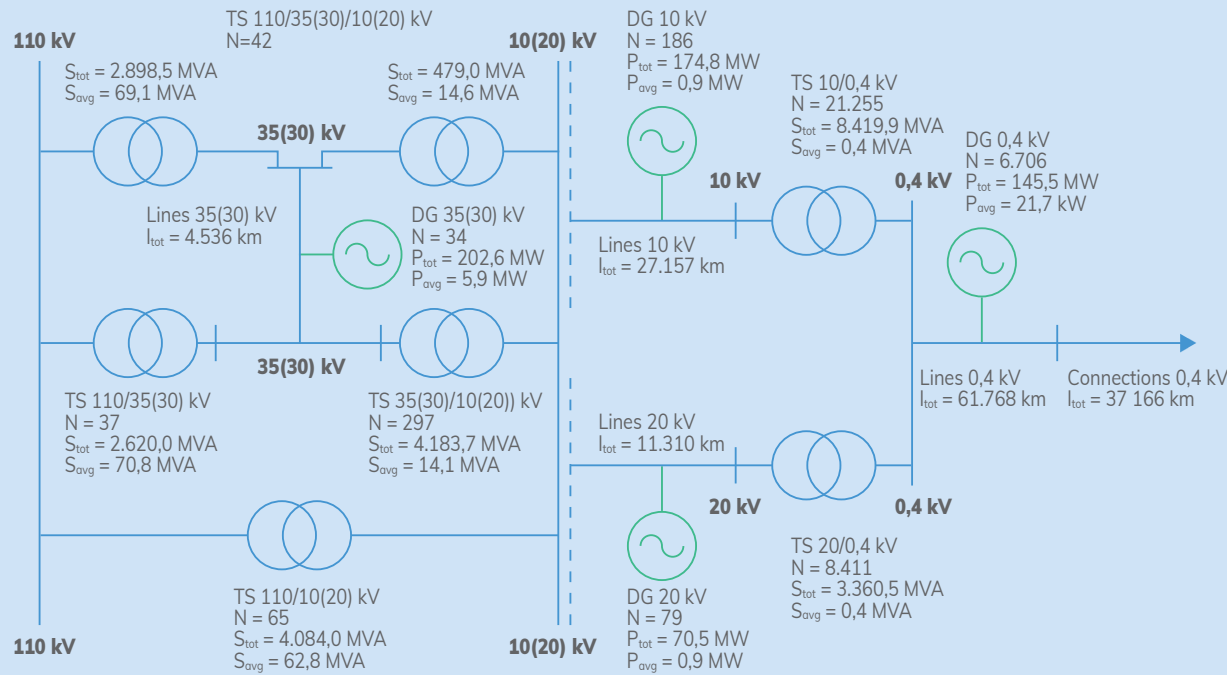
HEP ODS is responsible for the management of the distribution network, its maintenance, construction and modernization, as well as its improvement and development, for the purpose of safe, reliable and efficient operation of the distribution system and distribution of electricity.





### 3.1 DISTRIBUTION NETWORK KEY PERFORMANCE INDICATORS

#### DISTRIBUTION NETWORK OF THE REPUBLIC OF CROATIA



\* Data on transformers owned by HOPS and network users is not shown in the picture

The distribution network of HEP ODS consists of substations at the interface with the transmission network, overhead and underground medium-voltage lines, MV/MV and MV/LV substations, the low-voltage network and connections to including billing metering points at the interface with users of the distribution network.

#### DATA ON DISTRIBUTION NETWORK

HEP ODS is responsible for the operation, development, maintenance and management of the distribution network in the Republic of Croatia, which includes:

- 56,594 square kilometers of surface area
- 3,888,529 inhabitants (according to the 2021 census)
- 555 local self-government units organized in 20 counties, 127 cities and 428 municipalities.

Due to the geographic location of the Republic of Croatia, the distribution network is characterized by a large difference between individual distribution areas, in terms of the number of users, the amount and nature of electricity demand, spatial distribution, level of construction and a degree of technological development of plants and networks.

HEP ODS is organized within 21 distribution areas divided into 129 field units and four regional groups: North, East, West and South.

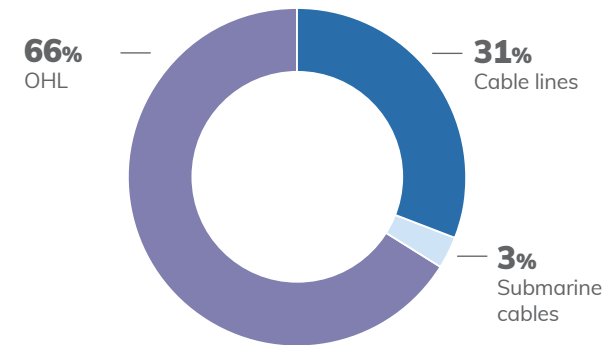
The distribution network of HEP ODS consists of 4,535.8 kilometers of 35(30) kV power lines, 38,466.8 kilometers of 10(20) kV power lines, 61,767.8 kilometers of 0.4 kV power lines and 37,166.5 kilometers of household connections.

There is a total of 27,028 substations in the distribution network, including facilities jointly owned by HOPS and network users, with a total installed capacity of 23,694.2 MVA.

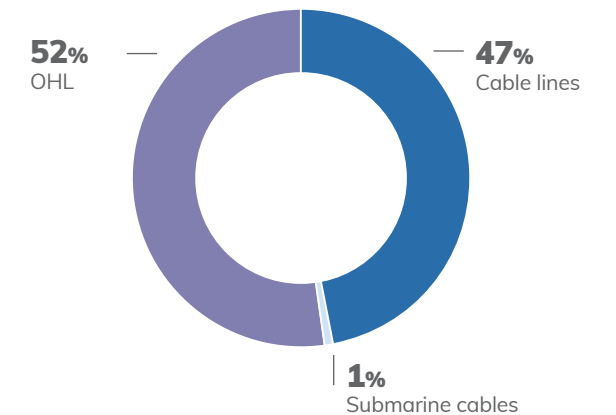
#### LENGTH OF DISTRIBUTION NETWORK

Voltage level	Overhead lines (km)	Cable lines (km)	Submarine cables (km)	Total (km)
35(30) kV lines	2,973.5	1,417.6	144.7	4,535.8
20 kV lines	4,914.4	6,379.8		11,294.2
10 kV lines	15,179.7	11,736.6	256.3	27,172.6
Low voltage network	43,139.2	18,628.7		61,767.9
Household connections	23,257.1	13,909.4		37,166.5
<b>Total</b>	<b>89,463.9</b>	<b>52,072.1</b>	<b>401.0</b>	<b>141,937.0</b>

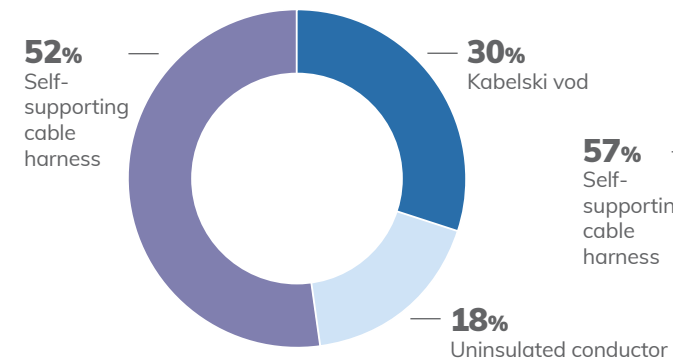
#### 35(30) kV NETWORK- 4,535.8 km



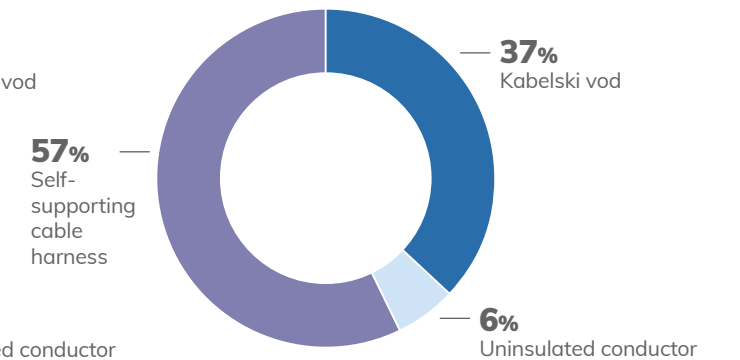
#### 10(20) kV NETWORK - 38,466.8 km



#### LOW VOLTAGE NETWORK - 61,767.9 km



#### HOUSEHOLD CONNECTIONS - 37,166.5 km

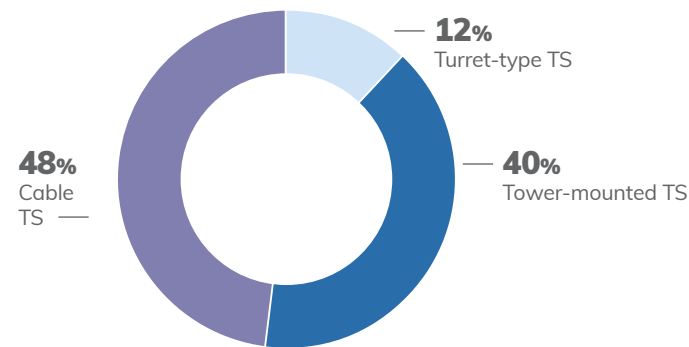


## SUBSTATIONS

Voltage level	No. Of TS	Installed transformation capacity (MVA)
110/35(30) kV TS	37	2,620.0
110/35(30)/10(20) kV TS	42	3,395.5
110/10(20) kV TS	65	4,084.0
35(30)/10(20) kV TS	297	4,183.7
10(20)/0.4 kV TS	26,587	9,411.0
<b>Total</b>	<b>27,028</b>	<b>23,694.2</b>

The table shows data on the supply points of the distribution network, i.e. substations in operation, higher 110 and 35 kV voltage levels, owned by HEP ODS or jointly owned with another system operator or network users, as well as data on 10(20)/0.4 kV substations in operation, owned by HEP ODS or jointly owned with network users, excluding facilities not owned by HEP ODS.

### 10(20)/0.4 kV SUBSTATIONS – 26,587



## 3.2 ASSETS AND INVESTMENTS

### INVESTMENTS

**HEP ODS is obligated to operate and maintain, build and modernize, improve and develop the distribution network, with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity.**

Accordingly, HEP ODS made significant investments in the development and renovation of the distribution network in 2022. In addition, significant funds are continuously invested in the business infrastructure necessary for the performance of electricity distribution activities, and the implementation of advanced network functionality.

After many years of preparation, the start of investments in 2020 and major investments in 2021, HEP ODS in 2022 withdrew yet again a significant amount of the EU co-financed funds within the framework of the Smart Grid Pilot Project.

In July 2021, the European Commission adopted a positive assessment of the Croatia's National Recovery and Resilience Plan, under which the Republic of Croatia secured financial resources in the amount of almost EUR 9.9 billion for its National Plan within the Recovery and Resilience Mechanism.

The National Plan recognizes three areas of HEP ODS investment: modernization and development of the advanced network, network modernization in Natura 2000 areas and submarine cables at the distribution level. During 2021 and 2022, analytical bases and cost-benefit analyzes were made for the above-mentioned investments, and application documentation was prepared in anticipation of the call by the Ministry of Economy and Sustainable Development for the submission of project proposals through the National Recovery and Resilience Programme. In the coming years, record investments co-financed by the National Recovery and Resilience Plan are expected.

### CAPITAL INVESTMENTS

Capital investments have a strategic importance in the electricity distribution network. These are multi-year complex projects with large financial values that create prerequisites for long-term development, capacity increase and reliable operation of a significant part of the electricity distribution network. The projects include the revitalization, reconstruction or construction of individual connection points of the medium voltage network and main medium voltage lines.

The focus of the 2022 capital investments was on the completion of several complex 110/x kV and 35/x kV substation projects:

- 110/10(20) kV Sućidar substation was completely reconstructed after the installation of direct transformation
- 110/35/10(20) kV Prelog substation was completely reconstructed in the medium voltage section, after the installation of direct transformation and prepared for the first phase of the transition to 20 kV voltage
- 110/10(20) kV Biograd substation was completely reconstructed by expanding the 10(20) kV facility and strengthening transformation capacity
- 35/20 kV Smiljan substation was constructed as a simple substation in a very short period of time and put into operation at 20 kV
- 35/10(20) kV Tuhelj substation was completely reconstructed by increasing its transformation capacity and prepared for the transition to 20 kV.

The following complex projects will continue in 2023:

- the construction of the new 110/30(20) – 30/10(20) kV Kapela substation, 110/10(20) kV Terminal and Poličnik substations
- the complete reconstruction of 110/20 kV Petrinja substation (damaged in the earthquake in late 2020)
- start of 110/30 kV TE-TO CHP substation reconstruction (with the installation of 110 kV MTU plant).

In 2023, the reconstruction of capital projects within the Vukovar Programme (35/10(20) kV Vukovar 3 substation and 35 kV cable line between 110/35/10 kV Vukovar 1 – 35/10(20) kV Vukovar 3 substations) will enter its final phase. The construction of the new 110/10(20) kV Zamošće substation, the preparation for which was completed in 2021, is important because it ensures reliable power supply of the mainland-Pelješac bridge and access roads, but it also increases security and reliability of power supply for the Pelješac-Korčula area.

In 2022, preconditions were created for accelerating the revitalization activities of the 35 kV OHL, among which the most significant project is the renovation and capacity increase of the 35 kV Krk – Cres – Lošinj OHL as well as the 35/10(20) kV Hrast – 35/10(20) kV Osor substation section.

Nine capital investments with a total value of EUR 16 million were completed, of which more than EUR 2.8 million was invested in 2022:

- 110/10(20) kV Sućidar TS – reconstruction (total investment value EUR 4.7 million)
- 110/10(20) kV Biograd TS – reconstruction (total investment value EUR 2.7 million)
- 110/35/10 (20 kV Prelog TS - reconstruction (total investment value EUR 3.6 million)
- 35/20 kV Smiljan TS – new construction (total investment value EUR 0.7 million)
- 35/10(20) kV Tuhelj TS - reconstruction (total investment value EUR 1.6 million)
- CB 20 kV distribution from 110/35/20 kV Nedeljanec TS (total investment value EUR 0.4 million)
- CB 10(20) kV distribution from 110/35/10(20) kV Trogir TS (total investment value EUR 0.3 million)
- CB 10(20) kV distribution from 110/35/10(20) kV Makarska TS (total investment value EUR 0.4 million)
- CB 10(20) kV distribution from 110/10(20) kV Sućidar TS (total investment value EUR 1.5 million).

## OTHER INVESTMENTS

In addition to capital investments, HEP ODS regularly invests substantial funds in a large number of one-year investment projects and activities.

Due to a large number of individual projects, other investments are grouped under investment programmes, in accordance with the business goals to which the investments in question contribute the most.

Activities on other investments were carried out as part of the following programmes and groups of programmes:

- the programme for the construction of medium and low-voltage facilities with the aim of increasing capacity, rehabilitating voltage conditions and increasing power supply security
- revitalization programme of worn-out equipment
- medium voltage network transition programme to the 20 kV operating voltage - final phase
- programme of rehabilitation and reconstruction of metering points and connections
- investments in metering devices and infrastructure
- investments in the implementation of Advanced Network
- investments in business infrastructure.

In addition to the aforementioned investment programmes and groups of programmes, in 2022 HEP ODS made significant investments under special investment programmes:

- investments in the elimination of damages caused by natural disasters in 2020 (removal of damages caused by earthquakes, elimination of damages caused by storms)
- Smart Grid Pilot Project (investments partly EU co-financed)
- the Vukovar programme (investments in the reconstruction of the electric power network in the area of the city of Vukovar).

In 2022, a total of EUR 72.5 million was invested in about 1,800 investment projects and activities.

Replaced and reconstructed:

- |  |          |
|--|----------|
| • low voltage lines (network and underground cable)          | 354.2 km |
| • medium voltage lines (OHL and 10(20) kV underground cable) | 183.1 km |
| • 10(20)/0.4 kV substations                                  | 77       |

Erected:

- |  |          |
|--|----------|
| • low voltage lines (network and underground cable)          | 181.5 km |
| • medium voltage lines (OHL and 10(20) kV underground cable) | 306.2 km |
| • 10(20)/0.4 kV substations                                  | 47       |

## INVESTMENTS IN ELECTRICITY CONDITIONS AND CONNECTIONS

Investments in electric power conditions and connections account for the average of 30% and 40% of HEP ODS planned annual investments. These investments are specific because they mainly depend on economic and demographic changes, i.e. they are initiated and carried out according to the current needs of network users.

HEP ODS invested EUR 61.0 million in electricity conditions and connections, replacing and reconstructing:

- |  |         |
|--|---------|
| • low voltage lines (network and underground cable)          | 44.2 km |
| • medium voltage lines (OHL and 10(20) kV underground cable) | 1.7 km  |
| • 10(20)/0.4 kV substations                                  | 19      |

and constructing:

- |  |          |
|--|----------|
| • low voltage lines (network and underground cable)          | 687.1 km |
| • medium voltage lines (OHL and 10(20) kV underground cable) | 250.6 km |
| • 10(20)/0.4 kV substations                                  | 133      |

## 3.3 PLANNING AND DEVELOPMENT OF DISTRIBUTION NETWORK

### STUDIES OF LONG-TERM DEVELOPMENT OF DISTRIBUTION NETWORK

**HEP ODS prepares studies of long-term development of the distribution network, taking the 20-year period as a basis for making multi-year development plans, which further analyze the current state of the network and, based on the load increase projection, propose long-term network development in accordance with the adopted criteria and approach to development planning.**

Development studies are made systematically in line with the adopted procedure and a uniform study task for each distribution area or, depending on the size and complexity of the distribution network, a part of the distribution area.



The first cycle of 26 development studies was carried out in the period from 2009 to 2021. This was a deep and planned uniform approach to long-term development of the entire distribution network in Croatia.

Before launching a new cycle of network development studies, based on the experiences gained through these 26 study documents and the knowledge obtained through several systematic studies to improve the planning process, the study procedure will be adjusted and improved, and newly developed methodologies and models included in the study task.

### TEN-YEAR DISTRIBUTION NETWORK DEVELOPMENT PLAN

The Electricity Market Act clearly defines the responsibility and duty of the distribution system operator in distribution network development planning:

- HEP ODS is responsible for the development of the distribution network, which ensures the long-term ability of the distribution network to meet reasonable electricity distribution requirements.
- Duty of HEP ODS is to manage and maintain, build and modernize, improve and develop the distribution network with the aim of safe, reliable and efficient operation of the distribution system and distribution of electricity.
- Distribution system Grid Code which, with the prior consent of the Croatian Energy Regulatory Agency, is adopted by HEP ODS, set the methodology and criteria for distribution network development planning.
- Duty of HEP ODS is to adopt and publish, with the prior approval of the Croatian Energy Regulatory Agency, an updated ten-year distribution network development plan.

HEP ODS bases ten-year distribution network development plans with a detailed elaboration for the initial three-year and one-year periods on the results of distribution network development studies of individual distribution areas, data on the current state of the network and planned investments combined in the HEP ODS Development Planning application. In doing so, the experience gained through previous multi-year plans, as well as the expert opinions of HERA, are taken into account.

In the process of drafting the Ten-Year (2023-2032) Distribution Network Development Plan with a detailed elaboration for the initial three-year and one-year periods, HEP ODS conducted a public consultation with the interested public in the period from 10-25 May 2022. HEP ODS published the results of the consultation on its website and, together with the Ten-Year (2023-2032) Distribution Network Development Plan proposal, submitted said documents to HERA for approval.

Upon approval, HEP ODS will officially adopt the Ten-Year (2023-2032) Distribution Network Development Plan with a detailed elaboration for the initial three-year and one-year periods and publish it on its website.

### PREPARATION AND TRANSITION OF THE MV NETWORK TO 20 kV OPERATING VOLTAGE

The transition from the existing 110-35-10-0.4 kV four-voltage to the 110-20-0.4 kV three-voltage distribution system has been the subject of numerous development studies since the mid 1960s.

In the short term, the transition of the sections of the 10 kV distribution network to a 20 kV operating voltage leads to the rehabilitation of voltage conditions in the medium voltage network, thus doubling the transmission capacities and reducing capacity losses and voltage drops four times without major constructions.

In the mid 1980s, a strategic decision was made to install MV facilities with a nominal 20 kV voltage and to build 20 kV voltage lines (overhead and cables), regardless of direct 10 kV voltage operation.

The share of the medium voltage network operating at 20 kV by distribution area is diverse. Currently, approximately 28% of MV/LV substations and 29% of medium voltage lines are operating at 20 kV.

Elektra Sisak was the first area which fully introduced the operation of the medium voltage network at 20 kV abandoning the 10 kV voltage operation. The final transition activities were carried out in September 2019, accompanied by the release of a celebratory brochure.

Provided favourable operating circumstances, almost the complete network of Elektroprimorje Rijeka could make a transition from 10 kV to 20 kV operating voltage until the end of 2023.

The large sections of the following distribution area networks operate at 20 kV:

- Elektra Zagreb
- Elektra Zabok
- Elektroistra Pula.

## 3.4 DISTRIBUTED PRODUCTION OF ELECTRICITY

**The increasing trend of power plant grid connection, especially of small solar power plants for which the connection procedure is simplified, and which are built as simple structures, continued during 2022. Among them, the users of self-supply facilities and end customers with their own production account for the major share, delivering surplus electricity to the grid.**

Total electricity delivered to the distribution network by power plants during 2022 amounted to 1691.4 GWh. Electricity produced from power plants in 2022 accounted for about 10.83% of total electricity demand by distribution network customers.

In 2022, the connection of power plants with concluded purchase agreements with HROTE d.o.o. according to the Tariff System for the production of electricity from renewable energy sources and cogeneration to the medium voltage network was completed. The year 2022 was also characterized by the highest number of connected solar power plants in the self-supply user category (concluded purchase agreements with market off takers). In conclusion, on 31 December 2022, a total of 3,789 producers were connected to the HEP ODS network as users of self-supply facilities with a total connection capacity of 22,789 kW.

## POWER PLANTS CONNECTED TO DISTRIBUTION NETWORK

Primary sources	No. of connections		Connection capacity (kW)		Total		Electricity produced in 2022 (kWh)
	LV	MV	LV	MV	No. of connections	Connection capacity (kW)	
sun	6,659	182	135,016	86,987	6,841	222,003	151,912,914
wind		9		95,850	9	95,850	205,685,580
biomass	10	33	4,334	94,668	43	99,002	644,887,216
water	18	21	3,281	73,096	39	76,377	244,723,783
geothermal		1		10,000	1	10,000	60,260,906
other	19	53	2,878	87,595	72	90,473	383,924,962
<b>Total</b>	<b>6,706</b>	<b>299</b>	<b>145,509</b>	<b>448,196</b>	<b>7,005</b>	<b>593,705</b>	<b>1,691,395,361</b>

## PRODUCERS CONNECTED TO DISTRIBUTION NETWORK BY VOLTAGE LEVELS

Voltage level (kV)	No. Of producers	Connection capacity (kW)
0.4	6,706	145,509
6.3	1	7,200
10	185	16,628
20	79	70,512
30	3	20,818
35	31	182,038
<b>Total</b>	<b>7,005</b>	<b>593,705</b>

## PRODUCERS CONNECTED TO DISTRIBUTION NETWORK BY DISTRIBUTION AREAS

Distribution area	No. Of connected producers	Connection capacity of producers [kW]
Elektra Zagreb	1,017	34,599
Elektra Zabok	210	13,961
Elektra Varaždin	462	28,105
Elektra Čakovec	305	19,143
Elektra Koprivnica	237	16,460
Elektra Bjelovar	260	25,003
Elektra Križ	283	20,336
Elektroslavonija Osijek	778	58,951
Elektra Vinkovci	433	38,423
Elektra Slavonski Brod	272	17,215
Elektroistra Pula	378	14,118
Elektroprimorje Rijeka	600	34,673
Elektrodalmacija Split	497	33,388
Elektra Zadar	285	42,871
Elektra Šibenik	245	107,267
Elektrojug Dubrovnik	91	2,847
Elektra Karlovac	215	29,076
Elektra Sisak	124	11,973
Elektrolika Gospić	72	12,919
Elektra Virovitica	134	27,259
Elektra Požega	107	5,118
<b>Total</b>	<b>7,005</b>	<b>593,705</b>

## 3.5 DISTRIBUTION NETWORK OPERATION

## RELIABILITY OF ELECTRICITY SUPPLY

In 2022, HEP ODS continued with improvements of power supply reliability and the systematic implementation of activities that resulted in a reduction of the number and duration of outages.

The optimization of operations, the coordination of management and field units, and the application of positive work practices contributed to the improvement of power supply reliability. The analysis of power outages by using programme support (DISPO application) for monitoring the reliability of power supply, the adaptation of key performance indicator methodology for the purpose of improving the reliability of electricity supply, and connecting DISPO with HEP ODS information system in line with the digitization of the distribution management process, are also significant.

Activities on raising the process network security level and ensuring communication prerequisites for the purpose of integrating network monitoring and management process-information systems were carried out.

## PEAK LOAD

The peak load of the distribution system, i.e. the load of system components, represents important data for optimal management of the distribution network. According to past experience, while distribution areas along the coast reach their peak load in summer months, the continental part of the distribution system has its peak load during winter. However, in light of a more recent massive usage of air conditioners, both coastal and a major part of the continental distribution system reach peak load during summer months.

Peak load in most distribution areas was higher than in 2021. In terms of the entire distribution system, a 2% higher peak load was recorded.



## PEAK LOAD OF DISTRIBUTION AREAS

Distribution area	Peak load (MW)	Reached on
Elektra Zagreb	715.00	29. 06. 2022
Elektra Zabok	78.00	26. 01. 2022
Elektra Varaždin	93.00	02. 12. 2022
Elektra Čakovec	75.00	09. 12. 2022
Elektra Koprivnica	69.00	01. 07. 2022
Elektra Bjelovar	62.00	10. 01. 2022
Elektra Križ	87.00	07. 04. 2022
Elektroslavonija Osijek	158.00	01. 07. 2022
Elektra Vinkovci	81.00	26. 01. 2022
Elektra Slavonski Brod	65.00	24. 01. 2022
Elektroistra Pula	296.00	25. 07. 2022
Elektroprimorje Rijeka	302.00	25. 07. 2022
Elektrodalmacija Split	449.00	26. 07. 2022
Elektra Zadar	209.00	26. 07. 2022
Elektra Šibenik	116.00	26. 07. 2022
Elektrojug Dubrovnik	110.00	07. 08. 2022
Elektra Karlovac	95.00	24. 01. 2022
Elektra Sisak	58.00	25. 01. 2022
Elektrolika Gospić	76.00	25. 07. 2022
Elektra Virovitica	34.00	25. 07. 2022
Elektra Požega	23.00	01. 07. 2022
<b>HEP ODS</b>	<b>2,999.00</b>	<b>16. 08. 2022</b>

## INDICATORS OF ELECTRICITY SUPPLY RELIABILITY IN DISTRIBUTION NETWORK AND OVERVIEW OF OUTAGES

As the economic activities in 2022 continued to stabilize, regular and preventive maintenance conducted in order to reduce the duration of outages strengthened and were carried out with a better coordination of field teams and the implementation of live work for the purpose of reducing outage duration.

The trend of a continuous reduction of unplanned force-majeure-caused power outage duration continued.

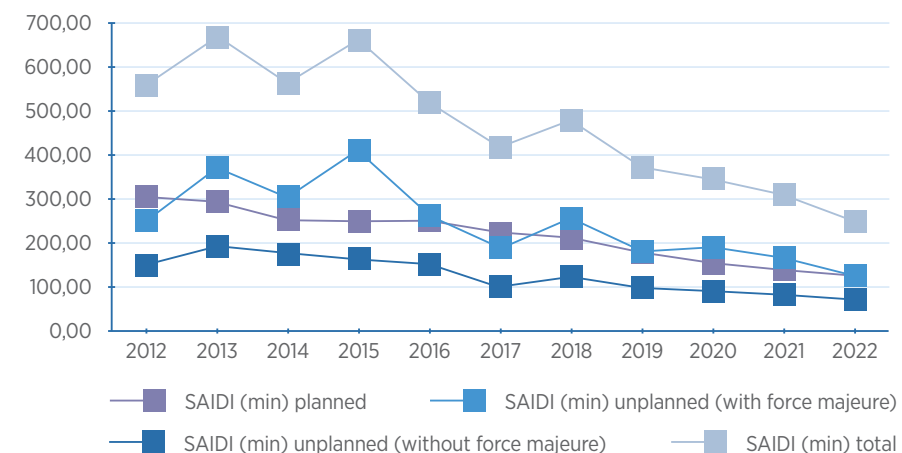
Continuous investments in power plants and the network as well as network elements automation systems improved the reliability indicators of electricity supply. Special attention was paid to the organization and coordination of works and the improvement of the software support for monitoring power supply reliability (DISPO application).

The number and duration of planned power outages decreased compared to the previous year, while the improvement of planned power outage indicators continued in 2022. Unplanned electricity supply outages in 2022, compared to previous years, were significantly reduced.

The graph of the multi-year trend of power supply reliability indicators shows progress.

### SAIDI BY YEARS - PLANNED AND UNPLANNED

#### SAIDI INDEX IN HEP ODS BY YEAR



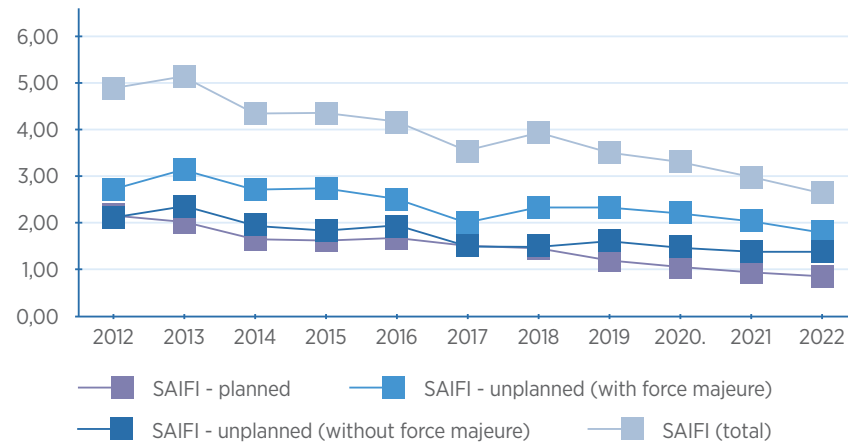
The SAIDI index represents the average duration of power interruptions per user. We classify power outages as: planned and unplanned. The graph shows the improvement of SAIDI power supply reliability index in the observed period, as well as the continuous improvement of indices for planned power outages, while in the case of unplanned power outages, volatility is visible depending on weather conditions. Total SAIDI, which is continuously improving, is important in terms of network users, amounting to 258.30 minutes in 2022.





## SAIFI BY YEARS

SAIFI INDEX IN HEP ODS BY YEAR



The SAIFI index represents the average number of interruptions per user. Two main classifications of power outages are observed: planned and unplanned. The graph shows the improvement of the SAIFI index throughout the observed period, as well as the fact that the average number of power outages is continuously improving, while smaller fluctuation is present in relation to the duration of failures during unplanned power outages. Total SAIFI in 2022 is 2.46 outages per user.

## DATA ON MAJOR INTERRUPTIONS

Power supply interruptions are mainly caused by planned and unplanned outages of distribution network elements. Unplanned power outages are most often caused by natural disasters or force majeure.

At the beginning of January, the islands of Rab and Pag and the town of Nin were affected by a power outage due to saltwater. In mid-January, the area of Elektrolika Gospić was affected by a storm that caused several power outages.

As a result of the fire on 18 April, the 35 kV Podgora OHL was disconnected, which affected 3,444 network users.

At the beginning of June, a storm hit the areas of Elektra Križ, Elektra Karlovac and Elektra Sisak.

On 13 July, a strong fire engulfed the area of Elektra Šibenik. In addition to houses and cars which were caught by fire, MV and LV lines as well as other equipment were also damaged. In the villages of Zaton and Raslina, a dozen wooden LV poles were burned down, and several cable switch cabinets, support cable bundles and other equipment damaged. With the great efforts invested by the firemen as well as our employees, voltage conditions were established on the following day (14 July) around 3:30 pm in Zaton, and an hour later in Raslina. Damage caused by the fire was repaired by our employees for a long time after.

On 26 July, a storm hit the area of Elektra Karlovac, where it caused a large number of power outages.

The second big fire in the area of Elektra Šibenik took place on 2 August, when two fires broke out on two different locations and finally merged in a larger one that crossed the Jadranska magistrala road and spread towards the 30 kV lines used by 30/10 kV Tisno and Vodice substations, which had to be disconnected. On the same day, another fire broke out in Južna Dubrava near Šibenik, but not as big as the one near Vodice.

On 16 August, a fire broke out in the area of Vrpolje near Šibenik, when the 10 kV Podi-Šišara outlet from 30/10 kV Podi substation was switched off for 197 minutes.

On 17 July, a storm caused a transformer outage in 110/20 kV Dugopolje TS, which affected 5,192 network users.

On 9 August, the 35 kV OHL supplying 35/10 kV Novi TS was disconnected due to fire, which affected 6,906 network users.

On 15 September, a windstorm caused a series of power outages in the area of Elektra Virovitica.

On 29 September, as a result of atmospheric overvoltage, a failure occurred on the incoming line supplying 35/10 kV Blato TS, which affected 6,777 network users.

On 4 December, a thunderstorm caused a series of power outages in the area of Elektrodalmacija Split.

On 6 December 2022, a failure occurred on the 110 kV transmission line, which caused a power supply interruption in 110/35/20/10 kV Našice, 35/10 kV Orahovica, 35/10 kV Čačinci and 35/10 kV Budimci substations. The 110/35/20/10 kV Našice substation was disconnected for 90 minutes, while the other stations were previously supplied with backup routes via the 35 kV network.

## RESTORING THE WORKING ORDER OF INFRASTRUCTURE AND PLANTS IN THE FIELD OF ENERGY

As part of the grant awarded under the EU Solidarity Fund "Restoring the working order of infrastructure and plant in the field of energy", HEP ODS signed a series of contracts with the Ministry of Economy and Sustainable Development for restoring the working order of infrastructure and plants in the field of energy.

### Repair of damage caused by the earthquake in the area of the City of Zagreb, Krapina-Zagorje County and Zagreb County

As part of the Call for the allocation of non-refundable financial contribution for the restoration of the working order of infrastructure and plants in the field of energy (Remediation of damages caused by the earthquake of 22 March 2020 on energy infrastructure and energy facilities in the area of the City of Zagreb, Krapina-Zagorje County and Zagreb County, reference code: FSEU.2021.ENERGETIKA.MINGOR) HEP ODS submitted 14 applications on the basis of which 14 contracts for the allocation of non-refundable financial contribution for operations financed from the European Union Solidarity Fund were concluded.

The aforementioned contracts include the facilities of Elektra Zagreb distribution area (41 facilities) damaged in the earthquake that hit the wider area of Zagreb on 22 March 2020. The total grant of EUR

1,001,672.80 had a utilization deadline until 30 November 2022. Amendments to the contracts from November 2022, and in accordance with the Commission's Decision of 19 May 2022 C(2022) 3433 on the amendment of the Commission's Implementing Decision C (2020) 8713 on the allocation of a financial contribution from the European Union Solidarity Fund, extended the period of cost eligibility until 30 June 2023.

#### **Repair of damage caused by the earthquake in the Banovina region**

As part of the Call for the allocation of non-refundable financial contribution for restoring the working condition of infrastructure and plants in the field of energy (Remediation of damage caused by the earthquakes on 28 and 29 December 2020 to energy infrastructure and energy plants in Sisak-Moslavina County, reference code: FSEU.2022.ENERGETIKA.MINGOR), HEP ODS submitted seven applications on the basis of which seven contracts on the allocation of non-refundable financial contribution for operations financed from the European Union Solidarity Fund were signed.

The aforementioned contracts include the facilities of Elektra Sisak distribution area that were damaged in the earthquakes of 28 and 29 December 2020: 213 20/0.4 kV substations, the 110/20 kV feeder substation supplying the entire area of the town of Petrinja, the replacement of the 110/20 kV energy transformer in Glina, 23 medium-voltage networks, 38 low-voltage networks, and connections to residential buildings for temporary accommodation of earthquake victims in Sisak-Moslavina County. The total grant amounted to EUR 18,325,006.86, with a utilization deadline until 30 June 2023.

HEP ODS manages the business process of issuing an omnibus invoice for suppliers on the electricity market for all billing metering points under the single invoice model. The total income from the network usage fee, applying the tariff items for the transmission and distribution of electricity, which was generated through omnibus invoices in 2022, amounted to HRK 3,556 billion, i.e. 73.5% of the total income from the distribution network usage fees.

Continuous work is carried out on improving the business processes with market stakeholders. In 2022, there were 49,865 supplier switch events made via the supplier switch interface, which is an increase of about 113% compared to 2021.

277,931 requests from suppliers for temporary suspension of electricity supply were received. In total, 31,585 temporary suspension events of electricity supply were carried out in 2022, a decrease of about 3% compared to 2021. Total income from temporary electricity suspension events amounted to HRK 1.02 million.

The 2022 losses were recorded in the amount of 1,199 GWh or 7.13% of the total energy input to the distribution network, while the total cost of energy procured to cover the losses was HRK 849.4 million. Had electricity to cover losses been procured at market prices in 2022, the total cost would have amounted to HRK 2,610.8 million. In light of the aforementioned, HEP ODS achieved significant financial savings in the amount of HRK 1,761 million.

## **3.6 METERING AND MARKET SUPPORT**

**HEP ODS manages and carries out tasks related to metering devices and equipment, metering data, issuing invoices and collecting network usage fees, electricity market needs, energy balance and electricity losses in the distribution network, all with the goal of an efficient distribution system.**

During 2022, the implementation of a complex multi-year distribution network modernization project continued with the aim of equipping all network users' billing metering points with advanced meters by the end of 2030. In total, around 67,000 new advanced meters were installed in 2022, while 430,000 advanced meters or 17% of the total number of meters in the distribution network are currently being read by the remote reading system. Almost all 44,769 billing metering points, which connection capacity exceeds 20 kW (industry and small businesses) and accounting for a little bit over 50% of total energy demand, are equipped with smart meters (99%). The installation of smart meters leads to the improvement of various processes: from billing, temporary suspension and recovery of electricity supply to the control of excess connection capacity, demand asymmetry, control of billing metering points and identification of unauthorized energy consumption.

The small business category includes around 69,000 metering points of connection capacity below or equal to 20 kW, used for measuring the load curve and performance calculation, resulting in the additional expected reduction of electricity losses.



## NUMBER OF METERING POINTS

Distribution area	Elektra Zagreb	Elektra Zabok	Elektra Varaždin	Elektra Čakovec	Elektra Koprivnica	Elektra Bjelovar
HV – 110 kV	2	0	0	0	0	0
MV – 35 kV i 30 kV						
LV – 20 kV i 10 kV						
<b>Total MV</b>	<b>443</b>	<b>48</b>	<b>91</b>	<b>86</b>	<b>64</b>	<b>25</b>
LV – business (blue)	7,512	1,102	1,490	1,176	1,209	1,617
LV – business (white)	26,171	2,829	3,100	2,666	2,470	2,268
LV – business (red)	8,056	937	1,193	830	700	488
LV – public lighting	3,355	800	718	500	655	690
<b>Total LV businesses</b>	<b>45,094</b>	<b>5,668</b>	<b>6,501</b>	<b>5,172</b>	<b>5,034</b>	<b>5,063</b>
LV – households (blue)	107,555	36,506	35,122	17,712	27,336	27,618
LV – households (white)	422,978	26,648	31,462	25,927	22,305	18,289
LV – households (red)	759	17	50	26	25	5
LV – households (black)	0	0	0	0	0	0
<b>Total LV households</b>	<b>531,292</b>	<b>63,171</b>	<b>66,634</b>	<b>43,665</b>	<b>49,666</b>	<b>45,912</b>
<b>Overall</b>	<b>576,831</b>	<b>68,887</b>	<b>73,226</b>	<b>48,923</b>	<b>54,764</b>	<b>51,000</b>

Distribution area	Elektra Križ	Elektroslavonija Osijek	Elektra Vinkovci	Elektra Slavonski Brod	Elektroistra Pula
HV – 110 kV	0	0	0	0	0
MV – 35 kV i 30 kV					
LV – 20 kV i 10 kV					
<b>Total MV</b>	<b>97</b>	<b>212</b>	<b>126</b>	<b>102</b>	<b>254</b>
LV – business (blue)	1,833	1,688	738	1,844	3,079
LV – business (white)	3,096	8,661	4,747	3,146	10,465
LV – business (red)	1,216	1,850	940	775	2,615
LV – public lighting	1,206	1,328	619	638	1,959
<b>Total LV businesses</b>	<b>7,351</b>	<b>13,527</b>	<b>7,044</b>	<b>6,403</b>	<b>18,118</b>
LV – households (blue)	40,688	35,804	19,204	23,669	28,334
LV – households (white)	30,565	105,391	56,283	36,104	122,990
LV – households (red)	15	14	8	9	268
LV – households (black)	0	0	0	0	2,850
<b>Total LV households</b>	<b>71,268</b>	<b>141,209</b>	<b>75,495</b>	<b>59,782</b>	<b>154,442</b>
<b>Overall</b>	<b>78,716</b>	<b>154,948</b>	<b>82,665</b>	<b>66,287</b>	<b>172,814</b>

Distribution area	Elektroprimorje Rijeka	Elektrodalmacija Split	Elektra Zadar	Elektra Šibenik	Elektrojug Dubrovnik
HV – 110 kV	0	1	0	0	0
MV – 35 kV i 30 kV					
LV – 20 kV i 10 kV					
<b>Total MV</b>	<b>184</b>	<b>189</b>	<b>116</b>	<b>69</b>	<b>68</b>
LV – business (blue)	2,566	3,568	2,071	1,562	1,594
LV – business (white)	12,466	18,896	5,141	3,884	3,678
LV – business (red)	3,118	3,928	1,483	864	978
LV – public lighting	1,657	2,216	1,071	918	449
<b>Total LV businesses</b>	<b>19,807</b>	<b>28,608</b>	<b>9,766</b>	<b>7,228</b>	<b>6,699</b>
LV – households (blue)	41,693	59,251	43,012	33,435	16,261
LV – households (white)	162,574	223,703	87,884	51,625	34,536
LV – households (red)	352	386	58	28	224
LV – households (black)	1	0	0	0	6
<b>Total LV households</b>	<b>204,620</b>	<b>283,340</b>	<b>130,954</b>	<b>85,088</b>	<b>51,027</b>
<b>Overall</b>	<b>224,611</b>	<b>312,138</b>	<b>140,836</b>	<b>92,385</b>	<b>57,794</b>

Distribution area	Elektra Karlovac	Elektra Sisak	Elektrolika Gospić	Elektra Virovitica	Elektra Požega	Ukupno
HV – 110 kV	2	0	0	0	0	0
MV – 35 kV i 30 kV						
LV – 20 kV i 10 kV						
<b>Total MV</b>	<b>145</b>	<b>58</b>	<b>60</b>	<b>46</b>	<b>39</b>	<b>2,522</b>
LV – business (blue)	1,505	790	988	607	691	<b>39,230</b>
LV – business (white)	4,091	2,305	2,092	2,066	1,286	<b>125,524</b>
LV – business (red)	874	561	539	452	278	<b>32,675</b>
LV – public lighting	1,299	755	664	438	320	<b>22,255</b>
<b>Total LV businesses</b>	<b>7,769</b>	<b>4,411</b>	<b>4,283</b>	<b>3,563</b>	<b>2,575</b>	<b>219,684</b>
LV – households (blue)	31,028	22,684	22,890	10,712	11,001	<b>691,515</b>
LV – households (white)	49,670	32,784	23,462	16,177	13,774	<b>1,595,131</b>
LV – households (red)	13	19	46	6	7	<b>2,335</b>
LV – households (black)	0	0	0	0	0	<b>2,857</b>
<b>Total LV households</b>	<b>80,711</b>	<b>55,487</b>	<b>46,398</b>	<b>26,895</b>	<b>24,782</b>	<b>2,291,838</b>
<b>Overall</b>	<b>88,625</b>	<b>59,957</b>	<b>50,741</b>	<b>30,504</b>	<b>27,396</b>	<b>2,514,048</b>



## ELECTRICITY LOSSES

Electricity losses are indicators of business efficiency and quality of electricity distribution.

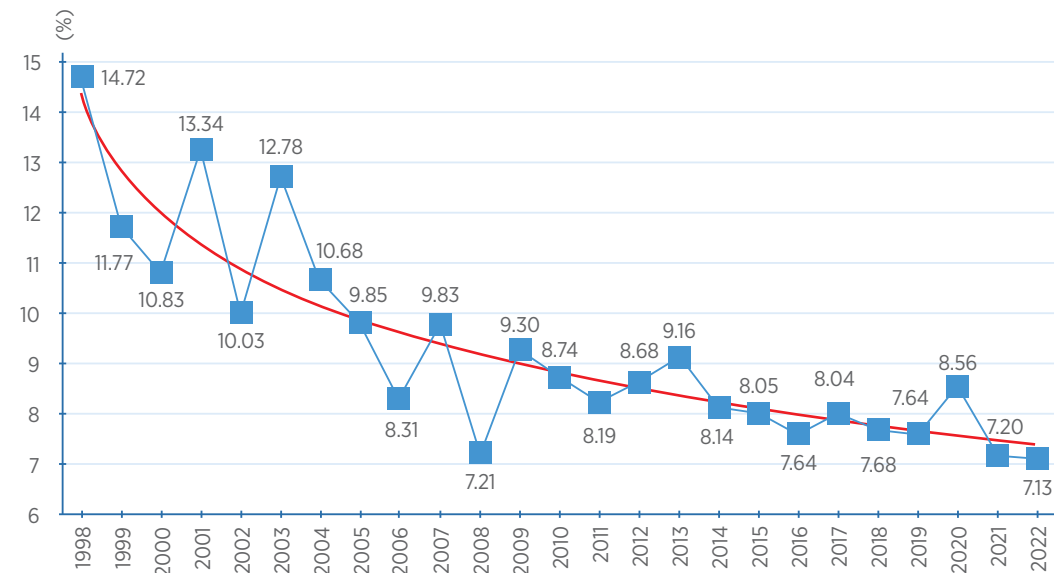
**Reduction of electricity losses is one of the most important business goals for the achievement of which investment and operational measures have been implemented for a number of years. Over the years, the implementation of these measures have led to a decreasing trend in losses.**

Electricity losses in the distribution network are divided into:

- technical losses, which are the result of the operating condition of the distribution network and technical characteristics of network elements, referring to the losses of core magnetization of a large number of transformers and heat losses on lines and transformers
- non-technical losses, which are the result of unmeasured and unbilled energy consumed by network users, mostly referring to metering errors, unauthorized consumption of electricity and the like.

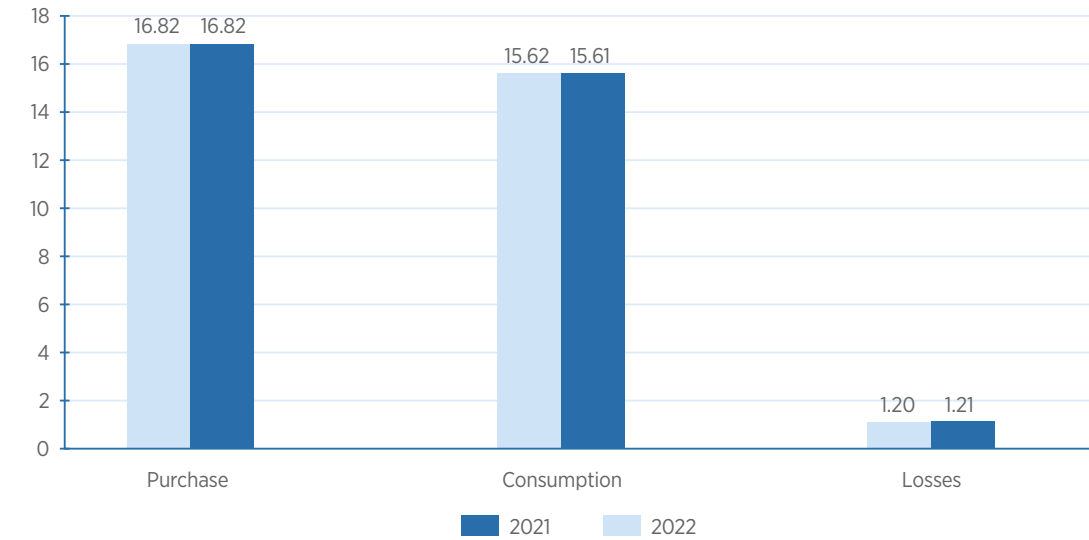
Losses are expressed as a percentage of the total energy input in the distribution network. According to the existing methodology, losses represent the difference between electricity taken from the distribution network (transmission network, other distribution networks and power plants connected to the distribution network) and the energy billed to end users. The absorbed energy in the distribution network is calculated monthly by metering, while a large part of the energy billed to customers is based on advance installments, which accounts for an error in the calculation of losses (volatile changes in the amount of losses over the years).

### DISTRIBUTION NETWORK LOSSES



The share of losses in the distribution network in the period from 1998 to 2022, the red line shows a decreasing trend of losses.

### TOTAL VOLUMES OF ELECTRICITY PURCHASE, CONSUMPTION AND LOSSES (GWh)



HEP ODS is required to take systematic measures to reduce electricity losses in the distribution network, especially losses caused by unauthorized consumption of electricity.

## 3.7 PROJECT MANAGEMENT

Project management is one of the components contributing to the successful business performance of HEP ODS in 2022.

Given the growing global challenge of climate change and the need for sustainable energy solutions, HEP ODS has recognized the importance of project management as part of an efficient, development and environmentally aware business strategy.

Planning, organization and coordination of project activities facilitated the optimization of HEP ODS resources, project failure risk reduction, and assurance that projects are carried out in accordance with the set goals and standards, within the budget and deadlines.

Focused on continuous development, HEP ODS successfully managed a number of projects in 2022 that contributed to the achievement of financial goals and business sustainability.

### SMART GRID PILOT PROJECT

HEP ODS is implementing the EU co-funded pilot project for the introduction of advanced networks. Total project value is EUR 23.5 million (HRK 176.83 million), of which grants allocated from the European Fund for Regional Development under the Operational Programme "Competitiveness and Cohesion 2014 - 2020", Specific Objective 4d1 account for 85% or EUR 20 million (HRK 149.95 million). In addition, HEP



ODS will invest an additional EUR 6.9 million of its own funds, reaching the total project value of EUR 30.4 million. The initial project implementation period was from 24 May 2018 until 31 December 2022. Due to circumstances which could not have been foreseen or influenced, and which caused the delay of certain project activities, in late 2022 HEP ODS was granted a 12 month project extension, i.e. the extension of the Grant Agreement.

The smart grid pilot project means the modernization of a section of the electricity distribution network in Croatia. The project will increase the efficiency of electricity distribution, set preconditions for increasing the reliability of electricity supply, increase the number of users with access to the advanced network and create preconditions for further integration of distributed sources.

The project includes three functional areas of advanced power distribution networks:

- advanced metering infrastructure: installation of summary meters in 6,125 MV/LV substations and installation of advanced meters with 24,000 end users
- development and optimization of the conventional network: replacement of 449 existing transformers with MV/LV reduced loss units in accordance with Commission Regulation no. 548/2014 on the implementation of Directive 2009/125/EC
- automation of the medium voltage network: installation of 670 remotely controlled devices in the network depth (remotely controlled switching blocks in container substations, remotely controlled disconnectors and switches).

The project will enable the introduction of the advanced network concept in five of 21 distribution areas of HEP ODS: Elektra Zagreb, Elektroslavonija Osijek, Elektrodalmacija Split, Elektra Zadar and Elektrojug Dubrovnik, in order to determine the synergy effect of the implementation of proposed measures and facilitate investment decisions in other distribution areas.

After several years of preparing and ensuring the necessary preconditions, the year 2020 was marked by intensive activities on concluding contracts for the supply of equipment and the first significant investments under the Smart Grid Pilot Project. Said investments continued in 2021 and 2022 through the supply and installation of equipment at selected locations. In addition, regular activities in the area of project promotion and its visibility continued as well as project management and administration.

By the end of 2022, almost 75% of the grant was utilized by HEP ODS.

## DINGO PROJECT



HEP ODS is participating in the "Distribution Grid Optimization" project called DINGO, financed from the Structural Funds IRI2 - Increasing the development of new products and services resulting from research and development activities - phase II, as part of Operational Programme Competitiveness and Cohesion 2014 - 2020. The project promoter is HELB d.o.o., while HEP ODS participates as a partner together with the Faculty of Electrical Engineering and Computing and Sedam IT d.o.o. As the financing model does not provide for pre-financing, the project promoter transfers funds to HEP ODS based on submitted personal expenses reports. Total eligible and approved project costs for HEP ODS amount to HRK 762,364.71 and refer to personal expenses of Project Implementation Team members. The EU grant amounts to HRK 432,006.63, while the projected duration of the project is from 1 August 2020 to 1 August 2023.

## ATTEST PROJECT



HEP ODS is implementing the ATTEST project (Advanced Tools Towards cost – efficient decarbonisation of future reliable Energy SysTems). For the purposes of its implementation, HEP ODS was granted HRK 1.2 million, fully co-financed under the EU's Horizon 2020. In view of the co-financing ratio, HEP ODS does not require additional funding sources. The project does not plan for equipment investments or the participation of third parties, and the costs of HEP ODS include the salary costs of the Working Group members for project implementation, the costs of official trips and other indirect expenses.

In accordance with the Consortium Agreement, the first payment of HRK 0.4 million was made in 2020, while two of the remaining three payments of HRK 0.5 million were released in 2021. The remaining amount of HRK 0.3 million, i.e. the difference between the realized and planned costs, will be paid in July 2023.



## SUPEER PROJECT

HEP ODS is implementing the SUPEER project - System for managing electricity consumption in households, financed from the Structural Funds IRI2 - Increasing the development of new products and services resulting from research and development activities - phase 2, as part of the Operational Programme Competitiveness and Cohesion 2014-2020. The project promoter is Iskon Internet d.o.o., and HEP ODS is a partner together with the Faculty of Electrical Engineering and Computing, Hrvoje Požar Energy Institute and Sedam IT d.o.o. As the financing model does not provide for pre-financing, the project promoter transfers funds to HEP ODS based on the submitted salary cost reports.

Total eligible and approved project costs for HEP ODS amount to HRK 0.3 million and refer to the salary costs of Project Implementation Team members. The EU grant accounts for 56.7%, i.e. HRK 0.1 million, while the projected duration of the project is from 17 August 2020 until 17 August 2023. In total, HRK 0.1 million or 73.3% of the planned funds were paid by the end of 2022, while the remaining amount is expected in 2023.

## FLEXIGRID PROJECT



HEP ODS is participating in the FLEXIGRID pilot project from the EU's HORIZON 2020, together with fourteen partners across Europe. FLEXIGRID proposes to improve the operation of the electricity distribution network by developing four hardware solutions: secondary substations of the future, new generation smart meters, protection that deals with a high share of renewable energy sources and a multipurpose concentrator called the Energy Box. FLEXIGRID solutions will be implemented in four different locations across Europe: a rural and suburban network in Spain, a hotel resort on the Greek island of Thasos, an urban network in the city of Zagreb and an isolated valley in South Tyrol, Italy.

Eligible costs for HEP ODS amount to HRK 3.0 million, and include salary costs, travel expenses and investment costs. The share of the EU grant accounts for 70%, and includes pre-financing, payment during and after project completion. By the end of 2021, a total of HRK 1.3 million or 60.6% of the planned funds was released. There were no payments made in 2022. The payment of the remaining amount of HRK 0.8 million is expected upon the completion of the project, in September 2023.

## GREEN SWITCH PROJECT

GreenSwitch is an extensive six-year project featuring the innovative and effective application of new technologies and advanced functionalities for the cross-sector and cross-border improvement of the electricity system infrastructure, which results in a greater utilization of network capacity, effective integration of new types of network users (as defined in the Electricity Market Act), by optimizing future investments and improving the security of supply and quality of service on the territory of the three member states.

In order for the project to qualify for CEF funds (Connecting Europe Facility), it was necessary to register project ideas on the PCI list as a prerequisite. Almost every day, HEP ODS maintains international cooperation with other distribution and transmission system operators and energy companies in order to make the application as successful as possible. During said period, HEP ODS has cooperated with companies from Croatia (HEP d.d., HOPS d.d.), Slovenia (ELES d.o.o., Elektro Ljubljana d.d., Elektro Gorenjska d.d., Elektro Celje d.d., GEN-i d.o.o.) and Austria (KNG – Karnten Netz GMBH).

After a successful PCI listing, and taking into account the project investment size and its importance for the participating companies, the consortium began cooperating with the Energy Institute Hrvoje Požar in 2022, which, with the involvement of its experts, leads the consortium in the preparation of documentation necessary for project application. The application complexity is underscored by a nine-month long daily work on documentation preparation.

In December 2022, the European Commission announced that the project co-funding had been approved in the maximum possible amount, ie 50%, of the total project value of EUR 146,204,508. All the above mentioned companies, save HEP d.d. and GEN-i d.o.o., continue their project involvement.



## 3.8 USERS AND INFORMATION DISTRIBUTION

**The use of renewable energy sources and the fight against energy poverty were current topics throughout 2022, which was reflected in the structure of media and user queries dominated by issues related to the deadlines for solar power plant connections and measures defined by the Regulation on the Elimination of Disruptions on the Domestic Market of Electricity adopted by the Government of the Republic of Croatia.**

The second half of 2022 was marked by the entry of two new regulations into force: the Rulebook on the quality conditions of electricity supply and the Rulebook on general conditions for the use of the network and electricity supply. Since every change in the regulations implies the revision and adjustment of information conveyed to network users through communication channels, forms, requests and other supporting documents that need to be updated and harmonized with the current legislative framework of business operations, activities with different functions were carried out in order to harmonize work instructions with the new rules.

The implementation of the new central IT system carried out in 2021 and 2022 proved to be the backbone of the Customer Support activities within the Customer Relations and Information Unit. The

activities were focused on the necessary corrections and adjustment of business processes in the new central IT system with the main emphasis on harmonization and connection with other IT applications used in business operations.

With the implementation of the electronic mail module centralization project aimed at developing a better quality customer support by standardizing procedures and ensuring the application of a standardized user response procedure in 2022, the electronic mail for Elektrojug Dubrovnik and Elektra Sisak was centralized, in addition to the two already existing central mail addresses.

In coordination with the Project Management and IT Units, intensive activities were actively carried out throughout 2022 on the project of Request Digitization in the My Network application with the aim of a complete digitalization of the request submission process. A user interface for data entry was created for most requests, while the delivery of the second part of the project task is expected by mid 2023 - connecting the user request submission application with the ASEBA business application. The submission of new requests via My Network was made possible during 2022, and the number of currently available digital forms increased compared to the previous year.



## PUBLIC RELATIONS

In 2022, the Marketing Department continued with promotion and visibility activities under the Smart Grid Pilot Project. As part of contractual obligations, five final workshops were held in Osijek, Zadar, Dubrovnik, Split and Zagreb. Media announcements, video footage, TV spots, and radio broadcasts were made, and the website and social network user accounts updated. At the end of 2022, the project was extended until 30 November 2023. The closing conference as well as other accompanying media activities will be held in that period.

The Marketing Department is also involved in all four projects within the large EU's Modernization of the Croatian Distribution Electricity Network project.

In 2022, the participation in European biodiversity conservation projects continued including LIFE Danube free sky (an international project dedicated to preventing the suffering of endangered bird species from the negative impacts of electricity infrastructure) and LIFE SUPport (Securing the future for griffon vultures in Croatia).

## COMPLAINTS COMMITTEE

Complaints committees in HEP ODS distribution areas were established in accordance with the Consumer Protection Act. Committee members are representatives of distribution areas and consumer association.

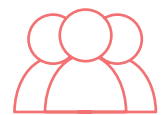
Comparing the Committee work in 2022 with 2021, a slight decrease in the number of complaints was observed, but without significant changes in the percentage of accepted or rejected complaints. The number of billing-related complaints decreased significantly, as did the percentage of accepted requests.

In terms of electricity connection/disconnection related complaints, their number decreased slightly compared to last year, while the number of voltage condition related complaints slightly increased. We have noted a significant increase in the number of complaints classified in the "miscellaneous" category. The ratio of founded and unfounded claims as a whole did not change compared to 2021. The number of founded claims in 2022 accounted for about 28% of the total number of claims, in contrast to 2021 when it was about 29%, while the remaining 71% of claims in 2022 were classified as unfounded.

## WORK OF THE CONSUMER COMPLAINTS COMMITTEE

Distribution area	Grounds for consumer complaints															Sessions held	Complaints total	Total accepted	Total rejected
	Billing			Faulty meter			Connection/Disconnection			Voltage condition			Miscellaneous						
	total	accepted	rejected	total	accepted	rejected	total	accepted	rejected	total	accepted	rejected	total	accepted	rejected				
Elektra Zagreb	34	6	28	10	4	6	15	3	12	0	0	0	71	30	41	11	130	43	87
Elektra Zabok	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0
Elektra Varaždin	2	0	2	0	0	0	0	0	0	0	0	0	2	0	2	4	4	0	4
Elektra Čakovec	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	1	1	0	1
Elektra Koprivnica	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1
Elektra Bjelovar	3	0	3	0	0	0	0	0	0	0	0	0	0	0	0	2	3	0	3
Elektra Križ	0	0	0	0	0	0	9	4	5	0	0	0	0	0	0	6	9	4	5
Elektroslavonija Osijek	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0	1
Elektra Vinkovci	5	1	4	0	0	0	0	0	0	0	0	0	2	1	1	6	7	2	5
Elektra Slavonski Brod	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektroistra Pula	2	1	1	0	0	0	1	0	1	0	0	0	2	0	2	4	5	1	4
Elektroprimorje Rijeka	2	0	2	0	0	0	2	1	1	1	0	1	0	0	0	3	5	1	4
Elektrodalmacija Split	1	1	0	0	0	0	0	0	0	0	0	0	3	0	3	2	4	1	3
Elektra Zadar	8	0	8	1	1	0	0	0	0	0	0	0	0	0	0	5	9	1	8
Elektra Šibenik	2	1	1	0	0	0	0	0	0	0	0	0	4	0	4	3	6	1	5
Elektrojug Dubrovnik	2	0	2	0	0	0	0	0	0	0	0	0	0	0	0	3	2	0	2
Elektra Karlovac	0	0	0	0	0	0	0	0	0	1	0	1	3	0	3	5	4	0	4
Elektra Sisak	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	3	1	0	1
Elektrolika Gospić	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Elektra Virovitica	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0
Elektra Požega	1	0	1	1	1	0	0	0	0	0	0	0	1	0	1	4	3	1	2
<b>Ukupno</b>	<b>64</b>	<b>10</b>	<b>54</b>	<b>12</b>	<b>6</b>	<b>6</b>	<b>27</b>	<b>8</b>	<b>19</b>	<b>2</b>	<b>0</b>	<b>2</b>	<b>90</b>	<b>31</b>	<b>59</b>	<b>66</b>	<b>195</b>	<b>55</b>	<b>140</b>

# 4



## ODS WORKERS



By implementing a sustainable human resource management policy, creating attractive working conditions, and a satisfying and motivating atmosphere, HEP ODS strives to attract quality, professional and interested individuals, people of various professional profiles, whose mutual work and commitment is focused on the power system stability.



The greatest value of HEP ODS is its workers - ODS employees. Workers are a key factor in the Company's success, an indispensable part of any strategy or business plan. HEP ODS employs many brave and hard-working individuals – from irreplaceable electricians and technicians who show their strength best when it is most difficult, to engineers of various profiles and other experts in their fields. Every worker of HEP ODS is important and every worker is special and dedicated to their work in their own way.

As of 31 December 2022, the Company employed a total of 6,879 workers in 21 distribution areas and the Company head office, which makes HEP ODS the single largest company within HEP Group.

Aware of the permanent need to invest in the workforce, HEP ODS is constantly looking for quality workers who enrich the company through their knowledge and innovation. With a sustainable human resource management policy, attractive working conditions, and the creation of a satisfying and motivating atmosphere, HEP ODS strives to attract quality, professional and interested individuals, people of various professional profiles, who will work together on maintaining the stable operation of the electric power system by investing their work and commitment.

The HR development of HEP ODS is regulated by the HEP Group's Long-term HR Development Strategy for the period 2017 - 2030. The framework of this strategy includes employment plans and targeted trainings, thus ensuring the transfer and retention of specific knowledge for the Company. The employment development plans are primarily guided by the important determinants of the organization of the Company's core activities, i.e. the characteristics of workers engaged in key operations. The Company is trying, as much as possible, to adapt the planning and implementation of new employment and the allocation of workers within the organization to its real needs.

In the last few years, there has been a trend of employing younger workers. It is part of the natural process of a continuous generational renewal, but also of the Company's attitude focused on preserving workers as carriers of specific knowledge and expertise. Nevertheless, the average age is still high 47.2 years, which leads to a conclusion that the acquisition and preservation of knowledge is a multi-year process and that every important change takes time. The slight increase in the number of workers of younger age groups gives reason for optimism and calls for an optimal definition of employment needs, focusing primarily on hiring trainees and rejuvenating the workforce so that knowledge can be systematically, continuously and timely transferred from older to younger workers.

Finally, HEP ODS has always been an attractive and desirable company with a long tradition, and its recognizable individuality within HEP Group, nurturing the sense of the workers' belonging to their business environment through generations. Accordingly, we develop and take care of our employees, attract new workers and together, year after year, grow with the organization, its values and culture.

#### WORKERS BY AGE GROUPS

Age group (years)	No. of workers 2021	No. of workers 2022
under 20	10	22
20 - 30	651	661
30 - 40	1,105	1,117
40 - 50	1,870	1,797
50 - 60	2,302	2,221
over 60	960	1,061
<b>Total (1 to 6)</b>	<b>6,898</b>	<b>6,879</b>

## 4.1 WORKING CONDITIONS

#### WORKERS BY GENDER AND TYPE OF CONTRACT

Type of contract	No. of workers 2021		No. of workers 2022	
	M	F	M	F
Fixed-term contract	141	46	125	24
Permanent contract	5,438	1,273	5,434	1,296
<b>Total number of workers</b>	<b>5,579</b>	<b>1,319</b>	<b>5,559</b>	<b>1,320</b>

An attractive job is not always the best paid one, but the one that offers the best working conditions. In this part, HEP ODS tries to take care of workers and their needs, their health, children and families. Material benefits for workers are set and established by the Collective Agreement of HEP Group, which is implemented in HEP ODS in its entirety.

The Collective Agreement of HEP Group, a result of many years of work and efforts invested by representative trade unions on the one hand, and the sincere cooperation of the Employers' Association of HEP Group on the other, is considered by many to be one of the best collective agreements in general, guaranteeing its workers labour rights beyond those prescribed by law. Some of these rights, benefits and privileges are as follows:

- supplementary health insurance, annual medical check-up, 24-hour worker insurance
- salary supplement based on total length of employment and continuous employment with the employer
- severance pay upon retirement
- financial award for many years of work with the employer
- reimbursement of transportation costs
- vacation bonus
- special bonus (Christmas, Easter)
- a Christmas gift for the children of workers
- support for the birth of a child and support during maternity/parental leave
- various financial benefits for workers (death of immediate family members, continuous sick leave, care of a child with severe developmental disabilities, etc.)
- protection of older workers (salary retention after reaching the age of 60 and the impossibility of employment contract termination after the age of 63.5)
- longer notice period and higher severance pay for personal and business-related termination of employment
- voluntary pension fund.

The Voluntary Pension Fund of HEP Group is a closed fund, established only for the employees of HEP Group for the purpose of collecting funds, member payments, sponsor contributions, government incentives and investing these funds with the aim of increasing the value of assets and ensuring additional pension payments to Fund members.

In addition, HEP ODS has always been known for worker involvement, i.e. for the participation of workers in the work of the Company through works councils. Regular elections for works councils in individual



organizational units, the organization and operation of the Main Works Council as the most important representative of all workers, the participation of workers in the work of the Supervisory Board of HEP ODS through the elected worker's representative, clearly shows the employer's position on the importance of workers.

#### RATIO OF STANDARD ENTRY LEVEL WAGE COMPARED TO MINIMUM WAGE

	2021		2022	
	M	F	M	F
Ratio of entry level wage in HEP ODS and minimum wage in Croatia	1.75	1.85	1.66	1.67

## 4.2 DIVERSITY AND EQUAL OPPORTUNITIES

Since 2017, HEP Group has been a signatory to the Diversity Charter, the main goal of which is to encourage the implementation of the diversity policy in the business sector, supported by the Diversity and Non-Discrimination Policy of HEP Group. The goal of the aforementioned Charter and the Policy is to ensure equal opportunities for all workers during employment and professional development and to prevent any form of discrimination based on gender, age, sexual orientation, disability, ethnicity and/or religious commitment.

In this sense, HEP Group and HEP ODS undertake the following:

- to develop organizational culture in which individual differences and contributions of each worker are recognized and valued
- to encourage cooperation, togetherness and interpersonal relations based on mutual respect and appreciation
- to promote the values of diversity, equality and non-discrimination among management, workers and other stakeholders
- to provide a working environment that will enable innovative thinking and creative development of each worker
- to ensure equal opportunities for professional and personal development for all workers
- to create a working atmosphere without violent behavior, harassment, victimization and discrimination and to empower workers to use the existing mechanisms to prevent discrimination.

#### RATIO OF WAGE BY GENDER

Ratio		2021	2022
		F / M	F / M
	Managers	1.065	1.088
	Other employees	0.947	0.952

Based on the Guidelines of the Government of the Republic of Croatia and the Office for Gender Equality, HEP Group, in accordance with the Gender Equality Act, prepares an Action Plan for the promotion

and establishment of gender equality in HEP Group every four years. The plan includes an analysis of the position of men and women in HEP Group, special measures, goals, as well as the method of implementation and monitoring thereof.

Gender equality is supported by the regulation of the prohibition of discrimination, which is especially important for the Company. The Rulebook on procedures and measures for the protection of dignity of HEP ODS workers and the Code of Ethics are only the beginning of systematic care for vulnerable and sensitive categories.

Established communication channels, organized diversity and non-discrimination educational programmes, established complaint submission mechanisms to the Committee for the Protection of the Dignity of Workers, the Ethics Commissioner and the confidential person for the submission of irregularities as well as the Data Protection Officer represent a strong support to diversity and non-discrimination.

#### RIGHT TO PARENTAL LEAVE

	2021		2022	
	M	F	M	F
number of employees who used the right to parental leave	47	67	64	67
number of employees who returned to work after the parental leave ended	47	67	64	67
* rate of return to work of employees who used the right to parental leave (%)	100	100	100	100
number of employees who returned to work after the end of parental leave, and who remained employed 12 months after returning to work	45	65	61	65
** retention rate of employees who used the right to parental leave (%)	98	97	95	97
<b>Total number of employees entitled to parental leave</b>	<b>47</b>	<b>67</b>	<b>64</b>	<b>67</b>

HEP Group's awareness was confirmed by the award of the **Mamforce Company Standard** based on the implementation of gender and family responsible policies. In addition to the continuous promotion of gender equality and family responsible business operations, greater involvement of fathers in raising children is encouraged by strengthening their right to parental leave. All female workers entitled to maternity leave in 2022 exercised their right, while the number of men who used the parental leave increased.

#### EDUCATION, DEVELOPMENT AND PROMOTION OF WORKERS

HEP ODS invests continuous efforts in the professional development and education of workers, takes care of the transfer of specific knowledge and experience, and constantly works on the development of its workers in accordance with business and development goals as well as on increasing legal and regulatory obligations.

Focusing on the lifelong education of workers for the correct implementation of existing knowledge and the acquisition, development and integration of new specialized knowledge and skills remains our

mission, our permanent choice. In this way, we strive to achieve better performance and improve the Company's operations.

Professional development is shaped individually and in group programmes by referring workers to various training and development courses. The Company provides numerous educations tailored to individual needs. Especially important are 'in-house' educations organized within individual organizational units, which goal is the in-house transfer of knowledge in individual business segment.

External education includes professional training, professional development and postgraduate studies aligned with the development and business goals of the Company and the educational needs of the employees.

Under the decision adopted by HEP Group on the rules of procedure for referring workers to further education at the employer's expense, further education and retraining has been subsidized. Also, the impact of new technologies on business operations and changes in the business environment are continuously monitored, and the interest in these types of education, which are primarily technology-based, is supported.

In 2022, a total of HRK 5.97 million was invested in the development of the workers' skills and competencies, which is about 5% more than in 2021. In view of the regulated activity of HEP ODS, most funds were allocated to professional training closely related to the fulfillment of legal and regulatory requirements, a total of HRK 2.8 million, or 47% of the total amount. The Company continued investing in the education of electrical fitters – specialists. In 2022, an additional 147 electrical fitters were trained through the basic live working programme, 82 electrical fitters took a refresher course, and 67 live working courses for managers were held.

### HEP-TEACHING AND TRAINING CENTRE

HEP-Teaching and Training Centre (HEP NOC) is an institution for adult education in electric power industry. Established in 2004, HEP NOC is a place which gathers electricity experts.

The core activity of HEP NOC is the organization and implementation of educational and training programmes, with a special emphasis on the implementation of professional training and development of live work procedures.

In addition to regular operations, HEP NOC participates in national and international professional and scientific conferences and gatherings, scientific projects with faculties and agencies for adult education with an emphasis on STEM. Cooperation with partners from neighbouring countries takes place on a daily basis, and HEP NOC employees actively participate in international trainings.

The accredited control and testing laboratory, as an integral part of HEP NOC, during its many years of work periodically performs tests of insulating poles, indicators, equipment and tools for live cleaning as well as other test samples according to valid standards and norms. Cooperation with partners increases quality and knowledge, while comparative calibrations are made during workshops in order to meet high standards and quality levels. The work of the laboratory is particularly interesting for research in which scientists from schools and universities take part and who along with students enrich the work of HEP NOC through their regular work visits.

### SCHOLARSHIPS AND GRANTS

In order to connect theoretical knowledge and practice, the Company actively cooperates with schools and universities educating pupils and students for professions necessary for the performance of the Company operations. Student scholarships create a base of young experts who represent a potential for the future development of the Company. The amount of scholarships granted in 2022 was HRK 343,000.

The Company continuously provides a monthly financial aid by awarding scholarships and grants to the children of deceased workers, until they complete their regular education. A total of HRK 759,000 was allocated for this purpose in 2022.

## 4.3 WORK SAFETY

HEP ODS pays special attention to safe and healthy working conditions, health protection and work safety. Occupational health and safety management within HEP Group members is governed by the Occupational Health and Safety Act and secondary legislation. HEP ODS was awarded a certified health and safety management system ISO 45001:2018, for all Company employees. The Health and Safety Management System (HSM) is the responsibility of the Management Board, which ensures the establishment of a safe and healthy workplace with the aim of preventing work-related injuries and illnesses. The Management Board is responsible for adopting policies, setting goals, and HSM effectiveness. The successful implementation of the health and safety management system is ensured by the Health and Safety Management Manual, the Occupational Health and Safety Management Policy, the objectives of the occupational health and safety management, HSM procedures and work instructions that provide a detailed description of how an activity is carried out, instructions for work in a safe manner, as well as forms for making entries containing achieved results or providing evidence of performed activities. HEP ODS employs occupational safety and fire protection experts.

The objectives of health and safety at work based on the improvement of the management system for the protection of health and safety of workers, the acquisition and maintenance of the workers' necessary occupational health and safety competences, and the acquisition of equipment for eliminating or mitigating risks at work with the aim of reducing the number of work injuries, occupational diseases and other work-related illnesses are defined. The Company continuously monitors hazards and risks and conducts risk assessments in all workplaces. As part of the health and safety management system ISO 45001:2018, a register of risks and opportunities for improvement is maintained.

HEP ODS provides services of occupational medicine for jobs assessed by workplace risk assessment. The Management Board of HEP ODS includes, directs and supports workers to contribute to the efficiency of the system, while worker representatives participate in occupational safety committees. The Team for the supervision of occupational safety and fire protection in HEP Group was established, which consists of occupational safety experts and an internal auditor. Their task is to supervise all companies within HEP Group. Inspections were carried out in HEP ODS distribution areas in 2022, while the audit and improvement of the health and safety management system ISO 45001:2018 was initiated.



The procedure for the management of documents and records prescribes and applies the procedure for managing documented information from the beginning of their creation, distribution and use to its storage and disposal. The purpose of such a system is to find documented information quickly and easily, recognize and adopt them as well as use only valid documented information. Documented information is available via the intranet to all workers at HEP ODS head office and distribution areas, and for workers who do not use a computer, access to documented information is ensured by a printed copy thereof. Workers are educated in programmes depending on the tasks they perform. Said educations are conducted by qualified occupational safety and fire safety experts with a certificate in andragogical knowledge. In 2022, an analysis of the existing documentation pertaining to the HSM was carried out.

The number of work injuries slightly increased compared to 2021. Some of them were caused by electricity, which indicates failure to observe the five basic rules of safety in everyday work. The majority of work-related injuries is connected to electrical fitters and other workers who carry out tasks in special working conditions. A smaller number of work-related injuries occur to administrative workers in the workplace and during their commute. There were two fatal injuries at work in the reporting year. The first fatality was the result of a traffic accident in which a HEP ODS worker was hit by a passenger vehicle on his way home from work and killed him. In the second case, serious injuries occurred as a result of an electric shock during the accuracy check of the bus disconnect contact fit. The worker was taken to hospital, where he died from his injuries. It was established that the injury with a tragic outcome occurred due to the performance of a work operation in a manner contrary to the rules of occupational safety.

During the implementation of activities, by carrying out education and active engagement of all participants in the work process, the Company strives to reduce the number of work-related injuries. With this in mind, a joint meeting of all occupational safety experts was held at HEP NOC (Education Center) in 2022.

## WORK INJURIES

	2021		2022	
	No. of injured	Percentage of (%) injured in total workers	No. of injured	Percentage of (%) injured in total workers
During work	68	0.99	78	1.14
Outside of work	23	0,33	20	0,29
<b>Total injured workers</b>	<b>91</b>	<b>1.32</b>	<b>98</b>	<b>1.43</b>

## LOST WORK TIME

	Working hours lost		Lost workdays	
	2021	2022	2021	2022
During work	26,984	29,872	3,373	3,734
Outside of work	7,368	3,752	921	469
<b>Total</b>	<b>34,352</b>	<b>34,624</b>	<b>4,294</b>	<b>4,203</b>





# 5

## MANAGEMENT OF ENVIRONMENTAL IMPACTS



As a national energy company for electricity distribution, HEP ODS strives to be a forerunner in the field of energy efficiency and its promoter among its employees and the wider economic and social environment.





HEP ODS is committed to sustainable business operations and environmental protection. In order to achieve said goal, an environmental management system according to ISO 14001 and an energy management system according to ISO 50001 were implemented. Environmental and energy management policies harmonized with the requirements of the aforementioned standards and signed by the Company director were adopted for the entire Company, and published on the website and notice boards on HEP ODS business premises. The scope of the Environmental and Energy Management Policy includes the operations of the head office and 21 distribution areas. Its environmental management system recognizes the context of the organization which includes all stakeholders and interested parties.

In accordance with ISO 14001, all HEP ODS employees have access to the internal environmental management system website, containing information and documentation that regulate procedures in specific aspects of the environment. Environmental protection workshops are organized annually for all workers who in some way get in contact with environmental protection in their daily work both on the premises of the head office and in all distribution areas.

Environmental protection objectives are also defined as part of ISO 14001. Based on the requirements of the environmental management system, we also prepare an annual report on the condition and operation of the environmental management system, along with the implementation of the system evaluation. It is important to note that in the inspection findings for the year 2022, compliance with environmental protection laws and regulations was established. In achieving these goals, the Environmental Management System Team is comprised of members from various organizational units, including the Company's head office and distribution areas.

## 5.1 ENERGY MANAGEMENT

As a national energy company for the distribution of electricity, HEP ODS wants to be a leader in the field of energy efficiency and to promote energy efficiency both among its employees and in the wider economic and social environment. The core commitment of the Company in the field of 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 an implemented and certified energy management system according to HRN EN ISO 50001:2018.

Energy consumption (kWh/year)	2022	2021	2022/2021
Electricity	13,035,369	12,016,968	+8.47
Heat energy	2,930,698	3,096,791	-5.36
Gas	9,186,632	10,799,283	-14.93
Fuel	17,329,581	18,171,664	-4.63
Significant energy consumption	42,668,776	44,303,584	-3.69

In addition to electricity, there was a significant reduction in energy consumption in 2022 due to good management of energy demand, maintenance and improvement of the certified energy management system according to HRN EN ISO 50001:2018. Electricity consumption increased by 8.47%, as some

business premises were heated with electricity instead of gas, wherever it was possible due to the energy crisis and high gas prices. This is also a confirmation of good and responsible management of energy consumption and costs.

### INVESTMENTS IN ENERGY EFFICIENCY

Year	2022	2021
Investments in energy efficiency measures (HRK)	6,395,585	30,707,249

In 2022, HRK 6,395,585 was invested in 34 different energy efficiency measures in office buildings, which is less than the year before when HRK 25,219,500 was invested in the purchase of 13 commercial vehicles.

### ENERGY PERFORMANCE INDICATORS/EnPI

Average value of performance indicators/year	2022	2021
Diesel – passenger cars (l/100 km)	7.04	6.44
Diesel – commercial vehicles (l/100 km)	12.18	14.09
Gasoline – passenger cars (l/100 km)	8.61	7.76
Cooling – electricity (kWh/SDH)	218.6	1,326.2
Heating – gas (kWh/SDG)	74.97	102.26
Heating – gas (kWh/m <sup>3</sup> )	33.57	39.47
Heating – electricity (kWh/SDG)	40.61	64.23
Heating – electricity (kWh/m <sup>3</sup> )	18.48	16.73
Heating – heat energy (kWh/m <sup>3</sup> )	24.20	28.15

The values of energy performance indicators were reduced in 2022, as a result of good management, maintenance and improvement of the certified energy management system.

Diesel fuel is used by passenger and commercial vehicles, work machinery, ships and power generating units, while gasoline fuel is used by passenger and commercial vehicles, snowmobiles, power generating units and others (petrol lawn mowers, trimmers, chain saws). The share of diesel fuel in total energy consumption without losses increased to 42%, even exceeding 50% in some locations. Such a high share of diesel fuel in the total significant energy consumption indicates the need for continuous analysis, additional effort in more accurate recording and better monitoring of diesel fuel consumption, mileage and working hours, finding, proposing and implementing measures for fleet improvement and optimization.

The values of the energy performance indicator (EnPI) for heating in 2022 were reduced compared to the previous year 2021, and are significantly lower than in the energy baseline (EnB) 2019.

A significant decrease in energy consumption by 1,634,808 kWh was recorded in 2022 compared to the previous 2021, while in comparison with the energy baseline 2019, the consumption decreased by 3,649,546 kWh.

**DECREASE – INCREASE OF ENERGY CONSUMPTION**

Decrease of energy consumption in 2022 compared to the energy baseline year (En) 2019 and the previous 2021 – excluding network losses (kWh)	2022/2019	2022/2021
Total significant energy use	-3,407,858	-1,084,786
<b>Fuel consumption</b>	<b>-2,544,680</b>	<b>-822,235</b>

There was a significant reduction in energy consumption for own needs and in fuel consumption in 2022 compared to the energy baseline year 2019 and the previous 2021. This is the result of a further improvement of the energy management system according to HRN EN ISO 50001:2018, investment in energy efficiency measures in office buildings, as well as a further renewal of the Company's outdated fleet.

**5.2 WASTE AND WATER MANAGEMENT****WASTE**

Waste management, in accordance with all applicable legal requirements prescribed in the Waste Management Rulebook, is defined within the environmental management system under the Waste Management Operating Procedure. All waste categories are handed over to authorized collectors with supporting documentation prescribed by law. If the authorized entities are not immediately available, the waste is temporarily stored, but not longer than one year. Waste storage is legally regulated by the Rulebook and defined within HEP ODS by measures set in the Waste Management Operating Procedure.

Waste disposal services are contracted by individual distribution areas and the company head office. Each contract stipulates an obligation on the part of the collector which must be authorized for specific categories of waste and must act in accordance with the requirements of ISO 140001. This reporting period was governed by the still valid 2016 decision, under which the authorized collector Kemo d.o.o. handed over waste transformer oil for material recovery. This procedure was implemented in large distribution areas with active substations: Elektra Zagreb, Elektroslavonija Osijek, Elektroprimorje Rijeka, Elektrodalmacija Split and Elektroistra Pula.

**TYPES OF WASTE**

All waste materials generated within HEP Group are documented and monitored in the HEP's environmental protection information system (INFOZOK). INFOZOK is integrated with e-ONTO, an electronic waste register owned by the Ministry of Economy and Sustainable Development (MINGOR).

The volumes and types of waste generated in HEP ODS depend on investments, reconstructions and rehabilitation of distribution network in case of emergency situations. The following types of hazardous waste prevail: hydraulic, lubricating and insulating oils, paints and varnishes, waste equipment, components, vehicles and devices, glass, plastic and metal waste, sludge and water from separators and waste batteries. The most significant types of non-hazardous waste generated by HEP ODS activities include metal waste (iron, copper, aluminum, lead), construction waste (concrete, wood, glass, plastic),

waste packaging, textile waste and equipment, bulky waste and printer toners. Most distribution areas do not treat used toners as waste, but hand them over to authorized companies for refilling.

Quantities of generated waste (t)	2020	2021	2022
Hazardous waste	1,053,436.0	1,612,089.5	1,198,088.5
Non-hazardous waste	2,744,768.4	1,987,876.1	1,999,672.3
<b>Total</b>	<b>3,798,204.4</b>	<b>3,599,965.6</b>	<b>3,197,760.8</b>

Waste disposal methods (t)	2020	2021	2022
Recovery	2,241,306	2,135,467	1,962,609
Preparation before recovery or management	9,007	28,932	-
Management	1,709,171	1,612,741	1,033,718
<b>Total</b>	<b>3,959,484</b>	<b>3,777,140</b>	<b>2,996,326</b>

**WATER**

Water consumption in HEP ODS is monitored and registered within the framework of energy management systems according to HRN EN ISO 50001:2018. Processes carried out in HEP ODS utilize water from the public water supply system. In 2022, a total of 58,829 m<sup>3</sup> of water was captured, and the same volume of waste sanitary water discharged into public drainage systems in all counties in Croatia. During 2022, the Company digitized the energy management system by developing its own energy management system application also used for water consumption monitoring.

Water consumption is monitored for all 132 locations of the energy audit (all Company office buildings are included – 772 different facilities). The application is used for monitoring sanitary water consumption according to the m<sup>3</sup>/worker indicator. Water consumption data registered by HEP ODS is as follows:

**WATER CONSUMPTION**

Year	Water consumption (m <sup>3</sup> )	m <sup>3</sup> /per worker indicator
2020	56,867	9.33
2021	62,251	9.99
2022	59,299	9.60

In this reporting period, water consumption decreased compared to the previous year 2021, but increased compared to 2020. This trend was caused by the 2-month period during Covid-19 pandemic when employees worked from home in 2020, which resulted in an overall lower water consumption that year. Water consumption in 2020 and 2021 was retroactively entered in the energy management system application, which implementation began in 2022.





## 5.3 ENVIRONMENTAL PROTECTION

### BIODIVERSITY

#### ACTIVITIES OF HEP ODS IN RELATION TO PROTECTED SPECIES AND AREAS

All interventions which are not subject to the issuance of the ecological impact appropriate assessments are carried out in accordance with the set goals and procedures under the adopted and certified environmental management systems according to ISO 14001:2015. This approach supports the achievement of the goals set in the Strategy and Action Plan for the Protection of Biological and Landscape Diversity of the Republic of Croatia for the period 2017 to 2025, and the European goals set under the Biodiversity Strategy of the European Union until 2030.

The electric power sector frequently impacts habitats of many species, which is particularly true for infrastructure projects that often affect natural areas in which certain protected species can be found. The infrastructural activities of HEP ODS (on the distribution power network) often include areas of exceptional ecological importance, including the Natura 2000 areas network, national and nature parks. In this context, one of the significant challenges recognized and faced by HEP ODS is the need to reduce the incidence of electrocution of protected species of birds and other smaller animals.

The electrocution potential arises at MV OH sites where the technical design allows it. However, in accordance with the Decree on Environmental Impact Assessment (Official Gazette 61/2014), HEP ODS interventions are not subject to the environmental impact study. The aforementioned Decree foresees the preparation of environmental impact studies only for activities carried out on the 110 kV OHL and above, while HEP ODS interventions take place on medium and low voltage networks.

Measures for the protection of birds from electrocution on the existing network are carried out at locations where the injuries had been confirmed and in cooperation with competent nature protection authorities, while biodiversity protection goals are adopted by distribution areas, as necessary.

### CONTRIBUTION TO THE PROTECTION OF WHITE STORK IN CROATIA

As defined by the Agreement, activities for the protection of white storks that nest on electric poles of HEP ODS were carried out pursuant to the decision of the Ministry of Environmental Protection and Energy (CLASS: UP/1-612-07/20-48/143) issued for the period from 1 September 2021 to 1 March 2022 (period of white stork absence). Activities included repair/replacement of supports for native nests, relocation of native nests to a safe location, removal of inactive native nests, and installation of isolation equipment to protect birds from electrocution within 14 distribution areas covered by the Agreement. In that period, about 200 activities were carried out, among which Elektra Križ and Elektra Bjelovar lead the ranks in terms of the number of protective measures and the representation of native nests. Continuing their cooperation with local public institutions for nature protection, HEP ODS workers provided professional and technical assistance in the ringing of young storks in the area of Lonjsko polje and Zagreb County.

### MANAGEMENT OF NETWORK ACTIVITIES WITHIN NATURA 2000

All HEP ODS interventions that are carried out within the Natura 2000 area network apply technical criteria in accordance with the Rulebook on conservation goals and measures for target bird species in ecological network areas (OG 15/14 and OG 38/20). Natura 2000 is the largest coordinated network of nature conservation areas in the world with the aim of long-term preservation of important and endangered species and habitats of Europe. Within the Natura 2000 conservation area important for birds, there are more than 5,000 kilometers of overhead medium voltage lines, some of which are isolated and do not pose a threat to birds.

Within the Natura 2000 area, HEP ODS plans to develop and build a new electric power infrastructure with a special emphasis on preventing bird collisions with high-voltage power lines and bird electrocution by medium-voltage power lines. In the areas with the existing overhead lines and an increased risk to birds confirmed by monitoring, HEP ODS undertakes technical measures to prevent further bird suffering. Within the Natura 2000 area, HEP ODS plans to modernize the existing power grid by reconstruction and modification, while the construction of the new and improvements to the existing grid will be carried out in accordance with the current laws of the Republic of Croatia, taking into account the specific features of different climate regions in Croatia (alpine, Mediterranean and continental). The project will include 35(30) kV and 10(20) kV OHL, 10(20)/0.4 kV pole substations and a low-voltage overhead network.

HEP ODS shall plan and build energy infrastructure in order to prevent and reduce the risk of harm to strictly protected bird species that live within the area. Natura 2000 conservation areas important for birds and related species to which energy sector measures apply have been identified. Within the Natura 2000 conservation area important for birds, there are more than 5,000 kilometers of overhead medium voltage lines, some of which are isolated and do not pose a threat to birds. According to the Rulebook on conservation goals and measures for target bird species in the areas of the ecological network, conservation measures in the field of energy include the following strictly protected bird species that are endangered by electrocution. These are: the golden eagle (*Aquila chrysaetos*), the Eurasian eagle-owl (*Bubo bubo*), the white stork (*Ciconia ciconia*), the short-toed eagle (*Circaetus gallicus*), the western marsh harrier (*Circus aeruginosus*), the hen harrier (*Circus cyaneus*), the Montagu's harrier (*Circus pygargus*), the merlin (*Falco columbarius*), the lesser kestrel (*Falco naumanni*), the peregrine falcon (*Falco peregrinus*), the red-footed falcon (*Falco tinnunculus*), the common crane (*Grus*), the griffon vulture (*Gyps fulvus*), the white-tailed eagle (*Haliaeetus albicilla*), the black kite (*Milvus migrans*), the osprey (*Haliaeetus*), the European honey buzzard (*Pernis ptilorhynchus*), the greater spotted eagle (*Aquila clanga*), the lesser spotted eagle (*Aquila pomarina*), the black stork (*Ciconia nigra*), the Ural owl (*Strix uralensis*).

## REDUCING ADVERSE EFFECTS ON BIODIVERSITY

### LIFE DANUBE FREE SKY PROJECT



After a successful application to the international tender, the Agreement on the participation in the international LIFE Danube Free Sky project, financed by the European Union, was signed in late 2020. The full name of the project is "Transnational bird conservation along the Danube River", and its main goal is to contribute to the strategic goal of biodiversity of the European Union. By reducing bird mortality caused by power lines within a total of twenty-two Nature 2000 areas of importance for birds, a safer migration route for birds along the Danube will be established and the survival rate of nineteen priority species increased. Total value of this 60-month long project is EUR 6,636,170. As many as fifteen partners from seven countries in the Danube region take part, with Slovakia as the main coordinator. The activities of HEP ODS relate to the reduction of bird collision and electrocution by the lines in Elektroslavonija Osijek within the Kopački rit Nature Park.

In 2022, significant progress was achieved within the LIFE Danube Free Sky project. As part of the activities in Elektroslavonija Osijek, within the Kopački rit Nature Park, the focus was put on reducing the danger for birds dying from electric lines. In addition to already known bird protection measures, such as the installation of isolation equipment, mechanical devices known as optical diverters were installed on the HEP ODS lines. Diverters attract the attention of birds, thus preventing collisions with the lines. HEP ODS is also planning to reconstruct the existing lines (about 30 kilometres) by using insulated conductors.

In this reporting year, HEP ODS started with the installation of 564 diverters to prevent bird collisions with the 35 kV transmission lines within the Kopački rit Nature Park. This undertaking will be completed during 2023, after which monitoring will be carried out to verify effectiveness. Participation in this project is extremely important for the preservation of birds along the Danube River and for reducing the risk of power line collision.

### LIFE SUPPORT PROJECT

In 2022, a consortium agreement was signed for the LIFE SUPport project. The total value of the project amounts to EUR 2,159,598, of which 60 percent is allocated under the EU LIFE programme. The LIFE SUPport project aims to improve the protection of the griffon vulture and improve the conditions for their nesting in Croatia.

The lead project promoter is the BIOM Association, supported by other partners which include the Public Institution "Priroda" of Primorje-Gorski Kotar County, the Agricultural Cooperative "Otok Krk" and the Vulture Conservation Foundation. Also, the associate partner is the Directorate for Nature Protection of the Ministry of Economy and Sustainable Development.

The activities of HEP ODS are focused on the area of Elektoprimerje Rijeka and include the implementation of bird protection measures on 200 poles of the overhead medium voltage network by installing isolated equipment or replacing bare conductors with the isolated ones. The expected duration of this project, which started on 1 January 2023, is 60 months. The first concrete activities of HEP ODS are expected in the second year of project implementation, i.e. in 2024. Out of the total value of the project ie EUR 2,159,589.61, HEP ODS activities will account for a total of EUR 323,366.84.

### INVESTMENTS IN THE ENVIRONMENT

For the purpose of improving environmental protection and reducing the risk of emergency situations with negative consequences for the environment, under the Investment programme on the grounds of the environmental and energy management system a total of HRK 750,000 was secured and used in 2022 for projects and programmes from the following categories:

- organization of transformer warehouse (power reserves and transformers scheduled for disposal): project completed in one distribution area
- organization of temporary sites for the collection and storage of hazardous and non-hazardous waste (procurement of tanks and waste containers, organization of waste storage locations in accordance with legal regulations): projects completed in five distribution areas
- organization of the waste water drainage system (reduction of emissions into soil and water): projects completed in four distribution areas.





# 6

## CORPORATE GOVERNANCE



People and organizational culture play an important role in the fulfillment of strategic goals. Focused on people and oriented towards users, the defined corporate structure forms the basis of effective management and the development of HEP ODS authenticity aimed at the growth and well-being of our workers and the society as a whole.





Through corporate governance in the performance of the regulated activity of electricity distribution and supply, HEP ODS achieves its business goals adhering to the importance of the public service ethics. In order to meet distribution network user expectations and effectively connect all participants in the electricity market, current operational methods are constantly changing by developing state-of-the-art business models along with innovative technological solutions, which bring new results.

**People and organizational culture play a key role in the fulfillment of strategic goals. Focusing on people and users, the corporate structure has been defined as a basis of effective governance.**

## GENERAL ASSEMBLY

The Assembly of HEP ODS consists of the founder of the company, HEP d.d. Within the framework of its prescribed powers, the Assembly decides on important issues of the Company. The assembly of HEP ODS is represented by Frane Barbarić, president of the Management Board of HEP d.d.

## SUPERVISORY BOARD

HEP ODS has a Supervisory Board consisting of five members, one of whom is a worker representative. Their term is four years. The members of the Supervisory Board are elected by the Assembly, while the workers' representative is appointed by the Company workers.

The Supervisory Board supervises the management of the Company's affairs and closely cooperates with the Company's Management, mostly through holding regular Supervisory Board meetings.

During 2022, the Supervisory Board, in accordance with its prescribed powers, supervised the management of the Company's affairs within its jurisdiction. During a total of 28 Supervisory Board meetings, 15 of which were held electronically, 228 agenda items were adopted.

Members of the Supervisory Board of HEP ODS are:

Damir Pećušak, chairman  
Marino Roce, deputy chairman  
Snježana Barbarić, member  
Marko Dvorski, member  
Ninoslav Petelin, member

## MANAGEMENT BOARD

The Management Board of HEP ODS consists of one member, the director of the Company, who is appointed for a term of four years. The Management Board of HEP ODS is appointed and dismissed by the Assembly of the Company.

The Management Board of the Company manages Company affairs and informs the Supervisory Board about all important business events, the course of business, income and expenses, and the general state of the Company. It submits regular annual report on its business operations to the Supervisory Board.

In addition to set restrictions, the Management Board of the Company:

- manages the Company's affairs in accordance with defined Company strategy and goals
- represents the Company, concludes contracts and makes decisions related to the Company's business operations
- manages, organizes, coordinates and controls the overall work process in the Company
- adopts Company by-laws and organizational regulations as well as manages the work of employees
- reports to the Supervisory Board on important issues for the Company
- participates in the making of and implements business decisions of the Founder (HEP d.d.), carries out other tasks in accordance with the law and internal acts of the Founder.

HEP ODS carries out key activities in business areas through an organizational structure that is set in a unique operating system through the Company's Management Board, departments and distribution areas, contributing to and striving for the common goal of success and effectiveness.

The procedure for selecting and appointing Company director, department/distribution area directors and other persons in positions with special powers is defined by internal regulations. It is possible to implement the selection and appointment procedure for positions with special powers by appointing HEP Group employees in accordance with the terms and conditions defined by the Company by-laws. If a HEP Group employee is not appointed to the position with special powers, said position is filled by a candidate selected through the candidate acquisition process in one of the following ways: by announcing a public tender, using an employment mediation agency, or by head hunting.

The autonomy of the members of the Management Board is ensured by complying with the provisions of the Companies Act, the corporate governance codes of the European Union member states and national autonomy recommendations. This prevents a simultaneous performance of two functions in different company bodies, thus achieving the autonomy of company members.

Management Board of HEP ODS:

Nikola Šulentić, director

### ASSISTANT DIRECTORS

Elizabeta Balić  
Davor Sokač  
Goran Slipac  
Krešimir Tomasović

## ORGANIZATION

In addition to the Management and Supervisory Boards of the Company, the tables below list department and distribution area directors.

### DEPARTMENT DIRECTORS

Elizabeta Balić	Economic Affairs
Perica Hrnjak	Procurement
Tihana Mrazović	Legal Affairs and HR Management
Krešimir Ugarković	Asset Management
Ivan Periša	System Operations
Danijela Žaja	Metering and Market Support

### DIRECTORS OF DISTRIBUTION AREAS

Anton Marušić	Elektra Zagreb
Roman Gregurović	Elektra Zabok
Zdenko Đula	Elektra Varaždin
Igor Ivković	Elektra Čakovec
Goran Pakasin	Elektra Koprivnica
Mladen Modrovčić	Elektra Bjelovar
Željko Sokodić	Elektra Križ
Danijel Ilić	Elektroslavonija Osijek
Vladimir Čavlović	Elektra Vinkovci
Branka Balašević	Elektra Slavonski Brod
Zvonko Liović	Elektroistra Pula
Vitomir Komen	Elektroprimorje Rijeka
Saša Kraljević	Elektrodalmacija Split
Tomislav Dražić	Elektra Zadar
Emil Živković	Elektra Šibenik
Zvonimir Mataga	Elektrojug Dubrovnik
Zvonko Spudić	Elektra Karlovac
Irma Matanović	Elektra Sisak
Božo Marković	Elektrolika Gospić
Dinko Begović	Elektra Virovitica
Željko Polak	Elektra Požega

## CONFLICT OF INTEREST

Conflict of interest is regulated by the Act on the Prevention of Conflict of Interest, which recognizes presidents and members of company boards in which the Republic of Croatia has a majority share as relevant parties as well as the presidents and members of the boards of companies in which the majority owners are trading companies in which the Republic of Croatia has a majority share. A member of the Management Board – a director may not make decisions based on personal interests or the interests of persons with whom they are connected. The management, i.e. the director of the Company, is responsible for the execution of plans and clear, measurable and high-quality goals for which the guidelines are set by the Supervisory Board.

## REMUNERATION AND COMPENSATION POLICIES

According to the Act on the Prevention of Conflicts of Interest, the Conflict of Interest Committee issued guidelines that defined which income, in addition to salary, may not be paid to persons recognized as relevant parties under said Act, including the Management Board of HEP ODS. The compensation received by the members of the Supervisory Board is not set according to the performance contribution, it is fixed and defined by the Decision of the Assembly of HEP d.d.



## 6.1 MANAGEMENT AND REPORTS ON IMPACTS ON SOCIETY AND ENVIRONMENT

Management of impacts on society and the environment is the responsibility of the Company director, who in identifying impacts, management strategies and achieving results, relies on the opinions, assessments and conclusions of experts who contribute to the sustainable development of HEP ODS in accordance with their competences and duties. Responsibilities for achieving business goals are delegated to departments, teams and individual employees based on their job descriptions and appropriate regulations, ensuring that each employee understands their role in achieving these goals. Directors of HEP ODS departments regularly report to the Management Board on the achievement of business goals. Teams working on the delivery of corporate policy goals in their areas of responsibility are set up at the company level. These teams are responsible for the coordination and implementation of measures aimed at sustainability, social responsibility and economic excellence.

ODS has three certified systems according to ISO standards: for environmental and energy management, and health and safety. Also, in considering its impacts, HEP ODS collaborates with its key stakeholders, in a form of a dialogue with the aim of supporting the organization in recognizing and managing its key impacts on society and the environment, and uses the conclusions to adapt its management systems.

The competences of the Management Board or the Company's director are prescribed by the Rulebook on organization and systematization, i.e. conditions for a position with special powers. When it comes to managing sustainability issues, competences are acquired through education and participation in management and sustainable development seminars and conferences. Members of the HEP ODS reporting team and Company employees acquire their competences, skills and practical experience in their daily professional tasks, as well as during internal and external training, seminars and participation in congresses focused on business and specific sustainability issues related to the core business of HEP ODS.

The HEP ODS reporting team participated in setting and prioritizing material impacts for this first sustainability report and included stakeholders in the assessment of the external materiality perspective. After a thorough analysis and processing, the Board made a decision to accept the material issues for 2022. The management board i.e. the director of the Company, is responsible for reviewing and publishing sustainability-related information.

The current business goals of HEP ODS can be grouped into three basic units:

- to increase network capacity in order to meet the increase in load and demand. When investing in capacity increase, criteria for network development planning as well as technical, economic and regulatory requirements are respected;
- to increase the quality of electricity supply: distribution system operator is obliged to systematically maintain the level of supply quality, monitor supply quality indicators and keep the records necessary to determine electricity quality indicators. The quality of the electricity supply includes the quality of services, the reliability of power supply and the quality of voltage;
- to increase business efficiency: in order to achieve better business results, business efficiency should be continuously improved. Consistency in investment and cost optimization is aimed at increasing income, i.e. increasing the value of assets and reducing costs.

In delivering its business goals, which are of strategic importance for the Republic of Croatia, HEP ODS integrates sustainability into all aspects of its operations, including procurement, resource management, stakeholder relations and innovation, and actively manages its impacts. In this regard, the Management Board of HEP ODS sets the direction, delegates responsibilities and monitors the achievement of business goals with special attention on managing the impacts on society and the environment. Furthermore, HEP ODS relies on cooperation with key stakeholders in impact management, whose perspective provides additional information on the recognized impacts of HEP ODS and how they are managed. This includes not only users of HEP ODS services but also regulatory bodies, executive authorities, employees, suppliers and academic institutions. Finally, by publishing its first sustainability report, which is an integral part of this annual report, HEP ODS is joining the community of companies that transparently report their impacts on society and the environment and conduct mitigation measures.

In creating and making business decisions, HEP ODS management takes into account internationally recognized guidelines and standards such as the Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD) and the Guiding Principles on Business and Human Rights of the United Nations.

One of the established systems for expressing concerns and seeking advice on the implementation of corporate policies is whistleblowing as a specific channel of communication. The method of reporting irregularities has been upgraded since its original introduction, thus becoming a comprehensive tool for expressing concerns and/or seeking advice on the implementation of business policies.

In 2022, there were no cases of non-compliance with laws and regulations, nor any sanctions or fines imposed.

## 6.2 STRATEGIES, POLICIES AND PRACTICES

HEP ODS does not have a single codified business policy as a written act or a document that determines the framework of business, but it regulates strategy and business operations through a series of regulations and business decisions that contain elements of business policy, and refer, for example, to the management of security issues, documentation, reports of irregularities and others issues that can be considered a part of business policy.

## 6.3 RESPONSIBILITY AND ETHICS

The Code of Ethics of HEP ODS defines the principles of business conduct and emphasizes the importance of consistent monitoring and application of the law and regulations on the organization of work and business operations. The Code prescribes the implementation of professional, business standards and norms, as well as ethical principles. In addition, it emphasizes professionalism, expertise,



conscientiousness, objectivity, independence, transparency, impartiality and work responsibility. The Code defines a conflict of interest and calls for the protection of human rights, the development of transparent relations with all stakeholders and condemns any type of discrimination.

#### STRUCTURE AND NUMBER OF COMPLAINTS

	Total	Founded	Unfounded
Number of complaints received	135	66	69
Number of resolved complaints	135	66	69
• number of anonymous complaints	0	0	0
• number of non-anonymous complaints	135	66	69
Number of non-anonymous complaints from HEP workers	0	0	0
Number of non-anonymous complaints from suppliers	0	0	0
Number of non-anonymous complaints from other interested parties	135	66	69
Number of complaints by topic/area (possible areas listed as an example)			
a) employment relationship	0	0	0
b) discrimination	0	0	0
c) corruption	1	0	1
d) conflict of interest	1	0	1
e) nepotism	0	0	0
f) public procurement	1	0	1
g) customer relation	4	2	2
h) billing and invoicing	87	38	49
i) connection to the LV network	36	25	11
j) unauthorized consumption	0	0	0
k) other	5	1	4
<b>Total</b>	<b>135</b>	<b>66</b>	<b>69</b>

Out of a total of 135 received and processed complaints in 2022, 49% had merit. Billing and invoicing-related complaints prevailed, accounting for 64% of the total number of complaints, followed by complaints on the LV network connection, accounting for 27% in the total number of complaints.

The ethics commissioner is obligated to submit a written report to the Company director, who reviews the report and, if necessary, initiates the procedures established by law, another regulation or the Company by-laws, of which he first informs the ethics commissioner, and then writes a response.

## 6.4 INFORMATION SECURITY AND DATA PROTECTION

Information security at HEP is managed by the Corporate Security Department (UKS), responsible for planning, control, monitoring and coordination of all measures and regulations relevant to Company security. As part of its tasks and responsibilities, UKS participates in the preparation of policies, procedures and regulations, conducts controls and investigations, carries out risk assessments in cooperation with individual parts of the company, participates in the classification of assets, cooperates in the education and raising awareness of workers and serves as a central point to other company workers in terms of security.

The Corporate Security Department implements information security measures at the HEP Group level, while in cooperation with the IT Unit, it also carries out said measures in HEP-ODS. Some security measures are carried out in cooperation with the Department of Information and Communication Technologies and HEP-Telekomunikacije (telecommunications).

The strategic determinant is the construction, application and constant improvement of the information security management system in the jurisdiction and competence of the Management Board of Hrvatska elektroprivreda d.d. in accordance with the ISO/IEC 27001:2013. HEP d.d. takes advantage of the selected standard and strategically decides on its internal long-term application in the widest possible scope. Apart from the above standard, information security management issues are covered by the information security strategy and a series of rulebooks such as the Rulebook on the Usage of Information System, the Rulebook on the Usage of the Internet, the Confidentiality Rulebook, the Security Rulebook that includes information security and data protection, and the Confidentiality and Data Classification Rulebook.

When it comes to privacy and protection of personal data, HEP ODS complies with the Privacy Statement of HEP Group, which sets the principles of data processing, the procedure for personal data collection and processing, the rights of the subjects, the reporting procedure to the supervisory authority and handling violations, and provides data protection officer's contact details. In order to gain knowledge and raise awareness of the importance of implementation of personal data protection, HEP Academy, in cooperation with data protection officers, established a GDPR training module for workers who sell their products or services to natural persons or systematically process large amounts of personal data in their work.

In 2022, there were no personal data violations or supervisory activities undertaken by the national personal data protection body at HEP ODS. The personal data protection rights of the subjects were resolved within the legally prescribed time limits in accordance with the Regulation.

## 6.5 MANAGEMENT OF PROCUREMENT PROCEDURES

The procurement of goods, services and works in HEP ODS is carried out in accordance with the Public Procurement Act (Official Gazette 120/16, 114/22) and by-laws, the internal Procurement and Contracting Rulebook in HEP Group and other internal documents. In addition, the procedures of the so-called simple procurement of goods and services with an estimated value under HRK 200,000.00 (without VAT) and works with an estimated value under HRK 500,000.00 (without VAT) are also subject to the Simple Procurement Rulebook.

In order to prepare the procurement process and inform business entities about their plans and requirements in relation thereto, HEP Group companies conduct market analysis. Said market analysis consists of gathering information about the subject of procurement, economic entities on the market and other significant circumstances that affect procurement conditions. Before starting the public procurement procedure for the procurement of works, goods or services of high value, HEP Group companies are obligated to initiate a preliminary consultation procedure with interested business entities for a minimum of five days regarding the description of the procurement subject, technical specifications, criteria and special conditions for the execution of the contract. All interested economic undertakings are invited to participate in the preliminary consultation in order to exchange information, comments, proposals and advice, which may be of importance in the planning and implementation of procurement procedures, while respecting the principles of market competition, prohibition of discrimination and transparency in public procurement procedures.

During the implementation of public procurement procedures and on the basis of the ESPD form (European Uniform Procurement Documentation), HEP Group companies, among other things, set mandatory grounds for the exclusion of economic undertakings from the procedures if:

- an economic undertaking, either a member of an administrative, management or supervisory body or a member with the power of representation, decision-making or supervision, is convicted of participation in a criminal organization, corruption, fraud, terrorism or criminal offenses related to terrorist activities, money laundering or terrorist financing, child labour or other forms of human trafficking
- an economic undertaking has not settled its financial obligations towards due taxes and pension and health insurance contributions. When conducting simple procurement procedures, the grounds for the exclusion of economic undertakings are determined on the basis of the Certificate of Non-Conviction and the Debt Balance Certificate of the Tax Administration, which said undertaking submits as an integral part of its offer.

When conducting procurement procedures, economic undertakings must also submit a signed Integrity Declaration, which guarantees correctness in the procurement procedure, the absence of any prohibited practice in connection with the bidding process, such as corruption or fraud, offering, giving or promising any unfair advantage that may affect the actions of the worker involved in the procurement process. The economic undertaking must also submit consent for the audit of the entire procurement process by independent experts and bear responsibility as well as accept sanctions (contractual penalties, unconditional cancellation of the contract), if the prescribed rules are violated.

Since 2014, public procurement procedures that are not categorized as simple procurement have been published in the Electronic Public Procurement Bulletin of the Republic of Croatia. Information on public procurement procedures is also published on the website of HEP ODS, and includes basic information on procurement, procurement documentation for public and simple procurement procedures in accordance with the internal Simple Procurement Rulebook, procedures that are exempt from public procurement, decisions on selection and cancellation, and information on previous consultations with interested economic undertakings. In accordance with the Act on Electronic Invoicing in Public Procurement, all HEP Group companies receive e-invoices as per the EU norm (2014/55/EU) as of 1 December 2018. Information about HEP Group companies is published in the Register of e-account users on the website of the Financial Agency (FINA).

## CONFLICT OF INTEREST

In order to prevent the conflict of interest, a list of economic undertakings with which HEP ODS is in a conflict of interest as an Employer in public procurement procedures is published on the HEP ODS website and, if necessary, updated. HEP ODS may not enter into contracts with economic undertakings from said list. Provisions related to the conflict of interest in public procurement procedures are prescribed by the Public Procurement Act.

## SUPPLY CHAIN AND PROCUREMENT PROCEDURES IN 2022

In 2022, the supply chain of HEP ODS consisted of a total of 2,115 domestic suppliers (under concluded agreements, contracts and purchase orders). Domestic suppliers were from all Croatian counties among which the City of Zagreb, Split-Dalmatia, Primorje-Gorski Kotar, Osijek-Baranja and Zagreb counties accounted for 50%.

HEP ODS procures goods, works and services for the purpose of management, maintenance, construction and development of the distribution network. In terms of the financial volume, the most represented suppliers in the supply chain are those for the delivery of goods and the execution of works. 412 public procurement procedures were carried out in 2022. In terms of numbers, the most represented procedures were those related to the procurement of goods (68%), followed by services (19%) and works (13%).

In 2022, economic undertakings submitted 31 complaints to the State Commission for Supervision of Public Procurement Procedures (DKOM). Out of 31 appeals, 12 were rejected, the Decision was annulled in 13 cases, a part of tender documentation (DON) was annulled in four appeals and 2 resulted in tender cancellation.





# 7



## RESPONSIBLE AND SUSTAINABLE



HEP ODS took a thorough approach to defining material topics in its first independent sustainability report in order to successfully define the key impact areas of its business operations on the economy, environment and society. In view of the specific nature of its business operations, this procedure was carried out by an in-depth analysis of the company's business environment.





## 7.1 DETERMINING MATERIAL TOPICS

**HEP ODS, as a company that carries out the regulated activity of electricity distribution in the entire territory of the Republic of Croatia, which key role is the development of the electricity distribution system, also plays an important role in the energy transition and the transition to a low-carbon economy.**

The main determinants of the Company's activities on planning the development of the distribution system are set by the legislative framework of the Republic of Croatia, the National Development Strategy of the Republic of Croatia until 2030, the Energy Development Strategy of the Republic of Croatia until 2030 with a view to 2050, the Integrated National Energy and Climate Plan for the period from 2021 to 2030, as well as the international obligations that the Republic of Croatia assumed as part of its membership in the European Union and by acceding to international agreements. In addition to national and EU legislative obligations, distribution system development plans are influenced by internal factors such as the Company's strategy, mission, vision and goals, as well as a wide set of environmental factors, including economic activities and demographic trends, changes to the legislative framework in the EU and their implementation in the Croatian legislation as well as other changes to the national legislative framework that directly affect the activity of HEP ODS.

HEP ODS thoroughly approached the process of determining material issues in its first independent sustainability report in order to successfully define the key areas of business impact on the economy, environment and society. The procedure was carried out by using the methodology of the 2021 Global Reporting Initiative (GRI) updated standards. As HEP ODS business operations are specific and there are no companies in the Republic of Croatia and the European Union that perform the same activity within a comparable context, this procedure was carried out by an in-depth analysis of the company's business environment.

The first step in the process of determining materiality was the analysis of the sustainability context within which HEP ODS operates. Since there are still no GRI sectoral standards applicable to the activity of HEP ODS, the analysis was carried out by using international agreements, global, EU, national and sectoral documents such as strategies, research, analyses, reports and regulations, available topic-specific GRI standards as well as older GRI sector supplement for the electric power industry (Electric Utilities – EU). In the process of reviewing the environmental, social and management aspects that could be applicable to the operations of HEP ODS, international guidelines for recognizing the organizational impact on human rights, communities and the environment along the value chain were taken into account, including the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, the International Labour Organization (ILO) Standards, and the International Corporate Governance Network (ICGN) management principles.

At the initial workshop, a multidisciplinary team of experts was gathered, consisting of representatives of HEP ODS Management Board, key departments, sectors and units, whose task was to create a broad list of the Company's impacts on the economy, people and the environment that are potentially material for the company, stakeholders and communities in which HEP ODS operates. The collected results were analyzed with the help of experts, and a list of relevant impacts that need to be tested inside and outside the organization for the purpose of creating a final list of material issues for 2022 was drawn up. In addition to the involvement of experts within the organization, stakeholder mapping was carried out along the organization to ensure the collection of opinions of expert stakeholders and representatives of groups on which the organization has or could have an impact. Through the stakeholder mapping process, the Company took a step further in establishing a systematic dialogue on responsible business by linking internal resources and processes into a centralized stakeholder register.

Testing of the relevant impact on people and the environment identified in the first steps of the process was carried out via an anonymous survey participated by 116 respondents. 43 people in managerial positions took part in an internal survey which purpose was to assess the most important environmental, social, management and economic aspects for the organization, while 73 representatives of key internal and external stakeholder groups took part in an external survey which collected the opinions of stakeholders on the topics on which the Company has an impact, including employees of HEP ODS, representatives of HEP Group and HOPS, trade unions, authorities, the Croatian Parliament, network users, end customers, electricity producers, suppliers, vendors, local communities (units of local and regional self-government), civil society and energy institutes, the academic community, educational and scientific institutions, analysts and experts. The conducted survey collected from stakeholders valuable information and opinions on sustainability areas in which HEP ODS is expected to have an active approach and management. Based on the collected results, the multi-sector reporting team of HEP ODS defined a list of material issues for 2022.



## MATERIAL TOPICS BY AREAS

### ELECTRICITY DISTRIBUTION

- Safety and resilience of the distribution system
- Reliability of power supply in the distribution system
- Integration of renewable energy sources
- Flexible and advance networks

### ECONOMY

- Network users
- Public procurement

### RESPONSIBLE CORPORATE GOVERNANCE

- Governance and impact management
- Transparency and Code of Ethics
- Information security and data protection

### ENVIRONMENT

- Energy efficiency
- Water and waste management
- Biodiversity

### SOCIETY

- Work environment and working conditions
- Health protection and occupational safety

In the final step of determining materiality, the reporting team of HEP ODS, in cooperation with expert associates, defined three priority categories of recognized material issues with regard to the level of the Company's impact on the economy, environment and society: material issues with the highest estimated level of potential and actual impacts of HEP ODS on the interests of stakeholders and the community; material issues for which it was estimated that HEP ODS in cooperation with stakeholders has or could have a significant impact on the interests of stakeholders or communities are classified in the category of a high level of impact; the remaining material issues for which the need for HEP ODS to actively manage potential and actual impacts on people and the environment is recognized, are classified in the "material impact" category.

Taking into account the strategic determinants of the Company, the materiality assessment carried out and the impact categorization, the Management Board of HEP ODS made the final decision on the prioritization of Company material issues.

## 7.2 PRIORITIZATION OF MATERIAL ISSUES





# 8



## A WORD BY THE EDITOR



HEP ODS will continue to invest efforts in leading the global green transition trend by investing in advanced networks, human capital and corporate culture. In addition to improving financial performance, we will do our best to gain the trust of our users and all stakeholders in the management of our environmental, social and governance impacts.





Dear readers,

in order to send a message about our efforts invested in monitoring current sustainability issues and to give all interested parties an insight into relevant information about the Company, we bring you the new Annual Report on Business and Sustainability of HEP ODS.

The regulatory framework and transparency requirements define mandatory sustainability reporting standards and the necessary scope of information included in the Report. As said framework does not include all our efforts, work and desire to be precise, accurate and transparent in reporting, I would like to especially emphasize this point and thank all colleagues for their dedicated work and excellent cooperation. A disclosure of environmental, social and management impacts is becoming an increasingly important indicator of responsible governance to combat climate and social challenges.

Our Report provides an overview of the overall business operations of HEP ODS in 2022, an insight into the strategy and key values, and addresses sustainability issues that are important to HEP ODS and the stakeholders on which the Company has the biggest impact.

By providing information on the Company's activities, complex regulatory processes, financial results and other indicators in the past year important for the evaluation of performance, impact on the community, the economy and the environment, we demonstrated and proved our synergy in business, crucial for achieving good business results.

The Report was prepared according to the methodology of the Global Reporting Initiative (GRI). Also, in expanding the scope of business information presented in the Report, we were guided by good reporting practices aimed at improving the flow of corporate sustainability information, giving stakeholders the opportunity to study how the company manages all its impacts.

A team of experts from different organizational units of HEP ODS is responsible for preparing the Report, providing a complete view of HEP ODS operations in 2022, its successes and recognized risks, as well as new challenges in the power industry that it faces.

The main business and financial results were accepted by the Supervisory Board and the Company Assembly at the session held on 15 July 2023, after a favourable Business Report.

The INDEPENDENT AUDITORS REPORT, auditing the annual financial statements of HEP-Operator distribucijskog sustava d.o.o., Zagreb, Ulica grada Vukovara 37, is an integral part hereof. Said audit opinion is given in its original form.

This Report was prepared in a printed form and PDF available on the website of HEP ODS: <https://www.hep.hr/ods/o-nama/publikacije-229/godisnja-izvjesca-230/230>.

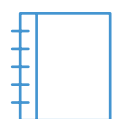
**HEP ODS will continue to make efforts to become a driver leading the global green transition trend by investing in advanced networks, human capital and corporate culture. In addition to improving financial performance, we will do our best to gain the trust of our users and all stakeholders in managing our environmental, social and management impacts.**

Let me once again thank our ODS workers and external partners, who have jointly contributed to an important step forward in our corporate reporting, and whose effort and dedication resulted in this Report.

Lidija Pecotić



# 9



## REPORT PROFILE



The HEP ODS Annual Business and Sustainability Report gives an overview of the company business operations and activities for the year 2022 (from 1 January to 31 December 2022). It was prepared according to the Global Reporting Initiative (GRI) Standards. The sustainability management issues in this report are not subject to external verification. All questions and suggestions regarding this report can be submitted to the e-mail address [ods-regulatorni.poslovi@hep.hr](mailto:ods-regulatorni.poslovi@hep.hr) or sent by post to HEP ODS, Regulatory Affairs Department, Ulica grada Vukovara 37, 10 000 Zagreb.



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