



**CROATIAN TRANSMISSION SYSTEM OPERATOR Plc.,
ZAGREB**

**Annual Report
as of and for the year that ended on 31 December 2021**

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CROATIAN TRANSMISSION SYSTEM OPERATOR Ltd.

**MANAGEMENT'S REPORT
FOR THE YEAR 2021.**

Zagreb, April 2022

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1. DEVELOPMENT AND ORGANISATIONAL STRUCTURE OF THE COMPANY

1.1. Historical development and management

In the context of restructuring the Croatian electrical power system, Croatian Electric Power Industry - Transmission System Operator Ltd. (HEP-OPS d.o.o.) was founded. This company started its activities on 01 April 2005 on the basis of the Energy Act, the Amending Law of the Energy Act and the Electricity Market Act. Pursuant to the Decision of the Commercial Court in Zagreb of 2 July 2013 on entry into the court Register, share capital increase, change of the company name, change of the company objectives and of the provisions of the establishment deed of Croatian Electric Power Industry - Transmission System Operator Ltd., this company, this company operates and participates in legal transactions under the new company name Croatian Transmission System Operator Ltd. (hereinafter: Company or HOPS).

HOPS is an independent transmission system operator in the Republic of Croatia and is organised as a limited liability company with the seat in Zagreb, Kupska 4. It is entered in the court register of the Commercial Court in Zagreb under the company registration number (MBS) 080517105, PIN:13148821633 and with share capital of HRK 4,948,627,300.00, performing a regulated profession of electrical power transmission.

The Company is registered at the State Bureau of Statistics under the registration number (MB) 1924427 for performing electrical power transmission activities.

The duties, responsibilities, powers and activity modalities of the Company are mostly regulated in Art. 86-89 of the Electricity Market Act (OG NN 111/2021) (hereinafter: EMA) and other provisions of EMA.

Business activities and tasks regulated by EMA, responsibilities provided for in Article 91(1) of the EMA and duties provided for in Article 91(2) of the EMA are performed within the Company, where different organizational units have a leading role in performing them. Support functions provide administrative, logistical and technical support to business processes related to the performance of operational and business activities.

Regarding the independence and expertise of the staff, the members of the Management Board and the Supervisory Board, the independence of HOPS is ensured by the compliance with legal provisions on the independence of members of the Management Board and on limitations of the Supervisory Board, in accordance with legal provisions.

The independence of HOPS is additionally guaranteed by a statutory system of monitoring the compliance with legal provisions, by adoption of the Compliance Programme and by the compliance officer.

The Compliance Programme specifies further measures to exclude the possibility of behavioural biases and the means to monitor the compliance with this Programme. HOPS is obliged to request consent from Croatian Energy Regulatory Agency (hereinafter: HERA) for the Compliance Programme.

The compliance with the Programme is monitored by the compliance officer nominated by the Supervisory Board with the prior approval of HERA.

Shareholding of HOPS in the equity of other companies:

- (1) CROPEX 1/2
- (2) HEP-Telekomunikacije d.o.o. 13.73%
- (3) Transmission System Operator Security Cooperation (TSCNET) 1/14
- (4) Coordinated Auction Office in South East Europe (SEE CAO) 1/8
- (5) Joint Auction Office (JAO) 1/25

HOPS continuously participates in activities of these companies, monitors their business activities and services, participates in discussions and decisions on proposed relevant documents.

1.2. About the Company, its mission and vision

HOPS is the national transmission system operator of the Republic of Croatia. It ensures a high level of security and reliability of the electrical power system (hereinafter: EPS), as well as equal access to the transmission system for all participants in the electricity market at eligible costs and with care for environmental protection. HOPS represents the basic infrastructure for the security of electricity supply and electricity market in the Republic of Croatia (hereinafter: RoC) and a long-term guarantee of its functioning within the single European electricity market.

HOPS as part of the crucial electricity infrastructure of RoC, member state of the European Union (hereinafter: EU), enables secure supply of electricity to customers, development and construction of electrical power facilities, trade, reliability and quality of services while taking special care of environmental protection.

The work of the Company, as well as of all its employees, is at all levels of responsibilities based on transparency of work, integrity, high level of professionalism, expertise, orientation towards network users and other stakeholders in a non-discriminatory manner, maintaining a high level of reliability of the transmission network as national infrastructure of greatest importance for the RoC, and a high level of electricity supply security at the level of the Croatian transmission system, maintaining operating costs at a justified level and ensuring timely development of the transmission network through continuous investments.

Main objectives of the Company are:

1. maintaining a high level of reliability of the transmission network as infrastructure of the greatest importance for the RoC and a high level of electricity supply security at the level of the Croatian transmission network,
2. adjusting business activities of the Company with regard to obligations arising from national provisions and from provisions of the European Union, including participation with other system operators within the European Network (hereinafter: ENTSO-E), supporting further market development etc.,
3. optimization of human resources,
4. improvement and optimization of business processes,
5. optimization of operating costs and increase of efficiency,
6. strengthening the financial stability,
7. public visibility of activities and results of HOPS.

1.3. Organisational structure

The Company's business activities are organised successfully and have been performed on the Croatian territory for more than 60 years in several organisational forms.

The Company is organised functionally by sectors in the headquarters and regionally by transmission areas in order to efficiently perform its business activity on the territory of the entire RoC.

The Company had 1,149 employees on 31 December 2021, which are ten employees more compared to the previous year.

By hiring new workers in due course the Company ensured the necessary number of workers to meet business and legal obligations of the Company, as well as timely replacement for those who left the Company.

The bodies of the Company are the Assembly, the Supervisory Board and the Management.

The Assembly:

Frane Barbarić – President since 1 January 2018

The Supervisory Board:

1. Kažimir Vrankić – Chairman
2. Marko Dvorski – Vice-Chairman since 4 April 2020
3. Krešimir Ugarković – member since 4 April 2020
4. Nikola Jaman – member of the Supervisory Board
5. Dinko Andabaka – member of the Supervisory Board

The Audit Committee (since 14 January 2019)

1. Drago Jakovčević, Ph.D., President (independent, external member) - since 14 January 2019
2. Mihovil Anđelinović Ph.D. (independent, external member - since 14 January 2019
3. Marko Dvorski, mag. oec., (member, Supervisory Board) - since 28 April 2020

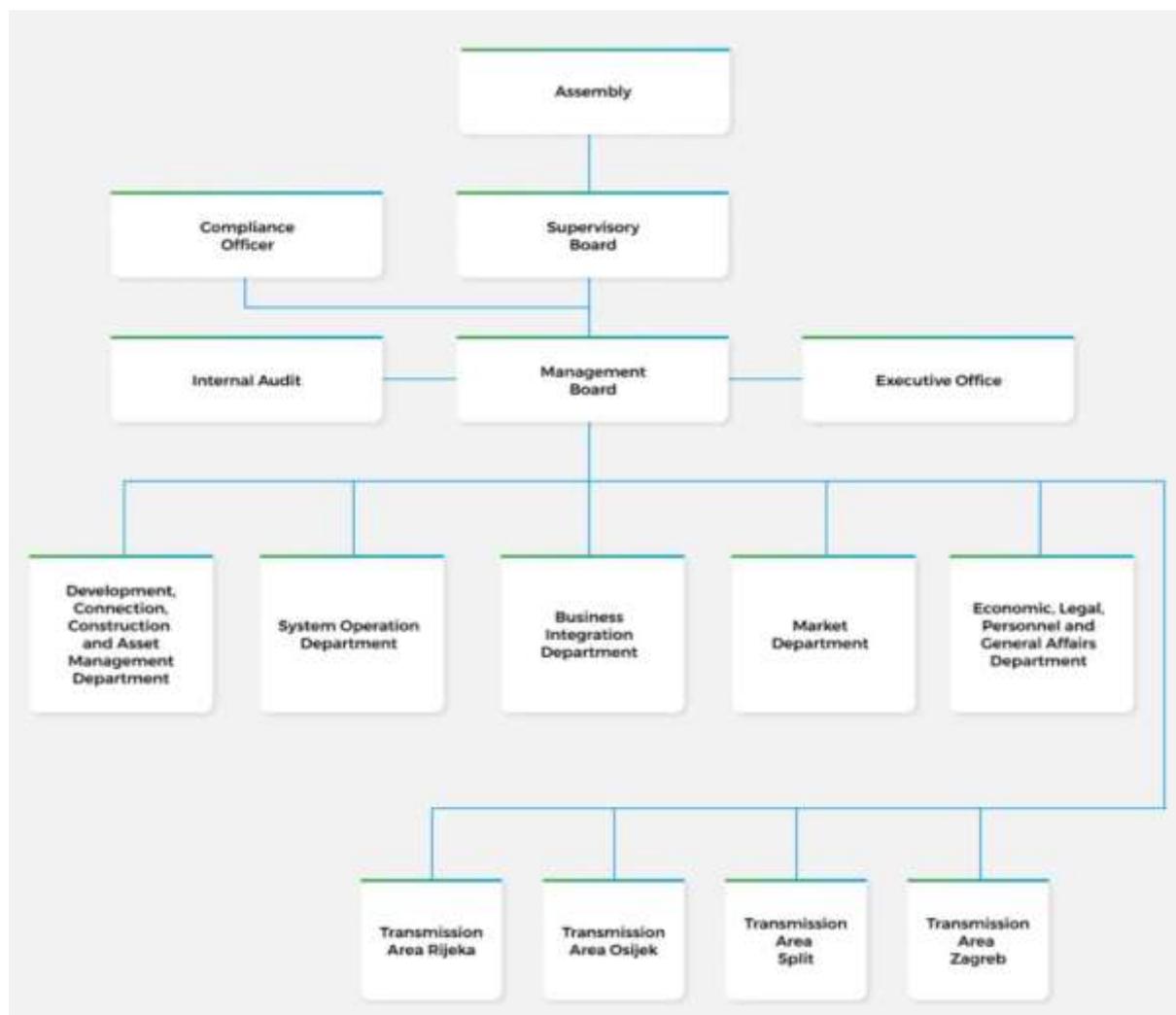
The Management Board till 15 April 2022:

1. Tomislav Plavšić – President of the Board - since 25 April 2019
2. Dejan Liović – member of the Board - since 25 April 2019
3. Zlatko Visković - member of the Board - since 16 April 2018

The Management Board from 16 April 2022:

1. Igor Ivanković – President of the Board
2. Dejan Liović – member of the Board
3. Darko Belić - member of the Board

Picture 1. The Company's organisational scheme - situation as of 31 December 2021.



1.4. Internal supervision function

In order to ensure a systematic approach in the field of managing possible business irregularities, conflicts of interest and corrupt practices, in 2021, HOPS continued to carry out regular activities of systematic supervision of internal controls in certain business areas, through regular (if necessary, extraordinary) engagements carried out by employees of the unit for Internal Audit.

In 2021, in accordance with the Rulebook on Internal Audit and the approved Annual Plan of Internal Audit, the Internal Audit carried out the planned activities, which included the implementation of engagements in various business areas in several organisational units of HOPS. The responsibilities of the Internal Audit include planning, conducting and reporting on conducted internal audits and monitoring the implementation of given recommendations in the Company's organisational units, as well as checking the compliance of internal acts with laws, decisions of regulatory bodies and other regulations and other tasks in accordance with internal acts.

In order to improve the function of internal audits, on proposal of the Internal Audit, the Management Board was during the year implementing the obligation to use purpose-developed IT applications for monitoring the compliance with recommendations of conducted internal audits.

1.5. Legislative framework

Following the obligations of the Republic of Croatia as EU member state arising from the transposition of regulations of the European Union into national legislation and based on the energy regulations of the European Union, the so-called "Clean Energy Package/CEP/for all Europeans", two new energy acts were drafted and adopted in 2021.

After public consultation and procedures before the legislative body of RoC, the Croatian Parliament, adopted the new Electricity Market Act (hereinafter: EMA) on 1 October 2021, which entered into force on 22 October 2021. On 8 December 2021, the Croatian Parliament adopted the new Act on Renewable Energy Sources and High-Efficiency Cogeneration (OG 138/2021), which entered into force on 23 December 2021.

The Company actively participated in the public consultation procedure by making constructive proposals and using adequate argumentation.

Based on the mentioned legislative framework, in the upcoming period it will be necessary to review and to adopt a large number of general regulations, which will prescribe the revised market model in more detail and define the rights and obligations of existing and new market participants, as well as their mutual relations. These regulations will especially evaluate the necessary technical, legal and financial conditions and deadlines in order to achieve the objective and the purpose of the defined legislative framework.

The new regulations, such as the Rules on Transmission Network Connection, the Transmission System Network Rules, the Balancing Rules, the Methodology for defining amounts of transmission tariff items and the Methodology for determining the fee for connection to the electricity network, will lead to changes in the ways of financing the activities of the Company.

Following Article 134(1) of EMA, which foresees a conversion of the Company from HOPS Ltd. into HOPS plc within 6 months starting from 22 October 2021, the Company will carry out the conversion according to Article 553 of the Commercial Code (OG 111/93, 34/99, 121/99, 52/00, 118/03, 197/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19), based on a Decision on conversion adopted by the Assembly of the Company.

During December 2021, for the bidding zone borders of the Republic of Croatia and Bosnia and Herzegovina for the allocation of cross-border transmission capacities for auctions carried out by the auction office NOS BIH, the Company adopted Rules for intra-day allocation of cross-border transmission capacities between the control areas of the Croatian Transmission System Operator Ltd. (HOPS) and the independent system operator in Bosnia and Herzegovina (NOSBIH).

In November and December 2021, on proposal, the Company conducted a public consultation procedure concerning the Rules on exchange of data between transmission system operators, distribution system operators and production modules connected to the distribution system. These Rules were sent for approval to HERA.

Pursuant to Article 16(8) of the Regulation (EU) No 2019/943, on 24 November 2020, HERA granted the Company to deviate from the requirements to ensure at least 70% of the transmission capacities at the border between Croatia and Slovenia and the border between Croatia and Hungary, namely on all elements of the transmission network, which are important for cross-border trading, for the period from 1 January 2021 to 31 December 2021.

Article 53(1) and Article 53(2) of the EB GL Regulation prescribe the mandatory application of a 15-minute deviation calculation period for all transmission system operators, in all areas of transmission planning, and ensuring that all the limits of market time units overlap with limits

of the deviation calculation period, within three years after the EB GL Regulation has entered into force.

Pursuant to Article 62 of the EB GL Regulation, at the 13th session of the Management Board held on 09 June 2020, HERA adopted the Decision on approving the Croatian Transmission System Operator Ltd. to deviate from the obligations prescribed by Article 53 of the EB GL Regulation, for the period from 01 January 2021 to 31 December 2022.

On 24 January 2020, the Agency for the Cooperation of Energy Regulators (hereinafter: ACER) adopted implementation frameworks for common European platforms for the exchange of balancing energy from mFRR (manual frequency restoration reserve) and aFRR (automatic frequency restoration reserve).

Pursuant to Article 20(6) and Article 21(6) of the EB GL Regulation, within thirty months after the approval of the proposal for the implementation framework for common European platforms for the exchange of balancing energy from mFRR and aFRR, all TSOs shall implement and make operational platforms for the exchange of balancing energy from frequency restoration reserves with manual and automatic activation and they shall use these platforms to submit all balancing energy bids from all standard products for frequency restoration reserves with automatic and manual activation. Pursuant to Article 62 of the EB GL Regulation, at the 15th meeting of the Management Board held on 23 July 2021, HERA adopted the Decision on approving the Croatian Transmission System Operator Ltd. to deviate from the obligations prescribed by Article 20 and Article 21 of the EB GL Regulation, for a period from 24 July 2022 to 24 July 2024.

- **Nonfinancial report**

In accordance with the Accounting Act (OG 78/15, 134/15, 120/16, 116/18, 42/20) and the Ordinance on deadlines for the submission of financial statements and accounting documentation in special circumstances (OG 43/2020), HOPS will publish the Nonfinancial report for 2021 as a separate report on its website no later than 6 months from the balance sheet date i.e. until 30 June 2022. When drafting the report, HOPS will use the Global Reporting Initiative guidelines (GRI standard) and indicators in the specified standard. The report will be published on the following link:

<https://www.hops.hr/wps/portal/hr/web/dokumenti/Publikacije/godisnjiizvjestaji>.

1.6. Most important indicators of the business year

Financial indicators

The Company completed the business year 2021 with a year-end pre-tax profit in the amount of HRK 36.7 million. Profit from business activities for 2021 is HRK 61.3 million, while the net financial expenditures amount to HRK 24.6 million. The generated pre-tax profit amounts to HRK 36.7 million, which is HRK 105.3 million or 74.2% less than in the previous year, while the profit after tax amounts to HRK 27.7 million, which is HRK 86.2 million or 75.7% less than in the previous year. Table 1 shows the Statement of Comprehensive Income (Profit and Loss Statement) containing the most important items and a comparison with the previous year.

Table 1. Excerpt from the Statement of Comprehensive Income (in HRK million)

Description	2021	2020	Difference	21/20
1	2	3	4 (2-3)	5 (2/3)
Revenues from sales and other business incomes	2,028.2	1,566.7	461.5	29.5%
Business expenditures	1,966.9	1,396.1	570.8	40.9%
PROFIT FROM BUSINESS ACTIVITIES	61.3	170.6	(109,3)	-64.1%
Financial income	2.3	2.5	(0,2)	-8.0%
Financial expenditures	26.9	31.1	(4,2)	-13.4%
Net financial expenditures	(24,6)	(28,6)	(4,0)	-14.0%
TOTAL INCOME	2,030.5	1,569.2	461.3	29.4%
TOTAL EXPENDITURES	(1.993,8)	(1.427,1)	(566,7)	39.7%
Pre-tax profit	36.7	142.0	(105,3)	-74.2%
Income tax	(9,0)	(28,1)	19,1	-68.0%
PROFIT FOR THE PERIOD	27.7	113.9	(86,2)	-75.7%

Based on the items, as shown in Table 2, the Company generated earnings before net financial expenditure and current tax (EBIT) in the amount of HRK 61.3 million, which is 64.1% less than in 2020. EBITDA (EBIT excluding depreciation) was HRK 436.5 million, which is 18.3% less than in 2020.

The EBIT margin decreased by 7.9%, while the EBITDA margin decreased by 12.6% compared to the previous year. The net profit margin was 5.9% less than in the previous year. Net profit after tax was used to calculate the return on capital and equity. Compared to the previous year, ROE decreased by 1.7% and ROA by 1.2%.

Table 2. Financial indicators (in HRK million)

Description	2021	2020
EBIT (Earnings before interest and taxes)	61.3	170.6
EBITDA (EBIT without the effect of amortization)	436.5	534.1
EBITDA margin	3.0%	10.9%
EBIT margin	21.5%	34.1%
Net profit margin	1.4%	7.3%
ROE	0.5%	2.2%
ROA	0.4%	1.6%

Investments

In 2021, investments amounted to a total of HRK 645.5 million. The largest share includes investments in the replacement and reconstruction of the existing transmission infrastructure, construction of new facilities and revitalization of transmission network facilities and plants. The level of investments made in 2021 compared to the previous year is higher by HRK 68.21 million or 11.8%.

Table 3. Investments in 2021 in HRK*

Type of investment	31 December 2021	% share	31 December 2020	% share	2021/2020
1	2	3	4	5	6 (2/4)
Preparation of investments	22,942,958	3.6%	16,124,189	2.8%	42.3%
Replacement and reconstruction	208,427,719	32.3%	229,338,167	39.7%	-9.1%
Revitalization	134,144,494	20.8%	78,034,026	13.5%	71.9%
Repairs and renewal	0		0		
New facilities	196,755,477	30.5%	185,028,593	32.0%	6.3%
Other investments	59,841,509	9.3%	38,456,509	6.7%	55.6%
Electrical power conditions for connection	23,437,536	3.6%	30,354,397	5.3%	-22.8%
Total	645,549,693	100.0%	577,335,881	100.0%	11.8%

1.7. Electrical power indicators

In 2020, there was a decrease in the total energy consumption in the transmission network of the RoC. The energy consumption in the transmission network with losses amounted to 16.8 TWh, which is 6.2% more than the total consumption in 2020. It is important to note that the energy consumption in the national transmission network in 2021 remained at the same level as in 2019, the year before the outbreak of the coronavirus pandemic.

The maximum hourly load of the Croatian EPS in 2021 was recorded on 16 August at 2 pm. It amounted to 3072.21 MW. The minimal hourly load of the Croatian EPS in 2021 was recorded on 2 May at 5 am. It amounted to 1236.92 MW.

In 2021, a total of 24.199 TWh of electricity was transferred, which is a decrease of 12.91% in comparison to 2020.

Transmission network losses were 478.4 GWh, i.e. 1.98% of total transmitted electricity in 2021, which is 28.22% more than in 2020.

1.8. Integration of renewable energy sources

Activities for creating the preconditions for further integration of renewable energy sources (hereinafter: RES) into the Croatian EPS on the basis of the obligations from EMA and the Act on Renewable Energy Sources and High-Efficiency Cogeneration were continued until October 2021.

In 2021, there was interest in connecting:

1. solar power plants (hereinafter: SPP) with a total capacity of around 1,551 MW,
2. wind farms with a total capacity of 1,140 MW,
3. hydropower plants with a total capacity of 392 MW,
4. battery storage systems (hereinafter: BSS) with a total capacity of 12 MW,
5. combined zone approach to connecting facilities (SPP+WF or WF+BSS) with a total connection capacity of 570 MW.

In 2021, HOPS concluded 63 connection agreements and issued 22 power authorisations. The Company concluded one agreement on network usage for the wind farm Senj, which was connected to the transmission network with a connection capacity of 156 MW.

1.9. Development plans

The procedure of adopting the "Ten-Year Transmission Network Development Plan for the period 2021-2030 with a detailed evaluation for the initial three-year and one-year period", which had begun in late September 2020, was completed in March 2021, after the Company had submitted a new version of the Plan for HERA's review and approval in January 2021.

In September 2021, the Company prepared and submitted to HERA the proposal of the "Ten-Year Transmission Network Development Plan for the period 2021-2031 with a detailed evaluation for the initial three-year and one-year period" (hereinafter: 10Y Plan) and accompanying reporting documentation. After public consultation and review of the 10Y Plan, HERA sent its comments according to which a new version of the 10Y Plan was prepared (December 2021). The revised 10Y Development plan is harmonised with the current Ten-Year European Transmission Network Development Plan (ENTSO-E TYNDP) and with the environment in terms of transmission network connection and admitted investments which are funded by the National Recovery and Resilience Plan (hereinafter: NRRP). It represents a fundamental development document of the Company.

Based on the approval of HERA issued on 20 December 2021, the Company adopted and published the 10Y P for the period 2022-2031.

2. FINANCIAL POSITION AND BUSINESS PERFORMANCE

The Company's business performance in 2021 has been presented in the Statement of Comprehensive Income for the period from 1 January 2021 to 31 December 2021 (Table 1). The financial position has been shown in the Statement of Financial Position as at 31 December 2021 (Table 4).

The Company completed the business year 2021 with a year-end pre-tax profit in the amount of HRK 36.7 million. The total generated profit consists of the difference between revenues and expenditure from the allocation of trans-zone transmission capacities (hereinafter: TC) in the amount of HRK 50.2 million, while in the other business activities the Company made losses in the amount of HRK 13.5 million. The generated pre-tax profit is lower by HRK 105.3 million or 74.2% compared to the previous year, while the profit after tax is lower by HRK 86.2 million or 75.7% compared to the previous year.

The total revenues increased by HRK 461.3 million or 29.4% compared to the previous year, and the total expenditure increased by HRK 566.7 million or 39.7%. The largest increase in revenues is reflected in the increase in revenues from the calculation of balancing electricity which was HRK 240.3 million or 324.4% higher than in the previous year, revenues from the provision of electricity transmission services which were higher by HRK 104.0 million or 8.1% than in the previous year, revenues from the sale of balancing electricity which increased by HRK 70.6 million or 271.7% compared to the previous year, revenues from the sale of electricity to cover losses which were HRK 20.2 million or 9,054.9.0% higher compared to the previous year, and revenues from the inter-compensation ITC mechanism of transmission system operators (hereinafter: ITC mechanism) which was by HRK 13.7 million or 258.8% higher than in the previous year.

The direct costs of the Company's core business had a higher implementation rate compared to the previous year. The costs of balancing electricity procurement were HRK 171.0 million or 278.8% higher than in the previous year, the costs of calculation of balancing electricity were higher by HRK 165.8 million or 501.4% compared to the previous year, the costs of losses were HRK 119.7 million or 85.0% higher than in the previous year and the costs of allocation of cross-border transmission capacities were HRK 27.3 million or 73.8% higher than in the previous year.

Besides the above mentioned expenditures, we have to point out a significant increase in costs of value adjustment of assets which, compared to the previous year, were higher by HRK 42.2 million or 582.4%, as a result of unpaid claims against a supplier for balancing electricity during deviation, ENERGIJA GAS AND POWER Ltd., the depreciation costs which were by HRK 11.7 million or 3.2% higher than in the previous year, as well as the costs of energy facilities maintenance which were HRK 16.4 million or 19.6% higher than in the previous year.

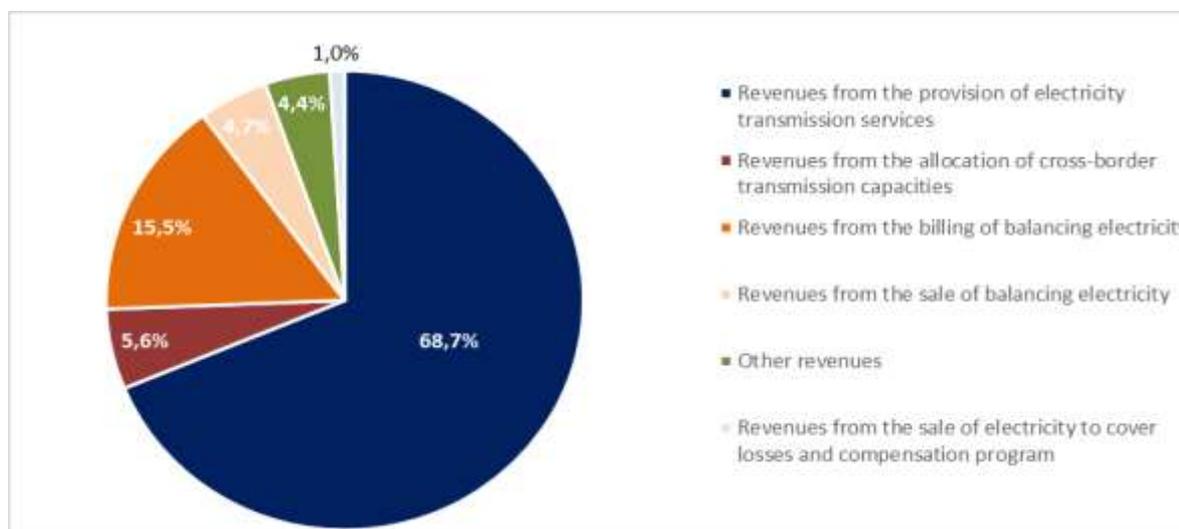
In order to achieve the best possible financial result, the Company introduced the control of general operating expenses which, however, were HRK 6.3 million or 7.5% higher than in the previous year. This was primarily due to a significant increase in costs for services provided by foreign companies in which the Company is a mandatory participant. The Company cannot influence the mentioned costs because they are subject of international contracts, i. e. the mandatory application of the Third and Fourth Energy Package.

In 2021, the ITC mechanism costs were by HRK 7.7 million or 71.4% lower than in the previous year, and the costs of ancillary services procurement were by HRK 1.1 million or 0.4% lower than in the previous year.

The total revenues generated in 2021 are mostly revenues from the provided electricity transmission service (68.7%), revenues from the billing of balancing electricity (15.5%), revenues from the allocation of cross-border transmission capacities (5.6%), revenues from the sale of balancing electricity (3.8%). The remaining operating revenues include: revenues from telecommunications services, revenues from the ITC mechanism, revenues from the sale of electricity to cover losses and compensation program, revenues from assets received free of charge and in accordance with the provisions of IFRS 15, revenues generated from the use of own products and services, collected written-off receivables, revenues from non-standard services, cancellation of provisions and other operating and financial revenues.

The share of individual revenues in total revenues is shown in Picture 2.

Picture 2. Generated revenues by share in total revenues

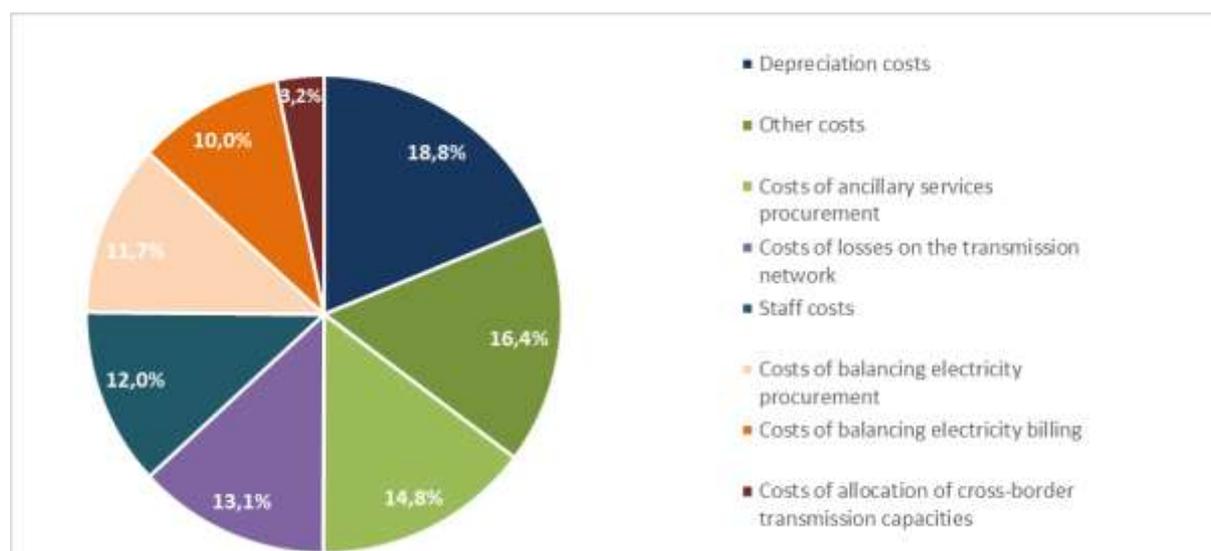


Total expenditure effected in 2021 mostly consists of depreciation costs (18.8%), costs of ancillary services procurement (14.8%), costs of losses on the transmission network (13.1%), costs of balancing electricity procurement (11.7%), costs of balancing electricity billing (10.0%), staff costs (12.0%), costs of energy facilities maintenance (5.0%), costs of allocation of cross-border transmission capacities (3.2%) The remaining operating expenditure includes ITC mechanism costs, costs of telecommunications services, costs of value adjustment of assets and provisions, general operating costs, costs of fees and concessions and other operating and financial expenditure.

Financial expenditure mostly relates to interest costs and exchange rate differences.

The share of each expenditure in total expenditure is shown in Picture 3.

Picture 3. Generated expenditure by share in total expenditure



Income tax for 2021 amounts to HRK 9.0 million and is lower than in the previous year by 67.95%.

The financial position of the Company has been presented in the Statement of Financial Position as at 31 December 2021.

Table 4 shows an excerpt from the Statement of Financial Position (Balance Sheet) containing the most important items and a comparison with the previous year.

Table 4. Excerpt from the Statement of Financial Position of the Company as at (HRK million)

Description	31 December 2021	% share	31 December 2020	% share	2021/2020
1	2	3	4	5	6 (2/4)
Long-term assets	6,840.2	90.6%	6,584.9	91.5%	3.9%
Short-term assets	711.0	9.4%	614.0	8.5%	15.8%
Total assets	7,551.2	100.0%	7,198.9	100.0%	4.9%
Capital and reserves	5,199.4	68.9%	5,230.9	72.7%	-0.6%
Long-term obligations	787.8	10.4%	1,194.1	16.6%	-34.0%
Short-term obligations	1,563.9	20.7%	773.9	10.8%	102.1%
Total obligations and capital	7,551.2	100.0%	7,198.9	100.0%	4.9%

The value of total assets as at 31 December 2021 amounted to HRK 7,551.2 million. Compared to 31 December 2020, it is higher by HRK 352.3 million or 4.9%.

As a result of investments in 2021, long-term assets increased by HRK 255.3 million and now amount to HRK 6,840.2 million. The share of long-term assets in total assets compared to 2020 is 0.9% lower and amounts to 90.6%.

Short-term assets amount to HRK 711.0 million. They increased compared to the previous year by HRK 97.0 million, mainly due to an increase in receivables from customers and associated companies which, compared to the previous year, are higher by HRK 281.2 million, while cash and cash equivalent, compared to the previous year, are lower by HRK 191.3 million. The share of short-term assets in total assets compared to 2020 increased by 0.9% and amounts to 9.4%.

Capital and reserves, which cover 68.9% of the Company's total assets, decreased by HRK 31.5 million. However, due to lower profit generated in 2021, the share of capital and reserves in liabilities is 3.8% lower than in 2020.

The share capital of the Company as at 31 December 2021 amounts to HRK 4,948.6 million.

Total liabilities amount to HRK 2,351.7 million. They increased by HRK 383.8 million compared to 2020, with their share in liabilities increasing from 27.3% to 31.1%. Long-term liabilities account for 33.5%, and short-term ones for 66.5% of total liabilities as at 31 December 2021. The significant increase of short-term liabilities compared to the previous year is mostly caused by a principal payment due, which is payable on the basis of bonds issued by HEP Group and in which the share of HOPS amounts to HRK 56.9 million. Consequently, long-term liabilities are significantly lower than in the previous year.

Based on the indicators derived from the balance sheet data, it can be concluded that the Company has leverage indicators in line with the activity it performs. Adapting to the circumstances of the energy market and the financial market, the Company finances current investments primarily from its own funds and indebtedness, in order to ensure regular repayments of long-term liabilities and regular finances for day-to-day business operations.

The leverage ratio (total liabilities / net income and depreciation) of the Company for 2021 amounts to 5.84 years and is higher than the previous year by 1.72 years. The reasons of a higher leverage ratio are the decrease in generated revenues and the increase in total liabilities of the Company compared to the previous year.

3.THE COMPANY'S ACTIVITIES IN THE AREA OF DEVELOPMENT AND RESEARCH

Despite the continuation of pandemic conditions and possible negative impacts on the implementation of planned activities and on the achievement of set objectives, in 2021, the Company successfully continued the implementation of research and development projects in which the Company participates and which are co-financed by the European Union. In 2021, HOPS participated in the implementation of five projects co-financed by Horizon 2020, the European Union Research and Innovation Programme for the 2014-2020 period:

Activities within the CROSSBOW ("CROSS Border management of variable renewable energies and storage units enabling a transnational Wholesale market") were continued. The total value of the project is EUR 17.2 million, while the grant value for the Company is EUR 550,812.50. The project consortium consists of 24 partners from 13 countries while project partners from Croatia, besides HOPS, are the Faculty of Electrical Engineering and Computing, University of Zagreb and Končar KET. The objective of the CROSSBOW project is to demonstrate the possibilities of cross - border management of volatile RES energy and energy reservoirs in the area of the countries of SEE, enabling additional development of the transnational wholesale electricity market. The purpose of the project is to explore new possibilities for energy storage, virtual power plants, with the aim of increasing flexibility and expanding the base of ancillary service providers. The project results should help address the transnational challenges that the region is facing.

The total value of the FARCROSS ("Facilitating Regional CROSS-border Electricity Transmission through Innovation") project amounts to EUR 13.6 million, while the grant value for the Company is EUR 134,400. The Consortium is made of 31 partners from 16 countries. From Croatia, besides HOPS, the Faculty of Electrical Engineering and Computing, University of Zagreb and the Electronics Studio Rijeka are also participating. The objective of the project is to explore the potential for increasing the amount and better utilisation of cross-border capacities with the aim of improving the market for the intra-day and day-ahead time frame. Further, the project will connect the main stakeholders in the energy value chain and

demonstrate integrated hardware and software solutions for cross-border electricity flows and regional cooperation.

The total value of the FLEXIGRID (A novel smart grid architecture that facilitates high RES penetration through innovative markets towards efficient interaction between advanced electricity grid management and intelligent stakeholders) project is EUR 4 million while the value of the grant for the Company HOPS is EUR 154,500. The Consortium is made of 12 partners from 8 countries. From Croatia, besides HOPS, the Faculty of Electrical Engineering and Computing, University of Zagreb is also participating. The objective of the project is to develop a market place of flexibility for the electricity system of the future, respectively to propose advanced mathematical models and algorithms that can significantly improve the operations of the smart grid and the business activities of market participants.

The total value of the ATTEST (Advanced Tools Towards cost-efficient dEcarbonization of future reliable power SysTems) project is EUR 4 million, while the value of the grant for the Company is EUR 160,187.50. The Consortium is made of 9 partners from 6 countries, while project partners from Croatia, besides HOPS, are HEP ODS, KONČAR KET and the Innovation Centre Nikola Tesla. The objective of the project is to explore possibilities for the coordination of the transmission and distribution system in the segments of joint planning and managing the transmission and distribution system, as well as to exploit the potential of network users connected to the distribution system for providing ancillary services to the transmission system operator.

In 2021, the CYBERSEAS (Cyber Securing Energy Data Services) project started. Its total value amounts to EUR 8 million while the value of the grant for the Company is EUR 109,200. The Consortium is made of 26 partners from 10 countries. The objective of the project is to encourage dialogue on cybersecurity and to cooperate in order to achieve a higher level of information security between multiple stakeholders, including regulatory bodies and legislators. The project will define measures to support information security services between participants, including the definition of security policies, management policies, threat matchings, risk management, defence practices, knowledge transfer etc. In addition, technical tools and services for a secure connection of multiple system operators and consumers will be developed and evaluated, as well as tools for monitoring and maintaining information security during the provision of services. Methods for coordinated incident responses will be developed. Open and secure solutions for managing IT-systems of stakeholders will be provided.

In 2021, HOPS submitted 7 project proposals to open calls for proposals published by the funding programme Horizon Europe, which is a sort of successor to the previous programme Horizon 2020. The results are expected in the first quarter of 2022. Projects approved for co-financing will start at the end of 2022.

Within the frame of projects co-financed by the Connecting Europe Facility, CEF, in 2021, the E-PASIS ("System for Prevention and Analysis of HOPS's communication networks security incidents") project was continued. This project strengthens the capacities of HOPS in the field of cybersecurity, which will ultimately have a positive impact on the further provision of services for the management of the Croatian electricity system, electricity transmission, maintenance, development and construction of the network. As part of the project, the existing processes and policies of business continuity, disaster recovery and management of user rights to access the Company's information system are evaluated. The implementation of new software for detecting and analysing security threats in the network in real time enables preventive action in order to improve the computer security of the Company's information system. The total value of the project amounts to EUR 282,774 while the approved co-financing amounts to EUR 218,080.

As a continuation of the E-PASIS project, at the end of 2021, the project E-CYBIS, "Advanced platform for business content and file sharing analysis in HOPS Security Operational Center", started. The objective of the project is to strengthen the cybersecurity of HOPS in order to comply with security and reporting requirements of Croatian and EU legislation (NIS Directive 2016/1148). The project will define the framework for an effective operational management of the Security Operations Center, improve processes for managing security incidents, increase and standardise penetration tests in order to prevent cyber threats by continuous monitoring. The project will improve the cooperation with relevant stakeholders in the area of cybersecurity, both at national and European level. In addition, HOPS expects to improve the cyber resilience of its IT-system through fast detection of cyber threats and fast incident responses, which, in a broader context, will limit the economic and political damage from cyber incidents and ensure the availability of the services of HOPS. The total value of the project amounts to EUR 380,238. The approved co-financing amounts to EUR 285,178.

The consortium of partners in the project "LIFE Danube Free Sky", co-financed by the LIFE Programme, an instrument of the European Union intended to finance activities in the area of protection of the environment, nature and climate, consists of 15 partners from 7 countries. Project partners from Croatia, besides HOPS, are JUPP Kopački rit and HEP ODS. The total value of the project is EUR 6.6 million, while the value of the grant for HOPS is EUR 108,549. The objective of the project is to prevent the destruction of ornithofauna from collisions with HV transmission lines, electrocution of ornithofauna on MV lines and SS, and to improve the status of populations of priority species of ornithofauna in the ecological network Natura 2000 - Danube and Lower Podravlje. The project is a unique example of broad transnational cooperation along one of the most important migration corridors, a stopping place and wintering ground for many bird species in Europe - the Danube. The Company will, together with HEP ODS, apply protective measures in the electricity infrastructure which is identified as a threat to birds. In addition, the Company will propose measures to improve the conditions of reproduction and survival of birds, especially of endangered species. The project aims to a significant reduction and partly to the complete elimination of the threat of electrocution and collisions on electricity infrastructure in the wider area of the Nature Park Kopački, one of the most ornithologically important areas in Croatia.

Based on good previous experience (in the SINCRO.GRID project), in March 2021, KNG-Kärnten Netz, ELES, Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, GEN-I, HOPS, HEP-ODS, HEP d.d. submitted a joint project in the thematic area of smart grids, the GreenSwitch project, to be included on the 5th PCI list of the European Union. The Joint Research Centre (JRC) gave a positive technical assessment of the project to be included on the PCI list. On 19 November 2021, the European Commission announced the 5th PCI list. The official publication of the 5th PCI list is expected to take place in April 2022 (after confirmation of the European Parliament and the European Council). The project includes an upgrade of the DTR system on 220 kV and 400 kV lines (mostly on lines towards Slovenia), the replacement of existing conductors with HTLS conductors on several 110 kV and 220 kV lines, an upgrade of instruments for the control of power flows and an ICT platform for the integration of WAM, DTR and for a coordinated power flow management. The estimated duration of the project is from 2022 to 2027. The estimated total value of investments by HOPS is approximately EUR 13 million (the total value of all investments in the project is approximately EUR 190 million). In the upcoming period, it is planned to prepare the documentation for an application to the CEF fund in order to ensure a co-financing of the project.

3.1. Most important investments

The most important investments that were fully or partially implemented in 2021 are listed below.

SINCRO.GRID PCI PROJECT (calculated in 2021: HRK 98,064,752)

As part of the SINCRO.GRID project, the investment can be divided into 4 main groups: 1) installation of compensation facilities at SS 400/220/110 kV Melina (VSR 200 MVar), 2) SS 220/110 kV Mraclin (VSR 100 MVar) and 3) SS 400/220/110 kV Konjsko (SVC 250 MVar) and 4) upgrade of process technical systems (TK, IT, SCADA, EMS, DTR) necessary for project realisation.

In 2021, the implementation of the SVC compensation facility in SS Konjsko was finished (calculated in 2021: HRK 95,497,393), after the implementation of the VSR shunt reactor in SS Mraclin and SS Melina had already been finished and the occupancy permits had been obtained.

Furthermore, in 2021, the implementation activities and final testing of the virtual cross-border control centre - VCBCC - have been completed (calculated in 2021: HRK 2,288,353), as well as the accompanying upgrade of the IT (calculated in 2021: HRK 782,000). Considering that in 2021 the implementation of the equipment within the SINCRO.GRID project was completed, in the technical sense, the project can be considered as having been completed.

Further activities for the SINCRO.GRID project are the preparation of the Financial Statement (CFS) for 2021 as the last accounting period, as well as the preparation of the Final Report for the whole project duration (2016-2021). In addition, the European Agency CINEA and/or the European Commission have the right to conduct technical and financial audits related to the use of grants, as well as to provide an interim or final evaluation of the project's impact in order to assess whether the objectives of the project have been achieved.

Upgrade of SCADA/AGC/EMS/OTS systems (calculated in 2021: HRK 27,991,527)

Based on the contract No U3000-36/20 "Refurbishment of EPS Central Remote System to a Newer Version", the following project phases have been completed in 2021:

- drafting and adoption of the Operational Statement,
- delivery of project documentation according to the agreement,
- delivery of the system for development and testings in an early project stage,
- delivery of hardware devices and software (licenses within the scope of the agreement),
- completion of configuration, testing and test run of the independent AGC system,
- completion of FAT testing of the SCADA/UDW system,
- completion of FAT testing of cybersecurity.

Network Centre Osijek (calculated in 2021: HRK 27,122,035)

Within the business complex of the transmission zone Osijek a new building was constructed for the Network centre (NC). This building is functionally connected to the existing office building and forms a unique construction and business unit. The new building of the NC Osijek includes adequate space for dispatchers and operators of the NC Osijek, as well as offices, warehouse and workshop facilities for the teams of the unit which is responsible for primary equipment, underground garages for vehicles of the Company. The fully equipped building has all the necessary ICT equipment for managing and planning the functioning of the electrical power system, a modern system of uninterruptable power supply and a technical protection system. In addition and as part of the project, a warehouse building with a garage for vans and trucks was constructed, as well as a building for the entrance facility and a commercial yard.

After receiving the occupancy permit, which is expected to be issued during the first half of 2022, the NC Osijek will be relocated from SS Ernestinovo, the employees of the unit for primary equipment will be relocated from the substation in the city Osijek and from the existing building and the storage equipment will be relocated from SS Ernestinovo.

SS 110/20 kV Rakitje - refurbishment of 110 kV facility (calculated in 2021: HRK 24,313,562)

In May 2021, a two-year agreement on reconstruction of the 110 kV facility in SS 110/20 kV Rakitje was concluded. As of 31 December 2021, 33% of the time limit has expired and 35% of the agreement has been performed.

The works include the establishment of temporary power supply of 10 kV facility, relocation of substations to locations closer to the facility building of SS, renewal and extension of the busbar system, arrangement of cable ducts and of the grounding net, construction of three relay houses, replacement of the entire primary and secondary equipment and of the equipment of ancillary power supply of the 110 kV facility, equipment of bays and installation of two additional 110 kV lines (TL 110 kV Tumbri 3 and Zaprešić), alteration of the facility building of the SS, relocation of the entire TK equipment to the facility building and removal of the auxiliary building for TK equipment, removal of the installed tower and construction of a new auxiliary building in SS.

TS 110/20 kV Sućidar (calculated in 2021: HRK 18,435,853)

The construction of SS 110/20 kV Sućidar presents an object shared with HEP-ODS. The SS 110/35 kV facility is in a very bad condition. It has required thorough reconstruction for years. Reconstruction will take place in form of construction of a new closed building for the 110/20(10) kV facility. The building will be built in the zone of the vehicle fleet of HOPS PrP Split. By the end of 2021, the vehicle fleet was removed. The construction of the new building for the 110 kV and 20 kV facility was completed. The commissioning of the GIS 110 kV facility took place on 14 December 2021 by activating the bay =E2 Vrboran 1 and the connection bay =E6. So both busbar systems were commissioned and tested. Further work dynamics depends on the connection dynamics of KB 20 kV to SS 110/20 kV Sućidar.

TS Meterize - refurbishment (calculated in 2021: HRK 18,251,704)

The plans in respect of this substation include the replacement of the primary and secondary equipment, as well as the reconstruction of the facility and office building and the existing tower which had the function of inspections and repairs of the substation and which will be converted into an office building. The first third of the new double busbar system was completed in 2021. This enabled the commissioning of two new feeder bays and one transformer bay with related secondary equipment. New systems of ancillary power supplies were installed in the reconstructed zones of the facility building. The expected end of the refurbishment is April 2023, by when two thirds of the busbar system and the related bays should be commissioned, the new oil pit completed, as well as the sewer. The hydrant network and the renovation of the office buildings in the area of the substation.

Replacement of the 110 kV cable (8.1 km) Dugi Rat-Postira (Brač) (calculated in 2021: HRK 18,141,705)

On 4 January 2011, there was a breakdown of the submarine cable TL 110 kV D 128 Dugi Rat - Nerežišća I caused by sawing the submarine cable and removing it. In the first half of 2011, there was an attempt to fix the cable. But it was found that the repair is not possible. The damage had significantly reduced the electricity supply security for the islands Korčula, Hvar, Vis and Brač. The cable had been laid in 1968, so its lifetime has expired. That's why a replacement would have been planned even if the cable had not been damaged.

The necessary project documentation for the submarine cable section and the underground cable section were prepared. All construction permits were obtained. The old oil-filled cable was removed, hazardous substances in the cable were ecologically disposed. The cable was sold as secondary raw material. Works for the coastal protection in Dugi Rat and Postira were

completed. The underground cable section laying in Prostira and the connection to the transmission tower were finished. In Dugi Rat, construction works necessary for installing the submarine cable section were completed, while in Postira these works are in the final stage.

Procurement and installation of network and security equipment and related software (calculated in 2021: HRK 16,201,339)

In 2021, through the Framework Agreement No S3000-20/21 "Upgrading the network infrastructure for management of EPS and other processes in accordance with NIS and ENTSO-E regulations and other legislation", HOPS continued to invest in upgrading its network and security infrastructure in the following key segments: security, system platforms for data centres and network equipment. Outdated equipment with no longer technical support of the manufacturer was replaced in accordance with priorities and level of criticality: replacement of the WAN router and switch of the business network in transmission areas, replacement of active network equipment at locations of HOPS for connecting them to the central location with a speed of 10 Gbps. Security technologies for monitoring and responding to events, for web service protection, for secure connection from business to process computing network and further security upgrades in EE facilities were improved. Equipment for the network infrastructure and virtualisation platform needed for the new SCADA system in the NDC and NC Osijek at the new location was procured.

Redundant connections to facilities for the needs of the remote-control system (calculated in 2021: HRK 13,959,761)

In 2021, through the realisation of Framework Agreement S3000-29/20 "Upgrade of the Communication Connection of EPS Secondary Management System", Connection Master devices were installed and commissioned at 12 locations, after having been delivered in 2019 in accordance with the mentioned Framework Agreement.

In 2021, through the new Framework Agreement S3000-29/21, another 25 Connection Master devices were procured, the installation and commissioning of which are planned in 2022. Of 170 planned locations, a total of 75 locations with the Connection Master devices have been realised so far. Through the same Framework Agreement 4 devices for the PTP synchronization network were procured. The devices will be used for the synchronization of the telecommunication network and the synchronization of the secondary equipment devices (first of all the devices of relay protection).

TL 220 kV Zakučac-Konjsko-refurbishment (calculated in 2021: HRK 12,538,152)

Electrical installation works of the replacement of the conductor, ground wire and isolation were completed. The transmission line was commissioned in November 2021. In 2022, an anti-corroding protection of the masts, the installation of a system for safe climbing and the repair of the mast grounding system will be conducted. The works should be carried out in May 2022, because this is a period in which favourable weather and lower impact of hydrology on HPP Zakučac are expected, on which depends the duration of switching off the transmission line.

SS Mraclin - reconstruction of the 220 kV facility (calculated in 2021: HRK 11,533,359)

In the SS 220/110/10 kV Mraclin there is an ongoing reconstruction of the 220 kV facility consisting of two main bus systems (-W1, -W2) and an ancillary bus system (-W7), four feeder bays TL 220 kV, three transformer bays 220 kV, connection bay GS1-GS2 and GS-PS, shunt reactor bay and a measuring bay). In 2021, a three-year agreement for the reconstruction of the 220 kV facility in SS 220/110/10 kV Mraclin was concluded. In the same year, an agreement on delivery of the equipment for ancillary supply for the 220 kV facility was concluded. As of 31 December 2021, 13% (11,533,359 kn) of the total amount of these two

agreements or 9.5% (7,741,174 kn) of the three-year agreement on reconstruction of the 220 kV facility in SS 220/110/10 kV Mraclin were realised.

TPS SISAK - procurement and installation of a power transformer 220/110/6.3 kV, 150 MVA (calculated in 2021: HRK 11,207,351)

The replacement of the power transformer 150 MVA in the TPS Sisak was accelerated due to a transformer defect. In 2021, a new 150 MVA autotransformer for the TPS Sisak was ordered in accordance with the existing framework agreement. The transformer was factory made and tested in 2021. Transport and installation at the location of the TPS is expected to take place in 2022, as well as the connection to the 220 and 110 kV facilities.

SS Ernestinovo, replacement of the management and relay protection system (calculated in 2021: HRK 10,996,800)

The replacement of the management and relay protection system in SS 400/110 kV Ernestinovo covers the dismantling of the old equipment and the installation of a new management and relay protection system. The works started in April and ended in November 2021. The replacement of the management and relay protection system of the 400 kV and 110 kV facility covered the configuration and programming of the management, monitoring and alarm signal devices, the configuration of the relay protection device, programming of the station computer, the SCADA system, creation of processing images, entry of the database of the SCADA system, programming the communication system, dismantling of the old equipment and installation of the new equipment, functional tests of the bays after the replacement of the management and relay protection system, functional tests of the bus protection system after the complete replacement of the whole 400 kV and 110 kV facility, functional tests of blockage conditions of the 400 kV and 110 kV facility and updating of the project documentation.

TL KB 110 kV Crikvenica - Krk (5.6 km): Cable replacement section Crikvenica-Krk (4.6 km) (calculated in 2021: HRK 18,103,129)

The replacement of the submarine cable 110 kV Crikvenica – Krk is one of the top priorities. The existing cable was laid in 1972. It is a three conductor oil-filled cable on which leaks of oil were detected, which means that it's a potential environmental pollutant. The thermal transmission power of the cable is 70 MVA and it already presents a limiting factor for the electricity transmission to the islands. In 2021, the detailed design was completed, as well as the laying of the cable of the land sections. The works on the coastal protection and removal of the existing oil-filled cable were completed. All preparatory works, delivery and laying of the three conductor submarine cable section are expected to be completed until the end of the first quarter 2022. The completion of all works, necessary tests, as well as commissioning are expected by the end of 2022.

Connection of SS 110/10(20)kV CVJETNO NASELJE (calculated in 2021: HRK 10,230,261)

In 2021, all construction and electrical installation works of the 110 kV cable laying between the SS Cvjetno Naselje and the SS Savica were completed. In 2022, technical testing will be conducted and the occupancy permit will be obtained.

SS Ston – reconstruction of the facility and power building (calculated in 2021: HRK 9,931,124)

The works on the reconstruction started in April 2021 and cover the complete reconstruction of the facility during which the replacement of primary and secondary equipment, new power building, dismantling of the 35 kV outdoor facility and connection to the new 35 kV facility owned by HEP-ODS are planned. In 2021, two 110 kV bays were reconstructed. The 35 kV

facility was dismantled and the construction works of the new power building were performed. The completion of the construction is expected to take place in February 2023, until when the remaining 110 kV bays and the new busbar system should be reconstructed and commissioned.

SS 110/10(20) Split 3 (Visoka) (calculated in 2021: HRK 9,154,306)

The construction of the SS 110/10(20) kV Split 3 is a joint facility construction with HEP-ODS. The reconstruction activities concerning the SS 110/10(20) kV Split 3 (Visoka) were induced by the status of the electricity supply system in the east of the city of Split. At the transformation level, the criterion for the supply n-1 was not satisfied due to a growing number of requests of new customers for grid connection. By the end of 2021, a building for the 110 kV GIS facility was constructed to which two 110 kV cables (Vrboran 1 and 2) were connected. The facility is in the trial phase. The removal of the outdoor facility (AIS) and works on the outdoor infrastructure are underway.

SS 110/20 kV Stenjevec (GIS) (calculated in 2021: HRK 8,940,579)

In 2021, as part of the expansion of the 110 kV facility for additional two 110 kV bays for the connection of the new block to ELTO Zagreb, one part of the GIS 110 kV facility for the SS 110/20 kV Stenjevec was refurbished. The completion of all refurbishment activities on the GIS 110 kV are planned to take place in 2022. The facility will be stored until its installation into the new SS building which is planned to be constructed at the location SS Stenjevec.

Expanding the management system (calculated in 2021: 7,335,771)

Pursuant to the Framework Agreement No S3000-37/20 for the subject matter "Upgrading the support system for the management of EPS in accordance with ENTSO-E regulations and other legislation", upgrades of the SCADA system in 400 and 220kV power facilities were performed for the planned integration into the VVC system. The following study was conducted: Methodology for the voltage control and reactive power in a mixed transmission network, settings of the VVC function regulation by using a simulating optimization system, basis for the calculation of the hybrid estimation of the status of the 400 kV and 220 kV transmission network of HOPS supported by synchronised phasor measurements, study on settings of the SCD function, monitoring the inertia response, improved reporting system and revision of the cybersecurity, as well as preparation of the documentation of the derivative status of the SCADA system of the uninterruptible supply of the NDC.

Pursuant to the Framework Agreement No S3000-31/19 for the subject matter "Upgrade and maintenance of NetVision DAM system", new interfaces were adjusted and performed, a new communication method was introduced, changes and configuration of the SN/DACF/IDCF processes necessary for the Sincro.Grid project, namely the Volt Var Scheduler system were performed. The export of the regulation parameters into a SSH was adjusted, as well as the PST model, adjustments for the export of CGMES files for the needs of the CGM programme were performed. An application for the retrieving, processing and sending of LineVision data into the SCADA system via IEC 60870-104 protocol was developed. Fine-tunings for the FB ID CC processes, adjustments of calculation for implementing connection bays into the computational model and DACF files were performed. Besides, the first phase for the complete automation of the DACF/D2CF process was completed. According to the framework agreement, the transition of the new application for the Planning of Works to new technology was completed (development of the application in .NET Core 3.1). Adjustments and fine-tuning of application functionalities according to customer requirements were carried out.

Pursuant to the Framework Agreement No S3000-24/20 "Real-Time EPS Monitoring", 5 devices for synchronised phasor measurements were delivered (PMU).

Pursuant to the Framework Agreement No S3000-16/20 for the "Upgrade and Customisation of Process Equipment in Stations for the Needs of EPS Management", the technical Solution for the system of retrieving and archiving lists of events in power facilities was realised. Besides, the application for process information with the purpose of implementing a controlled data entry in the SCADA systems was upgraded.

SS MELINA - upgrade with another bus system, replacement of VN and secondary equipment of the 400 kV facility (calculated in 2021: HRK 7,276,866)

At the end of 2020, an agreement on procurement of equipment and reconstruction works on the the AC power distributor of the 0,4 kV and 10 kV facility in SS TS Melina was signed.

In 2021, project documentation according to the agreement was delivered. Switch cabinets were delivered and installed into the 110, 220 and 400 kV facilities, as well as the sub-distributor cabinets, the 0,4 kV main distributor cabinets and the equipment for the SCADA system for monitoring and managing the facility, including equipment for communication interconnection of the 0,4 kV cabinet with own consumption.

All works are expected to be completed in March 2022 until when it is necessary to perform the works and tests in the SN facility in SS Melina, as well as to complete the final project documentation.

SS Crikvenica - replacement of the secondary equipment for control, management, protection and measurements (calculated in 2021: HRK 5,859,999)

SS Crikvenica consists of two voltage levels, 110 kV and 20 kV. After solving property relations, the property and competences for the 110 kV facility belongs to HOPS and for the 20 kV facility to HEP-ODS. This project covers the refurbishment of the part of the facility owned by HOPS and constructions works in the rooms for the secondary equipment of the 110 kV facility. The agreement was signed at the end of 2020. In 2021, most parts of the agreement were completed. The secondary equipment for measurements, management, control, protection and communication was delivered and installed. The ancillary AC systems were replaced. The disconnectors and measuring transformers were installed. The project is expected to be completed in March 2022.

SS 400/110/30 kV TUMBRI - procurement and installation of 300 MVA power transformer (calculated in 2021: HRK 5,852,243)

The replacement of the power transformer -T1, 400/110/30 kV, 300 MVA in SS 400/110/30 kV Tumbri started in 2020 on the basis of a framework agreement which was previously signed in the same year. The factory production and testing, transport to installation site, installation of the autotransformer -T1, 300 MVA in STS 400/110/30 kV Tumbri were completed within two year on the basis of the Framework Agreement S3004-94/20: in 2020: 85% (HRK 17,263,28) and in 2021: 15% (HRK 3,136,711). In separate agreements, which are also part of this investment, the transformer connection to the 400 kV, 110 kV and 30 kV facility was adjusted, as well as the corresponding PPZ system.

SS 220/110 ĐAKOVO, REFURBISHMENT (calculated in 2021: HRK 5,757,090)

In 2021, the preparation of the main and detailed project design was completed. One part of the primary equipment for the reconstruction of the 110 kV facility in SS 220/110 kV Đakovo was procured. An agreement on the construction of VP 110 kV Sl. Brod and of a 110 kV cable connection was concluded. The procurement procedure for the reconstruction works on the 110 kV facility was initialised.

In 2022, it will be necessary to perform the construction and electrical installation works for the construction of VP Sl. Brod and the cable connection, as well as obtaining an occupancy

permit. Beginning of the construction and electrical installation works on the reconstruction of the 110 kV facility.

CONNECTION SS 110/10(20) kV TTTS TERMINAL (calculated in 2021: HRK 5,523,335)

For the purpose of the connection of the planned SS 110/10(20) kV Terminal to the transmission network, a construction of a cable connection to the existing TL 110 kV Zakučac – Meterize III is planned. The underground 110 kV cable with cable cross-section of 1,600/95 mm² was procured. The solving of legal and property relations for the purpose of obtaining servitude to the cable route is underway. The processing of proposals based on a public procurement procedure for the selection of the contractor for the electrical installation and construction works is underway.

Reconstruction of TL 110 kV BILICE - TROGIR – section Velika Glava-Glunča (calculated in 2021: HRK 5,288,136)

Pursuant to the Framework Agreement No U3000-653-20 concluded on 30/10/2020 reconstruction works of TL 110 kV Bilice – Trogir; section: Velika Glava – Glunča (p. 48 – p. 76) were performed. The works covered: dismantling of electrical installations, removal of concrete masts, installation of steel lattice masts, necessary works on electrical installation. After the successful technical testing, an occupancy permit was obtained on 22/11/2021.

Connection ELTO Zagreb - STUM-KB 110 kV) (calculated in 2021: HRK 5,131.435)

In 2021, 110 kV cables for the construction of KB 2x110 kV EL-TO – Stenjevec were delivered and stored. Service of supervision of the quality control during the delivery of the cables was provided (which is pursuant to the Connection Agreement No 51/18 one of the competences of HOPS).

SS 110/10(20) kV TTTS Terminal (calculated in 2021: HRK 5,034,844)

The construction of the SS 110/10(20) kV Terminal is a joint facility construction with HEP-ODS. The construction of the SS 110/20(10) kV Terminal is planned because of the rapid consumption increase in the east of the city of Split, the planned expansion of the water treatment plant, the impossibility of securing power supply connections to new consumers and the non-fulfilment of the criterion „n-1“. Pursuant to the Agreement No U3000-43/71 of 22/03/2021, the competences of HOPS cover equipment and works on the secondary equipment. In 2021, secondary equipment was approved. One part of the secondary equipment was delivered and stored. Pursuant to the Framework Agreement No S3000-256-19 the GIS 110 kV, installation and tests of the GIS 110 kV have still to be performed.

3.2.Electricity connection conditions

Connection WF Ljubač (calculated in 2021: HRK 7,620,055)

For the purpose of connection of WF Ljubač to the distribution network with the connection power of 20 MW at the location of the city of Knin, on 27/11/2019, HEP ODS, HOPS and the wind farm Ljubač concluded the three-party Connection Agreement No 401500-190187-00110307. Pursuant to this Connection Agreement, HOPS has prepared the project documentation for the reconstruction of the TP 110 kV =E6 and the replacement of the old power transformer with connection power of 20 MVA with the new 40 MVA power transformer in order to secure an energy output of WF Ljubač. The main project was prepared and the construction permit for the construction of the new 110 kV =E3 transformer bay was obtained. Two 40 MVA power transformers were procured and delivered. One of them was already installed in the TP 110 kV =E6.

The preparation of tender documentation for the construction of the new 110 kV =E3 transformer bay is underway.

Connection of the 150 MW Block EL-TO Zagreb (calculated in 2021: HRK 6,421,157)

In 2021, 110 kV cables for the construction of KB 2x110 kV EL-TO – Stenjevec were delivered and stored. During the delivery of the cables, a service of supervision of quality control was provided (which is pursuant to the Connection Agreement No 51/18 one of the competences of HEP).

TETO Osijek - connection for own consumption (calculated in 2021: HRK 5,699,895)

Pursuant to the Connection Agreement No 40/16, in 2021, all works on the construction of a connection for own consumption were completed. The delivery of the newly built building and the connection for own consumption TETO Osijek were performed.

4.ELECTRICAL POWER SYSTEM AND THE EUROPEAN ELECTRICITY MARKET

4.1.Security of supply

HOPS, via ENTSO-E mechanisms, participates in sufficiency analyses for short-term, mid-term and long-term plans. Development plans are continuously adjusted according to the needs for ensuring the security of supply.

Electric power in the Croatian EPS is procured by production capacities, as well as by importing electricity from neighbouring countries.

Considering exclusively the sufficiency of production capacities, with regard to the stochastic nature of electricity generation on wind farms and in other power plants using renewable sources, a part of electric power had to be imported in order to provide the necessary quantities of electric power to the consumers. In this context, it is also necessary to take into account that the imported quantities not only related to the availability of production units in the Republic of Croatia, but also to the electricity prices on the Croatian and surrounding markets.

By comparing the available transmission capacities and the available production capacities with the average hourly loads of the transmission system, the sufficiency of production and import capacities for providing the necessary quantities of electric power to end customers is evident for 2021. Still, hydrological conditions during certain parts of the year, the unavailability and a lack of price competitiveness for thermal power plants have caused high import into the Croatian EPS. In certain operating situations, viewed exclusively through the Croatian EPS, sufficiency electricity generation capacity was not achieved.

Regarding the impact of the coronavirus pandemic (COVID-19) on the sufficiency of the Croatian EPS for summer and winter 2021, it can be said that the Republic of Croatia belongs to the group of countries in which tourism as an economic branch has a great impact on the economy and on the electricity demand in the summer months. Considering the relaxed epidemiological measures in the summer months and the successful tourist season in the given circumstances, a maximum summer load of 3,072 MW was achieved, whereas the achieved maximum winter load was 2,885 MW. The need for imports was present throughout the entire year, especially in the summer, which was caused by the limited production from hydroelectric power plants due to a period of drought. In January 2021, export was higher than import, which was primarily affected by weather conditions, i.e. increased precipitation and windy days. There was no adequacy risk of the system in 2021.

Regardless of the pandemic circumstances, all European transmission system operators of ENTSO-E operated in normal mode. Activities of regular exchange of information with European bodies on the manner of maintaining the operational business between transmission networks with the intention to maintain a secure supply were performed.

In terms of sufficient capacities of the EPS of the RoC, considering the status of production facilities (above all, the permanent unavailability of a part of thermal power plants due to prescribed emission limits), there are not enough production capacities to meet the needs of the Croatian EPS for electricity at any time. But, given the extremely strong interconnection of transmission networks in the region and the Republic of Croatia, security of electricity supply was not endangered at any time.

Security of supply was at a satisfactory level throughout the year, with occasional short-term non-compliance with the (n-1) criterion, especially in January, due to the separation of the synchronous area of continental Europe on 08/01/2021, and in December, mostly caused by high simultaneous production of hydropower plants and wind farms, as well as by intensive transit from east to west. For now, such threats are successfully addressed through available preventive and curative measures, but due to further integration of renewable energy sources in a narrow geographical area, the transmission network will have to be further developed in order to maintain local security of supply.

Due to increased electricity prices on the wholesale electricity markets, the costs of procurement of electricity to cover losses in the transmission network increased significantly, while disturbances on the global market affected the growth of prices of materials, equipment and works. Despite the exposure to these risks, security of supply was not compromised.

4.2. Trans-zone capacities

The Croatian organised intraday market at the Croatian – Slovenian border and Croatian - Hungarian border is operationally connected to the single intraday coupling, as part of the SIDC (Single Intraday Coupling) project, previously known as XBID (Cross-Border Intraday). Adding to indirect allocation, direct access to capacity is provided at the Croatian-Slovenian border according to the request by HERA on 27 June 2018. This project multiplied liquidity on the Croatian organised intraday electricity market implemented by CROPEX. Maximum monthly volume of 72.21 GWh was achieved in December 2021, while the total yearly volume reached 453 GWh, which represents an increase of 23% in relation to the previous year.

At borders with countries which are not EU member states, an explicit cross-border capacity allocation is taking place, whereas for 2022, a process improvement on the Croatian-Bosnian border was agreed.

Within the framework of the SDAC (SDAC – Single Day-Ahead Coupling), the year 2021 was marked by the merging of almost all interconnectors into a single process of connecting day-ahead markets. The project will connect the Croatian-Hungarian border as the last border of bidding zones, which will, after the operational start of the Core FB MC project, become part of the single day-ahead coupling.

Regarding supervision and management, various changes have been implemented, starting with the association of the steering committees of SDAC and SIDC into one joint MC SC (Market Coupling Steering Committee). Relevant working groups and teams were updated.

4.3. Procurement of electricity to cover losses

In order to minimise total costs, HOPS buys electricity to cover losses, based on principles of transparency, impartiality and competition. Losses are secured on two levels: by long-term

procurement (auctions with agreements concluded on an annual, monthly or quarterly basis) and short-term procurement (on the day-ahead market and the intraday market).

In 2021, there were two auctions for the delivery of electricity to cover losses in the transmission network for 2022.

In accordance with the practice of previous years, HOPS provided 219.00 GWh of electricity at a unit weight price of 90.17 €/MWh based on long-term (yearly) agreements, which is 49% of the planned quantities.

HOPS participated in the yearly auction for the sale of electricity from EKO balance group in 2022 which was organized by HROTE. Since the price offered by HOPS was not the lowest one, it was not accepted. In addition, in order to ensure liquidity control and stable prices for part of the electricity to cover losses, HOPS conducted a public procurement for procurement of electricity to cover losses in the transmission network for the period from 1/1/2022 to 31/12/2022, with a baseload energy of 5 MWh/h (43,800 MWh), and residual energy of 0 - 15 MWh/h (expected amount: 65,700 MWh), with a payment deadline of 60 days from receipt of the invoice. No bids were received by the deadline for submissions of bids. So a decision on annulment of the procedure was made.

Short-term procurement involves the purchase of electricity to cover losses on day-ahead and intraday markets of the Croatian Power Exchange (CROPEX). The amount of electricity being purchased / sold every day at CROPEX is based on the difference of daily prognosis of necessary amounts of electricity to cover losses and long-term procured energy

In terms of market price movements, the year of 2021 can be marked as an abnormal year- Prices on the short-term market had almost linear growth throughout the year. By the end of the year, prices had reached extreme amounts that can be called global disturbances. The lockdown due to the pandemic in 2020 led to historically lowest prices for petroleum products, gas and electricity. With the economic recovery throughout 2021, the policy of the EU's transition to a low- carbon economy has resulted in rising prices for CO2 emissions, the introduction of taxes on goods in the production of which high quantities of harmful gases are emitted into the atmosphere, the Russian pressure to perform commissioning of the gas pipeline Nord Stream 2 as soon as possible by reducing gas reserves in the EU and by not organising regular auctions for natural gas, which let the prices of these energy sources reach historically high levels. Additionally, the winter was colder than usual winters, with a production from wind that was lower than expected and with nuclear power plants shutting down or being in regular overhaul. Accordingly, the average price on the short-term DA market in 2021 was 114.69 €/MWh, which is an increase of 202% compared to 2020, i.e. an increase of 132% compared to 2019. The highest DA prices of 2021 were reached in December, when the average DA price was 251.87 €/MWh, which is an increase of 353% compared to the price in 2020, i.e. 525% compared to the same period in 2019. Given the significant increase in prices on the short-term market, total costs of purchasing electricity to cover losses in 2021 amounted to HRK 260.62 million, which is an increase of 42% compared to the planned costs shown in the Annual Energy Procurement Plan to cover losses in the transmission network for 2021.

4.4. Balancing market

In 2021, Rules on Electric Power System Balancing (HOPS 11/2019, hereinafter: the Rules) were applied. These Rules ensure the implementation of Article 18 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing (hereinafter: EB GL Regulation), as they lay down the conditions and provisions for balancing service providers, entities responsible for deviations, as well as the calculation rules in the event of suspension and restoration of market activities.

In accordance with the provisions of the Rules, in 2021 rules for the calculation of deviation of balance groups and the calculation of prices which implements a single deviation price for all balance groups that reflects the costs of balancing energy in a certain billing period were applied. As of 31 December 2021, HOPS had concluded agreements on the liability for deviation with 30 balance group managers (hereinafter BGM). 22 of them are traders, 5 are suppliers, 3 have special permissions from HROTE, HEP ODS and NEMO (CROPEX).

In accordance with article 4 of the Rules, balancing services consist of:

- providing power reserves for the frequency restoration process with automatic activation (hereinafter: aFFR) and balancing energy or balancing energy,
- providing power reserves for the frequency restoration process with manual activation (hereinafter: mFFR) and balancing energy or balancing energy.

Balancing services are procured in a transparent and non-discriminatory manner by periodical public procurement procedures. The procurement rules are published on the website of HOPS.

In case of a dominant balancing service provider of a specific balancing service or other ancillary services, procurement is performed by direct award of a contract to the dominant service provider on balancing services/ancillary services in accordance with the following:

- Methodology for ancillary services pricing (HOPS 9/2020),
- Rules on marginal pricing of balancing energy (Annex 1 of the Rules).

In 2021, HOPS performed procurements of mFRR and/or balancing energy for system security using mechanisms of public procurement, in which can participate all balancing service providers that have concluded an agreement on providing balancing services - mFRR - with HOPS.

The procurement procedure is performed in accordance with rules published on the website of HOPS. HOPS has concluded eight Agreements on providing balancing services - mFRR, which were in force in 2021, with network users that are not members of the HEP Group. 73.9% of secured total quantity of mFRR for system security is still provided by a dominant service provider (HEP Proizvodnja d.o.o), while the rest of 26.1% is provided by the above mentioned balancing service providers.

4.5.FSKAR process

Based on the EB GL Regulation and the Synchronous Area Framework Agreement (SAFA) all participating transmission system operators have developed "common settlement rules applicable to all unintended exchanges of energy as a result of the frequency containment process and the ramping period according to Article 50(3) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing" and "common settlement rules applicable to all intended exchanges of energy as a result of the frequency containment process and the ramping period according to Article 50(3) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing" (Financial Settlement of $k\Delta f$, ACE and Ramping Period Energy - hereinafter: FSKAR), which are applied since 1 June 2021. According to the provisions of SAFA, such imbalance in cross-border exchanges so far had been covered through processes for calculation of compensation programmes.

Establishment of common European platforms for the exchange of balancing energy (IGCC, PICASSO, MARI)

In accordance to Article 20, 21 and 22 of the EB GL Regulation, the Company as full member actively participates in the project of establishing common European platforms for the exchange of balancing energy:

- exchange of balancing energy from frequency restoration reserves with manual activation (hereinafter: mFRR) – MARI project,
- exchange of balancing energy from frequency restoration reserves with automatic activation (hereinafter: aFRR)– PICASSO project, imbalance netting process – IGCC project

Derogation from the obligation prescribed in Article 53 of the EB GL Regulation is explained in chapter 1.5 Legislative framework of business activities.

The Agreement on the transfer and co-ownership of intellectual property rights relating to “Libra software”, (hereinafter: MARI IPR agreement) and its amendments setting the frame and mechanisms of the cooperation between the contractual parties (members of the MARI and TERRE projects and „project partners“), including mutual rights and obligations regarding division of co-ownership of intellectual property rights relating to “Libra software” and cost-sharing, are applied since 1 December 2021. This ensures the members of the MARI project to further develop the software system needed for the implementation of the MARI platform.

JAO – „Invoicing Agent“ for the platforms for the exchange of balancing energy and the FSKAR process

The work of the common European platforms for the exchange of balancing energy and the FSKAR process results in intended or unintended cross-border exchanges of energy which together with deviations of the plan and the realization of balancing groups in real time result in achieved cross-border exchanges in electricity in real time. All transmission system operators participating in cross-border exchanges in electricity have to prepare quantity and financial settlements of the cross-border exchanges in electricity which results in issuing/receiving a large number of invoices for the energy calculated in such way. It is necessary to ensure support of issuing and receiving invoices, monitoring and control of the recovery of claims in due course.

In respect of the large number of participating transmission system operators, the short deadlines for the establishment of the platforms for the exchange of balancing energy and the FSKAR process, specific requirements of the transmission system operators and the results of conducted analysis, it was concluded that the only invoicing service provider who can provide the mentioned services in the EU is the Joint Allocation Office (JAO). In October 2021, HOPS has, together with all participating transmission system operators, signed an Agreement of invoicing services with JAO for the FSKAR process, and in December 2021 for the MARI and PICASSO projects and the IGCC process.

4.5. Transparency of data

HOPS coordinates the collection, storage and processing of fundamental energy and market data related to the Croatian regulation area in order to deliver them to the ENTSO-E Transparency Platform (hereinafter: ENTSO-E TP), in accordance with obligations arising from the Commission Regulation (EU) No 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and Council (hereinafter: Transparency Regulation).

The number of different data types on ENTSO-E TP is steadily increasing since new requests for publication arising from the CACM, SOGL, EBGL and CEP Regulations are included, which implies permanent activities on central and local projects for transparency.

In 2021, HOPS has significantly expanded the scope of data submission on ENTSO-E TP related to the balancing of the electrical power system, to more specific, accepted bids by types of reserves and the amount of activated balancing energy and cross-border balancing in 15-minute resolution. In addition, from 1 June 2021, as part of the FSKAR process, data required

by the SO GL Regulation, is published on the protected RG CE part of ENTSO-E TP. During the year, historical data for 2020 were subsequently published, with respect of the newly included types of balancing data in 2021, as well as for 2019 and 2020, with respect to the previously included data on planned (total, wind and solar energy) production and on actual production by technology. The total progress achieved in 2021 is 43% compared to 2019 and 13% compared to 2020. Data submission mechanisms, verification of timeliness and accuracy of data were improved, thus improving the quality of publicly published data on the day/in the week of implementation by 10%.

ENTSO-E TP is a unique source of information that can be easily downloaded by different users, which was recognized and positively assessed by Croatian market participants.

4.6. Croatian EIC Local Issuing Office

ENTSO-E maintains a unique system for issuing Energy Identification Codes (EIC) which is managed by the unique Central Issuing Office (CIO) of ENTSO-E and local offices which exist in certain European countries with the purpose of issuing and administration of EIC. The Croatian Local Issuing Office (CLIO) is managed by HOPS. It performs all activities related to issuing and updating the Energy Identification Codes which Croatian energy subjects (traders, suppliers, producers, balancing service providers, aggregators etc.) need if they want to exercise their right to participate in market processes of local and common electricity and gas markets.

The CLIO issues two types of codes: international codes, in cooperation with the CIO, which are published on the websites of the CIO and the CLIO-a, and local codes which are published only on the website of CLIO, i.e. of HOPS.

In 2021, a total of 95 EICs (X,W,Z,T,V) were issued, which is three times more than in the previous year. An increased number of registrations of manufacturers (EIC-X), OIE facilities (EIC-W) and billing metering points (EIC-Z) in the ODS network was noticed. The ODS network participates through different balancing groups in market mechanisms, unlike previous practices when it mainly participated within EKO BG.

4.7. Other activities in the European environment

In accordance with its legal obligations at European and regional levels, HOPS cooperates with system operators and market participants outside Croatia and with a number of European institutions which are, among other things, responsible for electricity transmission (European Commission - hereinafter: EC, Energy Community Secretariat, Agency for the Cooperation of Energy Regulators – hereinafter: ACER and others), as well as with associations in which HOPS is a member (European Network of Transmission System Operators for Electricity – hereinafter: ENTSO-E, Renewables Grid Initiative – RGI, Mediterranean Transmission System Operators - hereinafter: Med-TSO, and others). Besides, HOPS participates in several projects with the purpose for preparing the implementation of obligations arising from new EU provisions or for investing in infrastructure. In matters and topics of common interest, HOPS coordinates its activities with the competent Ministry of Environment and Energy, as well as with HERA.

Pan-European level

By participating in activities of ENTSO-E at the European level, which means in the work of the Assembly and all Committees), HOPS is involved in all current processes jointly prepared and implemented by ENTSO-E and transmission system operators at the pan-European level.

Continental Europe

Some activities in ENTSO-E are naturally grouped by synchronous areas. The Continental Europe synchronous area is the biggest and most productive synchronous area. In accordance with available human resources, HOPS participates in the work of the most important work groups at this level.

System operation region Central SOR

According to the Regulation No 2019/943, on a proposal of ENTSO-E, ACER specifies which transmission system operators are covered by each system operation region. According to the decision of ACER, HOPS belongs to the Central system operation region (Central SOR). TSOs of the Central SOR have submitted a proposal to the regulatory authorities for establishing regional coordination centres (hereinafter: RCC). The proposal, according to which the RCCs for Central SOR shall be TSCNET and Coreso, was accepted at the beginning of 2021. Both RCCs perform preparations in order to achieve a successful transformation from regional security coordinators to RCCs by 1 July 2022. As one of the co-owners, HOPS participates in the transformation process of TSCNET. With regard to the decision of ACER, according to which each system operation region bordering TSOs of third countries has to conclude a cooperation agreement ensuring secure system operation and ensuring the compliance of TSOs of third countries with obligations of the Regulation No 2019/943, HOPS actively participates in the drafting of an agreement between Central SOR and EMS (Serbia) and NOSBIH (BiH).

In 2021, HOPS continued using TSCNET services. In 2021, HOPS was again a signatory of the MRA (Multilateral Remedial Action) agreement, coordinated multilateral congestion removal between 3 or more operators within a TSC. This agreement provided an opportunity for system operators to jointly work on removing congestions with certain favourable impacts on supply security at each of the individual transmission system operators.

Capacity calculation of Core CCR

HOPS actively participates in working groups of the Central region for capacity calculation (Core CCR) which was established by merging the CEE (Central Eastern Europe) region and the CWE (Central Western Europe) region into a single region, pursuant to the Decision 06/2016 of ACER from 17 November 2016 on the determination of capacity calculation regions for the calculation of transmission capacities.

In 2021, intense activities in working groups of CCR related to processes of adapting methodologies, development processes and in implementation of operational processes arising from European provisions were continued.

In 2021, the calculation stability was improved and the first results (7/7) of external transmission capacity calculations for the day-ahead market timeframes using the flow-based capacity calculation methodology (hereinafter: FB DA CC) were published on the website of JAO. Besides, the previous year Core CCR national regulatory bodies approved first amendments to the coordinated capacity calculation for the day-ahead market timeframe, in accordance with Article 20 et seq. of the Commission Regulation (EU) No 2015/1222 of 24 July 2015 on establishing a guideline on capacity allocation and congestion management, which all transmission system operators Core CCR had been jointly proposed. In addition, the internal transmission calculation for the intraday market timeframes using the flow-based capacity calculation methodology (hereinafter: FB ID CC) started.

From 1 November 2021, transmission system operators of the Core CCR region and regional security coordinators initiated the improved coordination solution (ICS). In this process, the

participating regional security coordinators have the function of coordination centres and an operational role in all coordinated processes in Core CCR. The ICS enables a daily exchange of the potential of remedial actions such as redispatching, countertrading, the application of topology related measures and the application of available range for phase shift. In addition, the ICS introduces a coordinated planning process and a process for the activation of the mentioned actions.

In the previous year, ACER adopted two decisions concerning methodologies for Core CCR: Decision on methodology for coordinated capacity calculation for long-term timeframes, in accordance to Article 10 of the Commission Regulation (EU) No 2016/1719 of 26 September 2016 on establishing guidelines on forward capacity allocation, and Decision on Methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, in accordance with Article 41(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing. By adopting these decisions, the phase of implementing the according business processes was started.

Another significant event that marked 2021 within the Core CCR is the first publication of the static grid model.

The CORE FB MC project (Core Flow Based Market Coupling) is a project of flow-based day-ahead coupling in the Core region. The operational start of the project is expected to take place by the end of April 2022.

As of 16/09/2021, the joint integration testing with the FIT phase started. It will end at the beginning of 2022, after which the SIT phase, i.e. simulation testing will start.

Outage coordination region

HOPS is part of the outage coordination region whose territory corresponds with the territory of the capacity calculation region of Core CCR. With respect of the coordination between different outage coordination regions, HOPS also participates in submission of data for the outage coordination region South East Europe. According to the Regulation 2017/1485, within the coordination process outage plans and availability plans of relevant grid elements and power generating modules are agreed, which presents the basis for developing common grid models and all processes involved in such models.

Operations in the LFC block SHB

Regional cooperation of HOPS was continued in the managing-regulation LFC block Slovenia-Croatia-BiH (hereinafter: LFC block SHB) where, in accordance with the SO GL Regulation, an Operational Agreement of LFC Block SHB was prepared. A new Operational Agreement on LFC Block SHB was signed in January 2022. Besides, LFC block SHB data was published in accordance with the SO GL Regulation.

Bilateral cooperation with neighbouring transmission system operators

In 2021, cooperation with neighbouring transmission system operators was continued in thematic meetings at various levels with Slovenian ELES, Hungarian MAVIR, Serbian EMS, NOS BiH from Bosnia and Herzegovina and Austrian APG where various topics of common interest were discussed.

HOPS concluded an Operational Agreement with EMS in February 2021, with MAVIR in April 2021 and with ELES in October 2021.

In July 2021, HOPS and APGM concluded an Agreement on cross-border redispatch of power generation.

In October 2021, HOPS adopted Business Continuity Plan Plan, in accordance with the fulfilment of the obligations of Art. 24 of the SO GL Regulation.

The Company has concluded an Emergency Exchange Agreement with EMS and MAVIR. The aim of the cooperation is real-time emergency energy delivery by using existing reserves in each electrical power systems (EPS), without endangering them.

Cooperation projects between transmission system operators in the Mediterranean region

In 2021, HOPS actively participated in the activities of the Association of Mediterranean Transmission System Operators (Med-TSO) which promotes cooperation between the countries of the Mediterranean areas with the aim of developing a Mediterranean Electricity System, as a neighbouring partnership that will enable Europe to complete the energy transition by 2050. With its participation, HOPS supports the development of an integrated, secure and sustainable Mediterranean Electricity System, which facilitates the application of common criteria and harmonized, transparent and non-discriminatory technical rules to ensure interoperability of connected electricity systems.

5. SUSTAINABLE DEVELOPMENT

Due to active participation of all organisational units of HOPS, obligations related to the Register of Environmental Pollution which is kept by the Ministry of Economy and Sustainable Development (hereinafter: MINGOR), i.e. by the Croatian Environmental Protection Agency, have been fully realized. The Register of Environmental Pollution is a set of data on sources, type, quantity, manner and place of discharge, transfer and disposal of pollutants and waste into the environment. It is extremely important that every company which acts responsibly in regards to environmental protection and nature fulfils all obligations.

Considering that HOPS is listed in the "Register of legal entities and natural persons - entrepreneurs engaged in the activity of import/export and placing controlled substances and/or fluorinated greenhouse gases on the market, servicing, renewal and use of these substances", the servicing and maintenance of equipment which contains the greenhouse gas sulphur-hexafluoride SF₆ has been successfully continued. A detailed report on SF₆ gas emissions from the HOPS facilities was submitted to the Croatian Environmental Protection Agency on the form KT 1 - Logbook of used quantities of controlled substances and fluorinated greenhouse gases. In addition, data on total quantities of SF₆ gas used in switchyards have been sent to MINGOR.

A defect on switches in in the hydroelectric power plant Gojak resulted in an increased emission of sulphur-hexafluoride SF₆ into the atmosphere. HOPS` workers repaired the defect. Due to a higher gas emission, the PI-Z form was completed (form stationary source emission) and the release was reported to the Environmental Pollution Registry. Submitting this forms, HOPS has demonstrated diligence, conscientiousness and environmental responsibility in unforeseen situations.

In 2021, the form "Environmental investments and expenditures for environmental goods and services (IDU-OK)" was delivered to the Croatian Bureau of Statistics (CBS), containing all the activities and financial expenditures of HOPS for the protection of the environment. The form VOD 1 - Annual report on the use and protection of water from pollution - was also delivered to the CBS.

In 2021, municipal authorities (counties and municipalities) drafted numerous development strategies and programmes, as well as spatial plans and their amended versions. Procedures of strategic environmental assessment were carried out, i.e. assessment procedures on the

need for strategic assessment and audits of strategic environmental studies. Inquiries that HOPS receives from municipal authorities can be classified in the following manner:

1. requests to competent authorities (HOPS) to provide data for the purpose of drafting development strategies and programs, spatial plans and their amendments,
2. evaluations of the need for strategic assessment - expressing opinions on the need for strategic assessment in relation to the drafted strategic documents,
3. requests for providing opinion on the content of strategic environmental studies and development programs of municipal authorities, as well as with regard to spatial plans, when it is established that the implementation of a strategic environmental assessment is necessary,
4. audit of completed strategies and development programs, spatial plans and strategic environmental assessments with regard to the mentioned documents, during public consultation procedures.

HOPS has responded to all received requests in due course and with utmost care, thus contributing to environmental protection as much as possible, while simultaneously enabling the development and construction of the transmission network in terms of ensuring security of supply to customers.

As environmental protection is becoming an increasingly demanding area for HOPS, due to continuous development and frequent changes of the legislative framework, especially following the process of harmonisation with EU legislation, resulting in new obligations and costs, HOPS has secured continuous monitoring and reporting on newly adopted regulations in the area of environmental protection on a monthly basis.

In 2021, intensive activities were carried out to achieve the objectives and improve the environmental management system, resulting in a successful supervisory audit of the system according to ISO 14001:2015 standard. Thus, HOPS undoubtedly confirmed its dedication to systematic care for environmental protection.

HOPS also recognised energy efficiency as one of the most effective ways of achieving sustainable development goals considering that it contributes to the reduction of greenhouse gas emissions into the environment and has a positive effect on climate change. Implementing energy efficiency measures is important when raising the level of security of energy supply and it represents the backbone of the energy policy of the EU. In 2021, intensive activities were carried out to achieve the objectives and improve the energy management system, resulting in a successful supervisory audit of the system according to ISO 50001:2018 standard. Thus, HOPS undoubtedly confirmed its dedication to systematic care for energy efficiency.

Besides supervisory audits, internal training on management systems according to the 14001:2015 and 50001:2018 ISO standards were organised. The training was conducted during internal audits at the level of the entire HOPS. The response and interest were great, which once again confirmed the contribution of HOPS to environmental protection and the increase of energy efficiency.

In April 2021, the Act on Amendments to the Energy Efficiency Act was adopted, applying high energy efficiency standards. According to this Act, the transmission system operator is obliged to enter data on taken measures for the improvement of energy efficiency realized in electricity transmission into the System for Monitoring and Verification of Energy Savings (SMIV). In September 2021, the competent ministry has adopted a Rulebook on monitoring, measuring and verification of energy savings. On the basis of this Rulebook, HOPS has adopted the Methodology for energy saving calculation in the transmission system based on standard energy efficiency improvement measures, as well as four studies which cover calculated savings related to projects realised in 2021:

1. Study on energy savings realised by replacing the conductor on TL 220 kV Zakučac – Konjsko

2. Study on energy savings realised by replacing the power transformer in SS 400/110/30 kV Tumbri
3. Study on energy savings realised by replacing the conductor on TL 110 kV Bilice - TS Velika Glava
4. Study on energy savings realised by introducing the VVC processing system in order to minimize the loss of operating current of the transmission grid.

HOPS and the association BIOM, which deals with the protection of birds and their habitats, implemented a project to protect the endangered lesser kestrel on the island of Rab by setting up nesting houses.

The result of the successful cooperation with BIOM is the installation of five nesting houses for the lesser kestrel on the infrastructure of HOPS. After having agreed on locations, the houses were manufactured and installed.

After an inspection of the area around the cable station and the cable station itself, it was concluded that the area meets the conditions for installing the houses. Possible threats which eventually could endanger the birds were not identified. Impacts on the functioning of the electricity network were also not identified. Other European states also implement projects which cover conservation methods with the aim to persuade birds to nest in houses because it allows the expansion of their population in areas in which they have lost locations favourable for nesting due to human activities.

In 2021, HOPS and the association Biom concluded an „Agreement on cooperation in the field of protection of birds from injuries and casualties on elements of the Croatian electricity transmission network“, bearing in mind that mutual cooperation is the basis for effective nature protection.

The objectives of the Agreement are to contribute to the reduction of the risk of birds suffering from collision with elements of the transmission network, to reduce maintenance costs and damages resulting from activities of birds on the elements of the transmission network. In addition, the Agreement will improve the fulfilment of obligations of HOPS arising from the Nature Protection Act and the Rulebook on conservation and basic measures for the conservation of birds in the area of the ecological network. This includes the protection of protected and endangered bird species, especially species in the area of the ecological network Natura 2000.

6. HEALTH PROTECTION AND SAFETY AT WORK

In 2021, in the field of occupational safety and health, the following was performed: training newcomers and relocated workers to work in a safe manner, training workers to provide first aid, training workers to work safely at heights, training workers to work on tubular scaffoldings, training the employer's authorized person competent for safety at work, regular testing of work environment in facilities, regular testing of low-voltage electrical installations in facilities, periodic testing of facility lighting protection systems on buildings, regular inspections and work equipment testing, procurement and distribution of personal protective equipment to workers, organisation and realisation of medical examinations of workers in jobs with special conditions and when working on a computer.

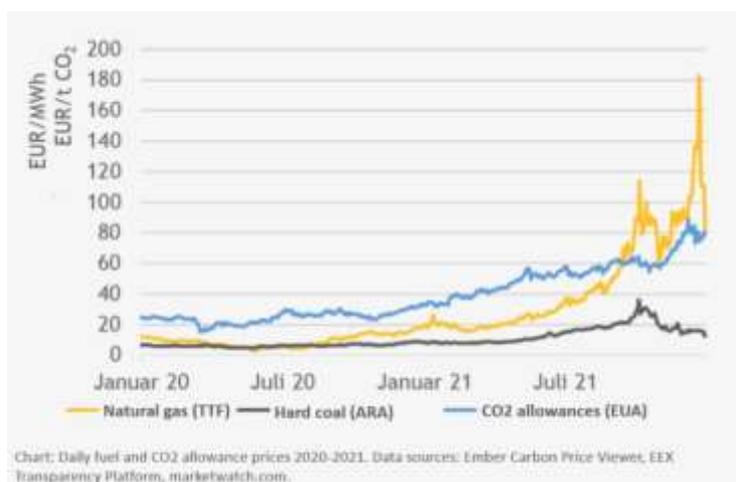
During 2021, in the field of fire protection, the following was performed: inspections and functional testing of stable fire alarm and extinguishing systems, periodic inspections and control testing of fire extinguishers in all facilities of the Company, training newcomers for initial fire suppression, procurement of new and scraping of old fire extinguishers, troubleshooting of stable fire alarm and extinguishing systems, conducting evacuation and rescue exercises in facilities.

7.UNPREDICTABLE EVENTS AND COMMITMENTS

Price increase

The lockdown due to the pandemic in 2020 has led to historically lowest prices for petroleum products, gas and electricity, whereas 2021 was marked by a significant increase of electricity prices due to the economic recovery throughout the year, by the plan of the EU's transition to a low-carbon economy which resulted in rising prices for CO₂ emission, by Russian pressure to perform commissioning of the gas pipeline Nord Stream 2 as soon as possible, by reduction of gas reserves in the EU and by not organising regular auctions for natural gas, which let the prices of these energy sources reach historically high levels.

Picture 4. Daily price of natural gas, hard coal and CO₂ allowances in 2020 and 2021



Additionally, the winter 2021 was colder than usual winters, with a production from wind that was lower than expected and with nuclear power plants shutting down or being in regular overhaul.

In December, power exchanges marked average daily baseload energy prices of approx. 250 EUR/MWh and peak energy prices of more than 400 EUR/MWh, while in the same period of the previous year prices were less than 60 EUR/MWh. Long-term electricity prices indicates a gradual stabilization of prices due to the winter and it is expected that 2022 will have a significantly warmer winter than the average with a record electricity production of wind power and record imports of LNG. Despite stabilisation, prices remain at significantly higher levels compared to periods before the crisis, with the risk of further deterioration of the situation due to Ukrainian-Russian tensions and a potential military conflict on European soil, and consequently due to possible sanctions against Russia which could cause additional shortages or even a suspension of supplies of Russian gas to Europe.

Unplanned exit of the supplier ENERGINIA GAS AND POWER d.o.o. from the electricity market

In June and July 2021, the balance group manager of ENERGINIA GAS AND POWER d.o.o. (hereinafter: EGS), with whom HOPS d.o.o. has conducted an Agreement on liability for deviations, received a much higher number of invoices for deviation calculations. In addition to problems with the recovery of claims for June and July 2021, which are still settled by EGS through new payment security instruments, problems concerning the settlement of claims remained for the invoice for August 2021 with an amount of HRK 14.95 million. Therefore, HOPS concluded an Amendment to the Agreement on liability for deviations which regulates the repayment modality for August 2021 and the delivery of a new payment security instrument

in the amount to HRK 33.71 million. Problems also occurred with respect to the deviation calculation for September (HRK 24.38 million) and October (HRK 15.27 million) 2021.

In the same period, EGS was not able to settle outstanding claims towards HROTE. On 15 October 2021 EGS unexpectedly left the electricity market, which consequently led to the termination of the Agreement on participation in the electricity market with HROTE.

By concluding an additional Agreement on recovery of claims, HOPS provided additional payment security instruments and was secured by a payment security instrument in the amount of HRK 60.03 million for outstanding claims for August, September, October 2021.

Due to outstanding claims, a bank guarantee in the amount of HRK 0.47 million was activated, as well as debentures in the amount of HRK 37.71 million and HRK 20.44 million, for invoices from August, September and October 2021. The invoice for August 2021 was payed, as well as part of the invoice according to the final calculation of deviations which was partially recovered by activating a deposit in the amount of HRK 2.05 million.

The amount of invoices for September and October 2021 with VAT amounts to HRK 39.66 million and has not been settled yet, as well as a part of the invoice according to the final calculation of deviations for 2021 in the amount of HRK 972.515.03.

Thus, the total debt, for which a debenture as payment security instrument was activated, amounts to HRK 40.64 million. HOPS has sent enforcement documents to FINA, the Croatian agency which is authorized for enforcements of claims.

Write-off of receivables for charges for transmission network use towards HEP Operator distribucijskog sustava d.o.o. for areas affected by the earthquake

Pursuant to the Decision of the Government of the Republic of Croatia on declaring a catastrophic emergency in the area affected by the earthquake, the Conclusion of the Government from January 2021, according to which Hrvatska elektroprivreda d.d. must through its related companies contribute to the restoration of damages in the earthquake-affected areas in the County Sisak-Moslavina and in the County Zagreb by writing off the receivables arising from the connection of the substitute accommodation facilities to the grid, as well as other receivables in the amount of a single invoice for delivered energy with according charges, for the whole of 2021. This shall apply to end customers belonging to the category of households and being affected by the earthquake, whose facilities were damaged and / or for those whose temporary substitute accommodation is in the earthquake-affected area, in accordance with the list of municipal authorities, the Civil Protection Authority of the Republic of Croatia.

Based on the aforementioned Decision and the Conclusions of the Government that followed the Decision, on 15 March 2021, HOPS and HEP ODS signed the Amendment 1 to the Agreement on mutual relations regarding the calculation and recovery of charges for the use of the transmission network. Amendment 1 defines that the amount of payment obligation of HEP ODS towards HOPS for charges for the use of the transmission network will be reduced by the amount which HEP ODS pursuant to the conclusions of the Government of the Republic of Croatia could not recover from the aforementioned end customers, in accordance with Article 71 of the Rulebook on amendments to the rulebook on implementation of the General Tax Act. The write-off of receivables concerned will be shown in 2021 in the business books of HOPS Ltd. within the operating expenses. i.e. deductible expenses which reduces the corporate tax base. The decision on write-off must be approved by the Supervisory Board because it represents a waiver without charge and has a value of more than HRK 5.000.000.00 (five million).

Partial day-ahead market decoupling for the bidding day of 14 January 2021

At the implicit day-ahead auction of capacities which took place on 13 January 2021 (for the bidding day of 14 January 2021), due to technical problems of GME (Italian power exchange), the Croatian bidding zone was decoupled from the SDAC market at the Croatian-Slovenian (HR-SI) border, i.e. CROPEX was decoupled from the SDAC electricity market.

The partial decoupling from the SDAC market caused the occurrence of abnormal prices and volumes within the decoupled bidding zone:

- Due to the market decoupling, prices at the Slovenian power exchange BSP went up from usual prices (30 % of average prices in 2021), while prices at CROPEX were low, most of the days with a minus sign, especially in the last two hours when they amounted to -263.31 EUR/MWh (23rd hour) and -259.78 EUR/MWh (24th hour). The lowest price was recorded in the "normal" mode and amounted to -66.18 EUR/MWh (09 May 2021 at 3 pm).
- The supply and demand curves at CROPEX showed that the cause of low prices was the extremely low demand of market participants for energy at CROPEX and several sales bids that were defined in such a way that bidders were willing to sell energy even in case of extremely low prices expecting a successful market coupling and the application of marginal prices.
- The daily trading volume at CROPEX fell by 70% compared to average trading volumes in 2021, while at BSP the volume fell by 83% from normal daily volumes on the DA market.

If we compare the revenues with the revenues generated in 2020, due to the market decoupling HOPS in one single day lost 17% of the total annual net revenues from the allocation of trans-zone capacities with which HOPS had planned to finance a part of the investment plan in 2021. The total cost of return of trans-zone capacities to market participants ("use it or sell it") in the direction HR>SI amounted to EUR 2,977,239.42. The share of HOPS of 50% is EUR 1,488,619.71. The large amount of return to market participants was caused by low liquidity at CROPEX, which resulted in abnormal low prices, by the fact that market participants did not use long-term capacities in the direction HR>SI, because according to the rules, in the case of positive price difference (for HR>SI it is defined as $(\text{price}_{SI} - \text{price}_{HR}) > 0$) they receive a fee, in accordance with the Harmonized Auction Rules (HAR) arising from the EU Commission Regulation (EU) No 2016/1719 (FCA). Although the Company and other transmission system operators requested an amendment to HAR in this regard, the EC and ACER did not accept this request, explaining that such a change requires a previous amendment to the FCA Regulation, which should be adopted in the upcoming years.

Several significant operational events were recorded during the year.

On 8 January 2021, at 2:04 pm, there was a significant disruption, which ultimately led to the decoupling of the synchronous area of Continental Europe into two separate synchronous areas, whereas the Croatian EPS also split in two parts, but here the consequences for network users being relatively small. Several power plants fell out of operation for a short moment. SS Rab and SS Nova Gradiška were left without power supply, with about 5MWh of energy having not been delivered.

On 1 August 2021, at 6:37 pm, due to a storm, masts on TL 110 kV OHL Poreč - Pazin were demolished. Only four minutes later, at 6:41 pm, 3 masts on TL 400 kV Ernestinovo - Žerjavinec were demolished for the same reason.

Both transmission lines were temporarily repaired using emergency mast. The repair of the 110 kV transmission line Poreč - Pazin was finally completed on 10 November 2021, and the repair of the 400 kV transmission line Ernestinovo - Žerjavinec on 2 December 2021.

On 3 August 2021, at 05:39 am, the operational start of the busbar protection on both 110 kV busbar systems at SS Mraclin caused outages in a number of line bays.

8.RISK MANAGEMENT AND EXPOSURE TO RISKS

HOPS, as a company whose activity is regulated by numerous laws and regulations, is constantly exposed to risks of compliances of its activities with legal provisions, which may affect or affect the integrity, quality and timeliness of the implementation of obligations prescribed by legal provisions. This applies in particular to operating in accordance with the rules on the functional independence and non-discriminatory conduct of HOPS as an independent transmission operator, and to exposure to internal weaknesses and external threats to the continuity of the fulfilment of these obligations. Regulatory risks cannot be viewed separately from the context of other legal and business risks, given that stability and successful business operations are directly related to the long-term ability to meet the Company's statutory obligations.

The Company's business activities are exposed to risks which the due care of a prudent businessman.

- **Risk of a slowdown in business operations and a decrease in operating revenues caused by the coronavirus pandemic**

During 2021, there was a recovery of economic activities, as well as a recovery of market prices of energy and wholesale electricity prices.

By the end of 2021 and during 2022, a further increase in economic activities is expected, provided that there will not occur any unforeseen circumstances related to the coronavirus pandemic.

Possible variability in the dynamics of business activities of entities may lead to significant deviations in electricity consumption, which directly affects the dynamics of revenues and expenses of the Company. The dynamics of revenues and expenses have an impact on liquidity. In order to maintain the planned investment activities, the Company will have to additionally borrow financial means. Besides, in the case of a restriction of movement as it was the case in the first half of 2020, certain investment activities will not be able to be completed within the agreed deadlines, which directly affects the dynamics of the implementation of plans.

- **Risks of application and implementation of laws and regulations**

The draft of the new EMA prescribes that the independent transmission operator has to operate as a public liability company within six months from the date of entering into force of EMA. The main reason for the mentioned status change is the harmonization of EMA with the Directive (EU) 2017/1132 of the European Parliament and Council of 14 June 2017 relating to certain aspects of company law (codification) (text relevant for EEA) Annex I.

According to relevant provisions of the Commercial Code (OG 111/93, 34/99, 121/99, 52/00, 118/03, 197/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19 hereinafter: CC), the private limited company can change into a public limited company on the basis of a decision of the assembly, without changing ownership. It is to be expected that in this case the legal effect of the conversion of the Croatian transmission system operator as private limited company into a public limited company will be the following:

1. The private limited company continues its business activities as public limited company.
2. Shares in the private limited company are replaced by shares in the public limited company.
3. The rights acquired by third parties in the shares shall apply to the shares into which they have been converted.

4. Members of the management board of the private limited company become members of the management board of the public limited company, members of the supervisory board of the private limited company become members of the supervisory board of the public limited company, unless otherwise specified by decision on conversion of the company.

In the future, the role of HERA will be extremely important, as HERA has the right to take measures in the case of inappropriate behaviour of energy entities as well as to approve changes in tariff items.

Significant business decisions and activities of the Company based on legal authorizations will depend to a large extent on the consent of HERA.

- **Planning and procurement**

For an effective fulfilment of all business and development plans, timely organisation and implementation of public procurement procedures play a key role. Therefore, this area needs to be given special attention. Unpredictable appeal procedures, which impede the planned dynamics of implementation, present a significant risk.

With the entry into force of the Public Procurement Act in 2016, the procurement procedure has become more complex and multidisciplinary. In addition, the Company has increasing requirements in terms of the amount of procurement (both numerically and financially) which is why permanent improvements and optimizations of business processes are necessary. Procurement processes are primarily decentralised and performed within the competences of organisational units of the Procurement Division in the transmission zones, in the Development, Connection, Construction and Management Department and in the Economic, Legal, Personnel and General Affairs Department. The Company will continue to improve business processes and capacities of workers, proportionally to the scope and complexity of planned procurement procedures in the upcoming years.

- **Risk of IT system unavailability and threats to data security**

A serious risk in technological and business operations of the Company includes the defence of information system security and protection against cyber-attacks from third parties, which could result in disabling the availability and compromising the integrity of the IT systems of the Company. That is why this issue is demanding more and more attention.

- **Risk of unresolved property relations**

For a number of reasons, the procedures for resolving them are very complex and time-consuming. Since they have a significant impact on the realization of the investment plan, the Company pays special attention to their resolution and tries to systematically approach this issue.

- **Business environment and regulation risk**

The energy sector, and especially regulated activities which include the transmission of electricity, is subject to a special regulation governing the manner and conditions of performing the activity, which in this respect represents a regulatory risk.

- **Financial risks**

The Company's Management Board monitors and manages financial risks (credit risk, liquidity risk and interest rate risk) related to the Company's operations. The situation on the financial markets globally and in the Republic of Croatia can be a limiting factor for refinancing the existing and securing new loan arrangements for financing planned investment projects.

Both the country risk premium and the loan rating of HEP Group (hereinafter: HEP) as a possible fund provider for the Company's investments both important for new indebtedness because they affect the margin that financial institutions add on top of the reference interest

rates. In addition, the exposure of HEP and its ability to ensure corporate guarantees also affect new indebtedness.

- **Risks based on participation in projects co-financed by programmes of the European Union**

The global pandemic caused by the coronavirus has significantly affected our daily lives and business activities, as well as the implementation of EU projects. Since they are an important development stimulator for the whole society of the Republic of Croatia, it is extremely important that projects financed by EU programmes continue to be implemented during the epidemic to the fullest possible extent, respecting all measures adopted by the National Civil Protection Authority. In such an emergency situation, it was necessary to follow all relevant information related to the postponement of certain tenders, the realization of costs, information on the impact of the pandemic on programmes, the possibility of organising online communication and similar publications on the official websites of EU programmes and funds.

Since the beginning of the pandemic, the experience of organisations in the management of EU projects at EU level had a positive impact on the stability of organisations during the coronavirus pandemic. Namely, EU funds and EU project management play an important role in contributing to the return to normal life during the coronavirus pandemic. 2021 was marked by delays, decreased revenues and cost effects due to the coronavirus. But the awareness and knowledge of project management organisations reduced the negative impact.

In order to reduce the possibility of the occurrence of these risks, as partner in several international projects, we have taken into account and consistently applied the recommendations at EU level for the implementation of projects during the epidemic:

- definition of project activities which, with adjustment to electronic forms of communication, will be able to be carried out despite the epidemic,
- identification of risk activities and adjustment of risk analysis to the new circumstances, assessment of the causal link between activities and evaluation of an overall picture of possible delays of activities,
- storage of all documentary evidence of project implementation and traceability of all communication in the implementation of projects,
- adjustment of the communication with EU bodies, as they processed inquiries according to urgency and importance, due to the already increased requests of grant beneficiaries and as they ensured to approve that force majeure circumstances indeed had an impact on the implementation of project activities in order to accept requests for amendments to agreements.

- **Risk of not providing funds of the NPOO programme**

In case that funds are not provided for projects nominated for funding from EU funds through the NPOO programme, the Company will have to take on new debts for projects whose implementation will be continued, while the implementation of most of the nominated projects will have to be abandoned.

- **Risk of large number of connections not being accompanied by an adequate network development**

In case that a large number of connections are realized without an adequate network development, there is a risk of higher redispatching costs.

9.SIGNIFICANT BUSINESS EVENTS AFTER THE END OF THE BUSINESS YEAR

In 2022, further development of the balancing service market is expected, with the introduction of additional groups providing reserves and other mechanisms to increase the flexibility of response of consumption and production in EPS. From the third quarter of 2021, a significant increase in electricity procurement costs to cover losses, which could not be planned in time due to the historically unrecorded distortions of electricity market prices, increased the Company's operating expenditure and, consequently, its current liquidity. In addition, the current illiquidity was significantly affected by the large increase in balancing costs and auction costs for PPK, as well as by outstanding claims towards the supplier (VBG) ENERGIJA GAS AND POWER d.o.o., while, on the other hand, there was no significant revenue growth that could have reduced the increase in expenditure, including the fact that in 2021 the planned and approved funds from the NPOO programme were not remitted. Instead of that, the Company allocated own funds to finance the projects submitted to the NPOO. The lack of funds to settle all due short-term liabilities towards suppliers, which the Company faced at the end of 2021, was compensated by short-term loans and other forms of financing offered on the financial market. If the trend of increased share of electricity procurement costs to cover losses in the total operating expenditure continues in 2022, without a sufficient increase in operating revenues, the Company will in 2022 again be forced to compensate this with short-term loans, which will further affect the growth of total indebtedness and the growth of the share of interest rate costs in the operating expenditure.

Besides, the current liquidity was significantly affected by the fact that the Company was not able to obtain long-term loans in time to finance the investment plan for 2021, but had to engage funds from regular business operations to finance the investment plan in 2021. Only at the end of December 2021, HOPS managed to realize a loan from HEP in the amount of HRK 52.7 million. In the meantime, a recent evaluation of the implementation of investment projects financed by loans showed that the Company needs HRK 129.9 million. So the Company requested from HEP d.d. an additional loan in the amount of HRK 77.2 million. But on 13 January 2022 HEP d.d. replied that it was not able to give a loan in the amount requested. Missing funds for refinancing own investments on the basis of investment projects from the investment plan of 2021 in the amount of HRK 77.2 million, the Company decided to address a commercial bank on the financial market. The realization of the loan and new indebtedness is underway.

Given the huge rise in prices of gas, electricity and related services on international markets, which occurred during 2021, as well as the new complex circumstances in international relations important for the formation of energy prices that have developed at the beginning of 2022 (war in Ukraine), a significant attack to the liquidity of HOPS's business activities in the upcoming period is to be expected. Therefore, it is necessary to plan a strategy and tactics of the Company's response to certain related economic challenges.

Recent developments in international relations (war in Ukraine) have certainly led to and will continue to lead to an increase of the general level of risk of malicious attacks on the information security system of HOPS, especially on the part serving for managing the transmission network and system.

In April 2022, the conversion of the Company from a private limited company into a public limited company will be performed in accordance with the provisions of EMA.

10. BUSINESS DEVELOPMENT IN THE FUTURE

Operations and development of the Company are continuously adjusted to the set goals and tasks conditioned by the requirements of network users, legislative and regulatory frameworks, and the regional and European environment.

Following the changes of EU energy legislative provisions which aim to establish the preconditions for a transition to green energy, the new EMA prescribes a number of obligations for the Company.

During 2022, the Company plans to further adapt the existing bylaws to the adoption of the new EMA, which especially refers to the drafting and adoption of new Rules on electricity system balancing, Rules on congestion management in the transmission system and Rules on non-frequency ancillary services.

During 2021, the Croatian NPOO was approved, according to which a significant part of the funds will be allocated to the electricity sector, i.e. for transmission and distribution system operators, for infrastructure projects, network construction, digitalization and modernization of the electricity system management system, which will enable faster integration of renewable sources, connection of islands and electricity transmission from south to north

In the upcoming period, HOPS will undertake activities to establish a system for assessing and managing key regulatory risks (as well as other risks) and define measures for the control and compensation of negative financial and other effects, which includes further improvement of communication with key stakeholders who have significant impact on the Company's operations, revenues and expenditure.

Given its position of a national operator of critical infrastructure and the access to confidential, commercially sensitive data of all network users, HOPS will continue to pay special attention to the rapid and significant strengthening of information security of its operational and data processing system.

HOPS plans to continuously strengthen all internal competencies, especially in the areas of transmission network development strategy, business with network users and market participants, information system and especially internal legal support functions, given the rapidly growing scope and complexity of business interactions with external institutions and companies.

In order to ensure the continuity of business performance, the Company's Management Board will continue a responsible and systematic management of business operations and risks. Special attention will be paid to: maintaining a high level of reliability of the transmission network as a national infrastructure and a high level of security of electricity supply at the level of the Croatian transmission system, keeping operating costs at a reasonable level and ensuring timely development of the transmission network through continuous investments.


Darko Belić
Member of the
Management Board


Dejan Liović
Member of the
Management Board


Igor Ivanković
Chairman of the Board



Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb

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Statement of Management's Responsibilities

The Management Board of Croatian Transmission System Operator d.d., Zagreb, Kupska 4, (hereinafter: "the Company") is responsible for ensuring that the annual financial statements are prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and published in the Official Journal of the European Union to give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows of the Company for that period.

The Company separately prepares and issues an annual report in accordance with legal and regulatory provisions.

The Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has adopted the going concern basis in preparing the financial statements of the Company.

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable financial reporting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless such assumption is not appropriate.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position and the results of operations of the Company and their compliance with the Croatian Accounting Law and the International Financial Reporting Standards as adopted by EU and published in the Official Journal of the European Union. The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other illegalities.

The Management Board is also responsible for the preparation and content of the Management Report in accordance with Article 21 of the Croatian Accounting Law.

The management report presented on pages and the financial statements were approved by the Management Board on April 28, 2022 for submission to the Supervisory Board.

Signed on behalf of the Management Board:

Darko Belić

Member of the
Management Board

Dejan Liović

Member of the
Management Board

Igor Ivanković

Chairman of the Board

Croatian Transmission System Operator Plc.
Kupska 4
10 000 Zagreb
Republic of Croatia, 28 April 2022


Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb 1

Independent auditor's report to the owner of Croatian Transmission System Operator Plc.

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of Croatian Transmission System Operator Plc, Zagreb, Kupska 4 ("the Company") for the year ended 31 December 2021., which comprise the Statement of financial position as at 31 December 2021., the Statement of comprehensive income, the Statement of the changes in equity, and the Statement of cash flows for the year then ended and accompanying notes comprising significant accounting policies.

In our opinion, the accompanying annual financial statements give a true and fair view of the financial position of the Company as at 31 December 2021., and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS") as adopted by European Union and published in Official Journal of EU.

Basis for Opinion

We conducted our audit in accordance with Accounting Act, Auditing Act and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our Independent Auditor's Report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 17, which explains that the Company has not fully resolved property-legal relations, ie ownership of real estate. Procedures for resolving and registering real estate ownership are underway. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements of the current period. 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.

For the matter below, our description of how our audit addressed the matter is provided in that context. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements

Assets under construction	
<p>The Company has stated in the annual financial statements as at 31 December 2021 assets under construction in the amount of HRK 990,507 thousand (31 December 2020 in the amount of HRK 693,145 thousand). For further information see Note 4. Key accounting judgements and estimates and Note 17. Property, plant and equipment in the annual financial statements.</p>	
Key audit matters	How we audited key audit matters
<p>One of the Company's main mission is to develop, build and maintain a transmission grid for reliable and sufficient customer service. Investments in the transmission grid are based on the ten-year transmission grid development plan for the period 2021 - 2030.</p> <p>There are mainly multiannual, technically complex projects of high financial value whose completion in the planned time and financial framework depends, among other things, on compliance with the company HEP Operator of Distribution System Ltd. regarding the dynamics of construction and financing. This also affects the complexity of the assets activation and the start of depreciation.</p> <p>Given the significance of investments in the Company's financial statements, this matter is of particular importance to our audit.</p>	<p>Our audit procedures, among other things, included:</p> <ul style="list-style-type: none"> • analysis of the minutes of the Management Board and the Supervisory Board meetings regarding the information related to investment plans and investment project decisions • assessment of the recognition policies compliance for the property, plant and equipment with relevant financial reporting standards; • review of the selected sample investment projects by checking contracts, invoices, delivery logs, etc. • analysis of expert sectors explanations on the current status and the anticipated completion of the ongoing investment projects • checking the required disclosures regarding the property, plant and equipment in the financial statements to determine that they are accurate and complete. <p>By our audit procedures, we have been assured that the position of assets under construction in all material aspects is recorded and disclosed in the accordance with International Financial Reporting Standards.</p>

Contingent liabilities based on initiated litigation

On 31 December 2021 the Company has stated the provisions for the contingent liabilities due to court cases in which the Company is a defendant in the amount of HRK 49,392 thousand (31 December 2020 in the amount of HRK 49,383 thousand). For further information see note 3.12. Provisions, note 4 Key accounting judgments and estimates and note 31. Provisions in the annual financial statements.

Key audit matters	How we audited key audit matters
<p>Due to its specific activity, the Company is within the ordinary course of business exposed to a significant number of long-standing court disputes (eg expropriation compensations, compensation for fire damage, etc.) whose outcomes could potentially adversely affect financial performance.</p> <p>Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.</p> <p>Complex legal issues require management to make complex assessments with a high level of judgment and uncertainty, which can lead to the recording of significantly incorrect amounts of provisions. The outcome of the court proceedings is beyond the Company's control, and the Management Board's assessment is inherently uncertain and depends on the course, outcomes and judgments in the court proceedings. The Management Board makes estimates of the court proceedings based on the opinions of the internal legal department and external attorneys representing the Company.</p> <p>Consequently, the Management Board's assessment of the existence of the present obligation, the probability of settling it and the existence of a reliable estimate of the amount that will be required to settle the obligation requires the Management Board to assess the risks and uncertainties associated with legal proceedings to ensure that these events are properly measured, presented and disclosed in the financial statements.</p> <p>Given the significance of the amount and complexity of the outcome assessment process, the matter of court disputes and potential liabilities was of particular significance for our audit.</p>	<p>Our audit procedures, among other things, included:</p> <ul style="list-style-type: none"> • an interview with the Company's Management Board in order to understand the assumptions that were considered when determining the need for provisions, • compliance assessment of the provision recognition policy for the outgoing court proceedings with the relevant financial reporting standards, • review of the purpose and nature of the material provisions, • obtaining and reviewing the opinions of external attorneys and other documents prepared by the Company, in order to assess whether they support the judgments of the Management Board on the recognized amounts of the provisions, • checking the mathematical accuracy of the provisions calculation, • review of the previously recorded provision amounts to estimate the accuracy of the previous judgments and estimates, • review of the required disclosures related to the provisions in the financial statements to determine whether they are accurate and complete. <p>By our audit procedures, we have been assured that the provisions in all material aspects are recorded and disclosed in the accordance with International Financial Reporting Standards.</p>

Other matters – separate non-financial report of the Company

We draw your attention to the page 19 of the Company's Management Board report, which, in accordance with point (b) of paragraph 8 of Article 21a of the Accounting Act, states the website on which a separate non-financial report of the Company will be published no later than 6 months from the balance sheet date.

Other matter - another auditor

The audit of the annual financial statements of the Company for the year ended 31 December 2020 was performed by other audit firms which expressed unmodified opinion on those financial statements as at 31 December 2020 on 20 April 2021.

Other Information in the Annual Report

Management board of Company is responsible for other presented information. Other information contains information included in the Annual report, but does not include the annual financial statements and our independent auditor's report received before the date of this independent auditor's report and a separate non-financial report that we expect to be made available after that date.

Our opinion on the annual financial statements does not include other information, except to the extent explicitly stated in the part of our Independent Auditor's Report, entitled Report on Other Legal Requirements, and we do not express any kind of conclusion with assurance on them.

Related to our audit of the annual financial statements, it is our responsibility to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our audit findings or otherwise appears to be materially misstated. If the separate non-financial report presents non-financial information required by the provisions of paragraph 1 or paragraph 2 of Article 21a of the Accounting Act. If, based on work performed on other information obtained before the date of this independent auditor's report, we conclude that there is a material misstatement display of this other information, we are required to report that fact. In that sense, we have nothing to report.

When we read a separate non-financial report, if we conclude that there is a significant misstatement in it, we are required to communicate the matter to those in charge of managing the Company.

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

The Management Board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS as adopted by the European Commission and published in the Official Journal of the European Union and for such internal controls as the Management Board 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 the annual financial statements, the Management Board of the Company 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 Management Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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

- identify and assess the risks of material misstatement of the 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 control 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 control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Company.
- conclude on the appropriateness of the Management's Board of the Company 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 Independent Auditor's report to the related disclosures in the 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 Independent 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal Requirements

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

1. On 22 April 2021, the General Assembly of the Company, based on the proposal of the Supervisory Board of the Company, appointed the auditing company Uhy Rudan d.o.o. i Mazars Cinotti Audit d.o.o. to audit the annual financial statements for years 2021, 2022 i 2023.
2. At the date of this report, the auditing company Uhy Rudan d.o.o. i Mazars Cinotti Audit d.o.o. are continuously engaged in carrying out the Company's statutory audits from the audit of the annual financial statements of the Company for the year 2021, which totals one year.
3. In addition to the matters, we have included in our Independent Auditor's Report as Key Audit Matters within the subsection Report on the audit of annual financial statements, we have nothing to report in relation to point (c) of Article 10 of Regulation (EU) No. 537/2014.

4. By our statutory audit of the Company's annual financial statements for the year 2021, we are able to detect irregularities, including fraud in accordance with Section 225 Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us, in carrying out our audit engagement, to establish whether the Company complied with laws and regulations that are generally recognized to have a direct impact on the determination of significant amounts and their disclosures in annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and their disclosures annual financial statements, but compliance with which may be the key to the operational aspects of the Company's business, its ability to continue to operate as a going concern or to avoid significant penalties.

Except when we encounter, or become aware of, non-compliance with any of the foregoing laws or regulations that is manifestly insignificant, in our judgment of its content and its impact, financial or otherwise, on the Company, its shareholders and the wider public, we are obliged to inform the Company thereof and request to investigate this case and take appropriate measures to resolve the irregularity and to prevent the reappearance of these irregularities in the future. If the Company on the Balance Sheet date, does not correct irregularities based on which incorrect disclosures in the audited annual financial statements arise that are cumulatively equal to or greater than the amount of materiality for the annual financial statements as a whole, we are required to modify our opinion in the Independent auditor's report.

In the audit of the Company's annual financial statements for the year 2021, we determined the materiality for the financial statements as a whole in the amount of HRK 37,882,823 representing approximately 0,5% of total assets, because the Company's activity is the management of the electricity system of the Republic of Croatia, electricity transmission and maintenance, development and construction of the transmission network, enabling new customers to connect to the network, supporting the development and functioning of the Croatian electricity market. Investments in property, plant and equipment presents a key role in enabling those objectives. Therefore, the Company or the users of financial statements are non-profit oriented or profit oriented.

5. Our audit opinion is consistent with the additional audit report prepared for the Company's Audit Committee in accordance with provisions of the Article 11 of Regulation (EU) No. 537/2014.

6. We have not provided to the Company prohibited non-audit services during the period between the initial date of the Company's audited annual financial statements for the year 2021 and the date of this report. In addition, we have not provided services for the design and implementation of internal control procedures or risk management related to the preparation and / or control of financial information or the design and implementation of technological systems for financial information in the preceding year. Therefore, we have remained independent of the Company in the performance of the audit.

Report based on the requirements of the Accounting Act

1. In our opinion, based on the work that we performed during the audit, the information in the Company's Management Report for the year 2021 are in accordance with the accompanying annual financial statements of the Company for the year 2021.
2. In our opinion, based on the work that we performed during the audit, the Company's Management Report for 2021, is prepared in accordance with the Accounting act.
3. Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management Report.

In Zagreb, 28 April 2022

UHY Rudan d.o.o.
Ilica 213
Zagreb, Republic of Croatia

Mazars Cinotti Audit d.o.o.
Strojarska cesta 20
Zagreb, Republic of Croatia

In the name and on behalf of UHY
Rudan d.o.o.

In the name and on behalf of Mazars
Cinotti Audit d.o.o.



Dragan Rudan
Director, Croatian certified auditor



Mirela Copot Marjanović
Director, Croatian certified auditor

UHY RUDAN d.o.o.
za porezno savjetovanje i reviziju
ZAGREB, Ilica 213

**MAZARS CINOTTI
AUDIT
d.o.o. ZAGREB**

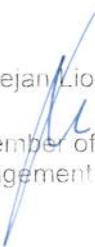
Croatian Transmission System Operator Plc., Zagreb

Statement of comprehensive income

For the year ended 31 December 2021

<i>(in thousands of HRK)</i>	Notes	2021.	2020.
Revenue from sales - related parties	6,36	1,548,818	1,332,915
Revenue from sales - third parties	6	434,708	189,517
Other income - related parties	36	-	50
Other income - third parties	7	44,612	44,168
		2,028,139	1,566,650
Materials and spare parts used	8	(18,677)	(16,297)
Service expenses	9	(202,032)	(160,180)
Personnel expenses	10	(210,643)	(201,090)
Depreciation and amortisation	16,17,18	(375,261)	(363,540)
Ancillary services	11,36	(295,289)	(296,489)
Transmission grid losses	11,36	(260,623)	(140,891)
Purchase of balancing energy	11,36	(431,368)	(94,415)
Other expenses - related parties	36	(48,947)	(47,061)
Other operating expenses	12	(124,045)	(76,112)
		(1,966,885)	(1,396,075)
Operating profit		61,253	170,575
Finance income	13	2,320	2,514
Finance costs	14	(26,886)	(31,058)
Net finance costs		(24,566)	(28,544)
Profit before tax		36,687	142,031
Income tax	15	(9,030)	(28,099)
Profit for the year		27,657	113,932
Other comprehensive income		-	-
Total comprehensive income for the year		27,657	113,932


 Darko Belic
 Member of the
 Management Board


 Dejan Liović
 Member of the
 Management Board


 Igor Ivanković
 Chairman of the Board



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

Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb

Croatian Transmission System Operator Plc., Zagreb

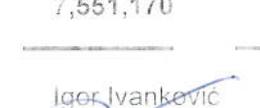
Statement of financial position

As at 31 December 2021

<i>(in thousands of HRK)</i>	Notes	31 December 2021	31 December 2020
ASSETS			
Intangible assets	16	47,894	41,191
Property, plant and equipment	17	6,672,868	6,416,392
Right-of-use assets	18	2,579	4,475
Prepayments for property, plant and equipment	19	13,318	19,004
Investment property	20	4,542	4,542
Investments in associates	21	5,000	4,500
Financial assets	22	53,006	53,006
Receivables from sale of apartments	23	394	715
Deferred tax assets	15	40,556	41,027
Total non-current assets		6,840,157	6,584,852
Inventories	24	10,520	10,803
Trade receivables	25	125,395	24,731
Receivables from related parties	36	374,416	193,907
Other current assets	26	60,106	55,182
Short-term financial assets	27	23,840	21,382
Cash and cash equivalents	28	116,736	308,000
Total current assets		711,013	614,005
TOTAL ASSETS		7,551,170	7,198,857
EQUITY AND LIABILITIES			
Subscribed capital	29	4,948,627	4,948,627
Reserves	29	5,524	5,524
Retained earnings		245,277	276,722
Total equity		5,199,428	5,230,873
Subloan from and liabilities to related parties	30,36	185,820	596,683
Provisions	31	118,730	111,350
Other long term liabilities	32	483,287	486,026
Total non-current liabilities		787,837	1,194,059
Subloan from related parties (current portion)	30,36	520,062	57,553
Provisions	31	1,111	668
Trade payables	33	391,310	361,173
Payables to related parties	36	419,617	243,962
Liabilities to banks	34	99,852	-
Other current liabilities	35	131,953	110,569
Total current liabilities		1,563,905	773,925
TOTAL EQUITY AND LIABILITIES		7,551,170	7,198,857


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Member of the
Management Board


Dejan Lovic
Member of the
Management Board


Igor Ivankovic
Chairman of the Board

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



Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb

Croatian Transmission System Operator Plc., Zagreb

Statement of changes in equity

For the year ended 31 December 2021

<i>(in thousands of HRK)</i>	Subscribed capital	Reserves	Retained earnings	Total
As at 31 December 2019	4,948,627	5,524	236,527	5,190,678
Dividend	-	-	(73,737)	(73,737)
Profit for the year	-	-	113,932	113,932
As at 31 December 2020	4,948,627	5,524	276,722	5,230,873
Dividend	-	-	(59,102)	(59,102)
Profit for the year	-	-	27,657	27,657
As at 31 December 2021	4,948,627	5,524	245,277	5,199,428



Darko Belić
Member of the
Management Board



Dejan Liović
Member of the
Management Board



Igor Ivanković
Chairman of the Board



Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb 1

The accompanying notes form an integral part of these financial statements

Croatian Transmission System Operator Plc., Zagreb

Statement of cash flows

For the year ended 31 December 2021

<i>(in thousands of HRK)</i>	2021.	2020.
Profit for the year	27,657	113,932
<i>Adjusted for:</i>		
Income tax	9,030	28,099
Depreciation and amortisation	375,261	363,540
Increase in provisions	7,823	5,849
Net finance expense	23,690	22,093
Net book value of assets disposed	9,082	10,580
(Decrease)/Increase in provision for inventories	(373)	(1,616)
Increase in provision for doubtful receivables, net	40,641	(12)
Impairment of financial asset	(500)	(2,000)
Change in fair value of investment property	-	(102)
Cash flows from operations before working capital changes	492,311	540,363
(Increase) / decrease in trade receivables	(139,316)	46,450
Decrease / (increase) in receivables from related parties	(180,509)	(14,705)
Decrease / (increase) in other receivables	(467)	(9,371)
Decrease in receivables for apartments sold	321	119
Decrease / (increase) in inventories	579	1,605
(Decrease) / increase in trade payables	29,448	(22,438)
(Decrease) / increase in liabilities to related parties	201,980	226,764
Increase in other liabilities	18,645	7,374
Income tax (paid)/ received	(13,016)	(19,980)
Cash flows from operating activities	409,976	756,181
Interest received	331	29
Decrease / (Increase) in prepayments for tangible assets	5,686	(15,249)
Investment in associates	-	(1,870)
Deposits paid	(2,458)	(1,742)
Purchases of property, plant, equipment and intangible assets	(645,549)	(577,336)
Cash used in investing activities	(641,990)	(596,168)
Dividends paid to the owner	(59,102)	(106,582)
Increase/ (decrease) of other financial liabilities	99,852	(1,321)
Interest paid	-	(20)
Cash flows used in financing activities	40,750	(107,923)
Net increase in cash and cash equivalents	(191,264)	52,090
Cash and cash equivalents at beginning of year	308,000	255,910
Cash and cash equivalents at the end of year	116,736	308,000


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Chairman of the Board



The accompanying notes form an integral part of these financial statements

Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

1. GENERAL

Croatian Transmission System Operator d.d., Zagreb (the "Company") is joint stock company incorporated in the Republic of Croatia in 2005. The founder and sole owner of the Company is Hrvatska elektroprivreda d.d. (the "Parent Company" or "HEP d.d."), a joint stock company owned by the Republic of Croatia. The Company is registered at the Commercial Court in Zagreb, Republic of Croatia. The identification number of a Company is 080517105, and VAT number is HR13148821633. The Company had an average of 1,143 employees in 2021 (2020:1,135 employees). On 6 October 2021 The Electricity Market Act was promulgated, which, among other, stipulates that within 6 months of the law promulgation the transmission system operator must be organized as a joint stock company. On April 6, 2022, the General Assembly of the Company passed a Decision on reconstitution of the Company into a joint stock company. On 11 April 2022, the Commercial Court in Zagreb issued a Decision on the transformation of a limited liability company into a joint stock company.

The company is registered for the transmission of electricity, and until 30 June 2013 it performed transmission services exclusively for HEP d.d. while after that transmission services are provided to other entities in the market.

The Company has certain business transactions with other members of the HEP Group, Related party transactions are set out in Note 36.

As at 31 December 2021 HEP Group consists of the following entities:

Members of the Group	Country	Core business activity
Hrvatska elektroprivreda d.d.	Croatia	Production and distribution of electricity and heat
HEP - Proizvodnja d.o.o.	Croatia	Electricity production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	Electricity transmission
HEP- Operator distribucijskog sustava d.o.o. (HEP-ODS)	Croatia	Electricity distribution
HEP Opskrba d.o.o.	Croatia	Electricity supply
HEP Elektra d.o.o.	Croatia	Electricity supply
HEP – Toplinarstvo d.o.o.	Croatia	Production and distribution of heat
HEP – Plin d.o.o.	Croatia	Gas distribution and supply
HEP ESCO d.o.o.	Croatia	Energy efficiency projects financing
Plomin Holding d.o.o.	Croatia	Infr, development of the surrounding area of Plomin
CS Buško Blato d.o.o.	BiH	Maintenance of hydropower plants
HEP – Upravljanje imovinom d.o.o.	Croatia	Leisure and Recreation services
HEP Telekomunikacije d.o.o.	Croatia	Telecom services
HEP NOC Velika	Croatia	Accommodation and education services
Energetski park Korlat d.o.o.	Croatia	Electricity production
HEP – Trgovina d.o.o.	Croatia	Electricity trading
HEP – Energija d.o.o.	Slovenija	Electricity trading
HEP– Energija d.o.o. Mostar	BIH	Electricity trading
HEP– Energija d.o.o. Beograd	Serbia	Electricity trading
HEP Energija sh.p.k.	Kosovo	Electricity trading
HEP VHS Zaprešić d.o.o.	Croatia	Design and construction of a mult. hydraulic system
GP Krapina d.o.o.	Croatia	Gas supply
Darkom DP d.o.o.	Croatia	Gas supply
Sunčana elektrana Poreč d.o.o.	Croatia	Electricity production
Sunčana elektrana Vis d.o.o.	Croatia	Electricity production
Ornatus d.o.o.	Croatia	Real estate development
LNG Hrvatska d.o.o.	Croatia	Liquefied natural gas business
NE Krško	Slovenija	Electricity production

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

1. GENERAL (CONTINUED)

As at 31 December 2021, the Company had 1,149 employees (31 December 2020; 1,139 employees). analysis of employees by education is shown below:

Structure	31 December 2021	31 December 2020
PhD	16	13
Master of Science	19	20
Bachelor` Degree	474	462
Associate (2-year degree)	98	96
Highly qualified worker	76	76
High school graduate	447	452
Qualified worker	4	4
Lower qualified worker	5	5
Semi and Non qualified worker	6	11
TOTAL	1,149	1,139

Governance and management

General Assembly

The General Assembly consists of the founder`s representative:

Frane Barbarić President since January 1, 2018

Supervisory Board

Members of the Supervisory Board in 2021 and 2020:

Kažimir Vrankić	President	from April 4, 2016
Marko Dvorski	Vice president	from April 4, 2020
Nikola Jaman	Member	from September 20, 2021
Krešimir Ugarković	Member	from April 4, 2020
Dinko Andabaka	Member (employees representative)	from July 16, 2021
Marijan Kalea	Member	from August 26, 2017 till August 25, 2021
Sanja Olujić	Member (employees representative)	from July 1, 2020 till March 31, 2021
Denis Geto	Member (employees representative)	from April 1, 2021 till July 15, 2021
Alina Kosek	Member	from April 4, 2016 till April 3, 2020
Ante Pavić	Member	from April 4, 2016 till April 3, 2020
Silvana Boban	Member (employees representative)	from October 1, 2019 till June 30, 2020

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

1. GENERAL (CONTINUED)

Governance and management (continued)

Management Board in 2022, 2021 and 2020

Igor Ivanković	President	from April 16, 2022
Darko Belić	Member	from April 16, 2022
Dejan Liović	Member	from April 25, 2019
Tomislav Plavšić	President	from April 25, 2019 till April 15, 2022
Zlatko Visković	Member	from April 16, 2018 till April 15, 2022

2. BASIS OF PREPARATION

2.1. Statement on Compliance

The financial statements have been prepared in accordance with the Accounting Act and the International Financial Reporting Standards ('IFRS'), which have been adopted by the European Commission and published in the Official Journal of the European Union. The Company does not prepare consolidated financial statements since it uses the exemption in accordance with the International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, as the Company in total is a subsidiary of Hrvatska elektroprivreda d.d., a company incorporated in Zagreb, Croatia. HEP d.d. prepares financial statements that include consolidated financial statements prepared in accordance with International Financial Reporting Standards, and they are available in the Register of Annual Financial Statements maintained by Fina.

2.2. Basis of the preparation and COVID 19 and earthquake effect on doing business in 2021

The annual financial statements have been prepared under the going concern basis, in which the effects of transactions are recognized when they occur and are disclosed in the financial statements for the period to which they relate, and using the going concern basis.

The annual financial statements have been prepared under the historical cost convention, except for investments in real estate carried at fair value and financial assets and liabilities. The methods used to measure fair value are explained in Note 5 to the annual financial statements.

The Company has considered the effects of the COVID 19 pandemic on the Company's business conditions and believes that the event will not jeopardize the Company's operations in accordance with current knowledge and has not called into question the Company's ability to continue as a going concern. The Company continuously monitors and assesses the impact of COVID-19, both in the immediate environment and within other markets in which the Company is present, and applies the relevant Decisions of the competent state authorities. Furthermore, considering the business events and indicators in the environment, the Management Board of the Company considers that currently there are no indicators that would require additional adjustments and disclosures in the annual financial statements of the Company for the year ended 31 December 2021. Recognizing the unpredictability of the economic recovery and the effect of the adopted measures, the Management Board believes with reasonable certainty that the Company will continue to operate profitably in the foreseeable future. As a result, in accordance with the provisions of IAS 1, these annual financial statements have been prepared on a going concern basis.

Along with COVID 19, two strong earthquakes in 2020 intensified the negative impact on the Croatian economy and the Company's operations in 2020. The earthquake in Zagreb in March 2020 did not cause significant damage to the Company's real estate in the City of Zagreb or an interruption in the provision of transmission services. At the end of December 2020, a strong earthquake hit Sisak-Moslavina County near Zagreb, and caused certain failures in power facilities under the Company's jurisdiction, but without significant financial effects on the Company's operations.

2. BASIS OF PREPARATION (continued)

2.3. Functional and reporting currency

The financial statements are prepared in the Croatian currency, kuna (kn), which is also a functional currency, rounded to the nearest thousand.

At 31 December 2021 the exchange rate for 1 USD and 1 EUR was HRK 6,64 or HRK 7,52 (31 December 2020: HRK 6,14 or HRK 7,54).

2.4. Application of new and revised International Financial Reporting Standards (“IFRS”) from 1 January 2021

The following amended standards have been adopted on January 1, 2021, but did not have a material impact on the Company:

- **Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods.

2. BASIS OF PREPARATION (continued)

2.4. Application of new and revised International Financial Reporting Standards (“IFRS”) from 1 January 2021 (continued)

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendments had no significant impact on the financial statements of the Company.

2.5. Standards issued but not yet effective and not early adopted by the Company

The standards, amendments to existing standards and interpretations that have been issued but are not yet effective at the date of publication of the financial statements are set out below. The Company intends to adopt these standards, if applicable, when they become effective.

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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

2. BASIS OF PREPARATION (continued)

2.5. Standards issued but not yet effective and not early adopted by the Company (continued)

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

The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.

2. BASIS OF PREPARATION (continued)

2.5. Standards issued but not yet effective and not early adopted by the Company (continued)

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
 - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
 - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases
- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued.

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic.

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

2. BASIS OF PREPARATION (continued)

2.5. Standards issued but not yet effective and not early adopted by the Company (continued)

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

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

The Company has chosen not to apply the new standards, modifications in existing standards and interpretations before the effective date. The Company expects that the application of these standards and modification to existing standards do not lead to material changes in the financial statements in the period of the First application of the standards.

2. BASIS OF PREPARATION (continued)

2.6. Going concern

As at 31 December 2021, the Company has current liabilities in the amount of HRK 1,563,905 thousand and current assets in the amount of HRK 711,013 thousand. The most significant amount of short-term liabilities arises from the reclassification of part of long-term liabilities to short-term, given that they relate to the Company's liabilities to the owner, the company HEP d.d. in accordance with the provisions of the Agreement on Assumption of Liabilities for Bonds Issued on March 22, 2016 and are due within one year from the date of the Statement of Financial Position. The Company HEP d.d. has an initial liability for issued liabilities to investors, and is also, according to current knowledge, in the process of resolving the financing of the liability. In December 2021, the Government of the Republic of Croatia gave its consent for the loan indebtedness of HEP d.d. with commercial banks in the total amount of HRK 2.62 billion. The loan is intended to finance general business needs, in order to ensure an adequate liquidity reserve and sufficient funds to meet HEP Group's liabilities, including financing the approved major investment plan in 2022, as well as increase of the current maturity of financial liabilities. The Management Board expects that HEP d.d. timely, ie before the bond maturity settlement procedure in October 2022, propose to HOPS the most adequate modality of HOPS debt settlement to HEP d.d. taking into account the liquidity of both companies, taking into account the impact of the proposed modality on HEP Group's operations as whole. In view of the above, the Company has prepared reports based on the going concern.

2.7. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the applied policies and disclosed amount of assets and liabilities, revenue and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are considered to be reasonable in the circumstances, the results of which is starting point for estimating the carrying values of assets and liabilities that cannot be obtained from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by Management in the application of IFRS that have significant effect on the financial statements and estimates with a high risk of materially significant corrections in the next periods are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied by the Company to all periods presented in these financial statements.

3.1. Revenue recognition

The main activity of the Company is the management of the power system and transmission system of the Republic of Croatia with interconnected transmission systems, ie the distribution system in the Republic of Croatia.

In accordance with the new IFRS 15, the Company applies a five-step model for recognizing a customer agreement:

1. Identify a contract with the customer,
2. Identify separate performance obligations in the contract,
3. Determine the transaction price
4. Allocate the transaction price to the contract delivery obligations
5. Recognize revenue when (or how) a subject fulfils the obligation to deliver

Revenue is recognized for each separate contract delivery obligation in the amount of the transaction price. The transaction price is the amount of contractual remuneration that the Company expects to be entitled to in return for the promise of the promised merchandise or customer service.

Revenue from use of transmission network fee

Since 2016, the Company's remuneration is based on energy sales data generated by customers, the Methodology for determining the tariff items for electricity transmission and the Decision on the amount of tariff items for the transmission of electricity by the Croatian Energy Regulatory Agency (HERA). On December 13, 2018, HERA issued a Decision amending the tariff items for electricity transmission in 2019. The same Decision applies to the revenue recognition in 2021.

ITC Agreement Revenue

The Company, as a Transmission System Operator (TSO), signed an ITC Clearing and Settlement Agreement, under which it generates revenue as a compensation for losses incurred on transit of electric energy. Revenues generated by applying the ITC mechanism are determined on the basis of the methodology established by European Transmission System Operators (ETSO), pursuant to the Regulation (EC) No 1228/2003 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Revenue recognition (continued)

Revenue from the cross-border transfer capacity

During 2021 and 2020, the bilateral and multilateral allocation of cross-border transmission capacities at the borders of the Republic of Croatia with adjacent transmission operators shall take place in accordance with the specific rules on allocation of cross-border transmission capacities, separately for one or more borders and in accordance with the rules on the use of cross-border transmission capacities regulating capacity utilization borders with neighbouring system operators.

Revenue from sales of balancing energy

From the 1 January 2017, the Company generates revenue from balancing and balancing energy services through the electricity sales to the Heads of Balance groups (VBGs) in accordance with the applicable Electricity Balancing Rules, the Methodology for determining the price for the balancing energy calculation, Discontinuance Liability Contracts signed with the Heads of Balance groups, and in accordance with a set of Auxiliary services contracts signed with HEP Proizvodnja d.o.o.

Revenues from connection fees - application of the International Financial Reporting Standard 15 "Revenue from contracts with customers"

At 1 January 2018 the International Financial Reporting Standard 15 has come into force (furthermore IFRS 15) Revenues from contract with customers which replaces IFRIC 18 related to the contract for transmission network connections. In accordance with IFRS 15, the network connection is considered to be a non-refundable network connection fee which is linked to the future network usage agreement and the electricity supply contract.

Consequently, the period of the revenue recognition from the connection fee is extended after the initial contractual period since the customer after the realization of the connection contract has acquired the right to use the transmission grid and electricity supply. Revenue should therefore be systematically allocated over the period of useful life of the constructed asset or transferred asset used for providing permanent services and the connection fees received from the customers recorded as deferred income and recognized as the income of the period at the same time as the depreciation of the assets (connection) to which it refers.

Pursuant to the provisions of IFRS 15, given the inseparability between the connection contract and the electricity supply contract, for assets recognized under IFRIC 18 which have not yet been fully depreciated, retained earnings have been restated for the part of the revenue recognized at the time of the connection to the grid, which relates to the connections recorded in the period of 1 July 2009 till 31. December 2017.

Finance income

Finance income comprises interest income on funds invested, change of fair value on financial assets at fair value through profit and loss and foreign currency gains.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Revenue recognition (continued)

Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Government grants

Government grants is recognized when there is sufficient assurance that the Company will satisfy the conditions required for it and that the aid will be received.

Government grants are recognized in the statement of comprehensive income on a systematic basis over the period in which the Company recognizes as expenses the related costs for which the grants are intended.

Government grants related to tangible assets that are depreciated are recognized in profit or loss in the periods and in the proportions in which the cost of depreciation of that asset is recognized, that is, through the expected useful life of the asset.

Government grants related to non-depreciable assets are recognized in profit or loss through the periods in which the costs of meeting those obligations are borne.

3.2. Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and items that are measured based on historical cost in a foreign currency are not translated using new exchange rates. Non-monetary assets and liabilities that are measured based on a historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

3.3. Leases

The Company does not have finance lease agreements with third parties.

Leases where the significant portion of risks and rewards of ownership are not retained by the Company are classified as operating leases.

Accounting policies in effect from 1 January 2019

All leases are accounted for by the recognition of eligible assets and lease liabilities except for:

- Leases of small value; and
- Leases whose rental period ends within a period of 12 months from the date of first application or shorter.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Leases (continued)

The lease obligation is recognized at the present value of the contractual future payments to the lessor over the term of the lease, discounted at a discount rate determined in relation to the lease rate unless it is easy to determine, in which case the Company's incremental borrowing rate at the beginning of the lease is used. Variable lease payments are included in the calculation of lease obligations only if they depend on the index or rate. In this case, the initial calculation of the lease obligation assumes that the variable element will remain unchanged for the duration of the lease. Other variable lease payments represent an expense in the period to which it relates.

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

- amounts expected to be paid by the lessee based on guarantees for the remainder of the value;
- the cost of executing the purchase option if it is certain that the lessee will exercise the option; and
- Payment of termination fees if the rental period reflects that the lessee will take advantage of the option to terminate the lease.

The eligible property is initially measured at the amount of the lease obligation, less any lease incentives received, and is increased by:

- all lease payments made on or before the rental start date;
- all initial direct costs; and
- the amount of the reservation recognized when the Company contractually bears the costs of dismantling, removing or rebuilding the site of the property.

After the initial measurement, the lease liability increases to reflect interest on the lease obligation and decreases to reflect the rent paid. Useful property is reduced by accumulated depreciation calculated on a straight-line basis over the lease term, or the remaining economic life of the property, if it is considered to be less than the lease term. The lease liability is subsequently measured when there is a change in future lease payments resulting from a change in the index or rate, or when there is a change in the estimate of the term of any lease.

Operating lease payments are recognized through profit or loss on a straight-line basis over the term of the lease. Operating lease payments are recognized in the statement of comprehensive income on a straight-line basis over the lease term.

3.4. Intangible assets

Non-current intangible assets include software and leasehold improvements regarding rights of usage and are capitalised to the extent that future economic benefits are probable and will flow to the Company. Subsequent expenditure on capitalised intangible assets is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates and those benefits will flow to the Company. All other expenditure is recognised in the profit or loss as an expense as incurred.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Intangible assets (continued)

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date on which they are available for use. The estimated useful lives of intangible assets are as follows:

Software	5 years
Leasehold improvements regarding rights of usage	25 years

3.5. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use.

Assets under construction and land are not depreciated. Depreciation of buildings, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Buildings (real estate and construction elements of buildings and facilities for the transmission of electricity)	10-40 years
Equipment (plant equipment and facilities for the transmission of electricity)	5-40 years
Other equipment (office equipment and data centres, furniture and motor vehicles)	5-20 years

The estimated useful life is reviewed at each reporting date and adjusted if appropriate. If the carrying amount of the asset exceeds the estimated recoverable amount, the difference is written off to the recoverable amount.

Gains and losses on disposals are determined as the difference between the income from the disposal and the carrying amounts of the asset disposed, and are recognised in profit or loss within other income/expenses.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the Statement of comprehensive income during the financial period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalization include costs of periodic, pre-planned significant inspections and overhauls necessary for further operation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Property, plant and equipment (continued)

Borrowing costs that can be directly linked to the acquisition, construction or construction of a qualifying asset, which is an asset that necessarily takes considerable time to be ready for its intended use or sale, are credited to the acquisition cost of that asset until it is largely ready for intended use or sale.

Borrowing costs include interest on overdrafts, short-term and long-term borrowings, and exchange rate differences arising on foreign currency borrowings in the amount considered to be an adjustment to interest expense.

3.6. Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (apart from inventory and deferred tax assets which are separately reviewed) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Investment property

Investment property comprises properties held to earn rentals or for capital appreciation, or both. Inbuilt equipment is considered part of the investment property. Cost includes all expenditure directly related to the acquisition of the asset. Investment property under construction is classified as non-current tangible assets until it is ready for use. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Costs of replacing an item of property investment are recognized in the carrying amount of this asset if it is probable that the future economic benefits included in that item will flow to the Company and their value can be measured reliably. The costs of regular maintenance of real estate investments are recognized in the income statement as they arise. An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3.8. Investments in associates

(i) Subsidiaries

Subsidiaries are all companies (including special purpose companies) over which the Company has control over financial and business policies, which normally includes more than half of the voting rights. The existence and the effect of potential voting rights that can be used or replaced are considered when assessing whether the Company has control over another business entity. Investments in subsidiaries are initially recognized at cost and subsequently at cost less impairment. Testing of investments in subsidiaries for impairment is carried out on an annual basis (accounting policy 3.13).

(ii) Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for initially at cost and subsequently at cost less impairment losses, Investments in associates are tested annually for impairment (accounting policy 3.13).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Inventories

Inventories comprise mainly electro materials, spare parts for transmission grid facilities and low value items and are carried at the lower of cost, determined using the weighted average price less allowance for obsolete inventories and the net realisable value. Cost comprises the invoiced amount as well as all other costs directly attributable to bringing inventories to their present location and condition in which they are readily available for use. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The Management adjusts the value of inventory based on a review of the overall ageing structure of inventories, as well as of individual significant amounts of inventories. Low value items and tools are expensed when put into use.

3.10. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less.

3.11. Employee benefits

(i) *Pension obligations and post-employment benefits*

In the normal course of business through salary deductions, the Company makes payments to the mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Company is not obliged to provide any other post-employment benefits with respect to these pension schemes.

This obligation applies to all staff hired on the basis of employment contract. The contributions are paid at a certain percentage determined on the basis of gross salary. Contributions on behalf of the employees and the employer are accounted for as the expense for the period in which they arise (see Note 10).

(ii) *Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date. The Company recognises termination benefits as expenses when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Employee benefits (continued)

(iii) Provisions for regular retirement benefits

Retirement benefits falling due more than 12 months after the reporting date are discounted to their present value based on the calculation performed at each reporting date by an independent actuary, using assumptions regarding the number of staff likely to earn regular retirement benefits, estimated benefit cost and the discount rate which is determined as average expected rate of return on investment in government bonds of the Republic of Croatia which are quoted on the market and their currency and maturity dates are in accordance with currency and estimated duration of liabilities for the benefit payment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(iv) Regular retirement benefits

Under current Collective Agreement (effective from 1 January 2020), employees are entitled to a retirement benefit to the extent of 1/8 of the average gross monthly salary earned in the period of three months prior to the retirement for each completed year of continuous employment at the employer. This Collective Agreement is valid until 31 December 2023.

(v) Long-term employee benefits

The Company recognises a liability for long-term employee benefits (jubilee awards) evenly over the period the benefit is earned based on actual years of service. The long-service benefits range from HRK 1,500 to HRK 5,500 net and are provided for a discontinued tenure from 10 to 45 years. The long-term employee benefit liability is determined annually by an independent actuary, using assumptions regarding the likely number of staff to whom the benefits will be payable, estimated benefit cost and the discount rate which is determined as the average expected rate of return on investment in government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in profit or loss.

(vi) Short-term employee benefits

The Company recognises a liability for employee bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

3.13. Financial assets

The Company has adopted IFRS 9 - Financial Instruments as at 1 January 2018 and its application has not had a significant impact on the Company's financial statements.

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

The Company classifies assets as shown below:

DESCRIPTION	Classification / Measurement
Non-current assets	
Financial assets through other comprehensive income	Equity instruments / The fair value through other comprehensive income
Loans given	Hold to collect / amortized cost
Current assets	
Cash and cash equivalents (deposits)	Hold to collect / amortized cost
Receivables from customers and others	Hold to collect / amortized cost
Claims	

The Company's business models reflect the way in which the Company manages assets, with the aim to generate cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Financial assets (continued)

The business model reflects the way in which the Company manages assets to generate cash flows - whether the Company's objective is (i) solely the collection of contractual cash flows from assets ('holding due to contractual cash flows') or (ii) cash flows and cash flows arising from the sale of assets ('hold due to contractual cash flows and sales') and if none of the above items is applicable, financial assets are classified as part of another business model and are measured at fair value through profit or loss.

i) Financial assets through other comprehensive income

Initial Recognition

The Company recognize a financial asset or liability when and only when it becomes a party to the contractual provisions of the instrument.

The Company initially recognizes financial assets at fair value plus transaction costs that can be attributed directly to the acquisition or issue of a financial asset.

Equity instruments include strategic investments. Valuation of equity instruments is measured through other comprehensive income (FVOCI) without subsequent reclassification to the profit or loss. The reason for this is that in strategic investments, priority is not the short-term maximum increase in profits. Acquisition and sales of strategic investments are based on business policy considerations. Dividends are recognized in the profit or loss if they do not represent repayment of principal.

Subsequent measurement

After initial recognition, the Company measures financial assets at fair value through other comprehensive income.

ii) Loans

Company loans are held within a business model whose purpose is to hold a financial asset in order to collect contractual cash flows. Contractual terms at a particular date are cash flows that represent only payments of principal and interest. At that, the principal is the fair value of the asset at initial recognition.

Based on the above, the given loans were measured at amortized cost.

Measurement at amortized cost implies the following:

- Interest revenue is calculated by using the effective interest method to the gross carrying amount of a financial asset.

iii) Accounts receivables

Receivables from customers that do not have a significant financial component at initial recognition have been measured in accordance with IFRS 15 at their transaction price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Financial assets (continued)

iv) Impairment

The Company recognizes a loss allowance for expected credit losses. At each reporting date, the Company measures expected credit losses and recognizes the same in the financial statements. Expected credit losses from financial instruments are measured in a manner that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- time value of money
- reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

Regarding trade receivables, the Company applies a simplified approach allowed by IFRS 9 to measure expected credit losses by using expected provisions for credit losses.

To measure anticipated trade receivables losses, the Company has by analysing the age structure and historical data determined potential future losses. By analysing the age structure, it has been determined that the Company does not have significant due receivables, the most significant part of the receivables is not due for payment so the Company estimates that it will be fully collected. No significant credit losses have been identified.

v) Derecognition of the financial assets

The Company ceases to recognize financial assets when:

- the contractual rights to the cash flows from the financial asset expire
- it transfers the financial asset and the transfer qualifies for derecognition.

The Company transfers a financial asset if, and only if, it either

- a) transfers the contractual rights to receive the cash flows of the financial asset, or
- b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

When the Company transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case when substantially all the risks and rewards of ownership of the financial asset are transferred, the Company derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer. If almost all risks and benefit of ownership of financial assets are retained, the Company continues to recognize financial assets. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it has to determine whether it has retained control of the financial asset. If the Company has not retained control, it derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

If the Company has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities that are measured at amortized cost. All financial liabilities are initially recognized at fair value plus the associated transaction costs. The Company's financial liabilities include liabilities to suppliers and other liabilities, overdrafts and loans.

Subsequent measurement

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

Borrowings are classified as short-term liabilities, unless the Company has the unconditional right to postpone the obligation to pay at least 12 months after the reporting date. Short-term lending and supplier loans are shown on the original borrowed amount deducted for repayments. The interest expense is charged to the profit and loss account for the period to which the interest relates.

Derecognition

The Company ceases to recognize the liability in the financial statements when, and only when, it is extinguished. In case when existing financial liability is replaced with new financial liability with substantially different terms or a substantial modification of the terms of an existing financial liability it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability and the difference between the carrying amounts is recognized in the profit and loss.

3.15. Subscribed capital and capital reserves

Subscribed capital is stated in Croatian kuna at nominal value. Capital reserves are formed in accordance with the Companies Act and the Articles of association of the Company, based on cash payment and contribution in kind by the owner.

3.16. Dividends

Dividend distribution to the Company's owner is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's General Assembly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Accounting presentation lease – Company as a lessee

Leases of assets where the Company accepts almost all benefits and risks of ownership are classified as finance leases. Finance leases are capitalized at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. Corresponding obligation for rent, net of financial expenses is recorded within the long-term liabilities. The interest element of the finance costs is charged to profit or loss over the lease period. Assets acquired under financial lease contracts depreciates during useful life of the asset.

3.18. Taxation

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Taxation (continued)

(ii) Deferred tax assets and liabilities

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries and jointly controlled companies when it is probable that their status will not change in the near future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.19. Trade payable

Liabilities to suppliers are liabilities to the supplier for goods received or services received during regular business operations. Trade payables are classified as current if maturity is within one year, or within long-term liabilities if they fall due more than one year. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

During the preparation of the Company's annual financial statements, the Management Board used certain estimates and assumptions that affect disclosed income, expense, assets and liabilities and disclosure of contingent liabilities during and on the reporting date. However, the uncertainty associated with these assumptions and estimates can result in significant changes in the carrying amount of the related assets or liability in future periods. Key assumptions related to the future and other key sources of uncertainty on the date of the Statement of financial position that bear significant risk of significant changes in the carrying amounts of assets and liabilities in the following financial year are as follows:

The preparation of financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(i) Useful lives of property, plant and equipment

Determining the useful life of an asset is based on historical experience with similar assets as well as anticipated technological development. The suitability of the estimated useful life is considered annually, or whenever there are indications of significant changes in assumptions. We believe that this is an important accounting estimate, as it includes the assumptions about technological development and significantly depends on the Company's investment plans. Furthermore, given the significant share of a depreciable assets in total Company's assets, the impact of major changes in these assumptions could be significant for the financial position and results of the Company's business. During the 2021 there were no changes to estimated useful lives of property, plant and equipment, i.e., the depreciation rates.

(ii) Recognition of deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the Statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgments and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 15). The carrying amounts of deferred tax assets at 31 December 2021 amounts to HRK 40,556 thousand (*31 December 2020: HRK 41,027 thousand*).

(iii) Recoverability of trade and other receivables

The recoverable amount of trade and other receivables is estimated at present value of future cash flows discounted at the market interest rate at the measurement date. Short-term receivables with no stated interest rate are measured by the amount of original invoice if the effect of discounting is not significant.

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(iv) Valuation of inventories

The Company provides for the amount of unmarketable inventory materials according to the inventory ageing structure. In 2021, the Company decreased the value adjustment of inventories by HRK 373 thousand in favour to operating income (In 2020: HRK 1,616 thousand) (see Notes 7 and 24).

(v) Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Provisions for jubilee awards and retirement bonuses amounted to HRK 70,448 thousand at 31 December 2021 (*31 December 2020: HRK 62,636 thousand*) (see Note 31).

(vi) Consequences of certain legal actions

There are a number of legal actions involving the Company, which have arisen from the regular course of operations. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded.

Dispute provisions are recognized in amount that will, estimated by the legal experts and external lawyers of the Company by their best estimation, not be resolved in favor of the Company. The amount to be reserved refers to the amount of the claim or principal, interest is not reserved due to the fact that based on previous experience, the Company's position to make additional provision for default interest, according to calculations based on unknown input data for calculation, given significant uncertainty was ultimately the recognition of an unforeseen outflow of economic resources.

(vii) Ownership over land and buildings

The Company has acquired or is in the process of acquiring documentation of ownership over certain land and buildings. Restrictions on the ownership over land and buildings relate to properties that are not officially registered as the property of the Company. The Company is involved in several legal disputes regarding the ownership over certain real estates, however management believes that the outcome of these legal disputes will result in the Company obtaining all relevant documents relating to ownership over properties recorded in its accounts.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(viii) *Expected credit loss model*

With the application of IFRS 9, the model of expected credit loss (ECL) is introduced. The measurement of expected loss on impairment is based on reasonable and supporting information that is available without undue expense, and which includes information on past events, current and foreseeable future conditions and circumstances.

When estimating the expected future value of impairment, historical probabilities of non-fulfilment are usually used complementing future parameters relevant to credit risk.

The most significant part of the Company's financial assets relate to the receivables from related parties (HEP Distribution System Operator Ltd., Zagreb for the use of the transmission grid and the Hrvatska elektroprivreda d.d., Zagreb for balancing energy), trade receivables, investments in deposits and cash.

Accounts receivables are stated at the invoiced amount. The impairment of doubtful receivables is based on the best estimate of the Company's Management Board on the non-repayment. All receivables from bankruptcy entities as well as sued receivables are wholly written off. The Company's management performs impairment of the doubtful receivables based on an overview of the overall ageing structure of all receivables and on the basis of a review of significant individual amounts included in the receivables.

Due to the likelihood that some receivables will not be collected over a longer period, the Company, on the basis of reasonable estimates and experience gained over a longer period, performs the value adjustment of uncollected receivables by reducing them in the following way:

Due	Impairment percentage
31 — 60 days	1,50%
61 — 90 days	3%
90 — 180 days	9%
181 — 365 days	30%
Over a year	90%

The general approach to the expected credit losses applies to the equity instruments measured through other comprehensive income.

A simplified approach to expected credit losses applies to the trade receivables, which results in earlier recognition of impairment.

By applying a simplified approach to financial assets and by reducing the value of the contract assets which is recognized as of 1 January 2018 in accordance with IFRS 9 (International Financial Reporting Standard 9), the impairment will have no significant impact on the Company's result.

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ix) *Expected credit loss model (continued)*

The analysis of receivables and related value adjustments has shown significant receivables in the coming years. Historically, these trends are stable and there are no known facts or indications that the trend will change in future periods.

Historical data show that receivables from related companies are fully collectable and are not subject to impairment.

During the reporting period there were no changes in the initial estimation methods or significant assumptions that were used. There were no significant changes in the carrying value of financial instruments during the reporting period, and thus no significant impact on the amount of value adjustment.

(x) *Revenues from the ITC Agreement*

The estimated revenues from the ITC mechanism relate to the Company's estimated revenue for the part of 2021 as they are not charged in the current year. The estimate is made as the medium value of historical data and data on the ratio of realized transit and import of electricity as well as revenues realized in the previous period of 2021 for which similar conditions were applicable.

5. DETERMINING FAIR VALUES

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to fair value measurement which assumes the overall responsibility of the Management Board and finance department in relation to the monitoring of all significant fair value measurements, consultation with external experts and the responsibility to report, with respect the above, to those charged with corporate governance.

Fair values are measured using information collected from third parties in which case the Board and the finance department assess whether the evidence collected from third parties support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy where such valuations should be classified.

All significant issues related to fair values estimates are reported to the Supervisory Board. Fair values are categorised into different level in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in level 1, that are observable for the asset or liability either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 - input variables for assets or liabilities that are not based on observable market data (unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If one or more significant inputs are not based on observable market data, the fair value estimate is included in level 3.

In preparing these financial statements, the Company has made the following significant fair value estimates statements as further explained in detail in following notes:

- Note 20: Investment property

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

6. REVENUE FROM SALES

(in thousands of HRK)

	2021	2020
Revenue from sales – related parties		
Electricity transmission income	1,327,597	1,234,568
Sales of balancing energy – imbalance settlement	137,625	53,339
Sales of balancing energy	59,394	22,697
Other	24,202	22,311
	1,548,818	1,332,915
Revenue from sales – third parties		
Electricity transmission income	67,031	56,011
Cross-border transmission capacity - foreign	114,497	103,839
Sales of balancing energy	36,930	2,447
Sales of balancing energy - imbalance settlement	176,712	20,733
ITC revenue	19,071	5,323
Income from connection to transmission network	80	91
Sales from energy for transmission grid losses	20,387	1,073
	434,708	189,517

Electricity transmission income is higher in 2021 compared to 2020 by HRK 104,049 thousand (both from affiliated and from companies outside the Group) due to less economic activity, which is mostly caused by the impact of the COVID 19 pandemic (in 2020 compared to 2019 by HRK 80,110 thousand).

Revenue from the sale of balancing electricity – imbalance settlement is higher in 2021 compared to 2020 by HRK 240,265 thousand which is mostly caused by greater deviations of market participants and rising electricity prices in the market in the second half of 2021.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

7. OTHER INCOME – THIRD PARTIES

(in thousands of HRK)

	2021	2020
Income from connection asset – IFRS 15	18,939	21,704
Consumption of own products and services	7,830	7,232
Income from assets received free of charge	2,753	2,819
Value adjustment – financial assets (Note 21)	500	2,000
Inventory value adjustment – decrease (Note 24)	373	1,616
Reversal of litigation provisions (Note 31)	1,003	525
Collection of written-off receivables income	112	214
Nonstandard services income	40	72
Other services income	13,062	7,986
	44,612	44,168

Revenues from fees for connection to the transmission network are systematically allocated over the useful life of the asset (connection), and the fee received from the customer for connection to the transmission network is recorded as deferred income and recognized as income for the period at the same time as depreciation.

Income from consumption of own products and services refers to capitalized personnel expense connected to assets under construction (work of Company's supervising engineers) and capitalized borrowing costs.

Other income refers to a sale of previously written off assets as a secondary raw material in the amount of HRK 1,947 thousand (2020: HRK 1,270 thousand), rent income HRK 295 thousand (2020: HRK 267 thousand), and other HRK 10,820 thousand (2020: HRK 6,449 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

8. MATERIAL AND SPARE PARTS USED

(in thousands of HRK)

	2021	2020
Maintenance material for power facilities	8,830	7,777
Energy	5,183	4,004
Maintenance material for other assets	679	470
Low value stock and safety clothes	1,828	1,605
Other	2,157	2,441
	18,677	16,297

9. SERVICE EXPENSES

(in thousands of HRK)

	2021	2020
Power facility maintenance services	89,712	74,476
Auctions for cross border transmission capacity	64,263	36,972
Agency and research services	20,573	16,284
ITC mechanism costs	3,087	10,776
Maintenance services	6,627	6,019
Security services	5,861	4,990
Research and development cost	1,343	2,277
Telecommunication services	2,012	1,856
Low value leases	483	445
Other	8,071	6,085
	202,032	160,180

In 2021, part of the agency and scientific services costs related to the fees for the audit of the annual financial statements for 2020 in the amount of HRK 188 thousand, fees for other audit services in the amount of HRK 64 thousand, fees for tax and other consulting services in the amount HRK 25 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

10. PERSONNEL EXPENSES

(in thousands of HRK)

	2021	2020
Net salaries	131,114	123,106
Taxes from salaries	15,791	17,120
Contributions from salaries – Pension Insurance	36,726	35,056
Contributions on salaries	27,012	25,808
	210,643	201,090

Total personnel costs were as follows:

(in thousands of HRK)

	2021	2020
Gross salaries	210,643	201,090
Reimbursement of costs to employees (Note 12)	14,402	12,270
Employee benefits (Note 12)	11,961	11,948
Additional health insurance costs (Note 12)	952	963
Provisions for retirement bonuses and other provisions (Note 12)	-	-
	237,958	226,271

As of 31 December 2021 the Company had 1,149 employees (2020: 1,139 employees). Reimbursement of costs to employees includes commutation allowances, daily allowances and travelling expenses, as well as other similar costs.

Employee benefit costs primarily include retirement bonuses, jubilee awards and other occasional bonuses. Early retirement bonuses in 2021 amounted to HRK 950 thousand (2020: 1,605 thousand) and represent retirement bonuses for 8 employees.

Remuneration to members of the Management Board and executive directors included in staff costs:

(in thousands of HRK)

	2021	2020
Gross salaries	5,669	5,625
Pension insurance contributions	1,251	1,222
Benefits in kind	580	621
	7,500	7,468
Number of directors and executives	14	14

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Notes to the financial statements (continued)

For the year ended 31 December 2021

10. PERSONNEL EXPENSES (CONTINUED)

Supervisory board remuneration:

(in thousands of HRK)

	2021	2020
Gross salaries	37	88
Pension insurance contributions	4	9
Benefits in kind	6	2
	<u>47</u>	<u>99</u>
Number of Supervisory board members	4	4

11. ANCILLARY SERVICE COST, TRANSMISSION GRID LOSSES AND PURCHASE OF BALANCING ENERGY

(in thousands of HRK)

	2021	2020
Ancillary services		
Ancillary services – related parties (Note 35)	282,830	283,831
Ancillary services – third parties	12,459	12,658
	<u>295,289</u>	<u>296,489</u>
Cost of transmission grid losses		
Cost of transmission grid losses – related parties (Note 36)	50,136	61,943
Cost of transmission grid losses – third parties	210,487	78,948
	<u>260,623</u>	<u>140,891</u>
Purchase of balancing energy		
Purchase of balancing energy – related parties HEP Proizvodnja d.o.o. (Note 36)	181,321	55,161
Purchase of balancing energy – imbalance settlement – related parties (Note 36)	152,120	23,557
Purchase of balancing energy – third parties	51,168	6,182
Purchase of balancing energy – imbalance settlement – third parties (Note 36)	46,759	9,515
	<u>431,368</u>	<u>94,415</u>

During 2020 and 2021, the Company purchased energy for Transmission Grid losses and for Balancing System on the Electricity Exchange, which began operating in February 2016. The increase in electricity prices on the market, especially in the second half of 2021, resulted in increased costs of losses in the transmission network.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

12. OTHER OPERATING EXPENSES

(in thousands of HRK)

	2021	2020
Taxes, contributions and fees	19,351	19,301
Reimbursement of costs to employees	14,402	12,270
Employee benefits	11,961	11,948
Net book value of disposed tangible assets and inventories	9,082	10,573
Affiliation fee for business associations	4,486	4,895
Provisions for retirement bonuses and jubilee awards for workers	7,813	4,525
Provisions for court cases (Note 31)	1,013	1,849
Reimbursement of costs to employees	775	1,170
Employee benefits	953	963
Net book value of disposed tangible assets and inventories	923	846
Affiliation fee for business associations	19	839
Transmission network fee claims written off – earthquake	7,784	-
Impairment of receivables (Note 25)	40,641	-
Other operating expense	4,842	6,933
	124,045	76,112

13. FINANCE INCOME

(in thousands of HRK)

	2021	2020
Interest income	331	29
Foreign exchange gains	1,989	2,485
	2,320	2,514

14. FINANCE COSTS

(in thousands of HRK)

	2021	2020
Sub-loan interest	25,154	23,161
Penalty interest	19	20
Foreign exchange losses	689	6,815
Interest for lease – IFRS 16	148	183
Amortized amount of the related discount cost	876	879
	26,886	31,058

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. CURRENT INCOME TAX

The Company is subject to income tax, according to the laws and regulations of the Republic of Croatia. The tax base is determined as the difference between income and expenses for the period, increased by tax non-deductible expenses. The income tax rate is 18% (2020: 18%).

Tax expense includes:

(in thousands of HRK)

	2021	2020
Current tax	8,559	26,581
Deferred tax	471	1,518
Tax expense	9,030	28,099

(in thousands of HRK)

	2021	2020
Profit before taxation	36,687	142,031
Income tax at the rate of 18%	6,604	25,566
Tax differences, non-deductible expenses	2,596	2,614
Tax differences, depreciable item	(170)	(81)
Tax cost	9,030	28,099
Effective tax rate (%)	24,61%	19,78%

Under tax regulations, the tax authorities may at any time inspect the books and records of the companies within three years from the expiry of the year for which the tax liability is declared, as well as impose additional tax liabilities and penalties. The management of the Company is not aware of any circumstances that could result in significant potential liabilities in this respect.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

15. CURRENT INCOME TAX (continued)

The following table summarizes the movement in deferred tax assets during the year:

<i>(in thousands of HRK)</i>	Provision for inventory	Provisions for jubilee and retirement benefits	Accrued expenses	Depreciation of large spare parts	First adoption of IFRS 15 and IFRS 16	Impairment of financial assets and investment property	Total
At 31 December 2019	3,596	10,939	586	8,397	16,872	2,155	42,545
(Credited)/ debited to profit and loss	(291)	814	(160)	(724)	(797)	(360)	(1,518)
At 31 December 2020	3,305	11,753	426	7,673	16,075	1,795	41,027
(Credited)/ debited to profit and loss	(67)	1,406	62	(1,167)	(790)	85	(471)
At 31 December 2021	3,238	13,159	488	6,506	15,285	1,880	40,556

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

16. INTANGIBLE ASSETS

<i>(in thousands of HRK)</i>	Software	Leasehold improvement regarding rights of usage	Total	<i>(in thousands of HRK)</i>
COST				
At 1 January 2020	103,960	18,566	-	122,526
Additions	696	-	-	696
Transfer from tangible assets	10,557	-	-	10,557
Disposals and write-offs	2,750	-	-	2,750
Additions	(17,698)	-	-	(17,698)
At 31 December 2020	100,265	18,566	-	118,831
Additions	231	-	1,331	1,526
Transfer from tangible assets	21,778	-	-	21,778
Reclassification from property, plant and equipment	(720)	-	-	(720)
Disposals and write-offs	(2,876)	-	-	(2,876)
At 31 December 2021	118,678	18,566	1,331	138,575
ACCUMULATED DEPRECIATION				
At 1 January 2020	63,194	17,456	-	80,650
Charge for the year	13,851	741	-	14,592
Disposals and write-offs	(17,602)	-	-	(17,602)
At 31 December 2020	59,443	18,197	-	77,640
Depreciation for the year	15,846	369	-	16,215
Sales and expense	(2,787)	-	-	(2,787)
Transfer	(387)	-	-	(387)
At 31 December 2021	72,115	18,566	-	90,681
CARRYING AMOUNT				
At 31 December 2020	40,822	369	-	41,191
At 31 December 2021	46,563	-	1,331	47,894

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

17. PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of HRK)</i>	Land	Buildings	Inventory and equipment	Assets under constructio n	Total
COST					
At 1 January 2020	155,492	4,740,610	9,017,850	582,608	14,496,560
Additions	-	105	39,010	537,525	576,640
Transfer from assets under construction	-	75,534	339,719	(425,810)	(10,557)
Entry into a subsidiary	-	-	(19,121)	-	(19,121)
Transfers and reclassifications	-	-	(2,750)	-	(2,750)
Disposals and write-offs	(108)	(3,707)	(108,812)	(1,178)	(113,805)
At 31 December 2020	155,384	4,812,542	9,265,896	693,145	14,926,967
Additions	810	-	25,503	617,674	643,987
Transfer from assets under construction	-	56,675	240,140	(318,593)	(21,778)
Reclasification of intangible asset	-	2	718	-	720
Disposals and write-offs	(252)	(18,298)	(119,343)	(1,719)	(139,612)
At 31 December 2021	155,942	4,850,921	9,412,914	990,507	15,410,284
ACCUMULATED DEPRECIATION					
At 1 January 2020	-	2,972,477	5,302,212	-	8,274,689
Charge for the year	-	88,141	259,241	-	347,382
Entry into a subsidiary	-	-	(8,142)	-	(8,142)
Disposals and write-offs	-	(3,634)	(99,720)	-	(103,354)
At 31 December 2020	-	3,056,984	5,453,591	-	8,510,575
Charge for the year	-	88,173	268,977	-	357,150
Reclasification of intangible asset	-	1	386	-	387
Disposals and write-offs	-	(16,468)	(114,228)	-	(130,696)
At 31 December 2021	-	3,128,690	5,608,726	-	8,737,416
NET BOOK VALUE					
At 31 December 2020	155,384	1,755,558	3,812,305	693,145	6,416,392
At 31 December 2021	155,942	1,722,231	3,804,188	990,507	6,672,868

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Notes to the financial statements (continued)

For the year ended 31 December 2021

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction relate to investments in real estate, plant and equipment construction. The most significant ongoing investments include the construction of the EL-TO switchgear in the amount of HRK 73,707 thousand (2020 in the amount of HRK 73,645 thousand), reconstruction of the TS 110/20 (10) kV Sućidar in the amount of HRK 75,571 thousand (2020 in amount of HRK 56,832 thousand), revitalization of TS Osijek 2 in amount of HRK 42,375 thousand (2020: HRK 38,597 thousand), reconstruction of TS 110/10(20) kV Split 3 in the amount of HRK 39,239 thousand (2020: HRK 29,560 thousand), reconstruction of TS Rakitje in the amount of HRK 30,406 thousand (2020: 6,093 thousand), installation of SVC plant in TS Konjsko HRK 108,782 thousand (2020: HRK 13,579 thousand), reconstruction of TS Zamošće in the amount of HRK 16,171 thousand (2020: HRK 13,632 thousand), revitalization of DV 220 kV Zakučac – Konjsko in the amount HRK 26,833 thousand (2020: HRK 14,262 thousand), reconstruction of TS Meterize in the amount HRK 23,168 thousand (2020: 4,863 thousand). Contractual obligations related to investments in progress on the reporting date amount to 556,310 thousand (2020: 592,569 thousand), and the envisaged implementation schedule has been adjusted to the construction deadlines.

During 2021, the following significant investments were put into operation: TS Tumbri procurement and installation of transformers in the amount of HRK 23,389 thousand, introduction DV 110 kV Mraclin – Ludina in TS Ivanić in the amount of HRK 22,993 thousand, TS 110/10(20) kV Zamet in the amount of HRK 22,014 thousand, TS Lički Osik installation of transformers in the amount of HRK 15,260 thousand, TS 110/20(10) kV Zadar istok in the amount of HRK 13,658 thousand kuna, replacement of management and protection systems in TS Ernestinovo in the amount of HRK 10,997 thousand, DV 110 kV Velika glava – Jelinak in the amount of HRK 9,999 thousand, introduction DV 110 kV Nedeljanec – Lenti in TS 110/35 kV Čakovec in the amount of HRK 9,641 thousand, plug-in KB 2x100 kV for TS 110/10(20) kV Zamet in the amount of HRK 8,129 thousand.

During 2021, the company capitalized part of the borrowing costs in the total amount of HRK 2,765 thousand (2020: HRK 1,059 thousand). The capitalization rate used in determining the cost of borrowing eligible for capitalization is 1,71%. During 2021, the company capitalized part of its operating costs in the total amount of HRK 5,065 thousand (2020: 6,173 thousand).

Ownership over land and buildings

The company is in the process of acquiring documentation on the ownership of certain real estate. Restrictions related to ownership of land and buildings apply to real estate that is not officially registered as the property of the Company. In order to protect its interests, the Company conducts several court and / or administrative proceedings, primarily related to lands that are partly registered with the Company and partly on these lands were built substations and other facilities in the function of the Company. The outcome of these proceedings is not expected to have a material effect on the Company's financial position or performance.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

18. RIGHT-OF-USE ASSETS

(in thousands of HRK)

	Poslovni prostor	Oprema	Ukupno
COST			
At 1 January 2020	5,871	-	5,871
Additions	-	1,324	1,324
At December 31, 2020	5,871	1,324	7,195
Additions	-	-	-
At December 31, 2021	5,871	1,324	7,195
ACCUMULATED DEPRECIATION			
At 1 January 2020	1,155	-	1,155
Charge for year	1,455	110	1,565
At December 31, 2020	2,610	110	2,720
Charge for year	1,455	441	1,896
At December 31, 2021	4,065	551	4,616
CARRYING AMOUNT			
At December 31, 2020	3,261	1,214	4,475
At December 31, 2021	1,806	773	2,579

The total cash outflow for the repayment of principal on leases in 2021 amounted to HRK 1,933 thousand (2020: HRK 1,547 thousand).

19. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)

At 1 January 2020	3,755
Advances given	25,236
Utilised in current year	(9,987)
At 31 December 2020	19,004
Advances given	21,527
Utilised in current year	(27,213)
As at December 31, 2021	13,318

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Notes to the financial statements (continued)

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20. INVESTMENT PROPERTY

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Fair value	4,542	4,440
Net change in fair value of investment property	-	102
Closing balance at fair value	4,542	4,542

Investments in real estate relate to non-business assets (business premises, apartments and garages) owned by the Company leased indefinitely to employees of the Company and third parties.

Investment property is carried at fair value based on an independent, expert appraiser's estimate based on a comparative method with market prices for similar properties - Level 2.

The Company generates rental income from real estate classified as investment property in the amount of HRK 16 thousand (2020: HRK 260 thousand). The Company recorded direct operating expenses (including reserves) in the amount of HRK 26 thousand (2020:19 HRK thousand).

The Company regularly tests property investments for impairment by analyzing the price of comparable real estate. At the reporting date, an internal assessment based on the real estate market situation was used.

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Notes to the financial statements (continued)

For the year ended 31 December 2021

21. INVESTMENTS IN ASSOCIATES

<i>(in thousands of HRK)</i>	Country	31 December 2021		31 December 2020	
		% ownership	Net book value	% ownership	Net book value
Hrvatska burza električne energije d.o.o.	Hrvatska	50,0%	8,000	50,0%	8,000
Value impairment			(3,000)		(3,500)
			5,000		4,500

The Company manages investments in associates at cost less any impairment losses.

During 2018, the Company recapitalized the Hrvatska burza električne energije d.o.o. in the amount of HRK 2,000 thousand. As at 31 December 2021, based on internal assessment, the Company increased the value of investments in the company Hrvatska burza električne d.o.o. by HRK 500 thousand, ie the previous value adjustment of HRK 500 thousand was corrected. (2020: increase by HRK 2,000 thousand) as shown in Note 7 "Other operating income outside the group".

In the adopted annual financial statements for 2020, the company Hrvatska burza električne energije d.o.o., Zagreb reported capital and reserves in the total amount of HRK 8,229 thousand and the profit for the business year in the amount of HRK 3,329 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>(in thousands of HRK)</i>	Country	31 December 2021		31 December 2020	
		% ownership	Net book value	% ownership	Net book value
HEP Telekomunikacije d.o.o.	Croatia	13,7%	47,394	13,7%	47,394
JAO S.A.	Luxemburg	4%	2,578	4%	2,578
TSCNET Services GmbH	Germany	7,14%	2,728	7,14%	2,728
SEE CAO	Montenegro	12,5%	306	12,5%	306
			53,006		53,006

During 2013 the Company concluded the contract on incorporation of a new company HEP Telekomunikacije d.o.o with HEP d.d. and HEP Operator distribucijskog sustava d.o.o. whereby the Company has 13,73% share or HRK 34,545 thousand. Subscribed capital, in the extent invested by the Company, consists of optical and telecommunication assets. During 2020, the company together with other co-owners participated in the increase of the share capital of the company HEP Telekomunikacije d.o.o. and increased its share by HRK 12,849 thousand by entering items (optics and telecommunications assets) in the amount of HRK 10,979 thousand and by cash payment in the amount of HRK 1,870 thousand. Ownership shares remained unchanged.

The assemblies of companies CAO GmbH and CASC EU (two regional offices allocation for cross-border transmission of electricity capacity) approved in 2015 the merger agreement to create the office of the Joint Allocation Office (JAO). This merger has facilitated the internal electricity market in the European Union.

JAO S.A. is a joint service company where the owners are twenty transmission system operators (TSO) from seventeen countries.

SEE CAO is a joint company that provides an explicit cross-border transfer capacity between its shareholders, transmission system operators.

TSCNET as a regional security coordinator provides security service forecast for the Transmission System Operators and Power Flow Transmission through its transmission networks. These forecasts cover a one-year period up to the intraday phase of the working day.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

23. RECEIVABLES FROM THE SALE OF APARTMENTS

Long-term receivables represent housing loans for apartments sold by HEP d.d. to its employees in the previous years, in accordance with the laws of the Republic of Croatia. Those receivables were transferred to the Company by its Parent Company on 1 July 2002. Receivables for apartments sold, which carry interest at a rate lower than the market rate, are repayable on a monthly basis over a period from 20 to 35 years. Management believes that the fair value of non-current receivables approximates their carrying values as to the effect of discounting was immaterial in view of the current low level of market interest rates for similar credit relations. Receivables are secured by mortgage on purchased flats.

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Total receivables for apartments sold	755	1,102
Current portion of long-term receivables	(361)	(387)
Non-current receivables	394	715

24. INVENTORIES

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Electric units and other materials	8,351	8,738
Spare parts	19,644	19,871
Building materials	445	487
Other	67	67
Value adjustment	(17,987)	(18,360)
	10,520	10,803

Movement in the impairment allowance for inventories is as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
At 1 January	18,360	19,976
(Decrease) / increase in value adjustment	(373)	(1,616)
At 31 December	17,987	18,360

Impairment of inventories by HRK 373 thousand is disclosed in the statement of comprehensive income in Note 7. "Other operating income outside the group".

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

25. TRADE RECEIVABLES

(in thousands of HRK)

	31 December 2021	31 December 2020
Trade receivables	170,174	28,966
Impairment of receivables	(44,779)	(4,235)
<i>Net receivables</i>	125,395	24,731

Movements in impairment allowance were as follows:

(in thousands of HRK)

	2021	2020
At 1 January	4,235	4,423
Impairment of receivables	40,641	-
Impairment cancellation	(4)	(29)
Collected receivables, previously provided for	(93)	(159)
<i>Change on receivables impairment</i>	40,544	(188)
At 31 December	44,779	4,235

Management believes that the fair value of receivables at the reporting date approximates the carrying amount of trade receivables. Impairment losses on trade receivables are presented in Note 12 "Other operating expenses", and income from collected receivables is recorded in Note 7 "Other operating income outside the group".

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Notes to the financial statements (continued)

For the year ended 31 December 2021

25. TRADE RECEIVABLES (continued)

Ageing analysis of receivables not impaired is as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Not yet due	113,830	24,025
0 – 30 days	11,453	685
31 – 60	-	-
61 – 90 days	-	10
91 – 180	111	-
181 – 365 days	-	-
over 365 days	1	11
	125,395	24,731

Trade receivables are denominated in:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
HRK	58,234	10,863
EUR	67,161	13,868
	125,395	24,731

26. OTHER CURRENT ASSETS

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
VAT receivables	33,656	32,643
Income tax receivables	16,740	12,284
Prepaid expenses and accrued income	6,839	8,467
Current portion of long-term receivables (Note 23)	361	387
Other receivables	2,510	1,401
	60,106	55,182

Prepaid expenses relate to supplementary health insurance premiums and other expenses in the amount of HRK 3,391 thousand (2020: HRK 3,442 thousand).

Accrued revenues in 2021 refer to the estimated revenue from the ITC mechanism for the period June and November - December 2021 in the amount of HRK 3,448 thousand by the Management Board (2020: HRK 5,025 thousand).

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Notes to the financial statements (continued)

For the year ended 31 December 2021

27. DEPOSITS

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Deposits – expropriation	23,775	21,317
Guaranties	65	65
	23,840	21,382

Deposits – expropriation

The Company is obliged to deposit funds in particular expropriation proceedings during the construction of energy facilities that will be withdrawn after the conditions of Expropriation ACT are met. The deposits have maturity of three months to one year, or until the fulfilment of the conditions, in the Expropriation Act and carry interest rates ranging from 0,1% do 2,7%.

28. CASH AND CASH EQUIVALENTS

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Giro account – domestic	69,766	220,602
Giro account – foreign	33,876	83,680
Deposits up to 90 days	13,054	3,687
Cash in hands	40	31
	116,736	308,000

Cash in banks refers to cash accounts at the domestic banks with average yearly interest rate from 0,01% for foreign currency accounts and 0,2% for domestic currency account.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

29. CAPITAL AND RESERVES

Subscribed capital

(in thousands of HRK)

	<u>31 December 2021</u>	<u>31 December 2020</u>
Subscribed capital	<u>4,948,627</u>	<u>4,948,627</u>

During 2013, in accordance to Energy Market Act, Hrvatska elektroprivreda d.d. increased the Company's subscribed capital by entering assets and rights into the share capital, so the share capital increased from the amount of HRK 20 thousand for the amount of HRK 3,366,901 thousand to the amount of HRK 3,366,921 thousand. The Company has registered a total of seven business shares.

On March 18, 2019, the Zagreb Commercial Court rendered a decision on the increase of the Company's share capital by the listing of items by HEP d.d. for the amount of HRK 19,432 thousand (see Note 17). After the increase, the share capital amounts to HRK 4,948,627 thousand.

At its session on 25 May 2020, the General Meeting of the Company passed a Decision allocating the profit for 2019 in the total amount of HRK 132,152 thousand to the amount of HRK 58,415 thousand allocated to retained earnings and the amount of HRK 73,737 thousand allocated for remittances. to the owner. During 2020, the Company paid the total amount of HRK 73,737 thousand to the owner.

At its session on 25 May 2021, the General Meeting of the Company passed a Decision allocating the profit for 2020 in the total amount of HRK 113,932 thousand in such a way that the amount of HRK 54,830 thousand was allocated to retained earnings and HRK 59,102 thousand was allocated for remittances. to the owner. During 2021, the Company paid the total amount of HRK 59,102 thousand to the owner.

Reserves

Reserves stated in the amount of HRK 5,524 thousand were made when the subsidiaries were merged in 2005 in the amount of HRK 40 thousand and by entering real estate in equity during 2013 amounting to HRK 5,483 thousand. With the increase in share capital from March 2019, the company's reserves increased by the amount of HRK 1 thousand to the amount of HRK 5,524 thousand.

Proposed profit distribution

The Company's Management Board will propose to the Assembly the distribution of profit for 2021 in the total amount of HRK 27,657 thousand in such a way that the twentieth part of the profit is entered in the legal reserves, and the remaining part is allocated to retained earnings. The final decision on the distribution of profits in 2021 is made by the Assembly of the Company in accordance with the provisions of the Articles of Association and the Companies Act.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

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30. SUBLOAN FROM AND LOAN LIABILITIES TO RELATED COMPANIES

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Liabilities toward HEP d.d. for subloan and loan	706,281	655,394
Transaction cost for subloan refinancing	(711)	(1,586)
Other non-current liabilities to related companies	311	428
	705,882	654,236
Current portion of long-term debt	(520,062)	(57,553)
Non-current portion	185,820	596,683

As at 31 December 2012, the lease of real estate, plant and equipment was terminated in accordance with the Electricity Market Act required for carrying out the activity. Part of due obligations relating to terminated lease shall be paid on the basis of long-term sub loans concluded with HEP d.d. based on received loans by parent Company from commercial banks. During 2020, the Company entered into long-term loan agreements with Mother company in the amount of HRK 141,780 thousand and HRK 176,865 thousand for the purpose of financing investment projects. According to the long-term loan agreement in the amount of HRK 176,865 thousand by the end of 2020, the Company was paid HRK 120,000 thousand while the remaining amount of HRK 56,865 thousand was paid to the Company during 2021. During 2021, the Company entered into a long-term loan agreement with Mother Company in amount of HRK 52,697 thousand for the purpose of financing investment projects.

The maturity of loan liabilities at the reporting date is as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Up to 6 months	46,417	17,723
7 – 12 months	473,645	39,830
1 – 2 years	92,836	508,721
2 - 5 years	93,383	89,120
	706,281	655,394

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

30. SUBLOAN FROM AND LOAN LIABILITIES TO RELATED COMPANIES (continued)

The maturities of other long-term liabilities at the reporting date is as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Up to 6 months	63	100
7 – 12 months	63	100
1 – 2 years	126	200
2 - 5 years	59	28
	311	428

The carrying amount of borrowings approximates their fair value given that most has a variable interest rate or a fixed interest rate, which was the approximate current market interest rate at the time of contracting. The fair value is calculated using discounted cash flows.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Kune	278,656	227,191
EUR	427,226	427,045
	705,882	654,236

Loans in the amount of HRK 705,882 thousand carry a fixed interest rate (2020: HRK 654,236 thousand).

The weighted average fixed interest rate on loans is 3.562% per year (2020: from 3.766% per year)..

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Notes to the financial statements (continued)

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31. PROVISIONS

<i>(in thousands of HRK)</i>	Provision for jubilee awards	Provision for retirement benefits	Provision for court cases	Total
At 31 December 2020				
Non-current	3,623	58,344	49,383	111,350
Current	443	225	-	668
	<u>4,066</u>	<u>58,569</u>	<u>49,383</u>	<u>112,018</u>
At 31 December 2021				
Non-current	3,568	65,770	49,392	118,730
Current	447	664	-	1,111
	<u>4,015</u>	<u>66,434</u>	<u>49,392</u>	<u>119,841</u>

Movement in provisions was as follows:

<i>(in thousands of HRK)</i>	Provision for jubilee awards	Provision for retirement benefits	Provision for court cases	Total
At 1 January 2020	4,043	54,068	48,058	106,169
Increase	458	5,023	1,849	7,330
Reversal	-	-	(491)	(491)
Utilised	(435)	(522)	(33)	(990)
At 31 December 2020	4,066	58,569	49,383	112,018
At 1 January 2021	4,066	58,569	49,383	112,018
Increase	391	8,339	1,012	9,742
Reversal	-	-	(1,003)	(1,003)
Utilised	(442)	(474)	-	(916)
At 31 December 2021	4,015	66,434	49,392	119,841

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Notes to the financial statements (continued)

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31. PROVISIONS (CONTINUED)

Jubilee awards and retirement benefits

According to the Collective Agreement the Company has an obligation to pay jubilee awards, regular retirement benefits and other benefits to its employees. In accordance with the respective agreement, the employees are entitled to a regular retirement benefit of 1/8 of the average gross monthly salary earned in the period of three months prior to the retirement for each completed year of continuous employment at the employer. No other postretirement benefits are provided.

Provisions for both jubilee awards and regular retirement benefits are calculated by an independent actuary, using estimates derived on the basis of the following key assumptions:

	Estimate	
	2021	2020
Average staff turnover rate	2,50%	2,60%
Discount rate	1,1%	0,85%
Expected increase in salaries	2%	2%
Average expected retirement age (in years)	61	61

Court cases

A provision for court cases relates to all court cases for which an estimate was made that it is not probable of them being resolved in favour of the Company. Provision for court cases expense is included within Note 12 'Other operating expenses' in the statement of comprehensive income. The most significant court case for which is estimated that its solution is not probable in the favour of the Company relates to a dispute with a legal entity for damages initiated with the Zagreb Commercial Court, for which the Company made a provision of HRK 27,033 thousand in 2019 and to the complaint of an individual for the compensation of expropriated property, started at the State administration office in Split, in the amount of HRK 13,445 thousand. The Company has made provision in 2010 for the stated dispute.

Based on the expert opinion of legal advisors, management anticipates that the outcome of any disputes will not result in significant losses over the amount of a provision at 31 December 2021.

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Notes to the financial statements (continued)

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32. OTHER LONG-TERM LIABILITIES

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Deferred income - assets received with no reimbursement appliance od IFRS 15 /i/	391,751	401,623
Deferred income - assets received with no reimbursement till 30 June 2009 /ii/	58,699	61,452
Deferred income – cash received from the EU funds /iii/	51,274	39,321
Lease liabilities under IFRS 16	2,598	4,531
Liabilities to state regarding apartments sold	499	726
Deferred income - cash received from others	1,110	773
	505,931	508,426
Current portion of other long-term liabilities (Note 34)	(22,644)	(22,400)
	483,287	486,026

/i/ By applying IFRS 15 from January 1, 2018, the connection fee is recognized as deferred income, while the income is recognized at the same time as the depreciation of the tangible asset to which it relates (see note 7. Other income – Third parties). By applying IFRS 15, the Company acknowledged the cumulative effect of applying IFRS 15 to its initial state and recorded deferred income from the current value of assets financed from the connection fee in the period from 1 July 2009 to 31 December 2017 in the amount of HRK 316,450 thousand.

/ii/ Deferred income relates to fixed assets contributed by customers and others without charge and it is being recognised into income over the same periods as the related assets are amortised, which applies to contracts for connection to the network concluded by 30 June 2009. After 1 July 2009 the fee for connection is recognized as an income in the amount of funds received from the customer in the period when the customer is connected to the network or when permanent access to the delivery of the service is given.

/iii/ Deferred income for funds received from EU funds refers to funds received for the Company's participation in the SINCRO.GRID project in the amount of HRK 47,436 thousand, ATTEST project in the amount of HRK 528 thousand, FARCROSS project in the amount of HRK 436 thousand, FLEXGRID project in the amount of HRK 385 thousand, EPASSIS project in the amount of HRK 471 thousand, CROSSBOW project in the amount of HRK 177 thousand, CYBERSEAS project in the amount of HRK 426 thousand, E-CYBIS project in the amount of HRK 1,250 thousand and LIFE DANUBE FREE SKY project in the amount of HRK 165 thousand . Incentives received will be recognized in revenue in future periods depending on the costs incurred in implementing these projects.

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Notes to the financial statements (continued)

For the year ended 31 December 2021

32. OTHER LONG-TERM LIABILITIES (continued)

Other long-term liabilities relate to the obligation arising on the sale of housing units to employees under the Government program, which was discontinued in 1996. According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees are payable to the state at such time as the proceeds are collected. According to the law, the Company has no liability to remit the funds until they are collected from the employee. As of January 1, 2019, the Company adopted International Financial Reporting Standard 16 Leases (IFRS 16) and stated a lease liability, which is measured at the present value of the remaining lease payments, discounted using the interest rate specified in the lease agreement or the Company's incremental borrowing rate. On January 1, 2019. The Company's incremental borrowing rate is the rate at which a similar lease may be contracted, by an independent lessor, under comparable terms and conditions.

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Lease liabilities	2,598	4,531
Current portion	(1,324)	(1,933)
	1,274	2,598

The maturity of the lease liability at the reporting date is as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
till 3 months	474	650
3 to 12 months	850	1,283
1 to 2 years	1,011	1,933
2 to 5 years	263	665
over 5 years	-	-
	2,598	4,531

The movement of lease liabilities is shown as follows:

<i>(in thousands of HRK)</i>	2021	2020
At January 1	4,531	4,755
Interests (note 14)	(148)	(183)
New lease	-	1,323
Lease payment	(1,785)	(1,443)
Foreign exchange	-	79
At December 31	2,598	4,531

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

33. TRADE PAYABLES

(in thousands of HRK)

	31 December 2021	31 December 2020
Amounts due to suppliers of fixed assets	275,191	307,930
Amounts due to suppliers of current assets	116,119	53,243
	391,310	361,173

34. LIABILITIES TO BANKS

(in thousands of HRK)

	31 December 2021	31 December 2020
Short - term loan liabilities	50,365	-
Short-term factoring liabilities	49,487	-
	99.852	-

Short - term loan liabilities

At the end of 2021, the Company entered into a Short-Term Revolving Loan Agreement with Privredna banka Zagreb for a total amount of EUR 6,700 thousand in kuna equivalent for the purpose of financing working capital. The interest rate is three-month EURIBOR plus an interest margin of 0.20%. The repayment deadline is December 28, 2022.

Short-term factoring liabilities

At the end of 2021, the Company entered into an Agreement on the Settlement of Cash Claims with ERSTE & STEIERMARKISCHE BANK d.d., Rijeka, by which the Bank undertook to repurchase receivables that other legal entities / suppliers have against the Company. Pursuant to the said agreement and individual Supply Factoring Agreements, the Bank paid receivables from suppliers on behalf and for the account of the Company in the total amount of HRK 49,487 thousand. The Company's liabilities to the bank due to supply factoring mature in December 2022 at the latest, and the contractual interest rate is 0.40% per year.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

35. OTHER CURRENT LIABILITIES

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Prepayments for connection fees	49,197	27,837
Liabilities for received guarantees	13,334	18,225
Net wages	10,708	10,334
Liabilities for unused vacation	9,629	9,610
Liabilities for taxes, contributions and other	3,857	3,634
Wages contributions	3,230	3,119
Taxes from wages	1,436	1,372
Other liabilities to employees	873	892
Deferred income for cross-border transmission capacity	12,074	8,679
Deferred income – other	873	768
Balancing energy accrued expense – imbalance settlement	141	141
ITC mechanism accrued expense	2,188	1,851
Current portion of long-term liabilities (Note 32)	22,644	22,400
Other	1,769	1,707
	131,953	110,569

Deferred revenues for cross-border transmission capacity refer to the capacity allocated at the annual and monthly auctions held in December 2021, which will be used in January and February 2022.

36. RELATED PARTY TRANSACTIONS

A party is related to an entity when it controls directly or indirectly through one or more intermediaries, is controlled by or under the joint control of the entity, has a stake in the entity that gives it significant influence over that entity and has joint control over the entity.

The founder of the Company and the sole owner is Hrvatska elektroprivreda d.d. ("Matica " or " HEP d.d."), owned by the Republic of Croatia. In addition, the Company presents in the notes significant transactions with companies and / or entities wholly or partly owned by the State.

The Company has certain business relationships with other companies within the HEP Group. Related parties are listed in Note 1.

In 2019 and 2020 the revenue recognition is based on energy Data on sales of electricity to customers, Methodology for determining tariff items for electricity transmission, and Decision on the amount of tariff items for the transmission of electricity by the Croatian Energy Regulatory Agency (HERA). On December 13, 2018, HERA issued a Decision amending the tariff items for electricity transmission in 2019.

Costs of ancillary services in the total amount of HRK 282,830 thousand (2020: HRK 283,831 thousand) were defined by the Ancillary Services contracts concluded by HOPS with HEP - Proizvodnja d.o.o. and all in accordance with the Price-Determination Methodology for providing auxiliary services.

From January 1, 2017, the Company generates revenue from balancing energy and balancing energy – imbalance settlement to the Balance Group Managers (BGM) in accordance with the applicable Electricity Balancing Rules, Methodology for determining balancing energy prices, Responsibility Agreements for imbalance made with BGMs, and in accordance with a set of Ancillary Services contracts concluded with HEP Proizvodnja d.o.o.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

36. RELATED PARTY TRANSACTIONS (continued)

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

(in thousands of HRK)	2021	2020
Income and expenses		
Sales income		
Electricity transmission fee income - HEP ODS d.o.o., HEP Proizvodnja d.o.o. and EPK d.o.o.	1,327,597	1,234,568
Sales of balancing energy – Balance Group Managers – related parties	137,625	53,339
Sales of balancing energy - HEP Proizvodnja d.o.o.	59,394	22,697
Service income – HEP Telekomunikacije d.o.o.	19,657	18,086
Other sales income – related companies	4,545	4,225
	1,548,818	1,332,915
Other income		
Other income – related parties	-	50
Total related parties income	1,548,818	1,332,965
Expenses		
Other		
- Telecommunication service cost – HEP Telekomunikacije d.o.o.	43,011	41,430
- Receivable impairment - HEP ODS	-	38
- Other expenses - related parties	5,936	5,592
	48,947	47,060
Transmission grid losses (Note 11)	50,136	61,943
Purchase of regulating power (Note 11)		
Purchase of balancing energy – imbalance settlement – related parties BGMs	152,120	23,557
Purchase of balancing energy – HEP Proizvodnja d.o.o.	181,321	55,161
	333,441	78,718
Ancillary services– HEP Proizvodnja d.o.o. (Note 11)	282,830	283,831
Finance costs HEP d.d.	25,154	28,530

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

36. RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)

	31 December 2021	31 December 2020
Receivables and liabilities		
Receivables from HEP d.d. and other companies from HEP Group		
- Electricity transmission fee – HEP-ODS, HEP Proizvodnja and EPK	245,758	119,245
- for balancing energy from HEP Proizvodnja	21,462	5,727
- for balancing energy from BGMS- related parties (HEP d.d. and HEP-ODS)	104,486	32,138
- connection fee from EPK d.o.o.	-	34,250
- other	2,710	2,547
	374,416	193,907
Liabilities toward related parties		
Current liabilities		
- Amounts due according to lease contract – HEP d.d.	11,562	11,562
- Balancing energy – imbalance settlement – BGMS related parties and HEP Proizvodnja	237,807	35,645
- Transmission grid losses – HEP d.d.	4,810	4,996
- deposits received HEP d.d. and HEP ODS	23,845	24,969
- other – HEP d.d.	4,434	4,092
- Accrued interest on subloan – HEP d.d.	70,462	65,805
- Prepayment for connection fee - HEP d.d. and other	-	34,100
- For the payment od 2018 profit	6,527	5,663
	359,447	186,832
Liabilities to HEP Proizvodnja d.o.o. for ancillary services	59,452	57,105
Liabilities to HEP Proizvodnja d.o.o. for connection to the grid – prepayment	718	25
	60,170	57,130
Total short term liabilities to related parties	419,617	243,962
Non-current liabilities		
Subloan liabilities (Note 30) - HEP d.d.	705,570	653,808
Apartments sold (Note 30) - HEP d.d.	312	428
	705,882	654,236
Current portion (Note 30)	(520,062)	(57,553)
	185,820	596,683

During the year ending 31 December 2021, the Company compensated due liabilities and interest on subloans to affiliated companies with receivables from affiliated companies in the amount of HRK 57,553 thousand related to principal and HRK 24,901 thousand related to interest (2020: HRK 19,124 thousand and HRK 20,935 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

36 RELATED PARTY TRANSACTIONS (continued)

<i>(in thousands of HRK)</i>	Expenses		Sales revenue	
	2021	2020	2021	2020
State controlled entities				
HŽ Infrastruktura d.o.o.	-	12	16,307	16,274
INA-Industrija nafte d.d.	5,310	3,883	-	-
Legislative, executive and other bodies of the Republic of Croatia	1,958	2,252	-	-
Petrokemija Kutina d.d.	346	1,217	4,106	2,612
Hrvatske šume d.o.o.	861	394	-	-
Croatia osiguranje d.d.	358	383	-	-
Narodne novine d.d.	387	327	-	-
Hrvatska radio televizija	541	542	-	-
Healthcare organizations and institutions	185	184	113	119
Hrvatski Telekom d.d.	598	751	8	14
Sveučilišta i veleučilišta	32	49	-	-
Jadrolinija d.d.	98	74	-	-
Judicial institution	22	-	-	-
Other users	71	206	-	-
HROTE d.o.o.	3,657	21,712	55,425	13,319
TOTAL	14,424	31,986	75,959	32,338

<i>(in thousands of HRK)</i>	Receivables		Liabilities	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
HŽ Infrastruktura d.o.o.	1,596	1,605	-	-
Petrokemija Kutina d.d.	407	360	-	-
INA-Industrija nafte d.d.	-	-	549	355
Hrvatski Telekom d.d.	-	-	259	173
Croatia osiguranje d.d.	-	-	33	49
HROTE d.o.o.	34,783	2,472	1,541	2,353
Jadrolinija d.d.	-	-	-	1
Narodne novine d.d.	-	-	27	26
Other users	184	197	340	157
TOTAL	36,970	4,634	2,749	3,114

37. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are liabilities that are unlikely to be required to settle an outflow of resources embodying economic benefits or the amount of the liability cannot be estimated reliably. The Company's financial liabilities not included in the Statement of Financial Position, issued by the Company as collateral for loans and other contractual obligations as at 31 December 2021, amount to HRK 1,078,998 thousand (31 December 2020 in amounting to HRK 972,786 thousand). As a shareholder in the company Hrvatska burza električne d.o.o. ready to provide all the funds necessary for the company to continue to operate and fulfill its maturity obligations.

Operating liabilities

As at 31 December 2021, the Company had concluded contracts according to which investments in various facilities and equipment were started, but not completed. The value of contracted work in progress for the most significant projects amounted to HRK 556,310 thousand (31 December 2020: HRK 592,569 thousand).

Environmental protection

The Company monitors and analyses the environmental impact of its business activities on an on-going basis. The key impact indicators comprise emissions of pollutants into air and the quantity of production waste which the Company reports to the competent institutions, local self-government units and public stakeholders on a regular and timely basis. Personnel engaged in environmental protection undergo training, seminars and workshops to receive information about the obligations and measures provided in the applicable environmental laws and regulations. There is an environmental expenditure monitoring system (RETZOK) at the Company which monitors all investments in environmental protection since 2004.

The Company is in the process of performing analyses with respect to compliance with the requirements imposed by EU legislation in terms of more stringent pollutant emission limits and reduced greenhouse gas emissions, the greenhouse gas emission trading scheme, integrated environmental permitting system, as well as the system of ecologically important areas and corridors (the National Ecological Network).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS

Capital risk management

Net debt to equity ratio (Gearing ratio)

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. Management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the year-end can be presented as follows:

<i>(in thousands of HRK)</i>	31 December 2021	31 December 2020
Debt (long and short-term borrowings)	808,332	658,767
Current financial assets	(23,840)	(21,382)
Cash and cash equivalents	(116,736)	(308,000)
Net debt	667,756	329,385
Equity	5,199,428	5,230,873
Net debt to equity ratio	12,84%	6,30%

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS (continued)

Capital risk management (continued)

Debt is defined as a liability for long-term and short-term sub-loan liabilities and other long-term liabilities to associates. The principal includes all capital and all reserves.

Categories of financial instruments

(in thousands of HRK)

	31 December 2021	31 December 2020
Financial assets		
Receivables for apartments sold	755	1,102
Trade receivables	125,395	24,731
Receivables from related parties	374,416	193,907
Other short-term assets	57,235	53,394
Current financial assets	23,840	21,382
Cash and cash equivalents	116,736	308,000
Total loans and receivables at amortised cost	698,377	602,516

(in thousands of HRK)

	31 December 2021	31 December 2020
Financial liabilities		
Loan liabilities	805,734	654,236
Other non-current liabilities	1,609	1,499
Trade payables	391,310	361,173
Payables to related parties	419,617	243,962
Other short-term liabilities	131,953	110,569
Total financial liabilities at amortised cost	1,750,223	1,371,439

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less the portion repaid.

Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

The fair value of financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

Management believes that as at 31 December 2021, the carrying amounts of financial assets and liabilities and investment property approximate their fair value due to the short-term nature of those assets and liabilities.

Financial risk management objectives

The Company's Corporate Finance provides support services to the business operations, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports analysing exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

The significant risks, together with the methods used to manage these risks, are described below.

Market risk

(i) *Price risk* - The Company operates with international customers and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Company is exposed to the effect of exchange differences and changes in interest rates. In addition, due to credit terms extended to its customers, the Company is exposed to a risk of default.

(ii) *Foreign exchange risk management* - The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

(in thousands of HRK)

	Liabilities	
	31 December 2021	31 December 2020
The European Union (EUR)	524,805	443,443

	Assets	
	31 December 2021	31 December 2020
The European Union (EUR)	123,810	97,550

As at 31 December the exchange rate of HRK was as follows:

	2021	2020
EUR	7,517174	7,536898

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Market risk (continued)

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of the Croatian Kuna to the Euro (EUR). The following table details the Company's sensitivity to a 1% decrease in 2021 in the Croatian Kuna against the relevant foreign currency (decrease of 1% in 2020). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably likely change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where the Croatian Kuna changes by above mentioned percentage against the relevant currency. For a reverse proportional change of the Croatian Kuna against the relevant currency there would be an equal and opposite impact on profit and other equity.

(in thousands of HRK)

	<u>2021</u>	<u>2020</u>
EUR change impact		
Decrease of net result	(4,238)	(3,459)

The exposure to the fluctuations in exchange rates is mainly attributable to the borrowings, trade payables, trade receivables and deposits denominated in Euros (EUR). The Company does not currently hedge currency risk with respect to the EUR as the local currency is pegged against the EUR.

Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The Company is exposed to interest rate risk to the extent of the interest rate risk exposure of its parent.

Interest rate sensitivity analysis

The sensitivity analyses below has been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year.

The Company does not currently hedge against interest rate risk, given the fact that all liabilities are contracted at a fixed interest rate and since the assessment of the potential effect of changes in interest rates is not considered significant.

38. FINANCIAL INSTRUMENTS (continued)

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The most significant customer is the associated company HEP-ODS and it makes more than 48% of receivables on 31 December 2021.

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Management Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The following tables detail the Company's remaining contractual maturity for its financial liabilities and financial assets presented in the statement of financial position at the each reporting period end. The tables have been drawn up based on the undiscounted cash flows until maturity and include cash flows from both interest and principal.

As at 31 December 2021	Carrying amount	Contractual cash flows	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
<i>(in thousands of HRK)</i>						
<i>Non-interest bearing liabilities:</i>						
Liabilities for apartments sold	499	499	235	264	-	-
Other long-term liabilities	1,110	1,110	-	1,110	-	-
Trade payables	391,310	391,310	391,310	-	-	-
Payables to related parties	419,617	419,617	419,617	-	-	-
Other short-term liabilities	131,953	131,953	131,953	-	-	-
	944,489	944,489	943,115	1,374	-	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	805,734	835,347	645,076	96,032	94,239	-
Lease obligations	2,598	2,707	1,380	1,053	274	-
	808,332	838,054	646,456	97,085	94,513	-
Total	1,752,821	1,782,543	1,589,571	98,459	94,513	-
As at 31 December 2020	Carrying amount	Contractual cash flows	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
<i>(in thousands of HRK)</i>						
<i>Non-interest bearing liabilities:</i>						
Liabilities for apartments sold	726	726	363	363	-	-
Other long-term liabilities	773	773	-	773	-	-
Trade payables	361,173	361,173	361,173	-	-	-
Payables to related parties	243,962	243,962	243,962	-	-	-
Other short-term liabilities	110,569	110,569	110,569	-	-	-
	717,203	717,203	716,067	1,136	-	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	654,236	763,380	81,996	531,395	149,989	-
Lease obligations	4,531	4,972	2,014	2,014	944	-
	658,767	768,352	84,010	533,409	150,933	-
Total	1,375,970	1,485,555	800,077	534,545	150,933	-

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Notes to the financial statements (continued)

For the year ended 31 December 2021

38. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

As at 31 December 2021	Carrying amount	Contractual cash flows	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing assets:</i>						
Non-current receivables	755	755	361	361	33	-
Trade receivables	125,395	125,395	125,395	-	-	-
Receivables from related parties	374,416	374,416	374,416	-	-	-
Short term financial assets	57,235	57,235	57,235	-	-	-
Other short-term assets	65	65	65	-	-	-
	557,866	557,866	557,472	361	33	-
<i>Interest bearing assets:</i>						
Current financial assets	23,775	24,013	24,013	-	-	-
Cash and cash equivalents	116,736	116,748	116,748	-	-	-
	140,511	140,761	140,761	-	-	-
Total	698,376	698,627	698,233	361	33	-

As at 31 December 2020	Carrying amount	Contractual cash flows	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
			<i>(in thousands of HRK)</i>			
<i>Non-interest bearing assets:</i>						
Non-current receivables	1,102	1,102	387	387	328	-
Trade receivables	24,731	68,684	68,684	-	-	-
Receivables from related parties	193,907	179,202	179,202	-	-	-
Short term financial assets	65	65	65	-	-	-
Other short-term assets	53,394	45,479	45,479	-	-	-
	273,199	294,532	293,817	387	328	-
<i>Interest bearing assets:</i>						
Current financial assets	21,317	21,530	21,530	-	-	-
Cash and cash equivalents	308,000	308,031	308,031	-	-	-
	329,317	329,561	329,561	-	-	-
Total	602,516	624,093	623,378	387	328	-

39. EVENTS AFTER THE BALANCE SHEET DATE

/i/ 10/6/2021 The Electricity Market Act was promulgated which stipulates, among other things, that the transmission system operator (HOPS) must be organized as a joint stock company within 6 months of the promulgation of the law. At its session on April 6, 2022, the Assembly of the Company passed a Decision on the transformation of the Company into a joint stock company. On 11 April 2022, the Commercial Court in Zagreb issued a Decision on the transformation of a limited liability company into a joint stock company.

/ii/ At its 15th session on April 4, 2022, the Supervisory Board of the Company passed a Decision appointing members of the Management Board appointing Mr. Igor Ivanković to be a President of the Management Board for a period of four years starting from April 16, 2022. Mr. Dejan Liović was appointed as a Member of the Management Board and Mr. Darko Belić was appointed as a Member of the Management Board

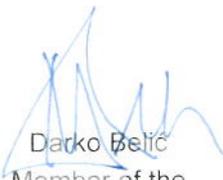
/iii/ Rising electricity prices in EU markets began in the third quarter of 2021, before the Russian aggression on Ukraine. The Company procures electricity to cover losses in the transmission network to a certain extent on the market, the Croatian Electricity Exchange, and partly through long-term contracts. The prices that the Company pays for the purchase of electricity to cover losses are at historically high levels, significantly higher than planned. Russia's aggression against Ukraine and the sanctions imposed on Russia, although not the only factors of market instability, affect the maintenance of high electricity prices on the EU market. As it is not possible to predict the duration and course of current events, the Company, in order to reduce the impact of events on business, frequently revises its activities and adjusts its activities to the current situation and forecasts. The Company will continue to actively monitor economic trends and take all measures to protect the interests of all stakeholders and maintain a stable financial position.

There were no other events after the balance sheet / statement of financial position that would significantly affect the Company's annual financial statements for 2021, which should be published as a result.

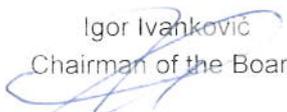
40. APPROVAL OF THE FINANCIAL STATEMENTS

These annual financial statements were approved by the Board,

Signed on behalf of the Company on 28 April 2022 by:


Darko Belić
Member of the
Management Board


Dejan Liović
Member of the
Management Board


Igor Ivanković
Chairman of the Board

**HOPS**

Hrvatski operator prijenosnog sustava d.d.
Kupska 4, Zagreb **1**