



**Croatian Transmission System Operator Plc. ,
ZAGREB**

**Annual financial statements
as of and for the year ending on December 31, 2022**

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Management Report

Croatian Transmission System Operator Plc. in 2022

About Company, Mission and Vision

HOPS Plc. (hereinafter HOPS or the Company) as a national operator of the transmission system ensures high security and reliability of the power system (hereinafter: EPS) and equal access to the transmission system for all participants of the electricity market with reasonable costs and care for environmental protection. HOPS represents the fundamental infrastructure for security of supply and the electricity market in the Republic of Croatia and a long-term guarantee of its functioning within the framework of the single European electricity market. HOPS as part of the key electric energy infrastructure of the Republic of Croatia, a member state of the European Union (hereinafter referred to as the EU), enables secure supply of electricity to customers, the development and construction of electricity facilities and of the electricity market, reliable and services of services, taking special care of the protection of nature and of the environment.

The activities of the Company, as well as of all of its employees, at all levels of responsibility, are based on transparency, integrity, high level of professionalism, expertise and orientation towards network users and other stakeholders in a non-discriminatory manner.

The main goals of the Company are:

- maintaining high level of reliability of the transmission network as an infrastructure of the major importance for the Republic of Croatia and maintaining a high level of security of electricity supply at the Croatian transmission system level,
- harmonization of the Company's operations in relation to obligations from national and EU regulations, including cooperation with other system operators in the European Network of Transmission System Operators for Electricity (ENTSO-E), providing support for further market development, etc.,
- optimization of human resources,
- improvement and optimization of business processes,
- optimization of business expenses and increase of efficiency,
- strengthening of financial stability,
- brand identity of HOPS's activities and results in the public.

The members of the Management Board in 2022:

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

Historical Development and Management

As part of the restructuring process of the Croatian electricity power sector, the company HEP-Operator prijenosnog sustava d.o.o. was established, which started its operation on April 4, 2005, based on the Energy Act, the Act on Amendments to the Energy Act and the Electricity Market Act. Based on the decision of the Commercial Court in Zagreb, dated July 2, 2013, on entry into the court register, increase of share capital, change of company, business activity and the provisions of the Articles of Association of HEP-Operator prijenosnog sustava d.o.o., that company operates and participates in legal transactions under the new name of the company, Croatian Transmission System Operator d.o.o. Based on the decision of the Commercial Court in Zagreb number Tt-22/17075-2 of April 11, 2022, the transformation of the company Croatian Transmission System Operator with limited liability into a joint-stock company was entered in the Court Register. The company operates and participates in legal transactions under the company/name Hrvatski operator prijenosnog sustava d.d. (abbreviated: HOPS d.d.).

HOPS is the sole electricity transmission operator in the Republic of Croatia (hereinafter referred to as the Republic of Croatia) and the owner of the entire Croatian transmission network (voltage levels 400kV, 220kV and 110kV) and holds a license to carry out the energy activity of electricity transmission as a regulated public service. HOPS is an independent operator in the Republic of Croatia, organized as a joint-stock company, with its headquarters in Zagreb, Kupska 4, registered in the Court Register of the Commercial Court in Zagreb under registration subject number 080517105, VAT ID 13148821633, and registered capital in the amount of 4,948,627,300.00 HRK, which performs a regulated activity of electricity transmission.

HOPS is registered with the State Bureau of Statistics under registration number 1924427 for the performance of electricity transmission activities. The tasks, responsibilities, duties, competencies and manner of performing the activities of the Company are mostly prescribed in Articles 86-89. of the Electricity Market Act (Official Gazette 111/2021) (hereinafter: EMA), and other provisions of EMA. Business and tasks regulated by the provisions of EMA, established responsibilities under Article 86, paragraph 1 of EMA, and duties under Article 86, paragraph 2 of EMA, are performed integrally at the Company level, whereby individual organizational units have a leading role in performing. Support functions provide administrative, logistical and technical support for business processes related to the performance of tasks and activities. With regard to the

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Croatian Transmission System Operator Plc. in 2022

independence and expertise of the staff and members of the Management and the Supervisory Board, HOPS achieves its independence through compliance with the legal provisions on the independence of the Management Board members and limits for members of the Supervisory Board, in accordance with legal regulations. The independence of HOPS is additionally guaranteed in the EMA's prescribed system for monitoring compliance with the provisions of EMA through the adoption of a Compliance Program and a Compliance Officer. The Compliance Program determines in more detail the measures that exclude the possibility of one-sided behaviour and the method of monitoring of compliance with this program, and determines the special obligations of employees related to the fulfilment of these goals. The Croatian Energy Regulatory Agency (hereinafter, the Agency or HERA) gives prior consent to the Compliance Program. Compliance with the program is monitored by a Compliance Officer appointed by the Supervisory Board with the prior consent of HERA.

HOPS continuously participates in their work, supervises and monitors their operations and the provision of services with discussions and decisions on proposed relevant documents.

The Company has no branches, and it operates organizationally through the Company's Management Board, Executive Office and Departments at the headquarters and Transmission Areas in Rijeka, Osijek, Split and Zagreb.

The most significant features of the business year 2022

The negative economic trends of continuous increase of the Company's operating cost and expenses caused primarily by extremely high electricity prices that the Company pays to cover losses in the transmission network, which began in 2021, continued in 2022, and caused the realization of a negative financial result, i.e. the declaration of a loss for the year 2022. The highest price of electricity on the day-ahead market of the Hungarian Stock Exchange (HUDEX) was recorded on August 30, 2022 at 8 p.m. and was 1,047.10 €/MWh, while the average price on the same day was 748.97 €/MWh. Taking into account the fact that, through the approved amounts of tariff items for 2022, the price of 70.6 €/MWh was approved for the purchase of electricity to cover losses in the transmission network; the Company's operations were somewhat difficult under the given circumstances. In the period before the crisis, the costs of purchasing electricity to cover losses in the transmission network were significantly lower and amounted up to 17% of the income from the provision of electricity transmission services, while this share increased to 41% in 2022. The increase of the mentioned, but also of other expenses (balancing costs), as well as the large increase in the prices of construction materials and products as a consequence of the global disruption in the material markets and in the supply chains, had a significant impact on the Company's liquidity, while in certain periods it was challenging to ensure an adequate level of funds necessary for the timely settlement of the taken contractual obligations. On the basis of the Regulation on eliminating disturbances on the national energy market (Official Gazette No. 104/2022), the Company is prevented from submitting a request to the Croatian Energy Regulatory Agency to change the amount of tariff items for the duration of the temporary measures until March 31, 2023; and as the Regulation on elimination of disruptions on the national energy market (Official Gazette No. 31/2023) deadline was extended until March 31, 2024, the Company's ability to influence the adjustment of income with realized or planned expenses has been reduced.

During 2022, in order to ensure the level of liquidity, the Company entered into short-term financial commitments which, in addition to the payments of funds from the National Recovery and Resilience Plan (hereinafter: NRRP) and the EU Solidarity Fund (hereinafter referred to as EUSF) included funds for obligations paid in previous periods, ensured a sufficient level of liquidity and, despite occasional difficulties, finally made possible to fulfil all previously taken contractual obligations.

Projections of business results in certain months of 2022 showed significant losses and indicated the problems the Company was facing. During the reporting period, the Company's Management Board informed stakeholders (HERA, MINGOR, HEP d.d. as owner) in writing about the assessment of the development of the financial situation and its impact on the Company's operations and ability to fulfil its legal obligations in the future; and the Company actively participated in processes that included solving the situation caused by the large increase in energy prices on international markets.

Despite all of the above, in business year 2022, the Company reported a minimal loss after tax in the amount of 9.4 million HRK, primarily thanks to significantly higher net income from the allocation of cross-zonal capacities in the amount of 148,320 HRK (hereinafter referred to as CZ), which the Company used for the first time to finance a part of the regular business activity. Funds from the CZ allocation in 2022 were financed in addition to capital costs and costs of regional coordination centres and certain categories of costs for energy insurance to cover losses, about which HERA was informed (operating costs in the amount of 125,239 HRK). An additional impact on the relatively low loss in business activity is the realization of notable income from the cancellation of provisions for court cases (34.3 million HRK) and for retirement bonuses and jubilee awards (5.3 million HRK), as well as a significant calming of the situation on the electricity market in December 2022.

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National Recovery and Resilience Plan (NRRO)

On September 28, 2022, the Company signed contract no. NPOO.C1.2.R1-I1.01.0001 "Revitalization, construction and digitization of the energy system and supporting infrastructure for the decarbonisation of the energy sector" on the allocation of grants for projects of revitalization, construction, digitization and modernization of the Croatian electricity transmission network, financed by the EU from of the "Next Generation EU" instrument, for the project eligibility period from February 1, 2020 to June 30, 2026.

Funds in the total amount of 218.16 million EUR have been secured through the NRRO for the realization of the Company's projects. Through the realization of the project, six submarine 110 kV cables will be laid, 550 km of overhead lines will be upgraded and an additional 1,500 MW capacity from renewable energy sources will be connected in the period until 2026.

European Union Solidarity Fund (EUSF)

During 2022, the Company continued to intensively carry out earthquake damage repair activities in its facilities and the establishment of uninterrupted electricity supply. MINGOR, as the authority responsible for the implementation of the financial contribution from the FSEU, on January 5, 2022, announced a call for the allocation of non-reimbursed financial resources "Restoring infrastructure and facilities in the energy sector to the correct working condition" for the repair of damages caused by a series of earthquakes starting on December 28, 2020 on the energy infrastructure and energy facilities in the areas affected by the earthquake. The total available grant funds for allocation under this Call amounted to 372,530 HRK, and they are provided in the State Budget of the Republic of Croatia from FSEU, as support for operations to return to usable condition through the recovery of buildings, recovery and/or replacement of energy infrastructure, energy facilities and energy system in the area of generation, transmission and distribution of electricity, distribution and supply of thermal energy and gas distribution. The implementation of the operations could have started on December 28, 2020 at the earliest, and the activities must be completed by June 30, 2023. In the cost and expenses categories, it is possible to finance activities from the FSEU that meet the conditions of the Call, and which will be paid by June 30, 2023. Based on the applications submitted to the Call, the company concluded 12 contracts on the allocation of grants in the amount of 200,892 HRK, which represents the highest possible amount of co-financing of the total determined value of eligible costs. In accordance with the schedule for the implementation of the contract, the amount of the eligible cost will be refunded from the available FSEU funds, while 262,513 HRK will need to be secured for the activities that will be paid from the Company's own funds in the upcoming period until 2029.

The Company's activity in the field of research and development

The implementation of development and innovative projects in which the Company participates, and which are co-financed by the EU, continued successfully in 2022, despite the continuation of pandemic conditions and possible negative impacts on the realization of planned activities and the achievement of set goals. During 2022, the Company participated in the implementation of five projects co-financed from the Horizon 2020 program, the EU's program for research and innovation, for the period from 2014 to 2020:

- CROSSBOW ("CROSS Border management of variable renewable energies and storage units enabling a transnational Wholesale market"), total value 129.59 million HRK (€17.20 million), of which the value of the grant to the Company is 4.15 million HRK (€0.55 million), the Company's activities continued until April 30, when the project consortium ended its work after 54 months. In the consortium of 24 partners from 13 countries, from the Republic of Croatia in addition to HOPS participated the Faculty of Electrical Engineering and Computing of the University of Zagreb and Končar KET, with the aim of demonstrating the possibility of cross-border management of non-stationary energy from renewable sources and energy storage in the area of Southeast European countries.

- FARCROSS (FACilitating Regional CROSS-border Electricity Transmission through Innovation) has a total value of 102.47 million HRK (€13.60 million), while the value of the grant for the Company is 1.01 million HRK (€0.13 million). In the consortium made of 31 partners from 16 countries, from the Republic of Croatia along with HOPS participate the Faculty of Electrical Engineering and Computing of the University of Zagreb and Studio Elektronika Rijeka. The goal of the project is to investigate the potential of increasing the volume and better utilization of cross-border capacities with the aim of improving the market for intraday and day-ahead time-frames. The project connects the main stakeholders of the energy value chain and demonstrates integrated hardware and software solutions for cross-border flows of electricity and regional cooperation.

- FLEXGRID (A novel smart grid architecture that facilitates high RES penetration through innovative markets towards efficient interaction between advanced electricity grid management and intelligent stakeholders) with a total value of 30.14 million HRK (€4.00 million), of which the value 1.16 million HRK (€0.15 million) of grants to the Company, officially ended on September 30, after 36 months of work performed by the project consortium. From the Republic of Croatia along with HOPS participated the Faculty of Electrical Engineering and Computing of the University of Zagreb in a consortium made of 12 partners from 8 countries. The aim was

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to develop a flexibility market for the power system of the future, which is, advanced mathematical models and algorithms that can significantly improve the operation of the smart grid and the business of market stakeholders.

- ATTEST (Advanced Tools Towards cost-efficient dEcarbonization of future reliable power SysTEms) has a total value of 30.14 million HRK (€4.00 million), while the value of the grant for the Company is 1.2 million HRK (€0.16 million). The consortium consists of 9 partners from 6 countries. From the Republic of Croatia, along with HOPS in the project participate HEP-ODS, Končar KET and the Nikola Tesla Innovation Center. The goal of the project is to research the possibility of coordinating the transmission and distribution system in the form of joint planning and management of the transmission and distribution network, and utilizing the potential of network users connected to the distribution network to provide ancillary services to the transmission system operator.

- CYBERSEAS (Cyber Securing Energy Data Services), total value 60.28 million HRK (€8.00 million), of which the value of the grant to the Company is 0.82 million HRK (€0.11 million), includes a consortium of 26 partners from 10 countries. The goal of the project is to encourage dialogue on cyber security and cooperation on achieving a higher level of information security between multiple stakeholders, including regulators and legislators.

The projects co-financed from the Connecting Europe Facility (CEF):

- E-PASIS, "System for Prevention and Analysis of HOPS's communication networks security incidents", finalized on November 30, 2022. The goal of the project was to strengthen HOPS's capacities in the field of cyber security, which would ultimately have a positive impact on the further provision of services for the management of the Croatian electric power system, electricity transmission and 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 access rights to the Company's information system were evaluated. The implementation of software for detecting and analysing security threats in the network in real time enables preventive activities to improve the computer security of the Company's information system. The project with a total value of 2.13 million HRK (€0.28 million) received co-financing of 1.60 million HRK (€0.21 million).

- E-CYBIS, "Advanced platform for business content and file sharing analysis in HOPS Security Operational Center", as a kind of continuation of the E-PASIS project it is carried out with the aim of strengthening the cyber security of HOPS, in order to comply with security and reporting requirements according to the Croatian and EU legislation (NIS Directive 2016/1148). As part of the project, a framework for effective operational management of the Security Operations Center will be defined, security incident management processes will be improved, penetration testing will be increased and standardized in order to prevent cyber threats through continuous monitoring. The project will improve cooperation with relevant stakeholders in the field of cyber security at the national and European level, and it is expected to achieve increased resilience of the HOPS information system to cyber incidents in terms of quick detection and quick response, which in a broader perspective will limit economic and political damage from cyber incidents and ensure the availability of HOPS services. The project with a total value of 2.86 million HRK (€0.38 million) was approved for co-financing in the amount of 2.11 million HRK (€0.28 million).

The project co-financed from the LIFE Program, an instrument of the EU intended to finance activities in the field of environmental protection, nature and climate, LIFE Danube Free Sky, is implemented by 15 partners from 7 countries, and in addition to the Company, from the Republic of Croatia participate JUPP Kopački rit and HEP-ODS. The total value of the project is 49.73 million HRK (€6.60 million), while the value of the grant for the Company is 0.82 million HRK (€0.11 million). The goal of the project is to prevent the ornithofauna from suffering from the collisions with HV transmission lines, electrocution on MV lines and SS, and to improve the status of populations of priority species in the area of the ecological network Natura 2000 - Danube and Lower Podravlje.

Based on good previous experiences (SINCRO.GRID project) in March 2021, KNG-Kärnten Netz, ELES, Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, GEN-I, HOPS, HEP-ODS, HEP d.d. jointly submitted a new GreenSwitch advanced network project to the 5th PCI list of the European Commission. The JRC (Joint Research Centre) gave a positive technical evaluation of the project for inclusion in the PCI list. The European Commission officially confirmed and published the 5th PCI list at the end of April 2022 (after confirmation by the European Parliament and the European Council). The main goal of the GreenSwitch project is to optimize the use of the existing energy infrastructure and to incorporate new technologies in an efficient manner, with advanced functionalities that enable greater storage capacity, efficient integration of new system users, optimization of future investments and improvement of system operation safety and quality. In addition to investments in primary infrastructure, a package of tools for the introduction and use of advanced networks of various technologies, platforms and functionalities is planned as well to achieve maximum effect. In relation to HOPS, the project includes the replacement of existing conductors with HTLS conductors on OHL 220 kV Senj-Brinje, the installation of current control devices (transformer with angle rotation - PST) in SS 110/35 kV

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Gračac and the upgrade of the existing ICT infrastructure (WAMS, SCADA systems, EMS). The expected duration of the project is from 2023-2028, and the total value of HOPS's investments is estimated at approximately 86.27 million HRK (€11.45 million). At the end of 2022, the project was approved for co-financing from CEF in the amount of 550.02 million HRK (€73.00 million).

Risks and financial instruments

The Company's Management Board monitors and manages financial risks 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 of the existing and securing new credit arrangements.

Price risk - The company is largely financed through loans denominated in foreign currencies (euro). As a result, the Company is subject to the influence of exchange rate differences and changes in interest rates. Considering that from January 1, 2023, the euro is the official currency in the Republic of Croatia that risk is reduced to a minimum. Due to the credit terms extended to its customers, the Company is also exposed to the risk of default.

Credit risk - Credit risk refers to the risk that the other party will not fulfil its contractual obligations, which will result in a financial loss to the Company.

The Company does not have a significant credit risk exposure to any customer outside the Group or a group of customers with similar characteristics. The company defines customers as having similar characteristics if they are related entities. The most significant customer is the related company HEP-ODS and it accounts for more than 33% of receivables on December 31, 2022.

Liquidity risk - the Company manages this risk by maintaining adequate reserves, other sources of financing, and constantly monitoring forecasted and actual cash flows and comparing maturity profiles of financial assets and liabilities.

Cash flow risk - In the event of the continuation of unfavourable trends on the expenditure side and the impossibility of correcting the revenue side for increase of exogenously determined uncontrollable costs, HOPS may find itself in a situation of significantly impaired liquidity, or, in the last case, impaired ability to perform its duties determined by the law. The state's risk premium as well as the credit rating of the HEP Group are important for new financing, as a possible guarantee of funds for the Company's investments, as they affect the margin that financial institutions require above the level of reference interest rates. New financing arrangement is also affected by the availability of the maximum ceiling of HEP Group's indebtedness and, in case of requesting financial resources from financial institutions and banks, the possibility of issuing corporate guarantees.

The Company does not use financial instruments.

Non-financial report

HOPS will publish the Sustainability Report (non-financial) for 2022, in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20), as a separate report on HOPS's website within six months at the latest from the balance sheet date, i.e. until June 30, 2023. In the preparation of the report HOPS will use the Global Reporting Initiative guidelines (GRI standard) and indicators in the standard. The Report will be published at the following link: <https://www.hops.hr/godisnji-izvjestaji>.

Data on the purchase of own shares

The Company does not have redeemed treasury shares.

Significant business events after the end of the business year

At the beginning of 2023, a decrease or stabilization of prices was recorded on the wholesale electricity market. The average price of electricity in the first quarter of 2023 (Q1 2023) on the day-ahead market in the Croatian bidding zone was 130.81 €/MWh, which is a drop of 52% compared to the average prices in 2022, which is 272.42 €/MWh and a decrease of 44% compared to the average prices in Q1 2022, which amounted to 233.17 €/MWh. Observing the situation in Europe, the average price of the first quarter for all bidding zones in the connected market was below €140/MWh, and the lowest price was recorded in Germany, where the average was 115.76 €/MWh. At the beginning of 2023, it was noticed that the situation on the market stabilized, primarily by activation of crisis measures at the national and EU level. The measures stipulate, among other things, the decrease of electricity consumption in EU countries and the introduction of income restrictions for producers, which is also reflected in electricity prices. In addition, the decrease in consumption, i.e. the price of gas, and the decreased consumption of electricity due to the mild winter and good hydrological conditions have a favourable effect on electricity prices. On April 1, 2023, the Regulation of the Government of the Republic of Croatia on eliminating disturbances in the national energy market (Official Gazette No. 31/2023) entered into force. Article 3, paragraph 3 of the relevant Regulation determines the price of electricity for the purposes of

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Croatian Transmission System Operator Plc. in 2022

covering technical losses in the network of 70,276 €/MWh. In accordance with the provisions of the Regulation, the company has initiated activities that should result in the purchase of electricity to cover losses in the network at the expressed price during the period of implementation of the relevant Regulation. Recent developments in international relations (the war in Ukraine) have certainly led and will continue to lead to an increase in the general level of risk of malicious attacks on the information security of the HOPS's system, particularly its' part that serves to manage the transmission network and system.

Business development in the future period

The business activity and the development of the Company are continuously attuned to the set goals and tasks, which are conditioned by the requirements of network users, legislative and regulatory frameworks, and the regional and European environment. Particular attention is put on maintaining a high degree of reliability of the transmission network as an infrastructure of the greatest importance for the Republic of Croatia and maintaining a high level of security of electricity supply at the level of the Croatian transmission system, harmonizing the Company's operations in relation to obligations from national and EU regulations, providing support for the development of a single connected EU electricity market, optimization of personnel, improvement and optimization of business processes, optimization of business costs and increase in efficiency, strengthening of financial stability and enabling recognition of activities and results of HOPS in the public. The Company's activities in the coming period will be directed towards the realization of the goals of the EU's Green transition and the aligned goals of the Energy Development Strategy of the Republic of Croatia and the Integrated National Energy and Climate Plan. The extremely high interest of investors in connecting generation facilities from renewable energy sources, as well as changes in the relevant legislative framework, presents the Company with major challenges in terms of planning and developing the transmission network and financing the creation of technical conditions in the network. Therefore, in the coming period, the Management Board will be faced with significant challenges related to investments in the revitalization of existing facilities and transmission lines, as well as new infrastructure investments necessary for the secure electricity transmission and further development of the transmission network in accordance with the economic development of the Republic of Croatia.

Given its position as the operator of critical infrastructure in the country, and the disposal of confidential commercially sensitive data of all network users, HOPS will continue to pay particular attention to the rapid and significant strengthening of the information security of its business and process information system. HOPS should 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 business entities.

The Company's Management Board will continue, within the limits of its capabilities, to undertake appropriate business activities and measures so that the continuity of the Company's operations is not impaired and that, despite exposure to the aforementioned risks and circumstances, stable operations, planned revenue growth and control of the Company's costs and expenses are achieved.

With the aim of maintaining the high professional and business reputation and recognition that the Company has at the national and international level, the Management Board will insist that, in the coming period, business processes are based on high-quality planning and implementation of business and investment plans, on the timely fulfilment of all obligations at the national and European level and timely adoption and implementation of by-laws from the Company's jurisdiction.

Financial result

The financial result as well as other indicators are presented within the statement of comprehensive income on page 14.

In Zagreb, 3 May 2023

Signed on behalf of Company:

Darko Belić, M.Sc.

Member of the Management Board

Dejan Liović

Member of the Management Board

Igor Ivanković, Ph.D.

Chairman of the Board



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

Croatian Transmission System Operator Plc., Zagreb

Statement of Management's Responsibilities

Statement of Management's Responsibilities

The Management Board of Croatian Transmission System Operator Plc., Zagreb, Kupska 4, (hereinafter: "the Company") is responsible for ensuring that the annual financial statements are prepared in accordance with the Accounting act (Official Gazette 78/15, 134/15, 120/16 i 116/18, 42/20, 47/20, 114/22) and 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 May 3, 2023. 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, 03 May 2023

 **HOPS**
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”), which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including 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, 2022 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

We conducted our audit in accordance with 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 report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia 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.

| Assets under construction | |
|---|--|
| <p>The Company has stated in the annual financial statements as at 31 December 2022 assets under construction in the amount of HRK 1,060,077 thousand (31 December 2021 in the amount of HRK 990,507 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 2022 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 15,103 thousand (31 December 2021 in the amount of HRK 49,392 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 5 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 information

Management is responsible for other information. Other information comprises the Management Report included in the Company's Annual Report, but does not include annual financial statements and our auditor's report on thereon. Our opinion on annual financial statements does not cover the other information.

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

With respect to the Management Report, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 of the Accounting Act.

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

1. the information given in the enclosed Management Report is consistent, in all material respects, with the enclosed annual financial statements;
2. the enclosed Management Report is prepared in accordance with requirements of Article 21 of the Accounting Act.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit of financial statements, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

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

Management is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting 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 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 skepticism 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

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 Company the annual financial statements for the year 2021 until the audit of the Company's annual financial statements for 2022, which is a total of two years.
3. In the audit of the Company's annual financial statements for the year 2022, we determined the materiality for the financial statements as a whole in the amount of HRK 40,841,131 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.
4. 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.
5. In the period from the beginning date of the audited annual financial statements of the Company for the year 2022 to the date of this report, we have not provided the prohibited non-audit services to the Company nor to the companies under its control and/or its parent company within EU and we have not provided the services of 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 business year, before the before mentioned period, and we have maintained independence in relation to the Company during our audit.

The engagement partners in charge of the audit resulting in this independent auditor's report are Dragan Rudan and Mirela Copot Marjanović.

In Zagreb, 5 May 2023

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

Croatian Transmission System Operator Plc., Zagreb

Statement of comprehensive income

For the year ended 31 December 2022

| <i>(in thousands of HRK)</i> | Notes | 2022 | 2021 |
|--|----------|--------------------|--------------------|
| Revenue from sales - related parties | 6,36 | 2,057,729 | 1,548,818 |
| Revenue from sales - third parties | 6 | 1,005,060 | 434,708 |
| Other income – third parties | 7 | 86,206 | 44,613 |
| | | 3,148,995 | 2,028,139 |
| Materials and spare parts used | 8 | (20,335) | (18,677) |
| Service expenses | 9 | (347,823) | (202,032) |
| Personnel expenses | 10 | (216,330) | (210,643) |
| Depreciation and amortisation | 16,17,18 | (384,369) | (375,261) |
| Ancillary services | 11,36 | (256,534) | (295,289) |
| Transmission grid losses | 11,36 | (597,358) | (260,623) |
| Purchase of balancing energy | 11,36 | (1,175,870) | (431,368) |
| Other expenses – related parties | 36 | (54,023) | (48,947) |
| Other operating expenses | 12 | (78,681) | (124,045) |
| | | (3,131,323) | (1,966,885) |
| Operating profit/loss | | 17,672 | 61,253 |
| Finance income | 13 | 2,084 | 2,320 |
| Finance costs | 14 | (28,800) | (26,886) |
| Net finance costs | | (26,716) | (24,566) |
| Profit/loss before tax | | (9,044) | 36,687 |
| Income tax | 15 | (374) | (9,030) |
| Profit/loss for the year | | (9,418) | 27,657 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (9,418) | 27,657 |


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

The accompanying notes form an integral part of these financial statements

Croatian Transmission System Operator Plc., Zagreb

Statement of financial position

As at 31 December 2022

(in thousands of HRK)

| | Notes | 31 December 2022 | 31 December 2021 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Intangible assets | 16 | 42,951 | 47,894 |
| Property, plant and equipment | 17 | 6,861,144 | 6,672,868 |
| Right-of-use assets | 18 | 6,560 | 2,579 |
| Prepayments for property, plant and equipment | 19 | 56,834 | 13,318 |
| Investment property | 20 | 5,287 | 4,542 |
| Investments in associates | 21 | 4,750 | 5,000 |
| Financial assets | 22 | 53,022 | 53,006 |
| Receivables from sale of apartments | 23 | 226 | 394 |
| Deferred tax assets | 15 | 40,182 | 40,556 |
| Total non-current assets | | 7,070,956 | 6,840,157 |
| Inventories | 24 | 9,167 | 10,520 |
| Trade receivables | 25 | 207,150 | 125,395 |
| Receivables from related parties | 36 | 537,676 | 374,416 |
| Other current assets | 26 | 44,634 | 60,106 |
| Short-term financial assets | 27 | 22,617 | 23,840 |
| Cash and cash equivalents | 28 | 233,838 | 116,736 |
| Total current assets | | 1,055,082 | 711,013 |
| TOTAL ASSETS | | 8,126,038 | 7,551,170 |
| EQUITY AND LIABILITIES | | | |
| Subscribed capital | 29 | 4,948,627 | 4,948,627 |
| Reserves | 29 | 6,907 | 5,524 |
| Retained earnings | | 234,476 | 245,277 |
| Total equity | | 5,190,010 | 5,199,428 |
| Subloan from and liabilities to related parties | 30,36 | 521,815 | 185,820 |
| Provisions | 31 | 78,077 | 118,730 |
| Other long term liabilities | 32 | 926,270 | 483,287 |
| Total non-current liabilities | | 1,526,162 | 787,837 |
| Subloan from and liabilities to related parties (current portion) | 30,36 | 92,835 | 520,062 |
| Provisions | 31 | 2,174 | 1,111 |
| Trade payables | 33 | 472,145 | 391,310 |
| Payables to related parties | 36 | 515,712 | 419,617 |
| Liabilities to banks | 34 | 133,628 | 99,852 |
| Other current liabilities | 35 | 193,372 | 131,953 |
| Total current liabilities | | 1,409,866 | 1,563,905 |
| TOTAL EQUITY AND LIABILITIES | | 8,126,038 | 7,551,170 |

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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 2022

| <i>(in thousands of HRK)</i> | Subscribed capital | Statutory reserves | Capital reserves | Retained earnings | Total |
|-------------------------------|---------------------------|---------------------------|-------------------------|--------------------------|------------------|
| 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 |
| Dividend | - | - | - | - | - |
| Statutory reserves | - | 1,383 | - | (1,383) | - |
| Profit (loss) for the year | - | - | - | (9,418) | (9,418) |
| As at 31 December 2022 | 4,948,627 | 1,383 | 5,524 | 234,476 | 5,190,010 |


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Kupska 4, Zagreb **1**

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Croatian Transmission System Operator Plc., Zagreb

Statement of cash flows

For the year ended 31 December 2022

| <i>(in thousands of HRK)</i> | 2022 | 2021 |
|--|------------------|------------------|
| Profit/ (loss) for the year | (9,418) | 27,657 |
| <i>Adjusted for:</i> | | |
| Income tax | 374 | 9,030 |
| Depreciation and amortisation | 384,369 | 375,261 |
| Increase/ (decrease) in provisions | (39,590) | 7,823 |
| Net finance expense | 22,614 | 23,690 |
| Net book value of assets disposed | 8,424 | 9,082 |
| Surplus of fixed asset | (10) | - |
| (Decrease)/Increase in provision for inventories | (417) | (373) |
| Increase in provision for doubtful receivables, net | 2 | 40,641 |
| Impairment of financial asset | 234 | (500) |
| Change in fair value of investment property | (745) | - |
| Cash flows from operations before working capital changes | 365,837 | 492,311 |
| (Increase) / decrease in trade receivables | (79,706) | (139,316) |
| Decrease / (increase) in receivables from related parties | (163,260) | (180,509) |
| Decrease / (increase) in other receivables | 8,230 | (467) |
| Decrease in receivables for apartments sold | 168 | 321 |
| Decrease / (increase) in inventories | 1,385 | 579 |
| (Decrease) / increase in trade payables | 78,555 | 29,448 |
| (Decrease) / increase in liabilities to related parties | (17,554) | 201,980 |
| Increase in other liabilities | 502,922 | 18,645 |
| Income tax (paid)/ received | 7,242 | (13,016) |
| Cash flows from operating activities | 703,819 | 409,976 |
| Interest received | 32 | 331 |
| Decrease / (Increase) in prepayments for tangible assets | (43,516) | 5,686 |
| Deposits paid | 1,223 | (2,458) |
| Purchases of property, plant, equipment and intangible assets | (572,067) | (645,549) |
| Cash used in investing activities | (614,328) | (641,990) |
| Dividends paid to the owner | - | (59,102) |
| Increase/ (decrease) of other financial liabilities | 27,611 | 99,852 |
| Cash flows used in financing activities | 27,611 | 40,750 |
| Net increase in cash and cash equivalents | 117,102 | (191,264) |
| Cash and cash equivalents at beginning of year | 116,736 | 308,000 |
| Cash and cash equivalents at the end of year | 233,838 | 116,736 |

Darko Belić

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HOPS

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

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Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 1,155 employees in 2022 (2021:1,143 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 2022 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 sustav.d. | 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 |
| Peharda izgradnja d.o.o. | Croatia | Const. of residential and non-residential buildings |
| 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 2022

1. GENERAL (CONTINUED)

As at 31 December 2022, the Company had 1,165 employees (31 December 2021: 1,149 employees). Analysis of employees by education is shown below:

| Structure | 31 December 2022 | 31 December 2021 |
|-------------------------------|-----------------------------|-----------------------------|
| PhD | 16 | 16 |
| Master of Science | 19 | 19 |
| Higher expertise | 490 | 474 |
| Associate (2-year degree) | 100 | 98 |
| Highly qualified worker | 75 | 76 |
| High school graduate | 446 | 447 |
| Qualified worker | 4 | 4 |
| Lower qualified worker | 5 | 5 |
| Semi and Non qualified worker | 10 | 10 |
| TOTAL | 1,165 | 1,149 |

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 2022 and 2021:

| | | |
|--------------------|-----------------------------------|---|
| 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 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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.

Accounting policies have been consistently applied for all periods included in these statements. The financial statements were approved by the Management Board on May 3, 2023 for submission to the company assembly.

2.2. Basis of the preparation and earthquake effect on doing business in 2022

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.

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.

During 2022, HRK 39,628 thousand was received for the implementation of projects applied for financing from the European Union Solidarity Fund (EUSF) as part of the reconstruction of infrastructure and equipment damaged by the earthquake, while the costs incurred by the implementation of this project until December 31, 2022 amounted to HRK 966 thousand. Received incentives will be recognized in future periods as income depending on the costs incurred by the implementation of these projects.

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 2022 the exchange rate for 1 USD and 1 EUR was HRK 7.064 or HRK 7.53450 (31 December 2021: HRK 6.64 or HRK 7.52).

2.4. Application of new and revised International Financial Reporting Standards (“IFRS”) from 1 January 2022

The following amended standards came into force on January 1, 2022, but did not have a material impact on the Company:

2.4.1. Standards and interpretations in the current period

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 previous version of the IASB’s Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly 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 any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes 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. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.

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

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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.

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company.

2.4.2. 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.

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.

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, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

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 IASB issued amendments to IAS 12, which narrow the scope of initial recognition exemption under IAS 12 and clarify how entities account for deferred tax on transactions such as leases and decommissioning obligations. As amended, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Exemption applies only if recognition of lease assets and liability (or decommission assets and liabilities) give rise to unequal taxable and deductible temporary differences. The amendments have not yet been endorsed by the EU.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) - The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities

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as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU.

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.

According to the Company's estimates, the application of the mentioned new standards and changes to the existing standards would not have a significant material impact on the financial statements.

2. BASIS OF PREPARATION (continued)

2.6. Going concern

As at 31 December 2022, the Company has current liabilities in the amount of HRK 1,409,866 thousand and current assets in the amount of HRK 1,055,082 thousand (as of December 31, 2021, short-term 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 refers to liabilities to related companies in the amount of HRK 608,547 thousand (2021: HRK 939,679 thousand and liabilities to banks in the amount of HRK 133,628 thousand (2021: HRK 99,852 thousand). The aforementioned negative difference was reduced during 2022 by refinancing obligations under the Agreement on the assumption of obligations for bonds issued on March 22, 2016, which matured in 2022, with a new loan agreement maturing in 2027. By stabilizing electricity prices on the market and repaying short-term liabilities, further trend of decreasing short-term liabilities.

In accordance with the Electricity Market Act, the company is obliged to purchase electricity to cover losses in the transmission network according to market principles, partly on the stock exchange and partly through long-term contracts. The growth of electricity prices on the electricity markets that started at the end of 2021 continued, with an additional significant increase in prices during the first three quarters of 2022, while prices stabilized in the last quarter of 2022 and the beginning of 2023, but are still at higher levels from the prices before the energy crisis. The rise in electricity prices on the markets directly affects the financial result of the Company, which is a direct consequence of the financial result in 2022. Also, the increase in electricity prices, which affects the high level of business expenses of the Company, consequently also affects the unsustainable level of liquidity. The aforementioned level of liquidity has an additional impact on the large increase in electricity costs for balancing the system, which are also procured according to market principles, as well as the increase in the prices of construction materials and products as a result of the global disruption in material markets and in supply chains. Due to the unfavourable liquidity situation resulting from the continuous growth of operating costs, i.e. the lack of funds to cover them, partly due to the insufficient amounts of tariff items for the transmission of electricity, which were determined on the basis of the Methodology for determining the amount of tariff items for the transmission of electricity (Official Gazette No. 104/2015, 84/2016, 84/2022), which does not take into account the occurrence of unforeseen and unplanned circumstances of this scale. After contracting short-term liabilities for working capital and other financial instruments in 2021 (HRK 99,852 thousand as of December 31, 2021) with commercial banks, the company extended the maturity with the same reprogramming, and in 2022 contracted a new short-term framework loan/ loan for working capital with use on a revolving basis in the amount of up to HRK 100,000 thousand with HEP d.d. for the purpose of settling due short-term obligations to maintain stable liquidity. Future indebtedness with acceptable and sustainable conditions, which will be inevitable in case the circumstances affecting the Company's operations do not change, will be challenging to contract, considering the current state of the financial market, as well as the total indebtedness of the HEP Group. As based on the Regulation on elimination of disturbances on the domestic energy market (Official Gazette No. 104/2022), the Company is prevented from submitting a request to the Croatian Energy Regulatory Agency to change the amount of tariff items for the duration of the temporary measures until 31 March 2023, and as the Regulation on elimination of disruptions on the domestic energy market (Official Gazette No. 31/2023) deadline extended until March 31, 2024 year, the Company's ability to influence the reconciliation of income with realized or planned costs has been reduced.

Although it is not possible to predict how long the energy crisis will last, it is evident that the period of high prices will last for some time, which may affect the retention of the increased level of costs.

2. BASIS OF PREPARATION (continued)

2.6. Going concern (continued)

In order to reduce the Company's costs based on the purchase of electricity to cover losses in the transmission network, the Government of the Republic of Croatia adopted the Decree on eliminating disturbances in the domestic energy market (Official Gazette No. 31/2023), and following the implementation of the provisions of the Decree which determined the fixed the price of working energy for the needs of covering the losses of electricity of the transmission system operator expects the stabilization of the costs of purchasing electricity to cover the losses in the transmission network, and thus the total costs for the Company in 2023.

The company, in cooperation with the competent ministry and the regulator, is actively seeking a solution to the current situation by undertaking the necessary activities in order to smoothly fulfill all the tasks that the independent transmission system operator has in accordance with legal obligations.

With regard to the aforementioned, the Company has compiled reports based on the going concern assumption.

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. On December 13, 2021, HERA issued a Decision that changed the tariff items for electricity transmission in 2022. The same applies from April 1, 2022.

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 2022 and 2021, 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.

Revenue 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Intangible assets (continued)

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized 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 recognized in profit or loss within other income/expenses.

Subsequent expenditure is included in the asset's carrying amount or recognized 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 capitalized 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

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 recognized 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 amortization had no impairment loss been recognized 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 derecognized 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 grin 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 realizable 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 realizable 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 recognizes 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 recognized 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 recognizes 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 recognized immediately in profit or loss.

(vi) Short-term employee benefits

The Company recognizes 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 derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

If the Company has retained control, it continues to recognize 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. Statutory reserves were created by the Decision of the Assembly on the distribution of profits in 2021 (twentieth part) in accordance with the provisions of the Companies Act and the Company's Statute.

3.16. Dividends

Dividend distribution to the Company's owner is recognized 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 recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 recognized 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 recognized 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 realized 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 2022 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 realization 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 2022 amounts to HRK 40,182 thousand (31 December 2021: HRK 40,556 thousand).

(iii) Valuation of inventories

The Company provides for the amount of unmarketable inventory materials according to the inventory ageing structure. In 2022, the Company decreased the value adjustment of inventories by HRK 417 thousand in favor to operating income (In 2021: HRK 373 thousand) (see Notes 7 and 24).

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(iv) 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 65,148 thousand at 31 December 2022 (31 December 2021: HRK 70,448 thousand) (see Note 31).

(v) 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.

(vi) Impairment testing of investments in subsidiaries

In 2022, an independent appraiser estimated the value of the Company's share in HEP-Telekomunikacije d.o.o. The assessment did not determine assumptions for impairment of the value of the financial assets.

(vi) Impairment testing of investments in subsidiaries

In 2022, an independent appraiser estimated the value of the Company's share in HEP-Telekomunikacije d.o.o. The assessment did not determine assumptions for impairment of the value of the financial assets.

(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.

(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.

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(viii) Expected credit loss model (continued)

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.

The recoverable amount of trade receivables and other receivables was estimated at the present value of future cash flows discounted at the market interest rate on the measurement date.

Short-term receivables without a specified interest rate are measured according to the amount of the original invoice if the effect of discounting is not significant.

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)

(viii) 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.

(ix) Revenues from the ITC Agreement

The estimated revenues from the ITC mechanism relate to the Company's estimated revenue for the part of 2022 as they are not charged in the current year. The assessment was made according to the announcements of calculations for the first 6 months of the year 2022.

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 categorized 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 2022

6. REVENUE FROM SALES

(in thousands of HRK)

| | 2022 | 2021 |
|--|------------------|------------------|
| Revenue from sales – related parties | | |
| Electricity transmission income | 1,390,548 | 1,327,597 |
| Sales of balancing energy – imbalance settlement | 494,066 | 137,625 |
| Sales of balancing energy | 146,559 | 59,394 |
| Other | 26,556 | 24,202 |
| | 2,057,729 | 1,548,818 |
| Revenue from sales – third parties | | |
| Electricity transmission income | 65,947 | 67,031 |
| Cross-border transmission capacity - foreign | 364,346 | 114,497 |
| Sales of balancing energy | 266,835 | 36,930 |
| Sales of balancing energy - imbalance settlement | 252,268 | 176,712 |
| ITC revenue | 4,498 | 19,071 |
| Income from connection to transmission network | - | 80 |
| Sales from energy for transmission grid losses | 51,166 | 20,387 |
| | 1,005,060 | 434,708 |

Electricity transmission income is higher in 2022 compared to 2021 by HRK 61,867 thousand (both from related parties and from companies outside the Group) due to the application of the new Methodology from April 2022 (in 2021 compared to 2020 by HRK 104,049 thousand as a result of increased economic activity). thousands of HRK as a result of increased economic activity).

Revenue from the sale of balancing electricity and the sale of electricity – imbalance settlement (both from affiliated and from companies outside the Group) is higher in 2022 compared to 2021 by HRK 749,067 thousand which is mostly caused by greater deviations of market participants and rising electricity prices in the market.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

7. OTHER INCOME – THIRD PARTIES

(in thousands of HRK)

| | 2022 | 2021 |
|---|---------------|---------------|
| Income from electricity connection (asset) – IFRS 15 | 19,265 | 18,939 |
| Consumption of own products and services | 5,069 | 7,830 |
| Income from assets received free of charge | 2,766 | 2,753 |
| Value adjustment – financial assets (Note 21) | - | 500 |
| Inventory value adjustment – decrease (Note 24) | 417 | 373 |
| Reversal of litigation provisions (Note 31) | 34,289 | 1,003 |
| Reversal of provisions for severance pay and jubilee awards | 5,301 | - |
| Collection of written-off receivables income | - | 112 |
| Nonstandard services income | 52 | 40 |
| Surplus material assets | 10 | - |
| Change in fair value of investment in real estate | 745 | - |
| Other services income | 18,292 | 13,063 |
| | 86,206 | 44,613 |

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 2,645 thousand (2021: HRK 1,947 thousand), rent income HRK 310 thousand (2021: HRK 295 thousand), income from reimbursement of costs of EU projects in the amount of HRK 9,287 thousand (2021: HRK 6,529 thousand) and other HRK 6,050 thousand (2021: HRK 4,921 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

8. MATERIAL AND SPARE PARTS USED

(in thousands of HRK)

| | 2022 | 2021 |
|---|---------------|---------------|
| Maintenance material for power facilities | 10,357 | 8,830 |
| Energy | 6,255 | 5,183 |
| Maintenance material for other assets | 567 | 679 |
| Low value stock and safety clothes | 1,287 | 1,828 |
| Other | 1,869 | 2,157 |
| | 20,335 | 18,677 |

9. SERVICE EXPENSES

(in thousands of HRK)

| | 2022 | 2021 |
|---|----------------|----------------|
| Power facility maintenance services | 70,069 | 89,712 |
| Auctions for cross border transmission capacity | 216,026 | 64,263 |
| Agency and research services | 24,255 | 20,573 |
| ITC mechanism costs | 3,543 | 3,087 |
| Maintenance services | 7,143 | 6,627 |
| Security services | 6,539 | 5,861 |
| Research and development cost | 5,246 | 1,343 |
| Telecommunication services | 2,156 | 2,012 |
| Low value leases | 685 | 483 |
| Other | 12,161 | 8,071 |
| | 347,823 | 202,032 |

In 2022, part of the agency and scientific services costs related to the fees for the audit of the annual financial statements for 2021 in the amount of HRK 183 thousand, fees for other audit services in the amount of HRK 147 thousand, fees for tax and other consulting services in the amount HRK 181 thousand. The fee for the statutory audit in 2022 amounts HRK 183 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. PERSONNEL EXPENSES

(in thousands of HRK)

| | 2022 | 2021 |
|---|----------------|----------------|
| Net salaries | 134,097 | 131,114 |
| Taxes from salaries | 16,519 | 15,791 |
| Contributions from salaries – Pension Insurance | 37,653 | 36,726 |
| Contributions on salaries | 28,061 | 27,012 |
| | 216,330 | 210,643 |

Total personnel costs were as follows:

(in thousands of HRK)

| | 2022 | 2021 |
|---|----------------|----------------|
| Gross salaries | 216,330 | 210,643 |
| Reimbursement of costs to employees (Note 12) | 15,460 | 14,402 |
| Employee benefits (Note 12) | 15,522 | 11,961 |
| Additional health insurance costs (Note 12) | 954 | 952 |
| | 248,266 | 237,958 |

As of 31 December 2022 the Company had 1,165 employees (2021: 1,149 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 2022 amounted to HRK 2,414 thousand (2021: HRK 950 thousand) and represent retirement bonuses for 12 employees.

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

(in thousands of HRK)

| | 2022. | 2021. |
|---------------------------------|--------------|--------------|
| Gross salaries | 6,029 | 5,669 |
| Pension insurance contributions | 1,322 | 1,251 |
| Benefits in kind | 655 | 580 |
| | 8,006 | 7,500 |

| | | |
|------------------------------------|----|----|
| Number of directors and executives | 17 | 14 |
|------------------------------------|----|----|

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

10. PERSONNEL EXPENSES (CONTINUED)

Supervisory board remuneration:

(in thousands of HRK)

| | 2022 | 2021 |
|-------------------------------------|-------------|-------------|
| Gross salaries | - | 37 |
| Pension insurance contributions | - | 4 |
| Benefits in kind | 27 | 6 |
| | <u>27</u> | <u>47</u> |
| Number of Supervisory board members | 4 | 4 |

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

(in thousands of HRK)

| | 2022 | 2021 |
|---|------------------|----------------|
| Ancillary services | | |
| Ancillary services – related parties (Note 35) | 242,736 | 282,830 |
| Ancillary services – third parties | 13,798 | 12,459 |
| | <u>256,534</u> | <u>295,289</u> |
| Cost of transmission grid losses | | |
| Cost of transmission grid losses – related parties (Note 36) | 28,733 | 50,136 |
| Cost of transmission grid losses – third parties | 568,625 | 210,487 |
| | <u>597,358</u> | <u>260,623</u> |
| Purchase of balancing energy | | |
| Purchase of balancing energy – related parties HEP Proizvodnja d.o.o. (Note 36) | 382,027 | 181,321 |
| Purchase of balancing energy – imbalance settlement – related parties (Note 36) | 291,555 | 152,120 |
| Purchase of balancing energy – third parties | 273,273 | 51,168 |
| Purchase of balancing energy – imbalance settlement – third parties (Note 36) | 229,015 | 46,759 |
| | <u>1,175,870</u> | <u>431,368</u> |

During 2021 and 2022, 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 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 2022

12. OTHER OPERATING EXPENSES

(in thousands of HRK)

| | 2022 | 2021 |
|--|---------------|----------------|
| Taxes, contributions and fees | 21,625 | 19,351 |
| Reimbursement of costs to employees | 15,460 | 14,402 |
| Employee benefits | 15,522 | 11,961 |
| Net book value of disposed tangible assets and inventories | 8,422 | 9,082 |
| Affiliation fee for business associations | 4,423 | 4,486 |
| Provisions for retirement bonuses and jubilee awards for workers | - | 7,813 |
| Provisions for court cases (Note 31) | - | 1,013 |
| Reimbursement of costs to employees | 896 | 775 |
| Employee benefits | 954 | 953 |
| Net book value of disposed tangible assets and inventories | 589 | 923 |
| Affiliation fee for business associations | 721 | 19 |
| Transmission network fee claims written off – earthquake | 5,415 | 7,784 |
| Impairment of receivables (Note 25) | 2 | 40,641 |
| Other operating expense | 4,652 | 4,842 |
| | 78,681 | 124,045 |

13. FINANCE INCOME

(in thousands of HRK)

| | 2022 | 2021 |
|------------------------|--------------|--------------|
| Interest income | 32 | 331 |
| Foreign exchange gains | 2,052 | 1,989 |
| | 2,084 | 2,320 |

14. FINANCE COSTS

(in thousands of HRK)

| | 2022 | 2021 |
|---|---------------|---------------|
| Sub-loan interest - related parties | 22,417 | 25,154 |
| Interests - banks | 872 | - |
| Penalty interest | 495 | 19 |
| Foreign exchange losses | 4,106 | 689 |
| Interest for lease – IFRS 16 | 200 | 148 |
| Amortized amount of the related discount cost | 710 | 876 |
| | 28,800 | 26,886 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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% (2021: 18%).

Tax expense includes:

(in thousands of HRK)

| | 2022 | 2021 |
|---|-------------|--------------|
| Current tax | - | 8,559 |
| Deferred tax | 374 | 471 |
| Tax expense in Comprehensive income for the year | 374 | 9,030 |

(in thousands of HRK)

| | 2022 | 2021 |
|--|----------------|---------------|
| Profit before taxation | (9,044) | 36,687 |
| Income tax at the rate of 18% | (1,628) | 6,604 |
| Tax effect of permanent differences - increase | 2,356 | 2,596 |
| Tax effect of permanent differences - decrease | (2,714) | (170) |
| Tax effect of temporary differences | 1,986 | (471) |
| Tax cost | - | 8,559 |
| Effective tax rate (%) | - | 23.33% |

In the tax form for 2022, the company reported a tax loss for the transfer in the amount of HRK 24,142 thousand. In accordance with the provisions of the Income Tax Act, it can be used to reduce the tax base in the following five years of tax periods.

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 2022

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 | Tax loss | Total |
|--|--------------------------------|---|-------------------------|--|--|---|-----------------|---------------|
| 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 |
| (Credited)/ debited to profit and loss | (75) | (954) | 207 | (640) | (768) | (130) | 1,986 | (374) |
| At 31 December 2022 | 3,163 | 12,205 | 695 | 5,866 | 14,517 | 1,750 | 1,986 | 40,182 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

16. INTANGIBLE ASSETS

| <i>(in thousands of HRK)</i> | Software | Leasehold improvement regarding rights of usage | Intangible assets not yet available for use | Total |
|---|----------------|---|---|----------------|
| COST | | | | |
| At 1 January 2021 | 100,265 | 18,566 | - | 118,831 |
| Additions | 231 | - | 1,331 | 1,526 |
| Transfer from tangible assets | 21,778 | - | - | 21,778 |
| Reclassification | (720) | - | - | (720) |
| Disposals and write-offs | (2,876) | - | - | (2,876) |
| At 31 December 2021 | 118,678 | 18,566 | 1,331 | 138,575 |
| Additions | 894 | - | 143 | 1,037 |
| Transfer from tangible assets | 10,200 | - | - | 10,200 |
| Reclassification from property, plant and equipment | 85 | - | - | 85 |
| Disposals and write-offs | (750) | (18,513) | - | (19,263) |
| At 31 December 2022 | 129,107 | 53 | 1,474 | 130,634 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2021 | 59,443 | 18,197 | - | 77,640 |
| Charge 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 |
| Charge for the year | 16,241 | - | - | 16,241 |
| Sales and expense | (732) | (18,513) | - | (19,245) |
| Transfer | 6 | - | - | 6 |
| At 31 December 2022 | 87,630 | 53 | - | 87,683 |
| CARRYING AMOUNT | | | | |
| At 31 December 2021 | 46,563 | - | 1,331 | 47,894 |
| At 31 December 2022 | 41,477 | - | 1,474 | 42,951 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

17. PROPERTY, PLANT AND EQUIPMENT

| <i>(in thousands of HRK)</i> | Land | Buildings | Inventory and equipment | Assets under construction | Total |
|---|----------------|------------------|-------------------------|---------------------------|-------------------|
| COST | | | | | |
| At 1 January 2021 | 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) |
| Transfer and reclassifications | - | 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 |
| Additions | - | 1,088 | 15,198 | 556,027 | 572,313 |
| Transfer from assets under construction | - | 104,684 | 368,808 | (483,692) | (10,200) |
| Reclassification from intangible assets | - | 95 | (180) | - | (85) |
| Transfer between parties | 195 | - | - | - | 195 |
| Surplus | - | - | 28 | - | 28 |
| Disposals and write-offs | - | (6,852) | (107,349) | (2,765) | (116,966) |
| At 31 December 2022 | 156,137 | 4,949,936 | 9,689,419 | 1,060,077 | 15,855,569 |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January 2021 | - | 3,056,984 | 5,453,591 | - | 8,510,575 |
| Charge for the year | - | 88,173 | 268,977 | - | 357,150 |
| Reclassification | - | 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 |
| Charge for the year | - | 87,328 | 278,615 | - | 365,943 |
| Reclassification | - | 18 | (24) | - | (6) |
| Surplus | - | - | 17 | - | 17 |
| Disposals and write-offs | - | (6,001) | (102,944) | - | (108,945) |
| At 31 December 2022 | - | 3,210,035 | 5,784,390 | - | 8,994,425 |
| NET BOOK VALUE | | | | | |
| At 31 December 2021 | 155,942 | 1,722,231 | 3,804,188 | 990,507 | 6,672,868 |
| At 31 December 2022 | 156,137 | 1,739,901 | 3,905,029 | 1,060,077 | 6,861,144 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 73,786 thousand (2021: HRK 73,707 thousand), the reconstruction of TS 110/20(10) kV Sućidar in the amount of HRK 83,701 thousand (2021: HRK 75,571 thousand), reconstruction of TS 110/10(20) kV Split 3 in the amount of HRK 42,080 thousand (2021: HRK 39,239 thousand), reconstruction of TS Rakitje HRK 60,935 thousand (2021: HRK 30,406 thousand), reconstruction of TS Zamošće in the amount of HRK 16,378 thousand (2021: HRK 16,171 thousand), reconstruction of TS Meterize in the amount of HRK 38,692 thousand (2021: HRK 23,168 thousand), TS Stenjevec HRK 37,638 thousand (2021: HRK 11,132 thousand), construction of 2x110 kV Bilice -Trogir HRK 55,805 thousand (2021: HRK 16,573 thousand), laying the underwater 110 kV cable Mainland - Brač HRK 61,862 thousand (2021: HRK 20,463 thousand). Contractual obligations related to investments in progress on the reporting date amount to HRK 828,067 thousand (2021: 556,310 thousand), and the envisaged implementation schedule has been adjusted to the construction deadlines.

During 2022, the following significant investments were put into operation: TS Osijek 2 in the amount of HRK 42,794 thousand, DV 220 kV Zakučac – Konjsko in the amount of HRK 27,999 thousand, underwater 110 kV cable Mainland - Krk in the amount of HRK 22,014 thousand, TS Konjsko – SINCRO.GRID in the amount of HRK 108,800 thousand, KB 110 kV TS Savica – TS Cvjetno naselje in the amount of HRK 15,380 thousand.

During 2022, the company capitalized part of the borrowing costs in the total amount of HRK 2,306 thousand (2021: HRK 2,765 thousand). The capitalization rate used in determining the cost of borrowing eligible for capitalization is 1.261% (2021: 1.71%). During 2022, the company capitalized part of its operating costs in the total amount of HRK 2,763 thousand (2021: HRK 5,065 thousand).

Land and buildings ownership

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 courts 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 2022

18. RIGHT-OF-USE ASSETS

(in thousands of HRK)

| | Business space | Equipment | Total |
|---------------------------------|-------------------|--------------|---------------|
| COST | | | |
| At 1 January 2021 | 5,871 | 1,324 | 7,195 |
| Additions | - | - | - |
| At 31 December 2021 | 5,871 | 1,324 | 7,195 |
| Additions | 6,166 | - | 6,166 |
| Disposals | (2,886) | - | (2,886) |
| At 31 December 2022 | 9,151 | 1,324 | 10,475 |
| ACCUMULATED DEPRECIATION | | | |
| At 1 January 2021 | 2,610 | 110 | 2,720 |
| Charge for the year | 1,455 | 441 | 1,896 |
| At 31 December 2021 | 4,065 | 551 | 4,616 |
| Charge for the year | 1,743 | 442 | 2,185 |
| Disposals | (2,886) | - | (2,886) |
| At 31 December 2022 | 2,922 | 993 | 3,915 |
| CARRYING AMOUNT | | | |
| At 31 December 2021 | 1,806 | 773 | 2,579 |
| At 31 December 2022 | 6,229 | 331 | 6,560 |

The total cash outflow for the repayment of principal on leases in 2022 amounted to HRK 2,056 thousand (2021: HRK 1,933 thousand).

19. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)

| | |
|----------------------------|---------------|
| At 1 January 2021 | 19,004 |
| Advances given | 21,527 |
| Utilised in current year | (27,213) |
| At 31 December 2021 | 13,318 |
| Advances given | 58,978 |
| Utilised in current year | (15,462) |
| At 31 December 2022 | 56,834 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

20. INVESTMENT PROPERTY

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|---|-----------------------------|-----------------------------|
| Fair value opening balance | 4,542 | 4,542 |
| Net change in fair value of investment property | 745 | - |
| Closing balance at fair value | 5,287 | 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 (2021: HRK 16 thousand). The Company recorded direct operating expenses (including reserves) in the amount of HRK 26 thousand (2021: HRK 26 thousand).

The Company regularly tests property investments for impairment by analyzing the price of comparable real estate. At the reporting date, an assessment of the court expert was used.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

21. INVESTMENTS IN ASSOCIATES

| <i>(in thousands of HRK)</i> | Country | 31 December 2022 | | 31 December 2021 | |
|---|---------|------------------|----------------|------------------|----------------|
| | | % ownership | Net book value | % ownership | Net book value |
| Hrvatska burza električne energije d.o.o., Zagreb | Croatia | 50.0% | 8,000 | 50.0% | 8,000 |
| Value impairment | | | (3,250) | | (3,000) |
| | | | <u>4,750</u> | | <u>5,000</u> |

The company measures 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 2022, based on internal assessment, the Company decreased the value of investments in the company Hrvatska burza električne energije d.o.o. by HRK 250 thousand, i.e. the previous value adjustment of HRK 250 thousand was corrected (2021: increase by HRK 500 thousand) as shown in Note 7 "Other operating income outside the group".

In the adopted annual financial statements for 2021, the company Hrvatska burza električne energije d.o.o., Zagreb reported capital and reserves in the total amount of HRK 9,537 thousand and the profit for the business year in the amount of HRK 1,575 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| <i>(in thousands of HRK)</i> | Country | 31 December 2022 | | 31 December 2021 | |
|------------------------------|------------|------------------|----------------|------------------|----------------|
| | | % 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% | 2,535 | 4% | 2,578 |
| TSCNET Services GmbH | Germany | 7.14% | 2,791 | 7.14% | 2,728 |
| SEE CAO | Montenegro | 12.5% | 302 | 12.5% | 306 |
| | | | 53,022 | | 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. During 2022, the company adjusted the value of shares in JAO S.A., TSCNET and SEE CAO so that they correspond to the amounts in EUR. The adjustment in the amount of HRK 16,000 thousand was reported under other operating income.

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 2022

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 2022 | 31 December 2021 |
|--|-----------------------------|-----------------------------|
| Total receivables for apartments sold | 503 | 755 |
| Current portion of long-term receivables | (277) | (361) |
| Non-current receivables | 226 | 394 |

24. INVENTORIES

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------------|-----------------------------|-----------------------------|
| Electric units and other materials | 7,935 | 8,351 |
| Spare parts | 18,356 | 19,644 |
| Building materials | 379 | 445 |
| Other | 67 | 67 |
| Value adjustment | (17,570) | (17,987) |
| | 9,167 | 10,520 |

Movement in the impairment allowance for inventories is as follows:

| <i>(in thousands of HRK)</i> | 2022 | 2021 |
|---|---------------|---------------|
| At 1 January | 17,987 | 18,360 |
| (Decrease)/increase in value adjustment | (417) | (373) |
| At 31 December | 17,570 | 17,987 |

Impairment of inventories by HRK 417 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 2022

25. TRADE RECEIVABLES

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Trade receivables | 251,931 | 170,174 |
| Impairment of receivables | (44,781) | (44,779) |
| Net receivables | 207,150 | 125,395 |

Movements in impairment allowance were as follows:

| <i>(in thousands of HRK)</i> | 2022 | 2021 |
|--|---------------|---------------|
| At 1 January | 44,779 | 4,235 |
| Impairment of receivables | 7 | 40,641 |
| Impairment cancellation | (5) | (4) |
| Collected receivables, previously provided for | - | (93) |
| <i>Change on receivables impairment</i> | 2 | 40,544 |
| At 31 December | 44,781 | 44,779 |

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".

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

25. TRADE RECEIVABLES (continued)

Ageing analysis of receivables not impaired is as follows:

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Not yet due | 205,905 | 113,830 |
| 0 - 30 days | 1,059 | 11,453 |
| 31 – 60 days | 9 | - |
| 61 – 90 days | - | - |
| 91 – 180 days | 173 | 111 |
| 81 – 365 days | 4 | - |
| Over 365 days | - | 1 |
| | 207,150 | 125,395 |

Trade receivables are denominated in:

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| HRK | 7,426 | 58,234 |
| EUR | 199,724 | 67,161 |
| | 207,150 | 125,395 |

26. OTHER CURRENT ASSETS

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|--|-----------------------------|-----------------------------|
| VAT receivables | 27,392 | 33,656 |
| Income tax receivables | 9,498 | 16,740 |
| Prepaid expenses and accrued income | 4,986 | 6,839 |
| Current portion of long-term receivables (Note 23) | 277 | 361 |
| Other receivables | 2,481 | 2,510 |
| | 44,634 | 60,106 |

Prepaid expenses relate to supplementary health insurance premiums and other expenses in the amount of HRK 1,667 thousand (2021: HRK 3,391 thousand).

Accrued revenues in 2022 refer to the estimated revenue from the ITC mechanism for the period January - June 2022 in the amount of HRK 3,319 thousand by the Management Board (2021: HRK 3,448 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

27. DEPOSITS

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|--------------------------------|-----------------------------|-----------------------------|
| Deposits given – expropriation | 22,446 | 23,775 |
| Guarantees | 171 | 65 |
| | 22,617 | 23,840 |

Deposits given – 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% to 2.7%.

28. CASH AND CASH EQUIVALENTS

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Giro account – domestic | 178,229 | 69,766 |
| Giro account – foreign | 39,830 | 33,876 |
| Deposits up to 90 days | 15,772 | 13,054 |
| Cash in hands | 7 | 40 |
| | 233,838 | 116,736 |

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 2022

29. CAPITAL AND RESERVES

Subscribed capital

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|--------------------|-----------------------------|-----------------------------|
| Subscribed capital | 4,948,627 | 4,948,627 |

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. After the increase, the share capital amounts to HRK 4,948,627 thousand.

At its assembly 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.

At the assembly of June 8, 2022, the General Meeting of the Company passed a Decision allocating the profit for 2021 in the total amount of HRK 27,657 thousand in such a way that the amount of HRK 1,383 thousand was allocated to statutory reserves, and the amount of HRK 26,274 thousand was allocated to retained earnings.

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. Statutory reserves in the amount of HRK 1,383 thousand were formed by the distribution of profits in 2021.

Proposed profit distribution

The Company's Management Board will propose to the Assembly the distribution of the loss for 2022 in the total amount of HRK 9,418 thousand in such a way that it is transferred to retained earnings. The final decision on the distribution of loss in 2022 is made by the Assembly of the Company in accordance with the provisions of the Articles of Association and the Companies Act.

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Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

30. SUBLOAN FROM AND LOAN LIABILITIES TO RELATED COMPANIES

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|--|-----------------------------|-----------------------------|
| Liabilities toward HEP d.d. for subloan and loan | 614,431 | 706,282 |
| Transaction cost for subloan refinancing | - | (711) |
| Other non-current liabilities to related companies | 219 | 311 |
| | 614,650 | 705,882 |
| Current portion of long-term debt | (92,835) | (520,062) |
| Non-current portion | 521,815 | 185,820 |

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. During 2022, the Company entered into a long-term loan agreement with Mother Company in the amount of HRK 428,924 thousand for the purpose of refinancing the loan due in 2022.

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

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Up to 6 months | 46,417 | 46,417 |
| 7 – 12 months | 46,417 | 473,645 |
| 1 – 2 years | 57,390 | 92,836 |
| 2 - 5 years | 464,207 | 93,383 |
| | 614,431 | 706,281 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Up to 6 months | 49 | 63 |
| 7 – 12 months | 49 | 63 |
| 1 – 2 years | 98 | 126 |
| 2 - 5 years | 23 | 59 |
| | <u>219</u> | <u>311</u> |

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 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| HRK | 185,509 | 278,656 |
| EUR | 428,922 | 427,226 |
| | <u>614,431</u> | <u>705,882</u> |

Loans in the amount of HRK 614,431 thousand carry a fixed interest rate (2021: HRK 705,882 thousand).

The weighted average fixed interest rate on loans is 2.573% per year (2021: from 3.562% per year).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

31. PROVISIONS

| <i>(in thousands)</i> | Provisions for jubilee awards | Provisions for retirement benefits | Provisions for court cases | Total |
|----------------------------|--|---|---|----------------|
| 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> |
| At 31 December 2022 | | | | |
| Non-current | 2,984 | 59,990 | 15,103 | 78,077 |
| Current | 504 | 1,670 | - | 2,174 |
| | <u>3,488</u> | <u>61,660</u> | <u>15,103</u> | <u>80,251</u> |

Movements in provisions was as follows:

| <i>(in thousands of HRK)</i> | Provisions for jubilee awards | Provisions for retirement benefits | Provisions for court cases | Total |
|------------------------------|--|---|---------------------------------------|----------------|
| At 1 January 2021 | | | | |
| Increase | 391 | 8,339 | 1,012 | 9,742 |
| Reversal | - | - | (1,003) | (1,003) |
| Utilised | (442) | (474) | - | (916) |
| | <u>4,015</u> | <u>66,434</u> | <u>49,392</u> | <u>119,841</u> |
| At 31 December 2021 | | | | |
| At 1 January 2022 | | | | |
| Increase | - | - | - | - |
| Reversal | (85) | (3,864) | (34,289) | (38,238) |
| Utilised | (442) | (910) | - | (1,352) |
| | <u>4,015</u> | <u>66,434</u> | <u>49,392</u> | <u>119,841</u> |
| At 31 December 2022 | | | | |
| | <u>3,488</u> | <u>61,660</u> | <u>15,103</u> | <u>80,251</u> |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 | |
|--|----------|-------|
| | 2022 | 2021 |
| Average staff turnover rate | 2.40% | 2.50% |
| Discount rate | 3.6% | 1.1% |
| 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 favor 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 it was estimated that its solution is not probably in the favor of the Company relates to the private lawsuit for compensation for expropriated real estate initiated at the State Administration Office in Split for which a reservation was made in the amount of HRK 13,445 thousand for which the Company made a reservation in 2010 year.

On 24 January 2023, in the dispute led by the claimant Autocesta Rijeka-Zagreb d.d. against the Company and HEP d.d., the second-degree court decision of The High Commercial Court of the Republic of Croatia was adopted, which accepted the reasons from the submitted appeal, and the claim against the Company was rejected in its entirety. In accordance with the assessment and statements of the lawyer who represented the Company in the aforementioned dispute, to which this verdict is considered final in relation to the Company and no matter of future actions regarding the dispute, there is a higher probability of a positive final outcome for the Company, the previously stated provision in the total amount of HRK 27,033 thousand have been reversed and booked as income.

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 2022.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

32. OTHER LONG-TERM LIABILITIES

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|---|-----------------------------|-----------------------------|
| Deferred income - assets received with no reimbursement appliance od IFRS 15 /i/ | 372,485 | 391,751 |
| Liabilities for long-term loan according to ERSTE bank/ii/ | 69,507 | - |
| Deferred income - assets received with no reimbursement till 30 June 2009 /iii/ | 57,216 | 58,699 |
| Deferred income – cash received from the EU funds /iv/ | 458,483 | 51,274 |
| Lease liabilities under IFRS 16 | 6,715 | 2,598 |
| Liabilities to state regarding apartments sold | 336 | 499 |
| Deferred income – cash received from others | 1,110 | 1,110 |
| | 965,852 | 505,931 |
| Current portion of other long term liabilities (Note 34) | (39,582) | (22,644) |
| | 926,270 | 483,287 |

/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/ During 2022, the company entered into a loan agreement with ERSTE&STEIERMARKISCHE BANK d.d., Rijeka, in the total amount of HRK 77,230 thousand for investment purposes with a fixed interest rate of 0.40% per year for the entire duration of the loan, due in 2027. During 2022, HRK 7,723 thousand was repaid in accordance with the payment plan.

/iii/ 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.

/iv/ 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 88,815 thousand, ATTEST project in the amount of HRK 147 thousand, FARCROSS project in the amount of HRK 531 thousand, FLEXGRID project in the amount of HRK 146 thousand, EPASSIS project in the amount of HRK 25 thousand, E-CYBIS project in the amount of HRK 986 thousand, CYBERSEAS project in the amount of HRK 251 thousand and LIFE DANUBE FREE SKY project in the amount of HRK 165 thousand. For the implementation of the project from the National Recovery and Resilience Plan is received HRK 328,753 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

32. OTHER LONG-TERM LIABILITIES (continued)

For the implementation of projects applied for financing from the European Union Solidarity Fund (EUSF) as part of the reconstruction of infrastructure and equipment damaged by the earthquake Company received the amount of HRK 39,628 thousand, while the costs incurred by the implementation of this project until December 31, 2022 amounted to HRK 966 thousand. Received incentives will be recognized in future periods as income depending on the costs incurred by the implementation of these projects.

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 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| Lease liabilities | 6,715 | 2,598 |
| Current portion | (2,106) | (1,324) |
| | 4,609 | 1,274 |

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

| <i>(in thousands of HRK)</i> | 31 December 2022 | 31 December 2021 |
|------------------------------|-----------------------------|-----------------------------|
| till 3 months | 554 | 474 |
| 3 to 12 months | 1,552 | 850 |
| 1 to 2 years | 1,761 | 1,011 |
| 2 to 5 years | 2,848 | 263 |
| over 5 years | - | - |
| | 6,715 | 2,598 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

32. OTHER LONG-TERM LIABILITIES (continued)

The movement of lease liabilities is shown as follows:

(in thousands of HRK)

| | 2022 | 2021 |
|-----------------------|--------------|--------------|
| At January 1 | 2,598 | 4,531 |
| Interests (note 14) | (200) | (148) |
| New lease | 6,174 | - |
| Lease payment | (2,056) | (1,785) |
| Foreign exchange | 199 | - |
| | <hr/> | <hr/> |
| At December 31 | 6,715 | 2,598 |
| | <hr/> | <hr/> |

33. TRADE PAYABLES

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|--|-----------------------------|-----------------------------|
| Amounts due to suppliers of fixed assets | 235,641 | 275,191 |
| Amounts due to suppliers of current assets | 236,504 | 116,119 |
| | <hr/> | <hr/> |
| | 472,145 | 391,310 |
| | <hr/> | <hr/> |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

34. LIABILITIES TO BANKS

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|---|-----------------------------|-----------------------------|
| Short – term loan liabilities /i/ | 50,089 | 50,365 |
| Current maturity of long-term loan liability (note 32) /ii/ | 15,446 | - |
| Short – term factoring liabilities /iii/ | 68,093 | 49,487 |
| | 133,628 | 99,852 |

/i/ 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 was December 28, 2022. During 2022, an amount of 52 thousand euros was repaid in Kuna equivalent. During 2022, an Addendum to the Loan Agreement was concluded, which extended the repayment term to September 30, 2023 and the interest was changed and now amounts to the three-month EURIBOR increased by an interest margin of 1.40%.

/ii/ The current maturity of the long-term loan obligation refers to the amount of the loan due in 2023 (note 32).

/iii/ 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 and January 2023 at the latest, and the contractual interest rate is 0.40% per year. All liabilities toward the bank from this Agreement have been paid within the due dates.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

35. OTHER CURRENT LIABILITIES

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|---|-----------------------------|-----------------------------|
| Prepayments for connection fees | 69,101 | 49,197 |
| Liabilities for received guarantees | 16,614 | 13,334 |
| Net wages | 10,729 | 10,708 |
| Liabilities for unused vacation | 10,351 | 9,629 |
| Liabilities for taxes, contributions and other | 4,758 | 3,857 |
| Wages contributions | 3,216 | 3,230 |
| Taxes from wages | 1,432 | 1,436 |
| Other liabilities to employees | 1,735 | 873 |
| Deferred income for cross-border transmission capacity | 45,020 | 12,074 |
| Deferred income – other | 621 | 873 |
| Balancing energy accrued expense – imbalance settlement | 37 | 141 |
| ITC mechanism accrued expense | 2,830 | 2,188 |
| Current portion of long-term liabilities (Note 32) | 24,137 | 22,644 |
| Other | 2,791 | 1,769 |
| | 193,372 | 131,953 |

Deferred revenues for cross-border transmission capacity refer to the capacity allocated at the annual and monthly auctions held in December 2022, which will be used in January and February 2023.

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. ("Mother Company " 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 2022 and 2021 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, 2021, HERA issued a Decision amending the tariff items for electricity transmission in 2022. The same applies from April 1, 2022.

Costs of ancillary services in the total amount of HRK 242,736 thousand (2021: HRK 282,830 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 2022

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:

| <i>(in thousands of HRK)</i> | 2022 | 2021 |
|---|------------------|------------------|
| Income and expenses | | |
| Sales income | | |
| Electricity transmission fee income - HEP ODS d.o.o., HEP Proizvodnja d.o.o. and EPK d.o.o. | 1,390,548 | 1,327,597 |
| Sales of balancing energy – Balance Group Managers (BGMs) – related parties | 494,066 | 137,625 |
| Sales of balancing energy - HEP Proizvodnja d.o.o. | 146,559 | 59,394 |
| Service income – HEP Telekomunikacije d.o.o. | 19,657 | 19,657 |
| Other sales income – related parties | 6,899 | 4,545 |
| | 2,057,729 | 1,548,818 |
| Other income | | |
| Other income – related parties | - | - |
| Total related parties income | 2,057,729 | 1,548,818 |
| Expenses | | |
| Other | | |
| - Telecommunication service cost – HEP Telekomunikacije d.o.o. | 44,040 | 43,011 |
| - Receivable impairment - HEP-ODS | - | - |
| - Other expenses – related parties | 9,983 | 5,936 |
| | 54,023 | 48,947 |
| Transmission grid losses (Note 11) | 28,733 | 50,136 |
| Purchase of regulating power (Note 11) | | |
| - Purchase of balancing energy – imbalance settlement – related parties BGMs | 291,555 | 152,120 |
| - Purchase of balancing energy – HEP Proizvodnja d.o.o. | 382,027 | 181,321 |
| | 673,582 | 333,441 |
| Ancillary services – HEP Proizvodnja d.o.o. (Note 11) | 242,736 | 282,830 |
| Finance costs HEP d.d. | 22,814 | 25,154 |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

36. RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|--|---------------------|---------------------|
| Receivables and liabilities | | |
| Receivables from HEP d.d. and other companies from HEP Group | | |
| - Electricity transmission fee – HEP-ODS, HEP Proizvodnja and EPK | 250,227 | 245,758 |
| - for balancing energy from HEP Proizvodnja | 11,993 | 21,462 |
| - for balancing energy from BGMs- related parties (HEP d.d. and HEP-ODS) | 271,352 | 104,486 |
| - connection fee from EPK d.o.o. | - | - |
| - other | 4,104 | 2,710 |
| | 537,676 | 374,416 |
| 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 | 266,568 | 237,807 |
| - Transmission grid losses – HEP d.d. | 2,757 | 4,810 |
| - deposits received HEP d.d. and HEP ODS | 18,600 | 23,845 |
| - other – HEP d.d. | 1,857 | 4,434 |
| - Accrued interest on subloan – HEP d.d. | 76,888 | 70,462 |
| - Short-term loan – HEP d.d. | 80,000 | - |
| - Other current liabilities to related parties | 7,840 | 6,527 |
| | 466,072 | 359,447 |
| Liabilities to HEP Proizvodnja d.o.o. for ancillary services | 49,135 | 59,452 |
| Liabilities to HEP Proizvodnja d.o.o. for connection to the grid - prepayment | 505 | 718 |
| | 49,640 | 60,170 |
| Total short term liabilities to related parties | 515,712 | 419,617 |
| Non-current liabilities | | |
| Subloan liabilities (Note 30) - HEP d.d. | 614,432 | 705,570 |
| Apartments sold (Note 30) - HEP d.d. | 218 | 312 |
| | 614,650 | 705,882 |
| Current portion (Note 30) | (92,835) | (520,062) |
| | 521,815 | 185,820 |

During the year ending 31 December 2022, the Company compensated due liabilities and interest on sub-loans to affiliated companies with receivables from affiliated companies in the amount of HRK 92,835 thousand related to principal and HRK 24,995 thousand related to interest (2021: HRK 57,533 thousand and HRK 24,901 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

36. RELATED PARTY TRANSACTIONS (continued)

| <i>(in thousands of HRK)</i> | Expenses | | Sales revenue | |
|--|---------------|--------------|----------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| <i>State controlled entities</i> | | | | |
| HŽ Infrastruktura d.o.o. | - | - | 15,370 | 16,307 |
| Legislative, executive and other bodies of the Republic of Croatia | 14 | 1,958 | - | - |
| Hrvatske šume d.o.o. | 2,614 | 861 | - | - |
| Croatia osiguranje d.d. | - | 358 | - | - |
| Narodne novine d.d. | 117 | 387 | - | - |
| Hrvatska radio televizija | 528 | 541 | - | - |
| Healthcare organizations and institutions | 188 | 185 | 162 | 113 |
| Hrvatski Telekom d.d. | - | 598 | - | 8 |
| Universities | 236 | 32 | - | - |
| Jadrolinija d.d. | 88 | 98 | - | - |
| Judicial institution | 2 | 22 | - | - |
| Other users | 245 | 71 | - | - |
| HROTE d.o.o. | 11,722 | 3,657 | 201,551 | 55,425 |
| TOTAL | 15,754 | 8,768 | 217,083 | 71,853 |

| <i>(in thousands of HRK)</i> | Receivables | | Liabilities | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| HŽ Infrastruktura d.o.o. | 1,347 | 1,596 | - | - |
| Petrokemija Kutina d.d. | - | 407 | - | - |
| INA-Industrija nafte d.d. | - | - | - | 549 |
| Hrvatski Telekom d.d. | - | - | - | 259 |
| Croatia osiguranje d.d. | - | - | - | 33 |
| HROTE d.o.o. | - | 34,783 | 4,157 | 1,541 |
| Jadrolinija d.d. | - | - | - | - |
| Narodne novine d.d. | - | - | 19 | 27 |
| Other users | 219 | 184 | 217 | 340 |
| TOTAL | 1,566 | 36,970 | 4,393 | 2,749 |

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 2022, amount to HRK 1,253,556 thousand (31 December 2021 in amounting to HRK 1,078,998 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 2022, 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 828,067 thousand (31 December 2021: HRK 556,310 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 2022

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 optimization 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 2022 | 31 December 2021 |
|---------------------------------------|-----------------------------|-----------------------------|
| Debt (long and short-term borrowings) | (754,993) | (808,332) |
| Current financial assets | 22,617 | 23,840 |
| Cash and cash equivalents | 233,838 | 116,736 |
| Net debt | (498,538) | (667,756) |
| Equity | 5,190,010 | 5,199,428 |
| Net debt to equity ratio | 9.61% | 12.84% |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

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 2022 | 31 December 2021 |
|--|---------------------|---------------------|
| Financial assets | | |
| Receivables for apartments sold | 503 | 755 |
| Trade receivables | 207,150 | 125,395 |
| Receivables from related parties | 537,676 | 374,416 |
| Other short-term assets | 41,877 | 57,235 |
| Current financial assets | 22,617 | 23,840 |
| Cash and cash equivalents | 233,838 | 116,736 |
| | <hr/> | <hr/> |
| Total loans and receivables at amortized cost | 1,043,661 | 698,377 |

(in thousands of HRK)

| | 31 December 2022 | 31 December 2021 |
|--|---------------------|---------------------|
| Financial liabilities | | |
| Loan liabilities | 754,993 | 805,734 |
| Other non-current liabilities | 1,446 | 1,609 |
| Trade payables | 472,145 | 391,310 |
| Payables to related parties | 515,712 | 419,617 |
| Other short-term liabilities | 193,371 | 131,953 |
| | <hr/> | <hr/> |
| Total financial liabilities at amortized cost | 1,937,667 | 1,750,223 |

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 2022

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 2022, 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 2022 | 31 December 2021 |
| The European Union (EUR) | 579,405 | 524,805 |

| | Assets | |
|--------------------------|---------------------|---------------------|
| | 31 December 2022 | 31 December 2021 |
| The European Union (EUR) | 239,560 | 123,810 |

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

| | 2022 | 2021 |
|-----|---------|----------|
| EUR | 7,53450 | 7,517174 |

38. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Foreign currency sensitivity analysis

The company was mainly exposed to the exchange rate fluctuations of the Croatian Kuna to the EUR. Given that the Republic of Croatia introduced the EUR as the official currency on January 1, 2023 and fixed exchange rate to EUR (1EUR = 7.53450 HRK), exposure to foreign exchange rate changes no longer represents a risk for the Company. The exposure to changes in the exchange rates of the displayed currencies was mostly related to the state of loans received, the state of suppliers, receivables and deposits expressed in euros (EUR). The company is not currently hedging against currency risk related to other currencies.

(iii) 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 Mother Company.

Interest rate sensitivity analysis

The sensitivity analyses below have 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 entire 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 33% of receivables on 31 December 2022.

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 2022

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 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 2022 | 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 | 336 | 336 | 96 | 101 | - | - |
| Other long-term liabilities | 1,110 | 1,110 | - | 1,110 | - | - |
| Trade payables | 472,145 | 472,145 | 472,145 | - | - | - |
| Payables to related parties | 515,712 | 515,712 | 515,712 | - | - | - |
| Other short-term liabilities | 193,371 | 193,371 | 193,371 | - | - | - |
| | 1,182,674 | 1,182,674 | 1,181,324 | 1,211 | - | - |
| <i>Interest bearing liabilities:</i> | | | | | | |
| Loan liabilities | 882,121 | 962,058 | 326,060 | 98,500 | 537,497 | - |
| Lease obligations | 6,715 | 6,715 | 2,106 | 1,761 | 2,848 | - |
| | 888,836 | 968,773 | 328,166 | 100,261 | 540,345 | - |
| Total | 2,071,510 | 2,151,447 | 1,509,490 | 101,472 | 540,345 | - |

| 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 | - |

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2022

38. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

| <i>As at 31 December 2022</i> | 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 | 503 | 503 | 277 | 226 | - | - |
| Trade receivables | 207,150 | 207,150 | 207,150 | - | - | - |
| Receivables from related parties | 537,676 | 537,676 | 537,676 | - | - | - |
| Short term financial assets | 41,877 | 41,877 | 41,877 | - | - | - |
| Other short-term assets | 172 | 172 | 172 | - | - | - |
| | 787,378 | 787,378 | 787,152 | 226 | - | - |
| <i>Interest bearing assets:</i> | | | | | | |
| Current financial assets | 22,445 | 22,468 | 22,670 | - | - | - |
| Cash and cash equivalents | 233,838 | 234,072 | 234,072 | - | - | - |
| | 256,283 | 256,540 | 256,742 | - | - | - |
| Total | 1,043,661 | 1,043,918 | 1,043,894 | 226 | - | - |

| <i>As at 31 December 2021</i> | 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 | 698,377 | 698,627 | 698,233 | 361 | 33 | - |

39. EVENTS AFTER THE BALANCE SHEET DATE

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.

It is impossible to forecast how long the energy crises will last, but it is obvious that the current market prices for electricity are stabilized on the level which is still higher than the level of prices before the crises and that same level will continue for a long period of time. This will result in higher expenses for the Company for which the Company will not have the possibility to secure enough resources for the fulfillment of its obligations in accordance with Article 86, paragraph 1 of the Electricity Market Act without changing the amount of tariff items for the transmission of electricity, until the implementation of other measures that would temporarily protect the general interest of society, customers and the economy as a whole. In March 2023, the Government of the Republic of Croatia adopted the Regulation on eliminating issues on the domestic energy market, which determines the price of working energy for the purposes of covering the losses of electricity of the transmission system operator, and on the basis of which it is expected that the cost of purchasing electricity for the Company will stabilize in 2023.


There were no other events after the balance sheet / statement of financial position that would significantly affect the Company's annual financial statements for 2022, which should be published as a result.

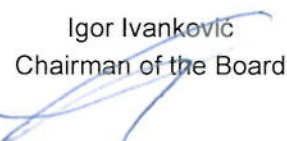
40. APPROVAL OF THE FINANCIAL STATEMENTS

These annual financial statements were approved by the Board.

Signed on behalf of the Company on 03 May 2023 by:


Darko Belić
Member of the
Management Board


Dejan Ljović
Member of the
Management Board


Igor Ivanković
Chairman of the Board

