



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

**Annual financial statements
as of and for the year ending on December 31, 2023**

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DEVELOPMENT AND ORGANISATIONAL STRUCTURE OF THE COMPANY

Historical development and management

In the context of restructuring of the Croatian electrical power system, the Croatian company HEP-sp. (HEP-Transmission System Operator Ltd.) was founded. The company started its activities on 4 April 2005 based on the Energy Act, the Law amending the Energy Act and the Electricity Market Act.

Pursuant to the Decision of the Commercial Court in Zagreb of 2 July 2013 about the entry into the Court Register, share capital increase, change of the company name, change of the company business activity and of the provisions of the Articles of Association of Croatian Transmission System Operator Ltd., the company operates and participates in legal transactions under the new company name Hrvatski operator prijenosnog sustava d.o.o. (Croatian Transmission System Operator Ltd.).

Pursuant to the Decision of the Commercial Court no. Tt-22/17075-2 of 11 April 2022, the transformation of the Croatian Transmission System Operator as a limited liability company into a joint stock company was registered in the Court Register. This company operates and participates in legal transactions under the company name Hrvatski operator prijenosnog sustava d.d. (Croatian Transmission System Operator Plc., (abbreviated: HOPS d.d. hereinafter: company or HOPS).

HOPS is the only electricity transmission system operator in the Republic of Croatia (hereinafter: HR) and the owner of the entire Croatian transmission network (including voltage levels 400 kV, 220 kV and 110 kV) and has a license to carry out the energy activity of electricity transmission as a regulated public service.

HOPS is an independent transmission system operator in the HR organized as a joint stock company with the seat in Zagreb, Kupska 4. It is entered in the court register of the Commercial Court in Zagreb under the company registration number 080517105, VAT ID HR13148821633 and with a share capital of EUR 643.321.549 paid in full and divided into 49,486,273 ordinary shares of nominal value 13.00 EUR each, performing a regulated activity of electricity transmission.

HOPS is registered at the Croatian Bureau of Statistics under the registration number 1924427 for performing activities of electricity transmission.

The duties, responsibilities, activity, competencies and modalities of the company are regulated by the Electricity Market Act (Official Gazette No. 111/2021, 83/23 hereinafter: EMA), especially in Art. 86-89 (hereinafter: EMA).

Business activities and tasks regulated by EMA, responsibilities provided for in Article 86(1) of EMA and duties provided for in Article 86(2) of the EMA are performed within the Company.

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

The independence of HOPS is additionally guaranteed by a monitoring of the compliance with legal provisions of EMA, by adoption of the Compliance Program and by the appointment of a Compliance Officer. The Compliance Program specifies further measures to exclude the possibility of behavioral biases, the manner of monitoring the compliance and determines the special obligations of workers related to the fulfilment of these goals. HOPS is obliged to request consent from the Croatian Energy Regulatory Agency (hereinafter: HERA) for the Compliance Program. The compliance with the Program is monitored by the Compliance Officer nominated by the Supervisory Board with the prior approval of HERA.

Shareholding of HOPS in the equity of other companies:

- (1) Hrvatska burza električne energije d.o.o. (Croatian Power Exchange / CROPEX) 50%
- (2) HEP-Telekomunikacije d.o.o. 13.73%
- (3) Transmission System Operator Security Cooperation (TSCNET) 6.25%
- (4) Coordinated Auction Office in South East Europe (SEE CAO) 12.50%
- (5) Joint Auction Office (JAO) 4.00%

HOPS continuously participates in activities of these companies, supervises and monitors their business activities.

About the company, its mission and vision

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

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

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

Main objectives of the Company are:

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

Organizational structure

The Company's business activities are organized successfully and performed at the Croatian territory for more than 60 years in several organizational forms.

The Company is organized functionally by sectors in the headquarters and regionally by transmission areas in order to efficiently perform its business activity on the territory of the entire HR. In addition to sectors and transmission areas, three independent organizational units at the Company's Management Board perform work support for the Management Board (Executive Office), Internal audit, and work related to EU projects and programs.

On 31 December 2023 the Company had 1,168 employees, 3 employees more compared to the previous year.

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

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

The Assembly:

- (1) Frane Barbarić – President since 1 January 2018
- (2) Vice Oršulić – President since 9 January 2023

The Supervisory Board:

Kažimir Vrankić – Chairman until April 3, 2024

Marko Dvorski – Vice-Chairman until January 15, 2024

Joško Grašo* – member since February 12, 2024
 Krešimir Ugarković – member
 Nikola Jaman – member
 Dinko Andabaka – member
 Srđana Delaš* – since April 4, 2024

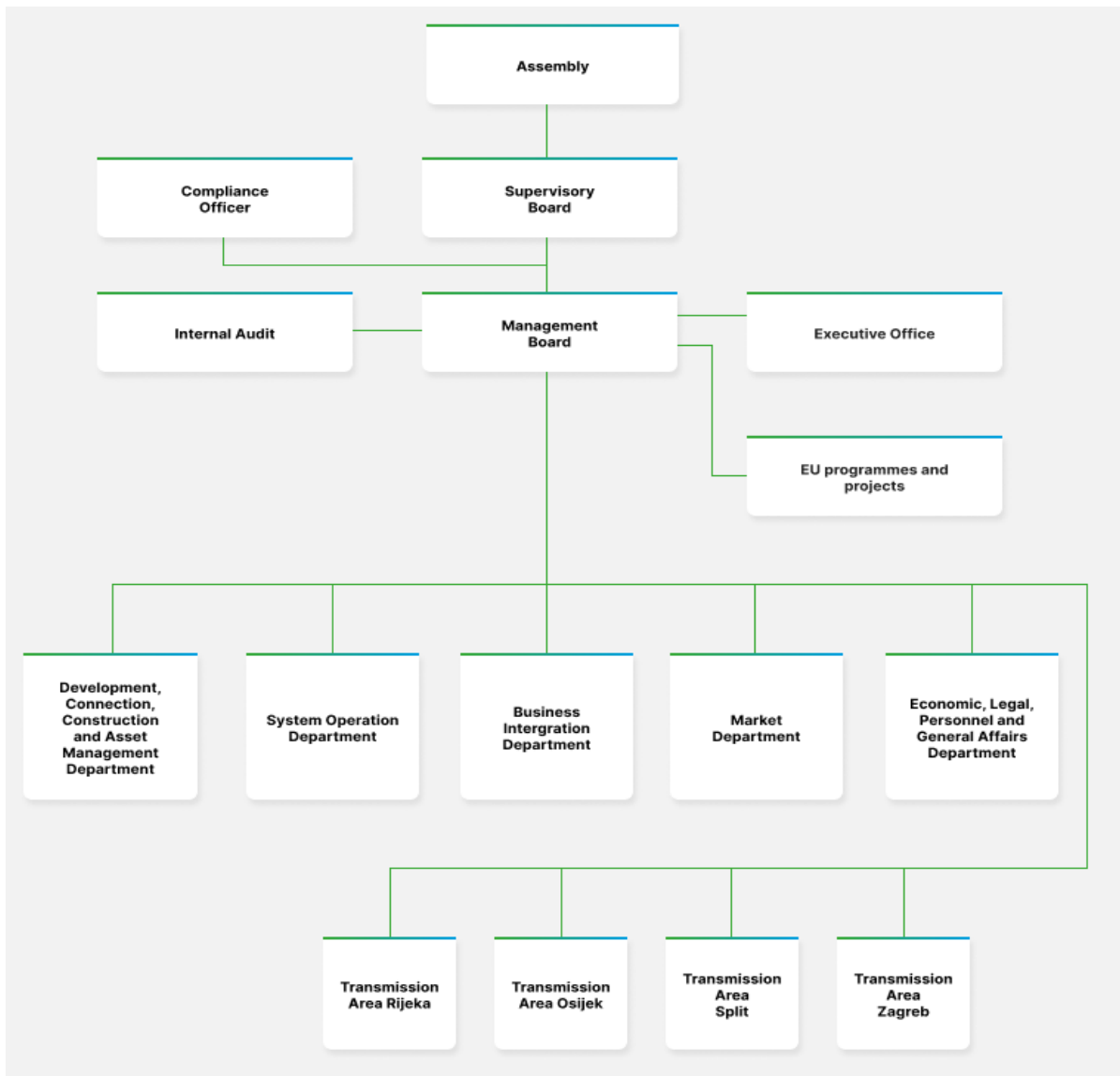
** Note: Mr. Joško Grašo was appointed as the Chairman of the Supervisory Board during the meeting held on April 12, 2024, while Ms. Srđana Delaš was appointed as the Deputy Chairman during the same meeting*

The Audit Committee since 14 January 2019:

- (1) Drago Jakovčević, Ph.D., President (independent external member)
- (2) Mihovil Anđelinović, Ph.D. (independent external member)
- (3) Marko Dvorski, M. SC. (Econ.), (member, Supervisory Board) until January 15, 2024.
- (4) Joško Grašo, M. Eng. (Engineering), (member, Supervisory Board) since February 12, 2024

The Management Board since 16 April 2022:

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



Picture 1. The Company's organizational scheme (31 December 2023)

Internal supervision function

In order to ensure a systematic approach in the field of managing possible business irregularities, conflicts of interest and corrupt practices, in 2023 HOPS continued to carry out regular activities of systematic supervision of internal controls in certain business areas, through regular (if necessary, extraordinary) engagements carried out by employees of the Internal Audit unit.

In 2023, in accordance with the Regulation on Internal Audit and the approved Annual Plan of Internal Audit, the Internal Audit unit carried out the planned activities, which included the implementation of engagements in various business areas in several organizational units of HOPS. The responsibilities of the Internal Audit include planning, conducting and reporting on conducted internal audits and monitoring the implementation of given recommendations in the Company's organizational units, as well as checking the compliance of internal acts with legal provisions, decisions of regulatory bodies and other regulations and tasks in accordance with internal acts.

In order to strengthen the function of the Internal Audit and to fulfil the recommendations from the Report on compliance audit in HOPS, carried out by the State Audit Office, the Company initiated the creation of a Strategic Plan of the Internal Audit for the next five-year period 2023. -2027.

Following the amendments to the Fiscal Responsibility Act (Official Gazette No. 111/18, 41/20, 83/23, hereinafter referred to as "FRA"), which came into force on July 29, 2023, HOPS d.d. become obliged to implement the provisions of this Act in accordance with Article 4, paragraph 5, considering the fact that its mother company, HEP d.d., is obliged to implement the FRA. These amendments will lead to increased governmental control over the internal audit functions within HOPS.

Consequently, in line with the aforementioned, the Management Board of HOPS, based on the provisions of the FRA and its by-laws, will be obligated to prepare a Statement of Fiscal Responsibility from the following year onwards. Additionally, the Internal Audit will, in accordance with legal provisions, provide an Opinion on the internal control system for areas that were audited in the previous year.

Internally, HOPS has implemented a dedicated protocol through internal regulations, mandating the use of a purpose-developed IT application for monitoring the implementation of measures and activities related to fulfilling recommendations from conducted internal audits.

Legislative framework

Following the obligations of the Republic of Croatia as EU member state arising from the transposition of regulations of the European Union into national legislation, in 2023, new regulations were drafted and some existing ones were changed based on new energy laws (the Electricity Market Act (hereinafter: EMA) and the Act on Renewable Energy Sources and High-Efficiency Cogeneration), which entered into force by the end of 2021, all due to the package of energy regulations of the European Union, the so-called "Clean Energy Package/CEP/for all Europeans".

The new subordinate regulations adopted during 2022 and 2023, such as the Rules on the Connection to the Transmission Network, the Rules on Balancing the Transmission System Network, the Rules on non-frequency ancillary services of the Transmission System, the Methodology for determining the amount of tariff items for transmission and the Methodology for determining the fee for connection to the electricity network, Grid Code of Transmission System, for which approval were obtained from HERA in 2023, will lead to changes in the ways of financing the activities of the Company.

a) Rules on the Connection to the Transmission Network

On the basis of Article 13 of the Electricity Market Act (hereinafter: EMA), and with previous Opinion to the Ministry of Economy and Sustainable Development (hereinafter: MINGOR) dated July 11, 2023, and a request for prior consent of HERA dated July 14, 2023 in order to adapt transparent, efficient and impartial Rules on the Connection to the Transmission Network at the 94th Management Board meeting held on July 14, 2023, which entered into force on September 1, 2023.

b) Grid Core of Transmission System

Based on Article 93, paragraphs 1 and 3 of the EMA the Company submitted a request for prior approval to the Croatian Energy Regulatory Agency (HERA) in late October 2022 concerning the draft Grid Code of the Transmission System, which regulate the technical conditions for connection, operation, and management of the transmission network. HERA issued its approval on December 29, 2023, and new Grid Code of the Transmission System (HOPS 1/2024) was adopted on January 9, 2024.

c) Unit price proposal for creating technical conditions in the high- and extra-high-voltage transmission network when connecting to the high-voltage, extra-high-voltage and medium-voltage distribution network

Since, on the basis of Article 112(1) subparagraph 1 point 1 of EMA, HERA adopted the Methodology for determining the fee for connection to the electricity network (Official Gazette no. 84/2022; hereinafter: Methodology) which determines the fee for connection to the electricity network, i.e. which prescribes the method of determining the fee for connecting to the network and the fee for increasing the connection capacity on the existing connection, HOPS is authorized, based on Article 4(3) of the Methodology, to propose a unit price for creating technical conditions in the high-voltage network when connecting to the medium-voltage network (CSNVN) and a unit price for creating technical conditions in the high-voltage network (CVN) from Article 4(1) of the Methodology, no later than 30 September of the current calendar year; or, in the present case, based on Article (22) and by derogation from the above, HOPS is authorized to submit explained proposals for the current calendar year (2022) to HERA within 30 days from the entry into force of the Methodology. Due to the above, in August 2022, HOPS submitted to HERA a unit price proposal for creating technical conditions in the high- and extra-high-voltage network when connecting to the high-voltage, extra-high-voltage and medium-voltage network and in September 2023 the second proposal for the next calendar year. In addition, in 2023, the Company sent several urgent notices to HERA for the adoption of a Decision on the amount of the unit fee for connection to the network, but by the end of 2023, the Decision has not yet been adopted.

Respecting the goal of the Methodology based on objective, transparent and impartial principles and the principle of economic performance of the connection, where the fee for the connection consists of the cost of creating technical conditions in the network and the cost of performing the connection to the network and represents the share of the energy entity and the end customer in financing the construction of the connection and the share for the creation of technical conditions in the network, with the obligation of HOPS directed towards the dedicated spending of funds from the collected fees, HOPS will be able to spend the funds exclusively on the construction of the connection, the creation of technical conditions in the network and the development of the network.

d) Rules on non-frequency ancillary services

The development of Rules on non-frequency ancillary services for the transmission system is prescribed by Article 52 of the Electricity Market Act (EMA). According to EMA, the Company is responsible for organizing the market for non-frequency ancillary services for the entire territory of the Republic of Croatia. The Rules determine products and services, pre-qualification procedures, contractual relationships, procurement of non-frequency ancillary services, and pricing methods. The Company conducted a public consultation on the draft Rules on non-frequency ancillary services for the transmission system at the end of November 2022 and submitted them to HERA for approval on December 31, 2022. After HERA's approval on December 7, 2023, the Management of HOPS adopted the Rules on non-frequency ancillary services for the transmission system, which came into force on January 1, 2024.

e) Rules on congestion management in the transmission system, including connecting lines

In accordance with Article 52(27) to (30) of EMA and on the basis of Article 13 of the Regulation (EU) 2019/943 of the European Parliament and the Council of 5 June 2019 on the internal market for electricity (hereinafter: Regulation 2019/943) and the Rules on congestion management within the Croatian electrical power system, including connecting lines (HOPS, 4/2021), the Company initiated the drafting of new Rules on congestion management in the transmission system, including connecting lines, at the beginning of 2022.

The complexity of the issue and the absence of the adoption of related bylaws influenced the postponement of the adoption of new Rules on congestion management in the transmission system, including connecting lines in 2023.

f) Rules on electricity system balancing

In accordance with Article 52, Paragraph 9 of EMA, with the previously obtained consent of HERA dated December 7, 2023, the Company's Management Board adopted the Rules on Balancing the Electric Power System on December 14, 2023.

g) Requirements of the Regulation (EU) 2019/943

During 2023, the implementation of the action plan adopted in accordance with Article 15 of Regulation 2019/943 continued. By submitting already two annual reports on the implementation of the Action Plan adopted in accordance with Article 15 of Regulation 2019/943, HOPS has shown that it meets the linear trajectory foreseen by the Action Plan in almost all market units.

h) Requirements of the Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing

Article 53(1) and Article 53(2) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereinafter: EB GL Regulation) prescribe the mandatory application of a 15-minute deviation calculation period for all transmission system operators, in all areas of transmission planning, and ensuring that all the limits of market time units overlap with limits of the deviation calculation period, within three years after the EB GL Regulation has entered into force. Pursuant to Article 62 of the EB GL Regulation, at the 13th session of the Management Board held on 9 June 2020, HERA adopted the Decision on approving HOPS to deviate from the obligations prescribed by Article 53 of the EB GL Regulation, for the period from 1 January 2021 to 31 December 2022. On 24 May 2022, HOPS sent HERA a new request, including the necessary documentation, to deviate from the obligations prescribed by Article 53(1) and 53(2) of the EB GL Regulation. On 20 July 2022 HERA adopted the Decision on approving HOPS to deviate from the obligations prescribed by Article 53 of the EB GL Regulation, for the period from 1 January 2013 to 31 December 2024, with the obligation to apply a 15-minute deviation as soon as possible. All relevant bylaws and contracts of HOPS with other transmission system operators are adapted to the start of using the 15-minute calculation period.

On 24 January 2020, the European Union Agency for the Cooperation of Energy Regulators (hereinafter: ACER) adopted implementation frameworks for common European platforms for the exchange of balancing energy from mFRR (manual frequency restoration reserve) and aFRR (automatic frequency restoration reserve). Pursuant to Article 20(6) and Article 21(6) of the EB GL Regulation, within thirty months after the approval of the proposal for the implementation framework for common European platforms for the exchange of balancing energy from mFRR and aFRR, all transmission system operators shall implement and make operational platforms for the exchange of balancing energy from frequency restoration reserves with manual and automatic activation and they shall use these platforms to submit all balancing energy bids from all standard products for frequency restoration reserves with automatic and manual activation. Pursuant to Article 62 of the EB GL Regulation, at the 15th meeting of the Management Board held on 23 July 2021, HERA adopted the Decision on approving HOPS to deviate from the obligations prescribed by Article 20 and Article 21 of the EB GL Regulation, for a period from 24 July 2022 to 24 July 2024.

Nonfinancial report

In accordance with the Accounting Act (Official Gazette no. 78/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22, 82/23), the Company will publish the Nonfinancial report for 2023 (sustainability report) as a separate report on its website no later than 30 June 2024. When drafting the report, the Company will use the Global Reporting Initiative Guidelines (GRI standard) and indicators in the specified standard.

The report will be published on the following link: <https://www.hops.hr/en/annual-report-hops>

Information on the purchase of own shares

The Company does not have its own purchased shares.

Most important indicators of the business year

Price stabilization on the electricity market

Compared to 2022, which was marked by an exceptionally significant disturbance in the electricity markets, 2023 was a year in which electricity prices stabilized at lower levels, although there was no usual trend of price decreases in the spring and/or autumn periods. A significant increase in the non-tariff part of business income and a decrease in business expenses compared to the previous period led to the fact that HOPS achieved a significant positive financial result in 2023, i.e., a significant operating profit was reported. Throughout the year, HOPS had sufficient funds to meet all contractual obligations to suppliers within the agreed terms. By the Amendment to the Regulation on Elimination of Disturbances in the Domestic Energy Market (NN 107/2023), a price threshold was prescribed, among other, up to which HOPS is compensated for the difference between the procurement price achieved in the market and the guaranteed price of working energy to cover losses of EUR 70.276/MWh, as determined by Article 3, paragraph 2 of the Regulation. In the period from April 1, 2023, to September 30, 2023, this threshold was 180 €/MWh, and from October 1, 2023, to March 31, 2024, a threshold of EUR 150 €/MWh applies. Based on the same Regulation, HOPS submitted four requests for compensation of the difference between the contracted and prescribed price for the period April – December 2023 to the Ministry of Economy and Sustainable Development, in a total amount of ER 11.89 million euros.

Increased revenues from the allocation of cross-border capacities were achieved in 2023, as well as reduced costs related to capacity allocation, resulting in a 25.2 million euros higher profit from cross-border capacities compared to 2022 (balance of revenues in 2023: 44.9 million euros, balance of revenues in 2022: 19.7 million euros).

EURO – official currency

The Company successfully completed the adaptation of its business processes and business system in the process of introducing the euro as the official currency in the Republic of Croatia within the timeframe specified by the Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia, and Council Regulation (EU) 2022/1207 of 12 July 2022 amending Regulation (EC) No 974/98 concerning the introduction of the euro in the Republic of Croatia. This was completed by 1 January 2023, when the Republic of Croatia became the twentieth member state of the euro area, and the euro became the official currency and legal tender.

European Union Solidarity Fund (remedy of effects of the earthquake in March 2020 and the series of earthquakes in December 2020)

Devastating earthquakes that hit the area of the city of Zagreb in March 2020 and Sisak-Moslavina Country at the end of December resulted in major material damage to the Company's facilities. At the time of the earthquake, there was an outage of numerous substations and a loss of voltage, both at the Company's facilities and at the facilities of the distribution network, as a result of which almost 150,000 customers were without electricity. During 2023, the Company intensively carried out the earthquake damage remedy activities in its facilities and worked on the establishment of an uninterrupted electricity supply.

In March 2023, the Ministry of Economy and Sustainable Development issued a call for the allocation of non-refundable financial resources from the European Union Solidarity Fund (hereinafter referred to as EUSF) for the restoration of operational functionality of energy infrastructure, energy facilities, buildings, and the entire energy system, and for bringing them back to the pre-earthquake technical and economically justified level. This call was titled "Restoration to Proper Operational Condition of Infrastructure and Facilities in the Energy Sector" and aimed at repairing damages caused by the earthquake on March 22, 2020, to the energy infrastructure and energy facilities in the City of Zagreb, Krapina-Zagorje County, and Zagreb County (ref. No.: EUSF.2021.ENERGY.MOED.ID.1). As the sole eligible applicant, the Company became the Beneficiary of the Grant Agreement of 10.07 million euros.

The aforementioned Agreement, titled "Rehabilitation of Damage caused by the earthquake on March 22, 2020, to HOPS's business-operational facilities, for returning to technically correct and functional condition," encompasses three activities, based on the locations where the damage occurred. It includes the repair of damages at TS Rakitje, the repair of damages to the energy transformer - T2 at TS Jarun, as well as activities related to the repair of damages to the building in Kupska Street in Zagreb and the building of the Control Center Zagreb in Žerjavinec. According to the terms of the call, the implementation of activities could have started on March 22, 2020, and they were completed by June 30, 2023. The Company was granted 9.66 million euros, which is 95.96% of the contracted funds.

Additionally, in March 2023, the Ministry of Spatial Planning, Construction, and State Property issued a call for the allocation of non-refundable financial resources from the EUSF for the costs of temporary accommodation of the population affected by the earthquake (ref. No.: EUSF.JID.MSPCSP.13). The Company was granted a refund of incurred costs based on waived receivables for the fee for the use of the transmission network from household category customers connected to the distribution network in the earthquake-affected area for the period from January 2021 to February 2023, in the amount of 1.88 million euros.

On the basis of the applications submitted to the Call, HOPS concluded 12 contracts on the allocation of grants in the amount of 28.25 million euros in 2022 within the call "Restoration to Proper Operational Condition of Infrastructure and Facilities in the Energy Sector" for the repair of damages caused by the series of earthquakes starting from December 28, 2020, on the energy infrastructure and energy facilities in the City of Zagreb, Krapina-Zagorje, Zagreb, Sisak-Moslavina, Karlovac, Varaždin, Međimurje, Brod-Posavina, Koprivnica-Križevci, and Bjelovar-Bilogora countries, the Company continued intensive activities for the restoration and/or replacement of energy infrastructure, energy facilities, and energy systems in 2023, until June 30.

These agreements covered activities such as the repair of 110 kV facilities in TPP Sisak (contracted for 1.04 million euros and approved for 0.96 million euros of eligible costs), the repair of 110 kV facilities in TS 110/20 kV Glina (contracted for 0.94 million euros and approved for 0.55 million euros of eligible costs), the repair of 110 kV facilities in TS 110/20 kV Petrinja (contracted for 2.33 million euros and approved for 2.31 million euros of eligible costs), the repair of TS 400/110/30 kV Tumbri (contracted for 2.57 million euros and approved for 2.55 million euros of eligible costs), repair of water in OHL 110 kV TPP Sisak-Željezara (contracted for 0.12 million euros and approved for 0.09 million euros of eligible costs), repair in TS 110/35 kV Pračno (contracted for 0.21 million euros and approved for 0.1 million euros of eligible costs), repair in TS 110/30/20 kV Jarun (contracted for 0.68 million euros and approved for 0.61 million euros of eligible costs), repair of the 150 MVA energy transformer in TPP Sisak (contracted for 1.72 million euros and approved for 1.67 million euros of eligible costs), repair of the energy transformer -T2, 300 MVA in TS 400/110/30 kV Tumbri (contracted for 4.84 million euros and approved for 4.36 million euros of eligible costs), repair in TS Mraclin on the energy transformer -T3, 150 MVA (contracted for 2.90 million euros and approved for 2.57 million euros of eligible costs), repair in the 110 kV facility in TS 220/110/10 kV Mraclin (contracted for 1.99 million euros and approved for 1.76 million euros of eligible costs), and repair in the 220 kV facility TS 220/110/10 kV Mraclin (contracted for 8.92 million euros and approved for 6.42 million euros of eligible costs).

In accordance with the conditions of the call, activities were completed by June 30, 2023, and a total of 23.86 million euros, or 84.46% of the contracted funds, were approved for the Company.

The total value of all fourteen Grant Agreements from the EUSF concluded by the Company with the body responsible for implementing the financial contribution from the EUSF, the Ministry of Economy and Sustainable Development, amounts to 40.20 million euros, of which 35.41 million euros have been approved for eligible costs, accounting for 88.07% of the total contracted funds.

The financial contribution from the EUSF to the Company was awarded based on the Call for Proposals for the Allocation of Non-refundable Financial Resources and Direct Award Procedures, while Council Regulation (EC) No. 2012/2002 of November 11, 2002, establishing the EUSF, states in its provisions that costs exceeding those eligible under the EUSF shall be financed by the beneficiary country from its own resources or, where possible, from other EU funds.

As the implementation of activities co-financed from the EUSF had to be completed by June 30, 2023, by the Decision of the Government of the Republic of Croatia on the Continuation of Financing Projects

Initiated from the EUSF from the State Budget of the Republic of Croatia, (CLASS: 022-03/23-04/271, REGISTRY NUMBER: 50301-05/27-23-2 of June 28, 2023), it was determined that projects initiated from the EUSF for which contracts for works were ongoing, and which do not relate to projects for comprehensive building renovation, would be financed from the state budget to the extent necessary to complete projects above the amount secured from the EUSF.

Further to the Decision of the Government of the Republic of Croatia, during 2023, the Company, as a Beneficiary of the Agreement on the allocation of grants from the EUSF, concluded 11 addendums to the Agreements, for the completion of projects for which the execution of the contract for the execution of works is in progress, according to which the implementation of activities in the period from June 30, 2023 to December 31, 2023, to be financed with the resources of the state budget of the Republic of Croatia, and the period of eligibility of costs applies for the same period. Thus, for the continuation of the financing of the Company's projects started from the EUSF, which include the implementation of the contract for the execution of works, the Company requested reimbursement of costs in the amount of a total of 2.6 million euros, and the verification of expenditures and the decision on the approval of acceptable costs is expected in the first half of 2024.

National Recovery and Resilience Plan 2021 - 2026

On 28 September 2022, the Company and the Ministry of Economy and Sustainable Development, as the body responsible for „Component 1 - Economy“, and the Fund for Environmental Protection and Energy Efficiency, as the implementing body, signed the contract no. NPOO.C1.2.R1-I1.01.0001 "Revitalization, construction, digitalization and modernization of the Croatian electricity transmission network" on the allocation of grants for projects of revitalization, construction, digitalization and modernization of the Croatian electricity transmission network, financed by the European Union from the instrument "EU next generation", for the period of project implementation from 1 February 2020 to 30 June 2026 in amount of 218.16 million euros.

Grants are provided through the National Recovery and Resilience Plan 2021-2026 (hereinafter referred to as: NRRP), i.e. the total amount of expenditures eligible for the implementation of projects of HOPS is 218.16 million euros.

Through the implementation of 11 project activities of HOPS, it is planned to, among other things, revitalize and increase the transmission power of 550 km of overhead lines, as well as to enable the connection of an additional 1,500 MW of capacity from renewable energy sources (hereinafter referred to as RES) in the period until 2026.

Under the NRRP, funds have been allocated for the implementation of the 110 kV Submarine Cable Replacement Project, which is also a strategic project of the Government of the Republic of Croatia. The project involves replacing 6 sections of 110 kV submarine cables, including the reconstruction of associated cable converter stations, cable sections, and coastal interventions, in two phases. The first phase of the project activities was completed in 2022, during which the cables between the mainland and Brač, and between the mainland and Krk, were successfully replaced. The second phase of the project activities, expected to be completed by the end of June 2024, will involve replacing the existing submarine cables between Brač and Hvar, Hvar and Korčula, as well as Krk and Cres, and Cres and Lošinj. In 2023, the production of the remaining four cables was completed, and factory acceptance tests were conducted.

Up to the end of 2022, the Company received an advance payment of 20% of the contract amount (43.63 million euros), and through three requests for fund reimbursement (RFRs) during 2023, 22.2 million euros were paid. The implementation is proceeding smoothly, with significant challenges in meeting deadlines and higher costs than planned for the activities.

Increasing the material rights of employees

Due to the increasing cost of living, rising prices, and inflation, the Management Board of the Company made a decision on March 28, 2023, to increase coefficients for employees of the Company working in positions with the lowest coefficients. The decision was implemented in the second half of 2023, after the prerequisites for amending the Company's Rules on Organization and Systematization were met. The decision affected nearly 30% of the Company's workforce, significantly affecting the gross salary plan for 2023.

Additionally, due to the aforementioned reasons, in June 2023, agreements were reached with two representative trade unions on increasing material rights, aligning some of them with the non-taxable amounts prescribed by the Income Tax Regulations.

Furthermore, the Collective Agreement for HOPS, signed in November 2019 between HOPS as the employer and representative trade unions, was set to expire on December 31, 2023. Therefore, in accordance with the provisions of the Collective Agreement, negotiations for a new Collective Agreement for HOPS commenced at the end of September 2023. A new Collective Agreement with two representative trade unions was signed on November 22, 2023, covering the period from January 1, 2024, to December 31, 2025.

Alignment of the Company's Share Capital

In accordance with the obligation prescribed by the Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia and the Companies Act, the General Assembly of the Company made a decision on November 29, 2023, to align the share capital and nominal value of the Company's shares by reducing the share capital. The Company's share capital now amounts to EUR 643,321,549.00 and is divided into 49,486,273 ordinary shares, each with a nominal value of 13.00 euros. The decision to amend the provisions of the Company's Statute on November 29, 2023, reflected this change in the Company's Statute, which was also registered in the Court Register, and the Central Depository and Clearing Company.

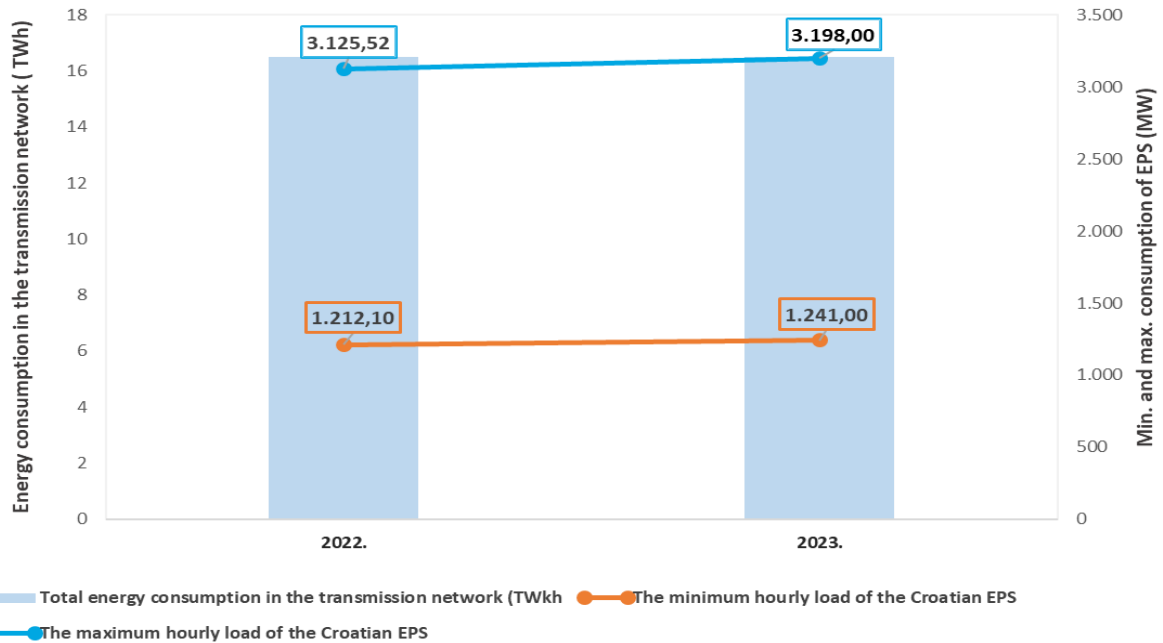
Electrical power indicators

In 2023, there was a slight decrease in the total energy consumption in the transmission network of the HR. The energy consumption in the transmission network with losses amounted to 16.5 TWh, which is 1.30 % less in comparison to 2022.

The reason for the decreased consumption on the transmission network reflects the increasing number of generation capacities, primarily wind and solar power plants, connected to medium and low voltage, i.e., to the distribution grid. This results in a reduced need to draw electricity from the transmission grid.

The maximum hourly load of the Croatian EPS in 2023 was recorded on 24 August at 9 p.m. It amounted to 3.198 MW. The minimum hourly load of the Croatian EPS in 2023 was recorded on 8 November at 4 a.m. It amounted to 1.241 MW.

In 2023, total of 24.6 TWh of electricity was transmitted, which is an increase of 4.2 % in comparison to 2022. Transmission network losses amounted to 465 GWh, which is 0.37 % more than in 2022, i.e. 1.89 % of total transmitted electricity in 2023.



Picture 2. Comparison of consumption in the transmission network and the maximum and minimum load of the Croatian EPS

Integration of renewable energy sources

By adoption, the new Connection Rules HOPS received 83 new connection requests in 2023, a total of 6628 MW of connection capacity, in addition to the existing 1604 MW from projects that have signed connection agreements with HOPS.

Of the mentioned 83 new requests in 2023, with a total connection capacity of 6627 MW, the distribution by specific technologies is as follows:

- (1) battery storage 80MW
- (2) geothermal power plants 98 MW
- (3) hydroelectric power plants 508 MW
- (4) cogeneration plant 103 MW
- (5) solar power plants 3363 MW
- (6) wind farms 2475 MW

In 2023, HOPS concluded six connection agreements (69 MW – wind farms, 130 MW solar power plants, 88.5 MW consumers) and one pre-agreement for connection (127.5 MW wind farms).

In 2023, three wind farms with a total connection capacity of 209 MW and one solar power plant with a connection capacity of 12.4 MW were commissioned.

Development plans

The procedure for adopting the "Ten-year development plan of the Croatian transmission network 2024-2033 "with detailed elaboration for the initial three-year and one-year period" started at the end of September 2023, was not completed during 2023 due to high uncertainty about available funds for investments caused primarily by high costs of energy procurement to cover losses in the transmission network. It was completed and delivered to HERA in the first quarter of 2024.

The "Ten-year development plan of the Croatian transmission network 2022-2031" is currently valid with detailed elaboration for the initial three-year and one-year period". During 2023, a new 10-year plan 2023-2032 was prepared and submitted for which HERA did not express itself until the day the document was created after the public consultation.

Due to the frequent changes in circumstances surrounding certain sources of financing of investment plan and the fact that the prices achieved in the procurement procedures were significantly higher than the

estimated value, in March 2024 the Management Board of HOPS initiated an audit of 10-year plan 2024-2033, which is expected to be completed in the second quarter of 2024.

FINANCIAL POSITION AND BUSINESS PERFORMANCE

In 2023, operating earnings (EBIT) was realized in the amount of 59.24 million euros, which is an increase of 56.91 million euros compared to 2022, primarily due to a significant reduction in variable operating costs.

The loss from financial activities was 2.0 million euros, approximately which is 1.53 million euros (43.7%) less than in 2022.

Due to the significant increase in profit from business activities in 2023, the Company incurred profit before tax in the amount of 57.24 million euros, i.e. profit after tax in the amount of 47.05 million euros.

Total business revenues in 2023 amounted to 366.80 million euros, which is 51.15 million euros (12.24%) less than in 2022.

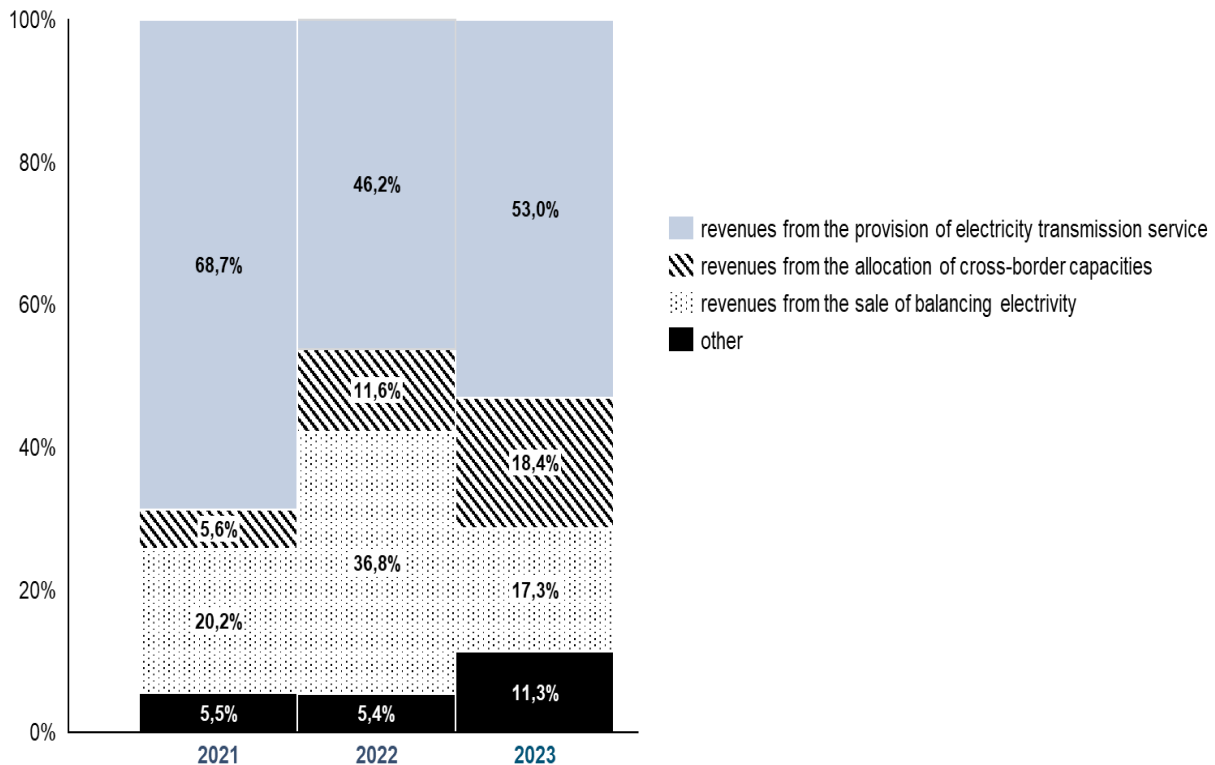
Table 1 shows the Statement of Comprehensive Income (Profit and Loss Statement) with the most important items and a comparison with the performance in the previous year.

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

Description	2023	2022	Difference
1	2	3	4 (2-3)
Revenues from sales and other business incomes	366,80	417,94	(51,15)
Business expenditures	307,56	415,62	(108,06)
PROFIT FROM BUSINESS ACTIVITIES	59,24	2,33	56,91
Financial income	0,69	0,28	0,42
Financial expenditures	2,69	3,80	(1,11)
Net financial expenditures	(2,00)	(3,53)	1,53
TOTAL INCOME	367,49	418,22	(50,73)
TOTAL EXPENDITURES	(310,25)	(419,42)	(109,17)
Pre-tax profit	57,24	(1,20)	58,44
Income tax	10,19	0,05	(10,14)
PROFIT FOR THE PERIOD	47,05	(1,25)	48,30

Despite a significant increase in revenues from the allocation of interconnection capacity (hereinafter referred to as IC) in 2023, primarily resulting from high revenues from annual auctions of interconnection capacities based on extremely high electricity market prices in 2022, total revenues from market functions in 2023 were lower than revenues from electricity transmission services compared to 2022 when they were higher for the first time due to disruptions in the electricity market. The share of revenues from electricity transmission services in 2023 is 53%, which is 6.8 percentage points higher than in 2022, while compared to 2021 it is lower by 15.7 percentage points.

The structure of revenues achieved in 2023 (Picture 3) consists of revenues from the provision of electricity transmission services (53.0 %), revenues from the calculation of balancing electricity (10.4 %), revenues from the sale of balancing electricity (6.9 %), revenues from the sale of electricity to cover losses (18.4%) and other business incomes (11.3 %) including revenues generated based on the Regulation amending the Regulation on the Elimination of Disturbances in the Local Energy Market (NN 107/23), revenues from the Inter-TSO compensation mechanism, revenues from the sale of electricity to cover losses, revenues from refunds of costs incurred from written-off receivables fees for the use of the transmission network from household category customers connected to the distribution network in the earthquake-affected area for the period from January 2021 to February 2023, revenues from assets received without fee, revenues from asset connections (IFRS 15), revenues arising from the use of own products and services, collected written-off receivables, revenues from non-standard services, elimination of reservations, and other business and financial revenues.



Picture 3. Structure of revenues in the period from 2021 to 2023

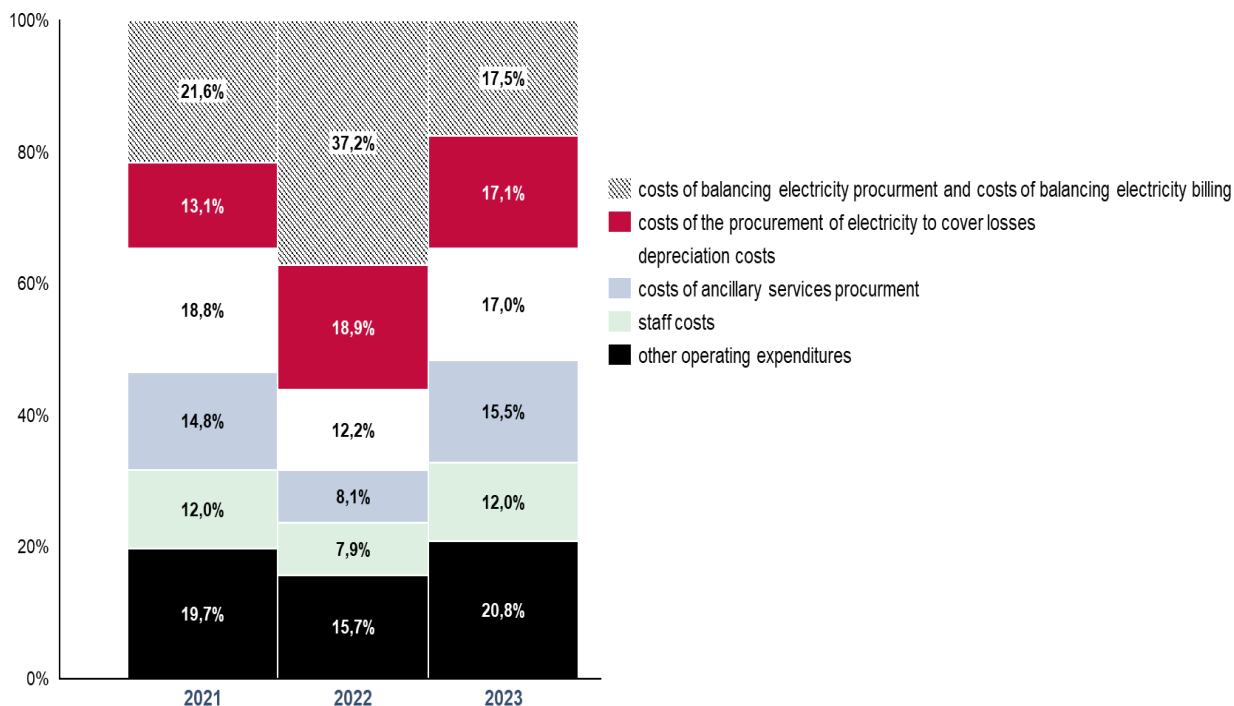
Total expenditures amount to 309.56 million euros, which is 109.6 million euros more in comparison to 2022.

The decrease was primarily influenced by the significantly lower costs of purchasing balancing settlement (55.85 million euros), cost of procurement of balancing electricity (45.80 million euros), and costs of electricity to cover losses in the transmission network (26.22 million euros).

The stabilization of the situation on the wholesale electricity markets and the stabilization of prices on electricity exchanges resulted in a decrease of the mentioned costs compared to 2022 in the total amount of 127.86 million euros, or 54.3%. Costs from the allocation of cross border transmission capacities in 2023 compared to 2022 decreased by 6.11 million euros (-21.3%).

The costs of salaries and other employee benefits amount to 37.32 million euros and are higher by 4.22 million euros (12%) mostly due to the signed Agreement on increasing the material rights of employees, which was adopted in June 2023, and due to the increase in the value of points for salary calculation of 2.4% from January 1, 2023.

The structure of expenditures effected in 2023 (Picture 4) consists of costs of balancing energy procurement (13,3%), costs of balancing energy calculation (4.3 %), costs of the procurement of electricity to cover losses in the transmission network (17.1 %), depreciation costs (17,0. %), costs of procurement of ancillary services (15.5%), staff costs (12.0 %) and other operating expenditures (20.8 %) which include costs of allocation of cross-border transmission capacities and of the Inter-TSO compensation mechanism, costs of telecommunications services, costs of value adjustment of assets and provisions, general operating costs, costs of fees and concessions, costs of maintenance and other operating and financial expenditure (interest expense and foreign exchange differences).



Picture 4. Structure of expenditures in the period from 2021 to 2023

Income tax for 2023 amounts to 10.2 million euros and is 10.1 million euros higher than in the previous year.

The financial position of the Company has been presented in the Statement of Financial Position as at 31 December 2023. Table 2 shows an excerpt.

Table 2. Excerpt from the Statement of Financial Position of the Company as at (in EUR million)

Description	31 December 2023	% share	31 December 2022	% share	2023/2022
1	2	3	4	5	6 (2/4)
Long-term assets	980.022,0	84,1%	938.477,0	87,0%	4,4%
Short-term assets	185.154,0	15,9%	140.033,0	13,0%	32,2%
Total assets	1.165.176,0	100,0%	1.078.510,0	100,0%	8,0%
Capital and reserves	735.882,0	63,2%	688.831,0	63,9%	6,8%
Long-term obligations	261.584,0	22,5%	202.535,0	18,8%	29,2%
Short-term obligations	167.710,0	14,4%	187.121,0	17,3%	-10,4%
Total obligations and capital	1.165.176,0	100,0%	1.078.487,0	100,0%	8,0%

The value of total assets as at 31 December 2023 amounted to 1,165.2 million euros and is 86.7 million euros higher compared to 31 December 2022.

As a result of investments in 2022, long-term assets increased by 41.5 million euros and now amount to 980.0 million euros. The share of long-term assets in total assets compared to 2022 is 2.9 % lower and amounts to 84.1 %.

Short-term assets amount to 185.2 million euros and it increased compared to the previous year by 45.1 million euros or 32.2%, primarily due to money and money equivalents, which compared to the previous year, are higher by 55.0 million euros, and slightly lower increase of ER 16.8 million euros was recorded by other short-term assets. Receivables from customers and related companies, compared to the previous year are 26.7 million euros lower. The share of current assets in total assets compared to 2022 increased by 2.9 percentage points and amounts to 15.9%.

Capital and reserves, which cover 63.2 % of the Company's total assets, increased by 47.1 million euros due to the realized loss in 2022, while their share in total liabilities is 0.7 percentage points lower than in 2022. The share capital of the Company as at 31 December 2022 amounts to 643.3 million euros.

Total liabilities amount to 429.3 million euros. They increased by 39.6 million euros compared to 2022, while their share in liabilities is 36.8%, which is 0.7 percentage points more compared to 2022. Long-term liabilities account for 60.9 %, and short-term ones for 39.1 % of total liabilities as at 31 December 2023.

The significant increase in long-term liabilities compared to the previous year is the result of the conclusion of long-term credit arrangements and the accounting records of deferred income contained in the item of other long-term liabilities related to income for grants received from funds of the European Union.

In 2023, the situation with the liquidity of HOPS stabilized, primarily due to received payments from EU funds based on approved requests for reimbursement of financial resources that the Company had previously expended to pay the obligations to suppliers under the respective contracts. HOPS had sufficient funds to meet all contractual obligations to suppliers within the agreed deadlines and did not need to arrange new loans/credits.

The average weighted interest rate on loans is 2.39% annually (in 2022 it was 3.36% annually).

Deferred income for grants received from EU funds refers to grants received for the Company's participation in the SINCRO.GRID project in the amount of 10.993 thousand euros, the FARCROSS project in the amount of 32 thousand euros, the EPASSIS project in the amount of 54 thousand euros, the E-CYBIS project in the amount of 86 thousand euros, the CYBERSEAS project in the amount of 49 thousand euros, the LIFE DANUBE FREE SKY project in the amount of 22 thousand euros and the GREENSWITCH project in the amount of 2.851 thousand euros.

For participation in the project, the deferred income from National recovery and resilience plan (NRRP) amounts to a total of 76.900 thousand euros, of which 21.677 thousand euros was reclassified as a short-term liability. Costs incurred by the implementation of this project until December 31, 2023 amounted to 493 thousand euros.

To implement the projects applied for financing from the European Union Solidarity Fund (EUSF) as a part of the reconstruction of infrastructure and equipment damaged by the earthquake, the deferred revenue amounts to 36.656 thousand euros, while the costs incurred by the implementation of this project until December 31, 2023 amounted to 442 thousand euros. Funds received will be recognized in future periods as income for costs incurred by the implementation of these projects.

Positive working capital is the result of lower short-term liabilities compared to short-term assets. As of 31 December 2023, short-term liabilities amounted to 167.7 million euros, and short-term assets amounted to 185.2 million euros (as of 31 December 2022, short-term liabilities amounted to 187.1 million euros and short-term assets to 140.0 million euros). The most significant amount of short-term liabilities refers to liabilities to affiliated companies in the amount of 62.7 million euros and liabilities to banks in the amount of 29.4 million euros.

The indicators deriving from the balance sheet positions show a relatively low level of indebtedness is visible in accordance with the activities performed by the Company. Based on the indicators derived from the balance sheet positions, it can be observed that the Company has a low leverage in line with the activity it performs. Adapting to the circumstances of the energy market and the financial market, the Company finances current investments primarily from its own funds and grants from EU funds and debts, in order to ensure regular repayments of long-term liabilities and regular finances for day-to-day business operations. The leverage ratio (existing liabilities profit after tax and depreciation) of the Company for 2023 amounts to 3.28 years and is lower than the previous year by 1.47 years.

EBITDA (EBIT excluding depreciation) was 112.1 million euros, which is 58.8 million euros or 110.1 % higher than in 2022. The EBIT margin increased by 15.6 percentage points, while the EBITDA margin increased by 17.8 percentage points compared to the previous year. Net profit after tax was used to calculate the return on capital and equity. Compared to the previous year, ROE increased by 6.6 percentage points, while ROA decreased by 4.2 percentage points.

An overview of the selected business indicators is shown in Table 3.

Table 3. Business indicators

Business indicators	2020	2021	2022	2023
EBIT (Earnings before interest and taxes)	22.64	8.13	2.35	59.24
EBITDA (EBIT without the effect of amortization)	70.89	57.93	53.35	112.12
EBIT margin	10.89%	3.02%	0.56%	16.15%
EBITDA margin	34.09%	21.52%	12.77%	30.57%
Return on equity (ROE)	2.18%	0.53%	-0.18%	6.39%
Return on Total Assets - Net (ROA)	1.58%	0.37%	-0.12%	4.04%
Indebtedness factor (number of years)	3.07	3.79	4.74	3.28
Debt ratio	0.27	0.31	0.36	0.37
Coefficient of own financing	0.73	0.69	0.64	0.63
Current liquidity ratio	0.79	0.45	0.75	1.10

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

Innovative development projects

During 2023, the Company participated in the implementation of several development and innovative projects co-financed by the Horizon 2020 program, the EU program for research and innovation for the period from 2014 to 2020, the LIFE program, the EU financial instrument for environmental protection and climate, and the Connecting Europe Facility (CEF) for additional investments in the construction of new and the improvement of existing transport, energy, and telecommunications infrastructure.

The implementation of the CYBERSEAS project ("Cyber Securing Energy Data Services"), with a total value of 8 million euros, co-financed by the Horizon 2020 program, continued. The project consortium consists of 26 partners from 10 countries, aiming to achieve a higher level of information security among stakeholders, including regulatory authorities and legislators.

In August, the FARCROSS project (Facilitating Regional CROSS-border Electricity Transmission through Innovation) with a total value of 13.6 million euros, co-financed by the Horizon 2020 program, was completed. In the consortium of 31 partners from 16 countries, from the Republic of Croatia, in addition to the Company, the Faculty of Electrical Engineering and Computing of the University of Zagreb and the Studio Electronics Rijeka also participated. The project's goal was to explore the potential for increasing the amount and better utilization of cross-border capacities to improve the market for intra-day and day-ahead time frames. The project connected key stakeholders in the energy value chain and demonstrated integrated hardware and software solutions for cross-border electricity flows and regional cooperation.

In August, the ATTEST project ("Advanced Tools Towards cost-efficient decarbonization of future reliable power SysTems") with a total value of 4.0 million euros, co-financed by the Horizon 2020 program, was also completed. In the consortium of 9 partners from 6 countries, alongside the Company, Croatian partners, HEP-ODS, KONČAR – Power Plant and Transport Engineering, and the Nikola Tesla Innovation Center participated. The project's goal was achieved, the research into the possibilities of coordinating the transmission and distribution system through joint planning and management of the transmission and distribution networks and the utilization of the potential of network users connected to the distribution network to provide ancillary services to the transmission system operator was carried out.

The E-CYBIS project, ("Advanced platform for business content and file sharing analysis in HOPS Security Operational Center,") with a total value of 0.4 million euros, co-financed by the Connecting Europe Facility (CEF), was completed on December 31, 2023. The project aimed to strengthen the Company's cybersecurity in compliance with the security and reporting requirements of Croatian and EU legislation (NIS Directive). As part of the project, a framework for effective operational management of the Security Operations Center was defined, security incident management processes were improved, and penetration testing was increased and standardized, all to continuously monitor and prevent cyber threats. The project also improved collaboration with relevant stakeholders at national and European levels, contributing to increased resilience of the Company's information system to cyber incidents and, in a broader perspective,

to limiting the economic and political damage from cyber incidents and ensuring the availability of Company services.

The LIFE Danube Free Sky project, co-financed by the LIFE program, is being implemented by the Company along with 15 partners from 7 countries, including JUPP Kopački rit and HEP-ODS. The total project value is 6.6 million euros. The project aims to prevent the mortality of ornithofauna from collisions with high-voltage transmission lines, electrocutions on medium-voltage power lines and transformer stations, and to improve the status of priority species populations in the Natura 2000 ecological network areas - Danube and lower Drava.

Building on the successful experience of the SINCRO.GRID project, in March 2021, KNG-Kärnten Netz, ELES, Elektro Celje, Elektro Gorenjska, Elektro Ljubljana, HOPS d.d., and HEP-ODS d.o.o. submitted a new project for advanced networks, GreenSwitch, to the 5th PCI list of the European Commission. The JRC (Joint Research Centre) provided a positive technical assessment of the project for inclusion in the PCI list, and after confirmation by the European Parliament and the European Council, the European Commission officially confirmed and published the 5th PCI list at the end of April 2022. The project was granted funding from the Connecting Europe Facility (CEF) in the amount of 73.0 million euros, while the total project value is 146.2 million euros. The project started on March 1, 2023, and will last for a total of 70 months.

The primary goal of the GreenSwitch project is to optimize the use of existing energy infrastructure and to install new technology efficiently, with advanced functionalities allowing for increased storage capacity, efficient integration of new system users, optimization of future investments, and improvement of system operation security and quality. In addition to investing in primary infrastructure, a package of tools for the introduction and use of advanced networks of various technologies, platforms, and functionalities is planned to achieve maximum efficiency. The Company's activities in the project include replacing existing conductors with High Temperature Low Sag (HTLS) conductors on the 220 kV Senj-Brinje line, installing phase shift transformers (PST) at the 110/35 kV Gračac substation, and upgrading the existing ICT infrastructure (WAMS, SCADA, EMS systems). The total value of the Company's investments is estimated at approximately 11.5 million euros, with EU co-financing amounting to 5.7 million euros.

Investments

In December 2022, the Management Board and Supervisory Board of the Company adopted the investment plan for 2023 with a total amount of UR 121.5 million euros. Through 2023, the plan was reduced to the amount of 113.1 million euros by amendments, based on the realized estimates.

In 2023, the Company realized 96.13 million euros of investments, or 85.00% of the investment plan. When 0.29 million euros of own-directed investments (capitalized labor costs) and 0.21 million euros of interest capitalization are added to the realized amount, total investments in 2023 amount to 96.63 million euros, or 85.45% of the plan. The most part of the investment plan includes investments in the revitalization of the existing transmission infrastructure, replacements and reconstructions, new buildings, and electricity connection conditions.

Table 4. Investments in 2023 in EUR

Type of investment	31 December 2023	% share	31 December 2022	% share	2023/2022
1	2	3	4	5	6 (2/4)
Preparation of investments	1.371.325	1,4%	1.765.654	2,3%	-22,3%
Replacement and reconstruction	32.305.800	33,4%	26.704.139	35,2%	21,0%
Revitalization	36.026.462	37,3%	26.099.262	34,4%	38,0%
New facilities	14.407.772	14,9%	19.537.269	25,7%	-26,3%
Other investments	1.036.887	1,1%	1.393.752	1,8%	-25,6%
Electrical power conditions for connection	11.480.156	11,9%	426.320	0,6%	2592,9%
Total	96.628.401	100,0%	75.926.396	100,0%	27,3%

During 2023, the most significant completed facilities are:

- TS 110/20 kV Sućidar** - the substation Sućidar presents an object shared with HEP-ODS. Due to the deterioration and outdated technical solutions of TS 110/35 kV Sućidar, a reconstruction was carried out with a new (GIS) closed facility 110/20(10) kV in the building which was built in a part of the Transmission Area Split. After the construction of the new facility, the old 110/35 kV facility was removed. The construction of TS 110/20(10) kV Sućidar has been completed and a usage permit has been obtained.
- DV 110 kV Benkovac - Zadar** - revitalization - as part of the revitalization works, a conductor with a section of 159/50 mm² was replaced with a new HTLS conductor ACCC 192/28 Rovinj with associated electrical equipment, insulation, protective ropes with OPGW and protective rope suspensions, new part structures on the supporting pillars, rehabilitation of the top of one pillar, rehabilitation of individual foundation heads, repair of the foundation head on two pillars, replacement of part of corroded screws, replacement of part of the grounding device. Measurements and tests were carried out during 2023. In order to create technical conditions in the grid, the energy producer from WPP Korlat participates in covering parts of the costs of the revitalization of the OHL 110 kV Benkovac - Zadar.
- TS 110/30/20 kV Jarun – recovery of the power transformer** - as part of the rehabilitation project of the transformer station, new steel structures and new foundations were made in the places of those damaged in the earthquake, the plateau of the plant with roads and cable channel covers were arranged. All the equipment damaged in the earthquake was replaced: circuit breakers in the connection field, transformer field -T3 and water field EL-TO Zagreb, current transformers in the connection field and transformer field -T1 and -T2, surge arresters in the water field ET-TO Zagreb, and instead of damaged current and voltage transformers, combined transformers were installed in the transformer field - T3 and water field EL-TO Zagreb.
- TS 110/30/20 kV Jarun** – replacement of damaged power transformer -T2, 60 MVA - The old transformer damaged in the earthquake was replaced by another, correct one, which was dismantled from TS 110/30 kV TE-TO Zagreb.
- TS 220/110/10 kV Mraclin** – replacement of a damaged power transformer - T3, 150 MVA - The old, damaged transformer was dismantled, and a new transformer was purchased and installed.
- TS 400/110/30 kV Tumbri** – replacement of a damaged power transformer - T2, 300 MVA - The old, damaged transformer was dismantled, and a new transformer was purchased and installed.
- TS 110/20 kV Rakitje - revitalization of the 110 kV facility** - the revitalization project of the complete 110 kV plant was completed: primary and secondary equipment in 18 fields (together with foundations and steel structures), auxiliary power supply equipment, technical protection and fire alarm were replaced. The operating building (part of HOPS), the plateau of the plant with roads and cable ducts was arranged. The old tower building and the telecommunications building were removed, 3 new relay houses and an auxiliary building for the needs of the Transmission Area Zagreb expert staff were built. A technical inspection and the obtaining of a use permit are expected in 2024.
- TS 110/30 kV Resnik** - revitalization of the monitoring, control and protection system - As part of the revitalization project of the monitoring, control and protection system, a new SCADA system was installed and all field units and protection in the fields were replaced.
- Upgrade of the SCADA/AGC/EMS/OTS system** - in 2023, it was done to configure the new functions available in the SCADA/AGC/EMS/OTS system as part of the second phase of the project "Revitalization of the EES central management systems to a new version". The system successfully passed the trial run and was put into operation permanently in January 2023 and entered the warranty period lasting 3 years.
- TS 110/35 kV Ston – revitalization of the 110 kV facility** - the complete reconstruction of the 110 kV facility has been completed, including the construction of a new operating building (reconstruction started in April 2021). During 2023, all planned works were completed with the implementation of trial work and technical inspection of the building.
- TS 400/220/110/10 kV Konjsko - reconstruction of the 10 kV facility**- the subject project included the reconstruction of part of the 10 kV facility in TS Konjsko, which included the replacement of the existing 10 kV switches, measuring transformers and protection devices, including the construction of the room in 10 kV facility. The activities started during 2021 after the signing of the contract on the

performance of works (August 2021). During 2023, whole works were completed with the commissioning of the reconstructed part of the facility.

Replacement of the auxiliary power supply system – New auxiliary power supply systems were installed: 220 DC installed in TS 110/20/10 kV Nin and 48 DC in TS 400/220/10 kV Konjsko.

The most significant facilities in 2023 (ongoing implementation):

OHL 2x110 kV Bilice-Trogir - during 2023, the previously contracted and started construction works on the construction of OHL 2x110 kV Bilice – Boraja and OHL 2x110 kV Boraja – Trogir took place, which were completed; but with the Annex to the Contract, it was extended due to the preparation of the completed situation and handover before the technical inspection of the building. Also in 2023, electrical installation works were contracted, which are still taking place in accordance with the planned dynamics and are expected to be completed by August 15, 2024.

OHL 220 kV Senj-Melina - revitalization and increase of transmission capacity – all works on the revitalization of OHL 220 kV Senj-Melina have been completed, except for anti-corrosion protective (ACP) works. The existing conductor was replaced by a high-temperature, low-sag HTLS conductor, and the transmission line was energized. ACP works are expected to be completed in 2024.

Replacement of 110 kV cables - southern loop, section Hvar - Brač (4.5 km) with reconstruction of the associated KS - during 2023, an implementation project was drawn up and accompanying works on the laying of submarine cables were contracted, which were largely carried out during 2023. Works on the removal of the existing 110 kV oil cables have been contracted and will be carried out in Q1/2024 years. In 2024, the work on the replacement of the 110 kV cable is expected to be completed, the handover and the settlement completed.

OHL KB 110 kV Krk - Lošinj (7.6 km) Cable replacement part Krk (Mali Bok) - Cres (Merag) at the end of 2023, FAT for submarine cables was carried out. Preparation of land sites and laying is expected in Q1/2024. During 2023, works on the removal of the existing oil 110 kV cables were contracted, which will be carried out in Q2/2024 years. In 2024, the work on the replacement of the 110 kV cable is expected to be completed, the handover and the settlement completed.

Replacement of 110 kV cable - southern loop, Hvar-Korčula section (17.5 km) with reconstruction of the associated KS - during 2023, an executive project was drawn up and accompanying works on the laying of submarine cables were contracted, which were largely carried out during 2023. Works on the removal of the existing 110 kV oil cables have been contracted and will be carried out in Q2/2024 years. In 2024, the work on the replacement of the 110 kV cable is expected to be completed, the handover and the settlement completed.

OHL KB 110 kV Krk - Lošinj (1 km) Cable replacement section Cres (Osor 1) - Lošinj (Osor2) - At the end of 2023, FAT for submarine cables was carried out. Preparation of land sites and laying is expected in Q1/2024. During 2023, works on the removal of the existing 110 kV cables were contracted and will be carried out in Q2/2024 years. In 2024, the work on the replacement of the 110 kV cable is expected to be completed, the handover and the settlement completed.

TS 220/110/10 kV Mraclin - revitalization of the 220 kV facility - EUSF project - the project includes the creation of the main and executive design and the obtaining of a building permit, the procurement of primary and secondary equipment necessary for reconstruction, the establishment of a temporary 220 kV power supply during the execution of works in the plant, replacement of the 220 kV busbar system, arrangement of cable ducts, construction of relay houses, replacement of primary equipment and secondary equipment and auxiliary power supplies, construction of a connection field (separation of the connection field GS1-GS2 and GS-PS) and connection of the existing compensating reactor field to the new 220 kV bus bars. According to the implementation plan in Q1/2025, after the end of the trial run, it is planned to carry out a technical inspection and issue usage permit. Part of the investment is in 2022 and will be co-financed from the EUSF in 2023.

TS 110/20 kV Stenjevec (GIS) - in 2023, a new building was built to house the 110 kV GIS substation and the cable connection to the OHL field Rakitje 2. The gradual removal of the external 110 kV switchgear and the construction of the cable connections of the GIS substation is underway on OHL field Rakitje 1 and transformer fields TR 1, TR 2 and TR 3. Completion of all activities is expected in the first half of 2024.

HOPS DATA HUB – the establishment of the HOPS DATA HUB includes the construction of a data center at a separate location and its complete integration into the process and business systems of HOPS

and integration with third parties, which primarily implies a complete reconstruction and modernization of the existing facility in TS 400/110/30 kV (CDU) Tumbri.

TS 110/35 kV Čakovec - expansion and revitalization of the 110 kV facility+ provisional - during 2023, the laying of signal cables and activities on the hydrant network and reconstruction of the TS were completed. The technical review is expected to take place in Q1/2024 years. At the end of 2023, the OHL 110 kV Čakovec - Lenti was also put into operation.

TS 110/35kV Meterize - revitalization - the revitalization took place within the framework of two building permits, one for the reconstruction of the 110 kV facility, and the other for the reconstruction of business buildings. The revitalization was completed at the end of 2023. The last third of the busbar system with the associated fields was put into operation, the new oil pit and the sewage, rainwater and hydrant network were completed. Also in 2023, the rehabilitation of the plant building was completed, the plateaus, roads and canopies were completed. Renovation of business facilities near the transformer station was carried out. The technical inspection for the reconstruction of the 110 kV facility is planned to be carried out by the end of March 2024, while the technical inspection for the reconstruction of business facilities is planned to be carried out by the end of May 2024.

TS 110/35 kV Nerežišće - replacement of auxiliary power supply system - Delivered equipment for 220 DC, installation is expected in the first half of 2024.

Arrangement of the calculation measuring point of own consumption - in accordance with the principles of HEP-HOPS delimitation, sub-distributions were realized in TS 110/20 kV Novalja, TS 110/20/10 kV Pag, TS 110/20/10 kV Benkovac and TS 110/20/10 kV Ploče.

Connection ELTO Zagreb - STUM-KB 110 kV - cost of HOPS + cost of HEP - KB 2x110 kV EL-TO - Stenjevec is laid on all sections. It is still necessary to install 110 kV connectors in the connection pit S5, and 110 kV cable terminations on both sides of the cable lines. Completion of all activities is expected in the first half of 2024.

TS 110/30/20/10 kV Kapela – is a joint facility with HEP ODS. TS 110/30/10(20) kV Kapela is planned with a 110 kV AIS installation. During 2023, construction work continued and electrical installation work was carried out. The construction deadline has been extended until the end of March 2024, and during 2024, it is expected to carry out a technical inspection, handover and final calculation.

TS 110/10(20) kV Kapela connection - for the purpose of providing electricity supply in the western part of the wider area of Šibenik (Vodice, Tisno, Murter), the construction of a new transformer station 110/30/10(20) kV Kapela is planned. In TS 110/30/10(20) kV Kapela, it is planned to introduce the transmission line OHL 110 kV Bilice – Biograd in TS 110/30/10(20) kV Kapela, length: 7.9 km and conductor 240/40 mm² Al/Č. During 2023, construction works were completed, and electrical installation works were contracted and started. By the end of 2024, it is planned to complete the construction, handover, final settlement and the Operating Permit. The dynamic plan for the construction of the connection follows the dynamics of the construction of TS Kapela.

TS 110/20 kV Mazin connection - during 2023, the construction of TS 110/20 kV Mazin was completed as part of the construction of the Bruvno wind power plant connection. The new TS 110/20 kV is connected to the cross-border transmission line Gračac-K. Vakuf, and as of July 1, the cross-border OHL 110 kV Mazin – K. Vakuf is instead of the OHL 110 kV Gračac – K. Vakuf.

TS Našice - revitalization – the revitalization of TS Našice is in progress. The works are expected to be completed within four years of signing the contract. The revitalization activities on the substation started in 2019. At the end of 2023, all 110 kV fields were commissioned - a total of 7 VP 110 kV, 2 TP 110 kV and SP 110 kV, new primary equipment and a new secondary system were installed. Until the completion of the contract, part of the construction work outside the 110 kV facility and inside the facility building should be carried out. The revitalization of SS Našice is planned to be completely by the end of 2024.

Repair of damaged OHL 400 kV, 220 kV and 110 kV as a result of a storm in the area of the Transmission Area Osijek - a storm in July 2023 caused damage to overhead lines 400 kV Ernestinovo - S. Mitrovica 2, 220 kV Đakovo - Tuzla 1, 220 kV Đakovo – Gradačac, 110 kV Požega – Nova Gradiška, 110 kV Vukovar – Nemci and 110 kV Nemci – Šid with a total value of 4.66 million euros. The revitalization of the 110 kV Požega-Nova Gradiška transmission line has been completed, the temporary revitalization of the 400 kV and 110 kV OHL has been made and the lines have been put into temporary operation, and the final revitalization of all remaining damaged transmission lines will be fully completed during Q1/2024.

Expansion of the EES management system - preparation of studies for the adjustment of the SCD function, bases for the calculation of the hybrid state estimation of the 400 kV and 220 kV HOPS transmission network supported by synchrophasor measurements, delivery of equipment for the needs of upgrading existing systems, monitoring of inertial response, configuration of the SCD function, conceptual solution for GreenSwitch, concept project for a video wall, support for creating a dynamic EES model. The addition of the module for calculations, the addition of the "Planning of works according to user requirements" system, the improvement of safety analysis and state estimation, the refinement of CGMES exports for the ENTSO-E program and the refinements necessary for the implementation of the OPC process were carried out. The existing reporting system for collecting time series data was upgraded to a new version, and the procedures and tests of the procedures for restoration from the backup system were implemented.

Connection TS 110/10(20) kV terminal TTTS - planned TS 110/20(10) kV Terminal is located in close proximity of the existing OHL 110 kV Zakučac – Meterize III. Connection of the TS 110/20(10) kV Terminal under construction to the transmission network is performed by direct 110 kV cable connections to the existing transmission line. The connection KB 110 kV has a cross-section of 1,600/95 mm². During 2023, construction and electrical installation work on the installation of KB 110 kV continued, and in the meantime, the procedure for adding to the contract will be initiated in order to extend the construction deadline until the end of July 2024. In 2024, a technical inspection, handover and final calculation are expected.

RP HPP Dubrovnik - the existing switchgear is located outside, dislocated from HPP Dubrovnik on a separate plot and within its own external fence. It consists of two 220 kV bays and one 110 kV bays. The connections to the block transformers are made with 220 and 110 kV cables located in the cable duct. The terrain is extremely steep and access to the HV devices is difficult and it is almost impossible to maintain the equipment in accordance with the Rules on the maintenance of facilities and equipment of power transmission network buildings. Furthermore, the connecting lines between the devices are made of pipe conductors, and their removal requires the use of a crane, and crane access to the devices is generally not possible. There were frequent breakdowns and damages in the facility. It is planned to remove most of the existing primary equipment and structural elements, install new 220 and 110 kV GIS facility on the lower plateau, dig new cable trenches and lay new HV cables, install new secondary equipment. During 2023, GIS plants with a nominal voltage of 220 kV and 110 kV were defined and ordered. Delivery of the facility to the HOPS warehouse is expected by the end of March 2024.

TS 220/110 kV Sisak - revitalization of the 110 kV facility - as part of the revitalization project of the 110 kV plant after the earthquake, the procurement of primary equipment (switches, disconnectors, surge arresters, measuring transformers) was completed. The main project has been completed, and preparation for the implementation project is underway.

TS 220/110/10 kV Mraclin - revitalization of the 110 kV facility - as part of the revitalization project of the 110 kV facility after the earthquake, the purchase of primary equipment (switches, disconnectors, surge arresters, measuring transformers) was completed. The main project has been completed, and the development of the executive project is underway.

TS 110/20 kV Petrinja - construction of the transformer station - restoration to its original state - as part of the project to restore the transformer station to its original state after the earthquake, a temporary facility for secondary equipment and auxiliary power supplies was built in containers, the old operating building was demolished and a new one was built where the new secondary equipment and auxiliary power plant is located. Most of the primary equipment for the construction of the new 110 kV plant (switches, disconnectors, surge arresters, measuring transformers) has been acquired. The contract for the start of its installation will be concluded in 2024.

TS 110/20 kV Glina - revitalization of the 110 kV facility - as part of the revitalization project of the 110 kV plant after the earthquake, the procurement of primary equipment (switches, disconnectors, measuring transformers) was completed. The main and implementation projects have been completed, and the last phase of the project - works - will start soon.

TS 400/110/30 kV Tumbri - revitalization of the 400 kV facility - as part of the revitalization project of the 400 kV plant after the earthquake, the purchase of primary equipment (switches, disconnectors, surge arresters, measuring transformers) was completed. The main and implementation projects have been completed and the construction permit has been obtained. The work should start in 2024 and will last 3 years.

TS 220/110/10 kV Mraclin - revitalization of the 220 kV facility - works on the implementation of the 220 kV system revitalization project are in progress. So far, a temporary 220 kV facility has been built and put into operation, and work on the new 220 kV transformer station facility is underway. The old plant was completely dismantled, and the construction part was demolished and 3 new relay houses, foundations and steel structures for primary equipment and portals and cable sewers were built. The busbars have been reconstructed, the primary equipment has been installed and now work is being done on its connection. Secondary equipment and auxiliary power supplies are in the installation phase.

TS 110/35 kV KTE Jertovec - revitalization of the 110 kV facility- as part of the **revitalization** project of the 110 kV plant, part of the primary equipment is being replaced, the secondary equipment is completely replaced and the power building is added. Due to the reliability of the plant, the works are carried out on a field-by-field basis, and in 2023, a complete reconstruction was carried out on 8 out of 10 active fields. The completion of the project is expected in 2024.

TS 110/35 kV Dunat - replacement of secondary equipment 110 kV facility- as part of the secondary equipment replacement project in TS Dunat, the procurement of equipment and works on the refurbishment of secondary equipment was contracted. During 2023, complete project documentation was created, the remaining part of the equipment was purchased and installed, considering that part was purchased in 2022, and parameterization and testing services were partially performed. The completion of the project is expected in 2024.

OHL 110 kV Krk - Lošinj – revitalization - as part of the project, the production of project documentation for the complete **revitalization** of the remaining sections of the water lines was contracted, which was completed in 2023. More specifically, a field survey of the entire transmission line route was carried out, the implementation project for the replacement of connecting and suspension equipment, the elaboration of access roads and the preparation of cost estimates for the procurement of equipment and the execution of revitalization works were carried out. The start of **revitalization** works is planned in 2025.

ELECTRICAL POWER SYSTEM AND THE EUROPEAN ELECTRICITY MARKET

Security of supply

The Company participates via ENTSO-E mechanisms in adequacy analyses for short-term, mid-term and long-term plans. Development plans are continuously adjusted according to the needs to ensure the security of supply. Electricity in the Croatian EPS is procured by production capacities, as well as by importing electricity from neighboring countries.

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

By comparing the available transmission capacities and the available production capacities with the average hourly loads of the transmission system, the adequacy of production and import of capacities for providing the necessary quantities of electricity to the end customers is evident for 2023. Still, hydrological conditions during certain parts of the year, the unavailability and a lack of price competitiveness for thermal power plants have caused high import into the Croatian EPS.

Mild winter and intense heat during June and July are the main reason that in 2023 the maximum summer peak load exceeded the maximum winter peak load. On August 24, 2023, at 9 p.m., a historic summer peak load of 3.198 MW was achieved, 2 % more than in 2022 (3.126 MW), 4% more than in 2022. The winter peak load in 2023 was 2.990 MW, 3 % more than in 2022 (2.916 MW), 3% more than in 2021(2.893 MW). The total annual consumption (17,839,391 MWh) decreased compared to 2022 (18,092,516 MWh) but almost throughout the whole year electricity had to be imported. In 2023, exports exceeded imports during 2467 hours, of which during the first half of the year in 1644 hours. The adequacy of the system was not compromised. Regular information exchange activities were conducted with European authorities regarding the maintenance of transmission grid operations with the aim of preserving secure supply.

On November 16, 2023, ENTSO-E released the document “ENTSO-E Winter Outlook 2023/2024, Summer Review 2023”. In the Winter Outlook 2023-2024, it is forecasted that there will be no increase in risks compared to the winter of 2022-2023. However, transmission system operators are obliged to monitor the adequacy situation throughout the entire period. A particular emphasis is placed on the risk in the supply of island areas: Ireland due to outdated gas-fired generation units and dependence on weather conditions in the case of wind power plants, Malta due to limited import capabilities, and Cyprus due to the lack of cross-border electricity connections.

Gas storage facilities are adequately filled in all EU member states.

In the Summer Review 2023, ENTSO-E reports that there were no major issues regarding supply adequacy. Some areas experienced extremely high temperatures and increased consumption, but significant deliveries from renewable sources were noted: for example, Austria achieved record production from hydro power plants, while Finland ensured adequacy thanks to increased wind power production. Reduced gas deliveries from Russia did not impact electricity production. The long-term security of supply is linked to the adequacy of the power system in a typical planning horizon of up to ten years ahead. Adequacy refers to the stationary state of the system, implying sufficient infrastructure to meet electricity demand within nominal load values and voltage limitations, considering planned maintenance and unforeseen outages, especially focusing on production and grid adequacy. Production adequacy assesses the ability to meet consumption needs within the power system, while grid adequacy assesses the ability to transmit power flows through the grid. Mid-term supply security indicators are processed in the ENTSO-E document "European Resource Adequacy Assessment," which has replaced the "Mid-term Adequacy Forecast" since 2021. The "European Resource Adequacy Assessment (ERAA)" provides the methodology for assessing power system adequacy. The 2023 document aims to provide guidance for investment processes for the years 2025, 2028, 2030, and 2033. Special emphasis is placed on planned decommissions of fossil fuel sources and the rapid increase in installed renewable energy capacity. Acknowledging the risks associated with such developments in power supply, it emphasizes the necessity of collaboration among stakeholders to find solutions.

Based on the Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector and repealing Directive 2005/89/EC, the competent authority of each member state establishes a risk-preparedness plan. Risk-preparedness plans consist of national, regional and bilateral measures, which are planned or undertaken to prevent, prepare for or mitigate crises in electricity sector. The Government of the Republic of Croatia, by adopting the Decision on determining the competent authority for security of electricity supply, appointed the Ministry responsible for energy as the competent authority for security of electricity supply (MINGOR), while the company, HEP ODS and Croatian Energy Market Operator Ltd. were delegated certain tasks prescribed by the same Regulation, among them the creation of the Croatian risk-preparedness plan. The draft document, created in the scope of consultations with MINGOR and HEP ODS, was almost entirely prepared in HOPS during 2021, while during 2022 active communication with the EC on the adoption of the Plan was maintained, whereby the current status is the implementation of comments of the EC received on 7 December 2022 into the Plan, with the aim of creating the final version of the Plan in the first half of 2024.

It can be concluded that the security of supply is at a satisfactory level, but that criteria (n-1) was not met throughout the entire year, and that compared to the data from 2022, the duration of criteria (n-1) was not met on an annual basis for the elements of all voltage levels. The largest number of hours occurred in January and December, when the problem is the simultaneous high production of hydropower plants and wind power plants and high transits from the east to the west. For the time being, such threats are successfully addressed with available preventive and curative measures, but due to the further integration of RES in a narrow geographical area, the transmission network will have to be further developed in order to maintain local security of supply while simultaneously accepting all available production from volatile RES. In conclusion, there is generally enough electricity on the market, but its procurement can be uncertain given the situation in Europe, primarily taking into account war in Ukraine. Despite the exposure to these risks, security of supply was not compromised.

Trans-zone capacities

The Croatian organized day-ahead electricity market continued to function properly during 2023 as part of the Single Day-Ahead Coupling (SDAC), which includes markets representing 95% of European electricity consumption.

In 2022, after the Company actively participated in the implementation of the project for the development of the cross-zonal capacity calculation method using flow-based capacity calculation and in the day-ahead market connection project based on power flow calculations in the Core region for core flow-based market coupling, during 2023, the specified processes were operationally implemented. For the first time in 2023, all long-term allocations of cross-border capacities at the Croatian-Hungarian border were organized as allocations for financial transmission rights (FTR options), meaning that physical buying and selling of electricity were exclusively conducted in the day-ahead and intraday markets.

The Croatian organized intraday market is operationally connected to the single intraday coupling via the Croatian–Slovenian border and Croatian-Hungarian border, as part of the SIDC (Single Intraday Coupling) project, previously known as CBID (Cross-Border Intraday). The Company is also active in that market for the purpose of buying and selling electricity to cover losses in the transmission network.

Regarding supervision and management, the steering committees of the SDAC and SIDC projects were connected into a single MC SC (Market Coupling Steering Committee), and the relevant working groups and teams were updated.

Procurement of electricity to cover losses

In order to minimize total costs, HOPS buys electricity to cover losses, based on principles of transparency, impartiality and competition. For the procurement of electricity to cover losses in 2023, HOPS conducted several public tenders and transparently and impartially managed the process of procurement and portfolio management of electricity to cover losses in the transmission network. Procurement in 2023 based on three mechanisms: by long-term procurement (auctions with agreements concluded on an annual, monthly, or quarterly basis, short-term procurement (on the day-ahead market and the intraday market) and through the mechanism of derogation.

HOPS provided 139.46 GWh of electricity at a unit weight price of 103.75 Euro/MWh based on long-term (yearly) agreements, which is 28 % of the planned quantities.

Short-term procurement involves the electricity trading to cover losses on day-ahead and intraday markets of the Croatian Power Exchange - CROPEX. The amount of electricity purchased/sold every day at CROPEX is based on the difference of daily prognosis of necessary amounts of electricity to cover losses and long-term procured energy. The deviation of the purchase of electricity necessary to cover the losses in the transmission network in relation to realization is covered through balancing mechanisms.

Taking into account the above, in 2023, there were three (3) public tenders conducted for the delivery of electricity to cover losses in the transmission network. Following the tenders, a total of seven (7) contracts were concluded, including one (1) for the delivery of electricity to cover losses in the transmission network for the entire year, two (2) for the delivery of electric energy to cover losses in the transmission network for the third quarter, two (2) for the fourth quarter of 2023, and two (2) contracts for the delivery of electricity to cover losses in the transmission network for the months of November and December 2023.

Total costs of purchasing electricity to cover losses amount to 53.06 million euros, for a total of 494.06 GWh of electricity. These costs consist of the costs of long-term and short-term purchases. The cost of long-term contracts is 14.47 million euros for a total of 139.46 GWh of purchased electricity, and the cost of short-term procurement is 38.59 million euros for a total of 354.60 GWh purchased electricity, through the procurement of framework agreements and through day-ahead and intraday trading.

During 2023, HOPS also generated income from the short-term sale of electricity for 3.33 million euros due to the achieved negative purchase price on the day-ahead market and the sale of 30.14 GWh on the intraday market.

The average unit price of the total market purchase of electricity to cover losses is 107.23 EUR/MWh. The stated cost is higher than the average market prices of long-term procurement and deviation prices but lower than the average prices of short-term procurement.

Based on the Amendments to the Regulation on the Elimination of Disturbances in the Local Energy Market (NN 122/2023 and 107/2023) issued by the Government of the Republic of Croatia, which recognizes the price difference in the procurement of electricity to cover losses incurred through long-term contracts and trading on the exchange from 70 EUR/MWh to 180 EUR/MWh for Q2 and Q3 2023 and 150 EUR/MWh for Q4 2023, HOPS generated revenue in the amount 11.89 million euros. Of this amount, 10.00 million euros were disbursed in 2023, while the remaining 1.89 million euros (for December 2023) were paid in 2024.

Balancing market

In accordance with EMA, HOPS as a transmission system operator is responsible for ensuring secure, reliable and efficient operation of EPS. In this context, the responsibility of HOPS is to ensure the availability of all balancing services and to organize the balancing market in the entire territory of the Republic of Croatia in accordance with the Rules on balancing the electric power system.

In 2023, Rules on Balancing the Electric Power System (HOPS 11/2019, hereinafter: the Rules) were applied. These Rules ensure the implementation of Article 18 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing (hereinafter: EB GL Regulation), as they lay down the conditions and provisions for balancing service providers, entities responsible for deviations, as well as the calculation rules in the event of suspension and restoration of market activities.

In accordance with the provisions of the Rules, in 2023, Rules for the calculation of deviation of balance groups and the calculation of prices which implement a single deviation price for all balance groups that reflects the costs of balancing energy in a certain billing period were applied. As of 31 December 2023, HOPS had concluded agreements on the liability for deviation with 37 balance group managers (hereinafter BGM). 29 of them are traders, 5 are suppliers, 3 have special permissions from HROTE, HEP ODS and CROPEX

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

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

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

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

- Methodology for determining prices for the provision of ancillary services (HOPS 9/2020, hereinafter: Methodology AS),
- Rules on marginal pricing of balancing energy (Annex 1 of the Rules).

In accordance with Article 52 of EMA and the decision of the Management Board of the Company no. 32.9.22 from September 28, 2022, taking into account the partial or complete absence of other pre-qualified providers of individual balancing services except for HEP-Proizvodnja d.o.o., HOPS for the first time submitted to HERA for approval a reasoned Request for the procurement of products and services that cannot be procured on the market with an assessment of the possibility of obtaining each individual product and service.

HERA has issued a Decision granting approval for the procurement of products and services that cannot be procured on the market according to the above request of HOPS.

In accordance with Article 100, Paragraph 7 of EMA and Article 17 of the AS Methodology, it is necessary to obtain HERA's consent for signing a contract on the provision of ancillary services with HEP-Proizvodnja d.o.o.

The Government of the Republic of Croatia, through the Regulation on the elimination of disturbances on the local energy market of September 9, 2022 (Official Gazette 104/2022) and March 17, 2023 (Official Gazette 31/2023), regulated issues related to the trading of electricity, as well as the method and conditions for determining prices for certain categories of electricity consumers, due to disturbances in the domestic electricity market. This action was directly related to the option for a partial suspension of the AS Methodology because the increase in the costs of ancillary services could not be offset by HOPS's request for an increase in tariff items as envisaged in the Methodology for determining the amounts of tariff items for electricity transmission (Official Gazette 84/2022).

HOPS took additional steps based on the decision of the Company's Management Board no. 42.2.22 of November 4, 2022, requested the consent of the Ministry of Economy and Sustainable Development for the partial suspension of the application of the AS Methodology. The Ministry of Economy and Sustainable Development did not respond to the previously described request for consent for the partial suspension of the application of the AS Methodology. On November 29, 2022, HOPS initially submitted for approval to HERA the contracts for the provision of ancillary services for the whole of 2023 with the prices of ancillary services fixed at the amounts from 2022, counting on the implementation of the temporary partial suspension of the AS Methodology.

Due to lack of response to the activities related to the temporary partial suspension of the application of the AS Methodology, HOPS, with the aim of ensuring the secure operation of the EPS, on December 22, 2022 submitted to HERA for approval the contracts for the provision of ancillary services for the whole of 2023 with the note that, taking into account the existing amounts of tariff items, there are not enough funds to fulfill the obligations that would arise from the conclusion of the aforementioned contracts.

Considering the above mentioned, with the consent of HERA and the Company's Supervisory Board HOPS concluded six contracts with HEP-Proizvodnja d. o. o. (as the dominant provider; hereinafter: HEP-Proizvodnja) on the provision of ancillary services for the period of January–March 2023:

- Agreement on the provision of compensatory work services for the purpose of voltage and reactive power regulation
- Agreement on the provision of island operation services
- Agreement on provision of black start service
- Agreement on providing power reserves for the frequency restoration process with manual activation for the purpose of system security
- Agreement on providing power reserves for the frequency restoration process with manual activation for balancing purposes
- Agreement on providing power reserves for the frequency restoration process with automatic activation and balancing energy.

In accordance to the decision of the Company's Management Board dated February 23, 2023, HOPS have to obtain approval to HERA a request for prior consent for the contracts for the provision of ancillary services for the period April-December 2023. On 10 March 2023, a decision of the Supervisory Board of HOPS was made, which gives consent to the Management of HOPS to enter into an Agreement on the provision of ancillary services with HEP-Proizvodnja d.o.o. for the period April-December 2023.

In coordination with HERA and uncertainty about the possibility of realizing the contract, taking into account the existing amounts of tariff items, on March 30, 2023, HOPS provided to HERA for approval new proposals for the contract on the provision of ancillary services for the period April-June 2023 as for the previous quarterly period of 2023. According to the consent of HERA from April 4, 2023 and the submission of information to the Supervisory Board of the Company on the status of contracting ancillary services, HOPS concluded 6 (six) contracts on the provision of ancillary services with HEP-Proizvodnja d.o.o. for the period April-June 2023, under the same conditions as for the previous quarter period 2023.

Due to continued uncertainty about the possibility of realizing the contract on the provision of ancillary services in 2023, taking into account the existing amounts of tariff items, on June 1, 2023, HOPS sent HERA for approval the proposals for the contract on the provision of ancillary services for the period July-September 2023. According to the consent of HERA on June 20, 2023 and the submission of information to the Supervisory Board of the Company about the status of the contracting of ancillary services, HOPS entered into contracts on the provision of ancillary services with HEP-Proizvodnja d.o.o. for the period July-September 2023 under the same conditions as for the previous quarterly periods of 2023.

For the same reason as well as for the previous quarterly periods in 2023, with the prior agreement of HERA dated September 22, 2023, HOPS concluded contracts for the provision of ancillary services with HEP-Proizvodnja d.o.o. for the period October-December 2023. In the Croatian EES, the mFRR power reserve during 2023 was provided for the most part by the balancing service provider HEP-Proizvodnja d.o.o., as well as several smaller balancing service providers with demand side response and two independent aggregators who participated in the procurement process of the mFRR power reserve and/or balancing energy for system security through public tenders.

Provision of mFRR power reserve is open to all users of the transmission and distribution network and groups of network users (aggregators and independent aggregators).

The chronology of activities as follows:

from December 2020, the procedure for procuring the mFRR power reserve balancing service in a positive direction (increasing production, decreasing consumption) through public tenders,

in January 2022, the first balancing service provider in the role of an independent aggregator, the company KOER d.o.o., was pre-qualified, with an initial pre-qualified amount of 9 MW of mFRR power reserve in the positive direction, in December 2023, its pre-qualified amount increases to 31.3 MW,

in October 2022, the company HEP-Proizvodnja d.o.o., with the prior approval of HERA from August 2022, for the first time enters into a market contract with HOPS on the provision of balancing services - mFRR. By concluding the market contract HEP-Proizvodnja d.o.o. exercises the right to participate in public tenders for the provision of mFRR power reserve and/or balancing energy in accordance with the Rules of Tender for the provision of mFRR power reserve and/or balancing energy (HOPS 11/2020). The power reserve contracted long-term with the dominant provider is reduced for the market-secured amount,

at the end of 2022, following the received Letters of Intent from several potential balancing service providers to provide mFRR power reserve in a negative direction (lowering production, increasing consumption), HOPS is preparing a new proposal for the Bidding Rules for providing mFRR power reserve and/or balancing energy, in a positive direction and the negative direction of HOPS 2/2023 (hereinafter referred to as: Bidding Rules). The bidding rules determine the key characteristics of the balancing product, which include, among others: the procurement period (e.g. 8 hours, 12 hours, daily, monthly), the maximum duration of activation and the time between two activations,

at the end of December 2022, HOPS conducted a public consultation entitled "Competition rules for securing mFRR power reserve - invitation to interested providers", lasting 30 days (from December 20, 2022 to January 20, 2023). As part of the public consultation, HOPS received one written proposal/comment on the proposal of the Tender Rules from an interested provider. The results of the public consultation, i.e. the remarks and/or proposals of the participants with explanations of HOPS, are published on the website of HOPS,

from February 2023, HOPS implements the procurement procedure of mFRR power reserve and/or balancing energy for products in the positive (increase in production/decrease in consumption, product P1-mFRR+) and negative direction (increase in consumption and decrease in production, product P2-mFRR-) public bidding.

At the end of 2020, the product P1 – mFRR+ was provided by six demand side response balancing service providers, with a total pre-qualified amount of 49 MW.

In December 2023, 10 balancing service providers were prequalified to provide the mFRR power reserve balancing service and/or balancing energy as follows:

for product P1 – mFRR+: 6 smaller providers with demand side response consumption and 1 provider in the role of an independent aggregator in the total amount of 85.3 MW and a dominant provider of balancing services

or product P2 - mFRR-: 2 providers in the role of independent aggregator in the total amount of 55 MW and a dominant provider of balancing services.

From 2019 to 2023, the share of mFRR reserve power secured through public tenders by demand-driven balancing service providers and independent aggregators (product P1 - mFRR+), grew from 19% at the end of 2019 to 34% in December 2023. The dominant balancing service provider (the company HEP-Proizvodnja d.o.o.) in 2023 secured a 66% share in the total scope of the power reserve of the product P1 - mFRR+.

The bidding rules for the product P2 - mFRR currently prescribe the procurement of 40 MW/h of power reserve, while the remaining required mFRR power reserve for balancing the system (-80/+100 MW/h) is procured from the dominant provider on the basis of long-term (quarterly) contracts, with the prior consent of HERA.

In the period from February to August 2023, product P2 - mFRR - was provided by two other balancing service providers in the role of independent aggregators, in the total pre-qualified amount of 55 MW, in addition to the dominant service provider (the company HEP-Proizvodnja d.o.o.). Through the public bidding process, 54% of the required scope of product P2 - mFRR - was provided by the dominant provider (the company HEP-Proizvodnja d.o.o.), while the remaining 46% was provided by other balancing service providers.

FSKAR process

Based on the EB GL Regulation and the Synchronous Area Framework Agreement (SAFA) all participating transmission system operators have developed “common settlement rules applicable to all planned exchanges of energy for frequency maintenance process and the period of capacity changes according to Article 50(3) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing a guideline on electricity balancing” and “common settlement rules applicable to all planned exchanges of energy for frequency maintenance process and the period of capacity changes according to Article 51(1) of the Regulation on establishing a guideline on electricity balancing” (Financial Settlement of Δf , ACE and Ramping Period Energy - hereinafter: FSKAR), which are applied since 1 June 2021.

Since the beginning of the application of the FSKAR process, no significant changes have been recorded in the quantity of energy deviation of the EPS, because it depends on the meteorological and socioeconomic conditions in society. On the other hand, the realized income/cost from the FSKAR process within the entire ENTSO-E RGCE area is fairer because the weighted price of electricity realized on the day-ahead markets of the respective electricity exchanges is used as the deviation price.

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

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

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

Pursuant to Article 62 of the EB GL Regulation, at the 15th meeting of the Management Board held on 23 July 2021, HERA adopted the Decision on approving the Company to deviate from the obligations prescribed by Article 20 and Article 21 of the EB GL Regulation, for a period from 24 July 2022 to 24 July 2024.

Transparency of data

For the Croatian regulation area, the company publishes data on the ENTSO-E Transparency Platform (hereinafter: ENTSO-E TP).

According to HOPS's announcement to HERA on June 1, 2023, regarding the introduction of a 15-minute settlement interval (ISP) in the discrepancy settlement process, HOPS adjusted the process of sending all data to ENTSO-E TP in line with the aforementioned announcement. Upgrades were made to HOPS's source and TP systems for data preparation and delivery in 15-minute resolution. Additionally, configurations for data delivery, processing, and publication on the TP platform were modified in collaboration with ENTSO-E and neighboring transmission system operators. Furthermore, historical data in 15-minute resolution were partially updated to prepare market participants for the transition to a 15-minute ISP.

The mechanisms of data delivery and verification of accuracy were improved, which improved the quality of publicly published data during the day/week of implementation. The volume of published data is continuously increasing because new types of data are included on the ENTSO-E TP arising from the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereinafter: CACM Regulation, Capacity Allocation and Congestion Management Guideline), from the Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation (hereinafter referred to as: SO GL Regulation, System Operation Guideline) and from the EB GL Regulation.

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

Croatian EIC Local Issuing Office

ENTSO-E maintains a unique system for issuing Energy Identification Codes (EIC) which is managed by the unique Central Issuing Office (CIO) of ENTSO-E and local offices which exist in certain European countries with the purpose of issuing and administration of EIC.

The Croatian Local Issuing Office (CLIO) is managed by HOPS. It performs all activities related to issuing and updating the Energy Identification Codes that are needed by Croatian energy entities (traders, suppliers, producers, balancing service providers, aggregators, etc.) need if they want to exercise their right to participate in market processes of local and common electricity and gas markets.

The CLIO issues two types of codes: international codes, which are published on the websites of CIO and CLIO, and local codes, which are published only on the website of CLIO.

In 2023, a total of 171 EICs (29X, 68W, 74 Z) were issued, which is 79 times less than in the previous year. A further trend of increasing the number of registrations of new producers and renewable energy sources plants was observed, which through membership in different balance groups join the market as new participants.

Other activities in the European environment

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

Pan-European level

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

Continental Europe

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

System operation region Central SOR

According to the Regulation no. 2019/943, on a proposal of ENTSO-E, ACER specifies which transmission system operators are covered by each system operation regions. According to the decision of ACER, HOPS belongs to the Central system operation region (Central SOR). TSOs of the Central SOR have submitted a proposal to the regulatory authorities for establishing regional coordination centers (hereinafter: RCC). The proposal, according to which the RCCs for Central SOR shall be TSCNET and Coreso, was accepted

at the beginning of 2021. Both RCCs perform preparations in order to achieve a successful transformation from regional security coordinators to RCCs by 1 July 2022. As one of the co-owners, HOPS participates in the transformation process of TSCNET. With regard to the decision of ACER, according to which each system operation region bordering TSOs of third countries has to conclude an cooperation agreement ensuring secure system operation and ensuring the compliance of TSOs of third countries with obligations of the Regulation No 2019/943, HOPS actively participates in the drafting of an agreement between Central SOR and EMS (Serbia) and NOSBiH (BiH). However, the signing of the mentioned agreement did not occur during 2023 because the implementation of a system operation region including the TSOs of the Western Balkan countries is expected as a prerequisite, as well as a decision on configurations and modes of collaboration between the system operation regions.

In 2023, HOPS continued using TSCNET services. In 2023, HOPS was again a signatory of the MRA (Multilateral Remedial Action), coordinated multilateral congestion removal between 3 or more operators within a TSC. This agreement provided an opportunity for system operators to jointly work on removing congestions with certain favorable impacts on security of supply at each of the individual transmission system operators.

Capacity Calculation of Core CCR

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

In 2023, intense activities in working groups of CCR related to processes of adapting methodologies, development processes and implementation of operational processes arising from European provisions were continued.

Core CCR performs transmission capacities calculations for the day-ahead market timeframes using the flow-based capacity calculation methodology (hereinafter: FB DA CC). The results are available on a daily basis on the website of JAO.

On 4 December 2023, Core CCR started the phase of external transmission capacity calculations for the intraday market period using the flow-based method (FB IDCC), market calculated in D-1 at 3:00 p.m. from the remaining cross-zonal transmission capacities for the market period one day ahead (Day Ahead leftovers) using the Flow-based method. The calculation of FB ID CCa) cross-zonal transmission capacities in D-1 at 3:00 p.m. is in accordance with Article 4(2)(a) and 26(3)(b) of the adopted FB ID CC methodology with the approval of HERA, and according to the decision of ACER- and from 21.2.2019. (Intraday capacity calculation methodology of the Core capacity calculation region in accordance with Article 20ff. of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management).

All relevant information of the published results of FB ID CCa) and FB ID CCb) can be found on the Core IDCC section on the website of JAO.

The Core Intraday Capacity Calculation Project (Core IDCC) is part of the Core Market Integration. The goal is to develop and implement a methodology for determining intraday capacities for intraday auctions and intraday continuous trading in the entire Core CCR within the single intraday coupling of the market (SIDC).

In the previous year, the BTCCM Methodology, a methodology for the calculation of cross-zonal capacity within the balancing time frame for the exchange of balancing energy or for the implementation of the deviation exchange process, was prepared and sent to the competent regulatory authorities for approval, as well as the 1st amendment proposal to the LTSR Methodology (1st amendment proposal of the long-term splitting rules methodology) and the 2nd amendment proposal of the Methodology for calculating intraday trans-zone capacities (2nd amendment of the ID CCM).

HOPS actively participates in all other related projects of the Core CCR working bodies (LTCC- Long Term capacity calculation; ROSC&CS, etc.) through the processes of adopting methodologies and developing and implementing business processes.

On 20 November 2023, Core CCR started the phase of internal calculations of long-term cross-zonal capacities based on the Flow-based method (FB LT CC). The calculation of cross-zonal capacities is in accordance with the adopted methodology of LT CC according to the decision of ACER dated 18 January 2023. (Long-term capacity calculation methodology of the Core capacity calculation region in accordance with Article 10 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation).

Outage coordination region

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

Operations in the LFC block SHB

Regional cooperation of HOPS was continued in the managing-regulation LFC block Slovenia-Croatia-BiH (hereinafter: LFC block SHB) where, in accordance with the SO GL Regulation, an Operational Agreement of LFC Block SHB was prepared. During 2023, HOPS actively worked on amending the Agreement on the Operation of the LFC Block SHB necessary for alignment with the expected accession to European balancing platforms, with signing expected during 2024.

In May 2023, energy exchange within the LFC Block SHB was introduced via virtual OHLs, and a new method of harmonizing cross-border exchange of balancing energy from mFRR reserves, jointly dimensioned within the LFC Block SHB, was successfully implemented in accordance with the Operational Agreement of LFC Block SHB.

Due to the reason mentioned above and the updating of the characteristics of cross-border OHLs at the borders, agreements with the Slovenian transmission system operator (ELES, d.o.o.) and the transmission system operator of Bosnia and Herzegovina (Independent System Operator in Bosnia and Herzegovina, NOSBiH) regarding data exchange in the process of harmonizing cross-border exchanges and accounting for unintentional deviations were amended. The agreements between the parties entered into force on the day of their signing and apply from May 1, 2023.

Bilateral cooperation with neighboring transmission system operators

In 2023, cooperation with neighboring transmission system operators was continued in thematic meetings at various levels with Slovenian ELES, Hungarian MAVIR, Serbian EMS, NOS BiH from Bosnia and Herzegovina, where various topics of common interest were discussed.

In December 2023, ACER, by Decision 18/23, approved the proposal of transmission system operators to amend the Harmonized Allocation Rules for Long-Term Transmission Rights in accordance with Article 51 of Commission Regulation (EU) 2019/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation (hereinafter referred to as HAR). The main reason for the amendment is the introduction of long-term transmission rights based on power flows and enabling cross-zonal coordination to make the long-term energy market more efficient and aligned with the day-ahead market. Additionally, obligations for market participants were introduced to prevent the misuse of the EU financial system for money laundering and terrorism financing purposes. These changes are also the reason for the new Rules for explicit daily capacity allocation for the Croatia-Serbia trading zone border, as well as Rules for the allocation of intraday capacity for the border between the trading zones of the Croatian Transmission System Operator d.d. and Elektromreža Srbije d.d. Belgrade, which HOPS developed in collaboration with EMS in 2023. Due to the new rules, Amendment 1 to the existing Congestion Management Agreement between the trading zone borders of Serbia-Croatia between Elektromreža Srbije d.d. Belgrade and the Croatian Transmission System Operator d.d. from 2021 was also concluded.

In 2023, the Agreement on congestion management on the Croatian-Bosnian-Herzegovinian border was concluded between HOPS and the Independent System Operator in Bosnia and Herzegovina (NOSBiH) for the year 2024. The aforementioned Agreement is signed on an annual basis.

Cooperation projects between transmission system operators in the Mediterranean region

In 2023, HOPS actively participated in the activities of the Association of Mediterranean Transmission System Operators (Med-TSO) which promotes cooperation between the countries of the Mediterranean areas with the aim of developing a Mediterranean Electricity System, as a neighboring partnership that will enable Europe to complete the energy transition by 2050. With its participation, HOPS supports the development of an integrated, secure and sustainable Mediterranean Electricity System, which facilitates the application of common criteria and harmonized, transparent and non-discriminatory technical rules to ensure interoperability of interconnected electricity systems.

SUSTAINABLE DEVELOPMENT

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

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

In 2023, municipal authorities (counties and municipalities) drafted numerous development strategies and programs, as well as spatial plans and their amended versions. Procedures of strategic environmental assessment were carried out, i.e. assessment procedures on the need for strategic assessment and audits of strategic environmental studies. Inquiries that HOPS receives from municipal authorities can be classified in the following manner:

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

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

In 2023, intensive activities were carried out to achieve the objectives and improve the environmental management system, resulting in a successful supervisory audit of the system according to ISO 14001:2015 standard. HOPS undoubtedly has confirmed its dedication to systematic care for environmental protection.

HOPS also recognized energy efficiency as one of the most effective ways of achieving sustainable development goals considering that it contributes to the reduction of greenhouse gas emissions into the environment and has a positive effect on climate change. Implementing energy efficiency measures is important when raising the level of security of energy supply and it represents the backbone of the energy policy of the EU. In 2022, intensive activities were carried out to achieve the objectives and improve the energy management system, resulting in a successful supervisory audit of the system according to ISO

50001:2018 standard. Thus, HOPS undoubtedly confirmed its dedication to systematic care for energy efficiency.

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

Furthermore, HOPS is obliged to enter data on taken measures for the improvement of energy efficiency realized in electricity transmission into the System for Monitoring and Verification of Energy Savings (SMIV). HOPS has adopted five studies, which cover calculated savings related to projects realized in 2023:

- Study on energy savings achieved by replacing conductors on OHL 110 kV Lovran-Plomin,
- Study on energy savings achieved by replacing conductors on OHL 110 kV Matulji-Lovran,
- Study on energy savings achieved by replacing the 110 kV Dugi Rat - Postira submarine cable (island Brač),
- Study on energy savings achieved by replacing the power transformer -T2 in TS 400/110/30 kV Tumbri,
- Study on energy savings achieved by replacing conductors on the OHL 110 kV Benkovac - Korlat - Zadar East - Zadar.

On the basis of the „Agreement on cooperation in the field of protection of birds from injuries and casualties on elements of the Croatian electricity transmission network“, HOPS and the association BIOM successfully continued their activities, bearing in mind that this segment is crucial for effective nature protection.

The goals of the Agreement are to contribute to the reduction of the risk of bird casualties from collisions with elements of the transmission network, the reduction of maintenance costs and damages that occur as a result of the activity of birds on the elements of the transmission network. In addition, the Agreement improves the implementation of HOPS obligations arising from the Nature Protection ACT and the Rules on conservation goals and basic measures for the protection of birds in the area of the ecological network. This includes the protection of protected and endangered bird species, and especially refers to species within the Natura 2000 ecological network area.

In July 2023, the BIOM association submitted to HOPS "Guidelines for the maintenance of high-voltage transmission lines" in the territory of Croatia where the following bird species live and nest:

Raven (Corvus corax),
Gray crow (Corvus cornix),
Kestrel (Falco tinnunculus),
Swallow (Falco subbuteo),
Steppe falcon (Falco cherrug).

The mentioned document will be used in HOPS during the implementation of regular and interventional maintenance works in order to maximally protect the mentioned species of birds.

HEALTH PROTECTION AND SAFETY AT WORK

In 2023, in the field of safety and health at work, the following activities were performed: training for newly employed workers and workers relocated to work in a safe manner, training workers to provide first aid, as well as for students to perform regular professional practice.

Vaccination of workers against seasonal flu and tick bites has been organized, as well as regular inspections of the work environment in facilities, regular testing of low-voltage electrical installations in facilities, regular inspections of facility lightning protection systems on buildings, regular inspections and inspections of work equipment, procurement and distribution of personal protective equipment to workers, organization and realization of medical examinations of workers in jobs with special conditions and when working on a computer, breath tests of workers, inspection visits of substations, updating the technical specification for personal protective equipment in accordance with the internal act and implementing the procurement procedure for personal protective equipment.

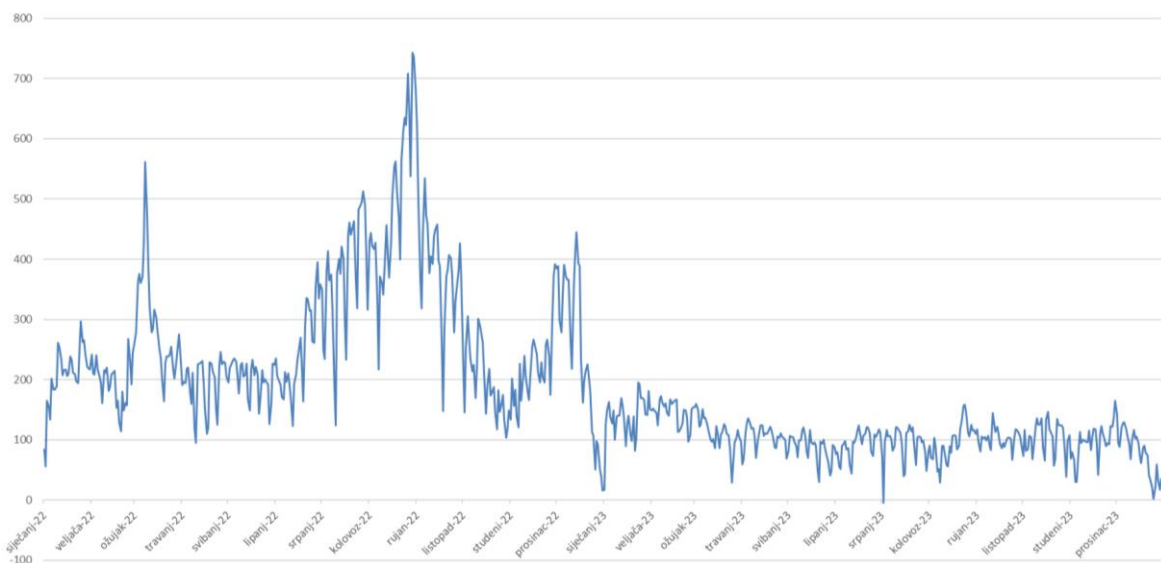
During 2023, in the field of fire protection, the following activities were performed: inspections and functional tests of stable fire alarm and extinguishing systems, periodic inspections and control tests of fire extinguishers in all the Company's facilities, procurement of new and disposal of old fire extinguishers, regular annual inspection and service of the system for early fire detection and alarm, as well as regular

testing of hydrant installations and lightning protection systems. Training of new workers for initial fire extinguishing, conducting evacuation and rescue drills for buildings, and fulfilling obligations under the Activity Program in the implementation of special fire protection measures of interest to the Republic of Croatia in 2023 were also carried out.

UNPREDICTABLE EVENTS AND COMMITMENTS

Stabilization of electricity prices in 2023

After the extreme prices in 2022, the year 2023 still records a decrease in electricity prices on the short-term, day-ahead electricity market. Due to the warmer first period of the year and consequently less electricity consumption with satisfactory production from RES, prices in 2023 decreased and stabilized. Picture 5 shows the average price of electricity on the CROPEX day-ahead market from January 1, 2022 to December 31, 2023. The average unit price of electricity on the CROPEX day-ahead market in 2023 is 103.77 €/MWh, which is 62% less than the average unit price in 2022, which is 272.42 €/MWh and 10% less than the average price in 2021, which amounts to 114.70 €/MWh. In 2024, the decrease and stabilization of electricity prices on the market is still expected.



Picture 5. Average prices on the CROPEX day-ahead market (EUR/MWh) in the period from January 1, 2022. until December 31, 2023.

Write-off of receivables for charges for transmission network use towards HEP ODS for areas affected by the earthquake

Pursuant to the Decision of the Government of the Republic of Croatia on declaring a catastrophic emergency in the area affected by the earthquake, the government adopted Conclusions in January 2021, according to which HEP d.d. must through its related companies contribute to the restoration of damages in the earthquake-affected areas in the Sisak-Moslavina County and in the Zagreb County by writing off receivables arising from the connection of the substitute accommodation facilities to the grid, as well as other receivables in the amount of a single invoice for delivered energy with according charges.

Based on the aforementioned Decision and the Conclusions of the Government that followed the Decision, on 15 March 2021, HOPS and HEP ODS signed the Amendment 1 to the Agreement on mutual relations regarding the calculation and recovery of charges for the use of the transmission network. Amendment 1 defines that the amount of payment obligation of HEP ODS towards HOPS for charges for the use of the transmission network will be reduced by the amount which HEP ODS pursuant to the conclusions of the Government of the Republic of Croatia could not recover from the aforementioned end customers, in accordance with Article 71 of the Rules on amendments to the Rules on implementation of the General Tax Act. In 2022, a write-off of receivables with a total amount of 0.75 million euros was registered (following

the practice of 2021 and 2022) in the business books of HOPS within the operating expense, i.e. deductible expense which reduces the corporate tax base.

Operational events

During the year, no significant operational events were recorded that would result in a longer interruption of the delivery of significant amounts of electricity, but it is important to mention two important operational events that resulted in significant damage to the transmission network. On July 19, 2023, a strong storm accompanied by hurricane-force winds and thunder struck the area of northwestern and eastern Croatia, causing a large number of transmission line outages and significant material damage to poles and conductors. On July 21, 2023, a severe storm occurred in the wider area of Zagreb and Kutina, also with greater material damage to the transmission network. Detailed inspections revealed about 50 damaged and collapsed tower locations at 400 kV, 220 kV and 110 kV voltage levels, whose revitalization is still ongoing.

RISK MANAGEMENT AND EXPOSURE TO RISKS

The company's business activities are exposed to various types of strategic, financial and operational risks that can affect the adopted goals. Therefore, the company monitors risks and undertakes the necessary activities within the given possibilities in order to secure an effective risk management, i.e. to minimize the risks as far as possible.

Regulatory and business environment risk

The business environment risk is determined by political, economic, and social conditions in Croatia and the surrounding area (both regional and throughout the EU), which affect the operations and success of business entities.

The energy sector, and in particular regulated activities, including the transmission of electricity, is subject to special legal provisions that governs the manner and conditions of performing activities, which in this respect represents a regulatory risk.

HOPS, as a company whose activity is governed by numerous laws and bylaws, is constantly exposed to regulatory compliance risks, which can affect or affect the integrity, quality and timeliness of the execution of legally prescribed obligations. This especially refers to work in accordance with the rules on functional independence and non-discriminatory behavior of HOPS as an independent transmission system operator, and exposure to internal weaknesses and external threats to the continuity of the execution of these obligations. At the same time, regulatory risks cannot be viewed separately from the context of other legal and business risks, given that the stability and success of business is directly related to the long-term ability of the company to fulfil its obligations established by legal provisions.

The Procurement of ancillary services represents an area of significant regulatory risk for the company, despite the fact that during the year and earlier, significant steps were already taken with the aim to open the market of ancillary services. This is not only about fulfilling the obligations set by the Croatian and European regulatory framework for electricity, but also about compliance with general legal provisions of market competition, which need to be observed outside the context established in the area of the electricity market by legal provisions and other regulations.

Risks of application and implementation of laws and regulations

The new EMA, which entered into force in the last quarter of 2021, is still not fully implemented, because at the time of writing this report, the bylaws on which the fulfilment of some of the main goals set by EMA depends, have not been adopted.

In 2023, the Company adopted some of the relevant acts within its jurisdiction, Rules on connection to the transmission network, Rules on Non-Frequency Ancillary Services for the Transmission System, and Rules on Balancing the Power System. The Company requested and got HERA's approval for the Grid Code of the Transmission System Operator. The Rules for Non-Standard Services of the Transmission System Operator and the Price List for Non-Standard Services were submitted to HERA for approval in 2023. The adoption of the Congestion Management Rules in the transmission system was postponed in 2023 due to the complexity of the issues and the absence of related sub-legal acts, but they are currently being prepared.

In 2023, the Government of the Republic of Croatia adopted the Regulation on the criteria for conducting public tenders for the issuance of energy permits and the conditions for issuing energy permits.

A Decision on the amount of the single fee for connecting to the network is expected by HERA.

Risks of recruitment and retaining workers in shortage occupations

The recruitment and relocation procedures of the company's employees are regulated and carried out in accordance with valid instructions of the company. Timely and effective recruitment of workers is extremely important, especially when the reason for employment is to replace a worker who leaves the company, both for the reason of timely transfer of knowledge and for the faster integration of workers into business processes and the working environment. The changed circumstances on the labor market in terms of increased job competition on the employer's side and a shortage of skilled candidates who are actively looking for a new job have led to a situation where workers more often and easier decide to change their job. The aforementioned trends are also present in the company because we employ a large number of workers in shortage technical occupations at all levels of professional education. Besides, compared to earlier periods, the number of workers who leave the company due to inappropriate career possibilities and who for example find a better-paid job has increased. In the context of attracting candidates, in the past period the number of repetitions of tender procedures has increased due to the impossibility of finding a suitable candidate, i.e. because an extremely small number of candidates apply for jobs, especially for technical positions in Zagreb. Although the fluctuation of workers is natural and in some case can have positive effects, it represents a particular risk if a quality candidate does not replace the employee in due course. Accordingly, in the following period, the Company's activities will be focused especially on strengthening the brand of HOPS as a desirable employer, on competitiveness on the labor market and on retaining key personnel. In addition to the abovementioned, regular scholarships for students in technical professions, especially in the fields of electrical engineering (energy), information and communication technology, will enable a continuous influx of quality personnel who are just entering the labor market and keeping them in the company with regard to the contractual obligations.

Procurement risks

Timely adoption of regular business and investment plans and monitoring and coordination of their realization are the basis of effective development and maintenance of the electric power system.

The timely adoption of plans for regular operations and investments, as well as the monitoring and coordination of their implementation, represent the basis of effective development and maintenance of the electrical power system. For an effective fulfilment of all business and development plans, timely organization and implementation of public procurement procedures play a key role. Therefore, this area should be given enough time for special attention using as much information and data as possible, both internal and external data, with the aim of making the plans as exact as possible and being a quality tool in achieving the Company's set goals. Procurement as a strategic function strives to ensure economical and efficient procedures and rational spending of financial resources, i.e. to ensure the implementation of a very important principle, which is to obtain "the best value for the invested money".

The goal of procurement is to contribute to the success of the Company, and this goal can be achieved with the economy of quantities, choosing the right suppliers, standardization of items and quantities.

When planning procurement, the company thinks in advance about potential events that may occur, the effects and consequences that the organization may face, and considers possible measures to minimize the risks. Significant risks definitely are appeal procedures, which the company through continuous employee education tries to reduce to the minimum possible extent.

In the following years, the Company will continue the development and improvement of procurement business processes and the training of workers for the purpose of economical, efficient and effective implementation of public procurement procedures at all levels.

Risk of IT system unavailability and threats to data security

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

Risk of unresolved property relations

Due to numerous reasons (primarily due to the disorderly state of the land register), the procedures for resolving property relations are very complex and long lasting. Since they have a significant impact on the

implementation of the investment plan, the company pays special attention to their solution and tries to systematically approach this issue. Unresolved property relations have a negative impact on the duration and course of projects, because they can make it impossible to obtain a building permit, they can cause delays of the start of works, of the maintenance of buildings and they can limit the free disposal of assets.

Financial risks

The Company monitors and manages financial risks (interest rate risk, price risk, liquidity risk and credit risk) related to the Company's operations.

Considering the current trends in interest rates, the situation on the financial markets globally and in the Republic of Croatia can be a limiting factor for refinancing existing and securing new credit arrangements.

Considering that from 1 January 2023, the euro is the official currency in the Republic of Croatia, part of the price risk related to the influence of exchange rate differences is reduced to a minimum, while the Company defends itself against changes in interest rates by contracting loans with fixed interest rates.

Due to the sale of services with deferred payment, the Company is also exposed to the risk of uncollectibility of receivables, i.e. credit risk, which it tries to manage by requiring a payment insurance instrument.

In the case of unfavorable trends on the cost side and the impossibility of correcting the income side for growth of exogenously determined uncontrollable costs, the Company may find itself in a situation of impaired liquidity, or, in the last case, impaired ability to perform its duties established by law.

Liquidity risk the Company manages constant cash flow projections on a monthly and annual level. Possible future needs for short-term borrowing in order to achieve a sufficient level of liquidity will be a challenge not only due to the current level and future projections of interest rates, but also due to the limited liquidity situation of the HEP Group.

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

The biggest risks relate to the implementation of public procurement procedures, the implementation of contractual obligations, as well as related problems with cash flow, i.e. the risk of finding financial resources to co-finance project activities.

The most complex part of project implementation is the implementation of the public procurement procedure and the financial monitoring of the project, while ensuring publicity and visibility are the simplest parts of the project implementation process.

The risks of appeal procedures in the implementation of public procurement procedures can cause a significant extension of the implementation deadline from the initially planned deadline (appeals on documentation, appeals on selection decisions, State Commission decisions, etc.).

Considering that in 2023 the implementation of the Contract on the allocation of grants from the EUSF and several project activities co-funded by the National Recovery and Resilience Plan are in progress, a significant risk is the non-fulfilment of the set goals, i.e. the non-fulfilment of the obligations assumed by contracts.

The infrastructure projects in question represent a significant engagement of the Company's capacity, therefore, in addition to the abovementioned, the risks of the period of eligibility of expenditures and the period of project implementation stand out as significant risks. Namely, it is necessary to implement the projects within the agreed period and realize the costs within the eligibility period, otherwise the same costs will not be accepted for being funded by EU sources and will have to be paid by the Company.

In relation to the aforementioned risks, the existence of them may for several reasons lead to the termination of the Grant Agreement, which may have negative financial consequences for the Company.

By signing Contracts on the allocation of grants for projects co-funded by the Recovery and Resilience Mechanism, the key events in the implementation of the project are defined as follows:

- obtaining 11 building permits for the modernization of the high-voltage network until 30 June 2023,
- upgrading submarine cables that connect six islands with the land network (Krk, Cres, Lošinj, Brač, Hvar and Korčula) until 30 June 2024,
- completion of upgrading 300 km or more of the high-voltage network (220/110 kV) until 30 September 2024,
- connecting additional 1,500 MW capacity of renewable energy sources to the grid until 31 December 2024,

- completion of upgrading 550 km of the high-voltage network (220/110 kV) until 30 June 2026. Failure to meet any of these key events would result in significant negative financial consequences and suspension of further funding.

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

The risks regarding to announced connections of production facilities continue to be dominant, significantly greater than any other type of risk the Company has previously faced. In 2023, HOPS issued preliminary opinions for the possibility of connecting more than 5600 MW (from RES) to the transmission network. The exceptionally high interest in network connection (primarily from RES) not accompanied by adequate development of the power network and the absence of a decision on the amount of the unit price for connection fees may pose the most significant potential threat to the long-term sustainability of HOPS's operations in the next medium-term, and probably in long-term, period.

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

Risk based on submitted objections to the company's actions in connection procedures

In the event that HERA adopts within connection procedures the applicant's objections to the Company's actions in relation to the Study of the optimal technical solution for connecting the user's facility to the transmission network, there is a risk of claims for compensation of damages, which may cause costs for the Company.

SIGNIFICANT BUSINESS EVENTS AFTER THE END OF THE BUSINESS YEAR

Stabilization of the situation on the electricity market

In the first quarter of 2024, the trend of decreasing and stabilizing electricity prices in the market continued, prompting the Company to initiate a revision of the adopted Business Plan for 2024. The original plan's revenues and expenses were based on significantly higher market prices. Therefore, it is expected that Amendments to the Business Plan for 2024 will be adopted by the Company's management bodies in the second quarter of 2024.

Additionally, due to the frequent occurrence of significantly higher procurement prices compared to estimated values and uncertainties surrounding the securing of funding sources for certain projects, the Company has initiated a review of the Investment Plan for the three-year period.

Regulations of the Government of the Republic of Croatia

On 14 March 2024, the Government of the Republic of Croatia adopted the Regulation on Amendments to the Regulation on eliminating disturbances in the local energy market (Official Gazette 32/24), which extended for an additional 6 months the period in which the Company will be reimbursed for the difference between the purchase realized on the market prices and guaranteed prices of working energy to cover losses of 70,276 €/MWh, determined by Article 3, Paragraph 2 of the Regulation. In the period from April 1, 2024 to September 30, 2024, that threshold will be 150 €/MWh.

Supervisory Board

At the session of February 12, 2024, the General Assembly of the Company appointed a new member of the Supervisory Board, Mr. Joško Grašo, considering that Mr. Marko Dvorski's membership in the Supervisory Board ceased on January 15, 2024, at his own request.

At the session of March 27, 2024, the General Assembly of the Company adopted a decision by which Mr. Kažimir Vrankić's membership in the Company's Supervisory Board ends on April 3, 2024 due to the expiration of his mandate, and appointed Mrs. Srđana Delaš, whose mandate begins on April 4, 2024.

Information security

On 14 December 2022, the EU adopted Directive (EU) 2022/2555 of the European Parliament and of the Council on measures for a high common level of cybersecurity across the Union (hereinafter referred to as NIS2 Directive), which entered into force on January 16, 2023. The NIS2 Directive requires alignment of all member states and has been implemented into national legislation through the new Act on Cybersecurity for operators of essential services and digital service providers, which entered into force on February 15, 2024. It brings a more extensive set of requirements and responsibilities for operators of essential services, with HOPS recognized as the operator of a key service for the transmission of electrical energy in the Republic of Croatia, with identified critical IT systems.

BUSINESS DEVELOPMENT IN THE FUTURE

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

Special attention is paid to maintain a high level of reliability of the transmission network as a national infrastructure of the greatest importance for the RoC and to maintain a high level of security of electricity supply at the level of the Croatian transmission system, to harmonize the Company's operations in relation to obligations from national and EU regulations, to provide support for the development of a single connected EU electricity market, to optimize human resources, to improve and optimize business processes, to optimize operating costs and increasing efficiency, to strengthen financial stability and to enable recognition of the activities and results of HOPS in public.

The Company's activities in the following period will be directed towards the realization of the goals of the EU's green transition, 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 production facilities from renewable energy sources, as well as changes in the relevant legislative framework represent major challenges for the Company in terms of planning and developing the transmission network and financing the creation of technical conditions in the network. Therefore, in the following period, the company 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 transmission of electricity and further development of the transmission network, in accordance with the economic development of the Republic of Croatia.

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

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

The company will continue, within its limits, to undertake appropriate business activities and measures in order not to undermine the continuity of the Company's operations and, despite exposure to the aforementioned risks and circumstances, in order to ensure stable operations, achieve planned revenue growth and control of justified costs of the Company.

With the aim of maintaining high and professional business reputation and recognition that the company has on national and international level, the Company's Management Board will insist in the following period on business processes based on high-quality planning and implementation of business and investment plans, on the due fulfilment of all obligations at the national and European level, and on the timely adoption and implementation of bylaws within the Company's area of competences.

Zagreb, 26 April 2024

Signed on behalf of the Company by:

Darko Belić, M. Sc.

Dejan Liović, B. Sc. (Econ.)

Igor Ivanković, Ph. D.

Member of the Management
Board

Member of the Management
Board

President of the Management
Board

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, 82/23) 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 April 26, 2024. for submission to the Supervisory Board.

Signed on behalf of the Management Board:

Darko Belić

Dejan Liović

Igor Ivanković

Member of the
Management Board

Member of the
Management Board

President of the Management Board

Croatian Transmission System Operator Plc.
Kupska 4
10 000 Zagreb
Republic of Croatia, 26 April 2023

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 2023, 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, 2023 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 2023 assets under construction in the amount of EUR 151,420 thousand (31 December 2022 in the amount of EUR 140,697 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 2022 - 2031.</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>

Other matters – separate non-financial report of the Company

We draw your attention to the page 6 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 2023, which is a total of two years.
3. In the audit of the Company's annual financial statements for the year 2023, we determined the materiality for the financial statements as a whole in the amount of EUR 5,826 thousands 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 2023 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, 29 April 2024

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

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

Dragan Rudan
Director, Croatian certified auditor

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

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

Mirela Copot Marjanović
Director, Croatian certified auditor

Croatian Transmission System Operator Plc., Zagreb

Statement of comprehensive income

For the year ended 31 December 2023

<i>(in thousands of EUR)</i>	Notes	2023	2022
Revenue from sales - related parties	6,38	220,390	273,108
Revenue from sales - third parties	6	122,878	133,394
Other income – third parties	7	23,529	11,442
		366,797	417,944
Materials and spare parts used	8	(2,661)	(2,699)
Service expenses	9	(42,416)	(46,164)
Personnel expenses	10	(36,599)	(32,701)
Depreciation and amortisation	16, 17, 18	(52,883)	(51,015)
Ancillary services	11,38	(48,166)	(34,048)
Transmission grid losses	11,38	(53,064)	(79,283)
Purchase of balancing energy	11,38	(54,421)	(156,065)
Other expenses – related parties	38	(8,178)	(7,170)
Other operating expenses	12	(9,169)	(6,454)
		(307,557)	(415,599)
Operating profit/loss		59,240	2,345
Finance income	13	692	277
Finance costs	14	(2,690)	(3,822)
Net finance costs		(1,998)	(3,545)
Profit/loss before tax		57,242	(1,200)
Income tax	15	(10,193)	(50)
Profit/loss for the year		47,049	(1,250)
Other comprehensive income		-	-
Total comprehensive income for the year		47,049	(1,250)

Darko Belić

Member of the Management
Board

Dejan Liović

Member of the Management
Board

Igor Ivanković

President of the Management
Board

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 2023

<i>(in thousands of EUR)</i>	Notes	31 December 2023	31 December 2022
ASSETS			
Intangible assets	16	6,804	5,701
Property, plant and equipment	17	953,379	910,630
Right-of-use assets	18	589	871
Prepayments for property, plant and equipment	19	5,282	7,543
Investment property	20	702	702
Investments in associates	21	890	630
Financial assets	22	7,037	7,037
Receivables from sale of apartments	23	12	30
Deferred tax assets	15	5,327	5,333
Total non-current assets		980,022	938,477
Inventories	24	1,279	1,217
Trade receivables	25	28,782	27,494
Receivables from related parties	38	43,375	71,362
Other current assets	26	22,718	5,923
Short-term financial assets	27	3,005	3,002
Cash and cash equivalents	28	85,995	31,036
Total current assets		185,154	140,034
TOTAL ASSETS		1,165,176	1,078,511
EQUITY AND LIABILITIES			
Subscribed capital	29	643,322	656,796
Reserves	29	14,391	917
Retained earnings		78,169	31,120
Total equity		735,882	688,833
Subloan from and liabilities to related parties	30,38	61,630	69,257
Provisions	31	12,263	10,363
Long term liabilities – deferred income	32	182,127	115,106
Long term liabilities to banks	33	5,125	7,175
Other long term liabilities	34	439	656
Total non-current liabilities		261,584	202,557
Subloan from and liabilities to related parties (current portion)	30,38	7,617	12,321
Provisions	31	205	289
Trade payables	35	62,742	62,664
Payables to related parties	38	29,412	68,447
Liabilities to banks	36	10,641	17,735
Other current liabilities	37	57,093	25,665
Total current liabilities		167,710	187,121
TOTAL EQUITY AND LIABILITIES		1,165,176	1,078,511
Darko Belić	Dejan Liović	Igor Ivanković	
Member of the Management Board	Member of the Management Board	President of the Management Board	

The accompanying notes form an integral part of these financial statements

Croatian Transmission System Operator Plc., Zagreb

Statement of changes in equity

For the year ended 31 December 2023

<i>(in thousands of EUR)</i>	Subscribe d capital	Statutory reserves	Capital reserves	Retained earnings	Total
As at 31 December 2021	656,796	-	733	32,554	690,083
Dividend	-	-	-	-	-
Statutory reserves	-	184	-	(184)	-
Profit (loss) for the year	-	-	-	(1,250)	(1,250)
As at 31 December 2022	656,796	184	733	31,120	688,833
Dividend	-	-	-	-	-
Statutory reserves	-	-	-	-	-
Transfer to capital reserves	(13,474)	-	13,474	-	-
Profit (loss) for the year	-	-	-	47,049	47,049
As at 31 December 2023	643,322	184	14,207	78,169	735,882

Darko Belić
Member of the Management
Board

Dejan Liović
Member of the Management
Board

Igor Ivanković
President of the Management
Board

The accompanying notes form an integral part of these financial statements

Croatian Transmission System Operator Plc., Zagreb

Statement of cash flows

For the year ended 31 December 2023

<i>(in thousands of EUR)</i>	2023	2022
Profit/ (loss) for the year	47,049	(1,250)
<i>Adjusted for:</i>		
Income tax	10,193	50
Depreciation and amortisation	52,883	51,015
Increase/ (decrease) in provisions	1,816	(5,254)
Net finance expense	1,964	3,001
Net book value of assets disposed	1,235	1,118
Surplus of fixed asset	(822)	(1)
(Decrease)/Increase in provision for inventories	(285)	(55)
Increase in provision for doubtful receivables, net	2	-
Impairment of financial asset	(260)	31
Change in fair value of investment property	-	(99)
Cash flows from operations before working capital changes	113,775	48,556
(Increase) / decrease in trade receivables	(1,189)	(10,579)
Decrease / (increase) in receivables from related parties	27,987	(21,668)
Decrease / (increase) in other receivables	(18,056)	1,092
Decrease in receivables for apartments sold	18	22
Decrease / (increase) in inventories	12	184
(Decrease) / increase in trade payables	78	10,426
(Decrease) / increase in liabilities to related parties	(53,459)	(2,330)
Increase in other liabilities	88,022	66,749
Income tax (paid)/ received	1,261	961
Cash flows from operating activities	158,449	93,413
Interest received	589	4
Decrease / (Increase) in prepayments for tangible assets	2,261	(5,776)
Deposits paid	(3)	162
Purchases of property, plant, equipment and intangible assets	(96,629)	(75,926)
Cash used in investing activities	(93,782)	(81,536)
Dividends paid to the owner	-	-
Increase/ (decrease) od other financial liabilities	(9,708)	3,665
Cash flows used in financing activities	(9,708)	3,665
Net increase in cash and cash equivalents	54,959	15,542
Cash and cash equivalents at beginning of year	31,036	15,494
Cash and cash equivalents at the end of year	85,995	31,036

Darko Belić

Member of the Management
Board

Dejan Liović

Member of the Management
Board

Igor Ivanković

President of the Management
Board

The accompanying notes form an integral part of these financial statement

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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

As at 31 December 2023 HEP Group consists of the following entities:

Members of the Group	Country	Core business activity
Hrvatska elektroprivreda d.d.	Croatia	Production and distribution of electricity and heat
HEP - Proizvodnja d.o.o.	Croatia	Electricity production
Hrvatski operator prijenosnog sustava d.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.	Slovenia	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 2023

1. GENERAL (CONTINUED)

As at 31 December 2023, the Company had 1.168 employees (31 December 2022. 1.165 employees). Analysis of employees by education is shown below:

Structure	31 December 2023	31 December 2022
DR.SC.	19	16
MR	18	19
VSS	488	490
VŠS	96	100
VKV	69	75
SSS	458	446
KV	6	4
NSS	5	5
PKV i NKV	9	10
Ukupno	1,168	1,165

Governance and management

General Assembly

The General Assembly consists of the founder`s representative:

Vice Oršulić	President	since December 8, 2023
Frane Barbarić	President	since January 1, 2018 to December 7 2023

Supervisory Board

Members of the Supervisory Board in 2023 and 2022:

Kažimir Vrankić	President	from April 4, 2016 to April 3, 2024
Joško Grašo	President	from February 12, 2024
Srđana Delaš	Vice president	from April 4, 2024
Nikola Jaman	Member	from September 20, 2021
Krešimir Ugarković	Member	from April 4, 2020
Dinko Andabaka	Member (employees representative)	from July 16, 2021
Marko Dvorski	Vice president	from April 4, 2020 to January 15, 2024

Note: Mr. Joško Grašo was appointed chairman of the Supervisory Board at the meeting of the Supervisory Board on April 12, 2024, and Mrs. Srdjana Delaš was appointed deputy president at the same session

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

1. GENERAL (CONTINUED)

Governance and management (continued)

Management Board u 2023 and 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	from April 25, 2019 till April 15, 2022
Zlatko Visković	Member	from April 16, 2018 till April 15, 2022

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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 April 26, 2024 for submission to the company assembly.

2.2. Basis of the preparation and earthquake effect on doing business in 2023 and 2022

Annual financial statements are prepared using the fundamental accounting assumption of the accrual basis, whereby the effects of transactions are recognized when they occur and are reported in the financial statements for the period to which they relate, and using the fundamental accounting assumption of the going concern.

The annual financial statements are prepared on a historical cost basis, except for investments in real estate which are stated at fair value and financial assets and liabilities. The methods used for measuring fair value are explained in Note 5 to the annual financial statements.

Two strong earthquakes in 2020 exacerbated the negative impact on the Croatian economy and the Company's operations in 2020. The earthquake in Zagreb in March 2020 caused some damage to the Company's property in the City of Zagreb, but there was no interruption in the provision of transmission services. At the end of December 2020, a strong earthquake hit the Sisak-Moslavina County near Zagreb, causing some damage to power facilities under the Company's jurisdiction, but without significant financial effects on the Company's operations.

During 2023 and 2022, for the purpose of implementing projects applied for financing from the European Union Solidarity Fund (EUSF) as part of the reconstruction of infrastructure and equipment damaged by the earthquake, EUR 33,521 thousand was received, while operational costs incurred by the implementation of this project up to December 31, 2023, amounted to a total of EUR 442 thousand and were recognized in revenues. The received incentives will be recognized in revenues in future periods depending on the costs incurred by implementing these projects.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

2. BASIS OF PREPARATION (CONTINUED)

2.3. Change in accounting policies - Functional and reporting currency

The annual financial statements were prepared in Croatian currency, the euro (EUR), which is also the functional currency, rounded to the nearest thousand. The Law on the Introduction of the Euro as the Official Currency in the Republic of Croatia stipulates that as of January 1, 2023, the euro will become the official monetary unit and legal tender in the Republic of Croatia. The introduction of the euro as the official monetary unit in the Republic of Croatia represents a change in the functional currency, which is applied prospectively. Furthermore, the presentation currency for the financial statements for the year 2023 is also changing. Since the financial statements for the previous period were presented in kunas, the change in the presentation currency for the comparative period in this year's financial statements represents a change in the Company's accounting policy.

Although the change in the presentation currency in the financial statements represents a change in accounting policy that requires retroactive application, the Company did not publish a third balance sheet in the financial statements for the year ended December 31, 2023, as it determined that the change in the presentation currency does not have a significant impact on the financial statements.

The official exchange rate of the Croatian National Bank on December 31, 2023, was 1.1050 euros for one US dollar.

The official exchange rate of the Croatian National Bank on December 31, 2022, was 1.0666 euros for one US dollar.

2.4. Reclassification in financial statements for the comparative period

During 2023, the Company changed the classification of certain categories in the Statement of Comprehensive Income and the Statement of Financial Position to more accurately present the accuracy and completeness of revenue from contracts with customers, the nature of expenses for the period and the Company's financial position. Those reclassifications have no impact on the comparative period's results.

An overview of the carried-out reclassifications is given below:

<i>In thousands EUR</i>	Notes	2022 (previously disclosed)	Reclassification	2022 (reclassified)
Personal expenses	10	28,712	3,989	32,701
Other business expenses	12	10,443	(3,989)	6,454

The above-mentioned reclassifications are explained below:

:

- in accordance with IAS 19 - Employee Benefits, the Company has reclassified employee costs amounting to EUR 3,989 thousand and has presented employee expenses within staff costs instead of in other operating expenses.

2. BASIS OF PREPARATION (CONTINUED)

2.5. Adoption of new and amended International Financial Reporting Standards ("IFRS") as of January 1, 2023

The following amended standards came into effect on January 1, 2023, but did not have a material impact on the Company:

2.5.1. Standards and interpretations in effect during the current period

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments) - These amendments apply to annual reporting periods beginning on or after January 1, 2023, with early application permitted. They provide guidance on the application of materiality judgments to disclosures of accounting policies. Specifically, the amendments to IAS 1 replace the requirement to disclose "significant" accounting policies with the requirement to disclose "material" accounting policies. Additionally, guidance and illustrative examples have been added to assist in applying the materiality concept when making judgments about disclosures of accounting policies.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments) - These amendments apply to annual reporting periods beginning on or after January 1, 2023, with early application permitted, and apply to changes in accounting policies and changes in accounting estimates occurring on or after the beginning of that period. The amendments introduce a new definition of accounting estimates, defining them as monetary amounts in the financial statements subject to measurement uncertainty. They also clarify changes in accounting estimates and their distinction from changes in accounting policies and correction of errors.

IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments) - These amendments apply to annual reporting periods beginning on or after January 1, 2023, with early application permitted. In May 2021, the IFRS Interpretations Committee issued amendments to IAS 12 narrowing the scope of the exemption from IAS 12 related to initial recognition and specifying how entities recognize deferred tax on transactions such as leases and decommissioning obligations. In accordance with the amendments, the exemption from initial recognition is not applied to transactions that result in equal taxable and deductible temporary differences at initial recognition. The exemption is only applied if the recognition of lease assets and liabilities (or decommissioning obligations and assets) results in taxable and deductible temporary differences that are not equal.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

2. BASIS OF PREPARATION (CONTINUED)

2.5. Adoption of new and amended International Financial Reporting Standards ("IFRS") as of January 1, 2023

2.5.2. Standards issued but not yet effective and not previously adopted

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments) - These amendments apply to annual reporting periods beginning on or after January 1, 2024, with early application permitted, and must be applied retrospectively in accordance with the provisions of IAS 8. The aim of the amendments is to clarify the principles of IAS 1 for the classification of liabilities as current or non-current. The amendments clarify the meaning of the right to defer settlement, the requirement that this right exists at the end of the reporting period, that management's intention does not affect the classification as current or non-current, and that the potential actions of other contracting parties that could result in settlement by transferring own equity instruments do not affect the classification as current or non-current. Additionally, the amendments state that only covenants that the entity must comply with at or before the reporting date affect the classification of the liability. Additional disclosures are required for non-current liabilities arising from loan agreements that include covenants to be complied with within twelve months after the reporting period.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback Transaction (Amendments) - These amendments apply to annual reporting periods beginning on or after January 1, 2024, with early application permitted. The amendments aim to improve the requirements used by a seller-lessee to measure the lease liability arising from sale and leaseback transactions under IFRS 16, while not changing the accounting for leases that are not sale and leaseback transactions. Specifically, a seller-lessee determines "lease payments" or "adjusted lease payments" in a manner that the seller-lessee does not recognize any gain or loss related to the right-of-use that it retains. The application of these requirements does not prevent the seller-lessee from recognizing any gain or loss related to the partial or complete termination of the lease in profit or loss. The seller-lessee retrospectively applies the amendments in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is the beginning of the annual reporting period in which the entity first applies IFRS 16. These amendments have not yet been adopted at the European Union level.

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 7 and IFRS 7 relate to the presentation of liabilities and related cash flows arising from supplier finance arrangements and disclosure requirements related to those arrangements. According to the IASB, the amendments are effective from January 1, 2024, with early application permitted.

IAS 21 The Effects of Changes in Foreign Exchange Rates: In August 2023, the IASB issued amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates. The amendments relate to the treatment in cases of non-convertibility or inability to convert (exchange) between two currencies. The amendments are effective for reporting periods beginning on or after January 1, 2025, with early application permitted.

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

2. BASIS OF PREPARATION (CONTINUED)

2.6. 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.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Revenue recognition (continued)

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

Government grants

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

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

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

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

3.2. Transactions and balances in foreign currency

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

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

3.3. Leases

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

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

Accounting policies in effect from 1 January 2019

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3. Leases (continued)

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

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

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

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

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

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

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

3.4. Intangible assets

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

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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 grid facilities and low value items and are carried at the lower of cost, determined using the weighted average price less allowance for obsolete inventories and the net 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.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

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.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

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 INFORMATION ON SUBSTANTIVE 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 INFORMATION ON SUBSTANTIVE 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 INFORMATION ON SUBSTANTIVE 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 2023 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 2023 amounts to EUR 5.327 thousand (*31 December 2022: EUR 5.333 thousand*).

(iii) Valuation of inventories

The Company provides for the amount of unmarketable inventory materials according to the inventory ageing structure. In 2023, the Company decreased the value adjustment of inventories by EUR 285 thousand in favor to operating income (In 2022: EUR 55 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 EUR 10,421 thousand at 31 December 2023 (31 December 2022: EUR 8,647 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 2023, 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) 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.

(vii) 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 agreement relate to the Company's estimated revenues for the part of 2023 since they are not charged in the current year. The estimate was made according to the announcements of the calculation for the period June - November 2023

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

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Notes to the financial statements (continued)

For the year ended 31 December 2023

6. REVENUE FROM SALES

(in thousands of euros)

	2023	2022
Revenue from sales – related parties		
Electricity transmission income	184,749	184,557
Sales of balancing energy – imbalance settlement	24,695	65,574
Sales of balancing energy	7,008	19,452
Other	3,938	3,525
	220,390	273,108
Revenue from sales – third parties		
Electricity transmission income	10,174	8,753
Cross-border transmission capacity - foreign	67,452	48,357
Sales of balancing energy	18,257	35,415
Sales of balancing energy - imbalance settlement	13,557	33,482
ITC revenue	10,109	597
Income from connection to transmission network	3,329	6,790
Sales from energy for transmission grid losses	122,878	133,394

Revenue from the sale of electricity balancing and selling electricity – the deviation (both from related and non-Group companies) in 2023 compared to 2022 decreased by EUR 90,407 thousand, which is largely caused by the stabilization of electricity prices on the market.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

7. OTHER INCOME

(in thousands of euros)

	2023	2022
Revenue from reimbursement of costs of losses by the Republic of Croatia	11,888	-
Income from the assets of the ifrs 15 connectors	2,843	2,557
Revenue from the ITC mechanism 2022	1,990	-
Revenue from reimbursement of costs of write-off claims of the transmission network fee - European Union Solidarity Fund	1,884	-
Revenue from reimbursement of EU projects	1,857	1,233
Revenues based on the use of our own products and services	500	673
Income from property received without compensation	369	367
Inventory adjustment impairment income (note 24)	285	55
Increase in the value of financial assets (footnote 21)	260	-
Revenue from non-standard services	133	7
Reversal of reservations for litigation (footnote 31)	26	4,551
Collected Posted Receivables	2	-
Reversal of bookings for severance pay and jubilee awards	-	704
Change in the fair value of real estate investments	-	99
Other business revenues	1,492	1,196
	23,529	11,442

Revenues from fees for connecting to the transmission network are systematically allocated over the period of 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 of the period simultaneously with the depreciation of the asset to which it relates.

Revenues based on the use of own products and services relate to the capitalized cost of the Company's staff related to ongoing investments (work of supervising engineers) and capitalized borrowing cost.

Other operating income relates to the sale of previously written-off assets as secondary raw materials in the amount of EUR 535 thousand (2022: EUR 351 thousand), rent revenues EUR 35 thousand (2022:41 thousand euros), and other revenues eur 922 thousand (2022: EUR 804 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

8. MATERIAL AND SPARE PARTS USED

(in thousands of euros)

	2023	2022
Maintenance material for power facilities	1,248	1,375
Energy	753	830
Maintenance material for other assets	81	75
Low value stock and safety clothes	243	171
Other	336	248
	2,661	2,699

9. SERVICE EXPENSES

(in thousands of euros)

	2023	2022
Auctions for cross border transmission capacity	22,566	28,672
Power facility maintenance services	11,358	9,300
Agency and research services	3,598	3,219
ITC mechanism costs	1,155	470
Other assets maintenance services	1,101	948
Security services	951	868
Research and development cost	220	696
Telecommunication services	348	286
Low value leases	99	91
Other	1,020	1,614
	42,416	46,164

In 2023, part of the costs of agency and scientific services were related to fees for the statutory audit of the annual financial statements for 2022 in the amount of EUR 25 thousand, a fee for other verification services in the amount of EUR 12 thousand, fees for tax and other consulting services in the amount of EUR 35 thousand. The fee for the statutory audit in 2023 is EUR 25 thousand.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

10. PERSONNEL EXPENSES

(in thousands of euros)

	2023	2022
Net salaries	18,745	17,798
Taxes from salaries	2,362	2,192
Contributions from salaries – Pension Insurance	5,276	4,997
Contributions on salaries	3,938	3,725
	30,321	28,712

Total personnel costs were as follows:

(in thousands of euros)

	2023	2022
Gross salaries	30,321	28,712
Reimbursement of costs to employees	1,681	1,558
Material rights of employees	4,210	2,060
In-kind receipts	94	87
Costs of payments to the pension fund	105	61
Costs of supplementary health insurance	130	127
Compensation for unused annual leave	58	96
	36,599	32,701

As at 31 December 2023, the Company had 1,168 employees (2022: 1,165 employees). Employee expense reimbursements include transportation costs, per diems and other similar expenses.

The costs of material rights of employees include severance pay when retiring, jubilee awards and occasional assistance and gifts. The costs of these severance packages in 2023 amounted to 942 thousand euros (2022:320 thousand euros), and relate to severance pay for 30 workers.

Remuneration to board members and executive directors included in staff costs:

(in thousands of euros)

	2023	2022
Gross salaries	957	727
Pension insurance contributions	164	162
Benefits in kind	91	84
	1,212	973

Number of directors and executives	13	16
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Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

10. PERSONNEL EXPENSES (CONTINUED)

Supervisory board remuneration:

(in thousands of euros)

	2023	2022
Gross salaries	-	-
Pension insurance contributions	-	-
Benefits in kind	5	4
	<u>5</u>	<u>4</u>
Number of Supervisory board members	5	5

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

(in thousands of euros)

	2023	2022
Ancillary services		
Ancillary services – related parties (Note 35)	45,442	32,217
Ancillary services – third parties	2,724	1,831
	<u>48,166</u>	<u>34,048</u>
Cost of transmission grid losses		
Cost of transmission grid losses – related parties (Note 36)	2,172	3,813
Cost of transmission grid losses – third parties	50,892	75,470
	<u>53,064</u>	<u>79,283</u>
Purchase of balancing energy		
Purchase of balancing energy – related parties HEP Proizvodnja d.o.o. (Note 36)	15,959	50,704
Purchase of balancing energy – imbalance settlement – related parties (Note 36)	7,749	38,696
Purchase of balancing energy – third parties	25,217	36,270
Purchase of balancing energy – imbalance settlement – third parties (Note 36)	5,496	30,395
	<u>54,421</u>	<u>156,065</u>

During 2023 and 2022, the Company procured electricity to cover transmission grid losses on the electricity exchange and bilateral contracts. The stabilization of electricity prices in the market during 2023 resulted in significant cost reductions.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

12. OTHER OPERATING EXPENSES

(in thousands of euros)

	2023	2022
Taxes, contributions and fees	2,681	2,870
Reservations for severance pay and jubilee awards	1,774	-
Cost of unwritten value of disposed tangible assets	1,235	1,118
Cost of business trips	775	494
Write-off transmission network fee claims – earthquake	751	719
Membership fees for business associations	677	587
Insurance premiums	159	119
Compensation for damages to natural persons	111	78
Provisions for court costs (footnote 31)	68	-
Other expenses	938	469
	9,169	6,454

13. FINANCE INCOME

(in thousands of euros)

	2023	2022
Interest income	691	4
Foreign exchange gains	1	273
	692	277

14. FINANCE COSTS

(in thousands of euros)

	2023	2022
Sub-loan interest - related parties	2,082	2,975
Interests - banks	561	116
Penalty interest	19	66
Foreign exchange losses	2	545
Interest for lease – IFRS 16	26	27
Amortized amount of the related discount cost	-	93
Sub-loan interest - related parties	2,690	3,822

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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 euros)

	2023	2022
Current tax	10,187	-
Deferred tax	6	50
Porezni trošak u Izvještaju o sveobuhvatnoj dobiti	10,193	50

(in thousands of euros)

	2023	2022
Profit before taxation	57,242	(1,200)
Income tax at the rate of 18%	10,304	(216)
Tax effect of permanent differences - increase	228	313
Tax effect of permanent differences - decrease	(339)	(360)
Tax effect of temporary differences	(6)	263
Tax cost	10,187	-
Effective tax rate (%)	17.80%	-

In the tax return for 2023, the company showed a tax gain in the amount of EUR 10,187 thousand.

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

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

15. CURRENT INCOME TAX (CONTINUED)

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

<i>(in thousands of euros)</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 2021	430	1,746	65	863	2,029	250	-	5,383
(Credited)/debited to profit and loss	(10)	(127)	27	(85)	(102)	(17)	264	(50)
At 31 December 2022	420	1,620	92	779	1,927	232	264	5,333
(Credited)/debited to profit and loss	(51)	319	132	(3)	(96)	(43)	(264)	(6)
At 31 December 2023	369	1,939	224	776	1,831	189	-	5,327

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

16. INTANGIBLE ASSETS

<i>(in thousands of euros)</i>	Software	Leasehold improvement regarding rights of usage	Intangible assets not yet available for use	Total
COST				
At 1 January 2022	15,750	2,464	177	18,391
Additions	121	-	19	140
Transfer from tangible assets	1,354	-	-	1,354
Reclassification	11	-	-	11
Disposals and write-offs	(100)	(2,457)	-	(2,557)
At 31 December 2022	17,136	7	196	17,339
Additions	-	-	-	-
Transfer from tangible assets	3,745	196	(196)	3,745
Reclassification from property, plant and equipment	(13)	-	-	(13)
Disposals and write-offs	(883)	-	-	(883)
At 31 December 2023	19,985	203	-	20,188
ACCUMULATED DEPRECIATION				
At 1 January 2022	9,571	2,464	-	12,035
Charge for the year	2,156	-	-	2,156
Sales and expense	(97)	(2,457)	-	(2,554)
Transfer	1	-	-	1
At 31 December 2022	11,631	7	-	11,638
Charge for the year	2,637	-	-	2,637
Sales and expense	(883)	-	-	(883)
Transfer	(8)	-	-	(8)
At 31 December 2023	13,377	7	-	13,384
CARRYING AMOUNT				
At 31 December 2022	5,505	-	196	5,701
At 31 December 2023	6,608	196	-	6,804
COST	6,608	196	-	6,804

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

17. PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands of euros)</i>	Land	Buildings	Inventory and equipment	Assets under constructio n	Total
COST					
At 1 January 2022	20,698	643,827	1,249,308	131,462	2,045,295
Additions	-	144	2,017	73,797	75,958
Transfer from assets under construction	-	13,894	48,949	(64,195)	(1,352)
Transfer and reclassifications	25	13	(24)	-	14
Surplus	-	-	4	-	4
Disposals and write-offs	-	(909)	(14,248)	(367)	(15,524)
At 31 December 2022	20,723	656,969	1,286,006	140,697	2,104,395
Additions	-	84	1,511	95,033	96,628
Transfer from assets under construction	106	22,668	57,766	(84,285)	(3,745)
Reclassification from intangible assets	-	6	7	-	13
Transfer between parties	24	-	-	-	24
Surplus	-	1,562	608	-	2,170
Disposals and write-offs	-	(2,052)	(12,964)	(25)	(15,041)
At 31 December 2023	20,853	679,237	1,332,934	151,420	2,184,444
ACCUMULATED DEPRECIATION					
At 1 January 2022	-	415,249	744,405	-	1,159,654
Charge for the year	-	11,590	36,979	-	48,569
Reclassification	-	2	(3)	-	(1)
Surplus	-	-	2	-	2
Disposals and write-offs	-	-796	-13,663	-	-14,459
At 31 December 2022	-	426,045	767,720	-	1,193,765
Charge for the year	-	11,728	38,233	-	49,961
Reclassification	-	-	8	-	8
Surplus	-	970	377	-	1,347
Disposals and write-offs	-	(1,987)	(12,029)	-	(14,016)
At 31 December 2023	-	436,756	794,309	-	1,231,065
NET BOOK VALUE					
At 31 December 2022	20,723	230,924	518,286	140,697	910,630
At 31 December 2023	20,853	242,481	538,625	151,420	953,379

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Ongoing investments are mainly related to investments in the construction of real estate, plant and equipment. The most significant investments in progress include the construction of the 2x110 kV Bilice – Trogir transmission line in the amount of EUR 11,838 thousand (31 December 2022: EUR 7,407 thousand), reconstruction of substation Rakitje in the amount of EUR 10,541 thousand (31 December 2022: EUR 8,087 thousand), construction of the transmission line 220 kV Senj – Melina in the amount of EUR 9,519 thousand (31 December 2022: EUR 67 thousand), laying of the underwater cable 110 kV Hvar – Korčula in the amount of 9,364 thousand euros (31 December 2022: EUR 1,031 thousand), laying of the underwater cable 110 kV Krk – Cres in the amount of EUR 3,386 thousand (31 December 2022: EUR 460 thousand), reconstruction of the substation Mraclin in the amount of EUR 8,089 thousand (31 December 2022: EUR 5,296 thousand), construction of substation 110/35 kV Meterize in the amount of EUR 6,705 thousand (31 December 2022: EUR 5,382 thousand), cable laying 110 kV substation ELTO – substation Stenjevec in the amount EUR of 6,504 thousand (31 December 2022: EUR 3,861 thousand), reconstruction of substation 110/20 kV Stenjevec in the amount of EUR 7,597 thousand (31 December 2022: EUR 4.995 thousand), revitalization of substation Našice in the amount of EUR 3.772 thousand (31 December 2022: EUR 3.329 thousand). Contractual obligations related to investments in progress on the reporting date amount to EUR 131,962 thousand (31 December 2022: EUR 109,903 thousand), and the envisaged time plan of realization is aligned with the construction deadlines.

During 2023, the following significant investments were put into use: substation 110/20(10) kV Sućidar in the amount of EUR 11,457 thousand, substation 110/10(20) kV Split 3 in the amount of EUR 5,699 thousand, connection of the Ina RNR plant in the amount of EUR 8,231 thousand, connection EL-TO in the amount of EUR 9,793 thousand, submarine 110 kV cable Dugi rat – Brač in the amount of EUR 11,005 thousand, reconstruction of substation Ston in the amount of EUR 3,358 thousand and DV 110 kV Benkovac – Zadar in the amount of EUR 2,827 thousand

During 2023, the company capitalized on part of the borrowing costs in the total amount of EUR 211 thousand (2022: EUR 306 thousand). The capitalization rate used in determining the cost of loans eligible for capitalization is 1.122% (2022: 1.261%). During 2023, the company capitalized on part of the labor costs in the total amount of EUR 289 thousand (2022: EUR 367 thousand).

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

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

18. RIGHT-OF-USE ASSETS

(in thousands of euros)

	Business space	Equipment	Total
COST			
At 1 January 2022	779	176	955
Additions	817	-	817
Disposals	(383)	-	(383)
At 31 December 2022	1,213	176	1,389
Additions	8	-	8
At 31 December 2023	1,221	176	1,397
ACCUMULATED DEPRECIATION			
At 1 January 2022	540	73	613
Charge for the year	231	59	290
Disposals	(385)	-	(385)
At 31 December 2022	386	132	518
Charge for the year	241	44	285
Disposals	5	-	5
At 31 December 2023	632	176	808
CARRYING AMOUNT			
At 31 December 2022	827	44	871
At 31 December 2023	589	-	589

The total cash outflow for principal repayment by leases in 2023 amounted to EUR 306 thousand (2022: EUR 273 thousand).

19. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros)

At 1 January 2022	1,768
Advances given	7,828
Utilised in current year	(2,053)
At 31 December 2022	7,543
Advances given	439
Utilised in current year	(2,700)
At 31 December 2023	5,282

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Notes to the financial statements (continued)

For the year ended 31 December 2023

20. INVESTMENT PROPERTY

(in thousands of euros)

	31 December 2023	31 December 2022
Fair value opening balance	702	603
Net change in fair value of investment property	-	99
Closing balance at fair value	702	702

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 revenues from rental properties classified as real estate investments in the amount of EUR 2 thousand (2022: EUR 2 thousand). The company recorded direct operating costs (including reserves) of EUR 4 thousand (2022:EUR 4 thousand).

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

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Notes to the financial statements (continued)

For the year ended 31 December 2023

21. INVESTMENTS IN ASSOCIATES

<i>(in thousands of euros)</i>	Country	31 December 2023		31 December 2022	
		% ownership	Net book value	% ownership	Net book value
Hrvatska burza električne energije d.o.o., Zagreb	Croatia	50,0%	1,062	50,0%	1,062
Impairment			(172)		(432)
			<u>890</u>		<u>630</u>

The Company manages investments in affiliated companies at the cost of acquisition less of any impairments.

During 2018, the Company recapitalized the company Hrvatska burza električne energije d.o.o. in the amount of EUR 265,000 (HRK 2,000,000). As of 31 December 2023, the Company, based on an internal estimate, increased the value of the investment in the company Hrvatska burza električne d.o.o. by EUR 260 thousand (2022: reduction by EUR 33,000) as shown in note 7 "Other business revenues outside the group".

In the adopted annual financial statements for 2022, the company Hrvatska burza električne d.o.o., Zagreb, expressed capital and reserves in the total amount of EUR 1,208 thousand and the profit of the business year in the amount of EUR 40,000.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>(in thousands of euros)</i>	Country	31 December 2023		31 December 2022	
		% ownership	Net book value	% ownership	Net book value
HEP Telekomunikacije d.o.o.	Croatia	13,7%	6,290	13,7%	6,290
JAO S.A.	Luxemburg	4%	336	4%	336
TSCNET Services GmbH	Germany	6,25%	371	6,25%	371
SEE CAO d.o.o.	Montenegro	12,5%	40	12,5%	40
			7,037		7,037

During 2013, the Company concluded a Contract on the establishment of a limited liability company HEP Telekomunikacije d.o.o. with Hrvatska elektroprivreda d.d. and HEP Distribution System Operator Ltd., thus becoming the owner of a stake in hep Telekomunikacije d.o.o. in the total amount of EUR 4,585 thousand (HRK 34,545 thousand), which makes 13.73% ownership. The company's founding stake in HEP Telekomunikacije d.o.o. consists of things that include the assets of optics and telecommunications. During 2020, the company and other co-owners participated in the increase of the share capital of HEP Telekomunikacije d.o.o. and increased its share by EUR 1,705,000 (HRK 12,849,000) by entering things (optics and telecommunications assets) in the amount of EUR 1,457,000. (HRK 10,979,000) and payment of money in the amount of EUR 248 thousand (HRK 1,870 thousand). Shares in ownership remained unchanged.

During 2022, the Company adjusted the value of shares in JAO S.A., TSCNET GmbH and SEE CAO d.o.o. in order to match the amounts in euro. The adjustment in the amount of 2 thousand euros (16 thousand kunas) was expressed within the framework of other business revenues. 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.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

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 euros)</i>	31 December 2023	31 December 2022
Total receivables for apartments sold	41	67
Current portion of long-term receivables	(29)	(37)
Non-current receivables	12	30

24. INVENTORIES

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Electric units and other materials	991	1,053
Spare parts	2,280	2,437
Building materials	46	50
Other	9	9
Value adjustment	(2,047)	(2,332)
	1,279	1,217

Movement in the impairment allowance for inventories is as follows:

<i>(in thousands of euros)</i>	2023	2022
At 1 January	2,332	2,387
(Decrease)/increase in value adjustment	(285)	(55)
At 31 December	2,047	2,332

The reduction of the inventory adjustment by EUR 285,000 is reflected in the comprehensive profit report in note 7. "Other business income outside the group".

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

25. TRADE RECEIVABLES

(in thousands of euros)

	31 December 2023	31 December 2022
Trade receivables	34,723	33,437
Impairment of receivables	(5,941)	(5,943)
Net receivables	28,782	27,494

Movements in impairment allowance were as follows:

(in thousands of euros)

	2023	2022
At 1 January	5,943	5,943
Impairment of receivables	-	1
Impairment cancellation	(2)	(1)
Collected receivables, previously provided for	-	-
<i>Change on receivables impairment</i>	(2)	-
At 31 December	5,941	5,943

Management believes that the fair value of receivables on the reporting date is approximate to the carrying amount of receivables from customers. Costs of impairment of receivables on customers are shown in note 12 "Other operating expenses", and revenues from collected corrected receivables in note 7 "Other business income outside the group".

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Notes to the financial statements (continued)

For the year ended 31 December 2023

25. TRADE RECEIVABLES (CONTINUED)

Ageing analysis of receivables not impaired is as follows:

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Not yet due	28,113	27,328
0 - 30 days	653	141
31 – 60 days	16	1
61 – 90 days	-	-
91 – 180 days	-	23
81 – 365 days	-	1
Over 365 days	-	-
	28,782	27,494

Trade receivables are denominated in

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Euro (EUR)	28,782	27,494
	28,782	27,494

26. OTHER CURRENT ASSETS

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Receivable for reimbursement of costs per EU projects	14,171	-
Prepaid expenses and accrued revenues	4,149	662
Claims for value added tax	2,209	3,636
Claim from the state to compensate for the cost of losses	1,892	-
Receivable for advances paid by corporate tax	-	1,261
Current maturity of long-term receivables (footnote 23)	28	37
Other receivables	269	327
	22,718	5,923

Pre-paid expenses relate to premiums of supplementary health insurance and other expenses in the amount of EUR 459 thousand (2022: EUR 221 thousand).

The accrued revenues in 2023 refer to the estimated revenue from the ITC mechanism for the period June - December 2023 in the amount of EUR 3,690 thousand by the Management Board of the Company (2022: EUR 441 thousand).

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Notes to the financial statements (continued)

For the year ended 31 December 2023

27. DEPOSITS

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Deposits given – expropriation	2,982	2,979
Guarantees	23	23
	3,005	3,002

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 euros)</i>	31 December 2023	31 December 2022
Money in business accounts	47,725	28,933
Foreign currency account	8	9
Days deposits with maturity up to 90 days	38,260	2,093
Cash register status	2	1
	85,995	31,036

Money in a bank refers to money accounts in commercial banks that carry an average interest rate of 0.01% in a foreign currency account and 0.1% in a euro account on an annual basis.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

29. CAPITAL AND RESERVES

Subscribed capital

(in thousands of euros)

	31 December 2023	31 December 2022
Founding capital	643,322	656,796

During 2013, in accordance with the Electricity Market Act Hrvatska elektroprivreda d.d., Zagreb recapitalized the Company by entering things and rights and the subscribed capital was increased from 3 thousand euros by the amount of 446,865 thousand euros to the amount of EUR 446,868 thousand. Seven business shares were registered.

On 18 March 2019, the Commercial Court in Zagreb issued a decision on the increase of the company's share capital by entering things by HEP d.d. for the amount of EUR 2,579,000. After the increase, the share capital amounts to EUR 656,796 thousand.

At its session of June 8, 2022, the Assembly of the Company adopted a Decision by which the profit in 2021 in the total amount of EUR 3,671 thousand was distributed in such a way that the amount of EUR 184 thousand was allocated in legal reserves, and the amount of EUR 3,487 thousand was allocated to retained earnings. At its meeting of June 19, 2023, the General Assembly of the Company adopted a Decision covering the loss in 2022 from retained earnings in previous years.

On 29 November 2023, the General Assembly of the Company adopted a Decision on the adjustment of the share capital and shares by reducing the share capital by which the amount of the share capital decreased by the amount of EUR 13,474 thousand to the amount of EUR 643,322 thousand. The same decision reduced the nominal amount of the share from the amount of EUR 13.27 by the amount of EUR 0.27 for the amount of EUR 13,00.

Reserves

Reserves expressed in the amount of EUR 733 thousand were created during the merger of subsidiaries in 2005 in the amount of EUR 5 thousand and the entry of real estate from Hrvatska elektroprivreda d.d., Zagreb during 2013 in the amount of EUR 728 thousand. With the profit schedule in 2021, legal reserves in the amount of EUR 184 thousand were formed. The decision to adjust the share capital and shares by reducing the share capital from 29 November 2023 increased the reserves by EUR 13,474 thousand.

Proposed profit distribution

The Management Board of the Company will propose to the General Assembly a profit schedule for 2023 in the total amount of EUR 47,409 thousand in such a way that the twentieth part of the profit is entered into the statutory reserves, and the remaining part is allocated to retained earnings. The final Decision on profit schedule in 2023 is made by the General Assembly of the Company in accordance with the provisions of the Company's Statute and the Companies Act.

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Notes to the financial statements (continued)

For the year ended 31 December 2023

30. SUBLOAN FROM AND LOAN LIABILITIES TO RELATED COMPANIES

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Liabilities toward HEP d.d. for subloan and loan	69,228	81,549
Transaction cost for subloan refinancing	-	-
Other non-current liabilities to related companies	19	29
	69,247	81,578
Current portion of long-term debt	(7,617)	(12,321)
Non-current portion	61,630	69,257

On December 31, 2012, the contract on the lease of real estate, plant and equipment, which is necessary for the performance of activities, is terminated, in accordance with the Electricity Market Act. A part of the overdue obligations under the terminated lease agreements was settled by long-term loans based on the sub-loan agreement concluded with HEP d.d., Zagreb, based on the received loans of the CHF from commercial banks. During 2020, the Company concluded long-term loan agreements with Group for EUR 18,817,000 and EUR 23,474,000 for the purpose of financing investment projects. During 2021, the Company concluded a long-term loan agreement with Group for EUR 6,994,000 for the purpose of financing investment projects. during 2022. The company concluded a long-term loan agreement with Group for EUR 56,928 thousand for the purpose of refinancing the loan that had maturity in 2022.

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

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Up to 6 months	3,808	6,160
7 – 12 months	3,809	6,161
1 – 2 years	4,683	7,617
2 - 5 years	56,928	61,611
	69,228	81,549

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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 euros)</i>	31 December 2023	31 December 2022
Up to 6 months	6	7
7 – 12 months	6	7
1 – 2 years	7	13
2 - 5 years	-	2
	<hr/> 19 <hr/>	<hr/> 29 <hr/>

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:

Loans in the amount of EUR 69,228 thousand carry a fixed interest rate (2022: EUR 81,549 thousand). The average weighted fixed interest rate on loans is 2.741% year-on-year (2022: from 2.573% year-on-year).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

31. PROVISIONS

<i>(in thousands of euros)</i>	Provisions for jubilee awards	Provisions for retirement benefits	Provisions for court cases	Total
At 31 December 2022				
Non-current	396	7.962	2.005	10.363
Current	67	222	-	289
	<u>463</u>	<u>8,184</u>	<u>2,005</u>	<u>10,652</u>
At 31 December 2023				
Non-current	387	9,829	2,047	12,263
Current	67	138	-	205
	<u>454</u>	<u>9,967</u>	<u>2,047</u>	<u>12,468</u>

Movements in provisions was as follows:

<i>(in thousands of euros)</i>	Provisions for jubilee awards	Provisions for retirement benefits	Provisions for court cases	Total
At 1 January 2022				
Increase	-	-	-	-
Reversal	(11)	(512)	(4,550)	(5,073)
Utilised	(59)	(121)	-	(180)
	<u>533</u>	<u>8,817</u>	<u>6,555</u>	<u>15,905</u>
At 31 December 2022				
	<u>463</u>	<u>8,184</u>	<u>2,005</u>	<u>10,652</u>
At 1 January 2023				
Increase	60	2,451	68	2,579
Reversal	-	-	(26)	(26)
Utilised	(69)	(668)	-	(737)
	<u>463</u>	<u>8,184</u>	<u>2,005</u>	<u>10,652</u>
At 31 December 2023				
	<u>454</u>	<u>9,967</u>	<u>2,047</u>	<u>12,468</u>

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

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	
	2023	2022
Average staff turnover rate	2.30%	2.40%
Discount rate	3.9%	3.6%
Expected increase in salaries	15% in 2024.; 9% in 2025. and 2% from 2026	2%
Average expected retirement age (in years)	61	61

Court cases

Litigation reservations refer to litigation brought against the Company, which are judged unlikely to be resolved in favour of the Company. The cost of provisioning is stated in the comprehensive profit report in note 12. "Other business expenses". The most significant court dispute for which it was estimated that a decision in favor of the Company is unlikely to relate to the lawsuit of a natural person for compensation for expropriated real estate initiated at the State Administration Office in Split for which a reservation was made in the amount of EUR 1,784 thousand for which the Company made a reservation in 2010. Based on the expert opinion of legal advisors, the Administration provides that the outcome of all disputes will not result in significant losses above the amount reserved on 31 December 2023.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

32. LONG-TERM LIABILITIES – DEFERRED INCOME

(in thousands of euros)

	31 December 2023	31 December 2022
Deferred income related to assets received free of charge under IFRS 15/i/	68,462	49,437
Deferred income related to assets received without compensation until June 30, 2009 /ii/	8,430	7,594
Deferred income for funds received from EU funds /iii/	126,642	60,851
Deferred income for funds received from others /iv/	3,458	147
	206,992	118,029
Current maturity of other long-term liabilities (see footnote 37)	(24,865)	(2,923)
	182,127	115,106

/i/ By applying IFRS 15 "Revenues from contracts with customers" as of January 1, 2018, the connection fee is recognized as an indication of deferred income recognised as income on a systematic and rational basis during the life of the asset (see footnote 7 of the IFRS Act). Other business revenues outside the group). With the first application of IFRS 15, the Company acknowledged the cumulative effect of the application of IFRS 15 in the initial state and recorded deferred income from the current value of assets financed from the connection fee in the period from July 1, 2009 to December 31, 2017 in the amount of EUR 42,000 thousand.

/ii/ Deferred income refers to income based on receipts of tangible assets without compensation and fixed tangible assets financed from the remuneration of funds for connection to the transmission network. Revenue from the receipt of these assets is recognised simultaneously with the depreciation of the tangible assets to which it relates, which is valid for network connection agreements concluded with customers until June 30, 2009.

/iii/ Deferred income for funds received from EU funds refers to funds received for the Participation of the Company in the SINCRO project. GRID in the amount of EUR 10,993 thousand, farcross project in the amount of EUR 32 thousand, project EPASSIS in the amount of EUR 54 thousand, project E-CYBIS in the amount of EUR 86 thousand, project CYBERSEAS in the amount of EUR 49 thousand, life danube free sky project in the amount of EUR 22 thousand and greenswitch project in the amount of EUR 2,851 thousand.

For participation in the project from the National Recovery and Resilience Plan (hereinafter NPOO), the deferred income amounts to a total of EUR 76,900 thousand from the cheque was reclassified as a short-term liability reclassified of EUR 21,677 thousand. The costs incurred by the implementation of this project until 31.12.2023 amounted to of EUR 493 thousand.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

32. LONG-TERM LIABILITIES – DEFERRED INCOME (CONTINUED)

For the purpose of implementing projects submitted for funding from the European Union Solidarity Fund (FSEU) as part of the reconstruction of infrastructure and equipment damaged by the earthquake, the delayed revenue amounts to of EUR 36,656 thousand, while the costs incurred by the implementation of this project until 31.12.2023 amounted to of EUR 442 thousand. The incentives received in future periods will be recognized in revenues depending on the costs incurred by the implementation of these projects.

33. LONG-TERM LIABILITIES TO BANKS

During 2022, the Company concluded a loan agreement with ERSTE&STEIERMARKISCHE BANK d.d., Rijeka, for the total amount of EUR 10,250,000 for the purpose of investments with a fixed interest rate of 0.40% per year for the entire duration of the loan, due in 2027. During 2023, EUR 2,050 thousand were repaid in accordance with the repayment plan (EUR 1,025 thousand in 2022).

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Loan liabilities	7,175	9,225
Liquid maturity (footnote 36)	(2,050)	(2,050)
	5,125	7,175

34. OTHER LONG-TERM LIABILITIES

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Obligations on the basis of rent	615	891
Obligations to the state for the sale of apartments	28	45
	643	936
Current maturity of obligations on the basis of the lease	(204)	(280)
Long-term part	439	656

Obligations to the state for the sale of apartments to employees under a state program that was abolished in 1996. According to legal regulations, 65% of the income from the sale of apartments to employees is paid to the state upon receipt of funds. According to the law, the Company is not obliged to allocate funds before collecting them from employees. As of 1 January 2019, the Company has applied the International

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Notes to the financial statements (continued)

For the year ended 31 December 2023

34. OTHER LONG-TERM LIABILITIES (CONTINUED)

Financial Reporting Standard 16 Leases (IFRS 16) and has shown a lease obligation, which was measured at the present value of the remaining lease repayments, discounted using the interest rate specified in the lease agreement or incremental borrowing rate of the Company as at 1 January 2019. The Company's incremental borrowing rate is the rate at which a similar lease can be contracted, by an independent landlord, at comparable terms and conditions.

The maturity of the obligation on the basis of the lease on the reporting date is as follows:

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
up to 3 months	51	74
3 to 12 months	153	206
1 to 2 years	205	234
2 to 5 years	206	378
	615	891

The movement of rental obligations is shown as follows:

<i>(in thousands of euros)</i>	2023	2022
January 1	891	345
Interest expenses (note 14)	(26)	(27)
New rental	3	819
Rent payment	(253)	(273)
Exchange rate differences	-	26
Status as of December 31	615	891

35. TRADE PAYABLES

(in thousands of euros)

	31 December 2023	31 December 2022
Amounts due to suppliers of fixed assets	44,952	31,275
Amounts due to suppliers of current assets	17,790	31,389
	62,742	62,664

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

36. LIABILITIES TO BANKS

(in thousands of euros)

	31 December 2023	31 December 2022
Short – term loan liabilities /i/	-	6,648
Current maturity of long-term loan liability (note 32) /ii/	2,050	2,050
Short – term factoring liabilities /iii/	8,591	9,037
	10,641	17,735

At the end of 2021, the company concluded a short-term revolving loan agreement with Privredna banka Zagreb in the total amount of EUR 6,700,000 for the purpose of financing working capital. The interest rate is three-month EURIBOR plus an interest margin of 0.20%. The repayment period is 28 December 2022. During 2022, the amount of EUR 52 thousand was repaid. Also, during 2022, an Appendix to the Loan Agreement was concluded, extending the repayment period to September 30, 2023, and the interest rate was amended, and now amounts to a quarterly EURIBOR plus an interest margin of 1.40%.

/ii/ The current maturity of the long-term loan liability refers to the amount of the loan due in 2024 (note 33).

/iii/ At the end of 2021, the Company concluded an Agreement on settlement of monetary claims with ERSTE&STEIERMARKISCHE BANK d.d., Rijeka, by which the bank undertook to purchase claims that other legal entities/suppliers have against the Company. Based on the aforementioned agreement and individual Supplier Factoring Agreements, the bank paid claims to suppliers in the total amount of EUR 8,591,000 in the name and on behalf of the Company. The Company's liabilities to the bank from the title of supplier factoring are due in January 2024, and the contractual interest is 0.40% per year. All liabilities to the bank under the title of this Agreement are settled within maturity.

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

37. OTHER SHORT-TERM LIABILITIES

(in thousands of euros)

	31 December 2023	31 December 2022
Corporate income tax liabilities	10,187	-
Obligations on advances received for connecting to the network	7,419	9,171
Obligations under the guarantees received	4,754	2,205
Net salaries	1,476	1,424
Obligations for compensation for unused vacation days	1,431	1,374
Liabilities for taxes, contributions and other charges	615	631
Contributions from salaries	435	427
Payroll taxes	176	190
Liabilities for severance pay and other obligations towards employees	406	230
Deferred revenues for cross-border transmission capacity	3,589	5,975
Deferred income other	38	82
Calculated electricity balancing costs (deviation)	-	5
Calculated costs of the ITC mechanism	1,155	376
Current maturity of long-term liabilities - deferred income (see note 32)	24,865	2,924
Current maturity of rental obligations (see note 34)	204	280
Other short-term liabilities	343	371
	57,093	25,665

Deferred revenues for cross-border transmission capacity refer to the transmission capacity allocated at annual and monthly auctions held in December 2023, which will be used in January and February 2024

38. 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 2023 and 2022, the Company's fee company bases on the energy data of realized sales to customers, the Methodology for determining tariff items for electricity transmission and the Decision on the amount of tariff items for electricity transmission adopted by the Croatian Energy Regulatory Agency (HERA). On December 13, 2021, HERA adopted a Decision changing the tariff items for electricity transmission in 2022. The same applies from April 1, 2022.

The costs of procurement of ancillary services in the total amount of EUR 45,442 thousand (2022: EUR 32,217 thousand) are defined by the contracts on ancillary services concluded by HOPS with HEP – Proizvodnja d.o.o., all in accordance with the Pricing Methodology for providing ancillary services.

As of January 1, 2017, the Company generates revenues from the provision of balancing and calculating electricity balancing services to balance group managers (VBG) in accordance with the applicable Rules on balancing the power system, the pricing methodology for calculating electricity balancing, the Liability Agreements for deviation concluded with the VBG, and in accordance with the set of ancillary system service agreements 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 2023

38. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(in thousands of euros)	<u>2023</u>	<u>2022</u>
Income and expenses		
Sales income		
Electricity transmission fee income - HEP ODS d.o.o., HEP Proizvodnja d.o.o. and EPK d.o.o.	184,749	184,557
Sales of balancing energy – Balance Group Managers (BGMs) – related parties	24,694	65,574
Sales of balancing energy - HEP Proizvodnja d.o.o.	7,008	19,452
Service income – HEP Telekomunikacije d.o.o.	2,529	2,609
Other sales income – related parties	1,410	916
	<u>220,390</u>	<u>273,108</u>
Expenditure		
Other expenses		
- cost of telecommunications services – HEP Telekomunikacije d.o.o.	5,897	5,845
- other expenditure from the operations of the affiliated company	2,281	1,325
	<u>8,178</u>	<u>7,170</u>
Cost of transmission grid losses (note 11)	<u>2,172</u>	<u>3,814</u>

Balancing electricity costs (note 11)		
- Purchase of balancing energy – imbalance settlement	7,749	38,696
- Purchase of balancing energy – HEP Proizvodnja d.o.o.	15,959	50,704
	<u>23,708</u>	<u>89,400</u>
Costs of ancillary system services – HEP Proizvodnja d.o.o. (note 11)	45,442	32,217
Financial expenditures of HEP d.d.	2,093	3,028

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Notes to the financial statements (continued)

For the year ended 31 December 2023

38. RELATED PARTY TRANSACTIONS (CONTINUED)

(in thousands of euros)

	31 December 2023	31 December 2022
Receivables and liabilities		
Receivables from HEP d.d. and other HEP Group companies		
- for the fee of electricity transmission from HEP-ODS, HEP Proizvodnja d.o.o. and EPK d.o.o.	33,861	33,210
- for balancing energy from the balance group managers within the group (HEP d.d. and HEP ODS d.o.o.)	7,510	36,015
- for balancing energy from HEP Proizvodnja d.o.o.	1,063	1,592
- for the rest	941	545
	43,375	71,362
Obligations to affiliated companies		
Short-term liabilities		
- for due liabilities under the lease agreement – HEP d.d.	1,535	1,535
- for el. balancing energy – from the balance group managers within the group and HEP Proizvodnja d.o.o.	9,528	35,380
- for losses on the transmission network – HEP d.d.	208	366
- for received deposits for payment insurance – HEP d.d. and HEP-ODS d.o.o.	1,730	2,469
- for accrued interest per subloan – HEP d.d.	1,877	246
- received advance payment for connection from HEP d.d. and other companies	4,238	10,205
- short-term loan to HEP d.d.	-	10,618
- other short-term liabilities to affiliated companies	927	1,040
	20,043	61,859
Liabilities to HEP Proizvodnja d.o.o. for ancillary system services	9,211	6,521
Liabilities to HEP Proizvodnja d.o.o. for connection to the transmission network – advances received	158	67
	9,369	6,588
Total liabilities to affiliated companies	29,412	68,447
Long-term liabilities		
Liabilities to HEP d.d. for sub-contract and loan (note 30)	69,228	81,549
Liabilities to HEP d.d. for sold apartments (note 30)	19	29
	69,247	81,578
	(7,617)	(12,321)
Current maturity of long-term liabilities (note 30)	61,630	69,257

During the year ending 31 December 2023, the Company compensated overdue liabilities and interest on sub-loans to affiliated companies with claims against affiliated companies in the amount of EUR 12,321 thousand relating to principal and EUR 450 thousand relating to interest (2022: EUR 12,321 thousand and EUR 3,305 thousand).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

38. RELATED PARTY TRANSACTIONS (CONTINUED)

<i>(in thousands of euros)</i>	Expenses		Sales revenue	
	2023	2022	2023	2022
Companies that are majority owned by the State				
HŽ Infrastruktura d.o.o.	2	-	1,849	2,040
Legislative, executive and other bodies of the Republic of Croatia	257	2	-	-
Hrvatske šume d.o.o.	217	347	-	-
National Gazette d.d.	36	16	-	-
Croatian Radio television	70	70	-	-
Health institutions and organizations	90	25	-	22
Universities and polytechnics	383	30	-	-
Jadrolinija d.d.	22	12	-	-
Judicial institutions	-	-	-	-
Other users	14	33	-	-
HROTE d.o.o.	1,088	1,556	4,896	26,750
UKUPNO	2,179	2,091	6,745	28,812

<i>(in thousands of euros)</i>	Receivables		Liabilities	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
HŽ Infrastruktura d.o.o.	156	179	-	-
Petrokemija Kutina d.d.	-	-	-	-
INA-Industrija nafte d.d.	-	-	-	-
HROTE d.o.o.	626	-	47	552
Jadrolinija d.d.	-	-	-	-
Narodne novine d.d.	-	-	4	2
Other users	6	29	129	29
UKUPNO	788	208	180	583

39. UNPREDICTABLE EVENTS AND COMMITMENTS

Unforeseeable liabilities are possible liabilities or liabilities that are unlikely to require an outflow of resources that embody economic benefits or cannot be estimated sufficiently reliably. Financial obligations of the company not included in the Statement of Financial Position issued by the Company as a collateral for the payment of loan and other contractual obligations as at 31 December 2023 amounts to 166,675 thousand euros (31 December 2022 year in the amount of 166,375 thousand euros).

As a shareholder in the company Hrvatska burza električne d.o.o., the Company is ready to provide all the funds necessary for the company to continue operating and fulfill its maturity obligations.

Business obligations

On 31 December 2023, the Company had concluded contracts according to which investments in various facilities and equipment began, and were not completed. The value of the contracted unfinished works for the most significant projects amounted to EUR 131,962 thousand (2022: EUR 109,903 thousand).

Environmental protection

The company continuously monitors and analyzes the impact of its business processes on the environment. The most important indicators of such impacts are emissions of pollutants into the air and the amount of generated production waste, about which the Society timely and objectively reports to the relevant institutions, local self-government units and the interested public. Employees engaged in nature and environmental protection are additionally trained at seminars and workshops, within which they are informed about the obligations and activities arising from the provisions of legislation in the field of nature and environmental protection. The Company has a system of monitoring expenditure spending on nature and environmental protection (RETZOK) which has been monitoring all expenditures in the protection of nature and the environment since 2004.

The Company analyses and prepares to comply with the obligations arising from EU legislation with regard to stricter pollutant emission limit values and reductions in greenhouse gas emissions, greenhouse gas emission allowance trading schemes, integrated environmental conditions (so-called "environmental permits"), system of ecologically significant areas and ecological corridors (National Ecological Network).

Croatian Transmission System Operator Plc., Zagreb

Notes to the financial statements (continued)

For the year ended 31 December 2023

40. 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 euros)</i>	31 December 2023	31 December 2022
Debt (long and short-term borrowings)	(80,504)	(100,205)
Current financial assets	3,005	3,002
Cash and cash equivalents	85,995	31,036
Net debt	8,496	(66,167)
Equity	735,882	688,833
Net debt to equity ratio	1.15%	9.61%

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Notes to the financial statements (continued)

For the year ended 31 December 2023

40. 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

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Financial assets		
Receivables for apartments sold	41	67
Trade receivables	28,782	27,494
Receivables from related parties	43,375	71,362
Other short-term assets	6,357	5,557
Current financial assets	3,005	3,002
Cash and cash equivalents	85,995	31,036
	<hr/>	<hr/>
Total loans and receivables at amortized cost	167,555	138,518

<i>(in thousands of euros)</i>	31 December 2023	31 December 2022
Financial liabilities		
Loan liabilities	85,504	100,205
Other non-current liabilities	1,626	192
Trade payables	62,742	62,664
Payables to related parties	29,412	68,447
Other short-term liabilities	57,093	25,665
	<hr/>	<hr/>
Total financial liabilities at amortized cost	236,377	257,173

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.

40. FINANCIAL INSTRUMENTS (CONTIUNED)

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.

The Management Board considers that as of 31 December 2023 the amounts of financial assets and liabilities and real estate investments approximately correspond to their market value.

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 risks

(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.

Currency risk sensitivity analysis

Until 31 December 2022, the Company was mainly exposed to the currency risk of a change in the exchange rate of the HRK against EUR. Considering that the Republic of Croatia introduced EUR as the official payment currency on 1 January 2023 and fixed the exchange rate of HRK in EUR (EUR = 7.53450 HRK), exposure to the change in the exchange rate of foreign currencies no longer poses a risk to the Company. Exposure to the exchange rate change was largely related to the balance of the loans received, the balance of suppliers, claims from customers and deposits expressed in euros (EUR).

The company does not currently hedge against currency risk associated with other currencies.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives (continued)

Market risks (continued)

Interest rate risk management

Due to the use of loans with fixed interest rates and is not exposed to the risk of changes in interest rates. The company is exposed to interest rate risk to the extent that matica is exposed to interest risk.

Interest rate risk sensitivity analysis

The sensitivity analysis below is based on exposure to the risk of interest rate changes on the reporting day. For liabilities related to the variable interest rate, the analysis was made on the assumption that the amount of liabilities reported on the reporting day was valid throughout the year. The company is currently not protected from interest rate risk taking into account the fact that all liabilities are contracted at a fixed interest rate and since the assessment of the possible impact of changes in interest rates is not considered significant.

Credit risk management

Credit risk refers to the risk that the other party will not fulfill its contractual obligations resulting in the Company's financial loss.

The Company does not have significant exposure to credit risk to any customers outside the Group or to a customer company that has similar characteristics. A company defines customers to have similar traits if they are related persons. The most significant buyer is the affiliated company HEP-ODS and accounts for more than 33% of receivables at 31 December 2022 year. The carrying amount of financial assets shown in the financial statements, less impairment losses, represents the Company's maximum exposure to credit risk without taking into account the value of collateral collected.

Liquidity risk management

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

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Notes to the financial statements (continued)

For the year ended 31 December 2023

40. 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 2023	Carrying amount	Contractual cash flows	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
<i>(in thousands of euros)</i>						
<i>Non-interest bearing liabilities:</i>						
Liabilities for apartments sold	28	28	28	-	-	-
Other long-term liabilities	3,458	3,458	104	104	3,250	-
Trade payables	62,742	62,742	62,742	-	-	-
Payables to related parties	29,412	29,412	29,412	-	-	-
Other short-term liabilities	57,093	57,093	57,093	-	-	-
Total	152,733	152,733	149,379	104	3,250	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	76,403	84,412	13,073	8,773	62,566	-
Lease obligations	614	636	212	212	212	-
Total	229,750	237,781	162,664	9,089	66,028	-
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 euros)</i>						
<i>Non-interest bearing liabilities:</i>						
Liabilities for apartments sold	45	45	13	13	18	-
Other long-term liabilities	147	147	-	147	-	-
Trade payables	62,664	62,664	62,664	-	-	-
Payables to related parties	68,447	68,447	68,447	-	-	-
Other short-term liabilities	7,578	7,578	7,578	-	-	-
Total	138,881	138,881	138,702	160	18	-
<i>Interest bearing liabilities:</i>						
Loan liabilities	117,078	127,687	43,276	13,073	71,338	-
Lease obligations	891	891	279	234	378	-
Total	256,850	267,459	182,257	13,467	71,734	-

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Notes to the financial statements (continued)

For the year ended 31 December 2023

40. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk management (continued)

As at 31 December 2023	Carrying amount	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	Over 5 years
			<i>(in thousands of euros)</i>			
<i>Non-interest bearing assets:</i>						
Non-current receivables	41	41	28	13	-	-
Trade receivables	28,782	28,782	28,782	-	-	-
Receivables from related parties	43,375	43,375	43,375	-	-	-
Short term financial assets	6,357	6,357	6,357	-	-	-
Other short-term assets	23	23	23	-	-	-
Total	78,578	78,578	78,565	13	-	-
<i>Interest bearing assets:</i>						
Current financial assets	2,982	3,012	3,012	-	-	-
Cash and cash equivalents	85,995	87,715	87,715	-	-	-
	88,977	90,727	90,727	-	-	-
Total	167,555	169,305	169,292	13	-	-

At as 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 euros)</i>			
<i>Non-interest bearing assets:</i>						
Non-current receivables	67	67	37	30	-	-
Trade receivables	27,494	27,494	27,494	-	-	-
Receivables from related parties	71,362	71,362	71,362	-	-	-
Short term financial assets	5,557	5,557	5,557	-	-	-
Other short-term assets	23	23	23	-	-	-
Total	104,503	104,503	104,473	30	-	-
<i>Interest bearing assets:</i>						
Current financial assets	2,979	2,982	3,009	-	-	-
Cash and cash equivalents	31,036	31,067	31,067	-	-	-
	34,015	34,049	34,076	-	-	-
Total	138,518	138,552	138,549	30	-	-

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Notes to the financial statements (continued)

For the year ended 31 December 2023

40. EVENTS AFTER THE BALANCE SHEET DATE

At its meeting of 12 February 2024, the General Assembly of the Company appointed a new member of the Supervisory Board, Mr. Joško Grašo, considering that Mr. Marko Dvorski, at his own request, ceased membership in the Supervisory Board on January 15, 2024.

At its session of 27 March 2024, the General Assembly of the Company adopted a decision by which Mr. Kažimir Vrankić, due to the expiry of his term of office, terminates his membership in the Supervisory Board of the Company as of 3 April 2024, and appointed Mrs. Srđana Delaš, whose mandate begins on April 4, 2024.

At the supervisory board meeting held on 12 April 2024, Mr. Joško Grašo was appointed president of the Supervisory Board, and Mrs. Srđana Delaš deputy chairman of the Supervisory Board.

There were no other events after the balance sheet date/Statement of Financial Position that would significantly affect the Company's annual financial statements for 2023, and which should therefore be disclosed.

41. APPROVAL OF THE FINANCIAL STATEMENTS

These annual financial statements were approved by the Board.

Signed on behalf of the Company on April 26, 2024.

Darko Belić

Dejan Liović

Igor Ivanković

Member of the Management Board

Member of the Management
Board

President of the Management
Board