Croatian Transmission System Operator Ltd.

CROATIAN TRANSMISSION SYSTEM OPERATOR Ltd.,

ZAGREB

Annual Report

as of and for the year that ended on 31 December 2020

Contents

2020 CROATIAN TRANSMISSION

SYSTEM OPERATOR Ltd.

MANAGEMENT REPORT

Zagreb, April 2020

MAIN CHARACTERISTICS OF THE BUSINESS YEAR

Despite the difficult conditions, the Company duly performed its basic duties in accordance with the current legislative and regulatory framework: electrical power system (hereinafter: EPS) management in the Republic of Croatia, electricity transmission, maintenance, development and construction of the transmission network, enabling new users to connect to the transmission network under equal, transparent and non-discriminatory conditions, providing support to the development and functioning of the Croatian electricity market, as well as its connection with neighbouring electricity markets in the EU and the Energy Community.

Set business goals in 2020, in accordance with the 2018-2022 Work Program of the Company Management Board were fully achieved.

In 2020, due to unforeseen developments and circumstances caused by the outbreak of the new Covid-19 virus and declaration of an epidemic in the Republic of Croatia (hereinafter: RoC), the Croatian transmission system operator Ltd. (hereinafter: the Company or HOPS) had to promptly adapt both business activities and work organisation by taking into account all recommendations of the competent institutions and especially of the Government of the Republic of Croatia, Croatian Institute of Public Health and Civil Protection Headquarters of the Republic of Croatia.

In order to take appropriate action in a timely manner, the Company Board appointed a Team tasked with managing the crisis at HOPS level, which emerged due to the outbreak of the Covid-19 virus. Appropriate measures were continuously taken, and the Company Board made appropriate decisions aimed to protect the health and safety of workers and maintain business continuity given the specific importance of the Company's activities for the RoC. Internal instructions and recommendations for the Company's workers during the epidemic were regularly updated and harmonised with the recommendations of the competent institutions.

These activities and work organisation proved effective to meet the needs in extraordinary circumstances. All the relevant processes in the Company, as well as the work of employees, were adapted as much as possible to ensure smooth operation.

The earthquake that hit Zagreb and the wider Zagreb area on 22 March 2020, did not cause significant material damage to the Company's assets or significant disruptions in the electricity supply, whereas the earthquakes that hit the areas of Sisak – Moslavina County and central Croatia on 28 and 29 December 2020 caused numerous failures in electrical power facilities under the jurisdiction of the Company.

Due to significant damage and severe failures suffered by the transformer stations near the epicentre of the earthquake, there was an interruption in the electricity supply in the earthquake-affected area. Thanks to the rapid and safe intervention of the HOPS employees, all the faults were eliminated and a safe and reliable electricity supply was established as soon as possible. All the damaged equipment was replaced with the appropriate equipment from the Company's own reserves and after replacement all the equipment has been functioning as designed.

The equipment destroyed in the earthquake was expensed on 31 December 2020 which did not affect the results of the Company in 2020 due to high percentage of write-off.

Cost analysis of direct damage to the Company's assets was conducted accordingly, which assessed that HRK 10 to 12 million was needed to repair the damage and procure new, replacement assets, including works and services of external contractors.

The indirect damage from the earthquake is far greater and the plan is to repair it over a period of five years. The estimated cost of renovating the energy infrastructure following the build back better principle, taking into account the elements of improved seismic resilience and other elements of disaster risk reduction, amounts to HRK 350 million. Most of these investments have already been covered by the 2021-2030 Ten-Year Transmission Network Development

Plan with a detailed elaboration for the initial three-year and one-year period (hereinafter: 10Y Plan). HOPS reported the extent of the damage to the European Union (hereinafter: the EU) Solidarity Fund and significant financial support for repairs is expected.

- **Electrical power indicators**

The 2020 business year was marked by a safe and reliable operation of the transmission network and the EPS, despite the coronavirus pandemic and a devastating earthquake.

The potential threats posed by the coronavirus pandemic did not affect the security of supply for customers. In 2020, the effects of the coronavirus pandemic were reflected in:

- Delays in the planned maintenance of network elements,
- Decrease in the load of EPS – low consumer consumption on transmission and distribution network, especially in the segment of industry and entrepreneurship.

The activities on the maintenance of the transmission network elements continued after anti-pandemic measures. Despite the initial delays, the planned activities on the maintenance of the transmission network elements managed to be implemented to a greater extent by the end of 2020. The impact of the pandemic on the availability of network elements and production units in the Croatian EPS was not significant.

The devastating earthquake that happened on 29 December 2020 with the epicentre 5 km southwest of Petrinja caused a series of simultaneous disturbances in the electric power system due to damage or operation of relay protection device in several transformer stations and production units within 50 km from the earthquake epicentre. Normalisation of the state in the transmission system began immediately after the disturbance, within a few hours the voltage was provided in the distribution system, and the complete normalisation of the state of the transmission system was achieved several days following the earthquake. The total undelivered electric power due to the unavailability of the elements of the transmission network amounted to approximately 281 MWh.

Despite the difficult conditions, the Company fulfilled its legally prescribed obligations and tasks. This, in addition to the appropriate usage of all Company resources, was significantly contributed by the implementation of maintenance and investment plans in a high percentage.

In 2020, there was a decline in the total energy consumption in the transmission network of the RoC. The energy consumption in the transmission network with losses amounted to 15.857 TWh, which is 5.73% less than the total consumption in 2019.

Maximum EPS of 2872 MW was recorded on 31 July 2020 at 14:00h.

In 2020, a total of 21.432 TWh of electricity was transferred, a reduction of 3.45% in comparison to 2019.

Transmission network losses amounted to 373.1 GWh, which is 3.82% less in comparison to 2019, and they amounted to 1.74% of total transmitted electricity in 2020. The total losses in 2020 were lower than the losses in previous years. The reason for this reduction in losses is the emergence of the coronavirus pandemic that caused a significant reduction in economic activities in all sectors. Due to the reduced consumption, the lowest transmitted energy in the past 8 years was recorded. Weaker hydrology and production from hydroelectric power plants (hereinafter: HPP) and lower electricity import in comparison with the previous year's additionally contributed to the fact that the losses in 2020 were at the lowest level since 2013.

- **Business performance**

In 2020, total revenue was HRK 1,569.2 million and the expenditures were HRK 1,427.1 million. Pre-tax profit of HRK 142,0 million was reduced by HRK 28.1 million of corporate income tax (current tax in the amount of HRK 26.6 million increased by deferred tax assets in

the amount of HRK 1.5 million) and realised profit after tax for 2020 is HRK 113.9 million. Total pre-tax profit consists of the difference between revenues and expenditures from the allocation of cross-border transmission capacities in the amount of HRK 66.9 million and the difference of other revenues and expenditures in the amount of HRK 75.2 million.

Profit in 2020 after tax is HRK 28.2 million or 13.8% less than the profit for 2019. The largest share in operating revenues refers to the revenue from the provision of public service of electricity transmission which amounted to HRK 1,290.6 million in 2020, i.e. 82.3% of the total revenue.

- **HOPS certified independent transmission operator**

By issuing the Decision on issuing the certificate to HOPS by the Croatian Energy Regulatory Agency (hereinafter: HERA or the Agency) as an independent transmission operator (in 2016) and by fulfilling the conditions of the Decision concerned (in 2018), HOPS fulfilled its legal obligations in terms of separation from the vertically integrated entity.

In accordance with Art. 22 and 23 of the Electricity Market Act (OG 22/13, 95/15, 102/15, 68/18) (hereinafter: EMA) and with the HOPS Compliance Programme, the tasks of continuous supervision over the fulfilment of the conditions for the separation of HOPS as an independent transmission system operator from the vertically integrated entity fall under the regular competence of HERA and the Compliance officer at HOPS.

- **Integration of renewable energy sources**

The year 2020 saw the continuation of activities for creating the preconditions for further integration of renewable energy sources (hereinafter: RES) into the Croatian EPS on the basis of the obligations from the EMA and the Act on Renewable Energy Sources and High-Efficiency Cogeneration. In 2020, the wind farm (hereinafter: WF) connection agreement with the connection power of 30 MW was concluded and annexes to the WF connection agreement with a connection capacity of 120 MW were concluded. In 2020 there was interest in connecting the solar power plants (hereinafter: SPP) with a total capacity of around 2991 MW, WF with a total capacity of 1422 MW, HPP with a total capacity of 190 MW and battery storage systems (hereinafter: BSS) with a total capacity of 50 MW. Interest was also expressed in a combined, zone approach to connecting (SPP + WF or WF + BSS) with the total connection capacity of 1127 MW.

- **Investments**

The Company made HRK 569.9 million of investments, i.e. realised 83.0% of the investment plan in 2020. When HRK 6.2 million of own investments (capitalised labour cost) and HRK 1.1 million of capitalisation of interests are added to the achieved amount, total investments in 2020 amount to HRK 577.3 million, i.e. 84.1% of the plan. The satisfactory level of implementation of the Investment Plan in difficult conditions is the consequence of raising the quality of planning and periodical monitoring of plan implementation, including the adoption of corrective measures. For the most part, the Investment Plan includes refurbishment of transmission network facilities and plants, investments in new facilities and replacements and reconstructions of the existing facilities.

The more significant investments in substations in 2020 include construction works on the construction of SS 110/10(20) Split 3 (Visoka), with the conducted tests and delivery of secondary equipment. At SS 110/20 kV Sućidar, the construction of the building and testing, as well as the delivery of secondary equipment are underway. For SS Meterize and SS Ston works on the reconstruction of the existing substations have been contracted and the equipment needed for the start of the reconstruction has been delivered. Reconstruction works will begin in spring 2021. The construction activities on SS 110/10(20) kV Zadar Istok continued, where construction works on the construction of the SS were completed, and testing

and delivery of secondary equipment are in progress. In late 2020 a building permit was obtained for SS 110/35/10(20) kV Zamošće, 110 kV GIS was produced and tested and the manufacture of secondary equipment was ordered. For the needs of construction of SS 110/10(20) kV Cvjetno Naselje, documentation for 110 kV GIS plant was prepared and the delivery of the plant was contracted in 2020. The 110 kV GIS plant was produced and tested for SS 110/10(20) kV TTTS Terminal. For the needs of connection of a new production block to CCPP Zagreb the 110 kV plant was reconstructed to CCPP Zagreb and is in regular operation, with new bays ready for the L production block connection and cable lines 110 kV Stenjevec 1 and 2. The refurbishment activities in SS Osijek 2 continued.

In 2020 the project of reconstruction of the refurbishment and secondary system of 110 kV plant in SS Rijeka was fully completed.

In 2020 all the construction and electrical installation works on the construction of the TL 11 kV Mraclin-Ludina feeder in SS Ivanić Grad were completed. In 2020, the delivery of the ACCC Rovinj conductor for the refurbishment and increase of the transmission power of TL 11 kV Lovran – Plomin was contracted and delivered. For the refurbishment of TL 220 kV Zakučac-Konjsko in 2020, a new ACCC Stockholm 3L type conductor was delivered, along with the necessary suspension and jointing equipment.

In 2020, within the SINCRO.GRID project, the contract for the delivery and commissioning of the compensation plant in SS 400/220/110 kV Melina (VSR 200 MVAr) was finalised and the installation of the compensation plant in SS 400/220/110 kV Konjsko (SVC 250 MVAr) began. The activities on upgrading the process technical systems (TK, IT, SCADA, EMS) necessary for project implementation continued. The installation and trial phase of DTR system was completed.

Of IT systems in 2020, most of the activities were focused on expanding the control system, procurement and installation of network and security equipment and related software, redundant connections to facilities for the needs of the remote-control system (hereinafter: RCS) and installation of the support systems for market functions.

In 2020 HOPS issued a power authorisation for the connection to the transmission network of WF Korlat of connection capacity 58 MW. In December 2020, the ownership of WF Korlat connection was transferred to HOPS (part SS 30(33)/110 kV Korlat in HOPS jurisdiction and connection transmission lines to the existing TL110 kV Obrovac – Zadar to SS 30(33)/110 kV Korlat).

Two connection pre-agreements were concluded (HPP 33.7 MW and SPP Promina 150 MW), three connection agreements (for the plant of the customer and electricity producer Drava International 7.5 MW / 12.4 MW, for the plant of the customer INA RNR 48 MW and for the plant WF Karin 30 MW) and two agreements on network usage (for WF Korlat and HPP Sklope).

By concluding the agreement on network usage (hereinafter: ANU) for HPP Sklope, HOPS and HEP-Proizvodnja d.o.o. completed the procedure of harmonisation of the agreement on network usage with the applicable legislation for the existing power plants of HEP-Proizvodnja d.o.o. where the calculation of the network usage fee is defined according to the billing metering point.

In September 2020, the Company prepared and submitted to HERA the proposal of the Ten-Year Plan and accompanying reporting documentation. Due to the possibility of applying for a larger number of projects and securing their financing through the Recovery and Resilience Facility and the EU Modernisation Fund, a new version of the Ten-Year Plan was submitted on 30 October 2020, with the accompanying reporting documents and a presentation explaining the reasons for submitting it. HERA sent the comments on the Ten-Year Plan and comments from the public consultation.

Following the review of the Ten-Year Plan from October 2020, HERA sent its comments according to which the new version of the Ten-Year Plan (December 2020) was prepared and launched public consultations on the same. In accordance with the above, in January 2021 the Company submitted a revised version of the Ten-Year Plan for HERA's review and approval. The revised Ten-Year Development Plan is harmonised with the current Ten-Year European Transmission Network Development Plan (ENTSO-E TYNDP) and the environment in terms of transmission network connection, representing the basic development document of the Company.

On 03 March 2021, HERA issued a decision granting HOPS the approval of the Ten-Year Plan.

- **Market activities of the Company**

Croatian organised day-ahead market implemented by CROPEX is operationally connected across the Croatian - Slovenian border to the multi-regional connected electricity market as part of the SDAC (Single Day Ahead Coupling) project that connects markets representing 95% of European electricity consumption. Although in 2020 in the area of the multi-regional connected electricity market as part of the SDAC (Single Day Ahead Coupling) project there was reported a second incident of partial decoupling since the start of the project in February 2014, the Croatian market zone stayed connected with Italy and Slovenia, due to an implicit manner of allocation of capacities, where no significant deviations of prices of electricity have occurred on the Croatian day-ahead market. The implicit manner of allocating trans-zone capacities represents the most advanced way of allocating trans-zone capacity in cooperation of transmission system operators and Croatian power exchange and represents a transitional step towards the full realization of the requirements of the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereinafter: The CACM Regulation). In order to comply with the requirements, in 2020 HOPS actively participated in projects developing a method for a Flow based capacity calculation and in a project for Core Flow Based market coupling. At the end of 2020, a test capacity calculation was launched, whereas the operational start of the market coupling project is expected to take place in February 2022.

After CROPEX and HOPS on 18 November 2019 successfully finished the intraday market connection project on the Croatian - Slovenian and Croatian - Hungarian border as part of the SIDC (Single Intraday Coupling) project, previously known as XBID (Cross-Border Intraday), which also marked the transition to indirect allocation of intraday trans-zone transmission capacities for the Croatian – Slovenian border and Croatian - Hungarian border of trading zones, the Croatian organised day-ahead market was operationally connected for the first during the whole to the multi-regional connected electricity market as part of the SDAC (Single Day Ahead Coupling) project. Adding to indirect allocation, direct access to capacity is provided at the Croatian-Slovenian border according to the request by HERA on 27 June 2018. This project multiplied liquidity on the Croatian organised intraday electricity market implemented by CROPEX. Maximum daily volume of 49.7 GWh was achieved in December 2020, while the total yearly volume reached 367 GWh, which represents an increase of 263% in relation to previous year.

In 2020 HOPS carried out a long-term electricity procurement process to cover transmission network losses by organising public bidding via an IT computer platform CROATIAN POWER EXCHANGE Ltd, (hereinafter: CROPEX), i.e. by organising electronic auctions in accordance with the "Agreement on the Regulation of Mutual Relations Related to the Implementation of Auctioning for the Procurement of Electricity to Cover Losses in the Transmission Network" of May 2019, defining mutual relations and obligations related to electronic auction procedures via CROPEX trading platform.

In April and December of 2020 there were further auctions for the delivery of electricity to cover losses in the transmission network for 2021, 2022 and 2023, and additionally for the entire 2021 and January 2021.

Pursuant to Article 18 of Commission Regulation (EU) 2017/2195 of 23 November 2017 on establishing guidelines on electricity balancing (hereinafter: EB GL Regulation) with the approval of HERA, Class: 310-03/19-16/9, Reg. No.: 371-06-19-12 of 26 November 2019, the Company adopted new Rules on Electric Power System Balancing (hereinafter: the Rules), which entered into force on 07 December 2019. The Rules ensure the implementation of the 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.

With the adoption of the Rules, the Methodology for Establishing Balancing Energy Prices (OG 71/16 and OG 112/16) and the Methodology for Establishing Prices for the Provision of Balancing Services (OG 85/15), the amended form of which is included in Annex 1 of the Rules as the Rules on Marginal Pricing of Balancing Energy. In accordance with the provisions of the Rules, as of 01 January 2020 a new methodology for the calculation of deviation prices and new methodology for the calculation of prices which implements the single deviation price of all balancing groups that reflects the cost of balancing energy in a billing period is in use. The provisions regarding the national balancing services market and ensure the possibility for transmission system operators to participate in common European platforms for the exchange of balancing energy have been defined.

For the Croatian regulatory area, the transmission system operator publishes data on the electric power system balancing on the ENTSO-E Transparency Platform (hereinafter: ENTSO-E TP). As of 01 January 2015, the Balancing Rules, total quantities and prices for the contracted balancing reserves by type are regularly published on ENTSO-E TP. According to the new Rules, as of 01 January, data on the volume and deviation prices in hourly resolutions are published, as well as accepted offers according to the types of reserves and quantities of activated balancing energy in 15-minute resolution.

In May 2020, in accordance with the provision of Article 60 of the EB GL Regulation, the transmission system operator published the Balancing Report for 2018 and 2019. This report is an overview of balancing conditions and provisions, a description of all balancing activities performed during the observed period, and the possibility of future development of the national balancing services market and participation in the common European balancing services markets. The summary of this national Balancing Report for 2018 and 2019 is harmonised with the provisions of the Reporting Monitoring Plan of the ENTSO-E association regarding the obligations under Article 59(6) and Article 63 of the EB GL Regulation.

Article 53(1) and Article 53(2) of the EB GL Regulation, prescribe the mandatory application of 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 the limits of deviation calculation period, within three years after entering the EB GL Regulation into force.

Pursuant to Article 62 of the EB GL Regulation, at the 13th session of the Management Board held on 09 June 2020, HERA adopted the Decision on Approving HOPS to Deviate from the obligations prescribed by Article 53 of the EB GL Regulation for the period from 01 January 2021 to 31 December 2022.

In accordance with Article 8(4) of the Electricity Market Regulation, HOPS is instructed to start applying the 15-minute deviation calculation period from 01 January 2023.

- **Information system**

In 2020, a significant upgrade and improvement of security ICT structure and software monitoring tools was performed on the company level, and proactive and continuous work was performed on raising the awareness of HOPS information system users about potential risks and cyber threats.

In 2020, HOPS continued its activities amid the coronavirus pandemic by promptly enabling and organising work from home for most of its employees and by providing all necessary ICT equipment and support: laptops, VPN access to HOPS network, meetings via Webex platform, etc.

With the new Rulebook on organisation and systematization of HOPS from 1/7/2019, organisation of jobs related to IT security at HOPS was adapted according to requirements from the ENTSO-E group for information system cyber security (European Network for Cyber Security). Additionally, in order to implement the Directive concerning measures for a high common level of security of network and information systems across the Union (Directive EU 2016/1148, hereinafter: NIS Directive), a coordinator for information security on the level of HOPS was appointed at the Office of the Board.

In November 2020, the HOPS Management Board adopted the Rulebook on the Security of HOPS Information System, created in line with the EU NIS Directive and its application in the national Act / Decree on Cyber Security of Operators of Essential Services and Digital Service Providers and good practices recommendations from the Information Systems Security Bureau of the Republic of Croatia.

In late 2020, the HOPS Management Board adopted the updated version of the document SCADA System Risk Assessment in accordance with the Risk Management Methodology for Critical (SCADA) Systems in control centres that support the key role of electricity transmission and electrical power system management. In 2020 HOPS drafted the document “Internal Audit of the IT System“ that was also adopted by the HOPS Management, which defines the Methodology of the Internal Audit of the HOPS IT System and the proposal of the five-year plan of internal revision of the IT system for the period 2020-2024. The Study for the Establishment of the Security Operational Centre was also prepared.

HOPS continues to actively participate in the work of the European Network for Cyber Security where it continuously receives information on the existing and potential cyber threats to information systems of European transmission system operators and their mutual coordination on the issue.

In 2020, HOPS submitted a project application to CEF Telecom call by the European Commission in the field of cyber security, CEF-TC-2020-2, titled “Advanced Platform for Analysing Business Content and Shared Files in the HOPS Security Operations Centre“ which would establish processes and procedures for operational management of SOC, penetration testing and additional procurement of security tools.

In 2020, HOPS continued to continuously invest in upgrading its network and security infrastructure in the following key segments: security, system platforms for data centres and network equipment – in line with the document “Action Plan for Improving Information Security in 2020“ adopted by the HOPS Management Board in 2020.

Security: The following areas were improved**:** technologies for monitoring and responding to events, for web service protection, for secure connection from business to process network, further security upgrades in EE facilities, security upgrades through the implementation of firewall that protects server resources within data centres, improved event processing with the use of machine learning technology and automation, expansion and improving the reliability of current security functions. The security of access to IT systems was further improved through the implementation of multi-factor authentication.

System platforms for data centres: Significant investments were made in expanding system platforms via the implementation of business segment data centres equipment, SINCRO.GRID project, and virtualisation of RDC Žerjavinec. Platforms' volume has been expanded (primarily of server and data storage platforms) for which a possibility of upgrade was enabled.

Network equipment: The development of network infrastructure is implemented in three directions: renewal of outdated equipment that no longer has manufacturer's support, introduction of functionalities that provide connection related to technological development and provision of reliable infrastructure via newly introduced services and platforms. Replacement of outdated equipment was conducted in accordance with priorities and level of criticality. Most of the process network equipment was renewed, as well as part of the business network equipment. To ensure adequate network support for the new hardware platforms introduced in the past period, the implementation of data centres network infrastructure began using new software-defined concepts for network technology management. These upgrades ensured better management of network infrastructure, as well as the introduction of automation technologies.

The following projects should be emphasized regarding the upgrades of the process IT system in 2020:

- contracted strategic project *Refurbishment of EPS Central Remote Control System to a Newer Version* for the purpose of technological and functional upgrades. To ensure a safe and continuous electricity transmission, which is a key service in the Republic of Croatia and other EU countries, the system must be operational 24/7. Upgrading the existing version of the SCADA/AGC/EMS/OTS system to a higher one is necessary to ensure the availability, sustainability and performances of the system. The equipment was procured in 2008 and it no longer had manufacturer's support, and cyber security criteria need to be met that the existing system cannot meet in the future. The project has been contracted for 3 years (2020-2022), with an additional warranty period of 3 years,
- upgrades of the functionality of the existing SCADA/AGC/EMS/OTS system Network Manager 4.2.7, support with the integration of the NM system into monitoring tools, upgrade of the EMS system for monitoring the quality of estimation, measuring and non-observability of the network, basis for establishing interoperability of the transmission and distribution system operators, analysis of coordination of protection of production units and HOPS, system upgrades in EE facilities for the purpose of easier integration into VVC, study of primary regulation, technical solution for monitoring EE facilities, system upgrade for connecting redundant measuring sources,
- participation in the ENTSO-E CGM programme and performing activities on the local OPDE platform for a real-time operational data exchange for the implementation of the congestion forecasting process (DACF, IDCF, D2CF), coordinated shutdown planning and capacity calculation; first audit of the Security Plan for OPDE platform was performed,
- upgrade of the NetVision DAM system for the automation of GSK and LSK factors, fine-tuning of the Flow Based budget, fine-tuning for the export of CGMES files for the needs of the VVS system and according to the ENTSO-E requirements,
- development of new application for Planning Works in the network with the transition to innovative technology,
- the project of upgrading the reserve dispatch centre RDC in Žerjavinec started, with all the necessary network and system infrastructure and process systems that had not been realised in the dual NDC/RDC configuration,

- E-Billing system released into production on 01 January 2020 - automation of the business process of electricity billing with entry, storage and historical monitoring of master data in the register of all billing metering points under the competence of HOPS, import of master data on partners, measuring points and meters from the system of owners of this data, extended set of reports, monitoring contracts between customers, suppliers and system operators and support to business processes of connecting network users, change of peak power, changes of suppliers and terminations of supply contracts,
- in 2020 the preparation and implementation of application support for CORE FB Market Coupling process in HOPS began, that mainly includes the upgrade of the Exchange Plan and Capacities applications; the implementation of new infrastructure of the system based on containerisation and Kubernetes technology,
- the development of a new software solution titled “Electric Power System Balancing Platform“ that will consist of the following basic software modules: tender module for procurement of power reserve, module for secondary market of power reserve, support to the secondary power reserve market, module for the procurement of balancing energy, module for the activation of balancing energy, module for calculating reserve power and balancing energy and module for connection to central platforms (PICASSO, MARI). In 2020, the implementation of the tender module for procurement of power reserve began, which by the end of the year was in a late phase of implementation. The new software solution automates the exchange of data between the system operator and service providers using XML message format according to the IEC 62325-451 standard,
- preparation of the system for the calculation of unintentional deviations for the implementation of FSKAR project,
- generating and sending new files to ENTSO-E TP,
- activities on international projects (CEF and Horizon 2020): SINCRO.GRID, CROSSBOW, XBID, MARI, OPC/STA, CORE FB MC, FARCROSS, FLEXGRID, ATTEST, E-PASIS.

In the upgrades of the business IT system in 2020, the following projects can be singled out:

- Upgrade of the ERP business application system in accordance with legal needs.
- Development of specification for the fine-tuning of the existing Procurement Plan module.
- Testing and training for the new HRIN2 modules: Personnel, Working Time Records, Travel Orders, Salaries, Payments and Accounting.
- Upgrade of the e-Administration module (e-Authentication and e-Session modules) preparation, fine-tuning and approval of materials for Board sessions,
- Training of all HOPS users for the e-Authentication module for incoming invoices – application for electronic verification / liquidation of incoming invoices,
- Test version of the e-Authentication module for outgoing invoices delivered,
- Preparation of business infrastructure for migration from Oracle database 10g to the version of Oracle database 12c for the purpose of technological improvements,
- The document Analysis of the Possibility of Connecting HOPS’s used ERP with the new asset management system (HOPS ERP- ASSET MGM) drafted,

New application for the needs of Internal Audit delivered for production.

- **International activities of the Company**

The Company, in accordance with its legal obligations on European and regional levels, cooperates with market operators and market participants outside Croatia and with a number of European institutions in the area of electrical energy transmission (European Commission - hereinafter: EC, Energy Community Secretariat, Agency for the Cooperation of Energy Regulators – hereinafter: ACER and others), as well as with the associations it belongs to (European Network of Transmission System Operators for Electricity – hereinafter: ENTSO-E, Renewables Grid Initiative – RGI, Mediterranean Transmission System Operators - hereinafter: Med-TSO, and others) and it also participates in several projects with the goal to prepare for the implementation of obligations arising from new EU regulations or to prepare for investing in infrastructure and development and research activities. In matters and topics of common interest, the Company coordinates its activities with the competent Ministry of Environment and Energy and the Agency. This is particularly pronounced in the process of implementation of the regulations and directives from the "Clean Energy Package" – hereinafter: CEP, on which the Company is significantly engaged both regarding the direct application, primarily of the provisions of the Regulation (EU) of the European Parliament and of the Council of 05 June 2019 on the internal market for electricity (hereinafter: Regulation on the Electricity Market), and the preparation for the implementation of the directives into national legislation.

By participating in the ENTSO-E activities, its working bodies (committees and groups) and the Assembly, the Company is a part of current processes on a pan-European level, but also on regional levels - continental Europe, Southeast Europe, etc.

Also, the Company actively participates in working groups and committees of the Core region resulting from the merging of the CEE (Central Eastern Europe) and CWE (Central Western Europe) regions and combining the two regions 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.

Following different provisions of several relevant regulations, the Company is the co-founder and co-owner of the following companies: TSCNET Services (Transmission System Operators Security Cooperation, in which it has 1/14 of shares), SEE CAO (Coordinated Auction Office in South East Europe, in which it has 1/8 of shares), and Joint Allocation Office (hereinafter: JAO, in which it has 1/25 of shares). The Company continuously participates in their work, monitors their business activities and service provision and participates in discussions and decisions on proposed relevant documents.

In lieu with EU recommendations and provisions from the Regulation on the internal market of electricity, and especially with the Operational Security Network Rules, the Company is still a part of North and Central Europe Transmission System Operator Security Cooperation via the company TSCNET. In 2020, the Company continued using TSCNET. In 2020, the Company was again a signatory of the MRA agreement (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 favourable influences on supply security in each of the individual transmission system operators.

Pursuant to the provisions of Articles 20, 21 and 22 of the EB GL Regulation, HOPS actively participates as full-fledged member of the projects for the establishment of common European platforms for the establishment of common European platforms for the exchange of balancing energy:

- exchange of balancing energy from reserves for manual Frequency Restoration Reserve (hereinafter: mFRR power reserve) – MARI project,

- exchange of balancing energy from automatic frequency restoration reserve (hereinafter: aFRR power reserve) – PICASSO project,
- deviation exchange process / imbalance netting process – IGCC project.

On 23 January 2020, ACER adopted implementing legal frameworks for common European platforms for the exchange of balancing energy from mFRR and aFRR power reserve which clearly define the deadlines and methods of establishing the platforms and enable all involved transmission system operators to delegate the development and operational implementation of individual platform functions to individual transmission system operators, forming an organisational structure in the form of a consortium composed of all involved transmission system operators, which requires a new legal regulation of projects.

Pursuant to the provisions of Article 5(3) of the both legal Implementing Frameworks for the common European platforms for the exchange of balancing energy from mFRR and aFRR power reserve (Implementation Framework mFRR, Implementation Framework aFRR), all transmission system operators in the European Union that use aFRR and mFRR power reserve balancing services legally regulated the management of MARI and PICASSO project through five contracts in July 2020:

- MARI & PICASSO Principal Agreement Regarding Electricity Balancing Platforms
- MARI Platform Cooperation Agreement & PICASSO Platform Cooperation Agreement
- MARI Common Service Provider Agreement & PICASSO Common Service Provider Agreement.

The imbalance netting process in the Continental Europe synchronous area is operational, and HOPS has been operationally participating in the European platform for the imbalance netting process (International Grid Control Cooperation, hereinafter: IGCC) since February 2019. To harmonise the imbalance netting process with the new contracting method, in accordance with the implementing legal framework from February 2020, the First Amendment to the Cooperation Agreement on IGCC was signed.

The German transmission system operators (AMPRION for MARI platform, TRANSNET BW for PICASSO & IGCC platforms) have been defined as legal bodies for the development and operational management of the platforms. The Hungarian transmission system operator, given the previous experiences in contracting services related to MARI and PICASSO projects, is defined as a legal body in charge of clearing of costs by projects with which the MARI Agreement for Invoicing of Services for the MARI Project is signed.

Pursuant to Article 3 of Commission Regulation (EU) 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council (hereinafter: Transparency Regulation), ENTSO-E and all its members play a central role in the implementation of ENTSO-E TP. HOPS, as an authorised data provider for the Croatian regulatory area, intensively works on improving the cooperation with primary data owners in the Republic of Croatia and neighbouring TSOs, auction offices (JAO, SEE CAO) and central projects, to increase the scope, timeliness and accuracy of the data submitted in accordance with the Transparency Regulation and the new requirements arising from the EB GL Regulation, Commission Regulation (EU) 2017/1485 of 02 August 2017 on establishing guidelines on electricity transmission system operation (hereinafter: SO GL Regulation) and CACM Regulation.

In the past year, HOPS made a noteworthy progress in the scope of submitted data related to the planned and actual production, system balancing and planned cross-border exchange according to additional ACER requirements. Delivery of daily data in hourly and 15-minute resolution from 01 January 2019 to 31 December 2020 increased from 41 % to 97 %. ENTSO-

E TP is a unique source of information that different users can download in a simple way, which the Croatian market participants recognised and assessed positively.

Pursuant to Article 50 paragraph 3 and Article 51 paragraph 1 of the EB GL Regulation, the Financial Settlement of k∆f, ACE and Ramping Period Energy (FSKar) will come into effect on 01 June 2021. An additional requirement of the EB GL Regulation is for different components of unintended deviations to be separately calculated. Unintended deviations are defined as the difference between the actual physical exchange and planned exchange that includes aggregated netted external schedules and exchange via virtual lines for each Load-Frequency Control Block (hereinafter: LFC Block) for each clearing period of 15 minutes. Intentional exchange refers to the energy from the frequency containment process in accordance with Article 142 of the SO GL Regulation and the energy from the ramping period in accordance with Article 136 of the SO GL Regulation.

In order to meet the requirements of the EB GL Regulation, i.e., to enable the exchange of FSKar data, the Regional Group of Transmission System operators for Continental Europe (hereinafter: RG CE) requested to be allowed to use ENTSO-E TP. On 20 October 2020, HOPS signed the License and Services Agreement for FSKar Data Sharing on Transparency Platform.

Regional cooperation of the Company was continued in the managing-regulation block Slovenia-Croatia-BiH (hereinafter: SHB Block) where, in accordance with the SO GL Regulation, the Operational Agreement of LFC Block SHB was prepared. In 2020, the Company actively worked on additional harmonisation of the Operational Agreement of LFC Block SHB and signing of the revised Operational Agreement of LFC Block SHB is expected in 2021. Also, announcements related to the LFC Block SHB according to the SO GL Regulations were published.

In 2020, cooperation with neighbouring system operators was also intensified through thematic meetings at various levels with Slovenian ELES, Hungarian MAVIR, Serbian EMS, NOS BiH from Bosnia and Herzegovina and with Austrian APG, where various common interest topics were discussed. Together with MAVIR, ELES and EMS, the Company actively worked on a revision of the Operational Agreements. The signing of these agreements is expected to take place during 2021

The Company and APGM concluded an Agreement concerning Cross-border Redispatch of Power Generation.

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

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

In 2020, the Company continued to actively participate in the work of Med-TSO on the level of the Assembly and through the member contribution within the activities of technical committees in the field of planning, system managing, market, regulations, economics and finances.

The representatives of the Company actively participated in the Mediterranean Project 2, which aims to consolidate the activities already implemented within the Mediterranean Project 1 and expand the scope to other areas, as well as to closely cooperate with regional regulatory bodies (Energy Community and MEDREG), and in the TEASIMED project (Towards an Efficient, Adequate, Sustainable and Interconnected MEDiterranean Power System), which aims to promote progressive integrations of transmission networks, taking into account the requirements for energy efficiency, improving cross-border electricity exchanges, as well as

the integration of renewable energy sources in the Mediterranean region, through the coordination of national development plans and network access rules.

HOPS's participation in Med-TSO projects is based on the geographical and political position of the Republic of Croatia and although the project activities currently do not have a greater direct impact on the Company, participation provides access to data and unified models of the Mediterranean region, as well as the access to information and methodologies used in connection to transmission network, planning, market, national legislation, etc. In the future, HOPS will have the opportunity to report and assess the cost-effectiveness of some of its interconnection projects through Med-TSO.

- **Personnel**

On 31 December 2020 the number of workers at the Company was 1,139, i.e. 79 workers more than on 31 December 2019. In 2020 the Company hired 58 new workers, while at the same period 137 of them left the Company. This decrease in the number of employees was the result of the restructuring process in 2019. By hiring new workers in due course the Company ensured the necessary number of workers to meet business and legal obligations of the Company, as well as timely replacement for those who left the Company.

- **Collection of receivables**

Total receivables from customers on 31 December 2020 amounted to HRK 24.7 million, whereas the receivables from associated companies on the same date amounted to HRK 193.9 million. Apart from suspicious and debatable receivables amounting to HRK 4.6 million, all receivables were duly settled.

There are 49 directly connected network users on the HOPS transmission network with 144 billing metering points. Users who are connected to the high-voltage grid (110 kV) are big industrial customers (construction, manufacturing industry, railway transport, water supply, electricity producers, etc.).

Receivables for the transmission network utilisation fee from users connected to the transmission network on 31 December 2020 amounted to HRK 12.3 million, of which HRK 11.2 million were receivables from customers, and HRK 1.1 million were receivables from associated companies. Of HRK 11.2 million receivables from customers, outstanding receivables amounted to HRK 6.6 million, and suspicious and debatable receivables to HRK 4.6 million. Suspicious and debatable receivables refer to receivables from the company in bankruptcy procedures, Adria Čelik Ltd., which are fully corrected at the expense of the period when the bankruptcy proceedings were initiated against the company before the Commercial Court in Split. The proceedings have not been completed by the date of this report, a verdict is expected.

Receivables from Balance Group Manager (hereinafter: BGM) for the liability for deviation on 31 December 2020 amount to HRK 36.2 million, of which HRK 4.1 million refer to receivables from customers, and HRK 32.1 million refer to receivables from associated companies. All receivables refer to outstanding receivables and have been duly settled in 2021.

Pursuant to the provisions of the Liability Agreement concluded for an indefinite period of time, and since the new Electricity Balancing Rules entered into force on 01 January 2020, i.e., with the new calendar year as a new billing period, as of 31 December 2019 Annexes to all applicable Liability Agreements with BGM were concluded. The application of these Annexes started on 01 January 2020, and all the BGMs submitted new bank guarantees in the amount defined by the parameters of the individual Liability Agreement.

In 2020 no complaints were submitted regarding the service of billing of deviations by BGMs to HOPS (legal basis Art. 37(1) Electricity Balancing Rules). The inspection of the data that the Croatian Energy Market Operator Ltd. (hereinafter: HROTE) provides to HOPS based on

Electricity Balancing Rules, found that in the period from 01 January 2020 to 31 December 2021 HROTE did not receive any complaints from BGMs regarding the accuracy of the issued invoices and the state of realisation (legal basis Art. 37(2) of the Rules). This positive trend is the result of the application of the new Rules that came into force on 01 January 2020. The Rules in question prescribe the new method of deviation billing.

CRODUX Gas Ltd. is the only case from 2018 that is still ongoing and in a civil proceeding, but it is important to note that HOPS has no outstanding receivables in this case. The previously valid Rules (HOPS 5/2016, 3/2017) are relevant for this case.

In 2020, the Company did not use the forced debt collection instrument.

In conclusion, in 2020 HOPS continuously implemented all the necessary activities related to the collection of receivables and prevention of possible new complaints or debts, and which refer to continuous monitoring of collection, issuing warnings, as well as contacting service users via phone and electronically to prevent collection difficulties and improve the service and establish and maintain the best possible communication with service users.

Legislative framework

In 2020, after public consultation was conducted and the HERA approval was obtained, the Company adopted the following acts:

- Methodology for ancillary services pricing (HOPS 9/2020),
- Rules for intra-day allocation of capacities for the border between HOPS and EMS trading zones, which apply from 01 January 2021

In 2020, after public consultation was conducted and HERA was informed on its results, HOPS Management Board adopted the following rules and acts:

- Bidding rules for ensuring mFRR reserve power and/or balancing energy for system security (HOPS 11/2020) and
- proposal of the form of Balancing Service Agreement – mFRR (HOPS 11/2020).

In 2020, HOPS Management Board, after public consultation was conducted, asked for HERA's prior consent to:

- amended proposal of the Rules for Congestion Management within Croatian Electrical Power System, Including Interconnectors (HOPS 12/2020).

Also, in 2020 HOPS actively participated and cooperated with competent authorities and other interested stakeholders on drafting, i.e., adopting the following implementing acts:

- with the Ministry of Environmental Protection and Energy and other interested stakeholders on the Proposal of Law amending the Energy Efficiency Act,
- with HROTE on the proposal of Amendments to the Rules on Electricity Market Organisation (OG 36/2020),
- with HEP-Operator distribucijskog sustava d.o.o. on the Rules of the Application of Equivalent Load Duration Curves (HEP-ODS 12/2020) (HOPS submitted an opinion in accordance with the Electricity Market Act)
- with HERA on the proposal of the General Terms and Conditions for Network Use and Electricity Supply (OG 104/20).

- **Internal supervision function**

The management of HOPS- continuously strives to reduce the risks associated with the irregularities in business with the ultimate goal of increasing the efficiency of business processes. In order to ensure a systematic approach in the field of managing possible business irregularities, conflicts of interest and corrupt practices, in 2020 HOPS continued with the activities of systematic supervision of internal controls in certain business areas, through regular (if necessary, extraordinary) engagements carried out by employees of the unit for Internal Audit.

In 2020, in accordance with the Rulebook on Internal Audit and the approved Annual Plan of Internal Audit, Internal Audit carried out the planned activities, which included the implementation of engagements in various business areas in several organizational units of HOPS. The responsibilities of Internal Audit include planning, conducting, reporting on conducted internal audits and monitoring the implementation of given recommendations in the Company's organisational units, as well as checking the compliance of internal acts with laws, decisions of regulatory bodies and other regulations and other tasks in accordance with internal acts.

Research and Development

The Company actively participated in research and development in 2019. As in previous years, the dynamics of conducting studies in the field of electricity transmission important for improving the Company’s business in both domestic and international market was maintained. In the development field special emphasis can be placed on conducting the study “Conceptual design of FACTS devices in SS Konjsko in order to increase the transmission power in the EPS, the damping of the capacity oscillation and in order to increase shunt the limits of dynamic stability”. In 2020, activities were continued on the implementation of the system for dynamic determination of transmission power of overhead lines by upgrading the system for conductor temperature monitoring on the TL 110 kV Zadar-Biograd and on the TL 220 kV Zakučac-Mostar.

The Company continued with its active participation on the WINDLIPS (WIND energy integration in Low Inertia Power System) project in 2020. The project deals with investigating RES for providing initial inertia response and ancillary services of the system and the development of regulatory and technical frameworks that enable such activity. It will identify the status of the Croatian EPS, the share and the types of individual power plants and the influence of existing RES on the inertia constant. It will analyse the Croatian EPS development strategies and planned new production capacities from RES, as well as technical requirements of network rules for connecting to RES in SEE countries. Second part of research will be based on applying WF to support the system frequency stability by using their inertia response and active power in the short period after the occurrence of disturbances. The project will analyse in detail the primary regulation of EPS frequency and dynamic characteristics of the system response during disturbances in existing conditions and in conditions of increased integration of WF into EPS.

The implementation of scientific research projects, in which the Company is participating and which are co-financed by the European Union, was successfully continued in 2020 despite the declared pandemic and possible negative impacts on the realization of planned activities and the achievement of set goals.

In 2020, HOPS participated in the implementation of four projects co-financed by HORIZON 2020, the European Union Research and Innovation programme for the 2014-2020 period:

- Activities within the CROSSBOW (“CROSS Border management of variable renewable energies and storage units enabling a transnational Wholesale market”) which started on 01 November 2017 were continued. The total value of the project is EUR 17.2 million,

while the grant value for HOPS is € 550,812.5. The project consortium consists of 24 partners from 13 countries while project partners from Croatia, besides HOPS, are the Faculty of Electrical Engineering and Computing, University of Zagreb and Končar KET. The CROSSBOW project is one of the most relevant EU innovation projects in the smart grid sector that brings together transmission system operators from eight countries of SEE, academic institutions and the industry. Aim of the CROSSBOW project is to demonstrate the possibilities of cross - border management of volatile RES energy and energy reservoirs in the area of the countries of SEE, enabling additional development of the transnational wholesale electricity market. The project will propose new energy storage options and virtual power plants, with the aim of increasing flexibility and expanding the base of ancillary service providers, proving that the project results will help address the transnational challenges that the region is facing.

- The FARCROSS ("Facilitating Regional CROSS-border Electricity Transmission through Innovation") project started on 01 October 2019, with a predictable duration of 48 months. The total project value amounts to € 13.6 million while the grant value for HOPS is € 134,400. The Consortium is made of 31 partners from 16 countries. From Croatia, besides HOPS, the Faculty of Electrical Engineering and Computing, University of Zagreb and the Electronics Studio Rijeka are also participating. The basic aim of the FARCROSS project is to explore the potential for increasing the amount and better utilisation of cross-border capacities with the aim of improving the market for the intra-day and day-ahead time frame. Further, the project aims to connect the main stakeholders in the energy value chain and demonstrate integrated hardware and software solutions that will facilitate the "unlocking" of resources for cross-border electricity flows and regional cooperation.
- The FLEXIGRID (engl. A novel smart grid architecture that facilitates high RES penetration through innovative markets towards efficient interaction between advanced electricity grid management and intelligent stakeholders) project started on 01 October 2019, with a predictable duration of 36 months. The total value of the project is € 4 million while the value of the grant for HOPS is € 154,500. The Consortium is made of 12 partners from 8 countries. Besides HOPS, the Faculty of Electrical Engineering and Computing, University of Zagreb from Croatia is also participating. The basic aim of the project is to develop a market place of flexibility for the electricity system of the future, which is considered from the perspective of market participants as well as traditional electricity entities such as system operators. The implementation of this project is based on the integration of targeted intelligence into existing software tools and programmes, which have been developed in other successful flagship projects of Horizon 2020.
- The ATTEST (eng. Advanced Tools Towards cost-efficient dEcarbonization of future reliable power SysTems) project started on 01 March 2020, with a predictable duration of 36 months. The total value of the project is € 4 million while the value of the grant for HOPS is € 160,187.50. The Consortium is made of 9 partners from 6 countries, while project partners from Croatia, besides HOPS, are HEP ODS, KONĆAR KET and the Innovation Centre Nikola Tesla. The main idea of the project is research and demonstration of coordination of transmission and distribution system in the segments of joint planning and managing the transmission and distribution system, exploiting the potential of network users connected to the distribution system for providing ancillary services to the transmission system operator. Developed algorithms will favour "clean" or low-emission technologies. And the integration of digital solutions at the European level will support an equal, optimized and efficient energy network, with a balanced impact on the environment.

The project E-PASIS project (System for Prevention and Analysis of HOPS's communication networks security incidents - E-PASIS) was approved by the decision of the European Commission from 11 May 2020 on co-financing the project within the EU instrument CEF Telecom - Cybersecurity in the grant value of € 212,080. The total value of the project is € 282,774, started on 01. September 2020., duration of 27 months. The implementation of this project is of capital importance for the Company and it will lead to capacity building in the field of cyber security, which will ultimately have a positive impact on the further provision of services for the management of the Croatian electricity system, electricity transmission, maintenance, development and construction of the network. As part of the project, the existing processes and policies of business continuity, disaster recovery and management of user rights to access the Company's information system will be reviewed and evaluated. Procurement of new software for detecting and analysing security threats in the network in real time will enable preventive action in order to improve the computer security of the Company's information system.

Besides, from 01 September 2020 HOPS participates in an international consortium of partners in the project "LIFE Danube Free Sky", co-financed by the LIFE Programme, an instrument of the European Union intended to finance activities in the field of protection of the environment, nature and climate. The project consortium consists of 15 partners from 7 countries. Project partners from Croatia, besides HOPS, are JUPP Kopački rit and HEP ODS. The total value of the project is € 16.6 million, while the value of the grant for HOPS is € 108,549. The aim of the project is to prevent the destruction of ornithofauna from collisions with HV transmission lines, electrocution of ornithofauna on MV lines and SS, and to improve the status of populations of priority species of ornithofauna in the ecological network Natura 2000 - Danube and Lower Podravlje. The project is a unique example of broad transnational cooperation along one of the most important migration corridors, a stopping place and wintering ground for many bird species in Europe - the Danube. The main result of the project will be a significant reduction and partly the complete elimination of the threat of electrocution and collisions on electricity infrastructure in the wider area of the Nature Park Kopački as one of the most ornithologically important areas in Croatia.

- **Fleet renewal**

In order to increase the safety of its workers and other road users, to renew the existing obsolete vehicle fleet and to create conditions for the normal performance of electricity transmission activities and EPS functioning, procurement of 20 trucks (vans and trucks with hydraulic platforms and cranes) was initiated in December of 2020. In March 2021, it is planned to contract the delivery of these vehicles, and in the second part of 2021, the delivery of these vehicles.

Newly procured vehicles will significantly increase the safety of workers in traffic, result in a more efficient work flow, reduce fleet maintenance costs, costs of their hydraulic upgrades and fuel costs and reduce negative impacts on the environment.

Procurement

The procurement plan for 2020 was adopted on 29 November 2019. It contained 596 procurement items with a total estimated value of HRK 779.1 million (221 public procurement procedures with a total estimated value of HRK 737.4 million).

The procurement plan is a dynamic category and according to Article 28 of the Public Procurement Act the Contracting Authority is obliged to adopt and update it as necessary. In accordance with the above, the procurement plan was updated according to business needs (by cancelling the unnecessary and entering new procurement procedures).

In 2020 (on 31 December 2020) the total of 1,113 procurement items were entered with an estimated value of HRK 1,520.4 million. Of 37 high value procurements planned in the basic procurement plan, 43 were conducted, and of 184 low value procurements, 182 were conducted.

Besides by planning of business needs, procurement implementation is also affected by appeal proceedings. In 2020, 14 appeals were filed against 225 initiated public procurement procedures.

In 2020, the following procurements were initiated with significant estimated procurement value (hereinafter: EPV):

- TL 2x110 kV Bilice-Trogir – construction, EPV HRK 70.0 million,
- Reconstruction of the 110 kV facility in SS 110/20 kV Rakitje EPV HRK 69.0 million,
- Refurbishment of central remote management systems of EPS to the new version, EPV HRK 50.0 million,
- Reconstruction SS 110/35 kV Meterize, EPV HRK 48.4 million,
- Measuring transformers Si 12, Si 24, Si 38, Si 123, Si 245 and Si 420 kV, HRK 38.6 million,
- Emergency maintenance of high-voltage transmission lines 400 kV, 220 kV and 110 kV in HOPS d.o.o., EPV HRK 35.0 million,
- Reconstruction and expansion of the facility 110 kV in SS 110/35 kV Čakovec, EPV HRK 30.0 million,
- Reconstruction SS 110/35 kV Ston, EPV HRK 25.3 million,
- 400/110/30 kV transformer for SS Tumbri, EPV HRK 20.5 million,
- GIS facility 110 kV for SS Ražine, EPV HRK 17.5 million,
- TS Ernestinovo, management and relay protection system replacement, EPV HRK 11.2 million.

- **Activities related to General Data Protection Regulation implementation**

The Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation) hereinafter: GDPR Regulation) was regularly applied at HOPS in 2020.

In 2020, more written inquiries were received related to EU projects (e.g. CROSSBOW, Development of a platform for aggregation of flexibility of electricity sources and consumers and balancing of the electricity system); inquiries related to the current situation in the country (earthquake - payment of assistance to workers who suffered damage due to the earthquake; coronavirus-related inquiries (temperature measurement, use of STOP COVID Application); inquiries related to contracts with companies providing IT services to HOPS and inquiries related to a comprehensive fleet monitoring and management project (GPS-monitoring in vehicles).

The Officer orderly processed the received written inquiries. He gave opinions and recommendations on several telephone questions related to the interpretation of the provisions of the GDPR, while raising awareness of the importance of personal data protection and the need for a multidisciplinary approach in resolving such cases.

- **Nonfinancial report**

In accordance with the Accounting Act (OG 78/15, 134/15, 120/16, 116/18, 42/20) and the Ordinance on deadlines for the submission of financial statements and accounting documentation in special circumstances (OG 43/2020), HOPS will publish the Nonfinancial report for 2020 as a separate report on its web page no later than 8 months from the balance sheet date i.e. until 31 August 2020. When drafting the report, HOPS will use the Global Reporting Initiative guidelines (GRI standard) and indicators in the specified standard. The report will be published on the following link: https://www.hops.hr/godisnji-izvjestaji.

1. BUSINESS ACTIVITY AND ORGANISATIONAL STRUCTURE OF THE COMPANY

- **Business activity of the Company**

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

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

The activity of electrical power transmission includes basic tasks such as management of the Croatian EPS, power transmission, maintenance, development and construction of the transmission network for reliable supply of customers with minimal costs and care for environmental protection and support for the development and functioning of the Croatian electricity market, taking care of its interconnection with the neighbouring electricity markets of the European Union and the Energy Community.

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

- **Organisation of the Company**

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

The Assembly:

Frane Barbarić – President since 1 January 2018

Supervisory Board:

1. Kažimir Vrankić – Chairman
2. Alina Kosek – Vice Chairwoman until 3 April 2020
3. Marko Dvorski – Vice Chairman since 4 April 2020
4. Ante Pavić - member until 3 April 2020
5. Krešimir Ugarković – member since 4 April 2020
6. Marijan Kalea – member
7. Sanja Olujić – member

The Audit Committee (since 14 January 2019):

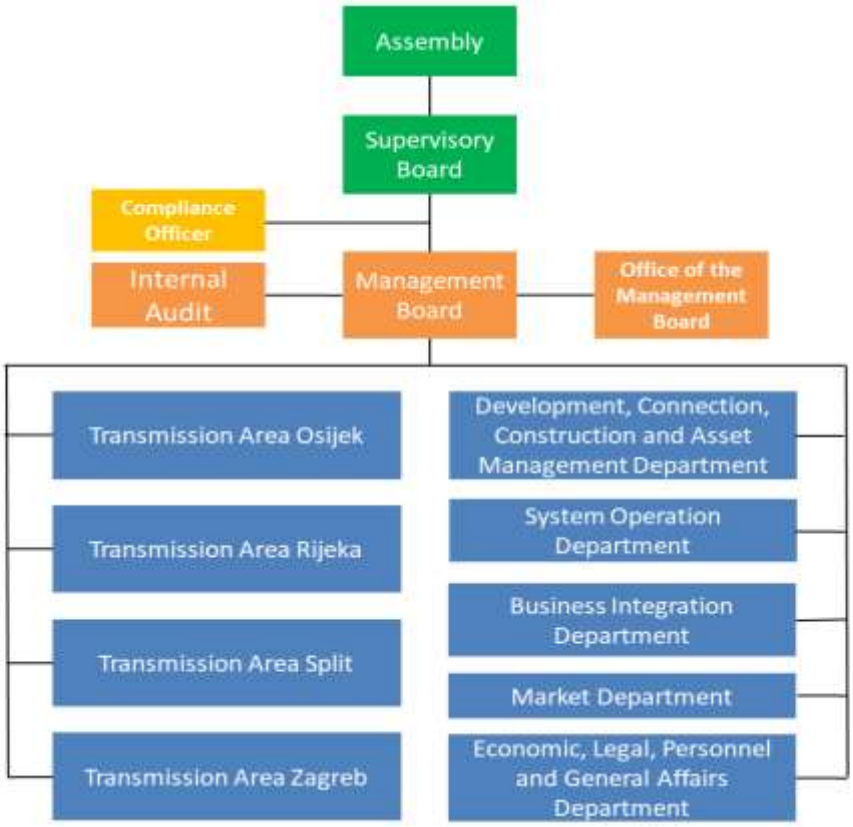
1. Drago Jakovčević, Ph.D., President (independent, external member) – since 14 January 2019
2. Mihovil Anđelinović, Ph.D. (independent, external member) – since 14 January 2019
3. Alina Kosek, mag. oec., (member, Supervisory Board) – since 27 April 2020
4. Marko Dvorsk, mag. oec., (member, Supervisory Board) – since 28 April 2020

The Management Board:

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

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

Picture 1. The Company's organisational scheme - situation as of 31 December 2020



2. REPORT ON SECURITY OF SUPPLY IN 2020

2.1. CROATIAN ELECTRICAL POWER SYSTEM

Croatian EPS consists of production facilities and plants, transmission and distribution network and electricity consumers in the territory of the Republic of Croatia. For the purpose of safe and quality supply of customers with electricity and exchange of electricity, Croatian EPS is connected to the EPSs of neighbouring countries and other systems of ENTSO-E members, which together form the synchronous network of continental Europe. Customers in the Republic of Croatia get their electricity from power plants on Croatian territory and by purchasing electricity from abroad. The size of Croatian EPS makes it one of the smaller systems in Europe.

Croatian EPS is connected by 400 kV, 220 kV and 110 kV voltage levels with neighbouring countries' system. Croatian EPS is connected by transmission lines of 400 kV voltage level (seven TLs in total, out of which three are double-circuit transmission lines and four are single-circuit transmission lines) with the systems of:

- Bosnia and Herzegovina (TL 400 kV Ernestinovo - Ugljevik and TL 400 kV Konjsko - Mostar),
- Serbia (TL 400 kV Ernestinovo – Sremska Mitrovica 2),
- Hungary (TL 2x400 kV Žerjavinec – Hévíz, TL 2x400 kV Ernestinovo – Pécs),
- Slovenia (TL 2x400 kV Tumbri – Krško, TL 400 kV Melina – Divača).

Interconnection of the Croatian EPS with the neighbouring ENTSO-E members was also achieved via 8 transmission lines 220 kV. Also, Croatian EPS is interconnected with its environment on a 110 kV level (18 TLs in total in permanent or periodical operation). Good connection with neighbouring EPS-systems enables significant exports, imports and transits of electricity via the transmission network and places the Republic of Croatia in an important EPS link between Central and SE Europe.

Maximum hourly load of the Croatian EPS of 2,872 MW was recorded in July, while the maximum total monthly electricity consumption on the transmission network level was recorded in January and was 1,523 GWh. Minimal total monthly consumption on the transmission network level was recorded in April and was 1,115 GWh.

2.2. DESCRIPTION OF THE CROATIAN TRANSMISSION SYSTEM

The Croatian transmission system is networked in a total of 6 substations of 400 kV level, and in total of 18 substations/facilities of 220 kV level (situation at the end of 2020). There are 178 110 kV switchyards and SS 110/x kV on the 110 kV voltage level.

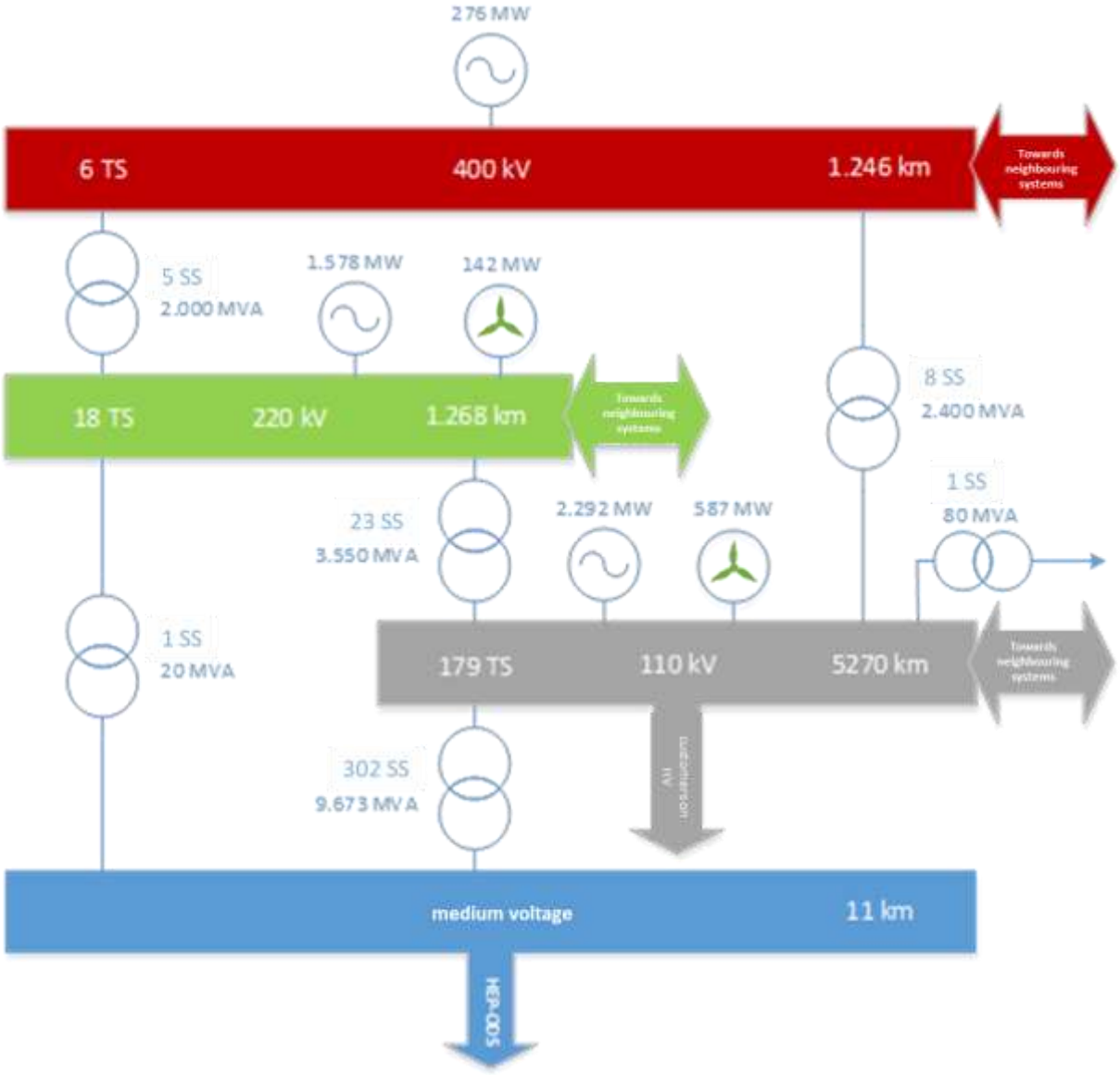
The 400 kV transmission network spreads from its Eastern part (Ernestinovo), through the North-Western part (Zagreb) to the Western (Rijeka) and Eastern (Split) part.

Out of production facilities, only RHPP (reversible hydropower plant) Velebit is connected to the 400 kV network.

The Total connection capacity of the generator per voltage levels is (Picture 2):

- the approved total connection capacity of the generator at 400 kV is 276 MW,
- the approved total connection capacity of the generator at 220 kV without wind farms is 1,578 MW and the approved total connection capacity of wind farms at 220kV is 142 MW,
- he approved total connection capacity of the generator at 110 kV without wind farms is 2,292 MW and the approved total connection capacity of wind farms at 110kV is 587 MW.

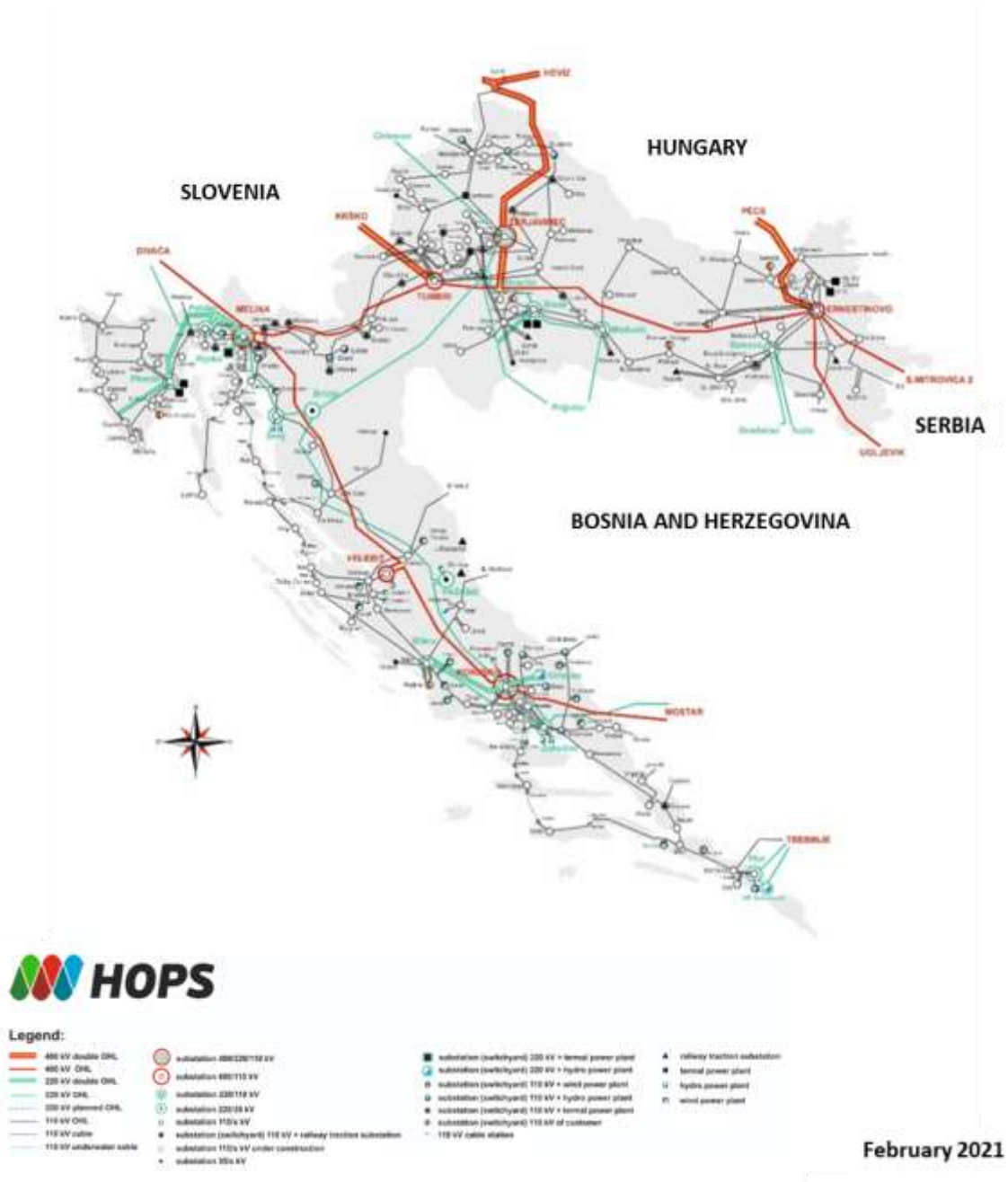
Picture 2. Transmission system technical indicators per voltage levels - status at the end of 2020



In the Croatian transmission system (status at the end of 2020), HOPS owns a total of 7,795 km of 400 kV, 220 kV and 110 kV high-voltage network (Picture 2). Transmission lines that were built as 110 kV lines, but are currently operating on medium voltage are also counted in.

The transmission network is constructed sufficiently enough to allow for significant exchanges (import primarily) with neighbouring EPSs. Significant amounts of electricity, with satisfactory safety, are imported from Slovenia (NPP Krško), Bosnia and Herzegovina and Hungary.

Picture 3. 400-220-110 kV transmission network RoC, status in February 2021



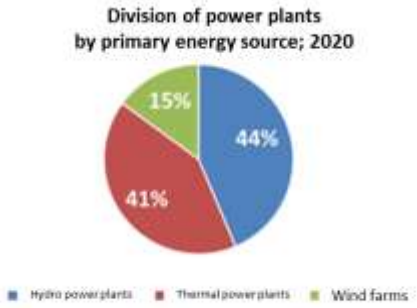
2.3. SECURITY OF SUPPLY IN 2020

The required quantities of electricity for end customers in the Croatian EPS are provided through production units geographically located in the Croatian EPS and via secured cross-border transmission capacities at the HOPS interface with other transmission system operators.

Available production units connected to the transmission network, expressed according to the approved connection power and according to the primary energy source are shown in picture 4.

Picture 4. Connection capacity of power plants in the transmission network of the RoC in 2020

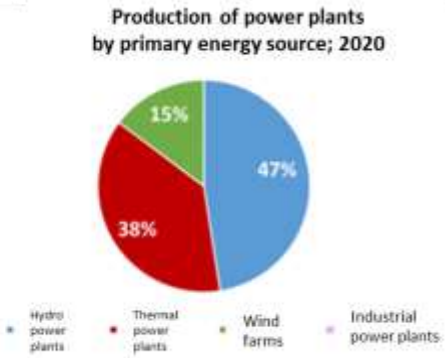
Types of power plants	Connection capacity (MW)	[%]
Hydro power plants	2126,6	44%
Thermal power plants	2019,0	41%
Wind farms	729,0	15%
Σ	4874,6	100%



The total electricity production of power plants in the transmission network in 2020 by primary energy source is shown in picture 5.

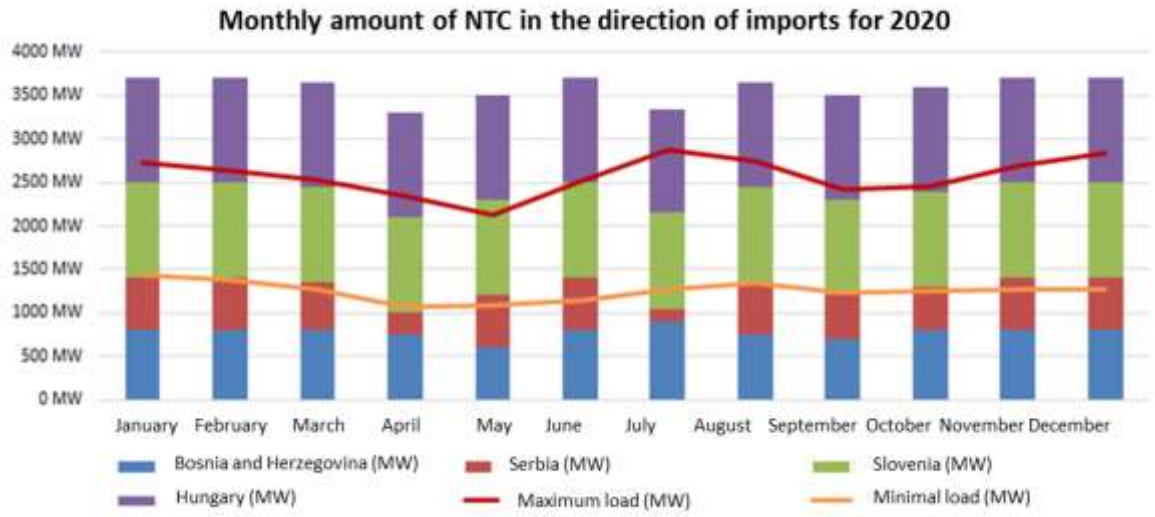
Picture 5. Produced electricity of power plants in the transmission network in 2020

Types of power plants	Production capacity (GWh)	[%]
Hydro power plants	5134,0	48%
Thermal power plants	4072,6	38%
Wind farms	1594,6	15%
Industrial power plants	0,02	0,0%
Σ	10801,2	100%



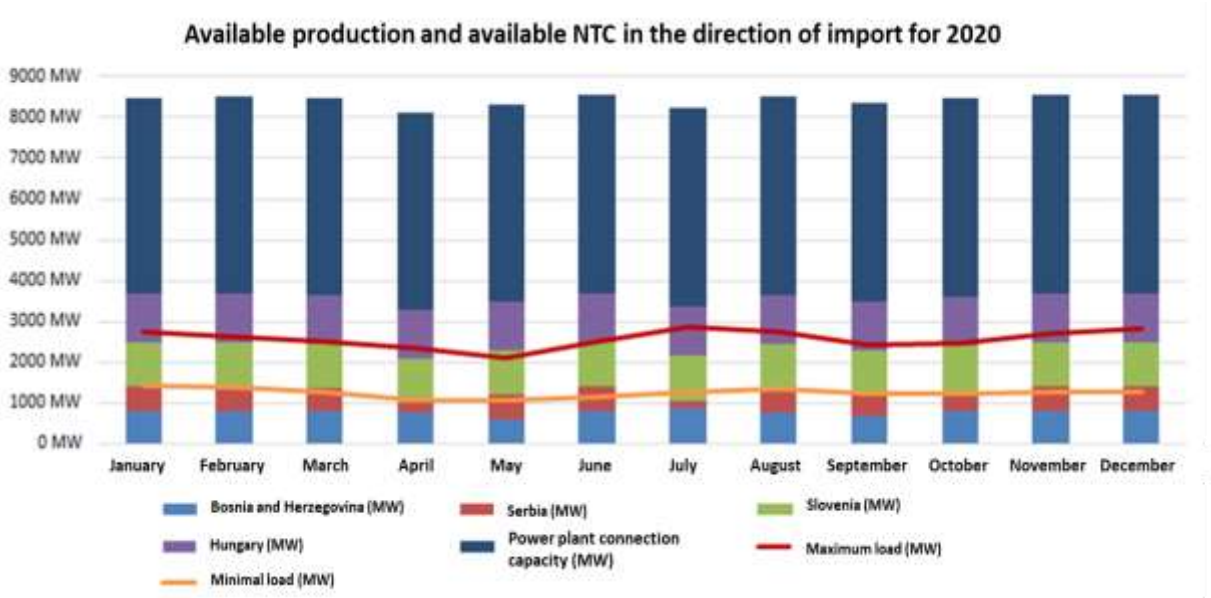
Possibility of importing electricity in the Croatian EPS is limited by Net Transmission Capacity (hereinafter: NTC). Picture 6 shows the monthly amount of NTC in the direction of electricity import and minimal and maximum system load per months.

Picture 6. Monthly amount of NTC in the direction of import in regards to minimal and maximum system load in 2020



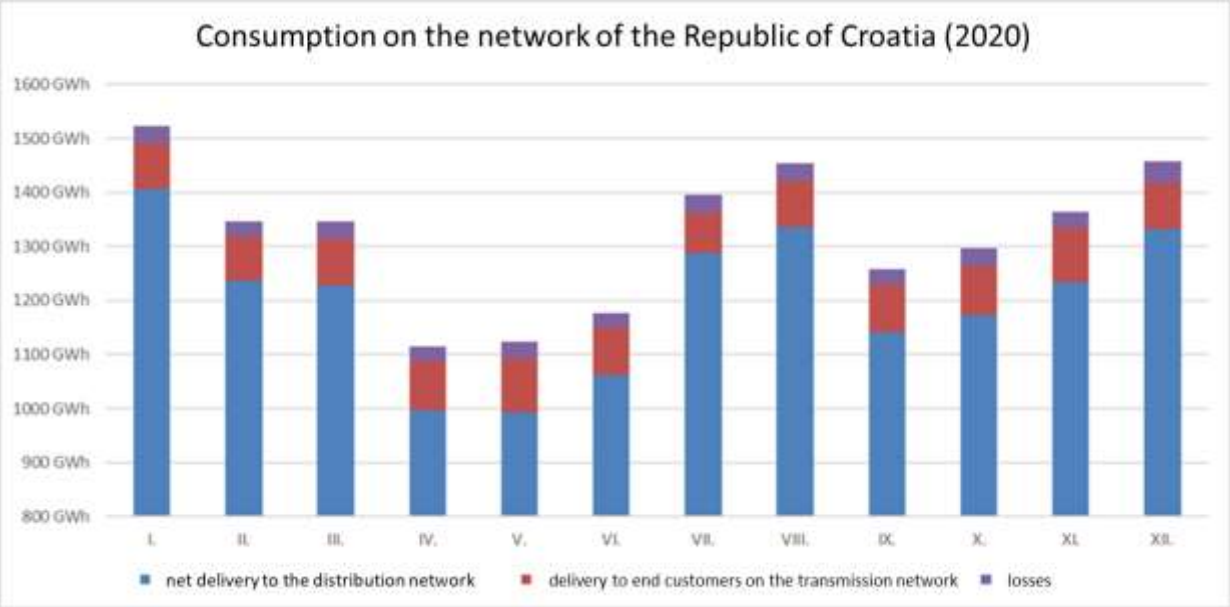
Picture 7 shows the monthly amount of NTC in the direction of electricity import, the available connection capacity of power plants on the transmission network and the minimal and maximum system load per months.

Picture 7. Available production and available NTC in the direction of import in regards to minimal and maximum per months in 2020



Picture 8 shows the monthly consumption on the transmission network in 2020.

Picture 8. Consumption on the transmission network in 2020

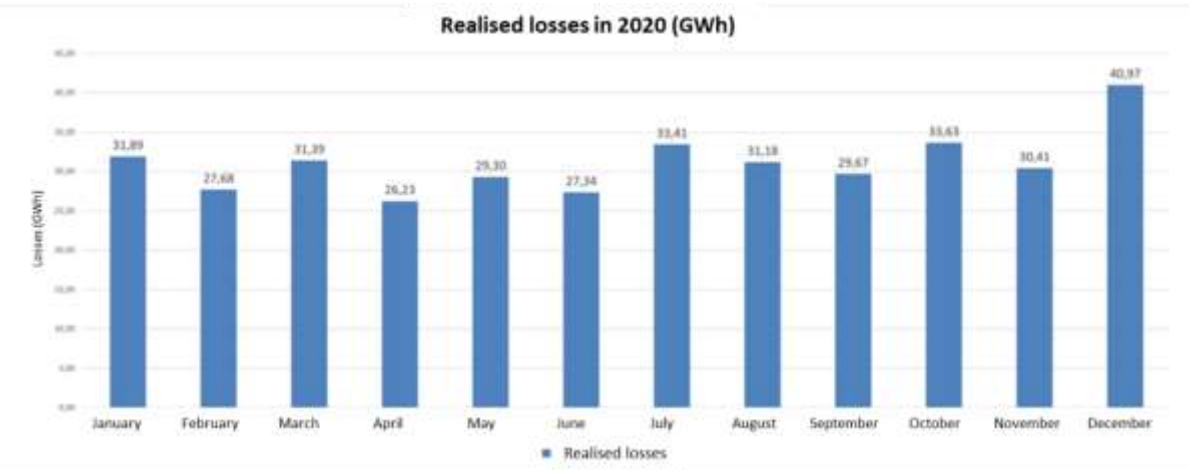


2.4. TRANSMISSION NETWORK LOSSES IN 2020

Total electricity to cover losses (hereinafter: losses) in the transmission network is calculated as the difference between transmitted and delivered electricity into the transmission network on the basis of validated measured data from all billing metering points at the transmission network interface. Total losses include transmission network losses and losses on connecting lines with the neighbouring system operators. Realised losses in 2020 amount to 373.1 GWh.

Realised losses per months in 2020 are shown in picture 9.

Picture 9. Realised losses per months in 2020



From a transmission network operator's point of view, it is common to observe transmission network losses depending on the total transmitted energy in the transmission network. The total transmitted energy in the transmission network is calculated as the sum of electricity produced in the transmission network and electricity that entered the transmission network. In 2020 a total of 21,432 GWh of electricity was transmitted through the transmission network, which is 3.45 % less than in 2019.

Share of losses in the transmission network for 2020 was 1.74%. The total amount of losses in the transmission network in 2020 is 3.82 % lower than in 2019.

The reason for the historically lowest losses is the reduced consumption of electricity caused by reduced economic activities due to the coronavirus pandemic. In 2020 import was reduced, as well as the transmitted energy in the transmission network compared to the previous years, with more favourable weather conditions in winter season and low precipitation.

With the goal of minimising the total cost, HOPS procures losses on transparent, impartial and market principles. Consequently, securing losses during 2020 was done on two levels, i.e., by long-term procurement (long-term contracts) and short-term procurement (on day-ahead market and intraday market).

A long-term contract involves the procurement of electricity to cover losses in the transmission network through public auctioning with pre-known quantities of electricity. Auctioning and selection are done in a transparent and independent way towards all bidders, where the selection criterion is the lowest offering price that fulfils all the auctioning requirements.

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

3. BUSINESS PERFORMANCE AND FINANCIAL POSITION OF THE COMPANY in 2020

The Company's business performance in 2020 has been presented in the Statement of Comprehensive Income for the period from 01 January 2020 to 31 December 2020, and the financial position has been shown in the Statement of Financial Position as of 31 December 2020. The statements containing the most important items are listed below.

3.1 BUSINESS PERFORMANCE

The Company completed the business year 2020 with a year-end pre-tax profit in the amount of HRK 142.0 million. The total generated profit consists of the difference between revenues and expenditures from the allocation of cross-border transmission capacities in the amount of HRK 66.9 million and the difference of other revenues and expenditures in the amount of HRK 75.2 million. The generated pre-tax profit is lower by HRK 23.4 million or 14.1% compared to the previous year, while the profit after tax is lower by HRK 18.2 million or 13.8% compared to the previous year.

Decreased profit was mainly caused by reduced electricity consumption in the Republic of Croatia due to reduced activity of economic entities caused by the coronavirus pandemic. The total revenues decreased by HRK 158.0 million or 9.2% compared to the previous year, and the total expenditure decreased by HRK 134.6 million or 8.6%.

The largest decrease in revenues is reflected in the decrease in revenues from the provision of electricity transmission services which was HRK 80.1 million or 5.8% lower than in the previous year, the decrease in revenues from the calculation of balancing electricity which decreased by HRK 72.4 million or 49.4% compared to the previous year, the decrease in revenues from the sale of balancing electricity which decreased by HRK 4.7 million or 15.8% compared to the previous year and the decrease in revenues from the inter-compensation ITC mechanism of transmission system operators (hereinafter: ITC mechanism) which was by HRK 2.7 million or 34.0% lower than in the previous year. This reduction in revenue from the sales of billing of balancing electricity is mostly caused by the change of Electricity Balancing Rules by which the cost of 20% of reserve power is no longer added to the balance groups through deviation billings.

Reduced electricity consumption in the republic of Croatia in the pandemic resulted in lower expenditures of the Company. So, the direct costs of the Company's core business had a significantly lower implementation rate compared to the previous year. The costs of losses were just about HRK 31 million or 18% lower than in the previous year, costs of balancing electricity procurement were about HRK 46 million or 42% lower than in the previous year, costs of ancillary services procurement were just about HRK 29 million or 9% lower than in the previous year.

Due to reduced revenues in the pandemic, the Company significantly reduced the employment plan in 2020, and therefore significant savings were achieved in staff costs (severance payment provisions not included) that were HRK 10 million or 4% lower than in the previous year.

In order to achieve the best possible financial result, the Company introduced a strict control of general operating expenses that were (without restructuring costs) HRK 9.4 million or 10.8% lower than in the previous year and costs of energy facilities maintenance that were HRK 15.9 million or 16.2% lower than in the previous year.

Of the expenses that increased compared to the previous year, those that stand out are depreciation costs that were HRK 19.6 million or 5.7% higher, costs of balancing electricity billing that were HRK 10.4 million or 45.7% higher, costs of allocation of cross-border transmission capacities that were HRK 5 million or 15.8% higher and ICT mechanism costs that were HRK 2.2 million or 25.4% higher than in the previous year.

The total revenues generated in 2020 are mostly revenues from the provided electricity transmission service (82.3%), revenues from the allocation of cross-border transmission capacities (6.6%), revenues from the billing of balancing electricity (4.7%), revenues from the sale of balancing electricity (1.6%), revenues from telecommunications services (1.2%) and revenues from the ITC mechanism (0.3%). The remaining operating revenues include: revenues from the sale of electricity to cover losses and compensation program, revenues from assets received free of charge, revenues from connection assets (MSFI 15), revenues generated from the use of own products and services, collected written-off receivables, revenues from non-standard services, cancellation of provisions and other operating and financial revenues.

Total expenditure effected in 2020 mostly consists of depreciation costs (25.5%), costs of ancillary services procurement (20.8%), staff costs (15.9%), costs of losses on the transmission network (9.9%), costs of energy facilities maintenance (5.9%), costs of balancing electricity procurement (4.3%), costs of allocation of cross-border transmission capacities (2.6%) and costs of balancing electricity billing (2.3%). The remaining operating expenditure includes ITC mechanism costs, costs of telecommunications services, costs of value adjustment of assets and provisions, general operating costs, costs of fees and concessions and other operating and financial expenditure.

Income tax for 2020 amounts to HRK 28.1 million and is lower than in the previous year by 15.5%.

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

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

Description	2020	2019	Difference	20/19
1	2	3	4 (2-3)	5 (2/3)
Revenues from sales and other business incomes	1,566.7	1,725.7	(159,0)	-9.2%
Business expenditures	1,396.1	1,536.9	(140,9)	-9.2%
PROFIT FROM BUSINESS ACTIVITIES	**170.6**	**188.7**	**(18,1)**	**-9.6%**
Financial income	2.5	1.5	1,0	65.2%
Financial expenditures	31.1	24.8	6,2	25.0%
Net financial expenditures	**(28,6)**	**(23,3)**	**(5,2)**	**22.4%**
TOTAL INCOME	**1,569.2**	**1,727.2**	**(158,0)**	**-9.1%**
TOTAL EXPENDITURES	**(1.427,1)**	**(1.561,8)**	**134,6**	**-8.6%**
Pre-tax profit	142.0	165.4	(23,4)	-14.1%
Income tax	(28,1)	(33,2)	5,1	-15.5%
PROFIT FOR THE PERIOD	**113.9**	**132.2**	**(18,2)**	**-13.8%**

Based on the items, as shown in Table 2, the Company generated earnings before net financial expenditure and current tax (EBIT) in the amount of HRK 170.6 million, which is 9.6% less than in 2019. EBITDA (EBIT excluding depreciation) was HRK 534.1 million, which is 0.3% more than in 2019. The EBIT margin remained at the same level, while the EBITDA margin compared to the previous year increased by 3.2%. The net profit margin was 0.4% less than the previous year. Net profit after tax was used to calculate the return on capital and equity. Compared to the previous year, ROE and ROA decreased by 0.3%.

Table 2. Financial indicators (in HRK million)

Description	2020	2019
EBIT (Earnings before interest and taxes)	170.6	188.7
EBITDA (EBIT without the effect of amortization)	534.1	532.6
EBITDA margin	10.9%	10.9%
EBIT margin	34.1%	30.9%
Net profit margin	7.3%	7.7%
ROE (Return on equity)	2.2%	2.5%
ROA (Return on Assets)	1.6%	1.9%

3.2 FINANCIAL POSITION

The financial position of the Company has been presented in the Statement of Financial Position as at 31 December 2020.

Table 3 shows an excerpt from the Statement of Financial Position (Balance Sheet) containing the most important items and a comparison with the previous year.

Table 3. Excerpt from the Statement of Financial Position of the Company as at (HRK million)

Description	31 December 2020	% share	31 December 2019	% share	2020/2019
1	2	3	4	5	6 (2/4)
Long-term assets	6.584,9	91,5%	6.362,7	91,6%	3,5%
Short-term assets	614,0	8,5%	586,6	8,4%	4,7%
Total assets	**7.198,9**	**100,0%**	**6.949,3**	**100,0%**	**3,6%**
Capital and reserves	5.230,9	72,7%	5.190,6	74,7%	0,8%
Long-term obligations	1.194,1	16,6%	989,9	14,2%	20,6%
Short-term obligations	773,9	10,8%	768,8	11,1%	0,7%
Total obligations and capital	**7.198,9**	**100,0%**	**6.949,3**	**100,0%**	**3,6%**

The value of total assets as of 31 December 2020 amounted to HRK 7,198.9 million. Compared to 31 December 2019 it is higher by HRK 249.6 million or 3.6%.

As a result of investments in 2020, fixed assets increased by HRK 222.2 million and now amount to HRK 6,584.9 million. The share of long-term assets in total assets compared to 2019 is 0.1% lower and amounts to 91.5%.

Short-term assets amount to HRK 614.0 million. They increased compared to the previous year by HRK 27.4 million, mainly due to an increase in receivables from associated companies which, compared to the previous year, are higher by HRK 14.7 million. The share of short-term assets in total assets compared to 2019 is 0.1% higher and amounts to 8.5%.

Capital and reserves, which cover 72.7% of the Company's total assets, increased by HRK 40.3 million due to lower profit generated in 2020, so the share of capital and reserves in liabilities is 2.0% lower than in 2019.

The share capital of the Company as of 31 December 2020 amounts to HRK 4.948.6 million.

Total liabilities amount to HRK 1,968.0 million. They increased by HRK 209.3 million compared to 2019, with their share in liabilities increasing from 25.3% to 27.3%. Long-term liabilities account for 60.7%, and short-term ones 39.3% of total liabilities as at 31 December 2020.

Based on the indicators derived from the balance sheet data, it can be concluded that the Company has leverage indicators in line with the activity it performs. The Company finances current investments from its own funds, regularly repays long-term liabilities and regularly finances day-to-day business operations from generated revenues.

The leverage ratio (total liabilities / net income and depreciation) of the Company for 2020 amounts to 4.10 years and is higher than the previous year by 0.41 years.

4. INVESTMENTS

In 2020, investments amounted to a total of HRK 577.34 million. The largest share includes investments in the replacement and reconstruction of the existing transmission infrastructure, construction of new facilities and revitalization of transmission network facilities and plants. The level of investments made in 2020 compared to the previous year is higher by HRK 18.40 million or 3.3%.

Table 4 .Investments in 2020 in HRK

Type of investment	31 December 2020	% share	31 December 2019	% share	2020/2019
1	2	3	4	5	6 (2/4)
Preparation of investments	16.124.189	2,8%	18.145.109	3,2%	-11,1%
Replacement and reconstruction	229.338.167	39,7%	262.971.534	47,0%	-12,8%
Revitalization	78.034.026	13,5%	105.512.011	18,9%	-26,0%
Repairs and renewal	0		0		
New facilities	185.028.593	32,0%	104.374.606	18,7%	77,3%
Other investments	38.456.509	6,7%	31.244.770	5,6%	23,1%
Electrical power conditions for connection	30.354.397	5,3%	36.685.877	6,6%	-17,3%
Total	**577.335.881**	**100,0%**	**558.933.907**	**100,0%**	**3,3%**

4.1 MOST IMPORTANT INVESTMENTS

The most important investments that were fully or partially implemented in 2020 are listed below.

SINCRO.GRID PCI PROJECT (calculated in 2020: HRK 51,131,345)

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

In 2019 the installation of the shunt reactor in SS Mraclin was finished (approx. HRK 22,700,000 in 2019).

In 2020 the installation of the shunt reactor in SS Melina was finished (approx. HRK 32,819,409.09 in 2020).

The construction of the SVC facility in SS Konjsko began in 2020, and HRK 10,488,818.87 was spent. In Q1 2021 key equipment was delivered, which was a key moment for the payment of HRK 52,444,094.35. The contract is planned to be fully implemented in 2021, which amounts to additional HRK 41,955,275.48.

SS 110/20 kV Sućidar (calculated in 2020: HRK 29,160,626)

HEP ODS d.o.o. and HOPS d.o.o. singed the Agreement on Mutual Relations in connection with the preparation of construction and construction of SS Sućidar with the connection to 110 kV network. The project includes the removal of the vehicle fleet, the removal of the current 110 kV facility with the building (within which there is a 35 kV facility), 110 kV cable connections to the network and the construction (reconstruction) of road access to the future building in which 110 kV GIS and 20 kV facility will be located. A 110 kV GIS facility was delivered and stored. Construction works began in late 2019. Final construction works on the construction of the building are underway, and most of the secondary equipment was approved and is being tested and delivered.

U/I TL 110 kV Mraclin-Ludina to SS Ivanić Grad (calculated in 2020: HRK 16,243,190)

In 2020, all construction and electrical installation works on the construction of the connection bay TL 110 kV Mraclin-Ludina to SS Ivanić Grad were completed. All excavation works were completed, construction of foundations for the pillars, conductor and protective conductor were connected to OPGW. Measurement of water parameters was also performed. Systems for safe climbing on all poles have been installed.

SS 110/10(20) Split 3 (Visoka) (calculated in 2020: HRK 12,290,372)

The Agreement on Mutual Relations was signed between HEP ODS d.o.o. and HOPS d.o.o. in connection with the preparation of construction and construction of SS Split 3 with the connection to 110 kV network. A 110 kV GIS facility was delivered and stored. The existing 11 kV AIS facility will be replaced with GIS facility in the scope of 3 TR bays, 2 KB bays, measuring bay with coupler, reserve space for 2 KB bays. Construction works began in early 2020. Construction works on the building are underway, and most of the secondary equipment has been approved and is being tested and delivered.

Office building TA Osijek (calculated in 2020: HRK 16,435,733)

In late 2014 HOPS bought an office building in Osijek, which it thoroughly reconstructed and moved into in 2017. For better organisation of business processes of TA Osijek, this building also requires additional new facilities (open and closed warehouse, network centre, garage for heavy-duty and personal vehicles, workshops and premises for the maintenance staff…). The equipment for monitoring, management and planning of the work of electrical power system, which includes an adequate space for dispatchers and operators of the Osijek NC will be placed in the newly built building of the Osijek Network Centre (NC), which will be connected to the existing building. An adequate space for the accommodation of people, workshops and test stations suitable for maintenance needs is foreseen for the needs of primary equipment maintenance teams. A garage for official personal vehicles will be built in the basement of the building. An additional building, separate from the Osijek NC, designed as a prefabricated hall, will contain a garage for emergency heavy-duty and off-road vehicles and a closed spare parts warehouse. Near the warehouse building there will be an open warehouse for high-voltage equipment and the entire commercial yard with necessary parking spaces. In accordance with the positive regulations of the Republic of Croatia and requirements for efficient energy consumption (according to the ISO 50001 standard that HOPS introduced into its business operations) a photovoltaic power plant with design capacity of 140 kWp will be built on the roof of the new closed warehouse building.

Construction works on all planned facilities are ongoing, as well as the works on the commercial yard and the upgrade of the existing technical protection system to ensure the security level of the new facilities. The planned completion of construction is by the end of 2021, as well as of all the activities related to the relocation by the end of 2022 when the entire complex will be fully operational.

SS 110/35 kV Lički Osik - installation of a 40MVA power transformer (calculated in 2020: HRK 5,170,000)

With the procurement and installation of the 40MVA power transformer in 2020 the existing 20MVA power transformer was replaced in SS Lički Osik due to the need to increase the power of the connection of the customer Calcit Lika d.o.o. The same project also includes the replacement of management and relay protection in transformer bays. The project is expected to be completed in July 2021.

TS Meterize - refurbishment (calculated in 2020: HRK 8,523,364)

The substation was constructed in 1956, in the so-called low construction. The facility has concrete portals, and load-bearing parts of the 110 kV equipment are in decay. Primary and secondary equipment is old and represents a significant maintenance issue. This significantly impairs the reliability of the facility. Transmission power of feeder bays is inadequate and represents a "bottleneck" in relation to the transmission power of the connected transmission lines, reducing the capability of power placement from HPP Zakučac in high hydrology conditions. This results in water overflow and direct financial losses due to unproduced electricity. Two transformers with a power of 40 MVA are installed in the SS, which supply the wider Split area. The results of diagnostic tests showed that one transformer needs to be replaced, whereas the other was replaced in 2015.

All the preparatory activities for the reconstruction of the existing substation have been implemented – preparation of the main and detailed design, obtaining building permit, procurement of primary and secondary equipment and contracted works on the reconstruction of the existing substation at the same location. The existing substation has two busbar systems, six feeder bays, two transformer bays, connection and measuring bay. The number of busbar systems and the number of bays will remain the same after the reconstruction.

The equipment needed for the start of the reconstruction was delivered in 2020. The works on the reconstruction start in spring 2021, and the expected period of works is 24 months, followed by trial operation and obtaining occupancy permit.

During the construction, necessary switching of the transmission lines around SS Meterize will be performed, which will reduce the flexibility of the surrounding network.

SS Ston – reconstruction of the facility and power building (calculated in 2020: HRK 6,920,795)

The substation was constructed in 1960. The facility has concrete portals, and load-bearing parts of the 110 kV equipment are in decay. Part of primary and secondary equipment has been replaced, and the remaining equipment is old and inadequate and represents a significant maintenance issue. This significantly impairs the reliability of the facility.

The power building was significantly damaged in the earthquake that hit the area, and after several recovery attempts it again requires significant reconstruction. Due to damage to the power building, new secondary equipment has been temporarily stored in a warehouse the dimensions and microclimate of which are not suitable for accommodating such sensitive equipment.

Single-line diagram of the facility is not suitable for manipulations and maintenance without shutdown, and the reconstruction therefore needs to plan for the change of the single-line diagram of the facility.

The reconstruction of the existing substation is planned at the same location, with the replacement of the bay layout in order to get a more flexible single-line diagram of the facility that ensures simpler maintenance without shutting down the consumption.

The replacement of all concrete portals and bases with steel ones has also been planned. Inadequate switchgear equipment will also be replaced, the existing power building will be demolished and a new one built of the same dimensions that will accommodate auxiliary power and secondary equipment.

All the preparatory activities for the reconstruction of the existing substation have been implemented – preparation of the main and detailed design, obtaining building permit, procurement of primary and secondary equipment and contracted works on the reconstruction of the existing substation at the same location.

The equipment needed for the start of the reconstruction was delivered in 2020. The works on the reconstruction start in spring 2021, and the expected duration of works is 18 months, followed by trial operation and obtaining occupancy permit.

During the construction necessary switching of the transmission lines around SS Ston will be performed, which will reduce the flexibility of the surrounding network.

Expanding the management system (calculated in 2020: HRK 6,815,489)

Pursuant to the Framework Agreement No. S3000-29/18 for the subject matter "Upgrading the support system for the management of EPS in accordance with ENTSO-E regulations and other legislation", upgrades were performed for system Network Manager 4.2.7, support with integration of the NM system into monitoring tools, delivery of workstations and WS500 licences for OTS and WS500 licences for OTS, upgrade of the EMS system for monitoring the quality of estimation, measurement and non-observability of the network, basis for the establishment of interoperability between TSO and DSO, analysis of coordination of protection of production units and HOPS, improvement of system in power facilities for a simpler integration into VVC, primary regulation study, N-K analysis, upgrade of the AGC system, technical solution for power facility monitoring, upgrade of the system for connecting redundant sources.

Pursuant to the Framework Agreement No. S3000-31/19 for the subject matter "Upgrade and maintenance of NetVision DAM system", the NetVision system was upgraded for the automation of GSK and LSK factors, fine-tuning of Flow Based calculation, fine-tuning for the export of CGMES files for the needs of the VVS system and according to the ENTSO-e requirements and development of new application for the Planning of Works with the transition to new technology.

Pursuant to the Framework Agreement No. S3000-24/20 "Real-Time EPS Monitoring", a study and upgrade of the PDC system with an application for the introduction of fault locator based on synchronised phasor measurements into PDC system were performed, as well as the study on the impact of poor real-time synchronisation performance on WAM system.

Pursuant to the Framework Agreement No. OS3000-16/20 for the Upgrade and Customisation of Process Equipment in Stations for the Needs of EPS Management the Technical Solution for the System of Retrieving and Archiving Lists of Events in Power Facilities.

Procurement and installation of network and security equipment and related software (calculated in 2020: HRK 15,973,414)

In 2020, through the Framework Agreement No. S3000-9/20 "Upgrading the network infrastructure for management of EPS and other processes in accordance with NIS and ENTSO-E regulations and other legislation", HOPS continued to invest in upgrading its network and security infrastructure in the following key segments: security, system platforms for data centres and network equipment. Technologies for monitoring and responding to events, for web service protection, for secure connection from business to process network, further security upgrade in power facilities, security upgrades through the implementation of firewalls in data centres, expansions and improvements of reliability of current security functions have been improved. Significant investments have been made in expanding system platforms via the implementation of business segment data centre, for the equipment of the SINCRO.GRID project, as well as the project of virtualisation of RDC Žerjavinec. Server and data storage platforms' volume has been significantly expanded, for which upgradability has been provided. The network infrastructure development followed 3 directions: renewal of outdated equipment that no longer has manufacturer support, introduction of functionalities that provide connection related to technological development and provision of reliable infrastructure via newly introduced services and platforms. Replacement of outdated equipment was conducted in

accordance with priorities and level of criticality. Most of the process network was renewed, and part of the business network. These upgrades have ensured a better management of network infrastructure, as well as the introduction of automation technologies.

Redundant connections to facilities for the needs of the remote-control system (calculated in 2020: HRK 6,392,309)

In 2020, through the realisation of Framework Agreement S3000-40/19 “Upgrade of the Communication Connection of EPS Secondary Management System“, Connection Master devices were installed and commissioned at 12 locations. The SGRwin monitoring system was procured and implemented that, in addition to the Connection Master device monitoring, also offers the possibility of extending the monitoring to the existing protection signal transmission equipment that is used in HOPS.

In 2020, through the new Framework Agreement S3000-29/20, another 12 Connection Master devices were procured, the installation and commissioning of which are planned in 2021. Of 170 planned locations, a total of 50 locations with the Connection Master devices have been realised so far.

Replacement of inadequate switchgear equipment (calculated in 2020: HRK 13,182,287)

In 2020, switchgear equipment was replaced in SS Novalja and SS Nin. Circuit breakers and disconnectors were replaced in part of the facility, and in the remaining parts of the facility the replacement will be done in 2021.

In 2020, in SS Konjsko, disconnectors were repaired (replacement of the energy lines, drives, painting of the construction), and support insulators of the busbar system were replaced. Rehabilitation and replacement will continue in 2021-2022 as well.

TS 400/110/30 kV TUMBRI - procurement and installation of 300 MVA power transformer (calculated in 2020: HRK 17,263,289)

In 2019 there was a major autotransformer – T1 failure in in SS 400/110/30 kV Tumbri, with breach in the insulation and deformation in the tertiary winding, which is by construction the first to the core. Reparation would require a complete disassembly of the system, all windings and the core, which, given the age of the transformer would be unprofitable and the procurement of new 300 MVA autotransformer was urgently launched, which is necessary for the safe operation of the SS.

In 2020, public procurement was conducted, a framework agreement was concluded and an order was placed according to which the majority of the transformer was factory made. Completion of the investment that includes factory tests, transport to the installation site, installation, connection and commissioning of the new autotransformer – T1, 300 MVA, in SS 400/110/30 kV Tumbri is planned in 2021.

Market function support systems (calculated in 2020: HRK 5,112,835)

In 2020, through Framework Agreements S3000-15/20 “Upgrade of Market Applications in Accordance with ENTSO-E Regulations and Other Legislation“ and S3000-13/20 “Development and Maintenance of Software for Calculation, Data Storage, Data Management and Support of Market Processes“ the upgrades of the existing and introduction of new electricity market support systems were realised in the following functionalities: local balancing platform project started (master data for service providers, creating products and auction processes, implementation of new system infrastructure based on containerisation and Kubernetes technology); preparation of the system for the Calculation of Unintentional Deviations for the implementation of the FSKAR project; continuation of activities on Core FB

Market Coupling project; implementation of ID assignment to the Capacities application; enabling the reserve centre for market applications; implementation of market modelling software (Plexos).

SS 110/35 kV Lički Osik - Replacement of secondary equipment of 110 kV facility and 2x40 MVA transformer installation (calculated in 2020: HRK 5,099,999)

As part of the project of procurement and installation of a 40MVA power transformer due to the need to increase the power of the connection of the consumer Calcit Lika d.o.o. to SS Lički Osik, the management and relay protection in transformer bays are being replaced, which is covered by this item. Most of the project was realized in 2020 and the completion of the project is expected in July 2021.

HPP-SS RIJEKA - primary and secondary equipment replacement (equipment and works) (calculated in 2020: HRK 6,164,351)

Due to the need for the reconstruction of the entire primary and secondary part of the facility in 2019, the procurement of equipment with installation for the reconstruction of the primary and secondary system of the 110 kV facility in SS Rijeka was contracted. By the end of 2019, all key equipment was delivered and the preparation of project documentation for the replacement of the entire secondary part of the plant began, and in 2020 all works were performed and all remaining equipment was delivered. In December 2020, the entire project was completed.

TL 110 kV Lovran - Plomin (23,5 km) Refurbishment and increase of transmission capacity (calculated in 2020: HRK 6,878,831)

The 110 kV Lovran-Plomin transmission line was built in 1964. Due to the importance of the line in the 110 kV transmission network (the land connection of Primorje - Istria) and the age and low transmission capacity (89 MVA) of the transmission line, it is necessary to revitalize and increase the transmission capacity of the existing TL. The project includes the procurement of a next generation high temperature conductor, dismantling the existing conductor, suspension and jointing equipment on the existing route, installation of suspension and jointing equipment and a new conductor and an optical ground wire – OPGW. Delivery was contracted in 2020 and the ACCC Rovinj conductor was delivered. Public procurement procedure is planned in 2021, as well as the conclusion of contracts and beginning of works on the replacement of the existing cable with the new ACCC cable.

SS OSIJEK 2-REFURBISHMENT (calculated in 2020: HRK 9,509,710)

SS Osijek refurbishment project was initiated in 2014 and, after drafting the project documentation and obtaining necessary permits in early 2018, the public procurement procedure was conducted for contracting works for refurbishment of the entire substation. Refurbishment of SS Osijek 2 had to be carried out due to the outdated equipment (primary and secondary) which became unreliable, and the facility itself is of special importance since it is located next to the TPP-CP Osijek.

Refurbishment began in mid-2018 and continued as planned in 2019 and 2020. For that purpose, two new power transformers were procured, as well as the entire new primary and secondary equipment that is installed in the substation in accordance with plans, and all necessary works and services were contracted. By the end of 2020, 4 TB 110 kV, 4 FB 110 kV and CB 110 kV were commissioned. Works will continue in 2021 when 1 FB 110 kV and 1 TB 110 kV will be commissioned. Completion of all works is planned in May/June 2021.

TL 220 kV Zakučac-Konjsko-refurbishment (calculated in 2020: HRK 7,286,932)

This transmission line was constructed 50 years ago, and it is necessary to replace the suspension and jointing equipment and conductors. In addition, the sags in some places do not correspond to the safety heights. Therefore, they need to be replaced with conductors with smaller sags and less weight in order to avoid replacing the pillars.

As a preparation for the investment, a techno-economic assessment was performed for the selection of the optimal conductor. Detailed project documentation was prepared based on the selected conductor. Instead of the old ACSR 360/60 mm2, a new ACCC Stockholm 3L (Al 454 mm^2; P_{max}=594 MVA) conductor should be installed. It was delivered in 2020, together with the necessary suspension and jointing equipment.

The contracted works on the line plan for the replacement of the conductor and suspension and jointing equipment. In addition to conductor replacement, painting the pillars with anti-corroding agents has also been contracted, as well as the installation of step irons with fall protection and repair of pillar grounding system.

The execution of works requires a longer switched-off line and the works need to be harmonised with other disconnections and conditions in the network. The planned start of works is in the fall of 2021, and the estimated deadline for all works is 12 months.

SS 110/10(20) kV Zadar Istok (calculated in 2020: HRK 9,797,637)

The Agreement on Mutual Relations was signed between HEP ODS d.o.o. and HOPS d.o.o. related to the preparation of construction and construction of SS 110/10(20) kV Zadar Istok with the connection to 110 kV network. The planned SS will be constructed as a 110 kV AIS facility with DV 2x110 kV connection of the existing DV 110 kV Biograd – Zadar transmission line. Works on the construction of the part of SS under the jurisdiction of HOPS d.o.o. began in the first quarter of 2020. Construction works on the SS are completed, testing and delivery of secondary equipment is underway. The connecting 2x110 kV TL is constructed in the scope of the basic part with the continuation of works immediately before trial operation of the SS.

SS 110/35/10(20) kV Zamošće (calculated in 2020: HRK 10,402,138)

SS 110/35/10(20) kV Zamošće with connection is a joint investment of HAC d.o.o., HEP ODS d.o.o. and HOPS d.o.o. regarding the construction of power structures and connection of the facilities within the project of construction of the bridge mainland-Pelješac with access roads. The Agreement on Mutual Relations was signed between HEP ODS d.o.o. and HOPS d.o.o. related to the preparation of construction and construction of SS Zamošće with the connection to 110 kV network. The planned SS will be built as a 110 kV GIS facility with cable TL 110 kV connection of the existing cable sections TL/KB 110 kV Blato – Ponikve. Building permit was obtained in December 2020. The 110 kV GIS facility was manufactured and tested, and the manufacturing of secondary equipment is underway.

SS 110/10(20) kV Cvjetno Naselje (calculated in 2020: HRK 9,572,755)

In 2020, regarding the needs of the construction of SS 110/10(20) kV Cvjetno Naselje, documentation for 110 kV GIS was prepared, 110 kV GIS facility was manufactured in the factory, factory tests and delivery to the warehouse were performed. LCC cabinets for the facility were also manufactured, tested and delivered to the warehouse.

SS 110/10(20) kV TTTS Terminal (calculated in 2020: HRK 7,399,050)

The Agreement on Mutual Relations was signed between HEP ODS d.o.o. and HOPS d.o.o. related to the preparation of construction and construction. The construction of SS 110/10(20) kV Terminal was planned with a 110 kV facility in metal shielded and gas SF6 insulated (GIS)

design for indoor installation in the building, which consists of single sectional busbars and two feeder bays, two transformer bays and one measuring-section bay. The 10 kV GIS facility was manufactured and tested. The evaluation of the bid for the construction of the SS is in progress, and the public procurement is carried out by HEP ODS d.o.o.

Connection SS 110/10(20) kV ZAMET (calculated in 2020: HRK 4,776,993)

The construction of 110 kV cable connection to the newly built station in GIS design SS 110/20 kV Zamet began in mid-2020, and the contracted new section of cable connection was completed in December 2020. The works on the renovation of 110 kV cable laid in the Rijeka bypass to which the newly laid section is connecting are currently underway. The commissioning of Turnić and Pehlin feeder bays in SS Zamet and full implementation of the contract are planned in June 2021.

The realization of the contract for the cable interconnections of SS Zamet will complete the final, fourth phase of the Rijeka Programme - the programme of a complete construction of the high-voltage and medium-voltage network of the city of Rijeka, which completed the 110 kV Rijeka ring and 20 kV interconnections, thus creating the preconditions for the transition of the complete distribution network to 20 kV level.

SS 220/110/10 kV MRACLIN - procurement and installation of power transformer -T3, 220/110/10 kV, 150 MVA (calculated in 2020: HRK 4,971,176)

The Framework Agreement for the procurement of power transformers for the needs of HOPS (concluded in late 2017 with a validity period of 4 years) includes the factory manufacture and testing, transport to the installation site, installation, connection and commissioning of the new power transformers.

In SS 220/110/10 kV Mraclin there are three power transformers 220/110/10 kV, 150 MVA in operation. Diagnostic tests indicated the end of life (they were in operation for more than 50 years). First in 2018/2019, in line with the framework agreement, transformer – T2 was replaced, which was in the most critical condition. Then in 2019/2020 transformer – T1 was replaced, which needed to be replaced more urgently than -T3 due to new failures.

In SS 220/110/10 kV Mraclin one remaining transformer 220/110/10 kV, 150 MVA needs to be replaced.

4.2 ELECTRICITY CONNECTION CONDITIONS

WF KORLAT CONNECTION (calculated in 2020: HRK 27,280,300)

Connection of WF Korlat was executed with the construction of new SS 30(33)/110 kV Korlat consisting of two 110 kV feeder bays, transformer bay, section bay with busbars and measuring transformers and two spare unequipped feeder bays. SS 30(33)/110 kV Korlat with the two single TL 110 kV connected to the existing TL 110 kV Obrovac-Zadar on the principle of feeder/bay. Handover of the connection was done in accordance with the Agreement on Connection No. 48/15. In accordance with the Record on handover, the part of the connection fee was defined (SS 30(33)/110 kV Korlat and two single TL 110 kV from SS Korlat to the feeder in TL 110 kV Obrovac-Zadar) in the amount of HRK 27.3 million. Upon the completion of the construction of the creation of technical conditions in the network (hereinafter: STUM), HOPS will define the final amount of the connection fee. According to the Agreement on Connection the assessed amount of STUM is HRK 4,389,167.

CCPP ZAGREB CONNECTION (calculated in 2020: HRK 14,806,788)

In late 2020, in accordance to the Connection Agreement No. 51/18, the activities on the construction of the connection to the new L Block (150 MW) at the location CCPP Zagreb were completed. The total connection costs amount to HRK 59 million. The construction of the connection was managed by HOPS, which invested HRK 3.1 million of its own funds in the project in 2020, while the remaining HRK 11.7 million was co-financed by HEP d.d. Use permit for the connection is expected in 2021. STUM also needs to be realised in the process of connection. Solving IPO for the needs of laying KB 2x110 CCPP – Stenjevec is underway, as well as the TS Stenjevec main design development. According to the Connection Agreement, the completion of the realisation of STUM is planned in 2023.

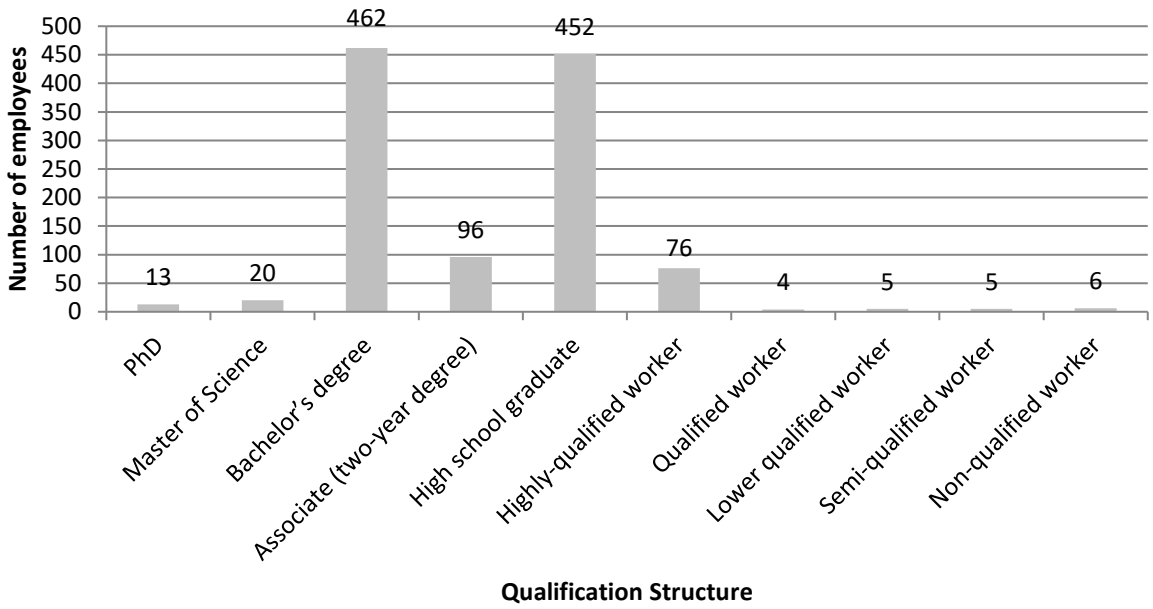
5. PERSONNEL

The company had 1,139 employees on 31 December 2020, which is 79 employees less than on 31 December 2019.

The Board of the Company adopted the 2020 Employment Plan. Employment was carried out in accordance with the applicable internal Instructions on employment and relocation of workers.

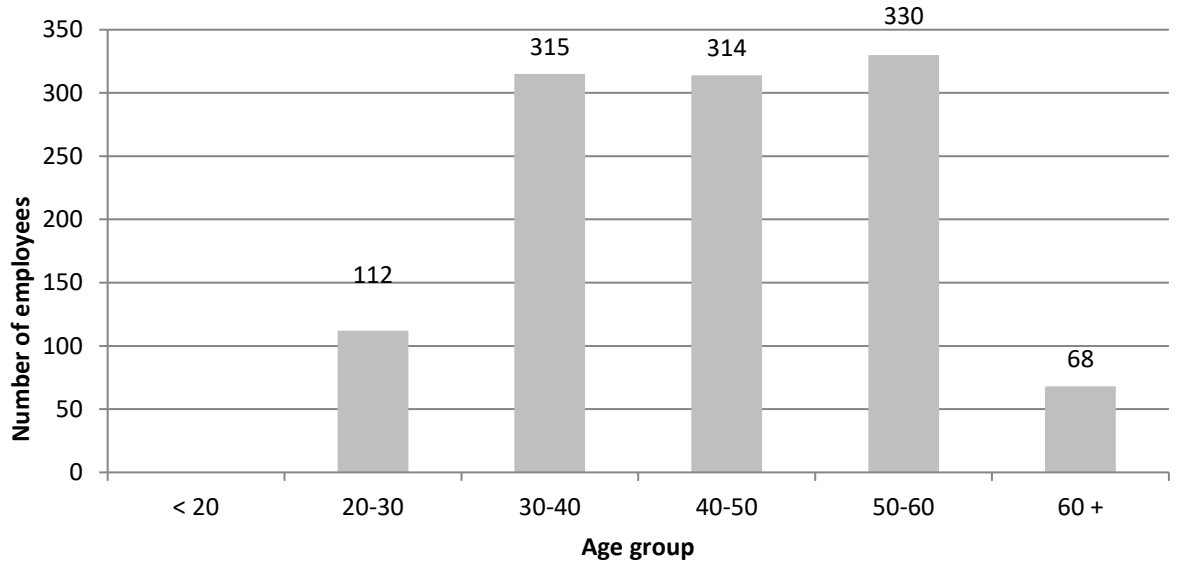
In 2020, the Company employed 58 new employees, while in the same period 137 employees left the Company.

Picture 10. Professional qualification structure (on 31 December 2020)



The average age of the Company's employee on 31 December 2020 was 44.6 years, as shown on picture 11.

Picture 11. Employees' age structure (on 31 December 2020)



6. HEALTH PROTECTION AND SAFETY AT WORK

In 2020, in the field of occupational safety and health, the following was performed:

- training newcomers to work in a safe manner,
- training workers to provide first aid,
- training to identify alcohol intoxication in workers,
- training workers to work safely at heights,
- training workers to work with a power saw,
- training workers to work on a hydraulic platform and on a hydraulic crane,
- training of the employer's authorized person in occupational safety,
- procurement and distribution of protective masks, protective gloves and disinfectants for the protection of workers in connection with the coronavirus pandemic, organization of disinfection activities at HOPS facilities due to the appearance of coronavirus,
- supervision tours of transformer stations,
- in the administrative building in Kupska 4 and in the facilities at the locations Hummboldtova 4 and Koturaška 51 site visits were performed for drafting a revision of the Risk Assessment,
- preparation of documentation and implementation of the public procurement procedure for the subject "Personal protective equipment,
- drafting and adoption of the Occupational Safety Rulebook,
- drafting and adoption of the Ordinance on amendments to the Occupational Safety Rulebook,
- drafting and adoption of an internal act entitled Rules and safety measures for the work of external contractors on temporary constructions sites,
- regular testing of work environment in facilities,

- regular testing of low-voltage electrical installations in facilities,
- periodic testing of facility lighting protection system on buildings,
- filing applications for temporary construction sites, appointing occupational safety coordinator,
- introducing external contractors to work and other activities related to temporary construction sites,
- participation in technical inspections of new and refurbished facilities,
- participation in audits of project tasks and projects,
- allocation of Work Instructions,
- regular inspections and work equipment testing,
- medical examinations of workers in jobs with special conditions and when working on a computer,
- participation in the procurement of personal protective equipment,
- performing internal inspections of facilities, equipment and employees,
- participation in the work of the Expert Working Group for Occupational Safety,
- participation in the work of the Occupational Safety Committee,
- other work in order to increase the safety of workers and facilities

There were 6 injuries at work (5 at work, 1 on the way from work to home) in 2020, which is 7 injuries less than in 2019.

In 2020, in the field of fire protection, the following was performed:

- inspections and functional testing of stable fire alarm and extinguishing systems,
- periodic inspections and control testing of fire extinguishers in all facilities of the Company, procurement of new and scraping of old fire extinguishers,
- troubleshooting of stable fire alarm and extinguishing systems,
- training newcomers for initial fire suppression
- conducting evacuation and rescue exercises in facilities,
- drafting of Plans for alarming and fire suppression in case of fire for a specific number of facilities,
- participating in inspection in the field of fire protection,
- number of other jobs related to fire protection.

Based on the Program of activities in the implementation of special fire protection measures of interest to the Republic of Croatia in 2020, in the period from June to the end of 2019, additional fire protection measures were implemented in all transmission areas and inspections were carried out by power inspectors and inspectors from the Ministry of Interior of the RoC.

7. SUSTAINABLE DEVELOPMENT IN 2020

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

Considering that HOPS is entered in the "Register of legal and natural entities-craftsmen engaged in the activity of import/export and placing controlled substances and/or fluorinated greenhouse gases on the market and servicing, renewal and use of these substances", successful servicing and maintenance of the equipment containing greenhouse gas sulphur-hexafluoride SF6 has been continued. A detailed report on SF6 gas emissions from the HOPS facility was submitted to the Croatian Environmental Protection Agency on the form KT 1 - Register of used quantities of controlled substances and fluorinated greenhouse gases. Also, data on total amount of SF6 gas used in switchyards have been sent to the Ministry of Environment and Energy.

In 2020, the form "Environmental investments and expenditures for environmental goods and services (IDU-OK)" was delivered to the Croatian Bureau of Statistics (CBS), containing all the activities and financial expenditures of HOPS for the protection of the environment. The form VOD 1 - Annual report on the use and protection of water from pollution was also delivered to the CBS.

In 2019, local self-government units (counties and municipalities) drafted numerous development strategies and programmes and spatial plans and their amended versions. Strategic environmental impact assessment procedures were carried out, i.e. assessment procedures on the need for strategic assessment and audits of strategic environmental impact assessment studies. Inquiries from local self-government units coming to HOPS can be classified in the following manner:

- Requests to competent authorities (HOPS) to provide data for the development of development strategies and programs, spatial plans and their amendments,
- Evaluations of the need for strategic assessment - expressing opinions on the need for strategic assessment in relation to the drafted strategic documents,
- Requests for providing an opinion on the content of the strategic environmental impact assessment study of strategies and programs for the development of local self-government units, and with regard to spatial plans, when it is established that the implementation of a strategic environmental impact assessment is necessary,
- Audit of completed strategies and development programs, spatial plans and strategic environmental impact assessment studies implemented in regard to listed documents, during the conduct of a public consultation procedure.

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

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

in the area of environmental protection on a monthly basis and with special reference to legal regulations and obligations that HOPS needs to fulfil.

In 2020 intensive activities were carried out to achieve the objectives and improve the environmental management system, resulting in a successful recertification audit of the system according to ISO14001:2015 standard. Thus, HOPS undoubtedly confirmed its dedication to systematic care for environmental protection.

HOPS also recognised energy efficiency as one of the most effective ways of achieving sustainable development goals considering it contributes to reduction of greenhouse gasses into the environment and has a positive effect on climate change. Implementing energy efficiency measures is important when raising the level of safety of energy supply and it represents the backbone of the EU single energy policy. In 2020 intensive activities were carried out to achieve the objectives and improve the energy management system, resulting in a successful second monitoring audit of the system according to ISO 50001:2018 standard. Thus, HOPS undoubtedly confirmed its dedication to systematic care for energy efficiency.

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

Due to the earthquake that hit the Zagreb and Sisak-Moslavina area, damage occurred at the SS Tumbri, where circuit breakers were damaged and SF6 gas emissions were emitted. HOPS workers repaired the damage and due to higher gas emission PI-Z form was filled (stationary sources of air pollution form) and the release was reported to the Environmental Pollution Registry. By doing so, HOPS demostrated diligence, conscientiousness and environmental responsibility in unforeseen situations.

At the end of the year, HOPS participated in two stakeholder meetings on the topic of drafting guidelines for assessing the impact of transmission lines on birds, led by the BIOM association. HOPS greatly contributed to the development of guidelines and thus supported the cooperation of the BIOM association with the energy sector. Cooperation with BIOM continues in the future, and the scope in which HOPS can help and directly participate in bird protection projects is expanding.

In order to encourage production from renewable energy sources in an energy efficient and environmentally friendly way, HOPS procured in 2019 Guarantees of Origin (GO) for one part of electricity to cover losses in the transmission network. Considering that one guarantee of origin is issued for one MWh, by annulling 53,058 of guarantees of origin HOPS determined that for coverage of 14.2% of the realised losses in 2020 it used energy produced from renewable energy sources, thus further stimulating the production of renewable energy sources in Croatia.

8. BUSINESS RISKS

- **Risk of a slowdown in business operations and a decrease in operating revenues caused by the COVID-19 coronavirus pandemic**

Given the exposure to general economic risks that arose in early 2020 due to the outbreak of a new coronavirus pandemic and a significant reduction in many operating activities of a large number of businesses in Croatia and Europe, there may be problems in implementing adopted and initiated investment plans and network maintenance, as well as a significant increase in the risk of collecting network fees and other operating revenues.

A reduction in operating activities of business entities leads to a reduction in electricity consumption, which directly affects the Company's revenues, and in turn has an implication on liquidity. Therefore, in order to maintain the planned investment activities, the Company will have to take on more debt. Also, due to limited circulation of workers, certain investment activities cannot be carried out within the agreed deadlines, which directly affects the course of plan implementation.

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

The following have a special impact on the Company's operations:

- Rules for Balancing Electric Power System,
- Day and Intraday Explicit Capacity Allocation Rules Between the Control Areas,
- Amendments to the Transmission System Network Rules,
- Amendments to the Rules on Transmission Network Connection,
- Rules on Electricity Market Organisation
- Transposition and implementation upon completion of the new energy regulations of the European Union within the "Clean Energy for All Europeans" package, primarily through the new Electricity Market Act and the new Act on Renewable Energy Sources and High-Efficiency Cogeneration.

In the upcoming period, the role of the Agency entitled to take measures in case of inadequate behaviour of energy entities and to grant approvals for changing tariff items is extremely important.

Important business decisions and activities of the Company based on legal authorizations will depend to a large extent on the Agency’s consent.

- **Availability and prices of electricity on the European market and hydrological conditions (water inflows)**

Electricity prices are largely impacted by supply and demand and available generation capacities in relation to electricity consumption. The availability of generation capacities has a significant impact, both on revenues from market functions because it affects electricity flows and transit through the transmission network, and directly on the costs of purchasing electricity for the needs of the Company.

Hydrological conditions also significantly affect flows, electricity import-export; extreme climatic conditions affect the increase in demand and availability of the electric power system (EPS), and all of it together has an impact on the associated system operation costs during the year.

- **Planning and procurement**

Timely adoption and financing of day-to-day business operation plans and investment plans, as well as continuous monitoring and harmonization of their implementation are the basis for effective development and maintenance of the transmission system.

For an effective fulfilment of all business and development plans, timely organisation and implementation of public procurement procedures plays a key role, which should therefore be given special attention. Unpredictable appeal procedures, which impede the planned dynamics of implementation, present a significant risk.

The procurement procedure has become increasingly complex and multidisciplinary, in addition, the Company has increasing requirements in terms of the amount of procurement (both numerically and financially) which is why improvements in the organisation of work are

necessary. The constant increase in the scope of work exceeds the new staff capacities of Procurement Department of Economic, legal, personnel and general affairs Department and Procurement Departments in the Transmission Areas. In addition to the above, it is necessary to amend the internal acts related to procurement, updating internal acts and improving staff capacities which will improve and speed up the procurement process in the Company, and thus reduce potential risks.

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

A great risk in technological and business operations of HOPS includes the defence of information system security and protection against cyber-attacks from third parties, which could result in disabling the availability and compromising the integrity of HOPS IT systems. That is why this issue was paid considerable attention in 2019.

- **Risk of delays in the implementation of SINCRO.GRID project**

The financing of the SINCRO.GRID project and the dynamic plan for its implementation have been approved for a period of five years. Delays in the project could cause financing problems, and therefore present a risk that should be reduced by constant monitoring and follow-up of the project progress, including taking corrective measures. Public procurement procedures for compensation devices in SS 400/220/110 kV Melina and SS 400/220/110 kV Konjsko presented a significant risk of project delays due to several appeals against the bidding documents and the selection decision. By the end of 2019, all public procurement procedures were successfully completed, which significantly reduced the risk of project delays.

- **Financing risk for the 110 kV Submarine Cable Replacement Project**

In order to control the risk of financing submarine cables, and to optimize business operations and the liquidity of the Company, the facilities were divided into two priority categories.

The first priority category includes cable connections Dugi Rat - Brač (Postira) and Crikvenica - Krk (Konjin), which are currently not in operation. The mentioned cables were included in the first priority category because without the construction of these sections there is no secured (n-1) criterion for the supply of the island, and each subsequent potential disruption affects the normal supply of electricity.

The second priority category includes cable connections Brač (Slatina) - Hvar (Travna), Hvar (Medvidban) - Korčula (Prapratna), Krk (Mali Bok) - Cres (Merag) and Cres (Osor 1) - Lošinj (Osor 2) which are in operation, but due to the age of the cables (≈50 years) they are no longer satisfactory in terms of reliability of the plant, and are of questionable environmental suitability (oil insulation). The mentioned cables were included in the second priority category because in case of potential unavailability of any of these cable sections, the normal supply of the island is not lost, but the (n-1) criterion for the supply of the island is lost, and any subsequent potential disruption threatens the island's supply of electricity.

The mentioned division of cables into priority groups enabled dispersing the investment impact through four years with one year of no investment.

- **Risk of increased requirements for further connection of wind farms and solar power plants to the transmission network**

In 2020, requirements for connection of investors intensified, so more requests for the preparation of the Study of the Optimal Technical Solution of Connection (hereinafter: EOTRP) were submitted in 2020 than in the past 4 years together with the requested connection power of approx. 5100 MW. The total required connection power is increasing and is currently almost 3 times higher than the average hourly consumption in the Republic of Croatia. When one adds

to it the already constructed power facilities, the total installed and required connection power exceeds the average hourly consumption in the Republic of Croatia almost 5 times. Such an amount of energy could not be consumed within the Republic of Croatia, and due to limited cross-border transmission capacities it would be difficult to export the surplus to neighbouring countries without additional investments in cross-border transmission capacities. The Energy Development Strategy of the Republic of Croatia by 2030 foresees the integration of about 2100 MW from renewable energy sources, and by 2050 about 5500 MW (considering the realistic S2 scenario from the Strategy that envisages an increase of up to 200 MW per year from RES). It is evident that with such an intensity of connection to the transmission network, the goals of the Republic of Croatia for 2050 have already been secured, without taking into account the possible connection of RES to the distribution network.

An additional problem is a large mismatch between the timeline of facility construction and STUM, especially when it comes to systemic STUMs. Investors can construct a facility and connection to the transmission network within 5 years. HOPS cannot construct a systemic STUM that consists of TL 400 kV Konjsko – Lika - Melina (approx. 300 km long) under 10 years, because the preparation of documentation, solving legal and property relations and conducting public procurement take a minimum of 6 to 7 years. As the construction of STUM is a prerequisite for the connection of the facility, the investor must wait for HOPS to construct STUM to be able to connect.

Such approach is a burden to investors because investments in the transmission network exceed the costs of construction of the facility and the project itself thus becomes unprofitable (assessed cost of the construction of TL 400 kV Konjsko – Lika – Melina is about HRK 1 billion). All of the above is also a burden to HOPS as a public service provider and brings the transmission network to the point where the security of supply to customers and possibility of collection of the produced electricity will be seriously compromised.

HOPS reported in EOTRPs all the investments that could potentially appear as STUM as projects for which funding from EU funds is sought. In practice, this means that all the projects might be profitable if the huge costs of STUM were realised through the financing from the EU Modernisation Fund and the Recovery and Resilience Facility. Until the financing of STUMs from the above EU funds is secured or until the valid Methodology for determining the fee for connection to the electricity network of new network users and for increasing the connection capacity of existing network users is changed, HOPS will, in accordance with the current Methodology, have to impose the cost of STUM construction on the investor in all connection agreements.

- **Risk of unresolved property relations**

Resolving property relations is a fundamental precondition for the realization of an investment plan. For a number of reasons, the procedures for resolving them are very complex and time-consuming. Since they have a significant impact on the realization of the investment plan, the Company should pay special attention to their resolution, and try to systematically approach this issue.

- **Risk of partial financing of projects from EU funds**

In 2020, the Company applied a significant number of investments for funding from the Recovery and Resilience Facility and the Modernization Fund. During the development of the 10Y plan, co-financing in the full amount of the project value was envisaged for the mentioned investments. In case of securing only a part of the funds for financing the mentioned projects, the Company will have to resort to additional borrowing, which represents a significant financial risk.

- **Risk of non-compliance with the General Data Protection Regulation (GDPR)**

The Data Protection Officer gives their opinion in accordance with the relevant provisions of national and European law, and the decision on the final course of action depends on the person responsible for the specific inquiry (the responsible person may act differently or contrary to the Officer's opinion). It is important to emphasize everyone's responsibility to apply the relevant regulations (including the provisions on personal data protection) within their scope of work / their competence.

Very high penalties are prescribed for violating the provisions of the GDPR (they can amount up to 4% of annual global turnover or EUR 20 million, depending on which amount is higher) and violation thereof represents a major financial and business risk for the Company.

In accordance with the above, the obligations arising from national and European regulations on personal data protection need to be regularly applied, and the existing processes need to be improved in order to eliminate or minimise the risk.

- **Business environment and regulation risk**

Business environment risk is determined by the political, economic and social conditions in the country and the region, which have an impact on the business operation and business performance of domestic business entities. The energy sector, and especially regulated activities which include the transmission of electricity, is subject to a special regulation governing the manner and conditions of performing the activity, which in this respect represents a regulatory risk.

- **Financial risks**

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

The situation on the financial markets globally and in the Republic of Croatia can be a limiting factor for refinancing of the existing and securing new credit arrangements for financing of planned investment projects.

Country risk premium and the credit rating of HEP as a possible fund provider for the Company's investments are both important for taking on new debt because they affect the margin that financial institutions ask for above the reference interest rates.

Long-term and short-term loans are mostly linked to the EUR exchange rate. In the event of a fall in the value of Kuna, significant negative exchange rate differences are expected which will increase expenses and the cash outflow during loan repayment.

- **Risks based on participation in projects co-financed by Horizon 2020, the European Union Research and Innovation programme for the 2014-2020 period**

The consortium's experience in managing complex international projects, together with its technological competence in communication and networking, allows the identification of the following main areas of possible risks:

- Technical: lack of competence to overcome unexpected difficulties.
- Financial: deterioration of partner's economic status, which imposes a halt or unacceptable reduction of all its activities.
- Availability of key resources: withdrawal from participation in the resource project with key roles.

Different combinations of these three main negative factors can also occur with the effect of increasing their impact.

In all projects co-financed by Horizon 2020, the European Union's Research and Innovation programme for the period 2014-2020 that HOPS takes part in, the project consortium has developed Contingency Plans in which risks have been identified and assessed as low, moderate or high. Low risks are addressed at the consortium level, moderate risks may require special action and attention from the Company's management, while high risk control requires significant additional actions and high priority management attention as this type of risk may be reported to the Commission. It is crucial to monitor risks both in their status and in terms of required activities. For this reason, the Emergency Plan includes recording changes and the response to changes in environmental conditions in order to avoid risky events.

On 16 March 2020 the European Commission introduced precautionary measures against the spread of the new coronavirus and the Member States adopted the European Union rules to break the virus transmission chain. Since the introduction of the measures, there has been no doubt that the consequences of the pandemic will be huge and that in the next few months or even the next few years the entire world will face massive problems, especially in the labour market.

Horizon 2020 has changed the deadlines for numerous existing calls, and a series of new calls aimed exclusively at combating the coronavirus has been announced, allowing scientists around the world to work on a potential cure or some other form of assistance they can provide to the public. It was also announced that for the projects in implementation, the conditions from the grant agreement, including the reporting deadlines, do not change. But what changed was the introduction of work from home, travel was stopped and consortia had to urgently notify the Innovation and Networks Executive Agency on the reallocation of costs to limit the damage caused by the application of Article 51 of the Agreement, which applies to cases of force majeure. Also, the Commission has allowed the activation of Article 49 of the Contract on the suspension of the contract according to a specially established procedure in case there is a part of the project that is really difficult or almost impossible to implement due to pandemic conditions.

All projects co-financed by Horizon 2020 in which HOPS participates considered the possible consequences of this situation due to the possible negative impact on the activity plan, as well as potential delays or generally significant deviations from the contracted quality. As the risk management process as well as the quality management process within the consortium is continuous, all partners participated in the development of risk mitigation plans and provided information on internal risk mitigation policies to assess risks in the development of expected research results, production and assessment of prototypes and sharing of results.

The data collected as part of the final report on the project risk management will be submitted to the European Commission.

In all projects co-financed by Horizon 2020, in which HOPS participates during 2020, there were no significant disruptions related to the technical performance, time frame and budget of the project nor the interaction of interdependent work packages within the project.

9. COMPANY OBJECTIVES IN THE FUTURE PERIOD

The core task of the Company, in the forthcoming period as well, will be to ensure reliable operation of the EPS and secure supply of electricity to customers. In the next ten years, it is realistic to expect a conservative increase in electricity consumption and a moderate increase in the charge for transmission network use, which makes up for a significant part of the Company's revenue. In order to accomplish the core tasks and maintain investment potential, the Company will take measures to reduce total operating costs with an emphasis on reducing the costs of ancillary balancing and energy services to cover technical losses in the transmission of electricity.

Given the economic and technical characteristics, optimal use of ancillary services, intensive market development, increasing number of market participants and transactions, participation in the stock market with predictable market integration, and the upcoming introduction of balancing energy market, there are increasing challenges and risks in the Company's business operations. In this sense, it is necessary to consider the needs and timely increase the resources of the Company (staff, IT support) that can successfully respond to new challenges and risks.

In 2021, the Company plans to implement new activities related to the opening of the balancing services market by providing new procurement mechanisms in accordance with the Electricity Balancing Rules. As of 14 December 2020, the Company has been conducting the process of procuring mFRR power reserves and/or balancing energy for the security of the system through public bidding as an improvement of the previous pilot project "Demand Side Response" (DSR). Also, several projects at the European level are underway, aimed at establishing common European platforms for the exchange of balancing energy from the aFRR and mFRR power reserves while achieving maximum possible social well-being, savings in balancing the power system and increasing reliable operation of the EPS. HOPS is responsible for the local implementation and harmonisation of business processes and software systems that will enable connection to platforms established through PICASSO and MARI projects and interaction with balancing service providers.

In the following period, further development of the national balancing service market is to be expected by introducing reserve groups in the form of aggregators and/or independent aggregators, increasing the flexibility of the consumption and production response in the EPS.

Central and local activities on information systems required for the establishment of the implementation WG CE project FSKar in accordance with the EB GL Regulation are underway. FSKar should be implemented on 01 June 2021, and financial settlements of unintentional deviations will take effect, unlike previous natural settlements. By changing the business process, transmission system operators will stop procuring energy for the exchange compensation plan on the electricity market.

In order to increase the transparency of market and energy data for the Croatian regulatory area, the continuation of activities to increase the scope and timely publication of data on ENTSO-E TP are planned, which for most data for the Republic of Croatia is the only publicly available data source for market participants and other interested parties. Timely availability of information is a key prerequisite for equal participation in the electricity market. The emphasis will be on the completion of the requirements arising from the Transparency Regulation, new requirements arising from the EB GL, SO GL, CACM Regulations and CEP, as well as on the users' needs. We are also expected to continue activities on the implementation of REMIT, i.e., EU Regulation 1227/2011 on wholesale energy market integrity and transparency and EU Implementing Regulation No 1348/2014 on data reporting implementing Article 8(2) and Article 8(6) of REMIT.

Significant improvements in the medium term, in terms of unification and optimization of processes related to the operation of system operators, are expected through the adoption and application of the provisions of EU network rules directly applicable in all Member States, which will ultimately increase security of supply and RES integration and enable further development of the EU electricity market.

Following the obligations of Member States arising from the energy regulations of the European Union within the "Clean Energy for All Europeans" package, intensive activities on their application need to continue, especially at the national level where the tole of the Company is necessary, along with other relevant institutions and entities.

Providing energy to cover losses in accordance with transparent, impartial and market principles is one of the duties of HOPS in line with Article 28 of the Electricity Market Act. HOPS will therefore continue to systematically monitor, analyse and provide energy to cover losses in the transmission network by combining long-term and short-term procurement.

In order to effectively address the issue of property relations which are the basic precondition for the use of existing and the construction of new transmission network facilities, a special team has been appointed at the Company level that systematically resolves open issues in this area and regularly reports to the Company Management Board. The Company will also propose the necessary amendments to the legislation in this area to the Ministry of Environment and Energy, which aim to systematically address this problem for all line infrastructure at the national level.

Given the technological level of the existing business information system and the growing needs and requirements in terms of efficiency and speed of business operations, a project for replacement of the business information system is planned in the coming period. It will ensure optimal working conditions and efficient and rational business operations in the Company.

Since a quality vehicle fleet is a prerequisite for successful performance of activities, the Company will continuously renew the vehicle fleet with the aim of reducing the total maintenance costs and increasing the safety of the Company's employees in traffic.

Planning the development, construction of new and revitalisation of the existing transmission network facilities are some of the basic tasks, work and activities of the Company. These activities are implemented in accordance with the ten-year development plan, which is updated every year and adopted in accordance with legal provisions.

The plan for construction of new transmission network facilities, among other things, also takes into account the plans for construction of new power plants, decommissioning of the existing plants, connection of new network users, plans for construction of joint facilities of the Company and HEP ODS, and estimates of the potential EPS overload.

The plan for revitalisation and renovation of existing transmission network facilities is defined in accordance with the rules of the profession defined in the document “Criteria and Methodology for Creating a List of Priorities for Replacements and Reconstructions“, based on their actual condition, life expectancy and their role in the EPS.

In the current Ten-Year Transmission Network Development Plan for the period 2021-2030 several significant projects should be particularly emphasized.

In the first place, this refers to the continuation/completion of activities on the implementation of the SINCRO.GRID project. The majority of this project refers to the installation of compensation facilities in SS 400/220/110 kV Konjsko (SVC 250 MVAr), SS 400/220/110 kV Melina (VSR 200 MVAr) and SS 220/110 kV Mraclin (VSR 100 MVAr), with the connection to 220 kV level due to lower expected losses and investments compared to the connection to 400 kV level. This will solve the management and maintenance of the permitted voltage profile in the transmission network, especially in 400 and 220 kV network, for a longer period.

The project also envisages the inclusion of wind farms in the regulation of system voltage through IT infrastructure in the form of a virtual cross-border control centre tasked with centralised coordination of the operation of reactive power sources of the Croatian and Slovenian energy systems. Also, the system of dynamic thermal rating (DTR) will enable, taking into account weather conditions that directly affect the transmission power of lines, optimal use of line capacity and reduced need for the construction of new, i.e. replacement of the existing lines.

The replacement of the existing 110 kV submarine cables between the mainland and the central Dalmatian and Kvarner islands is a priority investment in the following five-year period.

Due to its complexity and the amount of investment, the cable replacement project is a special challenge and financial burden for the Company.

As part of the long-term reconstruction of the transmission network, the refurbishment project of a large number of existing 110 kV lines is still important. It consists in replacing worn parts, especially conductors, and the necessary increase of their transmission capacity by using new technologies. Also, the reconstruction of several SS/switchyards is planned, both due to deterioration and construction and introduction of new lines.

An important part of the Ten-Year Development Plan is the construction of a significant number of new transformer stations and of a significant number of joint facilities with HEP ODS in the form of new SS 110/x kV.

At the end of the observed period, in accordance with the long-term ENTSO-E regional transmission network development plan for South East Europe (RG CSE), the construction of SS 400/220 kV Lika is planned at the location Brinje-Brlog as a necessary precondition for connection of planned generation facilities and the possible future 400 kV interconnection with BiH (Banja Luka).

The project of strengthening the existing 220 kV network and the construction of a new 400 kV transmission line in the section Konjsko - Brinje (Lika) - Melina will be largely conditioned by plans to connect the new generation facilities, especially power plants from renewable energy sources.

Significant conditional investments in increasing the transmission power of 110 kV lines are foreseen, by installing HTLS conductors which would enable further integration of RES. The realisation of these investments will primarily depend on the number of signed connection agreements, as well as on securing the financing of these projects (connection fees, EU funds).

Also, it is necessary to install new and replace the existing transformers in SS 400/220/110 kV Melina and SS 400/220/110 kV Konjsko.

In late 2020, a long-term EU budget 2021-2027 was adopted in the amount of EUR 1,824 billion, which is the largest package ever financed from the EU budget with the aim of supporting and encouraging European citizens and entrepreneurs in the global crisis caused by the coronavirus pandemic.

The budget is aimed at achieving the long-term EU priorities, whereas the new EU Recovery Instrument with the recovery and resilience facility is designed to recover the economy and society as a whole and develop the resilience to future crises by implementing reforms and respecting the principles of green transition and digital transformation, to create the foundations for a more modern and sustainable Europe.

The total amount of allocation for the Republic of Croatia for this period is as much as EUR 24 billion, which is twice as much than in the previous period, of which the Republic of Croatia is entitled to EUR 6.3 billion in grants and EUR 3.6 billion in loans through the recovery and resilience facility alone.

As a condition for withdrawing funds from the recovery and resilience facility, Member States must prepare National Recovery and Resilience Plans (hereinafter: NRRP) as the key document that defines the reforms and investment programmes until 2026, by which they will ensure the recovery of the economic activity and GDP to the 2019 level.

In the NRRP, at least 37% of the funds should be allocated for the so-called “environmental“ and 20% for “digital“ projects. Member States can freely set investment priorities as long as they respect the conditions defined at European level: the investments should result in reforms, strengthening of the economy and resilience to future crises.

These funds can be used to finance measures and projects in implementation from February 2020 to August 2026.

Member States submit their plans to the European Commission starting from 15 October 2020 to 30 April 2021, and the approval process will be concluded by the EU Council.

As the only electricity transmission system operator in the Republic of Croatia and the owner of the entire Croatian transmission network, the Company has contributed to the development of the Croatian NRRP in the component of economic activities for encouraging energy transition for sustainable economy.

“Green“ projects have been proposed, i.e. the integration of renewable energy sources, projects of new technologies and digitalisation projects that respect the “no-harm“ principle and the implementation of which will jumpstart economic activity that should be an incentive for a new investment cycle.

Also, given that in the new budget period the Republic of Croatia has the possibility to withdraw funds from the Modernisation Fund that should contribute to the objectives of the European Green Plan, and is intended to support lower-income EU Member States to which the Republic of Croatia belongs, the Company has nominated the transmission network modernisation projects by the implementation of which the RC will play an active role in the EU’s transition to climate neutrality. In the ten-year period, for investments in energy production from renewable sources, energy efficiency, energy storage, modernization of energy networks and a fair transition to clean technologies, the Republic of Croatia has EUR 474.5 million at its disposal, which is important to invest in activities that will bring us closer to achieving climate goals for 2030.

The adopted recovery package and Multiannual Financial Framework give hope that Europe will manage to emerge strengthened from the crisis. That is why we have a great responsibility to seize the opportunity - by judiciously using and investing limited resources in innovative high value-added sectors. In addition to the expectations for the withdrawal of funds from the Recovery and Resilience Facility and the Modernization Fund, in the new financial perspective the Company plans to apply for projects from EU programs, namely scientific and research, innovation, infrastructure and digital projects. This is an opportunity to place emphasis on policies that are important for our growth and development, taking into account the objectives and needs of the Republic of Croatia and the EU as a whole

10. CONCLUSION

Numerous events on the national and international filed of activity of the Company were recorded in 2020. The business year 2020 was marked by a safe and stable operation of the transmission network and EPS, without major disturbances and interruptions in electricity supply, regardless of being exposed to general economic risks that emerged in early 2020 due to the outbreak of the new coronavirus pandemic and significant reduction of many business activities in a large number of business entities in Croatia.

The reduction of entrepreneurial activities of network users on high and medium voltage has caused a decrease in revenues from the use of the transmission network.

The appropriate engagement of all resources in the Company, as well as the high level of implementation of maintenance and investment plans, significantly contributed to the high achieved level of safety of the transmission network operation.

Based on the above, it is evident that in 2020 the Company, despite difficult circumstances, successfully fulfilled its statutory tasks and obligations, international obligations and goals and tasks defined by the Work Programme of the Board of the Company for the 2018 - 2022 period.

The Company, via ENTSO-E mechanisms, participates in analyses related to sufficiency for both short-term, mid-term and long-term plan. Development plans are continuously adjusted with the goal of ensuring the supply safety.

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

By comparing the available transmission capacities and the available production capacities with the average hourly loads of the transmission system, the sufficiency of production and import capacities for providing the necessary quantities of electric power to end customers is evident for 2020. Still, hydrological conditions during certain parts of the year and the unavailability and a lack of price competitiveness for thermal power plants have caused high import into Croatian EPS. In certain operating situations, viewed exclusively through Croatian EPS, sufficiency of electricity generation capacity was not achieved.

The coronavirus pandemic caused a continuous decline in transmission network consumption in 2020. The need for import was present throughout the entire year, but in December 2020 export was higher than import, which was primarily affected by weather conditions, i.e. increased precipitation and windy days.

In terms of adequacy, it can be said that there are not enough production capacities to meet the needs of the Croatian EPS for electricity, but given the extremely strong interconnection of transmission networks in the region and the Republic of Croatia, security of supply was never compromised.

The following activities during the year and the events that occurred after the 2020 business year ended were crucial for the evaluation of business operations, i.e. for the implementation of measures and activities on the basis of established business goals in 2020, and for further future development of the Company:

- significant changes in the area of balancing EPS,
- satisfactory level of implementation of business and investment plans in difficult conditions,
- drafting and adopting 10Y plan and its adoption by HERA,
- orderly and timely completion of international obligations of the Company,
- continuation of implementation of the SINCRO.GRID project which is key for a more efficient operation and management of EPS and the integration of OIE,
- contribution to the development of the Croatian NRRP in the component of economic activities for encouraging energy transition for sustainable economy,
- nominating transmission network modernisation projects for financing from the EU Modernisation Fund, by the implementation of which the Republic of Croatia would play an active role in the EU's transition to climate neutrality.

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.

In determining the optimal development of transmission infrastructure in the future, the Company will specially focus on:

- achieving satisfactory security of the buyers' supply within the territory of the RoC,
- achieving satisfactory reliability, availability and sufficiency of Croatian transmission network for uninterrupted running of activities of all participants in the electricity market (manufacturers, traders and suppliers, and other entities),

- allowing new users to connect to the transmission network under equal, tangible and non-discriminatory conditions,
- controlled integration of OIE into the transmission system and
- defining the configuration of the transmission network in future time sections that will be sufficient and elastic in order to enable the fulfilment of the aforementioned requirements in the widest possible range of action of uncertain influencing factors.

In order to continue business success in continuity, especially in extraordinary circumstances caused by the coronavirus pandemic, the Company Board will continue with responsible and systemic management of business operations and risks. Special attention will be on: maintaining a high level of reliability of the transmission network as national infrastructure of the greatest importance for the RoC and a high level of electricity supply security at the level of Croatian transmission system, maintaining operating costs at a justified level and ensuring timely development of the transmission network via continuous investments.

Dejan Liović	Zlatko Visković	Tomislav Plavšić
Member of the Board	Member of the Board	President of the Board

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

Statement of Management's Responsibilities

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

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

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

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

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

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

The Management Board is also responsible for the preparation and content of the Management Report in accordance with Article 21 of the Croatian Accounting Law. The management report presented on pages and the financial statements were approved by the Management Board on April 20, 2021 for submission to the Supervisory Board.

Signed on behalf of the Management Board:

Dejan Liović	Zlatko Visković	Tomislav Plavšić
Board member	Board member	President of the Board

Croatian Transmission System Operator Ltd.
Kupska 4
10000 Zagreb
Republic of Croatia
20 April 2021

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

INDEPENDENT AUDITORS' REPORT

To the owner of CROATIAN TRANSMISSION SYSTEM OPERATOR Ltd.

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of Croatian Transmission System Operator Ltd., Zagreb, Kupska 4, ("the Company") for the year ended 31 December 2020, which comprise the Statement of financial position as at 31 December 2020, the Statement of comprehensive income, the Statement of the changes in equity, and the Statement of cash flows for the year then ended, and accompanying notes comprising significant accounting policies and other explanatory information.

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 2020 and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Act and the International Financial Reporting Standards ("IFRS") as adopted by European Union and published in Official Journal of EU.

Basis for Opinion

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

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 and include identified most significant risks of material misstatement due to error or fraud with the highest impact on our audit strategy, on our resources available and the time spent by the engaged audit team. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Contingent liabilities based on initiated litigation	
On 31 December 2020 the Company has stated the provisions for the contingent liabilities due to court cases in which the Company is a defendant in the amount of HRK 49,383 thousand (31 December 2019 in the amount of HRK 48,058 thousand). For further information see note 3.12. Provisions, note 4 Key accounting judgments and estimates and note 31. Provisions in the annual financial statements.	
Key audit matters	**How we audited key audit matters**
Due to its specific activity, the Company is within the ordinary course of business exposed to a significant number of long-standing court disputes (eg expropriation compensations, compensation for fire damage, etc.) whose outcomes could potentially adversely affect financial performance. 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. Complex legal issues require management to make complex assessments with a high level of judgment and uncertainty, which can lead to the recording of significantly incorrect amounts of provisions. The outcome of the court proceedings is beyond the Company's control, and the Management Board's assessment is inherently uncertain and depends on the course, outcomes and judgments in the court proceedings. The Management Board makes estimates of the court proceedings based on the opinions of the internal legal department and external attorneys representing the Company. Consequently, the Management Board's assessment of the existence of the present obligation, the probability of settling it and the existence of a reliable estimate of the amount that will be required to settle the obligation requires the Management Board to assess the risks and uncertainties associated with legal proceedings to ensure that these events are properly measured, presented and disclosed in the financial statements. Given the significance of the amount and complexity of the outcome assessment process, the matter of court disputes and potential liabilities was of particular significance for our audit.	Our audit procedures, among other things, included: • an interview with the Company's Management Board in order to understand the assumptions that were considered when determining the need for provisions, • compliance assessment of the provision recognition policy for the outgoing court proceedings with the relevant financial reporting standards, • review of the purpose and nature of the material provisions, • obtaining and reviewing the opinions of external attorneys and other documents prepared by the Company, in order to assess whether they support the judgments of the Management Board on the recognized amounts of the provisions, • checking the mathematical accuracy of the provisions calculation, • review of the previously recorded provision amounts to estimate the accuracy of the previous judgments and estimates, • review of the required disclosures related to the provisions in the financial statements to determine whether they are accurate and complete. By our audit procedures, we have been assured that the provisions in all material aspects are recorded and disclosed in the accordance with International Financial Reporting Standards.

Assets under construction	
The Company has stated in the annual financial statements as at 31 December 2020 assets under construction in the amount of HRK 693,145 thousand (31 December 2019 in the amount of HRK 582,608 thousand). For further information see Note 4. Key accounting judgements and estimates and Note 17. Property, plant and equipment in the annual financial statements.	
Key audit matters	**How we audited key audit matters**
One of the Company´s main mission is to develop, build and maintain a transmission grid for reliable and sufficient customer service. Investments in the transmission grid are based on the ten-year transmission grid development plan for the period 2021 - 2030. 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. Given the significance of investments in the Company's financial statements, this matter is of particular importance to our audit.	Our audit procedures, among other things, included: • 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. 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.

Other matters – separate non-financial report of the Company

We draw your attention to the page 20 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 8 months from the balance sheet date. Our opinion has not been modified on this issue.

Other Information in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Unless we encounter, or find out about, non-compliance with any of the aforementioned laws or regulations that are apparently insignificant, according to our judgment of its content and its influence, financially or otherwise, for the Company,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Company.
- conclude on the appropriateness of the Management's Board of the Company use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Independent Auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Independent Auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal Requirements

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

1. On 26 April 2018, the General Assembly of the Company, based on the proposal of the Supervisory Board of the Company, appointed the auditing company Audit d.o.o. to audit the annual financial statements for years 2018, 2019 and 2020. On 16 September 2019, the General Assembly of the Company, based on the proposal of the Supervisory Board of the Company, appointed the auditing company Crowe Horwath Revizija d.o.o. to audit the annual financial statements for the years 2019 and 2020.

2. At the date of this report, the auditing company Audit d.o.o. is continuously engaged in carrying out the Company's statutory audits from the audit of the annual financial statements of the Company for the year 2018 to the audit of the annual financial statements of the Company for the year 2020, which totals three years. At the date of this report, the auditing company Crowe Horwath Revizija d.o.o. is continuously engaged in carrying out Company's statutory audits from the audit of the annual financial statements of the Company for 2019 to the audit of the annual financial statements of the Company for 2020, which totals two years.

3. In addition to the matters, we have included in our Independent Auditor's Report as Key Audit Matters within the subsection Report on the audit of annual financial statements, we have nothing to report in relation to point (c) of Article 10 of Regulation (EU) No. 537/2014.ž

4. By our statutory audit of the Company's annual financial statements for the year 2020, we are able to detect irregularities, including fraud in accordance with Section 225 Responding to Non-Compliance with Laws and Regulations of the IESBA Code, which requires us, in carrying out our audit engagement, to establish whether the Company complied with laws and regulations that are generally recognized to have a direct impact on the determination of significant amounts and their disclosures in annual financial statements, as well as other laws and regulations that do not have a direct effect on the determination of significant amounts and their disclosures annual financial statements, but compliance with which may to be the key to the operational aspects of the Company's business, its ability to continue to operate as a going concern or to avoid significant penalties.

its shareholders and the wider public, we are obliged to inform the Company thereof and request to investigate this case and take appropriate measures to resolve the irregularity and to prevent the reappearance of these irregularities in the future. If the Company on the Balance Sheet date, does not correct irregularities based on which incorrect disclosures in the audited annual financial statements arise that are cumulatively equal to or greater than the amount of materiality for the annual financial statements as a whole, we are required to modify our opinion in the Independent auditor's report.

In the audit of the Company's annual financial statements for the year 2020, we determined the materiality for the financial statements as a whole in the amount of HRK 27,400,000 representing approximately 1.8% of sales revenue, because these revenue represent a stable business indicator including key revenues from the activities the Company is engaged in, namely revenue from the transfer of electricity, revenue from the delivered balancing electricity, revenue from the sale of the transmission capacities on the auctions and revenue from the inter-compensation mechanisms.

5. Our audit opinion is consistent with the additional audit report prepared for the Company's Audit Committee in accordance with provisions of the Article 11 of Regulation (EU) No. 537/2014.
6. We have not provided to the Company prohibited non-audit services during the period between the initial date of the Company's audited annual financial statements for the year 2020 and the date of this report. In addition, we have not provided services for the design and implementation of internal control procedures or risk management related to the preparation and / or control of financial information or the design and implementation of technological systems for financial information in the preceding year. Therefore, we have remained independent of the Company in the performance of the audit.

Report based on the requirements of the Accounting Act

1. In our opinion, based on the work that we performed during the audit, the information in the Company's Management Report for the year 2020 are in accordance with the accompanying annual financial statements of the Company for the year 2020.
2. In our opinion, based on the work that we performed during the audit, the Company's Management Report for 2020, is prepared in accordance with the Accounting act.
3. Based on the knowledge and understanding of the Company and its environment obtained while performing the audit, we have not found that there are material misstatements in the Company's Management Report for 2020.

In Zagreb, 20 April 2021

Audit d.o.o.
Ulica Silvija Strahimira Kranjčevića 41
10000 Zagreb

Darko Karić
Director

Kristina Mikčevac, certified auditor

za revizijske usluge AUDIT d.o.o. ZAGREB

Crowe Horwath Revizija d.o.o.
Hektorovićeva 2
10000 Zagreb

Sonja Hecker Tafra
Director, certified auditor

Crowe Horwath Revizija d.o.o. Zagreb

(in thousands of HRK)	Notes	2020	2019
Revenue from sales - related parties	*6,35*	1,332,915	1,451,642
Revenue from sales - third parties	*6*	189,517	234,303
Other income - related parties	*35*	50	517
Other income – third parties	*7*	44,168	39,192
		1,566,650	**1,725,654**
Materials and spare parts used	*8*	(16,297)	(17,852)
Service expenses	*9*	(160,180)	(178,484)
Personnel expenses	*10*	(201,090)	(202,001)
Depreciation and amortisation	*16,17,18*	(363,540)	(343,894)
Ancillary services	*11,35*	(296,489)	(325,342)
Transmission grid losses	*11,35*	(140,891)	(171,860)
Purchase of balancing energy	*11,35*	(94,415)	(129,776)
Other expenses – related parties	*35*	(47,061)	(46,561)
Other operating expenses	*12*	(76,112)	(121,162)
		(1,396,075)	**(1,536,932)**
Operating profit		**170,575**	**188,722**
Finance income	*13*	2,514	1,514
Finance costs	*14*	(31,058)	(24,845)
Net finance costs		**(28,544)**	**(23,331)**
Profit before tax		**142,031**	**165,391**
Income tax	*15*	(28,099)	(33,239)
Profit for the year		**113,932**	**132,152**
Other comprehensive income		-	-
Total comprehensive income for the year		**113,932**	**132,152**

Dejan Liović
Board member

Zlatko Visković
Board member

Tomislav Plavšić
President of the Board

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

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

(in thousands of HRK)	Notes	31 December 2020	31 December 2019
ASSETS			
Intangible assets	*16*	41,191	41,876
Property, plant and equipment	*17*	6,416,392	6,221,871
Right-of-use assets	*18*	4,475	4,716
Prepayments for property, plant and equipment	*19*	19,004	3,755
Investment property	*20*	4,542	4,440
Investments in associates	*21*	4,500	2,500
Financial assets	*22*	53,006	40,157
Receivables from sale of apartments	*23*	715	834
Deferred tax assets	*15*	41,027	42,545
Total non-current assets		**6,584,852**	**6,362,694**
Inventories	*24*	10,803	10,829
Trade receivables	*25*	24,731	68,684
Receivables from related parties	*35*	193,907	179,202
Other current assets	*26*	55,182	52,412
Short-term financial assets	*27*	21,382	19,640
Cash and cash equivalents	*28*	308,000	255,910
Total current assets		**614,005**	**586,677**
TOTAL ASSETS		**7,198,857**	**6,949,371**
EQUITY AND LIABILITIES			
Subscribed capital	*29*	4,948,627	4,948,627
Reserves	*29*	5,524	5,524
Retained earnings		276,722	236,527
Total equity		**5,230,873**	**5,190,678**
Subloan from and liabilities to related parties	*30*	596,683	421,764
Provisions	*31*	111,350	104,473
Other long term liabilities	*32*	486,026	463,649
Total non-current liabilities		**1,194,059**	**989,886**
Subloan from related parties (current portion)	*30*	57,553	-
Provisions	*31*	668	1,696
Trade payables	*33*	361,173	382,165
Payables to related parties	*35*	243,962	259,374
Other current liabilities	*34*	110,569	125,572
Total current liabilities		**773,925**	**768,807**
TOTAL EQUITY AND LIABILITIES		**7,198,857**	**6,949,371**

Dejan Liović
Board member

Zlatko Visković
Board member

Tomislav Plavšić
President of the Board

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(in thousands of HRK)	Subscribed capital	Reserves	Retained earnings	Total
As at 31 December 2018	**4.929.195**	**5.523**	**167.220**	**5.101.938**
Dividend	-	-	(62.845)	(62.845)
Increase of subscribed capital by entering things	19.432	1	-	19.433
Profit for the year	-	-	132.152	132.152
As at 31 December 2019	**4.948.627**	**5.524**	**236.527**	**5.190.678**
Dividend	-	-	(73.737)	(73.737)
Profit for the year	-	-	113.932	113.932
As at 31 December 2020	**4.948.627**	**5.524**	**276.722**	**5.230.873**

Dejan Liović
Board member

Zlatko Visković
Board member

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President of the Board

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(in thousands of HRK)	2020	2019
Profit for the year	**113,932**	**132,152**
Adjusted for:		
Income tax	28,099	33,239
Depreciation and amortisation	363,540	343,894
Increase in provisions	5,849	33,859
Net finance expense	22,093	23,165
Net book value of assets disposed	10,580	9,531
Increase in provision for inventories	(1,616)	714
Increase in provision for doubtful receivables, net	(12)	(228)
Impairment od financial asset	(2,000)	(1,909)
Change in fair value of investment property	(102)	-
Cash flows from operations before working capital changes	**540,363**	**574,417**
(Increase) / decrease in trade receivables	46,450	(36,327)
Decrease / (increase) in receivables from related parties	(14,705)	135,104
Decrease / (increase) in other receivables	(9,371)	(10,378)
Decrease in receivables for apartments sold	119	448
Decrease / (increase) in inventories	1,605	(1,096)
(Decrease) / increase in trade payables	(22,438)	137,513
(Decrease) / increase in liabilities to related parties	226,764	(105,075)
(Decrease) / increase in other liabilities	7,374	33,554
Income tax (paid)/ received	(19,980)	(34,719)
Cash flows from operating activities	**756,181**	**693,441**
Interest received	29	141
Increase in prepayments for tangible assets	(15,249)	(138)
Investment in associates	(1,870)	-
Deposits paid	(1,742)	(4,473)
Purchases of property, plant, equipment and intangible assets	(577,336)	(558,934)
Cash used in investing activities	**(596,168)**	**(563,404)**
Dividends paid to the owner	(106,582)	(30,000)
Increase/ (decrease) od other financial liabilities	(1,321)	(955)
Interest paid	(20)	(53)
Cash flows used in financing activities	**(107,923)**	**(31,008)**
Net increase in cash and cash equivalents	52,090	99,029
Cash and cash equivalents at beginning of year	255,910	156,881
Cash and cash equivalents at the end of year	**308,000**	**255,910**

Dejan Liović
Board member

Zlatko Visković
Board member

Tomislav Plavšić
President of the Board

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Kupska 4, Zagreb

The accompanying notes form an integral part of these financial statements

1. GENERAL

Croatian Transmission System Operator Ltd., Zagreb (the “Company") is a limited liability 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 1,135 employees in 2020 *(2019: 1,161).*

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

The Company has certain business transactions with other members of the HEP Group, Related party transactions are set out in Note 35.

As at 31 December 2020 HEP Group consists of the following entities:

Members of the Group	**Country**	**Core business activity**
Hrvatska elektroprivreda d.d.	Croatia	Production and distribution of electricity and heat
HEP - Proizvodnja d.o.o.	Croatia	Electricity production
Hrvatski operator prijenosnog sustava d.o.o.	Croatia	Electricity transmission
HEP- Operator distribucijskog sustava d.o.o. (HEP-ODS)	Croatia	Electricity distribution
HEP Opskrba d.o.o.	Croatia	Electricity supply
HEP Elektra d.o.o.	Croatia	Electricity supply
HEP – Toplinarstvo d.o.o.	Croatia	Production and distribution of heat
HEP – Plin d.o.o.	Croatia	Gas distribution and supply
HEP ESCO d.o.o.	Croatia	Energy efficiency projects financing
Plomin Holding d.o.o.	Croatia	Energy production
CS Buško Blato d.o.o.	Bosnia and Herzegovina	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	Bosnia and Hercegovina	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 multipurpose hydraulic system
LNG Hrvatska d.o.o.	Croatia	Gas supply
Sunčana elektrana Poreč d.o.o.	Croatia	Electricity production
Sunčana elektrana Vis d.o.o.	Croatia	Electricity production
Ornatus d.o.o.	Croatia	Real estate development
LNG Hrvatska d.o.o.	Croatia	Liquefied natural gas business
NE Krško	Slovenia	Electricity production

1. GENERAL (CONTINUED)

As at 31 December 2020, the Company had 1,139 employees (31 December 2019: 1,218 employees). The analysis of employees by education is shown below:

Structure	31 December 2020	31 December 2019
PhD	13	12
Master of Science	20	23
Bachelor` Degree	462	450
Associate (2-year degree)	96	107
Highly qualified worker	76	98
High school graduate	452	487
Qualified worker	4	11
Lower qualified worker	5	9
Semi and Non gualified worker	11	21
TOTAL	**1,139**	**1,218**

Governance and management

General Assembly

The General Assembly consists of the founder`s representative:

Frane Barbarić	President	since January 1, 2018

Supervisory Board

Members of the Supervisory Board in 2020 and 2019:

Kažimir Vrankić	President	from April 4, 2016
Marko Dvorski	Vice president	from April 4, 2020
Marijan Kalea	Member	from August 26, 2017
Krešimir Ugarković	Member	from April 4, 2020
Sanja Olujić	Member (employees representative)	from July 1,2020 till March 31, 2021
Denis Geto	Member (employees representative)	from April 1, 2021
Alina Kosek	Member	from April 4, 2016 till april 3, 2020
Ante Pavić	Member	from April 4, 2016 till april 3, 2020
Silvana Boban	Member (employees representative)	from October 1, 2019 till June 30, 2020
Sandro Abram	Member (employees representative)	from January 1, 2019 till September 30, 2019

1. GENERAL (CONTINUED

Management Board in 2020 and 2019:

Tomislav Plavšić	President	from April 25, 2019
Dejan Liović	Member	from April 25, 2019
Zlatko Visković	Member	from April 16, 2018
Mario Gudelj	President	from April 16, 2018 till April 24, 2019
Ivica Modrić	Member	from April 16, 2018 till April 11, 2019

2. BASIS OF PREPARATION

2.1. Statement on Compliance

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

2.2. Basis of the preparation and COVID 19 and earthquake effect on doing business in 2020

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

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

The Company has considered the effects of the COVID 19 pandemic on the Company's business conditions and believes that the event will not jeopardize the Company's operations in accordance with current knowledge and has not called into question the Company's ability to continue as a going concern. The Company continuously monitors and assesses the impact of COVID-19, both in the immediate environment and within other markets in which the Company is present, and applies the relevant Decisions of the competent state authorities. Furthermore, considering the business events and indicators in the environment, the Management Board of the Company considers that currently there are no indicators that would require additional adjustments and disclosures in the annual financial statements of the Company for the year ended 31 December 2020. Recognizing the unpredictability of the economic recovery and the effect of the adopted measures, the Management Board believes with reasonable certainty that the Company will continue to operate profitably in the foreseeable future. As a result, in accordance with the provisions of IAS 1, these annual financial statements have been prepared on a going concern basis.

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

2. BASIS OF PREPARATION (continued)

2.3. Functional and reporting currency

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

At 31 December 2020 the exchange rate for 1 USD and 1 EUR was HRK 6,14 or HRK 7,54 (31 December 2019: HRK 6,65 or HRK 7,44).

2.4. Changes in accounting policies and disclosures in 2020 and 2019

a) Adoption of the International Financial Reporting Standard 16 Leases

Since January 1, 2019, the Company has applied the International Financial Reporting Standard 16 Leases (IFRS 16) using a modified retroactive approach and has not restated the comparative data for 2018 as permitted by the standard and recorded at the date of first application the assets with the right of use in the same amount as well as lease obligations.

The adoption of IFRS 16 resulted in changes in the accounting policies of the Company. IFRS 16 introduces a unified accounting model for lessees and requires the recognition of assets and liabilities for all leases, with possible options for exempting leases with a maturity of 12 months or less or when the asset in question is of low value. The lessee recognizes the property in the form of a right to use the property, which represents the right to use the property that is the subject of the lease and an adequate lease obligation, which represents the obligation to pay the lease. IFRS 16 generally retains lessor accounting as in IAS 17, while maintaining the difference between operating leases and finance leases. The Company has no significant leases in which it operates as a lessor.

IFRS 16 replaced IAS 17 Leases and IFRIC 4 - Determining whether a Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives, and SIC 27 Assessing the Essence of a Transaction Including the Legal Form of a Lease. Following the adoption of IFRS 16, the Company recognized the rights of use and the lease obligation relating to the use of business premises and business cars, which were previously classified as operating leases.

The lease liability is measured at the present value of the remaining lease payments, discounted using the interest rate specified in the lease agreement or the Company's incremental borrowing rate as of January 1, 2019. The Company's incremental borrowing rate is the rate at which a similar lease may be contracted, by an independent lessor, under comparable terms and conditions. The weighted average rate applied was 4,851%.

Assets with right of use are stated at an amount equal to the lease obligation and are adjusted for the amount of any prepaid or accrued lease payments.

2. BASIS OF PREPARATION (continued)

2.4. Changes in accounting policies and disclosures in 2020 and 2019 (continued)

a) Adoption of the International Financial Reporting Standard 16 Leases (continued)

As a result of the implementation of the new standard as of January 1, 2019, the Company's assets and liabilities under the leasehold rights increased by HRK 2,886 thousand, without affecting net assets. The following table presents the impact of adopting IFRS 16 in the statement of financial position as of January 1, 2019:

	1st January 2019	31st December 2018	Difference
In thousands of HRK	IFRS 16	IAS 17/IFRIC 4	
Assets			
Long term assets			
Right-of-use assets	2,886	-	2,886
CAPITAL AND RESERVES AND LIABILITIES			
Longterm liabilities			
Long-term liabilities for lease	2,886	-	2,886

The Statement of Comprehensive Income for the year ended December 31, 2019 includes HRK 1,155 thousand of depreciation related to eligible assets (Note 18) and HRK 165 thousand of financial expense related to interest on lease liabilities (Note 14).

Expenses related to short-term leases, for which the exemption from IFRS 16 was applied, amounted to HRK 578 thousand in 2019.

Following the adoption of IFRS 16, the nature of the costs associated with leases has changed, as the Company recognizes the cost of depreciation on property in the form of rights of use and interest expense on lease liabilities. Previously, the Company recognized operating lease expense on a straight-line basis over the term of the lease and recognized assets and liabilities only to the extent that there was a difference between the actual lease payments and the recognized expense for the year.

Further details on the specific accounting policies of IFRS 16 that have been applied in the current period, as well as the previous accounting policies that have been applied in the comparative period, are described in detail in Note 3.3.

2. BASIS OF PREPARATION (continued)

2.4. Changes in accounting policies and disclosures in 2020 and 2019 (continued)

The following amended standards came into force on January 1, 2020, but did not have a material impact on the Company:

- Amendments to the Conceptual Framework for Financial Reporting (published on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).
- Definition of operations - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions in the reporting period beginning on or after 1 January 2020).
- Definition of materiality - Amendments to IAS 1 and IAS 8 (published on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Reference Interest Rate Reform (IBOR) - Amendments to IFRS 9 Financial Instruments, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

2.5. New standards and interpretations of published standards that have not yet been adopted

Several new standards and guidelines have been published that are mandatory for reporting periods beginning on or after January 2021. The new standards and guidelines will not have a material impact on the Company's financial statements:

- Sale or contribution of assets between an investor and its associate or joint venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after the date specified by the IASB)).
- IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or long-term - Amendments to IAS 1 (published on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).
- Pre-intended revenue, harmful contracts - contract performance costs, Reference to the conceptual framework - amendments to the narrow scope of IAS 16, IAS 37 and IFRS 3, and annual improvements to IFRS 2018-2020 - amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Reference Interest Rate Reform (IBOR) - the second phase of the amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (published on 27 August 2020 and effective for annual periods) beginning on or after January 1, 2021).

The Company is currently assessing the impact of the new standards and guidelines on its financial statements. The new standards and interpretations are not expected to have a material impact on the Company's 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 can not be obtained from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Revenue recognition

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

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

1. Establish a contract with the buyer,
2. Determine delivery obligations in the contract,
3. Determine the transaction price
4. Assign 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 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Revenue recognition (continued)

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.

Revenue from the cross-border transfer capacity

During 2020 and 2019, the bilateral and multilateral allocation of cross-border transmission capacities at the borders of the Republic of Croatia with adjacent transmission operators shall take place in accordance with the specific rules on allocation of cross-border transmission capacities, separately for one or more borders and in accordance with the rules on the use of cross-border transmission capacities regulating capacity utilization borders with neighbouring system operators.

Revenue from sales of balancing energy

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

Revenues from connection fees - application of the new 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Revenue recognition (continued)

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. 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.

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, that is, through the expected useful life of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Leases (continued)

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.

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

The estimated useful lives of intangible assets are as follows:

Software	5 years
Leasehold improvements regarding rights of usage	25 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Impairment of non-financial assets

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Investment property

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

Costs of replacing an item of property investment are recognized in the carrying amount of this asset if it is probable that the future economic benefits included in that item will flow to the Company and their value can be measured reliably. The costs of regular maintenance of real estate investments are recognized in the income statement as they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use as well as when no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3.8. Investments in associates

(i) Subsidiaries

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

(ii) Associates

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Inventories

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

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

3.10. Cash and cash equivalents

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

3.11. Employee benefits

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Employee benefits (continued)

(ii) Termination benefits

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

(iii) Provisions for regular retirement benefits

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

(iv) Regular retirement benefits

Under current Collective Agreement (effective from 1 January 2020), employees are entitled to a retirement benefit to the extent of 1/8 of the average gross monthly salary earned in the period of three months prior to the retirement for each completed year of continuous employment at the employer. This Collective Agreement is valid until 31 December 2021.

(v) Long-term employee benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Employee benefits (continued)

(vi) Short-term employee benefits

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

3.12. 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:

D ES C R I P T I O N	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 Claims	Hold to collect / amortized cost

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 t 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Financial assets (continued)

If the Company has not retained control, it derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.

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

3.14. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Subscribed capital and capital reserves

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

3.16. Dividends

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

3.17. Accounting presentation lease – Company as a lessee

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

3.18. Taxation

i) Income tax

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Taxation (continued)

ii) Deferred tax assets and liabilities

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

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

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

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

iii) Tax exposures

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

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 2020 there were no changes to estimated useful lives of property, plant and equipment, i.e., the depreciation rates.

ii) Recognition of deferred tax assets

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the Statement of financial position. Deferred tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgments and applies estimation based on previous years taxable profits and expectations of future income that are believed to be reasonable under the existing circumstances (Note 15). The carrying amounts of deferred tax assets at 31 December 2020 amounts to HRK 41,027 thousand (31 December 2019: HRK 42,545 thousand).

iii) Recoverability of trade and other receivables

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

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

iv) Valuation of inventories

The Company provides for the amount of unmarketable inventory materials according to the inventory ageing structure. During 2019 the Company recognised value adjustment of inventories in the amount of HRK 714 thousand. In 2020, the Company decreased the value adjustment of inventories by 1,616 thousand in favour to operating income (see Notes 7, 12 and 24).

v) Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Due to the long-term nature of those plans, these estimates contain an element of uncertainty. Provisions for jubilee awards and retirement bonuses amounted to HRK 62,636 thousand at 31 December 2020 (31 December 2019: HRK 58,111 thousand) (see Note 31).

vi) Consequences of certain legal actions

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

vii) Ownership over land and buildings

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

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

viii) Expected loss model

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

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

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

Accounts receivables are stated at the invoiced amount. The impairment of doubtful receivables is based on the best estimate of the Company's Management Board on the non-repayment. All receivables from bankruptcy entities as well as sued receivables are wholly written off. The Company's management performs impairment of the doubtful receivables based on an overview of the overall ageing structure of all receivables and on the basis of a review of significant individual amounts included in the receivables. Due to the likelihood that some receivables will not be collected over a longer period, the Company, on the basis of reasonable estimates and experience gained over a longer period, performs the value adjustment of uncollected receivables by reducing them in the following way:

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

The general approach to the expected credit losses applies to the equity instruments measured through other comprehensive income. A simplified approach to expected credit losses applies to the trade receivables, which results in earlier recognition of impairment. By applying a simplified approach to financial assets and by reducing the value of the contract assets which is recognized as of 1 January 2018 in accordance with IFRS 9 (International Financial Reporting Standard 9), the impairment will have no significant impact on the Company's result.

4. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

ix) Expected loss model (continued)

The analysis of receivables and related value adjustments has shown significant receivables in the coming years. Historically, these trends are stable and there are no known facts or indications that the trend will change in future periods. Historical data show that receivables from related companies are fully collectable and are not subject to impairment. During the reporting period there were no changes in the initial estimation methods or significant assumptions that were used. There were no significant changes in the carrying value of financial instruments during the reporting period, and thus no significant impact on the amount of value adjustment.

x) Revenues from the ITC Agreement

The estimated revenues from the ITC mechanism relate to the Company's estimated revenue for the part of 2020 as they are not charged in the current year. The estimate is made as the medium value of historical data and data on the ratio of realized transit and import of electricity as well as revenues realized in the previous period of 2020 for which similar conditions were applicable.

5. DETERMINING FAIR VALUES

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

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

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

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

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

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

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

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

- Note 20: Investment property

6. REVENUE FROM SALES

(in thousands of HRK)	**2020**	**2019**
Revenue from sales – related parties		
Electricity transmission income	1,234,568	1,310,804
Sales of balancing energy – imbalance settlement	53,339	90,023
Sales of balancing energy	22,697	25,118
Income from connection to transmission network	-	2,926
Other	22,311	22,771
	1,332,915	**1,451,642**
Revenue from sales – third parties		
Electricity transmission income	56,011	59,885
Cross-border transmission capacity - foreign	103,839	103,165
Sales of balancing energy	2,447	4,738
Sales of balancing energy - imbalance settlement	20,733	56,413
ITC revenue	5,323	8,066
Income from connection to transmission network	91	93
Sales from energy for transmission grid losses	1,073	1,943
	189,517	**234,303**

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

Revenue from the sale of balancing electricity – imbalance settlement is lower in 2020 compared to 2019 by HRK 72,364 thousand (both from affiliated and from companies outside the Group) which is mostly caused by the amendment of the Electricity Balancing Rules that came into force January 1, 2020 and by which the cost of 20% of the power reserve is no longer associated with the balance groups through the calculation of deviations.

7. OTHER INCOME – THIRD PARTIES

(in thousands of HRK)	**2020**	**2019**
Income from connection asset – IFRS 15	21,704	17,350
Consumption of own products and services	7,232	5,913
Income from assets received free of charge	2,819	2,831
Value adjustment – financial assets (Note 21)	2,000	1,909
Inventory value adjustment – decrease (Note 24)	1,616	-
Reversal of litigation provisions (Note 31)	525	799
Collection of written-off receivables income	214	909
Nonstandard services income	72	369
Other services income	-	173
EBRD grant income	-	1,584
Other	7,986	7,355
	44,168	**39,192**

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

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

Other income refers to a sale of previously written of assets as a secondary raw material in the amount of HRK 1,270 thousand (2019: HRK 2,748 thousand), rent income HRK 267 thousand (2019: HRK 470 thousand), and other HRK 6,449 thousand (2019: HRK 4,311 thousand).

8. MATERIAL AND SPARE PARTS USED

(in thousands of HRK)	**2020**	**2019**
Maintenance material for power facilities	7,777	7,209
Energy	4,004	5,450
Maintenance material for other assets	470	780
Low value stock and safety clothes	1,605	1,650
Other	2,441	2,763
	16,297	**17,852**

9. SERVICE EXPENSES

in thousands of HRK)	**2020**	**2019**
Power facility maintenance services	74,476	90,951
Auctions for cross border transmission capacity	36,972	31,926
Agency and research services	16,284	16,839
ITC mechanism costs	10,776	8,594
Maintenance services	6,019	7,598
Security services	4,990	4,945
Research and development cost	2,277	5,070
Telecommunication services	1,856	1,682
Other	6,530	10,879
	160,180	**178,484**

In 2020, part of the agency and scientific services costs related to the fees for the audit of the annual financial statements for 2019 in the amount of HRK 188 thousand, fees for other audit services in the amount of HRK 82 thousand, fees for tax and other consulting services in the amount HRK 160 thousand.

10. PERSONNEL EXPENSES

(in thousands of HRK)	**2020**	**2019**
Net salaries	123,106	122,502
Taxes and contributions from salaries	52,176	53,048
Contributions on salaries	25,808	26,451
	201,090	**202,001**

Total personnel costs were as follows:

Gross salaries	201,090	202,001
Reimbursement of costs to employees (Note 12)	12,270	19,793
Employee benefits (Note 12)	11,948	12,733
Additional health insurance costs (Note 12)	963	1,636
Provisions for retirement bonuses and other provisions (Note 12)	-	7,966
	226,271	**244,129**

As of 31 December 2020 the Company had 1,139 employees (2019: 1,218 employees), Reimbursement of costs to employees includes commutation allowances, daily allowances and travelling expenses, as well as other similar costs.

Employee benefit costs primarily include retirement bonuses, jubilee awards and other occasional bonuses, Early retirement bonuses in 2020 amounted to HRK 1,605 thousand (2019: HRK 1,941 thousand), and represent retirement bonuses for 9 employees.

Directors' and executive's remuneration:

(in thousands of HRK)	**2020**	**2019**
Gross salaries	5,625	5,772
Pension insurance contributions	1,222	1,305
Benefits in kind	621	838
	7,468	**7,915**
Number of directors and executives	14	18

10. PERSONNEL EXPENSES (CONTINUED)

Supervisory board remuneration :

(u tisućama kuna)	**2020.**	**2019.**
Gross salaries	88	66
Pension insurance contributions	9	7
Benefits in kind	2	3
	99	**76**
Number of Supervisory bord members	4	4

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

(in thousands of HRK)	**2020**	**2019**
Ancillary services		
Ancillary services – related parties (Note 35)	283,831	317,647
Ancillary services – third parties	12,658	7,695
	296,489	**325,342**
Cost of transmission grid losses		
Cost of transmission grid losses – related parties (Note 35)	61,943	129,556
Cost of transmission grid losses – third parties	78,948	42,304
	140,891	**171,860**
Purchase of balancing energy		
Purchase of balancing energy – related parties HEP Proizvodnja d.o.o. (Note 35)	55,161	99,724
Purchase of balancing energy – imbalance settlement – related parties (Note 35)	23,557	12,895
Purchase of balancing energy – third parties	6,182	7,348
Purchase of balancing energy – imbalance settlement – third parties (Note 35)	9,515	9,809
	94,415	**129,776**

During 2019 and 2020, the Company purchased energy for Transmission Grid losses and for Balancing System on the Electricity Exchange, which began operating in February 2016. Reduced electricity consumption in the Republic of Croatia in the conditions of a pandemic resulted in lower costs of losses in the transmission network as well as lower costs of purchasing balancing electricity from affiliated companies.

12. OTHER OPERATING EXPENSES

(in thousands of HRK)	**2020**	**2019**
Taxes, contributions and fees	19,301	19,920
Reimbursement of costs to employees	12,270	19,793
Employee benefits	11,948	12,733
Net book value of disposed tangible assets and inventories	10,573	9,522
Affiliation fee for business associations	4,895	3,795
Provisions for retirement bonuses and jubilee awards for workers	4,525	9,522
Provisions for court cases (Note 31)	1,849	24,902
Insurance premiums	1,170	1,127
Additional health insurance costs	963	1,636
Fees damage to individuals	846	1,428
Provisions for unused holidays	839	1,626
Provisions for retirement bonuses and other provisions for workers	-	7,966
Impairment of inventories (Note 24)	-	714
Impairment of receivables (Note 25)	-	15
Other operating expense	6,933	6,463
	76,112	**121,162**

13. FINANCE INCOME

(in thousands of HRK)	**2020**	**2019**
Interest income	29	141
Foreign exchange gains	2,485	1,373
	2,514	**1,514**

14. FINANCE COSTS

(in thousands of HRK)	**2020**	**2019**
Sub-loan interest	23,161	20,880
Penalty interest	20	40
Foreign exchange losses	6,815	2,884
Interest for lease – IFRS 16	183	165
Amortized amount of the related discount cost	879	876
	31,058	**24,845**

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% (2019: 18%).

(in thousands of HRK)	**2020**	**2019**
Current tax	26,581	28,820
Deferred tax	1,518	4,419
	28,099	**33,239**

(in thousands of HRK)	**2020**	**2019**
Profit before taxation	**142,031**	**165,391**
Income tax at the rate of 18%	25,566	29,770
Tax differences, non-deductible expenses	2,614	3,860
Tax differences, decreasable item	(81)	(391)
Tax cost	**28,099**	**33,239**
Effective tax rate (%)	**19,78%**	**20,10%**

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

15. CURRENT INCOME TAX (continued)

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

(in thousands of HRK)	**Provision for inventory**	**Provisions for jubilee and retirement benefits**	**Accrued expenses**	**Depreciation of large spare parts**	**First adoption of IFRS 15 and IFRS 16**	**Impairment of financial assets and investment property**	**Total**
At 31 December 2018	**3,467**	**9,183**	**6,556**	**7,546**	**17,713**	**2,499**	**46,964**
(Credited)/ debited to profit and loss	129	1,756	(5,970)	851	(841)	(344)	(4,419)
At 31 December 2019	**3,596**	**10,939**	**586**	**8,397**	**16,872**	**2,155**	**42,545**
(Credited)/ debited to profit and loss	(291)	814	(160)	(724)	(797)	(360)	(1,518)
At 31 December 2020	**3,305**	**11,753**	**426**	**7,673**	**16,075**	**1,795**	**41,027**

16. INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Leasehold improvement regarding rights of usage**	**Total**
COST			
At 1 January 2019	**75,047**	**18,566**	**93,613**
Additions	771	-	771
Transfer from tangible assets	29,804	-	29,804
Disposals and write-offs	(1,662)	-	(1,662)
At 31 December 2019	**103,960**	**18,566**	**122,526**
Additions	696	-	696
Transfer from tangible assets	10,557	-	10,557
Reclassification from property, plant and equipment	2,750	-	2,750
Disposals and write-offs	(17,698)	-	(17,698)
At 31 December 2020	**100,265**	**18,566**	**118,831**
ACCUMULATED DEPRECIATION			
At 1 January 2019	**56,417**	**16,715**	**73,132**
Charge for the year	8,210	741	8,951
Disposals and write-offs	(1,433)	-	(1,433)
At 31 December 2019	**63,194**	**17,456**	**80,650**
Charge for the year	13,851	741	14,592
Disposals and write-offs	(17,602)	-	(17,602)
At 31 December 2020	**59,443**	**18,197**	**77,640**
CARRYING AMOUNT			
At 31 December 2019	**40,766**	**1,110**	**41,876**
At 31 December 2020	**40,822**	**369**	**41,191**

17. PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land**	**Buildings**	**Inventory and equipment**	**Assets under construction**	**Total**
COST					
At 1 January 2019	**155,500**	**4,641,081**	**8,795,175**	**494,204**	**14,085,960**
Additions	-	115	46,926	511,122	558,163
Transfer from assets under construction	-	96,793	292,507	(419,104)	(29,804)
Transfers and reclassifications	-	11,497	11,016	-	22,513
Disposals and write-offs	(8)	(8,876)	(127,774)	(3,614)	(140,272)
At 31 December 2019	**155,492**	**4,740,610**	**9,017,850**	**582,608**	**14,496,560**
Additions	-	105	39,010	537,525	576,640
Transfer from assets under construction	-	75,534	339,719	(425,810)	(10,557)
Subscribed capital increase	-	-	(19,121)	-	(19,121)
Reclassification to intangible assets	-	-	(2,750)	-	(2,750)
Disposals and write-offs	(108)	(3,707)	(108,812)	(1,178)	(113,805)
At 31 December 2020	**155,384**	**4,812,542**	**9,268,646**	**693,145**	**14,926,967**
ACCUMULATED DEPRECIATION					
At 1 January 2019	**-**	**2,893,021**	**5,175,837**	**-**	**8,068,858**
Charge for the year	-	86,520	247,268	-	333,788
Transfer and reclassifications	-	1,054	2,027	-	3,081
Eliminated on disposal	-	(8,118)	(122,920)	-	(131,038)
At 31 December 2019	-	**2,972,477**	**5,302,212**	**-**	**8,274,689**
Charge for the year	**-**	88,141	259,241	**-**	347,382
Subscribed capital increase	-	-	(8,142)	-	(8,142)
Eliminated on disposal	-	(3,634)	(99,720)	-	(103,354)
At 31 December 2020	**-**	**3,056,984**	**5,453,591**	**-**	**8,510,575**
CARRYING AMOUNT					
At 31 December 2019	**155,492**	**1,768,133**	**3,715,638**	**582,608**	**6,221,871**
At 31 December 2020	**155,384**	**1,755,558**	**3,812,305**	**693,145**	**6,416,392**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Assets under construction relate to investments in real estate, plant and equipment construction. The most significant ongoing investments include the construction of the EL-TO switchgear in the amount of HRK 73,645 thousand (in 2019 in the amount of HRK 58,796 thousand), reconstruction of the TS 110/20 (10) kV Sućidar in the amount of HRK 56,832 thousand (2019 in amount of HRK 27,263 thousand), reconstruction of TS Zamet in the amount of HRK 20,960 thousand (2019 in the amount of HRK 20,948 thousand), reconstruction of TS 110/10 (20) kV Split 3 in the amount of HRK 29,560 thousand (2019: HRK 16,876 thousand)), introduction of DV 110 kV Mraclin - Ludina in TS Ivanić grad in the amount of HRK 22,287 thousand (2019: HRK 5,821 thousand), installation of SVC plant in TS Konjsko HRK 13,579 thousand (2019: HRK 2,425 thousand), reconstruction of TS Zamošće in the amount of HRK 13,632 thousand HRK (2019: HRK 3,195 thousand), procurement and installation of primary equipment in TS Tumbri in the amount of HRK 17,263 thousand. Contractual obligations related to investments in progress on the reporting date amount to HRK 592,569 thousand (2019: HRK 777,263 thousand), and the envisaged implementation schedule has been adjusted to the construction deadlines.

During 2020, the following significant investments were put into operation: installation of SVC in TS Melina in the amount of HRK 37,117 thousand and in TS Mraclin in the amount of HRK 25,768 thousand within the EU project SINCRO.GRID, connection of WPP Korlat in the amount of HRK 28,379 thousand, SS 110/35 kV Ivanić grad in the amount of HRK 30,679 thousand, SS 110/20 kV Sesvete in the amount of HRK 16,961 thousand, HPP Orlovac in the amount of HRK 23,287 thousand.

During 2019, the Company did not capitalize borrowing costs as they do not relate to the acquisition of qualifying assets. During 2020, the company capitalized part of the borrowing costs in the total amount of HRK 1,059 thousand. During 2020, the company capitalized a part of labor costs in the total amount of HRK 6,173 thousand.

On March 18, 2019, the Commercial Court in Zagreb issued a decision to increase the share capital of the Company by entering things by HEP d.d. for the amount of HRK 19,432 thousand. The entered items refer to power facilities along the highway that were owned by HEP d.d. and in accordance with the provisions of the Electricity Market Act, they must be owned by the transmission system operator.

Ownership over land and buildings

With regard to land and buildings, the Company has acquired or is in the process of acquiring ownership documentation. Restrictions related to property ownership over land and buildings relate to properties that are not officially registered as property of the Company. In order to protect its interests, the Company conducts several judicial and / or administrative proceedings primarily related to the land that is partially registered with the Company and which have on that land parts of power stations and other facilities in the Company's function. It is not expected that the outcome of these procedures will have a significant impact on the Company's financial position or result.

18. RIGHT-OF-USE ASSETS

(in thousands of HRK)	**Business premises**	**Equipment**	**Total**
COST			
At December 31, 2019	**5,871**	**-**	**5,871**
Additions	-	1,324	1,324
At December 31, 2020	**5,871**	**1,324**	**7,195**
AMORTIZATION			
At December 31, 2019	**1,155**	**-**	**1,155**
Charge for year	1,455	110	1,565
At December 31, 2020	**2,610**	**110**	**2,720**
CARRYING AMOUNT			
At December 31, 2019	**4,716**	**-**	**4,716**
At December 31, 2020	**3,261**	**1,214**	**4,475**

19. PREPAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	
As at 1 January 2019	**3,617**
Advances given	6,294
Utilised in current year	(6,156)
As at 31 December 2019	**3,755**
Advances given	25,236
Utilised in current year	(9,987)
As at 31 December 2020	**19,004**

20. INVESTMENT PROPERTY

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Fair value	4,440	4,440
Net change in fair value of investment property	102	-
Closing balance at fair value	**4,542**	**4,440**

Investment property relate to the non-business property (offices, apartments and garages) owned by the Company and leased for an indefinite time to employees of the Company and third parties.

Investment property is carried at fair value based on the valuation by an independent, expert appraiser based on the comparative method to market prices for similar real estate – 2nd level.

The Company generates revenue from the rental of apartments classified as investment property in the amount of HRK 260 thousand (2019: HRK 260 thousand), The Company recorded direct operating expenses (including maintenance fee) in the amount of HRK 19 thousand (2019: HRK 19 thousand).

The Company regularly tests property investments for impairment by analizing the price of comparable real estate. At the reporting date, an independent, expert appraiser's estimate made for the financial statements for 2020 was used. The change in the fair value of real estate investments is presented in Note 7 “Other operating income outside the group”.

21. INVESTMENTS IN ASSOCIATES

(in thousands of HRK)	Country	31 December 2020 % ownership	31 December 2020 Net book value	31 December 2019 % ownership	31 December 2019 Net book value
Hrvatska burza električne energije d.o.o.	Croatia	50,0%	8,000	50,0%	8,000
Value impairment			(3,500)		(5,500)
			4,500		**2,500**

The Company carries investment in associates at cost less impairment.

During 2018, the Company had increase the share capital of the company Hrvatska burza električne energije d.o.o. in amount of HRK 2,000 thousand. As at 31 December 2020, the Company increased the value of its investment in the company Hrvatska burza električne d.o.o. for HRK 2,000 thousand based on internal assesment, ie the previous value adjustment for HRK 2,000 thousand was corrected. (2019: increase by HRK 1,909 thousand) which is shown in Note 7 “Other operating income outside the group”.

In the adopted annual financial statements for 2019, the company Hrvatska burza električne d.o.o., Zagreb reported capital and reserves in the total amount of HRK 4,899 thousand and the profit for the business year in the amount of HRK 2,283 thousand.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(in thousands of HRK)	Country	31 December 2020 % ownership	31 December 2020 Net book value	31 December 2019 % ownership	31 December 2019 Net book value
HEP Telekomunikacije d.o.o.	Croatia	13,7%	47,394	13,7%	34,545
JAO S.A.	Luxemburg	4%	2,578	4%	2,578
TSCNET Services GmbH	Germany	6,7%	2,728	6,7%	2,728
SEE CAO	Montenegro	12,5%	306	12,5%	306
			53,006		**40,157**

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

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

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.

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.

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Total receivables for apartments sold	1,102	1,437
Current portion of long-term receivables	(387)	(603)
Non-current receivables	**715**	**834**

24. INVENTORIES

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Electric units and other materials	8,738	8,266
Spare parts	19,871	21,975
Building materials	487	461
Other	67	103
Value adjustment	(18,360)	(19,976)
	10,803	**10,829**

Movement in the impairment allowance for inventories is as follows:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
At 1 January	**19,976**	**19,262**
Impairment loss recognised	(1,616)	714
At 31 December	**18,360**	**19,976**

Impairment of inventories by HRK 1,616 thousand is disclosed in the statement of comprehensive income in Note 7. “Other operating income outside the group”.

25.TRADE RECEIVABLES

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Trade receivables	28,966	73,107
Impairment of receivables	(4,235)	(4,423)
Net receivables	**24,731**	**68,684**

Movements in impairment allowance were as follows:

(in thousands of HRK)	**2020**	**2019**
At 1 January	**4,423**	**4,651**
Impairment of receivables	-	15
Impairment cancellation	(29)	-
Collected receivables, previously provided for	(159)	(243)
Change on receivables impairment	*(188)*	*(228)*
At 31 December	**4,235**	**4,423**

Management is confident that the fair value of the trade receivables at the reporting date approximates their carrying amount. The cost of trade receivables impairment is included within Note 12 “Other operating expenses”, and income from collected adjusted receivables in Note 7 “Other operating income outside the group”.

25. TRADE RECEIVABLES (continued)

Ageing analysis of receivables not impaired is as follows:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Not yet due	24,025	68,294
0 – 30 days	685	329
31 – 60	-	-
61 – 90 days	10	-
91 – 180	-	-
181 – 365 days	-	4
over 365 days	11	57
	24,731	**68,684**

Trade receivables are denominated in:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
HRK	10,863	59,202
EUR	13,868	9,482
	24,731	**68,684**

26. OTHER CURRENT ASSETS

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
VAT receivables	32,643	25,017
Income tax receivables	12,284	18,884
Prepaid expenses and accrued income	8,467	6,331
Current portion of long-term receivables (Note 23)	387	603
Other receivables	1,401	1,577
	55,182	**52,412**

Prepaid expenses relate to additional health insurance premium and other expenses in the amount of HRK 3,442 thousand (in 2019: 1,431 thousand),

In 2020 accrued income in the amount of HRK 5,025 thousand comprise of ITC mechanism revenue thousand estimated by the Company's management for period November - December 2020 (2019: 4,900 thousand).

27. DEPOSITS

(in thousands of HRK)	31 December 2020	31 December 2019
Deposits – expropriation	21,317	19,575
Guaranties	65	65
	21,382	**19,640**

Deposits – expropriation

The Company is obliged to deposit funds in particular expropriation proceedings during the construction of energy facilities that will be withdrawn after the conditions of Expropriation ACT are met. The deposits have maturity of three months to one year, or until the fulfilment of the conditions, in the Expropriation Act and carry interest rates ranging from 0,4% to 2%.

28. CASH AND CASH EQUIVALENTS

(in thousands of HRK)	31 December 2020	31 December 2019
Giro account – domestic	220,602	130,275
Giro account – foreign	83,680	122,570
Deposits up to 90 days	3,687	3,020
Cash in hands	31	45
	308,000	**255,910**

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

Interest rates on short-term deposits are fixed and in the range of 0,85 % (HRK deposits) to 0,35% (EUR deposits) per annum.

29. CAPITAL AND RESERVES

Subscribed capital

(in thousands of HRK)	31 December 2020	31 December 2019
Subscribed capital	**4,948,627**	**4,948,627**

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

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

At its session on 25 April 2019, the Company's Assembly passed a decision allocating the 2018 profit in the total amount of HRK 176,208 thousand by covering the carried forward loss in the amount of HRK 8,988 thousand, transferring the amount of HRK 104,345 thousand to retained earnings and for the remittance to the owner allocated HRK 62,845 thousand. During 2019, the Company paid HRK 30,000 thousand to the owner, while the remaining amount of HRK 32,845 thousand was paid in 2020.

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

Reserves

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

Proposed profit distribution

The Company's Management Board will propose to the Assembly the distribution of profit for 2020 in the total amount of HRK 113,932 thousand in such a way that the amount of HRK 54,831 thousand is allocated to retained earnings and the amount of HRK 59,101 is allocated for remittance to the owner. The final decision on the distribution of profits in 2020 is to be made by the Company`s Assembly in accordance with the provisions of the Statement of Establishment and the Companies Act.

30. SUBLOAN FROM AND LIABILITIES TO RELATED COMPANIES

(in thousands of HRK)	31 December 2020	31 December 2019
Liabilities toward HEP d.d. for subloan and loan	655,394	423,691
Transaction cost for subloan refinancing	(1,586)	(2,466)
Other non-current liabilities to related companies	428	539
	654,236	**421,764**
Current portion of long-term debt	(57,553)	-
Non-current portion	**596,683**	**421,764**

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

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

(in thousands of HRK)	31 December 2020	31 December 2019
Up to 6 months	17,723	-
7 – 12 months	39,830	-
1 – 2 years	508,721	-
2 - 5 years	89,120	423,691
	655,394	**423,691**

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

(in thousands of HRK)	31 December 2020	31 December 2019
Up to 6 months	100	100
7 – 12 months	100	100
1 – 2 years	200	200
2 - 5 years	28	139
	428	**539**

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

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:

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
HRK	227,191	-
EUR	427,045	421,764
	654,236	**421,764**

Loans amounting to HRK 654,236 thousand have fixed interest rates (2019: HRK 421,764 thousand). The interest rates for loans included in the table above are 3,766% (2019: from 4,851%).

31. PROVISIONS

(in thousands of HRK)	**Provision for jubilee awards**	**Provision for retirement benefits**	**Provision for court cases**	**Total**
At 31 December 2019:				
Non-current	3,618	52,797	48,058	104,473
Current	425	1,271	-	1,696
	4,043	**54,068**	**48,058**	**106,169**
At 31 December 2020:				
Non-current	3,623	58,344	49,383	111,350
Current	443	225	-	668
	4,066	**58,569**	**49,383**	**112,018**

31. PROVISIONS (CONTINUED)

Movement in provisions was as follows:

(in thousands of HRK)	Provision for jubilee awards	Provision for retirement benefits	Provision for court cases	Total
At 1 January 2019	**3,644**	**44,711**	**23,955**	**72,310**
Increase	864	14,508	24,902	40,274
Reversal	-	-	(799)	(799)
Utilised	(465)	(5,151)	-	(5,616)
At 31 December 2019	**4,043**	**54,068**	**48,058**	**106,169**
At 1 January 2020	**4,043**	**54,068**	**48,058**	**106,169**
Increase	458	5,023	1,849	7,331
Reversal	-	-	(491)	(491)
Utilised	(435)	(522)	(33)	(991)
At 31 December 2020	**4,066**	**58,569**	**49,383**	**112,018**

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	
	2020	**2019**
Average staff turnover rate	2,60%	2,78%
Discount rate	0,85%	0,60%
Expected increase in salaries	2%	2%
Average expected retirement age (in years)	61	61

31. PROVISIONS (continued)

Court cases

A provision for court cases relates to all court cases for which an estimate was made that it is not probable of them being resolved in favour of the Company. Provision for court cases expense is included within Note 12 'Other operating expenses" in the statement of comprehensive income. The most significant court case for which is estimated that its solution is not probable in the favour of the Company relates to a dispute with a legal entity for damages initiated with the Zagreb Commercial Court, for which the Company made a provision of HRK 26,232 thousand in 2019 and to the complaint of an individual for the compensation of expropriated property, started at the State administration office in Split, in the amount of HRK 13,445 thousand. The Company has made provision in 2010 for the stated dispute.

Based on the expert opinion of legal advisors, management anticipates that the outcome of any disputes will not result in significant losses over the amount of a provision at 31 December 2020.

32. OTHER LONG-TERM LIABILTIES

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Deferred income - assets received with no reimbursement appliance od IFRS 15 /i/	401,623	394,975
Deferred income - assets received with no reimbursement till 30 June 2009 /ii/	61,452	64,274
Deferred income – cash received from the EU funds /iii/	39,321	19,674
Lease liabilities under IFRS 16	4,531	4,755
Liabilities to state regarding apartments sold	726	943
Deferred income - cash received from others	773	140
	508,426	**484,761**
Current portion of other long-term liabilities (Note 34)	(22,400)	(21,112)
	486,026	**463,649**

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

32. OTHER LONG-TERM LIABILTIES (continued)

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

/iii/ Deferred income for cash received from EU funds refers to the funds received for participation of the Company in the SINCRO.GRID project in the amount of HRK 36,861 thousand, the ATTEST project in the amount of 267 HRK thousand, the FARCROSS project in the amount of HRK 423 thousand, the FLEXGRID project in the amount of HRK 655 thousand, the EPASSIS project in the amount of HRK 950 thousand and the LIFE DANUBE FREE SKY in the amount of HRK 165 thousand. Received incentives will reduce the costs incurred in implementing these projects in future periods.

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

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Lease liabilities	4,531	4,755
Current portion	(1,933)	(1,443)
	2,598	**3,312**

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

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
till 3 months	650	361
3 to 12 months	1,283	1,082
1 to 2 years	1,933	1,443
2 to 5 years	665	1,443
over 5 years	-	426
	4,531	**4,755**

32. OTHER LONG-TERM LIABILTIES (continued)

The movement of lease liabilities is shown as follows:

(in thousands of HRK)	**2020**	**2019**
At January 1	**4,755**	**2,886**
Interests (note 14)	(183)	(165)
New lease	1,323	2,985
Lease payment	(1,443)	(955)
Foreign exchange	79	4
At December 31	**4,531**	**4,755**

33. TRADE PAYABLES

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Amounts due to suppliers of fixed assets	307,930	320,236
Amounts due to suppliers of current assets	53,243	61,929
	361,173	**382,165**

34. OTHER CURRENT LIABILITIES

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Prepayments for connection fees	27,837	14,119
Liabilities for received guarantees	18,225	15,755
Net wages	10,334	10,068
Liabilities for unused vacation	9,610	8,771
Liabilities for taxes, contributions and other	3,634	8,173
Wages contributions	3,119	3,134
Taxes from wages	1,372	1,598
Other liabilities to employees	892	20,523
Deferred income for cross-border transmission capacity	8,679	8,644
Deferred income – other	768	809
Balancing energy accrued expense – imbalance settlement	141	141
ITC mechanism accrued expense	1,851	255
Liabilities for calculated incentive severance payments	-	10,517
Current portion of long-term liabilities (Note 32)	22,400	21,112
Other	1,707	1,953
	110,569	**125,572**

34. OTHER CURRENT LIABILITIES (continued)

Liabilities for calculated incentive severance indemnities in the amount of HRK 10,517 thousand at the end of 2019, refer to provisions for retirement of employees that left Company during January and February 2020, which were in mention period accrued and paid off, and are connected to Company restructuring.

Deferred income relates to cross border transmission capacity revenue which is quoted on yearly and monthly auctions held in December 2020 and that are going to be used during January and February 2021.

Accrued expenses balancing energy – imbalance settlement refer to estimated cost of Final settlement for 2020 by Company due to the fact that they are not charged to the Company till the date of balance.

35. RELATED PARTY TRANSACTIONS

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

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

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

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

Costs of ancillary services in the total amount of HRK 283,831 thousand (2019: 317,647 thousand) were defined by the Ancillary Services contracts concluded by HOPS with HEP - Proizvodnja d.o.o. and all in accordance with the Price-Determination Methodology for providing auxiliary services.

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

35. RELATED PARTY TRANSACTIONS (continued)

Receivables, liabilities, income and expenses from the transactions with HEP d.d. and other related companies are presented in the table below:

(in thousands of HRK)	2020	2019
Income and expenses		
Sales income		
Electricity transmission fee income - HEP ODS d.o.o., HEP Proizvodnja d.o.o. and EPK d.o.o.	1,234,568	1,310,804
Sales of balancing energy – Balance Group Managers – related parties	53,339	90,023
Sales of balancing energy - HEP Proizvodnja d.o.o.	22,697	25,118
Service income – HEP Telekomunikacije d.o.o.	18,086	18,079
Other sales income – related companies	4,225	7,618
	1,332,915	**1,451,642**
Other income		
Other income – related parties	**50**	**517**
Total related parties income	**1,332,965**	**1,452,159**
Expenses		
Other		
- Telecommunication service cost – HEP Telekomunikacije d.o.o.	41,430	40,815
- Receivable impairment - HEP ODS	38	219
- Other expenses - related parties	5,592	5,527
	47,060	**46,561**
Transmission grid losses (Note 11)	**61,943**	**129,556**
Purchase of regulating power (Note 11)		
Purchase of balancing energy – imbalance settlement – related parties BGMs	23,557	12,895
Purchase of balancing energy – HEP Proizvodnja d.o.o.	55,161	99,724
	78,718	**112,619**
Ancillary services– HEP Proizvodnja d.o.o. (Note 11)	**283,831**	**317,647**
Finance costs HEP d.d.	28,530	22,776

35. RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	31 December 2020	31 December 2019
Receivables and liabilities		
Receivables from HEP d.d. and other companies from HEP Group		
- Electricity transmission fee – HEP-ODS, HEP Proizvodnja and EPK	119,245	137,151
- for balancing energy from HEP Proizvodnja	5,727	3,525
- for balancing energy from BGMs- related parties (HEP d.d. and HEP-ODS)	32,138	35,731
- connection fee from EPK d.o.o.	34,250	-
- other	2,547	2,795
	193,907	**179,202**
Liabilities toward related parties		
Current liabilities		
- Amounts due according to lease contract – HEP d.d.	11,562	11,562
- Balancing energy – imbalance settlement – BGMs related parties and HEP Proizvodnja	35,645	30,701
- Transmission grid losses – HEP d.d.	4,996	24,467
- deposits received HEP d.d. and HEP ODS	24,969	48,582
- other – HEP d.d.	-	19,125
- Accrued interest on subloan – HEP d.d.	4,092	3,940
- Prepayment for connection fee - HEP d.d. and other	65,805	19,394
- For the payment od 2018 profit	-	32,845
- For connection assets EPK d.o.o.	34,100	-
- Other	5,663	5,867
	186,832	**196,483**
Liabilities to HEP Proizvodnja d.o.o. for ancillary services	57,105	62,138
Liabilities to HEP Proizvodnja d.o.o. for connection to the grid – prepayment	25	753
	57,130	**62,891**
Total short term liabilities to related parties	**243,962**	**259,374**
Non-current liabilities		
Subloan liabilities (Note 30) - HEP d.d.	653,808	421,225
Apartments sold (Note 30) - HEP d.d.	428	539
	654,236	**421,764**
Current portion (Note 30)	(57,553)	-
	596,683	**421,764**

During the year ending 31 December 2020, the Company has netted liabilities and interest on loans to related parties with receivables from affiliated companies in the amount of HRK 19,124 thousand relating to principal and HRK 20,935 thousand relating to interest (2019: HRK 76,405 thousand and HRK 20,796 thousand).

35. RELATED PARTY TRANSACTIONS (continued)

(in thousands of HRK)	Expenses		Sales revenue	
	2020	**2019**	**2020**	**2019**
State controlled entities				
Hrvatske željeznice d.o.o.	12	-	16,274	16,434
INA-Industrija nafte d.d.	3,883	4,902	-	-
Legislative. executive and other bodies of the Republic of Croatia	2,252	6	-	-
Petrokemija Kutina d.d.	1,217	281	2,612	5,580
Hrvatske šume d.o.o.	394	930	-	-
Croatia osiguranje d.d.	383	552	-	-
Narodne novine d.d.	327	286	-	-
Hrvatska radio televizija	542	516	-	-
Healthcare organizations and intitutions	184	190	119	-
Hrvatske telekomunikacija d.d.	751	695	14	14
Sveučilišta i veleučilišta	49	104	-	-
Jadrolinija d.d.	74	99	-	-
Judicial institution	-	7	-	-
Other users	206	201	-	54
Hrote d.o.o.	21,712	1,121	13,319	46,479
TOTAL	**31,986**	**9,890**	**32,338**	**68,561**

(in thousands of HRK)	Receivables		Liabilities	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
State controlled entities				
HŽ infrastruktura d.o.o.	1,605	1,524	-	-
Petrokemija Kutina d.d.	360	352	-	-
INA-Industrija nafte d.d.	-	-	355	479
Hrvatske telekom d.d.	-	-	173	162
Croatia osiguranje d.d.	-	-	49	80
Hrote d.o.o.	2,472	6,394	2,353	1,337
Jadrolinija d.d.	-	-	1	2
Narodne novine d.d.	-	-	26	26
Other users	197	94	157	363
TOTAL	**4,634**	**8,364**	**3,114**	**2,449**

36. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities are liabilities that are unlikely to be required to settle an outflow of resources embodying economic benefits or the amount of the liability cannot be estimated reliably. The Company's financial liabilities not included in the Statement of Financial Position, issued by the Company as collateral for payments on loans and other contractual obligations as at 31 December 2020 amount to HRK 972,786 thousand (31 December 2019 in the amount of HRK HRK 629,122 thousand).

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

Operating commitments

As at 31 December 2020 as part of its investing activities, the Company has concluded contracts under which the construction of a number of significant facilities and equipment has commenced but not completed. The contract value of incomplete work under most significant projects amounts to HRK 592,569 thousand (31 December 2019: HRK 777,263 thousand).

Environmental protection

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

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

37. FINANCIAL INSTRUMENTS

Capital risk management

Net debt to equity ratio (Gearing ratio)

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

(in thousands of HRK)	**31 December 2020**	**31 December 2019**
Debt (long and short-term borrowings)	654,236	421,764
Current financial assets	(21,382)	(19,640)
Cash and cash equivalents	(308,000)	(255,910)
Net debt	324,854	146,214
Equity	5,230,873	5,190,678
Net debt to equity ratio	**6,21%**	**2,82%**

Debt is defined as long-term and short-term borrowings, and other long term liabilities. Equity includes all capital and reserves of the Company.

37. FINANCIAL INSTRUMENTS

Categories of financial instruments

(in thousands of HRK)	31 December 2020	31 December 2019
Financial assets		
Receivables for apartments sold	1,102	1,437
Trade receivables	24,731	68,684
Receivables from related parties	193,907	179,202
Other short-term assets	53,394	45,479
Current financial assets	21,382	19,640
Cash and cash equivalents	308,000	255,910
Total loans and receivables at amortised cost	**602,516**	**570,352**

(in thousands of HRK)	31 December 2020	31 December 2019
Financial liabilities		
Loan liabilities	654,236	421,764
Other non-current liabilities	1,499	1,083
Trade payables	361,173	382,165
Payables to related parties	243,962	259,374
Other short-term liabilities	110,569	125,572
Total financial liabilities at amortised cost	**1,371,439**	**1,189,958**

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

37. FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments (continued)

Management believes that as at 31 December 2020, the carrying amounts of financial assets and liabilities and investment property approximate their fair value due to the short-term nature of those assets and liabilities.

Financial risk management objectives

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

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

Market risk

(i) Price risk

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

(ii) Foreign exchange risk management

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

(in thousands of HRK)	**Liabilities**	
	31 December 2020	**31 December 2019**
The European Union (EUR)	443,443	435,467
	Assets	
	31 December 2020	**31 December 2019**
The European Union (EUR)	97,550	132,062

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

	31 December 2020	**31 December 2019**
EUR	7,536898	7,44258

37. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments (continued)

Market risk (continued)

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations in the exchange rate of the Croatian Kuna to the Euro (EUR). The following table details the Company's sensitivity to a 10% decrease in 2020 in the Croatian Kuna against the relevant foreign currency (decrease of 10% in 2019). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably likely change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where the Croatian Kuna changes by above mentioned percentage against the relevant currency. For a reverse proportional change of the Croatian Kuna against the relevant currency there would be an equal and opposite impact on profit and other equity.

(in thousands of HRK)	**2020**	**2019**
EUR change impact		
Decrease of net result	(34,589)	(30,341)

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

Interest rate risk management

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

37. FINANCIAL INSTRUMENTS (continued)

Interest rate sensitivity analysis

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

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

Credit risk management

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

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. The most significant customer is the associated company HEP-ODS and it makes more than 54% of receivables on 31 December 2020.

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

Liquidity risk management

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

37. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

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

As at 31 December 2020	**Carrying amount**	**Contractual cash flows**	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities:						
Liabilities for apartments sold	**726**	**726**	363	363	-	-
Other long-term liabilities	**773**	**773**	-	773	-	-
Trade payables	**361,173**	**361,173**	361,173	-	-	-
Payables to related parties	**243,962**	**243,962**	243,962	-	-	-
Other short-term liabilities	**110,569**	**110,569**	110,569	-	-	-
	717,203	**717,203**	**716,067**	**1,136**	**-**	**-**
Interest bearing liabilities:						
Loan liabilities	**654,236**	**763,380**	81,996	531,395	149,989	-
	654,236	**763,380**	**81,996**	**531,395**	**149,989**	**-**
Total	**1,371,439**	**1,480,583**	**798,062**	**532,531**	**149,989**	**-**

As at 31 December 2019	**Carrying amount**	**Contractual cash flows**	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing liabilities:						
Liabilities for apartments sold	**943**	**943**	392	392	159	-
Other long-term liabilities	**140**	**140**	-	140	-	-
Trade payables	**382,165**	**382,165**	382,165	-	-	-
Payables to related parties	**259,374**	**259,374**	259,374	-	-	-
Other short-term liabilities	**125,572**	**125,572**	125,572	-	-	-
	768,194	**768,194**	**767,503**	**532**	**159**	**-**
Interest bearing liabilities:						
Loan liabilities	**421,764**	**483,144**	20,460	20,460	442,224	-
	421,764	**483,144**	**20,460**	**20,460**	**442,224**	**-**
Total	**1,189,958**	**1,251,338**	**787,963**	**20,992**	**442,383**	**-**

37. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management (continued)

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

As at 31 December 2019	**Carrying amount**	**Contractual cash flows**	Up to 1 year	1 - 2 years	2 - 5 years	Over 5 years
			(in thousands of HRK)			
Non-interest bearing assets:						
Non-current receivables	**1,437**	**1,437**	603	603	231	-
Trade receivables	**68,684**	**68,684**	68,684	-	-	-
Receivables from related parties	**179,202**	**179,202**	179,202	-	-	-
Short term financial assets	**45,479**	**45,479**	45,479	-	-	-
Other short-term assets	**65**	**65**	65	-	-	-
	294,867	**294,867**	**294,033**	**603**	**231**	**-**
Interest bearing assets:						
Current financial assets	**19,640**	**19,836**	19,836	-	-	-
Cash and cash equivalents	**255,910**	**255,936**	255,936	-	-	-
	275,550	**275,772**	**275,772**	**-**	**-**	**-**
Total	**570,417**	**570,639**	**569,805**	**603**	**231**	**-**

38. EVENTS AFTER THE DATE OF FINANCIAL POSITION STATEMENT

By the decision of the General Workers' Council of the Company of March 30, 2021, Mr. Denis Geto was appointed as the employee representative in the Supervisory Board of the Company for the period from April 1, 2021 to December 31, 2021, given that the current member Ms. Sanja Olujić's mandate expired on March 31, 2021.

There were no other events after the balance sheet / statement of financial position date that would significantly affect the Company's annual financial statements for 2020, which should be published as a result.

39. APPROVAL OF THE FINANCIAL STATEMENTS

These annual financial statements were approved by the Board,

Signed on behalf of the Company on 20 April 2021 by:

Dejan Liović	Zlatko Visković	Tomislav Plavšić
Board member	Board member	President of the Board

HOPS
Hrvatski operator prijenosnog sustava d.o.o.
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The accompanying notes form an integral part of these financial statements.