ANNUAL AND SUSTAINABILITY REPORT

2023

HEP Group



HEP



Note for readers

A part of the text connecting information published on the website or a part of the text referring to a chapter within HEP Group's Annual and Sustainability Report 2023 is highlighted in blue.

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MISSION

Sustainable, reliable and competitive energy generation, distribution and supply, in line with customers' needs with a high degree of social responsibility.

VISION

HEP is going to be a regional energy leader, developing technological options, competitive advantages and innovative business models focused on future needs of its users, in cooperation with national and international companies.

CORE VALUES

COMPETENCE AND INNOVATION



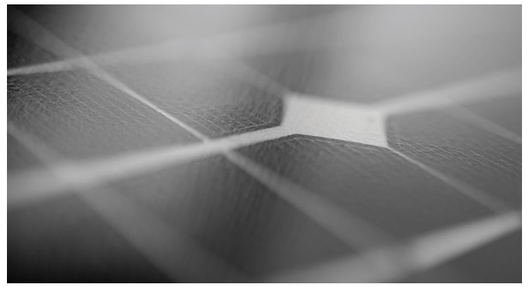
Our employees are our most valuable potential and support in the implementation of the Company's mission and vision, as well as in the creation of the value of the Company to which we belong. Along with being open to new ideas and creativity, we develop knowledge and skills.

INTEGRITY



Our relation to customers, business partners, employees and assets is professional and conscientious. We affirm the attitude of zero tolerance of corruption. Our principles of business conduct have been defined by the Code of Ethics.

QUALITY AND BUSINESS EXCELLENCE



Taking into account the demands and expectations of all interested groups, we increase the quality of our products and services. Our goal is the Company's business excellence.

ENVIRONMENTAL RESPONSIBILITY



We produce, transmit and distribute energy in an environmentally friendly manner. We encourage effective and rational energy use among our customers as well as the development and use of renewable energy sources.

The main goals of HEP in the coming period are the efficient delivery of investment projects and the implementation of the energy transition by constructing own resources and strengthening the network for the purpose of accepting new renewable energy sources produced by other energy entities, entrepreneurs and citizens.

MANAGEMENT BOARD REPORT

The year 2023 for HEP was marked by business stabilization. After the loss of EUR 822 million in 2022, due to the prominent role of HEP in the implementation of anti-inflationary measures of the Government of the Republic of Croatia in circumstances of extreme volatility of the energy markets in Europe, profit of EUR 117 million was generated in 2023. The decision of the Government of the Republic of Croatia under which the HEP Group suppliers of business customers were compensated in the same way as other suppliers of electricity in Croatia had a key impact on the achieved result. Also, in contrast to 2022, which was marked by a low flow of water for hydro production, the year 2023 was characterized by favourable hydrological circumstances, due to which 7.5 TWh of electricity was produced in hydropower plants, accounting for an increase of 52 percent compared to the previous year. Most input costs key to HEP's operations also reduced in 2023, due to average lower prices of imported electricity, coal and emission units.

More favourable business circumstances, along with the equity loan from the Republic of Croatia in the amount of EUR 400 million, enabled us to continue with the successful implementation of the measures passed by the Government of the Republic of Croatia for mitigating the impact of rising electricity, gas and heating prices for Croatian citizens and entrepreneurs, which were in force throughout 2023. The implementation of the investment plan was also successful in 2023, amounting to EUR 486 million at the level of HEP Group. The emphasis was on investments in renewable sources and increasing energy efficiency. The investments in Stankovci, Obrovac and Donja Dubrava solar power plants with a total connection capacity of 19.8 MW and a value exceeding 20 million euro have been fully completed. Donja Dubrava solar power plant with its 9.9 MW connection and 12.35 MW installed capacity is the largest solar power plant in Croatia. Among other completed investments, the EUR 11.4 m replacement of the connecting hot water pipeline in Osijek and the EUR 23.5 m smart network pilot project stand out. Both projects are EU co-funded. This is an important source of funds for the realization of our plans in the coming period as well as for our future projects.



The year 2023 for HEP was marked by business stabilization.

As part of the 2024 Investment Plan of EUR 630 million, we are continuing with the implementation of ongoing projects and starting the implementation of several new capital projects. Until the end of the year, a new EUR 140 m combined cycle cogeneration plant at Elektrana-toplana Zagreb (150 MWe; 114 MWt) will become operational. Functional testing of equipment and systems started in late 2023. The first ignition of the gas turbines was successfully carried out as well as the first synchronization of gas unit generators and the electric power system in early December.

The construction of Jambrek and Črnkovci solar power plants will be completed, and by the end of the year, Dugopolje and Radosavci solar power plants, both with a capacity of 10 MW, will reach a high stage of completion. The construction start of several new solar power plants, including Lipik, Unije and Korlat, the largest to date (75 MW), is also expected. In cooperation with Končar by means of our joint venture company 'Male hidre', we are continuing the construction of Otočac small hydropower plant. As part of the Kosinj project, work continues on the construction of the Bakovac-Lika tunnel and canal. As part of the reconstruction and revitalization project of HPP Senj, the unit B equipment will be replaced.

In addition to investments in production facilities, our focus will also be on the renovation of existing and the construction of new transmission and distribution network infrastructure facilities. The emphasis will be on the EU co-funded projects under the framework of the National Recovery and Resilience Plan, aimed at facilitating the system for the acceptance of an increasing number of new renewable energy sources. In February 2024, HEP ODS signed an agreement with the Ministry of Economy and Sustainable Development and the Environmental Protection and Energy Efficiency Fund on the allocation of grants in the amount of EUR 156 million to a group of projects titled 'Modernization of the Croatian Electric Distribution Network', worth EUR 286 million.

The Government's decision from March 2024, under which the Republic of Croatia waived HEP's profits for future periods up to a total amount of 194 million euro, is also an incentive for the implementation of investment plans, which will certainly maintain and strengthen HEP's investment potential. This is supported by the Moody's affirmation of the existing long term credit rating of Hrvatska elektroprivreda d.d. of Baa2 from November 2023 along with the upgrade of outlook from stable to positive. The change came after Moody's upgraded the sovereign outlook from stable to positive. At the same time, HEP's stand-alone credit rating of baa3 was also affirmed.

Due to continuous activities in terms of active and responsible management of its own production and business portfolio, and overall financial position, HEP maintains and confirms a stable position on the energy and capital markets. In light of the above, it remains the guarantor of safe supply of Croatian citizens and industry, customers of electricity, thermal energy and gas, and one of the largest investors in the Republic of Croatia. Thus, we will continue to provide a strong contribution to the stability and strengthening of the overall Croatian economy. The main goals of HEP in the coming period are the efficient implementation of investment projects and the implementation of the energy transition by building own sources and strengthening the network in order to accept new renewable energy sources from other energy entities, entrepreneurs and citizens. We will play a key role in the strengthening of the energy independence of the Republic of Croatia based on the principles of sustainable development and in accordance with the EU climate and energy policy guidelines.

President of the Management Board
Vice Oršulić

The first Sustainability Report was prepared according to the Global Reporting Initiative Guidelines (GRI G4) and published in 2015 for 2013 and 2014. Since then, the Reports are published every year.



ABOUT HEP GROUP AND SUSTAINABILITY REPORTING

GRI 2-1

HEP d.d. (Hrvatska elektroprivreda – joint-stock company) is the parent company of HEP Group with its seat in Zagreb at Ulica grada Vukovara 37, wholly owned by the state. It consolidates the management of its subsidiaries and is the owner of the assets which it contractually transfers to subsidiary companies for management.

The core activities of HEP Group are production, transmission, distribution of electricity, supply of electricity to customers and supervision of the electricity system. In addition to the aforementioned core activities, HEP Group is also engaged in the production and distribution of thermal energy through district heating systems in Zagreb, Osijek and Sisak (DHS) and in the production and distribution of thermal energy in boiler rooms for heating the towns of Zaprešić, Samobor and Velika Gorica outside DHS. The activity of HEP Group also includes gas distribution in Osijek-Baranja, Požega-Slavonia, Virovitica-Podravina, Bjelovar-Bilogora, Krapina-Zagorje and Vukovar-Srijem counties.



The core activities of HEP Group are production, transmission, distribution of electricity, supply of electricity to customers and supervision of the electricity system.

HEP GROUP COMPANIES AS AT 31 DECEMBER 2023

Reporting period 2023	Company name, country of registered office and link to company's website	Core activity
	HEP Group	
HEP Group parent company is wholly owned by the state	**HEP d.d.** Republic of Croatia	The controlling company of HEP Group which consolidates the management of subsidiaries and is the owner of the assets that it contractually transfers to its subsidiaries for management.
Name, legal form, form of ownership and market — Company owned by HEP d.d.	**HEP-Proizvodnja d.o.o.** Republic of Croatia	Generation of electricity and heat
	CS Buško Blato d.o.o. Bosnia and Herzegovina	Maintenance of hydro equipment
	HEP-VHS Zaprešić d.o.o. Republic of Croatia	Design and construction of multi-purpose hydrotechnical system
	HEP-Operator distribucijskog sustava d.o.o. Republic of Croatia	Electricity distribution
	HEP Nastavno-obrazovni centar Republic of Croatia	Training, professional development and accommodation services
	HEP ELEKTRA d.o.o. Republic of Croatia	Electricity supply of customers as a public service
	HEP-Opskrba d.o.o. Republic of Croatia	Electricity supply
	HEP Energija d.o.o. Republic of Slovenia	Electricity supply
	HEP-Toplinarstvo d.o.o. Republic of Croatia	Production, distribution and supply of thermal energy
	HEP-Plin d.o.o. Republic of Croatia	Gas distribution and supply
	HEP-ESCO d.o.o. Republic of Croatia	Implementation and funding of energy efficiency projects
	HEP-Trgovina d.o.o. Republic of Croatia	Electricity trade, trade of natural gas and EU allowances (EUA), and optimization of power plant operations
	HEP Energija d.o.o. Mostar Bosnia and Herzegovina	Trade and supply of electricity
	HEP Energija d.o.o. Beograd Republic of Serbia	Trade and supply of electricity
	HEP Energjia sh.p.k. Priština Republic of Kosovo	Trade and supply of electricity
	HEP-Upravljanje imovinom d.o.o. Republic of Croatia	Management of non-operating assets
	Plomin Holding d.o.o. Republic of Croatia	Development of local infrastructure in the vicinity of Plomin
	Sunčana elektrana Poreč d.o.o. Republic of Croatia	Electricity production
	Sunčana elektrana Vis d.o.o. Republic of Croatia	Electricity production
	Energetski park Korlat d.o.o. Republic of Croatia	Electricity production
	HEP-Telekomunikacije d.o.o. Republic of Croatia	Telecommunication services
	NE Krško d.o.o.[1] 50% HEP d.d. and 50% GEN Energija Republic of Slovenia	Electricity production
	LNG Hrvatska d.o.o.[2] 75% HEP d.d. and 25% Plinacro d.o.o. Republic of Croatia	Liquefied natural gas operations
	Hrvatski operator prijenosnog sustava d.o.o.[3] Republic of Croatia	Electricity transmission
HEP Group registered office	Ulica grada Vukovara 37, 10000 Zagreb	

[1] In consolidated financial statements, the share in NE Krško d.o.o. is shown by the method of joint asset and liabilities management. HEP Group's share is shown for each asset and liability across income and expenditure.
[2] Joint venture with Plinacro d.o.o. (75%:25%)
[3] As of 1 July 2013, HOPS operates under the Independent Transmission Operator Model (ITO model)

SUSTAINABILITY REPORTING

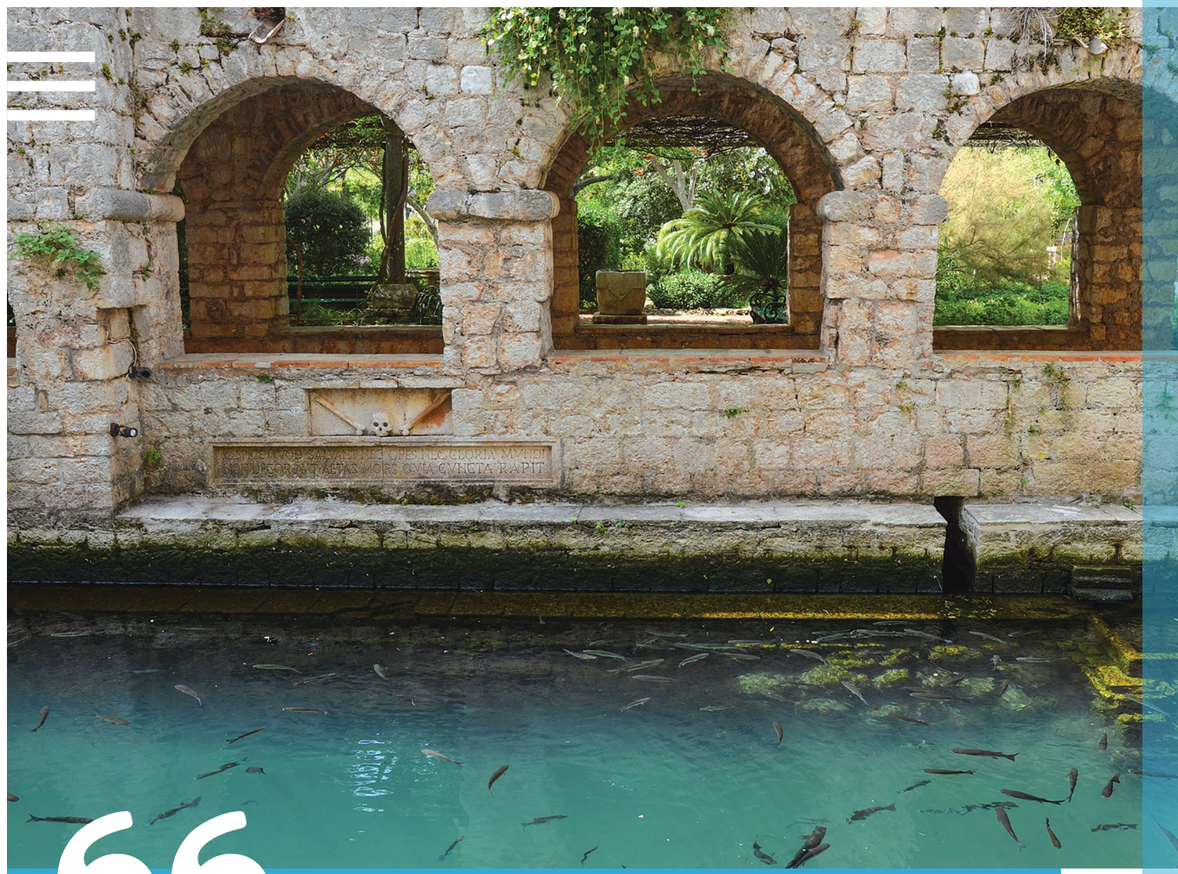
GRI 2-2
GRI 2-3

We prepared the first sustainability report according to the guidelines of the Global Reporting Initiative (GRI G4) and published it in 2015 for 2013 and 2014 in Croatian and English. Since 2016, we have published reports every year, and since 2019, the annual and sustainability reports are published only in digital form on the HEP Group website. The 2023 Annual and Sustainability Report of HEP Group, which covers the period from 1 January until 31 December 2023, includes the companies that are also a part of the revised Annual Consolidated Financial Statement for 2023. The report was made according to the 2021 GRI Consolidated Guidelines.

EXTERNAL ASSURANCE

GRI 2-5

In accordance with Article 21 of the Accounting Act, PKF FACT revizija d.o.o. and Moore Audit Croatia d.o.o as the independent auditor of the Annual Consolidated Financial Statements for 2023, determined the content compliance of the HEP Group 2023 Annual and Sustainability Report with the content in financial statements.



The 2023 Annual and Sustainability Report of HEP Group, which covers the period from 1 January until 31 December 2023, includes the companies which are also a part of the revised 2023 Annual Consolidated Financial Report.



3

Total electricity output in 2023 was 15.126 TWh, which is an increase of 2.710 TWh compared to 2022.

OUR PRODUCTS, SERVICES, MARKETS AND VALUE CHAIN

GRI 2-6
GRI 206-1

This chapter describes HEP Group's products and services, our business markets and our value chain. The 2023 operating results are given for each product and service and compared to the 2022 results.



HEP Group is the largest electricity supplier in Croatia.

ELECTRICITY

GRI 2-6

HEP Group is the largest electricity supplier in Croatia. All electricity production facilities are owned or co-owned by HEP d.d. and located in Croatia, with the exception of Krško nuclear power plant, located in Slovenia, and Buško Blato Pumping Station, located in Bosnia and Herzegovina. Plants are operated by HEP Proizvodnja, NPP Krško, Energy park Korlat, Solar power plant Vis and Plomin holding. They were issued a licence for performing said activity by the Croatian Energy Regulatory Agency (HERA). The transmission system is operated by the Croatian Transmission System (HOPS), which activity is described in Electricity transmission, while the distribution network is operated by HEP Operator distribucijskog sustava (HEP ODS), which activity is described in Electricity distribution. HEP Opskrba and HEP Elektra are Croatian based companies within HEP Group that supply electricity to customers. HEP Group's supplier on the Slovenian market is HEP Energija d.o.o., the daughter company of HEP Opskrba. HEP Group's companies with the licence to perform the supply activity on the markets of Bosnia and Herzegovina, Serbia and Kosovo are HEP Energija d.o.o. Mostar, HEP Energija d.o.o. Beograd and HEP Energija sh.p.k. Priština. HEP Elektra carries out the public service of electricity supply, i.e. the universal service for household customers and guaranteed service for business customers. The activities of HEP Elektra and HEP Opskrba are described in Electricity supply. HEP Trgovina, together with its daughter companies in Bosnia and Herzegovina, Serbia and Kosovo buys and sells electricity, and purchases cross-border transmission capacities. HEP Trgovina also procures EU allowances (EUA) for HEP's fossil fuel-fired power plants as part of the European Union Emissions Trading System (EU-ETS). The description of HEP's obligations within the EU-ETS is described in the chapter Greenhouse gas emissions.

ELECTRICITY PRODUCTION AND PROCUREMENT

GRI 2-6

Total production of electricity in 2023 was 15,126 TWh, which was by 2.710 TWh more than in 2022. Of the total production, hydropower plants (HPP) accounted for 7.507 TWh or 49.63% of produced electricity, thermal (TPP) and combined cycle cogeneration power plants (TE-TO CCPP) produced 4.722 TWh (31.22%), while forest-fired biomass plants (BE-TO), solar power plants (SPP) and wind power plants (WPP) accounted for 0.232 TWh or 1.53% of the total electricity production. Electricity production sources are renewables, which include hydropower plants (HPP, pump storage, small hydro), wind power (WPP), wood chip bioenergy (BE-TO) as well as integrated and non-integrated photovoltaic solar power plants. In addition to renewable sources, electricity was also produced from wood chips in bioemass plants (BE-TO), low-sulfur imported hard coal, gas oil, fuel oil, light fuel oil and natural gas in thermal power plants (TPP, CHP) and combined cycle cogenration plants (TE -TO and EL-TO CCGT). Since 1 January 2013, all HEP's thermal and cogeneration power plants (TPP, CHP, TE-TO and EL-TO CCGT) have been included in the EU Emissions Trading System (EU ETS). The EU ETS also includes biomass plants (BE-TO), TE-TO and EL-TO, which are cogeneration plants producing heat energy in addition to electricity. Heat energy data are given under Production, distribution and supply of heat energy.

On the basis of a 50 percent share in the ownership of Krško nuclear power plant (HEP d.d. 50% and GEN Energija 50%), half of the electricity produced in NPP Krško is taken over for the needs of HEP's customers. The nuclear fuel used by NPP Krško is uranium dioxide UO2 (up to max. 5% enriched uranium 235, and the rest uranium 238). Information on the quantities of fossil and nuclear fuel as well as wood chip volumes used for the production of electricity and thermal energy can be found in Energy and energy fuels.

On 13 January 2023, the Ministry of Environmental Protection and Spatial Planning of the Republic of Slovenia issued an environmental permit to Krško nuclear power plant, which extended its life until 2043. The process of obtaining environmental approval lasted for two years and three months and required a great deal of involvement of the Krško NPP expert staff. About 50 experts from numerous scientific institutions from Croatia and Slovenia participated in the preparation of documentation, analysis and expert evaluations, as well as in the preparation of the environmental impact assessment. As part of the procedure, a cross-border environmental impact assessment, in accordance with the ESPOO Convention, was carried out in Croatia, other neighbouring countries (Italy, Hungary and Austria) and Germany.

The approval was preceded by a successful modernization and the safety increase of Krško NPP in 2022, carried out through the Nuclear Safety Modernization Programme, a EUR 370 million investment which was equally contributed to by its co-owners, Hrvatska elektroprivreda d.d. and GEN Energija from Slovenia.

Facilities for production of electricity from renewable sources

Facility	No. of facilities	Installed capacity/ MWe
Hydropower plants (HPP, pump storage, mHE)[1]	28	2166.95[2] / -257.9[3]
Facility	**No. of facilities**	**Connection capacity[4] / MWe**
Non-integrated/integrated solar power plants	8/64	30.6
Wind farms (VE)	1	58

[1] HPP=hydropower plant, mHE = small hyderopower plants <10MWe
[2] Excluding Unit B in Dubrovnik hydropower plant, which operation covers BiH demand
[3] Energy storage in pump-storage
[4] The information on connection, and not available capacity is shown for renewable energy sources, which generation depends on weather conditions and is impossible to control

Facilities for production of electricity from fossil fuels

Facility	Type of fuel	Installed capacity MWe
Thermal power plants (TPP)		
TPP Plomin 1	coal	0
TPP Plomin 2	coal	217
TPP Rijeka	fuel oil	320
CCGT Jertovec	natural gas/ light fuel oil	88
TOTAL TPP		**625**
Wood chip bio power plant (BE-TO)	biomass (wood chip)	6
TOTAL BE-TO[1]		**6**
Combined heat and power (TE-TO and EL-TO)		
TE-TO Zagreb	natural gas/light fuel oil	460.1
EL-TO Zagreb	natural gas	50
TE-TO Sisak	natural gas/light fuel oil	238
TE-TO Osijek	natural gas/light fuel oil	95
TOTAL TE-TO and EL-TO		**843.1**
TOTAL TPP, TE-TO, BE-TO, EL-TO		**1,474.1**

[1] BE-TO= biomass used in 2023 was not procured in accordance with Article 29, paragraphs 2-7.10 of the Directive on renewable energy sources (EU) 2018/2001 (RED II), and the carbon content thereof is considered fossil fuel as defined in Article 38, paragraph 5 of the Implementing Commission Regulation (EU) 2018/2066 on monitoring and reporting of greenhouse gas emissions

Facility for production of electricity from nuclear fuel

Facility	Type of fuel	Installed capacity
Krško nuclear power plant (NEK)	Uranium dioxide UO2(up to max. 5% enriched uranium 235, other uranium 238)	348

The difference between electricity necessary for customer supply and the one generated from own sources is compensated through off-system energy procurement – bilateral agreements, via broker platforms and at power exchanges in central and southeast Europe. Procured energy originates from Croatia, Hungary, Slovenia, Serbia and Bosnia and Herzegovina. A portion of electricity procured on the market terms is intended for customers in Croatia, a portion is for HEP's customers outside Croatia while the remaining portion is used for covering grid losses, selling energy surpluses and export.

HEP Operator distribucijskog sustava (HEP ODS) procures and independently plans electricity to cover losses in the distribution network. The registration of agreed timetables for energy purchase to cover losses in the distribution network is done on a daily basis, independently of weekends and holidays. Distribution network losses in 2023 amounted to 1.348 TWh, which is by 12.43% more than in 2022 1.199 TWh.

Croatian Transmission System Operator (HOPS) is responsible for electricity procurement to cover losses in the transmission grid. It bears the costs of this procurement independently. Losses in the transmission grid in 2023 totalled at 0.465 TWh, which represents a slight increase compared to 0.463 TWh in 2022.

STRUCTURE OF PRODUCED AND AVAILABLE ELECTRICITY IN 2023

In 2023, a total of 22,426 TWh (22,426 x 109kWh) of electricity was available, of which HEP Proizvodnja produced 15,126 TWh or 67.45%, while 32.55% (7,336 TWh) of the total available electricity was purchased on the market. 51.09% was produced from renewable energy sources, 17.65% from nuclear energy, and 31.28% from fossil fuels. Of the total available electricity in 2023, 16,295 TWh was sold to customers in Croatia, and 5,237 TWh to customers abroad. The difference between the total available energy and the energy sold to HEP's customers (17,189 TWh), i.e. 5,237 TWh, was used to cover losses in the transmission and distribution network, for the sale of surplus energy and export.

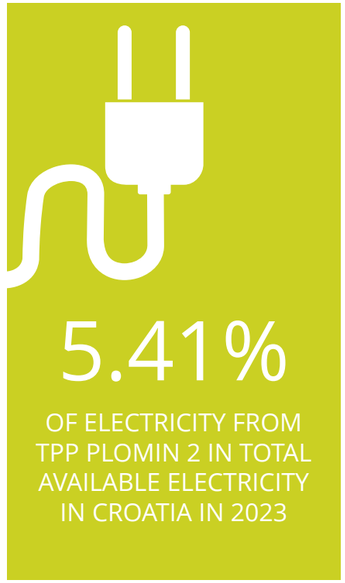
Distribution network losses

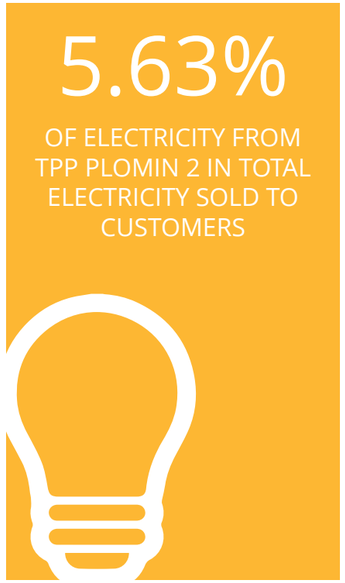
Description	2023	2022	2023/2022 difference
Losses in TWh	1.349	1.199	0.150
% of losses	8.16%	7.13%	1.03 p.p

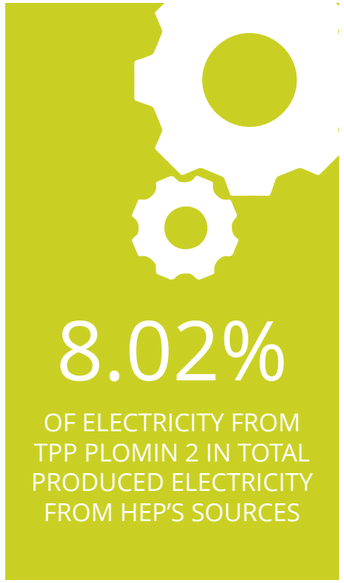
Distribution network losses in 2023 amounted to 1.349 TWh accounting for 8.16% of the total energy input to the distribution network. It represents a 12.51% increase (by 0.150 TWh) than in 2022.

Hydropower plants owned by HEP produced 49.63% of the total available electricity in 2023, 17.63% was produced from nuclear energy, 31.41% from fossil fuels and 1.34% from solar and wind power plants.

The share of production from the coal-fired TPP Plomin 2 in the total available electricity accounts for 5.41%, in the total electricity sold to customers in the Republic of Croatia and abroad 5.63%, while in the total electricity produced from sources owned or co-owned by HEP it was 8.02%. The share of electricity produced from coal in the total energy produced from fossil fuels from sources owned by HEP accouted for 25.69%.







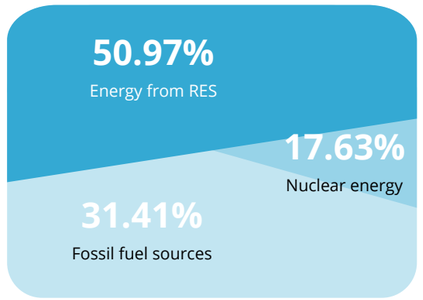
Power plants with the status of eligible producers of energy from renewable sources and high-efficiency cogeneration produced 0.04 TWh, that is, 0.18% of the total available energy and 0.27% of the total energy produced from HEP sources. During 2023, the power plants operated by HEP Proizvodnja produced 15,126 TWh of electricity, which is 2,710 TWh more than in 2022 (21.83% growth). Of the total production in the HEP Proizvodnja portfolio, hydropower plants (HPP) produced 7,507 TWh or 49.63%, while thermal power plants (TPP), combined cycle cogeneration power plants (TE-TO) and forest biomass power plants (BE-TO) produced a total of 4,751 TWh or 31.41%.

Shares of energy sources in total available and produced electricity in 2023

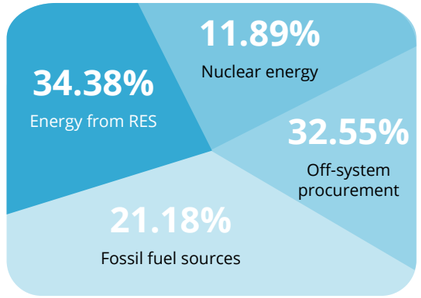
	Production / TWh[1]	Share in produced electricity / %	Share in available electricity/ %
Energy from renewable sources (RES)			
Hydropower plants	7.507	49.63%	33.47%
Non-integrated photovoltaic plants and 9 integrated solar power plants (purchase from HROTE)[1]	0.101	2.14%	0.45%
Wind farms	0.102	3.81%	0.45%
TOTAL production from RES from HEP's sources	**7.738**	**51.16%**	**34.51%**
Nuclear energy			
Krško nuclear power plant	2.666	17.63%	11.89%
Fossil fule sources			
Thermal and combined cycle cogeneration power plants	4.722	31.22%	21.06%
Forest biomass plants[2]	0.029	0.19%	0.13%
TOTAL production from fossil fuels	**4.751**	**31.41%**	**21.18%**
TOTAL produced electricity	**15.126**	**100.00%**	**67.45%**
Market purchase			
Mandatory purchase from HROTE – energy from the system of incentives	1.378	NP	6.14%
Market purchase out of incentives and guarantees of origin	5.922	NP	26.41%
TOTAL procured energy on the market	**7.300**	**NP**	**32.55%**
TOTAL available electricity	**22.426**	**100**	**100.00%**

[1] Total of 53 SPP on the roofs of HEP's buildings produce electricity for own consumption and are not shown in the energy available and produced for customers
[2] Biomass used in 2023 does not comply with the directives as defined in Article 38, paragraph 5 of Commission Implementing Regulation (EU) 2018/2066 on monitoring and reporting of greenhouse gas emissions, i.e. according to Article 29, paragraphs 2-7.10 Directive on renewable energy sources (EU) 2018/2001 (RED II), and the carbon content in it is considered fossil fuel

Shares of energy sources in total produced energy by HEP Group sources in 2023



Shares of energy sources in total available energy of HEP Group in 2023



50.97%
OF ELECTRICITY PRODUCED FROM HEP'S SOURCES IN 2023 IS FROM RENEWABLE ENERGY SOURCES

44.00%
OF ELECTRICITY PRODUCED IN THE EU IN 2023 IS FROM RENEWABLE ENERGY SOURCES

68.78%
OF THE TOTAL GENERATED ELECTRICITY IN 2023 WITH THE EMISSION INTENSITY OF 0 GCO_2/KWh

The share of electricity from sources with the emission intensity of 0 tCO_2/ TWh (0 gCO_2/kWh) in the total produced electricity from the sources owned or co-owned by HEP amounted to 68.78, including the production by hydro power plants, wind power plants, photovoltaic solar power plants and a nuclear power plant. The greenhouse gas emission intensity as well as the breakdown according to Scope 1, 2 and 3 are described in Greenhouse gas emissions.

INVESTMENTS IN SOURCES FOR ELECTRICITY GENERATION AND HIGH-EFFICIENCY COGENERATIONS IN 2023

In accordance with the current goals of the REPowerEU Plan (European Commission, 2022) and the Croatia's energy transition plan towards a low-carbon society, HEP has put special emphasis on investment and development in renewable energy sources as part of its investment plans. By 2030, HEP is planning to increase the share of renewable energy sources from 35 to more than 50%.

The investment cycle in solar power plants continued in 2023 as well as the construction preparation of new facilities, especially the projects of non-integrated solar power plants. In 2023, the construction of 9.9. MW Donja Dubrava solar power plant was completed. In November 2023, the Design and Construction Agreement for the construction of 10 MW Dugopolje solar power plan was concluded, and the work began. The planned construction period is 18 months. In 2023, the Agreement for the construction of a 160 kW integrated solar power plant on the roofs of BE-TO Sisak was concluded. The construction began in late 2023, and the completion is expected in the first half of 2024.

The building permit was issued for the construction of Korlat solar power plant (75 MW), and the pre-qualification procedure (EBRD) was completed. In 2023, a building permit was also obtained for Lipik solar power plant (5 MW). In May 2023, the construction of Črnkovci solar power plant (8.5 MW) and Unije solar power plant (1 MW) with a battery system (up to 0.4 MW / 1.6 MWh) started, a building permit was issued and prerequisites created for the preparation of procurement for the construction of the solar power plant. Vratišinec solar power plant (10 MW) was issued a location permit. In April 2023, Sukošan solar power plant (45 MW) received an energy approval, and in December a location permit. Kruševo solar power plant (17 MW) is undergoing a procedure for the issuance of a location permit, while the mediation process for Cres solar power plant is undergoing before the Croatian Chamber of Commerce because the contractor did not finish the construction of the power plant within the planned period.

The completion of EL-TO CCPP is expected in 2024. The activities continued on the construction of the strategic Kosinj hydropower system and Senj 2 hydropower plant (Senj Hydropower System) project. Also, the activities of replacing worn out and defective equipment, reconstruction and revitalization of existing production facilities and transmission and distribution networks continued.



The construction of 9.9 MW Donja Dubrava Solar Power Plant was completed in 2023.

ELECTRICITY TRANSMISSION

GRI 2-6

Croatian Transmission System Operator (HOPS), as the only operator of the electric power transmission system in Croatia, owns the entire Croatian 400kV, 220kV and 110kV transmission network. It also owns the licence to carry out the energy activity of electricity transmission as a regulated public service.

HOPS operates under the independent transmission operator model, which implies its functional independence from the parent company, HEP d.d. and its affiliated companies, as well as non-discriminatory behaviour towards all transmission system users. HOPS publishes separate sustainability reports.

Length of constructed overhead lines and transmission grid cables

Transmission area	400 kV/ km	220 kV/ km	110 kV/ km	m.v./ km	Total[1]/ km
Osijek	289.76	53.65	919.48	12.00	1,274.89
Rijeka	259.29	371.06	1,207.85	0	1,838.20
Split	169.4	427.71	1,294.50	0	1,891.61
Zagreb	527.83	41.,6	1,833.00	0	2,776.43
Total[2]	**1,246.28**	**1,268.02**	**5,254.83**	**1.,00**	**7,781.13**

[1] Length of each individual line has been double counted in the total length of lines
[2] As at 31 December 2023

Number of substations and transformers in the transmission grid

Transmission area	No. of substations (pcs.)				No. of fields with switches (pcs.)			
	400/ x	220/ x	110/ x	Total	400	220	110	Total
Osijek	1	1	23	25	9	5	154	168
Rijeka	1	6	46	53	7	42	241	290
Split	2	7	54	63	11	45	297	353
Zagreb	2	4	60	66	18	27	384	429
Total	**6**	**18**	**183**	**207**	**45**	**119**	**1,076**	**1,240**
Transmission area	**No. of transformers (pcs.)**				**Installed capacuty (MVA)**			
	400/ x	220/ x	110/ x	Total	400/	220/	110/	Total
Osijek	2	2	34	38	600	300	1,262	2,162.0
Rijeka	2	9	29	40	800	1,270	820	2,890.0
Split	3	9	39	51	1,100	1,450	1,585	4,135.0
Zagreb	6	5	43	54	1,900	750	1,521.5	4,171.5
Total[1]	**13**	**25**	**145**	**183**	**4,400**	**3,770**	**5,188.5**	**13,358.5**

[1] As at 31 December 2023

ANCILLARY SERVICES

GRI 2-6

In accordance with the Electricity Market Act (hereinafter: ZoTEE), system services are services provided by the transmission system operator independently and by using the ancillary services of network users or market participants who are able to provide such services. Ancillary services include balancing and non-frequency services, excluding congestion management.

The transmission system grid code defines frequency ancillary services, i.e. balancing services (FCR reserve, aFRR reserve, mFRR reserve) and non-frequency ancillary services (voltage and reactive power regulation by production or consumption of reactive energy, compensatory work for voltage regulation and reactive power, black start, island operation).

In accordance with ZoTEE, HOPS as a transmission system operator is responsible for ensuring the safe, reliable and efficient operation of the electric power system (hereinafter: EES). In this context, the responsibility of HOPS is to ensure the availability of all ancillary services and organize the ancillary services market. The balancing services market in the entire territory of the Republic of Croatia is organized in accordance with the Electricity Balancing Rules.

Balancing services are procured in a transparent and non-discriminatory manner by conducting the procurement procedure through a public tender which is carried out on periodically. Tender rules are published on the HOPS website. In case of impossibility of procuring certain ancillary services on the market, the procurement is carried out by direct contracting and applying regulated prices with the dominant provider of balancing services, HEP Proizvodnja, upon the issuance of the HERA's consent.

During 2023, the provision of ancillary services in a regulated manner was contracted on a quarterly basis. Additionally, HEP Proizvodnja participates in public tenders for the provision of mFRR reserves and/or balancing energy in accordance with the Tender Rules for the provision of mFRR reserves and/or balancing energy.

In 2023, HEP Proizvodnja had at its disposal sufficient regulatory capacities for the needs of providing system services. In addition, HEP power plants' structure and features enable HEP's competitive position at the regional market of ancillary services. Along with contractual mediation of HOPS, HEP Proizvodnja offers foreign grid operators the remaining part of available regulatory capacities for the needs of system safety in the European interconnection, in the same manner as in the previous years.

ELECTRICITY DISTRIBUTION

GRI 2-6

HEP Operator distribucijskog sustava (HEP ODS) is the only energy entity in Croatia carrying out regulated electricity distribution. It is responsible for the operation, maintenance, construction and development of the distribution grid, from the transmission network to all users' billing and metering points. HEP ODS is obligated to enable all customers and electricity producers the access to the grid and its use under the same conditions. In this respect electricity producers are natural or legal persons that generate electricity in line with provisions set under the Electricity Market Act.

Grid users are divided into household and commercial category. HEP ODS carries out electricity distribution for household and commercial customers, i.e. grid access through the procedure of distribution network connections and use. A prosumer, which uses connected power plant for own needs and delivers electricity surplus into the grid, is also the grid user. During the connection process, HEP ODS examines the connection possibility, determines optimal technical solution thereof and defines technical, economical and other conditions of connecting the building to the network, as well as the conditions of constructing the connection and creating conditions in the grid. HEP ODS also provides support to all suppliers and other electricity market entities.

ELECTRICITY DISTRIBUTION IN 2023

During 2023, HEP ODS continued to carry out activities related to increasing the efficiency and safety of electricity supply, as well as reconstruction, expansion and strengthening of transformation power in substations. Activities were also carried out related to operating digitization, increasing the number of users for the provision of ancillary services, protection of personal data and increasing the cyber security of information and communication systems in accordance with the recommendations of ISO 27002.

Length of constructed underground and overhead distribution network lines in the regulated activity in 2023

Voltage level	Overhead lines/km	Cables/km	Submarine cables/km	Total[1]/km
Lines 35(20) kV	2,966.90	1,423.80	144.7	4,535.40
Lines 20 kV	4,990.00	6,869.40		11,859.40
Lines 10 kV	14,951.10	11,755.70	256.4	26,963.20
Network 0.4 kV	43,341.30	19,121.50		62,462.80
Household connections (0.4 kV)	23,174.60	14,134.80		37,309.40
Total[1] / km	**89,423.90**	**53,305.20**	**401.10**	**143,130.20**

[1] As at 31 December 2023

Compared to 2022, the number of metering points (OMM) in the distribution network at high and medium voltage increased by 2.53%, and by 1.19% at low voltage in 2023.

No. of OMM in the distribution network by voltage levels and tariff models in 2023 and 2022

Users	2023	2022
	No. of users	No. of users
HV1 - 110 kV	4	4
MV1 - 35 (30) kV	105	104
MV - 10 (20) kV	2,481	2,418
Total HV and MV[1]	**2,590**	**2,526**
LV1 – commercial (blue)	38,796	39,230
LV – commercial (white)	126,824	125,524
LV – commercial (red)	33,625	32,675
LV – commercial (yellow)	22,341	22,255
LV – household (blue)	688,564	691,515
LV – household (white)	1,625,956	1,595,131
LV – household (red)	2,454	2,335
LV – household (black)	2,832	2,857
Total LV[1]	**2,541,392**	**2,511,522**

[1] HV = high voltage; MV = medium voltage, LV= low voltage

Prosumer status in 2023 and 2022

	2023	2022
No.of prosumers[1]	6,993	3,804
No.of users that lost a prosumer status	0	210

[1] Customer with own production (prosumer)

Pursuant to Articles 3 and 8 of the Act on Amendments to the Act on Renewable Energy Sources and High-Efficiency Cogeneration (OG 83/2023) of 21 July 2023, all end customers with their own production are considered prosumers.

Installation of remote readable smart meters

A multi-annual distribution grid modernization project, which aim is to equip all billing network users with smart meters by end 2023, continued in 2023.

Description	2022	2023
No. of installed smart meters	111,140	139,537
Total no. of installed smart meters from the beginning of their installation to the end of the current year	470,000	647,202
Share of installed smart meters in the total number of meters in the distribution network	18.70%	23.98%

In 2023, a total of 139,537 new smart meters was installed amounting to a current number of remote readable meters of 549,793 or 21.6% of the total number of meters in the distribution network. The share of installed advanced meters in the total number of meters in the distribution network in 2023 increased from 18.70% to 23.98%.

By installing smart meters, various processes are improved: from billing, temporary suspension and restoration of electricity supply to control of excess connection power, asymmetry of consumption, control of meter operation and determination of unauthorized energy consumption.

Reliability of electricity supply

Weather conditions in 2023 were extremely unfavourable compared to previous years, resulting in an increased number of unplanned power outages, including those caused by force majeure, which is particularly visible in the SAIDI indicator. Unplanned outages caused by equipment failures and third-party construction work also contributed to this trend. HEP ODS pays special attention to the organization and coordination of works and the improvement of the program support for monitoring power supply reliability (DISPO application). Deviations from the trend are stochastic and possible in years of extremely unfavourable weather conditions, as well as in years with an increased number of breakdowns due to equipment wear and tear.

Year	Planned outages – all voltages			Unplanned outages – all voltages with force majeure			Unplanned outages – all voltages without force majeure			Total outages – all voltages		
	SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)	SAIFI	SAIDI (min)	CAIDI (min)
2023	0.88	139.67	159.03	2	255.04	127.31	1.22	81.49	66.81	2.88	394.71	136.98
2022	0.89	135.76	152.42	1.57	122.54	78.07	1.19	75.95	63.97	2.46	258.30	104.99

Distribution network investments

The development of the distribution network in 2023 was partially financed from own funds, and partially EU co-funded.

Status of distribution network EU development projects

Name and status of EU project in 2023	Project goal
ATTEST project, co-financed from the Horizon 2020 program - The project was completed in August 2023. In late November it was officially evaluated by the EU Commission as excellent.	Development of open and modular program platform with tools for optimum management, data exchange, planning and development as well as advanced management of transmission and distribution grid assets, with the purpose of transmission and distribution system operators' work optimization.
Modernization of the Croatian Distribution Power Grid under the National Recovery and Resilience Plan - In mid-February 2024, the Ministry of the Economy and Sustainable Development, the Fund for Environmental Protection and Energy Efficiency and HEP ODS entered into an agreement on the allocation of grants for the "Modernization of the Croatian Distribution Electricity Network" project which is co-financed from the National Recovery and Resilience Plan - The deadline for the implementation of the planned activities included in the project is June 2026.	The modernization of the network within the Natura 2000 area includes the design, construction and reconstruction/modification of the overhead power network. Types of power facilities included in this project: overhead 35(30) kV transmission lines, overhead 10(20) kV transmission lines, 10(20)/0.4 kV pole transformer stations, and overhead 0.4 kV network. The implementation of the mentioned activities will contribute to the realization of additional indicators of the Modernization of the Croatian Distribution Network project with no less than 500 km of modernized distribution network within the Natura 2000 area.
SUPEER project – system for electricity consumption management in households	Increasing the development of new products and services resulting from research and development activities - phase 2, as part of the Operational Programme Competitiveness and Cohesion 2014-2020.
SOG project – system for loss optimization in smart grids - completed in August 2023	Increasing the development of new products and services resulting from research and development activities - phase II, based on the Operational Programme Competitiveness and Cohesion 2014-2020. The projected duration of the project was from 1 August 2020 until 1 August 2023.
FLEXIGRID	FLEXIGRID proposes to improve the operation of the electricity distribution network by developing four hardware solutions: secondary substations of the future, new generation smart meters, protection that deals with a high proportion of renewable energy sources and a multipurpose concentrator called the Energy Box. FLEXIGRID solutions will be implemented in four locations in Europe: a rural and suburban network in Spain, a hotel resort on the Greek island of Thasos, an urban network in the city of Zagreb and an isolated valley in South Tyrol in Italy.
GREENSWITCH	The project is characterized by the innovative and effective application of new technologies and advanced functionalities for the cross-sectoral and cross-border improvement of the electricity system infrastructure, which results in a greater network capacity utilization, effective integration of new types of network users (as defined in the Electricity Market Act), optimization of future investments and the improvement of security of supply and quality of service in the territory of three EU member states. The results of the project will maximize its added value towards decarbonisation and synergy of the energy, transport, heat and digital sectors. The project contributes to achieving the goals of the Paris Agreement, as well as the climate and energy goals until 2030 and the long-term goal of EU decarbonization. Additionally, the project fits into the European Green Deal and contributes to the REPowerEU plan.

ELECTRICITY SUPPLY

GRI 2-6

The supply of electricity to customers in Croatia is carried out as a public and market activity. The activity of electricity supply in HEP Group is performed by HEP Elektra and HEP Opskrba in Croatia and HEP Energija in Slovenia, Serbia and Bosnia and Herzegovina. HEP Elektra supplies customers only through metering points in Croatia. The market share of HEP in the supply of electricity to customers in Croatia in 2023 was 93.32% (compared to 92.69% in 2022).

Communication with HEP Elektra and HEP Opskrba customers, information on the number of received and resolved complaints, the description of activities for improving the service and communication with customers as well as benefits for HEP Opskrba customers are described under Our customers and grid users. Economic performance indicators in the part referring to electricity sale are described under Business performance indicators and in the Annex-Abridged Consolidated Annual Financial report of HEP Group business operations in 2023. The obligation and status of HEP Elektra and HEP Opskrba as suppliers regarding the fulfilment of their obligation of achieving energy savings are given under Energy and energy fuels.

ELECTRICITY SUPPLY IN 2023

In 2023 HEP sold a total of 21.532 TWh of electricity. Total sales colume to domestic customers in 2023 amounted to 16.295 TWh, which was by 1.3% less than in 2022. Customers abroad were sold the total of 5.235 TWh of electricity, which was a 132,48% increase compared to 2022. The information on electricity generation and procurement is given in Electricity generation and procurement.

ELECTRICITY SUPPLY AS A PUBLIC SERVICE – HEP ELEKTRA IN 2023

GRI 2-6

HEP Elektra is the only energy entity in Croatia authorized to provide the public service of electricity supply which implies the provision of the universal service for households and guaranteed service for business customers.

Universal service ensures a household customer the right to the public service of electricity supply under same conditions on the entire territory of Croatia. HEP Elektra as the holder of public service has no option of freely entering into a contract with customers. Guaranteed service is the service of electricity supply for business customers, provided by a guaranteed supplier, under the same conditions on the whole territory of Croatia to an end customer which was left without a supplier under specific circumstances. Tariff items set under the Methodology for setting tariff item amounts for guaranteed electricity supply and the Decision on tariff item amounts for guaranteed electricity supply are applied to business customers, users of public service as part of guaranteed service. The Croatian Energy Regulatory Agency (HERA) defines the Methodology and tariff item amounts for customers within guaranteed supply.

HEP Elektra sold 6.82 TWh of electricity to its customers in 2023, which is approximately 0.5% less than in 2022. The total number of OMM customers of HEP Elektra in 2023 increased by 2.58% compared to 2022. The number of household and business customers rose by 2.22% and 11.68%, respectively.

Number of metering points of HEP Elektra customers by categories

Category of customers	2022	2023	2023/2022
	No. of OMM[1] customers	No of OMM[1] customers	Change in %
Households	2,087,229	2,133,522	2.22%
Business	83,340	93,070	11.68%
Total	**2,170,569**	**2,226,592**	**2.58%**

[1] OMM = metering point

Sale of electricity by OMM[1] of HEP Elektra customers and voltage levels

Category of customers	2022	2023	2023/2022	2022	2023	2023/2022
	No of OMM[1]		%	Sale / GWh		%
High voltage	1	1	0,00%	0	0	0,00%
Medium voltage	291	351	20.62%	210	283	34.99%
Low voltage – business	82,990	79,042	-4.76%	755	823	8.94%
Low voltage – public lighting	9,788	3,946	-59.69%	120	59	-50.93%
Total business	**93,070**	**83,340**	**-10.45%**	**1,085**	**1,165**	**7.34%**
Low voltage – households	2,133,522	2,087,229	-2.17%	5,736	5,690	-0.81%
Total low voltage	**2,226,592**	**2,170,217**	**-2.53%**	**6,612**	**6,571**	**-0.62%**
Total	**2,226,592**	**2,170,569**	**-2.52%**	**6,822**	**6,854**	**0.47%**

[1] OMM = metering point

Structure of electricity sold to HEP Elektra customers

HEP Elektra publishes information about the structure of electricity sold to customers on its website. The information is published after the Croatian Energy Market Operator (HROTE) reports on the structure of electricity on the market (in July of the current year for the previous calendar year).

Restoration of electricity supply following a temporary discontinuation

In 2023, HEP Elektra sent 65,084 priority requests for a temporary suspension of electricity supply to the system operator, which is 70% fewer requests for a temporary suspension of supply compared to the number thereof in 2022. The decrease in the number of requests is the result of a change in the temporary suspension policy. Out of the total number of priority requests, the temporary suspension of electricity was successfully implemented for 19 thousand customers.

Effect of legislative changes on business operations

In 2022, the Government of the Republic of Croatia, in response to the energy crisis, adopted a series of measures to ensure sufficient quantities and gas availability as well as the limited prices of electricity, thermal energy and gas for end customers. In 2023, the Government of the Republic of Croatia continued to adopt measures to protect households and the economy from rising prices. Thus, regulations were passed limiting the prices for individual categories of electricity and heat customers in the period from 1 October 2022 to 31 March 2024.

By the decision of the Government of the Republic of Croatia, HEP Group's suppliers of business customers were put on an equal footing with other suppliers on the electricity market in Croatia, and were enabled the compensation for limiting the price for business customers of up to EUR 180/MWh in the period from 1 April 2023 to 30 September 2023, and of EUR 150/MWh from 1 October 2023 to 31 April 2024.

During 2023, activities were initiated to compensate HEP for taking on the burden of the energy crisis. By the decision of the Government of the Republic of Croatia from 14 March 2024, HEP was retroactively placed on an equal footing with other suppliers on the market, and was compensated for the difference between the contracted price and the price limited by regulation for business customers in the period from 1 October 2022 until 31 March 2023 in the amount of EUR 547.1 million[1]. Also, on 30 March 2023, the Government of the Republic of Croatia approved the payment of an equity loan of EUR 400 million for the purpose of business stabilization.

MARKET BASED ELECTRICITY SUPPLY – HEP OPSKRBA IN 2023

GRI 2-6

The price of HEP Opskrba electricity consists of two parts, market and regulated. The regulated part is the same for all suppliers, on which they have no influence.

The customers of HEP Opskrba are divided in household and business customers. Business customers are billed according to tarrif models, depending on their size and the consumption type.

Tarrif models for HEP Opskrba business customers

Name of tariff model	Customer category for which it is intended
HEP PRO	Key customers – big plants, shipyards, big buildings, hospitals etc.
HEP OPTI	Small businesses working in more shifts
HEP MAX	Small businesses working in one shift
HEP LUX	For public lighting

The total number of HEP Opskrba customers in 2023 increased by 11.42 percent in comparison to 2022, whereby the number of household customers increased by 13.72 percent and of business customers by 6.51 percent.

Number of HEP Opskrba customers by categories in 2023 and 2022

Customer category	2022	2023	2023/2022
	No. of customers	No. of customers	%
Household	87,868	99,926	13.72%
Business	41,217	43,899	6.51%
Total	**129,085**	**143,825**	**11.42%**

[1] The compensation amount for the last quarter of 2022 was recorded in the 2023 financial report under income in the amount of EUR 247.2 million, while the remaining EUR 299.9 million refers to the compensation for the first quarter of 2023.

Sale of electricity by OMMs of HEP Opskrba customers and voltage levels in 2023 and 2022

Customer category	2022	2023	2023/2022	2022	2023	2023/2022
	No. of OMM[1]		%	Sale / GWh		%
High voltage	145	150	0,00%	997	1.040	0,00%
Medium voltage	1,847	1,740	-5.79%	3644	3.350	-8.07%
Low voltage – business	107,225	110,060	2.64%	3281	3,470	5.76%
Low voltage – public lighting	17,956	12,615	-29.74%	258	177	-31.40%
Total business	**127,173**	**124,565**	**-2.05%**	**8,180**	**8,037**	**-1.75%**
Low voltage – households	87,868	99,914	13.71%	306	354	15.69%
Total low voltage	**213,049**	**222,589**	**4.48%**	**3,845**	**4,001**	**4.06%**
Total	**215,041**	**322,503**	**49.97%**	**8,486**	**8,391**	**-1.12%**

[1] OMM = metering point

ZelEn – 100 % energy from renewable sources

HEP Opskrba was the first on the electricity market in Croatia to offer a unique product – ZelEn. This is green energy produced solely from hydropower plants of HEP Proizvodnja, which are the biggest renewable energy source in the Republic of Croatia.

All the proceeds from the sale of ZelEn are collected in the Fund, used for carrying out RES and energy efficiency projects in institutions which take care of socially vulnerable category of public sector service users, such as kindergartens, schools, nursing homes and similar institutions. The results of the tender for financing the ZelEn Fund projects are published on our website. HEP ESCO, the company specialized in the development, implementation and funding of energy efficiency projects, is a responsible project entity.

No. of HEP Opskrba customers with tariff models which include energy from renewable sources (RES)

Customer category - business	2022	2023	2023-2022	2022	2023	2023-2022
	No. of customers			MWh		
Zelen 100%	2,295	1,880	-415	2,607,962	2,344,869	-263,093
Zelen 80%	0	1	1	0	105	105
Zelen 76%	1	1	0	148	97	-51
Zelen 60%	0	1	1	0	169	169
Zelen 50%	10	1,028	1,018	2,532	354,531	351,999
Zelen 40%	0	1	1	0	975	975
Zelen 36%	0	1	1	0	525	525
Zelen 31%	1	1	0	5,094	2,530	-2,564
Zelen 30%	0	3	3	0	219	219
Zelen 25%	1	0	-1	55	0	-55
Zelen 20%	1	13	12	1,152	25,863	24,711
Zelen 10%	4	8	4	78,913	91,760	12,847
TOTAL	**2,313**	**2,938**	**625**	**2,695,856**	**2,821,643**	**125,787**

Renewable energy (RES) is sold under tariff models which include energy in a specified percentage i.e. 100, 80, 76, 60, 50, 40, 36, 31, 30, 25, 20, and 10%.

Clean energy

In 2023, HEP Group offered customers of HEP Energija Ljubljana and HEP Opskrba a new product called "Clean energy". The "Clean Energy" product offers electricity produced from Krško Nuclear Power Plant (NEK), since nuclear energy is produced without the use of fossil fuels and CO_2 emissions. The above product aims to meet the demand for electricity without CO_2 emissions while simultaneously reducing costs compared to energy from renewable sources.

Structure of electricity sold to HEP Opskrba customers

HEP Opskrba publishes at its website reports on the structure of electricity sold to customers. The information is published after the Croatian Energy Market Operator (HROTE) has reported on the structure of electricity on the market (in July of the current year for the previous calendar year).

PRODUCTION, DISTRIBUTION AND SUPPLY OF HEAT ENERGY

GRI 2-6

Heat energy produced in HEP is heat used for heating and process steam used in industry. Heat energy is produced from renewable energy sources, i.e. wood chips and fossil fuels – natural gas, extra light and light fuel oil in the facilities operated by HEP Proizvodnja and HEP Toplinarstvo. HEP Toplinarstvo distributes and supplies heat energy. All heat energy production plants are located in Croatia.

Data on the amount and type of spent fossil fuel and wood chips for heat energy production is shown in the chapter Energy and energy fuels, while the information on emissions from heat energy production is given under Emissions into the air. The obligations of heat energy supplier, HEP Toplinarstvo in achieving energy savings are described in Reducing energy consumption among customers. Economic indicators connected to heat energy are described in Business results and in the Annex-Abridged Consolidated Annual Financial report of HEP group business oeprations in 2023.

PRODUCTION OF HEAT ENERGY

GRI 2-6

Heat energy is produced in four combined heat and power cogeneration plants (TE-TO Zagreb, EL-TO Zagreb, TE-TO Sisak and TE-TO Osijek) and in two biomass-fired cogeneration plants (BE-TO Sisak and BE-TO Osijek). Heat energy is produced for district heating systems (DHS) of the cities of Zagreb, Sisak and Osijek by HEP Proizvodnja which is the operator of combined heat and power plants and biomass-fired cogeneration plants. The energy activity of heat energy production in district heating systems of the cities of Zagreb, Osijek and Sisak is performed as a public service, which prices i.e. tariff items are regulated and determined by HERA pursuant to the Methodology for setting tariff item amounts for heat energy production. All four combined heat and power plants are a part of the EU-ETS, but contrary to electricity, where for each emitted tonne of CO_2 one has to buy a greenhouse gas emission unit (EUA) and put it on the account of the plant opened in the EU registry, for a part of CO_2 emissions resulting from heat energy production, HEP Proizvodnja is entitled to free EUA. The description of HEP's obligations connected to EU ETS can be found in Greenhouse gas emissions.

Facilities, fuel types and capacities for heat production in 2023

Number and type of facility	Type of fuel	Heat – nominal capacity [MWt]	Process steam – nominal capacity [t/h]/[MWt]
Fossil fuel sources			
Combined heat and gas plants (TE-TO and EL-TO)			
TE-TO Zagreb	natural gas/light fuel oil	708	340/278
EL-TO Zagreb	natural gas	443.5	445/347
TE-TO Sisak	natural gas/light fuel oil	0	133,5/100
TE-TO Osijek	natural gas/light fuel oil	167	160/127
Total TE-TO and EL-TO		**932.5**	**872.5/690**
Two biomass-fired plants (BE-TO)[1]	wood chips	2x10	2x 12/10
Total BE-TO		**20**	**24/20**
Boiler rooms for heating of cities			
Total of 27 boiler rooms for heating of Zagreb, Velika Gorica, Sisak, Zaprešić, Samobor and Osijek	natural gas/extra light fuel oil	130.89	-
Total boiler rooms		**130.89**	**0**

[1] Biomass used in 2023 does not comply with the directives as defined in article 38, paragraph 5 of the Commission's Implementing Regulation (EU) 2018/2066 on monitoring and reporting of greenhouse gas emissions, i.e. according to article 29, paragraphs 2-7.10 of Directive on renewable energy sources (EU) 2018/2001 (RED II), and the carbon content therein is considered fossil fuel

PRODUCTION OF HEAT ENERGY IN 2023

In 2023, the sale of heat energy amounted to 1.663 TWh, which was 9.60% less than the year before. The sale of heat energy to households and businesses decreased by 3.70% and 17.21%, respectively. The biggest impact factor on the sale of heat to household customers is the weather, i.e. the outside temperature in the heating season. For business customers, external temperatures are also a strong impact factor, but the total sale of heat is significantly affected by the reduced supply of process steam to large customers (e.g. INA Sisak oil refinery).

DISTRIBUTION AND SUPPLY OF HEAT ENERGY

GRI 2-6

HEP-Toplinarstvo carries out the energy activity of heat energy distribution in line with the licence obtained from HERA and concluded concession agreements for heat energy distribution. The distribution network of HEP Toplinarstvo consists of around 300 km of hot water pipeline network and 65 km of steam pipeline network. Heat energy distribution is a regulated activity, and the prices, i.e. tariff items are set by HERA based on the Methodology for setting tariff item amounts for heat energy distribution. HEP-Toplinarstvo also performs the energy activity of heat energy supply in line with the HERA's licence. As part of the aforementioned activity, it purchases heat energy in the district heating system (DHS) from heat energy producers and sells heat energy to customers, while in the closed heating system it purchases ingoing energy fuel volumes for its transformation into heat energy, which it delivers to customers. The activity of heat energy supply is a market activity, for which the price is set under market principles. HERA issued HEP Toplinarstvo a licence for performing the activity of a heat energy buyer. This is a market activity and the price is set by market principles.

DISTRIBUTION AND SUPPLY OF HEAT ENERGY IN 2023

In 2021, HEP Toplinarstvo started an extensive investment cycle with a goal to significantly increase the efficiency of heat production and reduce losses in distribution, which will lead to a significant reduction in operating costs. At the same time, it is carrying out the modernization of energy facilities, which will create preconditions for the provision of additional services and the generation of additional income. The number of HEP Toplinarstvo customers in 2023 was 126,176, which was an increase by 0.53%, i.e. by 671 customers compared to 2022, of which 663 are households. During 2023, the end customers of heat energy in the cities of Zagreb, Osijek, Sisak, Velika Gorica, Samobor and Zaprešić were provided with a continuous, high-quality and reliable delivery of thermal energy, accurate and timely monthly readings and cost calculation for delivered thermal energy in accordance with the laws and by-laws regulating the heating area in the Republic of Croatia.

Number of heat energy buyers

Customer category	2022	2023	2023/ 2022 %
Households	125,513	126,176	0.53%
Industry and business premises	6,399	6,407	0.13%
TOTAL	**131,912**	**132,583**	**0.51%**

Investments in the revitalization of heat energy distribution network in 2023

Name and status of EU project in 2023	Objectives
Revitalization of the hot water pipeline network in the city of Zagreb • The total value of the project exceeds EUR 92 million, while the eligible project cost is EUR 73.8 million. Out of this amount, EUR 55.9 million is financed by grants from the European Regional Development Fund, which represents more than 75% of the eligible cost. • In 2023, 13.3 km of the route was constructed, which is 99% of the term plan for 2023 and 19% of the entire project. In total, the project envisages the revitalization of 68.5 km of the hot water route. However, until the end of the project (1st phase) 40.8 km have been completed, which is 60% of the planned revitalization. • The 3rd addendum to the construction contract was signed, extending the duration of the contract until 6 December 2026. An agreement was reached with the City of Zagreb and MRRFEU regarding the project phasing, and the formal implementation of the phasing procedure began. An amendment to the "Major Project Application Form" was prepared, and in December 2023, JASPERS experts received an Action Completion Note confirming that the amendments to the Major Project Application are in accordance with EU rules. • Preparations are underway for the continuation of the works in 2024.	• Revitalization of 68.5 km out of 227.3 km of Zagreb's hot water pipeline network • Increase of reliability and safety of the district heating system of the City of Zagreb • Reduction of heat losses by approximately 28 percent, of process water replenishment losses by around 47 percent and of a number of emergency interventions in the parts of reconstructed hot water pipeline by 90 percent • After revitalization, CO2 emissions were reduced by 11,104 tonnes compared to the pre-revitalization period
Replacement of connection hot water pipeline from TE-TO to Osijek heating plant • Implemented from 2021 to 2023 • The total value of the project is EUR 12.3 million, EUR 6.2 million of which is a grant from the European Regional Development fond allocated as part of the Operational Programme "Competitiveness and Cohesion 2014 – 2020" • After 3,064 m of the pipeline route were replaced in 2022, 1,281.57 m were replaced in 2023. A technical inspection was performed, a use permit was obtained, and the handover of the works took place on 28 November 2023. After the completed geodetic surveys, the total length of the replaced route is 4,357.57 m. • During 2023, all contracts related to the implementation of the project were completed and closed. A Paper on the assessment of savings achieved by replacing the connecting hot water pipe was prepared: electricity savings in the amount of 2,534 MWh, primary energy savings in the amount of 0.044 PJ, savings in CO_2 emissions in the amount of 4,378 t per year. A final independent audit report was also prepared.	• Revitalization of 4.4 kilometres of deteriorated hot water network • Increase of energy efficiency of the hot water network and continued safe and reliable supply of heat energy • Creating preconditions for further development of the heat sysstem and its transformation in a modern and efficient 4th generation remote heating system • Reduction of heat distribution losses resulting in heat production savings in Osijek, and reduction of carbon dioxide emissions

DISTRIBUTION AND SUPPLY OF GAS

GRI 2-6

HEP Plin with its headquarters in Osijek carries out distribution and supply of natural gas to customers, and provides standard and non-standard services. Standard services are all those which costs are contained in the fee for network use or the price of gas. The description of non-standard services, which contains the name and unit price for each service can be found in the price lists of non-standard services for gas distribution and supply.

Household customers use the service of supply as a public service or guaranteed supply pursuant to contractual relations with the supplier. Customers that cannot be classified as households, are placed in the non-household category. These are legal persons registered for the performance of certain activities prescribed for the supply of legal persons in line with market operating principles, i.e. free contracting of mutual relations. Network access, i.e. connecting a building to the distribution network is done by submitting a request, obtaining energy consent, signing the connection agreement and the construction of gas connection.

DISTRIBUTION AND SUPPLY OF GAS IN 2023

The number of HEP Plin customers in 2023 decreased by 2.92%, i.e. by 3,928 customers compared to 2022.

Number of gas customers

Customer category[1]	2023	2022	2023/2022 %
Households TM1-TM4	114,241	117,695	3.02%
Businesses TM1-TM8	20,065	20,522	2.28%
Businesses TM9-TM12	14	31	121.43%
TOTAL	**134,320**	**138,248**	**2.92%**

[1] TM = tariff model

Gas distribution network investments in 2023

Gas pipeline locations	Status
Osijek-Baranja County • replacement of gas pipeline on the area of Osijek Operating Plant	• 200 m of gas pipeline replaced • owner financing
Virovitica-Podravina County • replacement of gas pipeline on the area of Virovitica Operating Plant	• 600 m of gas pipeline replaced • owner financing
Vukovar-Srijem County • replacement of gas pipeline on the area of Vukovar Operating Plant	• 100 m of gas pipeline replaced • owner financing
Bjelovar-Bilogora County • replacement of gas pipeline on the area of Daruvar Operating Plant	• 500 m of gas pipeline replaced • owner financing
Osijek-Baranja County • Gas pipeline on cad.plot no. 9971/5, Islamic Centre	• construction of 0.6 km of gas pipeline • completed in 2023i • owner financing
Osijek-Baranja County • Gašinci gas pipeline	• construction of 11.5 km of gas pipeline • completed in 2023 • owner financing
Osijek-Baranja County • Kneževi Vinogradi-Kotlina gas pipeline	• construction of 2.8 km of gas pipeline • completed in 2023 • owner financing

Gas quality

HEP Plin regularly publishes its monthly or semimonthly reports on gas quality on its website.

LIQUEFIELD NATURAL GAS BUSINESS

GRI 2-6

LNG Hrvatska performs a regulated energy activity of operating the liquefied natural gas (LNG) terminal, and is responsible for its operation, maintenance and development. The aim of the LNG terminal on the island of Krk is to ensure energy demand and increase the safety of supply via new natural gas supply route for the countries of Central and Southeast Europe. LNG Hrvatska d.o.o. is a company co-owned by HEP d.d. (75%) and Plinacro d.o.o. (25%). It publishes information on its website, which also include the management of impact on the environment, society, human rights and economy.

LIQUEFIELD NATURAL GAS BUSINESS IN 2023

LNG Hrvatska publishes separate annual reports on business operations. HEP Group's Annual and Sustainability Report for 2023 contains only carbon dioxide emission data (eq) which are a result of LNG terminal operation and refer to HEP. Greenhouse gas emissions are shown in the chapter Greenhouse gas emissions.

CENTRAL CHEMICAL-TECHNOLOGICAL LABORATORY FOR FUEL TESTING

GRI 2-6

Central chemical-technological laboratory (CKTL) of HEP Proizvodnja has been accredited as a testing laboratory for fuel and waste oil, coal, coke and solid biofuels. It is the only accredited laboratory for the complete testing of solid fuels in Croatia. Accreditation procedure was conducted by the Croatian Accreditation Agency (HAA) in line with the provisions of the internationally recognized standard HRN EN ISO/IEC 17025. The laboratory works as independent, impartial and complete and permanently provides a good service to its clients. Testing in CKTL is conducted using cutting-edge equipment under Croatian, European and international norms, and if necessary, the laboratory develops own methods. Due to its recognition and work quality, it became a testing body for the certification procedure of pellets under EN Plus® standard in 2019. CKTL is a member of the Croatian Association of Laboratories – CROLAB and works actively as part of the Analytical Laboratories Club.

CENTRAL CHEMICAL-TECHNOLOGICAL LABORATORY FOR FUEL TESTING IN 2023

During 2023, the complexity of the tests, i.e. the number of tested parameters per sample, increased, which proves that the laboratory is able to carry out complete tests of various samples of liquid and solid fuels and waste. Most tests were carried out for external clients, but CKTL continues to carry out monthly sampling and analysis of sawdust and ash samples for the BE-TO Osijek and BE-TO Sisak plants, coal quality tests for Plomin Thermal Power Plant during each ship delivery, as well as the quality control of gas and fuel oil and other types of samples for HEP Proizvodnja plants.

The laboratory is continuously working on expanding the number of clients and promoting its services. During the year seminars on the quality and certification of pellets were held for pellet makers, which was a great opportunity to present the laboratory and expand the circle of clients. Cooperation with numerous external clients from the Republic of Croatia, the entire region and beyond, continued successfully in 2023. In particular, it should be noted that the Pellet Testing Agreement was signed with the Belgian company Bioenergy Europe for clients throughout Europe.

In 2023, CKTL continued cooperation with the faculties of the University of Zagreb through exercises and expert visits in the field of analytical tests and implementation of quality assurance in the laboratory.

MANAGEMENT AND FUNDING OF ENERGY EFFICIENCY PROJECTS

GRI 2-6

HEP ESCO develops, implements and finances energy efficiency projects in line with market principles and it provides a complete service in the field of energy with repayment through savings. Its service encompasses project development, implementation and financing by achieving savings in energy and maintenance costs, which leads to investment return. Projects include modernization, reconstruction and restoration of existing plants and facilities. So far HEP ESCO has implemented a series of projects from the field of public lighting, building management, industry and energy supply system, which lead to energy savings and reductions of greenhouse gas emissions. Upon investment return, HEP ESCO exits the project and leaves all project benefits to the client, particularly the reduction of energy and maintenance costs. Energy management for bigger clients includes supervision and management of energy systems, on-line monitoring of energy consumption and saving through energy system optimization. From the beginning of its operation HEP ESCO has been connected to international organizations, such as the World Bank (WB), Global Environment Facility (GEF), the German KfW Development Bank (KfW) and United Nations Development Programme (UNDP).

HEP ESCO coordinates companies on HEP Group level with an aim of fulfilling obligations under the Energy Efficiency Act and the Energy Efficiency Obligation Scheme. HEP Group obligations and coordination of all obligations are described in the chapter Energy and energy fuels. HEP ESCO also implements the Benefit Scheme in cooperation with HEP Opskrba and activities connected to HEP ZelEn plus program.

MANAGEMENT AND FUNDING OF ENERGY EFFICIENCY PROJECTS IN 2023

Activities in the field of sale and implementation of projects financed under the ESCO model continued in 2023. The implementation of the Benefit scheme in cooperation with HEP Opskrba and HEP ZelEn plus programme continued, as well as the implementation of energy efficiency and renewable energy source projects through ZelEn donation. HEP ESCO also continued with the sale and implementation of SGE services at the market.

TELECOMMUNICATION SERVICES

GRI 2-6

HEP Telekomunikacije provide telecommunication support to HEP Group business operations, i.e. it manages telecommunication infrastructure and system. Its founders are HEP d.d., HOPS and HEP Operator distribucijskog sustava. Telecommunication infrastructure includes all passive telecommunication equipment and systems (optical infrastructure, antenna poles etc.), and telecommunication system includes all active network equipment, related systems and equipment (software for management and supervision etc.). HEP Telekomunikacije have exclusive jurisdiction to define general telecommunication rules, standards and procedures when developing and exploiting HEP Group telecommunication infrastructure and system, as well as to plan, start, develop, construct and maintain stated telecommunication infrastructure and system.

Users of HEP Telekomunikacije services outside HEP Group are producers of energy from renewable energy sources, telecom companies in Croatia, foreign energy companies, state institutions and companies in state or private ownership.

TELECOMMUNICATION SERVICES IN 2023

The supervision and maintenance of the telecommunications system of all HEP Group members and of HOPS, which are important for the operation of the HEP electric system, continued. The process of unifying the entire telecommunications infrastructure and systems at the level of the entire HEP Group has been initiated, which will ultimately result in better services, a concentration of professional employees, as well as a clearer step into the telecommunications market. HEP Telekomunikacije is the owner of the optical network that stretches across the entire territory of Croatia and is the basis of the telecommunications system.

Optical network as at 31 December 2023

	Unit of measure	Year/ difference	OPGW	Underground optic	Submarine optic	ADSS optic	TOTAL
Length of cable	km	2022	5,132	1,550	30	30	6,741
		2023	5,132	1,581	30	30	6,772
		difference	0	+31	+0	+0	+31

EDUCATION AND TRAINING CENTRE (NOC)

GRI 2-6

HEP Education and Training Centre is a regional institution for adult education in the field of energy and a place where experts from the field of electric power meet and cooperate. It is also a place of cooperation in education for the technology of live working with secondary vocational schools and faculties of electrical engineering. Apart from education, it also offers the service of testing personal protective equipment and resources used for the maintenance of electric power facilities. The founder of this institution is HEP Operator distribucijskog sustava.

EDUCATION AND TRAINING CENTRE (NOC) IN 2023

Programmes for professional development and training as well as courses and seminars for taking professional examinations were implemented in 2023.

In 2023, HEP-NOC offered 10 verified educational programmes, of which, according to the requests of service users, training was conducted for 5, mainly for live working, working with cable measuring circuits, and training for working at height with a demonstration of safe climbing. During 2023, attendance at andragogic courses as well as the participation in professional meetings such as CIGRE (Conseil International des Grands Réseaux Électriques - International Council for Large Power Systems), CIRED (Congres International des Réseaux Electriques de Distribution - International Electricity Distribution Conference); ASOO (Agency for Vocational and Adult Education); ZUOO (Institute for the Improvement of Basic Education) etc. The control test laboratory was supervised by the Croatian Accreditation Agency (HAA) continued.

HEP NOC laboratory for control and testing provided services of periodical examination of insulation and review of tools as well as personal protective equipment in line with standardized test methods.

MANAGEMENT OF NON-OPERATING ASSETS

GRI 2-6

HEP Upravljanje imovinom (Asset Management) manages leisure facilities on 33 locations in Croatia and carries out the management and maintenance of non-operating assets of HEP d.d. and business premises in the HEP Group head office. Employees have at their disposal 185 accommodation units (apartments, studio apartments, hostels) with the total of 593 beds.

MANAGEMENT OF NON-OPERATING ASSETS IN 2023

GRI 2-6

HEP Asset Management continued with the coordination with the multipurpose operating building construction in EL-TO Zagreb CCPP in 2023.

Management of the tourism portfolio requires continuous investment in raising the level of equipment and service quality in holiday facilities. Every year, the company works on the renovation of buildings that are not in use, reconstructs, restores and makes them available for HEP Group emoloyees. In 2023, the renovation of the HEP Customer Centre in Zagreb, the SIT Osijek Print Centre, and the renovation of workers' holiday facilities in Rogoznica, Biograd, Crikvenica, Preko, Mali Lošinj and Opatija continued.

In 2023, as every year, an internal tender was carried out for the use of holiday facilities for HEP Group employees, and a total of 37,785 overnight stays was recorded, which is by 10.98% more than in 2022 (34,048 overnight stays).





A total number of HEP workers in 2023 was 10,455, which is by 123 less than in 2022 when the Group employed 10,578 workers. A total number of new employees in 2023 is 397, which is by 8 more than in 2022, when 389 new workers were hired.

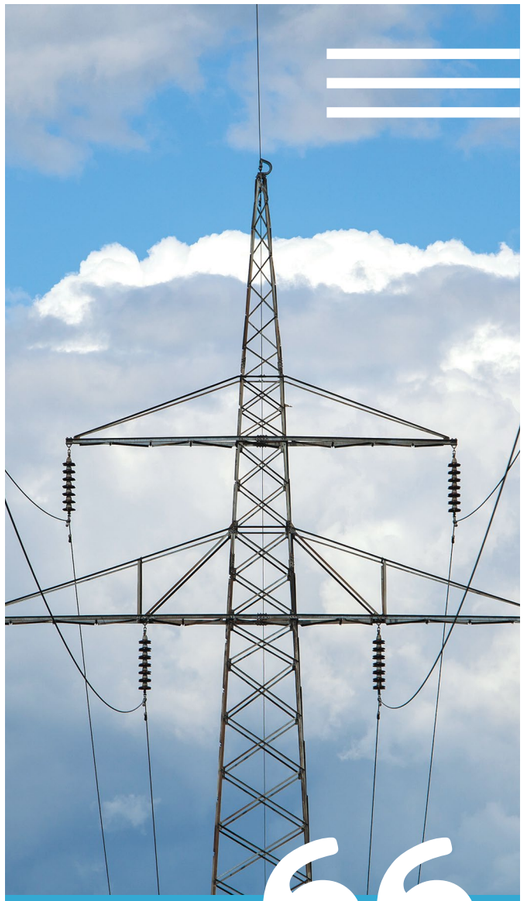
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HEP GROUP EMPLOYEES AND SUPPLIERS' EMPLOYEES

HEP Group operates in all Croatian counties and in the countries where it has its subsidiaries – Slovenia, Bosnia and Herzegovina and Kosovo. HEP Opskrba operates on the Slovenian market via its daughter company HEP Energija d.o.o. Ljubljana, and HEP – Trgovina d.o.o. operates via its daughter companies HEP Energija d.o.o. Mostar, HEP Energija d.o.o. Beograd and HEP Energija sh.p.k Priština. HEP Proizvodnja d.o.o. is the founder of CS Buško Blato. Nuclear power plant Krško d.o.o. is co-owned by HEP d.d. and GEN Energija. The information about employees is kept for the companies with headquarters in Croatia, which are fully owned by HEP Group and for the employees of CS Buško Blato in Bosnia and Herzegovina. Given that HOPS operates according to the independent transmission operator model, which implies functional independence from the parent company, it also keeps and publishes data on workers in its separate reports.

The information on HEP Group employees, which is significant for the annual and sustainability report, is kept by the type of employment contract, gender, professional qualification, age, number of hours of training, by employees' managerial and operative function, by employees with disabilities, employees who used parental leave and so on. Fixed-term employment contract and permanent employment contract are defined by the Labour Act. The information on employees according to GRI standards 401 – 407, i.e. from 11.10.2 to 11.10.3 is described as part of our material topic Our employees.

HEP Group supply chain in 2023 comprised the total of 9.098 suppliers. There were 169 foreign and 8,829 domestic suppliers. Employees of HEP's important suppliers were engaged in jobs connected to transport and fuel manipulation, construction of new generation facilities and electric power plants as well as reconstruction and maintenance of the existing ones.



In 2023, the supplier chain of HEP Group consisted of a total of 9,098 suppliers.

HEP GROUP EMPLOYEES

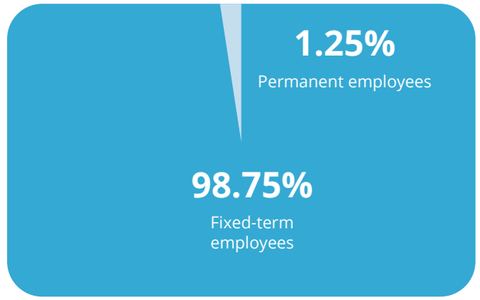
GRI 2-7

In 2023, the total number of workers in the organization was 10,455, which is by 123 fewer than in 2022, when the total number of workers was 10,578. 10,324 workers were employed on open-ended contracts, which is 45 fewer than 10,369 workers in 2022. 131 workers were employed on fixed-term contracts, which is 78 fewer than in 2022 (209). The total number of new workers in 2023 is 397, which is 8 more than in 2022 (389). The total number of workers who stopped working in 2023 is 555, which is 143 workers more than in 2022, when 412 workers left.

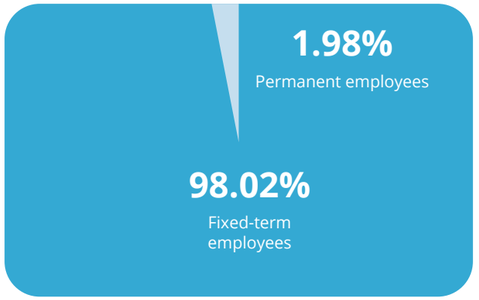
Our employees by gender and type of employment contract

Type of employment contract/gender	2023			2022		
	Women	Men	Total	Women	Men	Total
With permanent contract	2,392	7,932	10,324	2,372	7,997	10,369
With fixed-term contract	14	117	131	36	173	209
Total	**2,406**	**8,049**	**10,455**	**2,408**	**8,170**	**10,578**

Employees by employment contract duration



Employees by type of employment contract in 2023



Employees by type of employment contract in 2022

SUPPLIERS' EMPLOYEES

GRI 2-8

HEP Group does not keep record on the number, fluctuations and reasons of fluctuations among their suppliers' employees. As part of public procurement procedure, HEP Group companies define, on the basis of the ESPD form (European single procurement document), among others, mandatory grounds for excluding economic entities from procedures that are not related to employees. Economic entities are excluded from the procurement procedure if the economic entity is either a member of a governing or a supervisory body or is a member with the power of representation, decision making or supervision convicted for child labour or other forms of human trafficking or if the economic entity has not fulfilled obligations to pay taxes or obligations for retirement or health insurance. When conducting the public procurement procedures, the grounds for excluding economc entities are determined based on the certificate of good conduct and tax administration office certificate on tax debt, which economic entity shall deliver as athe integral part of the bid.

In order to collect data for 2023 on the number of employees, their fluctuations and reasons thereof, we sent questionnaires to suppliers, which were compiled pursuant to Consolidated GRI standards for 2021. The questionnaires were sent to important suppliers, and their importance was defined according to the amount of paid financial means for services, goods and works as well as their engagement in an important project. Out of 97 suppliers, to which the questionnaire was sent, 35 suppliers answered and all 35 forwarded information on the number and fluctuation of their employees in 2023. The results of information collected on suppliers' impact on the society and human rights are described in the chapter Impact of supply chain on society and human rights.



Workers employed by HEP's key suppliers are engaged in transportation and fuel handling related jobs, construction of the new and the reconstruction and maintenance of existing production and electric power facilities.

The 2023 Annual and Sustainability Report of HEP Group is the 10th in a row. Since its beginning, the workers of HEP d.d. departments and HEP Group companies have been involved in its development.

CORPORATE GOVERNANCE

This chapter describes HEP Group's management structure, its powers and responsibilities, delegation of responsibilities of managing influences on the middle management level and the role of mangement structure in sustainability reporting as well as steps taken for the purpose of improving corporate governance in HEP Group.

MANAGEMENT STRUCTURE, APPOINTMENTS, RESPONSIBILITIES AND COMPOSITION

Management structure of the parent HEP d.d. consists of the General Assembly of HEP d.d., Supervisory Board of HEP d.d., Audit Committee of the Supervisory Board, Internal Audit Department of HEP d.d. and Management Board of HEP d.d.

GENERAL ASSEMBLY OF HEP d.d.

GRI 2-9

General Assembyl of HEP d.d. consists of one shareholder of the Republic of Croatia, i.e. its proxy. The General Assembly decides on issues set by the Companies Act and the Articles of Association. The General Assembly passes the Articles of Association and its amendments. It appoints and revokes Supervisory Board members, makes a decision on the use of profit, revokes members of the Management and Supervisory Boards, appoints the auditor, decides on the increase or decrease of equity capital, decides on status changes and dissolution of the company and performs other work in line with the law and the Articles of Association.

Members of the General Assebmly of HEP d.d. in 2023:

- Davor Filipović from 6 May 2022 until 13 December 2023
- Damir Habijan from 21 December 2023



The implementation of the Corporate Governance Action Plan is currently underway in HEP d.d.

SUPERVISORY BOARD OF HEP d.d. AND AUDIT COMMITTEE OF THE SUPERVISORY BOARD

GRI 2-9

Pursuant to the Articles of Association of HEP d.d., the Supervisory Board may have up to 7 members, one of whom is the President. The Supervisory Board of HEP d.d. in 2022 had 4 members, one of whom was the President. As of 15 June 2023, the Supervisory Board consisted of 5 members. One member is appointed and revoked by the Works Council under the provisions of the Labour Act, and other members are appointed and revoked by the General Assembly of HEP d.d. The Decision of the General Assembly on the appointment and revoking of Supervisory Board members becomes effective on the day of its adoption. The term of office of Supervisory Board members lasts four years and upon its expiry Supervisory Board members may be reelected. Members of the Supervisory Board choose the President from their own ranks. The provisions of the Anti-Discirimination Act and the General Data Protection Regulation (GDPR) are followed in the appointment process.

The Supervisory Board supervises business management: it appoints and revokes the Management Board of HEP d.d., examines and reviews business records, documentation, treasury, securities and other documents related to HEP's d.d. operations. It gives consent to annual financial reports drawn up by the management board, gives prior consent to Management Board's decisions when set under the Articles of Association, submits reports to the General Assembly on implemented supervision, especially financial operations and compliance with business records, and performs other activities set by the law and internal rules of HEP d.d.

Members of the Supervisory Board are people whose knowledge and experience guarantee good, neat and conscientious performance of said function. In carrying out the supervision of HEP d.d. operations, the Supervisory Board may perform said supervision independently or may hire special experts. The Supervisory Board and each of its members shall protect the interests of HEP d.d.

Members of the Supervisory Board of HEP d.d. in 2022 and until 28 March 2023:

- Goran Granić, President
- Jelena Zrinski Berger, member
- Lukša Lulić, member
- Meri Uvodić, member, workers' rep

On 28 March 2023, the term of office of the 11th term of the Supervisory Board expired (appointment of workers' rep Meri Uvodić is continuous pursuant to the Decision of the Works' Council of 1 December 2022 until its revocation). Under the decision of the General Assembly of 9 June 2023, the 12th term of the Supervisory Board was elected for the period of 6 months, and constituted at its session on 15 June 2023.

Members of the Supervisory Board of HEP d.d. in 2023 appointed for the period of 6 months from 9 June 2023 (12th term):

- Anton Kovačev, President
- Mladen Zeljko, member
- Jelena Zrinski Berger, member
- Lukša Lulić, member
- Meri Uvodić, member, workers' rep

Members of the Audit Committee of the Supervisory Board of HEP d.d. until 28 March 2023:

- Goran Granić, President
- Boris Cota, independent member – external member
- Boris Tušek, independent member – external member

At the constituting session of the Supervisory Board held on 15 June 2023, pursuant to provisions stipulated by law and the Rules on Audit Committee operations adopted by the 8th term of the Supervisory Board, the Audit Committee of the Supervisory Board of Hrvatska elektropriveda d.d. was appointed.

Members of the Audit Committee of the Supervisory Board of HEP d.d. on 15 June 2023:

- Anton Kovačev, President
- Boris Cota, independent member – external member
- Boris Tušek, independent member – external member

On 6 December 2023, under the Decision of the General Assembly, the term of the 12th term of the Supervisory Board was prolonged for the period of up to 6 months, which commenced after the expiry of the previous term of 10 December 2023. It was constituted at the session of the Supervisory Board on 13 December 2023.

Members of the Supervisory Board of HEP d.d. from 10 December 2023 appointed for the period up to 6 months - until 9 June 2024 (12th term):

- Anton Kovačev, President
- Mladen Zeljko, member
- Jelena Zrinski Berger, member
- Lukša Lulić, member
- Meri Uvodić, member, workers' rep

EVALUATION OF THE WORK OF THE SUPERVISORY BOARD

GRI 2-9

Evaluation of the work of the Supervisory Board of Hrvatska elektroprivreda d.d. is one of the measures included in the *Corporate Governance Action Plan in HEP d.d.* which is an integral part of the *Loan Agreement concluded with the European Bank for Reconstruction and Development* on 24 July 2018, with the aim of harmonizing corporate governance processes and procedures with the best business practices. The annual evaluation of the work of the Supervisory Board, committees and individual members of the Supervisory Board was carried out in the form of a self-assessment questionnaire.

The scope of grades was from 1 to 5, and the evaluation findings are given in the table below:

Work of the Supervisory Board	Grade
Efficiency of the Supervisory Board	4.33
Method of Supervisory Board work	4.42
Engagement of Supervisory Board members	4.54
Cooperation between the Supervisory Board and the Management Board	4.27

The efficiency of the Supervisory Board as an aspect of functioning was rated with an average score of 4.33, and the survey participants - members of the Supervisory Board believe that the agenda of the Supervisory Board sessions largely covers the most important topics related to the successful operation of the organization and that the Supervisory Board is effective in encouraging and defining expectations from the organization to set clear strategic and operational guidelines, plans and goals. Also, they believe that the Supervisory Board is successful in directing the organization towards achieving the set goals by proposing new or referring to existing business policies and procedures.

The method of work of the Supervisory Board as an aspect of functioning was rated with an average score of 4.42, and the participants of the survey - members of the Supervisory Board believe that the agenda of the Supervisory Board sessions is largely well planned, part of which is the regular delivery of written materials to the members before the session itself. Also, to a very large extent, it is estimated that members of the Supervisory Board express their disagreement with the opinion of other members without hesitation, adhere to the principle of confidentiality of the decisions of the Supervisory Board and support the decisions made, even though they may not have agreed with them during the adoption.

The engagement of members of the Supervisory Board as an aspect of functioning was rated with an average score of 4.54, and the survey participants - members of the Supervisory Board - estimated that, to a large or very large extent, members of the Supervisory Board regularly come to meetings well prepared and promote the interests and business of the organization in the wider environment. They are also familiar with the legal regulations related to the organization's operations, they know what is expected of them, during discussions they adequately listen to others while expressing their opinions and carry out the tasks and obligations assigned to or assumed by them.

The cooperation between the Supervisory Board and the Management Board as an aspect of functioning was rated with an average score of 4.27, and the survey participants - members of the Supervisory Board, to a very large extent, assessed that there was a clear demarcation of the authorities of the members of the Supervisory Board and the members of the Management Board. The Supervisory Board successfully provides guidelines for the work of the Management Board by proposing new or additional interpretation of existing business policies and there is effective two-way communication between them. Also, the members of the Supervisory Board largely believe that the Supervisory Board clearly communicates to the Management Board how and in how much detail it wants to be informed about business operations and events in the organization, trusts the business decisions and judgments of the Management Board, primarily evaluates the success of the Management Board in achieving the strategic goals and priorities of the organization, and encourages members of the Board to professional and personal development.

INTERNAL AUDIT

GRI 2-9

Internal Audit Department is responsible for the corporate function of internal audit and is a part of HEP Group internal audit. The operation of internal audit is defined by the Act on the Internal Control System in the Public Sector, the Rules on organization and systematization of HEP d.d., Internal Audit Rules, which have been adapted to the International Professional Practices Framework (IPPF). The Rules are based on the principles of internal audit (integrity, objectivity, confidentiality, expertise) and it offers a good normative framework essential for the professional function of internal revision. The International Professional Practices Framework is an overview of professional rules and guidelines for the work of internal audit structured and integrated in a document published by the international professional association, the Institute of Internal Auditors – IIA Global. Internal Audit Department conducts internal audits in line with the Annual and Strategic Plan of the Department adopted by the Management Board of HEP d.d. with the consent of the Audit Committee. The purpose of conducting internal audits is providing a reasonable guarantee to the Supervisory Board and Audit Committee as well as HEP's d.d. Management Board regarding efficiency, efficacy and the security of business system and processes, reliability and accuracy of information, adaptation of operations to laws, regulations and HEP's d.d. bylaws as well as HEP Group's plans and business policies. Also, with its recommendations for the improvement of business processes, Internal Audit Department helps HEP's d.d. Management Board and HEP Group's responsible management to improve the system of internal control and reduce business risks. Pursuant to the Audit Act and the Act on the Internal Control System in the Public Sector, the Audit Committee is functionally in charge of the Internal Audit Department.

MANAGEMENT BOARD OF HEP d.d.

GRI 2-9
GRI 2-10
GRI 2-11

Management Board of HEP d.d. consists of three members, one of whom is the President thereof. Under the Articles of Association, the Board may consist of 6 members. Supervisory Board of HEP d.d. appoints and revokes the President and the members of the Management Board. The decision on the appointment and revoking of the President and the members of the Management Board becomes effective on the day of its adoption. The term of office of the President and the members of the Management Board is four years with the option of appointment for a period of up to 6 months at the proposal of the Government. They enter into a separate agreement stipulating their rights and obligations (salary, fees, contract termination, notice period etc.), and the decision on appointment, i.e. recall is passed by the Supervisory Board of HEP d.d. When making decisions on annual financial reports, General Assembly makes a decision on granting a discharge to Board members. General Assembly may make a decision on giving a vote of no confidence to Management Board members. If the General Assembly refuses to grant discharge or gives vote of no confidence to all or some Management Board members, the Supervisory Board may consider whether these Management Board members should be revoked. The provisions of the Anti-Discirimination Act and the General Data Protection Regulation (GDPR) are followed in the appointment process.

HEP's d.d. Management Board represents and manages operations of HEP d.d. in line with the Companies Act, the Articles of Association, the Rules of Procedure of Management Board and other internal acts and decisions. The Management Board makes decisions in order to achieve business strategy, business plans and programmes, conducts activities resulting from a mutual aim and works legally within and for the benefit of HEP d.d. The Management Board is obliged and authorized to undertake all activities and make decisions it finds necessary to successfully manage those operations.

For the purpose of executing managerial tasks and powers, the Management Board carries out the following activities:

- manages business activities of HEP d.d.,
- defines and implements the business policy and takes care of fulfilling mid- and long-term plans,
- carries out the decisions of the Supervisory Board and General Assembly, undertakes measures and gives instructions for their implementation,
- adopts general acts and organizational regulations,
- represents and acts in the name of HEP d.d. and signs contracts as part of the law and Articles of Association,
- proposes decisions from the scope of work of the Supervisory Board and General Assembly,

- reports to the Supervisory Board on business policy and other principle issues of future ooerations as well as deviations from earlier predictions while providing reasons for those; on business profitability, particularly profitability of own capital use; business flow, income and condition of HEP d.d.; operations that may be highly significant for business profitability and liquidity of HEP d.d.,
- submits annual financial reports to the Supervisory Board,
- once a year submits a written report on the state of affairs in HEP d.d. to the General Assembly,
- submits a written consolidated annual report to the General Assembly,
- appoints members of assembleys, i.e. supervisory boards of companies which are under HEP's d.d. supervision or in which it has significant influence,
- appoints and revokes the employees of HEP d.d. with special authorities and responsibilities,
- adopts staff and employment plans,
- proposes and takes necessary measures and issues direct orders to ensure operations of the Company, especially the safety and the operation of the electric power system,
- performs other work-related tasks in line with the law and rules of HEP d.d.

Management Board members are obligated to direct, coordinate and monitor operations from the scope of activities they are responsible for and in charge of and to report to the Management Board on the conditions of the operations therefrom as well as to propose making decisions at the Management Board sessions.

The Supervisory Board of HEP d.d. at the meeting on 8 December 2023, accepted the resignation of the President of the Management Board, Frano Barbarić, and at the same meeting, pursuant to the Government Conclusion of 7 December, appointed Vice Oršulić the President of the Management Board of HEP d.d. with the term as of 9 December 2023 for a period of 6 months.

Members of the Management Board of HEP d.d.:

- Vice Oršulić, member from 1 January until 8 December 2023; President from 9 December 2023, 6-month term
- Petar Sprčić, member from 1 January 2018, term of office extended on 1 January 2023
- Tomislav Šambić, member from 1 January 2018, term of office extended on 1 January 2023

THE ROLE OF MANAGEMENT BOARD IN SUSTAINABILITY ISSUES AND RESPONSIBILITY DELEGATION

GRI 2-12
GRI 2-13
GRI 2-17

In line with the corporate governance model of HEP Group, HEP d.d. manages operations and carries out a part of operations in the area of corporate functions, and directs, coordinates and monitors activities in affiliated companies. Each Management Board member is an executive in charge of a specific corporate function. The Management Board makes a decision on the responsibility of each member and provides the information thereof to department heads of HEP d.d. and HEP Group companies.

Since the goals of sustainability relate to society and human rights, the economy and the environment, each of the members of the Management Board, through the activities for which he/she is responsible for and in charge of, directs, coordinates and monitors the fulfillment of the goals set in the HEP2030 strategy, reports this to the other members of the Management Board and proposes decision-making at Board meetings.

The Management Board delegates responsibilities for meeting the business goals, including the goals from the HEP2030 strategy, to department directors of HEP d.d. and HEP Group companies. Directors of HEP d.d. departments and HEP Group companies formally report on the achievement of business goals to the Management Board at their sessions, regularly once a week. Departments of HEP d.d. and HEP Group companies submit to HEP's d.d. Controlling Department a report on the work of the Department at least once a year, and if necessary more often. The Controlling Department integrates this data for the Management Board. The reports contain information on achieved goals for the previous period, the information on the realization of the procurement plan, on employees and salaries, operational expenses and set goals for the forthcoming period, which include goals from the field of sustainability – society and human rights, ecology and economy.

The responsibilities for achieving operational goals are delegated to employees based on the job description in the organization and systematization rules and by setting up teams at HEP Group level and/or at the level of each company. The team is appointed by the President of the Management Board of HEP d.d. or company directors, depending on the business goal and members. Team leaders and/or their deputies report to company directors on the results of team work.

Achieving sustainability goals is integrated in the systems of quality, energy, environment, occupational health and safety management as well as information security management in line with ISO standards described in the chapter Strategies, policies and business practices.

THE ROLE OF MANAGEMENT BOARD IN SUSTAINABILITY REPORTING

GRI 2-14
GRI 2-17

The HEP Group Annual and Sustainability Report for 2023 is the tenth in a row, and from the beginning, employees of HEP d.d. departments and HEP Group companies have been involved in its preparation. Workers, based on business analysis, each in their own jurisdiction, taking into account the positive and negative impacts of business on sustainability goals, participate every year in determining and revising material topics. In the preparation of the report, in previous years we included external experts who helped us in structuring the collected data in order to meet the requirements of the GRI standard. Before the Management Board, each report is reviewed and approved by the members of the Business and Sustainability Report Preparation Team and for independent assessment according to ESG criteria, as well as directors of HEP d.d. departments and HEP Group companies, each in their own jurisdiction. Before publishing, reports are approved by the Board at its meetings. After six published reports, the Management Board of HEP d.d. formalized a working group made up of workers in 2020 and appointed the aforementioned Team of HEP Group for the preparation of the Annual and Sustainability Report, and for the preparation of independent assessment according to ESG criteria (Team). We also include external stakeholders in the evaluation of material topics. The method of including stakeholders for the year 2023 as well as the methodology for determining significant stakeholders are described in Material topics. Revised and updated material topics for 2023 were accepted by the Management Board.

Team members, like HEP Group's employees gain their knowledge, skills and experience by performing everyday work and on internal and external courses, seminars and congresses dealing with business sustainability. The information on emploeyees' education is given in Our employees.

CONFLICT OF INTEREST

GRI 2-15
GRI 205-1
GRI 205-2
GRI 11.20.1
GRI 11.20.2
GRI 11.20.3
GRI 12.20.1
GRI 12.20.2
GRI 12.20.3

CODE OF ETHICS

The 2019 Code of ethics sets loyalty obligations of Management Board members, companies' directors and HEP employees and it forbids participation in any activity that may lead to the conflict of interest and have a negative effect on HEP's business operation and image. The Code of Ethics lists activities which members of the Management Board, companies' directors and employees may not do. Apart from the conflict of interest, the Code of Ethics also defines the rules of good behaviour of all employees and members of the Management Board as well as of HEP Group companies' directors, under the Constitution, laws, the Code of Ethics of the Croatian Chamber of Commerce, valid Anti-Corruption Strategy with the ac-

companying Action Plan and other accompanying implementation documents and general acts of the companies within HEP Group. The Code of Ethics defines principles of business conduct and contains provisions and ethical principles related to: confidentiality and business secrecy, data protection, taking and giving gifts, human rights, safe work, environment protection, public relations, procedures of employment and transfer/promotion of employees etc. The ethics committee promotes and suggest measures for the strengthening of ethical standards in HEP.

In order to prevent conflict of interest, HEP Group also publishes and if necessary updates a list of economic entities in conflict of interest with HEP d.d. and HEP Group companies as contractors in public procurement procedures. HEP d.d. and HEP Group are not allowed to conclude contracts with the listed economic entities. HEP Group's procurement practices are described in Public procurement.

ACTION PLAN FOR THE IMPLEMENTATION OF THE ANTI-CORRUPTION PROGRAMME OF THE CROATIAN GOVERNMENT

GRI 205-1
GRI 205-2
GRI 11.20.1
GRI 11.20.2
GRI 11.20.3
GRI 12.20.1
GRI 12.20.2
GRI 12.20.3

HEP has been implementing the Action Plan for the implementation of the Anti-Corruption Programme of the Croatian Government for majority state-owned companies. The aim is to strengthen responsibility and transparency, create preconditions for preventing corruption on all levels and to affirm zero tolerance for corruption. There were no corruption related events in HEP Group during 2023.

REPORTING TO THE MANAGEMENT BOARD

GRI 2-16
GRI 2-25
GRI 2-26

Reporting to the Management Board of HEP d.d. and to directors of HEP Group companies refers to reports on the complaints submitted to the ethics commissioner and to HEP Group Ethics Committee about events connected to employees' rights in line with the Labour Act and security and other event reporting in HEP Group.

ETHICS COMMITTEE AND ETHICS COMMISSIONER

The procedures of complaint examination by the ethics commissioner and the HEP Group Ethics Committee include the statements made by the other side supported by relevant documents. If possible, there is a conversation with both sides, so as to gain a better insight in the subject and to make an opinion more easily. In this process the cooperation is established with all organizational units and individuals, and particular emphasis is put on collecting feedback from participants in the procedure on how the issue has been solved. Furthermore, among other tasks, the Ethics Committee analyses the violation of the Code of Ethics and supervises its application, under provisions of the Code of Ethics. It reports to the Management Board of HEP d.d. about the implementation of the Code of Ethics and its observations at least twice a year, and more often if necessary.

The report of the Ethics Committee on the structure of received complaints in 2023

	Total	Founded	Unfounded
Number of received complaints	138	54	84
Number of solved complaints	138	54	84
- Number of anonymous complaints	2	0	2
- Number of non-anonymous complaints	136	54	82
Number of non-anonymous complaints by HEP's employees	3	2	1
Number of non-anonymous complaints by suppliers	0	0	0
Number of non-anonymous complaints by other interested legal and natural persons	133	52	81
Number of complaints by topics/fields			
- work relations	2	1	1
- discrimination	1	0	1
- corruption	0	0	0
- conflict of interest	2	2	0
- nepotism	1	0	1
- public procurement	0	0	0
- customer relation	13	3	10
- calculation and billing	53	16	37
- connection to LV network	38	22	16
- unauthorized consumption	2	2	0
- other	26	9	17
Total	**138**	**55**	**83**

In 2023, three hearings were held as part of the court proceedings in connection with the fatal fire at Dubrovnik hydropower plant in January 2019, and on the basis of which, in 2020, the County State Attorney's Office filed an indictment against five Croatian citizens, three of whom were, at the time of committing the offense for which they are charged, performing responsible duties in HEP Proizvodnja. The indictment was also brought against HEP-Proizvodnja as the legal entity.

WORKERS' RIGHTS

Pursuant to the provisions of the Labour Act, a worker who thinks that the employer violated their work-related right may require the exercise of such right from the employer, fifteen days from submitting the decision which is considered to have violated said right, i.e. after their realization of such violation. The President of the Management Board makes a decision on the requests submitted by HEP's d.d. workers, and for other HEP Group companies this decision is made by their directors.

SECURITY AND OTHER EVENT REPORTING

The Rules on the method of reporting on security and other events in HEP Group define the procedure of immediate and timely reporting of authorized persons in HEP d.d. and HEP Group companies about occurrences, incidents, extraordinary events, accidents, catastrophes and other negative events, which may have or have influence on business operations, security, protection of persons and property, complete infrastructure, environment and image of HEP d.d. and HEP Group companies. The monitoring centre has been set up as a single communication hub on the level of HEP Group companies for receiving, collecting, processing and transferring data and information, for reporting to the Management Board of HEP d.d. and other authorized persons of HEP d.d. and HEP Group companies. The Rules are published electronically in the internal newsletter and are made available to HEP Group employees.

EVALUATION OF THE MANAGEMENT BOARD'S EFFICIENCY, REMUNERATION POLICY AND FEES

GRI 2-18
GRI 2-19
GRI 2-20

Pursuant to Article 22 of the Accounting Act (OG 78/15, 134/15 and 120/16) Hrvatska elektroprivreda d.d. makes a Statement on the implementation of the Corporate Governance Code. In 2023 the Corporate Governance Code was implemented in corporate governance of companies in which Croatia has shares and/or stocks (OG 132/17 and 52/18).

HEP d.d. adheres to the provisions of the Code with an exception of provisions which implementation is not applicable and practical in a given moment. Said exceptions are as follows:

- Dividend policy was not adopted as it falls within the jurisdiction of HEP's d.d. owner i.e. the Republic of Croatia. Dividend is paid out in accordance with the Budget Act and the National Budget Execution Act
- HEP d.d. did not introduce an independent compliance officer, but is in the process of setting up said mechanism as part of the implementation of the CGAP
- The Supervisory Board did not set up the employee reward and motivation system, in particular with reference to the Management Board, as the salaries and other remuneration made in favour of the President and members of the Management Board are defined under the Decision on determining salaries and other remuneration of the president and members of the Management Board (OG 83/2009, OG 77/2014)
- Remuneration paid to the members of the Supervisory Board is not defined according to the contribution to the company's performance as each member of the Supervisory Board receives a fixed and set remuneration amount in accordance with the Decision of the General Assembly of HEP d.d. as of 30 April 2009 adopted pursuant to the Decision of the Croatian Government class 120-02/09-01/14, file no.: 5030105-09-1 dated 2 April 2009
- The evaluation of the work of the Management Board, middle management and committees carried out by the Supervisory Board in terms of defined company targets during the previous period does not exist. However, some mechanisms acting as measures as defined in the Corporate Governance Action Plan are being set up, which also plans for the ratio of annual remuneration paid.

RATIO OF ANNUAL REMUNERATION PAID

GRI 2-21

The information on the ratio of annual remuneration paid for the best paid employee in the company is a business secret pursuant to Article 8 of the Rules on business secret and classification of information (HEP's Newsletter 534 as of 17 January 2023 and Newsletter 422 as of 2 June 2017, Article 6).

CORPORATE GOVERNANCE ACTION PLAN IN HEP GROUP

GRI 207-2

In 2018, HEP concluded with the European Bank for Reconstruction and Development (EBRD, the Bank) a loan agreement for the financing of the construction of EL-TO Zagreb, a combined-cogeneration power plant, an integral part of which is the Corporate Governance Action Plan. The purpose of the Action Plan and its 11 measures is to improve corporate governance, define in more detail the tasks of HEP's management and supervisory bodies, primarily the Management Board and the Supervisory Board, as well as its subcommittees, but also other organizational units of the company, including the introduction of new functions such as the risk function and business compliance. The implementation of the aforementioned measures began in 2018, and during 2023, HEP carried out further activities related to the introduction of the risk function, the business compliance function and the setting up of a succession plan.



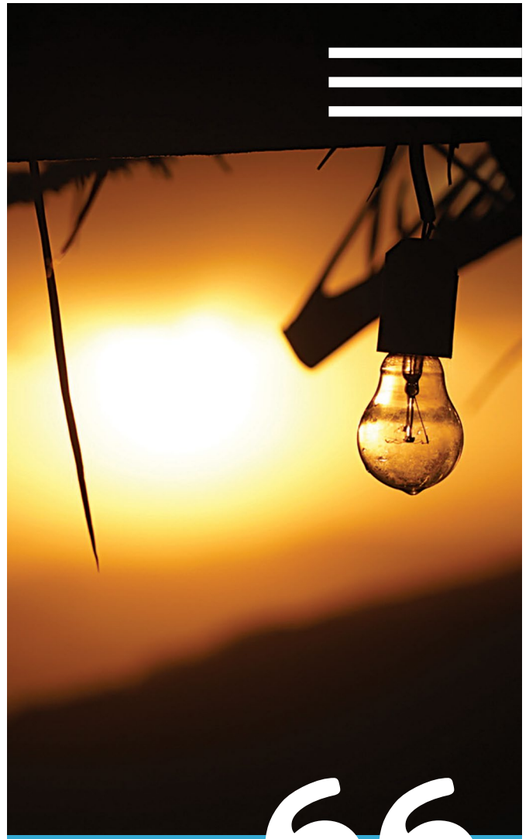
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As a member state, Croatia is harmonized with the EU sustainability goals, which are also aligned with the global sustainability goals.

6

STRATEGIES, POLICIES AND BUSINESS PRACTICES

The chapter describes HEP Group's strategies, polices and business practices as well as the contribution of HEP Group's strategies, policies and business practices to global, EU and national sustainability goals.



Sustainable development is a basic principle of the European Union Treaty and a priority objective of the internal and external EU policies.

GLOBAL AND EU SUSTAINABILITY POLICIES

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

Sustainable development is the basic principle of the Treaty on European Union and the primary goal of EU internal and external policies. The UN 2030 Agenda for Sustainable Development contains seventeen global sustainable development goals, which are expected to be used by the UN members when creating their development programs and policies by 2030. All the sectors within a country should direct their policies towards achieving sustainable development goals.

The 2019 European Green Deal continues the implementation of global and European policies for reducing the effect on the environment, emphasising the reduction of effect on climate as well as the adaptation to climate changes and protection of biological diversity, which started at the UN Conference on Environment and Development in Rio de Janeiro in 1992. The Kyoto Protocol ensued, and in 2016 the signatory states of the Paris Agreement obliged to implement policies and measures, so that the increase of average global temperature on Earth was reduced to 1.5°(2°) at the most by the end of 2100 in comparison to the pre-industrial era. Adoption of the "Fit for 55%" package marked the beginning of harmonizing legal regulations for greenhouse gas emissions by 55 percent until 2030, in comparison to 1990. When the European Climate Law became effective, this goal became obligatory on the EU level. In this respect the transition towards the EU climate neutral economy has to be socially just and it needs to promote innovations and competitiveness of EU members' industry, while it simultaneously ensures similar conditions, in comparison to the economy of the third countries. Furthermore, in May 2022 the European Commission adopted the REPowerEU Plan, as a reaction to distortions at the global energy market caused by the Russian invasion of Ukraine. The Plan defines goals of reducing dependence on Russian gas, the implementation of measures for additional reduction of consumption and energy savings as well as for accelerating the process of obtaining licences and construction of renewable energy sources. Apart from goals for achieving climate neutrality and adapting activities to climate changes as well as protecting biological diversity, EU adopted a series of regulations, directives and other bylaws, which have been transferred to national legal regulations of member countries and refer to the protection of water and sea, to prevention and control of pollution as well as to managing raw materials, products and materials under the principles of circular economy, so as to reduce waste generation and avoid landfilling.

The UN member countries shall also adapt their operations to the requirements connected to human rights' protection and occupational safety stated in the UN Guiding Principles on Business and Human Rights, including the principles and rights from the ILO Declaration of the Fundamental Principles and Rights at Work as well as the International Charter of Human Rights.

In order to direct investments into ecologically sustainable activities according to technical criteria for a significant contribution and 'do no significant harm' (DNSH) principle for six ecological goals as well as to fulfil minimum protective measures for human rights' protection and occupational safety, the European Commission adopted a package of legal regulations in 2020 referring to ecologically sustainable business, the so-called EU Taxonomy. Pursuant to the provisions of the EU Taxonomy, non-financial companies, property managers, credit institutions, investment companies and insurance and re-insurance companies shall report on key indicators of success, i.e. turnover, capital expenditure (CapEx) and operative expenditure (OpEx) related to ecologically sustainable activities.

Energy sector to which HEP Group belongs, i.e. electricity and heat energy production and distribution as well as gas distribution, is one of the sectors which can mostly influence the environment, so the goals, which HEP Group shall fulfil are within all the previously stated global and EU policies of sustainable development. HEP Group has also made a step forward in the sector of road traffic through the construction of infrastructure, i.e. charging stations for electric and hybrid vehicles, by which it contributes to the Croatian achievement of goals for road traffic decarbonisation.

STRATEGIES AND SUSTAINABILITY POLICIES OF CROATIA

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

As a UN and EU member, Croatia adapts its strategies and policies to global and EU sustainability policies, and in energy sector these refer to: the Croatian Energy Development Strategy until 2030 with an outlook to 2050, the Croatian Low-Carbon Development Strategy until 2030 with an outlook to 2050, the Croatian Climate Change Adaptation Strategy until 2040 with an outlook to 2070 and the National Energy and Climate Plan for the Republic of Croatia (NECP) which are adapted to global and EU sustainability policies every five years, the first having been drawn up in 2019.

STRATEGIES AND SUSTAINABILITY POLICIES OF HEP GROUP

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

The chapter describes HEP Group's strategic goals by 2030, which are adapted to strategic goals on the global and EU level as well as integrated systems of managing quality, environment, energy, health protection and safety as well as information security in line with ISO standards.

HEP2030 STRATEGY

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

In its strategic document of development and operations until 2030, HEP2030, HEP Group published its strategic business goals on its website. HEP Group builds its strategy on the foundations of long-term stable sustainability and stable growth through the realization of priority goals: Sustainable and flexible energy portfolio, Optimization and improvement of business processes, Market adaptability, Cooperation with stakeholders. The HEP2030 strategy is a document that is continuously harmonized with global and EU sustainability policies.

STRATEŠKI CILJEVI POSLOVANJA HEP GRUPE DO 2030.



MANAGEMENT SYSTEMS ACCORDING TO ISO

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 12.2.1

The following companies have integrated and certified management systems according to ISO standards 9001:2015, 14001:2015, 50001:2018 i 45001:2018: HEP d.d., HEP Upravljanje imovinom, and HEP Proizvodnja. HEP Toplinarstvo has introduced and certified integrated systems of quality, environment and energy management and HEP Operator distribucijskog sustava has introduced and certified systems of environment, quality, health protection and occupational safety management. HEP Opskrba has adopted and certified system of quality management. HEP d.d. has introduced and certified system of information security management in line with ISO 27001:2018 standard. HEP's d.d. Management Board adopted and published the Policy of quality, environment protection, energy, occupational health and safety management for HEP d.d. and HEP Upravljanje imovinom d.o.o. The Management Boards of HEP Proizvodnja, HEP Operater distribucijskog sustava and HEP Toplinarstvo adopted and published their policies for integrated systems in line with ISO standards and HEP Opskrba for quality management.

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL, EU AND CROATIAN SUSTAINABILITY POLICIES

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

Sustainability goals on the global, EU, Croatian and HEP Group level are shown below. Sustainability policies are continuously changing and adapting to set goals on the global level on the basis of monitoring results of achieving set goals. Although all measures and activities are conducted to achieve global sustainability goals, HEP's contribution was shown in the table, and we connected the goals on the global, EU, Croatian and HEP Group level with HEP Group's strategic goals, material topics, whose setting procedure we described in the chapter Material topics and indicators from the 2021 Consolidated GRI standards as well as HEP Group's business results in 2023.

CONTRIBUTION OF HEP GROUP'S BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABLE DEVELOPMENT GOALS

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

In order to determine the goals of the UN Sustainable Development Goals to which HEP Group contributes, we used the European Comission tool SDG Mapper. With the help of SDG Mapper three direct goals have been determined, together with the relevant UN subgoals of sustainable development to which HEP Group actively contributes:

- SDG 7: Affordable clean energy
- SDG 12: Responsible production and consumption
- SDG 13: Climate protection and adaptation to climate changes.

Taking into consideration that SDG Mapper uses the uploaded document (HEP Group Annual and Sustainability Report for 2022 was uploaded) to determine the appearance of key words in the document, and connects them to UN's 17 sustainable development goals, apart from 3 stated goals, 4 additional goals to which we contributed were determined:

- SDG 8: Decent work and economic growth
- SDG 15: Preservation of life on land
- SDG 6: Clean water and sanitation
- SDG 11: Sustainable cities and communities.

Sub-goals applicable to HEP Group and relevant indicators were added to UN Sustainable development goals. The list of UN Sustainable Development goals was made according to the contribution of HEP's business operations to stated goals on the basis of the SDG Mapper tool, and not according to the ordinal number of each goal.

Information in the table should be observed combined with tables in the following chapters: Contribution of HEP Group business operations to EU sustainability policies – European Green Deal and Contribution of HEP Group business operations to Croatian sustainability policies.

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Affordable and clean energy 7 AFFORDABLE AND CLEAN ENERGY	**7.1.** • universal access to modern energy **7.1.1.** • share of population with access to electricity	• Owning various sources of electricity which may be included in generation, depending on the condition and prices of energy fuels at the market and in that manner provide sustainability and flexibility of the system • Implementation of advanced grids focusing on the conventional grid development emphasising automation, advanced grid management and operation • Defining and creating new products and services at the market, in all market segments at the wholesale and retail market, with an aim of keeping the current market share in Croatia and increasing the share at regional markets • Establishment (setup, strengthening) of effective and user-friendly business operations	• Our customers • Energy and energy fuels • Local communities	• 100% of the Croatian population has access to electricity, and HEP's market share in supplying electricity to customers in 2023 amounted to 93.3% • SPP Črnkovci – construction began in 2022 based on the Agreement on cooperation on solar power plant projects between HEP and local government units • 647,202 installed remote readable smart meters by end 2023, i.e. 26.50% of the total number • EU projects to modernize and improve the distribution grid – Sincro Grid, Smart Grid Pilot Project, ATTEST and Modernization of the Croatian Distribution Network • ZelEn product – 100% energy from RES for customers and tariff models including energy generated from renewable energy sources • Implementation of projects under ESCO model, Benefit programme for HEP Opskrba customers, HEP ZelEn plus program, SGE services • HRK 24.2 million of solidarity allowance paid to combat energy poverty - SocialWatt **GRI 2-6/203-1/203-2/301-1/413-1**
	7.2. • increase of global percentage of renewable energy **7.2.1.** • share of energy from renewable energy sources in the total final energy consumption	• 45% energy from renewable energy sources in HEP's generation portfolio by 2030 • Owning various sources of electricity which may be included in generation, depending on the condition and prices of energy fuels at the market and in that manner provide sustainability and flexibility • Examining the options of other business expansion models through customer acquisition and/or generation capacities or partnership in realizing energy projects	• Our customers • Energy and energy fuels • Local communities • Business results	• 51.16% of energy produced from renewable energy sources (HPP, SPP, WPP, BE-TO), 17.63% from nuclear energy, 31.22% from fossil fuels • Construction of SPP Donja Dubrava, SPP Radosavci and SPP Jambrek completed – in total 24.8 MWe • Design and Construction Agreement for 10 MWh SPP Dugopolje concluded • Reconstructions of existing hydro power plants with an aim of ensuring availability – PA HPP North, PA HPP West, PA HPP South • SPP projects in preparation- 83.5 MWe in total • Construction of HPS Kosinj and upgrade of HPS Senj to increase the total installed capacity by 412 MWe • Energy storage in SPP Vis – installed battery • Heat accumulators in TE-TO Zagreb and EL-TO Zagreb – in operation and in progress • Conducted survey of HEP's suppliers about consumption and sources of consumed energy **GRI 2-6/201-1/201-2/203-1/203-2/301-1/308-1**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Responsible consumption and production 	**12.4.** • responsible chemical and waste management **12.4.2.** • (a) dangerous waste generated by inhabitant; and (b) share of processed dangerous waste by type of processing	• Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Encouraging continuous improvement of employees' competence and innovation and effective knowledge management at a corporate level	• Waste • Education and training	• All HEP's thermal power plants and combined heat and power plants have installed security management systems and policies of preventing major accidents - management of chemicals • Employees working with dangerous chemicals and responsible persons are obliged to attend the Programme of acquiring knowledge on protection from dangerous chemicals by the Croatian Institute of Public Health • 86.13 % of the total generated waste was recovered – 55,886.57 t • 14.11 % of the total generated waste was disposed of in landfills – 9,157.14 t • 3.14 % of the total generated hazardous waste – 2,033.35 t and 96.86% i.e. 62,848.52 t of non-hazardous waste **GRI 303-1/306-1/306-2/306-3/306-4/306-5/404-2/11.6.2/12.6.2 /12.6.4**
	12.5. • significantly reduce waste generation **12.5.1.** • national rates of recovery, the amount of recovered waste in tonnes		• Waste • Public procurement • Education and training	• Waste is managed by the waste management order of priority – priority is given to avoiding waste generation, reuse, material and energy recovery in order to avoid landfilling • Almost all waste resulting from the electricity generation process in TPP Plomin 2 was taken over by surrounding cement plants, which used it in its generation process • 7 procedures were implemented pursuant to green public procurement criteria • HEP Akademija – education for employees on waste management • Waste is managed as part of the Environmental management system in line with ISO 1004:2015 standard **GRI 204-1/306-1/306-2/306-3/306-4/306-5/404-2/11.5.4/11.5.5 /11.5.6**
	12.6. • encouraging companies to adopt sustainable practices and reporting on sustainability **12.6.1.** • number of companies publishing sustainability reports		• Responsible corporate governance • Education and training	• HEP Group has been reporting about environment and society impacts since 2000 • Consolidated non-financial reports have been published in line with GRI standards on the HEP Group's website since 2015 • Under the Decision of HEP's Management Board in 2023 HEP Group's team for creating non-financial reports and ESG rating was formalized • Employees participate in internal and external workshops on sustainability reporting **GRI 2-12/2-13/2-14/2-17/404-2**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Climate action 13 CLIMATE ACTION	**13.2.** • integrating measures against climate changes into national policies, strategies and planning **13.2.2.** • total annual emissions of greenhouse gases	• Owning various sources of electricity which may be included in generation, depending on the condition and prices of energy fuels at the market and in that manner provide sustainability and flexibility • 45% of energy from renewable sources in HEP's generation portfolio by 2030	• Energy and energy fuels • Air emissions • Environmental impact of supply chains	• Scope 1 – 3,212,341.89 tonnes of CO_2 (eq) • Scope 2 – not applicable for HEP Group • Scope 3 – 2,743,522.55 tonnes of CO_2 (eq) • 68.78% of the total electricity generated in 2023 with emission intensity of 0 gCO_2/kWh (HPP, RHPP, SHPP, SPP, VPP and NPP Krško) • Construction of renewable sources for electricity generation - the list of projects can be found under Goal 7, Affordable and clean energy • Reconstructions of existing hydro power plants to ensure the availability of the plants and electricity generation from renewable soures • Construction and re-constructon of high-efficiency cogenerations for the production of electricity and thermal energy – EL-TO Zagreb CCPP • Reducing losses in distribution grid from 7.21 percent in 2021 to 7.13 percent of energy input in 2022 • Increase of energy efficiency and reduction of CO_2 emissions by 11,104 tonnes following the revitalization of 68.5 km of hot-water pipeline network in the City of Zagreb • Increase of energy efficiency and reduction of CO_2 emissions after the completion of the project Replacement of the connecting pipeline from TE-TO to the heating plant of Osijek • Implemented activities for long-term insurance of NPP Krško availability – capacity and generation increase • HEP Akademija – education of employees corporate governance according to ISO standards – environment and energy • CapEx according to the EU taxonomy in taxonomy eligible and aligned activities 64.9 % • Income according to EU taxonomy from taxonomy eligible and aligned activities 42.1% • OpEx – according to EU taxonomy in taxonomy eligible and aligned activities 34.5 % • HEP Group continues surveying HEP's suppliers on greenhouse gas emissions in 2023 **GRI 2-6//201-1/201-2/301-1/302-5/305-1/305-2/305-3/305-4/305-5/11.1.6/11.2.2/306-1/306-2/308-1**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Decent work and economic growth 	**8.8.** • protection of labour rights and promotion of safe working environment **8.8.1.** • fatal and non-fatal injuries per 100,000 workers, by gender and migrant status **8.8.2.** • level of national compliance with labour rights (freedom of association and collective bargaining) based on textual sources of the International Labour Organization (ILO) and national legislation by gender and migrant status	• Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Encouraging continuous improvement of employees' competence and innovation and effective knowledge management at a corporate level	• Our employees • Health protection and security • Responsible corporate governance • Public procurement • Education and training • Local communities • Environmental impact of supply chains	• Managing health protection and occupational safety under certified Systems of managing health protection and occupational safety in line with ISO 45001:2018 Standard - HEP Proizvodnja, HEP ODS, HEP Toplinarstvo, HEP d.d. and HEP Upravljanje imovinom • 113 occupational injuries, and 1 with fatal outcome • HEP's Collective Agreement – new signed on 4 October 2023 in effect from 1 Jan 2024-31 Dec 2025 • 5 trade unions in HEP Group – Hrvatski elektrogospodarski sindikat (HES), Nezavisni sindikat radnika HEP-a (NSRHEP), Strukovni sindikat radnika HEP-a (TEHNOS), Sindikat energetike, kemije i nemetala (EKN) and Hrvatski elektrodistribucijski sindikat (HEDISS) • Suppliers excluded from the public procurement procedures are the ones: in which there is a danger of child labour, forced labour as well as the ones that cannot prove regular salary payment or payment of benefits to workers • 329 HEP Group employees used the right to parental leave • HEP Group's supply chain consisted of the total of 9,098 suppliers, 169 of which were foreign and 8,829 national. 97 suppliers were designated as significant (procurement of energy, energy fuels and equipment for electric power plants) • HEP has an Action plan for promoting and establishing gender equality in HEP Group, Policy of diversity and non-discrimination, Rules on the procedure and measures of male and female employees' dignity and it conducts gender and family responsible management policy - Mamforce Company Standard • HEP signed the Diversity Charter and adopted the Policy and action plan for implementing Policy of diversity and non-discrimination • Business according to the principles of the Code of Ethics • HEP Akademija – education of employees for the management of occupational health and safety • Completed survey of HEP's suppliers on work and human rights protection **GRI 2-30/401-3/403-1/403-2/403-3/403-4/403-5/403-6/403-8 /403-10/405-1/418-1/11.9.2/11.9.3/11.9.4/11.9.6/40/11.9.8. /11.9.9./11.9.10**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Life on land 	**15.1.** • preservation and restoration of terrestrial and freshwater ecosystems **15.1.2.** • share of important areas for terrestrial and freshwater biological diversity included in protected areas, by the type of ecosystem	• Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group • Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Encouraging continuous improvement of employees' competence and innovation and effective knowledge managemet at a corporate level	• Biodiversity • Air emissions • Water and effluents • Waste • Responsible corporate governance • Local communities • Environmental impact of supply chains	• Procedures on impact assessment and the decision on the acceptability of the project on the evnironment and NATURA 2000 ecological network were published on the website of the Ministry of Economy and Sustainable Development as well as County offices in charge of environment protection – the public and interested public were involved in the procedures • Procedures of obtaining decisions on environmental permits were published on the website of the Ministry of Economy and Sustainable Development - the public and interested public were involved in the procedures • Thermal power plant operation is in line with the conditions from the Decision on environmental permits, during inspection supervision no non-conformities were identified • Limit values of air emissions from medium combustion plants (they are not obligated to obtain the environmental permit) were not exceeded • Managing effects on biodiversity, water, air and waste management under ISO 14001:2015 – HEP-Proizvodnja, HEP ODS, HEP Toplinarstvo, HEP d.d. and HEP Upravljanje imovinom • Information on waste was described under Goal 12, Reasonable consumption and production • Agreement on cooperation while implementing protective measures, monitoring population and ringing of strictly protected species of white stork, LIFE Danube Free Sky project, LIFE SUPort project • Regular removal of invasive species in PA HPP North – bivalve Dreissena polymorpha and plant water plague Elodea • Completed survey of HEP's suppliers on the impact on the environment **GRI 2-6/2-12/2-13//303-2/303-3/305-7/304-1/304-2/304-3/304-4 /306-3/306-4/306-5/308-1/11.4.3**
	15.5. • protection of biological diversity and natural habitats **15.5.1.** • red list of threatened species			• Species on the IUCN Red List of threatened species: • Implementation of prescribed measures of HEP ODS for the field of energy for 17 bird species • Implementation of measures of HEP Proizvodnja for preservation of 30 bird species, 8 species of other vertebrate and 4 types of habitat **GRI 304-4**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Clean water and sanitation 6 CLEAN WATER AND SANITATION	**6.3.** • improvement of water quality, water treatment and safe reuse **6.3.1.** • share of communal and industrial wastewaters which are treated prior to discharge **6.5.** • integrated management of water resources **6.5.2.** • Proportion of transboundary basin area with an operational arrangement for water cooperation	• Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Encouraging continuous improvement of employees' competence and innovation and effective knowledge management at a corporate level • Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Water and effluents • Responsible corporate governance • Local communities • Environmental impact of supply chains	• Operation of the plants for generation of electricity and heat energy is in line with the requirements set by concessions, concessional terms for water use and water permits for water use and discharge of effluents. The total volume of 156,861.86 m^3 of water was harvested for sanitary consumption in HEP Group from the public water supply system. A total of 109,481.86 m^3 of waste sanitary waterwas discharged in the public drainage system and 3,303 m^3 in natural terrestrial waters with previous treatment and 1,130 m^3 in the sea with previous treatment • In 2023, 450,758,149 m^3 of water was harvested in the facilities for the production of electricity and thermal energy from thermal power plants and sanitary consumption in HPP Vinodol and HPP Senj of HEP-Proizvodnja. The water used for the production of electricity in hydropower plants is not included in the total amount of harvested water, because after the energy of the water is used, the amount and composition of the water remain unchanged. The amount of water used in hydropower plants is shown as the amount of electricity produced in accordance with legal regulations. Of the total water harvested, 81,394 m^3 was from the public water supply system, 218,965,025 m^3 was sea water, 229,062,622 m^3 was from the Sava River in the area of Sisak and Zagreb, 153,533 m^3 from the Drava River in the area of Osijek, 31,468 m^3 from the Krapina River in the area of Konjščina, 2,084,692 m^3 from a well in the Zagreb area and 379,415 m^3 from the Bubić pit in Plomin. • 409,435.76 m^3 of water consumed for the production of electricity and thermal energy, i.e. 0.1% of the harvested water Completed survey of HEP's suppliers on the impact on the environment **GRI 303-2/303-3/303-4/11.6.3/11.6.4/11.6.5** • During 2023, and continuing in 2024, activities related to the resolution of property-legal relations on public water assets for surface water bodies of common interest of Hrvatske vode and HEP-Proizvodnja d.o.o. • In August 2023, the Water Area Management Plan for the period 2022 to 2027 was adopted, which provides obligations for existing and planned new hydropower plants. As an accompanying document to the Plan, the Technical basis for declaring significantly changed and artificial water bodies due to the influence of existing HEP hydropower plants on the hydromorphological state of the waters was adopted. In accordance with the Plan, in the coming period, changes will be made to all concession conditions at all hydropower plants, and measures will be prescribed for individual production facilities in order to achieve a good ecological potential. Since the measures are related to the status and conditions of individual water bodies, with a special emphasis on the implementation of measures on artificial and significantly changed water bodies that have not achieved good ecological potential, papers will be prepared to determine mitigation measures to achieve good ecological potential. • Upon expiry of the Agreement on cooperation in the field of protection against harmful effects of water, use and protection of water and areas of common interest in the period 2019-2022, which were signed by HEP-Proizvodnja d.o.o. and Hrvatske vode, in June 2022 a new agreement with Croatian waters for the period 2023-2027 was signed. • In January 2023, Hrvatske vode (CRO) issued a new water permit for the discharge of effluents from HPP Vinodol. **GRI 2-6/303-1/303-4/11.6.2/11.6.5**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO GLOBAL SUSTAINABILITY POLICIES – UN SUSTAINABILITY DEVELOPMENT GOALS

UN Sustainability Goal	UN Sustainability Development subgoals and goal achievement indicators	HEP Group's strategic goals	HEP Group's material topics 2023	HEP Group's business results in 2023 and GRI indicators
Sustainable cities and communities 	**11.6.** • reduce the impact of cities on the environment **11.6.2.** • air pollution in cities	• Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Air emissions • Local communities • Environmental impact of supply chains	• Monitoring air quality around EL-TO Zagreb – no limit values of pollutants in the air were exceeded • e- mobility – 18 new charging stations were installed. As at 31 December 2023 there were 323 operational charging stations of various types and capacities in Croatia, of which 270 are public. In its facilities and buildings HEP Group has set up 53 charging stations for charging electric and hybrid vehicles from its own fleet • Thermal power plant operation in 2023 was in line with the terms from the Decision on environmental permits **GRI 201-1/203-1/203-2/305-7**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO EU SUSTAINABILITY POLICIES – EUROPEAN GREEN DEAL

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

European sustainability policies for sectors that may have significant impact on environment are governed by the European Green Deal, which presents the strategy for modern, resourcefully effective and competitive economy, by means of the "Fit for 55%" measure package, the European Climate Act and REPowerEU plan. Goals connected to the following refer to energy sector, i.e. electricity and heat energy generation and distribution as well as gas distribution:

- increase of renewable energy sources' share
- reduction of greenhouse gas emissions
- inrease of energy efficiency
- integrated water management
- integrated management and supervision of pollution
- managing raw materials, materials and products in line with the principles of circular economy
- preservation of biological diversity
- electric power connection of EU member countries
- social justice – human rights' protection, labour law and cooperation with stakeholders

By setting up charging stations for electric and hybrid vehicles, HEP Group made a step forward into the sector of road traffic and contributes to the goals for reducing emissions from road traffic through the construction of low-carbon road traffic infrastructure.

Furthermore, in line with the Action plan for financing sustainable development from 2018 to 2020, the EU adopted legal regulations governing sustainable financing i.e. the Sustainable Finance Disclosure Regulation (SFRD Regulation) and the Regulation on the establishment of a framework to facilitate sustainable investment (the EU Taxonomy Regulation). In its Annual and Sustainability Report for 2021 HEP Group published the division of taxonomy eligible and taxonomy non-eligible activities as well as the evaluation of alignment of taxonomic activities with the technical criteria of examination for significant contribution and 'do no significant harm' (DNSH) principle to environmental goals and fulfilling minimum protective measures referring to the protection of labour rights and work safety. Key performance indicators were calculated for all activities – taxonomyeligible, taxonomy non-eligible and aligned – i.e. turnover, capital investment (CapEx) and operative expenses (OpEx) in line with said methodology.

Information in the table should be observed combined with tables in the following chapters: Contribution of HEP Group business operations to EU sustainability policies – European Green Deal and Contribution of HEP Group business operations to Croatian sustainability policies.

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO EU SUSTAINABILITY POLICIES – EUROPEAN GREEN DEAL

EU Sustainability goals	HEP Group's strategic goal	HEP Group's material topics in 2023	HEP Group's business results in 2023 and GRI indicators
Increase of share of renewable energy ***Renewable energy directive (RED III)*** ***Fit for 55%*** ***Plan REPowerEU*** Binding goal for the share of renewable energy sources in the final gross consumption on the EU level in 2030 should be at least 40% REPowerEU suggests to increase the goal for the share of renewable energy sources in the final gross consumption on the EU level in 2030 by at least 45%	• Owning various sources of electricity which may be included in generation, depending on the condition and prices of energy fuels at the market and in that manner provide sustainability and flexibility • Implementation of advanced grids focusing on the conventional grid development emphasising automation, advanced grid management and operation • Defining and creating new products and services at the market, in all market segments at the wholesale and retail market, with an aim of keeping current market share in Croatia and increasing the share at regional markets • Establishment (setup, strengthening) of effective and user-friendly business	• Our customers • Energy and energy fuels • Local communities	• 51.16% - share of renewable sources in electricity produced from HEP's sources in 2023 • HEP's contribution to EU sustainability goals is described under UN's SDG 7 Affordable and clean energy **GRI 2-6/201-1/201-2/203-1/203-2/301-1**
Reduction of greenhouse gas emissions ***Fit for 55%*** ***European Climate Law*** ***EU Emissions Trading system Directive (EU-ETS)*** Binding goal of reducing greenhouse gas emissions on the EU level to 55% by 2030 in comparison to 2005 Review of the EU-ETS Directive resulted in the binding goal of reducing greenhouse gas emissions for plants included in EU-ETS being 62% by 2030 in comparison to 2005	• Owning various sources of electricity which may be included in generation, depending on the condition and prices of energy fuels at the market and in that manner provide sustainability and flexibility • 45% of renewable energy sources' share in HEP's generation portfolio by 2030	• Energy and energy fuels • Air emissionsr • Environmental impact of supply chains	• 36.94% - reduction of greenhouse gas emissions from HEP's sources in EU-ETS in comparison to 2005 • For all its plants in EU-ETS for 2023 HEP submitted EUA into the EU Registry in a prescribed period • 0.23 % - CO_2 emission share (eq) of HEP's EU-ETS plants in EU ETS emissions EU-27 • Emission intensity of available electricity in the Croatoan electric power system in 2023 is 133 g CO_2/kWh • HEP's contribution to EU sustainability goals is described under UN SDG 13 Climate action **GRI 2-6/301-1/ 302-5/305-1/305-2/305-3/305-4 /305-5/308-1/11.1.5/11.1.6/11.1.7/11.1.8**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO EU SUSTAINABILITY POLICIES – EUROPEAN GREEN DEAL

EU Sustainability goals	HEP Group's strategic goal	HEP Group's material topics in 2023	HEP Group's business results in 2023 and GRI indicators
Increase of energy efficiency Energy Efficiency Directive (so-called EED3) Member States jointly ensure a reduction in energy consumption of at least 11.7% in 2030 compared to the predictions from the EU2020 reference scenario, so that the final energy consumption in the Union does not exceed 763 Mtoe	• Owning various sources of electricity which may be included in production, depending on the condition and prices of energy fuels on the market and in thus provide sustainability and flexibility • Defining and creating new products and services on the market, in all market segments on the wholesale and retail market, with an aim of keeping current market share in Croatia and increasing the share on regional markets	• Energy and energy fuels • Our customers • Local communities • Business results • Education and training	• Savings in energy consumption among customers, achieved by HEP Group's suppliers of electricity, heat energy and gas, by which they fulfilled the legal obligation of 121.28 GWh • ISO 50001:2018 certified Energy management Systems in HEP Proizvodnja, HEP ODS, HEP Toplinarstvo, HEP d.d. and HEP Upravljanje imovinom, through which measures of energy consumption reduction are implemented inside and outside production processes • 55 integrated solar power plants on roofs of HEP's buildings for own consumption • Construction of high-efficiency CHP cogeneration • Employee education on energy savings through HEP Akademija – Green office and Integrated management system, ISO 9001 and ISO 14001 • HEP's contribution to EU sustainability goals is described under UN SDG 13 Climate action **GRI 302-1/302-2/302-3/302-4/302-5**
Integrated water management ***Water Framework Directive*** Good condition of natural water bodies, i.e. good ecological potential for significantly changed and artificial water bodies by 2027	• Achieving business efficiency by EU energy companies by improving and optimizing business processes, among others in the domains of corporate and business development, IT development and integration, human potential management, asset management and the improvement of customer service quality • Encouraging continuous improvement of employees' competence and innovation and effective knowledge managemet at a corporate level • Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Water and effluents • Responsible corporate governance • Local communities • Environmental impact of supply chains	• HEP's generation plants in 2023 operatedi in line with concessions and water permits for harvesting water and water permits for discharge of effluents • Stakeholder cooperation with Hrvatske vode in preparing the Plan of water area management 2022-2027 After the expiry of the Agreement on cooperation in the field of protection against harmful effects of water, use and protection of water and areas of common interest in the period 2019-2022 concluded by HEP-Proizvodnja d.o.o. and Hrvatske vode, in June 2022 a new agreement with Hrvatske vode for the period 2023-2027 was signed. • Water consumption by submitted kWh in 2023 increased from 0.02415 m^3/kWh to 0.02615 m^3/kWh in 2023 • HEP's contribution to EU sustainability goals is described under UN SDG 6 Clean water and sanitation **GRI 303-2/303-3/303-4/11.6.2/11.6**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO EU SUSTAINABILITY POLICIES – EUROPEAN GREEN DEAL

EU Sustainability goals	HEP Group's strategic goal	HEP Group's material topics in 2023	HEP Group's business results in 2023 and GRI indicators
Integral management and pollution supervision ***Industrial Emissions Directive (IED)*** ***Medium Combustion Plant Directive*** Business harmonization with the Decisions on environmental permit for big combustion plants with nominal input capacity of ≥50 MWt Entry in the register of medium combustion plants and operation in line with prescribed terms for combustion plants with nominal input capacity from 1 to 50 MWt	• Achieving business efficiency byf EU energy companies by improving and optimizing business processes, among others in the domains of corporate and business development, IT development and integration, human potential management, asset management and the improvement of customer service quality • Encouraging continuous improvement of employees' competence and innovation and effective knowledge managemet at a corporate level • Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Air emissions • Water • Biodiversity • Local communities • Responsible corporate governance • Education and training	• All HEP's thermal power plants and combined heat and power plants have obtained Decisions on environmental permits which are in line with the BAT conclusions of the European Commission from 2017 • Internal and external training of HEP Group's employees on conferences, seminars and professional meetings on impacts of business operations on the environment **GRI 305-7**
Managing raw materials, materials and products in line with principles of circular economy ***Action plan for circular economy by 2030*** Use of sustainable products in the EU Customer empowerment – access to information for product repair and duration Focus on sectors using the most resources in which there is a big potential for the application of circular economy principles – electric and electronic products and ICT sector, batteries and vehicles, plastic, package, construction and buildings, textile industry and food products	• Achieving business efficiency by EU energy companies by improving and optimizing business processes, among others in the domains of corporate and business development, IT development and integration, human potential management, asset management and the improvement of customer service quality • Encouraging continuous improvement of employees' competence and innovation and effective knowledge management at a corporate level	• Responsible corporate governance • Environmental impact of supply chains • Public procurement • Education and training	• Public procurement procedures in 2023 were implemented in line with the criteria of green procurement – the total of 7 • Waste was managed in line with the hierarchy of waste management • Waste made during electricity production in TPP Plomin 2 was not disposed of, but utilized in the surrounding cement plants • HEP's contribution to EU sustainability goals is described under UN SDG 12 Responsible consumption and production • Systems of safety in the use of dangerous chemicals in TPP, TE-TO and EL-TO were introduced and policies to prevent major accidents adopted **GRI 204-1/306-1/306-2/306-3/306-4/306-5/404-2 /11.5.4/11.5.5/11.5.6**
Preservation of biodiversity ***EU Biodiversity strategy for 2030*** It legally protects at least 30% of EU's land area and 30% of its sea area and integrates ecological corridors as a part of the Trans-European Nature Network; it strictly protects at least 30% of EU's protected areas including all rainforests and old growth forests To effectively manage all protected areas, defining transparent goals and protection measures as well as their appropriate monitoring	• Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service • Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Biodiversity • Water • Local communities • Environmental impact of supply chains • Responsible corporate governance • Education and training	• Procedures of assessing environmental and ecological network impact were implemented in 2023 for projects from the Environmental Impact Assessment Regulation • Procedure announcements, documentation and decisions on the impact of EIA, need for EIA and ENIA were made public on the website of the competent body, the Ministry of Economy and Sustainable Development and County offices responsible for environment protection • HEP's contribution to EU sustainability goals is described under UN SDG 15 Life on land **GRI 2-6/2-12/2-13//303-2/303-3/305-7/304-1/304-2 /304-3/304-4/306-3/306-4/306-5/308-1/11.4.3**

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO EU SUSTAINABILITY POLICIES – EUROPEAN GREEN DEAL

EU Sustainability goals	HEP Group's strategic goal	HEP Group's material topics in 2023	HEP Group's business results in 2023 and GRI indicators
Electricity interconnectivity ***Directive on the Governance of the Energy Union*** To connect 15 % of EU's internal energy market by 2030	• Achieving business efficiency by EU energy companies by improving and optimizing business processes, among others in the domains of corporate and business development, IT development and integration, human potential management, asset management and the improvement of customer service quality	• Responsible corporate governance • Our customers	• Croatia fulfilled the goal connected to internal connectivity of energy market **GRI 2-6**
Social justice **The European Green Deal taking into account UN's leading principles of business and human rights, ILO Declaration on Fundamental Principles and Rights at Work and the Universal Declaration of Human Rights** To ensure that EU institutions take into account the standpoint of organized civil society and that initiatives within the European Green Deal are in line with economic, social and civil reality on the ground	• Designed and continuous use of all available communication channels with stakeholders to achieve business goals of the Group	• Safety at work and security • Our customers • Our employees • Local communities • Responsible corporate governance • Environmental impact of supply chains	• HEP's contribution to EU sustainability goals is described under UN SDG 8 Decent work and economic growth **GRI 2-30/401-3/403-1/403-2/403-3/403-4 /403-5 /403-6/403-8/403-10/405-1/418-1/11.9.2 /11.9.3 /11.9.4/11.9.6/40/11.9.8./11.9.9./11.9.10**



CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO CROATIAN SUSTAINABILITY POLICIES

GRI 2-22
GRI 2-23
GRI 2-24
GRI 3-3
GRI 11.2.1
GRI 12.2.1

As a EU member Croatia is in compliance with the EU sustainability goals, which are adapted to global sustainability goals. This chapter lists goals referring to the Croatian contribution to mutual sustainability goals set on the EU level. Information in the table should be observed combined with the tables in the following chapters: Contribution of HEP Group business operations to global sustainability policies – UN Sustainability development goals and Contribution of HEP Group business operations to EU sustainability policies – European Green Deal.

CONTRIBUTION OF HEP GROUP BUSINESS OPERATIONS TO CROATIAN SUSTAINABILITY POLICIES

Croatian sustainability goals	HEP Group's strategic goal	HEP Group's material topics	HEP Group's business results in 2023
Increase of renewable energy sources' share ***National Energy and Climate Plan for the Republic of Croatia (NECP) from 2023*** The share of renewable energy sources in the final gross consumption by 2030 should be 42.5%	• 45% of renewable energy sources' share in HEP's generation portfolio by 2030 assuming average hydrology • Achieving business efficiency on the level of EU energy companies by improving and optimizing business processes, among others the domains of corporate and business development, IT development and integration, human potential management, asset management and improving the quality of customer service	• Energy and energy fuels • Air emissions • Responsible corporate governance	• 51.16 % of electricity in 2023 produced from RES owned by HEP Group **GRI 2-6**
Increase of energy efficiency ***National Energy and Climate Plan (NECP) from 2023*** Primary energy consumption of 340.9 PJ (8.14 Mtoe) by 2030 Direct energy consumption of 274.2 PJ (6.55 Mtoe) by 2023	• Reduction of energy consumption is set by certified energy management systems under ISO 50001:2018 standard • Encouraging continuous improvement of employees' competence and innovation and effective knowledge management at a corporate level	• Energy and energy fuels • Air emissions • Responsible corporate governance	
Reduction of greenhouse gas emissions ***National Energy and Climate Plan (NECP) from 2023*** Reduction of emissions from EU-ETS sources by the minimum of 50.2% by 2030 in comparison to 2005 Reduction of emissions from source outside EU-ETS by minimum 16.7% by 2030 in comparison to 2005	• 45% of electricity share generated from renewable energy sources by 2030 • Reduction of energy consumption is set by certified energy management systems under ISO 50001:2018 standard	• Energy and energy fuels • Air emissions • Responsible corporate governance	• Share of greenhouse gas emissions of HEP's EU-ETS plants in EU-27 emissions in 2023 amounted to 0.23%, and in Croatian emissions to 45.86% • CO_2 emissions in HEP were reduced by 36.94% from 2005 to 2022 • Share of HEP's CO_2 emissions outside EU-ETS in EU emissions amounted to 0.02%, and Croatia's CO_2 emissions outside EU-ETS amounted to 2.67% **GRI 305-1/305-2/305-3/305-4**

COMPLIANCE WITH LAWS AND REGULATIONS

GRI 2-27

In 2022 there were no significant cases of failure to comply with legal regulations, for which monetary and/or non-monetary penalties would be imposed. The description of marine pollution from TPP Rijeka in November 2022 and the procedure of marine sanation is in chapter Managing marine pollution from TPP Rijeka.

MEMBERSHIP ASSOCIATIONS

GRI 2-28

During 2022 HEP d.d. and HEP Group companies, as well as individual experts from HEP participated in the work of numerous national and international organizations, institutions and associations:

- EURELECTRIC (Union of the Electricity Industry; European federation of power organizations), membership ended as at 1 February 2023
- CIGRE (International Council on Large Electric Systems) and the Croatian branch of CIGRE (HRO CIGRE)
- ICOLD (International Commission of Large Dams; International association for high dams, through the membership in the Croatian association for large dams)
- CIRED (Congres International des Réseaux Electriques de Distribution; International electric distribution conference)
- LWA (Live Working Association; International association for live working)
- EFET (European Federation of Energy Traders)
- IAEA (International Atomic Energy Agency)
- ENS (European Nuclear Society)
- UNICHAL (International Union of Heat Distributors; Union for heat energy and heat energy plants)
- EUROHEAT & POWER (international organization from the field of cogeneration, remote cooling and heating)
- IIA GLOBAL (Institute of Internal Auditors, Florida, SAD), via HIIR – Croatian Institute of Internal Auditors
- ISACA (Information Systems Audit and Control Association); via the Croatian branch, ISACA Chapter Croatia
- ECLA (European Company Lawyers Association)
- Croatian Academy of Technical Sciences
- Electric Engineering Society
- Croatian Energy Society
- Croatian Water Pollution Control Society
- Croatian Green Building Council
- Croatian Gas Association
- Croatian Association of Corporate Treasurers
- MIPRO Croatian Society
- Croatian Air Pollution Prevention Association
- Croatian Association of Experts in Nature and Environmental Protection
- Croatian Business Council for Sustainable Development
- Croatian Chamber of Commerce
- Croatian-Austrian Chamber of Commerce
- German-Croatian Industrial Chamber of Commerce
- CROMA – Croatian managers' & Entrepreneurs' Association

OUR STAKEHOLDERS

GRI 2-29

HEP Group performes a series of activities in Croatia, as well as the activities of customer supply and electricity trade in Slovenia, Bosnia and Herzegovina, Serbia and Kosovo. Therefore, we cooperate with a lot of stakeholders. We set the importance of stakeholders based on their influence on HEP Group's business operations, but also based on HEP Group's business influence on individual stakeholders.

We divided the stakeholders in internal and external. Internal stakeholders are our employees and five trade unions, which are active in HEP Group: Hrvatski elektrogospodarski sindikat (HES), Nezavisni sindikat radnika HEP-a (NSRHEP), Strukovni sindikat radnika HEP-a (TEHNOS), Sindikat energetike, kemije i nemetala (EKN), Hrvatski elektrodistribucijski sindikat (HEDISS). HEP Group's external stakeholders are the customers and users of our products and services, companies in the supply chain, local communities, financial institutions and investors, academic community and professional public, civil community associations, competent and regulatory bodies and the owner, i.e. the Croatian Government.

Communication with stakeholders takes place almost on a daily basis through various communication channels from direct communications, e-mail communicaton, over telephone, applications for customers and users, through social networks and HEP Group's Internet and intranet sites. Communication with HEP Group's customers and users of products and services is described in the chapter Our customers and grid users. Information connected to procurement procedure and information for investors are published on the HEP Group's website. External stakeholders are also included in the evaluation of material topics, and the stakholders included in the evaluation for 2022 are described in the chapter Material topics.

INFORMATION OFFICER

The right to access information of HEP d.d. and all affiliated companies fully owned by HEP d.d. (apart from the Croatian Transmission System Operator) is exercised through submitting a Request to access information to HEP Group's information officer.

Hrvatska elektroprivreda d.d. has the right of access to information under the Right of Access to Information Act (OG 25/13, OG 85/15 and OG 69/22). The Act also stipulates the principles of the rights of access, the exceptions to the right of access and the procedure for exercising and protecting the right of access to information. The goal of the Act is to enable and ensure information to natural and legal persons through open and public activity of public government bodies, pursuant to the Act. The Report on the Enforcement of the Right of Access to Information Act for 2022.

COLLECTIVE AGREEMENT

GRI 2-30

Addendum to the 2019 Collective Agreement was signed on 6 July 2021 and its implementation prolonged by 31 December 2023. In October 2023, the new Collective Agreement was signed with the duration from 1 January 2024 until 31 December 2025. The Collective Agreement provisions are applied to all workers in HEP Group companies in Croatia.

7

Material topics for 2023 were determined pursuant to goals and obligations which, for energy sector, result from strategies and plans on the global, EU and national level.

MATERIAL TOPICS

The chapter describes the procedure of determining HEP Group's material topics for 2023, the comparison with material topics in 2022, the procedure of including stakeholders in the evaluation of material topics and the supply chain in the evaluation of business impact on the society, human rights and environment, as well as the results of material topics' evaluation by internal and external stakeholders.

PROCESS TO DETERMINE MATERIAL TOPICS

GRI 3-1

We determined HEP Group's material topics for 2023 following the guidelines for determining material topics in chapter GRI 3: Material topics in Consolidated GRI Standards from 2021. Members of HEP's Team for Sustainability Reporting and ESG rating (Team), which was appointed by the decision of the Management Board, participated in the process of determining material topics for 2023. The Team consists of employees in HEP d.d. and in HEP Group companies.

Material topics for 2023 were determined pursuant to goals and obligations which result from the following for energy sector: strategies and plans on the global, EU and national level, from HEP Group's strategic goals by 2030, analysis of real and potential negative and positive effects of our business operations and business relations on the environment, society, human rights and economy, information we obtain on every-day basis from our stakeholders and extremely complex conditions, in which HEP Group did business during 2023 as well. The total of 17 material topics for 2023 were confirmed and adopted by the decision of HEP's Management Board. Material topics were firstly evaluated, i.e. ranked depending on the risks by Team members and each material topic was assigned a mark from 1 to 5.



The total of 17 material topics were chosen for 2023 and adopted by the decision of HEP's Management Board

ENGAGEMENT OF KEY EXTERNAL STAKEHOLDERS IN THE EVALUATION OF MATERIAL TOPICS

GRI 2-29
GRI 3-1

We included our key groups of external stakeholders in the evaluation of chosen material topics: customers, suppliers, local community, financial institutions, civil society groups, associations, academic and scientific community and regulatory bodies. The significance of stakeholders was determined on the basis of the following: type of business relation with the stakeholder (e.g. multi-annual cooperation); stakeholders' participation in an important project (construction of new or reconstruction of existing power facilities), monetary value of payment for goods, services and work as well as the impact of HEP Group's business operations on stakeholders. The stakeholders evaluated our material topics for 2023 in a questionnaire sent to them by e-mail.

ENGAGEMENT OF SUPPLIERS IN THE EVALUATION OF MATERIAL TOPICS

GRI 2-29
GRI 3-1

Apart from the evaluation of material topics, this year we included key direct suppliers in the analysis of their environmental impact, society and human rights. In this respect, key groups of direct suppliers are: supply chain of input goods, services, works and capital needed to generate our products and services (so-called upstream categories), then users and distributors of products and services, as well as proxies for the preparation of documents connected to the impact of business on the environment, and companies authorized for waste management (so-called downstream categories). For the purpose of analysing our suppliers' environmental impact, we asked for the information on the origin and consumption management of the material, goods and energy, the origin and quantity management of harvested water as well as types, quantities and receivers of effluent, greenhouse gas emissions and other air pollutants, as well as goals for their reduction. Results of analysis are described in the chapter Impact of supply chain on the environment.

In order to determine the impact of suppliers on the society and human rights, we asked for information on employees, according to the type of contractual relationship, gender as well as employees' fluctuations, education and courses, health protection and occupational safety, existing danger of child and forced labour as well as whether they take into consideration, when choosing own suppliers, criteria on the basis of which any kind of forced and child labour is prevented (the second and third level of suppliers). The analysis was conducted on the basis of a questionnaire sent to suppliers by e-mail and collected publicly available data. It should be emphasised that HEP Group companies exclude from procedures of public and simple procurement the suppliers which were convicted of participating in a criminal organization, corruption, fraud, terrorism or any crime connected to terrorism, money laundering or financing terrorism, child labour or other kinds of human trafficking. During the procedures of public and simple procurement it is also determined whether the suppliers fulfilled the obligations of paying due tax liabilities as well as retirement and health insurance obligations for their employees. The results of the analysis are described in the chapter Impact of supply chain on the society and human rights.

LIST AND EVALUATION OF MATERIAL TOPICS

GRI 3-2

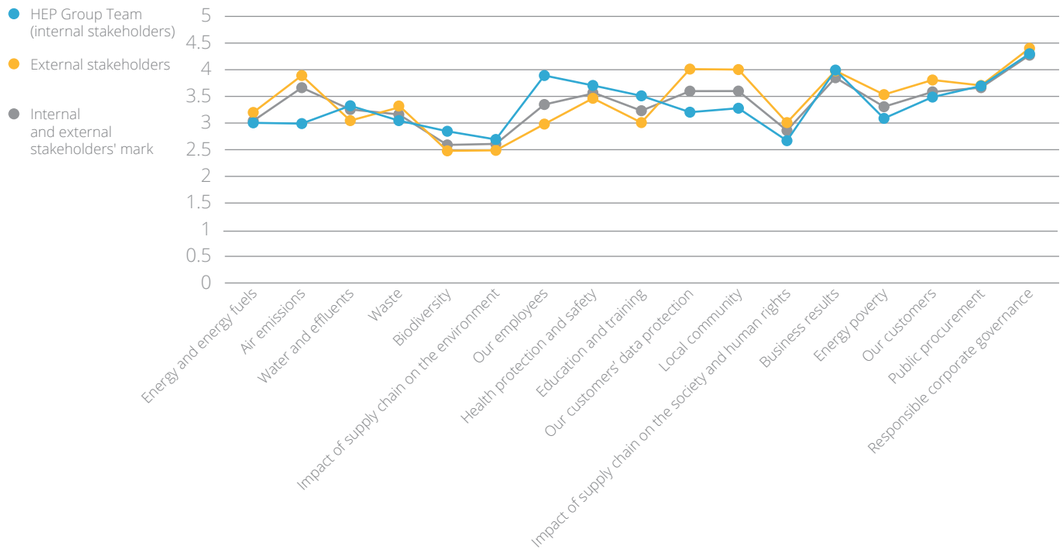
Having determined material topics, the members of HEP's Team for Sustainable Reporting and ESG rating evaluated the importance of each material topic in line with the risks, i.e. the importance they present for HEP Group's business operations, but also the impact of HEP Group on our stakeholders. The main risk categories used in the evaluation are the following: operational, reputational, regulatory, legal and political, strategic as well as risks from the field of the environment, occupational health and safety. All Team members participated in the evaluation of material topics for 2023.

Each of our key stakeholders was given a chance to evaluate whether suggested material topics provide a complete overview of HEP Group's business operations on the environment, society, human rights and economy for 2023. The table shows average grades of internal and external stakeholders, which participated in the evaluation of material topics, as well as the calculated relative importance of material topics for external and internal stakeholders respectively.

List of HEP Group's material topics for 2023 with the grades awarded by internal and external stakeholders

	Material topics	HEP Group Team (internal stakeholders)	External stakeholders	External and internal stakeholders' grade
Environment	Energy and energy fuels	3	3.2	3.1
	Air emissions	3	3.9	3.4
	Water and effluents	3.3	3.1	3.2
	Waste	3.1	3.3	3.2
	Biodiversity	2.8	2.5	2.6
	Impact of supply chain on the environment	2.7	2.5	2.6
Society and human rights	Our employees	3.9	3	3.5
	Health protection and safety	3.7	3.5	3.6
	Education and training	3.5	3	3.2
	Our customers' data protection	3.2	4	3.6
	Local community	3.3	4	3.6
	Impact of supply chain on the society and human rights	2.7	3	2.8
Economy	Business results	4	3.9	3.9
	Energy poverty	3.1	3.5	3.3
	Our customers	3.5	3.8	3.6
	Public procurement	3.7	3.7	3.7
Governance	Responsible corporate governance	4.3	4.4	4.3

Results of the evaluation of HEP Group's material topics for 2023





Following extremely complex business circumstances in 2022 caused by drought and energy market crisis, 2023 was marked by business stabilization.

8

BUSINESS PERFORMANCE INDICATORS

We presented HEP Group's business performance indicators in 2023 by sustainability fields i.e. the impact of business operations on economy, society, human rights and environment, but also the impact of economy, society and environment on our business operations in 2023 (double materiality). We described governance practices in the chapter Corporate governance.

ECONOMY

GRI 2-29
GRI 3-3
GRI 201-1
GRI 201-2
GRI 201-3
GRI 201-4
GRI 204-1
GRI 3-3
GRI 11.14.2
GRI 11.14.3
GRI 11.14.4
GRI 12.14.2
GRI 12.14.3
GRI 12.14.4

According to the estimate of the Croatian Bureau of Statistics (hereinafter: CBS) published as at 27 February 2024, gross domestic product (hereinafter: GDP) in 2023 is by 2.8% higher in real terms in comparison to 2022. The increase of 4.3% was recorded in Q4 2023 in comparison to the same period the year before. According to the CBS data, the main drivers of growth are the increase in personal consumption and the increase in investments.

The annual growth of GDP exceeded average growth in the European Union (hereinafter: EU) and the euro zone by as much as five times, making the Croatian GDP growth rate in 2023 the second highest in the EU, just behind Malta, which achieved a record growth rate of 6.1%.

According to the winter economic forecast of the European Commission (hereinafter: EC), after a strong GDP growth in 2023 (expected growth in line with the 2023 forecast was 1.2%), EC reviewed its forecasts, so a 2.6% growth (earlier forecast was 1.9%) is expected in the Republic of Croatia (hereinafter: RC) in 2024. Since 2020 energy markets have been facing a deep crisis caused by a number of factors, starting with the recession caused by COVID-19, which was followed by the global economic recovery in 2021, but also by unfavourable hydrological conditions and shutdowns of French nuclear power plants. The Russian invasion of Ukraine in February 2022 deepened the crisis further, with exceptional disruptions in natural gas supply in Europe, resulting in a record increase of gas and electricity prices.



The activites of indemnification of HEP were initiated in 2023, since the company took over the burden of energy crisis.

The year 2023 was marked by a significant reduction of prices and volatility at energy market, which was primarily a result of the stabilization of the prices of primary energy sources, such as gas and coal. This trend was additionally stimulated by the reduction of consumption and economic activity as well as increased investments in renewable energy sources. Natural gas prices in Europe recorded a downward trend during 2023, which was affected by the abundant supply of imported liquefied natural gas and a high occupancy of gas storage owing to the mild winter. In Q1 the average gas price at CEGH was 55 EUR/MWh, in Q2 it was 37 EUR/MWh and 36 EUR/MWh in Q3. A mild increase to the average of 43 EUR/MWh in Q4 was stimulated by instabilities in the Middle East.

Electricity price trends is in significant correlation with gas price trends, considering a large share of the gas component, along with the price of emission units in the costs of electricity generation. The average price of base electricity at the HUPX spot market (the Hungarian power exchange) in Q1 2023 amounted to 139 EUR/MWh, in Q2 it was 103 EUR/MWh, in Q3 106 EUR/MWh and in Q4 it was 104 EUR/MWh.

The prices of CO_2 emission units at the EEX sport market (the European power exchange) also recorded a decreasing trend in 2023, ranging from 98 EUR/t (21 February) to 66 EUR/t (15 December). This trend is connected to the influence of the European regulations, which aim to achieve emission neutrality by 2050 through the reduction of annual quotas, along with the growing integration of renewable energy sources and the abandonment of classic sources, such as coal and gas, which are becoming economically unprofitable. The price reduction during 2023 is a result of lower generation from thermal power plants and lower demand for CO_2 emission units.

Following the historical shock in 2022, the price of coal stabilized in 2023, whereby the new price range was kept above 100 USD/t for bituminous coal. The part of the market, where Russian coal was previously sold, is trying to take over Kazakh coal and Columbian coal is returning to the European market on a larger scale, while other coal suppliers have turned to a more dynamic Asian market. Europe's ensured supply of LNG gas and mild winter, along with renewable energy sources have resulted in low European demand for coal throughout 2023.

By the decision of the Government of the Republic of Croatia, HEP Group's suppliers of commercial customers were placed in the same position as other suppliers at the electricity market in Croatia, and they were enabled to reimburse the price-limiting measures to commercial customers in the period from 1 April 2023 to 30 September 2023 up to a maximum of 180 EUR/MWh and from 1 October 2023 to 30 April 2024 up to a maximum of 150 EUR/MWh.

The activites of compensating HEP were initiated in 2023, since the company took over the burden of energy crisis. In line with the Decision of the Government of the Republic of Croatia dated 14 March 2024, HEP was retroactively put on an equal footing with other suppliers in Croatia, and it was compensated for the difference between contracted price and the price limited by the regulation for business customers in the period from 1 October 2022 to 31 March 2023.

BUSINESS RESULTS

GRI 3-3
GRI 201-1
GRI 201-2
GRI 201-3
GRI 201-4
GRI 3-3
GRI 11.14.2
GRI 11.14.3
GRI 11.14.4
GRI 12.14.2
GRI 12.14.3
GRI 12.14.4

After extremely complex business conditions in 2022 caused by draught and crisis at the energy market, 2023 was marked by business stabilization, and operating profit of EUR 226.1 m was achieved, as opposed to the loss of EUR 957.3 m recorded in 2022. In comparison to 2022, the improvement of business results was primarily affected by the increase of operating income. The loss from financial activities was EUR 63.8 m, while HEP Group's net profit amounted to EUR 116.6 m, EUR 116.3 m of which was attributable to capital owner of the parent company and the profit of EUR 283,000 refers to non-controlling interest.

Operating income amounts to EUR 4,636.8 m, marking an incease of EUR 1,275.5 m in comparison to 2022, primarily as a result of the increase of income from electricity sale by EUR 670.9 m (23.2%), the income under the Regulations of the Croatian Government in the amount of EUR 355.0 m, income from gas supply to customers by EUR 100.3 m (68.0%), the income from heat energy sale by EUR 22.5 m (19.5%) and the income from the sale of gas sold in Croatia, under the Regulation of the Croatian Government by EUR 47.6 m.

Operating expenses amount to EUR 4,410.7 m, marking an increase by EUR 92.1 m in comparison to 2022. The increase was affected by fuel costs, which were by EUR 204.6 m higher as a result of higher prices and more used volumes of natural gas, higher procurement value of sold gas by EUR 195.3 m, which HEP under the Regulation on amending the Regulation of the Croatian Government took over from INA d.d. and higher costs of gas procurement for sale by EUR 58.4 m. However, the costs of electricity procurement are by EUR 297.2 m lower as a result of lower electricity procurement price (24.0%), less procured electricity from eleigible producers in the incentive system (27.6%) and lower costs of carbon dioxide emission units (2.9%). The costs in line with the Regulation of the Croatian government on eliminating distortions at the domestic electricity market are recoreded on other expenses in the amount of EUR 191.5 m.

DIRECTLY CREATED AND DISTRIBUTED ECONOMIC VALUE

GRI 3-3
GRI 201-1
GRI 11.14.1
GRI 11.14.2
GRI 12.14.1
GRI 12.14.2

Annex I to the Annual and Sustainability Report for 2023 contains the Abridged Consolidated Annual Financial Report of HEP Group Business Operations in 2023, and the table shows basic natural and financial indicators.

Basic indicators	Unit	2022	2023	2023/ 2022
Electricity sale[1]	TWh	17.5	20.4	+2.9
Electricity generation	TWh	12.4	15.1	+2.7
Heat energy sale	TWh	1.8	1.7	-0.1
Gas sale on the retail market	TWh	2.5	3.1	+0.6
Operating income	EUR m	3,361.3	4,636.8	+1,275.5
Operating expenses	EUR m	4,318.6	4,410.7	+92.1
Operating profit (loss)	EUR m	-957.3	226.1	+1,183.4
HEP Group's net profit/loss	EUR m	-822.4	116.6	+939.0
Total assets	EUR m	6,920.3	7,673.5	+753.2
Investments	EUR m	452.2	485.6	+33.4

[1] HEP's sale at the national and international market

Annual consolidated financial reports and the Independent Auditor's Report for 2023 are available on the HEP Group's website.

FINANCIAL CONSEQUENCES, OTHER RISKS AND CONDITIONS DUE TO CLIMATE CHANGES

GRI 3-3
GRI 201-2
GRI 11.2.1
GRI 11.2.2
GRI 12.2.1
GRI 12.2.2

Significant recognized risks for HEP's business operations connected to climate changes and adaptation thereto are quick and sudden changes of weather conditions, which require quick and effective adjustment as well as significant financial investments. Redistribution of annual precipitation also presents a risk, because most rain falls in autumn and spring and least in summer, when energy demand is considerable, as a result of air conditioning. HEP manages these risks through investment in generation facilities, which use different energy sources, renovation of the existing and the construction of new high-efficiency cogenerations and renewables, the use of fuels with low carbon footprint, the increase of energy efficiency and energy savings inside and outside the generation process, as well as the application of technical solutions for preserving assets and investing in employees' education.

OBLIGATIONS FROM DEFINED PENSION BENEFIT SCHEME AND OTHER PENSION PLANS

GRI 201-3

Apart from regular obligatory payments of pension insurance contribution, HEP Group has organized a voluntary closed HEP's pension fund for employees open in Croatia osiguranje insurance company. The fund became operational in 2006, with an aim of encouraging employees to long-term pension savings. In 2023 the fund had 3,876 members, for whom HEP paid EUR 940.6 thousand in total.

EU GRANTS

GRI 201-4

The total of EUR 44,704,762.48 of grants was paid to HEP Group companies from EU funds in 2023. The grants were intended for the recovery of the Sisak and Zagreb earthquakes consequences, and the development of the distribution grid, the revitalization of hot-water pipeline networks in Zagreb and Osijek as well as the development of e-mobility project referring to the construction of EV and hybrid charging stations.

EU grants in 2023 awarded across HEP Group companies

HEP Group company	Purpose	Amount /EUR
HEP d.d.	E-mobility project, Horizon project – Praetorian, smart grid pilot project	1,013,255.20
HEP Proizvodnja	Solidaritiy fund – Recovery of earthquake consequences in TE-TO Sisak	120,525.93
HEP Operator distribucijskog sustava	Projects connected to the distribution grid development, LIFE project, Solidarity fund – grid fee on the area of Sisak struck by the earthquake, recovery of earthquake consequences in Sisak and Zagreb	23,519,985.18
HEP Toplinarstvo	Revitalization of hot-water pipeline networks in Zagreb and Osijek, Solidarity fund – recovery of earthquake consequences in Sisak and in Zagreb	20,050,996.17
Total/ EUR		**44,704,762.48**

KEY PERFORMANCE INDICATORS OF HEP GROUP ACCORDING TO EU TAXONOMY

The foundation for the evaluation of HEP Group's activity by technical criteria for significant contribution and 'do not significant harm' – DNHS principle to ecological objectives defined by the EU Regulation 2020/852 on the EU taxonomy is a consolidated version of the Commission Delegated Regulation EU 2021/2139 dated 1 January 2023. The basis for the calculation of financial key performance indicators i.e. income, capital investments (CapEx) as well as operating expenses (OpEx) for taxonomy eligible activities, activities in line with technical screening criteria and taxonomy non-eligible acitivies is the Commision Delegated Regulation EU 2021/2178.

DIVISION OF HEP GROUP'S ACTIVITIES ACCORDING TO EU TAXONOMY IN 2023

In its Annual and Sustainability Report 2021 (from page 128) HEP Group published a division of activities in: taxonomy eligible activities, taxonomy activities aligned with technical screening criteria for significant contribution to climate goals and 'do no significant harm' – DNHS principle ecological objectives set by the EU Regulation on the EU Taxonomy 2020/852 – sustainable use and protection of water and marine resources, transition to circular economy, pollution prevetion and control as well as protection and restoration of biodiversity and ecosystems and taxonomy non-eligible activities. As opposed to 2021, 2022 is based on the Commission Delegated Regulation EU 2022/1214, under which electricity generation from nuclear energy in existing facilities (4.28), electricity generation from gaseous fossil fules (4.29), electricity generation for heating/cooling and electricity generation from high-efficiency cogenerations from gaseous fossil fuels (4.30) as well as electricity generation for heating/cooling from gaseous fossil fuels in an effective system of centralized heating/cooling (4.31) became taxonomy eligible activities. As of 1 January 2023 the Commission Delegated Regulation EU 2022/1214 was consolidated into the Commission Delegated Regulation EU 2021/2139. The difference also refers to the share of HPPs aligned with technical screening criteria under the EU Taxonomy as compared to 2021, i.e. out of the total of 28 hydro power plants, 27 were evaluated to significantly contribute to the mitigation of climate changes and to do no significant harm to other ecological objectives.

Division of HEP Group activities under the EU Taxonomy 2023

Taxonomy eligible activities	Taxonomy activities aligned with technical screening criteria	Taxonomy non-eligible activities
Construction or operation of electricity production plants through solar photovoltaic technology - PVPP (4.1)	Activity significantly contributes to the mitigation of climate changes and does not cause significant harm to other ecological objectives – 100% - all HEP's – Integrated and non-integrapted PVPP	Coal-based electricity production
Electricity production from wind power (4.3)	Activity significantly contributes to the mitigation of climate changes and does not cause significant harm to other ecological objectives – 100% – Korlat wind power plant (1)	Gas distribution
Electricity production from hydro power (4.5)	Activity significantly contributes to the mitigation of climate changes and does not cause significant harm to other ecological objectives – All HPP, pump-storage and small hydro except for HPP Peruća	LNG lease services

Taxonomy eligible activities	Taxonomy activities aligned with technical screening criteria	Taxonomy non-eligible activities
Cogeneration of energy for heating / cooling and electricity from bioenergy (4.20)	NO Activity significantly contributes to the mitigation of climate changes and does not cause significant harm to other ecological objectives – 100% - BE-TO (2)	Electricity import and export for the supply of customers with electricity which is not in the system of guarantee of origin
Electricity production from nuclear energy in existing facilities (4.28)	NO Commission Delegated Regulation 2022/1214 was put into effect in 2022 and ti requires extensive analyses for a significant contribution and 'do no significant harm' principle to ecological objectives, so these activities in 2023 are considered taxonomy eligible acitivities.	Trading greenhouse gas emission units (EUA)
Electricity production from gaseous fossil fuels (4.29)		
Electricity production for heating/cooling and electricity from high-efficiency cogenerations from gaseous fossil fuels (4.30)		Accommodation services in leisure facilities
Electricity production for heating/cooling from gaseous fossil fuels in the effective system of centralized heating and cooling (4.31)	NO	
Electricity transmission and distribution (4.9)	The activity of electricity transmission for 2023 was evaluated as taxonomy eligible and aligned with technical screening criteria. The activity is also classified as enabling. The activity of distribution was evaluated as taxonomy eligible and aligned with technical screening criteria in the part in which the distribution grid is connected to renewable energy sources in the total power of distribution grid users.	
Electricity storage (4.10)	YES The activities for 2023 were evaluated as aligned with technical screening criteria for significant contribution to the reduction of effects on climate and 'do no significant harm' principle to ecological objectives. Activity 6.15. is considered transitional.	
Heat energy storage (4.11)		
Transport by motocycles, passenger cars and commercial vehicles (6.5)		
Infrastructure for low-carbon and public transport (6.15)		
Installation, maintenance and repair of technologies for energy from renewable energy sources (7.6)		
Installation, maintenance and repair of equipment and instruments for energy efficiency (7.3)	YES As part of HEP-ESCO projects among customers and on HEP Group's locations	
Education (11)	YES All types of education in HEP Group	
Data processing, provider services and related activities (8.1)	NO Activity analysis was not conducted for 2023	
Construction of new buildings, renovation of existing buildings (7.1 and 7.2)	NO Activity analysis was not conducted for 2023	
Collection and transport of non-hazardous waste in fractions separated at source	YES Activity in 2023 was evaluated as aligned with technical screening criteria for a significant contribution to the reduction of effects on climate and 'do no significant harm' principle to other environmental goals.	

COMPLIANCE OF HEP'S ACTIVITIES WITH MINIMUM SOCIAL SAFEGUARDS

All of HEP's taxonomy eligible activities complied with technical screening criteria also complied with minimum social safeguards, and its policies, business practices and indicators for 2023 are shown in the following chapters: Corporate governance, Our employees, Occupational health and safety and Public procurement.

SHARE OF HEP GROUP REVENUE BY ACTIVITIES ACCORDING TO EU TAXONOMY IN 2023

Below is the description of the calculation of the revenue share from taxonomy eligible activities which comply with the criteria of the EU taxonomy, taxonomy eligible activities and taxonomy non-eligible activities. The share was calculated by dividing the revenue from individual activity (numerator) with HEP Group's total consolidated business revenue achieved in 2023, which totalled at HRK 4,636.8 million (denominator). The share of revenue from taxonomy eligible activities which complied with the technical screening criteria in 2023 was 42.1%.

Revenues generated in district heating, gas and other activities

Revenues generated in district heating, gas and other activities were taken over from the audit report (consolidated data). The revenue of HEP ESCO (income from energy efficiency projects) and the revenue of HEP NOC Velika (HEP Group employees' education and training for live working technology) are the revenues achieved at the market and they originate from taxonmy eligible activities and the ones aligned with the EU taxonomy. The revenue from providing telecommunication services by HEP Telekomunikacije is included in the revenue from taxonomy eligible activity, while the revenue of HEP Upravljanje imovinom (provision of accommodation services) was evaluated as taxonomy non-eligible activity.

Revenues generated from electricity

The activity of electricity generation and procurement is performed in the following companies: HEP d.d., HEP Proizvodnja, NPP Krško, Solar power plant Vis, Solar power plant Poreč and Energy park Korlat.

Electricity sources which make up the total available electricity sold by HEP are the following:

- Electricity produced in HEP's power plans (hydro power plants, thermal power plants, combined heat and power plants, biomass-fired cogeneration plants, wind power plants and solar power plants)
- Electricity purchased from NPP Krško (pursuant to long-term agreement)
- Electricity purchased from HROTE (eligible producers in the incentive system) and
- Electricity procured on the market (import and other procurement)

Revenues from electricity sale are generated from:

- the sale of electricity to customers within universal service and guaranteed supply – HEP Elektra;
- the sale of electricity to business and household customers – HEP Opskrba;
- electricity export; and
- the sale of electricity in the region – HEP Trgovina – daughter companies and HEP Energija Ljubljana

In order to evaluate HEP's activities according to the EU Taxonomy criteria, the following was taken into account:

- Needs for electricity sale (to customers within universal service and guaranteed supply and to HEP Opskrba customers) as well as the needs of the electric power system to cover losses in the grid are fulfilled from the same sources of electricity sale, i.e. electricity mix (generation in own power plants, purchase from partially-owned power plants, purchase from HROTE and procurement at the market)

- Revenues from electricity to end customers are not stated by sources in consolidated data (e.g. power plants of HEP Proizvodnja)
- Revenues from electricity are accounted for by accounting elements including energy fee, transmission grid use fee, distribution grid use fee, supply fee, and not by electricity sources

Furthermore, for the evaluation of HEP's activities according to EU taxonomy criteria, the following assumptions were used:

- HEP Group consolidated business revenue for 2023 amounted to EUR 4,636.8 million, from which EUR 4,040.1 million referred to electricity (according to audit report)
- Total consolidated revenue of HOPS, which originates from taxonomy eligible activity and activity aligned with the EU taxonomy (EUR 328.5 million)
- Revenue from taxonomy eligible activity and activity aligned with the EU taxonomy, i.e. revenue from HEP ODS, in the part referring to electricity distribution from renewable energy sources based on the information submitted from HEP ODS (EUR 198.6 million), while the rest of their total consolidated revenue is evaluated as the revenue from taxonomy eligible activity
- Revenues that HEP Proizvodnja and SPP Poreč generate from electricity sale on the market, i.e. sale of eligible producers to HROTE (data from the general ledger)
- Revenues from electricity trade (data from the general ledger)
- Revenue from electricity sale generated in e-charging stations (data from the general ledger)

After that said revenues were deducted from the total revenue from electricity and EUR 3,000.0 million was left for allocation.

Unallocated revenues from electricity sale were allocated to individual source (HPP, TPP, SPP, WPP, NPP Krško, purchase from HROTE and imported electricity and other procurement) in the following manner:

- From the total electricity sources, power plant generation in the incentive system and electricity trading were excluded from energy balance, since the data from the main ledger (GWh) was used for their revenues
- The calculation of the share (%) of individual electricity source in the total available electricity was carried out
- Unallocated revenue (HRK 3,000.0 m) by above stated sources was allocated on the basis of obtained shares
- Revenues obtained in this manner for CHPs were additionaly divided by types of fuels, based on the share of cost of individual type of fuel in the Total cost of fuel – gas/fuel oil of CHPs[1].

HEP Group revenue share by activities under the EU taxonomy 2023

Revenue source	Total revenue / x10³ HRK	Revenue from taxonomy eligible activities aligned to the EU taxonomy / %	Revenue from taxonomy eligible activities / %	Revenue from taxonomy non-eligible activities/ %
Electricity	4,040.13	42.03	29.71	15.40
Heat activitiy	155.54	0.00	0.59	2.71
Gas retail	251.05	0.00	0.0.	5.41
Strategic reserves and gas reserves under the Regulation of the Croatian Government	144.91	0.00	0.0.	3.13
LNG	42.04	0.00	0.00	0.91
Other activities	3.10	0.04	0.01	0.02
Total consolidated business revenues	**4,636.78**	**42.07**	**30.30**	**27.63**

[1] Only thermal power plant Rijeka used fuel oil in 2023, so only its share in the revenue was recorded in electricity generation from liquid fossil fuels. The share of other combined heat and power plants (TE-TO Zagreb, EL-TO Zagreb, TE-TO Sisak and TE-TO Osijek) was recorded in electricity gerenation from gas fossil fuels.

SHARE OF HEP GROUP OPERATING EXPENSES (OPEX) BY ACTIVITIES ACCORDING TO EU TAXONOMY IN 2023

Below is the description of the calculation of operating expenses' share from taxonomy eligible activities aligned with the EU taxonomy criteria, taxonomy eligible activities and taxonomy non-eligible activities. The share was calculated by dividing the maintenance expenses of individual assets (numerator) with HEP Group total maintenance expenses in 2023, which totalled at EUR 168.4 billion (denominator). The share of operating expenses from taxonomy eligible activities aligned with the EU taxonomy criteria in 2023 was 54.4%. HEP Group total consolidated operating expenses (OpEx) in 2023 amounted to EUR 168.37 billion, and the share of operating expenses from taxonomy eligible activities aligned with the EU taxonomy criteria was 34.5%.

Operating expenses of taxonomy eligible activities aligned with the EU taxonomy criteria

The following expenses were used in calculating operating expenses of taxonomy eligible activities aligned with the EU taxonomy technical screening criteria: maintenance expenses of HEP's renewable energy sources (HPP, pump storage, SPP except HPP Peruća, integrated and non-integrated photovoltaic solar power plants, wind power plants and biomass-fired CHPs), cost of electricity distribution asset maintenance of 13.94% share of new producers' capacity in the total capacity of users, as well as maintenance cost of heating accumulator for heat energy storage.

Operating expenses of taxonomy eligible activities

Asset maintenance expenses of HPP Peruća, CCGT Jertovec, TE-TO Sisak, TE-TO Zagreb, TE-TO Osijek, EL-TO Zagreb in HEP Proizvodnja, the cost of maintenance expenses of HEP ODS amounting to 87.06% of the share in the total power of users, which are not connected to renewable energy sources, HEP Toplinarstvo and NPP Krško, were used in the calculation of operating expenses of taxonomy eligible activities.

Operating expenses of taxonomy non-eligible activities

For the calculation of operating expenses of taxonomy non-eligible activitites, the following asset maintenance expenses were used: TPP Plomin and TPP Rijeka in HEP Proizvodnja as well as asset maintenance expenses of HEP Plin and LNG Hrvatska.

HEP Group share of operating expenses (OpEx) by activities under the EU taxonomy in 2023

Activity	Total operating expense (OpEx) / x10³ HRK	Operating expenses (OpEx) for taxonomy eligible activities aligned to the EU taxonomy / %	Operating expenses (OpEx) for taxonomy eligible activities / %	Operating expenses (OpEx) for taxonomy non-eligible activities / %
Electricity from RES	18,848.81	11.20	0.00	0.00
Electricity and heat energy from cogenerations	1,129.36	0.00	0.67	0.00
Electricity from gas-fired thermal power plants	17,953.19	0.00	10.66	0.00
Electricity from liquid fuel-fired thermal power plants	1,444.95	0.00	0.00	0.86
Electricity from coal-fired thermal power plants	6,309.83	0.00	0.00	3.75
Electricity from NPP Krško	16,060.57	0.00	9.54	0.00
Electricity transmission	19,328.59	11.48	0.00	0.00
Electricity distribution	72,400.29	11.77	31.23	0.00
Energy storage	0.00	0.00	0.00	0.00
Heating	3,824.61	0.00	2.27	0.00
Gas distribution	947.76	0.00	0.00	0.56
Liquefied natural gas (LNG)	10,034.89	0.00	0.00	5.96
Laboratory for fuel analysis	82.937	0.00	0.0	0.04
Total consolidated operating expenses (OpEx)	**168,365.79**	**34.45**	**54.37**	**11.18**

SHARE OF HEP GROUP CAPITAL INVESTMENTS (CAPEX) BY ACTIVITIES ACCORDING TO EU TAXONOMY IN 2023

Investment plan

The share was calculated by dividing capital investments in individual activities (numerator) with HEP Group total capital investment in 2023, which amounted to EUR 477,670.86 (denominator). HEP Group investment activities are included in the investment plan by priorities, taking into consideration the contribution to the basic activity and system security as well as expected financial effects.

Activities from the currently valid five-year HEP Group Consolidated Financial Plan 2021 – 2025 are included in the annual Investment plan. Capital investment express expenditure for investments in development and construction of new as well as the reconstruction of existing plants and facilities, replacement and renovation of plant parts, equipment and devices as well as other tangible and intangible assets. HEP Group capital investments are planned on the basis of Strategy and the Implementation Programme of the Energy Development Strategy of the Republic of Croatia, strategic HEP 2030 document and HEP Group companies' multi-annual plans of development and construction (three-year, five-year). Investment plans are also aligned with sustainability policies on the global and EU level. HEP Group companies' investment plans of HEP Group companies are based on techno-economic validity, multi-annual plans of development and construction, the elaboration of macro process of capital investment in generation facilities

as well as projections of possible financial sources for each planning period. In the period by 2025 HEP Group investment acitivies are directed towards the construction of new hydro power plants (HPS Kosinj/Senj II) as well as modernization and reconstruction of existing ones, since they make up an important share of the Croatian electric power system, the construction and acquisition of facilities for electricity generation from renewable sources (solar power plants, wind power plants) and energy storages, the construction of new high-efficiency cogenerations (EL-TO Zagreb CCPP) for electricity and heat energy generation with the analysis of options of using low-carbon fuels (synthetic gas, hydrogen etc.). Planned investments in the forthcoming five-year period are also directed to the continuation of the advanced grid introduction project in HEP ODS as well as to the revitalization of heat networks of HEP Toplinarstvo.

HEP Group total consolidated capital investments (CapEx) in 2023 amounted to EUR 477,670.86, and the share of capital investments in taxonomy eligible activities aligned with the EU taxonomy criteria totalled at 64.88%.

Share of HEP Group capital investments (CapEx) by activities according to the EU taxonomy in 2023

Activity	Total capital investments (CapEx) / x10³ HRK	Total capital investments (CapEx) in taxonomy eligible activities aligned to the EU taxonomy / %	Total capital investments (CapEx) in taxonomy eligible activities / %	Total capital investments (CapEx) in taxonomy non-eligible activities / %
Electricity from RES	42,149.57	8.82	0.00	0.00
Electricity and heat energy from cogenerations	48,794.13	0.00	10.22	0.00
Electricity from liquid fuel-fired thermal power plants	0	0.00	0.00	0.00
Electricity from coal-fired thermal power plants	605.69	0.00	0,00	0.13
Electricity from NPP Krško	19,400.00	0.00	4.06	0.00
Electricity transmission	96,093.00	20.12		0.00
Electricity distribution	177,171.57	32.67	4.42	0.00
Heating	22,612.70	0.00	4.73	0.00
Gas distribution	1,650.95	0.00	0.00	0.35
Liquefied natural gas (LNG)	18,134.60	0.00	0.00	3.80
Equipment for information and communications technology (ICT)	8,028.83	0.00	1.68	0.00
E-mobility	169.84	0.04	0.00	0.00
Energy efficiency projects	15,445.91	3.23	0.00	0.00
Other activities	27,414.08	0.00	0.00	5.74
Total consolidated capital investments (CapEx)	**477,670.86**	**64.88**	**25.11**	**10.01**

OUR CUSTOMERS AND NETWORK USERS

HEP Group customers are household and business customers. Customers from both categories are offered supply of electricity, heat energy as well as natural gas. The information on the number of customers in 2023 by categories, products and services is stated in the following chapthers: Electricity supply, Heat energy distribution and supply and Gas distribution and supply. Network users are from household and business category. The information on the number of billing metering points (BMP) by voltage levels and tariff models, as well as the status of self-service facility users (prosumer) is given in the chapter Electricity distribution.

GRI 2-29
GRI 3-3

COMMUNICATION WITH ELECTRICITY CUSTOMERS AND NETWORK USERS

Electricity customers

Communication with electricity customers within public service of electricity supply (HEP Elektra) and electricity supply within market service (HEP Opskrba) takes place on a daily basis via:

- Telephone and e-mail - HEP Elektra and HEP Opskrba
- Personal customer visits to public electricity supply centres (HEP Elektra) and electricity supply centres (HEP Opskrba)
- Customer meetings of HEP Opskrba in Croatia and customer meetings of HEP Energija in Slovenia
- Website, which among other, contain the following information:
  - on the structure and formation of electricity prices (HEP Opskrba)
  - Tariff models for business categories big customers, small entrepreneurs working in shifts, small entrepreneurs working in one shift and tariff models for public lighting (HEP Opskrba)
  - Tariff models and tariff items (prices) for customers from household category and business category (HEP Elektra)
  - Information for prosumers (HEP Elektra) and (HEP Opskrba) from household category
  - Information on guaranteed electricity purchase from business category
  - Structure of particular electricity sources in electricity sold to customers (HEP Elektra and HEP Opskrba),
  - Information on supplier switching
  - Information on ZelEn, i.e. energy from renewable energy sources for HEP Opskrba customers
  - electricity saving tips
  - recommendations for safe use of electrical devices
- HEP ESCO website on the benefit scheme programme for HEP Opskrba business customers on energy service packages:
  - Systematic energy management (establishment of remote consumption monitoring system and ESCO Monitor® system among customers)
  - Free counselling in the field of preparation of energy efficiency projects as well as energy management projects and
  - Education of employees among customers ("Course for energy managers", "Green business", e-course "Green office")
- social networks - HEP Opskrba (Facebook, LinkedIn)
- My network application of HEP Operator distribucijskog sustava for household and business customers
- My account application of HEP Elektra – for household electricity customers
- My Hepi account application of HEP Opskrba – for household electricity customers
- My account application of HEP Opskrba in the Croatian and Slovenian language – for business customers
- mHepi application of HEP Opskrba – a free mobile application for paying bills
- HEPI Trader application of HEP Opskrba in Croatian, Slovenian, Serbian and English – for business customers

Applications of HEP Elektra, My account and of HEP Opskrba My Hepi account and My account, enable customers to view and enter readings, consumption in previous period, bills and payments, to view bills for the chosen account, information on the date of next regular meter reading, use of consumption

calculator and the creation of informative calculation. Application My network of HEP Operator distribucijskog sustava enables the delivery of read meter without logging in in the application and the checking of consumption for the previous year. Free mobile applicaton m-hepi offers the same options as the application My Hepi account, and bills can be paid by credit or debit cards. HEPI Trader application enables independent management of electricity procurement, comparison of prices at the market, monitoring electricity price trends at the market, optimization of costs and improvement of business operations.

In order to improve the process of providing information to its customers, in 2021 HEP Opskrba adapted its website to blind and partially-sighted people. The adjustment of Hepi website was a part of the 'Network for Everyone' project of the Association of the Blind Zagreb, the aim of which was to provide professional assistance to organizations which decide to adjust their website to the blind and partially-sighted.

Network users

HEP Operator distribucijskog sustava communicates with network users on a daily basis via: free info-phone and e-mail and by personal visits of network users to counters. The following information is available on the HEP ODS website:

- Information and forms necessary for network access
- Information and forms necessary for the realization of services on existing metering points
- Information for prosumers
- Information on the procedure of supplier switching
- Information on planned network works, which may result in temporary interruptions in electricity supply – No electricity
- Electricity saving tips for customers and recommendations for safe use of electric devices

Communication also takes place via My network application for household customers and via the portal Metering data with network users from household category with connecting capacity (in the direction of consumption) of 20 kW, all business users with installed interval meter and all electricity producers on the distribution network.

The HEP ODS My network application enables its users, which register via e-Građani system, to submit meter readings, review readings and consumption (kWh) in previous periods, get information on the expected date of the following regular billing, on temporary electricity supply interruptions and submit requests. Meter reading can be submitted via the application without registration.

GRI 2-29
GRI 3-3

INQUIRIES, REQUESTS AND COMPLAINTS BY ELECTRICITY CUSTOMERS AND NETWORK USERS

HEP Elektra

All HEP Elektra customers may contact HEP Elektra regarding any inquiry, request or complaint by free phone, web form, in person at the customer centre or in a written form by regular mail. Depending on the type of inquiry and the chosen communication channel, inquiries are processed in the first step (the point of reception) or are sent for further processing in the corresponding public supply service. Depending on the type of inquiry and legal regulations, time of response to customers is also taken into account. In the event that household customers find the reponse unsatisfactory, they are entitled to address HEP Elektra Consumer Protection Commission. In the event that business customers find the response unsatisfactory, they are entitled to contact the Croatian Energy Regulatory Agency.

HEP Opskrba

The customers of HEP Opskrba may contact the company in case of inquiry, request or complaint by free phone, e-mail, in person at the customer centre or in a written form by regular mail. Bill complaint shall be submitted within 15 days from the day of issuance, in written form at the address of HEP Group headquarters or by e-mail. The complaint shall contain all the information suitable for identifying the customer and the agreement, the explanation of the reason for the complaint, documents and other evidence, on which the complaint is based. If the complaint does not contain said information, nor it is signed by the customer (unless submitted by e-mail), the complaint is deemed incomplete to be processed. HEP Opskrba makes a decision on the complaint within 15 days at the latest from the day of receiving the complaint. If the customer delivers certain information necessary to resolve the complaint subsequently, the 15-day deadline is counted from the day of submitting the last piece of information.

HEP-Operator distribucijskog sustava

All network users that ask for information or services, or would like to submit a complaint, may contact HEP ODS by free phone, e-mail, in written form (by sending regular mail) at the address of the competent distribution area or directly, in person at counters. A network user and/or electricity producer may file objections to the procedure of HEP ODS as well as complaints about the Rules on general conditions for network use and electricity supply as well as the Consumer Protection Act to the competent distribution area, either in writing or in person at counters. HEP ODS is obliged to respond to the written complaint within 15 days from the day of reception. If the network user is not satisfied with the response to the written objection, they may address the Commission for customer complaints (which consists of representatives of consumer protection associations and HEP ODS representatives). The Commission shall make a decision on the complaint within 30 days. A natural person not satisfied with the decision of the Commission for customer complaints may request protection of their rights from competent court, while a legal entity may do the same through court and from HERA.

A network user may submit requests relating to the Rules on the electricity supply quality conditions by the end of current calendar month for the previous calendar month, in which the level of guaranteed quality standard of services was not achieved, and the distribution system operator is obliged to make a decision within 30 days from the day of receiving a neat request. In case the request for the payment of monetary compensation is justified, distribution system operator shall within 30 days from the day of making a decision pay to the end customer prescribed monetary compensation. A network user may submit requests related to the Conditions of electricity supply quality by e-mail on the address: ods-uvjeti.kvalitete@hep.hr or to the competent distribution area – in person at the counter or by mail.

GRI 2-29
GRI 3-3

STATUS OF RESOLVED INQUIRIES, REQUESTS AND COMPLAINTS – HEP ELEKTRA

During 2023, HEP Elektra received 371,098 inquiries by e-mail and 417,049 by free phone. The majority of inquiries was about the customer's requests for switching the customer at the metering point, there were requests connected to forced collection measures, bill complaints, requests to transfer or refund overpaid funds, to repay debts through installments, requests connected to debt and payment, to "My Account" application and general information. Data management and data protection as well as indicators for 2023 are described in the chapter Our customers' data protection. All inquiries, complaints and requests were resolved within the stipulated legal deadline.

There were 126 complaints, which were not resolved in the first step, because the customers directly addressed the Commission for customer protection, 17 complaints were accepted, 2 were partially accepted and 107 were rejected because they were unfounded.

In 2023 HEP Elektra submitted the total of 18,792 requests to HEP Operator distribucijskog sustava for the resumption of electricity delivery to customers, upon the termination of the reason for which temporary discontinuation was implemented. Out of 18,792 requests within one day the total of 17,823 requests were resolved, or 94.84%.

SERVICE IMPROVEMENT – HEP ELEKTRA

New customer centres

HEP Elektra continued opening new customer centres. In 2023 five new customer centres were set up in the following towns: Beli Manastir, Sesvete in Zagreb, Split, Gospić and Našice.

Customer centres are a unique place for providing information, resolving inquiries, requests and complaints of existing and potential customers. Provision of this kind of service presents additional value of HEP Elektra, which is in this manner more available to its customers for support, inquiry and/or help as well as request delivery, so customers have additional confidence in the supplier. By additional presence in smaller regional areas, personal contact with customers is achieved. Customers' habits imply availability by counties, which particularly refers to pensioners and customers that find communication by electronic mail unacceptable.

Service for household category customers – My account

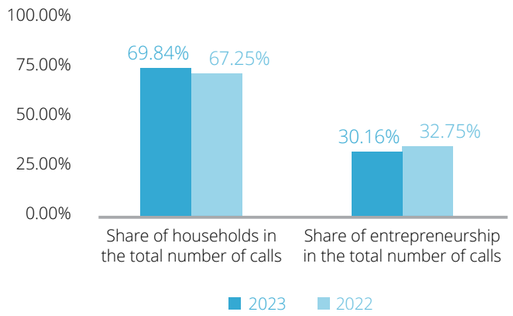
In order to improve its relation with customers, HEP Elektra continuously analyses existing procedures and improves them. The activity intended to stimulate customers to realize the functionality of sending bills exclusively by e-mail was launched in 2023. This leads to increased effectiveness of the process of bill issuance and delivery, energy savings and reduction of paper consumption.

STATUS OF RESOLVED INQUIRIES, REQUESTS AND COMPLAINTS – HEP OPSKRBA

GRI 2-29
GRI 3-3

HEP Opskrba customer service recorded the total of 129,929 incoming calls in 2023, 91,969 of which refer to household category and 39,717 to commercial category. Within one minute 88,455 calls were answered, i.e. 68.08%. From the total number of calls, 69.84% referred to household customer category. ISO certificate 9001:2015 for Customer service was renewed for the seventh time in a row at the end of 2023, which confirms a high quality of service, particularly considering customer relations. Managing data and data protection as well as indicators for 2023 are described in the chapter Our customers' data protection. The total number of complaints addressed to HEP Opskrba in 2023 amounted to 265 and all were resolved within the legal deadline of 15 days. In 2023 HEP Opskrba filed the total of 583 requests to HEP Operator distribucijskog sustava for resumption of electricity delivery to customers, upon the termination of the reason for which temporary discontinuation was conducted. All requests were resolved within one day.

Share of individual customer segment in the total number of calls



IMPROVEMENT OF CUSTOMER RELATIONS – HEP OPSKRBA

Meetings, workshops and sports events with customers in Croatia and Slovenia

In its everyday engagement of improving customer relations, the Company pays special attention to maintaining close relations with customers by organizing Customer meetings in Croatia and Customer meetings of its daughter company, HEP Energija in Slovenia.

The biggest electricity customers in Croatia gathered for the twelfth year in a row at the Customer meeting of HEP Opskrba in Zagreb. All HEP Opskrba customers form the whole of Croatia were invited to the Meeting. There were more than 350 customers, among others the representatives of the following companies: Cemex, INA, Podravka, Vindija, Tommy, AquafilCRO, Messer, Belje, AD Plastik and others.

The traditional Meeting of customers in Slovenia, the eighth in a row was held in Ljubljana again. It was an opportunity to meet customers, but also to exchange experiences. Some of the customers at the Meeting were the representatives of the following companies: AquafilSlo, Unicredit bank, Port of Koper, Melanim, MLM, Eurobox and others.

As part of the 33rd Blue Lagoon Croatia Open tour in Umag, the Company organized the sixth in a row Hepi tour of tennis doubles, in which the representatives of customers participate.

STATUS OF RECEIVED INQUIRIES AND REQUESTS OF NETWORK USERS – HEP ODS

GRI 2-29
GRI 3-3

In 2023 HEP ODS Customer Relations service received the total of 429,723 calls in its call centre, 518,124 inquiries and 396,309 requests through other communication channels. The Croatian Energy Regulatory Agency (HERA) adopted the Rules on electricity supply quality conditions regarding supply quality in the fields of supply quality, power reliability and voltage quality, which regulate the indicators of electricity supply quality. Supply conditions stipulate the obligation of the distribution system operator to keep electronic records with all the information and documents on the quality of service necessary for the calculation and check of service quality indicators as well as the information on the complaints about service quality, requests for payment of monetary compensation and paid monetary compensations resulting from non-achieving the level of guaranteed quality service standard. Once a year, by 30 April of the current calendar year HEP ODS is obliged to publish on its website the report on electricity supply quality for the previous calendar year. The report on electricity supply quality for 2023 contains information referring to the number of total and timely resolved complaints, answered calls and resolved requests for services within HEP ODS competence, as well as other statistical indicators stipulated by the Rules. Managing data and data protection as well as indicators for 2023 are described in the chapter Our customers' data protection.

COMMUNICATION WITH HEAT ENERGY CUSTOMERS

GRI 2-29
GRI 3-3

Communication with heat energy customers takes place on a daily basis by:

- Telephone and e-mail – HEP Toplinarstvo
- Website, which among other contain:
  - information on heat energy price formation depending on the category of heat energy customer (household and business), type of heating system (central, closed or independent heating system), distribution area (Zagreb, Osijek, Sisak, Velika Gorica, Samobor or Zaprešić) and agreed scope of services (services from the agreement with end customers)
  - Information on the method of concluding consumption agreements (end customers within multi-apartment buildings and/or private houses connected to mutual heat energy billing meters) and agreements on heat energy supply (end customers with own, individual me-

tering point that independently manage their internal heating installations)
- Information on neighbourhoods/addresses of end customers with dates of o temporary discontinuation of heat energy supply due to works on heating systems and unplanned outages
- Information on measuring consumption and division and billing costs for delivered heat energy
- Information on the role, installation, financing, contacts, tips and legal framework for the installation of separators
- Tips for heat energy savings
- application My account, which enables the overview and download of heat energy bills, the overview of annual heat energy consumption calculation and the overview of annual report on business operations of HEP Toplinarstvo to its heat energy customer.

INQUIRIES, REQUESTS AND COMPLAINTS OF HEAT ENERGY CUSTOMERS

GRI 2-29
GRI 3-3

Communication with end customers of heat energy is organized in the Customer Relations Centre, by mail, e-mail or by free phone. Telephone inquiries and e-mails were primary types of communication in 2023, and HEP Toplinarstvo received more than 76,000 phone calls and more than 26,000 e-mails throughout the year. All inquiries, requests and complaints were successfully resolved within deadlines prescribed by law. Special attention was paid to the interactive relation with our end customer, so as to increase effectiveness of our business processes. Managing data and data protection as well as indicators for 2023 are described in the chapter Our customers' data protection.

STATUS OF RESOLVED INQUIRIES, REQUESTS AND COMPLAINTS - HEP TOPLINARSTVO

GRI 2-29
GRI 3-3

In 2023 end customers of heat energy sent to HEP Toplinarstvo 27,444 written inquiries (by e-mail and by mail), as well as 23,135 inquiries by free phone. The majority of inquiries refered to debt information, the transcript of heat energy bills, requests for end customer change, bill complaints and general information. All inquiries, complaints and requests were resolved within the legal deadline. The Commision for complaints of HEP Toplinarstvo received 6 complaints in 2023. The Commission adopted the decision not do discuss 3 complaints, since end customers addressed the Commission directly, not having sent the complaint to HEP Toplinarstvo, so complaints were sent for processing to competent units of the company. The Commission concluded that end customer rights were not violated by HEP Toplinarstvo in 3 complaints, so they were rejected.

As a result of debt for delivered heat energy in 2023 HEP Toplinarstvo temporarily discontinued heat energy delivery to 6 end customers. Following the fulfilment of their obligations, heat energy delivery was resumed.

COMMUNICATION WITH GAS CUSTOMERS

GRI 2-29
GRI 3-3

Communication with gas customers takes place on a daily basis by:

- free customer phone
- e-mail (kontakt.hepplin@hep.hr; info.plin@hep.hr)
- personal customer visits
- website with information:
  - for customers (market service, public service for household customers and guaranteed supply for customers under special protection)
  - for network access (gas connection, gas installation, gas delivery terminations...)
  - about prices of gas and services
- HEP-Plin application intended for private and business users
- written communication

INQUIRIES, REQUESTS AND COMPLAINTS OF GAS CUSTOMERS

GRI 2-29
GRI 3-3

All customers of HEP Plin may contact the contact centre of HEP Plin for any inquiry, request or complaint via stated communication channels. The majority of calls and requests referred to the delivery of gas meter reading, debt inquiries, bill correction, forced collection (notices and enforcements) and other services. Customers that were not satisfied with the reply to the written complaint may submit a complaint to the Customer Protection Commission of HEP Plin, which shall reply to the customer within 30 (thirty) days from the day of receiving the complaint, and state the written complaint to HERA. Managing data and data protection as well as indicators for 2023 are described in the chapter Our customers' data protection.

STATUS OF RESOLVED INQUIRIES, REQUESTS AND COMPLAINTS – HEP PLIN

The number of incoming calls in 2023 amounted to 152,942, marking an increase of 11% in comparison to the year before. 87,8075 e-mails were received in 2023, which is 82% more than in 2022. The amount of communication activities rose due to changes at the gas market (Regulation on the elimination of distortions at the domestic energy market), new customers, adaptation to legal requirements, adaptation of the operating system and the changeover to euro.

PUBLIC PROCUREMENT

GRI 2-29
GRI 204-1
GRI 3-3

The chapter describes the procedures of managing public procurement in HEP Group, the supply chain and procurement procedures implemented in 2023.

MANAGEMENT OF PROCUREMENT PROCEDURES

Procurement of goods, services and works in HEP Group companies is conducted in line with the Public Procurement Act (OG 120/16, OG 114/22) and by-laws, internal Rules on procurement and contracting in HEP Group, Rules on simple procurement in HEP Group as well as other internal documents. In order to prepare procurement procedures better, HEP Group companies conduct a market analysis. The market analysis conists of collecting information on the subject matter of procurement, economic entities at the market and other important circumstances, which affect procurement conditions.

Prior to initiating the public procurement procedure for the procurement of high-value works, goods or services, HEP Group Companies are obliged to initiate the procedure of prior consulting with interested economic entities for the duration of at least five days. All interested economic entities are invited to participate in the prior consulting, so as to exchange information, observations, suggestions and advice, which may be important when planning and conducting procurement procedures, taking into consideration principles of market competition, prohibiton of discrimination and transparency of public procurement procedures.

When conducting public procurement procedures, HEP Group companies define, on the basis of the ESPD form (European

single procurement document), among others, mandatory grounds for excluding economic entities from the procedures if:

- the economic entity is either a member of a governing, or a supervisory body or is a member with the power of representation, decision making or supervision convicted for participiation in criminal organization, for corruption, fraud, terrorism or offences connected to terrorist activities, money laundering or financing terrorism, child labour or other forms of human trafficking
- the economic entity has not fulfilled obligations to pay taxes or obligations for retirement or health insurance

When conducting simple public procurement procedures, the principles of public procurement apply, and the grounds for excluding economic entities are determined based on the certificate of good conduct and tax administration office certificate on tax debt, which economic entity shall deliver as an integral part of the bid. When conducting procurement procedures, economic entities shall also deliver a signed Integrity declaration, by which they guarantee correctness in the procurement procedure, absence of any forbidden practice connected to the bidding procedure, such as corruption or fraud, offering, giving or promising any inappropriate advantage, which may affect the activity of the employee included in the procurement procedure. Economic entity shall also deliver the consent with the audit of the whole procurement procedure by independent experts, hold responsibility and accept sanctions (contractual penalties, unconditional contract termination), if they violate prescribed rules.

Since 2022, pursuant to Article 5k of the Council Regulation (EU) 2022/576 of April 2022 amending Regulation (EU) No. 833/2014 concerning restrictive measures in view of Russia's actions destabilizing the situation in Ukraine in public procurement procedures of high value and in individual procurement procedures based on exemption, economic entities shall deliver a signed Statement on the absence of grounds for the prohibition of awarding the public procurement contract/framework agreement.

With said statement, responsible persons confirm that neither the economic entity nor the persons who are members of the administrative, management or supervisory body or have the authority to represent, make decisions or supervise said economic entity, are Russian citizens or legal or natural persons, entity or body with a business establishment in Russia, that they are not a legal person, entity or body, in whose ownership rights the entity directly or indirectly has more than 50% share, or that they are not natural or legal person, entity or body acting for the account of or according to the instructions of above stated entities. They also confirm as requested for all subcontractors, suppliers or entities, whose capacities they rely on in terms of directives on public procurement, which make up more than 10% of the contract value.

Public procurement procedures which are not categorized as simple public procurement are published in the electronic Public Procurement Classifieds of the Republic of Croatia (hereinafter: EOJN) since 2014. Information on the public procurement procedures in HEP Group is published on the HEP's official website and it includes basic information on the procedures of public procurement and simple procurement in line with legal and internal regulations, procedures excluded from public procurement, decision on the selection and annulment, as well as information on prior counselling with interested economic subjects.

"Pilot project of the new EOJN RH" started in September 2023, as part of the National recovery and resilience plan under the component C2.3. R3-19 – the Establishment of the new platform of the electronic Public Procurement Classifieds of the Republic of Croatia". Five (5) clients from the Republic of Croatia participated in it, including HEP d.d., and they started with public procurement procedures on the new IT platform, i.e. the new EOJN RH.

Since September 2023 HEP d.d. has been conducting new public procurement procedures exclusively on the new IT platform, i.e. the new EOJN RH. The obligation to use the new IT platform, i.e. the new EOJN RH for all clients from the Republic of Croatia has been effective since 1 January 2024.

Pursuant to the Law on Electronic invoices in public procurement, all HEP Group companies receive e-bills under the EU Directive (2014/55/EU) as of 1 December 2018. The information on HEP Group companies is published in the Register of e-bill users on the website of the Financial Agency (FINA).

SUPPLY CHAIN AND PROCUREMENT PROCEDURES IN 2023

HEP Group supply chain in 2023 consisted of 9,098 suppliers, 169 of which were foreign, and 8,829 were national. The majority of foreign suppliers came from the EU member countries, European countries which are not EU members, and several came from North America and Asia. National suppliers came from all Croatian counties, and a half of suppliers in 2023 came from: the City of Zagreb, Osijek-Baranja County, Primorje-Gorski County, Split-Dalmatia County and Zagreb County.

In 2023, 875 public procurement procedures were conducted in HEP Group, 58.9% of which referred to procurement of goods, 28.3% to services and 12.8% to works. Also, 101 procedures were conducted based on the exemption of application of Public Procurement Law, 1 procedure of which referred to electricity procurement, 2 to energy coal procurement, 4 to liquefied natural gas procurement. Apart from stated procedures, a share of electricity, gas, emission units and green certificates were procured via broker platforms and at power exchanges in Central and South-East Europe.

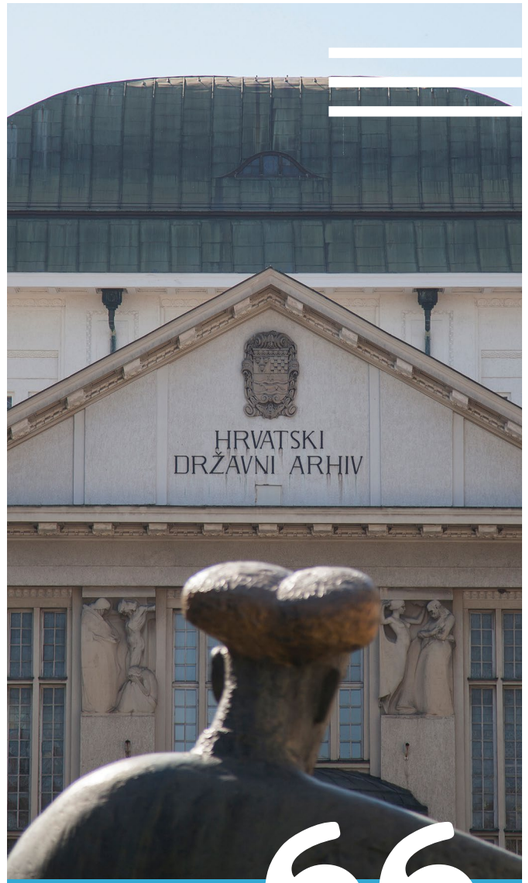
Economic entities filed 64 complaints to the State Commission for Supervision of Public Procurement Procedures (DKOM) in 2023. 25 complaints were upheld, 8 of which referred to procurement documentation and 17 to the decision on selection or annulment. One appeal procedure was terminated, 8 complaints were rejected and 30 were rejected as unfounded. The average duration of appeal procedures was 28 days, from 1 to 9 days for incomplete complaints to the maximum of 62 days, which significantly affected the prolongation of public procurement procedures, and thus the procurement of goods, services and works essential for the implementation of business processes in HEP Group companies.



HEP sees its employees as its biggest value and competitive advantage in increasingly challenging business circumstances at the open market.

SOCIETY AND HUMAN RIGHTS

Six material topics were defined in the sustainability field of Society and human rights for 2023 – Our employees, Health protection and safety, Education and training, Our customers' data protection, Local communities and the Impact of supply chain on the society and human rights. The procedure of defining and assessing material topics is described in the chapter Material topics.



We encourage and invest in lifelong education of employees and the development of competences.

OUR EMPLOYEES

GRI 3-3
GRI 401-1
GRI 401-2
GRI 401-3
GRI 404-1
GRI 405-1
GRI 11.10.1
GRI 11.10.3
GRI 11.10.4
GRI 12.10.1
GRI 12.10.3
GRI 12.10.4

HEP Group long-term strategy of human resources' development for the period from 2017 to 2030 defines guidelines connected to the sustainability of managing human resources. When drawing up the employment plans, the time necessary to pass on knowledge from an employee to an employee, the time necessary to introduce one into business operations, age structure of employees as well as employees leaving from key positions (managers, experienced professionals) are taken into consideration. HEP sees its employees as its biggest value and competitive advantage in increasingly challenging business circumstances at the open market. We encourage and invest in lifelong education of employees and the development of competences, ensuring that they attend university specialist and doctoral studies, further training, vocational training and professional development courses. The Plan of education defines educational needs of all employees on all levels of HEP Group companies. The plan is adopted by the Management Board of HEP d.d. and it is realized in the current year. Continuous and targeted education and training present sustainable management of HEP Group working structure, which ensure timely transmission and maintenance of specific knowledge, important for implementing business operations.

The risk connected to HEP Group employees is the extremely unfavourable age structure of HEP Group employees, which is managed in such a manner that when creating the Plans of employment it is taken into consideration to express the essential needs for employment on time (depending on the time necessary to pass on knowledge from an employee to an employee and the time necessary to introduce an employee into business operations). Moreover, the lack of interest of young workers from the field of technical professions to work in HEP Group presents another risk. Therefore, we are trying to draw them through scholarships for regular students of graduate studies and regular students of secondary schools, who become HEP Group employees upon graduation. Due to specific activities, in the long run there may arise a risk of inability to set up a more flexible work organization and implementation of business processes (flexible working arrangement), which is a result of keeping new and highly competitive labour on the labour market. Flexible working arrangement has become an increasingly common motivational factor when choosing an employer.

The information on the Total number of HEP Group employees in 2023 by gender and employment contract duration as well as comparison with 2023, is shown in the chapter HEP Group employees.

NEW EMPLOYEES AND FLUCTUATION OF EMPLOYEES

GRI 401-1
GRI 11.10.1
GRI 12.10.1

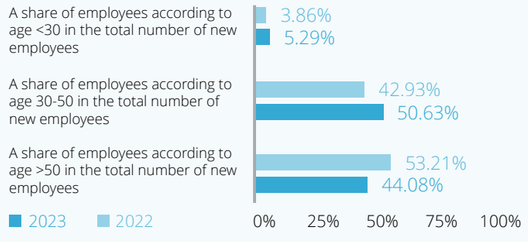
Employees' satisfaction is regularly monitored through conducting standard examination of organization climate and employee satisfaction, as well as an outgoing questionnaire. Collected feedback is used as the basis for planning future activities of managing human resources and maintaining a high level of employee satisfaction, and thus low fluctuation rates.

In 2023, the total of 397 new employees was hired, which is an increase of 8 employees in comparison to 2022, and the total of 555 employees stopped working, which is an increase of 143 employees in comparison to 2022.

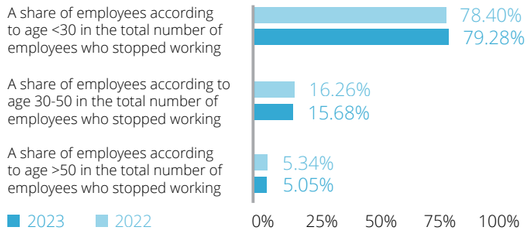
New employees and employees who stopped working

Number of new employees by age	2023			2022		
	Women	Men	TOTAL	Women	Men	TOTAL
< 30 years old	26	149	175	37	170	207
30 -50 years old	53	148	201	50	111	167
> 50 years old	6	15	21	3	12	15
Total	**85**	**312**	**397**	**90**	**293**	**389**
Number of employees who stopped working	**2023**			**2022**		
	Women	Men	TOTAL	Women	Men	TOTAL
< 30 years old	3	25	28	1	21	22
30 -50 years old	18	69	87	17	50	67
> 50 years old	93	347	440	48	275	323
Total	**114**	**441**	**555**	**66**	**346**	**412**

A share of employees according to age in the total number of new employees



A share of employees who stopped working



EMPLOYEE BENEFITS

GRI 3-3
GRI 401-2
GRI 11.10.1
GRI 11.10.3
GRI 12.10.1
GRI 12.10.3

In the 2023 report we included information on employee benefits. We presented data for employees in Croatia and in companies in Slovenia, Bosnia and Herzegovina, Serbia and Kosovo.

Employee benefits

Type of benefit	Employees				
	Croatia	Slovenia	BiH	Serbia	Kosovo
Medical examinations	YES	NO	YES	NO	NO
Supplementary health insurance	YES	NO	YES	NO	NO
Compensation for disabilitiy and reduced ability to work	YES	NO	YES	NO	NO
Allowance for birth / adoption of a child	YES	NO	YES	NO	NO
Incentives for the third pension insurance pillar	YES	NO	NO	NO	NO

PARENTAL LEAVE

GRI 3-3
GRI 401-3
GRI 11.11.1
GRI 11.11.3
GRI 12.11.1
GRI 12.11.3

The number of women that used maternity leave in 2023 increased by 5.16% in comparison to 154 in 2022. In 2023, the number of men who used paternity leave totalled at 167, which is an increase of 101.20%. In 2023, we showed the information on the number of employees, who came back to work at the end of parental leave and on the number of employees who continued working in HEP Group 12 months after returning from parental leave.

Use of parental leave in 2023 and 2022

Use of parental leave	2023			2022		
	Women	Men	TOTAL	Women	Men	TOTAL
Employees who exercised the right to parental leave	162	167	329	154	83	237
Employees who used the right to parental leave	162	167	329	154	83	237
Employees who returned to work in 2022	157	159	316	150	75	225
Employees who continued to work in HEP Group companies 12 months after returning from parental leave	157	159	316	150	75	225
Share of return to work after parental leave %	97%	95%	96%	97%	90%	95%
Share of keeping employees in HEP Group 12 months after returning from parental leave	97%	95%	96%	97%	90%	95%

329

NUMBER OF EMPLOYEES WHO EXERCISED THE RIGHT TO PARENTAL LEAVE AND USED IT IN 2023

EDUCATION AND TRAINING

GRI 2-29
GRI 3-3
GRI 404-1
GRI 111.1.1
GRI 11.11.4
GRI 12.1.1
GRI 12.11.4

There were 10,329,827 hours of training in 2023, and 511,815 in 2022. In 2023 there were 10,455 employees, marking a decrase by 123 in comparison to 2022. The average number of hours of training per employee in 2023 totalled at 31.55, and in 2022 at 48.38. This training included internal trainings in line with HEP Akademija programs and other specialized internal treinings as well as external trainings referring to improving existing specific knowledge and skills connected to business operations and acquiring new ones.

HEP Akademija, as HEP Group's internal educational centre enables active management of ideas, information and knowledge of our employeers, and it identifies, chooses and makes available key knowledge in the organization and outside it. Analysis and research are used to recognize educational needs, and on the basis of these insights typical education programs or e-learning programs are organized. As internal training centre, HEP Akademija continued monitoring global trends and HEP Group employers' needs for education.

Average number of training hours by gender and type of workplace in 2023 and 2022

Average number of training hours by gender and type of workplace	2023	2022
Average annual number of training hours per employee	31.55	48.38
Average annual number of training hours – women management level[1]	76.95	292.1
Average annual number of training hours – women operational level[2]	15.59	30.15
Average annual number of training hours – men management level[1]	43.11	97.21
Average annual number of training hours – men operational level[2]	36.08	52.57

[1] Management level includes high, medium management
[2] Lower management is included in the data for operational level

329,827

TOTAL NUMBER OF TRAINING HOURS FOR HEP GROUP EMPLOYEES IN 2023

31.55

AVERAGE NUMBER OF TRAINING HOURS PER EMPLOYEE IN 2023

The total of 329,827 training hours was realized for employee education in 2023, and 36.53% of employees were included in some kind of education. In line with development needs of HEP Group companies 21 employees were sent to continuing education, with an aim of supplementing knowledge and acquiring a certain level of education/vocation, contractual obligations of employees attending post-graduation specialist or doctorate studies were monitored, and to a lower extent employees were sent to retraining. In addition to vocational trainings pursuant to legal regulations and legislation, as well as professional exams, investments were mad in professional and personal development of employees trhough professional trainings, workshops, courses, conferences and professional meetings (CIGRE, CIRED, MIPRO), counseling and certified education programs in line with the needs of the workplac. Business foreign language courses were organized, and employees showed interest in education from the field of: energy, envrionment protection, internal audit, controlling, finances, accounting, public procurement, law, human resources, information-communication technologies, project management, management work safety, fire protection, health protection, ISO standards, GDPR, artificial intelligence, crisis communication and soft skills (business communication, leadership, work with difficult clients, managing clients...). Similarly as in the years before, HEP-Nastavno obrazovni centar in Velika organized specialist education programs in the field of live working, verified by the Ministry of science and education as well as other professional trainings connected to electrical profession and legal regulations.

Scholarships for pupils and students and financial support for employees' children

Competitions for awarding scholarships to regular high school students and regular students in school/academic year 2023/2024 were successfully conducted. The total of 31 contracts with students and 24 contracts with students (future employees) of technical faculties were signed. The contract ensures scholars financial support during studies, i.e. education and employmet in HEP Group as interns for a indefinite period of time after graduation, i.e. the completion of secondary education. This approach and long-term planning aims to ensure qualified personnel on workplaces which are crucial for the functioning of electric power system and energy infrastructure. We continuously ensure monthly financial support/scholarship fro the children of our dead or perished employees.

Cooperation with scientific and educational community

In partnership with educational institutions, HEP Group encourages young people to develop interest for a job in HEP, but in technical field generally, by participating in career fairs and enabling students and pupils to complete profession practice in HEP. Based on the competition by the Faculty of Electrical Engineering and Computing to participate in professional practices for academic year 2022/2023, 15 vacancies for professional practice were proposed. HEP also showed interest in cooperation on the presentation of the new application system for industrial practice of the students of the Faculty of Mechanical Engineering and Naval Architecture in Zagreb, along with participating in the event Praktičan spoj (match-making event to connect students and employers). There were four applications for professional practice. A cooperation agreement was signed with the Faculty of Inforamtics and Digital Technologies at the University of Rijeka related to professional practice of their students in HEP, and in 2023 we also participated in student career fairs in Zagerb and Rijeka. In this manner we achieve contact with potential future employees, but we also create an opportunity to exchange ideas on potential mutual projects through discussions with the representatives of higher education institutions and students themselves. During 2023 professional practice in HEP Group was completed by 216 interns.

DIVERSITY AND INCLUSION

GRI 3-3
GRI 405-1
GRI 11.11.1
GRI 11.11.5
GRI 12.1.1
GRI 12.11.5

Pursuant to the Guidelines of the Croatian Government and the Office for gender equality and in line with the Gender Equality Act, HEP d.d. creates an Action plan for promoting and establishing gender equality in HEP Group every four years. The Plan includes the analysis of the position of men and women in HEP Group, special measures, goals and the manner of implementing measures as well as the supervision of their implementation. HEP d.d. also signed the Diversity Charter, which aim is the promotion of diversity policy in the business sector. The Charter is based on a group of principles which the employer voluntarily accepts for the purpose of promoting diversity, non-discrimination, inclusion and equal options in the work place. Therefore the Team for adopting the Policy and Action plan for the implementation of diversity and non-discriminatrion policy was founded.

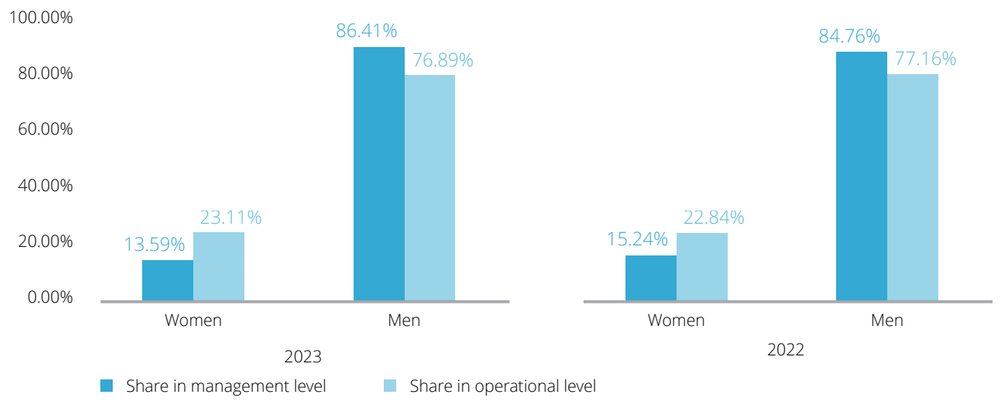
Employees by gender and type of work place

In 2023 there were 23.01% of women employed in HEP Group. The total of 103 employees worked in management positions, 13.59% of which were women, including jobs of high and medium management, for which management contracts were concluded. Lower management is included in operational level.

Number of employees by gender and type of workplace in 2023 and 2022

Number of employees by gender and type of workplace	2023						2022					
	Total number of employees	Women	Men	< 30	30 – 50	>50	Total number of employees	Women	Men	< 30	30 – 50	>50
Management level	103	14	89	0	41	62	105	16	89	0	42	63
Operational level	10,352	2,392	7,960	939	4,689	4,724	10,473	2,392	8,081	946	4,776	4,751
Total	**10,455**	**2,406**	**8,049**	**939**	**4,730**	**4,786**	**10,578**	**2,408**	**8,170**	**946**	**4,818**	**4,814**

Number of employees by gender and type of work place



Employees with disabilities

HEP Group companies fulfil their obligation of employing people with disabilities in a different way, in line with the provisions of the Ordinance on setting the quota for the employment of persons with disabilities. The obligation is fulfilled on the basis of concluded contract on business cooperation with protective workshop and integrative wokshop. Some companies employ persons with disabilities, and a majority of companies pay monetary compensation, since they do not fulfil the quota of employing persons with disabilities, for which records are kept. In 2023 there was the total of 466 employees with disabilities in HEP Group, i.e. 4.46% of the total number of employees. There were 94 women and 372 men. In 2022 there were 495 employees with disabilities, making up 4.68% of the total number of employees. 96 were women and 399 were men.

Number of employees with disabilities in 2023 and 2022 by gender and age

Number of employees with disabilities by gender and age	2023			2022		
	Women	Men	Total	Women	Men	Total
<30 years old	1	4	5	1	5	6
30-50 years old	22	69	91	25	72	97
>50 years old	71	299	370	70	322	392
Total	**94**	**372**	**466**	**96**	**399**	**495**

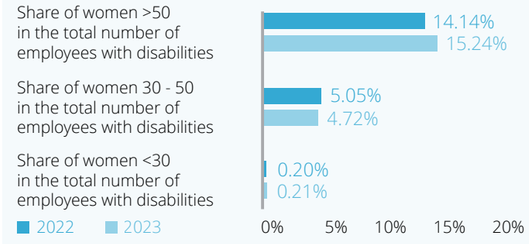
Share of particular gender in the total number of employees with disabilities in 2023



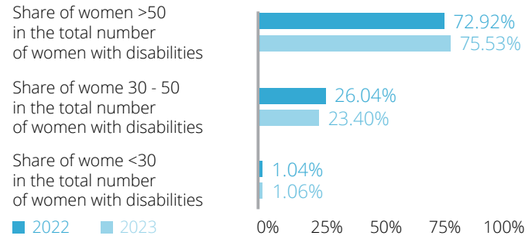
Share of particular gender in the total number of employees with disabilities in 2022



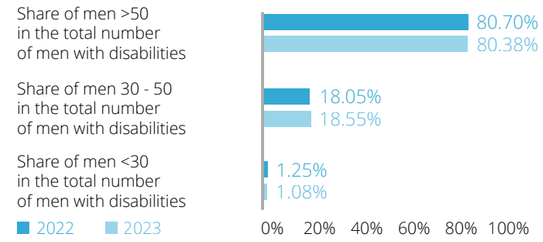
Share of particular age categories of women in the total number of employees with disabilities



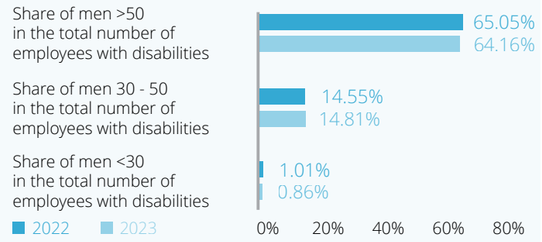
Share of particular age categories of women in the total number of women with disabilities



Share of particular age categories of men in the total number of men with disabilities



Share of particular age categories of men in the total number of employees with disabilities



OCCUPATIONAL HEALTH AND SAFETY

The chapter describes the system of occupational health and safety of HEP Group employees through GRI indicators from 403-1 to 403-9, as well as safety measures implemented for gas customers of HEP Plin, which were described through the application of sector designations for gas and liquid fuel sector.

MANAGEMENT OF OCCUPATIONAL HEALTH AND SAFETY

GRI 3-3
GRI 403-1
GRI 403-4
GRI 403-8
GRI 11.9.1
GRI 11.9.2
GRI 11.9.4
GRI 12.9.1
GRI 12.9.2
GRI 12.9.4

The Work Safety Act and its resulting by-laws regulate the management of occupational safety in HEP Group. Hrvatska elektroprivreda d.d. and the following companies: HEP Proizvodnja, HEP ODS, and HEP Upravljanje imovinom have integrated certified systems of health protection and occupational safety in line with ISO 45001:2018 standard. Policies and certificates are publicly available on our website. The compliance with requirements of legal regulations and with other requirements HEP Group companies are obliged to fulfil, is analysed and evaluated on the basis of set procedure for the application of legal and other requirements. Set systems refer to the overview of employees, activities and conditions at a workplace. Systems of occupational health and safety under ISO 45001:2018 Standard cover more than 90% of HEP Group employees, and provisions of the Law on Safety at Work refer to all HEP Group employees, as well as other requirements the companies are obliged to. Pursuant to the decision of the President of the Management Board, the Team for supervising activities of occupational safety and fire protection in HEP Group was appointed. It consists of a work protection specialist and internal auditor, whose task is to supervise all companies within HEP Group.

Meetings of the Committee for occupational safety were held in HEP Group companies during 2023. The Committee for occupational safety determines policy and goals, plans activities and suggests the plan of measures for improvement, it encourages the implementation of policies of preventing occupational injuries and professional illnesses, it encourages constant improvement of the system, submits reports to the director of the company on the condition of occupational safety and occupational injuries for the previous year as well as other jobs. The Committee holds meetings at least twice a year and in the event of serious or fatal injuries, more often. Employees are included in the work of the Committee through chosen coordinator commissioners, who are also mebers of the Committeee for occupational safety. Experts for occupational safety prepare drafts of internal regulations from the field of occupational safety, they follow legal regulations at the national and EU level, implement decisions of company directors, prepare and consider suggestions of instructions for work in a safe way and for system improvement and they preform other jobs significant for occupational safety, which are discussed at the meetings of the Committee.

HAZARD IDENTIFICATION, RISK ASSESSMENT AND INCIDENT INVESTIGATION

GRI 3-3
GRI 403-2
GRI 403-7
GRI 11.9.1
GRI 11.9.3
GRI 11.9.8
GRI 12.9.1
GRI 12.9.3
GRI 12.9.4

Hazard identification, risk assessment and incident investigation is the procedure of anayzing various aspects of unfavourable work conditions with the purpose of identifying the level of risk from possible damage to the health of an employee (occupational injuries, professional illnesses and illnesses connected to work) as well as distrotions in the work process, which may cause harmful consequences for employees' health and safety.

The purpose of hazard identification and creation of risk assessment is to determine dangers, harms and effort and to assess the level of risk for the occurrence of occupational injuries, professional illnesses and illnesses connected to work, to determine corrective and preventive measures for employees' health protection. Those are created by professionals for occupational safety in companies they are employed, in cooperation with employees and their proxies for occupational safety. Risk assessment is a permanent procedure which is adapted to changes in the work process and while performing work tasks. It reduces the possibility of injuries at work and/or other unwanted events and improves the system of managing occupational health and safety.

WORKERS' CHECK-UPS

GRI 3-3
GRI 403-3
GRI 403-7
GRI 11.9.1
GRI 11.9.4
GRI 11.9.8
GRI 12.9.1
GRI 12.9.4
GRI 12.9.8

In line with the type of work they do, employees were sent to medical examinations by occupational medical practicioners in 2023. Medical examinations were conducted for the purpose of determining and removing, i.e. reducing employees' health risks to a minimum. In 2023 HEP also bore the cost of supplementary health insurance for employees.

WORKER TRAINING ON OCCUPATIONAL HEALTH AND SAFETY

GRI 3-3
GRI 403-5
GRI 403-4
GRI 11.9.1
GRI 11.9.6
GRI 11.9.5

On the basis of risk assessment for work places as well as constant improvement of the set system, employees are educated about health protection and fire protection, as well as evacuation and rescue. Certain trainings use e-learning programs, such as HEP Akademija, depending on the type of workplace.

PROMOTION OF WORKERS' HEALTH

GRI 403-6

In 2023 HEP continued subsidizing employees' recreation, through programmes available via Multisport card in many sport centres in Coratia. Employees cover the cost of programme totalling at EUR 20.25, and HEP covers the rest to the full sum.

WORK-RELATED INJURIES

GRI 3-3
GRI 403-9
GRI 11.9.10
GRI 12.9.10

By consolidating and coordinating jobs of occupational afety and fire protection, as well as rules, measures and work instructions prescribed by occupational safety professionals and employer proxies working in HEP Group companies and by supervising their application, the reduction of occupational injuries was directly affected, leading to lower costs for the employer. In 2023 there was the total of 112 occupational injuries, 1 with the lethal outcome. The share of the total number of injuries in the total number of HEP Group employees in 2023 amounted to 1.07%, whereas in 2022 this share totalled at 1.18%.



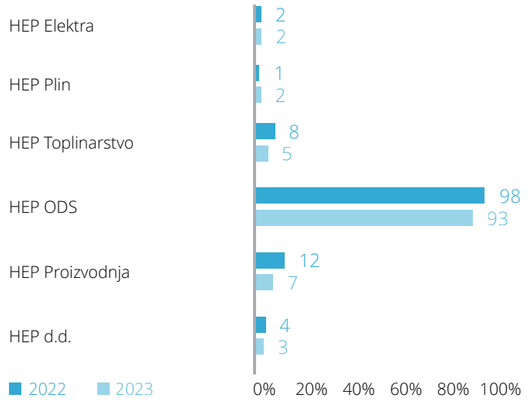
In line with the type of work they do, employees are sent to medical check-ups by occupational medical practitioners.



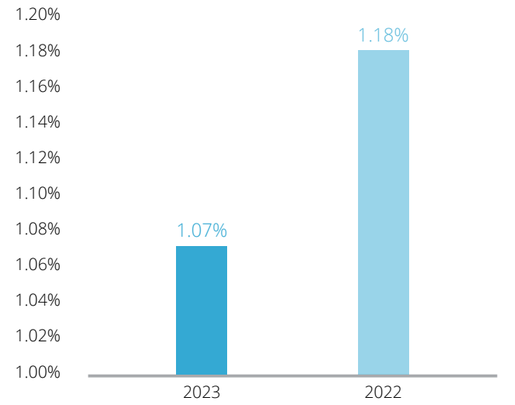
Work-related injuries in HEP Group in 2023

Company	2023			2022		
	Number of injured persons	Number of killed persons	Total	Number of injured persons	Number of killed persons	Total
HEP d.d.	3	0	3	4		4
HEP Proizvodnja	7	0	7	12		12
HEP ODS	93	1	94	98	2	100
HEP Toplinarstvo	5	0	5	8		8
HEP Plin	2	0	2	1		1
HEP Elektra	2	0	2	2		2
Total	**112**	**1**	**113**	**125**	**2**	**127**

Number of injured employees



Share of a number of injuries in the total number of employees



SAFETY MEASURES FOR GAS USERS AND CUSTOMERS

GRI 3-3
GRI 417-1
GRI 13.10.2

Safety measures for gas users and customers of HEP Plin are created by an external contractor as part of the main project for gas installations, which consists of the programme of control, quality assurance and environmental rehabilitation. Quality assurance of gas installation construction is achieved through the installation under norms and rules of engineering practice as well as the installation of the best devices and equipment, in line with project requirements and technical solutions.

All materials and products for installation, which are installed at take-over, have to be delivered with the compliance mark and have documents on compliance with technical instructions for installation and use in Croatian, have the characteristics similar to characteristics and features defined by the project, and all previously stated data on installed material or products delivered are archived with the evidence on the compliance of the product and are kept by the investor. Therefore, during installation each element needs to be checked, and only the equipment with the appropriate certificate and compliance (attest, certificate) may be installed. Norms and regulations applied in technical documentation to assure control and quality of installed material and equipment refer to seamless steel pipes, copper pipes, gas measuring-reduction stations, binding elements, ball valves and fittings, corrosion testing and protection.

GRI 3-3
GRI 418-1

OUR CUSTOMERS' DATA PROTECTION

MANAGEMENT OF PERSONAL DATA IN HEP GROUP

Under the Directive EU 2016/679 on the protection of natural persons with regard to personal data processing and to the free movement of such data, which has been in effect since 25 May 2018 (Directive), obligations of legal persons regarding personal data processing have been significantly extended and natural persons' protection has been defined, regarding such personal data processing as the basic right. HEP Group rules on personal data protection are in line with the provisions of the Directive. Thus, the purpose of personal data protection has been defined as the protection of private life and other human rights and fundamental freedoms when collecting, processing and using personal data, while collection and processing of personal data may be conducted exclusively under strict and controlled processes, pursuant to the Directive. Parent company HEP d.d. and companies which are a part of HEP Group take into account that the data of the subject, with which the processing manager comes into contact are safe and protected, for the purpose of protecting subject's privacy. In this respect, HEP Group companies are considered the companies founded by HEP d.d. with mutually regulated relations, which among others regulate relations considering the processing of subjects' personal data. The list of HEP Group companies is in the table HEP Group companies as at 31 December 2023.

Subjects' personal data is treated with special care, and it is used only for the purpose of processing on the legal basis. In order to protect subjects' personal data and privacy, we pay attention to following the principles stated by the Directive.

The structure of organization and responsibility for managing compliance and personal data protection in HEP Group is formed by appointed Data Protection Officers in HEP d.d. and Data Protection Officers in those HEP Group companies which sell products or services to natural persons or in their work systematically process bigger amounts of personal data – HEP Elektra, HEP Opskrba, HEP ODS, HEP NOC, HEP Toplinarstvo and HEP Plin.

The Data Protection Officer must be independent regarding the execution of their tasks, and for that they directly report to the highest management level of the processing manager or the processor in their company, so they are accountable to the Management Board of HEP d.d. or the director of the company. Operational part of the role of the Data Protection Officer consists of the obligation to receive, channel and resolve subject rights considering their personal data, to keep records within the system (analysis of subjects' inquiries, monthly reports, annual reports), revision of documentation as well as communication with the supervisory body, the Personal Data Protection Agency. In the event of unauthorized management of data from HEP Group companies, the incident is reported to the Data Protection Officer from HEP d.d., who has to report the incident to the Personal Data Protection Agency within 72 hours. To be able to fulfil their tasks regularly, the Data Protection Officer shall get data and/or the list of processings from other organizational units of HEP d.d. and HEP Group companies in a timely and transparent manner. These include personal data and the manner of managing these processings in order to monitor compliances of personal data management with legal regulations.

On the HEP Group website is the general Privacy statement applied to all HEP Group companies. The Statement describes the principles of data processing, the process of collecting and processing personal data, subjects' rights, the process of repoting to the supervisory body, and the procedure upon violation and e-mail addresses of data protection officers in HEP Group. In order to gain knowledge and raise awareness of the importance of data protection, HEP Akademija and data protection officerss set up an educational module for GDPR, for employees who sell their products or services to natural persons or systematically process bigger amounts of personal data. The project of adapting corporate website in the part referring to the personal data processing has been conducted at HEP Group level, through cookies, pursuant to applicable judicial practice of the EU court, the European Data Protection Board and supervisory national bodies of EU member countries as well as pursuant to legal regulations of the EU and Croatia.

There were no violations of personal data or supervisory activities of the national body for personal data protection in 2023 in any HEP Group company. Subjects' rights in the field of data protection in each company were resolved within legally prescribed deadlines pursuant to the Directive.

GRI 3-3
GRI 413-1
GRI 413-2

LOCAL COMMUNITY

HEP Group preforms its activities in the City of Zagreb and all 20 Croatian counties, so we continuously, on a daily basis communicate with local and regional government units in line with legal obligations and a series of different mutual actitivities and projects we carry out with local communities described below.

Local suppliers and participation of the public in the procedures of environmental impact assessment

Information on the supply chain in Croatia is given in the chapter Public procurement, and the procedures carried out as part of obtaining the decision on the acceptability of the procedure for the environment, NATURA 2000 ecological network and environmental permits are described in the chapter Environment.

Fees for the use of premises

In 2023 HEP paid the fee of EUR 13,459,732 to local government units for the use of premises for electricity generation plants.

Solar power plants and cooperation with the local community

In line with public invitations in the period from 2019 to 2021 HEP concluded agreements on cooperation with several units of local government for the development of solar power plant projects. Owing to such cooperation, municipalities and cities have an opportunity for stronger engagement in developing sustainable energy infrastructure in their area, which is going to contribute to their economic and overall development. The construction of SPP Črnkovci on the territory of Marijanci Municipality was contracted, and it started in May 2023. Also, the procedure for the construction of power plant was launched for SPP Lipik.

Improving local communal infrastructure

As part of HES Kosinj project, in cooperation with Perušić Municipality in 2023, the realization of the projects continued, improving communal infrastructure on the broader area of the intervention. The construction of an apartment building in Perušić intended to take care of a part of the population from the future accumulation area was completed.

Information on operating mode, flow of water and water levels for water users

HEP Proizvodnja launched the website and mobile application for HPP Lešće before its switch to summer operating mode, which is adapted to citizens, i.e. swimmers, rowers, fishermen and hikers, who spend more time in the area downstream the hydro power plant in that period. The goal is to provide available information to the visitors of the Dobra River on operating mode and expected water flows for the forthcoming 12 hours on the locations downstream the hydro power plant. Along the Dobra River there are warning sings with QR codes which show the flow of water in the forthcoming 12 hours. Water area management plan by 2027 was adopted in August 2023, stipulating obligations for existing and planned new hydro power plants. Accompanying document of the plan was the adopted Technical basis for declaring significantly changed and artificial water bodies, due to the effect of HEP's existing hydro power plants to hydro morphological condition of waters. Pursuant to the Plan, the changes of all concession conditions on all hydro power plants shall be conducted in the forthcoming period.

During 2023 GA HPP Sjever used the local media and the website of HEP Proizvodnja to regularly and on time announce and inform the local population on planned lowering of water levels in accumulation lakes of HPP Varaždin, Čakovec and Dubrava for the purpose of maintaining the facilities of HPP.

Computer equipment for 'Za naše male genijalce'

The Za naše male genijalce project ("For our little geniuses") of donating computer equipment to primary schools in Croatia continues. Through this event, Hrvatska elektroprivreda has continued to supply primary schools with new computer equipment.

The competition for this year's action was open by 8 October 2023 and students and their teachers explained why they are the ones needing new computers and they presented the qualities of their scool and special features of the area they come from. The total of 72 applications was received at the competition to donate 100 new computers to primary schools. The direction of the evaluation is defined in competition rules. We were guided by a number of existing computers per student at school, by the creativity of the video clip, how interesting its content was and how original the message, along with the corrective factor including economic, structural and demographic difficulties of the applicant and uniform distribution of computers throughout the territory of Croatia. When the competition ends, all awarded video clips are uploaded in the gallery of winners on the website genijalci.hep.hr. In line with that, the Selection committee chose 28 primary schools for computer donation.

Since 2015, including this cycle, HEP donated as many as 750 computers for students in 226 primary schools around Croatia. The total value of donated computers amounted to almost EUR 679,000.

750 COMPUTERS

DONATED TO PRIMARY SCOOL PUPILS FROM 2015 TO 2023

EUR 679,000

IS THE TOTAL VALUE OF COMPUTERS DONATED TO PRIMARY SCHOOL PUPILS FROM 2015 TO 2023

Award for primary and secondary school students - Imam žicu!

For the 29th time, HEP awarded the "Imam žicu!" prize. Award winners were primary and secondary school students, who won the first place at state competitions in physics, mathematics and public presentations of experimental papers in physics and public presentation of experimental works in physics as well as students of secondary vocational schools, who won the first three places at state competitions in electrical engineering and computing. The total of 38 prizes for 2022/2023 school year in the amount of EUR 400 was awarded to 37 students. So far, HEP has awarded the total of 931 "Imam žicu" prizes. That is the longest-running socially responsible project in Croatia connecting economy and education system and awarding and encouraging the young to excel and develop in the field of natural sciences.

Donation competition "Svjetlo na zajedničkom putu"

The competition for awarding donations to institutions, associations and other ogranizations of civil society Svjetlo na zajedničkom putu ("Light on a common path") was carried out in 2023 as well. In line with the conditions of the competition, 1,012 applications were received. Following the assessment of applications, donation agreements were concluded for the realization of 203 projects and programmes from the following areas: youth, art and cultural heritage, humanitarian action, science and society and environment.

ZelEn project

Key activities of the fifth cycle of HEP's ZelEn project were carried out in 2023. At the end of 2023, heat pump was installed in Electromechanical school Varaždin and the construction of photovoltaic power plant on Potočić kindergarten in Jalžabet was finished, both activities marking the completion of the project.

As part of the project in Electromechanical School Varaždin, the installation of the heat pump was a step towards more modern and effective heating system, because the heat pump is going to use ecologically acceptable way of heat energy extraction from underground waters. This way it is going to become the primary source of heat energy, replacing gas boilers. The project shall enable the annual saving of around 280,000 kWh of energy from fossil fuel, which shall result in the reduction of CO_2 emissions by around 62 tons. This installation in Electromechanical school Varaždin is going to significantly help in the management of energy costs.

Another donated project enabled the construction of a 15 kW photovoltaic power plant in Potočić kindergarten in Jalžabet. In this way, the kindergarten got its own renewable source of electricity. The annual generation of the solar plant shall amount to 10.7 thousand kWh of electricity from conventional sources as well as the reduction of CO_2 emissions by 0.64 tons.

The funds for donated projects were collected by selling HEP Opskrba's product ZelEn, based 100% on electricity with the guarantee of origin from renewable sources. Assigned funds from ZelEn fund were foreseen exclusively to invest in projects of energy efficiency and renewable energy sources integrated in buildings used by public sector the activity of education and upbringing, health and social welfare. Donated projects are realized by HEP ESCO, a member of HEP Group.

The information on ZelEn product is described in the chapter Electricity supply on the market – HEP Opskrba 2023.

Write-off of receivables from customers in the area hit by the earthquake

Pursuant to the conclusions of the Croatian government, since 2021 HEP has been conducting the measure of writing off receivables for electricity and heat energy (used warm water) delivered to end customers in the areas hit by the earthquake on 29 December 2020. The measure of writing off receivables covers end customers from household category in the area of the following towns: Petrinja, Glina, Sisak and Hrvatska Kostajnica and the following municipalities: Lekenik, Sunja, Donji Kukuruzari, Majur, Dvor, Topusko, Gvozd, Jasenovac, Hrvatska Dubica, Martinska Ves, Pokupsko and Kravarsko, which fulfil presecribed conditions. The total of EUR 7.6 million was written off in 2023. EUR 24.4 million was written off since the measure became effective until the end of 2023.

EUR 7.6 MILLION

OF WRITTEN-OFF RECEIVABLES FROM CUSTOMERS IN AREAS HIT BY EARTHQUAKE IN 2023

EUR 24.4 MILLION

THE TOTAL SUM OF WRITTEN-OFF RECEIVABLES FROM CUSTOMERS IN AREAS HIT BY EARTHQUAKE BY THE END OF 2023

HEP Group's contribution to the prevention of energy poverty - SocialWatt

HEP ESCO participates in the implementation of the international energy sustainability project SocialWatt, and HEP Elektra is an associate member. The project, which started in September 2019, is funded under the HORIZON 2020 programme. The project aims to build the capacity of energy suppliers and utilities and enable them to use decision support tools developed as part of the project for efficient targeting of energy poor households and the implementation of energy sustainability program.

In Croatia, the Regulation on Criteria for Acquiring the Status of Vulnerable Energy Customers from Networked Systems defines that the end customer from the household category may have the status of a vulnerable customer, provided that they are a beneficiary of the guaranteed minimum benefit or personal disability allowance or a household member, which is a beneficiary of one of those allowances. HEP Elektra and HEP Opskrba pay into the State Budget funds in the name of a solidarity fee set in the amount of three lipas per kilowatt hour, in accordance with the Regulation, which has been effective since 1 October 2015. The solidarity fee is part of the price of electricity and as such is stated on end customer's bill. The solidarity fee does not represent an additional burden for the customers of HEP Elektra and HEP Opskrba, since they are granted a discount in the same amount, whereby the solidarity fee does not affect the total amount of the bill. In 2023, HEP Group companies paid EUR 24.2 million to the State Budget in the name of the solidarity fee, which is an increase of EUR 580,600 in comparison to 2022, when EUR 23.6 million was paid.

EUR 24.2 MILLION

OF THE SOLIDARITY FEE
PAID TO PREVENT ENERGY POVERTY
IN 2023

GRI 3-3
GRI 414-1

HEP Opskrba charity campaigns, support and volunteering

The Company regularly participates in projects of corporate social responsibility, directed towards the local community, but towards own employees as well. So, there were several CSR activities organized in 2023, among which are the following: the support to Dan crvenih haljina (Red Dress Day), toy donation to children at the pediatric ward of the Clinical Hospital Centre in Zagreb, participation in the UNICEF charity race Mliječna staza (Milky Way) and the traditional action Naša ZelEn priča (Our Green Story).

The celebration of the Red Dress Day presents a health and education campaign which has been celebrated for the fifth year in a row, in order to raise awareness of stroke particularities among women.

Through the donation of toys to the pediatric ward, HEP Opskrba's employees collected more than 100 stuffed toys and picture books, and in this way brought joy and compfort to the youngest patients.

Also, we can say that HEP Opskrba traditionally supports the UNICEF charity race Mliječna staza. All funds collected from the registration fee in 2023 were donated to the implementation of mental health support programme for children and young people in schools. The programme was launched by Sisak-Moslavina County as part of UNICEF's response to the consequences of earthquake and pandemic among children and young people. The aim of the project is the support of mental health, strengthening of mental and social as well as socio-emotional competences and resilience of children and young people, but also of educational competences of employees, as well as the creation of safe and supportive environment in schools.

In 2023 the campaign Naša ZelEn priča took place in the town of Ogulin. Before the World Environment Day, HEP Opskrba's employees planted 600 Korean privet seedlings at the Močilo excursion site. By planting a 200-meter long live Korean privet fence, a clear border was created between the rest and recreation area and a busy road, enabling visitors a safe and pleasant stay in the nature.

Other projects and activities

We continued our cooperation with organizations and institutions that take care of the children and the youth in all segments of their education, support or preparation for life. In the field of culture and tradition we continued supporting national and regional projects, projects of Croatian national theatres as well as regional and local cultural organizations.

IMPACT OF SUPPLY CHAIN ON SOCIETY AND HUMAN RIGHTS

In order to collect the data on the impact of HEP Group supply chain (first level of suppliers) on the society and human rights, we created a questionnaire in line with Consolidated GRI standards from 2021 and delivered it to important suppliers in 2023. The questionnaires contained questions connected to the number and fluctuations of employees, employee trainings, systems of managing occupational safety and security, hazards of child and forced labour and whether our suppliers collect information on the impact of their suppliers on the society and human rights (second level of HEP Group suppliers). Important groups of HEP Group direct suppliers make up supplier chain of incoming goods, services, works and capital necessary for the production of our products and services (so-called upstream categories), then users and distributors of products and services, companies which measure the impact of our products on the environment and companies authorized for waste management (so-called downstream category). Legal basis for excluding economic entities, including suppliers from procurement procedures was described in the chapter Public procurement.

The table shows data received from suppliers on the impact on the society and human rights. Out of 97 suppliers, 35 of them submitted requested data. Due to the small amount of collected data, the results obtained do not represent the real situation. 16 suppliers, i.e. 14.2% sent the information on the impact on the environment, which confirmed the assumption that collecting data on the impact of the supply chain on the society and human rights and the environment will present a big challenge in reporting.

Results of collecting data on the impact of HEP Group suppliers on the society and human rights

Asked questions	Comment with the data
Number of employees and fluctuations in 2023	35 suppliers delivered data on the number of employees and fluctuations in 2022
System of managing work safety	All 35 suppliers have integrated ISO 45001:2018 System
Average number of training hours per employee	Out of 16 suppliers, 35 of them keeps records on the number of training per employee
Hazard from child labour	All 35 suppliers answered there was no hazard of child labour
Hazards from forced labour	All 35 suppliers answered there was no hazard of forced labour
Including criteria on respecting human rights, avoiding forced and child labour when choosing suppliers	All 35 suppliers answered that they included these criteria in the process of choosing suppliers

In 2023 HEP Group emitted 36.94% less CO_2 from stationary sources for combustion, which are used for electricity and heat energy generation, when compared to the base year of 2005.

ENVIRONMENT

Based on the conducted analysis described in the chapter Material topics, 6 topics have been determined for the presentation of HEP Group business operations in 2023 in the field of environment: Energy and energy fuels, Air emissions, Water and Effluent, Waste, Biodiversity and Impact of supply chain on the environment.

ENERGY AND ENERGY FUELS

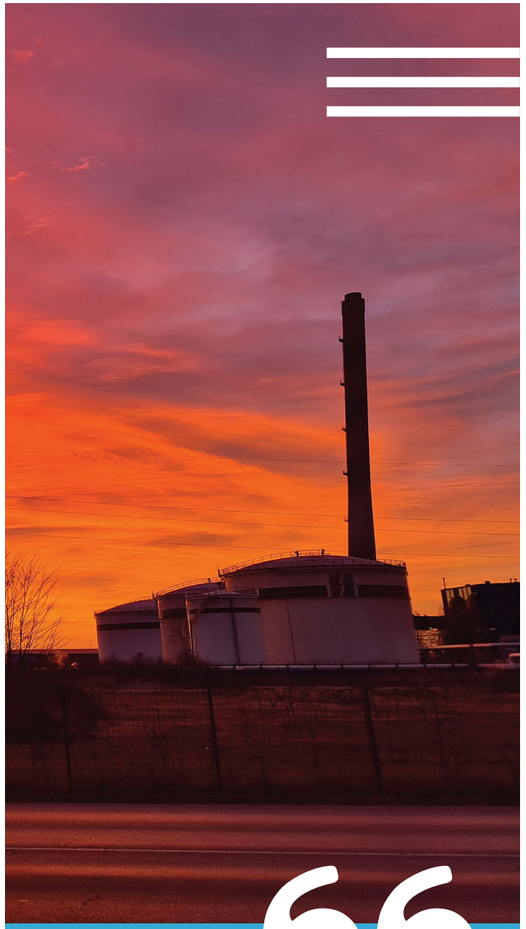
GRI 3-3
GRI 301-1
GRI 302-1
GRI 302-2
GRI 302-3
GRI 302-4
GRI 302-5

The following was described within the material topic Energy and energy fuels: types and amounts of fuel used for electricity and heat energy production, types and amounts of materials used in electricity and heat energy production and distribution that are not primary raw materials, i.e. fuels for energy generation as well as managing energy, consumption and goals for energy saving.

TYPES OF FUEL AND THEIR CONSUMPTION FOR ELECTRICITY AND HEAT ENERGY PRODUCTION

GRI 3-3
GRI 301-1

HEP does not perform the activity of energy fuel production, i.e. fuels it uses for electricity and heat energy generation, distribution and supply as well as gas distribution and supply, are procured from suppliers on the national and European market and on the markets outside the EU. The following is taken into consideration when planning gas procurement: needs for supply of energy to customers, weather conditions, own consumption, energy fuel prices along with monitoring geopolitical and economic circumstances, which may affect the availability and prices of eneregy fuels, goals of global, EU and Croatian sustainability policies for the sectors of electricity and heat energy production and distribution and gas distribution as well as goals from the development strategy HEP2030. In 2023 electricity was produced from renewable energy sources (HPP, WPP, SPP and biomass), nuclear energy and fossil fuels, whereas heat energy was produced from fossil fuels and biomass. A share of electricity was procured on the market, whereby all heat energy was produced in Croatia. The structure of produced electricity and heat energy with related capacities and amounts of energy produced is described in the chapter Our products, services, markets and value chain.



HEP Group total carbon footprint for 2023 amounted to 5,955,865 tons.

FUEL CONSUMPTION FOR ELECTRICITY AND HEAT ENERGY PRODUCTION IN 2023

Fuel consumption for electricity and heat energy production in 2023 is shown by HEP Group companies which manage facilities owned and co-owned by HEP Group, as well as types of fuel. Information on fuel consumption for HEP Proizvodnja and HEP Toplinarstvo includes fuel for own consumption and production of electricity and heat energy sold to customers. For offtaking electricity from Nuclear power plant Krško (NEK), we showed the consumption of fuel for energy supplied at the threshold of the power plant without own consumption. Information on fuel consumption in HEP Operator distribucijskog sustava refers to the fuel used for heat energy production for own consumption, i.e. heating of business offices.

Fuel consumption for electricity and heat energy production 2023

Operator: HEP Proizvodnja			
Electricity production – energy sold to customers + energy for own consumption			
Type of fuel	**Unit**	**Amount**	**Measurement/ projection**
Coal	t	476,715.00	Measurement
Gas oil	t	1,671,091.00	Measurement
Medium fuel oil	t	6,580.73	Measurement
Light fuel oil	t	7.51	Measurement
Natural gas GCV[1]	MWh	7,519,084.00	Measurement
Wood chips	t	40,235.00	Measurement
Heat energy production – energy sold to customers + energy for own consumption			
Type of fuel	**Unit**	**Amount**	**Measurement/ projection**
Gas oil	t	0	Measurement
Light fuel oil	t	0	Measurement
Natural gas GCV[1]	MWh	2,136,061	Measurement
Wood chips	t	30,895	Measurement
Operator: Nuclear power plant Krško (NEK) – 50% of generated electricity			
Electricity production – energy supplied from NEK at the threshold without own generation			
Uranium dioxide UO2 (up to max. 5% enriched uranium 235, and the rest uranium 238)	MWd/mtU[2]	13,200.00	Projection (no replacement of fuel in 2023)
Operator: HEP Toplinarstvo			
Heat energy production – energy sold to customers + energy for own consumption			
Extra light fuel oil	t	1,033.73	Calculation based on supplier's invoice
Natural gas	MWh	107,123.29	Calculation based on supplier's invoice
Operator: HEP Operator distribucijskog sustava			
Heat energy production – energy for own consumption			
Fuel oil	MWh	318.62	Calculation based on supplier's invoice
Natural gas	MWh	8,815.11	Calculation based on supplier's invoice

[1] GCV = upper calorific value of natural gas
[2] MWd/mtU = nuclear fuel burnup is a physical quantity representing the measure of used nuclear fuel and is defined as energy freed in a unit of mass of nuclear fuel. In nuclear power it is most often expressed in megawatt-days (MWd) per metric tonne of uranium (mtU), i.e. MWd/mtU

TYPES AND QUANTITIES OF USED MATERIALS, WHICH ARE NOT FUEL

GRI 3-3
GRI 301-1

In the process of electricity and heat energy production, materials which are not fuel are also used. In this chapter we show the amounts of used chemicals for the chemical preparation of water and ion masses and amounts of used oil, grease and varnishes by HEP Group companies. The choice of materials for 2023 was made based on the assessment of the importance of material consumption in each company, as compared to other materials they use.

Consumption of chemicals and oil 2023

Operator: HEP Proizvodnja	Unit	Amount	Measurement/projection
Chemicals for chemical preparation of water	t	3,307.00	Amount on supplier's packaging
Ion masses	l	0.00	Amount on supplier's packaging
Oil total	l	54,059.00	Amount on supplier's packaging
Grease total	kg	2,745	
Operator: HEP Toplinarstvo	**Unit**	**Amount**	**Measurement/ projection**
Chemicals for chemical preparation of water	t	3.00	Projected
Oils total	m^3	0.03	Projected
Grease total	t	0.015	Projected
Varnishes total	t	0.015	Projected
Operator: HEP ODS	**Unit**	**Amount**	**Measurement/ projection**
Oil total	m^3	46.06	Projected
Grease total	t	0.78	Projected
Paints	m^3	1.68	Projected
Coatings for metal	m^3	0.51	Projected
Wood preservatives	m^3	0.06	projected

Safety management system for work with hazardous substances

A facility operator that determines the presence of hazardous substances in their area is obliged to introduce the Safety Management System (SMS) and to undertake preventive measures necessary to reduce the risk of occurrence of major accidents and to prevent major accidents as well as measures to limit the effect of major accidents on people, material goods and the environment. Thermal power plants operated by HEP Proizvodnja integrated the safety management system and adopted Policies for preventing major accidents which are published on the HEP's website.

Depending on the amont of hazardous substances pursuant to the Regulation on preventing major accidents, which include hazardous substances the plants TE-TO Zagreb and TPP Rijeka are included in the category of higher class plants and are obliged to draw up a Security report with Internal plan. TPP Plomin, TE-TO Sisak, TE-TO Osijek, EL-TO Zagreb and KTE Jertovec are included in the category of lower class plants and are obliged to draw up the Operational plan of civil protection of a legal entity of interest to the civil protection system, Operational plan of legal entities which perform the activity of using hazardous substances and the Projection of risk of legal entities which perform the activity of using hazardous substances.

ENERGY DEMAND AND ENERGY MANAGEMENT SYSTEMS

GRI 3-3
GRI 302-1
GRI 302-4
GRI 302-5
GRI 11.1.1
GRI 11.1.2
GRI 12.1.1
GRI 12.1.2

HEP Proizvodnja, HEP Toplinarstvo, HEP Operater distribucijskog sustava, HEP d.d. and HEP Upravljanje imovinom have integrated energy management systems under ISO 50001:2018 standard, which are parts of integrated management systems under ISO Standards. Policies of energy management and certificates are published on the HEP Group website. Almost all locations where HEP Group companies operate and which are fully owned by HEP Group are included in the energy management system. HEP Trgovina, HEP Opskrba, HEP ESCO, HEP Telekomunikacije and Energy park Korlat operate at the HEP Group headquarters, which has integrated and certified energy management system. The overview of energy consumption at the location of HEP Nastavno obrazovni centar (HEP NOC) is included in the consumption of HEP Operator distribucijskog sustava, which is also the founder of HEP NOC. HEP Elektra mostly operates in rented business offices, so the renter manages energy consumption.

ENERGY DEMAND IN 2023

The total of electricity and heat energy for own consumption in HEP Group companies in 2022 amounted to 567,004.9, MWh, 6,436.79 MWh from renewable energy sources, i.e. 1.14%. Electricity from renewable sources used for own consumption originates from 55 solar photovoltaic power plants installed on roofs of HEP's buildings. Heat energy used for own consumption from renewable energy sources originates from thermal power plants using untreated wood chips. For the first time we made the breakdown of used energy by source for 2022, and the breakdown for 2023 is in the following table.



Consumption of electricity and heat energy in HEP Group companies by energy sources

Operator: HEP Proizvodnja	Unit	Quantity	Measurement/ projection
Total own electricity consumption	**MWh**	**320,128.27**	**Measurement**
From fossil fuels	MWh	315,473.82	Measurement
From renewable energy sources	MWh	4,654.46	Measurement
Total own heat energy consumption	**MWh**	**214,316.87**	**Measurement**
From fossil fuels	MWh	214,316.87	Measurement
From renewable energy sources	MWh	0.00	Measurement
Operator: HEP Toplinarstvo	**Unit**	**Quantity**	**Measurement**
Total own electricity consumption	**MWh**	**2,398.42**	**Measurement**
From fossil fuels	MWh	2,398.42	Measurement
From renewable sources	MWh	0.00	Measurement
Total own heat energy consumption	**MWh**	**477.03**	**Measurement**
From fossil fuels	MWh	411.95	Measurement
From renewable sources	MWh	65.08	Measurement
Operator: HEP Operater distribucijskog sustava	**Unit**	**Quantity**	**Measurement**
Total own electricity consumption	**MWh**	**13,370.94**	**Measurement**
From fossil fuels	MWh	12,373.50	Measurement
From renewable sources	MWh	997.44	Measurement
Total own heat energy consumption	**MWh**	**11,822.25**	**Measurement**
From fossil fuels	MWh	11,822.25	Measurement
From renewable sources	MWh	0.00	Measurement
HEP Group headquarters	**Unit**	**Quantity**	**Measurement**
Total own electricity consumption	**MWh**	**1,734.50**	**Measurement**
From fossil fuels and nuclear energy (energy mix)	MWh	1,014.68	Measurement
From renewable sources	MWh	719.82	Measurement
Total own heat energy consumption	**MWh**	**2,041.64**	**Measurement**
From fossil fuels	MWh	2,041.64	Measurement
From renewable sources	MWh	0.00	Measurement
Operator: HEP Plin	**Unit**	**Quantity**	**Measurement**
Total own electricity consumption	**MWh**	**272.37**	**Measurement**
From fossil fuels	MWh	272.37	Measurement
From renewable sources	MWh	0.00	Measurement
Total own heat energy consumption		**442.65**	
From fossil fuels	MWh	442.65	Measurement
From renewable sources	MWh	0.00	Measurement
HEP Group	**Unit**	**Quantity**	**Measurement**
Total own energy consumption in HEP Group	**MWh**	**567,004.93**	**Measurement**
From fossil fuels	MWh	560,568.14	Measurement
From renewable sources	MWh	6,436.79	Measurement

ENERGY DEMAND IN SUPPLY CHAIN

GRI 3-3
GRI 302-2
GRI 11.1.1
GRI 11.1.3
GRI 12.1.1
GRI 12.1.3

We collected data on energy consumption from suppliers on the basis of questionnaires drawn up according to Consolidated GRI standards for 2021. The results on collecting data on the impact of supply chain on the environment, which include energy consumption are shown in the chapter Impact of supply chain on the environment. On the basis of collected data, electricity consumption in the supply chain in 2023 amounted to 35,599,109.87 MWh. Thereby, collected data is not a real indicator of energy consumption in the supply chain, because out of 97 important suppliers, 35 answered the questions, and 9 suppliers delivered energy consumption data, i.e. 9.28%.

ENERGY INTENSITY

GRI 302-3
GRI 11.1.4
GRI 12.1.4

The calculation of energy intensity includes the total own electricity and heat energy consumption in HEP Group companies, which amounted to 567,004.93 MWh (0.567 TWh) in 2023 and the total sold electricity (21.53 TWh) and heat energy (1.66 TWh) as well as gas sale (3.02 TWh) to customers, i.e. 26.21 TWh. By dividing energy used for own consumption (0.567 TWh) and the total sold electricity, heat energy and gas (26.21 TWh), energy intensity in 2023 amounted to 0.022 TWh by sold terawatt-hour (TWh) of total energy to customers.

REDUCING ENERGY DEMAND BY CUSTOMERS

GRI 3-3
GRI 302-5

Under the Energy Efficiency Act, the energy saving obligation system (obligation system) was set up, on the basis of which energy suppliers have to achieve energy savings in immediate consumption. Under the Decision of the Management Board of HEP in 2018, the internal energy saving obligation system was established in HEP Group with HEP ESCO as its coordinator. HEP ESCO basic activities include coordination of all companies and professional technical assistance, as well as collecting, consolidating and reporting on achieved and planned results related to the achievement of obligatory energy savings in HEP Group. HEP ESCO enters all collected data, apart from those independently entered by obliged companies, in the application System for monitoring and verification of energy savings (SMIV).

The companies performing the activities of supplying customers with electricity and heat energy as well as gas are included in SMIV. These are the following: HEP Elektra, HEP Opskrba, HEP Toplinarstvo and HEP Plin. Also, companies which are not obliged participate in the obligation system, and these are: HEP, HEP Proizvodnja, HEP Trgovina, HEP Upravljanje imovinom and HEP-ESCO. Under the Decision of the Management Board of HEP from 2020 it was decided that HEP shall be the holder of the integrated report for daughter companies under the Energy Efficiency Obligation System, which is to be submitted to the Ministry of Economy and Sustainable Development (MINGOR).

ENERGY SAVINGS OBLIGATION IN HEP GROUP IN 2023

In November 2023 decisions of the competent Ministry were received, confirming that HEP Group bond parties had fully implemented prescribed obligation of annual savings for 2022 and that they were not obliged to pay the compensation to the Environmental Protection and Energy Efficiency Fund on behalf of unrealized savings. In December 2023 the Decisions of the competent Ministry were received regarding the obligation of savings for 2023, which total at 132,983,586.00 kWh for HEP Group. HEP Elektra has the highest obligation amounting to 53,274,068.00 kWh (40.06%), the obligation of HEP Opskrba totals at 52,961,832.00 kWh (39.83%), of HEP Toplinarstvo at 14,181,834.00 kWh (10.66%) and of HEP Plin at 12,565,852.00 kWh (9.45%). In February 2024 HEP Esco created and delivered to the competent Ministry a uniform report on achieved savings of HEP Group for 2023 reporting the amount of 123,823,878.44 kWh, which makes up 93% of the total obligation for 2023. Due to the fact that all HEP's d.d. suppliers did not achieve a 100-percent obligation, a different time division of achieving the cumulative goal was requested, in line with Article 13b, Paragraph 8 of the Law on Energy Efficiency (OG 41/21) so as to avoid paying the fee (penalty) for unachieved savings. HEP Elektra achieved the biggest energy savings amounting to 66,052,000.09 kWh, making up 53.34% of the total achieved energy savings of HEP Group, and it is followed by HEP Toplinarstvo, which achieved energy savings of 18,439,729.05 kWh (14.89%), HEP d.d. with savings of 18,420,219.19 kWh (14.88%), HEP Plin with savings of 12,969,174.62 kWh (10.47%, HEP Opskrba with savings of 4,082,064.22 kWh (3.30%), HEP ESCO with savings of 3,512,723.66 kWh (2.84% and HEP Proizvodnja with savings of 347,968.61 kWh (0.28%).



GRI 3-3
GRI 305-1
GRI 305-2
GRI 305-3
GRI 305-4
GRI 305-5
GRI 305-6
GRI 305-7
GRI 11.1.1
GRI 11.1.5
GRI 11.1.7
GRI 11.1.8
GRI 12.1.1
GRI 12.1.5
GRI 12.1.7
GRI 12.1.8

AIR EMISSIONS

The overview of air emissions by HEP Group sources includes greenhouse gas emissions of carbon dioxide reduced to equivalent CO_2 (eq), including emissions of methane (CH_4), nitrous oxide (N_2O) and sulphur hexafluoride (SF_6), then emissions of nitric oxides (NO_x), sulphur oxide (SO_2), carbon monoxide (CO) and PM_{10} particles as well as data on managing devices and equipment containing ozone depleting substances.

GREENHOUSE GAS EMISSIONS

We used a revised version of the GHG Protocol Corporate Accounting and Reporting Standards published by the World Business Council for Sustainable Development (WBCSD) to show greenhouse gas emissions of HEP Group according to Scope 1, 2 and 3. In line with the requirements of Consolidated GRI standards from 2021, greenhouse gas emissions from biomass-fired power plants are a part of Scope 1 and are shown separately.

SCOPE 1 EMISSIONS

GRI 3-3
GRI 305-1
GRI 11.1.1
GRI 11.1.5
GRI 12.1.1
GRI 12.1.5

The following is included in direct greenhouse gas emissions, which are a result of HEP Group acitivities, i.e. Scope 1 for 2023: emissions of electricity and heat energy generation plants in the European Union Emissions Trading System - EU ETS (A), emissions from biomass-fired thermal power plants shown separately (B), emissions from boiler rooms for heat energy generation outside EU ETS (C), emissions from vehicle fleet (D), fugitive emissions from switchgear equipment (E) and fugitive emissions from the floating LNG terminal included in EU ETS (F) in the part referring to HEP Group as well as emissions from nuclear energy generation from NPP Krško for the 50% of energy delivered into the Croatian electric power system (H). Greenhouse gas emissions from electricity procured at the market to cover losses in the distribution grid should be included in Scope 2, but the distribution system operator HEP ODS is fully owned by HEP d.d., so greenhouse gas emissions resulting from energy generation to cover losses in the distribution grid are included in Scope 1 emissions (G). Greenhouse gas emissions, which originate from energy to cover losses in the transmission grid are included in Scope 3. Fugitive emissions form gas distribution operated by HEP Plin, through which system gas only passes are included in Scope 3.

HEP Proizvodnja is the operator of EU ETS plants (A) and wood biomass-fired thermal power plants (B) which generate electricity and heat energy. HEP Toplinarstvo is the operator of boiler rooms for heat energy generation outside EU ETS (C), HEP ODS (C) is the operator of small boiler rooms for heating own facilities, and distribution grid operator, which includes switchgear equipment is HEP Operator distribucijskog sustava (E) and (G). The operator of the floating terminal on the island of Krk (F) is LNG Hrvatska co-owned by HEP d.d. and Plinacro d.o.o. (75%:25%). Greenhouse gas emissions from the vehicle fleet cover vehicles of HEP Group companies (D) with the headquarters in Croatia, which are fully owned by HEP d.d.

Data on emissions in 2023, which were reduced to equivalent carbon dioxide, i.e. CO_2 (eq), and apart from CO_2, which is a result of electricity and heat energy generation process as well as of vehicle fleet, are included in the following greenhouse gases: sulphur hexafluoride (SF_6), methane (CH_4) and nitrous oxide (N_2O). Factors for global warming potential (GWP) stated in The Fifth IPPC Assessment Report AR5 were used to convert SF_6, CH_4 and N_2O emissions to equivalent CO_2 (eq). According to said report, GWP for CH_4 totals at 28, for N_2O at 265, and for SF_6 at 23,500. Thereby CH_4 emissions originate from LNG on KRK and the vehicle fleet, N_2O from the vehicle fleet, and SF_6 is in the switchgear equipment.

GRI 3-3
GRI 305-1
GRI 305-2
GRI 305-3
GRI 305-4
GRI 305-5
GRI 11.1.1
GRI 11.1.5
GRI 11.1.6
GRI 11.1.7
GRI 11.1.8
GRI 12.1.1
GRI 12.1.5
GRI 12.1.6
GRI 12.1.7
GRI 12.1.8

SUBMISSION OF EMISSION ALLOWANCES (EUA) TO THE EU REGISTRY

In 2023, like in previous years, HEP Group fulfilled its obligation of purchasing emission allowances (EUA) for EU ETS plants in its full ownership and submitted them within legal deadline on the accounts opened in the EU Registry. The total CO_2 emission from EU ETS plants in 2023 amounted to 2,960,162 tons. From that amount, 2,876,851 tons were emitted from TPP, TE-TO and EL-TO (A), and 83,311 from BE-TO (B). Out of 2,960,162 tons, 2,462,342tons of CO_2 were emitted in the process of electricity generation, and 497,820 tons of CO_2 in the process of heat energy generation. Methodology and emission factors defined in approved Plans of monitoring greenhouse gas emissions prescribed by the Intergovernmental Panel on Climate Change (IPCC) are used to calculate CO_2 emissions from EU ETS plants. Emissions were confirmed by an independent verifier.

In 2023, HEP Proizvodnja, the EU ETS plant operator, did the following:

- conducted a revision of the monitoring greenhouse gas emission plans and methodological monitoring of free emission allowance plans
- drew up Reports on greenhouse gas emissions, which were reviewed and approved by authorized verifiers in Croatia and the European Commission,
- conducted audits in all locations of EU ETS plants, in order to check how the system of monitoring CO_2 emissions functions

REPORTING TO COMPETENT BODIES ON SWITCHGEAR EQUIPMENT CONTAINING SF_6

Like every year HEP ODS reported to the competent Ministry of Economy and Sustainable Development (MINGOR) on switchgear equipment containing greenhouse gas sulphur hexafluoride (SF_6). Data on SF_6 emissions is based on projected amount of refilled gas.

Switchgear equipment – high-voltage devices and circuits SF_6	2023
Amounts of switching apparatus (pcs)	15,236
Filling switching apparatus with gas SF_6 (t)	39.31
Flow of SF_6 from operating equipment (kg)	34.59
Handling SF_6 gas and switchgear equipment after the expiry of its working life (kg)	99.8

SCOPE 1 EMISSIONS IN 2023

HEP Group Scope 1 emissions in 2023 totalled at 3,212,341.89 tons of CO_2 (eq). From that amount, the share of greenhouse gas emissions from sources using biomass as fuel, i.e. untreated wood chips was 2.59%, and the share from TPP Plomin 2, which uses imported low-sulphur coal as fuel, was 34.82%.

Types of sources, processes and greenhouse gases included in Scope 1 plus methodology

Source mark	Type of source	Process	Greenhouse gases	Methodology for calculating emissions
A	Electricity and heat energy generation plants that are a part of the European Union Emissions Trading System (EU ETS) – TPP, TE-TO and EL-TO	fuel compbustion for electricity and heat energy generation	Carbon dioxide (CO_2eq)	Calculation by methodology and emission factors defined in approved Plans of monitoring greenhouse gas emissions prescribed by the Intergovernmental Panel on Climate Change (IPCC)
C	Boiler rooms for heat energy generation outside EU ETS	fuel combustion for heat energy generation	Carbon dioxide (CO_2eq)	Calculation by methodology and emission factors by the methodology of the Intergovernmental Panel on Climate Change (IPCC)
D	Vehicle fleet emissions	fuel combustion in passenger and commercial vehicles	Carbon dioxide (CO_2), methane (CH_4) and nitrous oxide (N_2O) reduced to equivalent CO_2 by using GWP factors	Calculation based on the type of fuel and emission factors from the basis of emission factors / removal of emissions for the calculation of carbon footprint under the GHG protocol
E	Switchgear equpiment – high-voltage devices and circuits	fugitive emissions from switchgear equipment and equipment manipulation	Sulphur hexaflouride (SF_6) reduced to equivalent CO_2 by using GWP factors	Calculation based on projected amount of switchgear equipment refill with 0.08204 t of SF_6 and GWP 23,500
F	Emissions from the storage of liquefied natural gas in EU ETS part referring to HEP Group	fugitive emissions	methane (CH_4) reduced to CO_2 by using GWP factors	Calculation based on the methodology of calculation and independent verification used for plants in EU ETS as well as 24.6% nomination (gasification) for HEP Group in 2023, data submitted by LNG
G	Greenhouse gas emissions from energy for covering losses in the distribution network	fuel combustion for electricity generation	Carbon dioxide (CO_2eq)	Calculation by the intensity of energy mix emissions of avaliable energy and losses in the distribution grid
H	Emissions from Nuclear power plant Krško (50% of submitted energy)	electricity generation in the nuclear power plant	carbon dioxide (CO_2eqwast)	Calculation by the intensitiy of emissions in NEK and energy delivered to the Croatian electric power system

Types of sources, processes and greenhouse gases from wood chips included in Scope 1 plus methodology

Source mark	Type of source	Process	Greenhouse gases	Methodology for calculating emissions
B	Electricity and heat energy production plants from wood biomass (chips) – BE-TO	fuel combustion for electricity and heat energy generation	carbon dioxide (CO_2)	Calculation by methodology and emission factors defined in approved Plans of monitoring greenhouse gas emissions prescribed by the Intergovernmental Panel on Climate Change (IPCC), for which there was an obligation of purchasing emission units (EUA) in 2023

HEP Group greenhouse gas emissions in 2023 included in Scope 1

Source mark	Name of source	Amount of CO_2 (eq)/ t	Share in Scope 1/ %
A	TPP Plomin 1	47.00	0.00
A	TPP Plomin 2	1,118,156.00	34.82
A	TPP Rijeka	23,365.00	0.73
A	CCGT Jertovec	12,285.00	0.38
A	TE-TO Zagreb	908,702.00	28.30
A	EL-TO Zagreb	197,798.00	6.16
A	TE-TO Sisak	576,052.00	17.94
A	TE-TO Osijek	40,446.00	1.26
TOTAL from sources marked with A		**2,876,851.00**	**89.59**
C	Bregana – 2 boiler rooms	155.05	0.00
C	Samobor – 2 boiler rooms	2,559.26	0.08
C	Velika Gorica – 8 boiler rooms	11,502.73	0.36
C	Zaprešić – 5 boiler rooms	3,419.56	0.11
C	Zagreb – 9 boiler rooms	3,817.28	0.12
C	Osijek – 1 boiler room	623.42	0.02
C	Boiler rooms for internal needs of HEP ODS	1,870.88	0.06
TOTAL from sources marked with C		**23,948.18**	**0.75**
D	HEP Group vehicle fleet	9,965.64	0.31
TOTAL from sources marked with D		**9,965.64**	**0.31**
E	Switchgear equipment	813.00	0.03
TOTAL from sources marked with E		**813.00**	**0.03**
F	Diffuse emissions from LNG	38,215.00	0.25
TOTAL from sources marked with F		**38,215.00**	**0.25**
G	Energy for covering losses in the distribution grid	177,936.00	5.54
TOTAL from sources marked with G		**177936.00**	**5.50**
H	Energy from NEKd (50%)	1,302.07	0.04
TOTAL from sources marked with H		**1,302.07**	**0.04**
TOTAL from sources A+C+D+E+F+G+H		**3,129,030.89**	**97.41**

Greenhouse gas emissions from wood chips in 2023 included in Scope 1

Source mark	Name of source	Amount of CO_2 (eq)/ t	Share in Scope 1/ %
B	BE-TO Sisak	45,406.00	1.41
B	BE-TO Osijek	37,905.00	0.89
TOTAL from sources marked with B		**83,311.00**	**2.59**

COMPARISON OF TOTAL GREENHOUSE GAS EMISSIONS IN EU-27 AND CROATIA WITH HEP GROUP EMISSIONS IN 2023

The last results on greenhouse gas emissions were published for 2022, so the comparison refers to the comparison of total greenhouse gas emissions in EU-27 and in Croatia with HEP Group emissions for 2022. Thereby Scope 1 emissions are compared, so as not to double the data. Fossil fuel- and biomass- fired combustion plants, boiler rooms for heating cities, vehicle fleet emissions, switchgear emissions, diffuse emissions from LNG (nominations for HEP) and emissions from energy for covering losses in the distribution grid were included in the calculation of HEP Group Scope 1 emissions during 2021. Greenhouse gas emissions from HEP Group in 2023 are described in the following chapters Scope 1 emissions, Scope 2 emissions and Scope 3 emissions.

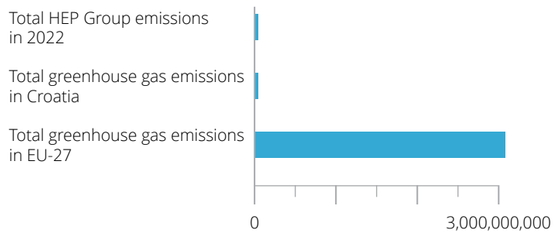
Share of HEP Group greenhouse gas emissions in the total emissions of EU-27 and Croatia in 2022

	CO_2 (eq)/t	Share of HEP Group emissions/ %
Total greenhouse gas emissions in EU-27	3,138,341,000	0.11
Total greenhouse gas emissions in Croatia	20,822,000	16.20
Total HEP Group greenhouse gas emissions in 2022	3,372,192	-

Source: EEA greenhouse gases — data viewer

Comparison of total CO_2 (eq) emissions in EU-27 with emissions in Croatia and HEP Group emissions in 2022

CO_2 (eq)/t



SCOPE 2 EMISSIONS IN 2023

GRI 3-3
GRI 305-2
GRI 11.1.1
GRI 11.1.6
GRI 12.1.1
GRI 12.1.6

Croatian Transmission System Operator (HOPS) operates under the model of independent transmission operator, which implies functional independence from the parent company, Hrvatska eletkropriveda d.d. and HEP Group companies. Among other things, HOPS is responsible for procuring electricity to cover losses in the distribution grid. HEP conducts a long-term procurement of losses on the Croatian Power Exchange (CROPEX) on an annual, quarterly and mothly level, and thus ensures energy to cover losses. Therefore emissions for covering losses in the transmission grid are not included in HEP's Scope 2, but in Scope 3. Since Scope 2 refers to greenhouse gas emissions from energy purchased from suppliers and used in the reporting company, Scope 2 is not applicable to HEP Group in 2023.

SCOPE 3 EMISSIONS IN 2023

GRI 3-3
GRI 305-3
GRI 11.1.1
GRI 11.1.7
GRI 12.1.1
GRI 12.1.7

Collecting data to calculate greenhouse gas emissions included in Scope 3 required collecting data on greenhouse gas emissions from HEP Group supply chain. Based on the GHG Protocol Corporate Accounting and Reporting Standards, we determined that our suppliers are found in categories, which need to be included in Scope 3. Suppliers are divided in the ones prior to product generation and service provision (so-called upstream supply chain) and the ones after product generation and service provision (so-called downstream supply cain). Suppliers preceding product generation and service provision (so-called upstream supply chain) come from the following categories: procurement of goods, works and services, procurement of capital goods (tools, machines, IT and other equipment, vehicles, buildings) procurement of fuel for electricity and heat energy generation, gas distribution and supply as well as electricity procurement for sale to customers, fuel and goods transporters, management of waste resulting from product generation and service provision, transporters for business trips, transporters used by employees to come to work, renters of property, equipment and vehicles. Suppliers in the supply chain after product generation and service provision (so-called downstream supply chain) come from the following categories: electricity transmission, customers of electricity, heat energy and natural gas as well as capital markets (banks, funds).

When choosing suppliers, the emissions of which we included in HEP Group Scope 3 emissions, we were guided by the amount of financial resources paid for services, goods and works and suppliers' engagement in a significant project. Such suppliers were defined as the most important and they wre sent a questionnaire on the impact of supply chain on the society and environment. We sent the e-mail on 97 addresses of the most important suppliers, and 35 of them, i.e. 36.8% of them answered the questions. The questionnaires were partially or completely filled out. Complete data on greenhouse gas emissions were submitted by 9 suppliers or 9.28%. A lot of included important suppliers are still obliged to sustainability reporting, which may explain a low response to filling out questionnaires and cincompleteness in filling out the questionnaire, which is still considered the biggest challenge in collecting data from the supply chain.

Suppliers which keep record on greenhouse gas emissions are fuel suppliers, producers of parts for electric power equipmen and construction and banks.

HEP Group Scope 3 emissions also included diffuse greenhouse gas emissions from liquefied natural gas terminal, which were not for nominations (gasification) for HEP Group in 2023 (LNG Hrvatska), emissions (input flow) of fuel for electricity and heat energy generation and of fuel used in the vehicle fleet, greenhouse gases to cover losses in the transmission grid of the independent Croatian Transmission System Operator (HOPS), emissions from energy procured at the market for sale to customers, emissions from natural gas losses (HEP Plin).

Taking into consideration these are total emissions of suppliers that submitted data on greenhouse gas emissions, and not the quantities the suppliers emitted when performing activities and providing services to HEP Group, the data on HEP Group Scope 3 emissions for 2023 is informative and does not indicate the real condition. Depending on the information delivered by individual suppliers year after year, the total footprint from HEP Group Scope 3 emissions significantly varies, especially due to the part referring to emissions shown by suppliers.

On the basis of the data collected from the suppliers, HEP Group greenhouse gas emissions from Scope 3 for 2023 amounted to 2,743,522.55 tons.

GREENHOUSE GAS EMISSION INTENSITY

GRI 3-3
GRI 305-4
GRI 11.1.1
GRI 11.1.8
GRI 12.1.1
GRI 12.1.8

For 2023 HEP Group calculated the carbon footprint including greenhouse gas emissions from Scopes 1 and 3, since Scope 2 is not applicable to HEP Group. The total intensity of HEP Group greenhouse gases is calculated on the basis of HEP Group carbon footprint in 2023 and total available energy, which includes electricity and heat energy. Emission intensity is also presented by activities of electricity generation and distribution as well as heat energy generation and distribution.

CARBON FOOTPRINT END GREENHOUSE GAS EMISSION INTENSITY IN 2023

HEP Group total carbon footprint for 2023 amounted to 5,955,865 tonnes of carbon dioxide CO_2 (eq) and it included emissions from Scopes 1 and 3. Carbon footprint from electricity generation and distribution amounted to 2,973,336 tons, and carbon footprint from heat energy generation and distribution totalled at 602,612 tons of CO_2 (eq). In 2023 the total of available electricity was 22.43 TWh, and the total od generated heat energy amounted to 2.1 TWh.

HEP Group carbon footprint in 2023

Sources of greenhouse gas emissions	Carbon dioxide – CO_2 (eq)/ t
Scope 1 – direct greenhouse gas emissions	3,212,341.89
Scope 2 – non-direct greenhouse gase emissions from generated energy purchased from suppliers, which is used in the reporting organization	Not applicable
Scope 3 – other non-direct greenhouse gas emissions from the supply chain	2,743,522.55
HEP Group total carbon footprint	**5,955,864.44**

Carbon footprint from electricity generation and distribution in 2023

Sources of greenhouse gas emissions	Carbon dioxide – CO_2 (eq)/ t
Direct greenhouse gas emissions from electricity generation (emissions from fossil fuel- or biomass-fired combustion plants, vehicle fleet emissions)	2,786,418.93
Direct greenhouse gas emissions from electricity distribution (emissions from switchgear equipment, vehicle fleet, covering losses in the distribution network)	188,222.89
Total carbon footprint	**2,974,641.82**

Carbon footprint form heat energy production and distribution in 2023

Sources of greenhouse gas emissions	Carbon dioxide – CO_2 (eq)/ t
Direct greenhouse gas emissions from heat energy generation and distribution (emissions from fossil fuel- or biomass-fired combustion plants, vehicle fleet emissions)	564,396.93
Diffuse emissions from LNG for gas for heat energy production	38,215.00
Total carbon footprint	**602,611.93**

Total HEP Group greenhouse gas emissions intensity for electricity and heat energy in 2023

	g CO_2/ kWh
Total HEP Group greenhouse gas emission intensity: • HEP Group carbon footprint / total available electricity and generated heat energy	243
Greenhouse gas emission intensity from electricity generation: • Carbon footprint of generated electricity / generated electricity from sources owned and co-owned by HEP Group	184
Greenhouse gas emission intensity for available electricity: • Carbon footprint of generated electricity / available electricity includes generation from sources owned and co-owned by HEP Group as well as off-system procurement	124
Greenhouse gas emission intensity from electricity generation and distribution: • Carbon footprint of generated and distributed electricity / electricity generated from sources owned and co-owned by HEP Group	196
Greenhouse gas emission intensity from electricity generation and distribution: • Carbon footprint of generated and distributed electricity / available electricity includes generation from sources owned and co-owned by HEP Group as well as off-system procurement	133
Emission intensity from heat energy generation: • Carbon footprint of generated heat energy (emissions from combustion plants and fossil fuel-, biomass-fired boiler rooms for heating cities as well as from vehicle fleet, and diffuse emissions from LNG for heat energy generation / generated heat energy (in combustion plants and fossil fuel- and biomass-fired boiler rooms for heating cities)	288

REDUCTION OF GREENHOUSE GAS EMISSIONS

GRI 3-3
GRI 305-5

The goals of reducing greenhoushe gas emissions for Croatia for sources included in EU ETS and for emission sources outside EU ETS by 2030 are described in the table Contribution of HEP Group's business operations to Croatian sustainability policies.

GOAL OF REDUCING GREENHOUSE GAS EMISSIONS FROM EU ETS PLANTS IN CROATIA BY

Mutual goal of reducing greenhouse gas emissions from EU ETS plants for EU-27 is 62% by 2030 in comparison to 2005. Pursuant to the National Energy and Climate Plan for the Republic of Croatia (NECP) for the period from 2021 to 2030, (version from June 2023) the goal for EU ETS plants in Croatia is to reduce total emissions by 50.2% by 2030, in comparison to 2005. Emissions from stationary sources in Croatia, which were not included in EU ETS in 2005, since Croatia still had not been a EU-member, amounted to 12,426,119 tons, and in 2030 EU ETS plants in Croatia may emit 6,237,912 tons at the most, i.e. total greenhouse gas emissions from EU ETS plants have to be reduced by 4.14% by 2030.

GOAL OF REDUCING GREENHOUSE GAS EMISSIONS BY 2030 OUTSIDE EU ETS IN CROATIA

According to NECP 2021, the goal for reducing greenhouse gas emissions from plants outside EU ETS in Croatia is to reduce greenhouse gas emissions by 16.7% by 2030, in comparison to 2005. HEP Group greenhouse gas sources outside EU ETS are switchgear equipment and for now boiler rooms for heat energy generation, diffuse emissions of gas from gas supply as well as vehicle fleet emissions. Pursuant to the provisions of EU ETS Directive from 2023, fossil fuel distributors for road traffic and building industry shall enter the emissions trading system, so-called EU ETS2. Diffuse greenhouse gas emissions from the liquefied natural gas terminal on Krk, operated by LNG Hrvatska, are included in EU ETS. A share of HEP Group greenhouse gas emissions outside EU ETS in total emissions of sources outside EU ETS in Croatia amounted to 2.67% in 2022 (data for 2023 on the level of Croatia was not available when the Report was being published).

REDUCTION OF GREENHOUSE GAS EMISSIONS BY 2023

In 2005 HEP Group emitted the total of 4,694,000 tons of CO_2 from stationary sources for combustion, which were used for electricity and heat energy generation. In 2023 the emissions totalled at 2,960,162 tons (A and B), marking a decrease by 36.94%. Base year, in comparison to which the goal of reducing emissions from HEP Group EU-ETS plants is set, is 2005, because this year was chosen as base year according to the European Green Deal and the European Climate Act.

Share of greenhouse gas emissions form HEP EU ETS plants in emissions of EU-27 and Croatia in 2023

Sources of emissions	Verified CO_2 (eq) emissions from EU ETS plants/t	Share of HEP emissions from EU ETS plants
EU ETS plants EU-27	1,285,778,342	0.23
EU ETS plants in Croatia	6,455,403	45.86
EU ETS HEP plants (A and B)	2,960,162	-

Source: EU Emissions Trading System (ETS) data viewer, Europska agencija za okoliš EEA

In 2023 HEP Group CO_2 emissions from EU ETS plants decreased by 3.01% in comparison to 2022 when they amounted to 3,051,913 tons.

According to indicators from 2023 Croatia should fulfil the goal of reducing greenhouse gas emissions from EU ETS plants by 2030, and HEP Group shall contribute to it by implementing the project of constructing renewable energy sources and high-efficiency cogenerations, by reconstructing the existing renewable sources and high-efficiency cogenerations, by reducing losses in the grids for electricity, heat energy and gas distribution as well as by increasing energy efficiency. Stated products and activites are described in the chapter Our products, services and value chain.

Share of greenhouse gas emissions from HEP sources outside EU ETS in emissions of EU-27 and Croatia in 2023

Sources of emissions	CO_2 (eq) /t	Share of HEP emissions outside EU ETS
CO_2 (eq) emissions of EU-27 outside EU ETS	1,852,562,658	0.02
CO_2 (eq) emissions of Croatia outside EU ETS	14,366,597	2.67
HEP CO_2 (eq) emissions from sources outside EU-ETS	384,412	-

Source: EEA greenhouse gases — data viewer — European Environment Agency (europa.eu) and EU Emissions Trading System (ETS) data viewer — European Environment Agency (europa.eu) Accessed on 10 May 2024

Greenhouse gas emissions for 2023 are not published, so the 2022 data was used. Thereby in 2022 HEP Group Scope 1 greenhouse gas emissions were greenhouse gas emissions from boiler rooms for heat energy generation operated by HEP Toplinarstvo, emissions from vehicle fleet, switchgear equipment, covering electricity losses in the distribution grid as well as diffuse emissions from LNG terminal for the part referring to HEP Group.

E-MOBILITY – HEP'S CONTRIBUTION TO THE REDUCTION OF GREENHOUSE GAS EMISSIONS FROM ROAD TRAFFIC

GRI 203-1

HEP Group's step forward into e-mobility and installation of electric vehicle charging stations on motorways and in cities contributes to the decarbonisation of road traffic and new options for tourism, which is a contribution to the goals set in the Croatian transport development strategy for 2017 – 2030 as well as the Sustainable tourism strategy by 2030.

E-MOBILITY IN 2023

E-mobility project entered its commercial phase in 2022 by applying the charging systems in publicly available charging stations. Further customer experience and income enable the development of the project and improvement of the overall service, as well as the analysis and production of new business models.

In 2023 18 new charging stations were installed, by which the charging station network in Croatia reached 328 charging stations of various types and charging capacities. 270 of those are public charging stations, and HEP Group has in its facilities and objects 53 charging stations installed, which are used for charging electric and hybrid vehicles from own car fleet.

OZONE DEPLETING SUBSTANCES

GRI 3-3
GRI 305-6

HEP Group does not produce, import or export substances or mixtures that destroy the ozone layer. Controlled substances and/or fluorinated greenhouse gases are found in cooling and air-conditioning devices and equipment as well as stationary fire protection systems and fire extinguishers. Companies and crafts with the licence from the Ministry of economy and sustainable development perform the activities of collecting, leak checking, installation, maintenance and repair of cooling and air-conditioning devices and equipment as well as stationary fire protection systems and fire extinguishers containing controlled substances or fluorinated greenhouse gases, which are located in HEP

OZONE DEPLETING SUBSTANCES IN 2023

The activities of collecting, leak checking, installation, maintenance and repair of cooling and air-conditioning devices and equipment as well as stationary fire protection systems and fire extinguishers containing controlled substances or fluorinated greenhouse gases were conducted in HEP Group companies in 2023, pursuant to annual plans for managing said equipment.

EMISSIONS OF NO_x, SO_2, CO AND PM_{10} PARTICLES

GRI 3-3
GRI 305-7
GRI 11.4.1
GRI 11.4.1
GRI 11.4.2
GRI 12.4.1
GRI 12.4.1
GRI 12.4.2

Thermal power plants for electricity and heat energy generation from fossil fuels and biomass (TPP, TE-TO, EL-TO and BE-TO), operated by HEP Proizvodnja as well as boiler rooms generating heat energy from fossil fuels, operated by HEP Toplinarstvo, are sources of nitrogen oxides (NO_x), sulphur oxides (SO_2), carbon monoxide (CO) and PM_{10} particles in HEP Group. All HEP Group thermal power plaints for electricity and heat energy generation as well as boiler rooms for heat energy generation are located in Croatia.

All thermal power plants for electricity and heat energy generation with the capacity of 50 MWt or more (so-called big combustion plants) operated by HEP Proizvodnja are holders of the Environmental Permit Decision issued by the competent Ministry of economy and sustainable development (MINGOR) and they are published in the database kept by MINGOR entitled Environmental permits. Environmental Permit Decisions stipulate the limit values of NO_x, SO_2, CO emissions and of floating PM_{10} particle emissions, as well as the manner of monitoring and reporting. Monitoring emissions is conducted through continuous and temporary measurements based on norms for continuous and temporary measurements stated in environmental permit decisions for each plant. The results of monitoring emissions are additionally verified by an independent authority through the internal application "Verification of gas emissions", in the event the device for continuous measurement was out of operation or the data from temporary measurements is used to calculate emissions. Environmental permit decisions are published on MINGOR's website and are available to the interested public. The information on continuous and temporary measurements kept by MINGOR is published in the database entitled Emissions from stationary sources. In thermal power plants (A) operated by HEP Proizvodnja the emissions of polluting substances into the air are regularly performed in line with legal regulations, as well as calibration of the system for monitoring the emissions of polluting substances into the air (CEM systems), which MINGOR reports about.

Combustion plants with nominal input heat capacity between 1 and 50 MWt belong to medium combustion plants. Medium combustion plant operators are HEP Proizvodnja and HEP Toplinarstvo. Medium combustion plants are not obliged to obtain environmental permits, but have to be registered in the medium combustion plant register kept by MINGOR. All HEP's medium combustion plants are registered in the medium combustion plant register. Medium combustion plants are not obliged to perform continuous, but temporary measurements. Emissions from boiler rooms for heat energy generation operated by HEP Toplinarstvo are calculated on the basis of temporary measurements conducted once in two years, and for the years in which there was no obligation of temporary measurement, emissions are calculated on the basis of calculation from fuel consumption.

All HEP's combustion plants as well as gas turbines are registered in the Register of small, medium and large combustion plants as well as medium and large gas tourbines kept by MINGOR.

Pursuant to the information from the European Environmental Agency, emissions of polluting substances significantly decreased between 2005 and 2021 in the EU-27 member countries. This refers particularly to SO_2 emissions, which decreased by 80%, NO_x emissions, which were reduced by 47% and emissions of $PM_{2,5}$ floating substances, which were reduced by 28%. The information for 2022 and 2023 has not been published yet. Reduction of emissions from energy, industry and traffic sector significantly affected the reduction of emitting polluting substances in the air, partially as a result of setting emission limit values (ELV) specific for individual sectors. For energy sector the most important document in this respect is the Industrial Emissions Directive 210/75/EU (so-called IED).

ENVIRONMENTAL PERMIT STATUS

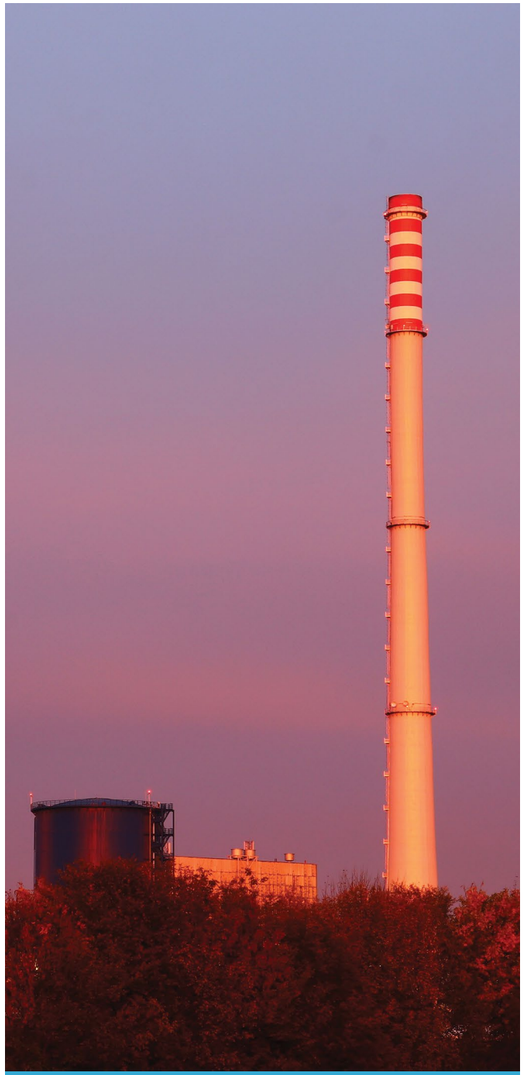
During 2023 the procedures of complying environmental permits with the legal regulations under the new requirements of the Commission Implementing Decsision (EU) 2017/1442 on establishing best available techniques (BAT) conclusions for big combustion plants pursuant to the Directive 210/75/EU of the European Parliament and council were completed for all plants, apart from TE-TO Osijek, amended and complied environmental permit of which is expected by the end of Q1 2024.

Environmental permits for TPP Rijeka and CCGT Jertovec expired as at 31 December 2023, as a result of expiry of Limited lifetime exemption. Pursuant to the above stated, HEP's d.d. Management Board adopted two new decisions:

- Decision on the termination of operatio of 320 MW block in TPP Rijeka
- Decision on the limitation of capacity of gas turbo aggregates PT1 and PT2 in CCGT Jertovec.

Due to the completion of block L construction and relocation of CEM system from the big chimney onto flue ducts WK3 and WK4, and for the purpose of ensuring heat energy suppy to the citizens of the city of Zagreb, the process of amending environmental permit for EL-TO Zagreb is ongoing, submitted with an aim of allowing GVE for PT1 and PT2 on the level of obtained Exemption for heating plants (expired as at 31 December 2022), but only until the moment of putting new block L into operation.

The measures of environment protection in line with the requirements from existing Environmental Permit Decisions are being implemented in all facilities. In 2023 emission limit values stated in environmental permits were exceeded for a short term in certain facilities of HEP Proizvodnja, as a result of intervention operation.



EMISSIONS OF NO_X, SO_2, CO AND PM_{10} PARTICLES IN 2023 AND COMPARISON TO 2022

The total emissions of nitrogen oxides in 2023 from HEP Group sources fell by 4.77% in comparison to 2022. Thereby emissions from TPP, TE-TO, EL-TO (A) and BE-TO (B) operated by HEP Proizvodnja fell by 4.20%, and emissions from boiler rooms for heat energy generation (C) operated by HEP Toplinarstvo for the needs of HEP ODS fell by 41.93%. In 2023 the total of 1,905,513 tons of NO_x were emitted from HEP Group sources.

Emissions of nitrogen oxides, NO_x from HEP Group sources in 2023

Source mark	Name of source	NO_x emission /t	Share in NO_x emissions / %
A	TPP Plomin 1	0.059	0.003
A	TPP Plomin 2	448.317	23.527
A	TPP Rijeka	36.129	1.896
A	CCGT Jertovec	46.452	2.438
A	TE-TO Zagreb	410.210	21.528
A	EL-TO Zagreb	530.826	27.857
A	TE-TO Sisak	328.061	17.216
A	TE-TO Osijek	32.211	1.690
Total from sources marked with A		**1,832.265**	**95.156**
B	BE-TO Sisak	26.272	1.379
B	BE-TO Osijek	28.281	1.484
Total from sources marked with B		**54.553**	**2.863**
Total from sources marked with A and B		**1,886.818**	**99.019**
C	Bregana – 2 boiler rooms	0.058	0.003
C	Samobor – 2 boiler rooms	1.184	0.062
C	Velika Gorica – 8 boiler rooms	13.773	0.723
C	Zaprešić – 5 boiler rooms	1.378	0.072
C	Zagreb – 9 boiler rooms	2.297	0.121
C	Osijek – 1 boiler room	0.000	0.000
C	Boiler rooms for internal needs of HEP ODS	0.005	0.000
Total from sources marked with C		**18.695**	**0.981**
Total from HEP Group sources A+B+C		**1,905.513**	**100.000**

Total emissions of sulphur oxide, SO_2 from HEP Group in 2023 increased by 16.86% in comparison to 2022. Thereby the emissions from TPP, TE-TO, EL-TO (A) and BE-TO (B) operated by HEP Proizvodnja increased by 19.19, i.e. 16.38%, and emissions from boiler rooms for heat energy generation (C) operated by HEP Toplinarstvo and internal boiler rooms for the needs of HEP ODS decreased by 38.34%. The total of 322.84 tons of SO_2 was emitted from HEP Group sources in 2023. In comparison to 2022 emissions of SO_2 in the air increased as a result of fuel oil-fired operation of TPP Rijeka and of electricity and heat energy generation from BE-TO facilities.

Emissions of sulphur oxide, SO_2 from HEP Group sources in 2023

Source mark	Name of source	SO_2 emission /t	Share in SO_2 emissions / %
A	TPP Plomin 1	0.018	0.005
A	TPP Plomin 2	233.329	70.109
A	TPP Rijeka	65.373	19.643
A	CCGT Jertovec	0.177	0.053
A	TE-TO Zagreb	12.083	3.631
A	EL-TO Zagreb	3.123	0.938
A	TE-TO Sisak	8.246	2.478
A	TE-TO Osijek	0.600	0.180
Total from sources marked with A		**322.949**	**97.037**
B	BE-TO Sisak	0.264	0.079
B	BE-TO Osijek	0.539	0.162
Total from sources marked with B		**0.803**	**0.241**
Total from sources marked with A and B		**323.752**	**97.278**
C	Bregana - 2 boiler rooms		0.000
C	Samobor - 2 boiler rooms		0.000
C	Velika Gorica - 8 boiler rooms	5.870	1.764
C	Zaprešić - 5 boiler rooms	1.110	0.334
C	Zagreb - 9 boiler rooms	2.079	0.625
C	Osijek - 1 boiler room		0.000
C	Boiler rooms for internal needs of HEP ODS	0.032	0.010
Total from sources marked with C		**9.091**	**2.731**
Total from HEP Group sources A+B+C		**332.843**	**100.000**

Emissions from TPP, TE-TO, EL-TO (A) decreased in 2023 by 2.74%, and emissions from BE-TO (B) fell by 11.51%. CO emissions from boiler rooms for heat energy generation (C) operated by HEP Toplinarstvo rose from 14.78 tons to 1.95 tons. The total of 173.23 tons of CO was emitted from HEP Group sources in 2023.

Emissions of carbon monoxide, CO from HEP Group sources in 2023

Source mark	Name of source	Emission of CO /t	Share in CO emissions / %
A	TPP Plomin 1	0.002	0.001
A	TPP Plomin 2	44.662	25.821
A	TPP Rijeka	0.856	0.495
A	CCGT Jertovec	1.768	1.022
A	TE-TO Zagreb	69.089	39.943
A	EL-TO Zagreb	17.492	10.113
A	TE-TO Sisak	19.954	11.536
A	TE-TO Osijek	1.243	0.719
Total from sources marked with A		**155.066**	**89.650**
B	BE-TO Sisak	15.107	8.734
B	BE-TO Osijek	1.114	0.644
Total from sources marked with B		**16.221**	**9.378**
Total from sources marked with A and B		**171.287**	**99.028**
C	Bregana – 2 boiler rooms	0.041	0.024
C	Samobor – 2 boiler rooms	0.062	0.036
C	Velika Gorica – 8 boiler rooms	0.890	0,515
C	Zaprešić – 5 boiler rooms	0.167	0.096
C	Zagreb – 9 boiler rooms	0.522	0.302
C	Osijek – 1 boiler room	0.000	0.000
C	Boiler rooms for internal needs of HEP ODS	0.263	0.152
Total from sources marked with C		**1.945**	**1.123**
Total from HEP Group sources A+B+C		**173.232**	**100.000**

Total emissions of PM_{10} particles from HEP Group sources in 2023 increased by 18.83% in comparison to 2022. Thereby emissions from TPP, TE-TO, EL-TO (A) and BE-TO (B) operated by HEP Proizvodnja increased by 19.08%, and emissions from boiler rooms for heat energy generation (C) operated by HEP Toplinarstvo decreased by 16.12%. The total of 49.83 tons of PM_{10} particles was emitted from HEP Group sources in 2023.

Emissions of PM_{10} particles from HEP Group sources in 2023

Source mark	Name of source	Emission of PM_{10} particles/t	Share in PM_{10} emissions/ %
A	TPP Plomin 1	0.061	0.122
A	TPP Plomin 2	8.392	16.840
A	TPP Rijeka	3.642	7.308
A	CCGT Jertovec	0.095	0.191
A	TE-TO Zagreb	3.933	7.892
A	EL-TO Zagreb	1.032	2.071
A	TE-TO Sisak	2.086	4.186
A	TE-TO Osijek	0.105	0.211
Total from sources marked with A		**19.346**	**38.822**
B	BE-TO Sisak	16.506	33.123
B	BE-TO Osijek	13.723	27.538
Total from sources marked with B		**30.229**	**60.661**
Total from sources marked with A and B		**49.575**	**99.483**
C	Bregana - 2 boiler rooms	0.000	0.000
C	Samobor - 2 boiler rooms	0.000	0.000
C	Velika Gorica - 8 boiler rooms	0.258	0.517
C	Zaprešić - 5 boiler rooms	0.000	0.000
C	Zagreb - 9 boiler rooms	0.000	0.000
C	Osijek - 1 boiler room	0.000	0.000
C	Boiler rooms for internal needs of HEP ODS	-	-
Total from sources marked with C		**0.258**	**0.517**
Total from HEP Group sources A+B+C		**49.833**	**100.00**

MONITORING AIR QUALITY IN THE AREA OF TPP PLOMIN 2 AND EL-TO ZAGREB

EL-TO Zagreb has installed Vrhovec metering station for monitoring air quality, where continuous measurements are conducted, and in 2023 no parameters connected to air quality were exceeded. The monitoring of air quality in the area of the TPP Plomin impact for 2023 is conducted by the Public Health Institute of Istria County. These emission stations for monitoring air quality are a part of the local state network, and the data is publicly available in the database kept by MINGOR Air quality in Croatia.

GRI 3-3
GRI 303-1
GRI 303-2
GRI 303-4
GRI 303-5
GRI 308-1
GRI 11.6.1
GRI 11.6.1
GRI 11.6.2
GRI 11.6.3
GRI 11.6.6
GRI 12.6.1
GRI 12.6.1
GRI 12.6.2
GRI 12.6.3
GRI 12.6.6

WATER AND EFFLUENTS

The chapter about waters describes the effects of sectors on water they use together and water management, it also states the quantities of harvested water and discharged effluents as well as HEP Group water consumption and results of collecting data from the supply chain on effects on water in 2023.

IMPACT OF VARIOUS SECTORS ON WATERS

GRI 3-3
GRI 303-1

The plants operated by HEP Proizvodnja use the sources of surface water and ground water, as well as the sea in their electricity and heat energy generation processes. Managing waters and impacts of water users from various sectors is based on the Croatian water area management plan, which is compiled by Hrvatske vode. The aim of the Water Framework Directive and EU-member water area management plans, which include Croatia, is to achieve a good condition of water by 2027 at the latest.

Activities for settling property-legal relations on public water assets for surface water bodies of common interest for Hrvatske vode and HEP Proizvodnja were being conducted in 2023. These activites continued in 2024 as well. In April 2023 State Geodetic Administration (SGA) published Technical specifications for geodetic studies as addition to the 5th existing Rulebook on geodetic studies. Technical specifications contain the Instructions for the preparation of studies for the purpose of recording water structures for electricity generation necessary for the solution of property-legal regulations between Hrvatske vode and HEP.

Upon adopting Technical specification, the team of HEP Proizvodnja studied the Instructions in detail and they noticed statements not in line with the Water Law (OG 84/21). SGA was informed about it, it took account of some comments and in August 2023 amended Instructions were adopted. Surface pipelines remained undefined, they have to be registered in the cadaster as water structures, and underground ones still need to be registered in infrastructural cadaster.

The Water Area Management Plan 2022-2027 was adopted in August 2023, stipulating the obligations for existing and planned new hydro power plants. The document accompanying the Plan is adopted Technical bais for proclaiming significantly changed and artificial water bodies due to the impact of existing HEP's hydro power plants on the hydro-mophological condition of waters. In line with the Plan, the changes to all concession conditions on all hydro power plants shall be conducted and measures for individual plants shall be prescribed for the purpose of achieving good ecological potential. Since the measures are related to the statuses and conditions of individual water bodies, with a special emphasis on the implementation of measures on artificial and significantly changed water bodies, which have not achieved a good ecological potential, the Studies shall be prepared for determining mitigation measures to achieve good ecological potential.

Upon the expiry of the Agreement on cooperation in the area of protection from harmful water effects, use and protection of water and common interest in the period 2019-2022 signed by HEP Proizvodnja d.o.o. and Hrvatske vode, a new Agreement with Hrvatske vode was signed with Hrvatske vode in June 2022 for the period 2023 – 2027.

In January 2023, Hrvatske vode issued a new water permit for the discharge of waste waters from HPP Vinodol.

MANAGEMENT OF WATER IMPACTS

GRI 3-3
GRI 303-2
GRI 11.6.1
GRI 11.6.3
GRI 12.6.1
GRI 12.6.3

Water in HEP Group is used to produce electricity in hydro power plants. The volume of water which hydro power plants may use to produce electricity is prescribed by concessions and concession conditions. Water is also used in the process of electricity and heat energy production in thermal power plants operated by HEP Proizvodnja (A) and (B) from surface waters and ground waters (wells) and from the public water supply system. All HEP's thermal power plants have valid water permits for water use. TPP Plomin and TPP Rijeka have obtained concessions on maritime property for the purpose of economic use and special use of the sea. Information on harvested quantities of water is submitted to Hrvatske vode, in line with legal regulations. Water is used for heat energy production from boiler rooms for heating cities and in offices and restaurants. Boiler rooms for heating cities (C) operated by HEP Toplinarstvo use water from public water supply. All other HEP Group companies use water from the public water supply system to perform their business operations, and they discharge waste waters in the public drainage system.

Apart from HPP Vinodol and HPP Senj, hydro power plants are not subject to the Regulation on the waste water emission limit values, but the quantities of used waters are shown as the quantity of generated electricity. HPP Vinodol and HPP Senj have a water permit for discharging sanitary waste waters. Testing the quality of drinking, waste, surface and ground waters in HEP Proizvodnja thermal power plants are conducted in line with the requirements of environmental permits, water permits and concession conditions at all locations.

Examinations of quality of drinking, waste, surface and underground waters is carried out regularly, in line with water permits and concession conditions at all locations, and no irregularities have been detected.

WATER HARVESTING AND EFFLUENT DISCHARGE

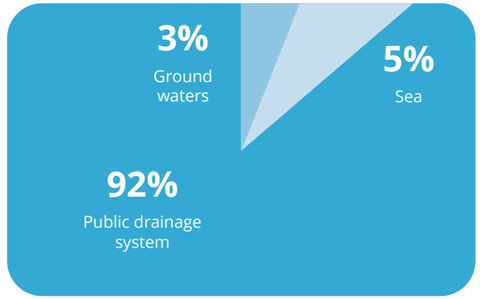
GRI 303-2
GRI 303-3
GRI 303-4
GRI 303-5
GRI 11.6.1
GRI 11.6.6
GRI 12.6.2.1
GRI 12.6.6

Information on harvested water as well as the quantity of discharged effluents in 2023 was shown by activities i.e. from electricity and heat energy production processes in plants and offices operated by HEP Proizvodnja, from heat energy production process in the plants operated by HEP Toplinarstvo, from electricity distribution in HEP ODS, from gas distribution and supply in HEP Plin and from HEP Group headquarters in Zagreb, i.e. the total harvested and discharged water by types in HEP Group.

QUANTITY OF HARVESTED WATERS AND DISCHARGED EFFLUENTS IN 2023

The total of 156,861.86 m³ of waters for own consumption was harvested in HEP Group in 2023 for own sanitary consumption from the public water supply system. The total of 109,481.86 m³ of sanitary waste waters was discharged in the public drainage system, 3,303 m³ in surface waters, 1,130 m³ of which with prior water treatment and 6,015 m³ in the sea, with prior treatment.

Shares of total discharged sanitary waters for own consumption in HEP Group by water sources

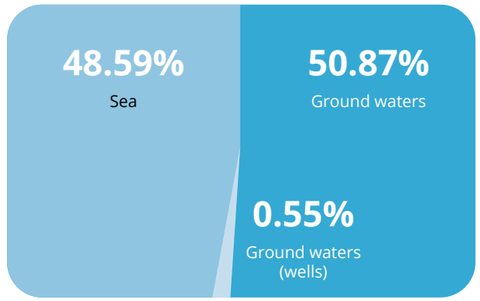


HARVESTED WATERS AND DISCHARGED EFFLUENTS IN ELECTRICITY AND HEAT PRODUCTION

GRI 3-3
GRI 303-2
GRI 303-3
GRI 303-4
GRI 12.7.1
GRI 12.7.2

The total of 450,758,149 m³ of water was harvested in 2023 in thermal power plants for electricity and heat energy production and in HPP Vinodol and HPP Senj for sanitary consumption. The quantity of harvested water in 2023 increased by 3.88% in comparison to 2022 when it amounted to 433,907,702 m³. Water used for electricity production in hydro power plants is not included in the total quantity of harvested water, because the quantity and composition of water remain the same after the hydro potential has been used. The quantity of used water in hydro power plants is expressed as the quantity of produced electricity in line with legal regulations. From the total of harvested water, 81,394 m³ was from the public water supply system, 218,965,025 m³ was sea water, 229,062,622 m³ was from the Sava river in the area of Sisak and Zagreb, 153,533 m³ was from the Drava river in Osijek, 31,468 m³ was from the Krapina river in Konjščina, 2,084,692 m³ was from wells in Zagreb area and 379,415 m³ was from Bubić burrow in Plomin.

Shares of total harvested water for electricity and heat energy production by source



The total of 448,797,602 m³ of waste waters was discharged in 2023 from thermal power plants and HPP Vinodol and HPP Senj. Other hydro power plants are in separate locations, which are not connected to the public waste water drainage systems, but sanitary waters are collected in septic tanks which are regularly emptied.

The quantity of discharged waste waters in 2023 increased by 3.8% percent in comparison to 2022, when it totalled at 431,773,788 m³. Out of the total of 448,797,602 m³ of waste waters 727,217 m³ was discharged in the public drainage system, 219,116,743 m³ in the sea, 202,160,637 m³ in the Sava river, 26,741,400 m³ in Savica lake in Zagreb, 16,313 m³ in the Palčić canal in the area of Osijek, 14,920 m³ in the Jertovec stream in the area of Konjščina and 371 m³ in the Dubračina watercourse in the area of Vinodol. Types of waste waters discharged from thermal power plants and HPP Vinodol and HPP Senj, as well as the types of waste water treatments are shown in the table below.

The data on harvested and discharged water quantities as well as water analyses in 2023 from HEP Proizvodnja plants are in line with legal regulations delivered on prescribed forms to Hrvatske vode. No limit values stipulated through water and environmental permits were exceeded in 2023. Regular examinations of physical-chemical, biological and in some places ichthyological features as well as reports in line with the Directive on the water quality standard are conducted on accumulations of hydro power systems GA HPP Sjever, GA HPP Zapad and GA HPP Jug. A detailed analysis of the condition by locations of examination is in the Reports on physical-chemical and microbiological condition of waters of individual HPPs.

Quantity of harvested waters and discharged effluents from thermal power plants in 2023

Plant	Water harvesting source	Quantity of harvested water / m³	Type of waste water	Type of waste water treatment	Waste water discharge	Quantity of waste water (m³)
TPP PLOMIN	Bubić Burrow	379,415	Process waters	Waste water treatment plant (desulphurization and and boiler water)	Čepić canal - sea	87,256
				Neutralization		26,878
	Public water supply system	11,498	Sanitary waters	BIO device without treatement		4,509
	Sea (cooling water)	208,017,025	Cooling waters	No treatment		208,017,025
TPP RIJEKA	Public water supply system	33,405	Process waters	Device for waste water treatment, neutralization	Sea	4,331
			Oily waters	Oil separation		27,238
			Sanitary waters	BIO device		935
	Sea (cooling water)	10,948,000	Cooling waters	No treatment		10,948,000
TE-TO SISAK	The Sava River	150,497	Process waters	Device for waste water treatment, neutralization	The Sava River	7,739
			Oily water	Oil separation		0
	Public water supply system	2,173	Sanitary waters	No treatment		2,137
	The Sava River (cooling water)	95,105,125	Cooling waters	No treatment		95,105,125
TE-TO ZAGREB	Wells	1,107,186	Process waters	Device for waste water treatment, neutralization	City sewage system	511,267
			Oily waters	Oil separation		
	Public water supply system	13,034	Sanitary waters	No treatment		
	The Sava River (cooling water)	133,807,000	Cooling waters	No treatment	The Sava River	107,045,600
					Savica Lake	26,741,400
EL-TO ZAGREB	Wells	977,506	Process waters	Device for waste water treatment, neutralization	City sewage system	142,297
			Oily wates	Oil separation		
	Public water supply system	13.708	Sanitary waters	No treatment		
TE-TO OSIJEK	The Drava River	153,533	Process waters	Neutralization	City sewage system	73,653
			Oily waters	Oil separation		
	Public water supply system	5,875	Sanitary wates	No treatment		
	Rainfall		Clean rainfall and rainfall from liquid oil management systems	Oil separation	Palčić canal	16,313
CCGT JERTOVEC	The Krapina River	31,468	Process waters	Device for waste water treatment, neutralization and deposition	Jertovec stream	14,920
			Oily waters	Oil separation		
	Public water supply system	759	Sanitary waters	BIO device		
HPP VINODOL	Public water supply system	371	Sanitary waters	Imhof tank	Dubračina wastercourse	371
HPP SENJ	Public water supply system	571	Sanitary waters	BIO device	Sea	571

Waters from the public water supply system are used in the process of heat energy generation in bolier rooms for heating cities operated by HEP Toplinarstvo, and waste waters are discharged in the public drainage system. The total quantity of waters harvested from the public water supply system amounted to 4,778.20 m³, and the same quantity was discharged in the public drainage system in the City of Zagreb and in Zagreb, Osijek-Baranja and Sisak-Moslavina County.

HARVESTED WATER AND DISCHARGED EFFLUENTS IN ELECTRICITY DISTRIBUTION

GRI 3-3
GRI 303-2
GRI 303-3
GRI 303-4

In the electricity distribution process in HEP Operator distribucijskog sustava water is harvested from the public water supply system. The total of 61,672.66 m³ was harvested in 2023, and the same quantity of waste sanitary waters was discharged in the public drainage systems in all counties on the territory of Croatia.

In 2023 the quantity of harvested and discharged waters increased by 16.15%, in comparion to 2022, when it amounted to 51,712 m³.

HARVESTED AND DISCHARGED WATER IN GAS DISTRIBUTION AND SUPPLY

GRI 11.6.1
GRI 11.6.3
GRI 11.6.4
GRI 11.6.5

Water from the public water supply system is used in the process of gas distribution and supply. In 2023 the total of 1,614 m³ was harvested for own demand, and the same quantity of sanitary waters was discharged in the public discharge systems in 5 counties in Slavonia and in Bjelovar-Bilogora County. The quantity of harvested and discharged waste waters increased in 2023 by 5.76%, as compared to 2022 when it totalled at 1,521 m³.

HARVESTED AND DISCHARGED WATER IN HEP GROUP HEAD OFFICE

GRI 303-2
GRI 303-3
GRI 303-4

Apart from HEP d.d., in HEP Group head office in Zagreb, there are the following companies: HEP Opskrba, HEP Trgovina, HEP Telekomunikacije, HEP Upravljanje imovinom and HEP ESCO. In HEP Group headquarters are also the management board of HEP Proizvodnja and HEP ODS. Water in HEP Group headquarters is harvested from the public water supply system, and in 2023 the total of 8,800 m³ were harvested, and the same quantity of sanitary waste waters was discharged. The quantity of harvested and discharged waste waters decreased in 2023 by 11.56% in comparison to 2022 when it amounted to 9,950 m³.

WATER CONSUMPTION

GRI 3-3
GRI 305-5
GRI 11.6.1
GRI 11.6.6
GRI 12.7.1
GRI 12.7.6

Water consumption in HEP Group is managed as part of introduced systems of energy management under ISO 50001:2018 standard in HEP Proizvodnja, HEP Operator distribucijskog sustava and HEP Toplinarstvo. In other companies water consumption is monitored on the basis of bills on water consumption, and the system for monitoring water consumption by indicators i.e. employed workers, is being established. Sanitary water consumption in HEP Proizvodnja is monitored by employee and water for technological use is monitored by delivered kWh of energy. HEP Toplinarstvo also monitors the consumption of sanitary water by employee. In Osijek facility, pumps present a significant consumer, so water consumption for cooling pumps is monitored by the number of operating hours of pumps. In HEP ODS sanitary water consumption is monitored by employee. In order to save capturing waters for own consumption, internal educations through e-learning, i.e. HEP Akademija, are conducted in HEP Group companies.

In order to determine the impact of the supply chain on the environment, including waters, we created a questionnaire in line with Consolidated GRI standards from 2021 and asked the suppliers about the information on the quantities of harvested water and of discharged waste waters.

WATER CONSUMPTION IN 2023

The water consumption data was obtained by subtracting the quantities of harvested water and discharged waste waters in line with the guidelines of Consolidated GRI standards from 2021. The overview includes the total quantities of HEP Group sanitary waste waters for own consumption and process waters from electricity and heat energy generation from plants operated by HEP Proizvodnja and HEP Toplinarstvo, which include process waters, cooling waters and rainfall.

Total sanitary water consumption for own consumption and electricity and heat energy generation in 2023

Water use	Harvested water / m^3	Discharged process waters / m^3	Process water consumption/ m^3	Used process waters / %
Sanitary water for own consumption	156,861.86	156,861.86	0	-
Water for electricity and heat energy generation	450,726,034.43	450,316,598.67	409,435.76	0.1
Total	**450.882,896.29**	**450.473,460.53**	**409,435.76**	**0.1**

Water consumption by generated electricity and heat energy was calculated based on discharged process waste waters and kWh of delivered electricity and heat energy. Water consumption by delivered kWh of electricity and heat energy was by 8.24% higher in 2023 in comparison to 2022.

0.02615 m^3/kWh

WATER CONSUMPTION BY DELIVERED kWh OF ENERGY IN 2023

0.02415 m^3/kWh

WATER CONSUMPTION BY DELIVERED kWh OF ENERGY IN 2022

WATER CONSUMPTION IN THE SUPPLY CHAIN

GRI 308-1

Out of 97 suppliers, 12 suppliers, i.e. 12.37% answered the questionnaire regarding quantities of harvested and discharged waters. The total quantity of harvested water in the supply chain amounted to 44,069,234.68 m^3, while the total quantity of discharged waste waters from the supply chain in 2023 amounted to 25,219,868.23 m^3. Therefore, water consumption in the supply chain was 18,849,366.45 m^3. Regarding a small percentage of received information on the impact of supply chain on sustainable water management and a different structure of companies which answered the questions, the information presented is informative and does not indicate the actual situation.

MANAGEMENT OF MARINE POLLUTION FROM TPP RIJEKA

GRI 3-3
GRI 306-3

On 9 November 2022 around 2 p.m., a leakage of fuel, i.e. fuel oil into the sea was noticed in Rijeka Thermal Power Plant. The cause of the leakage was a malfunction of filter drainage valve in the fuel pump. Pursuant to the Operational plan of measures for sudden and exceptional water pollution in TPP Rijeka, intervention measures of stopping and preventing the spread of pollution were implemented, and the 112 emergency centre was informed. It operates as part of the Civil Protection Directorate of the Ministry of the Interior. Based on the phone call to the 112 centre the procedure under the Plan of interventions during sudden marine pollutions in Primorje-Gorski Kotar County was implemented, as well as the remediation of the pollution. The pollution within TPP Rijeka was remediated by AEKS company from the town of Ivanić Grad, which specializes in interventional cleaning. Since fuel had leaked in the sewage system, the pollution was remediated quickly, and there was no soil pollution within TPP Rijeka. In line with the Plan of interventions during sudden marine pollutions in Primorje-Gorski Kotar County, County Operational Centre hired the company Dezinskecija, specialized in and authorized for cleaning seas and shores from oil pollution. Oil pollution was noticed on the sea surface, the rocks and beaches from TPP Rijeka to Spužvina beach. In order to stop the spread of pollution, floating absorbent dams were installed at the location of the highest concentration of surface pollution (in the bays of Londina and Perilo, Stara voda harbour and Mikulova kava beach). The pollution also covered the rocks in the coastal area in the height of approximately 0 – 2 nmv as well as the gravel on the following beaches: Spužvina, Podražica, Vali, Nova Voda, Perilo and Perovićeva vala. The competent body for environment protection did not approve of a limited use of chemicals for cleaning, so the rocks were washed by sprinkling water warmed at 120°C under the pressure of 200 ba. Polluted gravel shall be removed after ventilation and new gravel of similar features shall be poured. According to the principle “the polluter pays”, polluted coastal area of Kostrena is being cleaned and remediated, until it is restored to its original condition. For that purpose, a tripartite agreement was signed – with Primorje-Gorski Kotar County, County Operational Centre of Primorje-Gorski Kotar County for the implementation of the Plan of interventions during sudden marine pollutions in Primorje-Gorski Kotar County and the company Dezinskecija on the manner of settling the costs of remediation of marine environment from TPP RIjeka.

According to the announcement of the County Operatinal Centre of Primorje-Gorski Kotar County, the remediation of pollution caused by the extraordinary fuel oil leakage in TPP Rijeka from November 2022 was completed in December 2023.

WASTE

GRI 3-3
GRI 306-1
GRI 306-2
GRI 306-3
GRI 306-4
GRI 306-5
GRI 11.5.1
GRI 11.5.4

Below is the description of waste management system in HEP group, the quantity of produced hazardous and non-hazardous waste, the quantity of waste, which has been recovered, exported and disposed of as well as the quantities of radioactive waste (RAW) generated by NPP Krško.

WASTE MANAGEMENT

GRI 3-3
GRI 306-1
GRI 306-2
GRI 11.5.1
GRI 11.5.4

Waste in HEP Group is generated in electricity and heat energy generation and distribution processes, gas distribution, asset management and in offices. Generated waste is separated at the place of generation by type and properties and it is managed in line with the waste management order of priority for the purpose of preventing waste generation and reducing the amount of waste disposed of at the landfills. In line with legal regulations, all waste is delivered to companies that have the waste management permit or are registered in the appropriate register. Along with the waste, authorized companies are also delivered an accompanying sheet and, where applicable, the analysis of delivered waste. Depending on the type of waste and the existing waste management system in Croatia, waste is given for further preparation, recovery, disposal and export. Until the arrival of authorized companies, waste is temporarily stored, for a maximum of one year, in warehouses arranged pursuant to the Ordinance on waste managemtn.

Data on the generation and flow of waste for all the waste generated in HEP Group is stored in HEP's electronic database INFOZOK (Information system of environment protection). INFOZOK is also linked to e-ONTO, electronic database on waste kept by MINGOR. Internal landfill for non-hazardous waste in TPP Plomin is obliged to fill in e-ONTO in HEP. Waste disposed of on the internal landfill site is only own non-hazardous waste, which is a result of the generation process (dross, sludge from industrial waste water treatement, floating ash from coal combustion and gypsum). It is disposed of at this location only when the companies in the surroundings, which have a licence for waste recovery, are not able to take over the waste. The landfill for non-hazardous waste in Plomin has a permit for waste management.

WASTE MANAGEMENT IN 2023

The largest quantity of non-hazardous waste is a result of electricity generation in TPP Plomin 2 as well as of electricity and heat energy generation in biomass-fired thermal power plants BE-TO Osijek and Sisak. In 2023 TPP Plomin generated 34,089.11 t of floating ash, 18,031.20 t of gypsum and 3,518.96 t of dross. The total quantity of generated floating ash, gypsum and dross is recovered in the cement plant in the immediate vicinity of TPP Plomin 2 or is exported to the surrounding countries, whose quantity of disposed waste has been reduced to a minimum.

Floating ash, which is a result of wood biomass combustion in BE-TO Osijek and BE-TO Sisak, is disposed of at landfills, according to the proximity principle, in line with the Waste Management Act. In 2023 the total of 2,434.58 t of floating ash was produced.

Soil and rocks had the biggest share in generated hazardous waste, containing hazardous substances, various waste oils and oily water from separators as well as waste electrical and electronic equipment.

TOTAL QUANTITIY OF GENERATED WASTE BY TYPES AND WASTE MANAGEMENT METHOD

GRI 3-3
GRI 306-3
GRI 306-4
GRI 306-5
GRI 11.5.1
GRI 11.5.4
GRI 11.5.5
GRI 11.5.6
GRI 12.6.1
GRI 12.6.4
GRI 12.6.5
GRI 12.6.6

In 2023 HEP Group generated the total of 64,881.87 tons of waste, 2,033.35 tons of hazardous and 62,848.52 tons of non-hazardous waste. The quantity of generated waste in 2023 decreased in comparison to the quantity of generated waste in 2022. In 2022 HEP Group generated the total of 73,312.87 tons of waste, 71,635.74 tons being non-hazardous and 1,677.13 tons being hazardous waste. The share of hazardous waste in total quantities of waste generated by HEP Group in 2023 amounted to 3.14%, and 14.08% of generated waste was disposed of at landfills, while 85.92% of waste was recovered in Croatia or was exported for recovery.

Quantities of generated waste by type of waste in 2023

Type of waste and waste management method	Quantity / t	Shared in generated waste / %
Hazardous waste	2,033.35	3.14
Non-hazardous waste	62,848.52	96.86
Total generated waste	**64,881.87**	

Quantities of generated waste by management method in 2023

Waste management method	Quantity / t	Share in generated waste/ %
Disposed of in landfills	9,157.14	14.08
Recovered in Croatia	46,904.96	72.11
Recovered outside Croatia	8,981.61	13.81
Total generated waste	**65,043.71**	

QUANTITY OF LOW (LILW) AND INTERMEDIATE AND HIGH RADIOACTIVE WASTE (HLW) FROM NPP KRŠKO IN 2023

NPP Krško delivers 50% of generated electricity into the Croatian electric power system, based on the ownership share of HEP d.d. and GEN Energija (50%:50%). The table below provides information on stored radioactive waste (RAW) in 2023.

Stored RAW

Electricity generation in 2023 on the threshold of NPP Krško:	5,332,488,924 kWh
238 LILW packages were stored with a volume of 63.1 m^3 and net weight of 34,843.9 kg	
LILW (volume): 62.1 m^3 / 5,332,488,924 kWh (el) = 1.165 * 10^{-8} m^3/kWh(el)	
LIlW net (net weight): 34,843.9 kg / 5,332,488,924 kWh ((el) = 6,534 * 10^{-6} kg/kWh(el) or 6534 µg/kWh(el)	
HLW – spent fuel – there was no fuel replacement in 2023	

Fee for decommissioning and disposal of radioactive waste and spent nuclear fuel

At its session of 14 July 2023 the Intergovernmental commission confirmed the Third Revision of the NPP Krško Radioactive Wasate and Spent Fuel Disposal Program, which stipulates a certain reduction in the obligations of HEP d.d. to EUR 9.76 m annually. The Parliament of the Republic of Croatia had given its prior consent to the aforementioned revisions.

The Radiological and Nuclear Safety Act (OG nos. 141/13, 39/15, 130/17, 118/18, 21/22) and the Act on the Fund for Financing the Decommissioning of the Krško Nuclear Power Plant and the Disposal of NEK Radioactive Waste and Spent Nuclear Fuel (OG 107/07, 21/2022) were amended in 2022, and in line with these at the end of 2022 the Regulation on the amount, term and method of payment of funds for financing the decommissioning and disposal of radioactive waste and spent nuclear fuel of the Krško Nuclear Power Plant (OG 156/2022). Under the above, HEP's annual payment obligation decreased from EUR 14,250,000.00 to EUR 9,760,000.00, meaning that quarterly installment decreased from EUR 3,562,500.00 to EUR 2,440,000.00 (Article 6 of the abovementioned Regulation).

Additionally, since the Intergovernmental commission adopted the Third Revision of the NPP Krško Radioactive Wasate and Spent Fuel Disposal Programme in July 2022, and the new Regulation was not adopted by the end of last year, HEP paid 10 quarterly instalments under the old regulation (more than foreseen by the Third Revision of the Program), so the new Regulation in Article 7 stipulated that the following 10 quartely instalments, starting with the instalment for Q1 2023 be reduced by 1/10 of the total amount of overpayment, i.e. that the instalment of EUR 2,440,000.00 be reduced by additional EUR 1,122,500.00

Pursuant to the above stated, in 2023 HEP paid a quarterly amount of EUR 1,317,500.00 and fully settled its obligations by paying the total of EUR 5,270,000.00 for 4 quarters.



BIODIVERSITY

GRI 3-3
GRI 304-1
GRI 304-2
GRI 304-3

Some plants and electric power facilities are located in protected areas on the regional and national level, and in the areas of NATURA 2000 ecological network. Management of protected areas for the purpose of reducing potential negative effects on the environment, as well as projects and activities carried out in 2023 are described in the text below.

LOCATION OF HEP GROUP POWER PLANTS IN RELATION TO PROTECTED AREAS

GRI 3-3
GRI 304-1
GRI 11.4.1
GRI 11.4.2
GRI 12.5.1
GRI 12.5.2

Electricity and heat energy generation plants TPP, EL-TO, TE-TO, BE-TO operated by HEP Proizvodnja and boiler rooms for heating cities operated by HEP Toplinarstvo are located within urban or industrial areas, i.e. they are not located within the area of NATURA 2000 ecological network or protected areas on the national level. However, some protected areas are located in the vicinity of generation facilities, for instance significant landscape Savica near TE-TO Zagreb, while the border of Mura-Drava regional park is near TE-TO Osijek. A large number of HEP hydro power plants is in the area of NATURA 2000 ecological network, while some are completely or partially in protected areas, such as national parks, nature parks, regional parks and areas of significant landscape. Construction, reconstruction and maintenance of distribution grid, operated by HEP ODS is conducted in the area of distribution grid, which means on the territory of all Croatia, including protected areas of NATURA 2000 ecological network as well as protected areas on the regional and national level. Plants and business offices of HEP Toplinarstvo, HEP Plin and companies in the headquarters of HEP Group, i.e. HEP d.d., HEP Trgovina, HEP Opskrba, HEP Telekomunikacije, HEP Upravljanje imovinom and HEP ESCO are not located near protected areas. Business offices of HEP Elektra are also not located near protected areas. Areas of NATURA 2000 ecological network and protected areas on the national level can be found on Bioportal, kept by MINGOR. In comparison to 2023 NATURA 2000 ecological network was not expanded, and no new protected areas were declared on the national level.

MANAGEMENT OF OPERATING IMPACTS ON PROTECTED AREAS

GRI 3-3
GRI 304-2

Construction of new facilities and infrastructure as well as modernization and increase of capacity of existing facilities and infrastructure are conducted in line with the requirements of the Environmental Protection Act, the Decree on Enironmental Impact Assessment and the Nature Protection Act, which regulates the procedures for the effect of interventions on NATURA 2000 ecological network and protected areas on the national and regional level. Interested public was included in the procedures of environmental impact assessment. During construction and modernization and plant and infrastructure operation, all prescribed measures specified in the Decisions on the acceptability of the intervention on the environment and the ecological network are implemented. Interventions which do not require the Decision on the acceptability of the intervention on the environment and the ecological network are carried out in line with goals and procedures from introduced and certified systems of environment management under ISO 14001:2015 standard. In this way we contribute to the realization of goals from the Strategy and Action Plan for Nature Protection of the Republic of Croatia for the period from 2017 to 2025 and the goals of the EU Biodiversity Strategy for 2030.

Results of the procedures conducted by HEP were published on the website of the Ministry of Economy and Sustainable Development and the website of competent bodies of regional self-goverentment units, depending on the location where the intervention was carried out and competent bodies, which implemented said procedures.

Cooperation agreement for implementing measures of protection, population monitoring and ringing of a strictly protected species of white stork (Ciconia ciconia L.)

The execution of the Cooperation agreement for implementing measures of protection, population monitoring and ringing of a strictly protected species of white stork (Ciconia ciconia L.) continued in 2023. Distribution areas in continental Croatia participate in it. Depending on the needs, HEP ODS employees have been taking care of numerous nests on electric poles for years, providing dual-sided protection: the storks are protected from a possible electric shock and at the same time the grid is protected from the negative effect of storks, which may cause breakdowns or damage to the grid.

LIFE Danube Free Sky Project

Following a successful application on the international competition at the end of 2020, the Cooperation Agreement in LIFE Danube Free Sky international project was signed, and it was financed from the European Union funds. The full name of the project is "Transnational conservation of birds along the Danube river" and its main aim is to contribute to the strategic goal of biodiversity within the EU, i.e. reduction of bird mortality as a result of interaction with power lines within the total of 22 Natura 2000 important bird areas (IBA). HEP ODS is participating in the project, and its main activitiy is the reduction of threats for birds from electricity and collisions with power lines in Elektroslavonija Osijek within Kopački rit nature park. The activity contributing to the prevention of birds suffering from collisions was realized in 2023. On the 35kV transmission line Kneževi vinogradi within Kopački rit, the total of 564 diverters were installed by drone, followed by the check of their effectiveness through monitoring by partners from the Nature park. Diverters divert birds' attention, so they do not collide with the lines, which results in a safer bird migration route along the Danube river and in the increase of the survival rate of 19 priority species.

LIFE SUPport project

LIFE SUPort Project started on 1 January 2023 and its total duration is estimated at 60 months. The Project shall improve protection of griffon vultures and their nesting conditions in Croatia. The leading partner in the LIFE SUPport project is BIOM Association and the project is financed from the European Union LIFE program. As one of the partners participating in project implementation, HEP ODS shall contribute to the measures of bird protection on 200 poles of overhead medium voltage network through the installation of insulation equipment and the replacement of bare conductors with insulated ones. The first activities are expected in the second half of 2024.

Network Modernization in Natura 2000 areas

Intensive work was done during 2023 regarding preparatory activities to apply the project of Modernization of the Croatian distribution network, as part of which one of the activities is Grid modernization in Natura 2000 areas. The total acceptable costs of this activity amount to EUR 49,107,439.11, of which grants account for 93.74%.

Network modernization within Natura 2000 area includes projecting, construction and reconstruction/modification of overhead electric power network, in line with positive regulations of the Republic of Croatia, taking into consideration specific characteristics of the area (3 bio-geographical regions in Croatia – Alpine, Mediterranean and continental) as well as techno – economic criteria.

The implementation of said activities shall contribute to the realization of additional indicators of the Modernization of the Croatian distribution network project with not less than 500 kilometres of modernized distribution network within Natura 200 areas and not less than 267 modernized point facilities.

Apart from complying with legal requirements from the field of nature protection, the activities of implementing measures of bird protection from electrocution contribute to the revitalization of the network in the area they cover, they ensure a better electricity supply to customers and at the same time reduce the maintenance costs and economic damage on electric power grid, which is a result of birds' activities.

IUCN RED LIST OF THREATENED SPECIES

GRI 304-4

Within the Natura 2000 important bird areas there is a bit more than 5,000 kilometers of overhead medium-voltage lines, a part of which are insulated and pose no threat for birds. HEP ODS is obliged to plan and construct energy infrastructure through its activities in such a manner to prevent and reduce the risk of suffering for strictly protected species in these areas. The the total of 17 bird species are covered by the measures and they are on the Red list of protected species of birds.

In 2023 there were no changes in comparison to the previous period, i.e. the list of strictly protected bird species in the important bird areas (IBAs), to which protection measures from energy sector relate, was not prolonged.

IMPACT OF SUPPLY CHAIN ON THE ENVIRONMENT

GRI 308-1

In order to collect the data on the impact of HEP Group supply chain (first level of suppliers) on the environment, we created a questionnaire in line with Consolidated GRI standards from 2021. Out of 113 suppliers, 16 suppliers, i.e. 14.2 percent sent information on the impact on the environment, so the results of collected data are not the presentation of the real condition, but a confirmation of the assumption that collecting data on the impact of supply chain on the environment will present a big challenge.

Results of collecting data on the impact of HEP Group supply chain on the environment in 2023

Asked questions	Collected data
Published Sustainability reports /non-financial reports	Out of 35 suppliers 12 publish sustainability reports
Environment management system (formal and informal) ISO 14001	Out of 35 suppliers, 13 have established Environment management system under ISO 14001 standard
Establishment of energy management system (formal and informal) ISO 50001	Out of 35 suppliers, 10 have established Energy management system under ISO 5001 standard
Data on energy consumption	Out of 35 suppliers, 9 submitted data on energy consumption. Data on the use of energy trom RES was submitted by 4 suppliers.
Data on harvesting and discharging water	12 suppliers delivered data on harvested and discharged waters
Data on greenhouse gas emissions into the air	Out of 35 suppliers, 12 submitted data on greenhouse gas emissions.
Data on greenhouse gas emissions into the air	Out of 35 suppliers, 12 submitted data on greenhouse gas emissions.

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GRI Index

Statement of use	In its Annual and Sustainability Report for 2023 HEP Group published the information in line with GRI indicators. The reporting period covers the time span between 1 January and 31 December 2023.
GRI 1 used	GRI 1: Foundation 2021
Applicable GRI Sector Standard(s)	GRI 11: Oil and Gas Sector 2021 GRI 12: Coal Sector 2022

GRI STANDARD	DISCLOSURE	LOCATION
GRI 2: General Disclosures 2021	2-1 Organizational details	14
	2-2 Entities included in the organization's sustainability reporting	15, 16
	2-3 Reporting period, frequency and contact point	16
	2-4 Restatements of information	16
	2-6 Activities, value chain and other business relationships	20, 21, 27, 28, 29, 33, 35, 37, 38, 40, 41, 42, 43, 44, 71, 75, 79, 81, 85, 89, 91, 93
	2-7 Employees	49
	2-8 Workers who are not employees	50
	2-9 Governance structure and composition	54, 55, 56, 57
	2-10 Nomination and selection of the highest governance body	57
	2-11 Chair of the highest governance body	57
	2-12 Role of the highest governance body in overseeing the management of impacts	58, 73, 79, 89
	2-13 Delegation of responsibility for managing impacts	58, 73, 79, 89
	2-14 Role of the highest governance body in sustainability reporting	59, 73
	2-15 Conflicts of interest	59
	2-16 Communication of critical concerns	60
	2-17 Collective knowledge of the highest governance body	58, 59, 73
	2-18 Evaluation of the performance of the highest governance body	62
	2-19 Remuneration policies	62
	2-20 Process to determine remuneration	62
	2-21 Annual total compensation ratio	63
	2-22 Statement on sustainable development strategy	66, 67, 68, 69, 83
	2-23 Policy commitments	66, 67, 68, 69, 83

GRI STANDARD	DISCLOSURE	LOCATION
GRI 2: Opće objave 2021	2-24 Embedding policy commitments	66, 67, 68, 69, 83
	2-25 Processes to remediate negative impacts	60
	2-26 Mechanisms for seeking advice and raising concerns	60
	2-27 Compliance with laws and regulations	94
	2-28 Membership associations	94
	2-29 Approach to stakeholder engagement	95, 99, 104, 115, 116, 117, 118, 119, 120, 121, 129
	2-30 Collective bargaining agreements	77, 91, 95
GRI 3: Material Topics 2021	3-1 Process to determine material topics	98, 99
	3-2 List of material topics	100
	3-3 Management of material topics	66, 67, 68, 69, 83, 91, 104, 106, 107, 115, 116, 117, 118, 119, 120, 121, 126, 128, 129, 131, 134, 135, 137, 138, 139, 143, 146, 148, 149, 151, 153, 158, 159, 160, 162, 163, 169, 170, 171, 173, 174, 175, 176, 177, 179, 181
GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	71, 75, 83, 85, 104, 106
	201-2 Financial implications and other risks and opportunities due to climate change	71, 75, 85, 104, 106, 107
	201-3 Defined benefit plan obligations and other retirement plans	104, 106, 107
	201-4 Financial assistance received from government	104, 106, 107
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	71, 83, 85, 162
	203-2 Significant indirect economic impacts	71, 83, 85
GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	73, 89, 104, 121
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	59, 60
	205-2 Communication and training about anti-corruption policies and procedures	59, 60
GRI 206: Anti-competitive Behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	20
GRI 207: Tax 2019	207-2 Tax governance, control, and risk management	63
GRI 301: Materials 2016	301-1 Materials used by weight or volume	71, 75, 85, 146, 148
GRI 302: Energy 2016	302-1 Energy consumption within the organization	75, 87, 146, 149
	302-2 Energy consumption outside of the organization	87, 146, 151
	302-3 Energy intensity	87, 146, 151
	302-4 Reduction of energy consumption	87, 146, 149
	302-5 Reductions in energy requirements of products and services	75, 85, 87, 146, 149, 151
GRI 303: Water and Effluents 2018	303-1 Interactions with water as a shared resource	73, 81, 169
	303-2 Management of water discharge-related impacts	79, 81, 87, 89, 169, 170, 171, 173
	303-3 Water withdrawal	79, 81, 87, 89, 170, 171, 173
	303-4 Water discharge	81, 87, 169, 170, 171, 173
	303-5 Water consumption)	169, 170

GRI STANDARD	DISCLOSURE	LOCATION
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	79, 89, 179
	304-2 Significant impacts of activities, products and services on biodiversity	79, 89, 179
	304-3 Habitats protected or restored	79, 89, 179
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	79, 89, 181
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	75, 85, 93, 153
	305-2 Energy indirect (Scope 2) GHG emissions	75, 85, 93, 153, 158
	305-3 Other indirect (Scope 3) GHG emissions	75, 85, 93, 153, 158
	305-4 GHG emissions intensity	75, 85, 93, 153, 159
	305-5 Reduction of GHG emissions	75, 85, 93, 153, 160, 174
	305-6 Emissions of ozone-depleting substances (ODS)	153,162
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions)	79, 83, 89, 153, 163
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	73, 75, 89, 176
	306-2 Management of significant waste-related impacts	73, 75, 89, 176
	306-3 Waste generated	73, 79, 89, 175, 176, 177
	306-4 Waste diverted from disposal	73, 79, 89, 176, 177
	306-5 Waste directed to disposal	73, 79, 89, 176, 177
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	71, 75, 79, 85, 89, 169, 175, 181
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	126, 127
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	126, 128
	401-3 Parental leave	77, 91, 126, 128
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	77, 91, 134
	403-2 Hazard identification, risk assessment, and incident investigation	77, 91, 134
	403-3 Occupational health services	77, 91, 135
	403-4 Worker participation, consultation, and communication on occupational health and safety	77, 91, 134, 135
	403-5 Worker training on occupational health and safety	77, 91, 135
	403-6 Promotion of worker health	77, 91, 135
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	134, 135
	403-8 Workers covered by an occupational health and safety management system	77, 91, 134
	403-9 Work-related injuries	135
	403-10 Work-related ill health	77, 91
GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	126, 129
	404-2 Programs for upgrading employee skills and transition assistance programs	73, 89
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	77, 91, 126, 131
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	71, 139
	413-2 Operations with significant actual and potential negative impacts on local communities	139
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	143
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	137
GRI 418: Customer Privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	77, 91, 138

ANNEX

ABRIDGED CONSOLIDATED ANNUAL REPORT OF HEP GROUP BUSINESS OPERATIONS IN 2023

BUSINESS OPERATIONS

After extremely complex business conditions in 2022 caused by the drought and the energy market crisis, the year 2023 was marked by business stabilization.

Favourable hydrological circumstances for most of the year resulted in the production of 7.5 TWh of electricity by hydropower plants, which was by 2.6 TWh more than in 2022, when only 4.9 TWh was produced due to reduced flow of water.

In 2022, the Government of the Republic of Croatia, in response to the energy crisis, adopted a series of measures to ensure sufficient quantities and availability of gas and limited prices of electricity, thermal energy and gas for end customers. In 2023, the Government of the Republic of Croatia continued to adopt measures for the protection of households and the economy from rising prices. The prices for some categories of customers of electricity and thermal energy were thus limited in the period from 1 October 2022 to 31 March 2024.

By the decision of the Government of the Republic of Croatia, HEP Group's suppliers of business customers were put on an equal footing with other suppliers on the electricity market in Croatia, and were provided the compensation for limiting the price for business customers of up to EUR 180/MWh in the period from 1 April 2023 to 30 September 2023, and of EUR 150/MWh from 1 October 2023 to 31 April 2024.

During 2023, activities were initiated to compensate HEP for taking on the burden of the energy crisis. By the decision of the Government of the Republic of Croatia from 14 March 2024, HEP was retroactively placed on an equal footing with other suppliers on the market, and was compensated for the difference between the contracted price and the price limited by regulation for business customers in the period from 1 October 2022 until 31 March 2023 in the amount of EUR 547.1 million[1]. Also, on 30 March 2023, the Government of the Republic of Croatia approved the payment of an equity loan of EUR 400 million for the purpose of business stabilization.

In 2023, as a result of the aforementioned positive effects on business operations, HEP Group generated profit in the amount of EUR 116.6 million.

In accordance with the decision of the Government of the Republic of Croatia from 3 June 2022, HEP purchased gas and thus secured gas supplies on the territory of the Republic of Croatia, which, based on the Government Decision on securing gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024 from March 2023, was used for the heating season in the period from 1 November 2023 to 31 March 2024. The Decision of the Government of the Republic of Croatia on Amending the Regulation on Eliminating Disturbances in the Domestic Energy Market dated 14 September 2022 stipulates that INA d.d., as the producer of natural gas, in the period from 1 October 2022 to 31 March 2024, was obligated to sell natural gas produced in the Republic of Croatia to HEP at a price of HRK 0.3086/kWh (EUR 0.0410/kWh), with the aim of securing supplies and increasing the availability of natural gas in the Republic of Croatia. During 2023, amendments to the Regulation were adopted under which the categories of customers to which HEP d.d. is obliged to sell gas were expanded, and from July 2023 HEP d.d. was no longer under obligation to purchase gas from INA d.d.

The write-off of energy-related liabilities from households in the earthquake-affected area continued, resulting in a write-off of EUR 7.6 million in 2023, making a total of EUR 24.4 million written off since the beginning of the measure's application.

MACROECONOMIC ENVIRONMENT

According to the estimate of the Croatian Bureau of Statistics (hereinafter: CBS), published on 27 February 2024, the gross domestic product (hereinafter: GDP) in 2023 was 2.8 percent higher in real terms compared to 2022. In the last quarter of 2023, an increase of as much as 4.3 percent was recorded compared to the same period last year. The main drivers of growth, according to the CBS data, are the increase in personal consumption and investments.

GDP growth on an annual level exceeded the average growth in the European Union (hereinafter: EU) and the euro area by as much as five times, resulting in the second highest EU growth rate of the Croatian GDP in 2023 right after Malta, which achieved a record 6.1% growth rate.

According to the winter economic forecast of the European Commission[2] (hereinafter: EC), after the strong growth of the Croatia's GDP in 2023 (expected growth according to the 2023 forecast was 1.2 percent), the EC revised its forecasts, and in 2024, a 2.6% growth is expected (earlier forecast projected 1.9 percent).

According to the provisions of the Act on the introduction of the euro as the official currency in the Republic of Croatia as of 1 January 2023, the euro became the official monetary unit and legal tender in the Republic of Croatia. With the introduction of the euro, i.e. the replacement of its domestic currency, the Croatian kuna, at a fixed exchange rate set by the Government of the Republic of Croatia (7.53450 HRK for 1 EUR), Croatia became a full member of the eurozone.

In 2023, the euro did not fluctuate significantly against the dollar, so the average exchange rate of the euro in 2023 rose against the dollar by 3.3 percent compared to last year.

The prices of goods and services for personal consumption, measured by the consumer price index (CPI), in December 2023 were 4.5 percent higher compared to the same period of the previous year. According to CBS data, the year-all inflation in 2023 averaged at 8 percent, which is a drop of -2.8 p.p. compared to 2022.

According to Eurostat[3], the average annual inflation rate in the European Union, measured by the harmonized index of consumer prices (HIPC), was 6.4 percent, which is a continuation of the inflation downward trend, which reached its record level in 2022. According to EC forecasts for the Republic of Croatia, a further drop in inflation is expected in 2024 resulting in the inflation rate projection of 2.5 percent (achieved in 2023, measured by HIPC is 8.4 percent).

[1] The compensation amount for the last quarter of 2022 was recorded in the 2023 financial report under income in the amount of EUR 247.2 million, while the remaining EUR 299.9 million refers to the compensation for the first quarter of 2023.
[2] Winter 2024 Economic Forecast
[3] Statistical Office of the European Union

PRICE OF ENERGY ON THE MARKET

As of 2020, the energy markets have been facing a deep crisis caused by a number of factors, starting with the recession caused by the COVID-19 disease pandemic, which was followed in 2021 by the global economic recovery, but also unfavourable hydrological circumstances and delays in the work of French nuclear power plants. The Russian invasion of Ukraine in February 2022 further deepened the crisis, with exceptional disruptions in natural gas supplies in Europe, which resulted in a record rise in gas and electricity prices.

The year 2023 was marked by a significant de-escalation of prices and volatility on the energy market, which is primarily a consequence of the price stabilization of basic energy sources such as gas and coal. This trend was additionally stimulated by the reduction of demand and economic activity and increased investments in renewable energy sources.

Natural gas prices in Europe recorded a downward trend during 2023, which was influenced by the abundant supply of imported liquefied natural gas and the high occupancy of gas storage facilities due to mild winter. The average price of gas at CEGH[4] in the first quarter was 55 EUR/MWh, in the second 37 EUR/MWh, and 36 EUR/MWh in the third. The slight price increase in the fourth quarter to an average of 43 EUR/MWh was driven by instabilities in the Middle East.

The electricity price trend is highly correlated with the gas price trend, in view of the large share of the gas component in the costs of electricity production, along with the EUA prices. The average price of the base electricity on the HUPX[5] spot market in the first quarter 2023 was 139 EUR/MWh, followed by 103 EUR/MWh in the second, 106 EUR/MWh in the third and 104 EUR/MWh in the fourth.

The price of CO_2 emission allowances on the EEX[6] spot market during 2023 also recorded a downward trend, ranging between 98 EUR/t (21 February) to 66 EUR/t (15 December). This trend is related to the impact of European regulations, which aim to achieve emission neutrality by 2050 through the reduction of annual quotas, with the growing integration of renewable energy sources and the abandonment of classic sources such as coal and gas, which are becoming economically unprofitable. The price reduction during 2023 is the result of lower production volume by thermal power plants and lower demand for CO_2 emission allowances.

After the historic shock of 2022, the price of coal stabilized during 2023, with the new price range held above USD 100/t for coal (USD 110-125/t). Europe's assured supply of LNG gas and a mild winter, along with renewable energy sources, resulted in low European demand for coal throughout 2023.

[4] Central European Gas Hub
[5] Hungarian Power Exchange
[6] European Energy Exchange

BASIC INDICATORS

HEP sold 15.2 TWh of electricity to customers in Croatia[7] (0.1 TWh less than in 2022), while 5.2 TWh of electricity was sold abroad (3.0 TWh more than in 2022). Income from the sale of electricity in Croatia increased by EUR 462.6 million (18.7%) due to higher electricity prices for business customers in accordance with market trends and higher electricity prices for household customers in accordance with the Government of the Republic of Croatia regulations, based on which household customers are charged a 50% higher price for consumption that exceeds 2.5 MWh in the six-month period of application of the regulation, i.e. 3.0 MWh from 1 October 2023.

A market share of 93.3 percent was achieved in the supply of electricity to customers in the Republic of Croatia. Income from the sale of electricity abroad increased by EUR 208.3 million (50.7%) primarily due to higher exports of surplus electricity produced in HEP Group power plants as a result of favourable hydrology and higher average sales prices to customers in the region.

The total production and purchase of electricity by HEP Group amounted to 22.5 TWh, of which 67 percent was produced in power plants owned and partially owned by the Group (15.1 TWh, 2.7 TWh more than in 2022), while 33 percent of the required electricity was procured outside the system (7.3 TWh, 62 GWh less than in 2022).

The year 2023 was marked by favourable hydrological circumstances. 7.5 TWh was produced in hydropower plants, 2.6 TWh (52.1%) more than in 2022. Thermal and cogeneration power plants produced 4.7 TWh, 93 GWh more than in 2022. 2.67 TWh of electricity was procured from Krško nuclear power plant, which is 341 GWh less than the planned delivery as a result of the 43-day extraordinary overhaul caused by the repair of a pipeline leak in the injection section (6 October – 17 November 2023).). HEP's solar and biomass CHPs produced a total of 71 GWh, while the output of Korlat wind power plant was 161 GWh.

7.3 TWh of electricity was procured on the market (including mandatory purchase from HROTE for the production from renewable sources and high-efficiency cogeneration in the incentive system) i.e. 62 GWh (0.8%) less than in 2022, which, in addition to the lower average price of import, led to a decrease in electricity procurement costs by EUR 297.2 million (20%). Energy fuel costs increased by EUR 204.6 million (20%) as a result of 7% higher consumption of natural gas at 26% higher price. The unit price of coal decreased by 38 percent at 13% lower demand.

Revenues from the sale of gas on the retail market increased by 68 percent due to a higher selling of gas by 24.2 percent, primarily due to assuming the role of a guaranteed supplier and the higher selling price of gas, which was mitigated for household and business customers through a package of measures adopted by the Government of the Republic of Croatia and includes subsidies for these categories of customers.

Revenues from the sale of the gas supplies of the Government of the Republic of Croatia under the Regulation on eliminating disturbances on the domestic energy market were realized in the amount of 46.4 million euro and are higher than the revenue from the sale of the gas reserves of the Government of the Republic of Croatia, which, based on the Decision on securing gas supplies on territory of the Republic of Croatia for the heating season 2023/2024, were used for the needs of the heating season from 1 November 2023 to 31 March 2024.

Revenues from the sale of gas based on the Regulation on eliminating disturbances on the domestic energy market were realized in the amount of 46.4 million euro and are 202.0 percent higher compared to the previous year as the sale of gas in 2022 began with the beginning of the gas year on 1 October.

Revenues from the sale of gas supplies of the Government of the Republic of Croatia, which, based on the Government's Decision on securing gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024, were used for the needs of the heating season from 1 November 2023 to 31 March 2024, were recorded in the amount of 16.5 million euro.

Revenues from the sale of thermal energy increased by 19.5 percent due to the increased price in the last quarter of 2022. By the decree of the Government of the Republic of Croatia, the existing selling prices have been maintained for the major-

[7] As of 2023, the method of correcting income from the sale of electricity in the financial reports of HEP Group, which was implemented since 2012 based on the best estimate of the amount of electricity delivered using the method of logarithmic estimation of losses in the network, has been abolished. The presented data for the year 2022 do not contain the correction of consumption and losses on the distribution network using the logarithmic method of estimating losses.

ity of end customers, and said increase was subsidized by the Ministry of Economy.

Compared to 2022, staff costs increased by 5.4 percent as a result of a 2.4% increase in the value of a point for salary calculation from 1 January 2023 based on the provisions of the Collective Agreement, Annex to the Collective Agreement (signed on 6 July 2021, valid until 31 December 2023), the Agreement on increasing the material rights of workers concluded on 2 June 2023 and hiring new employees. At the end of 2023, HEP Group employed 11,665 workers.

Financial activities recorded the loss of EUR 63.6 million, which followed the 2022 loss of EUR 40.2 million. The loss in 2022 was the result of interest expenses of EUR 33.6 million and negative exchange rate differences of EUR 7.0 million, while in 2023 it was the result of interest expenses of EUR 72.9 million.

Throughout the year, all due liabilities were settled within the due date. The Group ended the business year with EUR 528.5 million in cash and cash equivalents, which was a decrease of EUR 118.4 million (28.8%) compared to late 2022.

In May 2023, S&P Global Ratings affirmed the existing long-term credit rating of Hrvatska elektroprivreda d.d. level BBB with a change in the outlook from stable to negative, while in November 2023, Moody's affirmed the long-term credit rating of Baa2, changing the outlook from stable to positive.

INVESTMENTS

In 2022, numerous investment projects were launched or continued, from solar power plants, hydropower plants, high-efficiency cogeneration, wind power plants, the introduction of the smart network concept to energy efficiency projects and development of electromobility. All these projects confirm a clear direction of development and determination in the realization of the development strategy for the period until 2030. Through their realization, as well as the constant improvement of business operations, HEP strives to be a highly competitive and successful company, a key stakeholder in the energy transition, a driver of the Croatian economy and a support for the Government of the Republic of Croatia in the implementation of the strategic goals of energy and economic development. In 2023, HEP Group was also one of the largest investors in Croatia, with investments of EUR 485.6 million, which included EUR 19.4 million invested in Krško NPP. In 2023, there was no need for arranging new long-term loans for investment funding. They were financed by HEP's own as well as EU funds, while the construction of EL-TO Zagreb CCPP was funded through the EBRD and EIB loans. The construction completion and the takeover of the aforementioned facility with electrical output of 150 MWe and heat output of 114 MW, is planned until end 2024. This EUR 140 m investment will contribute to set RES goals of HEP's and development of Croatian energy industry.

The EUR 74 m worth revitalization project of HPP Senj is underway, while the revitalization projects of HPP Varaždin, HPP Orlovac and HPP Rijeka are under preparation. Among new hydro construction projects, the most important is the extension of the Senj Hydropower System, where currently the construction of the Bakovac - Lika tunnel and canal is being conducted. Featuring a total capacity increase of 412 megawatts and being a 500 million euro worth investment, it is HEP's largest hydro production capacity project since Croatia's independence.

From 2019 to the end of 2023, HEP's production portfolio included 58 MW Korlat wind power plant, and eight solar power plants, with a total capacity of approximately 30 megawatts - Kaštelir 1 and 2, Vis, Marići, Kosore Jug (Vrlika), Stankovci, Obrovac and Donja Dubrava. In 2024, 5 MW Jambrek solar power plant near Vinica in Varaždin County will enter trial operation, while 9.9 MW Radosavci solar power plant in the area of the town of Slatina has been built and is awaiting connection to the grid. The construction of 8.5 MW Črnkovci solar power plant near Donji Miholjec, the first power plant to be built on the basis of a cooperation agreement concluded by HEP with several local self-government units, and 10 MW Dugopolje solar power plant (10 megawatts) is underway. Tenders for the construction of 5 MW Lipik and 1 MW Unije solar power plants are underway. Also, the construction of 75 MW Korlat solar power plant, which will form a renewable hybrid energy park with the existing Korlat wind power plant, is being prepared. At the same time, HEP is installing solar power plants on the roofs of its buildings. So far, there are already 63 integrated solar power plants, of which the largest, featuring 370 kilowatt capacity, is installed on the premises of Plomin Thermal Power Plant. In addition to renewable sources, HEP Group will continue to invest strongly in the transmission and distribution of electricity, with the aim of accepting increased production from a rising number of new renewable sources in the system, in accordance with national and European Union priorities. The EU co-funded smart grid introduction pilot project has been completed. It is the largest computerization and modernization project of a part of the advanced electricity distribution network, under which HEP ODS invested in three functional areas: advanced metering infrastructure, development and optimization of the conventional network, and automation of the medium voltage network. The project, which total value is EUR 23.5 million, of which EUR 20 million, or 85 percent, are grants awarded under the European Regional Development Fund from the Operational Programme "Competitiveness and Cohesion 2014 - 2020" (OPCC), Specific objective 4d1, lasted for five years. The project was implemented in five of the 21 distribution areas, namely: Elektra Zagreb, Elektroslavonija Osijek, Elektrodalmacija Split, Elektra Zadar and Elektrojug Dubrovnik. The project resulted in the increase of electricity distribution efficiency and created prerequisites for increasing the reliability of power supply electricity. The number of users with access to the advanced network has also increased and the prerequisites for the integration of distributed sources have been created. Within the framework of the EU's Modernization of the Croatian Distribution Electricity Network project, activities related to four projects began (Development of smart network, Submarine cables in the distribution network for powering the island, Network modernization for Natura 2000 areas and Construction of a micro-energy network in areas with special development features).

In 2023, equipment replacements, reconstructions and revitalization of existing production facilities and transmission and distribution networks were continuously carried out, with a large scale engagement of domestic producers and contractors.

During 2023, the work continued on two largest HEP District Heating investment projects co-financed by the European Fund for Regional Development - Revitalization of the hot water network in the area of the city of Zagreb and Replacement of the connecting hot water pipe from Osijek TE-TO CCGT to Osijek heating plant. This revitalization project is the largest such project in the history of the district heating system of the city of Zagreb, and is being carried out with the aim of increasing the efficiency of the system and the security of supply of thermal energy to end customers. HEP Toplinarstvo replaces almost one third of Zagreb's dilapidated hot water network. In the period from 2021 to 2023, 40 kilometres of the hot water network were revitalized, which includes a total of 80 kilometres of hot water pipes, given the two-way direction of the pipeline. In the period from 2024 to 2026, 28.5 kilometres of the hot water network, i.e. a total of 57 kilometres of dilapidated hot water pipes shall be replaced. The total value of the project amounts to EUR 92.3 million, or EUR 73.8 million of eligible costs, of which EUR 55.9 million are non-reimbursable EU funds. The "Replacement of the connecting hot water pipe from TE-TO to the Osijek heating plant" project was completed, which included the replacement of the 4.4 km DN 800 connecting hot water pipe. The total estimated value of the project is EUR 11.5 million, of which the EU grant accounts for EUR 6.1 million.

As for investments in the gas activities, pursuant to the Decision of the Government of the Republic of Croatia on increasing the security of gas supply by building the Zlobin – Bosiljevo gas pipeline and increasing the capacity of the LNG terminal to 6.1 billion cubic meters of gas per year, LNG Hrvatska has started activities on increasing the maximum gasification capacity of the Terminal. The decision stipulated that LNG Hrvatska would be awarded a grant in the amount of EUR 25.0 million for covering the project's capital expenditures. In the gas distribution business, investments in the gas network continued.

The implementation of the measures and the preparation of projects for increasing energy efficiency as well as the commercialization of the eMobility project continued. Billing at motorway charging stations was introduced on 24 January 2022, and at publicly accessible off-motorway ELEN charging points on 1 March 2022. In 2023, 6 publicly accessible charging stations were installed, bringing the total number of public charging stations in the ELEN network to 270. Three charging stations were also installed for the internal needs of HEP Group, bringing the total number to 53.

FINANCIAL PERFORMANCE

According to financial indicators, HEP Group is one of the largest business groups in Croatia. After extremely complex business conditions in 2022 caused by the drought and the crisis on the energy market, the year 2023 was marked by the stabilization of business operations and a profit from operations in the amount of EUR 226.1 million compared to a 2022 loss of EUR 957.3. Better financial performance in 2023 compared to 2022 was primarily the result of increased business income. Financial activities generated loss of EUR 63.8 million, and the net profit of HEP Group amounted to EUR 116.6 million, of which EUR 116.3 million was attributable to the parent company equity owners, and EUR 283.0 thousand to non-controlling interest.

Operating income of EUR 4,636.8 million increased by EUR 1,275.5 million compared to 2022, primarily as a result of increased income from the sale of electricity by EUR 670.9 million (23.2 percent), income based on the regulations of the Government of the Republic of Croatia in in the amount of EUR 355.0 million[8], income from the supply of gas to customers by EUR 100.3 million (68.0 percent), income from the sale of heat energy by EUR 22.5 million (19.5 percent), and income from the sale of gas in accordance with the Regulation Government of the Republic of Croatia by EUR 47.6 million.

Operating expenses of EUR 4,410.7 million increased by EUR 92.1 million compared to 2022. This increase was the effect of higher fuel cost by EUR 204.6 million due to increased volume of spent natural gas, higher purchase value of sold gas procured by HEP from INA d.d. under the Regulation on Amending the Regulation of the Croatian Government by EUR 195.3 million, and higher purchase cost of gas for sale by EUR 58.4 million, while the cost of electricity procurement decreased by EUR 297.2 million as a result of a lower price of electricity (24.0 percent), a lower volume of procured electricity from eligible incentivized producers (27.6 percent), and lower cost of CO_2 emission units (2.9 percent). Expenses in accordance with the Regulation of the Government of the Republic of Croatia on eliminating disturbances on the domestic energy market were recorded under other expenses in the amount of EUR 191.5 million[9].

Consolidated profit and loass account (abridged) EUR m	2022	2023	2023-2022.	%2023 /2022
Operating income	3,361.3	4,636.8	+1,275.5	+37.9%
Operating expenses	4,318.6	4,410.7	+92.1	+2%
Profit (loss) from operations	-957.3	226.1	+1,183.4	
Net profit (loss) of the Group	-822.4	116.6	+939.0	
Net profit (loss) attributable to equity owners of the parent	-822.6	116.3	+938.9	

[8] Income from the reimbursement of the difference in the price of electricity for business customers for the fourth quarter of 2022 – EUR 247.2 million, income for the difference between the purchase and sale price of gas and other dependent costs – EUR 80.7 million, income for covering HOPS losses – EUR 11.9 million, income from subsidies for the sold electricity of HEP Energija Ljubljana – EUR 9.5 million, and income for covering heat losses in distribution – EUR 5.7 million

[9] By regulations on amendments to the Regulation on eliminating disturbances on the domestic market (Official Gazette 122/23, Official Gazette 107/23), the suppliers of HEP Group became eligible for receiving a refund for limiting the price to business customers in the period from 1 April 2023 until 30 September 2023 in the amount not exceeding 180 EUR/MWh, and from 1 October 2023 until 31 March 2024 in the amount not exceeding 150 EUR/MWh. The remaining price difference that is not reimbursed to the supplier represents the cost of the Group in the amount of EUR 191.5 million.

OPERATING INCOME

In 2023, the Group generated operating income of EUR 4,636.8 million, an increase by EUR 1,275.5 million (37.9 percent) compared to 2022 due to increased income from the sale of electricity, other operating income, income from the supply of gas, income from the sale of gas produced in Croatia pursuant to the Regulation of the Croatian Government, and income from the sale of heat energy.

The structure of operating income (EUR m) and its share in total operating income (%)



The Group earned 77% of its operating income (EUR 3,562.3 m) from the sale of electricity. A 23.2% increase (EUR 670.9 m) compared to the year before is primarily the result of increased price of electricity billed to business customers pursuant to market trends, higher price of electricity billed to household customers pursuant to regulation of the Croatian Government, and an increased export volume of surplus electricity.

Income from the sale of electricity to customers in Croatia amounted to EUR 2,943.1 million (82.6 percent of income from the sale of electricity). However, in accordance with the

regulations of the Government of the Republic of Croatia, EUR 2,197.5 million will be billed to electricity customers as the final amount, whereby the cost of the supplier amounted to EUR 191.5 million, and the reimbursement from the Government of the Republic of Croatia to EUR 254.2 million.

Income from the sale of electricity abroad increased by 50.7 percent (EUR 208.3 m) as a result of increased export of electricity generated in HEP Group power plants at a lower price of exported electricity, higher average sale prices to customers in the region and a decreased volume of supply to customers in the region.

Due to the implementation of the Regulation of the Ministry of Economy on the criteria for acquiring the status of vulnerable customers of energy from networked systems (Official Gazette 95/2015) and the Decision of the Assembly of HEP d.d. under which the electricity price remained unchanged for household customers, HEP's income from the sale of electricity to households was reduced by the amount of the solidarity fee in the amount of EUR 24.3 million.

Income from the sale of heat energy amounted to EUR 138.4 million accounting for 3 percent of operating income, an increase by EUR 22.5 million at a 9.6 percent lower consumption. Under the Regulation of the Government of the Republic of Croatia on eliminating disturbances on the domestic energy market, the Ministry of Economy subsidizes the price of heat energy, due to which the sales prices for end customers remained unchanged.

Income from the sale of gas to end customers amounted to EUR 247.9 m accounting for 5% of operating income, an increase by EUR 100.3 m compared to 2022 as the result of an increase in the average selling price of gas which has been reduced for household and business customers through a package of measures adopted by the Government of the Republic of Croatia including subsidies thereto in the amount of EUR 22.2 million.

Income from the sale of the gas reserves of the Government of the Republic of Croatia under the Regulation on eliminating disturbances in the domestic energy market was recorded in the amount of EUR 46.4 million, an increase by 202.0 percent compared to the previous year as the sale of gas in 2022 commenced at the beginning of the gas year i.e. from 1 October. The income for the difference between the purchase and sale price amounts to EUR 66.5 million.

Income from the sale of gas reserves of the Government of the Republic of Croatia, which, under the Government's Decision on securing gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024, were used for the needs of the heating season from 1 November 2023, was recorded in the amount of EUR 16.5 million.

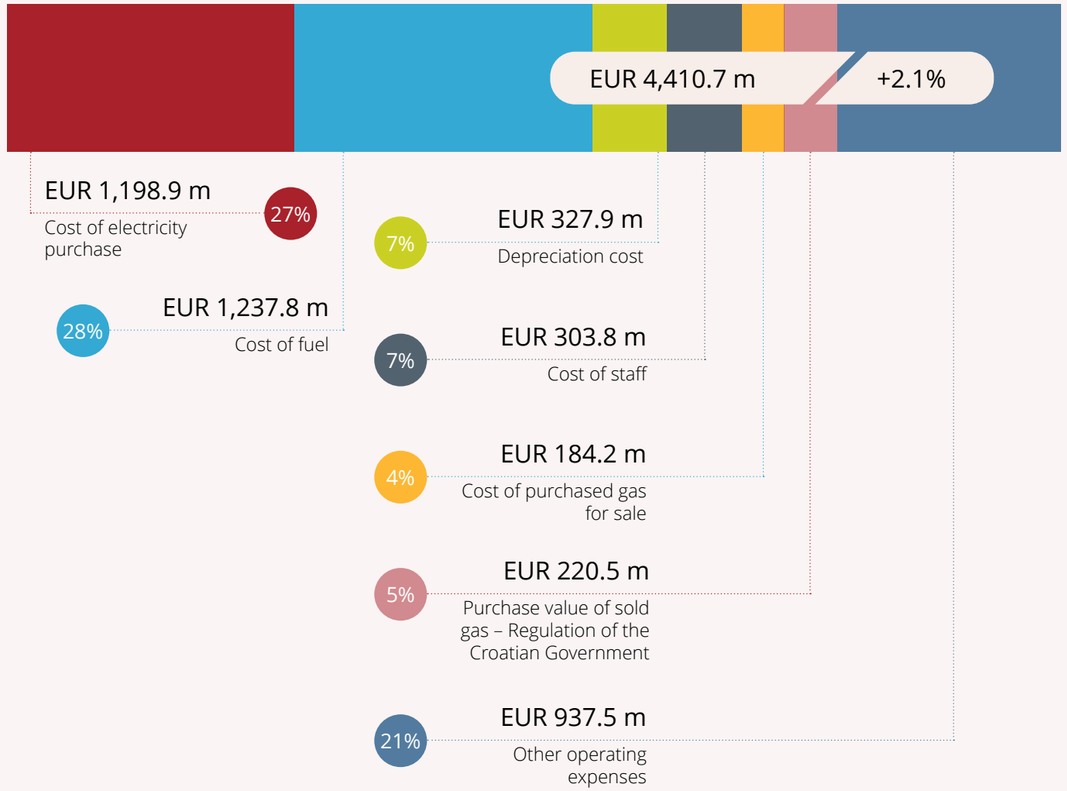
Income from the lease of LNG terminal capacity amounts to EUR 30.2 million, which is EUR 2.7 million (9.8 percent) more than in 2022.

Other operating income of EUR 594.9 million increased overall by EUR 431.5 million (264%) compared to 2022. On 14 March 2024, the Government of the Republic of Croatia adopted a Decision on compensating the difference between the contracted price of electricity and the price billed to business customers in accordance with the Regulation on eliminating disturbances on the domestic energy market for the period from 1 October 2022 to 31 March 2023 in in the amount of EUR 247.2 million. Also, the income for the difference between the purchase and sale price of gas for gas sold to customers according to the Decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia amounted to EUR 66.5 million. Reimbursed costs under the Decision of the Government of the Republic of Croatia on securing gas supplies on the territory of the Republic of Croatia (other dependent costs) amounted to EUR 14.2 million, income stemming from the Regulation of the Government of the Republic of Croatia for covering HOPS losses amounted to EUR 11.9 million, and for covering heat losses in distribution to EUR 5.7 million. Income from the cancellation of provisions, income from EU grants and grants paid from the state budget of the Republic of Croatia, income from the subsidy for sold electricity of HEP Energija, Ljubljana, and collected and written-off receivables in line with the accounting policy increased.

OPERATING EXPENSES

The Group's operating expenses in 2023 increased by EUR 92.1 million to EUR 4,410.7 million.

The structure of operating expenses (EUR m) and its share in total operating expenses (%)



Energy fuel for electricity and heat production and electricity purchase accounted for 55 percent of overall cost amounting to EUR 2,436.7 million. The cost of energy fuel in 2023 increased by EUR 204.6 million primarily as a result of increased price of natural gas with more consumed quantities, while the cost of electricity procurement on the market decreased by EUR 297.2 million (19,9 percent) due to lower purchase price of electricity and a higher electricity import volume.

Energy fuel costs increased by EUR 204.6 million (19.8 percent) compared to 2022. Electricity production in thermal power plants increased by 2.0 percent. The price of natural gas increased by 26.2 percent at a 6.9 percent higher consumption of natural gas, while the price of coal decreased by 37.7 percent at 13.4 percent less coal consumed. The costs of forest biomass for the production of BE-TO Osijek and BE-TO Sisak increased by 15.7 percent due to bigger consumed quantities

and by 13.3 percent due to higher prices of forest biomass. Due to high gas prices, reserves of substitute fuel and gas oil were also used in the production resulting in EUR 5.4 million euro in fuel oil costs.

The purchase price of electricity decreased by 24.0 percent accompanied by 290 GWh more imported electricity than in 2022. 416 GWh less electricity was procured from the eligible incentivized producers, while the purchase of electricity from producers and customers with their own production in the Republic of Croatia increased by 36 GWh at the 18.3 percent lower price.

The cost of gas procurement for market supply amounted to EUR 184.2 million, which was by EUR 58.4 million more than in 2022 due to higher gas procurement volume (629 GWh) at higher average gas purchase price. The purchase value of sold 1,249 GWh of gas, which was used under the Decision of the Croatian Government on securing gas supplies on the territory of Croatia for the heating season 2023/2024, amounted to EUR 114.4 million. The purchase value of sold 2,458 GWh of gas that HEP acquired from INA d.d. pursuant to the Regulation amending and supplementing the Regulation of the Government of the Republic of Croatia amounted to EUR 106.1 million.

The cost of staff amounted to EUR 303.8 m, an increase by EUR 15.5 million (5.4%) as a result of a 2.4% increase in salary points as of 1 January 2023 pursuant to the provisions of the Collective Agreement, Amendments to the Collective Agreement (concluded on 6 July 2021 valid until 31 December 2023), Agreement on increasing employees' material rights concluded on 2 June 2023, and new employment

Other operating expenses decreased by 10.5 percent compared to 2022, where a significant expense in 2022 was attributable to the cost of selling electricity to customers at prices set by the Regulation of the Government of the Republic of Croatia in the amount of EUR 242.6 million, which for 2023 amounted to EUR 191.5 million. Also, a provision was made in 2022 for the negative effects of the Regulation of the Government of the Republic of Croatia in the amount of EUR 76.3 million. Maintenance costs, subsequently identified costs of previous years, litigation provisions, provisions for severance pay and jubilee awards, and the compensation for the use of power plant space increased.

RESULT BY ACTIVITIES

The largest share of operating revenues (87.1%) was generated from electricity. Operating profit amounted to EUR 460.4 million, which is by EUR 1,228.3 million more than in 2022 due to significantly higher prices of electricity and favourable hydrology as well as decreased variable costs. District heating accounted for 3.4 percent of operating revenues, recording an operating loss of EUR 192.3 million. Compared to the previous year, the result worsened due to the retention of an inadequate level of tariff items/prices in the circumstances of increased energy fuel costs due to the increase in the price of natural gas and carbon dioxide emission units. The sale of thermal energy decreased by 9.6 percent. The share of gas activities (including retail, sale of gas according to the Regulation of the Government of the Republic of Croatia, market sale of gas, and LNG capacity leasing service) in operating income is 9.4 percent. A loss from operations in the amount of EUR 26.0 million was recorded compared to the operating profit of EUR 1.3 million in 2022.

Other activities generated operating loss of EUR 16.6 million.

Operating result in EUR m	Electricity			Heat		
	2022	2023	%2023 /2022	2022	2023	%2023 /2022
Operating income	3,024.2	4,040.1	+33.6%	123.4	155.5	+26.0%
Operating expenses	3,792.1	3,579.8	-5.6%	298.3	347.8	+16.6%
Profit/loss from operations	-767.9	460.4		-174.9	-192.3	+9.9%
Operating result in EUR m	**Gas**			**Other activities**		
	2022	2023	%2023 /2022	2022	2023	%2023 /2022
Operating income	206.7	438.0	+111.9%	7.0	3.1	-55.8%
Operating expenses	20.,3	464.0	+126.0%	22.9	19.1	-16.6%
Profit/loss from operations	1.3	-26.0		-15.9	-16.0	+0.7%

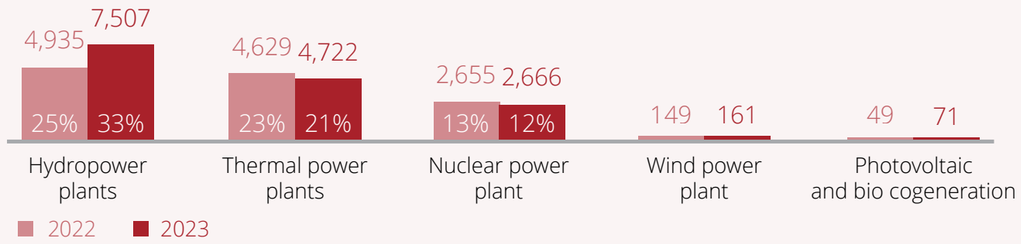
ELECTRICITY[10]

Electricity generation, transmission, distribution and supply are activities carried out by HEP Group across the entire territory of Croatia. The Group is the biggest supplier of electricity in the Republic of Croatia with 15.2 TWh of electricity sold domestically, and 5.2 GWh more supplied to customers in the region and as export of surplus electricity and resale. In 2023, the operating profit of EUR 460.4 m was generated compared to the operating loss of EUR 767.9 m in 2022.

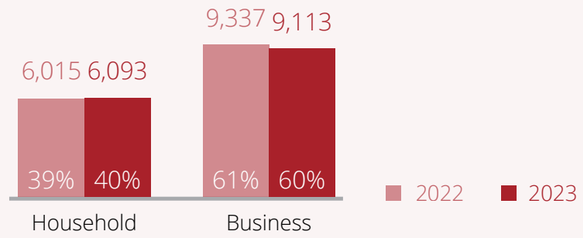
Income from the sale of electricity totalled at EUR 3,562.3 million, of which the sale in Croatia accounted for 83 percent (EUR 2,943.1 million), and the sale abroad for 17 percent (EUR 619.3 million.

[10] From 2023, the method of correcting income from the sale of electricity in the financial reports of HEP Group, which was implemented since 2012 based on the best estimate of the amount of electricity delivered using the method of logarithmic estimation of losses in the network, was cancelled. Data presented for the year 2022 do not contain the correction of consumption and losses on the distribution network using the logarithmic method of estimating losses.

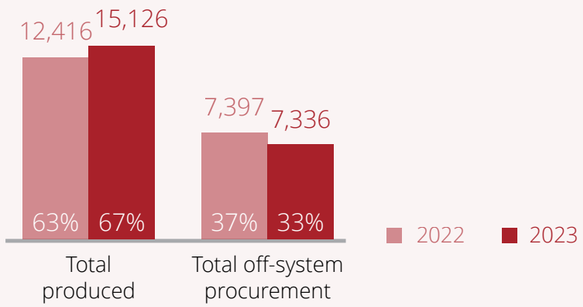
Produced electricity by sources (GWh)



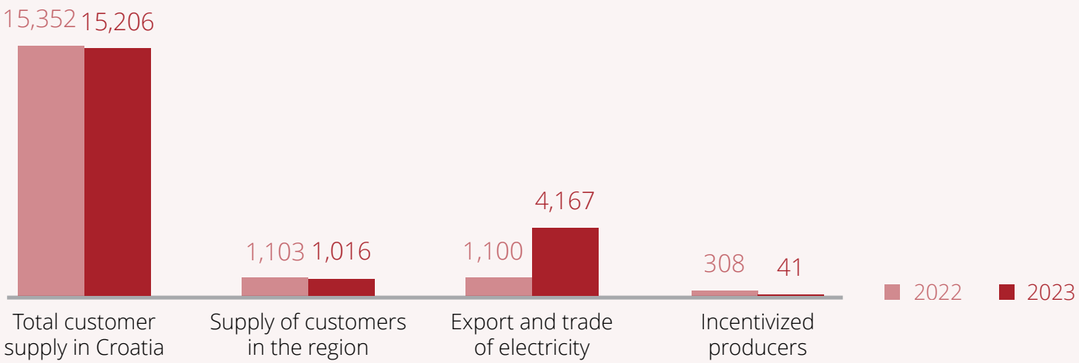
Customer supply in Croatia (GWh)



Available electricity of HEP Group (GWh)



Sale of electricity (GWh)



HEP Group's total production and purchase of electricity amounted to 22.4 TWh, of which 15.1 TWh (67%) was produced in power plants owned and partially owned by the Group.

After an extremely dry period in 2022, which resulted in significantly reduced water inflows and the production of 4.9 TWh of electricity in hydro power plants, in 2023, due to extremely high energy values of water inflows and favouable hydrology, 7.5 TWh was produced.

Thermal and cogeneration power plants produced 4.7 TWh (21% of available electricity), which is by 93 GWh (2.0%) more than in 2022. Krško nuclear power plant delivered 2.7 TWh, which is 341 GWh (11.3%) less than planned, due to a 43-day long extraordinary overhaul during October and November 2023.

The remaining electricity production refers to the production of Korlat wind power plant (161 GWh), Osijek and Sisak BE-TO CHPs (29 GWh) and solar power plants (42 GWh).

The off-system procurement accounted for 7,336 GWh (33% of available electricity), which was a decrease of 62 GWh (0.8%) compared to the previous year. Of the total amount, the import of electricity for the needs of customer supply accounts for 5,623 GWh. Furthermore, 1,093 GWh refers to the purchase of HEP Group from HROTE for production from renewable energy sources and high-efficiency cogeneration in the incentive system (416 GWh less), and 199 GWh to procurement from producers outside HEP Group and the offtake of electricity from end customers with own production. 421 GWh was procured off system to cover losses in the transmission network, which was an increase of 28 GWh compared to the previous year.

A total of 15.2 TWh was sold to customers in Croatia, which is by 146 TWh (1.0%) less than in 2022. 224 GWh less electricity (2.4%) was billed to business customers, and 78 GWh (1.3%) more to households. HEP Group's market share covered 93.3 percent of total electricity sale to end customers in Croatia in 2023. 1.0 TWh was sold to customers in the region, which is by 88 GWh (8.0%) less than in 2022. The remaining sale abroad (4.2 TWh) increased by 3.1 TWh compared to 2022, and refers to the export of surplus electricity produced in HEP Group power plants and trading. In 20231, 41 GWh of electricity produced in power plants with the status of an eligible incentivized producer was sold.

Compared to 2022, income from the sale of electricity increased by EUR 670.9 m (23.2%) to EUR 3,562.3 million. Income from the sale of electricity to customers in Croatia increased by EUR 462.6 million (18.7%) due to higher electricity prices for business customers in line with market trends and higher price of electricity for household customers pursuant to Regulations of the Croatian Government. Income from the sale of electricity abroad amounted to EUR 619.3 million, which is an increase of EUR 208.3 million (50.7%) due to higher exports of surplus electricity generated in HEP Group power plants at a lower price of exported electricity and a higher average selling price to customers in the region accompanied by a lower supply volume thereof.

DISTRICT HEATING

Heat energy production, distribution and supply are conducted on the territory of Zagreb, Osijek, Velika Gorica, Zaprešić, Samobor and Sisak.

District Heating generated operating loss of EUR 192.3 million, which was by EUR 17.4 more than in 2022. The result aggravated due to higher costs of natural gas and CO_2 emissions.

Pursuant to the Regulation of the Government of the Republic of Croatia on eliminating disturbances on the domestic energy market, the Ministry of Economy subsidizes the price of thermal energy in the amount of EUR 41.3 million, due to which the prices for end customers remained unchanged. Also, pursuant to the Regulation of the Government of the Republic of Croatia, EUR 5.7 million was paid as a subsidy as of 1 April 2023 for covering heat energy losses.

In 2023, a total of 2,095 GWh of thermal energy was produced, which is 176 GWh or 7.8 percent less than in 2022. 95 GWh of heat energy was produced in HEP District Heating plants, and 2,000 GWh in cogeneration facilities of HEP Proizvodnja. Process steam accounts for 23 percent and heat for 77 percent in total generated volumes.

The sale of heat energy in 2023 reached 1,663 GWh i.e. a 9.6 percent or 176 GWh less than in 2022, of which households and business customers accounted for 60 percent (998 GWh) and 44 percent (664 GWh), respectively. Compared to 2022, total sale to households and business customers decreased by 3.7 percent and 17.2 percent, respectively.

GAS

Gas business includes the distribution and supply of gas to end customers and the operation of the liquefied natural gas terminal. By decree and decisions of the Government, in 2023 HEP was also responsible for the procurement of strategic gas supplies and the procurement and sale of gas produced in the Republic of Croatia. Gas operations recorded an operating loss of EUR 26.0 million compared to a profit of EUR 1.3 million in 2022.

Gas distribution and supply

Distribution area of HEP Plin d.o.o. in 2023 covered the territory of Osijek-Baranja, Požega-Slavonia, Vukovar-Srijem, Virovitica-Podravina, Bjelovar-Bilogora and Krapina-Zagorje counties and included a 4,803 kilometre long distribution network. In 2023, the number of household customers increased, while the number of business customers decreased.

The supply of retail gas customers increased in 2023 by 24.2 percent to 3.1 TWh. Gas sales to household and business customers increased by 4.4 and 41.2 percent, respectively primarily as a result of taking on a role of a guaranteed supplier. Revenue from gas distribution and supply grew by 68.0 percent thanks to higher sales volume and a higher price subsidized to customers under the package of measures of the Government of the Republic of Croatia for mitigating the consequences of rising energy prices. Under the Decision on subsidizing gas prices, the final price of gas for household customers (without VAT) is subsidized in the amount of 0.0199 EUR/kWh[11], and for business customers which annual demand does not exceed 10 GWh the price of gas is subsidized by means of a gas voucher[12]. The total gas subsidy in 2023 amounted to EUR 22.2 million, of which household customers account for EUR 19.3 million and business customers for EUR 2.9 million.

[11] The supplier reduces customer's liability by reducing the net amount of the invoice by the amount of the subsidy. At the end of the accounting period, the supplier submits a request for subsidy refund to the Environmental Protection and Energy Efficiency Fund
[12] Small and midsize business customers are entitled to gas vouchers based on their annual consumption and by submitting the aid request via the HAMAG BICRO system.

Gas reserves under the decision of the Croatian Government on securing gas supplies on the territory of the Republic of Croatia

Instability on the global and European energy markets, which manifested itself through an unprecedented increase in gas prices in the second half of 2021, continued in 2022. Negative trends were inevitably reflected on the gas market in the Republic of Croatia, and the Ministry of Economy issued a Decision on the declaration of an early warning regarding the level of crisis in the protection of gas supply security in the Republic of Croatia (Official Gazette 49/22), on the basis of which the Croatian Government passed the Decision on securing gas supplies on the territory of the Republic of Croatia (Official Gazette 63/22) dated 3 June 2022. Under said decision, HEP d.d. was mandated with ensuring sufficient gas supplies, for the period from 1 April 2022 to 31 March 2023, in the volume of 270.83 million m^3 as and to inject said gas in the Okoli underground gas storage. In the period from June to August 2022, 2,679 GWh was procured. Given there was no threat to the national security of gas supply in 2022, there was no need to use strategic gas reserves.

Based on the Government's Decision on securing gas supplies on the territory of the Republic of Croatia for the heating season 2023/2024 from March 2023, this gas was used for the needs of the heating season from 1 November 2023 to 31 March 2024, for the needs of the public service of household customers, for customers of thermal energy from independent heating systems and for protected customers under the Regulation on criteria for acquiring the status of a protected customer in the condition of gas supply crisis.

320 GWh of gas was sold for EUR 16.5 million with an average price of EUR 51.7/MWh, It was procured for EUR 32.4 million. The income for the difference between the purchase and sale price amounts to EUR 66.6 million.

In accordance with the Decision on securing gas supplies, the Government of the Republic of Croatia will compensate the difference between the purchase and sale price of gas, storage costs and financing costs. The cost of storage and financing was reimbursed by the Government of the Republic of Croatia in accordance with reimbursement requests. In order to procure gas, a club loan was agreed in the amount of EUR 400.0 million, of which EUR 294.0 million was used. The loan was repaid in January 2024, for which the Government of the Republic of Croatia provided funds. Pursuant to the Decision of the Government of the Republic of Croatia from January 2024, according to the monthly supply rate of gas from reserves and in line with made payments from the sale of gas, HEP d.d. paid into the single account of the State Budget of the Republic of Croatia the amount corresponding to the delivered quantity of gas multiplied by the valid price of gas supply determined in accordance with the valid Methodology for determining the amount of tariff items for the public service of gas supply and guaranteed supply.

Procurement and sale of gas produced in the Republic of Croatia

The Regulation of the Government of the Republic of Croatia on Amendments to the Regulation on Eliminating Disturbances on the Domestic Energy Market of 14 September 2022 stipulates that the natural gas producer INA d.d., in the period from 1 October 2022 to 31 March 2024, shall sell natural gas produced in the Republic of Croatia to HEP at a price of HRK 0.3086/kWh (EUR 0.0410/kWh), with the aim of securing supplies and increasing the availability of natural gas in the Republic of Croatia. In line with the above, in the period from January to July 2023 HEP acquired 2,501 GWh of gas from INA d.d. for EUR 106.0 million.

On the basis of the aforementioned Regulation, the Government passed a Decision on the price and allocation of natural gas capacity acquired by HEP d.d. from the natural gas producer (Official Gazette 122/22), thus defining the gas quantities for individual categories of customers and the prices at which HEP d.d. supplies gas as of 1 October 2022.

During 2023, amendments to the Regulation were adopted, which expanded customer categories to which HEP d.d. is obligated to sell gas, and from July 2023, with the Regulation on Amendments to the Regulation on Elimination of Disruptions on the Domestic Energy Market (Official Gazette 74/23), INA's obligation to supply gas ended. 1,356 GWh of gas was sold for EUR 46.4 million with an average price of EUR 34.3/MWh, for which the costs of the purchase value amount to EUR 58.9 million.

Operation of LNG terminal

In 2023, the LNG terminal continued its safe and reliable operation, which includes the reloading process of liquefied natural gas from ships for the transport of liquefied natural gas to the "LNG Croatia" FSRU ship[13], storage and gasification of liquefied natural gas, and dispatch of natural gas to the transport system of the Republic of Croatia. In 2023, a total of 4,204,640 m□ of liquefied natural gas was reloaded from 30 LNG carriers, and more than 2,580,302,741 m□ of natural gas gasified and transported into the transport network, which makes the Terminal the largest individual entry point in the gas transposrtation system of the Republic of Croatia.

In accordance with the Decision of the Government of the Republic of Croatia on increasing the security of gas supply by building the Zlobin - Bosiljevo gas pipeline and increasing the capacity of the LNG terminal to 6.1 billion cubic meters of gas per year, LNG Croatia started activities to increase the maximum gasification capacity of the Terminal by launching the main tender for the procurement of a new module for the gasification of maximum capacity of 250,000 m^3/h.

Income from the lease of LNG terminal capacity amounted to EUR 30.2 million, which is by EUR 2.7 million (9.8 percent) more than in 2022.

[11] Floating Storage Regasification Unit

ABRIDGEDA?

FINANCIAL POSITION

Consolidated balance (abridged)	31 December 2022		31 December 2023		%2023 / 2022
	EUR m	share	EUR m	share	
Long-term asset	5,309.7	77%	5,439.1	71%	+2.4%
Short-term asset	1,610.6	23%	2,234.4	29%	+38.7%
Total asset	**6,920.3**	**100%**	**7,673.5**	**100%**	**+10.9%**
Capital and reserves	2,721.4	39%	2,838.5	41%	+4.3%
Long-term provisions	263.5	4%	202.2	3%	-23.0%
Long-term liabilities	2,575.7	37%	2,521.8	36%	-2.0%
Short-term liabilities	1,359.6	20%	2,110.9	31%	+55.3%
Total liabilities and equity	**6,920.3**	**100%**	**7,673.5**	**100%**	**+10.9%**

ASSET

The value of HEP Group's total asset at the end of 2023 was EUR 7.67 bn, an increase by EUR 753.2 m compared to end 2022. Long-term asset of EUR 5.44 bn accounted for 71% of the Group's asset value, which marked an increase of EUR 129.4 m primarily as a result of increased value of property, plants and equipment by EUR 155 million.

The value of short-term asset of EUR 2.23 billion represents an increase by EUR 623.8 million. The increase in the value of short-term assets is for the most part the result of reported receivables in the amount of EUR 547 million, which were reported by HEP Group in accordance with the Decision of the Government of the Republic of Croatia from 14 March 2024 on compensation for the difference between the contracted price of electricity and the price charged to business customers in accordance with the Regulation on eliminating disturbances on the domestic energy market, for the period from 1 October 2022 to 31 March 2023. Cash and cash equivalents increased by EUR 118 million.

CAPITAL AND LIABILITIES

Capital and reserves at the end of 2023 amounted to EUR 2.84 billion, a rise of EUR 117.1 million in comparison with 2022 primarily due to retained profit.

At the end of 2023, long-term provisions decreased by EUR 61.3 million compared to 2022.

Long-term liabilities amounted to EUR 2.72 bn, which is a decrease by EUR 115.5 m compared to 2022, accounting for 36 percent of the Group's total capital and liabilities. Said decrease is primarily connected to long-term loan liabilities, which decreased by EUR 186 million.

Short-term liabilities amounted to EUR 2.11 billion, an increase by EUR 751.2 m compared to 2022. Said increase is primarily the result of the current maturity of long-term loans in the amount of EUR 899.1 million, the increase of other short-term liabilities of EUR 58.1 m, with the simultaneous decrease of short-term trade liabilities of EUR 202 million.

CREDIT RATING

HEP is rated by Standard & Poor's and Moody's.

In May 2023, the rating agency S&P Global Ratings affirmed the existing long-term credit rating of Hrvatska elektroprivreda d.d. ofl BBB and reduced the standalone credit quality rating from bbb- to bb+ with a change in outlook from stable to negative, while in November 2023 the rating agency Moody's affirmed the existing long-term credit rating of Baa2, while changing the outlook from stable to positive.

The change came after Moody's upgraded the outlook for the long-term rating of the Republic of Croatia from stable to positive. The outlook upgrade to positive reflects the strong connection between HEP's rating and the creditworthiness of the sovereign, given the 100 percent ownership of HEP and the dominant position of HEP on the Croatian electricity market.

Credit agency	Baseline credit assessment	Standalone credit quality
Standard & Poor's	BBB (negative)	bb+
Moody's	Baa2 (positive)	baa3

BUSINESS RISKS

The Group defines risk as a combination of the probability of an event and its consequences. For HEP Group, risks are events and/or potential developments (internal or external) that have or could have a negative impact on the achievement of business goals. Regardless of the source of the risk, the Group manages the risk appropriately in order to reduce or avoid it completely.

The Group is exposed to material risks, which are described below.

RISKS OF ECONOMIC CONDITIONS OF OPERATIONS AND ENVIRONMENT

The macroeconomic and economic environment is of particular importance for HEP's operations. For example, the risk of a sovereign credit rating downgrade affects the possibility and conditions of HEP Group's indebtedness. The Group cannot manage these risks directly.

LEGAL AND REGULATORY RISKS

Risk of business environment, regulation and compliance with EU regulations

The risk of the business environment is determined by the political, economic and social conditions in the country and region, which affect the operations and performance of domestic business entities. Despite its current dominant position on the market, the changing nature of competition (new regulations, the emergence of new players, mergers of existing players, etc.) may result in the loss of HEP Group's market share.

Furthermore, the legal framework on the basis of which the functioning of the energy sector is organized, as well as its changes, may result in additional costs, be incompatible with the HEP Group's growth model, or change the competitive context within which the HEP Group operates. Through continuous monitoring of changes in the business environment, a timely and appropriate adaptation of the strategic orientation and business system to regulatory, legal and market changes, as well as continuous improvement of the efficiency of the business system, HEP Group will be able to overcome the effects of the appearance of new competitors and the burden of new possible costs without reducing market share and profitability.

The regulatory risk in the energy sector of the Republic of Croatia is currently additionally emphasized with regard to the process of energy transition towards low-carbon energy. The energy development strategy until 2030 with a view to 2050 foresees capital-intensive changes without additional state subsidies, but with the expectation of greater involvement of the private sector. The energy transition is expected to be funded from various sources, including EU funds and private capital.

In view of the Strategy goals, there is a risk of harmonizing national goals with EU directives, and naturally the need for increased coordination between state institutions. Also, the transition dynamics depends on the achievement of certain goals and can affect the regulatory framework, especially in the context of RES financing and investments.

The Croatian Energy Regulatory Agency (HERA) has a key role in the regulation of energy activities, and the challenges include the adjustments to the legislative-regulatory framework to ensure compliance with EU standards, as well as to encourage investments. Regulatory risk also includes the need to protect end customers of energy and ensure transparency in regulatory activities.

Requirements arising from environmental regulations

The activities of HEP Group are subject to environmental provisions, which are becoming increasingly numerous and restrictive. The violation of these provisions may result in additional costs and/or expose HEP Group to significant legal actions.

Furthermore, national or European authorities may request the strengthening of these provisions, which would have a negative impact on the Group's activities and its financial results. For example, the expected trend of reducing the limit values of emissions will lead to an increase in the price of production from thermal energy facilities due to investments in technologies for achieving the limit values of pollutant emissions into the environment and energy efficiency, which is a risk to which all investors in such facilities in the EU are exposed. HEP joined the European Union's Emissions Trading Systems (EU-ETS) on 1 January 2013. During the third trading period, the price of emission units was volatile and significantly increased until the end of the period that ended on 31 December 2020. The 4th EU ETS period (2021-2030) is currently in force, that is characterized by a 2.2% annual reduction of emission allowances, which results in an increase in the price of emission allowances. The risk of further price growth is also present due to EU policy, which aims to significantly reduce greenhouse gas emissions by 2030, that is, to completely decarbonize the energy sector by 2050. The increase in the price of emission allowances affects the production price of energy, on which the operation of individual thermal energy plants are dependent. From the year 2026, the obligation arising from the EU ETS2 system begins to apply. Currently, the internal verification of which companies within HEP Group will be subject to the EU ETS2 is in progress. The shortage of energy produced from hydropower plants is set off by production from other sources, depending on the availability of other generation facilities and having in mind cost optimization.

As of 1 October 2023, HEP Group has a new obligation arising from Regulation (EU) 20233/956 on the establishment of a carbon border adjustment mechanism (the so-called CBAM Regulation). All importers of electricity, ores and products made of iron, steel, aluminum, cement, hydrogen that is not produced from renewable energy sources as well as fertilizers from countries outside the European Union are obliged to report on the CO_2 emissions embedded in the purchased goods or electricity. CBAM reports are submitted to the Temporary Register, which is the responsibility of the Customs Administration in the Republic of Croatia. From 1 January 2026, HEP Group will have the obligation of purchasing one CBAM certificate for every tonne of greenhouse gases embedded in imported goods from the countries outside the EU.

The request to check whether they import or will import goods for which it is necessary to report embedded CO_2 emissions was sent to HEP Group companies - HEP Proizvodnja, HEP ODS, HEP Plin, HEP Toplinarstvo and HEP Trgovina as well as the Procurement Department of HEP d.d., which are undoubtedly bound by the CBAM Regulation. The Environmental Protection and Sustainable Development informed the aforementioned companies about their obligations under the CBAM Regulation, European Commission training, the obligation to register in the Temporary CBAM Register and the obligation to request information on embedded greenhouse gas emissions from exporters of the aforementioned goods. An employee from the Procurement Department of HEP d.d. registered with the Temporary CBAM register, to whom HEP Trgovina will provide data on electricity imports and embedded emissions. Other companies reported that they do not have such goods that are directly imported from countries outside the EU and placed on the EU market.

In accordance with its obligations, HEP has submitted the last quarterly report for 2023 to the Temporary Register, and the report for the first quarter of 2024 is also being prepared. In accordance with its obligations, HEP submitted the last quarterly report for 2023 to the Temporary Register, and the report for the first quarter of 2024 is also being prepared.

Furthermore, direct consequences of the application of the provisions of the current legal regulations in the field of environmental protection to the operation of existing and the construction of planned electric power facilities are the uncertainty of the issuance, i.e. a significant extension of the issuance period of location permits, an increase in costs and lower profitability of the facilities (European Ecological Network NATURA 2000, Water Area Management Plan, emission of pollutants into the air, climate protection, etc). On the basis of the Water Area Management Plan for the period 2022 to 2027 work conditions for HEP's hydropower plants will be established in order to protect target species and habitats, which may result in a change in hydropower plant operating conditions, a reduction in production, and an increase in the production price energy, due to the obligation to install and apply measures for the preservation of the good water status.

HEP Group is obliged to issue a sustainability report. In accordance with the Directive (EU) 2020/852 on the establishment of a framework for facilitating sustainable investments and amending Regulation (EU) 2019/2088 from 2022 i.e. 2023, it must report on its environmentally sustainable investments. The possibility of obtaining more favourable loans on the capital market and the company's reputation in the public will depend on the assessment of activities of importance for HEP Group according to the prescribed technical criteria, in terms of the share of turnover, CAPEX and OPEX related to sustainable activities in relation to absolute turnover, CAPEX and OPEX.

Water act related risks

In May 2018, the Act on Amendments to the Water Act (Official Gazette 46/18) entered into force, which resolved the ownership status of water structures for the production of electricity, i.e., hydropower plants built by HEP d.d., i.e., its legal predecessors.

HEP d.d. became the owner of hydropower facilities by virtue of the law by establishing the building right for the benefit of HEP, free of charge, for a period of 99 years.

During the validity of said building right, HEP d.d. also manages the public good/land on which buildings for the production of electricity are erected, as well as reservoirs and supply and drainage channels and tunnels (parts of hydropower plants where HEP's ownership is not acquired through the establishment of building rights) on behalf of the Republic of Croatia.

In order to implement the provisions of the Act on Amendments to the Water Act, that is, the Water Act (Official Gazette 66/19, 84/21, 47/23), which provisions confirm the model of resolving property-legal relations, HEP d.d. is obliged, in cooperation and with the participation of Hrvatske vode, to start the procedures for registering the above-mentioned rights in the land registers and to obtain the corresponding subdivision studies. The aforementioned studies will be the basis for the issuance of a tabular document by the competent municipal state attorney's offices for the registration of the right to build, or management on the public water good for the benefit of HEP d.d. on the land on which hydropower facilities are located.

Bearing in mind the state of the land registers in the Republic of Croatia and the fact that this involves a demanding and complex task of preparing and implementing the registration of the mentioned rights for the benefit of HEP, i.e. a large number of procedures, which does not depend exclusively on the engagement of HEP's expert services, but includes the engagement of Hrvatske vode and the State Attorney's Office, a lengthy process of sorting out and registering the rights in question in land registers and other registers is expected. The completion of the entire process can be expected over a period of several years.

Regardless of the above, in order to protect its business interests, HEP d.d. actively participates in the proceedings in question, trying to speed up the implementation processes of the Water Act through cooperation with Hrvatske vode and the establishment of joint operational teams for the implementation of the Act in individual water areas. These teams have become operational, some surveying reports in cooperation with Hrvatske vode have already been prepared and the registration procedure is in progress in accordance with the provisions of Article 235 of the Water Act (water structures for the production of electricity, building right and management right). The process of drafting surveying reports and registration will take place continuously until the demarcation and registration of all production facilities - HPP.

Land registry relations

Given that not all real rights have yet been fully registered in the land registers, i.e. other public registers, HEP d.d. and other companies of HEP Group continue with the ongoing process of regulating the land registry situation, that is, registering their real rights on the real estate in the land registry departments of the competent municipal courts of the Republic of Croatia.

Regardless of the fact that the registration of real rights was not fully completed due to the extremely large number of properties owned by HEP d.d. on the entire territory of the Republic of Croatia, HEP d.d. as a rule, has adequate legal protection in relation thereto when it comes to other parties, since it is in the possession of said properties, which is also manages and operates.

FINANCIAL RISKS

Market risks

The prices of energy fuels for the production of electricity and thermal energy (coal, gas), the price of electricity purchased on the market and the prices of carbon dioxide emission units are very sensitive to trends and disturbances in world markets, as well as to the available production capacities in the region, which can produce electricity at a competitive price in relation to electricity demand.

The Group reduces the risk of sudden changes in the prices of energy fuels, electricity and carbon dioxide emission units which it purchases on the market by concluding contracts that define quantities and prices for a certain future period, and partly provides the necessary energy fuel and electricity through semi-annual or annual contracts.

Financing of investment plan

In order to deliver planned investment projects, HEP Group secures financial sources on the money and capital market in addition to its own funds. For the timely realization and cost of the investment, it is of particular importance to implement a conservative financial policy by considering and securing new favourable external sources of financing in a timely manner. Potential risks relate to the possibility of accessing adequate markets and investors with a long-term investment horizon, corresponding to the cycle of construction and exploitation of energy facilities, and the cost of financing such arrangements. As part of this risk can be mitigated by a satisfactory credit rating of the Group, the Group continuously implements activities and measures to maintain an acceptable rating for favourable external borrowing.

The planned construction of new power plants also entails potential risks in implementation, which HEP Group tries to minimize as much as possible. Potential risks relate to investment conditions in Croatia, the direction of development and integration of the Croatian energy market in the common European market, and macroeconomic, regulatory and other factors that affect the profitability and attractiveness of planned investment projects, on which HEP Group has no influence.

The Group mitigates this risk through the flexibility of its plans, which enables, in the event that favourable means and methods of financing cannot be secured, making a time shift in the realization of individual planned investment projects in accordance with their importance for the security of the energy system and customer supply.

Currency risk

The currency risk related to the change in the euro exchange rate has been eliminated as of 1 January 2023, with the entry of the Republic of Croatia into the European exchange rate mechanism, when the euro became the official currency of payment in Croatia.

During 2023, HEP Group was exposed to currency risk in the event of the US dollar exchange rate volatility. Namely, the cost of coal is linked to the exchange rate of the US dollar, while the largest part of the income is in the euro. For hedging against currency exchange rate changes, the Group uses preferential forward exchange rates and currency swap transactions for fixed liabilities to banks and suppliers.

Interest rate risk

The Group is exposed to interest rate risk as it concludes loan agreements with variable interest rates. It manages this risk in such a way as to maintain an appropriate ratio of loans with fixed and variable interest rates in its loan portfolio. Also, contracts on interest rate swaps are concluded, which protect the Group's exposure based on liabilities at variable interest rates. The growth of EURIBOR rates affects the increase of interest costs for loans without a fixed interest rate, which make up about 53.50 percent of the value of the total debt. For new borrowing, the state's risk premium as well as the credit rating of HEP are important, because they affect the margin that financial institutions demand above the level of reference interest rates.

Liquidity risk

Liquidity risk is expressed as the uncertainty that the Group will not be able to fulfill its obligations to creditors, in accordance with the agreed deadlines. The Group manages this risk by concluding framework agreements with banks in order to quickly and under foreseeable conditions provide funds for the settlement of due obligations if faced with a potential shortage of available funds from its operations. According to the framework agreements, the Group can use short-term loans and approved current account overdrafts, issue guarantees and open letters of credit. In addition, realized and forecasted future cash flows are being continuously monitored and the maturity profiles of receivables and liabilities compared. To overcome the risk of liquidity, a number of internal measures are continuously implemented to improve operations and reduce costs, the appropriate level of the investment plan and the annual rate of its realization determined, and a proactive and conservative liquidity management policy continuously implemented. The situation on the financial markets, globally and in Croatia, can be a limiting factor for refinancing existing and securing new credit arrangements.

Collection risk

Financial risk is also a collection risk, which primarily results from the quality of the credit assessment, that is, the customer's credit risk. The collection function in subsidiaries manages the risk of collection through a system for evaluating the creditworthiness of customers, extending payment terms, paying debts in installments, etc.

The management of trade receivables, which in addition to cash on account, is among the company's most liquid assets, has a great impact on ensuring liquidity, i.e. on the management of collection risk. The process of receivables management in HEP Group takes place first of all by optimizing the level of trade receivables, and by the process of early collection, i.e. by conducting effective collection of receivables without the risk of losing customers. Also, for the establishment of better collection risk management in HEP Group, key elements of good practice have been determined, which, among others, include clearly defined responsibilities in the process itself (centralized), a clearly structured process, the establishment of adequate programme support and an appropriate reporting system.

OPERATIONAL RISKS

Risk of dependence on hydrological conditions

The Group has more than 50 percent of its installed electricity production capacity in hydropower plants, which makes it largely dependent on hydrological conditions and water inflows. Some of the hydropower plants have reservoirs, which to a certain extent enables optimizing the use of the energy potential of water throughout the year. To reduce this risk, the existence of a diversified structure of electricity production is of particular importance, whereby HEP Group does not rely exclusively on one form of electricity production.

Competition related risks

Other suppliers outside HEP Group have become more active on the electricity market in the Republic of Croatia over the past years, which has strengthened HEP Group's activities related to competition risk management.

HEP manages the risk of a possible loss of a large part of the market by creating new products and services tailored to customer requirements, with a strong marketing campaign and other activities aimed at strengthening HEP's brand and raising the quality of customer relations, as well as intensifying activities aimed at generating income on the regional market.

In 2023, other suppliers achieved a share of 6.68 percent in total sales to domestic customers, which represents a decrease compared to the previous year (2022-share of other suppliers was 7.30%).

RISKS OF HEP'S OPERATING SYSTEM

Risks of organizational changes

In a dynamic and uncertain environment, systematic monitoring of its changes and adjustment of HEP's operations by implementing appropriate organizational changes is one of the fundamental tasks of HEP's management.

In order to reduce all the risks that such a complex operation entails, careful planning, execution and control, i.e. change management, is of crucial importance, in order to ensure the acceptable functioning of the organization during and after the transition. The Group will manage a defined personnel management system during the change, which will involve all employees who will be introduced to the change process.

Risks of HEP's internal business system

The risks of the internal business system are related to the security of the Group's information and IT system, the safety and reliability of plant operation, the brand perception in the public and the reputation of HEP, work safety, the risk of key employees leaving and a number of other business areas.

In addition, other internal risks, of which the Group is not aware at the moment or which it considers to be of non-material nature, may have the same adverse effect.

The Group reduces the risks of the internal business system by systematically monitoring business processes and actively managing all business segments.

INVESTMENTS

In 2023, the Group made investments in the amount of EUR 485.6 million. The majority of investments was related to the renovation and modernization of production facilities and energy system facilities, the construction of new power generation facilities, and the renovation of the existing ones as well as the construction of new transmission and distribution network infrastructure facilities.

Investments in 3 solar power plants have been fully completed. The construction of several new solar power plants has begun, while HEP's largest solar power plant project is under development at the site of the Korlat wind power plant. Independent development of several RES projects continued with the aim of creating prerequisites for their construction, as well as the cooperation with municipalities and cities on solar power plant development.

In addition, investments were made in heating and gas distribution and the upgrade of the IT and telecommunications infrastructure, as well as the development and expansion of the public EV charging station network in cities and on motorways in Croatia.

Under the decision of the Government of the Republic of Croatia on increasing the security of gas supply by increasing the capacity of the LNG terminal, all necessary services were contracted for increasing the maximum capacity of the terminal.

Investments[14] in EUR m	2021	2022	2023	%2023/ 2022
Investments in property, plants and equipment	409.2	452.2	485.6	+7.4%

Through continuous investments in the maintenance and modernization of the existing facilities and the construction of new generation capacities and network systems, HEP meets the following objectives: security of energy supply, competitiveness of HEP's power system, the development of HEP Group's business system, contribution to sustainability and the continuity of the Croatian energy sector by taking into consideration the increasing presence of other participants on the open market, especially in electricity supply and electricity generation from renewable energy sources.

Through investments, HEP Group meets preconditions for Croatia's future reach of an adequate level of energy independence in the electricity sector, by taking current electricity consumption and the projection of its growth into consideration as well as the necessary modernization of thermal power facilities by implementing new technological solutions to satisfy sustainability criteria.

[14] The value of investments includes realized investments of LNG Hrvatska d.o.o. in the amount of EUR 18.1 million in 2023. The LNG terminal is a strategic EU and Croatian project, and HEP, as the majority owner of LNG Croatia, is an investor in the LNG terminal. The LNG terminal has been in operation since 1 January 2021

KEY INVESTMENTS

- The construction preparation and the construction of the Kosinj HPP/Senj 2 HPP project continued. In 2023, the following activities in the framework of the Kosinj HPP project, which the Government declared a project of strategic importance for the Republic of Croatia in 2021, were carried out: main design of the main buildings, the construction of the tunnel and the Bakovac – Lika canal, replacement roads and residential buildings in Perušić for the population of the catchment area. Environmental monitoring, archaeological research, exhumations and the expansion of the cemetery in Perušić were carried out. The preparation of the tender documentation for the contracting of the main works has been agreed. The main activity in relation to Senj 2 HPP was the preparation of the main design, according to which the first construction permit was obtained in December 2023.
- The construction of the combined cogeneration unit L in EL-TO Zagreb CCPP continued, as well as the first phase of the functional testing of the equipment and systems of the new plant carried out in 2023. The first start-up of the two gas turbines was successfully completed, as well as the first synchronization of the gas unit generators and the power system carried out. At the TE-TO Osijek plant site, the preparation of documentation for obtaining a location permit for the new gas cogeneration plant - KKP Osijek plant CHP continued. Identification of a technical and commercial solution for the development of Rijeka TPP continued.
- At the Donja Dubrava solar power plant site, all construction activities were completed and the power plant was put into operation. The construction of Radosavci, Jambrek and Črnkovci solar power plants continued, while the construction of Dugopolje solar power plant began. A location permit was obtained for Krnjak solar power plant, while requests for the issuance thereof were submitted for Bogomolje, Kruševo and Konačnik solar power plants. After the issuance of the construction permits for Korlat, Lipik and Unije solar power plants, the conclusion of the their construction contracts is in the process. The production of documentation for the battery system in the Lošinj substation preceding necessary permits was agreed. The production of documentation preceding necessary permits for the battery system and the electrolyser with associated systems at the Jertovec Thermal Power Plant was also contracted. Independent development of several RES projects continued with the aim of creating prerequisites for their construction in the next two years.
- A contract was concluded for the construction of the 160 kW integrated solar power plant on the roofs of BE-TO Sisak. The construction began in late 2023, and its completion is expected in the first half of 2024.
- With regard to distribution, the construction, reconstruction, transformation strengthening or extension of MV facilities in several 110/10(20)kV, 35/10(20)kV facilities and the MV network was completed, the remediation of voltage conditions and the increase of security of supply in the distribution network continued as well as investments in the replacement and arrangement of metering points and connections.
- The pilot project of the introduction of the smart HEP ODS network was completed, due to which new digital meters and energy-efficient transformers were installed, and the automation of the distribution network carried out.
- In the heating industry, all contracts for increasing the size of the connecting hot water pipeline from TE-TO Osijek to the Osijek heating plant have been completed came to an end. Activities on the implementation of the EU co-funded project related to the revitalization of the hot water network in Zagreb continued.
- In the gas distribution business, gas pipelines were built for the settlement of Gašenci and Kneževi Vinogradi-Kotlina.
- Continuous investments are made in the development of telecommunications infrastructure, as well as the construction of telecommunications connections that ensure the inclusion of important facilities and business infrastructure in the HEP's telecommunications system.
- The project of increasing the capacity of the LNG terminal for the gasification of liquefied natural gas in accordance with the Decision of the Government of the Republic of Croatia is proceeding according to plan. Activities on the construction of the location for the supply of liquefied natural gas have continued.
- Upgrade and adjustment of the SAP technical infrastructure continued for the needs of future optimization of hardware resources and the upgrade of existing SAP systems.
- The eMobility project activities continued which includes the development and the expansion of the public EV charging infrastructure, thereby creating a future platform for acquiring new customers on the market and enabling the concept of smart networks as a support for the entire power system.

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